The UNSIF Research Council: A Discussion Paper

September 2017
Introduction

United Nations Development Programme SDG Impact Finance (UNSIF) has been established to employ the practices and philosophies of Social Impact Investing (SII) to pursue the UN Sustainable Development Goals (SDGs). In particular, new combinations of different risk and return capital, innovations in impact metrics and impact management, and more integrated global policy agendas in the SII field present exciting new opportunities for effectively deploying capital towards impact. UNSIF seeks to develop new investment models and to leverage new sources of capital that seek both financial returns and impact aligned with the SDGs.

The UNSIF Research Council (UNSIF-RC) has been established to provide world-class academic research to analyse, support, and inform the mission and strategic objectives of UNSIF. The UNSIF-RC will convene expert academics and professionals from across the globe to carry out theoretical and applied research relevant to UNSIF and the wider SII field.

The purpose of this Discussion Paper is to:

• Set out the rationale for and purpose of the UNSIF-RC
• Provide a brief overview of the objectives and functions of the UNSIF-RC
• Propose a high-level research agenda, divided into three streams
• Set out the next steps for the development and operationalisation of the UNSIF-RC

Karl Richter and David Galipeau at UNSIF commissioned Prof Alex Nicholls and Jess Daggers at the University of Oxford to write this paper in preparation for the inaugural meeting of the UNSIF-RC at the UN General Assembly in September 2017. This paper builds on the University of Oxford’s 2016 study of the landscape of research into SII, funded by the MacArthur Foundation.  


2 In this document ‘impact’ is understood as material social and/or environmental changes to target populations in alignment with specific organizational mission objectives.

Background

There is clear synergy between SII, which aims to bring the resources and practices of financial investment to bear on the world’s social problems, and the UN SDGs, that promote sustainable development globally. The seventeen aspirational goals, set out in the SDGs, largely overlap with the kinds of ‘impact’ targeted by SII such as reducing poverty and increasing access to affordable energy and clean water. UNSIF will exploit this synergy by drawing on the accumulated knowledge, innovations, and emergent best practice from the SII market globally, thereby attracting capital and making investments that align closely with the SDGs.

This approach will both draw upon existing bodies of research and create its own, innovative, research agenda. In terms of the former, the UNSIF–RC will draw upon a 2016 study carried out by the University of Oxford for the MacArthur Foundation that documented and categorized the global landscape of SII research. This report identified and analysed more than 330 separate items of research published since 2010.4 The report also highlighted the intellectual challenges and opportunities of such research. In terms of the latter, the UNSIF–RC will aim to explore the opportunities and challenges of SII in its widest intellectual and theoretical context. At its core, SII represents an attempt to revolutionise the way society, the state and the private sector deploys capital for societal benefit. In this context, academic research – as opposed to research undertaken by practitioners, or funded through commercial contracts – has a distinctive contribution to make.

Academic research takes a neutral position; it is subject to peer review, increasing the rigour of the work; it is less time constrained; and it builds theory based on the accumulated knowledge of an established academic discipline.5 Academic researchers, in working closely with industry, are positioned to push the boundaries of knowledge further and with greater rigour and conceptual depth. There are currently significant barriers to research, however. The University of Oxford’s landscaping paper reported that only 73 of the 330+ publications it reviewed counted as ‘academic’ research. One reason for this might be that despite several pioneering attempts to generate usable data sets, there remains a dearth of quantitative data that can be used to analyse the market. There is a similar lack of conceptual infrastructure: it has proven difficult to establish definitions and boundaries that are universally recognised. UNSIF is in a prime position to address both of these issues.

More generally, the UNSIF–RC project is located in an ideal position to advance SII globally. There are several reasons for this. Given its role as custodian of the SDGs, it is logical for the UN to support research that seeks to identify best practice in using investment to achieve these goals as well as to advance thinking on the measurement of impact across them. In addition, since it is politically neutral, does not have a profit motive, and operates across global networks with a deep reach into many sectors, the UN is ideally placed to convene an international group of researchers and to provide a platform for collaboration that does not currently exist amongst nationally based institutions. In this context, over time, the activities of UNSIF will aim to generate research that can be used world-wide. Finally, UNSIF will support other UN agencies in making available relevant datasets for research as well as to work with other organisations, for example the OECD, to improve the academic rigour of the evidence base for SII.

4 Daggers and Nicholls, The Landscape of Social Impact Investment Research: Trends and Opportunities.
5 Daggers and Nicholls, The Landscape of Social Impact Investment Research: Trends and Opportunities. p. 19
About the UNSIF research council

How The Research Council Will Function

The UNSIF–RC will be made up of senior researchers and professors representing world-leading academic institutions that already have a track record publishing peer-reviewed research on SII. The UNSIF–RC will design and implement a research agenda, for which funding will be facilitated by UNSIF. This agenda will build on the structure recommended in Oxford University’s landscaping study, which was based on consultation with over 80 leading academics and practitioners. The agenda will be refined by the UNSIF–RC members and through ongoing consultation with other key players in universities, finance, government, the third sector and international development, including other agencies within the UN. This process will ensure that UNSIF–RC research remains relevant and addresses key questions that are widely regarded as important to develop the SII market, particularly in terms of SDG outcomes.

Researchers will publish their work in working papers, policy notes, books and top-tier journals, while also providing practical advice and guidance to practitioners. Indeed, a central principle of the UNSIF–RC will be to collaborate closely with those managing UNSIF and related impact or blended finance funds (as well as the SII market as a whole) to ensure the important link between research and practice is maintained and strengthened. This will help make the research of the UNSIF–RC credible, relevant and useful.

What the Research Council Will Aim To Achieve

The research agenda implemented by the UNSIF–RC will have two overarching aims:

• To identify and tackle some of the most challenging technical hurdles to the growth of SII and its integration with mainstream investing,

• To put SII-based solutions in context, testing, questioning and showcasing the suitability and effectiveness of different kinds of asset classes in terms of the SDGs and their impact

Furthermore, the aims of the UNSIF–RC extend beyond written research outputs. By engaging closely with practitioners and policy-makers, it will aim to have a direct impact on the implementation of UNSIF and on the SII market more broadly. Through events such as an annual research conference, and mechanisms such as competitive research grants and prizes, it will seek to catalyse new research and provide a forum for a wider group of interested parties to collaborate and critique research. The UNSIF–RC will also support the development of teaching and training materials around its specific research outputs to disseminate its findings as widely as possible in workshops, short courses, and university syllabi.
Research streams

This section proposes three main research streams, which have been organised thematically. The suggested research topics within each theme are not exhaustive, and the research agenda remains flexible. Out of the universe of possible research topics, the UNSIF-RC will prioritise a smaller number of projects to be commissioned in the first phase of work over the next 12 to 18 months. The overall work plan is anticipated to run for at least 5 or 10 years.

Stream 1: UNSIF in context

This stream explores a collection of issues around the use of SII methods in the wider context of development finance. This will include the blending of commercial investment capital and Official Development Assistance (ODA) and traditional development grants. Research questions might include:

- What is distinctive with respect to UNSIF’s approach to making social impact investments? How does SII relate to other models for capital allocation for intentional positive social impact? How does it relate to development finance and aid more generally? How does it relate to other models for creating positive social impact based on government /charitable action? How might these different models be compared?

- What existing market infrastructure is available for UNSIF to access and use? What are the gaps in this infrastructure? What can be learned from the development of infrastructure of other financial markets?

- What are the risks associated with the UNSIF model, for UNSIF itself and for other stakeholders? How can they be mitigated?

Stream 2: Data

The use of data will be critical to UNSIF. Impact data, in particular, is of central importance. Research questions in this stream might include:

- How far do existing models and logics within financial economics have relevance to an analysis of SII, and to what strategic ends? In what settings, if any, would a financial ratio or return figure act as a good proxy for social impact? Are new approaches, analytical frameworks and mathematical models required for conveying and enumerating positive social impact?

- What is the full range of uses for impact data, where data might be generated either internally or by third parties? What is possible regarding the better integration and interoperability of impact data into investment and policy decision-making frameworks?

- What are the perspectives of different stakeholders (asset owners, shareholders, fund managers, investee organisations, customers, beneficiaries, etc) on processes of impact measurement and management?

- With respect to mainstream markets, which types of SII data will be most significant in driving new capital allocation? How do we increase the societal utility of mainstream finance? Can we introduce pricing signals that consistently reflect impact in both the private and public markets, and drive capital allocation according to net impact? Is there scope to improve valuation models and accounting norms to better reflect net impact?

- What is the range of performance premia and exits available for SII funds, and what are the associated issues of pricing and liquidity for these options? How is the mission of investee organisations aligned with social impact across different types of funding rounds and their overall life cycle?

- How can social risk and return be modelled and quantified as distinct from financial risk and return? What are the correlations between these two types of risk?

- How can data contribute to the accountability of different stakeholders within SII, with a particular focus on measurement methodologies, participation of beneficiaries and impact data?

- How can impact be integrated into mainstream business models and managerial decision-making in internal capital and resource allocation and value chain management?

- How can advanced technologies (artificial intelligence, machine learning, distributed databases like Blockchain, digital currencies, automation, etc.) be harnessed to reduce cost, and improve the efficiency of data collection to reveal new capital allocation insights?

- To what extent can we use data to establish whether conventional portfolio theory applies to SII? If so, in what ways does it apply?
**Stream 3: Market dynamics**

There is variation within the market for SII that will be relevant to how UNSIF proceeds. Research topics in this stream might include:

- How can investor interests be segmented according to their interest in impact performance and financial performance?

- How can different investor types be brought together in a common deal flow mechanism or fund structure (i.e. co-mingling or blending of funds)? What are the available models of implementing these funds and deals?

- What opportunities are available to combine traditional grant finance and credit enhancement facilities (guarantees) with investment capital? How could the proportions of different capital be optimised? How does each component function within a structured deal?

- How might blended models bring in more capital? In what ways could co-mingled structures bring in organisations that cannot take investment?

- What are the limitations of SII in terms of addressing market and or policy failures in the creation of impact? What are the effects on frontline organisations of moving towards being investment ready? What are the issues that confront organisations and their supply chains in providing reliable data on their impact, and how should these issues be addressed?

- How do we make impact considerations a more material factor in general decisions about deployment of wealth as well as intergenerational wealth transfer? How do we strengthen the supporting infrastructure and intermediaries required to serve these aspirations and needs?

- Which policy tools have been developed worldwide, and what have their effects been on SII? What are the policy options and incentives for encouraging SII as a mainstream activity?

- Under which conditions are public funds necessary and justified in building market architecture that enables SII? What are the limitations of government’s role?

- What can be learnt from payment-by-results or performance-based contracts and related financial instruments (SIBs, DIBs, SIINCs, SSNs etc) in terms of aligning the interests of different types of capital and stakeholders to achieve impact?

---

6 Social Impact Bonds (SIBs), Development Impact Bonds (DIBs), Social Impact Incentives (SIINCs), Social Success Notes (SSNs)
Next steps

Following the inaugural meeting of the UNSIF-RC, UNSIF will consolidate and build on the meeting discussions in order to:

• Finalise the research agenda, work plan and operational parameters
• Establish research budgets and secure appropriate funding for research
• Determine the optimum composition of the RC, governance framework and process for allocating resources to research streams
• Operationalise the UNSIF-RC and initiate research activities
Said Business School

Said Business School at the University of Oxford blends the best of new and old. We are a vibrant and innovative business school, but yet deeply embedded in an 800-year-old world-class university. We create programmes and ideas that have global impact. We educate people for successful business careers, and as a community seek to tackle world-scale problems. We deliver cutting-edge programmes and ground-breaking research that transform individuals, organisations, business practice, and society. We seek to be a world-class business school community, embedded in a world-class university, tackling world-scale problems.

Taught Programmes

- MBA
- Oxford 1+1 MBA
- Executive MBA
- MSc Financial Economics
- MSc in Major Programme Management
- MSc in Law and Finance
- Diploma in Financial Strategy
- Diploma in Global Business
- Diploma in Organisational Leadership
- Diploma in Strategy and Innovation
- BA in Economics and Management

Research Programmes

- DPhil Programme in Management Studies

Executive Education

- Leadership
- Oxford Advanced Management and Leadership Programme
- Oxford Strategic Leadership Programme
- Oxford High Performance Leadership Programme
- Women Transforming Leadership Programme

Finance

- Oxford Chicago Valuation Programme
- Oxford Private Equity Programme
- Oxford Real Estate Programme
- Oxford Impact Investing Programme
- Oxford Social Finance Programme

Strategy, Risk and Reputation

- Oxford Scenarios Programme
- Consulting and Coaching for Change
- Oxford CIO Academy
- Corporate Affairs Academy
- Oxford Strategic Marketing Programme
- Oxford Programme on Negotiation
- Corporate Reputation and Executive Leadership Programme

Custom Executive Education

---

WWW.SBS.OXFORD.EDU