

Equality Impact Investing

From Principles to Practice

Abridged



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About the Equality Impact Investing Project

The aim of the *Equality Impact Investing Project* is to explore and advance ways to increase the positive equality impact of the social impact investing movement. Initiated in 2016, and since then also hosted by the Dartington Hall Trust, it is currently a partnership between the Trust, Equally Ours, Social Investment Business, and Dartington School of Social Entrepreneurs. However, the EIIP also collaborates with, and brings together, a wider range of social impact investment and equality and human rights actors.

Acknowledgements

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Introduction

Greater equality could deliver a range of transformative social, economic and cultural benefits, and is considered critical to sustainable development¹. Current levels of inequality are one of the greatest challenges of our time, limiting millions of individual lives and our collective potential². Impact Investing seeks to tackle such challenges by generating a positive social return alongside a financial return. Social Impact Investing (SII) seeks the same but with a focus on investing in social purpose organisations to help them increase their impact.

The Equality Impact Investing project was created to explore and maximise the potential of the SII movement to advance equality and tackle inequality. Bringing together partners and collaborators from both SII and equality and human rights, this report is its inaugural publication.

“Inequalities based on income, sex, age, disability, sexual orientation, race, class, ethnicity, religion and opportunity continue to persist across the world, within and among countries. Inequality threatens long term social and economic development, harms poverty reduction and destroys people’s sense of fulfilment and self-worth. Most importantly, we cannot achieve sustainable development and make the planet better for all if people are excluded from opportunities, services, and the chance for a better life.”

- UN Sustainable Development Goal 10 – ‘Reduced Inequalities’

What’s this report about?

The report does three things. Firstly, it defines equality impacting investing, what it implies and involves, both in theory and in practice, and what conditions help it to flourish. Secondly, it assesses the extent that these conditions exist, and that EII approaches are being used in UK social investment. In particular, but not exclusively, assessing if Voluntary, Community or Social Enterprise (VCSE) organisations with an equality focus are, or could be, benefiting. Thirdly, we make recommendations on how conditions for a flourishing EII market could be advanced generally, and how the VCSE equality sector could be better engaged.

1. UN (SDG)

2. UN (SDG)

Why did we produce it?

The global social impact investing market is estimated at \$502 billion³. In 2017, the UK social investment market was valued at over £2.3 billion⁴, 74% of which has been invested in asset locked charities and social enterprises. Whilst increasingly, social investors are focused and acting on diversity impact⁵ – both within investor ranks and via their investments – this is only one aspect of advancing equality. Previous research found only a few investors are currently working to tackle broader issues or dimensions of inequality either in their own practices or through their investment strategies. It also indicated a lack of alignment between how equality was understood and measured in social impact investment and the wider equality movement⁶.

In this context the emergence of a field of, and agenda for, “equality impact investing” (EII) could reinforce and magnify the impact of existing investor efforts as well as better aligning them with the wider equality movement. Investment work focused on particular groups (e.g. women or BME people) or forms of inequalities (e.g. poverty and other economic, political and cultural inequalities) currently tends to operate in silos. Acknowledging this work as part of a wider EII movement demonstrates this breadth and difference of emphasis but also, critically, the interrelationship of this work. Further, as the issue of inequality gains currency, and with it investor demand, it can address concerns about “equality impact washing” that apply here as much as in the wider impact investment movement⁷.

Our focus on assessing conditions for delivering equality impact in UK social investment coincides with a key moment of reflection and evaluation for this sector more widely. One that offers the chance to build on success to date but also to address gaps and challenges. A key one of these already identified is the need to better connect investors with each other and with the social purpose organisations at the frontline of social change. This need is certainly present in the equality impact context. There is now an important window of opportunity for UK social investment to not only pioneer equality impact in its own work but also to influence the direction of the wider impact investing movement. However, to exploit this will involve a fundamental shift in how most social investors have been approaching equality, from retrospective evaluation of diversity impact to proactively targeting inequality.

How did we produce it?

This report was informed by a call for, and review of, existing international and UK evidence and literature. We also undertook new research including surveys of, and a process of dialogue and consultation with, UK social investors (including both finance wholesalers and social investment financial intermediaries (SIFIs) and VCSE equality and human rights organisations. A more detailed summary of our approach is set out in appendix 1.

3. Global Impact Investing Network
4. Benton 2018

5. See for example the work of the Social Investment Diversity Forum
6. Goddard and Miles, *The Sky's The Limit*, 2016,
Goddard and Johnson, *Unequal Nation*, 2015; Young Foundation

Executive summary

Today in the UK there are deep, and in many cases growing, inequalities in what different people and groups have and what they can do and be. These inequalities are well-documented, notably in the Equality and Human Rights Commission's state of the nation report, *Is Britain Fairer?*⁸ Tackling these differences through advancing equality will help us move individually and collectively towards our full human potential, opening up a whole new set of possibilities for the future. Both impact and social investors can contribute to reducing inequality and advancing equality by how they invest, and who and what they invest in. They can become *equality impact investors*.

What is Equality Impact Investing (EII)? Definition and principles

EII is social impact investing that actively advances equality and reduces inequality. That impact needs to be intentional, positive and significant.

Inequality is unfair differences that impact on different people's or groups' ability to realise their human rights and freedoms. It is a multi-dimensional challenge that can be seen and measured, in the differences between what resources people have, and what they are actually able to be and to do. These differences result from structural and/or individual discrimination, disadvantage or abuse.

Advancing equality is about setting and achieving positive objectives and goals that enable individual or systemic change. Reducing inequality involves, at the least, limiting its negative impact on people but optimally also acting on its drivers and root causes.

What does EII involve and require in practice?

Setting and measuring equality impact goals

In setting and measuring progress on equality impact goals, equality impact investors should draw on measurement frameworks based on the internationally recognised standards and practice of the wider equality and human rights movement. These measurement frameworks are multi-dimensional and look at inequality between different people and groups, in different areas of their lives e.g. work, education, and participation and in their life outcomes, their treatment in policy and institutional process and in their legal and social status. Progress on equality can be measured both in terms of improvements to people's outcomes, treatment and status, but also the extent to which the drivers or causes of their inequality is being addressed.

7. Prior, C., 2019; 'The urgent need for global standards in impact investment'; Big Society Capital

8. <https://www.equalityhumanrights.com/en/britain-fairer>

Key EII strategies

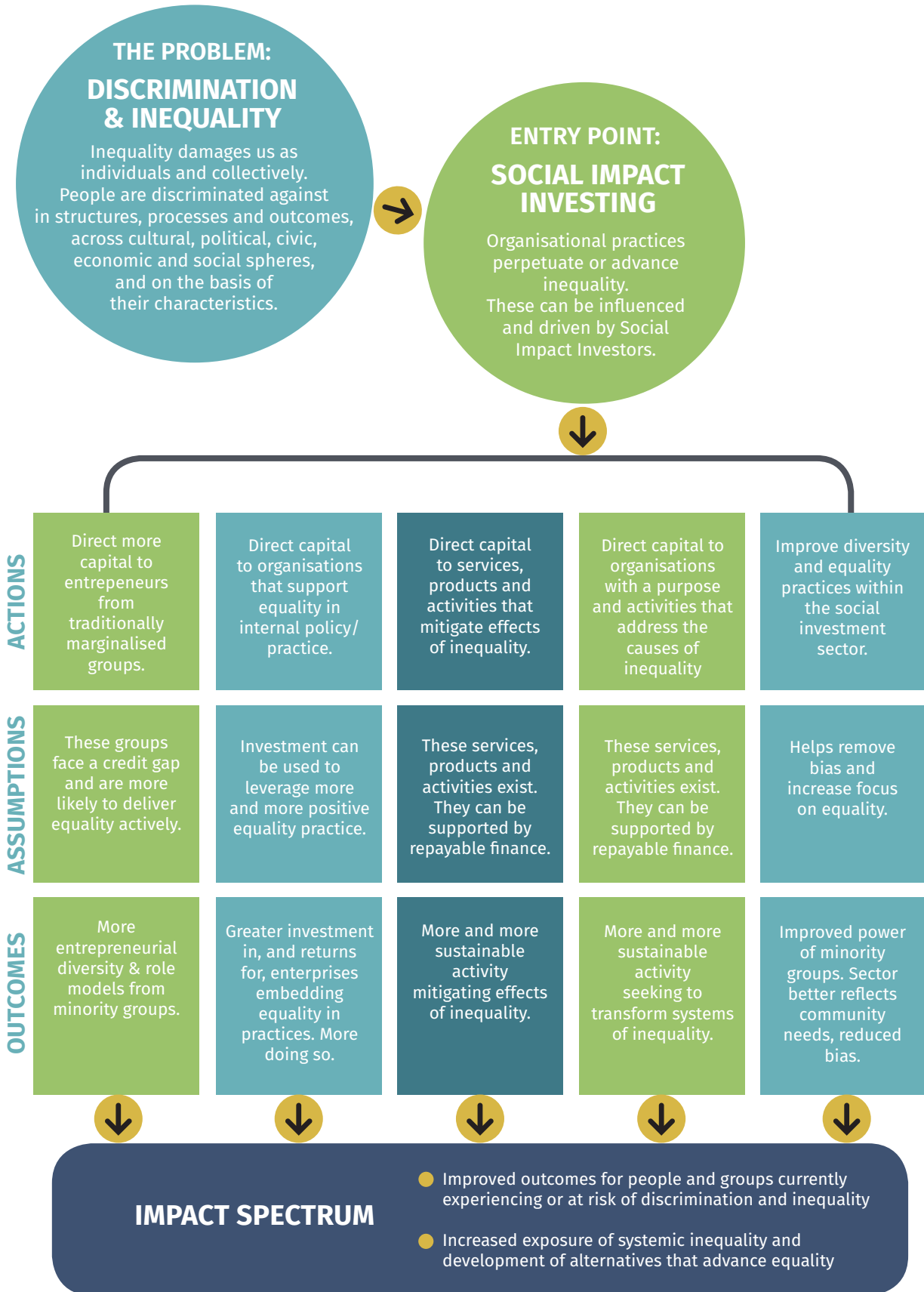
EII can be easily integrated into existing investment processes so it does not require new systems. Investors can draw on one or more of four equality impact strategies, which, whilst presented separately below for ease of reference, can overlap and are mutually reinforcing:

- Channeling investment capital to entrepreneurs traditionally excluded and marginalised by direct or structural discrimination and inequality.
- Investing in organisations that have diverse leadership and teams and exhibit wider good equality practice across their business and supply chains.
- Investing in equality organisations whose primary purpose or mission is advancing equality and reducing inequality whether through services, goods, policy change or other activities.
- Investors taking steps to improve their own organisational equality policy and practice, as well as supporting this in the wider ecosystem in which they operate.

Five conditions that support EII:

- A clear need for investment demonstrated through evidenced and acknowledged equality challenges.
- Demand from investors.
- A supply and pipeline of investable equality impact ventures.
- The relevant institutional and infrastructure support being in place.
- Legal and policy frameworks that compel, incentivise or support EII.

Figure 1. Equality Impact Investing Theory of Change



What's happening in UK social Investment? Findings and recommendations

We looked at the extent to which the five conditions that support EII are present in UK social investment, and what would increase them. We found that overall these conditions exist, but some only partially and need significantly more cultivation. However, our findings also indicate that the potential and the will is there. Our recommendations speak to realising and harnessing these respectively.

SOME KEY FINDINGS

SOME KEY RECOMMENDATIONS

NEED	<p>There are proven and significant equality challenges in the UK that also drive and impact many other social challenges.</p> <p>There is a pressing need to strengthen the impact and sustainability of the VCSE equality sector given it's vital and unique in addressing these challenges.</p>	SOME KEY RECOMMENDATIONS
DEMAND	<p>A majority of social investors, 62% of our sample⁹, consider advancing equality to be critical to delivering their mission and impact.</p> <p>There is currently a limited level, and range, of investor demand for equality impact and this only partly reflects what equality organisations identify is needed or can deliver.</p> <p>63% of our social investors sample say they need, and want, to increase the level and range of their equality impact perceiving a larger supply of investable equality impact ventures, EII capacity building and guidance, and more explicit demand and resourcing from their financiers and/or government as key to enabling them to do this.</p>	<p>All UK social financiers from investors to grant makers need to:</p> <ul style="list-style-type: none"> ● Act on challenges and opportunities identified by key state and civil society pan equality and human rights bodies such as the UK's Equality and Human Rights Commission (EHRC), and Equally Ours ● Increase and collaborate on efforts to strengthen the impact and sustainability of the VCSE equality sector. <p>Government and finance wholesalers and other social investment infrastructure builders to demand a wider range of equality impact and capitalise funds to support social investment finance intermediaries (SIFIs) to test concepts and provide enterprise development grants and other support needed to build supply.</p> <p>Support the Equality Impact Investing project (EIIIP) and others to develop further practical guidance and tools derived from this framework and work with investor learning and professional standard bodies to build current, and a future pipeline of, investor skills and knowledge in EII.</p> <p>Investors/SIFI to better align their equality impact goals and investment criteria with the priorities and activities of the potential supply of equality organisations.</p>
SUPPLY	<p>There is a significant potential supply of equality organisations, whose purpose is advancing equality and tackling inequality, who are delivering equality impact; for a wide range, and combination, of different people and groups; in different areas e.g. education, work, participation; of different types e.g. improving peoples status, treatment and outcomes; in different ways from specialist service provision to influencing policy and attitudinal change.</p> <p>The extent the VCSE equality sector and its organisations have been engaged in enterprise development or social investment is extremely limited. Only 5% of our research sample have sought investment and only 2% successfully, with perceived barriers and concerns related to both the feasibility and ethics of obtaining and utilising repayable finance given their typical smaller size, their remit and the nature of their activities.</p>	<p>Existing SIFI funds and linked support programs to deliver more targeted communications and outreach to VCSE equality organisations working with, and making greater use of, national VCSE equality infrastructure bodies, and tailoring the message to clearly speak to the concerns and strengths of equality organisations identified in this and other research.</p> <p>Wholesalers, SIFIs and other market builders to test "what works" in supporting for equality organisations of all types, from national campaigners to local service providers and community organisers, from those limiting inequality impact to those acting on its drivers. For each, there needs to be greater understanding of whether investable products can be developed and the support needed for this to happen.</p>

9. From a survey sample of 24 social investors including finance wholesalers, trusts and social investment finance intermediaries (SIFIs)

SUPPLY (CONT)

VCSE equality organisations recognise the need for, and are open to, exploring enterprise development and investment, especially to support greater independence and supplement rather than supplant other income sources. Key needs they perceive to enable this include: more information from social investors, grants to explore and develop enterprise and tailored support on formulating their offer, articulating and evidencing impact value, and securing and managing investment

Enterprise models and social investment will simply not be suitable or appropriate for some equalities organisations so can only form one aspect of what needs to be multi-pronged financing strategy to sustain this vital sector.

State, corporate and trust grant funders and donors to increase engagement with and support strengthening of the Equality VCSE infrastructure

INFRASTRUCTURE

Current investment, equality and VCSE institutional and infrastructure priorities and supports are not widely incentivizing or supporting EII but provide opportunities for doing so.

There is a lack of alignment between impact frameworks used across the equality and social investment sectors but there is a good basis for complementary impact goal setting and measurement.

Initial work by the EII project and others to bring together social investment and equality actors to develop the field of EII offers a strong basis to do much more if continued, expanded and coordinated.

Government's Inclusive Economy Unit (IEU) and Office for Civil Society (OCS) to review strategies and programme plans to identify and action opportunities to build conditions for EII in social and impact investing, in the UK and beyond.

Big Society Capital: to align its current outcomes matrix with the EHRC's equality and human rights measurement framework and support wider convening and development work on setting and measuring equality impact in investment.

ACCESS Foundation: To identify and action opportunities where EII can be advanced through its planned activities, in particular the Enterprise Development Programme, and include explicit equality goals in its strategy

Equality Impact Investing Project: to create an ongoing platform to promote, coordinate and support the recommendations in this report, and build and promote the field of EII in UK social investment, and beyond, more widely.

LEGAL & POLICY

The UK's relevant legal and policy frameworks independently provide strong and, generally, supportive legislative contexts for the different elements of EII, but they are not being used to reinforce each other nor to encourage the convergence of social investment, equality and civil society agendas.

There are concerns about: the risk to equalities and human rights standards in the event of Brexit; barriers to VCSE equality impact presented by the Lobbying Act and; the inadequate implementation of both the Social Value Act 2012 and Equality Act 2010 in key areas that could support EII such as public sector commissioning practice.

The Government's social investment strategy and industry-led advisory group and taskforce on growing a culture of social impact investing, could be, but currently aren't, being used as frameworks within which to identify where impact investing could contribute to advancing equality and tackling inequality.

Government: Department of Culture, Media and Sport (DCMS) to ensure consideration of the Equality Act, and Human Rights legislation in social impact investment related legislation or regulation including the current Social Value Act review, to identify and provide opportunities for leveraging investment into equality outcomes.

Government to retain and fully implement current Equalities and Human Rights Acts in any EU exit, review the current Lobbying Act with a view to ensuring it does not limit civil society equality organisations' ability to speak into public life, and ensure fuller more effective implementation of Equality and Social Value Acts in commissioning practice.

Government: DCMS and Cabinet to review and explicitly identify in its Social Investment Strategy, where investment can be harnessed to advance equality and the **Impact Investing Implementation Task Force** to create a process to develop and embed equality and human rights goals and measures across its five action areas in the UK.

1 Defining Equality Impact Investing

1.1 Definition and principles

Equality Impact Investing is a form of social impact investing which aims to reduce inequality and advance equality

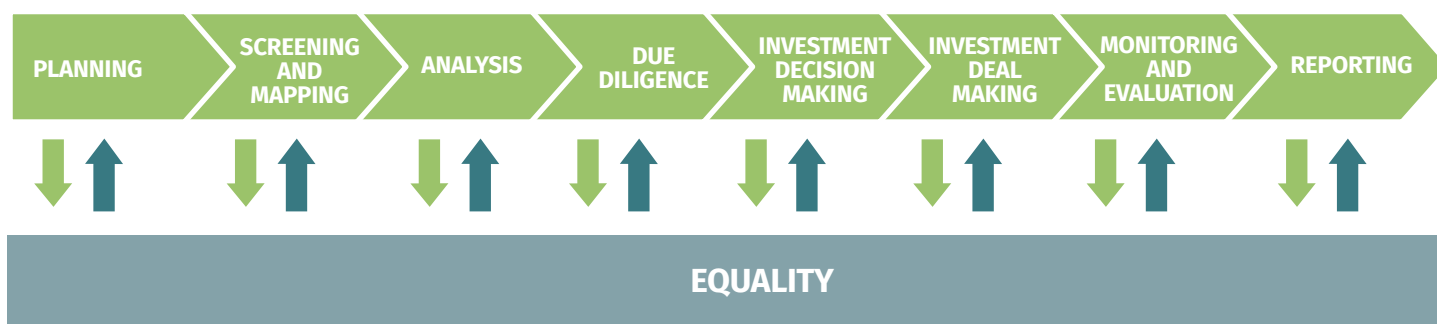


Figure 2: Equality impacts within the investment process

Source: Adapted from *Investing for Good*, 2015 and Young Foundation, 2016.

This definition is both broad and inclusive to encompass the wide range of ways that investors are or could be achieving positive equality impact. However, it is sufficiently reflective of internationally recognised equality and human rights principles, standards and measurement frameworks, to distinguish it from social impact investing. This is important, as whilst all EII will have a positive social impact, not all social impacting investing will have a positive equality impact.

For a consistently applied understanding of EII, it is necessary to unpack the meanings of several key terms and principles within this definition.

Social Impact Investing is making investments that “*intentionally*¹⁰ target specific social objectives along with a financial return and measure the achievement of both.”¹¹ As well as being intentional that impact must be both positive and significant.

10. Our italics

11. G8 Social Impact Investment Task Force, 2014.

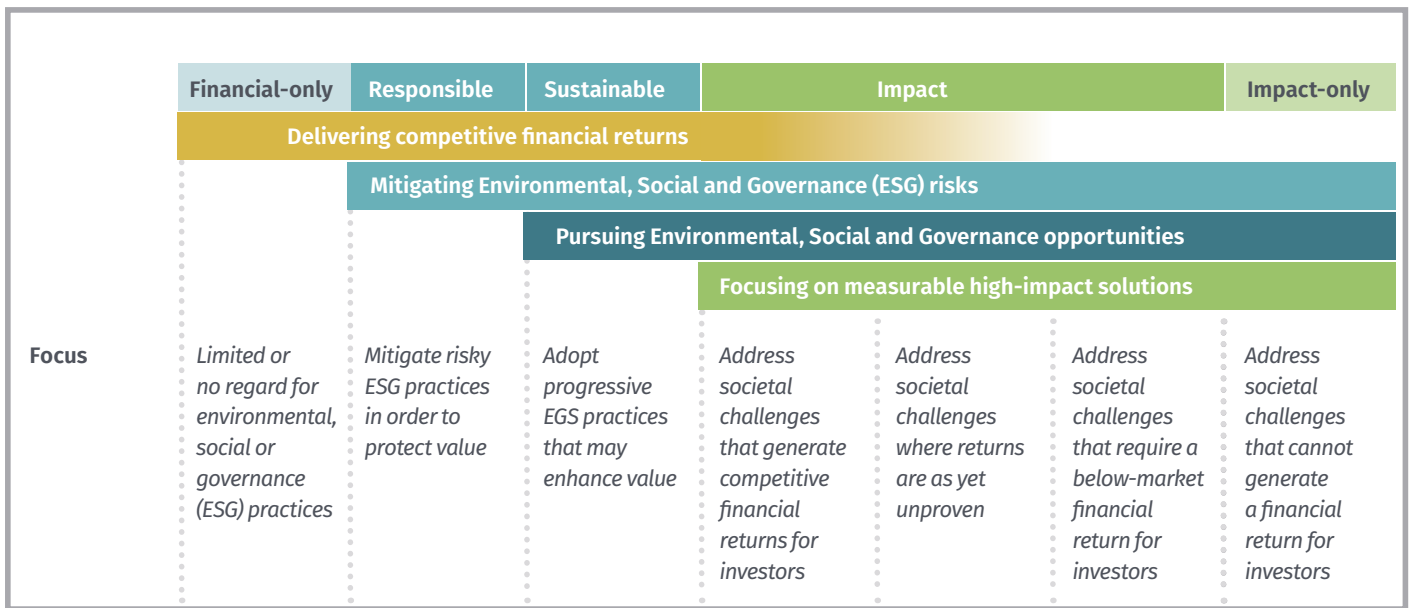


Figure 3. Spectrum of Capital. Source; adapted from Bridges Fund Management

“If we expect to overcome the forces of injustice and inequality, we need to expand our imaginations and our arsenals. In short, we must begin to more deliberately leverage the power of our endowment.” – Darren Walker, CEO Ford Foundation

Equality: Is both a core human right principle and a human right. Article 1 of the Universal Declaration on Human Rights¹² states that “all human beings are born free and equal in dignity and rights”. This provides a simple basis for an approach to equality that is rooted in international standards and has been translated into law but also into policy and practice approaches.

Human Rights are universal and inalienable rights and freedoms that belong to everyone. Based on the principles of fairness, equality and respect, they reflect the conditions that all people need to both flourish as individual human beings and participate as members of society. They include civil, political, economic, social, cultural and environmental rights.

*“A decent standard of living, adequate nutrition, healthcare and other social and economic achievements are not just development goals. They are human rights inherent in human freedom and dignity. They are claims to a set of social arrangements – norms, institutions, laws and enabling economic environment – that can best secure the enjoyment of these rights.”*¹³

12. 1948

13. UNDP, 2000; UNDP, 2005.

Inequality refers to unfair differences in the extent to which different people and groups are able to realise these human rights and freedoms. These differences can be seen in their status, treatment or outcomes in one or more aspects of their lives (e.g. economic, social, cultural, political, civil and environmental). As such, EII recognises inequality can have many different associations and dimensions. For example, the differences in:

- *The incomes of the richest and poorest.*¹⁴
- *The number of men and women, or white and black and brown people, in positions of power.*
- *Freedoms between non-disabled and some disabled people to go where they want, when they want.*
- *Employment and pay gaps, particularly for women, disabled and ethnic minority people.*
- *Who is, or feels, safe or unsafe in public spaces or their own home.*
- *School results for children from lower and higher income families.*
- *Access to and control over cultural or natural resources, such as libraries, theatres and parks.*
- *Levels of exposure to poor air quality or environmental hazards between different places or for different people within these places.*¹⁵

These examples also demonstrate that equality also has both “vertical” and “horizontal” aspects. Vertical inequalities refer to how resources such as income, or levels of health, education and political power, are unevenly distributed amongst individuals in a population. For example in the UK in 2016 the poorest fifth of society had only 8% of the total income, whereas the top fifth had 40%. Horizontal inequalities are the differences in these same resources between different “categorical groups” of people such as women, men, BME and white, disabled and non-disabled, lower and middle class people etc. For example black disabled working class women are far more likely to be in poverty than white, non-disabled, middle class men who are less likely to be in poverty¹⁶ and more likely to be in higher earning groups.

Reduced inequality through EII is defined as lessening the impact and/or the causes of these unfair differences.

EII Principles:

Equality Impact Investing recognizes:

- Inequality is structural. It shapes and impacts on every aspect of business and social performance and vice versa.
- Inequality is multi dimensional. It’s economic, social, cultural and political. It impacts different people and groups in different ways, from their status in society, their treatment in policy to their life chances and life outcomes.

14. The Equality Trust, 2016 ;
Cribb, Keiller and Water, 2018;
Resolution Foundation, 2019.

15. This range of associations, and many others, are matched by a similarly diverse “equality ecosystem” whose laws, policies, institutions and organisations and even sub-movements are often segmented via the aspect of inequality they are focused on, e.g. reducing poverty or promoting the equal rights and status of particular people or groups such as women, children, BME communities, disabled people and LGBT people.

- Advancing equality and addressing inequality is integral to sustainable development.
- Investors have a duty to respect, protect and fulfil human rights.
- Equality and human rights goals are a floor not a ceiling. Equality impact is therefore a tool to open up new possibilities for impact and return, not a negative screening box to be ticked.
- Human rights are, just like the different aspects of what make us human, indivisible, interdependent and interrelated.¹⁷ For example, the right to education plays into improved access to a host of subsequent rights, such as rights to employment and to participation in political and cultural life.
- Reduced inequality should not result in inequality diversion or inequality reordering. Inequality diversion is defined as “a reduction in one form of inequality that is dependent on sustaining, or worsening, another form of inequality. Inequality Reordering is defined as a change in categorical or group inequalities (horizontal inequality) that leaves overall inequality (vertical inequality) unchanged, such as when elites become more categorically diverse without reducing their economic or social distance from non-elites.¹⁸
- As a form of SII, equality impact investing does not require whole new systems. Rather, it can be easily integrated within existing investment processes (e.g. strategic planning, product development, due diligence, deal making, monitoring, and evaluation and reporting).
- There is no such thing as an equality “neutral” investor or investee. The impact of investments on inequality will depend on the extent to which investors make conscious choices and efforts to avoid the negative (the red zone in the equality impact continuum below), or support the positive (the orange or green zone).

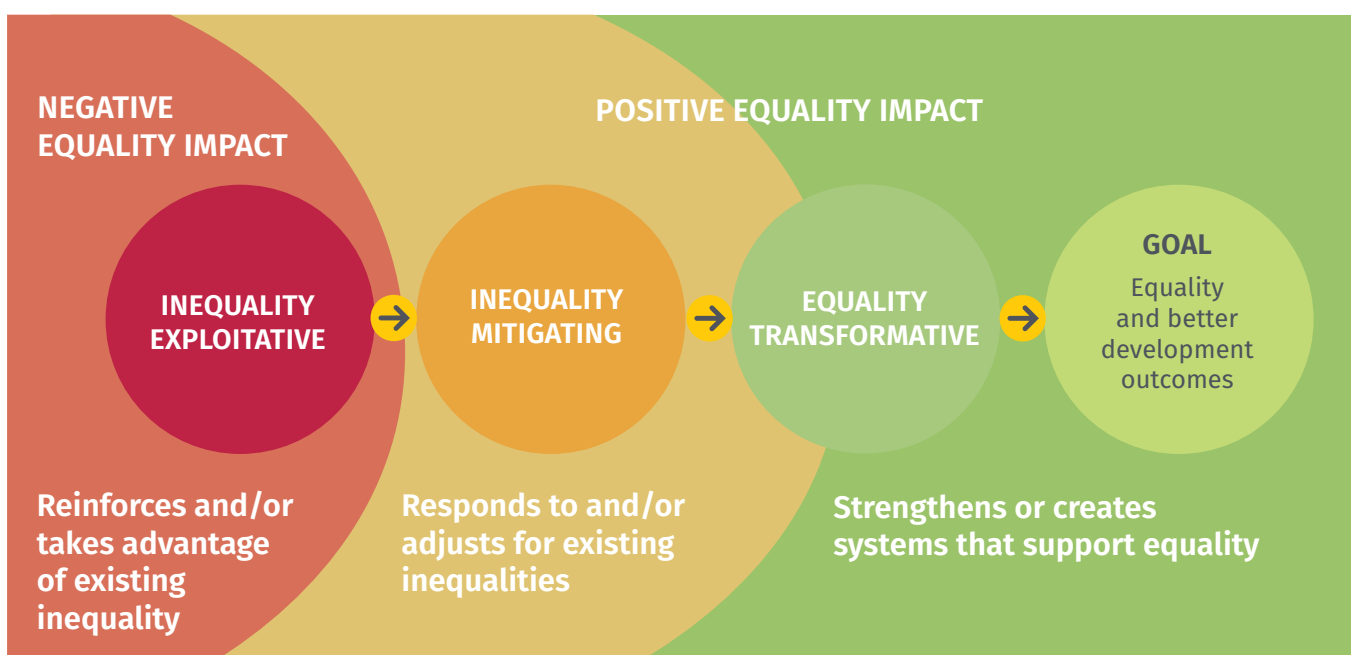


Figure 4. Equality Impact Continuum

16. How Fair Is Britain? EHRC 2018

17. UNHR, 1993.

18. Segal and Savage; LSE III, 2019

1.2 Setting goals and measuring impact

“Human rights as discipline offers a level of maturity and exposure on a big stage (something impact measurement as a practice lacks). Ideas about human rights have been rigorously tested and applied all over the world under conditions of heavy legal and media scrutiny and have through this developed in toughness.” – **The Good Investor**

As with all social impact investing, “success” in equality impact will largely depend on setting well informed and appropriate impact goals that can be measured. EII recognises and aligns its practice *with* the established impact measurement approach of the wider international and UK equality and human rights movement.

All key international, regional and our **domestic inequalities and/or human rights measurement frameworks** combine measurement of formal human rights and “capabilities” inequalities. A “capabilities approach” to equality looks not just at what resources people have but what can they actually be and do? What real opportunities and freedoms do they have? For example, to live healthy lives, have a decent standard of living, participate in democracy, form families and relationships, do productive work etc? This allows them to consider at least three aspects.

1 Who is affected? Inequalities between people and groups with different characteristics or status, including:

- Protected by Equality Law in the UK: age; disability; gender reassignment; marriage and civil partnership; pregnancy/maternity; race; religion/belief; sex; sexual orientation.
- Socio Economic Group (Income/class).
- Location.
- People at higher risk of harm, abuse, discrimination, disadvantage.
- Experiencing intersectional discrimination e.g. discrimination of more than one form such as racism and sexism.

2 In what areas? Inequalities in different capability domains¹⁹: For example, education; work; living standards; health; justice and personal security; and participation.

3 In what ways? Inequalities of different types: for example, differences between how different groups or combinations of groups are treated in:

- *Structure*: formal commitment to human rights in laws and treaties.
- *Process*: steps taken or the efforts that states make to meet obligations that flow from human rights standards, for example, primary law, policies, targets, guidelines, inspection, and regulatory frameworks or resource allocation.
- *Outcomes*: results achieved in terms of the position/experiences of individuals and groups. What real opportunities and freedoms do they have? What can they actually be and do?

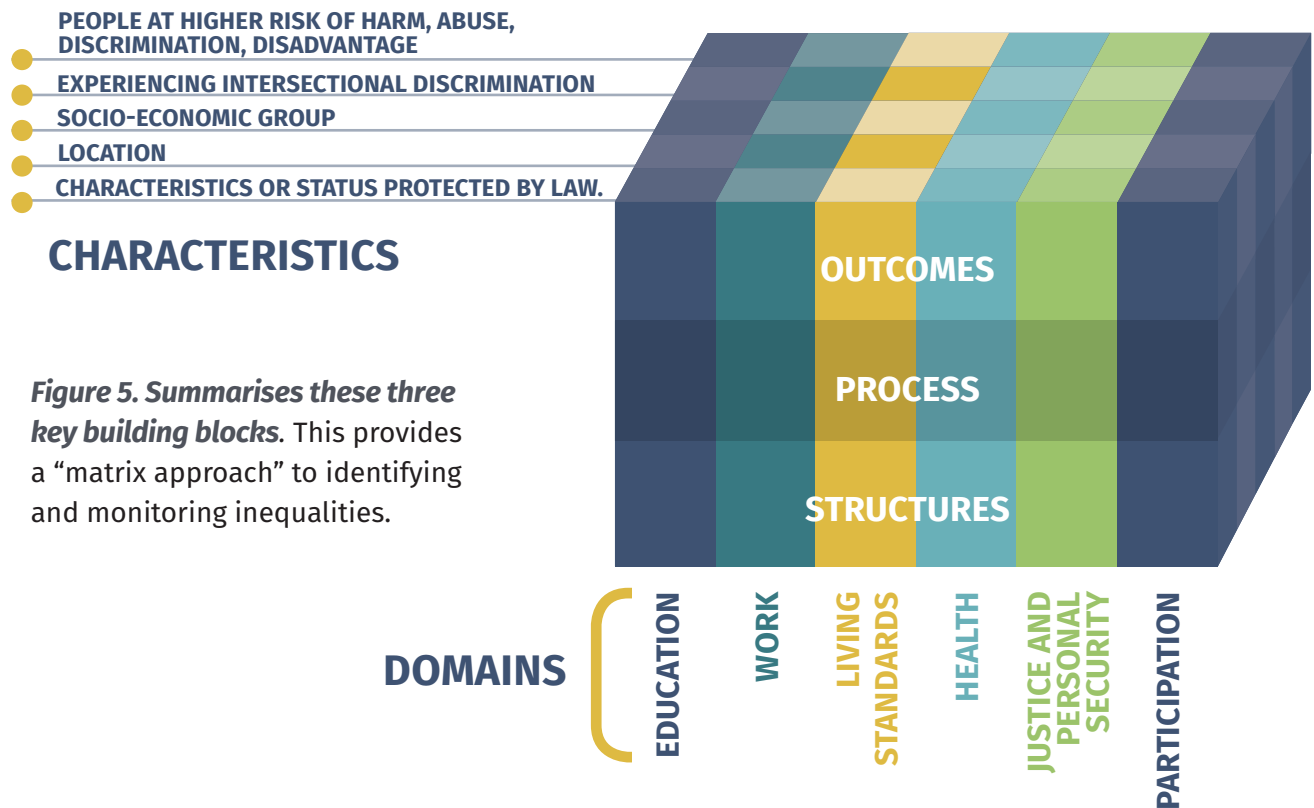


Figure 5. Summarises these three key building blocks. This provides a “matrix approach” to identifying and monitoring inequalities.

EII investors can use the same approach to identify and analyse different aspects of equality challenges and also to then set impact goals within which to allocate funds and assess potential investees. For example, in evaluating the position of young women in employment this framework can be used to look at:

- Their outcomes in terms of, for example, what jobs they get, wages levels or career progression
- How they are treated in, or their experience of, workplace processes and institutions and relevant ancillary services such as careers advice or education – do they face discrimination?
- Their status – are there adequate legal protections and rights? More broadly in social norms and public attitudes to women at work do they enjoy equal respect or expectations with men?
- An intersectional analysis can also be done e.g. are there particular groups of young women fairing worse e.g. young disabled or migrant women?

This analysis can then also help to identify both what might either limit the impact of a problem and/or what is driving it. So, the investor may set impact goals and measures at status, public attitude and beliefs, treatment or outcomes level or at more than one level. For example, tackling social stereotypes and beliefs about what are “women’s jobs” and “men’s jobs”, changing practice in schools and/or more young women getting technical apprentices respectively.

2 Equality Impact in Practice

2.1 Key strategies

Below we set out four broad types of equality impact strategies. Whilst we have set them out separately for ease of reference, they are not mutually exclusive and can be used in reinforcing combinations. The strategies are summarised in Figure 6 and then outlined in greater detail, drawing on examples. Any of these strategies can be used to not only mitigate inequality but also support transformative change. However, as the most direct of the four is investing in equality impact focused or mission driven organisations, we subdivide this strategy into two – investing in inequality mitigating organisations and investing in equality transformative organisations. Notwithstanding that some organisations can, and do, both.

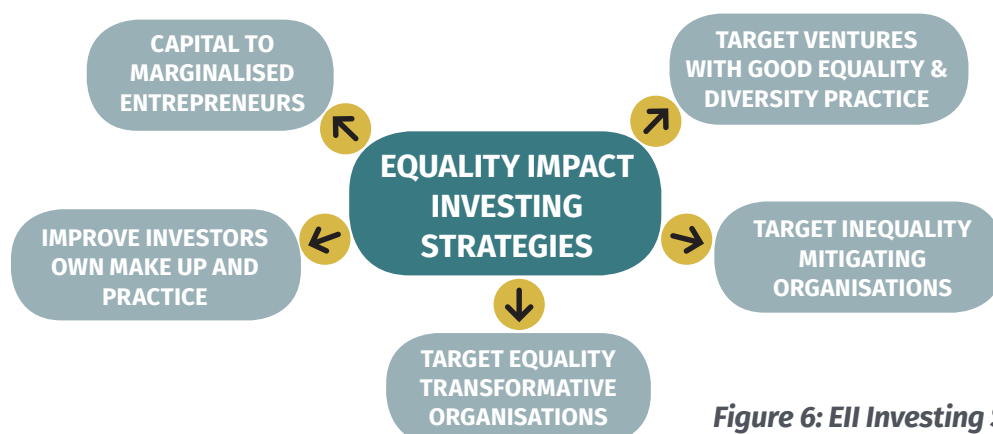


Figure 6: EII Investing Strategies

1 Channeling investment capital to entrepreneurs traditionally excluded and marginalised through direct or structural discrimination.

This strategy addresses inequalities such as the lack of diversity amongst social entrepreneurs²⁰ and also evidence of a “credit gap” for some groups e.g. female and BME entrepreneurs²¹.

CASE EXAMPLE

As a national delivery partner for the start-up loans scheme, *Transmitstartups* is partnering with *GirlGeeks* to support female applicants to access start-up loans. Start-up loans is a government backed scheme, providing repayable loans and mentoring to individuals in the UK with a viable business idea but no access to finance. GirlGeeks’ mission is to support untapped talent and females in STEM to help address STEM skills shortage by working with employers, partners and educational institutions to attract and retain talent and to build a national network of STEM industry role models and influencers visible to education, media and parents.

2 Investing in organisations that are diverse and exhibit wider good equality practice across their business and supply chains.

Here, investors focus on ensuring their investees are both optimising leadership and employee diversity (based on characteristics or status such as: age; disability; gender; ethnicity; religion or belief; sexual orientation) in their organisational make-up and also considering the equality impact of their wider operations, products and services. This includes addressing the equality impact in their direct operational processes e.g. in recruitment and work force related practice, marketing and communications, sales and distribution channels, procurement, and their wider value chains (e.g. supplier workforce practices).

CASE EXAMPLE

Domini impact investments directs its investments toward companies that promote human dignity while seeking a competitive return. Its standards relating to human dignity focus on three broad areas: respect for human rights, including workplace rights and indigenous peoples' rights; concern for the safety and well-being of customers; and assurance of fair and just conduct in the workplace. Domini engages companies directly on human rights, through shareholder proposals, direct dialogue, and proxy voting

3 Investing in equality organisations whose primary purpose or mission is advancing equality and reducing inequality whether through services, goods, policy change or other activities.

Equality organisations are defined by this mission or purpose not who their leader or founder is or by who their beneficiaries are.

Within this category of investment a further important distinction, though not always entirely clear, can be made. This is between organisations seeking to mitigate the effects of inequality, **inequality mitigating**, and those trying to tackle its root causes and generate alternatives, **inequality transformative**. In the context of reducing inequality, this is an important distinction to make in recognition of its systemic nature.

● Investing in inequality mitigating organisations or initiatives

Inequality mitigating organisations or initiatives aim to either ensure minimum basic standards in how people and groups are treated (the human's rights "floor") e.g. tackling extreme poverty and/or seek to limit the effects of discrimination and inequality still further (raising the ceiling) e.g. building the confidence and resilience of marginalized groups to deal with additional barriers or challenges they may face in employment because of their status or characteristics.

CASE EXAMPLE

Fair By Design²² A campaign and fund working to design out the poverty premium and raise awareness amongst the public. The fund, targeting £15m-£20m over 20 years, provides capital to help grow new and scalable ventures to innovate the market. Investing primarily to address the poverty premium (where those on low incomes pay more than others for access to goods/ services) across energy, finance, insurance and geo-based poverty premium, the initiative includes an accelerator supporting up to seven start-ups a year.

CASE EXAMPLE

Preston Road Women's Centre have been working with **Social and Sustainable Capital (SASC)** and **Big Society Capital** to develop new ways of funding housing work for women fleeing violence and abuse. They co-produced a new loan finance product with SASC which helped draw down £2 million to buy 33 properties across the city of Hull which provided new homes for women rebuilding their lives after the trauma of violence and abuse.

- **Investing in inequality transformative organisations or initiatives**

Inequality transformative organisations or initiatives seek to identify and/or address the root causes or structures of inequality as well as develop alternatives, with a view to supporting long term transformative change towards a more equal future. This strategy leverages investment by targeting capital to these organisations or initiatives.

CASE EXAMPLE

The Ford Foundation is one of the world's largest philanthropic organisations with a strong history of supporting civil rights and women's movements. It announced in 2015 that it would focus all of its efforts on curbing inequality and with high priority placed on alleviating key causes of inequality (broken political systems, discrimination, belief in the free market etc. In 2017, the Foundation committed to spend \$1bn of its \$12bn+ endowment over the next decade on mission-related investments.

CASE EXAMPLE

Media Cultured²³ provides education and training to schools, colleges, private companies and faith groups to tackle racism and extremism, and to promote community cohesion. They secured investment from Key Fund to move to the next level of growth (website, office space) which has enabled the development of their client base.

"If social investors have some kind of interest or care about the unequal state of society, then the best way to have an impact and a long term one, is through expert organisations whose core business is social change. Our bottom line is transformational change for our constituents."

- National Equality VCSE Roundtable Participant

22. <https://www.barrowcadbury.org.uk/what-we-do/fair-design-campaign/>

23. https://www.youtube.com/watch?v=8tn5_22Rs_A&t=1s

4 Investors improving their own diversity and wider equality practice.

Investors consider the equality impacts of their own operational practices and diversity. This is in recognition of how these internal practices will inform their overall performance as investors, and to ensure its own practices are consistent with its mission and values and the expectations it sets for others based on its investment philosophy.

CASE EXAMPLE

Social Investment Diversity Forum. A social investors collective on a mission to drive inclusive social investment in the UK, through the convening of sector-wide groups, commissioning research and knowledge sharing. The forums Diversity Working Groups provides leadership for the social investment sector, on the issues of diversity and inclusion and they also host a diversity champions’ networks open to anyone operating in social investment. In 2019 they released a *manifesto*.

2.2 Enabling conditions for EII

For equality impact investing to grow and flourish as a market, it requires both demand (from investors) and supply (of appropriate products/investees) as well as other conditions that enable these. Drawing on our own and others research²⁴ and on our EII theory of change we identify a total of five key, interdependent, conditions:

Need – Equality challenges need to be evidenced and acknowledged as social challenges, and to some extent understood. The latter to help formulate effective responses, not as a prerequisite to action.

Demand – for an EII market to function there needs be demand from investors and their intermediaries for equality impact.

Supply – there also needs to a supply of investable equality impact organisations or ventures to either meet or stimulate demand.

Institutions and infrastructure support both for the agenda, and to its key stakeholders - within and across the social investment and equality and human rights eco systems.

Legal frameworks and public policy - that compels, incentivises and supports EII.

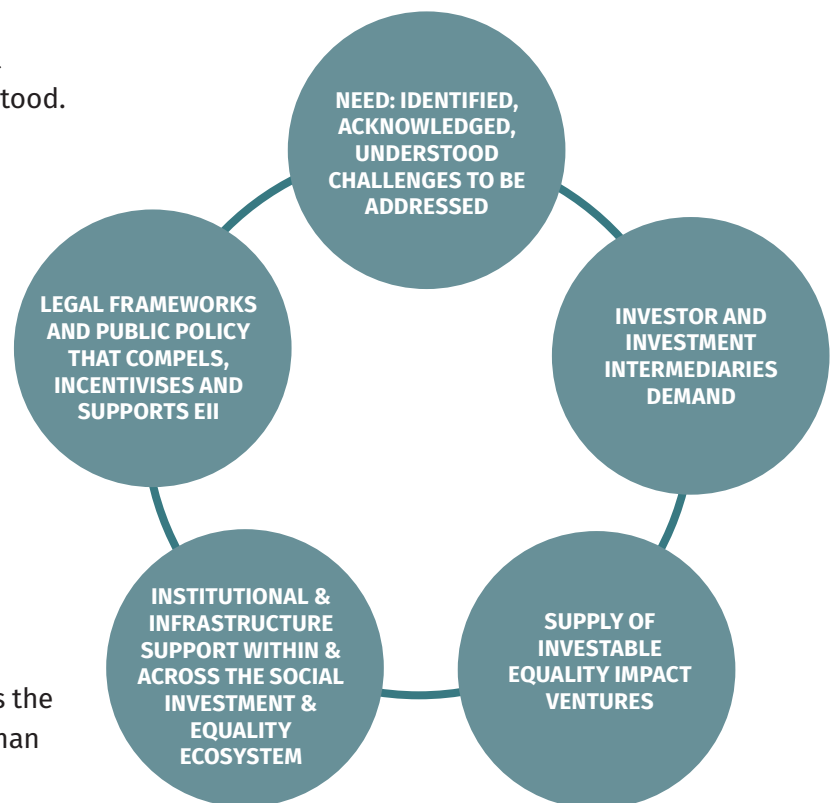


Figure 7: EII Enabling Conditions

24. Young Foundation 2016 , IVAR 2017

3 Equality Impact Investing in UK Social Investment

Key findings and recommendations

In this section we present our key findings on the extent that the above conditions in general, and current or potential supply in particular, are present in UK social investment and recommendations on how to improve and/or tap into these.

1 **Major UK inequality challenges, and the need for more action to address these, are evidenced and acknowledged.**

WHAT WE LOOKED AT

- We looked at two aspects of this question. Firstly, the extent to which inequality is identified and acknowledged as a social challenge in the UK and what some of the key issues are. Secondly, as a context for considering investment, we assessed the current strength and sustainability of the UK VCSE equality sector, given its critical role in the wider UK equality and human rights ecosystem.

WHAT WE FOUND

- There is robust and acknowledged evidence of major inequality in the UK. Two key cross cutting equality challenges are evident. The first challenge is the picture of worsening inequality indicators from food poverty to mental health, across a range of people and groups vulnerable to discrimination, over the period of austerity²⁵. This alongside a growth in the levels of resources and influence held by a small, resource rich and powerful, elite²⁶. The second challenge is a concern that many of the current legal protections and policy goals that relate to equality will regress if the UK exits the EU.
- Whilst there is need for more data on some specific groups and issues, in general there is a significant body of evidence for investors to draw on in identifying and pursuing equality impact goals. The UK Governments' own assessment recognises more progress is needed²⁷ and UN and NGO/civil society's assessments certainly concur²⁸.
- In terms of strength and sustainability of the equality VCSE, we found austerity has also seen a contraction of traditionally key sources of income for VCSE equality organisations such as public sector grants and commissioning with remaining commissioning more competitive and advantaging larger non specialist providers over equality ones²⁹. This has weakened the VCSE equality infrastructure and requires it and its constituents to develop new business models and income streams to sustain their work.

“The project-based model which is the one that most funders follow doesn't actually cover enough of the core costs so what you end up doing is taking on more projects in order to cover the gap so if you follow that through, it's like a piece of elastic, you end up then stretching it, stretching it, until of course it snaps. And that's what's happened to a number of equality organisations that have now just gone.”

– VCSE focus group participant

25. EHRC 2019 & wide range of other NGO and public sector research and reports listed in full in the bibliography of the full length report

26. Equality Trust 2018

27. <https://www.equalityhumanrights.com/en/socio-economic-rights-uk>

28. UN Rapporteur on Extreme Poverty, Equally Ours, Just Fair

29. Women's Resource Centre and Women's Gender Budget Group 2018

WHAT WE RECOMMEND

- There should be increased action on issues identified by recognised pan equality and human rights state and civil society sources, such as the EHRC and Equally Ours respectively, by social investors but also by grant funders and commissioners.
 - Department Culture, Media and Sport (DCMS) and mainstream VCSE infrastructure such as ACEVO³⁰, NCVO and NACVA to do more to support work to better understand and strengthen the distinct role played by equality and human rights organisations within and beyond the VCSE sector.
- 2** *There is currently limited demand for, and limited kinds of equality impact sought by, investors. But demand is increasing, including for a greater breadth of equality impact, and could be accelerated.*

WHAT WE LOOKED AT

- We looked both at the extent that UK social investors see equality impact as important and relevant, and their current understanding and use of EII and its strategies³¹.

WHAT WE FOUND

- **62% of our investor's survey sample consider tackling inequality as mission critical** and over 90% see it as relevant to their work.
- **33% say they have, or have previously had, a dedicated investment fund or initiative, targeting social entrepreneurs from minority groups** or those at higher risk of discrimination. **42% say they have or have had a dedicated fund for organisations delivering equality impact.** However, the former figure might reflect a belief that being “inclusive” or “open to anyone” is comparable to actively targeting equality outcomes for these groups. Further, the latter figure might reflect an assumption that because the beneficiaries of organisations that they invest in may belong to groups with “protected characteristics” e.g. BME, women, and older and younger people, then they are tackling discrimination or inequality, which is not the refined and targeted approach needed. We note these caveats as these findings somewhat conflict with the findings of our research with VCSE equality organisations, suggesting some disconnect between what activity and which organisations, investors and VCSE equality organisations see as having an equality impact.
- **With investors who have a “targeted equality fund or initiative” the most common beneficiary focus is on people with low incomes,** in the domain of financial security and work, and on individual outcomes via service provision.
- **In general, investors currently place far greater focus on achieving impact on individual outcomes** via provision of services (40%) than improving the status of beneficiaries in law (4%) or public attitudes (17%) or their treatment in institutional processes or policy (17%).

“Maybe there's something about us saying to social investors, you should be investing in social change work because that is how you're gonna get your social impact return. That's where the real shift occurs. Otherwise it's just a sticking plaster. Actually it's money down the drain isn't it?”

– VCSE focus group participant

30. Association of Chief Executive Officers of Voluntary Organisations, National Council for Voluntary Organisations, National Association of Councils for Voluntary Action

31. See Figure 1 EII Theory of Change

- Of the investors who said they had an existing or previous fund or initiative that “explicitly target(s) organisations whose main focus is tackling inequality faced by a particular group or groups who experience and/or are at higher risk of discrimination”, **only 20% target VCSE equality organisations whose mission or focus is addressing inequality.** 40% saying they invest in a mix of non-specialist and specialist organisations. This finding reflects other research looking at how VCSE women’s organisations fare in grant rounds and commissioning which, even where the stated target group was women or women’s service providers, generic VCSE providers were much more likely than VCSE women’s organisations to get grants or win the contracts³².

“they say there is no need for a specialist service” - so all the funding’s gone to the mainstream services who then come to us and say “we can’t get any BME people to come, how do we do it?”
– VCSE Focus Group Participant

- **63% of investors in our survey think they need to, and want to, increase their equality impact.** Wider dialogue has also identified a commitment to build on but go further than existing investor focus on diversity impact to a broader range of equality impact.
- **The top need investors perceive that will enable them to do this is a larger pipeline of investable equality impact ventures (58%).** There is real interest in, and acknowledgement of, the need to both build existing equality charities’ enterprise elements and to stimulate and support new equality ventures. However, investors recognised the challenges of current investment criteria and raised concerns about mission drift – a general risk with any VCSE organisations seeking investment but in particular those who exist to work with and for marginalized groups.

“We have to make that blended offer around finance because the risk is that potentially charities could decide to go with supporting a particular social cohort because that has the chance of making money and a surplus whereas working with that cohort over there is not going to make any money, and that’s a dangerous place for us to go.”
– Social Investor Workshop Participant

- **Other perceived needs include more knowledge and skills and sectoral capacity building, including peer learning, on EII strategies (46%).** Other key enablers identified included more information and data on equality issues, advice and practical resources on impact management, fund and support programme design and more demand and finance from finance wholesalers and from government to build the supply pipeline.
- **This research also affirmed strong concerns within investment organisations that they need to strengthen their own organisational equality policy and practice** in employment but also wider governance, purchasing, commissioning and partnerships etc.
- **There is a lack of aggregated equality data on investment beneficiaries.** Such data can indicate the extent to which specific EII strategies are being practiced. Data from Big Society Capital’s (BSC) Impact Report³³ and Deal Level Data³⁴ does not identify how many of the charities and social enterprises invested in work specifically on inequality or with

32. *Women’s Resource Centre and Women’s Gender Budget Group, 2018*

33. Big Society Capital

34. Benton, 2018

certain beneficiary groups (e.g. women, BME, LGBT). Similarly, there is an absence of data on how much investment is going to such organisations or beneficiaries, rather the data reflects the outcome domains and beneficiary groups promoted in the BSC Outcomes Matrix discussed below.

- **The BSC Outcomes Matrix is currently somewhat limited in its use for setting and assessing equality impact** because, whilst it does look at a range of domains and potential target beneficiary groups including a number of protected characteristics or statuses at risk of discrimination e.g. older people or in poverty, it excludes a number of others including women, BME and LGBT people. It does reference some of these latter groups as relevant for monitoring beneficiary diversity or inclusion but that is not the same as targeting them.
- **Data is presented within impact reports from the individual SIFIs invested in by BSC but these tend to also reflect the BSC Outcomes Matrix.** They may sometimes provide data on the diversity of organisational leaders and entrepreneurs they invest in but this rarely extends beyond gender, ethnicity and disability. In its Impact Report 2018, Big Issue Invest mentions “race, sex, ethnicity, disability, age, sexuality or socioeconomic position” under its inclusion pillar. But its investee overview reflects the domains and beneficiary groups presented in the Outcomes Matrix (e.g. 51 organisations focus on employment, education and training; 44 support people living in poverty).

WHAT WE RECOMMEND

- **Government and finance wholesalers and other investment infrastructure builders** to more clearly demand tangible equality impact and capitalize funds to support investors to test concepts and provide enterprise development grants needed (see supply finding below) to build an investable pipeline.
- **Social investment infrastructure and field building organisations** to work with EII and others to facilitate greater peer learning opportunities and a set of relevant professional and shared standards to help current investors. Also, to integrate such standards into third party accreditation of learning and training to build a pipeline of future investors with skills and knowledge in EII and equality more widely.
- **Equality Impact Investing Project (EIIP)** to support development of more operational guidance on strategies and tools that derive from the EII framework, in particular for setting relevant impact and measurement goals and designing funds and equality venture support.
- Increased and broader data collection by Social Investment Finance Intermediaries (**SIFIs**), in line with equality and human rights to enable more equality-sensitive data collection and action in future.
- **SIFIs** to build on negative equality impact screening or work to ensure “inclusion” in existing programmes but also expand into strategies that actively design for and target positive equality impact.
- **SIFIs’** own equality impact values and goals to be built into wider strategic review and planning cycles; with all organisational policies and operational plans then assessed as a means for advancing these from employment to procurement.

3 *There is a significant but untapped potential pipeline of equality impact ventures which enterprise development and investment support could and should help realise.*

**WHAT WE
LOOKED AT**

- One of the key EII strategies, investing in social organisations with whose purpose or mission is to reduce equality, requires an investable supply and pipeline to these organisations. This research has focused on the UK's equality VCSE sector because of their positioning to potentially form such a supply and the importance of their overall sustainability given their vital role in the wider equality architecture. Specifically we explored:

- Whether there is a distinct equality and human rights sub sector of the wider VCSE, the kinds of impact that they deliver, and how this is achieved?
- The extent they are or potentially could be enterprising and investable?
- How much they are currently, and their views on, engaging with social investment?
- What they need from investors and others to do so?

**WHAT WE
FOUND**

- **There is an identifiable and self-identifying equality and human rights VCSE sector in the UK** with over 5,000 charities registering a human rights, good relations, equality or diversity objective. Whilst these organisations may also be led by women or people from minority groups and/or operate wider good diversity and inclusion practice, it is their purpose or mission that defines them as VCSE equality organisations, not who their leader or founder is.
- **VCSE equality organisations are delivering valuable equality impact** for different beneficiaries, across different equality domains (e.g. health, work, participation) and critically of different types, from supporting better individual outcomes through direct service provision to changes in public attitudes, policy and legislation. They are often user or beneficiary led or at least have mechanisms for actively involving people with lived experience of the issues.
- **VCSE equality organisations remain mostly grant dependent**, 64% of our surveyed organisations were in this position. Just under a third also trade services or goods. This was more common amongst organisations operating nationally where there are more influencing and infrastructure bodies. For the most part they are established charities – over five years old – who want to explore becoming more enterprising but have not been reached or engaged by mainstream investment exploration or readiness programmes to date.
- **Regional pan-equality infrastructure has been significantly reduced over the last decade** with only 2 such networks remaining. The sector's national infrastructure and umbrella bodies also face sustainability challenges despite being key to building capacity amongst members. There is a need to explore investment as a means of strengthening remaining infrastructure and organisations. There is also a need, as part of wider social enterprise sector development, to stimulate and support a new generation of equality-focused social ventures in geographical and issue areas with little or no provision.

- **Equality organisations tend to be at the smaller end of the spectrum, in size if not impact.** Of the human rights/equality charities on the Charity Register that have a specified annual income, 70% have an annual income below £100,000. 48% have an income below £25,000. So they face many of the increasingly recognised challenges and concerns that all small VCSE organisations face in terms of investment. This means they could benefit from emerging SIFI efforts to address these, but only if this reaches and engages them. However, many felt they also face some distinct challenges related to their status and focus as equality organisations.

“Tackling discrimination is not a (funder) priority, might be in discussion or written paper on the shelves, but the reality is different.”
– VCSE Survey Respondent

- **The growing emphasis on place-based enterprise development work could also benefit equality impact if it ensures that equality issues and people facing discrimination and abuse remain visible and at the heart of planning** and if it recognises there are different issues and sector needs in each locational/geographical context. Furthermore, place-based approaches should not deflect from the needs of dispersed communities that share equality challenges (e.g. based on a shared status or characteristic rather than colocation)

“...there’s still very engrained issues around specific social inequalities related to poverty but it’s more than that. A lot of resources have gone into regeneration programmes in the city....10 years of funding but the inequalities are still there.”
– VCSE Workshop Participant

- **Whilst there is some fit with SIFI impact goals in terms of beneficiary groups, domains and types of change, equality organisations are delivering to a broader range of groups and on intersectional challenges.** Both local and national organisations place emphasis on delivering attitudinal change and are seeking to influence policy. These are all impact concerns less common with SIFIs. Many equality organisations feel their unique role is not clearly recognised, not only by social investors but also other types of funders, commissioners and even the wider VCSE sector within which they work.
- **Equality VCSE engagement with social investment is extremely low** with 87% of our sample saying they are aware of it but have never applied, only 5% have sought investment and only 2% successfully. The most frequently cited issues were that organisations were “not sure of the social investment opportunities out there” and/or were “not sure of the process for accessing social investment”.

“So I’m Head of Fundraising so that’s actually all I do but I’ve been wanting to look at this (investment) since I started three years ago and even with fundraising being my remit, I still haven’t got time to do this; I’m still flat out just trying to do grant applications, just to keep us afloat.”

– **VCSE Focus Group Participant**

- **There are concerns raised in the literature and amongst equality organisations in our focus groups about both the feasibility and ethics of repayable finance given their remit and activities.** Some commentators see social enterprise as a less effective alternative to political action for achieving social impact as it frames social problems as knowledge problems that can be solved by technical innovation driven competition among individual social entrepreneurs operating through for-profit, nonprofit, or hybrid enterprise. In contrast to seeing them as power problems that require collective political action³⁵. Others have pointed to the channeling of funds to individual corporates rather than systems and networks when the latter are needed for tackling complex social problems³⁶ Equality groups we spoke to shared some of these concerns but also raised more direct organisational ones.

“It might sound a stupid question but for those of us who are not for profit charities that tend to rely on grant giving, and we don’t have trading arms, how on earth would we be expected to pay back loans? I’m very confused. Where does that income come from? I would add to that most of us are struggling to try and build a reserve which we need as charities never mind paying back loans.”

– **VCSE Focus Group Participant**

“Marketising inequality is an anathema.”

– **VCSE Focus Group Participant**

“An issue for me is how to ensure that there’s policy level freedom, absolute policy level freedom in these areas, here we’re going to address the root cause of inequality, how do we ensure that these money sources are not going to condition us if we want to say that taxes should be higher, which may mean they have less money to give to us next year. Right? So how to ensure that there is a watertight division at the level of policy.”

– **VCSE Focus Group Participant**

- **There is openness from existing equality charities to developing enterprise to help ensure sustainability and independence as well as a need to stimulate new equality focused ventures.** In particular enterprise or new ventures can help subsidise other work. There was also a strong view that VCSE equality organisations, not generic providers, should be supported to meet equality demand.

35. Ganz, Kay and Spicer 2018

36. Johar – 2017

"I think we have got some things [that are potentially tradeable]. I think part of the thing for us is that the way they think about what we're doing is probably not in a way of "how do we make money out of it". We need a way of thinking that can go, "oh, yeah, that's a no-brainer, come on let's do this, this and this." – VCSE Focus Group Participant

- **The top needs equality organisations identify and include greater communication and information about social investment opportunities (78%) and the process for getting it (73%).** Half want additionally targeted investment. Focus groups emphasized a need for more general information but in particular that which addresses how returnable finance models could work in practice in their context. There was also demand for practical support in applying for (65%) and managing investment (47%).

"We've got a brilliant idea that we know will be financially self-sustaining, so it would be great to have some time to dedicate to that so there's a thing of freeing up somebody's time, but there's also access to maybe some specific support."

– VCSE Focus Group Participant

- **In terms of financing, by far the highest perceived need was greater availability of grant funding to explore social investment (77%)** with the next most popular option, a loan/grant combination, only appealing to 38% of VCSE survey respondents. More generally, regarding organisational development support, a majority highlighted core offer development, financial modelling and impact measurement as areas they need support in (all 53%), while support with investor outreach (48%) and business planning were also popular (43%).

"I think there are some really good models and good opportunities but it's about having doing some of that work, not necessarily getting guiding, but doing some of that work. Whether that comes in placing somebody into an organisation or whether it's giving an organisation core costs that they can apply somebody to explore it, I'm not sure how. I think there are opportunities there, it's something we wouldn't say no too, but it's time and capacity."

– VCSE Focus Group Participant

- **Whilst some investment support initiatives are being developed by a number of national VCSE equality bodies, in the areas of BME, LGBTQ and disability for example, there are a number of other sub sectors where this has yet to happen** including women's, Gypsy and Travellers, refugee and asylum seekers' and economic inequality sectors. Moreover, there is a lack of such enterprise or investment development support for such national equality infrastructure bodies themselves.


WHAT WE RECOMMEND

- **SIFI funds and linked support programs** to deliver more targeted and tailored communications and outreach to VCSE equality organisations working with, and making greater use of, national VCSE equality infrastructure bodies tailoring the message to clearly address the concerns and strengths of equality organisations identified in this and other research.

“I think there are huge possibilities with developing social investment, don’t get me wrong. I don’t think it’s a remedy, Nevertheless I do think that what has been said about the assistance and support that organisations need to get to that point where they could actually develop their trading arm is really important.”

– **VCSE Focus Group Participant**

- **Access, SIFIs and grant makers** provide dedicated sustainability support, potentially in conjunction with grant funders, to bolster both regional and national VCSE equality infrastructure. This would not only support investment into the wider equality sector but also strengthen its resilience and impact more broadly.
- Targeted investment exploration and support programmes by **wholesalers and SIFIs** to test “what works” in focused support for equality organisations of all types, from national campaigners to local service providers and community organisers, from those mitigating equality impact to those delivering transformative equality impact. For each, there needs to be greater understanding of whether investable products can be developed and the support needed for this to happen.
- A wider variety of investment options provided by SIFIs are needed for most equality organisations, in the short term more grants to explore investment and, medium term, more blended finance and patient capital.

“The concept of investment-readiness itself is hugely problematic because that’s been the starting point for the social investment industry to date and it’s not worked, because there is a prior need for development which is one stage removed from investment-readiness.”

– **VCSE Focus Group Participant**

- Investors/SIFI and enterprise skills bodies such as the School for Social Entrepreneurs (SSE) to target start up support for new equality impact enterprises both via geographical area and on issues where current provision is low.

4 *Current institutional and infrastructure priorities and supports are not widely incentivising or supporting EII but provide opportunities for doing so that should be pursued.*

**WHAT WE
LOOKED AT**

- We reviewed some of the key social investment, equality and VCSE institutional and infrastructure bodies' priorities, approaches and current provisions to assess the extent to which they are, or could, individually or in collaboration better support increase demand and supply.

**WHAT WE
FOUND**

- Institutional and infrastructure priorities and provisions in social investment, equality and human rights and civil society do not reflect each other's goals and there is little bridging between these structures. Some early work has commenced within the social investment institutions and infrastructure which is engaging equality actors, in particular through the Access supported Connect Fund. This has supported this EII project which is bringing together both social investment and VCSE equality actors and a number of VCSE Equality Infrastructure organisations, working in the areas of race, disability and LGBT equality, to look into the potential for their stakeholders to engage with social investment.
- While reference is often made to the Sustainable Development Goals, current UK institutional and infrastructure approaches amongst social investors do not sufficiently reference or support their stakeholders to explore key equality and human rights frameworks and goals. Neither do the approaches of equality sector institutions as yet reference or support their stakeholders to explore social or impact investment as mechanisms for achieving their goals.
- There is a lack of alignment between key impact frameworks used across the equality and social investment sectors. For example, those of the UK Equality and Human Rights Commission and Big Society Capital respectively. Nevertheless, these existing frameworks have common elements so do provide a strong basis for complementary impact goal setting, convergence of measurement frameworks and joint work to build equality-focused social investment and venturing.
- The current and planned social sector and social investment market building activities and programmers of key independent social investment infrastructure bodies such as The Access Foundation and Big Society Capital and the Government's Inclusive Economy Unit do not explicitly state equality goals but offer a means of increasing both the supply and demand for equality impact.


WHAT WE RECOMMEND

- The Government's **Inclusive Economy Unit and Partnership** to review strategies and programme plans to identify and action opportunities to build conditions for EII in social and impact investing, in the UK and beyond.
- **Big Society Capital:** to align its current outcomes matrix with the EHRC's equality and human rights measurement framework and work with EIIP and others, such as the Impact Management Project, to support wider convening and development work on setting and measuring equality impact in investment.
- **ACCESS Foundation:** to identify and action opportunities for EII to be advanced through its planned activities, in particular the Enterprise Development Programme, and include explicit goals in its strategy
- **Equality Impact Investing Project:** create an ongoing platform to promote, coordinate and support the recommendations in the report and build and promote the field of EII in UK social investment, and beyond, more widely
- **Connect Fund:** retain a dedicated strand of finance to help increase equality impact capacity in the social investment infrastructure and to link equality VCSE organisations to social investors.
- **The Equality and Human Rights Commission** to promote greater use of its measurement framework by social investors, for example by working with the EII project and others to deriving an impact measurement tool for social impact investors, as well as exploring more deeply how EII could be applied in private sector/mainstream investment context.
- **The UK Social Investment Forum and Social Impact Investors Groups** review their agenda and plans, and identify and action both collaborative opportunities with EII and other projects, and goals within their respective remits.
- **Equally Ours and other VCSE equality infrastructure** (e.g. concerned with specific sub-sectors such as children's rights, women, domestic violence, human rights, refugees) to engage in, influence and advise on social investment policy debates and infrastructure development and to explore building enterprise and social investment support into services to members.
- **Social Enterprise UK, School for Social Entrepreneurs and the wider Social Economy Alliance** to work with the EII project to explore how "mainstream" social enterprises are currently addressing inequality and could improve their equality impact and to support a new generation of equality impact focused social entrepreneurs.
- **Association of Charitable Foundations** to support work to build EII capacity with its members.

- 5** *The UK's relevant legal and policy frameworks independently provide strong, and generally supportive, contexts for the different elements of EII, but they are not being used to reinforce each other nor to encourage the convergence of social investment, equality and civil society agendas.*

WHAT WE LOOKED AT

- We reviewed legal and policy frameworks in both social investment, equality and civil society/promoting social value. This is on the basis that these are three of the most relevant to EII.

5.1 Legal frameworks

WHAT WE FOUND

- Both social investment and equality and human rights and related legal frameworks around social value are currently relatively strong, although there are risks of regression on UK equality and rights standards specifically posed by Brexit.
- Current protections are already undermined by the non-implementation of the 2010 Equality Act socioeconomic duty, and approaches to wider equality and human rights legislation that often sees this as boxes to be ticked rather than frameworks to support better planning and decision-making.
- It is not clear that the Equality Act 2010, including the specific duty for due regard to advancing equality and tackling inequality, are being applied in the creation of social investment or related regulations.
- In principle both the Equality Act and the Social Value Act (which requires public sector commissioners to consider equality and broader social, economic and environmental benefits to their area when awarding public sector contracts respectively) should be informing public sector commissioning of, and thus demand for, equality impact.
- The current review of the Social Value Act offers an opportunity to strengthen equality provisions. Research indicates that the Act is not being implemented as intended, or fully, due to a lack of awareness and guidance and strength in the duties themselves³⁷. In the subsequent commissioning culture, bids with the lowest cost often fare best, so smaller specialised VCSE, including equality organisations, are disadvantaged compared to larger non-specialist organisations. They have the expertise and social value but not the economies of scale³⁸.

“Our bottom line is social change, these other peoples and generics coming in and sweeping up any old contract for anything, not specialists, they’re not doing it for social change, that’s not their mission, their mission is profit.” – VCSE Focus Group Participant

37. NCVO 2016, WRC/WGB 2018

38. WRC & WGB 2018

- In general, the legal framework for charities and other non-profit organisations is fairly supportive although significant concerns have been raised about the Lobbying Act and its impact on civil society organisations' campaigning activities. Such activities are key to the impact, especially transformative impact, of the VCSE equality sector.

WHAT WE RECOMMEND

- **Government - DCMS and Cabinet Office** to ensure consideration of the Equality Act, and Human Rights Act in development of further social impact investment related legislation or regulation, not as a negative screen but as a tool for change. This may, for example, identify and provide opportunities for leveraging investment into equality outcomes.
- **Government - DCMS and Cabinet Office** to ensure clearer and stronger requirements on equality impact are integrated into the Social Value Act, or related statutory guidance, as part of its current review.
- Public Sector Commissioning Support Bodies such as The Commissioning Academy to integrate equality, human rights and social value impact approaches into their capacity building and professional standards as positive tools for effective commissioning.
- **Government/DCMS** to review the current Lobbying Act with a view to ensuring it does not limit civil society organisations' and networks' ability to access social investment funding (or other types of funding) because of their legitimate role of speaking into public life in order to advance equality and reduce inequality.
- **UK Government** to implement current UK equality and human rights legal frameworks and standards in full, including the socioeconomic duty, and retain these in any exit from the European Union.

5.1 Policy frameworks

Equality, social investment and civil society policies are relevant for EII. These frameworks provide a fairly supportive context for different aspects of EII, but they do not reinforce each other, nor are they being used to encourage the convergence of social investment, equality and civil society agendas.

The terms 'equality', 'human rights', 'social justice' or 'discrimination' do not appear once in the social investment strategy. 'Equity' makes an appearance but only as an investment type.

WHAT WE FOUND

- The UK government has a well-developed social investment policy agenda, reflecting its role to date as one of the global leaders in the field. It has a social investment strategy and supports an industry-led advisory group and taskforce on growing a culture of social impact investing. Both could be, but currently aren't, being used as frameworks within which to identify where impact investing could contribute to tackling inequality, although the latter is seeking to better link impact reporting to the UN SDG's, which include specific equality and gender goals.

- In terms of equality policy, a key challenge, not limited to EII, is the current lack of an overarching government equality strategy. Commitments exist but in a series of dispersed equality goals and policies in different departments, none of which appear to have engaged with, or been informed by, social investment strategy and policy.
- The Government's civil society strategy recognizes the role of social (impact) investing in supporting civil society and the need to support sustainable social business models. It sees social value as supporting "a fairer society for all" and references inequality though no specific goals. However, it provides a good framework within which to identify and action specific equality goals as it is implemented.



WHAT WE
RECOMMEND

- **Government Social Investment Strategy** to explicitly identify where investment can be harnessed to advance equality and highlight both principles and goals for equality impact.
- **Impact Investing Implementation Task Force** to create a process to develop and embed equality and human rights goals across its five action areas in the UK.
- **Government Civil Society Strategy** to identify and support explicit equality impact goals within its social value foundations and missions, including but also beyond supporting greater equality impact investing.
- **Minister for Women and Equalities GEO**, government departments with equality goals to work with DCMS and IEU to identify VCSE/civil society equality sector play a key role in delivering on goals and to support their efforts to increase enterprise capacity social investment as well as other forms of social financing.
- **Women and Equalities Select Committee** to hold an inquiry into the extent to which Government is harnessing its commissioning, investing and grant making to ensure and advance its equality and human rights legal duties and policy goals respectively.

APPENDIX 1- Overview of approach and limitations

Approach

Our approach has consisted of four main elements, delivered between January 2018 and March 2019.

First, we undertook a review of UK and international literature and issued a call for evidence which requested pre-existing material relevant to EII (published or otherwise). This, along with stakeholder dialogue, informed a working EII definition, principles and enabling conditions, which, when combined, form a theoretical framework for EII. See Figure 1. Page 7.

Second, we used this framework to assess conditions for and levels of EII in UK social investment. We undertook a further desk based review of relevant social investment, equality and VCSE institutions and their published materials (e.g. strategies, policies, reports, websites) and unpublished materials where made available (e.g. internal reviews), and wider UK VCSE, social investment and civil society sector literature. We also issued two surveys, one to equality VCSE organisations and one to social investors and their intermediaries.

Equally Ours issued a survey to its membership, which includes 62 VCSE self-identified equality organisations, the majority national, and to its wider networks via its newsletter which reaches over 5,000 people and organisations working for equality and human rights across the UK. We issued the same survey to a equality organisations in Devon and Bristol via direct mail to them and via a general call through regional VCSE networks. In total we received 60 responses from VCSE equality organisations, 12 National and 48 operating in the city of Bristol or the county of Devon. The sample includes a wide range of organisation working with diverse beneficiaries and undertaking a variety of activities and roles.

We also issued a survey to a cross section of 60 social investors and their intermediaries, receiving 24 responses, including from finance wholesalers, banks, foundations and regional and issue specialists.

Third, we held structured workshops with equality-focused VCSE organisations, one with 15 organisations in Bristol, one with 17 organisations in Devon (of which 11 were equality-focused VCSE organisations and the remainder local VCSE infrastructure bodies, commissioners and social investors), and two in London with ten national equality infrastructure organisations. One of these brought together all the other diversity and equality themed first round Connect Fund projects. The Bristol and Devon workshops sought to identify particular challenges and opportunities in these places as well as any general differences to consider for EII in an urban and semi rural context

respectively. The national sessions, sought to gauge views of these organisations on both their own needs and those of their members and the VCSE equality sector as a whole.. Both sets of workshops further explored the equality impact that organisations were delivering and the potential of social investment to support this. An introduction to social investment was given to inform the discussion. Extracts from the workshops are provided where relevant.

Finally, we have sought and remained open to other dialogue and input from key project stakeholders on an ongoing basis. This has included a focus group with social investors, a project session as part of Connect Fund learning events, regional partner discussions, and presentations and dialogue at events such as the Equally Ours national policy forum (for Equality and Human Rights VCSE), the Social Investment Forum and The Gathering (a biannual UK social investors conference).

Challenges and limitations

The literature contains some aggregate data on VCSE equality and human rights organisations working within particular equality strands (e.g. the LGBT or women's sub-sector) but there is a stark lack of such data or previous research on the pan equality and human rights sector as a whole. There is also a lack of equality data in social investor datasets and impact reports. Furthermore, relevant datasets were not always open source with one national social enterprise organisation seeking £5,000 for sharing such information.

In assessing EII in UK social investment we focused, though not exclusively, on the use of the EII strategy of investing in equality-focused organisations. This was mainly due to previous research suggesting the potential of this strategy has not been properly explored at a time of great pressure on the sustainability of the VCSE equality sector. But also partly in light of other projects, such as the Social Investment Diversity Forum which has carried out valuable work on assessing the use of the strategy of improving diversity within social investment organisations, which we sought not to duplicate. We have indicated in the recommendations where we think further exploration is needed.

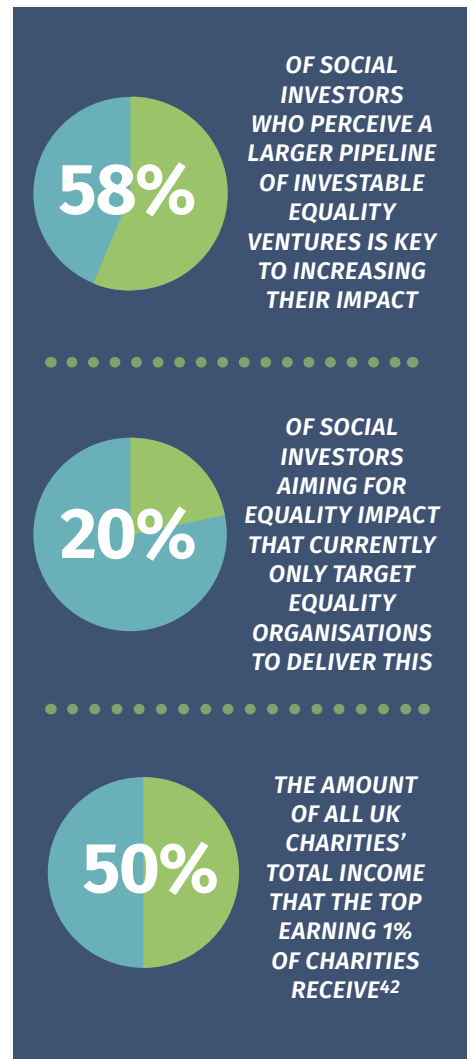
Responses from VCSE organisations, outside of Devon and Bristol to the survey were lower than hoped, despite repeated issues through Equally Ours' newsletter, so we also utilised supplementary outreach and funder networks. Some of the other VCSE umbrella networks (regional and equality focused) that we hoped to use to disseminate the survey declined to do so for various reasons, ranging from plans to issue their own surveys on similar topics to not seeing social investment as "relevant" to their members. However, combined with material from the literature review and the well-attended workshops, the breadth and depth of the data is sufficiently rich to give a strong indication of the challenges and opportunities for equality VCSE organisations.

The report in numbers³⁹

£2.3 BILLION = Value of UK social investment market in 2017⁴¹

Value of global impact investing market 2018⁴⁰ = **\$340 billion**

5000+
Number of UK charities registered with the Charity Commission with equality, human rights, and community relations objectives



39. % figures refer to our research samples unless otherwise stated
 40. GIIN
 41. Benton 2018
 42. CAF