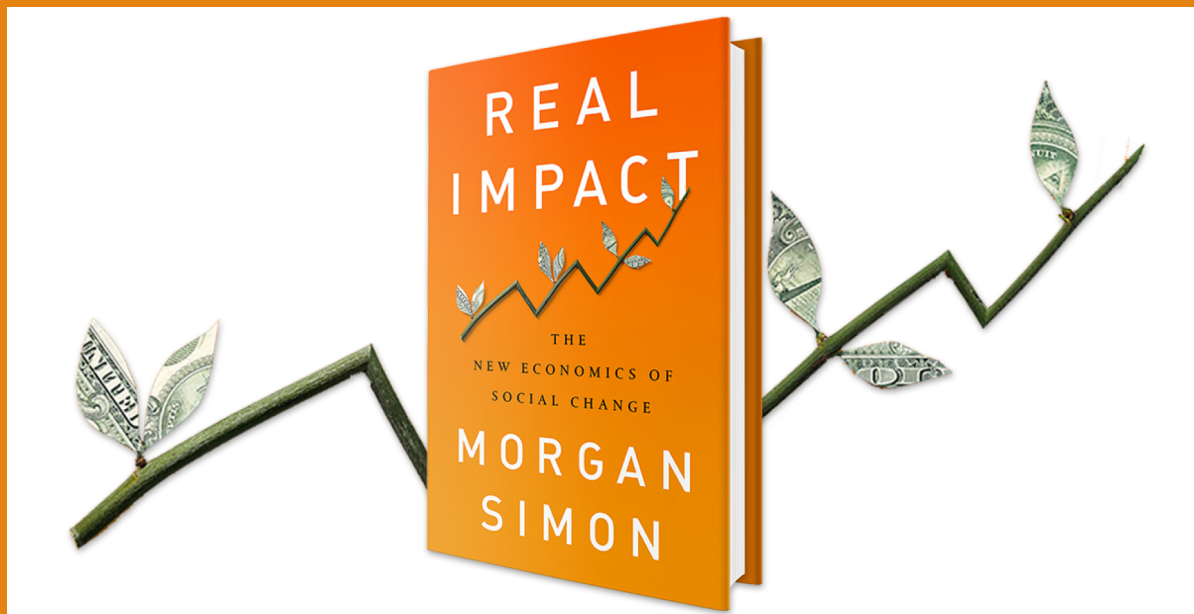


## ACADEMIC GUIDE

# REAL IMPACT – THE NEW ECONOMICS OF SOCIAL CHANGE



## Real Impact: The New Economics of Social Change

Money has the power to destroy, but it can also be an incredibly effective tool for social change. Impact investing – the support of social and environmental projects with a financial return – has become a hot topic on the global stage; poised to eclipse traditional aid by ten times in the next decade. And it has the potential to completely restructure the global economy, making social and environmental responsibility integral to how we move money through society, rather than an afterthought.

In her book, **REAL IMPACT: The New Economics of Social Change**, Morgan Simon argues that impact investing will do a lot of good – if we can get it right. An impact investor with 17 years of experience who has influenced over \$150 billion from endowments, families, and foundations – who also manages funds for members of the seventh wealthiest family in America – Simon sees warning signs that impact investment is at a crucial turning point. As investors focus on growth and acceptance, it's actually in danger of replicating the same mistakes of traditional charity and finance that impact investment was designed to correct. And without the right guiding principles, it has the potential to do more harm than good.

Simon has spent her life at the nexus of social finance and social justice. When she was a twenty-year-old college student at Swarthmore, she compelled Lockheed Martin to change their LGBTQ policies by convincing her college to file a shareholder resolution. And that was just the beginning of her conviction that we can leverage capital to address societal problems. With passion and counterintuitive arguments, In *Real Impact*, she teaches us how to get it right, leveraging the world's resources to truly transform the economy. But she also illustrates how easy it is to make mistakes, showing how wind farms can lead to land grabs, and how short-term thinking by well-meaning investors can actually lead to more oppression and hardship in the communities they are trying to help. Impact investing, Simon argues, is making the same mistakes the aid industry has been making for years. But there are ways to invest and have real impact: by making sure the communities are involved in the decision-making and ownership of the project, that investors are adding more value than they extract, and that the risk and returns are balanced between the investors and the communities.

Simon also points out that we are all connected to money in some way, and therefore have the ability to affect how it works in society. To this end, she shows everyday investors and social justice activists how to participate in impact investment. Everyday investors can move their money so their investments align with their values, and activists can leverage impact investment for systemic change by starting profit-generating enterprises and holding investments accountable, whether they are traditional investments or impact investments that have gone astray.

As both investor and activist, Simon argues that we can use capital to effect change. Centered on real, on-the-ground case studies from her decades of investment analysis and offering clear strategies for investors, community leaders, and entrepreneurs alike, this book is a clarion call for more effective, socially conscious investing.

### ABOUT THE AUTHOR



**Morgan Simon** is a widely-recognized leader in impact investment who builds bridges between finance and social justice. Over the past seventeen years, she has influenced over \$150 billion in capital. Simon currently co-leads Candide Group, which supports two clients, including members of the Pritzker family on behalf of the Libra Foundation. She is also co-founder and chair of the non-profit Transform Finance. Previously, Simon served as the founding CEO of Toniic, a global network of impact investors, and as the founding executive director of the Responsible Endowments Coalition. She has worked with the United Nations in Honduras, in corporate reform with ForestEthics, and in domestic microfinance with the Women's Initiative for Self-Employment. She currently serves on the boards of the Restaurant Opportunity Center, The Working World, and CARE Enterprises. A graduate of Swarthmore College, Simon serves as an adjunct professor at Middlebury College's graduate school program. She lives in the Bay Area.

## Purpose of This Guide

This guide is meant to facilitate the use of the book “Real Impact” by professors within an academic environment. Covering from chapters 1 to 4, it is ideal for use with students majoring in development studies or similar disciplines.

In the first two chapters, the author, Morgan Simon, recounts on her own experiences working in international development, and walks readers through her thought process as she started recognizing the limitations of aid as a vehicle for long term structural change.

She then goes on to introduce impact investing as a tool that has the potential for creating a more generative and just world, while also pointing out troubling industry trends that are keeping it from addressing the overall power imbalance in the global economy.

While Simon presents impact investment as a tool that can be truly transformative, she draws comparisons between its current flaws and those of other market based tools used for development, namely microfinance. Recognizing that impact investing is at a pivotal point – preparing to scale rapidly, Simon proposes structural guidelines that can help the field scale without losing its impact.

The first four chapters of “Real Impact” are ideal for courses that are looking at alternatives to development, while also encouraging students to think critically and recognize flaws in these alternatives. Simon focuses on introducing solutions to the problems of impact investment described in the book, pushing students to think of ways of maximizing the potential of new tools to not only create wealth, but to produce systemic economic, political, and social change.

## Contents

### Chapter Summary

Each chapter is accompanied with a short summary meant to help you get a quick understanding of its flow, and highlighting the main topics and keywords tackled within.

### Essay Question

One essay question is assigned per chapter. This is meant to give you a simplified idea of the main question that the chapter is trying to address. You can use this, as well as the learning objectives of the chapter, as a base to build on in coming up with relevant test questions.

### Tutorial Topics and Suggested Activities

These are meant to open up relevant debates within smaller tutorial groups, to give students a space to convey what they have learnt as well as voice any opinions surrounding controversial topics that the book brings forward.

*“REAL IMPACT is a gift to the academic community. I know of no other resource available with such a balance of thought-provoking investment philosophy and practical advice--reflecting the depth of Morgan Simon's expertise and experience in impact investment. “*

**Heidi Krauel Patel**, Graduate School of Business at Stanford University

*“REAL IMPACT is a unique and valuable teaching tool. Morgan Simon's expertise in the field is unparalleled, and brilliantly share through this book.”*

**Vikram Gandhi**, Senior Lecturer, Harvard Business School

*“Morgan Simon has made a significant contribution with the very big idea that we can change the world by changing how we all relate to money. And lucky for us, Simon is as entertaining in her writing as she is brilliant in her concepts.”*

**Van Jones**, CNN

*“Impact investing is a subject that deserves in-depth, powerful scrutiny. REAL IMPACT offers much of that, and will give readers an introduction in to understanding where this kind of work can bring hopeful change and were it can't. Timely!”*

**Bill McKibben**, Author Deep Economy

*“To drive significant social and environmental progress around the world, investors need to understand how to structure and deliver capital in a way that works for high-impact enterprises. REAL IMPACT highlights the complicated trade-offs they will face along the risk-return spectrum and offers a blueprint for market growth. It helps fill the knowledge gap between optimism and execution.”*

**Debra Schwartz**, Managing Director of Impact Investing, MacArthur Foundation

## Chapter 1: The Limits of Charity

### Chapter Summary

The first chapter of the book gives an **overview of the main pitfalls of international development aid** that make it structurally inefficient in creating change. Through Simon's own experiences working within the field, she explains what made her choose investment rather than charity as her vehicle to fight against social injustice.

The chapter starts off critiquing the current state of the market, pointing at how **charitable donations are treated as an after-thought to an economy that is engineered to benefit only a fraction of society**. Digging deeper, Simon uses practical examples from her time as an aid worker to explain why **the beneficiaries intended to receive aid, many times receive the least benefits**. Moreover, this chapter takes a closer look at **how foundations work, the possible contradictions of the causes they support vs. their endowments and the lack of accountability measures that ensure their money is being spent on mission-aligned endeavours**.

### Learning objectives

By the end of this chapter, students should be able to:

- Identify the main arguments against charity effectiveness
- Engage with the debate on whether charity can offer structural solutions to global challenges
- Locate where aid stands in the context of the global economy
- Discuss the different factors that lead to the persistence of social injustice despite

development efforts

- Describe the main attributes of how foundations work, and identify the ways with which social justice endeavours can be sidestepped within this context

### Tutorial Topics

- Why does social injustice persist?
- What are the factors that allow for the benefits of aid to not go to the people intended?
- Is it fair to say that aid is structurally ineffective in bringing about change? Can it be reformed or does it need to be replaced?
- What attributes in how foundations are structured enable the sidestepping of social justice as the main objective of the fund's spending?

### Essay Question

What attributes of charity limit its ability to present structural solutions to global challenges?

## Chapter 2: Economic activism and impact investment

### Chapter Summary

Moving on from the limitations of aid, this chapter **presents impact investment as an alternative** that redirects the use of funds circulating in the global economy to generate positive outcomes from the get-go, presenting it as a more structural approach to fighting social injustice.

The chapter starts out by pointing at **the power that individuals have over institutions, who may unknowingly have the access points that they can leverage to influence organizations** controlling vast amounts of money. Using Simon's own experience as a college student, she explains how despite limited earning power and assets at the time, she was able to influence the policy of four fortune 100 companies by getting involved as a shareholder of the university's endowment fund.

From there, the **concept of impact investing is introduced, and its origins explained**. Breaking down poverty as an issue of economic autonomy, and looking to countries who have been robbed by colonial powers, the question becomes how these historically stolen resources within communities can be restored in a way that enhances autonomy. **The power of investment in keeping communities independent of donations is therefore highlighted as one of the key advantages of impact investment**. Near the end of the chapter, **the focus then shifts on how the field, despite its potential, is at times used as a method of recreating the financial world with a social twist, rather than on building a tool with the primary goal of impact**, leading into chapter 3 - the limitations of impact investment

### Learning Objectives

By the end of this chapter, students should be able to

- Define impact investing and identify its main attributes

- Explain the foundations of the concept of impact investing.
- Outline the main pitfalls of aid that impact investing is intended to enhance
- Identify different access points of financial power that may be leveraged by individuals to gain power over institutions
- Recognize the value of community autonomy and lack of reliance on donations to its development
- Differentiate between the different ways impact investing is currently used - as a method of recreating the financial world with a social twist vs. as a tool to fight social injustice

### Tutorial Topics

- What is impact investing and how does it differ from charity?
- What are the issues that impact investing was meant to address as it originated?
- Looking at the limitations of charity mentioned in the last chapter: does the current model of impact investing address all these limitations?
- What are some ways that individuals with limited access to resources can regain power?
- The outcomes of impact investing can differ substantially depending on how it is used.  
Discuss

### Essay Question

What is the comparative advantage of impact investing that makes it more likely to be able to tackle the challenges that charity is unable to?

## Chapter 3: History Repeats Itself - The Limitations of Impact Investment

### Chapter Summary

This chapter looks at the industry trends that were limiting impact investment's potential for transformative change as it started to grow, many of which still manifest to this day.

The chapter is clearly broken down and easy to follow, identifying and elaborating on each of the trends one by one.

Common themes persist throughout the chapter. The **top bottom approach** that evolved with the growth of the industry is one of those themes- touching on issues such as lack of community involvement in defining impact as well as the absence of capital geared towards community led projects. Another central theme is **distribution and ownership of profit**, raising questions on levels of return: how much is enough and how it should be distributed. A **closer look at the industry's talent pool**, brings forth issues of **lack of racial and gender diversity within the field**, as well as **absence of capacity building opportunities** to entrepreneurs who can't afford to pay the accompanying pricey fees. Moreover, an inclination to value **financial education over social education** also makes the field more welcoming to investors than activists. Other central issues brought forth include **choosing incremental easy wins over structural solutions**, a **culture of solo entrepreneurship** that overloads the entrepreneur and devalues teamwork, the **alienation of the investment community from the activist community** and the opportunities lost there, as well as a **lack of connection between investors and the communities they are meant to serve**.

### Learning Objectives

By the end of this chapter, students should be able to:

- Identify the practices within impact investment that are limiting it in reaching its potential
- Differentiate between when profits can be of added value to impact and when it can stand in the way
- Recognize top bottom approaches within the industry and understand their repercussions
- Recognize the need for community involvement in each aspect of the industry
- Understand the dynamics leading up to lack of racial and social diversity within the sector and identify the problems that can arise from that
- Understand the dynamics leading up to an undervaluation of social education and identify the problems that can arise from that

### Tutorial Topics

- What are the similarities between the current state of impact investing and charity in terms of limitations to achieving structural change?
- How can profit be leveraged to support impact rather than stand in its way?
- What attributes in the current state of impact investing point to the employment of top bottom approach?
- What needs to change within the field in order to facilitate the involvement of communities in the design, management and ownership of projects?
- How can racial and social inequality within the industry impact its effectiveness?

### Essay Question

What are the main industry trends limiting impact investment's potential for transformative change



## Chapter 4: Scaling Smart

### Chapter Summary

While acknowledging the importance of scaling in fulfilling the field's potential, this chapter draws attention to the dangers that come along with that. The chapter outlines the **possible negative outcomes that could emerge from rapidly scaling a field without first attending to its flaws.**

It starts off by discussing how the **reluctance in criticizing impact investing, in fear that criticism will question its legitimacy to new joiners and stunt its growth, may lead to the reversal of its effects** and potentially make people that it was intended to help even worse off. It is also argued that the **compromise on impact** and settling on "good enough" improvements rather than striving towards fairness, will likely lead to a model that will replicate cycles of wealth extraction.

To illustrate the point more clearly, the chapter draws lessons from the case of microfinance, a field which underwent a rapid upscale similar to the one currently underway with impact investing, looking at the choices that were made throughout the process and linking them to limiting the industry's potential for achieving lasting impact.

These lessons are then incorporated back into the context of the impact investing field. Some of which are: **The importance of identifying "macro" solutions with the potential to address the structural problems**, putting a system in place for **holding the solution accountable to the people it intends to serve**, and defining an appropriate **level of profitability** that adds more to the community than it extracts.

### Learning Objectives

By the end of this chapter, students should be able to:

- Recognize the risks of scaling the field without attending to its flaws first
- Describe how striving for "good enough" improvement rather than a fair economy can lead to replicating cycles of extraction from communities
- Analyze the way with which the microfinance field scaled and relate that to its effectiveness in bringing about impact
- Compare between the microfinance experience in scaling and the changes impact investing is currently undergoing
- Apply learnings gained from the microfinance field to impact investing

### Tutorial Topics

- Drawing on learning from the last chapter as well as this one, what are the flaws within impact investing that you think would result in the most negative outcomes if scaled?
- What are the similarities and differences between microfinance and impact investing?
- What are the most important lessons to take out from the microfinance experience and how can that be incorporated into impact investing?
- Should there be a limit for the "good to be challenged by the best"? If yes, where should the line be drawn and who should take part in deciding that?

### Essay Question

How will the effectiveness of impact investing in tackling social injustice be affected if it scaled without addressing current flaws?