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The UK: A Centre of Excellence in Impact Investing



The UK - A Centre of Excellence in Impact Investing

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Foreword



Chris Hayward
Policy Chairman – City of London Corporation

The City of London Corporation is proud to support impact finance in the UK. The benefits of impact investment range from investment returns to investors; the mobilisation of greater private capital for underfunded social issues; and positive contribution of the impact investment and social enterprise industry to the economy and labour market.

The UK has an incredible opportunity to build this sector further, help mainstream impact investing globally and use this important pool of capital to address domestic policy issues. There is acute pressure on public purses to deliver action on climate change and inequality of wealth and opportunity. Impact investing presents a tested model for the financing of purpose-driven businesses and projects, expansion of the impact economy and delivery of outcomes for people and the planet.

Our *Finance for Impact* initiative is focused on cementing the UK's position as a global leader in impact investing and scaling private capital for social outcomes. Our aim for this report is to highlight the UK's offer for impact finance and the value of being a Centre of Excellence in impact investing.

We would like to extend our thanks to our coalition of market builders and investors supporting the programme including the Impact Investing Institute, BVCA, Better Society Capital, and Impact VC. We are also grateful for the BVCA and their collaboration on this report.



Michael Moore
Chief Executive – BVCA

We are proud of the significant strides made in advancing impact investing in the UK. Private equity and venture capital are at the heart of this transformative approach, which aligns financial returns with meaningful social and environmental outcomes.

Impact investing supports the UK by directing capital towards businesses that drive positive environmental and social outcomes. This helps to address a range of challenges currently holding back economic growth such as, the strain on public services, the inequality of opportunities and the sustainable transition to a green economy. With the backing of private equity and venture capital, providing the platform for broadening the scope of what impact investing can achieve, the sector continues to mature and drive results.

There is an opportunity now for a global leader to build the next stage of the impact investing ecosystem and showcase what good can and does look like. As the UK continues to evolve as a hub for impact investing, creating an environment that supports scaling these investments will amplify their benefits.

We are committed to helping this sector to scale and become mainstream, which aligns with the objectives of the *Finance for Impact* work and our work at the BVCA. We would like to thank our partners at the City of London Corporation for their important work in this area, alongside the Impact Investing Institute, Better Society Capital, and Impact VC for their important and valuable contributions.

1. Executive summary

The UK, along with a range of countries, is facing challenges related to economic growth, overstretched public services, rising inequalities and a significant push to transition to net zero emissions. In the context of this, there is a strong imperative to work together to build an investment ecosystem that prioritises its effect on people and planet and drives progress on the UN Sustainable Development Goals (SDGs).

Impact investing is investment made with the intention to generate positive, measurable social and environmental impact alongside a financial return. Private Capital – through impact investing – is able to support with these challenges and deliver financial, economic, and social value to the UK.

The aim of the report is to encourage further collaboration in the impact economy, to invite investors interested in sustainable finance and impact investing to consider the UK for the establishment of funds, products, and services and for the UK to continue to lead the way in market development.

This report demonstrates the opportunity for the UK to continue to lead and grow its position as a Centre of Excellence in impact investing. A Centre of Excellence, in summary, has specialised expertise delivering outstanding research and practice. The report assesses the UK against five criteria of a Centre of Excellence in impact investing including: clear mission, knowledge and expertise, scale, leading talent, and capacity building.

Market trends that could be harnessed by the UK for further growth of the global impact investing market are outlined in the conclusion of the report. These include:

1. Championing innovation in financing social and environmental goals;
2. Meeting the demand for impact and purpose driven jobs; and
3. Leading the conversation on best practice and moving the dial forward.



Primrose Hill, London, UK.



This report demonstrates the opportunity for the UK to continue to lead and grow its position as a Centre of Excellence in impact investing.”

2. What is impact investing?

Impact investing is investment made with the intention to generate positive, measurable social and environmental impact alongside a financial return.¹ Many stakeholders also link it to the concept of an impact economy. 'Impact economy' describes a capital system in which social and environmental outcomes are given as much prominence as traditional economic output metrics such as Gross Domestic Product (GDP).² The rewiring of the economy to deliver on climate stability, resource security, healthy ecosystems and social goals (food and water, wellbeing, and decent work etc.) is a helpful model to further understand the impact economy.³

As the effects of climate change and growing inequality become more pervasive, investors are increasingly recognising the dual importance of driving positive social and environmental impact and financial returns. Businesses with a social mandate or product are also growing, in number and scale, and looking to scale up further to address these global challenges. The impact economy therefore includes a range of actors contributing to solutions to these global issues including investors, philanthropists, charitable organisations, governments, social enterprises and businesses with products or services delivering a social and/or environmental outcome.

Key actors in impact investing

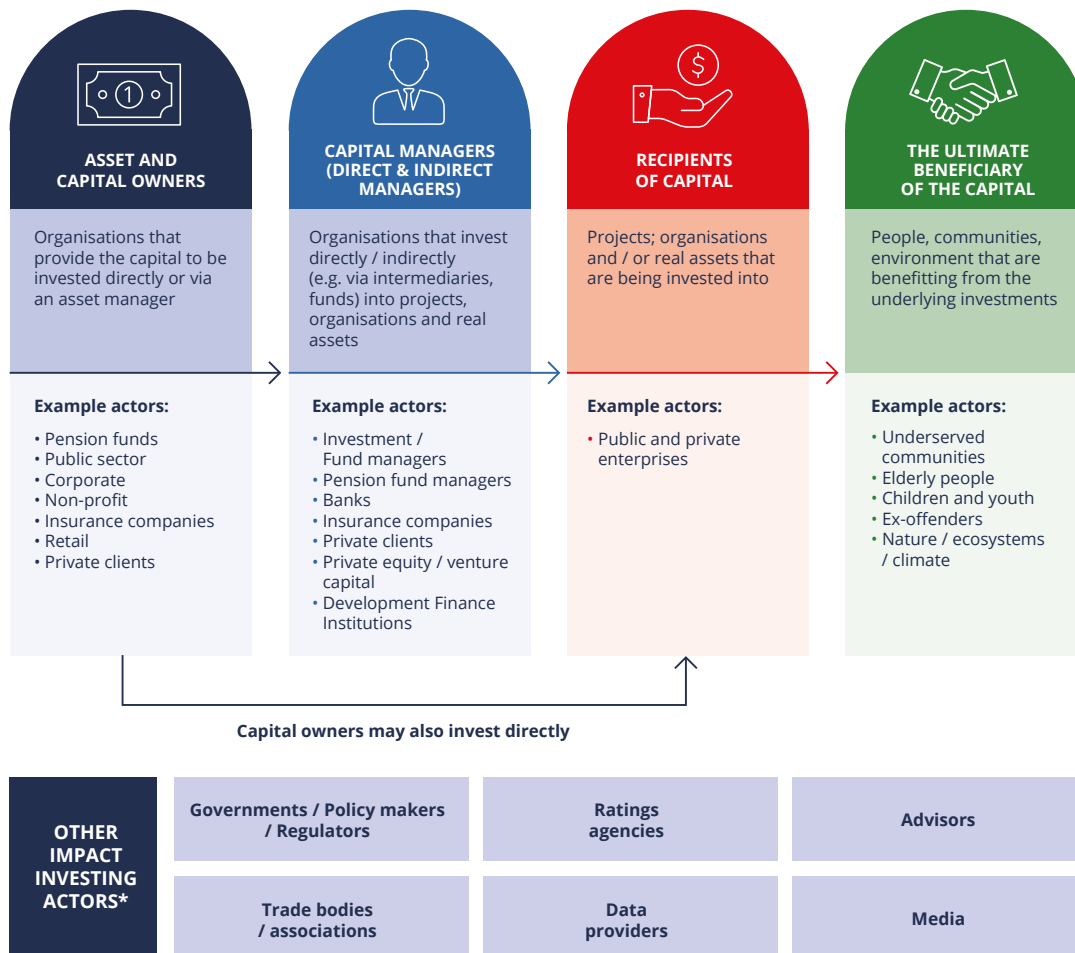


Figure 1: Key actors in impact investing⁴

¹ GIIN. (2024). *What you need to know about impact investing*.

² UBS. (2020). *The rise of the impact economy*.

³ Cambridge Institute for Sustainability Leadership, & University of Cambridge. (2015). *The model: Ten interconnected tasks*.

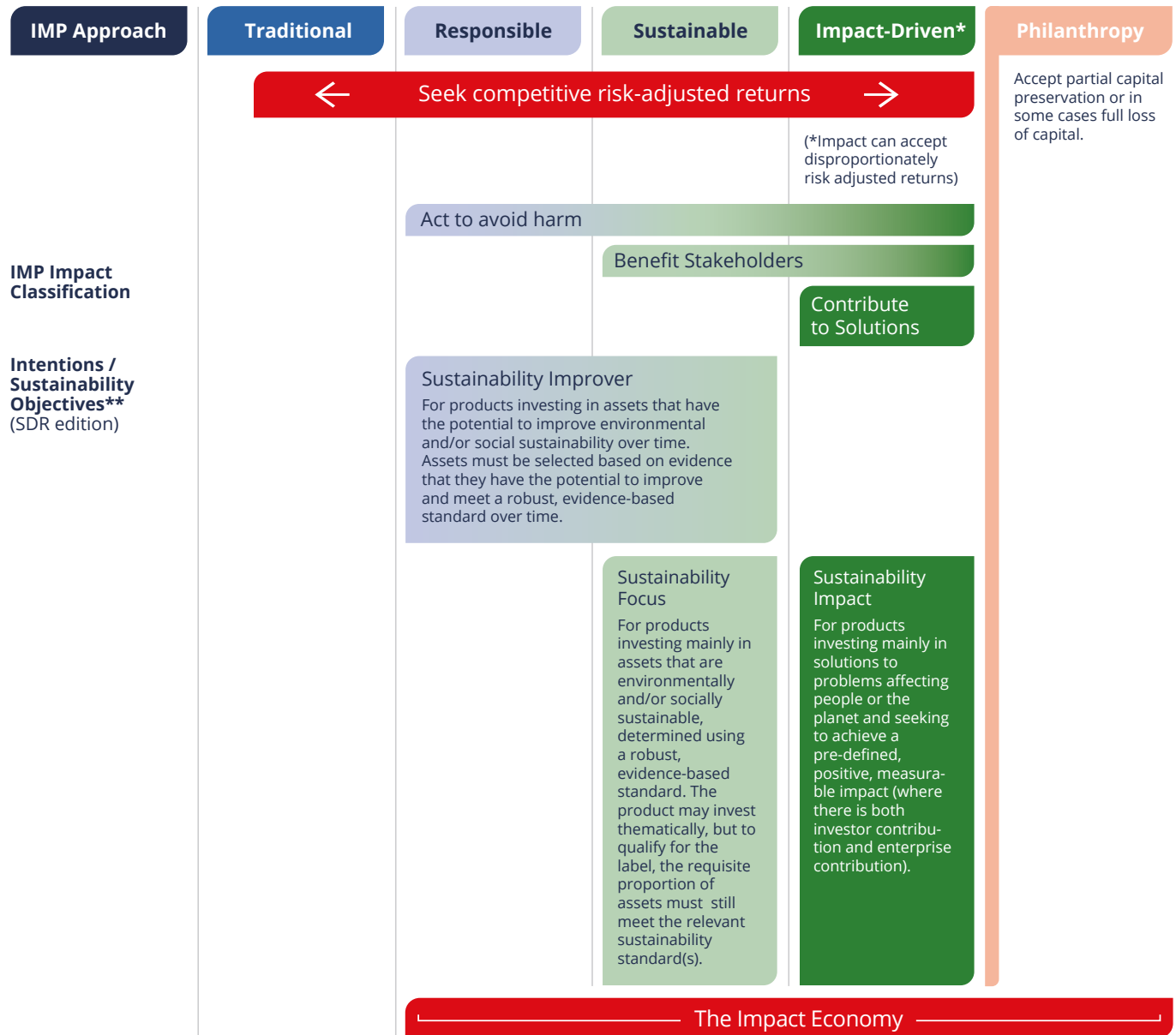
⁴ Impact Investing Institute, EY, & Better Society Capital. (2020). *Estimating and describing the UK impact investing market*.

*non-exhaustive

The role of impact investing alongside other forms of investment is to fund solutions to social and environmental challenges. The Spectrum of Capital visual exemplifies this point.

Figure 2: Spectrum of Capital⁵

Spectrum of Capital



**To qualify for any given SDR label, at least 70% of a product's gross asset value must be invested in accordance with the relevant sustainability objective and the product must meet the other SDR general criteria and label-specific criteria. If a product invests across more than one SDR sustainability objective (with at least 70% of GAV), then it will qualify for the "Sustainability Mixed Goals" label provided it meets the SDR general criteria and label-specific criteria.

This Spectrum of Capital is based on the original Spectrum of Capital by Bridges Fund Management and The Impact Management Project 2017. As part of this update, the BVCA with support from the Impact Investment Advisory Group (IIAG), have chosen to include the SDR labels to help illustrate where impact investing fits within private capital. This is not meant to be a regulatory map, but a diagram to help illustrate this message. All of these investment strategies can be executed across a variety of asset classes, including debt, private equity, venture capital, infrastructure, and real estate.

IMP Definitions

<p>Does or may cause harm</p> <p>If an unsustainable outcome is not improving or if there is no performance information for an outcome.</p>	<p>Act to avoid harm</p> <p>Identifying where the organisation (or asset) is causing harm to people's well-being and the condition of the natural environment and improving those outcomes so that they are getting nearer the sustainable range established by the societal or ecological threshold.</p>	<p>Benefit stakeholders</p> <p>Maintaining or causing improved wellbeing of a group of people and/ or the condition of the natural environment, so that it is within the sustainable range established by the societal or ecological threshold.</p>	<p>Contribute to solutions</p> <p>Improving the well-being of a group of people or the condition of the natural environment so that the outcome is within the sustainable range, where the outcome had been unsustainable prior to engaging with the organisation through no fault of the organisation itself.</p>
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⁵ Bridges Fund Management and The Impact Management Project. (2017). *Spectrum of Capital*.

Impact investing is an approach that spans multiple asset classes. It can take the form of public or private markets investment. Impact funds invest similarly to non-impact funds, with the exception of real assets, (infrastructure, timber, metals and mining, agriculture, and natural resources), possibly due to the labour-intensive nature of these industries. Both types of investors deploy across a range of asset classes.

Global impact investing spans multiple asset classes

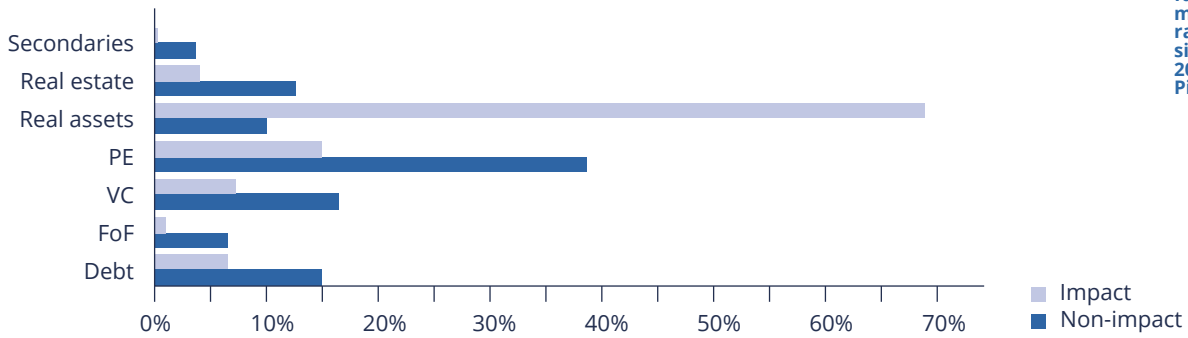


Figure 3: Share of fundraising activity measured by capital raised, by strategy since 2007 (as of Dec 2023) according to Pitchbook data.



3. Why is the impact investing market important for the UK?

Society has experienced unprecedented macroeconomic events such as the global financial crisis, COVID-19 pandemic, and higher levels of regional conflict in the last 20 years. This has adversely affected economic growth and deepened inequalities. At the same time, we are edging closer to the commitment deadlines for net zero emissions and the Sustainable Development Goals (SDGs) (2030 for SDGs), whilst most nations are heavily indebted. The implication is additional pressure on public purses to deliver on climate action and inclusive growth.

The SDGs currently suffer from an annual USD 4.2 trillion global finance gap.⁶ This cannot all be delivered by the public sector. Impact investing is not a magic bullet for sustainable development but a proven tool for shifting incentives in the private sector to align with the SDGs. In the UK, impact investing has tackled social and environmental challenges that public policy seeks to change such as affordable housing, unemployment, education, healthcare, and the shift to a lower-carbon economy. If supported effectively, impact investing including blended finance, could mobilise private capital to deliver on underfunded policy objectives. For example, Better Society Capital began with £400m in dormant assets and has mobilised £8bn in private and institutional capital to date.⁷

The UK impact investment market defined as managed from the UK, at the end of 2023, was £76.8 billion.⁸ The value of the market is manifold:

- **Market growth and financial returns:** This represents a 10.1% compound annual growth rate (CAGR) of the market, from end of 2020 until the end of 2023. In comparison, all UK assets under management have had a CAGR of -2% to 0% over the same period, further highlighting the astounding growth of the impact investing market. Furthermore, 68% of UK impact investors surveyed indicated financing returns that outperformed expectations.⁹
- **Exceeding impact performance:** 88% of UK impact investors have reported impact performance outperforming their targets. Survey results also highlight progress in the industry's confidence in integrating impact management and financial management decisions and verifying impact results.¹⁰
- **Mainstreaming impact investing:** Social investors, private equity, venture capital firms and foundations are the leading impact investors in the market today. However, there is growth from pension funds, family offices and insurance funds since the last market sizing report completed in 2020, indicating mainstreaming of the investment approach.¹¹



There is an opportunity now for a global leader to build the next stage of the impact investing ecosystem.”

⁶ United Nations, & Department of Economic and Social Affairs. (2024). *Financing for Sustainable Development Report 2024*.

⁷ Better Society Capital. (2024). *Better investment for a better Britain*.

⁸ Impact Investing Institute. (2024). *The UK impact investing market: Size, scope, and potential*.

⁹ Ibid

¹⁰ Ibid

¹¹ Ibid

The UK market represents an estimated 8% of the global impact investment market.¹² Impact investing still accounts for less than 1% of total assets under management in the UK investment market and so there is significant room for further growth, especially given global fundraising for impact funds has been increasing over time, apart from 2023.¹³

Global impact capital raised and number of impact funds have been rising over time

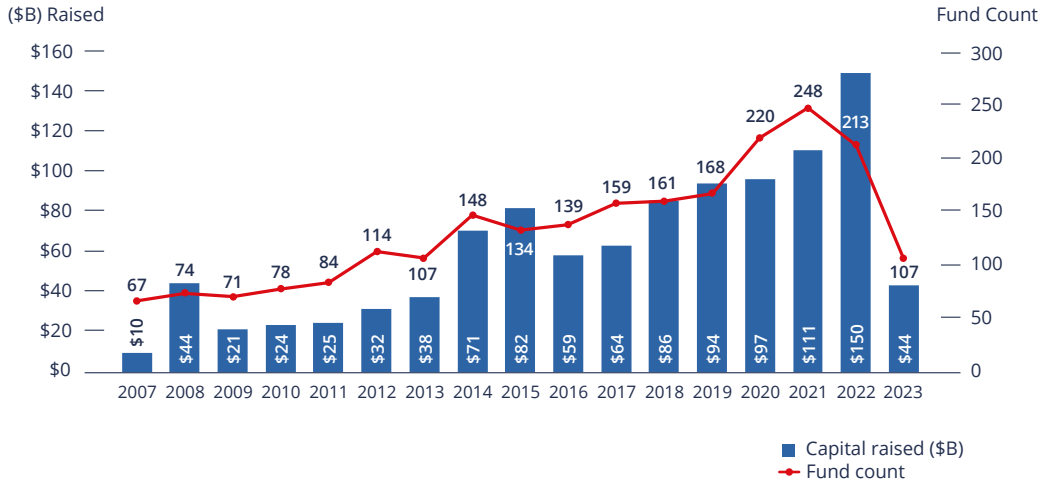


Figure 4: Global impact capital raised, by fund count, according to Pitchbook data (\$bn)¹⁴

There is an opportunity now for a global leader to build the next stage of the impact investing ecosystem and display what good can and does look like. As a sector, the value of impact investing is well understood, especially as a tool for catalysing positive solutions to societal challenges. The issue is scaling these efforts, sharing best practice, and ensuring it remains a high integrity market, delivering tangible positive outcomes. The UK has the potential to build on its strong foundations in impact investing to drive such scaling efforts globally.



¹² Impact Investing Institute. (2024). *The UK impact investing market: Size, scope, and potential*.

¹³ The Investment Association. (2023). *Investment Management in the UK 2022-2023*.

¹⁴ Pitchbook. (2024). *The State of Private Market ESG and Impact Investing in 2024*.

4. What is a Centre of Excellence?

A 'Centre of Excellence' is a term often applied to research centres. It is a team of specialised expertise or an organisational environment that is established to provide outstanding healthcare, research, education, and training, regulatory, policy, information technology or industrial services and supports elevated levels of efficient and effective performance.¹⁵

This term can be applied more universally to a country or region with institutional support for top quality performance in a particular industry. To this end, we have adapted the elements commonly found in the literature and summarised them to develop five key criteria:

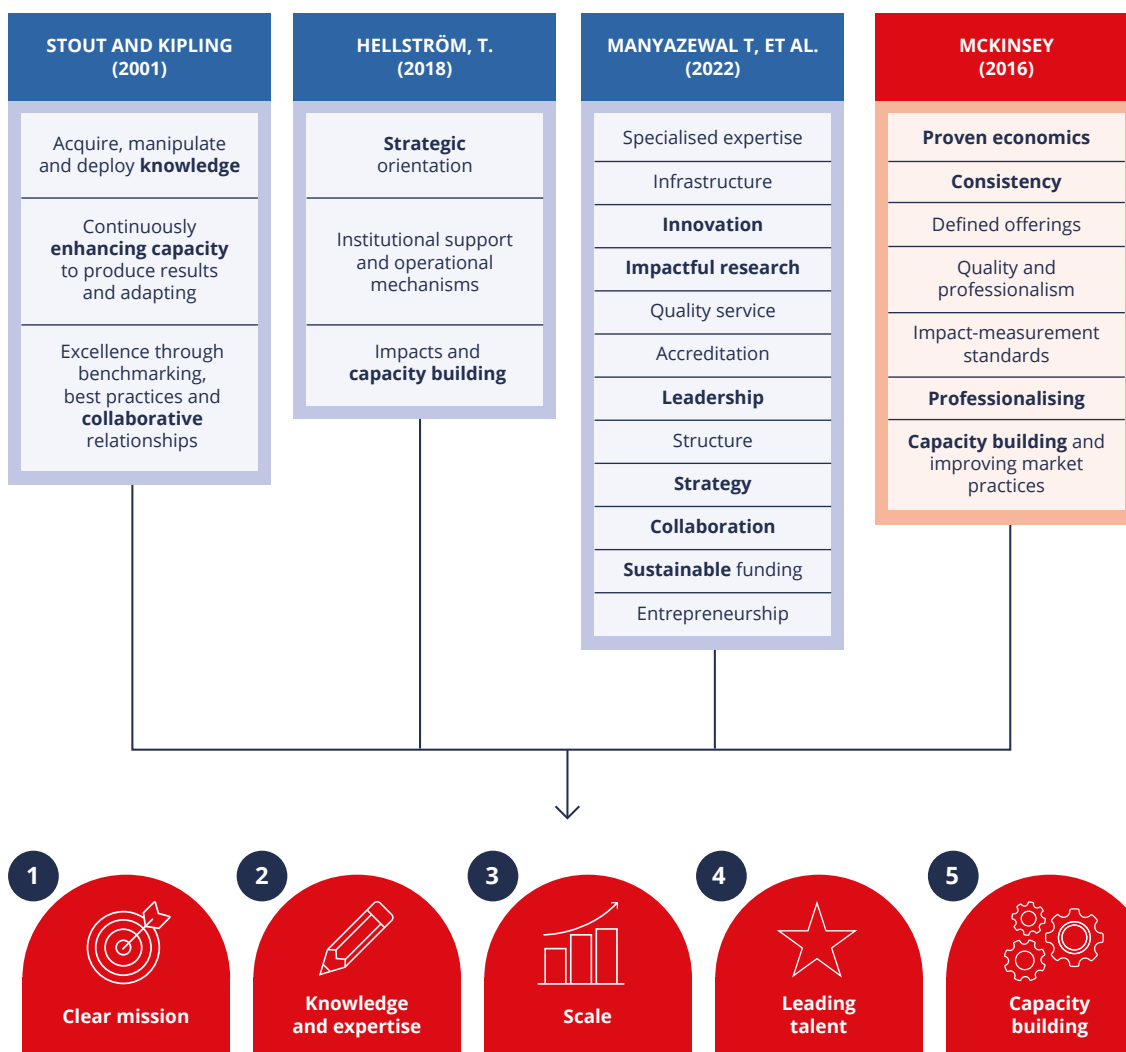


Figure 5: Literature review of scholarly articles and other sources summarised by authors^{15 16 17}

¹⁵ Manyazewal, T., Woldeamanuel, Y., Oppenheim, C., Hailu, A., Giday, M., Medhin, G., Belete, A., Yimer, G., Collins, A., Makonnen, E., & Fekadu, A. (2022). Conceptualising centres of excellence: A scoping review of global evidence. *BMJ Open*, 12(2), e050419.

¹⁶ Hellström, T. (2018). Centres of Excellence and Capacity Building: From Strategy to Impact. *Science and Public Policy*, 45(4), 543-552.

¹⁷ Manyazewal, T., Woldeamanuel, Y., Oppenheim, C., Hailu, A., Giday, M., Medhin, G., Belete, A., Yimer, G., Collins, A., Makonnen, E., & Fekadu, A. (2022). Conceptualising centres of excellence: A scoping review of global evidence. *BMJ Open*, 12(2), e050419.

¹⁸ Godsall, J., Sanghvi, A., & McKinsey. (2016). *How impact investing can reach the mainstream*.

5. Why the UK?

Each of the aforementioned Centre of Excellence criteria are applied to the UK below.



Clear mission

The UK has a strong foundation for sustainability and impact investing to build on. This provides a clear opportunity to develop its position as a Centre of Excellence in impact investing. For instance, the UK is a well-established one-stop shop for green finance: London ranks first in the Global Green Finance Index; and the UK was the first G20 country to make Task Force on Climate-related Financial Disclosures (TCFD) aligned reporting mandatory across the economy, amongst many other commitments to sustainability during the COP27 presidency. In parallel, the UK has been nurturing impact finance. This began with a clear mission to develop and grow a robust impact investing market:

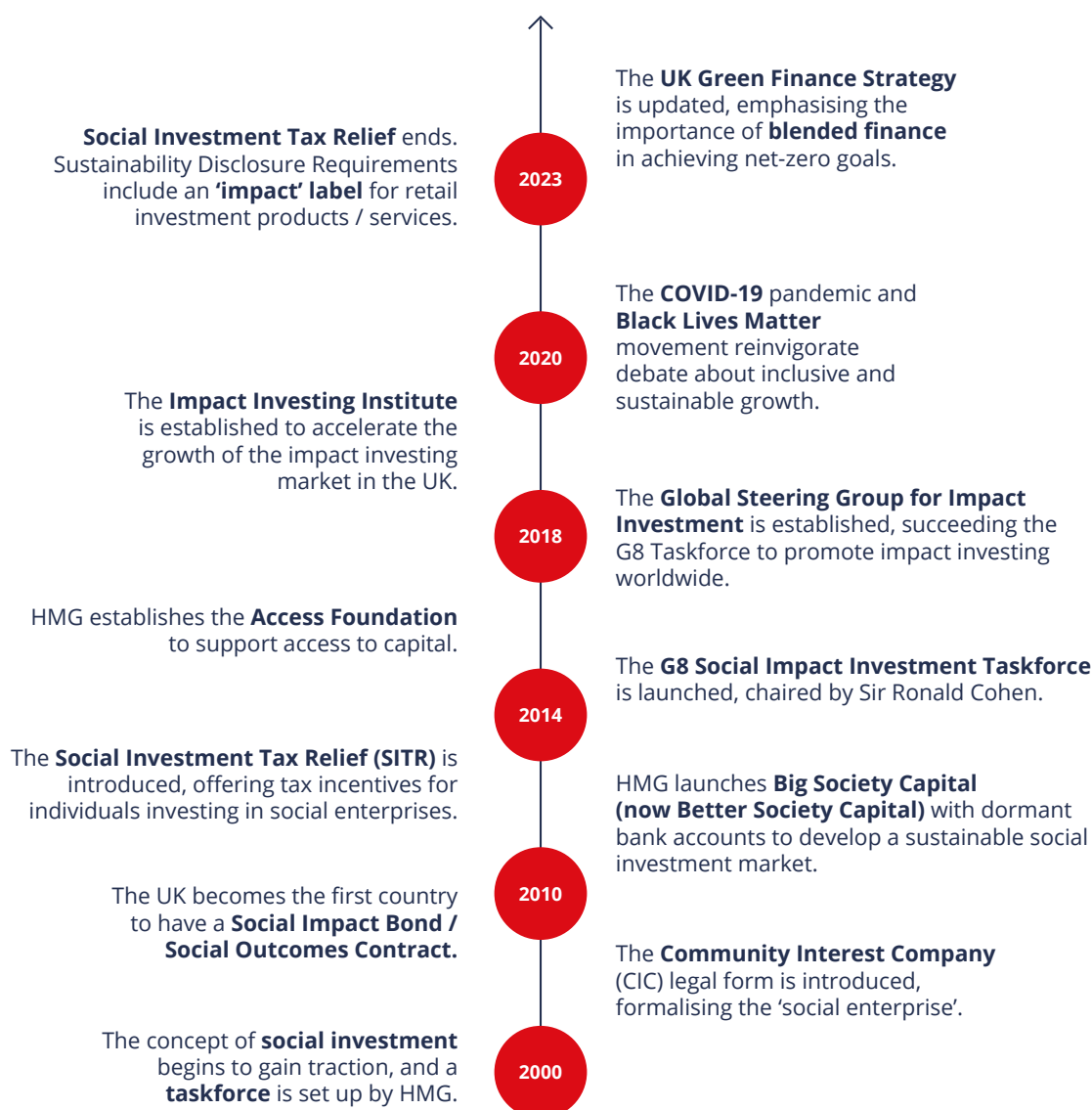


Figure 6: History of impact investing in the UK summarised by authors

Typically, there are three ways in which a government can develop an impact investing market:

- develop the supply side by increasing the number of impact investors;
- develop the demand side by helping social enterprises and businesses access finance; and
- most directly, provide capital to the market.

Having a multi-pronged approach that tackles these three elements requires a sharp vision of the end goal. Successive UK Governments have delivered policies across all categories:

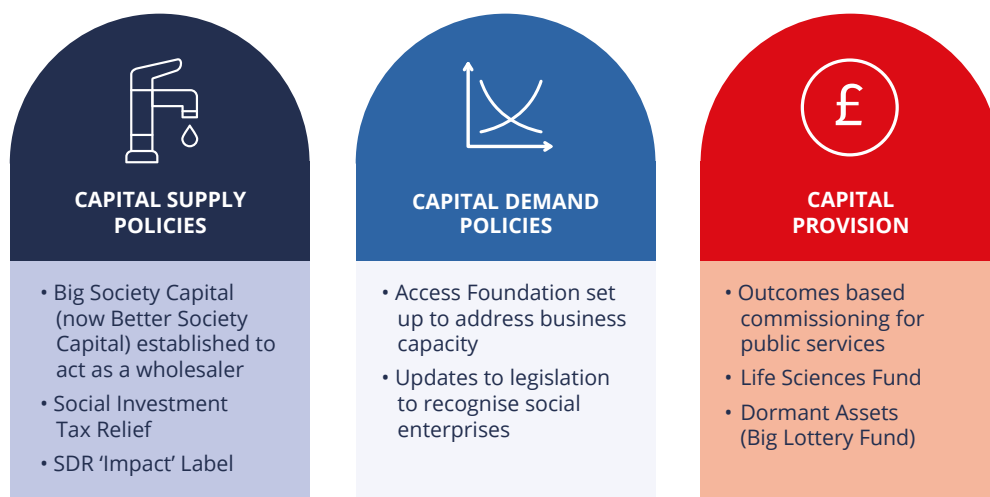


Figure 7: Summary of UK policies for impact investing by authors ¹⁹

It is clear that the UK has addressed market creation through policy in a holistic manner. Other geographies with notable impact investing markets, in terms of number of impact investment firms, in descending order, include the US, France, Canada, Netherlands, South Africa, India, Switzerland, Singapore, Germany, Australia, Denmark, Spain, Norway, and Sweden.²⁰ However, the UK and the US are generally accepted as the most established markets, with the longest history in impact investing.²¹

Knowledge and expertise

Two metrics related to the quantum of knowledge produced are the research institutes focused on impact investing research; and the number of academic papers that are published.

According to an academic database of over 406 million papers, there are nearly 30,000 articles on impact investing published by UK institutions and authors across the database. This is the largest number of articles compared to other European countries, speaking to the powerhouse of knowledge the UK is on impact investing.

The UK has the second largest number of academic articles on impact investing published, over time

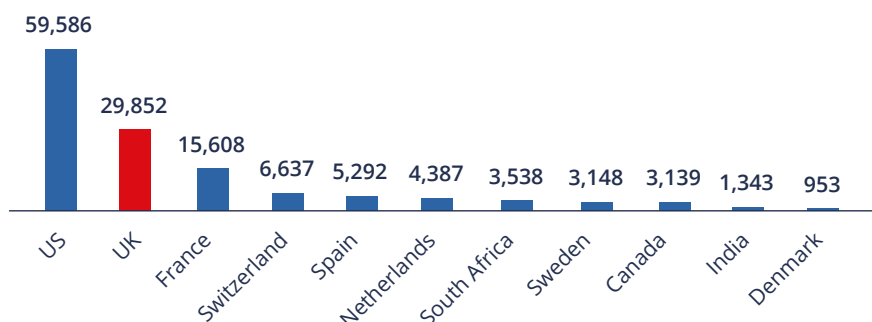


Figure 8: Academic article count on BASE database by geography, over time ²²

¹⁹ Adapted from Martin, M. (2020). The contemporary history of impact investing.

²⁰ Cojoianu, T. F., Hoepner, A. G. F., & Lin, Y. (2022). Private market impact investing firms: Ownership structure and investment style. *International Review of Financial Analysis*, 84, 102374.

²¹ Ibid

²² BASE. (2024). *BASE (Bielefeld Academic Search Engine): Basic Search*.

The UK has leading institutes, policy units and research centres on philanthropy, social impact, sustainability, social investment, impact investing and the impact economy. A sample of these is included below.

Some innovative examples include LSE's [100x impact accelerator](#) which aims to invest in businesses that will be the next 'social unicorns' and University of Edinburgh's [Centre for Investing Innovation](#). The latter have partnered with [abrdn](#) to address challenges in the investment management sector for greater societal benefit.

Organisation	Research Centre
Bayes Business School	Centre for Asset Management Research
Cambridge University	Cambridge Institute for Sustainability Leadership
Cardiff University	Cardiff Sustainable Finance Research Group
Impact Investing Institute	Impact Investing Institute
London School of Economics & Political Science (LSE)	The Marshall Institute / 100x Impact Accelerator
Nesta	Nesta Impact Investing
Newcastle University	Research on Entrepreneurship, Wealth and Philanthropy
SOAS	Centre for Sustainable Finance
University of Birmingham	Sustainable Financial Innovation Centre
University of Edinburgh	The Centre for Investing Innovation
University of Exeter	Exeter Sustainable Finance Centre
University of Kent	Centre for Philanthropy
University of Oxford and UKRI	UK Centre for Greening Finance and Investment
University of Portsmouth	Centre for Innovative and Sustainable Finance
University of St Andrews	Centre for the Study of Philanthropy and Public Good
University of Strathclyde	Centre for Charitable Giving and Philanthropy

Figure 9: Research centres gathered by authors



Being headquartered in London, Lightrock benefits from the UK's global outlook, diverse opportunities, and deeply integrated ecosystem for financial and professional services. The UK's thriving academic and social enterprise sectors foster innovation in impactful technologies and business models, positioning the nation as a leader in addressing global challenges like climate change."

Mehdi Lichani - Director of Value Creation (Impact & Sustainability), Lightrock

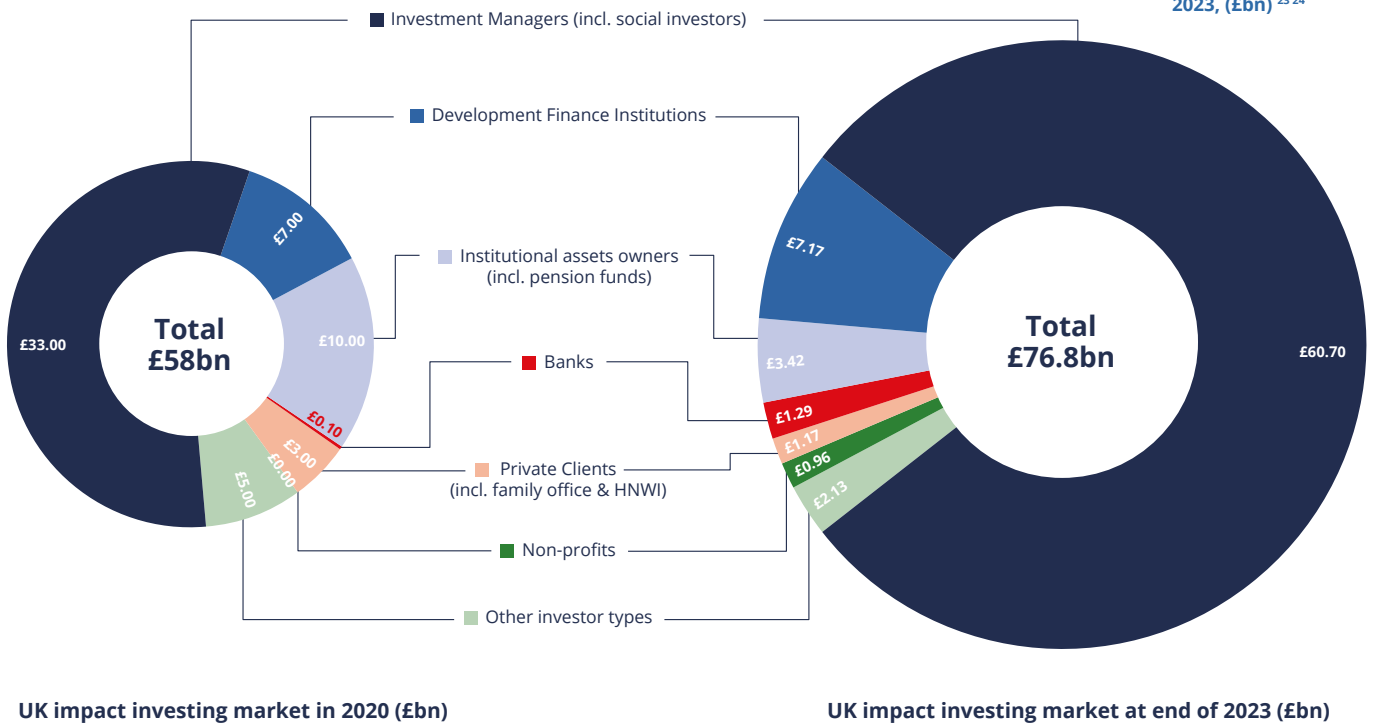
Scale

The third element of a Centre of Excellence is scale. Metrics such as assets under management, breadth of investors and number of stakeholders involved illustrate the scale of the market. The UK is a well-established finance centre, with a sophisticated and large pool of investors. This creates an enabling environment which can allow innovative investment practice, such as impact investment to thrive.

The UK's impact investment market is large and growing and experienced rapid growth over the last three years, despite challenges faced by the mainstream investment market. The growth in the market is primarily driven by both existing investors increasing their assets under management and new players launching impact offerings.

The UK impact investing market grew significantly over 2020 - 2023

Figure 10: UK impact investing assets under management 2020 - 2023, (£bn)^{23,24}



The Impact Investing Institute has referenced 72 UK impact investors in the latest market sizing report.²⁵ This includes a range of stakeholders from institutional investors to high-net-worth individuals and family offices. This may be an underestimate as it is self-reported and databases such as Pitchbook and Crunchbase show a larger number of impact investors in the UK.

One caveat to making comparisons with other regions is that it is not a like-for-like comparison due to the different categorisations of impact investment, different time horizons for market sizing studies as well as the use of self-reported data.²⁶ What can be elicited from these statistics, however, is quantum and scale of the market, compared to the size of the region. The UK, a far smaller geography than Europe, is also a substantial share of the total European assets under management (EU80bn²⁷ or £68bn in 2022 when the UK market was estimated to be £58bn). The UK is also a substantial proportion of the total impact deals in Europe over time.

²³ Impact Investing Institute (2024). *The UK impact investing market: Size, scope, and future potential*.
²⁴ Impact Investing Institute, EY, & Better Society Capital. (2020). *Estimating and describing the UK impact investing market*.
²⁵ Impact Investing Institute (2024). *The UK impact investing market: Size, scope, and future potential*.
²⁶ Impact Europe. (2022). *Accelerating Impact: A common market sizing methodology*.
²⁷ Ibid

The UK has the largest cumulative deal count in Europe over 2014 - 2024

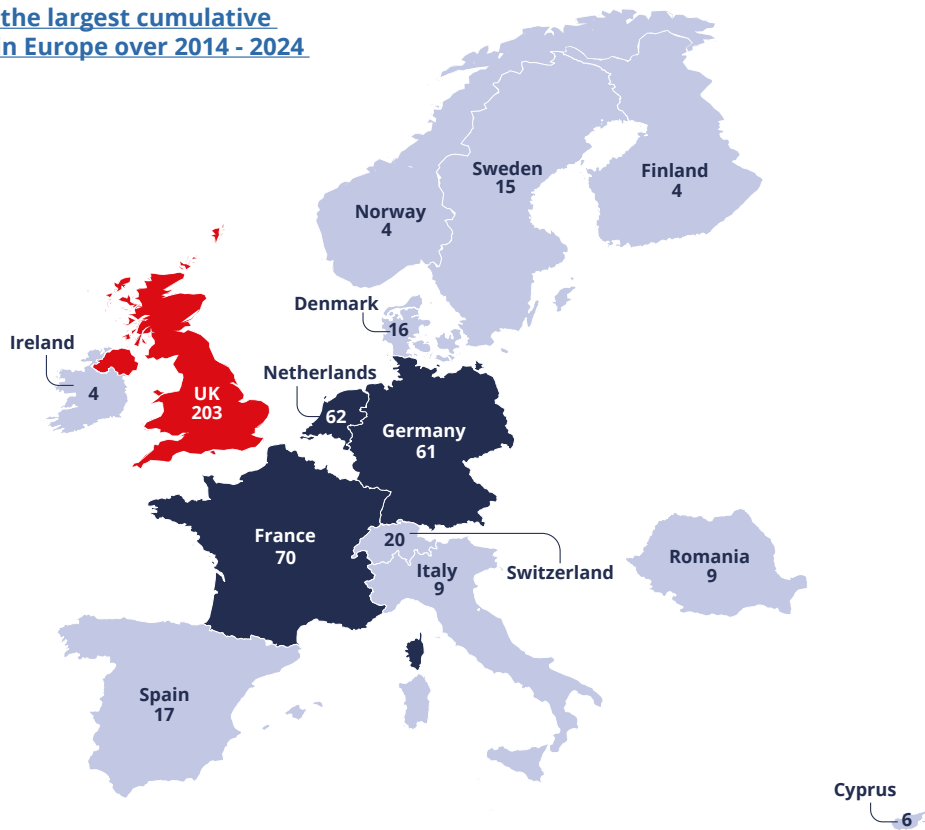


Figure 11: Cumulative deal count related to impact investing in Europe over the last 10 years, according to Pitchbook data²⁸



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Furthermore, in a recent report by Barclays, the scale of impact-driven companies in the UK is projected to grow, despite significant growth in 2021 and 2022, post the COVID-19 pandemic. Activity is expected to normalise after that extraordinary period but still estimated to grow above those levels by 2028. This can be used as a relevant proxy for the growth of the impact investing market, as the key funder of such companies.

Equity investment in impactful businesses in the UK is set to increase

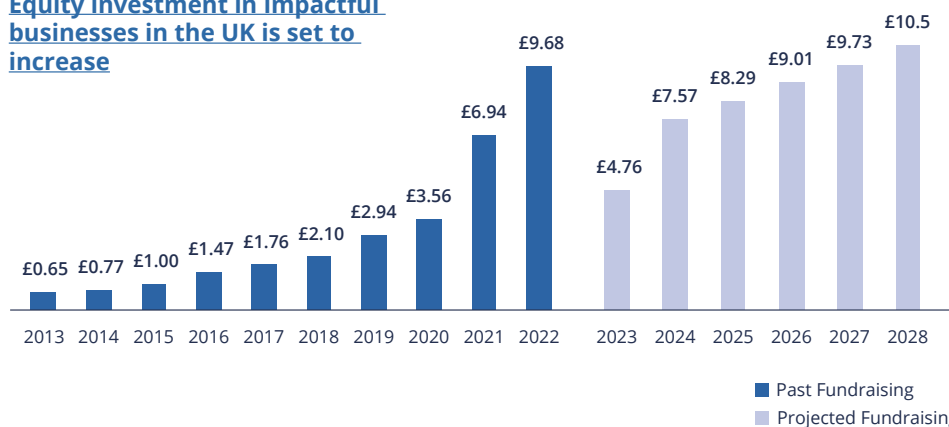


Figure 12: Projected equity investment in impact driven businesses (2024 - 2028) by Barclays, (£bn)²⁹

²⁸ Pitchbook database search for deal count amongst impact investors with headquarters in Europe. (2024).

²⁹ Barclays. (2024). *Impact environmental and social signals in startups and scaleups*.



Leading talent

Despite data challenges for understanding the impact investing labour market, this report draws on insightful proxies. For example, Impact VC's community was founded in the UK and has grown to 800+ impact orientated venture capital investors globally, with a majority based in the UK. This provides one data point for the number of impact investment employees.³⁰

Another metric could be the training courses aiming to develop leading talent in impact investing. The UK has a range of well-respected and collaborative initiatives looking to disseminate information and best practice to enable broader market growth. These include but are not limited to:

- [Oxford University Impact Investing Programme](#)
- [LSE Sustainable Finance and Impact Investing course](#)
- [Cambridge Institute of Sustainability Leadership course on Social Business and Justice](#)
- [Impact VC and BVCA Impact Investing for VCs Training](#)
- [CFA Society UK Certificate 4 in Impact Investing](#)
- [Conduit Connect Generation Impact Academy course](#)

The Oxford Impact Investing Programme was the first global impact investing executive education programme in the world and was developed in 2013, highlighting the UK's expertise in developing high-calibre impact talent.³¹

The UK also has significant expertise in ancillary services for impact investing that indicate leading impact talent. These include practitioners in monitoring and evaluation of impact; consultants in the non-profit sector; specific market experts, especially in investing in South Asia and Africa; and talent in complex financing mechanisms such as blended finance.

Typically impact investors come from the mainstream financial and professional services (FPS) industry as the underlying skills of investment are within this labour pool. The FPS industry employs 2.4m people in the UK. Over 40% of employees in London's FPS industry are from overseas and London ranks higher than New York, Frankfurt and Paris in a labour force index that accounts for metrics such as training, gender gap, diversity, relevant graduates, higher education amongst other metrics.³² This provides some data points regarding the UK impact investment talent pool, which is derived from this bigger FPS group – a robust and diverse group.



Since Bridges launched in 2002, and particularly over the last decade, we've seen an explosion of interest in impact investing as a career option. Through our Turner MIINT programme – which this year involved over 450 students from top universities in the UK and globally – and our work with young professionals in the City of London, we've seen first-hand that a growing number of people coming into the workforce want to align their professional life with their personal values, and believe that they can use a career in finance to have a positive impact on the world. That has allowed us to recruit some incredibly talented people – which is so important if we are to have any hope of tackling the huge environmental and social challenges we face.”

Michele Giddens – CEO, Bridges Fund Management

³⁰ Better Society Capital. (2024). *10 Lessons from a Growing Market in 10 Years*.

³¹ University of Oxford, & Said Business School. (2023). *A decade of new questions, new possibilities and creative impact* | Said Business School.

³² City of London Corporation. (2024). *Our global offer to business: London and the UK's competitive strengths supporting economic growth*.



Capacity building

In disseminating information for broader market growth, the UK has a range of well-respected and collaborative initiatives, including but not limited to:

- 1 Better Society Capital was set up to highlight a social investment wholesaler model to build the pipeline of impact investments available in the UK. They have published a range of impact data and lessons learned for other investors³³ as well as training materials for founders and VCs through Impact VC.
- 2 Access – The Foundation for Social Investment was established to build the capacity of charities and social enterprises to receive finance through the Reach Fund and build out the blended finance ecosystem in the UK.
- 3 The Impact Investing Institute was established in 2019 to mainstream impact investing and grow the sector. They publish a series of thought leadership outputs via the learning hub on impact investing.
- 4 Bridges Fund Management developed the Impact Management project in 2016, to develop shared fundamentals for measuring, managing, and reporting on impacts on people and the natural environment. The IMP framework is widely used globally.³⁴ Furthermore, Bridges Impact Foundation deliver the Turner MIINT programme in the US and help organisations with their impact measurement through the IMP.
- 5 GSG Impact develops chapters of national impact investing advisory bodies and institutes across the world to spread the learnings of impact investment from the UK.³⁵
- 6 The Scottish National Investment Bank is Scotland’s development bank and aims to deliver patient, mission-aligned impact investment. The Bank was established in 2020 to invest in three challenges facing Scotland – the climate emergency, place-based inequality, and demographic change. They’ve conducted a review of the impact investment landscape in Scotland and disseminated recommendations for growth in Scotland which could be replicated in other similar regions.³⁶
- 7 The UK’s development finance institution (DFIs), British International Investment (BII), has a unique position in the international development and impact investing sector. It has shared lessons from investing in riskier geographies, is more equity based than other DFIs and so often takes a leadership position on deals. It has collaborated with other DFIs to build new initiatives to catalyse more capital.³⁷
- 8 University of Oxford’s Blavatnik School of Government houses the Government Outcomes (GO) Lab, which is the leading centre on how governments can partner with private and social sectors to improve social outcomes. The GO Lab conducts research, collects data, and engages stakeholders on cross-sector partnerships and outcomes-based contracting.

These are simply a sample of the capacity-building initiatives born in the UK that have driven and continue to guide the sector forward across the globe. In addition, London is a leading financial centre which people look to for expertise and professional development, thus further enabling capacity-building platforms and resources for impact investing to exist.



The UK’s position as a financial hub, combined with its role as a home to several of the world’s leading impact investing firms sees it well positioned as a potential global Centre of Excellence for impact investing. This opportunity is further reinforced by the UK’s access to the top universities, talent, and a history of developing innovative market standards and frameworks.”

Jamie Butterworth – Partner, Circularity Capital

³³ Better Society Capital. (2024). *Ten Lessons From Growing a Market*.

³⁴ Bridges Fund Management. (2024). *Field-building*.

³⁵ GSG Impact. (2024). *Shared learning across the NAB network*.

³⁶ Scottish National Investment Bank. (2022). *Unlocking the potential of impact investing in Scotland*.

³⁷ UK Parliament. (2023). *IDC’s Investment for Development Inquiry—Submission by BII*.

6. Value of being a Centre of Excellence

The benefit of the UK being a Centre of Excellence is manifold – ranging from financial and economic value to positive social outcomes. The UK has the opportunity to strengthen its role as a hub for impact finance, further attracting impact investors, funds, purpose-led businesses, and high-quality talent to the UK.



Our latest research shows that the UK impact investing market has grown 25% since 2020, to £76.8 billion. This represents a 10% annual growth rate versus a broadly flat asset management industry during the same period. We believe this points towards a shift in capital markets towards a focus on investing for a fairer, greener, more resilient future. And at 8% of the global market, the UK is in a leading position, driving the innovation and best practices needed to further grow the field and mobilise more capital at scale that benefits people and the planet.”

Bella Landymore
– Co-CEO, Impact Investing Institute



Manchester, UK.

Financial and economic value

Contrary to the misconception that impact investing involves concessionary returns, there is clear evidence that investments of this nature can achieve competitive risk adjusted returns and contribute to solutions. In 2013 and 2020, globally impact investments have outperformed non-impact funds.

The median IRR of impact funds globally has at times matched or exceeded the IRR of non-impact funds

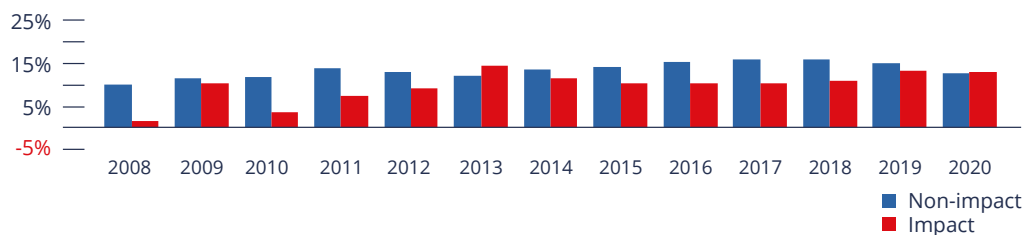


Figure 13: Global median IRR of impact and non-impact funds by year (as at 2023)³⁸

Most impact investors seek market returns. The evidence suggests the industry continues to make steady returns on investments, including in years of worsening macroeconomic conditions, such as during COVID-19, an example of the resilience of the industry. As the market matures and grows, there may be some areas where impact-first investors make a strategic decision to accept lower returns in order to achieve more systematic social outcomes or to mobilise other types of investors (e.g. DFIs mobilising private investors).

Impact is seen as a source of value by most impact investors. Better Society Capital highlight this across four areas:

- accessing and retaining customers;
- attracting and inspiring the best talent;
- reducing regulatory risk;
- and improving access to capital (fundraising).³⁹

The financial and economic benefit of impact investing therefore goes beyond market rate financial returns. For example, there is significant growth in impact-related fundraising in comparison to standard non-impact fundraising, especially in Europe. This could be a result of ESG regulation in the EU and UK being more favourable to the 'greening of the economy' than elsewhere. As such, being a Centre of Excellence in an area, signals and translates into more specific fundraising.

A greater share of global impact capital is raised in Europe

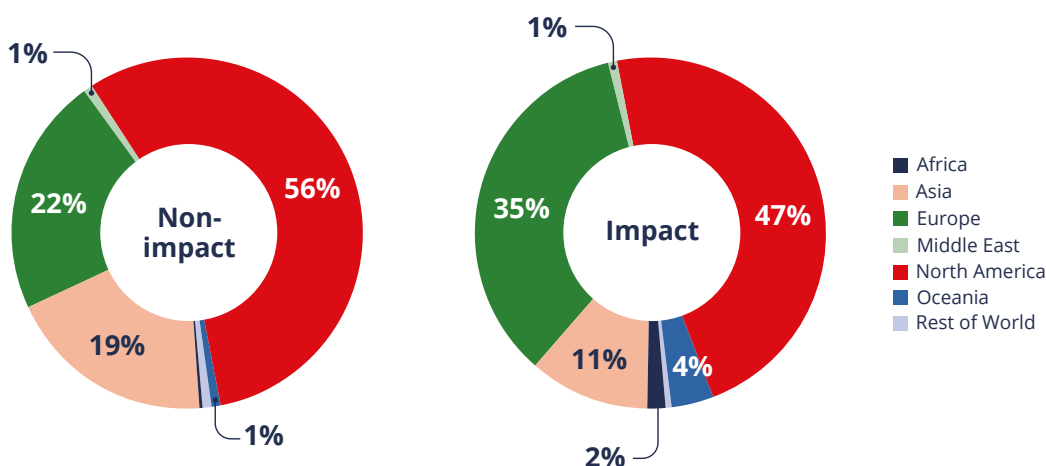


Figure 14: Share of capital raised by region since 2007 according to Pitchbook data as at 2023⁴⁰

³⁸ Pitchbook. (2024). *The State of Private Market ESG and Impact Investing in 2024*.

³⁹ ImpactVC. (2024). *Assessing the links between impact and commercial value*.

⁴⁰ Pitchbook. (2024). *The State of Private Market ESG and Impact Investing in 2024*.

The UK impact investing community has provided finance to a wide spectrum of businesses and contributed to economic growth.

Impact investing in the UK has contributed to the growth of a number of industries

- Material and Resources
- Information Technology
- Healthcare
- Financial Services
- Energy
- Consumer Products and Services (B2C)
- Business Products and Services (B2B)

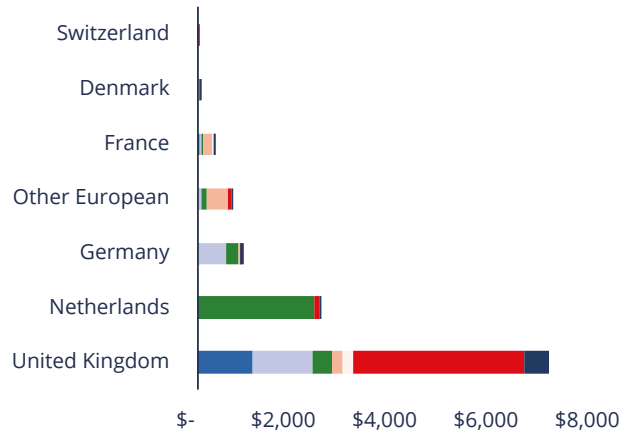


Figure 15: Sum of deal size (\$m) over time by headquarters of investors, and primary sectors according to Pitchbook data ⁴¹

Additionally, the UK’s economic contribution in terms of impact investing deal size or deal count to industries ranging from IT; consumer and business products to resources, is the largest in Europe.

The UK accounts for a significant share of impact investing deals in Europe

- Material and Resources
- Information Technology
- Healthcare
- Financial Services
- Energy
- Consumer Products and Services (B2C)
- Business Products and Services (B2B)

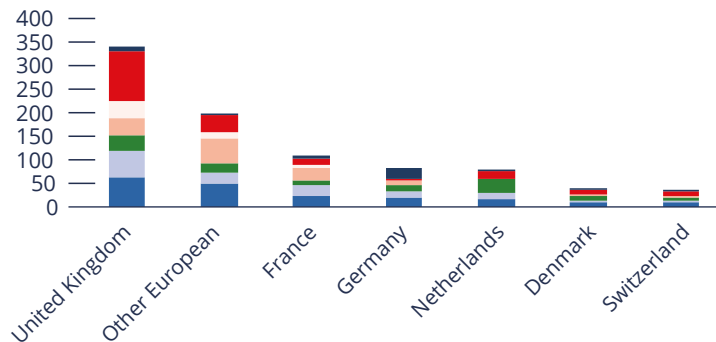


Figure 16: Deal count over time by headquarters of investors in Europe, and primary sectors according to Pitchbook data ⁴²



It has been amazing to watch the development of the impact investment market in the UK, and our partners in the venture space continue to drive and make a case for investment that works for fundraisers and people across the country.

The UK is an innovator in impact investment and continues to blaze a trail. Sustaining this performance and working to become a Centre of Excellence is a no-brainer, and investors, those requiring support, and policymakers all gain substantial value from the growth of the impact venture ecosystem.”

James Westhead – Head of Engagement, Better Society Capital

⁴¹ Pitchbook. (2024). *The State of Private Market ESG and Impact Investing in 2024*.

⁴² Ibid

Impact value

The UK government is facing unprecedented challenges relating to growth, including underfunded public services, and a need for innovation and a green transition. As a Centre of Excellence in impact investing the UK can further social and policy goals domestically. Three ways in which impact investing can deliver this, are outlined below.

Growing impact economy

The UK impact economy is set to grow. Analysis by Barclays suggests that there could be 12,600 active purpose-driven companies by 2028 – a 27% increase from 2023.⁴³ The growth of the impact economy in this way, through purpose-driven businesses, will lead to more products and services that serve the people of the UK and the natural environment.

Equity investment in impactful businesses is projected to increase by 27% from 2023 levels

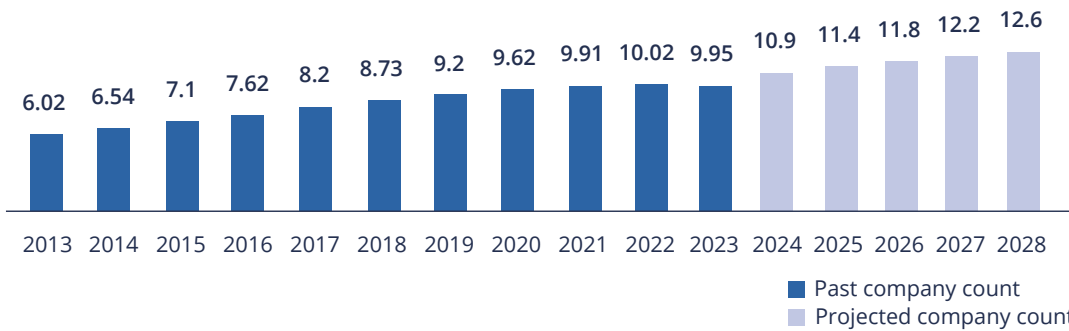
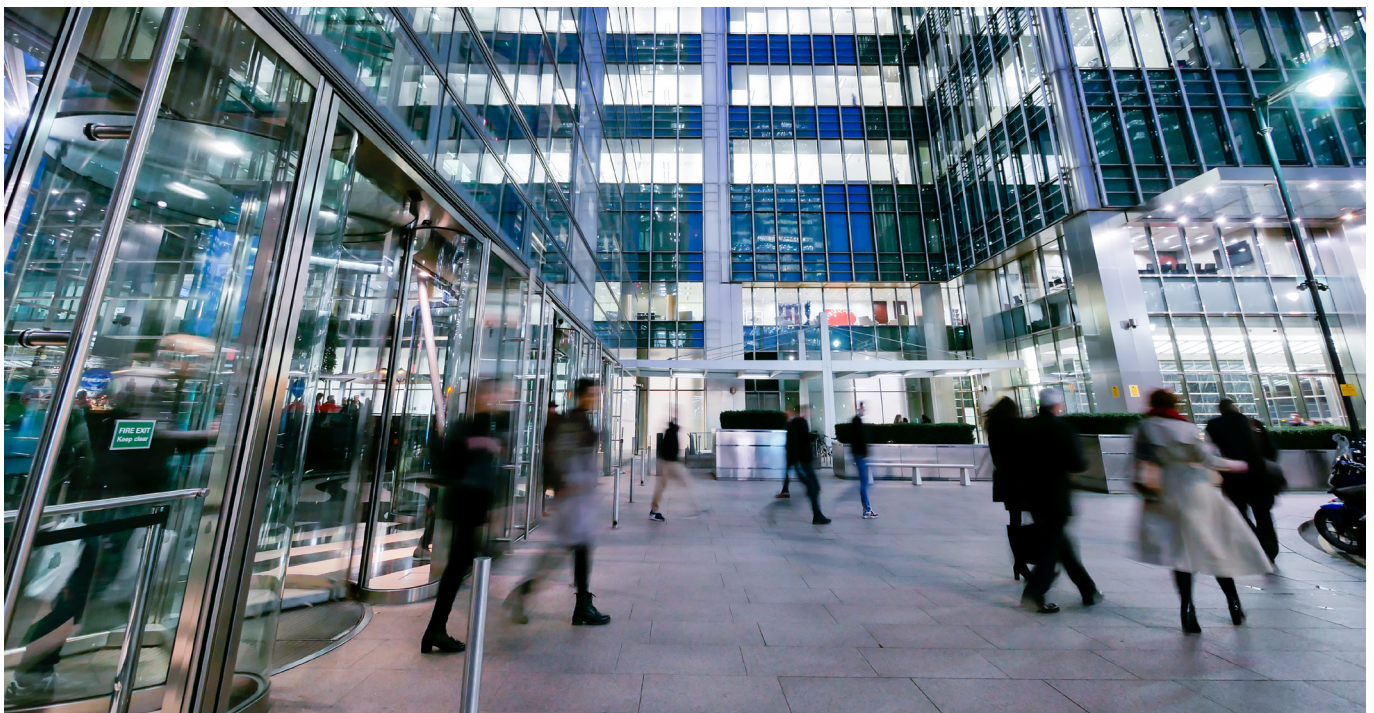


Figure 17: Projected equity investment in companies with ESG signals ('000)⁴⁴



⁴³ Barclays. (2024). *Impact environmental and social signals in startups and scaleups.*

⁴⁴ Ibid

In the UK, 67% of all social enterprises have a plan to embed tackling climate into their constitution or articles of association.⁴⁵ Cementing its position as a Centre of Excellence in impact investing is likely to drive further growth in this sector in the UK, and therefore in businesses that focus and deliver on social and environmental outcomes. An example of this in practice is [Agility Eco](#).



CASE STUDY

AgilityEco

(backed by Bridges Fund Management 2019 – Dec 2023)

AgilityEco's mission is to play a major role in eliminating fuel poverty, to deliver better outcomes for low income and vulnerable families and households, and to prepare Britain's homes for Net Zero. More than 10% of households in the UK live in fuel poverty. The company plans, manages and delivers innovative services to provide practical support with energy efficiency, utility bills, household finances and vulnerability.

AgilityEco's services are primarily funded by utility companies that rely on AgilityEco to fulfil their social and environmental obligations. AgilityEco works closely with local authorities, housing providers and charities to reach those most in need, delivering its services through a carefully chosen national network of trusted and experienced energy efficiency partners.



The UK has a thriving impact investment ecosystem, from collaborations, advisors, and banks, through to companies, managers, and asset owners. This ecosystem has been developed by brilliant people. The UK benefits from a compelling combination of deep impact and investment expertise.”

Jonny Page
– Head of Social Impact Investment,
Esmée Fairbairn Foundation

⁴⁵ British Council, & Social Enterprise UK. (2022). *More in common: Global State of Social Enterprise*.

Addressing local needs

Impact investors aim to improve the system causing a social or environmental problem. This may take different forms, for example, social outcomes contracts, or place-based impact investing. Social outcomes contracts incentivise the achievement of government outcomes that also fulfil community outcomes⁴⁶, and place-based impact investing channels funds to areas that may be underfunded. As such, a significant benefit of impact investing is that it more effectively addresses local and community needs. The work undertaken by OOOBY outlined below, illustrates this point.



CASE STUDY **OOOBY**

Ooooby (Out Of Our Own Back Yards) aims to put small scale back at the heart of the UK food system by providing a digital platform to enable agroecological farms, market gardeners and food hubs to sell direct to their local communities. This reduces carbon emissions and packaging and increases access to fresher, more nutritious food, while liberating farmers from the centralised supermarket system. Ooooby is currently supporting over 100 food

hubs to make 40,000 deliveries per month to 12,800 local customers – and growing rapidly. Ooooby is supported by a group of social investors, including Esmée Fairbairn Foundation, and is implementing an innovative structure that allows its farmer and food producer clients to share in the success of the platform.

⁴⁶ Better Society Capital. (2024). *Ten Lessons From Growing a Market*.

Additional and high-quality jobs

The Taylor Review of Modern Working Practices in 2017 identified six indicators of job quality. These were: wages; employment quality; education and training; working conditions; work-life balance; consultative participation and collective representation.⁴⁷ When examining the industry's contribution to the labour market two angles can be considered: the supply side (investors) and the demand side (social enterprises and other businesses that receive impact investment).

Impact investment firms are typically more resource intensive than conventional investment firms because of their dual focus on social and environmental outcomes and, as a result, greater monitoring and evaluation needs.⁴⁸ Therefore, they generally have more employees than conventional investment teams on average, and therefore the industry is creating jobs in the UK, as a sustainability and impact hub.

On the demand side, social enterprises, for instance often create jobs in local communities or help those excluded from the workforce to re-enter the job market. There are around 100,000 social enterprises in the UK, employing 2 million people and contributing £60bn to the UK economy.⁴⁹ Social enterprises are more likely to pay the

'Living Wage' compared to the rest of the private sector and offer more flexible working conditions, such as a four-day week. Furthermore, 31% of social enterprises increased staff pay, and 17% took other measures to support staff during the cost-of-living crisis in the UK.⁵⁰ As such, the industry is creating high-quality jobs per the Taylor Review and additional jobs in the UK.

On the global scale, the World Economic Forum estimates that there are approximately 10 million social enterprises across the world, comprising more than 3% of all businesses. These businesses generate around \$2 trillion in revenue each year, and nearly 200 million jobs. In addition, half of social enterprises worldwide are led by women, compared to one in five for conventional enterprises.⁵¹ This exemplifies the value of this section of the industry.

Social enterprises are not the only entity to receive impact investment. Businesses with products or services seeking to solve environmental or social problems as newer, start-up organisations are aiming to do, have been evidenced to 'have an easier time recruiting and retaining the best talent' or in becoming employers of choice.⁵² The start-up community is another segment of the market creating high quality jobs.



CASE STUDY B2W (backed by Palatine)

B2W is a skills and training provider focussed on pre-employment and employability training, bootcamps and apprenticeships. B2W delivers a clear social impact by helping people return to work and gain new skills for employment. It works with large employers and job centres to provide high-quality training to upskill and support unemployed people in getting paid employment. B2W focuses on upskilling workers beyond the minimum wage poverty trap and into better-paid careers.

Recent funding has come predominantly from the Adult Education Budget (AEB) and delegated to the Mayoral

Combined Authorities (MCAs), where new deployment rules allow for better targeting of local employment and training needs. In Greater Manchester, the funding was used to offer free level 2 training for all, including those without qualifications, allowing anyone in the area to apply for career-enhancing level 2 training, which B2W and others delivered. To date, almost 500 people in the Greater Manchester region have achieved job outcomes, meaning they have accumulated earnings that exceed the equivalent of someone working 16 hours per week for 26 weeks, earning the National Living Wage. This is the best outcome of all training providers in the Greater Manchester region.

⁴⁷ Social Enterprise UK. (2023). *Social Enterprise and Quality of Work*.

⁴⁸ Cojoianu, T. F., Hoepner, A. G. F., & Lin, Y. (2022). Private market impact investing firms: Ownership structure and investment style. *International Review of Financial Analysis*, 84, 102374.

⁴⁹ Social Enterprise UK. (2023). *Social Enterprise and Quality of Work*.

⁵⁰ Social Enterprise UK. (2022). *Social Enterprise Barometer*.

⁵¹ Ibid

⁵² Andreou, N. (2022). Impact-driven startups are winning the war for talent. Here's how you can do it too. *Impact Edge*.

7. What is next for the impact investing market?

This report demonstrates that the UK is a Centre of Excellence in impact investing, and the benefits are vast. The following trends indicate further growth of the sector and present exciting opportunities for the UK.

Championing innovation in financing social and environmental goals

Sharing lessons:

Many governments around the world are utilising impact investing to deliver on social policy goals. From state-owned impact funds like in Spain⁵³ to India's Social Stock Exchange⁵⁴ they are aiming to create a positive enabling environment for impact investors. Further, the UK is using blended finance models, such as providing guarantees or concessionary capital, to crowd in private investment for natural capital investment, place-based investing, climate change and the net zero transition. These are further examples of the impact economy growing with state intervention.⁵⁵

Opportunity: The UK has a prime opportunity to continue to share lessons globally on innovative practice.

Supporting the growth of the impact economy:

The Better Business Act Coalition seeks to ensure all companies align and balance shareholder interest with the interests of society and the environment.⁵⁶ If supported by the UK government, this could substantially increase the social enterprise sector of the UK and will rapidly increase the impact economy. In parallel there is a call to align corporate financing with the UN SDGs⁵⁷ and clarification of fiduciary duties of pension funds to allow them to invest in social and environmental impact.⁵⁸

Opportunity: With pension reform on the agenda in the UK, and greater prioritisation within business of social considerations, the UK impact economy could scale exponentially.

Addressing data gaps:

Addressing existing data gaps about the value, and contribution of the industry across important economic factors, could help in mainstreaming impact investment practice more widely.

Opportunity: Further research could be commissioned on the impact of the industry on the labour market. The industry's contribution to GDP or wellbeing metrics may also be beneficial areas for further exploration.



This report demonstrates that the UK is a Centre of Excellence in impact investing, and the benefits are vast.”

⁵³ Adamkiewicz, K. (2024). *Spanish government approves €400m social impact fund*. Impact Investor.

⁵⁴ World Economic Forum. (2023). *India is prime ground for impact investments. Here's why*.

⁵⁵ LSE Grantham Institute. (2022). *How can 'blended finance' help fund climate action and development goals?*

⁵⁶ Better Business Act. (2024). *The Better Business Act*. Better Business Act.

⁵⁷ UN Global Compact. (2024). *CFO Coalition for the SDGs*.

⁵⁸ Pensions for Purpose. (2023). *Impact investing and fiduciary duty are fully aligned, new research shows – press release*.

Meeting the demand for impact and purpose-driven jobs

Supporting capacity building efforts:

Sustainability and green jobs are on the rise.⁵⁹ Sustainability and impact teams are growing and as such an increase in impact investment jobs is imminent. One of the enabling factors is an increase in 'social' and 'impact' topics such as adaptation and resilience as well as scientific research being increasingly weaved into finance conferences and events. The other factor is the growth of educational courses and learning opportunities related to impact investing and the role of the private sector in delivering public benefit.

Opportunity: The UK can continue to support this demand for impact jobs and expertise through effective events, conferences, new research centres and innovative practice.

Communicating a clear brand:

The Silicon Valley in California has been effective in establishing itself as a hub for technology which led to significant growth in activity and related jobs. Other regions have begun to follow suit on different 'brands' such as a hub for sustainability; being start-up friendly; or specific types of technological skills. These include cities such as Boston, Beijing, Tel Aviv and Bangalore to name a few.

Opportunity: As a Centre of Excellence in impact investing, and through a more concerted signalling effort, the UK Government has a prime opportunity to attract international investors, high-quality talent, and encourage firms to domicile impact funds in the UK.



⁵⁹ UK Office for National Statistics. (2023). *Experimental estimates of green jobs*.

Leading the conversation on impact best practice and moving the dial forward

Enabling legislative environment:

For a growing share of investors, climate is viewed as a strategy that can be applied across nearly all impact themes and sectors.⁶⁰ The UK is also a sustainable finance hub and as climate continues to become an overarching strategy for impact investors, the UK and EU could be considered a more favourable place to develop social and environmental funds and products.

Opportunity: Further enabling legislation on sustainability and impact investment will support this growth.

Advocacy on more effective capital:

There have been global debates on the effectiveness of development finance and private capital for public benefit in recent times. In parallel, the growth of the impact investing market has permitted investors to pursue a varied range of impact products and strategies which allows for a range of return expectations, investment strategies and theses, some more effective than others.

Opportunity: The UK could leverage its position as a Centre of Excellence and research hub in impact investing, to share lessons and help advocate for more effective environmental and social capital in global forums.

Supporting consistent practice:

New environmental regulation is being developed globally and is likely to continue to weave social considerations within it. Providing we continue to see consistency in the definitions used, nods to 'social' considerations such as a 'Just Transition' and standardised disclosures such as the Sustainability Disclosure Requirements (SDR) in the UK on impact labels, there will be a further coalescence in the regulation around environmental and social investment.

Opportunity: The UK could advocate for further consistency in impact disclosure and measurement in global standard setting and bilateral fora, to address a perennially quoted challenge to mainstreaming impact investment.

These trends highlight exciting opportunities for UK policymakers, investors, and other market participants to capitalise on the benefits of being a Centre of Excellence in impact investing.

If these opportunities are harnessed, greater outcomes in the service of people and planet can be realised for the UK.



Victoria Street, Edinburgh, UK.

⁶⁰ GIIN. (2023). *Emerging Trends in Impact Investing*.

Data limitations and methodology

This report has employed a range of techniques to understand the impact investing market. Due to a lack of data on the sector, some proxy data points have been employed with analytical approach and weaknesses outlined in the explanation. A range of additional data limitations of this analysis have been outlined below:

1. No primary sources were used in this analysis. All data points are from publicly available reports or retrieved from the Pitchbook database.
2. As mentioned throughout the report, a variety of definitions are used to define impact investing, investors, and investments. This means some of the analysis, especially used to compare other international markets, is an estimation and should be treated with caution. This is highlighted in the report where this may be the case.
3. The analysis of academic articles to understand knowledge and expertise on impact investing coming from the UK was completed using additional word-forms of 'impact investing' and was searched not only in the titles of the articles, but throughout the entire document. The site used to gather this information was the Bielefeld Academic Search Engine (BASE).



THE GLOBAL CITY

About the Global City campaign

The Global City campaign is the City of London Corporation's overarching initiative to promote the UK as a world-leading international finance centre and within that, as a sustainable finance hub. It showcases the UK as a great place for financial and professional services firms to invest, locate and grow.

theglobalcity.uk



About the City of London Corporation

The City of London Corporation is the governing body of the Square Mile dedicated to a vibrant and thriving City, supporting a diverse and sustainable London within a globally successful UK. We aim to contribute to a flourishing society; support a thriving economy and shape outstanding environments by strengthening the connections, capacity and character of the City, London, and the UK.

cityoflondon.gov.uk



About the BVCA

As the industry body and public policy advocate for the private equity and venture capital, the British Private Equity & Venture Capital Association (BVCA) has been the voice of private capital in the UK for over four decades.

With a membership of over 600 firms, we represent the vast majority of all UK-based private capital firms, as well as their professional advisers and a large base of UK and global investors. The private equity and venture capital industry has a vital role to play in driving national and regional growth.

The BVCA seeks to demonstrate how private capital is uniquely positioned as a partner for growth to the Government and wider stakeholders, while helping inform a policy ecosystem which enables the industry to effectively invest in the economy.

We engage with decision-makers through roundtables and contribute policy submissions to government, regulators, and international bodies on behalf of the industry.

bvca.co.uk