IMPACT INVESTING 2.0 – GLOBAL DRIVERS AND TRENDS

Allocations to impact investments make up a small but rapidly growing part of the global sustainable and responsible investment market. Impact investors manage USD 77.9 billion in assets globally.[1] In the DACH region alone allocations to impact investment augmented by 47 per cent between 2014 and 2015.[2] What are global drivers and trends that will shape this rapidly growing field?

Impact investing strategies are part of the universe of sustainable and responsible investment strategies, but are characterised by a few distinctive features. Compared to **sustainable and responsible investment strategies** that often use negative screening to avoid or minimize investments in certain companies or sectors, impact investors are intentionally investing in business and entrepreneurial opportunities that generate measurable positive societal impact (positive screening). More broadly, impact investing are investments in funds, real estate assets, social businesses or enterprises with the intention to generate both a measurable social and/or environmental impact alongside a financial return. **Mission investments** are investments made by foundations and other mission-based organizations to further both their philanthropic goals and achieve a financial return.[3]

»The field develops rapidly both in terms of the size of asset allocation, but also the way capital is raised and deployed and much needed market infrastructure is created. «

Return expectations range between below market returns to market returns depending on the individual investor's risk-return-impact profile. However, a majority of impact investors (59% in 2016 according to the latest Annual Survey conducted by the Global Impact Investing Network GIIN) does indeed target risk-adjusted, market rate returns.[4] Philanthropic and government grants – while not strictly speaking impact investments - play a significant role in the impact investing field using risk mitigation to mobilising additional capital or grants to build the field.

Reportedly, impact investors committed USD 10.6bn in 2014 and more than USD 15 billion in 2015, that is an increase of almost 50 per cent in one year.[6] While the

[1] GIIN, 2016, Annual Impact Investor Survey, p.5. http://bit.ly/1WBPYUt

[2] FNG, 2016, Marktbericht Nachhaltige Geldanlagen 2016 Deutschland, Österreich, Schweiz. http://bit.ly/29v7FTw

[3] An introductory perspectives of impact investing (in German) published by Berenberg, 2015, "Impact Investing – eine neue (Re) Form Gutes zu bewirken" Aspekte 7. http://bit.ly/1SUMRAA

[4] Vgl. GIIN, 2016, Annual Impact Investor Survey, p. 40. http://bit.ly/1WBPYUt.

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impact investing market is still in its infancy in Germany investments have grown from 24 million in 2012 to 70 million in 2015.[7]The latest Eurosif SRI Study on sustainable and responsible investment strategies across Europe found that between 2011 and 2013 the growth of impact investing investment strategies outperformed the growth of all other sustainable investment strategies with 52% Compounded Annual Growth Rate (GAGR) compared to 11%-38% CAGR for other strategies – albeit from a much lower base.[8]

The field develops rapidly both in terms of the size of asset allocations but also the way capital is raised and deployed and much needed market infrastructure is created. This article highlights global drivers and trends that will influence opportunities for impact investors.

Global drivers

A number of global drivers are likely to positively influence the demand for responsible and impact oriented capital: [9]

- **Green growth and sustainable development.** International agreements such as the commitment to the Global Goals for Sustainable Development (SDG)[10] or the Paris Agreement negotiated at the 2015 United Nations Climate Change Conference (COP 21) are strong signals to the investment community to step up investments in climate and other SDG related sectors. Investment requirements are signficant: for example, between 2015-2030 they are estimated at USD 7.3 trillion (EUR 6.6 trillion) in the renewables, nuclear, and biofuels sectors and USD 11.2 trillion (EUR 10.2 trillion) for end-use energy efficiency in transport, buildings, and industry.[11] The financing gap for developing countries alone to meet the SDGs is estimated at approximately USD 2.5 trillion (EUR 2.3 trillion) per annum.[12]

Green growth and sustainable development strategies will be both an economic and societal imperative for the next decades

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[6] GIIN, 2016, Annual Impact Investor Survey, p. 5. http://bit.ly/1WBPYUt.
[7] Bertelsmann Stiftung, 2015, Social Impact Investment in Deutschland 2016: Kann das Momentum zum Aufbruch genutzt werden? http://bit.ly/1N2X9LA. This study uses a more narrow definition of impact investing focusing on social impact investing only and excluding investments with a primarily environmental and/or climate impact.
[8] Eurosif, 2015, European SRI 2014, p. 24. This figure is likely to underestimate the real market, however, as only professional private investors have been included in the scope of the study http://bit.ly/1TuBnWE.
[9] Based on Martin, M. ,2013, Making Impact Investible." Impact Economy Working Papers Vol. 4. http://bit.ly/1qF1Anq.
[10] United Nations, 2015, Transforming our World: the 2030 Agenda for Sustainable Development http://bit.ly/1MelZrF. It is important to note that the SDGs apply to both developped and developing countries.
[11] International Energy Agency, 2015, Energy and Climate Change. http://bit.ly/1FW2d1Y. http://www.iea.org/publications/freepublications/publication/WEO2015SpecialReportonEnergyandClimateChange.pdf .
[12] United Nations, 2015, Transforming our World: the 2030 Agenda for Sustainable Development http://bit.ly/1MelZrF.

- **Demand for sustainable products and financial services.** Consumption of lifestyle, sustainability and health products and services such as organic food, sustainable tourism or green mobility products and services continue to be on the rise in Europe and US. Studies show that demand from emerging countries and willingness of a new middle class to pay for sustainable products and services are predicted to grow even more than in developed countries.[13] Experts also predict that the Millenial generation i.e. those born between 1980 and 2000 who will benefit from a massive generational wealth transfer in the next 10-15 years are already interested and engaged in putting their money to work for impact. This will translate into an increased demand for value and impact oriented financial services and investment products in the coming years.[14]

Increased consumer awareness and demand for sustainability and health products and services create opportunities for impact oriented entrepreneurs.

- **Innovations in the public service.** Many governments are looking for new solutions to complex costly social challenges such as long-term unemployment, educational drop out rates or the integration of newcomers in our societies. Sustainable and social procurement reforms in many countries around the world create new opportunities for impact delivery organisations and their investors.[15] Innovative delivery, financing and partnership models such as Public-Private-Social Partnerships, Social Impact Bonds or Advance Market Mechanism will be increasingly applied at scale. In 2013/2014 the German National Advisory Board on Social Impact Investing found that despite Germany's mature welfare system there was 'an obvious shortfall in funding for preventative measures that can avert downstream costs, for the innovation needed to develop new solutions, and for efforts to roll out proven approaches on a larger scale.'[16]

New approaches to the provision of public services will provide opportunities for public-private-social partnerships and impact investing.

- **Opportunities in underserved markets.** The experience of innovative entrepreneurs and inclusive business demonstrates that contrary to a widespread believe low income and disadvantaged communities can be successfully integrated in companies value chain as producers and suppliers and constitute an attractive market for affordable and targeted products and services. Recent research studies estimated an USD 5 trillion investment opportunity to meet the latent demand of low income communities in emerging countries.[17] The impact investing firm Omidyar found-

Innovative business models need suitable financing to meet demand of low income and disadvantateged communities in both developed and developing countries.

[13] Martin, M, 2013, Making Impact Investible. *Impact Economy Working Papers Vol.* 4., p15. http://bit.ly/1qF1Anq.

[14] Toniic Institute, 2016, Millennial and impact investing. http://www.toniic.com/millennials-and-impact-investment/

[15] The new EC Procurement Directive (2014/24) explicitly allows social aspects to be included in award criteria, reserving certain contracts for non-profit and for profit organizations with a social purpose and protecting against "social dumping". See http://ec.europa.eu/growth/single-market/public-procurement/modernising-rules/reform-proposals/index_en.htm

[16] Bertelsmann Foundation, 2014, Impact Investing. New sources of financing for social challenges. Gütersloh. http://bit.ly/1re8Gmg

[17] Martin, M, 2013, Making Impact Investible. Impact Economy Working Papers Vol. 4., p 8. http://bit.ly/1qF1Anq.

ed by ebay founder Pierre Omidyar identified a massive investment opportunity for 'frontier capital' that is risk capital for innovative business models that serve the low and lower middle income class in emerging countries.[18]

Trends in impact investing

We identified the following ten trends that will influence the direction of impact investing 2.0.

1. A wider range of new investors to be attracted to the impact investing field.

Encouraged by global developments, regulatory changes, market demand as well as the growing maturity of the impact investment eco-system, a increasing number as well as new types of investors are likely to be attracted to the emerging impact investing field.

Various **foundations** around the world have been supporting the field of social innovation and entrepreneurship. Going a step further, some foundations are now intentionally using the foundations' endowment capital to multiply the foundations impact while securing a reasonable financial return to continue funding promotional activities. Progress with international climate debate has helped: Within the last 2 years numerous foundations (and other types of investors such as municipalities, corporates or family offices) around the world who committed divesting from fossil fuels are now exploring investment in alternative investment opportunities – although admittedly these pioneers are still much fewer in Europe than in the US.[19]

»Those foundations that went a step further are intentionally using the foundation's endowment capital to multiply the foundations impact.«

In Germany, a handful of pioneering philanthropic organisations engage in market building activities such as commissioning of market research, support to social entrepreneurship intermediaries or pilot co-investments in Germany's Mission Related Investment (MRI) Education Fund. Several German foundations are currently considering or have already allocated part of their endowment capital to impact investing thanks to a greater exposure to international development, more information and guidelines issued by industry associations and the first examples of visionary pioneers.[20] The calls of Pope Francis to use money to serve people, to 'promote a market of impact investing' and to protect the environment in his

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[18] Omidyar Network, 2015, Frontier Capital. Early Stage Investing for Financial Returns and Social Impact in Emerging Markts. http://bit.ly/1kEdwbs

[19] More than 500 foundations, private corporations, faith based organizations, family offices and government agencies in the US, Germany and other European countries worth more than USD 3.4 trillion worldwide have pledged to fully sell fossil fuel company investments and invest in those companies providing climate solutions. Leaders in the divest-invest movement include large, reputable foundations in the US such as Rockefeller Brothers Foundation, but also pioneering organizations in Europe such as the Norwegian Sovereign Wealth Fund or Wermuth Family office in Germany, which represents the initiative in Europe. More on www.divestinvest.org

[20] See recently published guidebook for German foundations : Bundesverband deutscher Stiftungen et al, 2016, Impact Investing : Vermögen wirkungsorientiert anlegen – ein Praxishandbuch. Stiftungsratgeber Band 7 (in German only).

second encyclical *Laudato Si* mean not only a change to the investment policy of the Vatican's own financial institutions. They also led many other **faith based foundations and organisations** revise their investment strategies and encouraged development organizations linked to the catholic church consider new partnerships and approaches to reach their development goals.[21]

Institutional investors such as pension funds and insurers made several pilot impact investments in the past years. The Investing4Growth Fund for example, is a GBP 250 million (EUR 292 million) impact investing fund collectively funded by five municipal pension funds in the UK. Several leaders in the sustainable retirement industry such as TIIA in the US or PGGM in the Netherlands[22] deepened their sustainable investment engagement. Insurer Axa with its EUR 150 million Axa Impact Investing project,[23] the Zurich Insurance Group impact investing portfolio that topped USD 1 billion in 2015 are other examples.[24] Pension funds also demonstrated their interest in this field by investing in structured funds set up by development financing institutions such as the German KfW or the Danish IF (e.g. the EUR 1 billion European Fund for South East Europe or the EUR 360 million Green for Growth Fund) or the Danish IFU (e.g. EUR 175 million Danish Climate Fund with Pension Denmark).

»Institutional investors such as pension funds and insurers have made several pilot impact investments in the past years.«

An increasing number of **corporations** combine corporate venturing with impact strategies (corporate impact venturing). They partner with and invest in social and green ventures to achieve both impact as well as financial return and strategic benefits such as access to new markets or innovation potential. Some corporates run accelerator programmes or they set up separate investment vehicles such as the Patagonia's USD 20 million Change fund, the Hydra Venture fund or Schneider Electric Access Fund. More and more corporations see sustainably oriented and thematic bonds as a way to raise finance for their own investments in sustainable infrastructure and operations (e.g. the 2014 Unilver GBP 250 million green bond).[25] In Germany, Tengelmann Social Ventures GmbH in Germany, a subsidiary company of Tengelmann Ventures has invested in for-profit social businesses for the past three years.[26] Airbus BizLab in Germany recently included so-called inclusive businesses with activities in emerging markets in their six month venture accelerator program.[27]

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[21] See information on the Vatican's frist and second impact investing conferences held in June 2014 and June 2016 and supported by development organisation Catholic Relief Service and impact investor Omidyar Network www.investingforthepoor.org

[22] See more on http://www.investing4growth.co.uk

[23] See more on https://www.axa-im.com/en/impact-investing

[24] See more on https://zurich.com/en/corporate-responsibility/responsible-investment/impact-investment

[25] EVPA, 2015, Corporate social impact strategies: new paths for collaborative growth. http://evpa.eu.com/publication/corporate-social-impact-strategies/

[26] More information on http://tengelmann.de/en/home/company/business-units/e-commerce/tengelmann-social-ventures.html

[27] See more information on https://airbus-bizlab.com/

2. Impact investing to become more accessible to non-institutional investors and indivudal citizens.

Angel investors, high networth individuals and family offices play an important role in investing in smaller scale, early stage and high risk projects. They are facilitated by investor circles such as Toniic, PYMWYMIC Netherlands, the European Business Angel Network (EBAN), specialist investment advisors or banks with specific impact investing know how.[28] A recent survey amongst German investors shows, however, that only a small percentage of this group is aware of this emerging field as advisory support and other market infrastructure services are still limited. [29]

Research confirms that ordinary citizens are increasingly interested to place their capital in a way that contributes to societal development, in particular if it is a cause their can relate to and/or which benefits local community development. We therefore expect that the **retail financial markets** will soon offer more and a greater variety of products and services for individual citizens to invest their savings in projects, companies and funds that are not only ecologically sustainable but also targets social outcomes.[30] In Germany, in fact investments in climate funds or regional eco-funds offered by value banks are well accepted.

*»We therefore expect that the **retail markets** will soon offer more and a greater variety of products and services for individual citizens to invest …«*

Impact oriented crowdfunding platforms raise monetary contributions from a large number of people, typically online to fund an impact oriented project or venture or financial intermediary. Such platforms such as the global microfinance platform Kiva, Ethex in the UK or Bettervest in Germany already amount to approximately USD 6 billion in capital origination with the 'mainstream' European and US crowdfunding market estimated at USD 16 billion in 2015.[31] Depending on the country specific regulatory environment for crowdfunding and crowdinvesting this trend is bound to continue.

3. Worldwide agriculture and energy to attract highest level of impact investing with significant variations at local level

According to the latest GIIN Annual Impact Investor Survey nearly half of respondents (48%) report primarily targeting social impact goals, while about the

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[28] www.Toniic.com; www.clearlysocialangels.com and www.eban.com In 2015, Mark Zuckerberg and his wife drew attention when they pledged to give 99 percent of their Facebook shares (worth about USD 45 billion) to charitable purposes setting up a limited liability investment company to invest in enterprises with societal impact rather than donating the money to a charity. With 20 other billionaires including Bill Gates he founded the Breakthrough Energy Coalition, investing in early stage clean energy technologies around the world. http://www.breakthroughenergycoalition.com/en/index.html

[29] Eckert, S. Schäfer, H. 2015, Risiko, Rendite – und Wirkung? Die Anlagebereitschaft deutscher Stiftungen und vermögender Aleger fur wirkungsorientiertes Investieren. http://bit.ly/29sIFZx

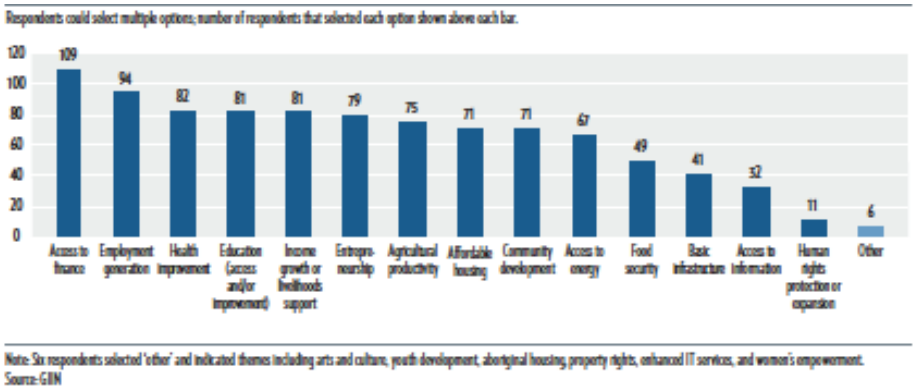
[30] Triodos, 2014, Impact investing for everyone: A blueprint for retail impact investing, http://bit.ly/29zktIH

[31] World Bank, 2015, Crowdfunding's Potential for the Developing World.

same number (47%) target both social and environmental impact goals and 5 percent only target environmental goals.

At the global level, access to finance remains the most important **social impact theme** (Figure 1), but data on future allocation shows that agriculture and energy followed by healthcare and education will increase the most in the near future.[32]

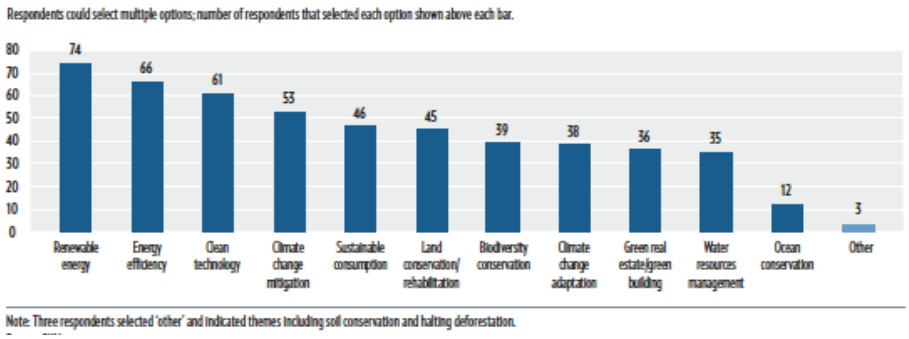
Figure 1 Social impact themes targeted by number of respondents



Source: GIIN, 2016, Annual Impact Investor Survey, p. 33

In relation to **environmental impact themes**, renewable energy and energy efficiency are the most important themes. A relatively new field of growth is the field of biodiversity as well as conservation finance.[33]

Figure 2 Environmental impact theme targeted by number of respondents



Source: GIIN, 2016, Annual Impact Investor Survey, p 33.

Trends for sectors and themes vary and largely depend on the geographical and country specific context as well, of course, individual investors preferences. In developing county investments focus on access to basic services (water, energy, health and education), financial services as well as production in the field of sustainable agriculture or renewable energy. In developed countries, much more attention

»Trends for sectors and themes depend on the geographical and country specific context.«

[32] GIIN, 2016, Annual Impact Investor Survey, p. 17. http://bit.ly/1WBPYUt.
[33] For more information see NatureVest and EKO Asset Management Partners, 2014, Investing in Conservation: A landscape assessment of an emerging market. November 2014. http://bit.ly/1uRiMuc

is on community development, affordable housing, work integration and other forms of promoting social cohesion. In Germany, for example, 20 per cent of social impact investment transactions are in the area of employment and work integration, followed by education (18 per cent), health (12 per cent) and sustainable consumption (9 per cent).[34]

Irrespective of the sector, **technology** will play a disruptive role helping to reduce costs and reach scale more rapidly than ever before. Opportunities are in "fintech" companies offering innovative financial and insurance services to underserved market segments, online educational formats opening learning opportunities to anyone with an reliable internet connection, long distance health services to rural communities or products and services in the sharing economy.

4. Emerging markets to remain an important destination for impact investing capital - and a growing source of impact investing capital.

In 2015 around half of global impact investing assets deployed were invested in developing and emerging countries. More impact investors report allocations to Sub Saharan Africa (75/158) than to any other region including the US or Western Europe. [35]

»Studies confirmed a strong interest amongst diaspora communities to support entrepreneurship and to invest in their countries of origin.«

Key motivations of private impact investors for engaging in emerging countries range from the realization of 'financially attractive investment opportunities' as well as opportunities to 'respond to client demand for responsible investment' to 'accessing high growth markets'.[36] Indeed, the spending potential of consumer and beneficiaries of innovative business models in emerging markets are often underestimated.

Given a commensurate growth in financial markets and national wealth in particular in the BRIC and MINT economies, investors with strong links to or originating from emerging markets have become an important source of capital for impact investing to these regions. The share of global financial assets held by emerging nations more than doubled from 7% in 2000 to 18% in 2010 and is continuing to rise and some sovereign wealth funds will find investment in their own country's development attractive if it generates required levels of risk adjusted financial returns.[37] Studies also confirmed a strong interest amongst diaspora communities to support entrepreneurship and to invest in their country of origin.[38]

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[34] Bertelsmann Stiftung, 2015, Social Impact Investment in Deutschland 2016: Kann das Momentum zum Aufbruch genutzt werden? p. 21 http://bit.ly/1N2X9LA. Note, that environmental themes have been excluded from this study. Eco-innovation, environmental cooperatives and clean tech entrepreneurs play a significant role for impact investing in Germany. See for example the activities of the Borderstep Institute Green start up investment alliance. http://bit.ly/29FwBsV

[35] GIIN, 2016, Annual Impact Investor Survey, p. 14 http://bit.ly/1WBPYUt.

[36] OECD and World Economic Forum, 2016, Insights from Blended Finance Investment Vehicles & Facilities. http://bit.ly/29FwgXv

[37] Knight Frank, a global research firm, forecasts that during the 2014-2024 period some 40-45% of new ultra high net worth ($30M+) and centa-millionaires and some 60% of new billionaires, a group which has been historically an important source for alternative investments and responsible finance vehicles, will come from emerging markets. World

5. Platforms and specialist intermediaries to strengthen market infrastructure and product development for impact investing

We will increasingly see the emergence of "**infrapreneurs", platforms and exchange**s that facilitate stronger matching of investment opportunities, intermediation and collaboration.

MaxImpact, for example, is a platform established in 2012 by a veteran impact investor with the objective "to work collaboratively on the financing, execution and implementation of good ideas and new technologies" and direct capital more effectively to impact investment opportunities.[39] The Social Venture Exchange (SVX) incubated at the innovation centre MaRS in Canada has given greater visibility to impact entrepreneurs and in the last two years is has helped mobilize more than USD 5 million from accredited investors in impact ventures and funds in the area of education, unemployment, housing.[40] The Impact Exchange is a joint initiative of the Stock Exchange of Mauritius and IIX operating two Impact Partners and Impact Incubator and capturing audiences in both Africa and Asia.[41] The UK Social Stock Market is the world's first regulated exchange designed to connect impact businesses that pass their criteria and vetting and investors (not just accredited investors) offering seed investment, Initial Public Offerings and secondary listings.[42] FASE in Germany connects individual social enterprises with potential investors and facilitates hybrid financing structures. [43]

»We are increasingly seeing "infrapreneurs", platforms and exchanges facilitating matching between investors and investees, stronger intermediation and collaboration.«

Investment readiness programs and social entrepreneurship accelerators have established partnerships with corporate and financial players and offer specialist services to investors (e.g. the leadership programme Finance for Change at the Impact Hub in Berlin).[44]

In many G7 countries **financial intermediation** through investment fund vehicles, specialist investment advisors, rating agencies has grown significantly in the last decade.[45] Pioneering financial intermediaries develop **new products** to attract a wider range of investors with different risk-return-impact profiles and meet the variying financing needs inves-

»Pioneering financial intermediaries develop new products to attract a wider range of investors with different risk-return-impact profiles and to meet the variying financing needs of investees at different stages of their life-cycle.«

Economic Forum, 2016, Alternative Investments 2020. The Future of Alternative Investments. http://bit.ly/29FwVrL

[38] For example, World Bank, 2013, Diaspora Investing: The Business and Investment Interests of the Caribbean Diaspora, Washington DC. http://bit.ly/29BbSXV

[39] http://www.maximpact.com/AboutUs

[40] https://svx.ca/en/about

[41] http://www.asiaiix.com/

[42] www.socialstockexchange.com

[43] www.fa-se.de

[44] www.finance-for-change.net

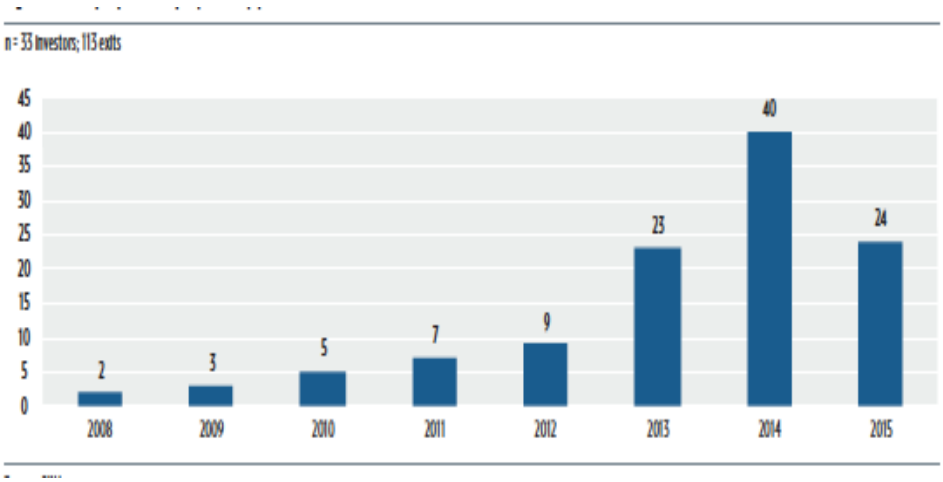
[45] Currently there are 385 impact investment funds and vehicles listed in ImpactBase the global online directory of impact investment funds. In Germany there are currently only two funds that account for most of the impact investing capital sourced and allocated in Germany: BonVenture and Ananda Social Venture Fund. In addition, the Financial Agency for Social Enterprise (FASE) matches social enterprises with suitable funders using hybrid and innovative instruments on a deal by deal cases

tees at different stages of their life-cycle. This includes social venture funds to aggregate investment opportunities, social impact bonds (or their variations such as Social Impact Incentives (SIINC)[46], the Social Success Notes[47] or development impact bonds[48]), venture debt, mezzanine and hybrid finance instruments, matching funds as well as place based investment products. In Germany, two foundations Bertelsmann and the Benckiser Foundation are supporting the development of new social impact bonds. Intermediaries such as Ananda Social Venture Fund, BonVenture and FASE are working on developing new products and investment vehicles such an early stage co-investment fund and standardised hybrid financing structures.

6. Increased evidence for financial performance in impact investing.

The GIIN database on **successful exits** shows a jump in exit activity since 2008 (see Figure 2). Almost half of the 113 exits reported occurred in microfinance and other financial services, followed by the healthcare sector. A majority of exists were by investors from the US, Western Europe and South Asia seeking market rate returns whereas 10 of the 16 exits in Sub-Saharan Africa were by investors that identified themselves as below market rate return investors.

Figure 3 Number of exists between 2008 and 2015



Source: GIIN, 2016, p. 44

In 2015 a number of studies were carried out **to bridge the information gap on financial performance in impact investing**.

- A recent study by GIIN and Cambridge Associates on financial performance of private equity impact investing funds found that impact investing funds launched between 1998 and 2004—those that are largely realized— as well as smaller impact investment funds below USD 100 million outperformed funds in a comparative universe of conventional private in-

»A recent study … found that impact investment funds …outperformed funds in a comparitve universe of conventional private investment funds.«

[46] http://www.roots-of-impact.org/social-impact-incentive/
[47] http://www.yunussb.com/social-success-note/
[48] http://bit.ly/1cxeri5

vestment funds. It is interesting to note that impact investments in emerging countries yielded 9.1% IRR compared to 4.8% IIR for developed markets.[49]

- A Study by the Wharton Social Impact Initiative in the US of 53 private equity impact investing funds managing 557 individual investment found nearly identical performance of market rate seeking impact funds with market index.[50]
- EngagedX studied 426 transactions by three social investment financial intermediaries in the UK combining both investments and grants. In these cases the performance was more mixed with those set up on piloting innovations suffering from greater net losses than others set up to be more financially sustainable. Latter were found to be performing «reasonably well».[51]

Some critical voices noted there was a need to include impact in such studies and to improve our understanding of different market segments and impact investment strategies pursued by different type of investors.

7. Continuous progress to refine and standardise impact measurement and certification.

As impact is at the heart of impact oriented investing, significant efforts are under way to improve the availability and quality of impact data and to harmonise impact methodologies. The overall goal of these efforts is to build trust amongst providers of impact capital and to prevent "greenwashing", while ensuring a minimum level of flexibility to take into account the diversity of investment strategies and business models.

»Significant efforts are under way to improve the quality and availability of data to build much needed trust amongst providers of impact capital.«

International working groups at G7 and EC level made progress in recent years agreeing on common terminology, standards and measurement principles and strengthening support systems to newcomers and experienced impact investors alike.[52] The Global Impact Investing Network (GIIN) hosts and supports the

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[49] Cambridge Associates and Global Impact Investing Network, 2015, Introducing the Impact Investing Benckmark. http://www.cambridgeassociates.com/our-insights/research/introducing-the-impact-investing-benchmark/

[50] Gray, J. Ashburn, N., Douglas, H and Jeffers, J., 2015, Great Expectations: Mission Preservation and Financial Performance in Impact Investing, Wharton Social Impact Initiative, 2015, p. 16. https://socialimpact.wharton.upenn.edu/wp-content/uploads/2013/11/Great-Expectations_Mission-Preservation-and-Financial-Performance-in-Impact-Investing_10.7.pdf It has to be noted however that results have been cautioned by voices arguing with methodological challenges and the lack of consideration of impact performance of these funds.

[51] EngagedX, 2015, The Social Investment Market through a Data Lens. Social Investment Research Council. June 5, 2015. http://bit.ly/29scQDa

[52] These include the GECES Group on Impact Measurement set up by the European Commission under the preparation of the EC Social Business Initiation, the OECD expert group on Building the Evidence Base for Impact Investing the Impact Measurement Working Group set up under the G7 Social Impact Investing Task Force (now Global

Impact Reporting Investment and Standard System (IRIS), a taxonomy of standardized terms and a catalogue of standardized metrics as well as a searchable database of the impact performance of its more than 170 registered users.[53] The Global Impact Investing Rating System (GIIRS), the industry's analogue to Morningstar ratings is operated by the US non-profit B Lab to increase transparency and comparability between the portfolio of impact funds.[54] B-Lab also certifies B Corporations, that is for-profit companies committed to meet social, environmental and governance standards and practices.[55] Several impact investors including Deutsche Bank, Sarona Capital and Sonen Capital have begun to examine the impact of their investments in the context of their contributions to the Sustainable Development Goals.

In the future the discussion in the field will go beyond the measurement of impact at the level of the investee (and its beneficiaries). We expect that investors will critically review their own role and additionality in view of fostering a culture of learning, sharing of experiences and strategy development. Furthermore the investor will plan for and assess systemic and indirect impact such as investments in pioneering business models that resulted in the creation of an entire industry or the support to intermediaries such as accelerators, convenors, researchers or market builders.

8. Hybrid and blended financing mechanism to reflect the nature of impact investing

Often innovative business models lack suitable forms of finance at different stages of their entrepreneurial cycle. In particular early stage companies with unknown business models or technologies that serve market segments perceived to be too risky often find it hard to raise finance at acceptable rates. But also established entrepreneurs using hybrid models to cater for their social mission using entrepreneurial means sometimes fall between the cracks of the financial system. Sometimes financial institutions have to be encouraged to provide specific services market segments considered to be too risky for mainstream finance as for example, technology, early stage entrepreneurs, SME, renewable energy and energy efficiency.

»Governments, bilateral and multilateral development (financing) organisations …have used blended financing strategies for years.«

In response to these challenges, syndications, blended and hybrid finance mechanism applied by funders with different risk-return-impact profiles and motivations that mix public sector and philanthropic concessional with non-concessional finance are likely to become even more important in the near future.[56] Governments, bilateral and multilateral development (finance) institutions such as Ger-

Social Impact Investment Steering Group) supported by the German Bertelsmann Foundation. More on www.socialimpactinvestment.org.

[53] https://iris.thegiin.org/

[54] http://b-analytics.net/giirs-ratings/

[55] B Corps started to expand outside to the US including Europe and Germany, including Germany http://bcorporation.eu/ The German B Corp network is hosted by GEXSI in Berlin http://goodbusiness.news/

[56] OECD and World Economic Forum, 2015, Blended Finance Vol. 1: A primer for Development Finance and Philanthropic Funders. Paris

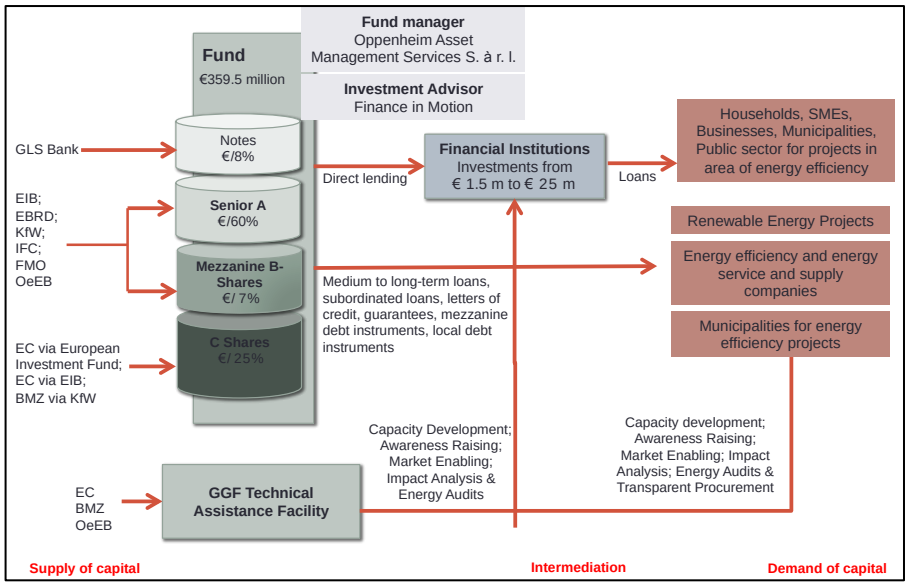
man Development Bank KfW or the private arm of the World Bank, the International Finance Cooperation, IFC have used different forms of blended finance strategies for years: for example, in the financing of large infrastructure projects or to attract more commercial oriented investors to structured funds to finance small medium sized enterprises (SME), renewable energy or energy efficiency. In this catalytic role, public sector agencies were joined by large foundations such as Bill and Melinda Gates Foundation and the Rockefeller Foundation.

Examples for blended finance investment funds include the EUR1billion European Fund for Southeast Europe EFSE or the EUR 360 billion Green for Growth Fund focusing on provision of green financing to households and SMEs initiated by KfW and the German Ministry for Economic Cooperation (BMZ) (Figure 4).[57] Other funds address structural gaps in local financial and capital markets in emerging and developing countries such as Currency Exchange Fund (TCX) or the African Local Currency Bond Fund. [58]

[57] Structured funds with a waterfall structure offer opportunities for investors with different risk/ return profiles. Typically, the overall risk is divided into tranches, each with different degrees of 'seniority' (e.g. order of repayment or return allocation in the event of losses, bankruptcy or sale), and these are passed on to investors with varying risk appetites. The first loss tranche (C-Shares) is usually provided by governments and donors, while the mezzanine tranche (B-Shares) typically funded by Development Finance Institutions with higher risk absorption capacity, whereas efforts are made to bring in commercial investors to A-Shares and notes.

[58] Most of these structured fund mitigate capacity risk with technical assistance facilities that help partner institutions adapt and strengthen their systems with regard to MSME lending that their local counterparts consider too risky, (environmental) audit or the introduction of environmental, social and governance standards. For more details see Koenig, A. Jackson, E., 2016, Private Capital for Sustainable Development: Concepts, Issues and Options for Engagement in Impact Investing and Innovative Finance. Danida Evaluation Study 2/2016. http://bit.ly/29tqbfI and annexes with more details such as fact sheets of several funds, http://bit.ly/1MESgPE.

Figure 4 Structured funds in development finance – the example of the Green for Growth Fund South East Europe



Source: Koenig, A., Jackson, T. 2016.[59]

In Germany, aggregated hybrid financing funds are yet to be applied to the impact investing field with the intermediary FASE remaining one of the few players structuring hybrid financing on a case by case basis.[60]

9. "Leadership" increasingly recognised as critical success factor in impact investing

Individual interventions are insufficient to achieve impact at scale or systemic change and there is increased evidence of a correlation between financial performance and active partnership strategies. As a result we are likely to see more collaborative efforts and partnerships – often between unlikely partners, such as non-governmental organisations, investment banks, corporations or local municipalities.

Collaborative approaches require a certain set of skills and capabilities at individual, team and organisational level. A study of 12 top performing impact investing funds carried out in 2013 pointed to the importance of "multi-lingualism", that is "the ability of the investment team and staff to move seamlessly between different stakeholders and audiences and to cut across silos to draw connections between business and the finance as well the social sectors".[61]

»Collective approaches require a certed set of skills and capabilities at individual, team and organisational level.«

[59] Koenig, A. Jackson, E., 2016, Private Capital for Sustainable Development. Concepts, Issues and Options for Engagement in Impact Investing and Innovative Financing. Danida, Annex Fact Sheets.
[60] See a collection of case studies in German and English on www.fa-se.de.
[61] Vgl. Clark, C. et al, 2015, The Impact Investor, Lessons in Leadership and Strategy for Collaborative Capitalism. http://sites.duke.edu/theimpactinvestor/

While traditional social finance and impact investment learning program often focus on the acquisition of technical skills, systemic leadership programmes specifically targeting investors, intermediaries or finance entrepreneurs are being created (e.g. the Finance for Change at the Impact Hub Berlin or the Finance Innovation Lab in GB).[62]

10. Governments to play an important role as market builder, regulator and market participant

An increasing number of governments around the world took action to develop conducive regulatory and policy environment for impact investing, address barriers for impact delivery organisations and investors and strategically build nascent impact investment markets.[63] The UK and in some ways the US have been at the forefront of policy innovations for impact investing but G7 countries such as France, Canada, or Australia also made substantial progress in recent years and developing country governments such as South Africa, India or Brazil are quickly catching up.[64] Governments have engaged by using their role as:

- **Market builder** as in the UK who has strategically supporting the development of the social investment market since 2000 (Box 1) and development organisations such as DFID that seek to strengthen market infrastructure in developing and emerging countries;
- **Commissioner of public services** for sustainable products and services (e.g. reforms on socially and sustainable procurement at EC level and many European countries, the introduction of Social Impact Bonds or Pay for Success Models in the UK and the US);
- **Regulator** (e.g. the 2001 regulations by the French Government establishing the 90/10 solidarity investment funds, the US regulations facilitating mission and program related investments or the creation of new legal structures such as the Hybrid Company in Canada);[65]
- **(Co) investor** using public money catalytically to mobilising additional capital or de-risking investments in new markets and business models (e.g. the European Impact Accelerator of the European Investment Fund, the KfW Social Entrepreneurship Matching Financing Fund for Germany, which was discontinued 2014);

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[62] More details on www.finance-for-change.net und http://financeinnovationlab.org/

[63] The reports by eight National Advisory Boards on their respective national landscape and policies for impact investing can be found on the website established under the G7 Social Impact Investing Task Force www.socialimpactinvestment.org.

[64] The German government is yet to engage beyond development finance activities implemented by the German Development Bank KfW in developing countries and exiting SME and technology start up support in Germany.

[65] Vgl. Impact Investing Policy Colloborative, 2014, Impact Investing Policy, A Snapshot of Global Activity. S. 84ff http://bit.ly/29Yq1ik and regarding US policies http://www.nabimpactinvesting.org/

- **Accreditor** (or endorser of third party labelling and certification processes) as in the case of Social Enterprise Mark or – in some US states – the B Corp label).[66]

Box 1 The UK Government's Social Investment Strategy

The UK government has strategically developed the social investment market in the UK since 2000. This included the creation a holistic market development strategy by the Social Investment Task Force in consultation with key stakeholder. The 2000 and subsequent strategies led to the development of programs and institutions that facilitate lending to social enterprise (e.g. through the creation of a Charity Bond Market or establishment of Bridges Ventures in 2002) and support capacity building to entrepreneurs (e.g. the Contract and Investment Readiness Fund in 2013). The UK parliament also passed a legislation creating a specific legal form that combine corporate structures with specific features ensure the social mission of the companies is protected (e.g. the Community Interest Companies) and in 2014 created tax incentives for social investors. Furthermore, the UK government facilitated include the establishment of Big Society Capital, a GBP 900 million wholesale investment financial institution in the social impact market to capitalize new investment intermediaries, the promotion of innovative instruments in public service commissioning such as the pay for results initiative and social impact bonds as well as the Social Value Act 2013.

Source: National Advisory Board UK, 2014, Building a Social Investment Market.

Impact investing also found its place on the regional and international public policy agenda. The Social Impact Investing Task Force, launched by the UK Prime Minister following a G7 Social Impact Investment meeting in London in 2013 and taken up by the Global Steering Committee on Impact Investment (GSCII) in July 2015, works to develop the global architecture, to embed discourse on social impact investment in future government level discussions and more recently, to build engagement across geographies beyond G7 countries with Israel, India, Brazil and Portugal joining the initiative in 2015.[67]

»Impact investing has also found its place on the regional and international public policy agenda.«

[66] Vgl. http://www.socialenterprisemark.org.uk/

[67] Addis, R. and Koenig, A., 2014, Reflections on the Global Market. Why the G8 Taskforce Work Matters and What comes next? in Impact Investing Policy Colloborative, 2014, Impact Investing Policy, A Snapshot of Global Activity. http://bit.ly/29skZYl

Conclusion:

Impact Investing found its place on the national and international agenda driven by an increased demand for sustainable products and (financial) services, new approaches with regard to the delivery of public and social services as well as international commitments to the achievement of global climate and development goals. Trends discussed in this article show that the field is not only characterised by an increase in terms of the investment size. More importantly, new investor groups have been mobilised and financial products and market infrastructure has become more sophisticated and responsive to the needs of impact driven investees. In Germany a significant level of experience in areas closely related to this field already exists. In order to make use of the potential of impact investing, it will be essential to use that experience to further and develop existing systems, to look for cooperation with new partners und find the courage to break new ground.

A slightly modified and shortened version of this analysis in German is accessible here.

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