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Building Impact Investment Wholesalers

Key Questions in Design of an Impact Investment Wholesaler

Working Group Report from
The Global Steering Group for Impact Investment

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ABOUT THE GLOBAL STEERING GROUP FOR IMPACT INVESTMENT (GSG)

The GSG is an independent global steering group catalyzing impact investment and entrepreneurship to benefit people and the planet. The GSG was established in August 2015 as the successor to, and incorporating the work of, the Social Impact Investment Taskforce under the UK presidency of the G8. The GSG currently has National Advisory Boards in 18 countries and the EU as members. Chaired by Sir Ronald Cohen, the GSG brings together leaders from finance, business and philanthropy to ensure measurable impact is considered in every investment and business decision. Our mission is to harness the energy behind impact investment to deliver impact at scale.

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- **MacArthur Foundation**
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DISCLAIMER

This paper reflects the views of the wholesaler working group of The Global Steering Group for Impact Investment. Not every particular point in the paper necessarily reflects the views of every member of the working group. The paper does not necessarily reflect the views of the organizations to whom its working group members belong. It does not necessarily reflect the views of the Global Steering Group or its members. Nothing in this report should be construed as financial or other expert advice. Any errors or omissions are the responsibility of the GSG and the authors.

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About The GSG Working Groups

The GSG has commissioned five separate and complementary papers which address key questions and challenges within the impact investment ecosystem. The topics have been chosen by the leaders of the GSG, the National Advisory Board Chairs, the GSG trustees and the GSG partners.

Selections by this group were made based on the topics necessary to foster a well-functioning impact investing ecosystem that creates significant benefits for people and planet. Significant care has been taken to ensure that the working groups have representatives of a wide variety of sectors and geographies and represent the views of global experts on the topic. Together, they will propel the market towards tipping point by 2020.

In this paper, we discuss impact investment wholesalers, how they work, what they've accomplished and how their design choices shape their influence.

In the four other papers published as part of this series, we discuss how to widen and deepen the field of impact investment to ensure that a wider variety of actors is represented and the focus on impact remains transparent and measured. We explain how impact-focused financial instruments have been built, examine failures that exist in this process and identify opportunities for replicating success. We study which policies have succeeded in enabling impact and give recommendations and learning for adoption in new countries. We also demonstrate how technology can be used to create social impact and what support impact ventures need for their financial and impact success.

About Impact Investment and The Impact Economy

To navigate the complexity of achieving a future where no one lives in poverty and the planet thrives, we need a simple unifying principle: that it is the role of all actors in society to examine how their actions affect the people and the planet.

Impact investment optimizes risk, return and impact to benefit people and the planet, by setting specific social and environmental objectives alongside financial ones, and measuring their achievement. Impact management is a critical practice to reach this potential.

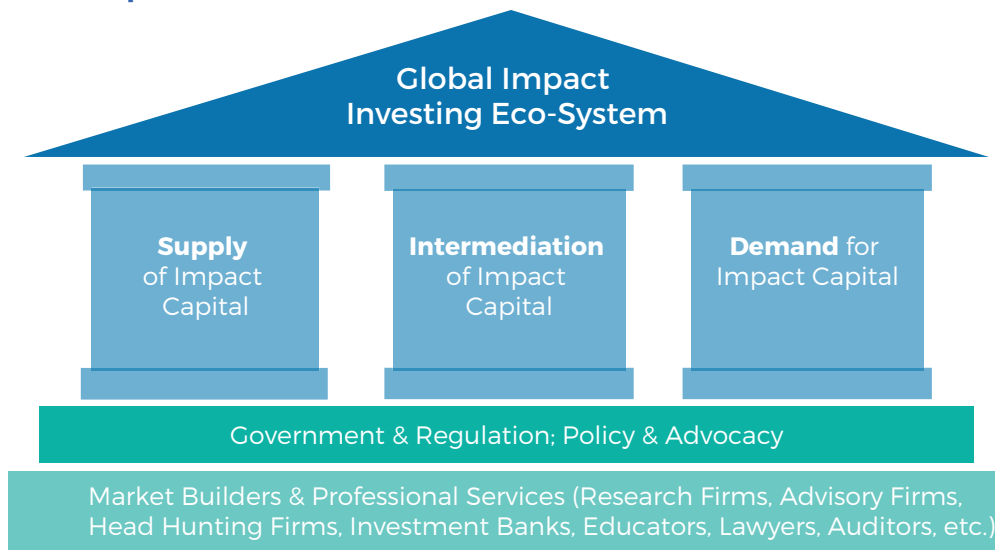
As more people and organisations get involved and become more successful in impact investing, there is a cumulative effect. A vibrant and growing impact economy can develop where businesses, investment and activity deliver tangible improvements in outcomes for people and the planet. In the impact economy, businesses use their capabilities to optimise both their positive impact on the world and their financial return. Investors use their resources to optimize business impact, adding and creating value beyond what would otherwise be achieved. The momentum of more positive impact being generated enlivens the possibility of an inspiring future.

GSG Strategy: Ecosystem Development Priorities

GSG WILL OPERATIONALLY ORGANIZE THE DELIVERY OF ITS STRATEGY AROUND FIVE PRIORITIES.



Pillars of the Global Impact Investment Eco-system



Foreword by the Chair of the Working Group

Working groups can be tough going; this one has been a delight, a gem of passion, insight and *rigour*.

In 2012, Big Society Capital became the world's first impact investment wholesaler, dedicated to the twin roles of providing finance to the social sector in the UK and building the impact investing market. One year later, it was joined by the Social Impact Accelerator, a new construct within the European Investment Fund. In 2018, we expect two more wholesalers to open. In 2019, it could easily be another four.

Impact investment wholesalers are developing around the world, each providing a pool of funds, a deep commitment to social impact and a goal to improve people and the planet by connecting investment to social enterprises¹ focused on key issues in their countries.

This working group has its origins in interest from countries around the world seeking insights into how to create a wholesaler. The 2017 Global Steering Group for Impact Investment summit in Chicago organized a side event to share developments from countries working towards a wholesaler. The energy and interest were so great that those at the meeting agreed to continue supporting each other, and the GSG Secretariat quickly authorized a formal working group.

The energy behind this work has been outstanding. Members spanning the globe have joined video calls – often in extreme time zones – to tackle key issues of the policy, practice and performance of wholesalers, sharing ideas and business models, sources of finance and management of impact, pinning down the critical value points of the wholesaler model. More members have joined. More ideas have been contributed.

We have been highly fortunate to have funding generously provided by the McConnell and MacArthur Foundations, and superb support from the Rockefeller Foundation at its Bellagio Center. The project funds have enabled the MaRS Centre for Impact Investing in Canada to provide the research and analysis, and we are deeply grateful for the rigorous research, outstanding analysis and writing by Duncan Farthing-Nichol, and for the willingness of so many stakeholders to provide robust responses to interviews. We have also benefitted from highly constructive advice from the GSG Secretariat and colleagues from OECD, UNDP, Impact Management Project and MacArthur Foundation. I am greatly indebted to the work of Alex Begg, who provided support, logistics, ideas and excellent facilitation to the group and report, from start to publication.

Wholesalers are still new. There is much more we can learn about how they can best address vital social challenges and build vibrant markets for positive impact. The experience of the pioneers shows the core value of the model both in the supply of capital and in the development of impact ecosystems, but it also demonstrates the long way we still have to go to achieve its full potential.

We hope that this report provides valuable insights into how to create a wholesaler, and how to design and operate it to very best effect in each country involved. Right at the outset, members joining the group also committed that this would be more than a report: it would become a continuing high-trust shared learning network, for innovation and improvement in the work of all of us. We re-made that commitment once again in Bellagio. We will make that commitment real, and I am delighted to continue working with this outstanding group of champions.

CLIFF PRIOR

Impact Investment Wholesaler Working Group Chair
CEO – Big Society Capital UK

Letter from The GSG Chair

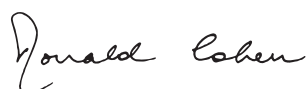
The scale of the world's problems has changed – and so too must our response. Despite generating unprecedented wealth, our current economic system has created great inequalities and left too many people far behind. For the last five years, I have been working with over 300 colleagues across 21 countries to lead the global community to take on an audacious but plausible solution: to bring the impact movement to Tipping Point by 2020.

Beyond Tipping Point lies the *impact economy* in which risk, return and impact inform all decisions, be they made by governments, investors, businesses or consumers. Impact investment plays a crucial role in the creation of impact economies.

I am delighted that our global working groups will be releasing four reports at our 2018 Impact Summit in New Delhi. Their innovative research is the fuel our impact movement needs to journey to Tipping Point. I am deeply indebted to all those who have worked so hard to bring these reports to fruition.

Building Impact Investment Wholesalers will undoubtedly help more countries to design and launch wholesalers appropriate to their needs, while helping existing wholesalers learn from others. Using Big Society Capital and the European Investment Fund as case studies, it strongly emphasises a context-driven approach, asking what is required in each nation. It stresses the need for industry collaboration in making a wholesaler effective. It offers a positive outlook for the future of wholesalers: reminding us that Portugal and Japan are nearly ready with theirs, Australia is seeking funding and another 10 countries are at earlier stages of development.

Our sincere thanks go to Cliff and the members of his working group. They have delivered a valuable paper that reflects a highly collaborative approach. It is no surprise that they have decided to continue working together through a shared network, composed of countries at different stages in the process of developing impact capital wholesalers. With their continuing help, we can accelerate the creation and development of impact wholesalers across the world.



SIR RONALD COHEN
Chair, GSG



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Acronyms

BSC	Big Society Capital
DUF	Designated Utilization Foundation
EIF	European Investment Fund
PSI	Portugal Social Innovation
SIA	Social Impact Accelerator

Glossary

Social: In this paper, 'social' encompasses both social and environmental. The phrase 'social goals', for example, encompasses both social and environmental goals.

Social Enterprise: An entity whose mission is to deliver social or environmental impact. A social enterprise may be a for-profit or a non-profit.

Intermediary: An entity that raises money from impact investors and invests that money in social enterprises. A fund is an intermediary. An intermediary may also arrange investments without handling money.

Impact Investor: An investor who intends its investment to achieve one or more social goals and who measures progress against those goals. The investor intends to earn at least some of its principal (and almost always intends to earn a positive return).

Impact Investment Market: The investment market in which impact investors invest in social enterprises.

Institutional Investor: An entity that invests large sums of money on behalf of others. Institutional investors usually seek commercial returns. Commercial banks and pension funds are examples of institutional investors.

Theory of Change: A tool by which an organization describes the problem it wants to solve, the outcomes it will seek and the activities it will do in pursuit of those outcomes¹.

¹Harries, E., Hodgson, L. and Noble, J. (2014). Creating Your Theory of Change: NPC's practical guide. Retrieved from New Philanthropy Capital: <https://www.thinknpc.org/publications/creating-your-theory-of-change/creating-your-theory-of-change-3/?post-parent=12372>

Executive Summary

Impact investment wholesalers aim to improve lives by helping to build a market that connects finance to organizations that solve social problems.

Report

This report shows how the first wholesalers are speeding up and scaling up impact investment in their countries, building a market which goes far beyond their direct activity, developing strong intermediary structures and connecting capital to social enterprises to help them achieve greater impact.

This report has two purposes:

1. To help existing wholesalers to improve their practice.
2. To help more countries design and launch wholesalers appropriate to their starting points and goals.

Beyond the report, the members of the working group intend:

3. To create a high-trust shared learning network across leaders of wholesalers.

The report is aimed at stakeholders who are considering or already supporting a wholesaler. It is based on models and data available to date. Over time, we aim to build a library of more detailed technical material.

The report is structured around four pillars:

1. The definition of a wholesaler
2. The value of a wholesaler
3. The sources of funds for a wholesaler
4. The design questions behind a wholesaler

The report draws principally on data, publications and interviews related to the two first wholesalers: Big Society Capital (BSC) in the UK and the European Investment Fund (the EIF) and its Social Impact Accelerator (the SIA). Further information was gathered from Portugal and Japan – both in late-stage design and implementation of their wholesale activities – as well as a number of other countries seeking to develop wholesalers.

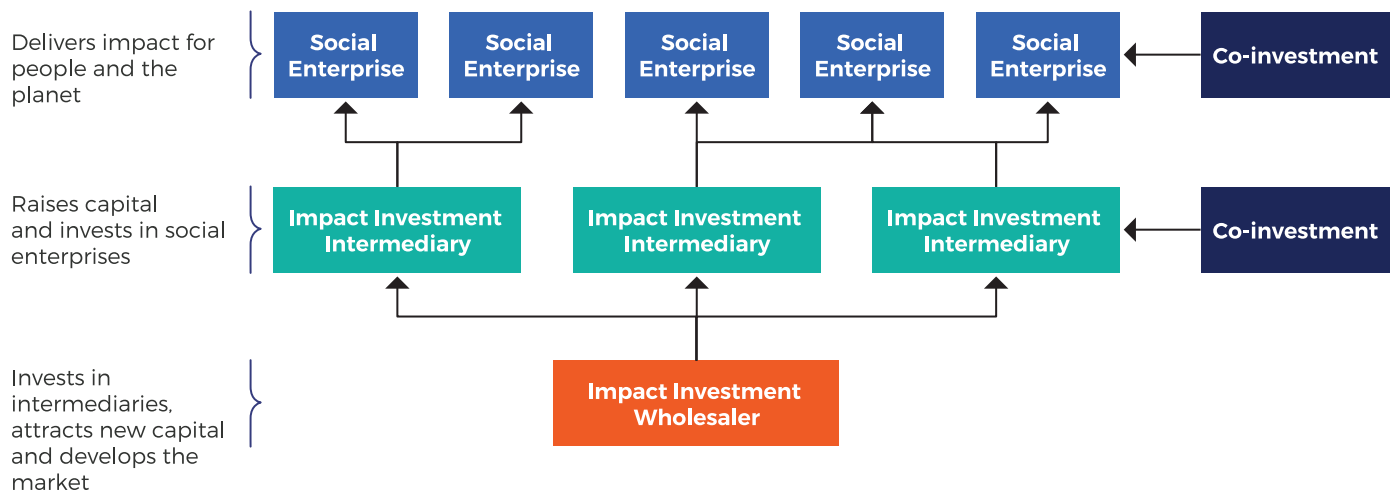
The Definition of an Impact Investment Wholesaler

An impact investment wholesaler is dedicated to measurable impact on people and the planet. It finances funds, other intermediaries and, directly or indirectly, social enterprises. It helps to develop the impact investment market. It seeks to invest where, but for the wholesaler's capital, the investees could not raise enough money.

An impact investment wholesaler is defined by four characteristics:

- 1. A wholesaler invests.** It invests indirectly (it invests in funds or other intermediaries). It may also invest directly (it may invest straight into social enterprises).
- 2. A wholesaler draws in other investment.** It invests in ways designed to catalyze capital from other investors (such as foundations, individuals and institutional investors).
- 3. A wholesaler measures, manages and reports impact and financial data.** It measures impact and financial data at the wholesale, intermediary and (if possible) enterprise levels. It reports as transparently as possible. It facilitates progress toward shared norms for measuring and managing impact.
- 4. A wholesaler seeks to develop its impact investment market.** It builds the market by methods outside investment. Among other efforts, it may strengthen enterprise capacity, encourage policy change, build new intermediaries and promote integrity.

Definition of an impact investment wholesaler



The Case for a Wholesaler

The world's social challenges demand new solutions. Ordinary approaches by government, business and civil society are struggling to reach the scale and depth of these challenges. Social enterprises, broadly defined, can help – but to reach their full potential, many need investment. The mainstream financial system is not always set up to invest in social enterprises. Enterprises and investors often discover a gap between what enterprises need and what investors offer.

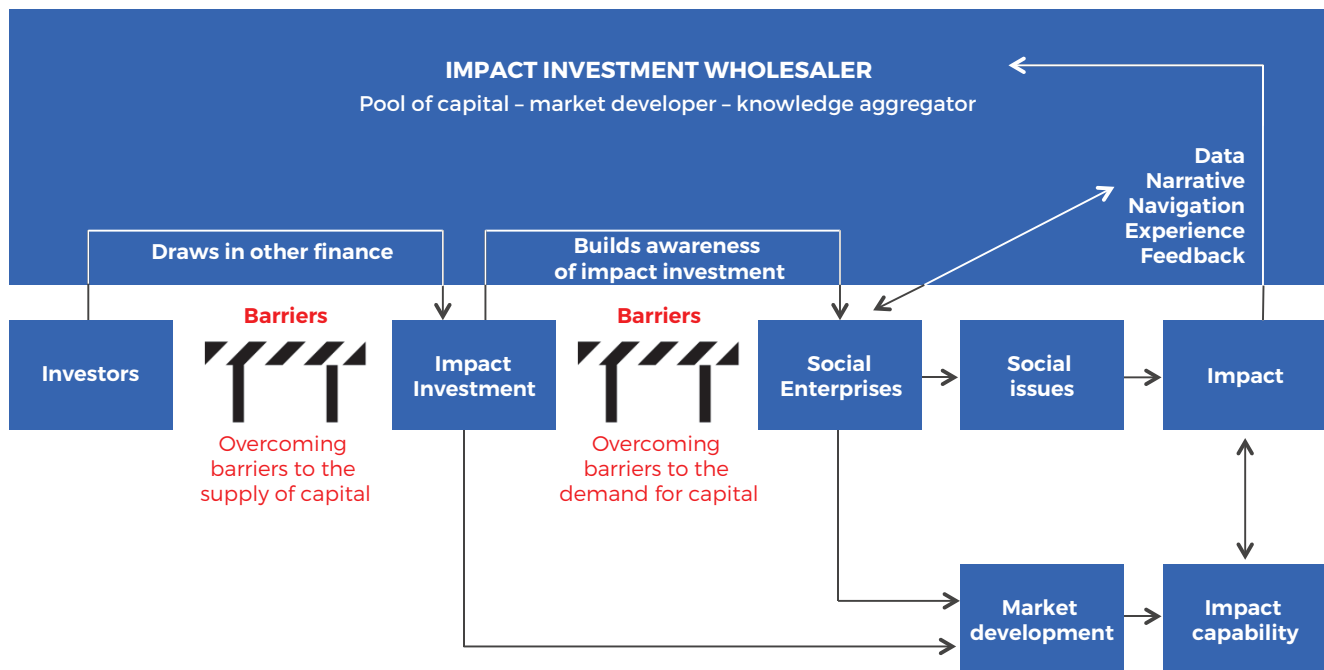
Impact investors may invest in ways better suited to social enterprises. Impact investors consider risk, return and impact. Impact investment is growing rapidly, driven by an influential and international movement of people who want to put their time, effort and money to social purpose. But the field is still embryonic.

Wholesalers can speed development, thereby helping social enterprises achieve greater impact.

Wholesalers aim to:

- ▲ Provide the scale and expertise to instill confidence in investors and to shift social sector culture to consider investment and enterprise
- ▲ Leverage in new capital
- ▲ Develop impact measurement and management
- ▲ Aggregate and share impact investment knowledge
- ▲ Educate stakeholders and influence policy
- ▲ Foster new financial instruments, mechanisms and practice
- ▲ Encourage collaboration among investors and stakeholders on specific social problems
- ▲ Strengthen intermediary capacity
- ▲ In sum, improve people's lives by connecting investment to social enterprises

Value of a wholesaler



A wholesaler may be a standalone institution or a function within a larger organization.

BSC is a standalone institution. By March 31, 2018, BSC and its co-investors had made £1,240 million of capital available to the market, with nearly £800 million drawn down by 800 social enterprises. In six years, BSC has helped to boost the availability of risk finance by six times, to increase the number of intermediaries with over £50 million in assets under management from one to seven, and to create an agency (Access – The Foundation for Social Investment) to, among other things, lend small amounts at affordable rates to small social enterprises.

The EIF is a broad-based investment institution that has set aside some of its resources for impact investment wholesale functions. The EIF began moving toward impact investment in 2007 by investing in the microfinance market. It launched the SIA in 2013 specifically to finance social enterprises. It has since set up other initiatives to widen its social enterprise support to every stage of enterprise development.

The EIF has made €800 million available to micro- and social enterprises. It has invested through intermediaries. It has indicatively committed €480 million to these intermediaries and financed more than 90,000 micro- and social enterprises. It expects its investments to attract another €1,500 million or more into micro- and social enterprises.

The SIA has invested €132 million in funds financing social enterprises. It has drawn another €259 million from co-investors into those funds. Through its funds, the SIA has invested in 79 social enterprises. This paper focuses on the SIA as an example of an impact-driven fund-of-funds.

Sources of Funds for a Wholesaler

A wholesaler must secure initial funds at a scale that suits its goals. Wholesalers have drawn on several sources. Several others have been proposed. These sources include dormant accounts, public financial institutions, governments, institutional investors, foundations, high-net-worth individuals and development aid.

Each source has its benefits and difficulties. Any kind of public money is likely to come with substantial scrutiny and governance requirements that may challenge a wholesaler's ability to adapt. Commercial funds may raise the cost of the wholesaler's capital and limit its reach into illiquid or difficult-to-assess areas.

Design Questions Behind a Wholesaler

Designing a wholesaler begins with identifying its purpose and its country's starting point. What are the country's priorities? What is the state of impact investment? How many intermediaries are in place? How strong is the social enterprise sector? Who else is investing? Who else might invest with help? A wholesaler must reflect the place in which it works.

The checklist below outlines the questions a wholesaler should answer with its context in mind.

QUESTIONS IN WHOLESALER DESIGN	CHECKLIST FOR WHOLESALER DESIGN
1. What is the wholesaler trying to accomplish?	▲ A theory of change that describes how the wholesaler will strengthen its impact investment market and serve people and the planet.
2. How should the wholesaler measure and manage impact?	▲ A method to measure social enterprise, intermediary and wholesaler impact. ▲ A set of metrics to measure market-level change.
3. How should the wholesaler be governed?	▲ A governance structure that secures independence and locks mission.
4. How much money should the wholesaler raise?	▲ A target size and a realistic timeline by which the wholesaler will deploy the money.
5. How should the wholesaler price its capital?	▲ An approach to setting the price of capital that matches the wholesaler's theory of change.
6. Where should the wholesaler look for co-investors?	▲ A target leverage ratio and a description of the co-investors the wholesaler will pursue to meet that ratio.
7. What eligibility criteria should the wholesaler apply to social enterprises?	▲ A set of eligibility criteria that state the social enterprises into which the wholesaler or its intermediaries will invest (in other words, a description of the deployment universe).
8. Into what level of organization should the wholesaler invest?	▲ A ratio between direct and indirect investments that reflects the stage of the wholesaler's market.
9. Should the wholesaler give grant as well as invest?	▲ A plan to ensure grants form part of the market's mix of financial tools (whether or not offered by the wholesaler itself).
10. From where should the wholesaler recruit staff?	▲ A recruitment strategy that balances social and financial skills.

The report includes examples and considerations on each question.

Lessons learned

BSC and the EIF have learned a great deal to date:

- ▲ A wholesaler must respond to the circumstances in its market. However careful the planning, market conditions will change. Engagement with co-investors and investees will inform the way forward. Agility is key.
- ▲ A wholesaler must recognize where it can help and where it cannot. Not all social problems can be addressed by social enterprises and not all social enterprises will benefit from impact investment. Even where useful, investment is just one tool, and most social challenges require more than one tool. Partnerships are crucial.
- ▲ A wholesaler must champion the impact investing market and the wider ecosystem for impact without ever becoming the market. A creative, innovative market will only emerge if every actor owns the market and feels able to push its edges and introduce new ideas. No single entity, however talented, can replace the energy of a network.
- ▲ Wholesalers can grow investment flows, introduce new financial tools and methods, shift culture and understanding, and, above all, strengthen enterprise capacity to achieve impact for people and the planet. It takes time to develop a well-functioning impact ecosystem. Adaptability and resilience will lead eventually to success.

At the time of writing, Portugal and Japan are readying wholesaler launch, Australia is seeking funding and another ten countries are at earlier stages of development. A shared learning network is helping countries to design, establish and improve the practice of wholesalers across the globe.

The future

Securing funds for a wholesaler and putting its design into reality are just two steps into a journey that will raise many obstacles. The journey will demand skill, sensitivity and a strong learning culture. We hope that this report will help to encourage those attributes in wholesaler champions in many countries. We commit to continuing to learn from one another and, by that shared wisdom, to achieving as much as we can for people and the planet.

Introduction

This paper:

- ▲ Defines impact investment wholesalers and describes their possible benefits.
- ▲ Describes what wholesalers do.
- ▲ Outlines what wholesalers have achieved to date.
- ▲ Discusses the sources from which a wholesaler can raise capital, and
- ▲ Explores the questions wholesalers should consider in design and operation.

The paper profiles wholesalers in the UK, EU, Portugal and Japan. It also touches on wholesaler work in Australia, India and South Korea. It intends to help wholesalers at every stage – from BSC and the SIA to early ideas in countries like Argentina, Canada, Israel and South Africa – to think through the best design to deliver impact.

The paper relies on 35 interviews with wholesalers, co-investors, intermediaries, social enterprises and government officials. The paper also draws from reports, papers, blogs, websites and other written sources.

Defining Impact Investment Wholesalers

An impact investment wholesaler is defined by four activities:

- ▲ **A wholesaler invests.** It invests indirectly (it invests in funds and other intermediaries). It may also invest directly (it may invest straight into social enterprises). It diversifies the investment tools available to social enterprises, either by investing its own money through a range of tools (such as private equity, secured debt, unsecured debt and publicly traded bonds) or by fostering a market that offers a range of tools. It tends toward those investment strategies that develop new or underserved capital markets or that increase the supply of flexible (concessionary) capital.
- ▲ **A wholesaler draws in other investment.** It invests in ways designed to catalyze capital from other investors (such as foundations, individuals and institutional investors). It seeks to attract capital into intermediaries and enterprises that it expects would not raise enough money without the wholesaler's support.
- ▲ **A wholesaler measures, manages and reports impact and financial data.** It measures impact and financial data at the wholesale, intermediary and (if possible) enterprise levels. It reports as transparently as possible. It facilitates progress toward shared norms for measuring and managing impact. The Global Steering Group's wholesaler working group recommends the Impact Management Project's convention as an aid to advance shared norms (see *How should the wholesaler measure and manage impact?* for details on the convention).
- ▲ **A wholesaler seeks to develop its impact investment market.** It builds the market by methods outside investment. Among other efforts, it may strengthen intermediary and enterprise capacity, encourage policy change, build new intermediaries and promote integrity.

A wholesaler may do more than the activities listed. It may also fall short on some of the activities. Neither BSC nor the SIA, for example, systematically report impact and financial data at each of the wholesale, intermediary and enterprise levels. A wholesaler is defined by its intention and progress toward each activity*.

The impact investment market is the market in which impact investors invest in social enterprises. An impact investor is an investor who intends its money to achieve one or more social goals and who measures progress against those goals. An impact investor may intend to earn a return less than principal, just principal or more than principal.

Organizations that exist for a social purpose take different forms. Some, such as nonprofits and charities, cannot distribute profits. Others, such as profit-with-purpose companies, can. Some earn money through business while others rely on grants or donations. For ease of use, this paper combines all organizations whose mission is to deliver social impact under the term "social enterprise".

An intermediary raises money from investors and invests that money in social enterprises. (An intermediary may also arrange investments without actually handling money.) A venture capital fund may invest in for-profit social enterprises. A social sector bank may lend to nonprofit social enterprises. A property fund may finance affordable housing developments. All three are intermediaries. They raise money from investors – charitable foundations, wealthy families, retail depositors, pension funds and others – and invest that money in social enterprises.

* An impact investment wholesaler is one type of impact wholesaler. All impact wholesalers draw in other investment, measure, manage and report impact and financial data, and develop impact investment markets. But not all impact wholesalers invest. A fund that pays for the outcomes of social programs, for example, may be an impact wholesaler even though it does not invest. An impact investment wholesaler, however, must invest at least some of its money. Survey_webfile.pdf

Value of Impact Investment Wholesalers

SOCIAL PROBLEMS DEMAND NEW SOLUTIONS

Countries across the world face social challenges. Many Western countries are straining public and philanthropic resources to address persistent disadvantage. Some developing countries are struggling to create enough jobs or to build effective health or education systems. Some East Asian countries are facing rapidly aging populations. Carbon pollution globally continues to climb. The Sustainable Development Goals remain dramatically short of the sum required to achieve them. New and old problems call for ideas that match their scale.

Social enterprises, among many others, are responding to that call. To reach greater impact, some social enterprises seek to grow. Some of these enterprises apply for grants, particularly in their early stages. Some reinvest their surpluses. Some, especially those that aim to expand quickly, look for investment.

Some social enterprises can pay a return that compensates for an investor's financial risk. These enterprises may look for capital among investors who want both to pursue impact and to earn a commercial return (though even these investors must often be willing to invest in novel business models). Other enterprises, by virtue of their mission, cannot pay a return that fully compensates for financial risk. These enterprises may rely on investors willing to accept more flexibility – on, for example, return, risk, size, liquidity or complexity – for greater impact.

IMPACT INVESTING IS GAINING STEAM BUT OBSTACLES REMAIN

People increasingly want their time, effort, purchases and investments to serve people and the planet. Technology and innovation are creating new approaches and easier ways of fulfilling those preferences. Momentum is growing out of which to build impact ecosystems.

Impact investors may seek commercial returns with impact or accept concessionary returns for impact. They may invest on terms that better suit the needs of social enterprises.

Investors who want to combine impact and return are, in many places, an expanding constituency. The Global Impact Investing Network's 2018 *Annual Impact Investor Survey* spoke to 226 entities managing US\$228 billion in impact investments². As more investors join the field, each seeking a different balance of return, impact and risk, opportunities grow to engineer new tools. Funds and other intermediaries are beginning to design financial instruments that conform to investor goals and, at the same time, meet enterprise demand for flexible capital.

Yet, despite opportunity among enterprises and interest among investors, often only an immature infrastructure links supply and demand. Many countries host a thin layer of impact-focused intermediaries, leaving enterprises and investors with few mechanisms to transact. Enterprises, especially those that cannot entirely compensate for financial risk, cannot always secure capital suited to their missions. Investors cannot always find offerings that express their preferred proportions of return, impact and risk.

² Mudaliar, A., Bass, R. and Dithrich, H. (2018). Annual Impact Investor Survey 2018. Retrieved from Global Impact Investing Network: https://thegiin.org/assets/2018_GIIN_Annual_Impact_Investor_Survey_webfile.pdf

Common Obstacles to Financing Social Enterprises³

Investors and enterprises in the early stages of an impact investment market often encounter the obstacles below. These obstacles grow out of or are worsened by a gap in intermediation.

- 1) Little origination.** Intermediaries, not investors, usually put deals together. Without intermediary help, investors may lack the skills or capacity to originate investments.
- 2) High complexity.** Investors often shy away from the complex terms sometimes required to invest in an enterprise.
- 3) Opaque risk.** Investors may not have enough information to accurately estimate the financial risk posed by social enterprises, especially those applying novel business models.
- 4) Little flexibility.** Without financial instruments to align investor and enterprise interests, enterprises may not find enough finance offered on long terms, in small sizes, at high risk or for low prices.
- 5) Weak secondary markets.** Only in occasional circumstances can investors trade securities issued by a social enterprise on a secondary market. Exiting a social enterprise investment can be difficult.

IMPACT INVESTMENT WHOLESALERS CAN HELP CONNECT INVESTORS AND ENTERPRISES

Impact investment wholesalers help bridge the gap between social enterprises seeking capital and investors seeking impact. A wholesaler leverages new capital into intermediaries and enterprises. It works toward common measurement approaches to understand and manage impact. It educates stakeholders, influences policy and otherwise engages beyond investment to advance a thriving impact investment market.

Wholesalers help to foster a market that delivers the breadth of capital demanded by enterprises. Together with their partners, wholesalers strengthen the ability of intermediaries to engineer instruments that reflect diverse investor and enterprise preferences. They seed emerging parts of the market that have not yet reached the size to access other capital. They often work directly with enterprises to help them expand trade and consider investment.

Wholesalers engage and benefit government, enterprise, investor and civil society – and, most of all, people living in disadvantage.

WHOLESALERS IN OPERATION ARE STARTING TO SEE RESULTS

BSC has been investing since 2012. The EIF's Social Impact Accelerator (the SIA) began investing in 2013. While just two examples, BSC and the SIA are starting to reveal the model's ability to direct more resources to those tackling social problems. Together, BSC and the SIA have invested about £556 million. Other entities have invested about £1,036 million alongside BSC and the SIA, a leverage ratio of 1.86. The money has financed social enterprises to, among many other things, build affordable housing, employ vulnerable workers, invent devices for people with disabilities and produce community-owned renewable energy.

³ Impact Investing Australia and Australian Advisory Board on Impact Investing. (2017). Pre-Budget Submission 2018-19. Retrieved from <https://impactinvestingaustralia.com/wp-content/uploads/2017-Impact-Capital-Australia-pre-Budget-Submission-FINAL.pdf>

WHOLESALE IN PRACTICE



Wholesaler Profiles

For figures on and origins of the wholesalers described below, see the appendix.

Big Society Capital

BSC is a £625 million UK wholesaler. It exists “to improve the lives of people in the UK by connecting investment to charities and social enterprises that are creating social change ⁴.” It is an independent, permanent entity ⁵. It seeks a portfolio-wide internal rate of return between 4% and 6%⁶ It is only allowed to invest in intermediaries ⁷. Its intermediaries include property funds, loan funds, venture funds and social banks.

BSC INVESTEE EXAMPLE - CHARITY BANK

Charity Bank lends to social enterprises out of its depositors’ savings. Since 2002, Charity Bank has lent £195 million through 876 transactions ⁸. It has lent to such projects as a community-run hydroelectric dam, an affordable housing venture and a chocolate factory that employs people with autism, learning disabilities and mental health problems ⁹.

Around 2012, Charity Bank’s small capital base precluded it from lending enough to break even. Its long-term survival was in doubt. In 2014, BSC agreed to take a £14.5 million equity stake¹⁰. The stake gives BSC two thirds of Charity Bank’s equity (but only 50% of its voting rights). BSC’s equity let Charity Bank expand its loan portfolio and reach a sustainable size.

BSC INVESTEE EXAMPLE - BIG ISSUE INVEST

Big Issue Invest has invested in more than 300 social enterprises since 2005¹¹. One of its investees, East Lancashire Moneyline, lends at affordable rates to low-income people who might otherwise turn to high-cost ‘doorstep’ or ‘payday’ lenders¹². Another, Fair for You, runs a platform that sells major household items at wholesale prices and on credit cheaper than that offered by mainstream stores¹³.

BSC has financed Big Issue in three ways. First, BSC and Big Issue set up a £2 million line of credit to expand Big Issue’s loan portfolio¹⁴. Second, BSC put £10 million into Big Issue’s Outcomes Investment Fund (the Fund invests in service providers delivering under payment-by-results contracts) ¹⁵. Third, BSC contributed £15 million to Big Issue’s Social Enterprise Investment Fund II (the Fund invests in early- and growth-stage social enterprises) ¹⁶. BSC’s £27 M total helped Big Issue grow large enough to cover its costs through returns on its investments.

⁴ Big Society Capital. (April 6, 2018). *Our Mission, Principles and Values*. Retrieved from <https://www.bigsocietycapital.com/about-us/our-vision-mission-principles-and-values>

⁵ Big Society Capital. (October 2, 2017). *Governance*. Retrieved from <https://www.bigsocietycapital.com/about-us/governance>. For the variety of intermediaries into which BSC has invested, see Big Society Capital. (November 15, 2017). *Our Portfolio: Social & Financial Return*. Retrieved from <https://www.bigsocietycapital.com/what-we-do/investor/investments>

⁶ Big Society Capital. (November 21, 2017). *Our Investment Requirements*. Retrieved from <https://www.bigsocietycapital.com/what-we-do/investor/apply-investment/our-investment-requirements>

⁷ Big Society Capital. (April 18, 2018). *Our Investment Requirements*. Retrieved from <https://www.bigsocietycapital.com/what-we-do/investor/apply-investment/our-investment-requirements>

⁸ Charity Bank. (December 20, 2017). *Our social impact*. Retrieved from <https://charitybank.org/social-impact>

⁹ Charity Bank. (May 5, 2018). *Settle Hydro: a fossil free energy boost*. Retrieved from <https://charitybank.org/news/settle-hydro-a-fossil-free-energy-boost>; Charity Bank. (May 5, 2018). *Homes for Good: an innovative solution*. Retrieved from <https://charitybank.org/news/homes-for-good-an-innovative-solution>; Charity Bank. (May 5, 2018). *Autism Plus: building a chocolate factory with a difference*. Retrieved from <https://charitybank.org/news/autism-plus-building-a-chocolate-factory-with-a-difference>

¹⁰ Lander, E. (April 1 2014). Big Society Capital to invest £14.5 million for major stake in Charity Bank. *Third Sector*. Retrieved from <https://www.thirdsector.co.uk/big-society-capital-invest-145m-major-stake-charity-bank/finance/article/1288172>

¹¹ Big Issue Invest. (December 22, 2017). *Home*. <https://bigissueinvest.com/>

¹² Big Issue Invest. (May 5, 2018). *East Lancashire Moneyline*. Retrieved from <https://bigissueinvest.com/case-studies/east-lancashire-moneyline/>

¹³ Big Issue Invest. (May 5, 2018). *Fair For You*. Retrieved from <https://bigissueinvest.com/case-studies/fair-for-you/>

¹⁴ Big Society Capital. (December 22, 2017). *Big Issue Invest*. Retrieved from <https://www.bigsocietycapital.com/what-we-do/investor/investments/big-issue-invest>

¹⁵ Big Society Capital. (December 22, 2017). *Big Issue Invest Outcomes Investment Fund*. Retrieved from <https://www.bigsocietycapital.com/what-we-do/investor/investments/big-issue-invest-outcomes-investment-fund>

¹⁶ Big Society Capital. (December 22, 2017). *Big Issue Invest Social Enterprise Investment Fund II*. Retrieved from <https://www.bigsocietycapital.com/what-we-do/investor/investments/social-enterprise-investment-fund-ii>; Big Issue Invest. (December 22, 2017). *Social Enterprise Investment Fund II*. Retrieved from <https://bigissueinvest.com/social-enterprise-investment-funds-i-ii/>

BSC INVESTEE EXAMPLE - REAL LETTINGS PROPERTY FUND

The Real Lettings Property Fund has bought and refurbished more than 250 London apartments to house people who may be at risk of homelessness. Resonance, an intermediary, partnered with St. Mungo's, a charity, to organize the Fund. The Fund leases its apartments to St. Mungo's and St. Mungo's leases them to people who may be at risk of homelessness¹⁷. St. Mungo's coaches its tenants through the transition to independent living¹⁸.

BSC invested £15 million into the £56.8 million Fund¹⁹. The Fund aims to pay a 6% return²⁰. It will earn that return by rent charged to its tenants and by proceeds from sale of the apartments at the close of the seven-year Fund²¹. (St. Mungo's charges rent equal to the Local Housing Allowance, a government-paid housing benefit.²²)

The European Investment Fund's Social Impact Accelerator

The EIF exists to help Europe's small and medium-sized businesses secure finance. It deploys an array of financial tools in pursuit of that goal. Over the past decade, it has begun to create tools specific to social enterprises. One of those tools is the €243 million SIA. The SIA functions as a wholesaler within the EIF.

The EIF's Other Social Enterprise Instruments

The EIF aims to build a market in which social enterprises of many types and at many stages can raise capital tailored to their needs. It manages three social enterprise instruments under the European Fund for Strategic Investments²³.

1) The first instrument invests in or alongside funds linked to an incubator or accelerator.

It intends to expand investment in very early-stage social enterprises.

2) The second instrument invests alongside business angels or in business angel funds. It intends to expand investment in early- and growth-stage social enterprises.

3) The third instrument invests in or alongside intermediaries investing in social programs delivered under payment-by-results arrangements. It intends to expand investment in social impact bonds and similar payment-by-results arrangements.

The EIF also manages two social enterprise instruments funded by the EU's Employment and Social Innovation program.

1) Capacity Building Investments Window. The Window invests in intermediaries that finance social enterprises or offer microfinance products. It aims to seed new intermediaries and strengthen intermediaries already in the market²⁴.

2) Guarantee Instrument. The Instrument guarantees up to 80% of an intermediary's loans to social enterprises (loans up to €500,000) and microfinance applicants (loans up to €25,000)²⁵.

¹⁷ Resonance. (October 10, 2017). *Real Lettings Property Fund*. Retrieved from <http://resonance.ltd.uk/investment-opportunities/real-lettings-property-fund/>

¹⁸ Big Society Capital. (October 10, 2017). *Real Lettings Property Fund*. Retrieved from <https://www.bigsocietycapital.co.uk/what-we-do/investor/investments/real-lettings-property-fund>

¹⁹ Big Society Capital. (October 10, 2017). *Real Lettings Property Fund*. Retrieved from <https://www.bigsocietycapital.com/what-we-do/investor/investments/real-lettings-property-fund>

²⁰ Resonance. (October 10, 2017). *Real Lettings Property Fund*. Retrieved from <http://resonance.ltd.uk/investment-opportunities/real-lettings-property-fund/>

²¹ Real Lettings Property Fund. (2016). *Social Impact Report: Third Year (2015/16)*. Retrieved from http://resonance.ltd.uk/wp-content/uploads/2016/08/RLPF_Report_2016_v5-screen.pdf

²² Big Society Capital. (October 10, 2017). *Real Lettings Property Fund*. Retrieved from <https://www.bigsocietycapital.com/what-we-do/investor/investments/real-lettings-property-fund>; Foster, D. (December 7, 2016). The rent gap: what is the local housing allowance? *The Guardian*. Retrieved from <https://www.theguardian.com/housing-network/2016/dec/07/rent-gap-local-housing-allowance>

²³ European Investment Fund. (n.d.). *EFSI Equity Instrument: Guidance for social impact investors*. Retrieved from http://www.eif.org/what_we_do/equity/efsi/call/Guidance_for_social_impact_investors.pdf; European Investment Fund. (2017). 2016 Annual Report. Retrieved from http://www.eif.org/news_centre/publications/eif_annual_report_2016.pdf

²⁴ European Investment Fund. (May 31, 2018). *EaSI Capacity Building Investments Window*. Retrieved from http://www.eif.org/what_we_do/microfinance/easi/easi-capacity-building-investments-window/index.htm

²⁵ European Investment Fund. (May 31, 2018). *EaSI Guarantee Instrument*. Retrieved from http://www.eif.org/what_we_do/microfinance/easi/easi-guarantee-instrument/index.htm

The SIA exists to support “a sustainable funding market for social entrepreneurship in Europe”²⁶. It is a fifteen-year fund-of-funds. Most of its funds follow a venture capital strategy. It seeks a market return for its investors.

SIA INVESTEE EXAMPLE – SOCIAL IMPACT VENTURES AND TAXI ELECTRIC

Social Impact Ventures, a €40.6 million Dutch fund financed by €15 million of the SIA's money, invested in Taxi Electric. Taxi Electric fielded the first all-electric taxi fleet in Europe. The company recruits people over fifty years old to drive that fleet²⁷.

SIA INVESTEE EXAMPLE – ANANDA SOCIAL VENTURE FUND II AND RESQ CLUB

Ananda Social Venture Fund II, a €22.3 million German fund financed by €10 million of the SIA's money, invested in ResQ Club. ResQ Club connects restaurants with unsold meals to customers that want to buy those meals. It reduces carbon pollution by making it easy for restaurants to cut food waste²⁸.

SIA INVESTEE EXAMPLE – IMPACT VENTURES UK AND K10

Impact Ventures UK, a £36 million UK fund financed by £7.5 million of the SIA's money, invested in K10²⁹. Short-term jobs can make it difficult for an apprentice to complete her hours. K10 solves that problem by hiring the apprentice and billing her out in a series of jobs until the apprentice has completed her hours³⁰. About 30% of the apprentices had not worked for the past twelve months before starting at K10³¹. Women comprise 15% of the apprentices, ex-offenders 12% and people with a disability 10%³².

Portugal Social Innovation

Portugal Social Innovation (PSI) exists “to catalyze the social investment market.”³³ It is a government initiative. It plans to distribute €125 million between 2014 and 2020 (€106.25 million or 85% from the European Structural and Investment Funds and €18.75 million (15%) from the Portuguese government). It will give grants worth €70 million to social enterprises and other social organizations. As of March 2018, PSI had given 137 grants worth €12 million. It will invest the remaining €55 million through its Social Innovation Fund. That Fund will begin to invest in 2018.

The Social Innovation Fund will invest by two methods. First, it will guarantee 80% of a bank loan to a social enterprise. It will only guarantee a loan offered on more generous terms than a bank would offer without a guarantee.

Second, the Fund will directly invest up to 70% of the equity a social enterprise seeks to raise. The enterprise will have to raise the rest from co-investors. After three years, the co-investors will be able to buy the Fund's shares at a price that yields a 3% internal rate of return for the Fund. That option lets co-investors avoid much of the risk in any early-stage investment yet capture the profit should the investment succeed. PSI aims, by this mechanism, to attract mainstream investors into its deals.

Japan's Designated Utilization Foundation

Japan will channel an estimated ¥70 billion (£470 million) a year to its wholesaler, the Designated Utilization Foundation (the DUF). The DUF is still under construction. Once established, it will give grants to and lend to foundations. Much of its money will flow as grants (in 2019, its first year, it will only give grants). The foundations will use the DUF's money to give grants to, lend to and invest equity in social enterprises and other social organizations. The DUF intends foundations to invest some of its grants. It may also finance some national projects directly.

²⁶ European Investment Fund. (December 20, 2017). *The Social Impact Accelerator (SIA)*. Retrieved from http://www.eif.org/what_we_do/equity/sia/index.htm

²⁷ Taxi Electric. (February 2, 2018). *Our DNA*. Retrieved from <https://www.taxielectric.nl/en/our-dna/>

²⁸ ResQ Club. (May 5, 2018). *Home*. Retrieved from <https://www.resq-club.com/>

²⁹ European Investment Fund. (2016). *EIF – Impact Investing Activity*. Retrieved from <http://www.ebanimpact.org/wp-content/uploads/2017/03/EIF-Impact-Investing-Activity-2016.pdf>

³⁰ K10. (April 6, 2018). *Profile*. Retrieved from <https://www.k-10.co.uk/about-us>; European Investment Fund. (October 2, 2017). *Impact Ventures (U.K.)*. Retrieved from http://www.eif.org/what_we_do/equity/Case_studies/impact-ventures-UK.htm

³¹ K10. (April 6, 2018). *Profile*. Retrieved from <https://www.k-10.co.uk/about-us>

³² Big Society Capital. (October 2, 2017). *K10*. Retrieved from <https://www.bigsocietycapital.com/what-we-do/investor/case-studies/k10>

³³ Portuguese Social Investment Taskforce. (2015). *A Blueprint for Portugal's Emerging Social Investment Market*. Retrieved from <http://www.socialinvestment.org/reports/Portuguese%20Taskforce%20-%20report.pdf>

Wholesalers as Market Developers

The SIA does not just wait for intermediaries to apply for investment. It reaches out to fund managers and other intermediaries and advises on governance, legal structure and other aspects essential to new funds. Assisting in development rather than just investing in finished products consumes a lot of time but, in a small market, the SIA believes such work necessary to build a vibrant impact investment market.

BSC also advises intermediaries on management, processes, pipeline and products. It works alongside them to create new investment opportunities. It began in the belief that intermediaries that met its standards would apply for finance without prompting. When they did not, it turned serious attention to market development. Even in a maturing market—the number of intermediaries managing more than £50 million jumped from one in 2012 to seven in 2017³⁴—BSC plans to intensify its support for intermediaries.

PSI manages three grant streams designed to increase enterprise demand for investment. The streams³⁵:

- 1) Strengthen social enterprises.** PSI gives grants with which enterprises hire specialist firms to bolster financial, management and other skills.
- 2) Match venture philanthropy money.** If a venture philanthropist commits 30% to a social organization's venture philanthropy ask, PSI will cover the other 70%. Venture philanthropy combines grants and intensive support to spur growth³⁶.
- 3) Pay for social impact bonds.** If a social organization, a local government and an investor create a social impact bond, PSI will commit to paying for the social impact bond's results. PSI will step into the funder role usually occupied by a government.

As of March 31, 2018, PSI had disbursed 99 grants worth €3.5 million to strengthen social enterprises, 35 grants worth €7 million to match venture philanthropy commitments and three grants worth €1.5 million to fund social impact bonds.

A healthy impact investment market comprises consistent demand, sufficient supply and smooth connections between the two. It also measures impact and enjoys supportive policy. The chart below summarizes these elements and gives for each an example from BSC or the SIA.

³⁴ Big Society Capital. (November 16, 2017). *Impact on the market*. Retrieved from <https://www.bigsocietycapital.com/impact-report/impact-market>

³⁵ Portuguese Social Investment Taskforce. (2015). *A Blueprint for Portugal's Emerging Social Investment Market*. Retrieved from <http://www.socialimpactinvestment.org/reports/Portuguese%20Taskforce%20-%20report.pdf>

³⁶ For a definition of venture philanthropy, see European Venture Philanthropy Association. (August 10, 2018). *About venture philanthropy*. Retrieved from <https://evpa.eu.com/about-us/what-is-venture-philanthropy>

CATEGORIES OF MARKET DEVELOPMENT

CATEGORY	RATIONALE	ACTIVITY	EXAMPLE
Intermediary Support	Some impact investment markets offer only a patchwork of small, financially fragile intermediaries. To deepen the market and safeguard its investments, a wholesaler may strengthen intermediary capacity.	Work with promising intermediaries to, among other things, strengthen processes, recruit boards and develop products. Educate intermediaries across the market through tools, courses and other means.	Building Blocks. BSC asked 35 UK intermediaries and other experts to name the features that help intermediaries achieve their social and financial goals. BSC published the answers in Building Blocks, a report with a detailed rubric to help an intermediary understand its performance and plan improvement ³⁷ .
Social Enterprise Support	Some social enterprises do not know about investment. Others do not feel comfortable accepting debt or other financial obligations. A wholesaler may educate social enterprises on investment's possibilities.	Educate social enterprises through public events, online resources and other easily accessible items. Discuss investment one-on-one with social enterprises.	Get Informed. BSC is running a campaign to educate social enterprise board members on investment. Online resources explain the risks and benefits of accepting an investment. Events and mentors offer in-person and one-on-one support to board members ³⁸ .
Investor Support	Some investors do not know about impact investing. Some mainstream investors do not know how to measure a project's social aspects. Some foundations and similar investors do not know how to measure a project's financial aspects. A wholesaler may educate investors on impact investing's possibilities and help them enter the market.	Educate mainstream investors on the financial potential of social projects. Educate foundations and similar investors on the social promise of investing in impact. Recruit investors into transactions as co-investors.	Donor Advised Fund Advisory Council. In 2017, BSC created an Advisory Council to share investment's potential among donor-advised funds. The Council aims to diminish the obstacles to investment by such funds. In November 2017, the Council published <i>Donor Advised Funds: A Practitioner's Guide to Social Impact Investing</i> ³⁹ . Investor Advisory Board. The SIA's advisory board, composed of its investors, meets twice a year to share impact investing lessons.
Policy Change	Policy influences investment. Rules on charities and nonprofits, for example, can limit investment. Preferential tax treatment can overcome the gap between the terms investors offer and the terms some social enterprises will accept. A wholesaler may use its wide view of the market to identify key policies and push for change.	Understand the gaps that policy can fill. Conduct analysis and design policy proposals. Foster a coalition of market actors to advance policy change. Advocate for policy proposals and assist in implementation.	Social Investment Tax Relief. BSC, alongside many others, pushed for a tax benefit attached to investment. Social Investment Tax Relief, the measure eventually won, allows a taxpayer to deduct 30% of the cost of an eligible investment from her income tax bill ⁴⁰ . BSC's GET SITR project publishes technical guides on how to use the measure ⁴¹ . As of early 2018, social enterprises had raised £5 million under the measure ⁴² .

³⁷ Kearney, C. (December 1, 2016). *Publishing the Building Blocks... the key components of a strong intermediary* [Blog Post]. Retrieved from Big Society Capital: <https://www.bigsocietycapital.com/latest/type/blog/publishing-building-blocks%E2%80%A6-key-components-strong-intermediary>

³⁸ Big Society Capital. (December 17, 2017). *GET INFORMED: Social Investment for Boards*. Retrieved from <https://www.bigsocietycapital.com/get-informed>

³⁹ Zanuso, E. and Ng, K. (December 14, 2017). *How Donor Advised Funds can create more good through Social Impact Investment*. Retrieved from <https://www.bigsocietycapital.com/latest/type/blog/how-donor-advised-funds-can-create-more-good-through-social-impact-investment>

⁴⁰ UK Government. (2016). *Social Investment Tax Relief*. Retrieved from <https://www.gov.uk/government/publications/social-investment-tax-relief-factsheet/social-investment-tax-relief>

⁴¹ Rowell, S. (March 19, 2014). *Budget 2014: What do we know about Social Investment Tax Relief?* [Blog Post]. Retrieved from <https://www.bigsocietycapital.com/latest/type/blog/budget-2014-what-do-we-know-about-social-investment-tax-relief>; Big Society Capital. (December 19, 2017). *GET SITR: A Tax Break for Charities and Social Enterprises*. Retrieved from <https://www.bigsocietycapital.com/what-we-do/current-projects/social-investment-tax-relief/get-sitr>

⁴² Big Society Capital. (November 22, 2017). *What We Do: Engaging and Investing*. Retrieved from <https://www.bigsocietycapital.com/what-we-do>

CATEGORIES OF MARKET DEVELOPMENT (Continued...)

CATEGORY	RATIONALE	ACTIVITY	EXAMPLE
Impact Measurement	Inconsistent and sometimes dubious impact measurement practices can threaten impact investing's credibility. A wholesaler occupies a prominent position in the market. It may use that position to support or lead efforts to establish shared norms in impact measurement.	Understand the measurement desires of social enterprises and impact investors. Experiment with different approaches through own portfolio. Share practices that work well. Lead dialogue toward common understanding.	Outcomes Matrix. BSC and its partners wrote a spreadsheet of metrics from which a social enterprise or impact investor might select. BSC published the spreadsheet on Good Finance, a website designed to spread investment knowledge among social enterprises ⁴³ . SIA Measurement Model. The SIA developed a model to measure and assist comparison of impact across diverse enterprises ⁴⁴ .

ACCESS, BSC'S SISTER ORGANIZATION

Access – The Foundation for Social Investment covers a part of the finance spectrum too concessionary for BSC. Access' £45 million Growth Fund boosts the supply of small, unsecured, affordable loans. The Fund combines grants from the Big Lottery Fund and loans from BSC.⁴⁵ It offers intermediaries a package that is part grant and part loan. The intermediaries lend up to £150,000 to social enterprises⁴⁶. The intermediaries use the grants to cover losses, recoup the high transaction costs of small loans or to add a grant component to an enterprise's loan⁴⁷.

BSC is not allowed to give grants. Access' Reach Fund gives grants to investor-referred social enterprises that are nearly ready to accept an investment but need a little more work (on items like governance or business plan) to get over the finish line⁴⁸. Its Connect Fund gives grants to intermediaries and others building closer links between impact investment actors⁴⁹.

Between 2018 and 2023, Access intends to deepen its enterprise support. It will support all along the business spectrum, from helping an organization explore trade for the first time to helping an established enterprise secure investment⁵⁰.

Wholesaler Results

While still early, BSC and the SIA have begun to show some results that suggest their influence on capital, impact and markets.

CAPITAL

FINANCIAL METRIC	BSC (MARCH 31, 2018)	SIA (MARCH 31, 2018)
Amount of money signed	£436 M	€132 M
Amount of money co-signed (by other investors in deals in which the wholesaler has also invested)	£805 M	€263 M
Number of intermediaries in which the wholesaler has invested	44	12
Number of investments (some intermediaries have taken more than one investment)	74	12
Average size of investments in intermediaries	£5.2 M (drawn down)	€10.9 M
Median size of investments in intermediaries	£1.1 M (drawn down)	€10 M
Number of social enterprises in which the wholesaler's intermediaries have invested (or for which the intermediaries have arranged investment)	800	87

⁴³ Good Finance. (December 19, 2017). Outcomes matrix. Retrieved from <https://www.goodfinance.org.uk/impact-matrix>

⁴⁴ European Investment Fund. (November 20, 2017). The Social Impact Accelerator (SIA) – terms of reference. Retrieved from http://www.eif.org/what_we_do/equity/sia/terms-of-reference.htm. For some of the thought behind the SIA's impact measurement model, see Grabenwarter, U. (2013). *The Gamma Model for expressing Impact Investment Performance in Fund Investments*. Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2381129

⁴⁵ Access – The Foundation for Social Investment. (October 10, 2017). *The Growth Fund*. Retrieved from <https://access-socialinvestment.org.uk/growth-fund/>

⁴⁶ Access – The Foundation for Social Investment. (April 8, 2018). *The Growth Fund*. Retrieved from <https://access-socialinvestment.org.uk/blended-finance/the-growth-fund/>

⁴⁷ Access – The Foundation for Social Investment. (2016). *The Growth Fund – An Introduction*. Retrieved from <https://access-socialinvestment.org.uk/wp-content/uploads/2016/07/Growth-Fund-guidance-basics-v3.pdf>

⁴⁸ Reach. (April 8, 2018). *What is the Reach Fund?* Retrieved from <http://www.reachfund.org.uk/what-reach-fund>

⁴⁹ Connect Fund. (April 8, 2018). *About the Connect Fund*. Retrieved from <http://www.connectfund.org.uk/about-the-connect-fund/>

⁵⁰ Access – The Foundation for Social Investment. (April 8, 2018). *A Menu of Support*. Retrieved from <https://access-socialinvestment.org.uk/enterprise-development/menu-of-support/>

The SIA has not invested long enough to produce stable return data. BSC earned its first profit (£782,000) in 2017⁵¹. It expects volatility in its profit and loss over the next few years.

SOME OF BSC'S EARLY FINANCIAL DATA

END OF YEAR ⁵²	CAPITAL SIGNED	CO-INVESTOR CAPITAL SIGNED	Capital Drawn Down	Co-Inv. Capital Drawn Down	Profit or (Loss)
2012	£20 M	£20 M	£5 M		(£1.1 M)
2013	£48 M	£56 M	£13 M		(£2.9 M)
2014	£158 M	£201 M	£36 M	£68 M	(£1.7 M)
2015	£261 M	£326 M	£68 M	£127 M	(£6.8 M)
2016	£340 M	£553 M	£142 M	£325 M	(£5.3 M)
2017	£434 M	£712 M	£224 M	£540 M	£0.8 M

BSC tries, in every deal, to match its capital with outside investment⁵³. In 2013, its first full year, co-investors signed investments worth £1.15 for every £1 signed by BSC⁵⁴. By March 31, 2018, co-investors had signed £1.85 for every £1 signed by BSC. (BSC counts the entirety of the money raised by an intermediary outside BSC's own money as co-investment.)

IMPACT

BSC and the SIA do not require enterprises to report on standardized metrics or through specific frameworks. Social enterprises define the metrics on which they will report⁵⁵. BSC and the SIA, however, still seek to advance shared norms in how to measure impact. See *How should the wholesaler measure and manage impact?* for more discussion.

When each social enterprise in an investor's portfolio defines its own metrics, the investor will struggle to aggregate the impact in its portfolio. Despite the difficulty, BSC has reported some high-level numbers on the impact of enterprises into which its intermediaries have invested.

SELECTED NUMBERS ON THE IMPACT OF BSC-INVESTED SOCIAL ENTERPRISES

TOPIC	IMPACT (2012 TO 2017)	EXAMPLE
Employment, training and education ⁵⁶	26,000 jobs and training opportunities created	Nesta Impact Investments invested £1 million in GetMyFirstJob, an online service that matches young people to apprenticeships ⁵⁷ .
Housing and local facilities ⁵⁸	2,000 people housed	Golden Lane Housing raised £11 million through a listed charity bond, purchased in part by the Threadneedle UK Social Bond Fund. Golden Lane Housing provides supported homes to people with learning disabilities ⁵⁹ .
Income and financial inclusion ⁶⁰	24,000 affordable loans disbursed	Big Issue Invest financed Street UK, a nonprofit low-cost alternative to payday loan companies ⁶¹ .
Family, friends and relationships ⁶²	5,000 affordable nursery or childcare spaces offered	Big Issue Invest and Bridges Fund Management invested £1.25 million into the London Early Years Foundation ⁶³ . The Foundation subsidizes low-income places by charging affluent parents more ⁶⁴ .

⁵¹ Big Society Capital. (2018). *2017 Annual Review*. Retrieved from <https://www.bigsocietycapital.com/sites/default/files/Annual%20Review%202017.pdf>

⁵² 2012-2017 numbers drawn from BSC's annual reports.

⁵³ Big Society Capital. (November 21, 2017). *Our Investment Requirements*. Retrieved from <https://www.bigsocietycapital.com/what-we-do/investor/apply-investment/our-investment-requirements>

⁵⁴ Big Society Capital. (2014). *Annual Review 2013*. Retrieved from <https://www.bigsocietycapital.com/sites/default/files/Big%20Society%20Capital%20Annual%20Report%202013.pdf>

⁵⁵ Big Society Capital. (November 20, 2017). *Social Impact: A summary of our approach*. Retrieved from <https://www.bigsocietycapital.com/impact-report/our-impact-approach>; European Investment Fund. (November 20, 2017). *The Social Impact Accelerator (SIA) - terms of reference*. Retrieved from http://www.eif.org/what_we_do/equity/sia/terms-of-reference.htm. To view the metrics selected by BSC's social enterprises, see Big Society Capital. (December 19, 2017). *Deal Level Data*. Retrieved from <https://www.bigsocietycapital.com/home/about-us/deal-level-data>

⁵⁶ Big Society Capital. (November 21, 2017). *Employment, training and education*. Retrieved from <https://www.bigsocietycapital.com/impact-report/employment-training-and-education>

⁵⁷ Big Society Capital. (March 6, 2018). *GetMyFirstJob*. Retrieved from <https://www.bigsocietycapital.com/what-we-do/investor/case-studies/getmyfirstjob>

⁵⁸ Big Society Capital. (November 21, 2017). *Housing and local facilities*. Retrieved from <https://www.bigsocietycapital.com/impact-report/housing-and-local-facilities>

⁵⁹ Big Society Capital. (November 21, 2017). *Golden Lane Housing*. Retrieved from <https://www.bigsocietycapital.com/what-we-do/investor/case-studies/golden-lane-housing>

⁶⁰ Big Society Capital. (November 21, 2017). *Income and financial inclusion*. Retrieved from <https://www.bigsocietycapital.com/impact-report/income-and-financial-inclusion>

⁶¹ Big Society Capital. (March 6, 2018). *Street UK*. Retrieved from <https://www.bigsocietycapital.com/what-we-do/investor/case-studies/street-uk>

⁶² Big Society Capital. (November 21, 2017). *Family, friends and relationships*. Retrieved from <https://www.bigsocietycapital.com/impact-report/family-friends-and-relationships>

⁶³ Big Society Capital. (March 6, 2018). *London Early Years Foundation*. Retrieved from <https://www.bigsocietycapital.com/what-we-do/investor/case-studies/london-early-years-foundation>

⁶⁴ Big Society Capital. (March 8, 2018). *Family, friends and relationships*. Retrieved from <https://www.bigsocietycapital.com/impact-report/family-friends-and-relationships>

MARKET

Market size and related numbers can be calculated in different ways. This paper uses the definitions below:

Market Size	The total value of a year's transactions in an investment market. Market size measures the flow between investors and investees.
Investment Stock	The total value of outstanding investments in an investment market.

BSC opened its doors in 2012. One report calculated the size of the UK social investment market** at £202 million in 2011/12⁶⁵. In 2016, BSC estimated a UK social investment market of £595 million⁶⁶. While not perfectly comparable⁶⁷, the two numbers indicate growth of nearly three times. At the end of 2017, BSC estimated a UK social investment stock of over £2,300 million in 4,000 investments⁶⁸. BSC cannot claim credit for that entire expansion, but the rapid build after BSC's launch suggests some influence.

Impact investment observers frequently cite unmet demand from social enterprises for small, unsecured loans⁶⁹. In 2011 / 2012, the market moved £47 million in non-bank products, such as unsecured loans. In 2016, it moved £291 million⁷⁰.

Other expanding segments in the UK market include:

Community shares. Some types of social enterprise can issue community shares to raise equity from community members. Nearly 120,000 people have bought over £100 million in community shares since 2009⁷¹.

Charity bonds. Charity bonds are bonds issued by social enterprises and listed on an exchange. The charity bond market grew from £2.4 million in 2012 to £121 million in 2016⁷².

Property funds. Property funds own property and lease it to social enterprises. Property funds had invested more than £200 million by 2016, up from nothing in 2012⁷³.

The SIA has invested €132 million. Europe's impact investment market is much larger⁷⁴.

⁶⁵ ICF GHK and BMG Research. (2013). *Growing the Social Investment Market: The Landscape and Economic Impact*. Retrieved from the UK Government: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/210408/Social-Investment-Report1.pdf

⁶⁶ Big Society Capital. (November 21, 2017). *Impact on the market*. Retrieved from <https://www.bigsocietycapital.com/impact-report/impact-market>

⁶⁷ Big Society Capital. (November 21, 2017). *Comparing market size*. Retrieved from <http://www.bigsocietycapital.com/impact-report/notes-market-size-comparison>

⁶⁸ Benton, N. (July 26, 2018). *Updated estimate on the current size of the Social Investment Market*. Retrieved from <https://www.bigsocietycapital.com/latest/type/blog/updated-estimate-current-size-social-investment-market>

⁶⁹ Social Enterprise UK. (2017). *The Future of Business: State of Social Enterprise Survey 2017*. Retrieved from <https://www.socialenterprise.org.uk/the-future-of-business-state-of-social-enterprise-survey-2017>; Charities Aid Foundation. (2014). *In Demand: The changing need for repayable finance in the charity sector*. Retrieved from https://www.cafonline.org/docs/default-source/about-us-publications/in_demand_0314.pdf; European Commission. (2016). *A recipe book for social finance*. Retrieved from <http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7878>

⁷⁰ Big Society Capital. (November 21, 2017). *Comparing market size*. Retrieved from <http://www.bigsocietycapital.com/impact-report/notes-market-size-comparison>

⁷¹ Community Shares. (April 9, 2018). *What are Community Shares?* Retrieved from <https://communityshares.org.uk/find-out-more/what-are-community-shares>

⁷² Big Society Capital. (April 9, 2018). *Impact on the market*. Retrieved from <https://www.bigsocietycapital.com/impact-report/impact-market>

⁷³ Big Society Capital. (April 9, 2018). *Impact on the market*. Retrieved from <https://www.bigsocietycapital.com/impact-report/impact-market>

⁷⁴ See Eurosif. (2016). *European SRI Study 2016*. Retrieved from <http://www.eurosif.org/wp-content/uploads/2016/11/SRI-study-2016-HR.pdf>

** Social investment is a subset of impact investment. It finances investees that lock in their mission. These investees usually reinvest the majority of their profits in their social goals.

SOURCES TO FINANCE A WHOLESALER



Everyone putting money into a wholesaler will tie its own strings. The UK's *Dormant Bank and Building Society Accounts Act 2008*, for example, prohibits BSC from investing directly in social enterprises⁷⁵. An institutional investor may ask for commercial or near-commercial returns. When raising money, a wholesaler's task is to find sources that sync with (or at least do not conflict with) its theory of change.

Many wholesalers will raise money from more than one source. A wholesaler in receipt of two or more sources should weigh how it might combine the sources (and their different preferences for return, impact and risk) into investments that fit within its theory of change. The constraint in one source may find its offset in another. Part of the wholesaler's proposition is its ability to connect, through inventive financial instruments, diverse supply and demand.

The sections below discuss some sources of wholesaler capital.

Dormant Accounts

A dormant account is a bank or other account untouched for many years. It is an account about which the owner has apparently forgotten. Many accounts pass into dormancy each year. In some countries, governments collect the money and spend it⁷⁶. In other countries, the money stays on the books of financial institutions.

In 2008, the UK government passed the *Dormant Bank and Building Society Accounts Act 2008*⁷⁷. The Act defines an account as dormant if the owner has not touched the account in fifteen years.

Most of the UK's account-holding institutions have joined the Act's voluntary scheme (together, the scheme's participants handle more than 90% of retail accounts). Financial institutions transfer dormant accounts to the Reclaim Fund. The Reclaim Fund manages the accounts, satisfies claims and – after estimating the amount required to pay future claims – transfers some of the money to the Big Lottery Fund⁷⁸. The Big Lottery Fund transfers most of the English portion to BSC⁷⁹.

The Reclaim Fund received £980 million between 2011 and 2016. It sent £362 million to the Big Lottery Fund⁸⁰. It held back the difference to cover possible claims. An account's owner can claim her account forever. Between 2011 and 2016, the Reclaim Fund paid just over £50 million in claims⁸¹.

In December 2016, the Japanese government passed the *Dormant Deposit Utilization Act*⁸². The Act defines an account as dormant after ten years of inactivity⁸³. The Act will require banks to transfer dormant accounts to the Deposit Insurance Corporation of Japan. Like the UK's Reclaim Fund, the Corporation will manage the accounts, handle claims and transfer some of the leftover money to good causes. The leftover money will travel to the DUF⁸⁴.

About ¥120 billion (£810 million) crosses the dormancy threshold every year. Owners later claim about ¥50 billion (£340 million⁸⁵). Up to ¥70 billion (£470 million) a year will therefore flow to the DUF.

⁷⁵ Retrieved from http://www.legislation.gov.uk/ukpga/2008/31/pdfs/ukpga_20080031_en.pdf

⁷⁶ See, for example, Canada's federal unclaimed balances regime. Bank of Canada. (November 22, 2017). *Unclaimed Balances*. Retrieved from <https://www.bankofcanada.ca/unclaimed-balances/>

⁷⁷ Retrieved from http://www.legislation.gov.uk/ukpga/2008/31/pdfs/ukpga_20080031_en.pdf

⁷⁸ Commission on Dormant Assets. (2017). *Tackling dormant assets: Recommendations to benefit investors and society*. Retrieved from the UK Government: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/596228/Tackling_dormant_assets_-_recommendations_to_benefit_investors_and_society__1_.pdf

⁷⁹ Big Society Capital. (November 22, 2017). *Governance*. Retrieved from <https://www.bigsocietycapital.com/about-us/governance>

⁸⁰ Commission on Dormant Assets. (2017). *Tackling dormant assets: Recommendations to benefit investors and society*. Retrieved from the UK Government: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/596228/Tackling_dormant_assets_-_recommendations_to_benefit_investors_and_society__1_.pdf

⁸¹ Reclaim Fund. (2017). *Annual Report and Accounts 2016*. Retrieved from <https://www.reclaimfund.co.uk/financial-reports/>

⁸² Retrieved from <http://www.japaneselawtranslation.go.jp/law/detail?id=2992>

⁸³ Uo, M. (May 1, 2017). Japan Moves to Use Dormant Bank Accounts for Socially Beneficial Activities. *Nippon.com*. Retrieved from <http://www.nippon.com/en/currents/d00298/>

⁸⁴ Cabinet Office of Japan. (n.d.). *Overview of system for transfer, management, and utilization of dormant deposits (tentative)*. Retrieved from http://www5.cao.go.jp/kyumin_yokin/english/201703overview_e.pdf

⁸⁵ Outline of the Act on Utilization of Funds Related to Dormant Deposits to Promote Social Purpose Activities (Tentative). (n.d.). Retrieved from http://www5.cao.go.jp/kyumin_yokin/english/201803outline_e.pdf

Dormant Account Considerations

In countries that do not now collect dormant accounts, the government may see dormant accounts as nearly free money. Most governments would sooner finance a wholesaler out of 'free money' than tax revenue.

Winning dormant accounts is not, however, easy. First, wholesaler proponents must determine if the government already collects dormant accounts and, if so, how it handles the accounts. Australia's government spends dormant accounts, closing that avenue for Impact Capital Australia⁸⁶. By contrast, neither the UK nor Japan collected dormant accounts before they passed the legislation described above.

Second, proponents must protect an owner's right to claim its account. Both the UK and the Japanese regimes allow an owner to claim its account forever⁸⁷.

Third, proponents must overcome protests from financial institutions, especially over the administrative costs of reaching deep into the past to find dormant accounts. To counter bank opposition, Japan's proponents decided to pursue only newly dormant accounts. In the UK, the rising regulatory costs of keeping dormant accounts shifted opinion among financial institutions.

Countries weighing dormant accounts may also wish to consider other types of unclaimed assets. To start, proponents should refer to the UK Commission on Dormant Asset's *Tackling dormant assets: Recommendations to benefit investors and society*⁸⁸.

Public Financial Institutions

Public financial institutions invest in public goals. A wholesaler may form part of that investment strategy. The majority of the SIA's €243 million was drawn from the EIF and the European Investment Bank. The SIA raised the remainder from Deutsche Bank, SITRA, Crédit Coopératif and the Bulgarian Development Bank.

Public financial institutions, as publicly-driven investors, may understand a wholesaler's goals and strategy more easily than a government or a bank. In a developing country, a development finance institution's mix of social and economic goals may prove it a particularly well-matched partner. When a wholesaler works under a public financial institution's umbrella, the institution may lend credibility and an investment process that a wholesaler must otherwise build from scratch.

Pulling close to a public financial institution may suit some investment strategies better than others. Some public financial institutions articulate only an economic purpose. The Business Development Bank of Canada, for example, states its mission as to "help create and develop strong Canadian businesses"⁸⁹. That mission does not preclude social goals but it may suggest an awkward fit between the Bank and a wholesaler dedicated to impact. (The Bank's policy of serving only for-profits, for example, would complicate some wholesaler strategies.)

Governments

Governments can capitalize wholesalers by grant or by investment. Impact Capital Australia's proponents are seeking A\$150 million as grant or investment from the Australian government⁹⁰. They plan to make up the rest of their A\$300 million target with A\$120 million from institutional investors and A\$30 million from community and individual investors⁹¹.

PSI will draw 85% of its money (up to €106.25 million) from the European Structural and Investment Funds. PSI will return the portion invested plus inflation to the Structural and Investment Funds. PSI will draw the other 15% (up to €18.75 million) from the Portuguese government.

PSI must follow a somewhat onerous set of rules. First, PSI may only invest its Structural and Investment Funds in regions that average less than 75% of mean EU income⁹². That rule excludes Lisbon, the heart of social entrepreneurship in Portugal.

⁸⁶ Han, E. and Ting, I. (June 10, 2014). Canberra reaps \$360m from inactive bank accounts. *The Sydney Morning Herald*. Retrieved from <http://www.smh.com.au/national/canberra-reaps-360m-from-inactive-bank-accounts-20140609-39t8p.html>

⁸⁷ Reclaim Fund. (2017). *Annual Report and Accounts 2016*. Retrieved from <https://www.reclaimfund.co.uk/financial-reports/>; Uo, M. (May 1, 2017). Japan Moves to Use Dormant Bank Accounts for Socially Beneficial Activities. *Nippon.com*. Retrieved from <http://www.nippon.com/en/currents/d00298/>

⁸⁸ Commission on Dormant Assets. (2017). *Tackling dormant assets: Recommendations to benefit investors and society*. Retrieved from the UK Government: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/596228/Tackling_dormant_assets_-_recommendations_to_benefit_investors_and_society__1_.pdf

⁸⁹ Business Development Bank of Canada. (June 1, 2018). *Who we are*. Retrieved from www.bdc.ca/en/about/who-we-are/pages/default.aspx

⁹⁰ Impact Investing Australia and Australian Advisory Board on Impact Investing. (2017). *Pre-Budget Submission 2018-19*. Retrieved from <https://impactinvestingaustralia.com/wp-content/uploads/2017-Impact-Capital-Australia-pre-Budget-Submission-FINAL.pdf>

⁹¹ Addis, R., McCutchan, S. and Munro, P. (2015). *Blueprint to Market Impact Capital Australia*. Retrieved from Impact Investing Australia: <https://impactinvestingaustralia.com/wp-content/uploads/Blueprint-to-Market-Impact-Capital-Australia.pdf>

⁹² For the regional rules on European Structural and Investment Funds, see European Commission. (2015). *European Structural and Investment Funds 2014-2020: Official texts and commentaries*. Retrieved from http://ec.europa.eu/regional_policy/sources/docgener/guides/blue_book/blueguide_en.pdf

Second, the EU's state aid rules limit the extent to which PSI can use public money to give an advantage to private entities (the rules seek to level the field on which European companies compete)⁹³. If PSI invests such that its investees gain an advantage, PSI must either invest through specific exemptions or ask the European Commission to approve its strategy. BSC sought and won Commission approval for the advantage it gives to intermediaries⁹⁴.

Korea Social Value and Solidarity Fund

South Korea plans to launch its wholesaler, the Korea Social Value and Solidarity Fund, in 2018. The Fund intends to raise KRW 300 billion (about £200 million) over five years⁹⁵. It will operate as a foundation.

The Fund intends to mirror BSC's strategy, though it has not yet worked out the details of its business plan. It plans to emphasize intermediaries (it has yet to decide if it will invest directly in enterprises). It plans to employ grants, debt, equity and guarantees across a diverse set of social sectors and legal forms.

The Fund will seek to grow South Korea's social economy by strengthening the links between investors and enterprises. Proponents believe that the Fund will spur great activity in a country keen on impact investment but without a strong intermediary layer.

The Fund has not yet secured its KRW 300 billion. It hopes to raise KRW 100 billion by the end of 2018⁹⁶. Though the Fund will operate independent of government, the government will supply up to half of its capital through matched commitments.

⁹³ European Commission. (April 17, 2018). *State aid control*. Retrieved from http://ec.europa.eu/competition/state_aid/overview/index_en.html

⁹⁴ European Commission. (2011). *State Aid n. SA.33683 (2011/N) – United Kingdom. Big Society Capital*. Retrieved from https://www.bigsocietycapital.com/sites/default/files/EU%20State%20Aid%20Decision_BSC_website.pdf; Big Society Capital. (2017). *State Aid requirements and exemptions*. Retrieved from <https://www.bigsocietycapital.com/sites/default/files/State%20Aid%20Information%20-%20January%202017.pdf>

⁹⁵ Yonhap News Agency. (February 2, 2018). *Gov't to raise 300 bln won for social impact investments* [Press Release]. Retrieved from <http://english.yonhapnews.co.kr/news/2018/02/08/0200000000AEN20180208008300320.html>

⁹⁶ Pothering, J. (February 14, 2018). *South Korea plans \$276 million social impact fund. ImpactAlpha*. Retrieved from <https://news.impactalpha.com/south-korea-plans-276-million-social-impact-fund-fa5cfad8ea95>

⁹⁷ Daggars, J. and Nicholls, A. (2016). *Big Society Capital: The World's First Social Investment Wholesale Bank*. Retrieved from Said Business School: <https://www.sbs.ox.ac.uk/faculty-research/skoll/our-work/research/case-studies/big-society-capital-worlds-first-social-investment-wholesale-bank>

⁹⁸ Daggars, J. and Nicholls, A. (2016). *Big Society Capital: The World's First Social Investment Wholesale Bank*. Retrieved from Said Business School: <https://www.sbs.ox.ac.uk/faculty-research/skoll/our-work/research/case-studies/big-society-capital-worlds-first-social-investment-wholesale-bank>

⁹⁹ Big Society Capital. (November 22, 2017). *Our Mission, Principles and Values*. Retrieved from <https://www.bigsocietycapital.com/about-us/our-mission-mission-principles-and-values>

¹⁰⁰ Big Society Capital. (2017). *2016 Annual Review: Social Investment Refocused*. Retrieved from https://www.bigsocietycapital.com/sites/default/files/annual_report/BSC_AR_2016_WEB.pdf; Daggars, J. and Nicholls, A. (2016). *Big Society Capital: The World's First Social Investment Wholesale Bank*. Retrieved from Said Business School: <https://www.sbs.ox.ac.uk/faculty-research/skoll/our-work/research/case-studies/big-society-capital-worlds-first-social-investment-wholesale-bank>

Institutional Investors

Institutional investors may invest in a wholesaler, especially where the wholesaler can promise a good return. Impact Capital Australia is raising institutional money as ten-year debt. It plans to subordinate the government's money to that of its institutional investors. It has won commitment from two major banks.

Each of the UK's four major retail banks invested £50 million in equity into BSC. The UK government secured that capital as part of the Merlin Agreement, a deal intended to reform banking practices after the 2008 crisis⁹⁷.

The Merlin banks agreed to invest in BSC on commercial terms. The agreement between BSC and the Merlin banks specifies an internal rate of return in the low to mid-single digits. If BSC fails to earn the minimum return, the banks can exercise rights to meetings and other items⁹⁸. In some circumstances, an institutional investor's return target might dictate the price of a wholesaler's capital.

The banks' actual influence on the price of BSC's capital, however, may be slight, in part because BSC wants to break even and turn a small profit just to prove that impact investors can make money⁹⁹. BSC's co-investors also greatly influence the price of its capital. BSC lost money every year from 2012 to 2016, yet the Merlin banks did not exercise their rights¹⁰⁰.

Other Sources

Most wholesalers will probably seek to raise their money through governments and financial institutions. Some, however, may look further afield. A country that boasts a well-funded charitable sector, for example, may ask foundations to invest. Foundations may supply capital on terms that put impact goals ahead of financial goals. They may, for example, expect back only their capital or even less than their capital. Foundation funds might thereby allow the wholesaler to invest more flexibly (at, for example, lower rates or greater risk).

A wholesaler may also raise money from wealthy individuals. The India Impact Fund of Funds plans to raise some of its capital from wealthy Indians living in other countries.

India Impact Fund of Funds

The India Impact Fund of Funds plans to lend US\$1 billion to debt funds that invest in social enterprises. The Fund seeks to fill an apparent gap in medium- to long-term unsecured debt. It will target a 9% return over its ten-year life.

The Fund aims to raise US\$600 million from finance-first investors (those that emphasize return) and US\$400 million from impact-first investors (those that emphasize social goals and do not necessarily seek a commercial return). The Fund will approach financial institutions and members of the Indian diaspora as finance-first investors. It will approach foundations and development finance institutions as impact-first investors. It will ask the impact-first investors to take a first-loss position.

Sources of Money: Opportunities and Limitations

DORMANT ACCOUNTS

Opportunities

- ▲ **New Money.** Some countries do not collect dormant accounts. Other countries do not put dormant accounts to productive use. An otherwise inert sum is an attractive source of money for a government to allot.
- ▲ **Public Orientation.** Dormant accounts belong to the people. Dormant accounts suit proposals that visibly address public problems.
- ▲ **Flexibility.** A government may transfer a country's dormant accounts to a wholesaler without expecting any of the money back. Non-repayable money may make possible strategies more flexible than if the wholesaler must pay a return.

Limitations

- ▲ **Public Worries.** Some in the public will worry that the wholesaler will deprive people of their accounts.
- ▲ **Bank Opposition.** Banks will worry about lost profit (made by converting dormant accounts into revenue) and the costs of searching their books for long-quiet accounts.
- ▲ **Delay.** A proposal to collect dormant accounts for the first time will likely require legislation. Legislation moves slowly.
- ▲ **Rigidity.** Dormant accounts may arrive with legislated or other difficult-to-change restrictions.

Source Secured or Under Consideration: Big Society Capital and Japan's Deposit Utilization Foundation

PUBLIC FINANCIAL INSTITUTIONS

Opportunities

- ▲ **Familiarity.** Public financial institutions already invest large sums in private actors to achieve public goals. Such an institution may more easily understand a wholesaler's mission. It may more quickly allocate money than a government that must weigh a wholesaler against many diverse and competing demands.
- ▲ **Expertise.** Public financial institutions already know how to invest. Many already engineer financial products to suit different needs. A wholesaler that operates within such an institution may take advantage of the institution's processes and expertise.

Limitations

- ▲ **Mission Mismatch.** Some public financial institutions define their goals only in terms of jobs and economic growth. An entity that defines its goals only in economic terms may not support some wholesaler strategies, especially those that trade financial return for social good.
- ▲ **Return Expectation.** A public financial institution will likely expect some return. That expectation may foreclose or impede some wholesaler strategies.

Source Secured or Under Consideration: The European Investment Fund and Impact India Fund-of-Funds

GOVERNMENTS

Opportunities

- ▲ **Signal.** By pulling money out of its budget to capitalize a wholesaler, a government states its commitment to impact investing. That statement can attract attention.
- ▲ **Flexibility.** A government may or may not expect a return. Where the government does not expect a return, the wholesaler may enjoy more latitude in its strategy.

Limitations

- ▲ **Fiscal Pressure.** Many governments feel squeezed right now. Policy ideas compete fiercely over tax dollars. A wholesaler may struggle to convince a government to put up the minimum sum required to build a market.
- ▲ **Delay.** Governments usually spend a great deal of time before allocating a substantial sum to a new project.
- ▲ **Rigidity.** Governments often apply strict rules to use of public funds. Strict rules and heavy reporting requirements may limit the wholesaler's evolution.
- ▲ **Political Risk.** A new government may not support the wholesaler of its predecessor.

Source Secured or Under Consideration: Portugal Social Innovation, Impact Capital Australia and South Korea's Wholesaler

INSTITUTIONAL INVESTORS

Opportunities

- ▲ **Speed.** An institutional investor will likely decide whether to invest more quickly than a government.
- ▲ **Expertise.** Institutional investors know how to invest to earn a commercial return. That expertise may help the wholesaler devise a strategy able to sustain its operation.
- ▲ **Co-Investment.** Institutional investors already invested in the wholesaler may be more likely to invest alongside the wholesaler. Drawing institutional investors into impact investments is a major goal of most wholesalers.

Limitations

- ▲ **More than One Investor.** A wholesaler may not be able to raise enough money from a single institution. Proponents may have to raise money from at least a few institutions. Coordinating institutions absorbs a lot of time and energy both before and after launch.
- ▲ **Return Expectation.** An institutional investor will very likely expect a return, maybe a commercial return. Fiduciary duty may require such an expectation. A commercial expectation may foreclose or impede some wholesaler strategies.

Source Secured or Under Consideration: Big Society Capital, the European Investment Fund, Impact Capital Australia, South Korea's Wholesaler and Impact India Fund of Funds.

DESIGNING A WHOLESALER



This section outlines questions for those designing a wholesaler. See the checklist in the executive summary for an overview of the questions.

What is the wholesaler trying to accomplish?

WHY BUILD AN IMPACT INVESTMENT MARKET?

Why do the wholesalers profiled in this paper state their purpose as to build a market? Why do wholesalers not just invest their money to achieve impact without worrying about whether those investments build a market?

Markets offer two advantages. First, markets decentralize decisions. The centralized approach to solving social problems appears to have hit a wall in some arenas. A market withdraws decisions from any single player's hands. A wider class of actors investing in social good, selecting and supporting social enterprises, will diversify approaches.

Second, markets can grow far larger than their seeds. Wholesalers hope to direct more money toward social problems than they themselves hold. A market in which demand and supply find one another easily and at low cost will likely push more money to social goals than a strategy that only deploys the wholesaler's capital.

A wholesaler is a central entity charged to decentralize power. It starts as a cornerstone investor but aims to be only one of many investors. Every wholesaler must keep sight of that goal, lest its gravity nudge it into dominating the market. A sturdy governance structure designed to keep focus on the market will boost government and investor confidence that the wholesaler truly intends to diminish its central position over time.

Caution Against the Wholesaler as the Market's Fulcrum

The notion that nothing can happen without the wholesaler can spread easily when one entity holds more money by an order of magnitude than anyone else. Intermediaries and social enterprises may defer to wholesaler money.

Wholesalers must push back at that deference. A healthy market does not appoint a single source of wisdom. A market that orbits a wholesaler will suffer from too few modes of thought. Rather than outstrip the wholesaler, the market may grow to depend on it.

To combat the tendency to centralization, the wholesaler must decide carefully what it will do and what it will not do. Should it, for example, lead efforts to define impact investment, grow demand and shape policy, or should it join a network in which it is one player among many? What will lay the strongest base for long-term growth?

Some critics, both inside and outside BSC, accuse BSC of too much activity, of attempting to direct too many lines of work. They would rather BSC focus more on strengthening ideas already in stream and less on starting new projects and new intermediaries. They suggest BSC's staff costs are too high and blame those costs in part on BSC's many activities. (BSC's operating costs ran to £6.3 million in 2017¹⁰¹.)

The accuracy of that critique is difficult to judge. Wholesalers certainly walk a fine line between leading the market and becoming the market. The right mix of activities will depend on the wholesaler's context. The wholesaler should weigh carefully where to lead, where to support and where to let others fill the gap.

¹⁰¹ Big Society Capital. (2017). Report and Financial Statements 2017. Retrieve from <https://www.bigsocietycapital.com/sites/default/files/files/Financial%20Statement%202017.pdf>

HOW WILL THE WHOLESALER HELP TO DEVELOP THE MARKET?

A theory of change describes how an organization’s activities lead to outputs, how its outputs lead to outcomes and how its outcomes lead to impact. A wholesaler’s theory of change describes how its work strengthens its market, grows social enterprises and improves lives.

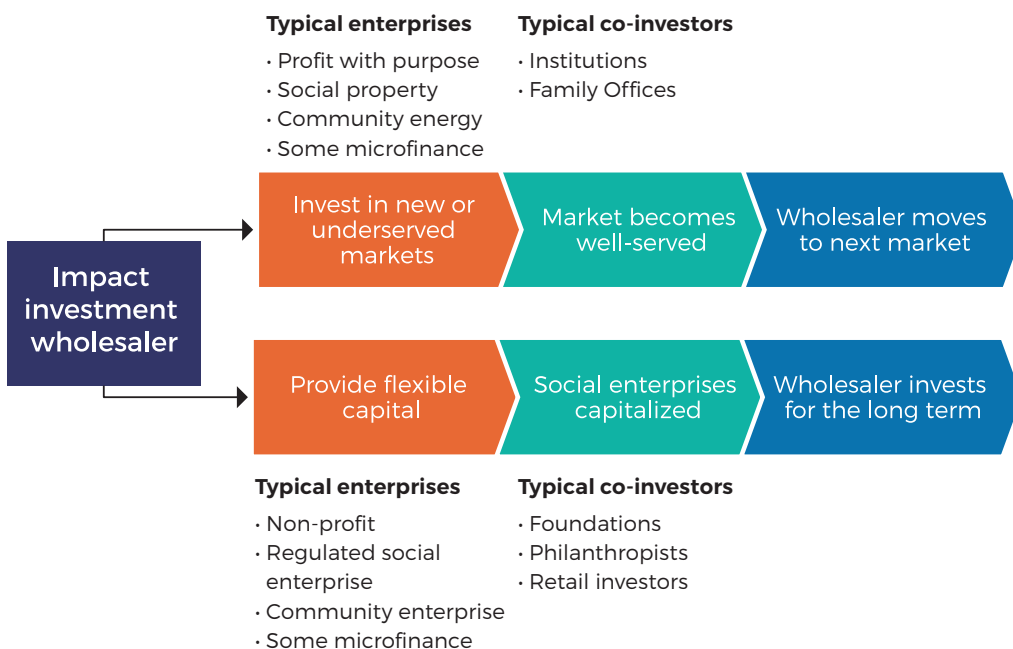
A wholesaler’s theory of change clarifies the gap it intends to address. It states how it believes people will benefit and then charts backwards to the actions the wholesaler must take to see that benefit. It embeds the wholesaler in its context. It recognizes the stage and structure of its impact investment market, defined by factors such as the number of social enterprises, the types of revenue models, the uptake of investment and the risk tolerance of investors.

An impact investment market seeks to serve the financial needs of many business models, from affordable housing developers to for-profit startups. It is less a single market than a collection of sub-markets, each of which serves specific business models and investors of specific preferences. A wholesaler’s theory of change accounts for that heterogeneity. It identifies the sub-markets in which the wholesaler will work. It outlines how the wholesaler will vary its work to meet demand in each sub-market.

Demand will differ in part by the degree to which it can be met only by flexible capital. A wholesaler’s theory of change states whether the wholesaler will supply flexible capital, commercial capital or both.

Two major strategies in an impact investment wholesaler’s theory of change

BREAKING UNDERSERVED MARKETS AND SUPPLYING FLEXIBLE CAPITAL



A single wholesaler may include both strategies in its theory of change

The SIA clearly articulates how its activities serve social enterprises. The SIA believes that many social enterprises can pay commercial returns but that mainstream investors do not see that. By advising and investing in unproven funds that pursue social goals and by seeking a commercial return, it intends to illustrate that the funds and their investees can earn returns attractive to institutional investors. Once it shows results, the SIA believes more mainstream investors will invest in social enterprises. The SIA fits within a broader EIF theory of change that aims to create an ecosystem in which social enterprises can find the right finance from birth to growth.

A wholesaler should not assume that its theory will last forever. As the wholesaler learns and as the market evolves, the wholesaler will likely find that the theory that was suitable five years ago no longer reflects either its vision or the path to get there.

In 2017, BSC announced that it would begin to center on three goals: expanding housing for vulnerable people, enabling communities to solve local problems and shifting the social system from treatment to prevention¹⁰². It believes impact investing, in partnership with other tools, can make the most difference in those areas. BSC plans to continue revisiting and adjusting its theory of change to reflect the changing market in which it works.

How should the wholesaler measure and manage impact?

An impact investor measures the impact of its investments. The Impact Management Project has brought together more than 1,400 enterprises, investors and other actors to agree on norms for how to measure, manage and report impact¹⁰³. It calls these norms a 'convention'. The convention's flexibility and consensus-driven approach have led to its rapid spread among stakeholders. The Global Steering Group's wholesaler working group recommends that wholesalers apply the convention to manage and communicate their impact. Applying the convention will enable wholesalers to promote a shared understanding of impact.

IMPACT MANAGEMENT

The convention begins by defining impact management as an organization's process of understanding which of its effects – positive and negative, intended and unintended – matter to people and the planet. Guided by that understanding, as well as its intentions and constraints, an organization managing impact sets impact goals and financial goals. It puts in place the governance and strategies to deliver on those goals. It collects new data about the experience of people and the planet and uses that data to improve.

THE IMPACT OF AN ENTERPRISE

The convention describes five dimensions by which an organization can understand which effects matter for impact management¹⁰⁴:

- ▲ **What.** What outcome does the effect generate, positive or negative? How important is that outcome to the people or the planet experiencing it?
- ▲ **Who.** Who experiences the effect? To what extent were those who experience the effect previously underserved in relation to the outcome?
- ▲ **How Much.** For how many people does the effect occur (scale)? What degree of change does the effect drive (depth)? For how long (duration)? How quickly (rate)?
- ▲ **Contribution.** How does the effect compare and contribute to what is likely to occur anyway?
- ▲ **Risk.** What is the likelihood that impact is not as expected?

Collecting, organizing and sharing data across these five dimensions allows a contextual view of impact. It helps enterprises and investors understand the extent to which the experience of people and the planet matches their intentions.

The mere fact that a social enterprise employs one thousand women does not tell an enterprise or its investors whether impact performance reflects intention. The enterprise may actually introduce problems into the lives of those it employs – by, for example, paying an unstable income relative to other employment. If the enterprise and its investors intend to **act to avoid harm** to the income of the enterprise's employees, the enterprise must reduce income instability among its employees.

¹⁰² Big Society Capital. (2017). *2016 Annual Review*. Retrieved from https://www.bigsocietycapital.com/sites/default/files/annual_report/BSC_AR_2016_WEB.pdf

¹⁰³ Impact Management Project. (May 6, 2018). *About*. Retrieved from <http://www.impactmanagementproject.com/about/>

¹⁰⁴ Impact Management Project. (n.d.). *Overview of the Impact Measurement Project*. Retrieved from <http://www.impactmanagementproject.com/latest/investor-guidance/>

If the enterprise and its investors intend to **benefit stakeholders** in relation to the employees' income, the enterprise must pay a sufficient and stable income. If the enterprise and its investors intend to **contribute to solutions** in relation to the employees' income, the enterprise must employ an underserved population and improve by a large margin the amount and stability of their income. The employees must also earn an income likely better than what they would have earned anyway.

No matter if it intends to act to avoid harm, to benefit stakeholders or to contribute to solutions, the enterprise must gather data to show its effect.

The convention does not ask enterprises, intermediaries or investors to replace their impact framework. It does not prescribe a particular set of impact metrics¹⁰⁵. Instead it asks all parties to reflect on whether the data collected, regardless of the form, demonstrate performance across the five dimensions. All kinds of tools can give data relevant to the five dimensions (see, for example, the Impact Management Project's joint paper with B Lab on how the B Impact Assessment elicits information relevant to the five dimensions¹⁰⁶).

THE IMPACT OF A PORTFOLIO

Data for each effect on the five dimensions allows an enterprise and its investors to classify the enterprise. Do the enterprise's combined effects show that it is at least acting to avoid harm to its stakeholders? Or does it benefit some or all of its stakeholders? Or does it contribute to solutions for one or more stakeholders?

Such a classification lets an investor understand the impact of its portfolio. It lets a wholesaler understand how well its impact reflects its intentions without asking intermediaries and enterprises to collect a particular set of metrics or forcing the wholesaler to aggregate dissimilar data. Most wholesalers will assemble a portfolio in which most enterprises contribute to solutions.

THE IMPACT OF AN INVESTMENT

The five dimensions ask enterprises to understand and report on their impact. The convention also asks investors – a category that includes wholesalers and intermediaries – to assess and explain their contribution to an enterprise's impact. The convention describes strategies by which investors can contribute to an enterprise's impact¹⁰⁷:

- ▲ **Signal that impact matters.** An investor chooses not to invest in or to favour certain investments. If all investors did the same, the collection action would ultimately lead to a 'pricing-in' of effects on people and the planet by the capital markets.
- ▲ **Engage actively.** An investor uses expertise, networks and influence to improve the impact performance of investees.
- ▲ **Grow new or undersupplied capital markets.** An investor anchors or participates in new or previously overlooked opportunities. The investor may invest in more complex deals, less liquid deals or deals in which some perceive risk disproportionate to return. The investor seeks a commercial return.
- ▲ **Provide flexible capital.** An investor recognizes that certain types of enterprises will require acceptance of below-market risk-adjusted financial return in order to generate certain kinds of impact. The investor charges lower rates, accepts more risk, waits longer periods, invests in smaller units or otherwise offers terms easier than those offered by commercial investors.

A pension fund may signal that impact matters by screening oil companies out of its portfolio. It may engage actively by lobbying a fishing company in which it owns shares to minimize bycatch. Its financial goals and regulatory oversight will likely pull it away from providing flexible capital. A wholesaler, by contrast, may use all four strategies to contribute to impact. As an investor driven by impact, a wholesaler can go further than many others.

A wholesaler typically spends its energy in the bottom right of the diagram below.

¹⁰⁵ Impact Management Project. (April 13, 2018). *Set Goals*. Retrieved from <http://www.impactmanagementproject.com/set-goals/>

¹⁰⁶ Impact Management Project and B Impact Assessment. (2017). *Signposting the shared fundamentals in existing infrastructure: The B Impact Assessment*. Retrieved from <http://www.impactmanagementproject.com/wp-content/uploads/2017/12/BIA-FINAL-2.pdf>

¹⁰⁷ Impact Management Project. (April 13, 2018). *Contribution*. Retrieved from <http://www.impactmanagementproject.com/understand-impact/contribution/>

THE CONVENTION'S MATRIX

IMPACT OF ENTERPRISES

	Avoid harm	Benefit stakeholders	Contribute to solutions
INVESTOR'S CONTRIBUTION	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	E.g. Ethical bond fund	E.g. Positively-screened/ best-in-class ESG fund
	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	E.g. Shareholder activist fund	E.g. Positively-screened/ best-in-class ESG fund using deep shareholder engagement to improve performance
	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	E.g. Anchor investment in a negatively-screened real estate fund in a frontier market	E.g. Positively-screened infrastructure fund in a frontier market
	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital		E.g. Positively-screened private equity fund making anchor investments in frontier markets
	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital		E.g. Private equity fund making anchor investments in businesses that have a significant effect on income and employment for underserved people
	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital		E.g. Below-market charity bonds, or an unsecured debt fund focused on businesses that have a significant effect on employment for underserved people
			E.g. Patient VC fund providing anchor investment and active engagement to businesses that have a significant effect on energy access for underserved people
			WHOLESALE'S FOCUS

Source: The Impact Management Project, 2018

IMPACT MANAGEMENT AT BSC AND THE SIA

BSC and the SIA ask social enterprises to choose the metrics on which they report. Social enterprises range across many goals. One enterprise into which a BSC intermediary has invested aims to reduce social isolation among elderly people. Another wants to improve student mindsets¹⁰⁸. Even IRIS, the largest metric database, does not contain such specific metrics. BSC and the SIA want social enterprises to define, set targets against and report on the metrics that the enterprise feels best capture and assist its mission.

Leaving metric definitions to the enterprise does not mean taking a passive approach to impact management. A wholesaler and its partners may help social enterprises improve their management methods. Access's Impact Management Programme, for example, gives grants to social enterprises that want to strengthen their impact approach as part of a bid for investment. In April 2018, the Programme gave forty social enterprises an average of £45,000 to prepare for investment¹⁰⁹.

Wholesalers usually work at some distance from social enterprises. Many levers which wholesalers use to manage impact lie at the intermediary level. The SIA, for example, ties fund manager compensation to impact¹¹⁰.

¹⁰⁸ Big Society Capital. (2017). *Social impact metrics April 2017*. Retrieved from <https://www.bigsocietycapital.com/home/about-us/deal-level-data>

¹⁰⁹ Impact Management Programme. (April 5, 2018). *£1.8m for 40 charities and social enterprises to improve impact [Press Release]*. Retrieved from <http://accessimpact.org/news/1-8m-for-charities-and-social-enterprises-to-master-impact-management/>

¹¹⁰ For other examples of impact-tied compensation, see Global Impact Investing Network. (2011). *Impact-Based Incentive Structures*. Retrieved from <https://thegiin.org/assets/documents/pub/impact-based-incentive-structures-aligning-fund-manager-comp.pdf>

Impact Management at the SIA

The SIA requires its intermediaries to link fund manager compensation to the impact of the manager's portfolio. First, the intermediary and each of its social enterprises select one to five social metrics. Second, the intermediary and the enterprise fix a target to each metric¹¹¹. The enterprise is to meet or pass the target before it exits the intermediary's portfolio¹¹².

Third, at least once a year, the intermediary calculates each metric's "impact multiple", the difference between the actual value achieved and the metric's target value. Fourth and finally, the intermediary reports to its investors each impact multiple for each social enterprise¹¹³.

Once the last social enterprise exits the intermediary's portfolio, the intermediary combines all of a social enterprise's impact multiples into a single multiple (some multiples may count for more than others). It then combines enterprise-level multiples into a single portfolio-level multiple. If the combined multiple is less than 0.6 (if the portfolio's enterprises achieved less than 60% of their targets), the fund manager will not earn her carried interest. If the multiple falls between 0.6 and 0.8 inclusive, the fund manager earns 50% of her carried interest. And if the multiple exceeds 0.8, the fund manager earns all of her carried interest¹¹⁴.

A wholesaler does not just look at the impact of others. It also contributes to impact as an investor. Maximizing an investor's contribution often means putting aside financial tools (at first) and starting with the social problem. BSC and the Joseph Rowntree Foundation decided to tackle the poverty premium. They began by learning about the problem: people living in poverty often pay more for goods and services than people living in plenty. For example, a person who cannot secure a line-of-credit at a bank will often pay more for a payday loan¹¹⁵.

BSC and the Foundation researched, conducted interviews and held stakeholder workshops¹¹⁶. Armed with knowledge on the problem and the enterprise models that might help, BSC and the Foundation created the Fair By Design Fund. The Fund will invest in enterprises that seek to cut costs on power, gas, loans, insurance and other items¹¹⁷. Alongside the Fund, the Wayra Fair By Design accelerator will assist up to seven social enterprises a year¹¹⁸. BSC and the Foundation hope the Fund, together with other efforts, will eliminate the poverty premium by 2027¹¹⁹.

The Impact Management Project emphasizes impact at the enterprise, intermediary and investor levels. A wholesaler also measures changes to its market. The tables below offer a starting point from which a wholesaler can choose metrics to measure its market and its contribution to that market.

¹¹¹ European Investment Fund. (November 20, 2017). The Social Impact Accelerator (SIA) – terms of reference. Retrieved from http://www.eif.org/what_we_do/equity/sia/terms-of-reference.htm

¹¹² European Investment Fund. (2016). *Social Impact Accelerator: Impact Metrics*. Retrieved from <http://www.ebanimpact.org/wp-content/uploads/2016/10/SIA-Introduction-to-Impact-Metrics.pdf>

¹¹³ European Investment Fund. (November 20, 2017). The Social Impact Accelerator (SIA) – terms of reference. Retrieved from http://www.eif.org/what_we_do/equity/sia/terms-of-reference.htm

¹¹⁴ European Investment Fund. (2016). *Social Impact Accelerator: Impact Metrics*. Retrieved from <http://www.ebanimpact.org/wp-content/uploads/2016/10/SIA-Introduction-to-Impact-Metrics.pdf>

¹¹⁵ Fair By Design. (March 8, 2018). *About*. Retrieved from <http://www.fairbydesignfund.com/about/>

¹¹⁶ Big Society Capital. (2016). *Fair By Design – Making Life Affordable: Call for Fund Manager*. Retrieved from <https://www.bigsocietycapital.com/sites/default/files/Fair%20by%20Design%20-%20call%20for%20Fund%20Manager.pdf>

¹¹⁷ Fair By Design. (March 8, 2018). *About*. Retrieved from <http://www.fairbydesignfund.com/about/>

¹¹⁸ Fair By Design. (March 12, 2018). *Wayra Fair By Design*. Retrieved from <http://www.fairbydesignfund.com/wayra-fbd-accelerator/>

¹¹⁹ Hampson, C. (April 19, 2018). *Poverty Premium*. Retrieved from Big Society Capital: <https://www.bigsocietycapital.com/what-we-do/investor/partners/co-development/poverty-premium>

METRICS TO MEASURE THE MARKET'S SIZE AND QUALITY

METRIC	DEFINITION
Market Size	Value of all transactions in a year
Investment Stock	Value of outstanding investments
Product Spectrum	Value of transactions in a specific product (such as unsecured debt) in a year
Number of Social Enterprises	Number of social enterprises that have accepted an investment from an impact investor
Number of Intermediaries	Number of intermediaries investing exclusively or primarily in social enterprises
Size of intermediaries	Average size of intermediaries investing exclusively or primarily in social enterprises
Quality of policy support	<i>Qualitative:</i> The extent to which the policy environment encourages impact investment

METRICS TO MEASURE THE WHOLESALER'S CONTRIBUTION TO THE MARKET

METRIC	DEFINITION
Co-Investment Amount	Non-wholesaler amount invested in entities into which the wholesaler has invested
Co-Investor Range	Diversity in the types of investors that have invested in entities into which the wholesaler has invested
Number of Social Enterprises	Number of social enterprises into which the wholesaler's intermediaries have invested
Quality of Impact Management	Number of intermediaries into whom the wholesaler has invested that apply the Impact Management Project's convention

How should the wholesaler be governed?

POSSIBILITIES	STRENGTHS	WEAKNESSES
By government	<ul style="list-style-type: none"> ▲ Reassures government that it can keep control. Reassurance may lead to more money and closer partnership. 	<ul style="list-style-type: none"> ▲ May introduce political priorities into investment decisions. Even if politics do not sway decisions, may create perception of political influence. ▲ May add a risk-averse bureaucratic lens to investment decisions.
Independent of government	<ul style="list-style-type: none"> ▲ Keeps investment decisions clear of actual or perceived political influence. ▲ Allows investment process to organize along lines that suit the market, rather than along bureaucratic lines. ▲ Allows strategy to stay focused and steady for the long term. ▲ May permit a larger governance role for those experienced in investment and social enterprise. 	<ul style="list-style-type: none"> ▲ May reduce government support.

In any wholesaler financed from public sources, the government's oversight role will loom large. Close supervision – and the bureaucratic practices and political preferences such supervision will likely introduce – may not mesh well with an efficient and principled investment process. BSC sought as much freedom as possible from government¹²⁰. Its novel governance structure intended to satisfy the UK government that it would stick to its mission even without public supervision.

BSC is a private company. It answers to two boards, its own and that of Big Society Trust. The Trust contributes 60% of BSC's capital and holds 80% of its voting rights (BSC's four shareholding banks contribute 40% of BSC's capital and hold 20% of its voting rights). The Trust, a nonprofit, exists only to guarantee that BSC and Access adhere to their purposes. Among other powers, the Trust can amend BSC's articles and remove BSC's directors. The Trust answers only to its Articles, securing BSC's independence from government¹²¹.

¹²⁰ Dagers, J. and Nicholls, A. (2016). *Big Society Capital: The World's First Social Investment Wholesale Bank*. Retrieved from Said Business School: <https://www.sbs.ox.ac.uk/faculty-research/skoll/our-work/research/case-studies/big-society-capital-worlds-first-social-investment-wholesale-bank>

¹²¹ Big Society Capital. (October 2, 2017). *Governance*. Retrieved from <https://www.bigsocietycapital.com/about-us/governance>

BSC'S GOVERNANCE

BIG SOCIETY TRUST

BSC's Board

Executive Committee	Investment Committee	Valuation Committee
<i>Advisory Board (consultative only)</i>	<i>Intermediaries Group (consultative only)</i>	

BSC must seek approval from its board for any investment over £10 million¹²². A representative of the banks sits on BSC's board. Under specific conditions, the banks can meet with BSC's leadership to review its performance¹²³.

The EIF manages the SIA. The EIF applies to the SIA the same investment process it applies to its other funds. The SIA's advisory board, comprised of its investors, meets twice a year. It offers advice to the SIA and shares impact investing experience between its members.

PSI is a public initiative under the Ministry of the Presidency and Administrative Modernization. It speaks to the Minister's office on a daily basis. It reports to the Ministry of Planning and Infrastructure in that Ministry's role as supervisor over the Structural and Investment Funds. It also reports to two public authorities that manage the education, social inclusion and employment portions of the Structural and Investment Funds.

Japan's DUF will report to a Council on Utilization of Dormant Deposits¹²⁴. The Council will report to the Cabinet Office. The Council, a body of social and financial sector leaders appointed by the Cabinet Office, will write the DUF's five-year basic policy and one-year basic plan. The Council will put the basic policy and basic plan out for public consultation. The Cabinet Office will approve the basic policy and basic plan. The DUF will make deal-level decisions without input from the Council or Cabinet Office.

¹²² Big Society Capital. (March 8, 2018). *Governance*. Retrieved from <https://www.bigsocietycapital.com/about-us/governance>

¹²³ Big Society Capital. (March 8, 2018). *Governance*. Retrieved from <https://www.bigsocietycapital.com/about-us/governance>

¹²⁴ Outline of the Act on Utilization of Funds Related to Dormant Deposits to Promote Social Purpose Activities (Tentative). (n.d.). Retrieved from http://www5.cao.go.jp/kyumin_yokin/english/201803outline_e.pdf

How much money should the wholesaler raise?

POSSIBILITIES	STRENGTHS	WEAKNESSES
A lot (relative to estimated market size)	<ul style="list-style-type: none"> ▲ Signals long-term commitment to the market. May persuade other actors to risk their own time, energy and money in the confidence that the market will not quickly disappear. ▲ Wins attention from social enterprises, intermediaries and especially co-investors that might otherwise not notice the impact investment market. ▲ May allow spread of costs over more or larger transactions, reducing costs per unit invested. May facilitate a lower cost of capital for social enterprises. 	<ul style="list-style-type: none"> ▲ May damage wholesale credibility and that of impact investment if the money sits unused for a long time. ▲ May encourage transactions that can absorb a lot of money (due to pressure to deploy the money). Large transactions do not necessarily do the most good per pound invested.
A little (relative to estimated market size)	<ul style="list-style-type: none"> ▲ May be deployed quickly, proving the projected demand for investment. Quick deployment may support a case for a second commitment. 	<ul style="list-style-type: none"> ▲ Does not signal long-term support for the market. ▲ May fail to draw new entrants that will take years to mature. ▲ May force either a high price on capital or spend down (in order to cover costs).

A flagship investor as large or larger than the entire market (as BSC appeared to be at launch in 2012) carries both risks and rewards. A hefty number can draw attention, not least from mainstream investors still sitting on the sidelines. It may encourage intermediaries to enter the market or expand their footprint because they know the market will not quickly disappear.

A large number also eases wholesale economics. To break even, a wholesaler must charge enough to cover its costs. The intermediary into which the wholesaler invests must do the same. The social enterprise must therefore pay enough to compensate two entities. The extra layer of cost and the pressure that it puts on social enterprises – at worst, forcing a compromise on social good – is a key weakness of the wholesaler model. The more money a wholesaler invests, the better its economies of scale and the less it must earn on each deal.

A wholesaler with a lot of money relative to the market may find it difficult to deploy that money quickly. The SIA first closed in 2013 at €52 million and closed finally in 2015 at €243 million¹²⁵. The fifteen-year fund has now invested €132 million¹²⁶. Given that pace, some of the SIA's stakeholders question whether it should have raised as much money as it did.

¹²⁵ European Investment Fund. (September 12, 2017). The Social Impact Accelerator. Retrieved from http://www.eif.europa.eu/what_we_do/equity/sia/index.htm

¹²⁶ European Investment Fund. (2017). *EIF – Impact Investing Tools*. Retrieved from <https://institute.eib.org/wp-content/uploads/2017/10/Social-Impact-investments-Challenges-and-opportunities-for-Latvia.pdf>

BSC has signed investments worth £436 million. As of March 31, 2018, social enterprises had drawn down £234 million of BSC's money¹²⁷. While it is now reaching sizable sums, BSC started slowly. The end of 2015 saw £261 million signed and £68 million drawn down, and the end of 2013 saw £48 million signed and £13 million drawn down¹²⁸.

Putting a lot of money into a wholesaler can set high expectations. Social enterprises expect that money to flow relatively quickly to their benefit. When it does not, impact investment in general and the wholesaler in particular can suffer a blow to credibility. Unmet expectations can sap government interest, drive away investors and disillusion social enterprises that might gain from investment¹²⁹. A wholesaler should study enterprise demand (as, to some extent, did BSC and PSI¹³⁰) and estimate enterprise capacity to absorb capital. It may thereby approximate the rate at which it can realistically expect to deploy.

Investing Reserves

While it chooses intermediaries in which to invest (or waits for intermediaries to draw down committed funds), a wholesaler should not let its reserves sit idle. A strong investment strategy for the wholesaler's reserves may dampen criticism over speed.

BSC puts aside some of its reserves to serve short-term needs and buffer against shocks. It invests most of the rest in fixed-income securities screened on environmental, social and governance (ESG) criteria¹³¹. It also takes lead positions in institutional impact funds (such as the M&G £44.5 million Impact Financing Fund¹³²). Access aims to invest as much of its reserves as possible into UK social enterprises. As a second choice, it invests in foreign social enterprises. Third, it invests in other impact-driven organizations. And as a last resort, it invests on ESG criteria¹³³.

¹²⁷ Big Society Capital. (November 17, 2017). *Our Investment Numbers*. Retrieved from <https://www.bigsocietycapital.com/about-us/our-investment-numbers>

¹²⁸ Big Society Capital. (2014). *Annual Review 2013*. Retrieved from <https://www.bigsocietycapital.com/sites/default/files/Big%20Society%20Capital%20Annual%20Report%202013.pdf>; Big Society Capital. (2016). *Annual Review 2015*. Retrieved from <https://www.bigsocietycapital.com/sites/default/files/Big%20Society%20Capital%20Annual%20Review%202015.pdf>

¹²⁹ For some dangers of social investment hype, see The Alternative Commission on Social Investment. (2015). *After the Gold Rush: The Report of the Alternative Commission on Social Investment*. Retrieved from http://socinvalternativecommission.org.uk/wp-content/uploads/2015/03/SS_SocialInvest_WebVersion_3.pdf

¹³⁰ European Commission. (2011). *State Aid n° SA.33683 (2011/N) - United Kingdom Big Society Capital*. Retrieved from https://www.bigsocietycapital.com/sites/default/files/EU%20State%20Aid%20Decision_BSC_website.pdf; Portugal 2020 and AD&C. (2015). *Concurso Para A Aquisição De Serviços Com Vista À Realização Das Avaliações Ex-Ante Dos Instrumentos Financeiros Dos Programas Operacionais Do Portugal 2020 E Dos Programas De Desenvolvimento Rural Do Continente, Dos Açores E Da Madeira 2014-2020*. Retrieved from https://www.portugal2020.pt/Portal2020/Media/Default/Docs/AVALIACAO/Avaliacao_Instr_Financ_Lote%202_RelatorioFinal_15nov_.pdf

¹³¹ Big Society Capital and Cambridge Associates. (2016). *Unlocking the Investment Potential of the Treasury Portfolio for the Benefit of Society*. Retrieved from <https://www.bigsocietycapital.com/sites/default/files/attachments/Unlocking%20the%20Investment%20Potential.pdf>

¹³² Funds Europe. (April 16, 2018). *M&G launches first private debt impact fund*. Retrieved from <http://www.funds-europe.com/news/mg-launches-first-private-debt-impact-fund>

¹³³ Access - The Foundation for Social Investment. (January 30, 2018). *Total Impact Approach*. Retrieved from <https://access-socialinvestment.org.uk/us/total-impact-approach/>

How should the wholesaler price its capital?

POSSIBILITIES	STRENGTHS	WEAKNESSES
Below-Market Return	<ul style="list-style-type: none"> ▲ Serves social enterprises that cannot pay back a commercially-priced investment. ▲ More likely to win the support of traditional social sector actors, such as foundations and nonprofit social enterprises. ▲ More easily allows first-loss capital, guarantees and other positions that reduce risk from or improve return for other investors. 	<ul style="list-style-type: none"> ▲ May subsidize social enterprises that do not need a subsidy to survive (or that would not need a subsidy if properly run). ▲ May encourage an attitude that places too little value on payback (may, for example, drift into soft loans). ▲ Renders it more difficult to stay in operation in the long term.
Market Return	<ul style="list-style-type: none"> ▲ Lays a stronger base to stay in operation in the long term. ▲ May appeal to commercial investors, easing the search for co-investment. ▲ Able to prove the point that social enterprises can pay commercial returns and still thrive. 	<ul style="list-style-type: none"> ▲ Does not serve social enterprises that cannot pay market rates.

Below-market money can expand high-impact models that, by virtue of their design, cost a lot to run (enterprises that hire hard-to-employ people, for example, often follow high-impact, high-cost strategies). For some social enterprises, the difference between commercial and concessionary rates is enough to open a path to scale.

An investor willing to concede return can also 'de-risk' a transaction and attract mainstream investors (the investor may, for example, accept a subordinate position or invest in the very early stages of a project¹³⁴).

A wholesaler funded at least in part by non-repayable capital stands in a better position than most investors to supply flexible finance.

A wholesaler thinking about pricing its money below-market should weigh two concerns. First, to use its money efficiently, the wholesaler should offer cheap money only to those social enterprises that cannot pay commercial rates, at least not without compromising on their mission. It should not subsidize those that can afford to pay commercial rates.

Investors cannot easily distinguish between the two. Is a social enterprise unable to pay market rates because it follows an expensive but worthwhile social strategy or because it is poorly managed? An accurate answer requires a very thorough knowledge of the social enterprise and its context.

Second, the wholesaler should crowd money into the impact investment market, not crowd it out. A wholesaler that offers an intermediary below-market money may push aside other, more expensive investors whose money the intermediary would have accepted. A wholesaler may mitigate this risk by investing alongside and on the same terms as co-investors. Where it invests alone or on different terms, it should articulate how its terms will draw more capital. (See the graphic under *How will the wholesaler help to develop the market?* for a sketch comparison of a flexible capital theory of change and a commercial capital theory of change.)

¹³⁴ See Schwartz, D. (November 27, 2017). *Catalytic Capital: An Essential Tool for Impact* [Blog Post]. Retrieved from <https://www.macfound.org/press/directors-reflection/catalytic-capital-essential-tool-impact/>

A wholesaler following a concessionary strategy may flex on terms other than price. It may invest on long terms, in small amounts or at high risk. It may allow an enterprise default extra time to pay or assistance to get back on track. While sticker price grabs attention – BSC, for example, has suffered criticism for a cost of capital arguably too high for many social enterprises¹³⁵ – other terms can influence social enterprise success just as much.

Where should the wholesaler look for co-investors?

POSSIBILITIES	STRENGTHS	WEAKNESSES
Financial Institutions	<ul style="list-style-type: none"> ▲ May dramatically expand the sum available to the market. ▲ Can advise on how to invest to earn a profit. 	<ul style="list-style-type: none"> ▲ Will likely demand commercial or near-commercial returns. That demand will exclude some social enterprises. ▲ May slow wholesale investment. Commercial investors may take time to learn about the social sector and gain enough comfort to invest.
Foundations	<ul style="list-style-type: none"> ▲ May offer finance on concessionary terms, opening a broader range of strategies. ▲ Can lend expertise and experience on how to apply money to achieve social goals. ▲ May offer on-the-ground relationships and knowledge of specific sectors. ▲ Encourage trust based on shared social goals between investors and intermediaries. ▲ May introduce high-impact opportunities to the investment pipeline (from grant relationships and deep involvement in the social sector). 	<ul style="list-style-type: none"> ▲ Cannot offer nearly the sum held by institutional investors.
Retail Investors	<ul style="list-style-type: none"> ▲ May offer finance on concessionary terms, opening a broader range of strategies. ▲ May build a community's connection to a project and thereby draw its support as customers, voters or otherwise. 	<ul style="list-style-type: none"> ▲ May find it difficult to place money through their investment advisors, most of whom will know little about impact investing. ▲ Will likely trigger application of onerous rules designed to protect small investors. ▲ Will likely add administrative costs. Managing many small investments can be expensive.

¹³⁵ Matter & Co. (2016). *Big Society Capital: Stakeholder Survey Report*. Retrieved from www.bigsocietycapital.com/sites/default/files/Your%20views%20Big%20Society%20Capital%20stakeholder%20report.pdf

Some co-investors measure social good but care first about return. Others emphasize social good and may only want principal back (or even occasionally less than principal). The former will usually bring more money and the latter usually more expertise in social problems. Each can influence how a wholesaler invests.

A wholesaler seeking institutional co-investors may tend toward safer, larger deals (such as property deals) than a wholesaler seeking foundation co-investors. It may introduce elements of the institutional investor world, such as extensive due diligence, tough negotiation and standardized investment structures, that do not always fit the size and nature of impact investment deals.

A wholesaler seeking institutional co-investors may also charge more for its capital (if, like BSC, it invests on the same terms as its co-investors). To attract a co-investor, a wholesaler must hit a price that satisfies both co-investor and enterprise. The pressure, especially from institutional co-investors, to earn a satisfactory return can influence the price of a wholesaler's capital more than the wholesaler's own return target.

Threading the needle between the rate co-investors want to earn and the rate social enterprises want to pay is among the wholesaler's most sensitive tasks. To some degree, a wholesaler may rely on its financial acumen to engineer products able to both pay a return and grow social enterprises. But co-investor preference between return, impact and risk will play an influential part in defining how the wholesaler invests.

What eligibility criteria should the wholesaler apply to social enterprises?

POSSIBILITIES	STRENGTHS	WEAKNESSES
Wide	<ul style="list-style-type: none"> ▲ Speeds investment by opening all of the market to wholesaler money. ▲ May spur wide public and political support. 	<ul style="list-style-type: none"> ▲ Will likely blur eligibility and provoke time-consuming debate about what counts as social enterprise. ▲ Dilutes expertise and capital.
Narrow	<ul style="list-style-type: none"> ▲ Builds expertise. May foster a more sophisticated approach to applying investment to social problems. ▲ Concentrates money. May push a step change in a social problem. ▲ May clarify eligibility, especially if narrowed to invest only in specific legal forms. 	<ul style="list-style-type: none"> ▲ Slows, perhaps dramatically, the rate at which wholesale capital flows into the market. ▲ May limit public and political support.

A wholesaler might limit investment by legal form (for example, it might invest only in nonprofit social enterprises). It might also limit investment by social sector (for example, it might invest only in housing). Neither BSC nor the SIA have followed such limits. Both invest across legal forms. Both define the 'social' in social enterprise liberally (BSC's intermediaries invest in enterprises that exist "wholly or mainly to provide benefits for society or the environment"¹³⁶).

A wholesaler may instead focus on a few outcomes to concentrate influence. It may define eligibility by legal form and thereby simplify decisions on what qualifies as a social enterprise – a constant question for those who define social enterprise in looser terms¹³⁷. An impact investor should not present a social enterprise with a list of eligibility criteria more complicated than that encountered by ordinary companies at mainstream investors.

¹³⁶ *Dormant Bank and Building Society Accounts Act, UK c. 31*. Retrieved from http://www.legislation.gov.uk/ukpga/2008/31/pdfs/ukpga_20080031_en.pdf

¹³⁷ Daggars, J. and Nicholls, A. (2016). *Big Society Capital: The World's First Social Investment Wholesale Bank*. Retrieved from Said Business School: <https://www.sbs.ox.ac.uk/faculty-research/skoll/our-work/research/case-studies/big-society-capital-worlds-first-social-investment-wholesale-bank>

Before setting its criteria, a wholesaler should study the market in which it will work. How many social enterprises exist? To what extent do those enterprises already raise investment? What sorts of enterprises appear to face a growth-limiting gap in finance? What kinds of financial instruments do those enterprises demand? A wholesaler that does not reflect its context will almost certainly fail.

Especially if it selects narrow criteria, a wholesaler should know how well its chosen segment can absorb its capital. BSC and the SIA have sometimes struggled to deploy their money. A more selective wholesaler may discover great difficulty in finding enough high-impact opportunities in which to invest its capital along its expected timeline.

Into what level of organization should the wholesaler invest?

POSSIBILITIES	STRENGTHS	WEAKNESSES
Intermediaries only	<ul style="list-style-type: none"> ▲ Builds a layer of intermediaries into which other impact investors can put their money. Expands the number and size of the nodes at which social enterprises and impact investors meet. If the wholesale money disappears, the market will likely survive. ▲ Devolves decisions over which social enterprises to support. Puts power into the hands of intermediaries expert in particular regions or sectors. ▲ Costs less to administer than a model that invests small amounts in many social enterprises. 	<ul style="list-style-type: none"> ▲ Slows money's movement into social enterprises. Adds a layer of process between the wholesaler and the social enterprise. ▲ Raises the cost of capital to the social enterprise. Requires social enterprise's rate to pay the costs of two organizations instead of one.
Intermediaries and social enterprises	<ul style="list-style-type: none"> ▲ Allows money to move more quickly and at lower cost into social enterprises. ▲ Retains greater control over the social enterprises into which the money flows. ▲ Allows investment in sectors and places in which intermediaries have yet to form. 	<ul style="list-style-type: none"> ▲ Does not build as strong an intermediary layer through which impact investors and social enterprises can easily find one another. If the market depends on wholesale money and that money disappears, the market may fail. ▲ Centralizes decisions over which social enterprises to support. May limit ideas from other quarters on how investment should work. ▲ May undercut intermediaries by competing with those intermediaries for social enterprise deals. ▲ Costs more to administer than a model that only invests large amounts in a few intermediaries.

Where a market fields enough intermediaries to at least start accepting a wholesaler's money, an intermediary focus will likely give best results. More intermediaries means greater diversity in investment strategies. Even if the wholesaler disappears, a robust intermediary layer will keep raising money from investors and converting that money into products fit for social enterprises. Investing large amounts in a few intermediaries is also cheaper than investing small amounts in many social enterprises.

But investing through intermediaries is not the right approach in every context. PSI's experience speaks to the difficulties of investing in intermediaries in a new market.

PSI's Evolution

PSI first intended to invest only through intermediaries. It allocated €110 million to the Social Innovation Fund to invest in intermediaries.

PSI started in 2014. It expected the Fund to begin investing in early 2016¹³⁸. In 2017, after two years spent trying to find a route to invest in intermediaries, PSI and the Portuguese government decided to switch tack. The Social Innovation Fund will now a) invest equity directly in social enterprises alongside co-investors and b) guarantee bank loans to social enterprises. Instead of €110 million, the Fund will invest €55 million. Some of the difference will go to PSI's three grant streams.

The Fund shifted strategy for three reasons. First, Portugal's market likely cannot absorb €110 million before its Structural and Investment Funds expire in 2020. By dropping the amount, the Fund improves its chances of deploying all its money. By investing directly or through bank guarantees, the Fund can move money into social enterprises faster.

Second, the EU's state aid rules complicate large investments of public money into private actors. PSI's intermediary approach would have required it to submit to a long and difficult process before the European Commission. Third, the government resisted the management fees charged by intermediaries.

The Fund will begin to invest in 2018, two years after it planned to begin. The Fund's shift illustrates the difficulty in getting the wholesaler design right from the start and the need to leave space to adapt.

To decide how to invest, a wholesaler must first know its market. The fewer and smaller the market's intermediaries, the more flexibility the wholesaler should build into its investment policy. A wholesaler, however, should not abandon intermediaries too quickly. Investing through intermediaries takes effort. That effort may tempt a wholesaler into investing directly in enterprises. Sometimes, as appears the case in Portugal, direct will be the right decision. Other times, direct investment will put short-term gains ahead of the market's long-term interests (especially if the wholesaler begins to compete with the market's intermediaries).

¹³⁸ Portuguese Social Investment Taskforce. (2015). *A Blueprint for Portugal's Emerging Social Investment Market*. Retrieved from <http://www.socialimpactinvestment.org/reports/Portuguese%20Taskforce%20-%20report.pdf>

Should the wholesaler give grants as well as invest?

POSSIBILITIES	STRENGTHS	WEAKNESSES
Investments only	<ul style="list-style-type: none"> ▲ Clarifies activity and purpose. Separates wholesalers from grant-givers and governments. 	<ul style="list-style-type: none"> ▲ Forecloses some market-building tools, such as financial products made in part of a grant and in part of an investment.
Grants and investments	<ul style="list-style-type: none"> ▲ Widens array of market-building tools. Allows grants to intermediaries and social enterprises to strengthen their ability to earn income. ▲ May allow intermediaries to blend grants and investments to offer money-losing products (like small, unsecured loans). 	<ul style="list-style-type: none"> ▲ May muddy the distinction between wholesaler and other grant-givers. May confuse the concept of impact investment. ▲ May render break even difficult.

Wholesalers face two challenges that grants can help solve. First, many social enterprises are too young or too small to accept investment. Even social enterprises following watertight business models can rarely take investment from launch. Grants can fund enterprises until they grow to a size and strength able to pay a return. Grants can thereby build demand for investment.

K10, the UK social enterprise that matches apprentices to contractors, is now a thriving social enterprise and an investee. But it began with help from grants. It won a Big Venture Challenge spot in 2011 and a Deloitte Social Innovation Pioneer spot in 2013¹³⁹. The Challenge gave a £25,000 grant and ran an intensive incubator¹⁴⁰. The Pioneer program matched K10 to twelve months of free Deloitte business support¹⁴¹.

Second, some investment niches will always lose money. Small, unsecured loans rarely, if ever, return their costs¹⁴². If a wholesaler wants to both cover the market's sweep and earn a return on its investment side, grants can square the circle. Grants allow a wholesaler to extend to an intermediary a blended product, part investment and part grant. A blended product lets the intermediary offer high-cost items without recording a loss in the investment account. A blended product may also reduce the risk for other investors.

Yet asking the same entity to both give grants and invest may create problems. Some observers claim Futurebuilders, an early English impact investment fund that mixed grants and loans, undercut other social investors and weakened the market¹⁴³. Other observers worry that combining grants and investments in the same entity erodes rigour in portfolio management and eventually consumes the investor's money faster than intended.

While some question whether grants belong in a wholesaler, all believe grants to be an essential component of the market. If a wholesaler does not give grants, it should understand where grants can be found. If grants cannot be found, a wholesaler should look for partners with whom it may work to introduce grants. Foundations, as grant-givers and often old hands in blended products, are the natural first stop.

¹³⁹ K10. (March 2, 2018). *Profile*. Retrieved from <https://www.k-10.co.uk/about-us#profile>; Deloitte and Social Enterprise UK. (n.d.). *Impact that Matters - the Deloitte Social Innovation Pioneers Programme 2012-2015*. Retrieved from <https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/about-deloitte/deloitte-uk-impact-that-matters.pdf>

¹⁴⁰ UnLtd. (2012). *Planning for Scale: How Might Social Ventures Build Scalable Models That Will Fly*. Retrieved from <https://unltd.org.uk/wp-content/uploads/2012/11/Findings-Paper-5-Planning-for-Scale-2012.pdf>

¹⁴¹ Deloitte and Social Enterprise UK. (n.d.). *Impact that Matters - the Deloitte Social Innovation Pioneers Programme 2012-2015*. Retrieved from <https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/about-deloitte/deloitte-uk-impact-that-matters.pdf>

¹⁴² Floyd, D. (February 28, 2014). *Report from emerging market* [Blog Post]. Retrieved from Beanbags and Bullshit: <https://beanbagsandbullshit.com/2014/02/28/report-from-emerging-market/>

¹⁴³ Boston Consulting Group. (2015). *A Tale of Two Funds: The management and performance of Futurebuilders England*. Retrieved from <http://www.sibgroup.org.uk/sites/default/files/files/Management%20and%20Performance%20of%20the%20Futurebuilders-England%20Fund.pdf>

From where should the wholesaler recruit staff?

POSSIBILITIES	STRENGTHS	WEAKNESSES
Financial sector	<ul style="list-style-type: none"> ▲ Confers expertise on the financial side of investment (due diligence, financial models, contracts). Adds knowledge often missing from the social sector. 	<ul style="list-style-type: none"> ▲ May foster a culture more comfortable in and therefore more likely to apply standard financial practices than to search for practices that best match the social problem.
Social sector	<ul style="list-style-type: none"> ▲ Confers expertise on the social side of investment (shaping the financial product to best fit the social problem). Adds knowledge almost always missing from the mainstream finance sector. ▲ May foster a culture that puts the social problem at the centre. 	<ul style="list-style-type: none"> ▲ May foster a culture that does not put enough emphasis on financial analysis and ability to repay investment. May slip into soft loans and other unintended grants.

BSC recruited most of its early staff from the financial sector. While universally praised for their energy and intelligence, some complain that BSC's staff introduced a financial sector mindset that does not mesh well with social enterprises or intermediaries. Some blame that mindset for a level of formality too high for the size of its investments, saying BSC let months slip by in hard-nosed bargaining over detailed contracts. As noted in the results of BSC's 2016 stakeholder survey, many believe BSC does not know enough about the needs of social enterprises¹⁴⁴. (Recent years have seen BSC rebalance its staff toward social expertise.)

A wholesaler should recruit from both the finance sector and the social sector. New wholesalers should focus particular attention on the social contingent. The need for financial skills is pressing but also obvious. The imperative to invest large sums – to conduct diligence, negotiate terms, balance a portfolio and earn a return – clearly call for financial ability.

The role for social expertise is slightly subtler. At a minimum, wholesalers need to understand the social problems in which they invest to distinguish between projects that address the root causes of a problem and those that sound good but just graze the surface. If a wholesaler aspires to start with problems and design financial products to meet them, it must hire people experienced in solving those problems (and it must talk at length with those already trying to solve the problems). BSC's experience suggests that wholesalers are judged at least as much on social comprehension as on investment skills.

¹⁴⁴ Big Society Capital. (2016). *Your Views: Big Society Capital Stakeholder Survey Report*. Retrieved from www.bigsocietycapital.com/sites/default/files/Your%20views%20Big%20Society%20Capital%20stakeholder%20report.pdf

Conclusion

A wholesaler helps to develop a market. In that market, enterprises tackling social problems by all sorts of business models find the right finance for their needs. Investors directing ever more of their money to impact find financial products that reflect their social and financial goals. Intermediaries link enterprises and investors through financial instruments that suit both sides. A wholesaler delivers the capital, the creativity and the commitment to impact to help realize that market dedicated to people and the planet.

Appendix 1: Basics and Origins

Big Society Capital, UK

BASICS (MAR. 31, 2018)	
Purpose	To improve the lives of people in the UK by connecting investment to charities and social enterprises ¹⁴⁵ .
Year Opened	2012
Geographic Limits	The United Kingdom
Amount Held	£501 million (£625 million committed)
Amount Invested	£436 million (signed) / £234 million (drawn down)
Amount Co-Invested	£805 million (signed) / £552 million (drawn down)
Co-Investors	Social bank depositors (17%), UK charities and foundations (14%), UK government agencies (9%), international (7%), UK banks (4%), local authority pension funds (2%), UK funds (1%) and other (46%) ¹⁴⁶ (December 31, 2017)
Return Target	4% to 6% internal rate of return ¹⁴⁷
Immediate Investees	Intermediaries (no restrictions on intermediary type) ¹⁴⁸
Final Investees	Social enterprises ¹⁴⁹
Investment Tools	Into intermediaries: Debt and equity. Into final investees: Debt and equity.
Fees Paid to Intermediaries	0.5% to 3.25% of signed amount (<2% portfolio-wide).
Expenses	£6.3 million (2017) ¹⁵⁰
Sources of Capital	Dormant accounts (£425 million) and bank investments (£200 million) ¹⁵¹

ORIGINS

For a thorough narrative of BSC's path to reality, see Daggars, J. and Nicholls, A. (2016). *Big Society Capital: The World's First Social Investment Wholesale Bank*.

YEAR ¹⁵²	
2000	<p>▲ Social Investment Task Force. Ronald Cohen, in response to a government call for new thinking on finance and community development, forms the Social Investment Task Force. The Task Force publishes its first report, <i>Enterprising Communities: Wealth Beyond Welfare</i>¹⁵³.</p>
2005-2006	<p>▲ Commission on Unclaimed Assets. The Commission on Unclaimed Assets is established to advocate for investment of dormant accounts. Before the 2008 <i>Dormant Bank and Building Society Accounts Act</i>, a dormant UK account stayed on the books of the financial institution in which it was forgotten. The Commission publishes its first report, <i>A Social Investment Bank Consultation Paper</i>¹⁵⁴.</p>
2007	<p>▲ A Plan for a Wholesale Impact Investor. The Commission on Unclaimed Assets publishes a more detailed investment plan, <i>The Social Investment Bank: Its organisation and role in driving development of the third sector</i>¹⁵⁵.</p> <p>▲ Dormant Accounts Advocacy. The Commission advocates for legislation to collect dormant accounts from financial institutions and to direct some of the proceeds to public purposes.</p>

¹⁴⁵ Big Society Capital. (September 12, 2017). What We Do. Retrieved from <https://www.bigsocietycapital.com/what-we-do>

¹⁴⁶ Big Society Capital. (September 12, 2017). Key Performance Indicators. Retrieved from <https://www.bigsocietycapital.com/about-us/key-performance-indicators>

¹⁴⁷ Big Society Capital. (2017). 2016 Annual Review: Social Investment Refocused. Retrieved from https://www.bigsocietycapital.com/sites/default/files/annual_report/BSC_AR_2016_WEB.pdf

¹⁴⁸ Big Society Capital. (n.d.). *Big Society Capital: Vision, mission and activities*. Retrieved from <https://www.bigsocietycapital.com/sites/default/files/pdf/BSC%20Vision.%20mission%20and%20activities.pdf>. Daggars, J. and Nicholls, A. (2016). *Big Society Capital: The World's First Social Investment Bank*. Retrieved from Said Business School: <https://www.sbs.ox.ac.uk/faculty-research/skoll/our-work/research/case-studies/big-society-capital-worlds-first-social-investment-wholesale-bank>

¹⁴⁹ Big Society Capital. (n.d.). *Big Society Capital: Vision, mission and activities*. Retrieved from <https://www.bigsocietycapital.com/sites/default/files/pdf/BSC%20Vision.%20mission%20and%20activities.pdf>

¹⁵⁰ Big Society Capital. (2017). *Report and Financial Statements 2017*. Retrieved from <https://www.bigsocietycapital.com/sites/default/files/Financial%20Statement%202017.pdf>

¹⁵¹ Big Society Capital. (n.d.). *Big Society Capital: Vision, mission and activities*. Retrieved from <https://www.bigsocietycapital.com/sites/default/files/pdf/BSC%20Vision.%20mission%20and%20activities.pdf>

¹⁵² Most of the information in this timeline is drawn from Daggars, J. and Nicholls, A. (2016). *Big Society Capital: The World's First Social Investment Bank*. Retrieved from Said Business School: <https://www.sbs.ox.ac.uk/faculty-research/skoll/our-work/research/case-studies/big-society-capital-worlds-first-social-investment-wholesale-bank>

¹⁵³ Social Investment Task Force. (2000). *Enterprising Communities: Wealth Beyond Welfare*. Retrieved from Ronald Cohen: http://www.ronaldcohen.org/sites/default/files/3/SITF_Oct_2000.pdf

¹⁵⁴ The Commission on Unclaimed Assets. (2006). *A Social Investment Bank Consultation Paper*. Retrieved from Ronald Cohen: http://www.ronaldcohen.org/sites/default/files/1/CUA_ConsultationPaper.pdf

¹⁵⁵ The Commission on Unclaimed Assets. (2007). *The Social Investment Bank: Its organisation and role in driving development of the third sector*. Retrieved from Ronald Cohen: http://www.ronaldcohen.org/sites/default/files/1/CUA_report_FINAL.pdf

YEAR ¹⁵²	
2008	<p>▲ Dormant Accounts Legislation. Parliament passes the <i>Dormant Bank and Building Society Accounts Act</i>¹⁵⁶. The Act lays out a voluntary scheme under which banks and building societies can turn dormant accounts over to the Reclaim Fund. The Reclaim Fund distributes some of the money to the Big Lottery Fund, which in turn sends the money to designated causes.</p>
2009	<p>▲ Government Consultation. The UK Cabinet Office consults on wholesale impact investor design. The government promises to finalize design by the 2010 budget and to commit £75 million in dormant accounts.</p>
2010	<p>▲ Cross-Party Advocacy. In response to an upcoming election and a likely change in government, wholesaler advocates build relationships with the Conservative Party and secure a manifesto (platform) commitment to capitalize a 'Big Society Bank' with dormant accounts. The Conservatives win the election.</p> <p>▲ Political Support. The new government expresses enthusiasm for an idea to advance social priorities without spending public money. It appoints Ronald Cohen and Nick O'Donohoe to write an investment strategy.</p> <p>▲ Bank Investment. The government negotiates with the UK's four main retail banks in the wake of the 2008 crisis. As part of Project Merlin (as the negotiations were called), the government asks the banks to invest £50 million each into a wholesaler. The banks agree.</p>
2011	<p>▲ Government Approval. Cohen, O'Donohoe and others submit a short proposal for a wholesaler. The Cabinet Office accepts the proposal.</p> <p>▲ EU State Aid Exemption. The government requests an exemption to the EU's state aid rules. The state aid rules limit the extent to which a government can help its county's companies. The UK government applied for an exemption to direct £400 million in quasi-public money to a private entity. In spring 2012, the EU approves the exemption. The EU accepted the argument that market failures constrain the supply of capital to social organizations. It also accepted assurances that the wholesaler will operate only where the mainstream market does not¹⁵⁷.</p> <p>▲ Official Name. The wholesaler, after trying on many different names over the years, becomes Big Society Capital.</p>
2012	<p>▲ Official Opening. BSC opens for business in April.</p>
2015	<p>▲ Access - The Foundation for Social Investment. BSC, Big Lottery Fund, Big Society Trust and Cabinet Office create Access - The Foundation for Social Investment. The Foundation gives grants to social enterprises and intermediaries to help them develop more profitable business models. It also blends grants and investments to increase the supply of small, high-risk loans to social enterprises¹⁵⁸. It responds to criticism that BSC's cost of capital and other investment terms exclude many social enterprises.</p>
2017	<p>▲ Strategy Revision. BSC revises its strategy. After five years of investment diffused across the UK's impact investment market, BSC decides to focus on three goals to which it believes investment can best contribute. The revised strategy emphasizes housing people who are homeless or precariously housed, solving problems in partnership with communities and preventing social problems through early action¹⁵⁹.</p>
2018	<p>▲ Extra Dormant Accounts. The government commits another £25 million in dormant accounts to BSC¹⁶⁰.</p>

¹⁵⁶ *Dormant Bank and Building Society Accounts Act*, UK c. 31. Retrieved from http://www.legislation.gov.uk/ukpga/2008/31/pdfs/ukpga_20080031_en.pdf

¹⁵⁷ European Commission. (2011). *State Aid n° SA.33683 (2011/N) - United Kingdom Big Society Capital*. Retrieved from https://www.bigsocietycapital.com/sites/default/files/EU%20State%20Aid%20Decision_BSC_website.pdf European Commission. (2011). *State Aid n° SA.33683 (2011/N) - United Kingdom Big Society Capital*. Retrieved from https://www.bigsocietycapital.com/sites/default/files/EU%20State%20Aid%20Decision_BSC_website.pds

¹⁵⁸ Access - The Foundation for Social Investment. (n.d.). *Our 10 Year Strategy 2016-2026*. Retrieved from <https://access-socialinvestment.org.uk/wp-content/uploads/2017/01/Access-Strategy-new-v5.pdf>

¹⁵⁹ Big Society Capital. (2017). *2016 Annual Review: Social Investment Refocused*. Retrieved from https://www.bigsocietycapital.com/sites/default/files/annual_report/BSC_AR_2016_WEB.pdf

¹⁶⁰ Prior, C. (January 4, 2018). *More Dormant Accounts funds available for social investment*. Retrieved from *Big Society Capital*: <https://www.bigsocietycapital.com/latest/type/blog/more-dormant-accounts-funds-available-social-investment>

The European Investment Fund's Social Impact Accelerator, EU

BASICS (MAR. 31, 2018) ¹⁶¹	
Purpose	To contribute to a sustainable funding market for social entrepreneurship in Europe ¹⁶² .
Year Opened	2013
Geographic Limits	The EU
Amount Held	€243 million
Amount Invested	€132 million (€490 million total across EIF in micro- and social enterprises)
Amount Co-Invested	€263 million
Return Target	Over 5% ¹⁶³
Immediate Investees	Funds
Final investees	Social enterprises
Investment Tools	Into intermediaries: Equity ¹⁶⁴ . Into final investees: Equity and debt.
Sources of Capital	Public and private financial institutions (European Investment Bank, EIF, Crédit Coopératif, Deutsche Bank, SITRA and Bulgarian Development Bank).

ORIGINS

In 2012, the EIF, an expert in venture capital and private equity funds-of-funds, created the SIA, an impact-oriented fund-of-funds. The EIF sought to invest in promising impact funds that could not yet claim a track record. By operating the SIA in similar fashion to its other industry-recognized instruments, the EIF believed the SIA would gain credibility and attract other investors. It has positioned the SIA as one tool in a suite of tools – tools that include microfinance guarantees, accelerator-linked investments and seed capital for new intermediaries – designed to serve different segments of social enterprise demand.

The SIA closed first in 2013 at €52 million¹⁶⁵. It closed last in 2015 at €243 million¹⁶⁶.

¹⁶⁵ European Investment Fund. (2017). *2016 Annual Report*. Retrieved from http://www.eif.org/news_centre/publications/eif_annual_report_2016.pdf

¹⁶⁶ European Investment Fund. (September 12, 2017). *The Social Impact Accelerator*. Retrieved from http://www.eif.europa.eu/what_we_do/equity/sia/index.htm

THE TABLE BELOW LISTS THE SIA'S FUNDS.

SOCIAL IMPACT FUND ¹⁶⁷	SIZE	SIA INVESTMENT	SECTOR	STAGE / TYPE OF CAPITAL	REGION
Ananda Social Venture Fund II (2013)	€22.3 M	€10 M	Technology-enabled social enterprises	Growth	Germany and German-speaking areas
Bridges Social Impact Bond Fund (2013)	£22.5 M	£5 M	Early-intervention service providers	Social impact bond loans	United Kingdom
Impact Ventures UK (2013)	£36 M	£7.5 M	General	Growth	United Kingdom
Oltre II (2015)	€35.6 M ¹⁶⁸	€10 M	General	Early	Italy
BAC Impact Partenaires III (2015)	€42 M	€10 M	General	Early	France
PhiTrust Partenaires II (2015)	€17.5 M	€8.7 M	General	Early	France
Citizen Capital II	€42.9 M	€15 M	General	Growth	France
BonVenture III (2015)	€23.3 M	€10 M	General	Early	France
Social Impact Ventures NL Fund I	€40.6 M	€15 M	General	Growth	Netherlands
Impact Création I ¹⁶⁹	€37.4 M	€10 M	General	Growth	France
Den Sociale Kapitalfond	DKK 218 M	DKK 100 M	General	Early	Denmark

¹⁶⁷ European Investment Fund. (2016). *EIF - Impact Investing Activity*. Retrieved from <http://www.ebanimpact.org/wp-content/uploads/2017/03/EIF-Impact-Investing-Activity-2016.pdf>

¹⁶⁸ Oltre Ventures. (March 10, 2018). *Oltre 2*. Retrieved from <http://www.oltreventure.com/en/oltre-2-features/>

¹⁶⁹ European Investment Fund. (March 13, 2018). *IMPACT partenaires launches EUR 50 million investment fund to create franchises in French urban deprived areas [Press Release]*. Retrieved from http://www.eif.europa.eu/what_we_do/equity/news/2017/impact-partenaires-to-create-franchises-in-france.htm

Portugal Social Innovation, Portugal

BASICS (MAR. 31, 2018) ¹⁷⁰	
Purpose	To catalyze the social investment market as a way to generate new solutions for social problems ¹⁷¹ .
Year Opened	2014
Geographic Limits	Portugal outside Lisbon and the Algarve
Amount Held	€125 million (€70 million to give grants and €55 million to invest)
Amount Invested	Not yet investing
Amount Given as Grant	€3.5 million in capacity-building grants (99 grants) €7 million in venture philanthropy grants (35 grants) €1.5 million in social impact bond outcome payments (three social impact bonds)
Amount Co-Invested	Not yet investing
Grantees	Social enterprises, venture philanthropists and social purpose organizations
Investees	Equity: For-profit social enterprises Debt: Nonprofit and for-profit social enterprises
Investment Tools	Equity investments and loan guarantees
Source of Capital	European Structural and Investment Funds (85%) and the Portuguese government (15%)

ORIGINS

The European Structural and Investment Funds allotted €25.8 billion to Portugal over 2014-2020¹⁷². Portugal's Minister of Regional Development wrote the plan to allocate that money. Over 2013 and 2014, MAZE (formerly the Laboratório Investimento Social) lobbied the Minister to allocate some of the money to impact investment instruments.

The Minister sought to focus the money on results. He wanted to avoid simply subsidizing an industry without public benefit. MAZE argued that putting some of the money into investments that measure their social results would further the Minister's aim. MAZE worked alongside government officials, foundations, social enterprises and other stakeholders to find a common strategy for social innovation.

The Minister responded by appointing a social innovation taskforce. The taskforce comprised social innovation advocates, members of two ministries and Structural and Investment Funds experts. While the task force worked, the Portuguese government and the European Commission cordoned off a portion of the Structural and Investment Funds amount for social innovation.

In late 2014, about a year after the Minister appointed the task force, PSI came into being. Two factors propelled the proposal to reality. First, the task force's process invited a broad spectrum of stakeholders both in and out of government. Second, the Minister and his staff understood how the Structural and Investment Funds work. That grasp let the task force put together a detailed and realistic plan.

A year later, a new government, further to the left than its predecessor, took office. Despite the change in political tone, PSI remained a priority.

The new government's Minister of the Presidency and Administrative Modernization took over PSI. The move to a central ministry freed PSI to work across sectors rather than within a line ministry's mandate. The Ministry's full-throated support for and constant contact with PSI (among other things, PSI and the Minister's office share a building) has let PSI foster partnerships across the public and private sectors.

¹⁷⁰ Laboratório de Investimento Social. (n.d.). *Social Investment in Portugal*. Retrieved from <https://www.oecd.org/cfe/leed/Social%20Investment%20and%20ESIF%20in%20Portugal.pdf>

¹⁷¹ Portuguese Social Investment Taskforce. (2015). *A Blueprint for Portugal's Emerging Social Investment Market*. Retrieved from <http://www.socialimpactinvestment.org/reports/Portuguese%20Taskforce%20-%20report.pdf>

¹⁷² European Structural and Investment Funds. (2016). *Portugal*. Retrieved from http://ec.europa.eu/regional_policy/sources/policy/what/investment-policy/esif-country-factsheet/esif_funds_country_factsheet_pt_en.pdf

Designated Utilization Foundation, Japan

BASICS (MAR. 31, 2018) ¹⁷³	
Purpose	To promote solutions to social problems difficult for the public sector to address ¹⁷⁴ .
Year to Open	2019
Geographic Limits	Japan
Amount Held	~¥70 B per year (projected ¹⁷⁵)
Amount Invested	Not yet operating
Amount Given as Grant	Not yet operating
Amount Co-Invested	Not yet operating
Immediate Investees / Grantees	Regional and community foundations
Final Investees / Grantees	Social purpose organizations
Financial Tools	Grants, loans and investments
Source of Capital	Dormant accounts

ORIGINS

Japan's DUF grew out of concern that the country's philanthropic resources could not match the social problems of an aging society. Japanese donors gave an amount equivalent to about 0.2% of GDP in 2014, compared to 1.5% in the US and 0.6% in the UK¹⁷⁶.

Meanwhile, billions of yen lies in forgotten bank accounts. Every year, about ¥120 billion passes the dormancy threshold (set at ten years without activity). Account owners later claim about ¥50 billion¹⁷⁷. Before Japan passed the *Dormant Deposit Utilization Act* in December 2016¹⁷⁸, the balance became profit of the bank holding the account¹⁷⁹. The National Assembly for Dormant Accounts, a civil society coalition¹⁸⁰, argued that dormant accounts should instead benefit society.

At first, Japan's banks opposed any change¹⁸¹. The banks suggested that the scheme would make more difficult an owner's attempt to claim her account¹⁸². The banks also pointed out the high cost of tracing dormant accounts many years old. The government should not, they said, force them to search through old records to find and surrender long-forgotten money.

To the first objection, the Assembly emphasized that the scheme would not eliminate an owner's right to claim her account. Japan's Act preserves the claim right forever¹⁸³. To the second objection, the Assembly decided against pressing for a scheme that would collect already-dormant accounts. Instead, the Assembly proposed a plan under which the government would collect only newly dormant accounts (accounts that cross the dormancy threshold after the Act comes into force).

¹⁷³ Uo, M. (May 1, 2017). Japan Moves to Us Dormant Bank Accounts for Socially Beneficial Activities. *Nippon.com*. Retrieved from <http://www.nippon.com/en/currents/d00298/>

¹⁷⁴ Outline of the Act on Utilization of Funds Related to Dormant Deposits to Promote Social Purpose Activities (Tentative). (n.d.). Retrieved from http://www5.cao.go.jp/kyumin_yokin/english/201803outline_e.pdf

¹⁷⁵ Outline of the Act on Utilization of Funds Related to Dormant Deposits to Promote Social Purpose Activities (Tentative). (n.d.). Retrieved from http://www5.cao.go.jp/kyumin_yokin/english/201803outline_e.pdf

¹⁷⁶ Japan Fundraising Association. (2015). *Giving Japan 2015* [Translation]. Retrieved from Japan NPO Centre: <http://www.jnpoc.ne.jp/en/reports/selected-translation-of-giving-japan-2015-3/>

¹⁷⁷ Outline of the Act on Utilization of Funds Related to Dormant Deposits to Promote Social Purpose Activities (Tentative). (n.d.). Retrieved from http://www5.cao.go.jp/kyumin_yokin/english/201803outline_e.pdf

¹⁷⁸ Uo, M. (May 1, 2017). Japan Moves to Us Dormant Bank Accounts for Socially Beneficial Activities. *Nippon.com*. Retrieved from <http://www.nippon.com/en/currents/d00298/>

¹⁷⁹ Fukue, N. (June 12, 2012). Dormant accounts eyed for Tohoku. *The Japan Times*. Retrieved from <https://www.japantimes.co.jp/news/2012/06/12/reference/dormant-accounts-eyed-for-tohoku/#.WdlpyBNSxE4>

¹⁸⁰ Japan National Advisory Board. (2014). *The Social Impact Investment Landscape in Japan*. Retrieved from <http://www.socialimpactinvestment.org/reports/Japan%20NAB%20FINAL.pdf>

¹⁸¹ See Sasakawa, Y. (February 10, 2012). Make Good Use for Dormant Account Money [Blog Post]. Retrieved from <http://blog.canpan.info/yoheisasakawa/archive/191>

¹⁸² Brasor, P. and Tsubuku, M. (May 18, 2012). Japan Post would prefer to let sleeping dogs, and accounts, lie. *The Japan Times*. Retrieved from <https://www.japantimes.co.jp/news/2012/05/18/business/japan-post-would-prefer-to-let-sleeping-dogs-and-accounts-lie/#.Wdlr8BNSxE4>

¹⁸³ Cabinet Office. (March 27, 2017). Q&A on the Act on Utilisation of Dormant Deposits. Retrieved from http://www5.cao.go.jp/kyumin_yokin/english/qa_e.pdf

In 2014, the Assembly organized a cross-party caucus of representatives in the National Diet (Japan's legislative body). Yasuhisa Shiozaki, Minister of Health, Labour and Welfare in the ruling Liberal Democratic Party, chaired the Legislator Caucus for the Promotion of Dormant Account Deposit Utilization¹⁸⁴. The banks saw in Shiozaki someone who understood their constraints. Shiozaki's role and the Assembly's decision to seek only new dormant accounts minimized bank protests. While a great sum for Japan's social sector, ¥70 billion a year does not carry much weight when divided among Japan's many banks¹⁸⁵.

The sum on the table drew the eyes of other interests. Some wanted to use the money to pay down Japan's national debt. The Assembly argued that Japan's debt, at more than ¥1,000 trillion¹⁸⁶, would not notice another ¥70 billion a year. The money could do much more by building a social sector able to address the problems of a rapidly aging society. The Assembly also recruited strong political allies, such as Yasutoshi Nishimura, State Minister of the Cabinet Office.

The National Diet passed the *Dormant Deposit Utilization Act* on December 9, 2016¹⁸⁷. The Act will come into force in January 2018. The Deposit Insurance Corporation of Japan will begin to collect dormant accounts in January 2019. The Corporation will begin to disburse money to the DUF in late 2019. The DUF will then disburse the money for public benefit¹⁸⁸.

¹⁸⁴ Mair, Vibeka. (July 24, 2015). Japan pushes for annual ¥80bn dormant accounts cash to go to social investment funds. *Responsible-Investor.com*. Retrieved from https://www.responsible-investor.com/article/jap_soc/; Japan National Advisory Board. (2014). *The Social Impact Investment Landscape in Japan*. Retrieved from <http://www.socialimpactinvestment.org/reports/Japan%20NAB%20FINAL.pdf>

¹⁸⁵ See News Desk. (December 4, 2016). Japan to take dormant bank deposits for charity. *The Asian Age*. Retrieved from <http://dailyasianage.com/news/40042>

¹⁸⁶ National Debt Clocks.Org. (October 20, 2017). *National Debt of Japan*. Retrieved from <http://www.nationaldebtclocks.org/debtclock/japan>

¹⁸⁷ Jiji. (December 2, 2016). Diet passes bill to allow use of dormant deposits for public interest. *The Japan Times*. Retrieved from <https://www.japantimes.co.jp/news/2016/12/02/business/diet-passes-bill-allow-use-dormant-deposits-public-interest/#.Wdlr5RNSxE4>

¹⁸⁸ Cabinet Office. (n.d.). *What are Dormant Bank Accounts?* Retrieved from Japanese Cabinet Office: http://www5.cao.go.jp/kyumin_yokin/english/201702siryoushu_e.pdf

APPENDIX 2

Market definitions: Impact Investment & Impact Economy

We can achieve a future where no one lives in poverty and the planet thrives. We must adopt a simple unifying principle: it is the collective responsibility of all actors in the society to be aware of their effects on people and the planet, to prevent the negative externalities and increase the positive impact. This impact management principle¹ underlies the impact economy we envision. *An impact economy necessitates that measurement of social and environmental impact is integrated in all economic activity; and central to government policy, business operations, investor behaviour, and consumer consumption.* How far different enterprises² - and their investors - go in their impact management practice depends on their intentions, constraints and capabilities:

- A. At a minimum, enterprises can **act to avoid harm** for their stakeholders, for example decreasing their carbon footprint or paying an appropriate wage; such 'responsible' enterprises can also mitigate reputational or operational risk (often referred to as ESG³ risk management), as well as respect the personal values of their asset owners.
- B. In addition to acting to avoid harm, enterprises can also actively **benefit stakeholders**, for example proactively upskilling their employees, or selling products that support good health or educational outcomes; these 'sustainable' enterprises are doing so in pursuit of long-term financial outperformance (often referred to as pursuing ESG opportunities)⁴.
- C. Many enterprises can go further: they can also use their capabilities to **contribute to solutions** to pressing social or environmental problems, for example enabling an otherwise underserved population to achieve good health or educational outcomes, financial inclusion or hiring and skilling formerly unemployed individuals⁵.

In an impact economy, enterprises use their capabilities to optimise both their positive impact on the world and their financial performance. Likewise impact investors bring their own resources to bear in optimising enterprises' impact, within the context of their constraints and capabilities, above and beyond what the capital markets enable. Investors use various strategies to contribute to impact, often in combination:

- ▲ *Signal that measurable impact matters:* Investors can choose not to invest in, or to favour, certain investments such that, if all investors did the same, it would ultimately lead to a 'pricing in' of social and environmental effects by the capital markets. Often referred to as values alignment, this strategy expresses the investors' values and is an important baseline. But alone, it is not likely to advance progress on societal issues when compared to other forms of contribution.
- ▲ *Engage actively:* Investors can use expertise, networks and influence to improve the environmental and societal

performance of businesses. Engagement can include a wide spectrum of approaches - dialogue with companies, creation of industry standards, taking board seats or creating board-level committees, using their own team or consultants to provide hands-on management support (as often seen in private equity). The 'engage actively' strategy involves, at a minimum, significant proactive efforts to improve businesses' impact on people and the planet.

- ▲ *Grow new or undersupplied capital markets,* by anchoring or participating in new or previously overlooked opportunities. This may involve investment into sectors where there is a little information or transparency, or those where there are investment teams with no or little experience in the space therefore requiring investors and investees to build their understanding of how investment can work for the context. This may involve more complex or less liquid investments, or investments in which some perceive risk to be disproportionate to return.
- ▲ *Provide flexible capital,* by recognizing that certain types of enterprises do require capital which may be considered less likely to provide market rate return, less liquid, more risky, or in smaller sizes than would traditionally be invested to generate certain kinds of impact.

Hence, *Impact investments optimise risk, return and impact.*

Impact investors therefore typically spend their energy in the righthand column of Figure 1 below, supporting and scaling enterprises that contribute to solutions and go beyond signalling. Such investors often find it beneficial to accumulate deep knowledge and understanding of the social or environmental problem they are looking to solve and the system within which it exists, and to build capacity within investee organisations. By doing so, impact investors play a catalytic role in the evolution of the impact economy. In the near-term, since impact management practice is nascent, investors can also contribute to positive impact in by enabling large companies to avoid significant harm - for example, providing capital for environmental retro-fitting of carbon-intensive factories, or using shareholder activism to address poverty in a multinational corporation's supply-chain.

¹ This principle is based on widespread consensus achieved under The Impact Management Project

² The term 'enterprise' is used to cover a wide range of delivery models, including multinational corporations, small to medium sized enterprises, infrastructure projects, social enterprises and charities

³ Environmental, Social and Governance; also referred to as Responsible Investing

⁴ Also referred to as Sustainable Investing which includes ESG Integration, Sustainability Themed Investing and Positive/Best-in-Class ESG Performance

⁵ Enterprises can also 'contribute to solutions' by selling products that enable others to act to avoid harm (for example, an off-grid lighting company)

FIGURE 1:
Mapping the ABC of impact to the way investors can contribute suggests opportunities for wider and deeper impact investment

IMPACT CLASSES		IMPACT OF UNDERLYING ASSETS/ ENTERPRISES		
		A	B	C
		Act to avoid harm Prevent or reduce significant effects on important negative outcomes for people and the planet	Benefit stakeholders Have various effects on important positive outcomes for people and the planet	Contribute to solutions Have a significant effect on specific important positive outcome(s) for underserved people or the planet
INVESTOR'S CONTRIBUTION	1 Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	E.g. Ethical bond fund	E.g. Positively-screened/ best-in-class ESG fund	E.g. Sovereign-backed bonds (secondary market) funding vaccine delivery to understand people or renewable energy projects
	2 Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	E.g. Shareholder activist fund	E.g. Positively-screened/ best-in-class ESG fund using deep shareholder engagement to improve performance	E.g. Public or private equity fund selecting and engaging with businesses that have a significant effect on education and health for underserved people
	3 Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	E.g. Anchor investment in a negatively-screened real estate fund in a frontier market	E.g. Positively-screened infrastructure fund in a frontier market	E.g. Bond fund anchoring primary issuances by businesses that have a significant effect on environmental sustainability, access to clean water and sanitation
	4 Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	<i>Investment archetype not widely observed</i>	<i>Investment archetype not widely observed</i>	E.g. Private equity fund making anchor investments in businesses that have a significant effect on income and employment for underserved people
	5 Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	<i>Investment archetype not widely observed</i>	<i>Investment archetype not widely observed</i>	E.g. Below-market charity bonds, or an unsecured debt fund focused on businesses that have a significant effect on employment for underserved people
	6 Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	<i>Investment archetype not widely observed</i>	<i>Investment archetype not widely observed</i>	E.g. Patient VC fund providing anchor investment and active engagement to businesses that have a significant effect on energy access for underserved people

Source: The Impact Management Project, 2018

FIGURE 1. The matrix helps investors to understand and describe the impact performance (or, if a new product, the impact goals) of an investment, or portfolio of investments. Much like financial asset classes are a helpful heuristic for quickly conveying whether the characteristics of an investment opportunity match an investor's financial intentions, the boxes on this matrix are an equivalent shorthand for conveying whether the impact characteristics of an investment opportunity match an investor's impact intentions.

As we set our sight on a full-fledged global impact economy by 2030, we can expect significant growth in impact investments, which enable enterprises to contribute to solutions, optimising their risk, return and impact. Given the rise of impact entrepreneurship and the encouraging response of enterprises and investors to the SDGs, it is becoming realistic to think that every asset class can include a percentage of impact investments which, taken together, would unlock capital at scale to address the world's most pressing social and environmental challenges.

About The Working Groups

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Other GSG Working Group Reports

WORKING GROUP NAME	PILLAR REPRESENTED	TOPICS
Building Impact Investment Wholesalers	Supply of Capital	It details the what, why and how of building impact wholesalers
Catalysing an Impact Investment Ecosystem: A Policymaker's Toolkit	Policy & Advocacy	It focuses on the role of government in the impact investment ecosystem and highlights how policy making can be catalytic
Enabling ventures to leverage technology for impact	Demand of Capital	It analyses the different enabling elements across the lifecycle of impact-tech, and focuses on recommendations to improve the global tech-for-good ecosystem
Investing for a better world	Supply of Capital	It focuses on recommendations to strengthen the financial services value chain to meet the sustainable development goals
Widening & Deepening the Market for Impact	Market Builders	It outlines the why and what of impact investing and presents a theory of change for widening participation and deepening practice with practical guidance on actors and levers



PHOTO : TSL