ON IMPACT

A GUIDE TO

THE IMPACT REVOLUTION

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#ImpactRevolution

OUR 8 BELIEFS

1. Impact is the measure of an action's benefit to society and the planet - we must shift it to the center of our consciousness

2. When weighing business and investment decisions, we must adopt a new paradigm of risk-return-impact

3. It is possible to do well and do good at the same time

4. Impact can be measured and compared

5. We must come together to adopt pay-for-success impact models

6. We must shift to measuring outcomes, not activities

7. Impact entrepreneurs are powerful allies, and we should support their efforts globally

8. We must act now, there's never been a greater need or a better time

IMPACT IS THE MEASURE OF AN ACTION'S BENEFIT TO SOCIETY AND THE PLANET – WE MUST SHIFT IT TO THE CENTER OF OUR CONSCIOUSNESS.

What kind of world do we want to live in?

That's the question confronting all of us today — consumers, employees, pension savers, philanthropists, investors, entrepreneurs, social sector organizations and big company leaders.

The first wave of the Tech Revolution has come and gone, our lives have been transformed, and yet nations are still wracked by economic inequality, social strife and environmental catastrophe. It's time for us to see the writing on the wall: things cannot continue as they are.

Governments, unaided, do not have the means to cope with the social and environmental challenges we face. They are also not well-positioned to develop innovative approaches to tackling such challenges - a process that inevitably involves risky investment, trial and error, and the certainty of occasional failure.

Philanthropy, while helpful, does not offer a scalable solution. It can only do so much to assist governments, as philanthropic donations are small relative to government expenditure - amounting to less than 5% of government expenditure on health and education alone.

Instead, we need to learn from the Tech Revolution, whose fruits were born from private capital. It is urgent that we access financial markets to harness entrepreneurship and innovation again, and that this time we steer them towards social change.

There are countless challenges that we must, and can, tackle: starvation, illiteracy, poor health, lack of access to clean water and electricity, gender inequality, youth unemployment, homelessness, migration and environmental destruction, among others.

It is imperative now to align the minds of investors, philanthropists, entrepreneurs, social organizations, big businesses, governments, and the general public, so that we can root out these persistent problems. It is time for us all to gather around the new watchword of our young century: *impact*.

The rumblings of a change can be felt underfoot in nations across the world. New technologies and tools are being used to rebalance the scales, to improve lives and the planet. We can all see that it is no longer possible for us to live in a world where businesses create, unchecked, negative consequences that governments unsuccessfully try to remedy at huge cost.

Capitalism has served us well over the last 250 years, but it has become untenable in its present form. It needs radical change.

The Tech Revolution is being followed by the Impact Revolution, which springs from the simple idea that we can overturn capitalism's single-minded focus on profit to deliver profit and social impact simultaneously, redirecting vast flows of money to improve the world.

By combining profit and impact, we fundamentally change the nature of our system, so that it is no longer acceptable to say, 'I'm just in business to make money'. Our collective mindset has already started to shift in favor of impact.

Investors and businesses are becoming socially and environmentally conscious.

Impact entrepreneurs are beginning to gain access to the capital they need to bring brilliant, life-improving ideas to scale.

Cash-strapped governments are starting to discover value in harnessing the innovation of the private sector, channeling its talent and capital to find better solutions to society's challenges.

Philanthropists are driving the delivery of tangible outcomes.

Now more than ever before, it is becoming possible for all people - poor and wealthy, young and old - to not merely inhabit this fragile world but make themselves protectors of it.

Adam Smith, the great economist, was prouder of his first work 'The Theory of Moral Sentiments', which deals with people acting out of altruism, than he was of 'The Wealth of Nations', renowned for its theory of the 'invisible hand of the market'.

Had he thought of measuring impact, he might have combined the two books, and cast impact as the invisible heart of markets that guides their invisible hand.

Our current systems for creating positive social impact are more than two centuries old. The scale of our problems has changed, and so too must our response.

This moment calls for nothing short of a revolution. We must actively shift impact to the center of our consciousness. Instead of relying solely on governments and philanthropy to achieve social improvement, we must usher in a third force to accelerate the pace of change: the private sector.

When we ignore the damage we cause through the private sector, we spend precious resources cleaning up our own mess. When we harness our powers for good, however, we can accelerate social progress, amplify the impact of the public sector, and prevent similar messes in the future.

Envision a world where inequality is shrinking. Where natural resources are regenerated, and people can unlock their full potential and benefit from shared prosperity. A world focused not just on minimizing harm, but on doing measurable good.

That's the purpose of the Impact Revolution.
Each and every one of us has a role to play in it.
What's yours?

WHEN WEIGHING BUSINESS AND INVESTMENT DECISIONS, WE MUST ADOPT A NEW PARADIGM OF RISK–RETURN–IMPACT.

We have all seen new tech companies overtake giants that long led their field, sometimes for a century. IBM has been outpaced by Apple, now the most valuable company in the world, and Microsoft, Amazon, Google, Facebook and Oracle have made it from start-up to the world's 30 most valuable companies within just thirty years.

But even amidst the Tech Revolution, which has transformed our economies, the gap between rich and poor has widened dramatically, and continues to do so. Despite the growth of the welfare state, social safety-net programs and philanthropy, poverty rages on, and economic opportunity has failed to expand meaningfully for many people.

At the same time, as former US Vice President Al Gore has compellingly made evident, urgent environmental issues arising from global warming, deforestation and the pollution of our oceans, challenge us massively.

As philanthropists and governments struggle to bring improvement at scale to the lives of those left behind by the generous hand of prosperity, it has become clear that to succeed we need nothing less than a revolution.

We need—for the first time in modern history—to align the interests of government and philanthropy with those of consumers, investors, businesses and non-profit organizations, for the purpose of improving lives.

In the 19th century, investors focused on returns; in the 20th, they shifted to measuring risk and return. In the 21st century we must adopt a new paradigm of risk-return-impact. It is this triple helix of our society's new DNA that will bring us to a better world.

To be clear, this does not require reducing profits in favor of impact. Rather, this new model inspires us to maximize both profit and impact at normal levels of risk, for the benefit of society as a whole. As actors in the revolution, we each have the power to generate positive outcomes for our society and for our planet while doing well.

The Impact Revolution is already starting to disrupt our existing models of entrepreneurship, investment, big business, philanthropy, and government.

As in the Tech Revolution, innovation is being driven by impassioned young people, especially entrepreneurs. Countless individuals today from around the world are targeting some of our most vexing social and environmental challenges in innovative ways.

Since access to capital enables broad momentum, investors are crucial to the pace of the Impact Revolution's advance. They influence the efficacy of every actor in it.

Investor and business mindsets have already started to shift toward a new paradigm of risk-return-impact. Clear evidence of this can be found in the widespread support for the UN Principles for Responsible Investment (UN PRIs).

Since the UN PRIs were established in 2006, 1,905 investment institutions from 50 countries, holding $90 trillion of assets, have signed the pledge to factor social and environmental welfare into investment decisions.

Family offices and 'living donor' foundations in the USA are the 'first movers' among investors pushing for investment to deliver impact alongside financial returns.

The Omidyar Network, the Skoll Foundation, the Case Foundation, the Arnold Foundation, and the TONIIC network, among others, are the earliest proponents of impact investment, helping to shape its development.

Endowments of prestigious 'legacy' foundations are also early backers. They include Ford, Rockefeller, and MacArthur in the USA; Esmée Fairbairn in the UK; the Porticus, Bertelsmann and Gulbenkian foundations in Europe; and Tata Trusts in India.

Though 'living donor' and 'legacy' foundations together represent less than 1% of the global investment pool, given their social motivation and expertise, they represent a very influential group.

This is why it is so significant that the Ford Foundation, which has an impressive track record of social innovation, has decided to allocate $1 billion from its endowment to impact investment.

Our young generation is one of the reasons why impact investment is spreading like wild fire. For them, making positive social and environmental impact is just as important as making money.

Studies show that the young are twice as likely to invest in companies that have a positive impact on society. They want their investments, as well as their careers, to make a difference.

Large investor groups are responding to a similar shift in values among their clients and savers. This is equally true for asset managers, pension funds and insurance companies.

Asset management firms and banks, which manage $85 trillion of individuals' and smaller institutions' assets, represent the largest group of investors steadily moving in the direction of impact. They include BlackRock, Vanguard, Merrill Lynch, Morgan Stanley, Goldman Sachs and JP Morgan in the USA; UBS and Credit Suisse in Switzerland; Barclays and LGT in the UK; and AXA and Amundi in France.

Pension funds, managing $41 trillion, are the second largest group of investors in the world.
Pressure from pension savers is leading to changes in their investment approach. Some of the world's largest pension funds are now moving towards integrating impact.

They include the largest pension fund in the world, Japan's $1.4 trillion Government Pension Investment Fund (GPIF), and one of the largest in Holland, the Dutch health workers' €280 billion pension funds, managed by PGGM.

Thanks in part to pension savers' influence, PGGM has made a €20 billion allocation to impact, including strategies aimed at improving global health.

That's one example among many. Contributors to the CalSTRS and CalPERS pension funds in California, among the biggest pension funds in the world, have pressured its managers to adopt social and environmental objectives. In the UK, Canada and Scandinavia, the Brunel Pension Partnership, the Canadian Public Employees Pension Funds and Sweden's AP Funds respectively, are all moving in the direction of impact.

France has taken things a step further. It is now even compulsory for every employer to offer employees 90/10 saving schemes, which allocate 10% of their assets to eligible social enterprises, while the balance is invested in quoted companies according to responsible and sustainable investing principles. More than €10 billion have already flowed into these 90/10 funds from more than a million people.

Large insurance companies are also heading in the direction of impact. The list includes Prudential in the USA, Aviva and Legal & General in the UK, and AXA in France.

These are all signals of a change in investor attitude, which is steering capital to a new cadre of specialist impact investment firms, such as Generation, Bridges, Leapfrog and Avishkaar; and to impact funds launched in established fields such as private equity by recognized leaders, like TPG ($2 billion Rise Fund), Bain Capital ($400 million), Partners Group ($1.2 billion) and KKR ($1 billion).

The change in attitude is aptly expressed in the letter sent by Larry Fink of BlackRock to the company leaders of its $6.3 trillion global portfolio: "To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society."

► **As pension savers, holders of insurance policies, and owners of investment portfolios, let's demand that our investment managers implement credible impact strategies. Let's push for Responsible and Sustainable investment allocations of 50%+ of portfolios, and impact investment allocations of 10%+.**

IT IS POSSIBLE TO DO WELL AND DO GOOD AT THE SAME TIME.

For too long, we have labored under the belief that we can either help others or make money, do good or do well. This false logic affects our personal lives, our careers, and our business and investment decisions. It holds sway even over the leaders of big companies.

But this belief is fundamentally wrong.

Impact does not impair profit—it actually drives it. We don't have to choose between financial and social return. Impact itself is a key lever of business success, and big companies are beginning to realize this.

Today there is hardly a big company boardroom in the Americas, Europe, Asia, or Africa where the subject of impact is not being actively discussed. Consumers, shareholders, employees and the media are all pushing big businesses to create positive impact.

Consumer behavior is a major catalyst for change in business practices. According to a recent international study, a third of the 20,000 consumers surveyed across five countries are now choosing to buy brands they believe are doing social or environmental good.

With plenty of choices at their fingertips, why would today's consumers not seek out companies and brands that align with their values? For consumers, and young people especially, the products and services they purchase are expressions not simply of taste but of moral values.

Some prominent business leaders, like Paul Polman of Unilever and Emmanuel Faber of Danone, have already anticipated the clamor of new investor and consumer demands. Ahead of many others, they have concluded that social and environmental consciousness is quickly becoming an inescapable reality for businesses, and that to remain competitive they must evolve.

Strategic thinkers, like Michael Porter of Harvard Business School, and leading consulting firms, like McKinsey and Boston Consulting Group, have drawn attention to this shift, but most business leaders are still unsure about how to guide their businesses to deliver greater impact and greater profit simultaneously.

The key is to embed the impact chip into the core of big business. In other words, companies must adopt business models that deliver positive impact through their products and services, so that the more successful the business is, the more positive impact it creates.

A business that successfully embeds impact into a long-term vision that encompasses positive impact for customers, suppliers, employees and the wider community staves off long-term risks and taps into profitable new business opportunities.

Some big businesses are already pursuing a variety of pathways in the direction of positive impact, even if they are not embedding the impact chip.

For example, many responsible companies are using recycled and recyclable product packaging. They are also reimagining their supply chains, adjusting how they source their materials and affect the lives, rights and working conditions of their full network of employees and suppliers. And countless companies are improving their carbon emissions, plastic waste, water management and land usage.

They are showing that integrating impact leads to increased productivity, savings through waste reduction, better efficiency in supply chain management, a culture that encourages innovation, enhanced relationships with suppliers and consumers, and improved talent acquisition and retention.

While these are all steps in the right direction, the most powerful way big businesses can boost the positive impact they deliver is by fully integrating impact, so that the more impact they deliver through their products or services, the more profit they make. That's what will characterize the leading businesses of the future.

► **As consumers, let's purchase products and services that help improve lives and the planet.**

► **As managers and employees of big and small companies, let's push for our employers to integrate impact into their business models.**

IMPACT CAN BE MEASURED AND COMPARED.

Measuring impact is not only possible - it's essential. Big businesses will only integrate the new risk-return-impact model widely, when investors can reliably measure and compare their real impact.

Impact measurement is a challenge, but we have already tackled a much bigger challenge: that of measuring investment risk.The concept of risk was not new when it came into investment thinking in the middle of the last century. Risk had always been there. We just decided to create a system for measuring it.

It is the same with impact. Impact has always existed and every business creates social and environmental impact. Now it's time to start measuring it.

In fact, risk is substantially more difficult to measure than impact and its measurement is still imprecise. Yet we have greatly benefited from risk-return thinking.

Impact measurement is essential for ensuring that resources flow to those businesses that best optimize impact and profit. If robust impact measurement standards are developed, we can prevent the moral hazard of 'impact washing': where businesses falsely claim to create positive impact, but in reality, achieve very little.

Through its emphasis on impact measurement, impact investment is driving change all along an impact spectrum that runs from philanthropy, which produces high-impact without profit, to Responsible Investing, which produces profit with low impact. Between them, in the middle of the spectrum, sits impact investment, which aims to produce significant measurable impact alongside profit.

Philanthropy, at one end of the spectrum, has been around for a long time and is well understood.

Responsible Investing (RI), which is also known as Environmental, Social, Governance or ESG - and

Sustainable Investing (SI), which is also known as Socially Responsible Investment or SRI, sit at the other end of the spectrum.

Put simply, while Responsible Investment seeks to avoid harm and Sustainable Investment seeks to benefit all stakeholders in a general way; impact investment aims to bring specific solutions to meet the challenges affecting lives and the planet.

To date, Responsible and Sustainable Investment have relied on a self-defined approach to assess the effect of policies and practices. This general, qualitative assessment is very imprecise and makes accurate comparison between businesses impossible. This kind of well-intended investing only hopes to make positive environmental or social impact.

By contrast, impact investment is defined by rigorous and transparent measurement of both positive and negative impact – the actual change experienced by people and the planet. It demands tangible results.

Quantitative measurement of impact has been achieved in pay-for-success interventions, such as those funded by social impact bonds (to be discussed later). But it has not yet been applied to businesses that have many varied activities.

Despite this lack of measurement, large investment groups in search of impact opportunities have focused attention on the biggest market, Responsible and Sustainable Investment in public companies — estimated to have grown to an impressive $22 trillion today, with a growth rate of 20% a year.

Big investors have also focused on investing in 'green bonds', which fund companies' spending on environmentally friendly projects. Here too, measurement has been a very vague notion. The size of the green bond market has grown by 80% in the last five years and it is estimated at $350 billion today with $160 billion raised in 2017 alone.

In contrast with the massive size of the Responsible and Sustainable Investment market, the impact investment market currently stands at only $230 billion - although it has doubled in size in the past year alone.

Despite its smaller size, impact investment is significantly influencing investor thinking. It's leading them to realize the importance of measuring impact across all investment categories, including Responsible, Sustainable and green bond investment. And to appreciate that only when we come together to measure impact in a standard way, will we be able to make really meaningful comparisons between investment opportunities.

That's why establishing measurement standards for the impact of companies is a top priority.

Over the last 20 years, we have seen the rise of numerous initiatives to establish shared fundamentals for defining, measuring, and quantifying impact.

Our current efforts resemble those made after the Great Crash of 1929 to establish common accounting standards for the first time, so as to allow authentic comparison of companies' performance; and to introduce independent auditors, to certify the veracity of financial accounts.

One of the most promising impact measurement approaches, advanced by The Global Steering Group for Impact Investment (GSG) and the Impact Management Project (IMP), involves weighting conventional financial accounts for impact.

This involves applying impact coefficients to sales, employment costs, cost of goods sold – to arrive at an impact-weighted profit line, where a governance coefficient is applied. And then doing the same for assets.

The aim is for these impact coefficients to be set by an Impact Accounting Board, according to new Generally Accepted Impact Principles (GAIP), in the same way that Generally Accepted Accounting Principles (GAAP) are set.

GAIPs will then make it possible for investors to apply existing methods of financial analysis and evaluation to impact-weighted accounts.

Before long, every company will publish impact-weighted accounts alongside its financial ones. Net impact will be quantified and tied to the achievement of social goals, like the UN Sustainable Development Goals (SDGs). And impact will assume its rightful place alongside profit in decision-making.

Many dismiss impact measurement as impossible, or at best difficult and expensive. Yet the absence of measurement comes at great cost to the world. Whether public or private, all organizations already make an impact. It's time to measure impact reliably, value impact explicitly, and demand better of decision-makers across the globe.

► **As leaders and employees of big businesses, let's set measurable impact objectives alongside financial ones, and report on performance in achieving them.**

► **As citizens, let's lobby our governments to encourage investors and businesses to make decisions based on risk-return-impact and adopt common impact accounting and reporting standards.**

WE MUST COME TOGETHER TO ADOPT PAY-FOR-SUCCESS IMPACT MODELS.

One of the transformational tools of the Impact Revolution is the Social Impact Bond (SIB) - often called pay-for-success in the USA, a benefit bond in Australia and a social impact contract in France.

The arrival of the first SIB in 2010, the UK's Peterborough SIB launched by Social Finance, showed for the first time that we can directly link return to the achievement of impact.

Through this SIB we were able to tackle in a more effective way the high reoffending rates among young released prisoners in the UK, which are costly both to society and government. In the UK, and indeed across the world, 60% of released young prisoners go back to jail within 18 months.

Investors put up £5 million to fund an intervention to support released prisoners. Investors would receive their initial capital back plus a financial return according to the reduction in the number reoffending.

Within 5 years, we reduced the number of convictions by 9.7%, paying out 3.1% a year to investors - and we gained an utterly new way of thinking and speaking.

As Gordon Brown, former UK Prime Minister, has said, 'the Peterborough experiment has become the guiding light for hundreds of millions of dollars in investment in social reform'.

The SIB is not a 'bond' in a traditional sense. It is a financial contract that aligns government, philanthropic and private sector interests with those of both nonprofit organizations and profit-with-purpose businesses. It is designed to solve or prevent a social challenge from arising (such as recidivism, dropouts, youth unemployment, or diabetes).

The SIB is based on the two fundamental principles of impact investment: the setting of impact objectives and the measurement of the impact actually achieved.

It links the two, attracting investment capital through a 'pay-for-success' approach. The more impact you deliver, the better the return to investors.

It represents a turning point in the integration of impact into investment practice. The SIB model - and its accompanying variants, Development Impact Bonds (DIBs) for low-income and middle-income countries, and Environmental Impact Bonds (EIBs) - represent a clear way of linking impact to investor returns.

Investors begin by providing capital for a desirable social intervention – a reduction in reoffending rates for instance – and receive their capital back plus a return, if and when contractually agreed outcomes (measured by an independent evaluator) have been achieved.

A SIB fund or a financial intermediary work with the outcomes payer, the entity prepared to pay for the targeted outcomes. That is typically a government, foundation or corporation, working individually or together through an Outcomes Fund. They agree on program objectives, timelines and payment for different levels of targeted outcomes.

This new model allows the social service provider more significant upfront funding and greater flexibility in its use than grants typically provide. The service provider also gains the flexibility to run the intervention as it sees fit, innovating to achieve the best outcomes rather than following a prescribed program of activities, as is typical of traditional philanthropic or development aid grants.

Since 2010, many social sector organizations have started to integrate impact objectives and measurement into their way of thinking. Through Social Impact Bonds (SIBs) and Development Impact Bonds (DIBs) they are scaling their activities beyond what they can achieve through grant funding alone, and learning to operate within an outcomes-based framework.

While the world of SIBs and DIBs is new, it is growing fast. There are now 118 SIBs and DIBs (with 70+ in development), across 26 countries, tackling more than a dozen different social issues. And many more are in the pipeline.

Existing SIBs include the Educate Girls DIB in Rajasthan; the $30 million maternal and infant health SIB in South Carolina; the Tomorrow's People SIB, which assists unemployed youth in the UK; the Pathways SIB, which helps to integrate the immigrant population in Massachusetts into the workforce; the Red Cross Humanitarian SIB to rehabilitate people affected by conflict in Africa; and the Diabetes Prevention SIB in Israel.

They are proving especially valuable in preventing certain social challenges from arising. Proactive prevention is typically a lot less costly than reactive efforts to remedy social and environmental problems. This creates an opportunity to reward investors by paying a share of anticipated savings and value created for governments.

SIBs turn social and environmental challenges into investment opportunities and offer a totally new and compelling investment category because their returns do not go up and down with the stock market.

Governments have been the outcome-payers for the vast majority of more than 100 Social Impact Bonds in existence. But government budgets are constrained and they change slowly. At this stage we cannot rely solely on government to boost the scale of outcomes-funding.

Instead, philanthropies, development aid agencies and corporations are leading the way, stepping in to establish sizable professionally-managed Outcomes Funds.

Outcomes Funds pay back the investors in SIBs and DIBs for the successful outcomes achieved, with a return that rises according to pre-agreed and verified levels of success.

Professionally-managed Outcomes Funds can be expected to standardize metrics and contractual terms, and so significantly reduce the time and cost required to launch a SIB.

Once Outcomes Funds are established, they attract SIB funds that come into play alongside them. They provide the upfront investor money needed by service delivery organizations to achieve the targeted outcomes.

Together, Outcomes Funds and SIB funds are a potent combination. In developed and emerging countries alike, they can direct investment to non-state actors capable of enhancing public service delivery in fields like education, health and social services. They are a powerful complement to government programs that seek to bring systemic improvement.

The success of Outcomes Funds will encourage governments to adopt outcomes-based approaches, shifting some government procurement away from the purchase of inputs to paying for desired outcomes.

SIB and Outcomes Funds also help governments to implement evidence-based approaches to policy-making. Governments can adopt what works, and learn from what doesn't. Through pay-for-success procurement, more broadly, governments only pay for what succeeds.

When the impact investment market reaches its first stage of maturity – say in 2030, when it could well amount to $30 trillion - pay-for-success securities like SIBs and DIBs will probably account for some 10% of the total market. Their effectiveness and versatility in addressing social challenges make them an enduring cornerstone of the new impact system.

► **As philanthropies, big companies, official development aid agencies, governments, the World Bank Group and other development banks, let's establish big professionally-run Outcomes Funds to pay for the impact achieved by SIBs and DIBs.**

► **Through pay-for-success, let's focus on preventing costly social problems such as illiteracy, malnutrition, reoffending, homelessness, youth unemployment and diabetes, as well as environmental challenges such as deforestation, plastic pollution and water waste.**

WE MUST SHIFT TO MEASURING OUTCOMES, NOT ACTIVITIES.

Traditionally, we have focused on inputs (time and money spent) and activities (countries reached, people served). Now is the time to place our focus on outcomes - the tangible results that benefit society as a whole. Tracking outcomes is a critical element of the impact paradigm shift.

If service providers rigorously track the outcomes resulting from their interventions, it makes it that much easier for them to attract long-term investment capital.

A focus on reaching predetermined outcomes also motivates service providers to collaborate with each other in arriving at the most effective way to achieve them.

This will change how governments and philanthropists operate.

Government

The transparency, accountability and impact measurement that outcomes-based approaches and impact investment bring are all beneficial to government. They enable government to allocate resources more effectively, attract innovation in delivering public good, and unlock new sources of capital to finance essential services while maintaining continued government oversight.

Some governments are leading the way in supporting impact investment and outcomes-based approaches.

The UK has developed the most supportive environment for impact investment. For example, the UK government released £400 million of dormant accounts from banks to create Big Society Capital, the world's first social investment bank; it enacted tax incentives for investment in SIBs; and introduced supportive changes in legislation and regulation.

France has introduced 90/10 funds into its retirement savings system. The US has implemented changes in guidance for foundation and pension fund trustees that would allow them more easily to engage in impact investment. Japan has decided to release $900 million a year, for five years, from dormant bank accounts to tackle social issues. South Korea has decided to set up a $300 million impact capital provider. And many other governments are considering a variety of similar measures across the world.

A big lever for governments in boosting impact investment is their own procurement approach. Shifting government procurement mindset from the current focus on prescribing services in detail to outcomes-based approaches involves a big change, but we've made a start.

Outcome funding is already being provided, at small scale, by governments in the UK, the US, Italy, and Malaysia.

Funding will grow as governments appreciate that outcomes-based approaches put us on the path to impact economies, where business and investment decisions are made on the basis of impact as well as risk and return.

Governments are crucial to building our new impact investment markets. We need their help in constructing impact market infrastructure, encouraging the supply and boosting the demand for impact capital.

Philanthropy

The dominant model of philanthropy practiced today is more than a century old. As Darren Walker, President of the Ford Foundation, has noted, a sea-change is needed in philanthropy.

Despite philanthropy's significant deployment of financial resources, organizations delivering charitable services are invariably short of money and very few have managed to achieve any scale at all. A report revealed that 50,000 US businesses managed to cross $50 million in revenue over a period of 25 years, while only 144 nonprofits succeeded in reaching this figure.

As foundations have grown in size and formalized their giving, certain habits have become widely entrenched. Among them: giving grants to charitable service providers for only two or three years and then, as a sanity check, moving on to help another organization; requiring the grantees to spend as little as possible on their organizational overheads; and requiring only a superficial form of reporting on the outcomes achieved by the organizations they fund.

A new philanthropic model is emerging. In this new model, foundations strive to make longer term grants and measure the outcomes achieved by the organizations they fund, rather than just tracking their activities.

Foundations, in this new model, also direct a share of their grant allocations to Outcomes Funds.

And, most importantly, they use their charitable endowments to make appropriate impact investments.

In general, the trustees of charitable foundations cleave to the notion that the best way to help the disadvantaged is to focus the endowment on making money, regardless of impact, so that the maximum amount is available to be given away in grants.

This has led to foundation endowments investing in companies that pollute the environment or perpetuate social problems, which the grant side of the foundation strives to remedy through its programs. This is clearly self-defeating. By engaging in impact investment, the endowment of a foundation can contribute to achieving its mission.

Philanthropic foundations are uniquely placed to focus on critical areas of social need. Areas where market rates of return cannot be easily achieved, areas that require system level change where only low returns can be achieved far into the future.

By blending philanthropic grants with investment from their endowments, foundations can attract mainstream funding to improve the lives of the most disadvantaged.

In this respect, foundations are natural partners for official development aid agencies and impact capital wholesalers, like Big Society Capital and its new equivalents in Portugal, Japan, and South Korea.

By virtue of their charitable status, their great sense of mission and their expertise, foundations have an important role to play in the leadership of the Revolution. They can lead the shift to measuring outcomes, within the social sector, the government, and beyond.

► **As voters, let's lobby our governments to shed old ways of thinking and embrace the Impact Revolution; and measure outcomes rather than inputs in their expenditure and procurement; and establish Outcomes Funds to address social and environmental issues at scale.**

► **As philanthropists, let's direct our foundation endowments to engage in impact investing and our grant programs to focus on outcomes, not activities.**

► **As social sector leaders, let's integrate outcome measurement into our organizations.**

IMPACT ENTREPRENEURS ARE POWERFUL ALLIES, AND WE SHOULD SUPPORT THEIR EFFORTS GLOBALLY.

We are all familiar with the entrepreneur, that restless twenty-something toiling away, from whose inventive mind came the PC, the cell phone, and the Internet; that tenacious individual whose mission in life is to innovate, push boundaries, and disrupt the status quo.

As impact thinking is progressing, so a new brand of entrepreneur is emerging: the impact entrepreneur whose ambition is to improve lives and the planet.

Impact entrepreneurs are showing how impact and financial returns can be achieved together. They are creating a vast number of ventures across the world, both nonprofit and profit-with-purpose, that unite social, environmental and financial outcomes.

Just as venture capital and Tech entrepreneurs have come together, impact entrepreneurs need to be connected to capital to achieve outcomes at scale.

We devised venture capital as a powerful way of funding Tech and other entrepreneurs who want to make money. We have now embarked on doing the same for ambitious entrepreneurs who dedicate themselves to the greater good.

Impact investment is the way to do it.

First, let's consider entrepreneurs in the social sector. The 'social sector', traditionally known as the nonprofit sector, is enormous, in developed and developing countries alike.

For example, in the US, 10 million people work for over 1.7 million charitable service providers, while US charitable foundations hold assets of more than $800 billion.

In Europe, 11 million people work in nonprofit organizations. In the UK alone, foundations hold assets of more than $120 billion.

In India there are 3.3 million charitable organizations.

Until recently, nonprofit entrepreneurs and organizations relied almost exclusively on grants from foundations.

Grants are difficult to depend on, however, and as a result almost all social sector organizations have had to live from hand-to-mouth — making it impossible for them to scale.

Now, through impact investment, foundations are beginning to provide social sector organizations with investment capital from their endowments, as well as from their grant programs.

Impact investment from a growing range of investors gives nonprofits the ability to create a balance sheet, much as a business does. A non-profit balance sheet might comprise a layer of junior equity (in the form of grants), a layer of social impact bonds, and a layer of debt.

As a nonprofit gets paid for the outcomes it has delivered, it holds on to an agreed share of the surplus over and above the original investment it received. This enables it to accumulate capital through its charitable activities, with the additional advantage that the surplus it generates is untaxed. The enhanced ability to accumulate capital empowers nonprofits to scale, in order to assist a greater number of beneficiaries, and allows them to compete more effectively for talent.

As a result, some nonprofit entrepreneurs are beginning to think with greater ambition, to aim for the scale achieved, for instance, by Dr. Govindappa Venkataswamy - who turned India's Aravind Eye Care System into the largest eye care provider in the world.

Aravind has developed a unique business model. Roughly 70% of its patients pay significantly discounted rates for eye surgeries, while the rest receive surgeries for free. In total, since its founding in 1976, Aravind has treated more than 52 million people.

Now, consider profit-with-purpose entrepreneurs. The profit-with-purpose model allows impact entrepreneurs to achieve profit and measurable impact at the same time.

The main challenge for profit-with-purpose entrepreneurs is that investors generally assume that they cannot deliver attractive financial returns.

In reality, by supplying cheaper products and services to underserved populations, they can tap into huge latent demand. This gives their businesses the opportunity to grow faster and more profitably than those that serve mainstream markets at higher prices.

Profit-with-purpose entrepreneurs derive other benefits from creating positive impact. Their companies face lower financial risk, because consumers, employees and investors are shunning harmful companies, while embracing those making a positive difference. They also avoid the risk of potential taxes that governments might impose on harmful activity, such as a carbon tax.

There are numerous profit-with-purpose businesses across the world that exemplify the ability to generate growth and value while delivering positive impact.

A notable example is Muhammad Yunus' Grameen Bank, which makes small loans to impoverished women without requiring any collateral. Since its establishment in 1983 in Bangladesh, Grameen has helped more than 9 million borrowers.

It has also inspired the creation of a $150 billion microfinance sector, spanning more than 40 countries across the world.

US-based Blink Health is another example. It is able to offer discounted prices on prescription drugs by searching online for the cheapest price, using its bulk purchasing power to get the lowest price for its network of 25 million customers.

Israel's OrCam has invented a pair of glasses for the blind and visually impaired. Using pioneering technology in the field of artificial vision, the glasses whisper into the ear of the wearer the name of the street sign, the product on the supermarket shelf, or the bank note in their hand.

D-Light addresses the supply of electricity to remote populations in Africa through solar-powered portable devices. Since 2007, it has sold more than 12 million solar light and power products in 62 countries, improving the lives of over 70 million people.

The most iconic profit-with-purpose entrepreneur today is Tesla's Elon Musk. Whatever challenges may lie ahead of Tesla, it's indisputable that Musk has single-handedly turned the world's automobile industry away from polluting emissions and toward electric vehicles, creating great financial value in the process.

The interest in profit-with-purpose businesses is reflected in the growth of Benefit Corporations in the USA, Europe and Latin America. This legal form, and certification by 'B-Lab', are important because they enable investors to easily distinguish impact-driven businesses from others.

In the US, 34 states have introduced Benefit Corporation legislation, and 6 are in the process of doing so.

Profit-with-purpose entrepreneurs will create the 'Apples' and 'Microsofts' of the impact world - with a big difference. Just as young, innovative tech entrepreneurs disrupted traditional businesses through the Tech Revolution, they are now disrupting businesses once again through the Impact Revolution - but this time with the aim of improving lives and the planet.

A 'unicorn' today refers to a startup worth $1 billion or more. An 'impact unicorn', in contrast, will aspire to be a company that is worth $1 billion and also improves the lives of 1 billion people.

► **As entrepreneurs, let's develop innovative businesses that deliver positive impact, and measure it; and let's run our businesses in a way that's consistent with our values.**

► **As philanthropists let's support impact entrepreneurs by allocating 10%+ of our endowments to impact investment, and 10%+ of our grant money to pay-for-success outcomes funds.**

WE MUST ACT NOW, THERE'S NEVER BEEN A GREATER NEED OR A BETTER TIME.

Our world is in trouble. Disquiet and uncertainty have frozen us into inaction. Yet there is a powerful solution within our grasp: impact.

Consumers, pension savers, philanthropists, investors, entrepreneurs, social sector organizations, governments and big company leaders—all of us play a critical role in the Impact Revolution.

And each of us can act to speed its progress.

Imagine if you could become a billionaire by solving a problem like homelessness, or by removing plastic from our oceans and using it to create affordable housing.

Imagine millions of young entrepreneurs working to improve infant and maternal mortality, illiteracy, malnutrition, access to water and electricity, while building unicorns at the same time.

Imagine you could invest $1 million in disadvantaged children to improve their education and save the country $10 million later on.

Imagine your pension fund's investments improved the health of your community, and your pension increased because of it.

Imagine every charity raising millions in investment to innovate in improving lives - rehabilitating drug users, preventing teenage pregnancies, and helping the elderly maintain independence at home.

Imagine investors buying shares in big companies because they deliver affordable food products that improve the nutrition of underserved consumers.

Imagine governments only spending money on programs that work.

In contrast to the Tech Revolution, the leaders of the Impact Revolution will be spread right across the globe. They will appear wherever entrepreneurs, big businesses, and investors are motivated both to do good and to do well; where social and environmental issues persist; and where governments embrace impact.

To speed the advance of the Impact Revolution, let's act now on 7 fronts:

► As **consumers**, let's purchase products and services that help improve lives and protect our planet.

► As **pension savers**, **holders of insurance policies**, and **owners of investment portfolios**, let's push our investment managers to make Responsible and Sustainable Investment allocations of 50%+ of portfolios, and impact investment allocations of 10%+.

► As **entrepreneurs**, and young ones in particular, let's develop innovative businesses that deliver and measure positive impact, and let's run them in a way consistent with our values.

► As **managers** and **employees** of **companies**, big and small, let's push to set impact objectives, and to report on their achievement.

► As **citizens**, let's lobby our **governments** to encourage investors and businesses to make decisions based on risk-return-impact; adopt common impact accounting and reporting standards; and direct unclaimed assets in banks, insurance companies, and investment funds, to impact capital providers.

► As **philanthropies**, **big companies**, **official development aid agencies**, **governments** the **World Bank Group** and other **development banks**, let's establish big professionally-run Outcomes Funds to pay for the impact achieved by SIBs and DIBs.

► And let's spread the word ON IMPACT, contributing to it as our living guide, at **onimpactnow.org** - and share our actions and views under **#ImpactRevolution**.

Impact is an idea whose time has come.
The Impact Revolution is an engine of historic change. It is destined to succeed.

Impact economies, where decisions are driven by *risk-return-impact,* are within our reach.

Ending the plight of billions of lives and the decline of our planet depends on our urgent action. There is a will. There is a way. And there has never been a greater need or a better time than right now.

What will you do today?

#ImpactRevolution

ABOUT THE AUTHOR

Sir Ronald Cohen is a pioneering philanthropist, venture capitalist, private equity investor, and social innovator, who is driving forward the global Impact Revolution.

For nearly two decades, his ground-breaking initiatives have catalyzed global efforts to drive private capital to serve social and environmental good.

He serves as Chairman of the Global Steering Group for Impact Investment and The Portland Trust. He is a co-founder of Social Finance UK, USA, and Israel; and co-founder Chair of Bridges Fund Management and Big Society Capital.

He chaired the G8 Social Impact Investment Taskforce (2013-2015), the UK Social Investment Task Force (2000-2010) and the UK's Commission on Unclaimed Assets (2005-2007).

In 2012 he received the Rockefeller Foundation's Innovation Award for Social Finance.

He was a co-founder and Executive Chairman of Apax Partners Worldwide LLP (1972-2005), a global private equity firm. He was a co-founder and Chairman of the British Venture Capital Association and a co-founder of the European Venture Capital Association.

He is a member of the Board of Dean's Advisors at Harvard Business School; a former director of the Harvard Management Company; and formerly a member of the Harvard University Board of Overseers and the University of Oxford Investment Committee.

He graduated from Oxford University, where he was President of the Oxford Union. He holds an MBA from Harvard Business School to which he was awarded a Henry Fellowship.

Sir Ronald was born in Egypt and left as a refugee at the age of 11, when he came to the UK.