Overview of Impact Investing Initiatives

20 October 2023

Impact investing is one category of investment practices that sits within a broader spectrum, ranging from traditional and purely financial motivated investment to responsible investment and to philanthropy.

One of the distinct feature of impact investing is the duty to demonstrate the “additionality” of the investment. In practice, this often includes a “catalytic function” which is common to development finance arrangements and blended finance.

There are various estimates of the size of the sector in the absence of a single set of metrics and definitions. The numbers fluctuate between USD100bn USD2tr. The figure of EUR500bn of assets under management is most commonly cited.

North America and Western Europe host the vast majority of impact investors. Geographic allocation also tilts much in favour of OECD economies.

Unsurprisingly institutional investors and banks account for a large share of investors in impact funds. By opposition, foundations and high net worth individuals represent less than 10%.

Impact investing funds include pure players and specialised investment firms but also mainstream asset managers and banks that are developing their own impact department.

Development finance institutions represent a small share in numbers, but are central to impact investing flows, accounting to approximately 27% of assets.

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Overview

Impact investing is a category of investment practices that sits within a broader spectrum, ranging from traditional and purely financial motivated investment to responsible and sustainable investment and to philanthropy. It is distinct on a number of grounds:

- Environmental, social and governance (ESG) goals are not just risk-adjusted to the investment policy, as in responsible investment practices, they can in fact be subject to arbitrage in their favour and against purely financial return on investment goals;
- The impact investor has a duty to demonstrate the “additionality” of its impact on the invested entity or project, not just ensure it is “material” to its own business (single materiality) or to all stakeholders (double materiality);

Investment approaches, from traditional to philanthropy

Approach	Traditional	Responsible	Sustainable	Impact Investing	Philanthropy
Finance Goals	Financial returns	ESG Risk-adjusted returns	ESG Risk-adjusted returns	Arbitrage between financial returns and social / envt goals	Accept full loss of capital
Primary asset class	Listed securities	Listed securities	Listed securities	Private equity & debt	Grants
Secondary asset class	Private equity & debt	Private equity & debt	Private equity & debt	Guarantees & grants	Guarantees & impact investing
Impact goals		Do no harm Principle	Do no harm Principle	Do no harm Principle	Do no harm Principle
		Single materiality "best in class"	Double materiality "best in class"	Additionality principle & net contribution	Additionality principle & net contribution
Distinct feature		Good governance practices	Good governance practices & shareholder engagement	Catalytical & blended finance	Catalytical

Table: policyhive.org • Source: Impact TF 2021 • Created with Datawrapper

Portfolio designed for the “valley of death” period

The additionality principle is about effective contribution where the market is failing to invest in. In practice additionality is often associated to catalytic capital: a first mover investor, accepting to take first loss status during the early seed phase, the so-called “valley of death period” when the project is most fragile financially and need ad hoc support – capital, administrative support, training etc – to meet the business plan needs in the absence of

revenue generating activities. Catalytic capital often functions within a multi-investor "blended finance" arrangement, also involving public and/or philanthropic institutions.

Compared to other investment strategies, the portfolio composition of impact investing heavily tilts toward private equity and debt in the broad sense of the term, making use of a wide array of other instruments:

- Organisation-wide support through equity, convertible bonds and other long term debt financing, including "subordinated" capital (taking prior losses), and catalytical support through in-kind support and guarantees;
- Project specific or activity-based support: including debt and loans, project-related guarantees and insurance, other result-based incentives, grants and support for conditions to reach performance objectives;
- Fundraising through off-balance sheet mechanisms: crowdfunding (small projects) and securitisation (large and/or multi-donor projects).

The most frequent impact goals pursued revolve around:

- social and financial inclusion goals: micro credits, gender equality and women's rights, access to housing, access to education and development of new technologies.
- climate and the environment goals: net-zero emission projects, nature-based and rural development, ocean and sustainable fishing, development of new technologies;

The market

There are various estimates of the size of the sector in the absence of a single set of metrics and definitions. The numbers fluctuate between USD100bn to USD2tr. According to the Global Impact Investing Network (GIIN), at the end of 2021, impact investing amounted to USD1.16tr assets under management with roughly 3500 organisations involved. For its part, the International Finance Corporation (IFC) estimates are at USD2tr for a broader definition and at USD635bn for a more restrictive one, of which USD286bn of investments managed by privately owned asset managers and institutions, and USD349bn managed by 36 Development Finance Institutions. The EVPA estimates are broadly equivalent: EUR542bn worldwide for privately managed funds, of which EUR319bn are in Europe alone. Applying a narrower definition however, EVPA's numbers fall down to EUR80bn, of which EUR32bn "has some elements of additionality".

Global distribution of assets under management

IFC estimates (USDBn in 2020)	**Privately managed**	**Publicly managed**	**Total**
Measured impact	286	349	635
Intended impact	308	1338	1646
Total	594	1687	2281

EVPA estimates (EURBn in 2022)	**Privately managed**
EU	319
rest of the world	223
Total	542

Source: IFC 2021 & EVPA 2022

Impact investing remains heavily concentrated in OECD economies and in particular in North America and Western Europe. According to the GIIN, the two regions host 80% of all registered impact investors (50% in the US, 31% in Europe) and 92% of their assets under management

(37% in the US, 55% in Europe). East Asia (including China, Taiwan Japan and Korea) accounting for just 1% of global AUM.

Since 2022, the GIIN includes certain kind of green and social bonds – a choice that has not been shared by other impact investing institutions. Green bond issuances have been highly successful among mainstream investors. Social bonds have also been introduced, although the uptake has been slower. The market value of sustainability-focused bonds – green and social – was estimated at over USD 1tr in 2021. This is a sizable volume in absolute terms, yet only represents around 4% of total global bond issuance for the same period.

The profile of impact investors

Likewise the broader asset management industry, the impact investing sector appears heavily concentrated. The total number of declared impact investors range in the +1200 worldwide. While the average investment portfolio held is around USD485m AUM, but the median is far lower, at USD62.5m. 34 investment firms control over half of the impact industry, with approximately USD340bn in AUM.

Categories of investors in impact investing

2022, in %	GIIN	EVPA
Individual		26
Institutional investors	61	23
Banks and other financial institutions		28
Development finance institution, other public funding	27	16
Foundations	5	1
Other	4	2
Family offices & HNWI	4	4

GIIN 2022 & EVPA 2022

Unsurprisingly, institutional investors (pension funds, retail funds, insurance companies, sovereign wealth funds) and banks represent a large share of investors in impact funds: 61% according to GIIN, 51% according to EVPA. In Europe, individual investors represent another important category thanks to national legislations that facilitate mobilisation of household savings for impact investment (such as France's "90/10" solidarity funds). Public financial institutions account for a significant part of funding as well. Foundations and high net worth individuals on the other hand represent less than 10% of funders, for EVPA this is "an untapped potential of resources which could be mobilised to support impact funds".

Impact investing firms include pure players and specialised investment firms such as Vital Capital, Bridges, LeapFrog Investments, Triodos IM, BlueOrchard, responsAbility as well as non-profit institutions such as the Community Reinvestment Fund and Acumen. Increasingly, the market features mainstream asset managers developing their own impact activities, such as AXA IM and Allianz GI through SFDR article 9 funds and/or dedicated development finance departments, or buying out existing boutique firms such as Schroders' acquisition of Blue Orchard in 2019 and Goldman Sachs' 2015 acquisition of Imprint Capital. In the same vein, global philanthropy foundations have their separate impact funds, such as the Bill & Melinda Gates Foundation's Strategic Investment Fund and the Open Society Foundations' Soros Economic Development Fund.

While development finance institutions (DFIs) only represented 5% of organisations in the sample, these organizations accounted for 27% of impact AUM, giving the DFIs an important role. Leading DFIs include the IFC, the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB) and the African Development Bank (AfDB). European investment Fund (EIF), Private Infrastructure Development Group (PIDG), Global Environment Facility (GEF) and the Green Climate Fund (GCF). The top three bilateral providers of blended finance are the United States, followed by France and the United Kingdom.