GSG Impact Summit 2017
Opening Remarks
July 10, 2017

It is a great pleasure to be here, with all of you, in Chicago, at our third global meeting since we picked up the baton from the G8 Taskforce in 2015. I know I speak for all of you, when I offer our warmest thanks to the MacArthur Foundation for so generously hosting this huge meeting and to the MacArthur and US Impact Alliance teams for all the hard work that has gone into organizing it.

There are 560 of us present, from 43 countries, up from 320 and 32 countries in Lisbon last year. As many of you know, I unexpectedly had to miss last year's meeting. I would like to thank all those of you who sent me messages when I was undergoing cancer treatment and all those who stepped in to ensure we kept up the momentum. I am now fine and I feel doubly fortunate to see all of you here. I can tell you that throughout this unexpected expedition, you and impact investment were never far from my mind.

The impressive growth of our meeting reflects the progress we have made. Over the next two days we will work together, to refine how we reach the next stage, how we bring impact investment to tipping point by 2020, and spark a chain-reaction of impact creation across our constituencies: investors, foundations, social organizations, profit-with-purpose entrepreneurs, big businesses and governments.

Much has been accomplished, but much work remains to be done, if we are to achieve our ambition to improve billions of lives and help restore the planet. We are all here because we are acutely aware that billions of people around the world lead lives of hunger, sickness, hardship and despair. Lives that are nasty, brutish and short, in our developing and developed countries alike. We realize that this is unfair and untenable, that our societies will not thrive if we do not change path, that a curtain of fire will come to separate rich and poor across our cities and countries, if we do nothing.

We also realize that governments and philanthropists alone cannot possibly cope with the challenge of social and environmental issues. OECD governments are spending about 20pc of GDP, more than $10 trillion, on social issues, about double the percentage they spent in 1960. They are constrained in spending more, yet social issues continue to proliferate. Governments are starting to realize that they do not have the resources or the ability to provide a solution. Philanthropists across the world donate some $500 billion a year. Generous as they are, and for all the good they certainly do, their donations cannot bring the solution either.

So we, here, find ourselves innovating through the creation of impact investment, leading an evolution in thought and a revolution in means, to bring about the historic shift that is needed. The Impact Revolution we lead promises to be as far-reaching in disruptive innovation as the Hi-Tech one before it, which has transformed our lives completely in just three decades.

Underlying this new revolution, is the fact that the business and investment mind-set has started to shift. It shifted from the focus on financial return alone, in the 19th century and before, to focus on both risk and return, in the twentieth century. Now, it has started to shift again, to focus on three dimensions: risk, return and impact.

Until we came along, conventional wisdom held, for too long, that it was impossible to measure anything much in the social sphere. How can you measure an improvement in the life of a released prisoner who does not reoffend? Or of a child who does not drop out of school? But we brought the realization, embodied in the Social Impact Bond that first appeared in 2010, that an improvement in the numbers of people involved can be accurately measured; and so can the saving to the country; and that taken together they provide a measure of the social gain, which can be tied to a financial return for investors. And that this is the key to the capital markets for non-profits as well as profit-with-purpose businesses that seek positive impact at scale; that in this way, capital can be applied to prevention, which generally costs a fraction of attempted social remedies; and that governments can attract investment from the capital markets, to harness entrepreneurship and innovation, and pay only when the targeted social improvement has been achieved.

Like the Tech Revolution, the Impact Revolution will be driven by a new generation of young entrepreneurs, the Millennials, who search for greater purpose than just making money. Partly as a reaction to the disturbing increase in inequality they see, and partly because they are interconnected globally, they feel empathy for those who are worse off, wherever they be. They feel the necessity to do something about it, something significant to improve others' lives and the planet. That their ventures and the companies they join should have social as well as financial goals, is for them a natural, edifying ambition. They are innovating by creating new business models that integrate impact, where the more impact you deliver, the more profit you generate, like The Gym with 80 locations in poorer areas of the UK, or Rubicon which targets a reduction in landfills through its approach to waste collection in the US, or Aravind Eyecare Systems in India, which brings improved sight to poor people, free or at hugely reduced prices. Or Tom's Shoes, or Warby Parker.

Investors are heading in the same direction as Millennials. Since the UN Principles of Responsible Investment were established in 2006, nearly 1700 investment institutions from 50 countries, holding $62 trillion of assets, have signed the pledge. Two Dutch pension funds, APG and PGGM that manage more than 600 billion euros, along with 15 other Dutch pension funds, have decided to link the investment of their portfolios to achievement of the UN Sustainable Development Goals. In France, pensioners have directed 10 billion euros of their pension money to funds that invest 10pc of their portfolio in "solidarity" investments. And in a great step forward, the Ford Foundation, under the dynamic and enlightened leadership of Darren Walker, has announced that $1 billion of its $12 billion endowment will be allocated to mission-related investments. The biggest global asset managers, including Goldman Sachs, AXA, BlackRock, UBS, Wellington, Morgan Stanley and BankAmerica/Merrill Lynch, many of whom are present here today, are creating platforms and products to satisfy their clients' desire for investments that avoid negative or, even better, that create positive impact.

Foundations, both legacy names like Ford, MacArthur and Rockefeller and living donor foundations like Omidyar, Gates, Bloomberg and Chan-Zuckerberg are likely to lead the shift to a new philanthropic model. One where impact objectives and measurement will be central, and where experimentation will hopefully lead to some of the grant allocation going to Outcomes Funds, that pay for achieved social or environmental improvement, and one where the endowment establishes an impact allocation across asset classes, and a team to deploy it, as a step to the endowment becoming entirely mission-aligned.

Big business is also beginning to move in the same direction. There is hardly a major boardroom where impact is not being discussed. The Embankment Project, launched in London last week by the Coalition for Inclusive Capitalism, brings together CEO's of more than 20 global corporations and asset managers, representing more than $20 trillion of assets, to measure value creation. While the current emphasis of Socially Responsible Investment (SRI) has centered around the negative screening of undesirable impact, some multinationals have begun to set positive outcome objectives, like Danone and Mars' 120m euros impact fund, which aims to improve the standard of living of poor farmers working in their supply chains in Africa, Asia and Latin America.

Social sector organizations have also begun to integrate impact objectives and measurement into their thinking. Those raising Social Impact Bonds (SIBs) and Development Impact Bonds (DIBs), in order to scale their activities beyond what they can achieve through grant funding, have drawn much attention to our efforts, like the Educate Girls Development Impact Bond in Rajasthan, the $30m South Carolina teenage pregnancy prevention SIB, the Tomorrow's People SIB helping unemployed youth in the UK, and the Pathways SIB just announced which helps immigrants in Massachussetts.

There are now 87 SIBs and DIBs, across some 20 countries, tackling 10 different social issues, and many more on the way, including in first-time countries such as France, Italy, Japan, Argentina and Chile. Most SIBs have been painfully crafted over 18 months or two years, which is far too long. Here, it is helpful to recall that with the pressure of an impending General Election, the first SIB was put together and signed in 2010 in just three months. So how is it that they have not been executed faster and spread further?

The primary cause is the long and complicated processes involving our most natural partner, governments. The biggest surprise for me about the last three years is that it is with governments that we have made least progress. Given our dual emphasis on achieving measured outcomes and on doing so through pay-for-success, and given the pressure on government budgets everywhere, governments should be our most natural champions. Yet the shift to an impact mindset and culture seems to be progressing slowest there.

For sure, government has been successful, in some countries, at introducing initiatives that support impact investment. In the UK, we can cite tax incentives for investment in SIBs, a government Outcome Fund, regulatory change to encourage trustees of foundations to engage in impact investment, release of unclaimed assets to establish Big Society Capital, publication on the web of the cost to the country of more than 600 social issues and establishing the G8 Taskforce. In the US, we can cite important regulatory guidance that enables trustees of pension funds and foundations to engage in impact investment. In Japan, we can point to the release of $900m of unclaimed assets a year for social purposes. But we have not yet succeeded in recruiting a government as a motivated champion of impact investment at a scale large enough to bring real improvement to those that need it most.

If we are to reach tipping point by 2020, this is where the greatest effort will need to be made over the next three years. Both through the creation of a supportive eco-system and through the use in procurement of SIBs and other pay-for-success instruments, government has the ability to accelerate dramatically the spread of impact investment.

Still, looking at the progress we have made over the past three years, such has been the evolution in thought that impact has become a mainstream subject of conversation at home, in boardrooms and in many government offices.Impact investment's focus on delivering measurable impact, through both non-profits and profit-with-purpose businesses, is influencing positive impact creation across an Impact Continuum that goes from big businesses on one side of impact investment, to philanthropy on the other side. We have met the first challenge which was to attract general interest.

Our second challenge is achieving recognition of the need for impact measurement. Here too acceptance is now spreading among philanthropists, foundations, social organizations and businesses. But in order for measurable impact to become an obvious objective, we need to progress our work in establishing impact accounting policies and conventions and to show how they can be used to manage the achievement of impact and to maximize it.

The third and most exciting challenge is now coming into sight: to alter capital flows in a systematic way. To meet this challenge, we need to bring entrepreneurs, investors and businesses to make decisions that optimize risk, return and impact. To show that achieving positive impact contributes to mitigating stakeholder risk, reducing the cost of capital, recruiting the best talent, and enhancing financial returns through the discovery of new sets of profitable, less-correlated investment opportunities.

It is appropriate that it is here in Chicago where, forty years ago, Milton Friedman put forth a restricted view of the purpose of business, that we declare a broader view today, one that is capable of altering capital flows across our entire financial system, to direct them to achieving social and environmental good, as well as profit. As the Dean of INSEAD recently pointed out to me, there is a Nobel Prize waiting for the economist who best frames the interaction between risk, return and impact. Who knows, perhaps it will be another Chicago economist, more appropriate to our times and the challenges our world faces, who will pick up that Nobel.

Our task at this Summit is to define how to bring impact investment to tipping point over the next three years. It is a very ambitious time-frame, but we would not be here if we did not relish challenges, would we? The professional venture capital industry got to tipping point in about twenty years. If we look at impact investment, we have already climbed to $150b of cumulative investment, growing at 29pc a year. Everything is happening faster now than 30 years ago and, unlike VC, impact investment springs not from choice, but out of necessity. So let's give it everything we have got!

What would represent a tipping point for each of our constituencies? I offer the following suggestions as a starting-point for our discussions here:

For entrepreneurs: When 10pc of visible startups integrate the achievement of measurable impact into their business model and they adopt a profit-with-purpose corporate form or certification like B Lab

For investors: When 100 prominent pension funds and endowments create a 5-10pc allocation to impact investment, across asset classes

For foundations: When 50 leading foundations establish a 5-10pc endowment allocation to impact, and allocate 10pc of their grant programme to charitable Outcome Funds that pay for impact achieved

For social organizations: When 10pc of the expenditure of 100 prominent social delivery organizations is provided by way of pay-for-success securities

For big businesses: When 50 Fortune 500 multinational businesses measure and report on their impact annually, and when they set some specific, measurable, impact objectives and report on their achievement

For government: When 10pc of sub-contracted expenditure and foreign aid go to pay-for-success contracts that attract outside investment, like SIBs and DIBs, and when they publish the cost of social issues.

We will need to pass key milestones on the way to the tipping point. It is important that we identify them during this Summit, so that when we leave we see a clear path forward. I have committed to your Board that we will build a great GSG team to partner our NABs, which I see as the vanguard of the revolution. I participated in the Tech Revolution and today feels very much like déjà vu.

The Impact Revolution will enhance and disrupt the existing model of each of our constituencies, setting off a chain-reaction of change, just as hi-tech has done. Venture capital and NASDAQ-like stock markets were the response to the financing needs of the tech entrepreneurs who brought us the Tech Revolution. Impact investment is today's response to the needs of impact entrepreneurs and all those who aspire to improve, at scale, lives and the planet. It is is the invisible heart of markets, which we bring to guide their invisible hand.

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