OLIVER WYMAN

BIG SOCIETY CAPITAL

CORPORATE SOCIAL INVESTMENT

GAINING TRACTION

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EXECUTIVE SUMMARY

Corporations have a major role to play in social investment. By looking for social investment opportunities aligned with the business and its operations, companies can create value for society, reinforce business objectives and create value for shareholders.

Traditionally, Corporate Social Responsibility (CSR) programmes have focused on ensuring compliance with ethical standards, promoting sustainable business practices, and making charitable donations, and are often kept at arm's length from a business' strategy. However, corporations have a platform to do far more, and are in a unique position to both supply and deploy capital in social investments. Oliver Wyman's research for Big Society Capital (see "About the Research" on page 11) highlights the direct and indirect investment vehicles that are already being successfully used, such as social funds, social impact bonds and corporate venture capital.

Social investment provides companies with the opportunity to pursue new business opportunities that also tackle major social issues. Barriers to engagement such as lack of visibility, mandates, and cultural mindsets that consider CSR programmes to be separate to core business can be overcome - key to this is connecting to the wider network of organisations that are involved in and support social investment. In a relatively new industry, by providing both funding and skills, and by pursuing social investments in their core business, corporations are able to generate truly shared value.

1. WHY ARE CORPORATES GETTING INVOLVED IN SOCIAL INVESTMENT?

Social investment provides “repayable finance that aims to achieve a social and financial return”. By looking for social investment opportunities within the business and its operations, companies can create value for society, reinforce business objectives and create value for shareholders. It is sustainable and gives opportunities for them to engage deeply in social causes.

Traditional CSR programmes can often be viewed by corporations as an add-on to a business rather than an integral part of it. However, there are clear business rationales for engaging in social investment: to learn about new markets, grow an existing market, foster innovation and generate sustainable financial returns.

“Corporates are interested in social impact venture capital as a route to developing new technologies and business models,” says Andrew Gaule, founder of Global Corporate Venturing. When social investment is aligned to the core business of a corporation, it can act as an innovation hub.

SOCIAL INNOVATION AND SHARED VALUE

“Shared value” business models create value for society whilst reinforcing business objectives. They encompass a wide range of business activities, such as creating ethical supply chains, developing socially beneficial products and generating sustainable social investments (the subject of this report).

A classic example of creating shared value beyond social investment is M-PESA, the for-profit mobile money transfer system launched by Vodafone and Safaricom. The product afforded large numbers of the unbanked populations of Kenya and Tanzania access to financial services for the first time, whilst supporting Vodafone’s and Safaricom’s business activities.

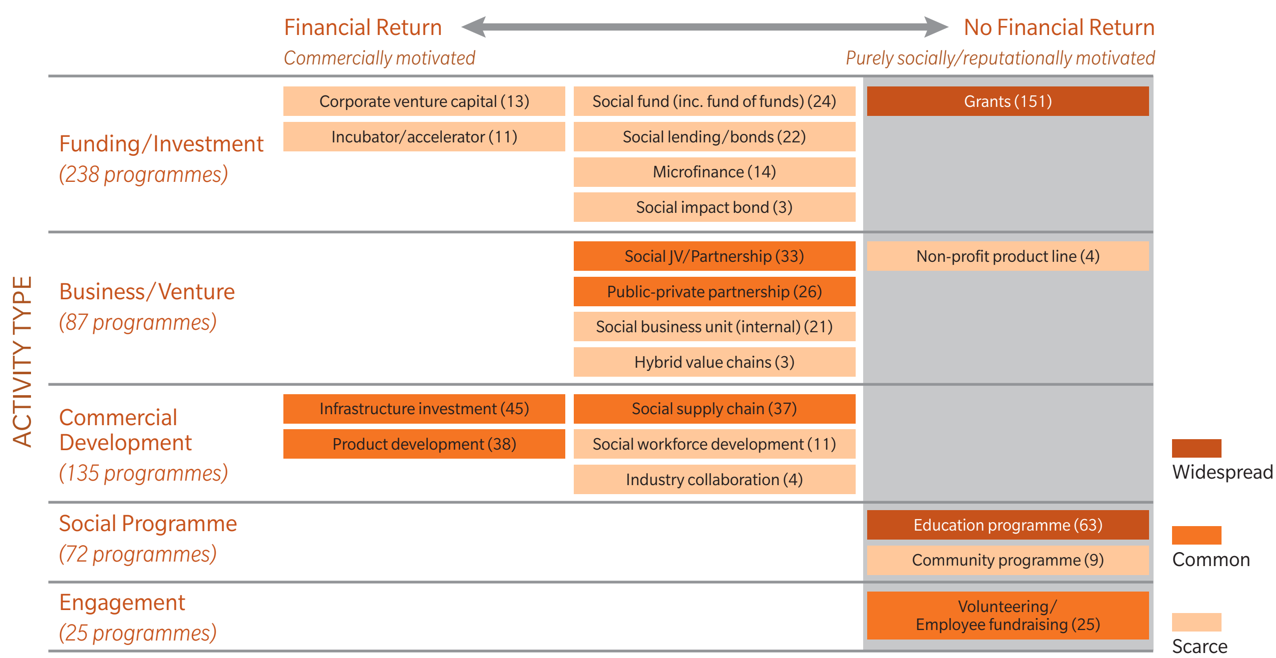
2. WHAT APPROACHES TO CORPORATE SOCIAL INVESTMENT ARE BEING TAKEN?

Our research analysed 557 corporate social impact programmes at 127 companies globally. We found over half (52%) of the individual programmes were investments that aim to generate financial returns.

A wide variety of vehicles have now been developed (see Exhibit 1). The most common vehicles used to generate financial returns are targeted at commercial development: infrastructure development, product development, or social supply chains. Also widespread are vehicles that establish social ventures, either as internal business units or as part of a partnership. Of programmes that do not generate a financial return, most prominent are grant funding and social outreach programmes concentrating on education. The focus of this paper is on the remaining programmes: direct or indirect investment vehicles – such as corporate venture capital, incubators or accelerators, social joint ventures, and social impact bonds.

The rest of this section describes the funding and social investment approaches seen in the survey.

Exhibit 1: Corporate social impact programmes observed across 127 companies



Source: Oliver Wyman analysis; data from 557 programmes across 127 companies; excludes pro bono legal work and donations to the arts; industry collaboration double counts other vehicles

Social funds. The most common and long-standing approach to social investment is the use of funds that combine regular financial performance with stated social impact goals. While there are a number of funds (see Exhibit 2), the majority remain small compared to commercial investment venture- or private-equity funds. The largest social fund observed was Vodafone Foundation's social investments (£475 MM).

The Deutsche Bank Impact Investment Fund (£10 MM) is a fund investing via intermediaries in social enterprises aligned with Deutsche Bank's global CSR pillars. JP Morgan Social Finance (£39 MM) invests in other social impact funds, such as LeapFrog and the Global Health Fund. The French National Railways' (SNCF) Ecomobile Ventures (£18 MM) invests in sustainable mobility, such as peer-to-peer car sharing, electric-vehicle technology, and electric-car rental services. Funds can also be the result of industry collaboration: the Global Health Investment Fund (£70 MM), funded by GSK, Pfizer, and Merck, finances late-stage global health technologies. In this example, firms in the same industry identified a social need and took the positive and innovative approach to collaborate in order to make a social change. Funding is provided in the form of mezzanine-level debt; returns are recycled into global health research and development.

Exhibit 2: Corporate social funds

TYPE	NAME	SIZE	PARTICIPANTS
FUNDS	Ecomobilite Ventures	£18 MM	Orange, Total, SNCF
	Centrica Ignite Fund	£10 MM	Centrica
	20 Million and Change	£13 MM	Patagonia
	Danone Ecosystem Fund	£73 MM	Danone
	Global Health Investment Fund	£70 MM	GSK, Pfizer, Merck
	Ikea Green Fund	£44 MM	Ikea
	Vodafone Foundation Social Investments (by country)	£475 MM	Vodafone Group, Samsung
	Rassambleurs d'Energies solidarity investment fund	£7.3 MM	GDF SUEZ
	Barclays Social Innovation Facility	£25 MM	Barclays
	Barclays Charity Fund	£10 MM	Barclays
	Deutsche Bank Impact Investment Fund	£10 MM	Deutsche Bank
	Social Impact Fund	£250 MM	Goldman Sachs
	JP Morgan Social Finance	£39 MM	JP Morgan Chase
	Institute for Sustainable Investing	£10 BN (aspiration)	Morgan Stanley
	Livelihoods Fund	£30 MM	~10 cross industry investors including Danone, Crédit Agricole, Hermès Intenational, SAP, La Poste and Firmenich
INVESTMENT IN SOCIAL FUNDS	Investment in Big Society Capital	£600 MM[1]	Barclays, HSBC, Lloyds, RBS
	Big Issue Invest	£25.5 MM	Barclays, HSBC

Sources: CSR reports, public sources, Oliver Wyman analysis
1. Comprised of £400 MM fromthe government's reclaim fund and £200 MM from banks

Social impact bonds (SIBs) are a relatively new impact investing vehicle, whose pay-off is dependent on a specific social outcome. SIBs enable governments to fund programmes without incurring the risk of failure. For non-profits, they represent a valuable source of potential funding; for investors, they represent an opportunity to generate uncorrelated returns with the market, as well as meeting CSR goals.

A recent social impact bond in the US, for example, focuses on improving pre-kindergarten education for low-income families in Chicago. An education programme delivered by Chicago Public Schools was shown to improve educational outcomes for disadvantaged children in pre-school. Goldman Sachs used their impact fund, as well as other trusts and foundations, to create a SIB whose pay-out was dependent on the success of expanding the programme. The return (paid by Chicago Public Schools and the City) is based on cost savings from the decrease in the number of children entering special education and increases in kindergarten readiness and third grade literacy.

Corporate venture capital supports the acquisition of firms with a social impact that aligns with the core business of the company. These are most common at technology and finance firms.

Google's InVenture, for example, invests in mobile technology to assist those without a formal financial identity to generate a credit history by logging daily income statements, a potential new market for Google. Cisco invests in a producer of a rice-husk, biomass, electricity generator that provides "pay-as-you-use" technology to rural communities, encouraging usage of Cisco routers. Morgan Stanley has invested in Eleni, a company that designs, builds, and supports commodity exchange ecosystems in frontier markets, giving Morgan Stanley a position in commodity-rich markets. Verizon has a $137 MM investment in solar and fuel cell energy, and utilises a carbon intensity metric to measure how energy efficient its mobile network is (emissions per terabyte), with a goal of reducing baseline carbon intensity 50% by 2020. Patagonia's venture fund invests in start-up companies bringing positive benefit to the environment; industries include clothing, food, water, energy, and waste.

Social joint ventures and social business units are more closely tied to core business operations, and with clearer long-term business goals – such as investigating new markets, and developing new products and business models without having to buy firms.

BASF Grameen Ltd., for example, is a public-private joint venture (JV) to improve the health and business opportunities of the poor in Bangladesh. Urban Investment Group is a Goldman Sachs for-profit social-business unit providing financing for projects that benefit urban communities, such as affordable housing. Cemex's ConstruApoyo is a social business unit that coordinates disaster relief, managing the supply chain and guaranteeing a market for Cemex products.

Incubators or accelerators promote innovation and new disruptive business models.

Telefonica/Wayra UnLtd, for example, a partnership between UnLtd and Wayra, Telefonica's accelerator (funded 50% by the UK government), targets digital start-ups. The Nestlé Creating Shared Value Prize helps scale business-oriented initiatives that address challenges in nutrition, water, or rural development.

Microfinance. In developing countries, financial services firms support the unbanked and provide microfinance. With an emerging middle class in many countries, and new Central Bank policies that allow two-tier models for opening bank accounts, companies can expect to gain new customers.

Citi Microfinance, for example, provides structured financing for small businesses, and Citi Transfer provides mobile wallet and transaction solutions to the unbanked in Mexico.

3. HOW TO ENGAGE IN SOCIAL INVESTING

Corporations are in a unique position to both supply and deploy capital in social investment. By supplying capital, companies can fund specific social causes as part of CSR programmes or as part of business incubation. By identifying market needs and working to create mechanisms to deploy capital, corporations can also take a direct route to affect social change and provide opportunities for others to support an identified need. As noted earlier, social investment is part of a broader focus on creating "shared value", a shift in mindset that needs to be led by senior management.

Companies can choose the depth of their engagement with social investing and manage the risks they subsequently take. Approaches range from initial pilots to scaled-up programmes with explicit links to the core business and greater integration into commercial activities. Corporations can start by establishing a small social investment fund, or providing capital into another, before choosing whether to establish a more involved mechanism to address an identified need. Ultimately, successful social investment can create value for society whilst generating sustainable financial returns.

Whether a company is just getting started with a social investment programme or scaling up, it is likely to face some common barriers. These include a lack of visibility or understanding of social investment opportunities, a lack of internal mandates or incentives to invest, limited resources, and a cultural mindset that thinks of social objectives as something separate to the business.

Connecting to the wider network of organisations involved in social investment is important. Social investment is still a relatively new, maturing field; lessons can be learnt from early adopters and can help frame how a corporation wants to become with social investment opportunities.

THE BUSINESS IMPACT CHALLENGE

Building on its mission to grow the social investment market in the UK, Big Society Capital established the Business Impact Challenge, a tailored programme designed to engage corporations in social investing. The Business Impact Challenge provides support to companies as they develop their social investment ideas as well as the opportunity to access matched investment for viable business models.

The 2015 Business Impact Challenge, which attracted 12 applications, highlighted a number of lessons about how to meaningfully engage companies with social investment. These include:

1. Educating corporations about social investment is essential, but it must be done using language that is relevant to them
2. Buy-in must come from multiple levels – from the senior executives through to the managers ultimately responsible for its implementation
3. Shared value is essential – for social investment to be relevant it must make business sense to the company

FOR BUSINESSES GETTING STARTED WITH A SOCIAL INVESTMENT PROGRAMME

For corporations looking to develop social investment as part of core business or CSR efforts, typical barriers include a lack of awareness of social investment models, an internal cultural mindset for providing capital through donations, and challenges in identifying suitable investment opportunities. Steps to overcome these include: raising awareness of social investment opportunities within the firm; education on the benefits that social investment can bring across the business, using language relevant to the audience; establishing dedicated representatives to review how longer-term social initiatives could benefit business; ensuring tools to measure social returns are effective; and engaging with other companies, intermediaries, and advisors who can highlight opportunities and mechanisms to start social investment programmes.

FOR COMPANIES LOOKING TO SCALE UP SOCIAL INVESTMENT ACTIVITY

As corporations look to scale up their social investments, new barriers emerge: identifying a pipeline of suitable investments, limited resources, and limited opportunities for collaboration. Steps to address these include: considering alternative vehicles for investment and social innovation – such as longer-term partnerships, joint ventures, and social business units; developing a network of like-minded corporations, utilising intermediaries and market makers; and engaging strategic advisors to build the business case for expansion of current activities.

THE WINNING IDEA

An innovative new partnership between Interserve (a 250 company), ClubFinance, and social business Catch 22 was the first winner of the Business Impact Challenge. The partners are forming a new independent social purpose vehicle, the Public Services Lab, which will support community organisations, charities, and social enterprises to deliver on public service contracts at scale.

BUSINESS **IMPACT** CHALLENGE

NEXT STEPS

Corporations have a platform to do far more in social investment – in funding, providing skills and incubating new innovations. They are in a privileged position to work with government, public bodies, and other companies to develop new social investment concepts.

Social investment is a developing phenomenon. However companies choose to engage with social investment, they have the opportunity to deliver and promote sustainable social change. Alongside this, they can reconnect with customers and employees, establish a positive brand identity, fund innovation, and experiment with new business models.

"Economists talk all the time about a 'Pareto improvement', which means something that leaves no stakeholder worse off and leaves some stakeholders better off," says Larry Summers, former US Treasury Secretary, speaking of SIBs. "This is ground zero of a big deal."

To make a start, contact Big Society Capital or Oliver Wyman to learn more about different approaches to social investment, get support in identifying investment opportunities, and discuss mechanisms to develop social investment activities.

ABOUT THE RESEARCH

Big Society Capital is a financial institution with a social mission, set up to build the social investment market in the UK, so that charities and social enterprises can access appropriate repayable finance to enable them to grow, become more sustainable, and increase their impact on society. It is doing this by building a diverse social investment market, encouraging investors to lend or invest money to achieve a social as well as a financial return. Since it was set up as an independent organisation in 2012, Big Society Capital has invested £261 MM in specialist organisations who lend to charities and social enterprises.

Part of Big Society Capital's mandate is to attract new investor groups to help scale the social investment market. To help attract corporations as partners and co-investors, Big Society Capital commissioned Oliver Wyman to investigate the current corporate social investing landscape. Oliver Wyman is applying its expertise in the public sector, finance and risk, corporate and institutional banking, and metrics and economic quantification to provide practical assistance to market participants and accelerate growth in social investing.

The research observed 557 programmes across 127 companies in 13 industries globally. Data and examples in this report come from both Oliver Wyman research and Big Society Capital's Busines Impact Challenge, where large businesses were tasked with devising innovative solutions to social investment's chasllenges.

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