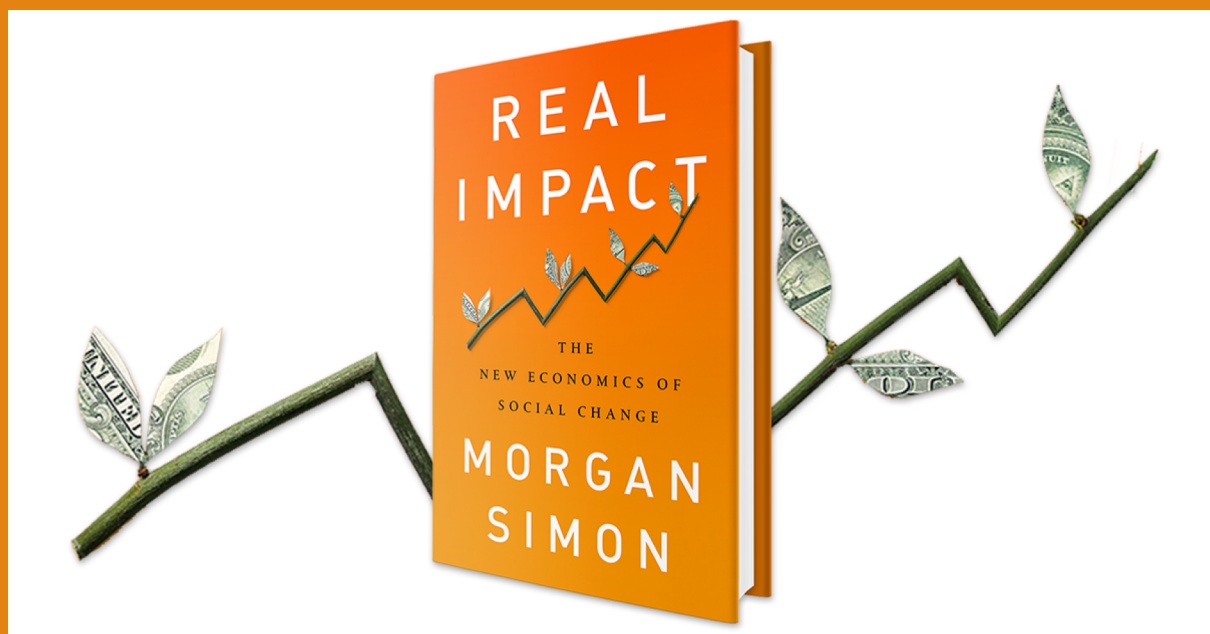


ACADEMIC GUIDE

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.

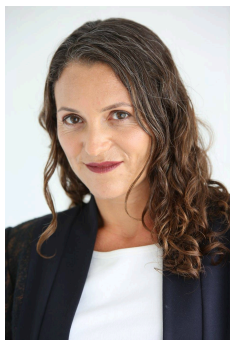
In her book, **REAL IMPACT: The New Economics of Social Change**, Morgan Simon argues that impact investing will do a lot of good – if we can get it right. An impact investor with 17 years of experience who has influenced over \$150 billion from endowments, families, and foundations – who also manages 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 chapters 1 to 4 of the book, it is ideal for use with students in MBA programs.

Within these chapters, the author - Morgan Simon - recounts on her experience with Transform Finance, an organization that she co-founded which is focused on using finance as a positive tool for equity and shared prosperity. She explains the logic behind the principles guiding their work, bringing the principles to life through telling stories of special impact projects the organization was invested in. A few stories are recounted because they exemplify what exactly goes awry when investors do “business as usual,” but many more are inspiring success stories showing the profound progress that we can achieve— and the ways both investors and communities can gain—when the Transform Finance principles are put into action.

Simon goes on to highlights gaps within current impact measurement frameworks and puts forward suggestions on how to arrive at more thoughtful metrics that can be used for managing and improving a fund’s performance. She goes on to break down the process of how an entire fund can be transitioned from zero to 100% impact, offering a first-hand account on Candide Group’s experience in doing so. This should be particularly illuminating for future investors, and can help them become engaged in the process of exploring questions such as “What kind of impact do we want to have, and why?” and “How can we structure this into a full portfolio, with sensitivity to both financial and impact return targets?”

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

“Where we invest speaks to our values as a country that prioritizes our collective social welfare. Morgan Simon's innovative investment approach ensures money can serve as a force for good, for everyone.”

Congressman Keith Ellison, House Financial Services Committee

“Over 1,700 asset owners around the world, from pension funds to insurance companies and sovereign wealth funds, have become signatories to the UNPRI, as its becomes increasingly clear that social and environmental trends can create financial opportunities. Investors now have the capacity to help solve the world's problems and deliver strong returns for their beneficiaries and clients. Morgan Simon is a global leader in impact investing, and this book offers critical lessons for those interested in being on the cutting edge of this exciting new field.”

Dr. James Gifford, Founder and former Executive Director, United Nations Principles on Responsible Investment; Senior Impact Investment Strategist, UBS

“A critical cautionary tale--how do we scale social impact investment without leaving anyone behind? Morgan Simon is a master practitioner at inclusive investment; read REAL IMPACT to learn from her compelling example.”

Ben Jealous, Partner, Kapor Capital and former President, NAACP

Chapter 6: Engaging Communities

Chapter Summary

Recognizing the need for the field to become more accountable towards communities they serve, this chapter addresses **the importance of community engagement in the design, governance and ownership of enterprises**.

Social education is emphasized as one of the main steps towards accountability. The chapter pushes beyond the limits of traditional means investors use to gain exposure to communities, and focuses on **looking for more profound interactions that are less mediated by the formality of work dynamics**. Simon draws on her own experience of being an active musician and dancer, and how connections made through her involvement opened up a precious window into diverse communities. **She argues that staying involved on ground, whether through attending social justice conferences, protests or finding other ways to organize, should be seen as integral to the work of an investors, rather than just a nice gesture.** Moreover, she also explains how her involvement gave her a different understanding of **how solidarity should look and feel, and why it's important to lead from behind**.

The chapter also looks at how the **standard of assessing an investment can be switched away from asking whether it is "good enough" to striving towards "fairness"**. She argues that one way to do so is start looking to community members for affirmation on whether the investment structure is fair, rather than only relying on feedback from within investors' communities.

The concepts introduced are put to practical use through the examination of two different

investments, showing how the **lack of thoughtful and inclusive design can not only mean negative social impact but also huge risks to financial returns**.

Learning Objectives

- Identify the different ways with which investors can stay involved with and gain insight into communities
- Recognize the power dynamics at play within the field and understand how investors at many times have an upper hand
- Understand what it means to lead from behind and display a thoughtful perception on how to stand in solidarity with communities within the context of impact investing
- Identify the situations where it is necessary for investors to cede some power, and the ways with which this can be done
- Explain how lack of community engagement can lead to negative impact outcomes as well as higher financial risk

Tutorial Topics

- "Investors have implicit power in any transaction". What are some examples of situations where that phrase would ring most true? When is it necessary to cede that power?
- What factors are behind the devaluation of social education vs. financial education? How can that be countered?
- Looking to the example given of the investment in

wind energy in Mexico: what contributed to the failure of the project? How could it have been done differently?

- Drawing on the Grupo Yansa example mentioned in the book, what are the main aspects of their model that helped in creating a fair structure?

Essay Question

What are the most important steps that must be taken to ensure that the field stays accountable to affected communities?

Chapter 7: Add More Value Than You Extract

Chapter Summary

This chapter looks at **how capital can be structured to ensure that the value it adds to the community is more than what it extracts from it.**

Argentina's 2001 financial crisis brought with it currency devaluations and cash withdrawal restrictions by the government, pushing many factory owners to flee. The chapter looks at the movement of worker owned cooperatives that emerged as workers began taking over factories and running them themselves. Against the backdrop of this situation, the chapter looks at the efforts made to support the factory workers and argues that while lack of capital was a challenge for the movement, the way that capital was structured and deployed made all the difference.

Looking at one how one organization, now known as the Working world, structured its investments into worker's cooperatives, **the concept of non-extractive finance is introduced.** Issues such as a **fair distribution of risk** where investors and entrepreneurs are equally liable in case the investment doesn't bring back return, and a **fair distribution of profits** in the case that it does, are brought forward through looking at the system that the Working World put in place.

Learning Objectives

- Identify the ways with which finance can be extractive
- Define non-extractive finance and outline its main value
- Recognize the need for non-extractive finance and identify situations where it could be most useful
- Explain how the values adopted by non- extractive finance can be systematically ingrained in how investments are structured and managed
- Apply learnings from the examples given to other factories within different contexts

Suggested Activity

Screen the movie "The Take" and have a discussion afterwards. Reflect with the students:

- What are the main struggles that the workers had to deal with when taking over the factory?
- How did the political and economic context in Argentina at the time make it more difficult for the factory workers to take control?
- Building on that, what kind of political and economic environment would facilitate and encourage extractive finance

- How would non-extractive finance give workers a better chance at facing these struggles?

Tutorial Topics

- What are the main factors in how the working world structures and manages its investments that differentiate it from most financiers?
- How would you expect the deal criteria used by the working world to affect the profitability of the factories they invest in and the working worlds portfolio rate of return?
- What implications can non-extractive finance have on the wider economy?

Essay Question

How can capital be structured to ensure that investments are adding more value than they extract from communities?

Chapter 8: Balance Risk and Return

Chapter Summary

This chapter looks at **how to design investment structures** to ensure that all stakeholders receive their fair share of return, balanced with the risk they are taking upon themselves.

Looking at the challenges that had been facing the Cacao industry in Belize, **the chapter follows the story of Emily Stone who was able to understand farmers frustration with fair-trade, and redesigned the way it was being implemented**, eventually building the largest exporter of cacao from Belize -Maya Mountain Cacao.

Candide participated in Maya Mountain Cacao's first round of capital, and eventually became a lead investor in Maya Mountain Cacao. **Simon provides a first-hand account of the thought process behind designing a structure that would ensure a fair balance between risk and return for all stakeholders.**

Starting off with **tackling issues of governance and division of profit**, questions such as "what should the ideal division of equity be? Who should be empowered to take major decisions" are posed and addressed. Moving forward, the focus turns to financial and impact diligence - with that, the underworking of a one

page statement of impact that defines standards addressing how

risk and benefit would be divided is explained. Finally, **through questioning the method of how ownership structures are usually designed, Simon explains the implicit assumptions about risk and reward that were uncovered to them**, and describes how they arrived at a different, more fair allocation of ownership.

Learning Objectives

- Explain how an unfair allocation of risk and return can impact the performance of enterprises and affect their profitability and growth prospects
- Identify the issues within an investment's structure that need to be addressed in order to ensure all stakeholders are being treated fairly
- Understand the questions most relevant to ask when designing fair governance and ownership structures
- Understand how different governance and ownership structures can impact the balance between risk and return for stakeholders
- Recognize the implicit assumptions that are sometimes made on ownership allocation

Tutorial Topics

- What are the steps that Maya Mountain Cacao had to go through in order to arrive at balanced risk and return for all stakeholders? What was the added value of each of these steps?
- What are the main questions that need be asked when designing a fair governance, ownership and profit division structure?
- Looking at the statement of impact on page 170, what were the standards defined by Candide Group and Maya Mountain Cacao in addressing how risk and benefit would be divided between parties?
- What are some implicit assumptions that are made within ownership allocation in favor of investors?

Essay Question

What are the steps, challenges and important questions that need to be addressed when designing an investment structure that ensure that all stakeholders receive a balanced shared of risk and return?

Chapter 9: Managing to Maximize Impact

Chapter Summary

Identifying the gaps in current impact measurement models, this chapter highlights the importance of thoughtful metrics that employ a broader perspective in addressing social problems. It goes on to break down the process of building a framework that can be systematically implemented in enterprises and funds to ensure structural impact is achieved.

The chapter takes the reader through Candide Group's journey in arriving at **meaningful impact metrics**, and in moving beyond the simple measurement of their impact to the **active management** of it. Throughout, the **difference between impact outcomes and outputs** is highlighted, as is the **value of incorporating the voices of affected communities**.

Once the process of building an impact framework is clarified, the chapter then goes into the **challenges that arise in its implementation**, through providing practical examples of issues faced by companies in Candide's portfolio, and how these challenges were approached.

Learning Outcomes

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

- Identify the most common evaluation metrics currently used in the field

- Critique the effectiveness of the currently used metrics in achieving structural change
- Differentiate between impact outputs and outcomes and understand how that knowledge can be applied into designing thoughtful impact frameworks
- Understand the challenges of designing and implementing an effective impact framework and gain exposure to practical examples of how they can be overcome
- Discuss the pros and cons of a generalist approach to investment vs. an industry specific approach
- Recognize the value of insights gained from hearing the voices of communities at stake and the necessity of incorporating them into impact management frameworks

Suggested Activity

Prepare some examples of social enterprises to use as case studies (this can be a good source to choose from:

<https://www.bcorporation.net/community/find-a-b-corp>).

Divide the class into groups of 4 - 5, and assign each group one enterprise. Ask them to answer the following questions before returning to the group to share their responses and de-brief their findings

- What are the outcomes that the enterprise is working towards?
- What outputs do they need to achieve to reach their outcomes?

- What indicators would you suggest need to be measured?

Tutorial Topics

- How does impact management differ from impact measurement?
- What are some of the building blocks of an effective impact management framework in the context of a fund?
- What are some of the challenges that may arise when implementing an impact management framework? What do you think are some ways of manoeuvring these challenges?
- Specify another theme for discussion other than poverty reduction (e.g.: education)
- ❖ What are the most common metrics used to measure the success of _____ initiatives? Are they effective in addressing the issue? What are some of the underlying causes of the problems that you feel are not being properly addressed.

Chapter 10: Real Impact at Scale

Chapter Summary

Drawing on Candide Group's experience in moving from a zero to 100% impact portfolio, **this chapter tackles some of the most important questions that an investor needs to be ready to answer in order to be able to scale impact from a single investment to a well-rounded portfolio.**

The chapter starts off by **breaking down the process of designing an impact framework** - from articulating the systemic reasons behind the problems the fund is aiming to address, leading into how that can fall into place when deciding what types of investments should be prioritized. It then looks at **the factors that go into deciding what kind of return objective the firm wishes to have.** Moving more in depth, it **breaks down the return objectives per asset class**, looking at how to balance between achieving the specified impact framework as well as the needed return objective.

Building on this, the matter of **how to decide what "high impact" is and who to consult in the process** is broken down, as well as how to integrate this into an impact rating system, and how that can be used for the success of the fund.

Learning Objectives

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

- Break down the steps involved in building an impact portfolio
- Recognize the challenges that can arise throughout the process
- Identify the most important questions that need to be addressed when deciding on a fund's return objective

- Understand when it is most appropriate to use different asset allocations through examining the impact and return potential of each investment
- Identify the most important stakeholders that need to be consulted when defining impact, and understanding what each of the stakeholder is likely to bring to the table

Tutorial Topics

- What are the most important questions that need to be asked when settling on a return objective? What are the different factors that can come in to the decision?
- What are the advantages/disadvantages of adopting a generalist approach of investing vs a sector or geography specific approach?
- What are some of the different approaches that a fund might take when deciding how to balance impact and return? Do you think one would work better than the other?
- What kind of insights would you expect communities, entrepreneurs and investors (the three groups mentioned in the book as stakeholder Candide Group consults) to add to add to a fund's definition of "high impact"?

Essay Question

What are the steps and most important issues to consider when moving from a zero-impact portfolio to 100%?