Investments with social impact
Leading the way


Photo credit: Sue Ford, Deloitte U.S.

A September 2014 World Economic Forum report, prepared in collaboration with DTTL, helps interested investors ask the right questions as they contemplate their path into impact investing.

Watch Kristen Sullivan, Partner, Deloitte & Touche LLP (Deloitte U.S.), share her views on why impact investing matters.

Investors consider a variety of complex variables when assessing potential opportunities to grow their money. Until recently, though, social impact was seldom a factor they included in the equation. That has begun to change thanks, in part, to Deloitte and its efforts to promote impact investing among clients and other investors. Deloitte not only is a leader in this emerging field, but the Monitor Group—now Monitor Deloitte, having been acquired by Deloitte in 2012—published the influential report, *Investing for Social & Environmental Impact*, in 2009.

"Impact investing is an approach that intentionally seeks to create both financial return and positive societal impact that is actively measured," says Kristen Sullivan, Partner, Deloitte & Touche LLP (Deloitte U.S.). "It's a way to connect social entrepreneurs and organizations to capital markets and harness the most powerful forces of capitalism to tackle society's complex issues."

Impact investments can be made through private- and public-sector vehicles, and be targeted at a variety of economic, social, and environmental enterprises. Invested capital already is being used to improve community infrastructure, develop renewable energy, alleviate poverty, create affordable housing, and benefit people in both developed and developing markets.

The potential

As more investors become aware of their ability to impact society, an increasing number of players have begun to nudge their toes onto the burgeoning field. "In the beginning, most investors were wealthy individuals and 'venture philanthropists,' people who already supported good causes financially, but recognized they could earn a return through that support," explains Sullivan. "Today, institutional investors and even risk-sensitive banks and pension funds are entering the field."

According to a 2010 J. P. Morgan report, estimates of the size of the market and its potential range from US$400 billion to US$1 trillion by 2020, and could generate profits between US$183 billion and US$667 billion during the same period.

More than 90 percent of global investors surveyed by JP Morgan and the Global Impact Investing Network reported financial returns for impact investments to be above or in line with expectations, and nearly everyone said the social and/or environmental impact made by those investments met or exceeded expectations. That could explain why those surveyed expect to commit 19 percent more capital to impact investments in 2014 than they did the previous year.

The challenges

Impact investing is not without its challenges, though, as considerable barriers to investor and market success remain. The project report, *From the Margins to the Mainstream*—released in September 2013 by the World Economic Forum—points out that because the marketplace is still in its early stages, many mainstream investors remain dubious. DTTL acted as a pro bono project advisor to the Forum's "Mainstreaming Impact Investing" initiative, bringing stakeholders into the discussion, conducting research, and helping draft the project report.

"Right now, impact investing has comparatively few of the 'necessary ingredients' investors want, including intellectual capital, qualified advisors, accelerators, and proven financial returns," Sullivan explains. "Beyond that, impact investment portfolios and deal sizes tend to be smaller than traditional investments. And the uncertainty of metrics for success leads to questions about the trade-off between financial and social return."

In spite of these challenges, more and more "inclusive businesses" are emerging to serve and benefit the poor. "Impact investors are counting on these businesses to grow and flourish," says Ashish Karamchandani, Partner, Monitor Deloitte India. "Unfortunately, most of these solutions are achieving low levels of scale, but there is significant interest in changing that."

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Karamchandani points to an effort begun in India by Monitor Inclusive Markets in 2006 to develop purpose-built apartments for low-income households. "In the beginning, we couldn't find a developer who could see the potential. Once we found the initial players and created projects that generated overwhelming demand, there was a challenge getting financing to buyers. Then there were regulatory obstacles that made it tough for developers to scale," he explains.

> "Along the way, we worked with developers, banks, and government at all levels to adapt their strategies in a changing environment. Today, more than 80,000 units have been sold to low-income families in India," Karamchandani continues. "We are actively sharing our story to help others learn from our process and ignite the true potential that exists to create societal impact through market-based solutions."

Leading the way

The challenges that currently limit impact investing present opportunities for Deloitte, which is distinguished by its track record for helping advance the capital markets infrastructure to enable impact investing to scale. Deloitte & Touche LLP (Deloitte U.S.) and Deloitte Consulting LLP (Deloitte U.S.) assisted in the development of the Impact Reporting and Investment Standards (IRIS) and serves as a founding sponsor of the Global Impact Investing Rating System (GIIRS), both of which serve as important mechanisms in scaling impact investing.

"Because of our early involvement in the field, our member firm practitioners around the world have a clear first-mover advantage over our competitors and the boutique investing firms," Sullivan explains. "On top of that, the Deloitte network's global reach, as well as our strategic, measurement, and accounting expertise, uniquely positions member firms to play a transformative role in the field. We are able to produce eminence in this space through Monitor Institute and Monitor Inclusive Markets, as well as a range of other service lines, including Deloitte Sustainability Services and our strategy and operations service lines in the U.S."

Client surveys suggest Deloitte has several distinct competitive advantages. One is the network's experience from blueprint to scale. "Member firms around the world can offer support ranging from strategic advisory services to the design and launch of investment vehicles, infrastructure development, and measurement and valuation services. This experience uniquely positions Deloitte to bring a strategic and 'aspirational' view to the table that is rooted in a deep understanding of market realities," Karamchandani explains.

Another advantage is Deloitte's track record in impact investment, enterprise development, and entrepreneurship. "Deloitte has completed more than 75 projects around the world with players across the impact investing ecosystem," Karamchandani says. "Deloitte practitioners work across an array of sectors—including housing, financial inclusion, water, and agriculture—and deliver deep insight into leading models and practices.

"And because Deloitte has an active presence in more than 150 countries and territories around the world," he adds, "we can deploy the right practitioners quickly. Our global network of internal and external impact investing professionals allows member firms to effectively cross-fertilize best practices and models across markets."

Advancing the concept

World leaders championed private capital and development of a global social impact investment market at the 2013 G8 Summit in London. British Prime Minister David Cameron and Sir Ronald Cohen, a noted venture capitalist and chairman of Big Society Capital, announced the formation of the G8's Social Impact Investment Taskforce. The taskforce is composed of four working groups, each aiming to speed the advancement of impact investing by addressing a key focal area within the industry.

One of the four, the Impact Measurement Working Group, was supported through a pro bono effort by Deloitte & Touche LLP (Deloitte U.S.) and Deloitte Consulting LLP (Deloitte U.S.). More than 20 global experts teamed up to develop a set of general guidelines for impact measurement, as well as a roadmap for achieving a universal measurement convention that provides the transparency and accountability that is needed to build capital markets at scale. The group's work was included in the Social Impact Investment Taskforce's recently released report.

"Impact investing is a phenomenon that's growing and will gain momentum as governments enhance policy, regulation, and funding to help it grow," Sullivan says. "The more private players improve how social outcomes are measured, the more government wants to know about the potential. They are looking to Deloitte for advice, which puts our member firms in an important and enviable position."

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