Impact Investing – The First Ten Years

A conversation with Antony Bugg-Levine, Marilou van Golstein Brouwers, and Nick O'Donohoe

This year marks the 10th anniversary of the coining of the term "impact investing" and the first meeting to discuss the formalization of the impact investing industry. In recognition of this milestone, the GIIN has been reflecting on the market's progress to date and the work still left to be done. We will shortly be publishing a Market Roadmap with our vision and the bold, decisive actions needed to ensure impact investing fulfills its potential for reinventing the capital markets to fuel social progress and preserve the planet.

Conversations about the future need to be rooted firmly in the lessons and experiences of the past. To that end, GIIN Director of Strategy Sapna Shah spoke with three industry pioneers whose actions have helped establish the impact investing industry over the last ten years. They shared their thoughts on the industry's progress since the phrase "impact investing" was coined in 2007, as well as on the work still ahead of us.

Antony Bugg-Levine

NONPROFIT FINANCE FUND

Antony Bugg-Levine is the CEO of Nonprofit Finance Fund, a national nonprofit and financial intermediary dedicated to mobilizing and deploying resources effectively to build a just and vibrant society. In this role, Mr. Bugg-Levine oversees more than $225 million of capital under management and a national consulting practice, and works with a range of philanthropic, private sector and government partners to develop and implement innovative approaches to financing social change. Mr. Bugg-Levine writes and speaks regularly on the evolution of the social sector and the emergence of the global impact investing industry. He is the co-author of *Impact Investing: Transforming How We Make Money While Making a Difference*.

Marilou van Golstein Brouwers

TRIODOS INVESTMENT MANAGEMENT

Marilou van Golstein Brouwers is Chair of the Management Board of Triodos Investment Management BV, a subsidiary of Triodos Bank. Triodos Investment Management is a specialist in developing and managing impact investment funds investing in emerging markets, energy & climate, sustainable real estate, arts & culture, sustainable food & agriculture, and SRI with EUR 3.3 billion total assets per 30 June 2017. Currently she is also a member of the Board of Directors of the GIIN, the Supervisory Board of B Lab Europe and, member of the Advisory Council for International Development Cooperation (AIV/COS).

Nick O'Donohoe

CDC GROUP

Nick O'Donohoe is the Chief Executive Officer of CDC Group, the UK government's development finance institution. Prior to his role at CDC Group, Nick served as Senior Adviser for Blended Finance at the Bill & Melinda Gates Foundation, where he originated, executed, and managed blended finance transactions. Between 2011 and 2016, Nick served as the founding Chief Executive of Big Society Capital. Nick helped to produce the blueprint for the government-backed social investment wholesaler and became its chief executive when the organization was launched. Prior to that Nick was Global Head of Research at JP Morgan.

Interviewer:

Sapna Shah

GLOBAL IMPACT INVESTING NETWORK

Sapna Shah serves as a Director of Strategy at the GIIN. In this role, she focuses on ensuring the GIIN's portfolio of work directly supports our mission of growing the market. She also oversees the GIIN's training program as well as liaison presence in South Asia and East Africa. Previously, she led the GIIN's Network Membership, as well as Project Terragua, a former Investors' Council working group on sustainable agriculture investing in sub-Saharan Africa.

SAPNA SHAH: Each of you has dedicated so much of your career to the impact investing industry. When did you personally enter the impact investing industry, and what your personal motivations for doing so were?

ANTONY BUGG-LEVINE: I've always been compelled both personally and professionally to try to address issues of basic human suffering and inequality at the broadest level. And at the time that I began the work that resulted in the formation of the GIIN, I was working at the Rockefeller Foundation, where the ambitions were very broad when it came to solving major human and environmental challenges at scale. And it became clear to me that the capital available in philanthropy was not enough to meet these ambitions and the moral need to solve these problems. And so, for me, the motivation was simply to identify and tap into the one source of capital that was sufficient enough for the task of fundamentally improving the human and environmental challenges we face. That was the global for-profit investment capital markets.

NICK O'DONOHOE: I suppose my journey into the impact investment industry started with an interest in micro-finance, because micro-finance was really the first area where capital was being mobilized to achieve social impact, as well as financial return. Then in 2007, JPMorgan decided to start a social finance group and they needed somebody to supervise it, so I expressed an interest in doing that. When I went to the Bellagio conference in 2008, it was the first time I had ever heard the term 'impact investment'. Partly, I had an intellectual interest in whether it was really possible to combine these two sometimes conflicting motives of profit and purpose. Part of it was because I felt that the way that capital is used does make material difference in people's lives in all sort of ways. To just simply ignore those externalities, or whatever you want to call them, is wrong. I felt like impact investing was the first thing I was aware of that focused on that and tried to change it.

MARILOU VAN GOLSTEIN BROUWERS: For me, it really started in 1990 when I joined Triodos Bank. Our mission is to make finance work for positive change, so we only finance businesses for social or environmental purpose. That's what Triodos Bank is all about. I joined and set up the first investment fund, which was based on the idea that it's attractive for people to invest their funds in a specific sector that they really care about. That first fund focused on the organic agriculture side. The entire concept at that time was quite new. Then we started with investment funds investing in micro-finance all over the world, growing the business. Fast forward to 2007, there was the meeting in Bellagio where 'impact investing' was coined. This was something we'd been doing for a long time, but we decided, 'let's embrace the term, because that will probably strengthen the whole sector, and also it will strengthen what we been doing for, at that time, over 25 years.'

SHAH: Can you talk a bit more about how you made that decision? What were you thinking about in 2007 when you weighed the idea of supporting the term 'impact investing'?

VAN GOLSTEIN BROUWERS: Well, we felt it would help in the communication to our investors—not so much investees, but more with the investors—if we embraced what we were doing under this one term. Before that time, we had been sort of communicating that we invest in different sectors, like we invest in inclusive finance or energy climate funds. We felt it would be positive to put it under one name. What we were concerned about was how serious the other players who also embraced that term were going to be. Would we have faith in the fact that they wouldn't use it for 'greenwashing,' so to speak? What would be the integrity of the brand of impact investing? So that's more what we had the discussions about. But then, I must say, if you look at that first group, we were quite confident that all of the other players were in there for the same reasons. So, I never personally had any doubts that this would sort of deflate or there would be questions about the integrity of using that term.

SHAH: Take me back to those early days of the industry. What were the concerns about pursuing this idea and what really motivated you?

O'DONOHOE: Clearly you could see that the financial crisis was catalyzing enormous changes in the financial world and also catalyzing enormous changes in the way people felt about financial institutions and financial instruments. I got the feeling at the Bellagio meeting that people sensed there was an opportunity for real change in the zeitgeist, to move away from the profit result—you know, profit at any cost—to a much more measured, considered view of the impact that capital could have. That was the most exciting thing about the work. You saw that there were a group of pioneers around the room, a sort of random group of people who had come together with this vision. I suppose what made me a bit apprehensive was, perhaps because of my perspective coming from JPMorgan, that I could see the scale of what people were proposing. There was enormous ambition, but a degree of naiveté, I thought, around what it was going to take to create the sort of change that people in this room hoped to create. But I remember leaving with a real sense that this was something quite powerful. Very small, very embryonic, rather poorly defined. But, again, we sensed that the world was changing and finance was changing and this was a new idea that had the potential to be a very important one.

VAN GOLSTEIN BROUWERS: If you looked at financial markets, in my opinion, they had completely gone off track. The whole purpose of finance seemed to be all around only making money and nothing to do with serving the real needs in society, serving the real economy. So, a big change was necessary and now we are seeing it starting to take hold.

SHAH: Who were the people who came to the table for the impact investing conversations in those early days, and what forces in the global context or in your work inspired you to think that this was a movement you wanted to kick off then?

O'DONOHOE: It was a group of really smart thoughtful people. Some very credible institutions and organizations. There was no obvious reason to believe that this movement was going to take off, but I remember just sort of feeling that this is potentially a really transformational movement. Even though it was tiny at the time, there was nothing to invest in, there was just a handful of players, but you still felt that "there is a big idea here." From my seat I could completely see the challenges and the questions that were out there, but it still felt like it was *something*. It's very rare in your life or career you get the opportunity to really feel like you're in at the ground floor of something that can be truly transformational.

SHAH: Let's turn to how you believe the field has changed since then. From our perspective, we've seen tremendous growth in the range of actors involved and a sharp rise in media and investor interest, and we know this industry is growing. In your view, what have been the most catalytic moments, efforts, or actions in the evolution of this industry in the past 10 years? What have been the landmark achievements of this industry in the past 10 years?

BUGG-LEVINE: We've had such profound success in normalizing the concept of impact investing and the expectation among large financial institutions and very rich people around the world that impact investing is something that one needs to, at a minimum, be contemplating and in most cases moving toward. I think we sometimes underestimate the success there because it's easy in retrospect to somewhat take it for granted. But, 10 years ago in Bellagio, if we had projected what we would have hoped to achieve in the terms of the popularizing and normalizing of this idea, I don't think we could have even hoped for the success that we've had.

O'DONOHOE: I think if you'd said to people 10 years ago that 10 years from now the impact investment would be an absolutely recognized term in a mainstream investment industry, I think people have been both surprised and exhilarated by it. There are very few people in the world, certainly the world of finance that you talk to now who have not heard the term 'impact investment'. I think that building of the brand and the idea has been extraordinarily successful. Some people might, I think, suggest that there's a certain amount of hype involved, more hype than reality, more hype than money moved. I think that's certainly true. But that's often the case in the early stages of a big movement.

VAN GOLSTEIN BROUWERS: From my perspective, the Sustainable Development Goals (SDGs) and the Paris Climate Agreement are the most important things that happened in last 10 years for this industry. Those two agreements, and the clarity of the role of investors to achieve them, brings investors together. I think that has been essential. It is very important that we don't separate the impact investment industry from what's happening within the broader framework of SDG investing.

SHAH: Conceptually, impact investing is an amazing tool – we can solve problems, make money, and tap into personal passions. So what's preventing every investment from being an impact investment? Why aren't we seeing more of this?

VAN GOLSTEIN BROUWERS: It's about perception of risk for example, which is still something that's not always easy to tackle. Almost by definition, if an institutional investor looks at investing in an emerging market, it's considered in the high-risk pocket. But if you look at the actual risk, and if you look at the experienced funds, you know that there is difference in the real risk and the perceived risk. Then the other issue is around size. Institutional investors will only start looking at investment opportunities if they are at least 500 million euros and have a proven track record. So, how do you break through that? It's not easy and that's why it's still an issue. It's all because this is a complicated industry. Sorry to say, it's much easier to change business than it is to change finance.

BUGG-LEVINE: We need to articulate and agree to a clear answer to the question of, "What can we achieve through impact investing that we cannot achieve through our regular tools?" And there can be a lot of different answers to that question, but I do think that we all need to be organized as an industry around the answers. Like, for some people it may be, "I can only do a few million a year in philanthropy and I really think the issues I work on need hundreds of millions of dollars, so at least with impact investing I can recycle the money." That could be one answer. Another answer could be, "Access to clean water in Ghana simply will not be solved through nonprofits and government. We have to figure out how to engage large multinational corporations because they have the technologies and the operational skills to get into rural areas." So there are lots of different answers but it's got to be built from a real core for the industry. The community has to get together and really understand why it is that impact investing can do things that other things can't. And when we answer that question, we can't trivialize the answer. You know, it can't be this, "Oh, well because only for-profit investors have discipline." You know, some stuff that can come up a lot, but it's a little bit self-affirming and smug and not helpful.

SHAH: I'd like to transition to where we are now and what work we still have to do. Let's say we succeed in our efforts, and in 2030 or 2040, the world and our financial systems writ large work a lot differently than they do now. Describe this world to me – if impact investing is a tool to create broader change, what's our endgame?

VAN GOLSTEIN BROUWERS: I think the endgame is that there is much more choice and much more awareness. The public in general have more awareness about the impact of investing, the consequences of how they invest their money, the quality of life that we invest in together. And that turns into insurance companies offering different products for their clients. The whole pension fund markets will be much more transparent for pension holders to understand what their pension funds are doing. And I think there will be much more choice in the type of investment products. So for example, there will be choice of investment products that have been developed in relation to the SDGs.

O'DONOHOE: I think the endgame is when every investment is an impact investment, so that every time people put capital to work they're asking themselves not the just the question: "What's my risk-adjusted return?", but also: "What's the impact I'm having on the world and our communities and society?" I think that it's very aspirational to say we'll get to that point, but I don't think it's impossible. There's a whole lot more that has to happen in terms of transparency by companies around what their impacts on the environment and on communities are. There will always be a group of people who will say, "I don't care about this stuff. I just invest to maximize my return." It'll never be 100% of the market. But I could certainly see a world where the majority of investment management firms and products have an impact screen or impact considerations in their investment process.

BUGG-LEVINE: The most important guiding principal in my work on impacting investing is that capital is just the means. Fundamentally, what we aim to do is solve human and environmental challenges, and so this is what we need to measure our success by. So for me, success in 10 years will not be measured in the amount of money we have unlocked or the number of mainstream financial institutions engaged in the industry. But it will be measured in the specific ways that investing capital has solved, or at least substantially addressed, fundamental challenges. Success would be the ability to look at a specific country and see that issues such as access to sanitation, delivery of decent housing, or educational opportunities for all people have been substantially improved because of the engagements of impact investors. Or, on a sector issue, that sustainable agriculture or climate change or resilience or other issues have been fundamentally improved because of the engagement of impact investors.

SHAH: Let’s talk about the flip side – we can’t have a conversation about the growth of a new industry without being honest about what could go wrong. Let’s say it’s 2030 and our efforts to build this market have failed. Why would that have happened? What could get in the way right now of our efforts to accelerate this market’s development in the next 10 years?

BUGG-LEVINE: I think we have to be very realistic and honest with ourselves about what the role of capital is. Capital doesn't, ultimately, do anything or solve anything on its own; it enables the actions that can create those solutions. So, capital will not build housing or run great schools or provide water, it will enable individuals, corporations, governments, and others to muster the resources they need to pull that all off. I do think we have to be careful about how we think about applying investing as a facilitator and enabler rather than, ultimately, the source of the actions themselves. When you think of it that way, it is absolutely realistic that in 10 years we could be looking, not all over the world, but certainly in pockets of the world and identify areas where capital has been allocated to incredibly effective, inspiring, and well-run organizations and achieved substantial improvements on these social issues. But I think we have to recognize that it's not the capital alone that can do that.

SHAH: Given those aspirations and risks, what are your top priorities for what we as an industry need to do right now to ensure that this industry is thriving and credible over the long-term, and that it achieves its potential to solve critical social and environmental issues?

O’DONOHOE: Until we have clearly agreed to consistent impact metrics, it is going to be hard to reach the endgame. Of course, we know that's not an easy thing. It would be facilitated by greater transparency from companies. I mean, I think we will absolutely have a world where companies' reporting requirements would extend well beyond just their financial reporting and that they will be required to report audited statements of a whole range of different impact metrics. I think ultimately that's going to have to be required by government. It's not going to happen voluntarily. Certainly not in a consistent way. I think that's where we want to end up.

I think another thing is the impact investment movement needs to be able to demonstrate and articulate problems that we have solved at scale. I don't think we've seen that yet. I think what we point to is a whole lot of different sort of eclectic groups of investments. What we need is data around how the industry has performed both in a financial perspective and an impact perspective.

BUGG-LEVINE: One thing that gets in the way of real impact is the fact that real impact is hard. There is also systemic inertia investors face to change real behavior patterns. A system in which people optimizing for what is viable within their business models is going to leave them to be tempted to take easy answers and dress those up as truly deep impact because ultimately, it's the only way they can squeeze out something that works. We need to create stronger incentives, and we need more impact measurement guidance. To that end, I've been really struck by just how centrally important regulation is. Five years ago I was at a conference and they had a panel where one of the guys speaking was a consultant to state-run pension funds. He was kind of new to the field and basically he said, “you know, I'm not talking to my clients about this, because there's no regulation. You guys talk about nice intentions and all this supposed fluffy pressure, but there's nothing I can say here about ‘new regulation 103.4.2’ and tell my clients they’ve got to comply with it.” Which on one hand was depressing because I'm thinking, "Oh wow, so until we get a clear mandate that this has to happen, it won't happen?" But what was inspiring about it was realizing the moment that regulation is in place, that spigot will turn on. Because on the one hand the guy won't move without regulation, on the other hand as soon as regulation is there, he's going to be all in, as will his clients. I was really struck by it. It really reinforced for me that the industry is one that is just not inclined to do anything unless it's compelled to do it. And we have our anecdotes that say, the private banks are being compelled to become impact investors because their clients want it and that does not require regulation. But I don't have faith or trust that that's going to be enough to get the kind of change we need—to rely on the sustained interest of individuals absent some kind of regulatory mandate. Regulation takes away all of the friction that comes from having to work with people who are disinclined to do something new and different because it just forces them to do it.

SHAH: Why now? Why is it important that we do those things now?

VAN GOLSTEIN BROUWERS: It's all about the timing. We will fail if we are not able to create awareness around the urgency. Like with climate change, what are the consequences if we don't manage to get the CO_2 emissions down and get the temperature increase below one and a half percent? We are already experiencing the consequences and we need to turn these into action. We need to create a sense of urgency around that. I am reminded of the words of Christiana Figueres, the former Executive Secretary for the United Nations Framework Convention on Climate Change, when she visited us last year. She talked about the urgency and the crucial role of the financial sector. Her message is that the financial sector has five years. ‘*What we finance in the next five years determines what the world will look like in the coming 300 years’.*

Impact investing is not something that is nice to have but an absolute necessity.

SHAH: No, it’s certainly not a nice to have, but an imperative. Thank you all for the work you’ve been doing for so long, and for sharing your insights with us today.