evpa

INVESTING *FOR* IMPACT

Accelerating Impact

Main takeaways from the first harmonised European impact investment market sizing exercise

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Cheat Sheet

1. What is the size of the European direct impact investment market? What percentage of the total mainstream investment market does it represent?

The European mainstream investment market is estimated to be € 17.8 trillion, the sustainable/ESG investment reached € 3 trillion (17%) in 2021. We estimate the European direct impact investment market as €80 billion (0.5%), out of which – at least – € 32 billion (0.2%) has some elements of additionality (positive contributions that would not have happened if not for the investment intervention).

2. Is the impact investment market accelerating at the rate necessary to solve the key social and environmental challenges we currently face?

European impact investment assets under management grew by a substantial 26% from 2020 to 2021. However, we did not see the acceleration we had hoped for, making the goal to deliver on the SDGs by 2030 challenging.

3. What role do impact investors play in fair climate action finance?

The top three SDGs targeted - decent work and economic growth, reduced inequalities and climate action - include a mix of social and environmental goals, which shows how impact investors represent a force for change on both impact categories.

4. What are the biggest sources of funding for the European impact market and what untapped opportunities did the survey uncover?

Individual investors (26%) are the main source of capital together with financial institutions (28%) and institutional investors (23%). At the low end of the spectrum, foundations' endowment assets and high net worth individuals represent an untapped potential of resources which could be mobilised to support impact funds. EU funding accounts for 5% of the funding available to impact investors. This is heading in a positive direction, growing from 1% in 2020.

5. Are impact investments enabling breakthrough solutions and fostering lasting positive change?

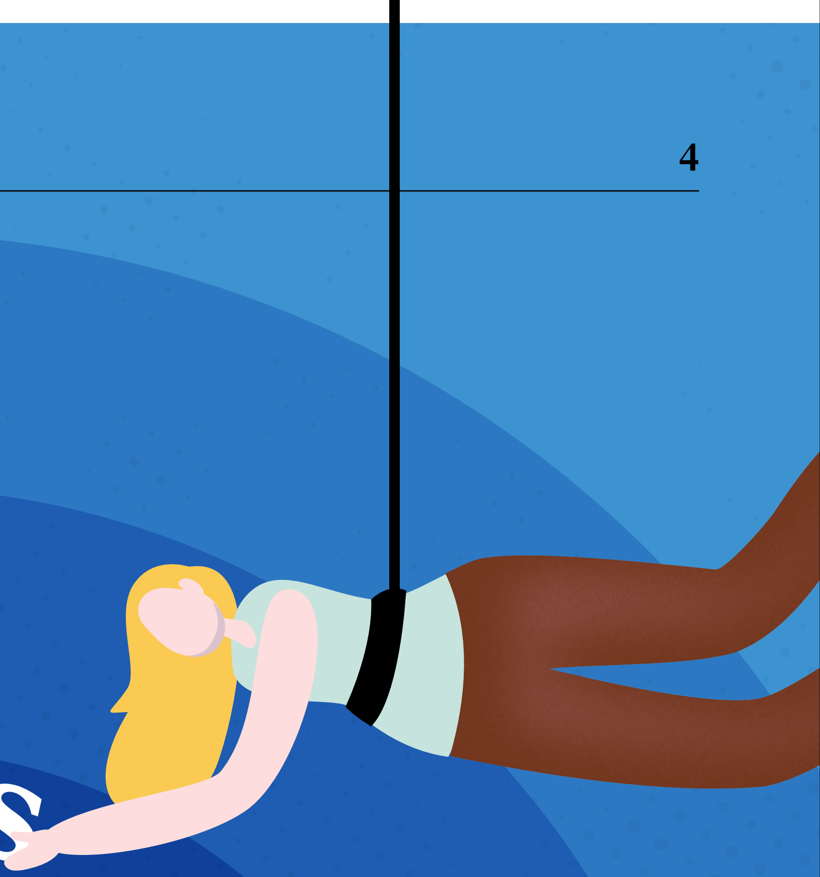
Impact investments including some level of additionality represent a surprisingly high percentage of the total European direct impact investment market – 48%. However, if we want impact investment to play a transformational role in contributing to a fair and green society, we should aspire for even higher percentage.

6. Measuring and managing impact – are impact investors walking the talk?

All organisations surveyed report to measure impact using one of the accepted frameworks. However, only 83% also report going beyond measurement to manage it. This is promising but it highlights that, even in the impact sector, there is more way to go to ensure impact is embedded into daily decision-making processes.

PART 1

Talking numbers



Authors: Gianluca Gaggiotti and Alessia Gianoncelli

Introduction

In Europe's impact investment market, questions about size, trends and practices are abundant and answers are often in short supply.

What is impact investing, as defined by this consortium of market builders, and how does it relate to sustainable finance and ESG? Is impact investing the solution to address the still too large funding gap we face to deliver the UN SDGs (estimated at USD 4.2 trillion by OECD[1])? And if so, are we seeing the needed acceleration in the size of impact capital deployed?

The European Impact Investment Consortium, including EVPA, GSG and several European National Advisory Board (NABs) plus selected academic centres, came together to bring some necessary harmonisation in market definitions and sizing, and set the foundations to be able to find **answers** to these fundamental questions. In service of this aim, we worked together for more than a year to harmonise impact investing data for the first time in Europe. We created this project out of a necessity recognised by the entire sector: harmonised data and methodologies are needed to establish an aligned, credible and recognised baseline across Europe and be able to measure progress.

The social and environmental challenges our society faces are making impact a mainstream concern. From *The Economist* to *Financial Times*, impact is making a splash in mainstream finance media. Mainstream interest is both an opportunity and a pressure. An opportunity, because mainstream finance actors, including sustainable investors, have the potential to make more capital impact capital. A pressure, because with the spotlight comes increased scrutiny.

Our sector still struggles with key questions around defining and verifying impact. As impact investing reaches the world stage, there is urgency to increase transparency on key trends, untapped opportunities and challenges, and to bring an aligned, data-driven perspective among key impact stakeholders (capital providers, policymakers, institutions, market builders, etc.). These are critical first steps to deploying more capital to address the world most pressing challenges.

We hope this first harmonised market sizing exercise will contribute towards increased transparency and help mobilise more capital providers interested in playing a bigger role in the impact space.

At the end of the day, we can't manage what we can't measure!

Key Questions

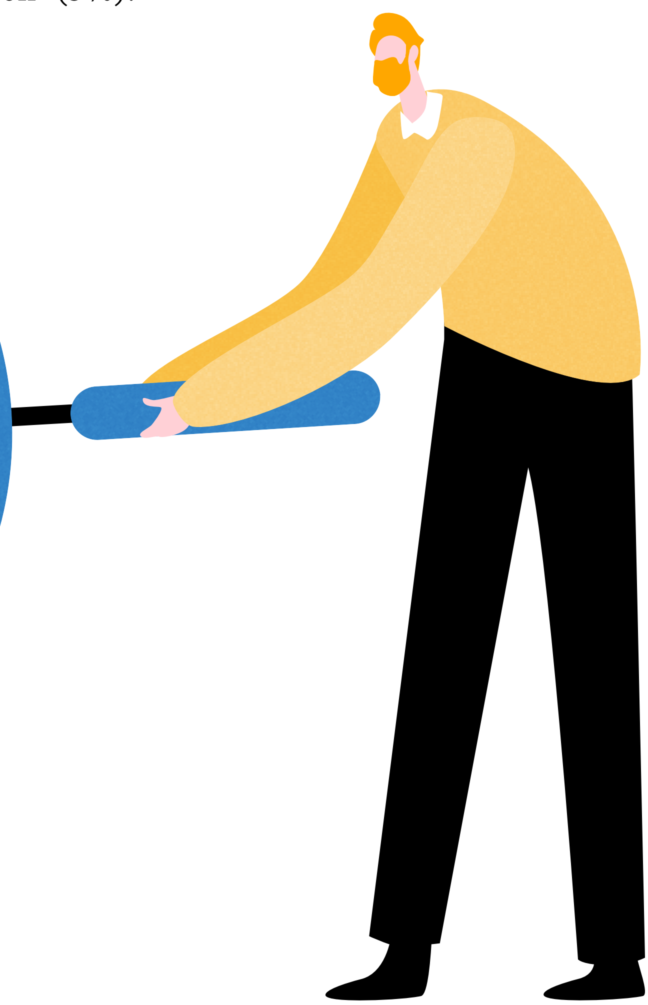
1

What is the size of the European direct impact investment market? What percentage of the total mainstream investment market does it represent?

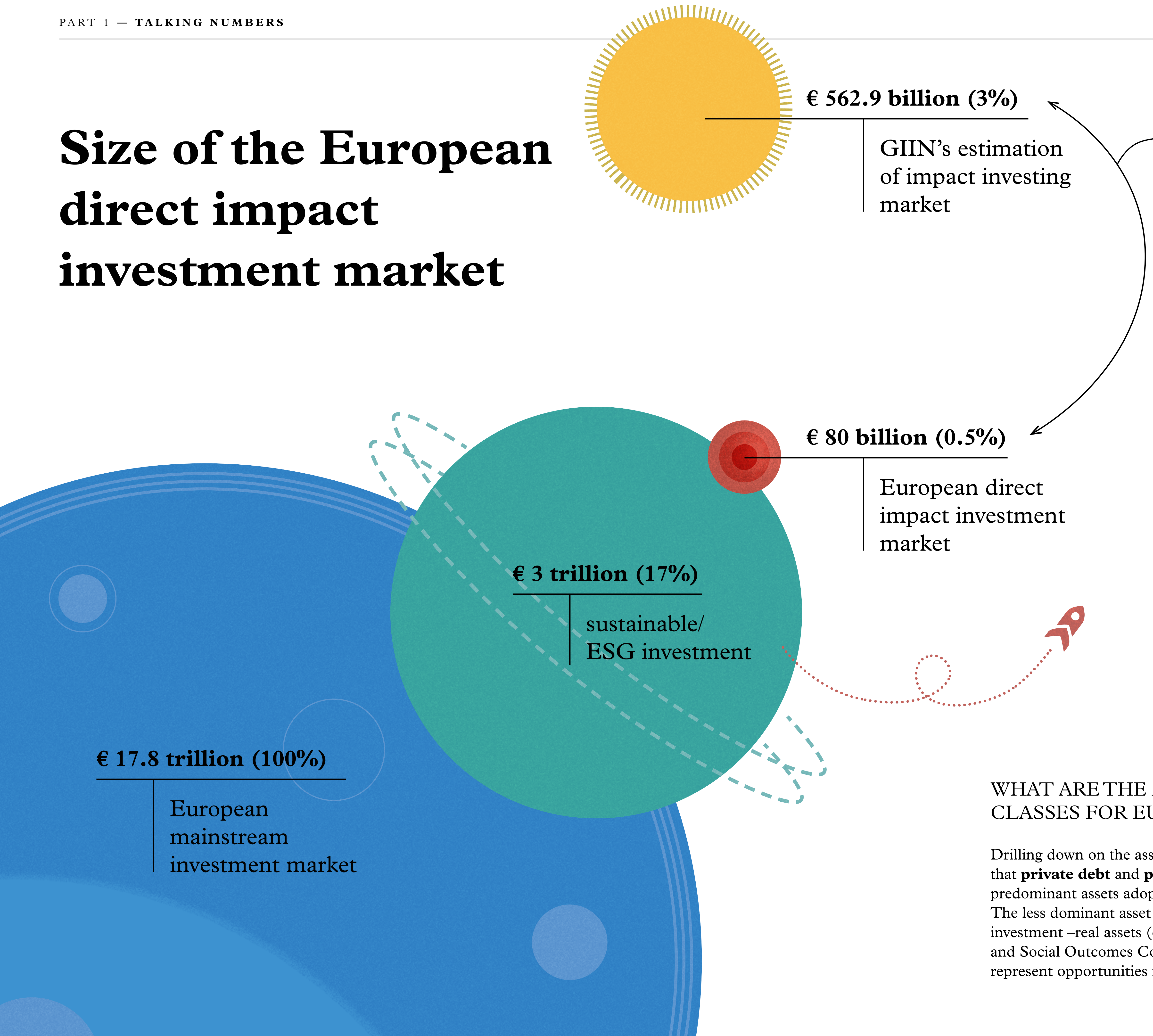
The European mainstream investment market is estimated to be € 17.8 trillion[2] (100%), the sustainable/ESG investment reached € 3 trillion (17%) in 2021[3], and the latest Global Impact Investment Network (GIIN) market sizing estimated the impact investing market (direct and indirect investments, including listed assets) to be 562.9 billion[4] (3%).

Comparing with these sources, the present study estimates the European direct impact investment market[5] as **€ 80 billion** (0.5%), out of which – at least – € 32 billion (0.2%) has some elements of additionality (positive contributions that would not have happened if not for the investment intervention).

See infographic on page 8 ⟶



Size of the European direct impact investment market



SAME MARKET, DIFFERENT NUMBERS?

The market size presented in this study (€ 61bn)[6] is just 11% of the recent figure shown by the GIIN in their latest study[7]. Why?

- **Different measurements:** Whereas GIIN included listed assets, our study primarily targets investments into unlisted assets. Considering the focus of the consortium on impact investors that actively contribute to solutions, we believe this category of assets, the unlisted ones, is the group that better fits the purpose of our market sizing.
- **Missing standards:** The current lack of widely accepted criteria to define how listed assets address social and environmental challenges motivated the decision to separate listed from unlisted assets in this study.
- **A starting analysis:** Despite these constraints, the study captured **a portion of impact investment deployed into listed assets**. For example, we examined public debt (e.g., green bonds) and public equity (listed companies), which account for **an extra € 15 billion of AUM**. These investments were mainly from France and the Netherlands, where impact investment in listed markets is more widely acknowledged.
- **Future opportunity:** Since the extension of the impact investment approach to listed assets represents a tremendous opportunity to deliver additional impact, the consortium is committed to assess whether, and under which conditions, listed investments contribute to solutions and is keen to include those that qualify in future analyses.

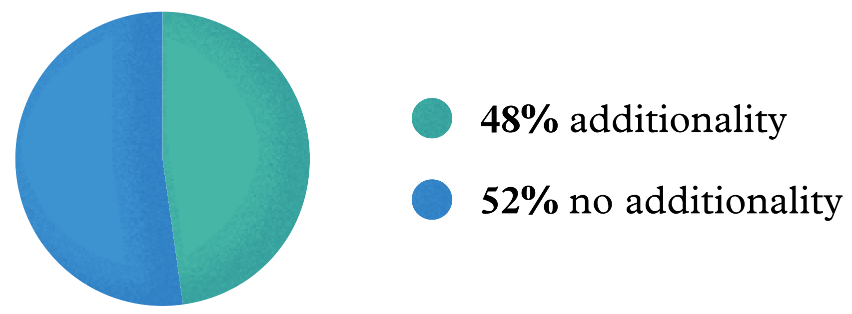
WHAT ARE THE MOST COMMON PRIVATE ASSET CLASSES FOR EUROPEAN IMPACT INVESTORS?

Drilling down on the asset classes, we find that **private debt** and **private equity**[14] are the predominant assets adopted by impact investors. The less dominant asset classes in direct impact investment –real assets (e.g., social housing) at 11% and Social Outcomes Contracting at 0.5% – represent opportunities for closer consideration for their potential value. For example, Social Outcomes Contracting has proven effective to accelerate the adoption of outcomes-based solutions, which lead to more impact (as opposed to short-term outputs). Policymakers have the potential to further incentivise outcomes-based mechanisms and help scale their adoption.

Total Asset Under Management at 31/12

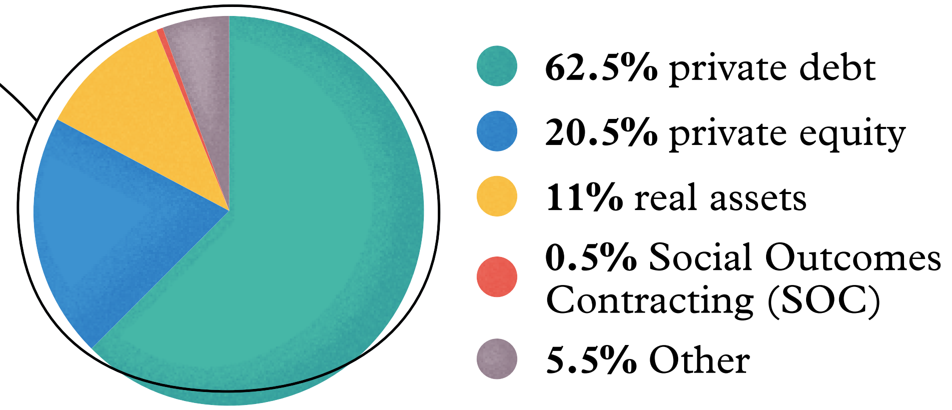
(n 2020 = 479, n 2021 = 496)

Impact investment with additionality out of total Asset Under Management at 31/12/2021 (n = 496, total AUM = € 61bn)



Total AUM split by asset classes

(n = 437, total AUM = € 45M)



2 Is the impact investment market accelerating at the rate necessary to solve the key social and environmental challenges we currently face?

Encouragingly, the market continues to **grow double digits**. However, we did **not see the acceleration we had hoped for**, making the **goal to deliver on the SDGs by 2030 challenging**.

European impact investment assets under management **grew by a substantial 26%** from 2020 to 2021, and there's reason to believe growth will continue, according to a sample of surveyed organisations. This growth rate is, however, lower than the one presented by the broader impact investing market survey presented by the GIIN and including listed assets (32%)[8].

This was an unexpected finding of the study and points to potential for greater acceleration in the market segment focused on identifying, nurturing and taking big risks for innovative solutions to complex social and environmental challenges (what we defined above as impact investments with additionality). It is evidence in favour of the argument that "impact and market-rate returns can go hand in hand." However, demonstrating the importance of generating an impact that is additional, and which can come with lower expectations for financial returns, will require more investigation.

Even though it is growing, AUM allocated to impact still represents a small fraction of AUM allocated to sustainable finance. Sustainability is still often linked to measurement of metrics after the investment, whereas impact investors have to declare their intention to generate impact *before* investments and set up a measurement system to track their progress toward declared impact objectives. If sustainable finance actors started looking at the IMM practices adopted by impact investors and embedding impact considerations throughout the investment journey, there would be potential to bring more resources to the impact ecosystem.

See infographic on page 8 ⟶

3 What role do impact investors play in fair climate action finance?

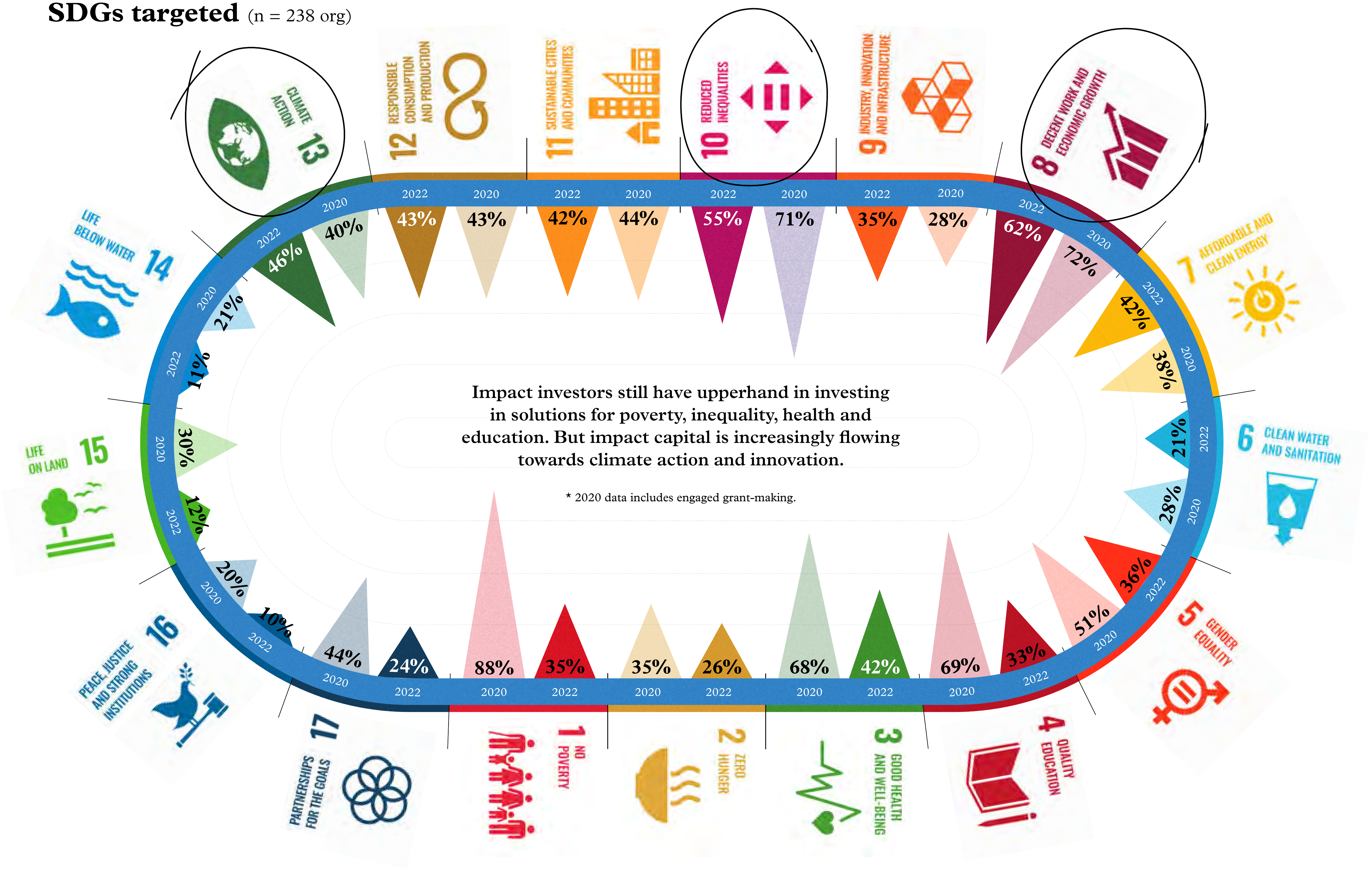
The top three SDGs targeted include a mix of social and environmental goals, which shows how impact investors represent a force for change on both impact categories. Compared to the latest EVPA study of 2020[9], "Climate action" moved up from the 10th to the 3rd most targeted SDG by impact investors, followed by "Responsible consumption and production" (from the 9th to the 4th) and "Affordable Green Energy" (from the 11th to the 5th). This result shows that impact investors still focus on social SDGs but not at the expense of environmental causes. Is the same happening for those investors that are primarily focused on environmental goals? What consideration is given to the social component?

Overall, the mix of social and environmental SDGs targeted by impact investors suggests that climate action finance is incorporating a social component; the findings may offer a baseline for investigating further mixing of social and environmental targets in the future.

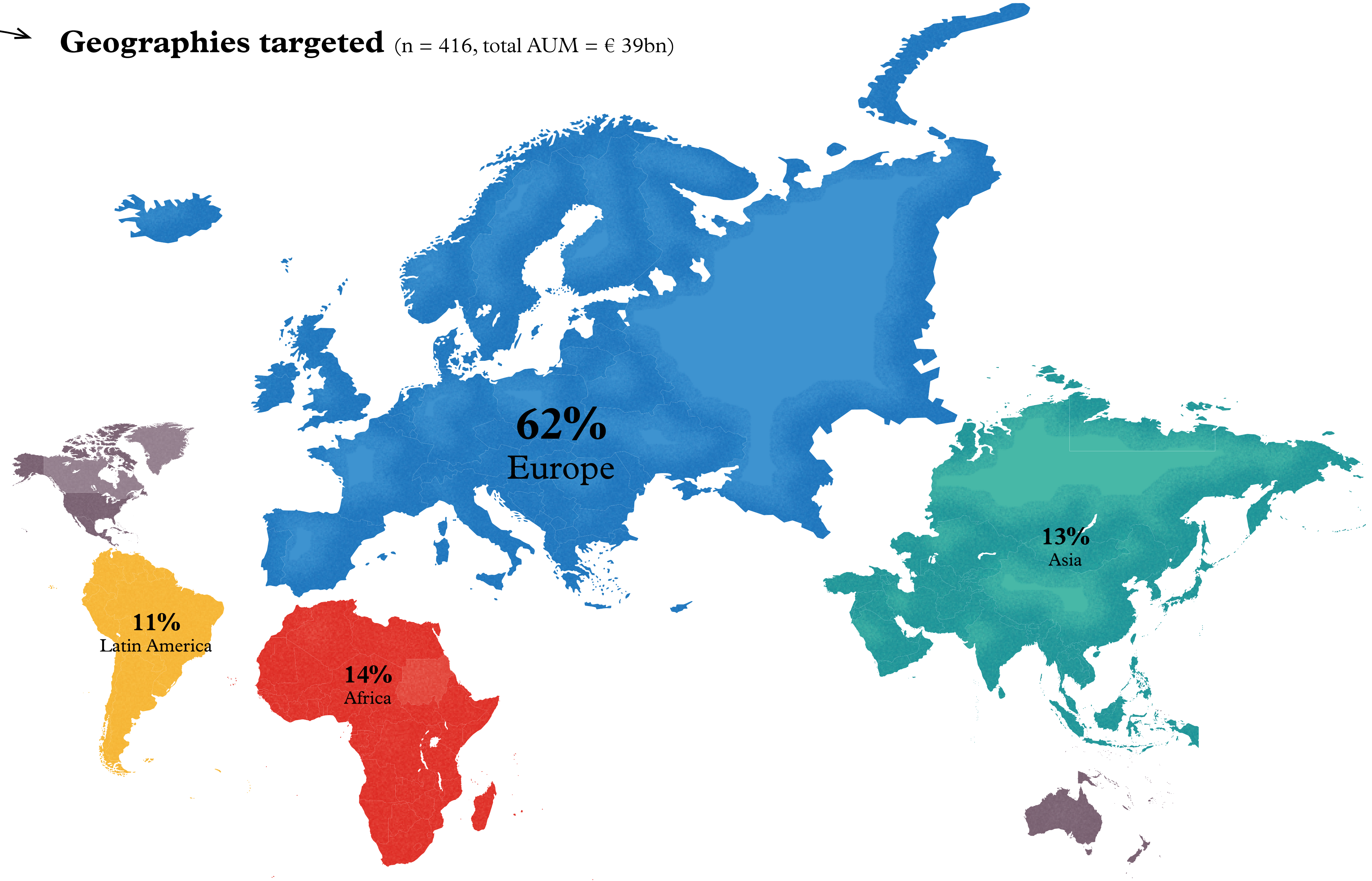
See infographic on page 11 ⟶

Where does European impact capital go?

SDGs targeted (n = 238 org)



Geographies targeted (n = 416, total AUM = € 39bn)



IMPACT INVESTMENT IS A GLOBAL EFFORT

While this study primarily sought impact investing market clarity in Europe, almost **40% is invested outside Europe**. Investment outside Europe is split among Asia, Africa and Latin America about equally. Impact investment is clearly a global effort, just as today's greatest social and environmental challenges require globally minded solutions.

Looking at investments made in Europe, most was deployed nationally, but a surprising **16% has been invested cross-border**. The growth compared to the latest EVPA study[15] shows that European impact investors have become more and more inclined to invest in neighbouring countries, suggesting that favourable regulations for cross-border investments have increased.

4 What are the biggest sources of funding for the European impact market and what untapped opportunities did the survey uncover?

More than a quarter of the funding for direct impact investment comes from individual investors. This trend is driven by countries with favourable regulations, such as France’s 90/10 solidarity funds[10]. Such regulations have proven to democratise access to impact investment and mobilise significant resources from retail investors, who are increasingly demanding sustainable and impact opportunities. EU institutions would do well to acknowledge this trend and consider introducing such regulations at the European level.

Individual investors (26%) are the main source of capital together with financial institutions (28%) and institutional investors (23%) – but what about the remaining 22%? Who is conspicuously absent?

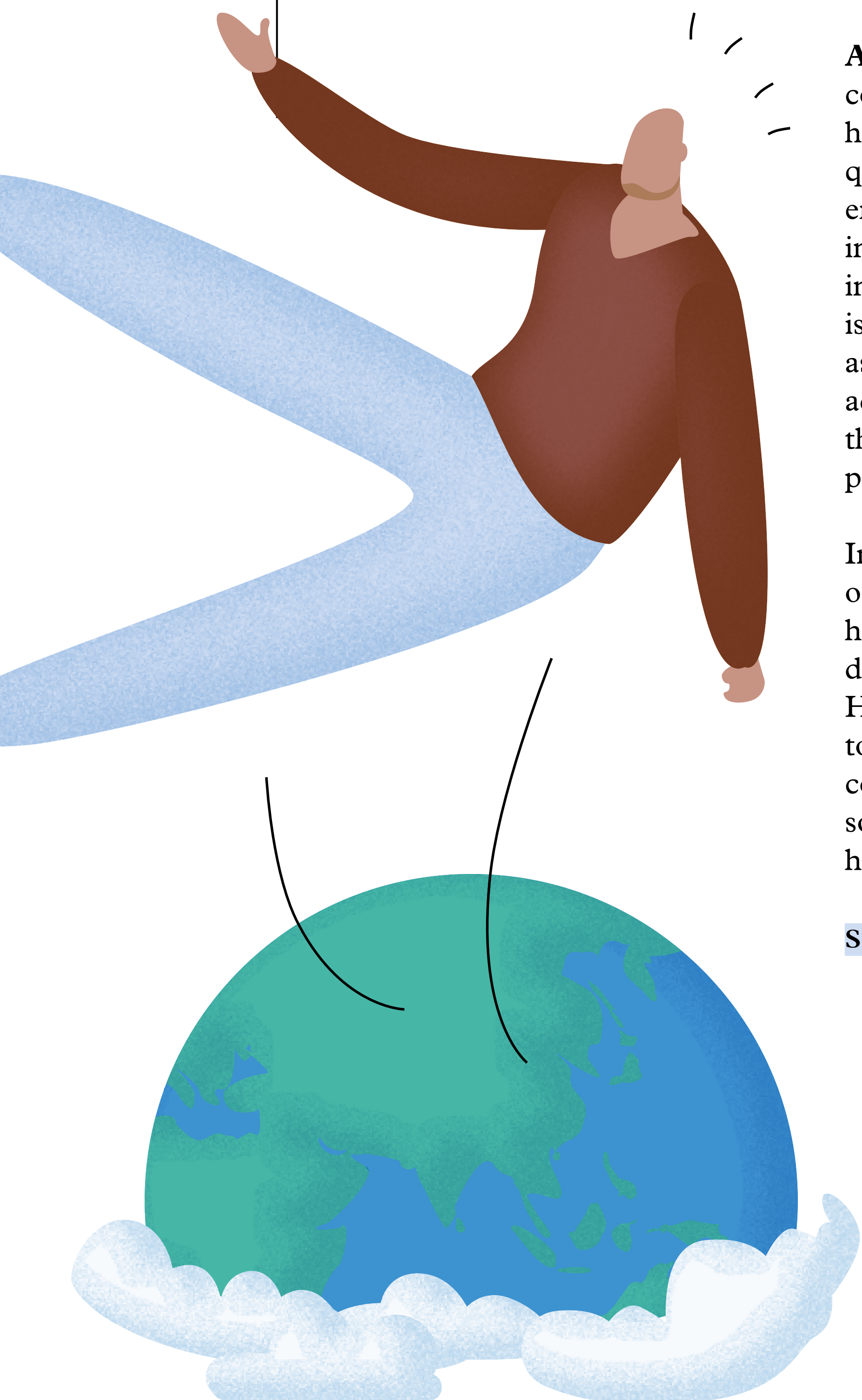
Foundations account for **only 1% of the total amount** attracted by impact investors. On one hand, this is not surprising, considering the slow deployment of endowment assets away from mainstream investment strategy and into the impact investing sector. On the other hand, it puts the spotlight on the untapped potential sitting in the foundation sector and the opportunity to align foundations’ balance sheets in full to their mission and positive role in society.

EU funding accounts for **5% of the funding available** to impact investors; this is clearly heading in a positive direction, growing from 1% in 2020, and reflecting well the increased engagement and outreach of the European investment Fund (EIF) to deploy the € 11 billion of the InvestEU fund in forms of equity and guarantees. The InvestEU guarantee amounts to € 26.2 billion, with provisioning from the Multiannual Financial Framework (MFF) and NextGenerationEU resources. The overall investment to be mobilised on this basis is estimated at more than € 372 billion[11].

High net worth individuals (4%) represent an untapped potential since they sit on a high volume of assets to be invested[12], which could be mobilised – even in small proportion – to support impact funds in contributing to solutions.

See infographic on page 14 ⟶

5 Are impact investments enabling breakthrough solutions and fostering lasting positive change?

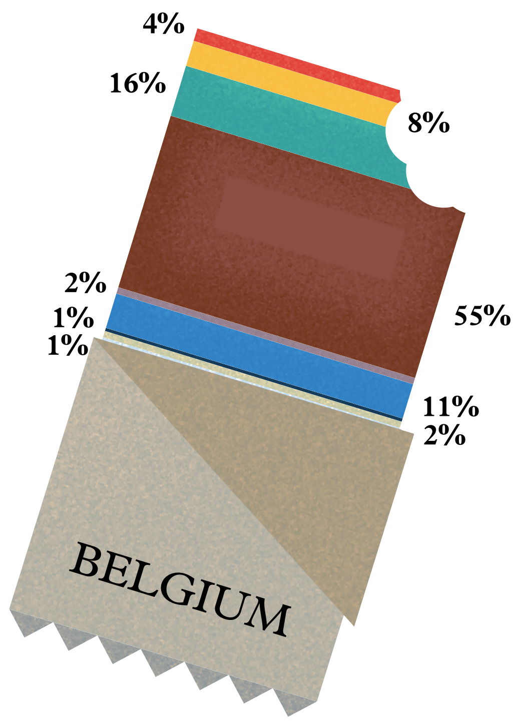


Additionality marks a positive contribution that would not have happened without an investment; this quality is key to achieving social and environmental goals, as it characterises investments that take bold risks to deliver innovative/impactful solutions. This term is used throughout this report; the inbuilt assumption is that investments with additionality have the potential to build the market to deliver transformational positive change.

Impact investments including some level of **additionality** represent a surprisingly high percentage of the total European direct impact investment market – 48%. However, if we want impact investment to play a transformational role in contributing to a fair and green society, we should aspire for even higher percentage.

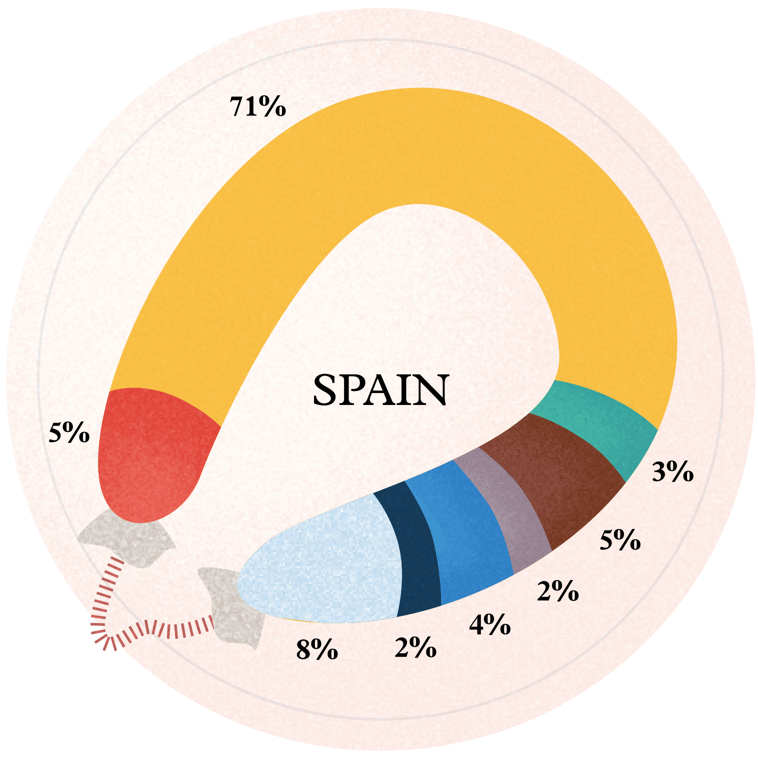
See infographic on page 8 ⟶

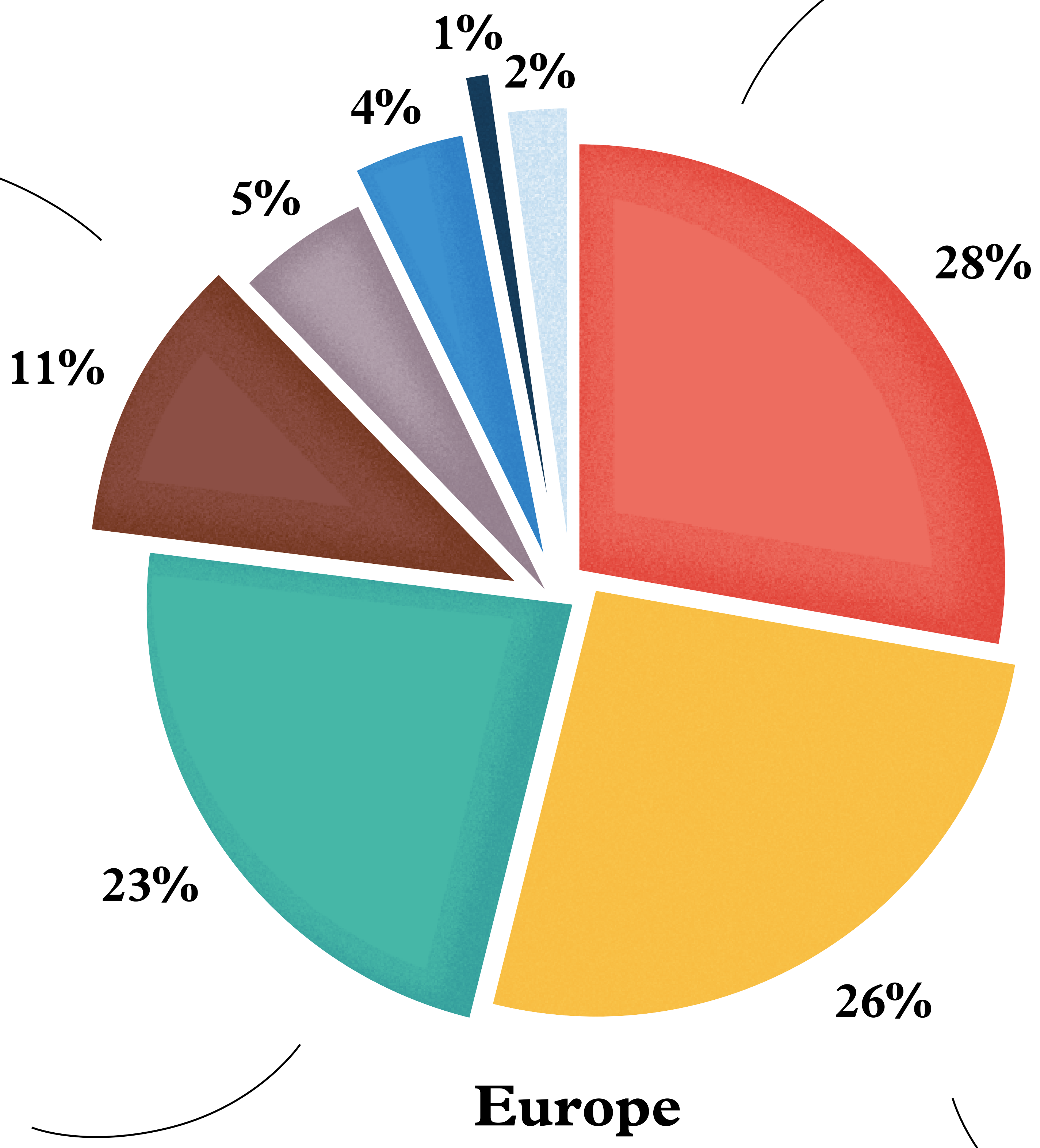
Where does impact capital come from?

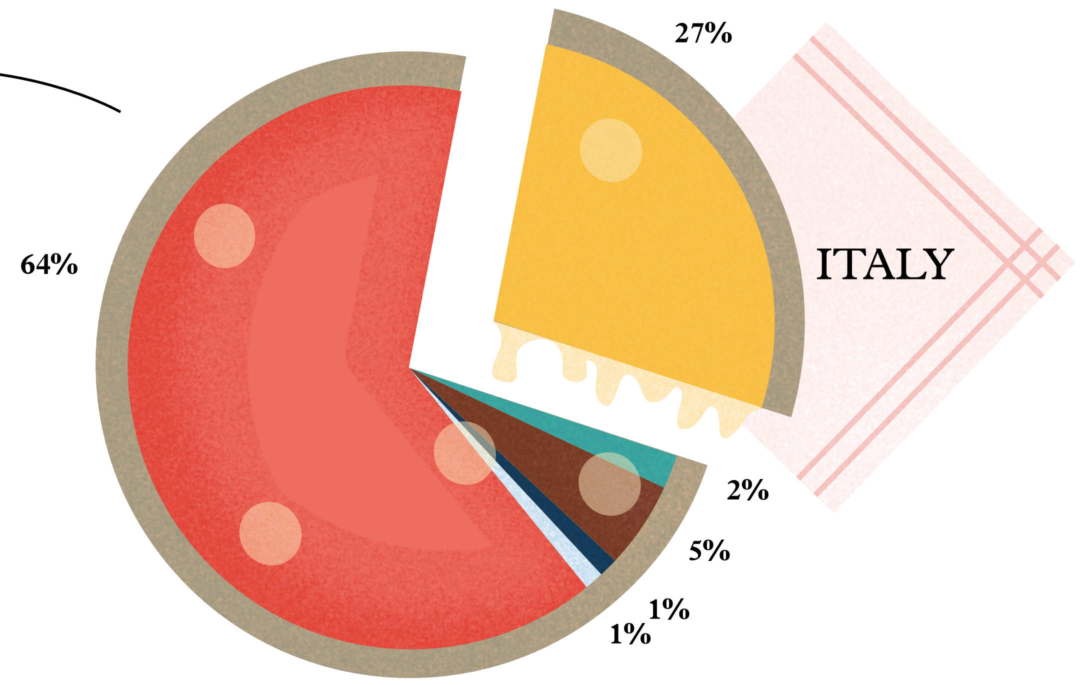


In Belgium: State or local public funds

In Spain: Individual investors

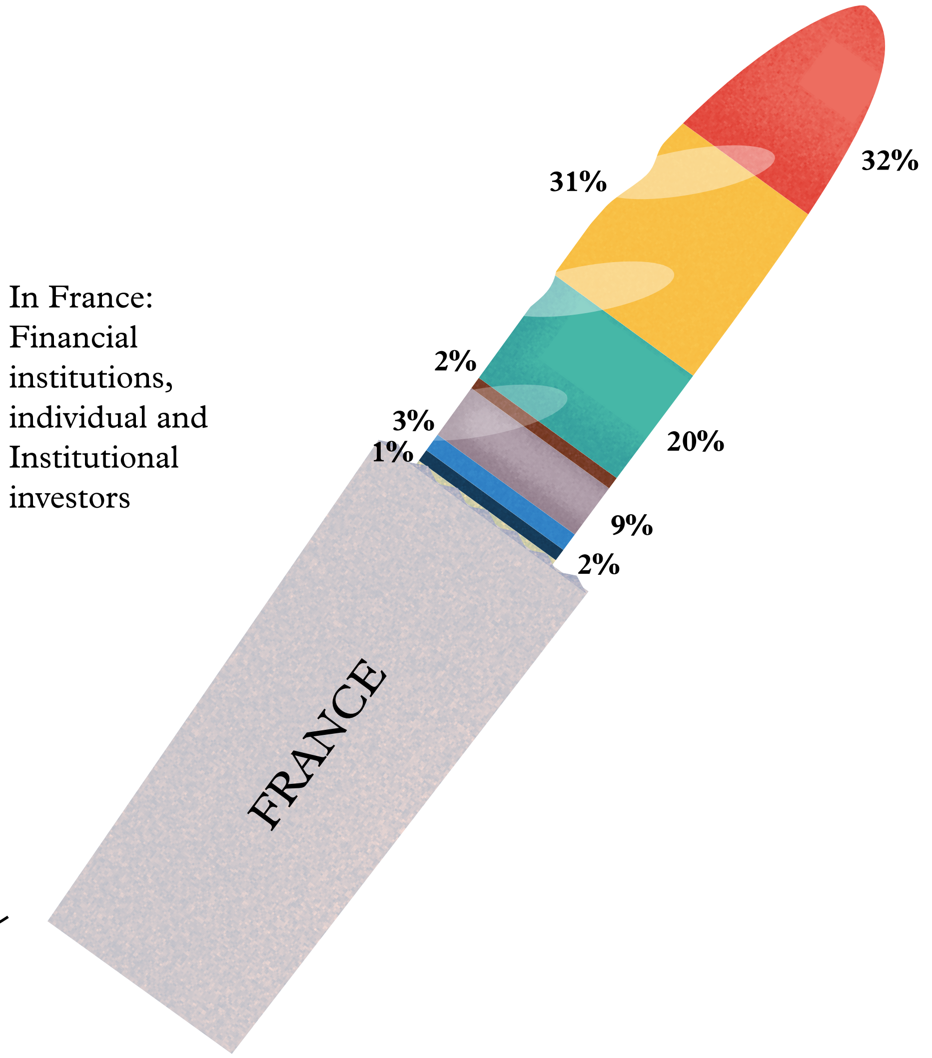






In Italy: Financial institutions

In France: Financial institutions, individual and Institutional investors



Split among sources of capital

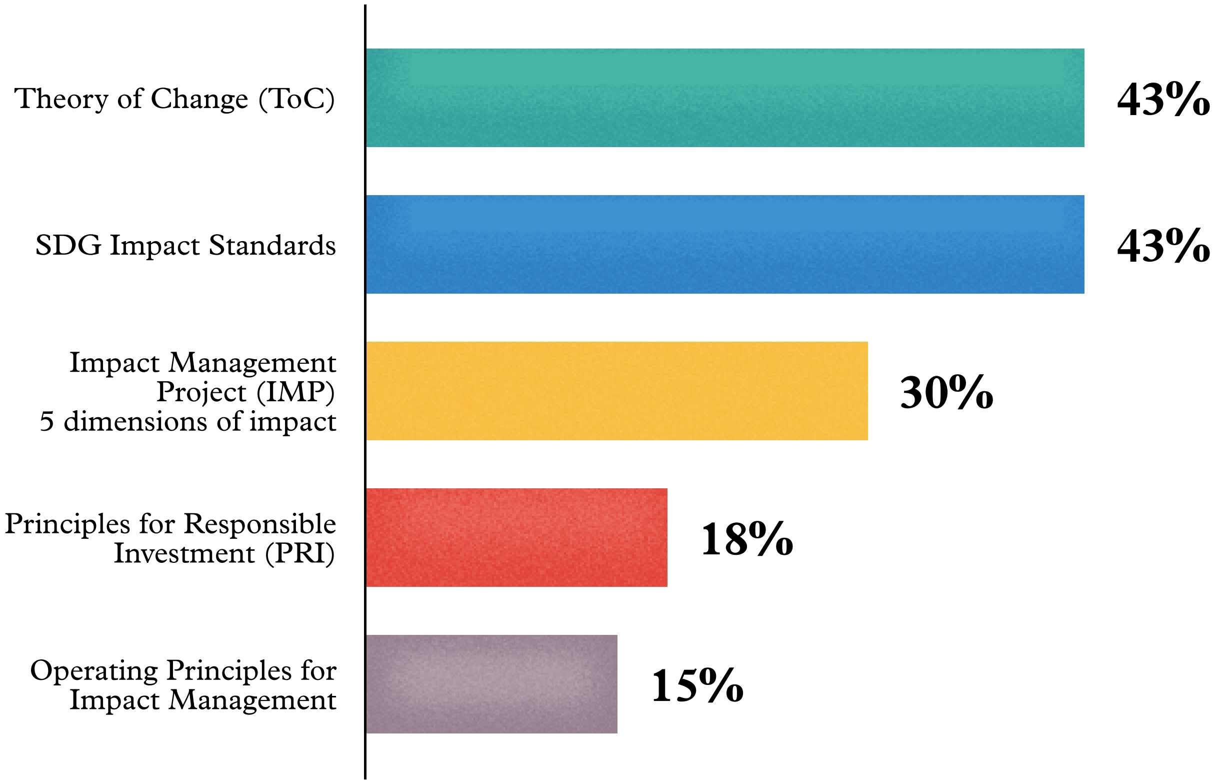
(n = 259, total AUM = € 19bn)

- Financial institutions
  e.g. traditional and ethical banks investing in impact investment vehicles
- Individual investors
  (retail/mass merchandising)
  e.g. individuals investing through employee saving schemes, like 90/10 funds in France
- Institutional investors
  e.g. pension funds or insurance companies investing in impact investment vehicles
- State or local public funds
  e.g. an entity linked to the public at any level (from municipality to government) investing in impact investment vehicles
- EU funding
  e.g. InvestEU financial resources channelled through implementing partners in impact investment vehicles
- Individual investors
  (high net worth/merchant banking)
  e.g. individuals with at least $1 million in liquid financial assets investing in impact investment vehicles
- Foundations
  e.g. foundations investing their endowments in impact investment vehicles
- Corporations
  e.g. corporations investing their financial resources in impact investment vehicles
- Other

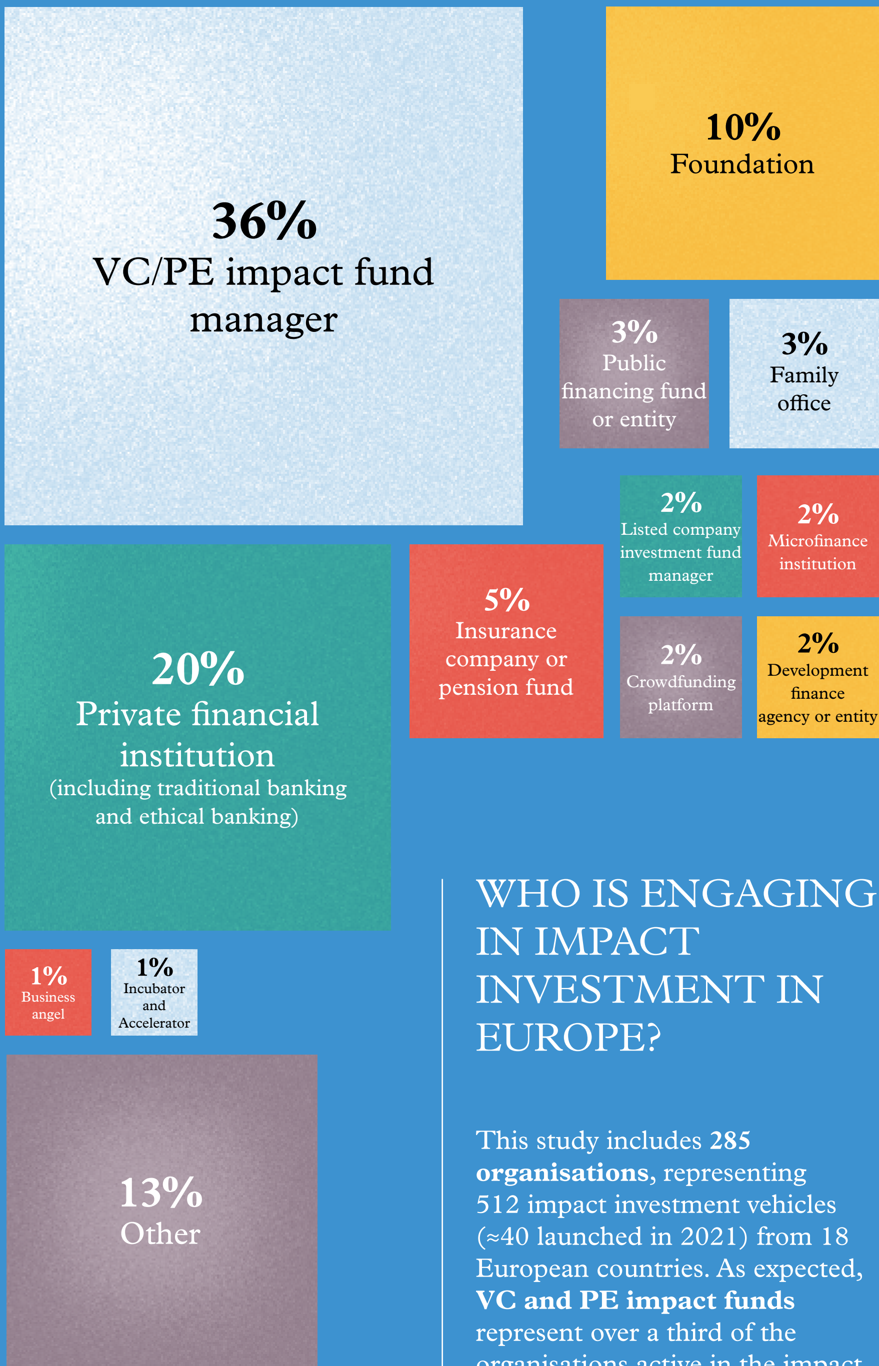
6 Measuring and managing impact – are impact investors walking the talk?

The reassuring news is that **all organisations** surveyed (285) report to **measure impact** using one of the accepted frameworks (with the Theory of Change and SDGs Impact Standards[13] are among the most used). However, only **83% also report going beyond measurement to manage it**. This is promising but it highlights that, even in the impact sector, there is more way to go to ensure impact is embedded into daily decision-making processes.

Impact management initiatives and frameworks (n = 141 orgs)



Type of organisations (n = 221 orgs)



WHO IS ENGAGING IN IMPACT INVESTMENT IN EUROPE?

This study includes **285 organisations**, representing 512 impact investment vehicles (≈40 launched in 2021) from 18 European countries. As expected, **VC and PE impact funds** represent over a third of the organisations active in the impact ecosystem (36%), followed by financial institutions (20%) and foundations (10%). Together, these first three categories correspond to two thirds of the sample; the remaining third is made of 10+ different categories of respondents. This signals that the impact investment market is attracting a variety of players, who could potentially explore common goals and build synergies to achieve greater impact.

When it comes to **foundations**, our sample in total includes 23 actors engaged in direct impact investment (mainly from Spain and Germany). The approach of these pioneers is worth further examination for peers seeking to enter the impact space, starting to deploy loans or equity directly to social enterprises. Foundations can consider the full spectrum of capital and investment strategies as a means to achieve their social missions.

Looking at the relatively smaller representation of capital providers, such as **pension funds (5%), family offices (3%) and public funds (3%)**, we see untapped potential to mobilise additional resources to impact and an opportunity for further engagement. Still, we recognise the current barriers for these groups. As of today, deploying impact investments for pension funds and family offices usually means considering indirect investment options, e.g., supporting existing impact funds. For public funders, there are limited options to becoming a provider of impact investment; today's main strategy is taking part in outcomes-based mechanisms (0.5% of AUM captured from this study).

Lastly, we observe that **incubators and accelerators** are crucial to build capacity of impact ventures and make them scalable but, when it comes to also providing them with funding, **their role is still marginal in the sector**.

PART 2

A common market sizing metho-dology

Authors: Gianluca Gaggiotti, Alessia Gianoncelli and Raffaella De Felice

Introduction: why is this needed?

FINDING THE GAPS

The Consortium identified significant gaps that hindered the functioning of the impact investment market:

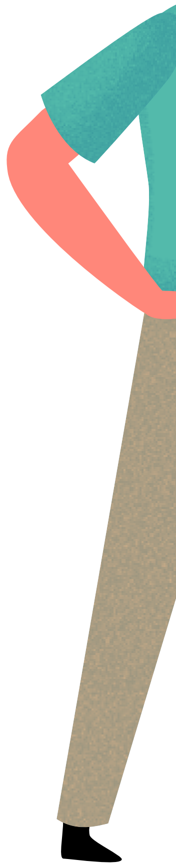
No common definition of impact investment boundaries:
Standard definitions and methodologies for market sizing can provide all stakeholders in the impact economy with greater confidence that the market is being scaled with integrity. The most acknowledged definition of impact investment provided by the GIIN[16] builds on intentionality and measurability concepts, but it lacks a reference to additionality, which is a central element of impact investment in Europe.

The definition leaves also space for different interpretations of how it is implemented in practice. Without a common definition, boundaries with adjacent investing activities, such as sustainable finance, remain blurred and impact washing remains a risk.

Data confusion and lack of comparable data:
For policymakers, regulators, field-builders and market intermediaries, more reliable market data can help to inform the design of optimal policy and regulatory settings to help guide and enable the market. In the context of Europe, those who wish to support or enter the space remain underinformed.

No data on capital gaps:
For large institutional investors with legislated investment mandates, such as pension funds, market data is essential for determining whether investors participate in the market and, if so, how they might formulate an investment strategy consistent with their mandate. That includes investment decisions across national markets, sectors and asset classes. Data is also crucial to bridge the gap between supply and demand of capital. Without an understanding of where the market is failing to invest in and support social solutions, capital providers miss opportunities to serve the organisations who need it most.

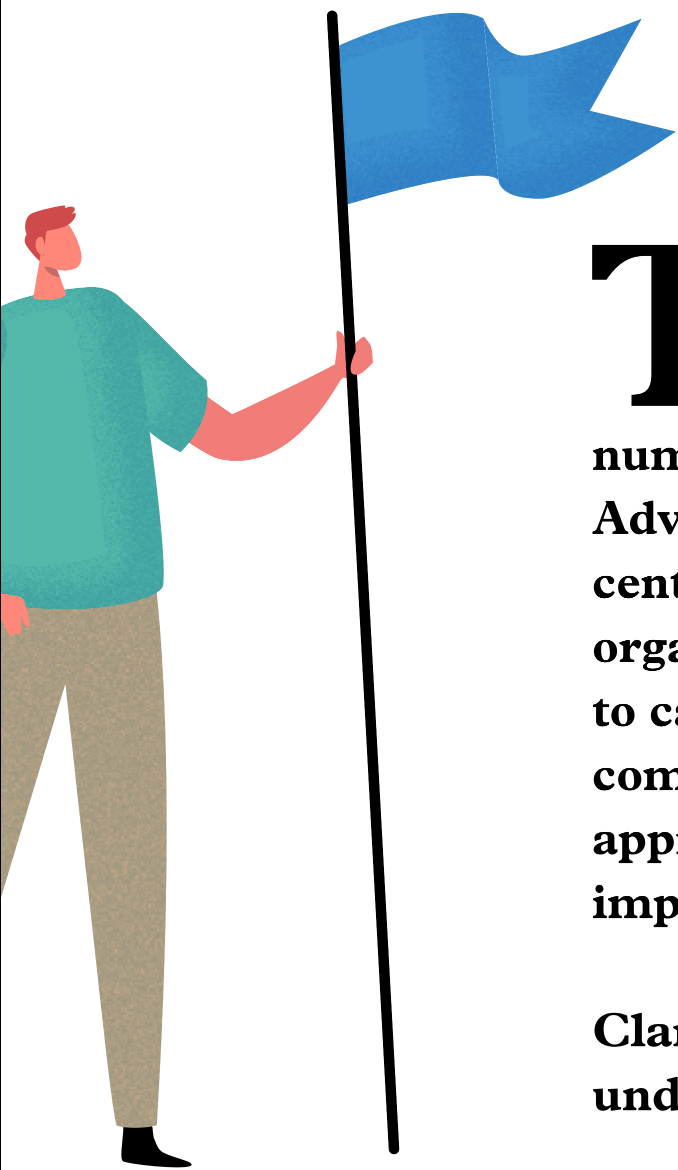
Little data on market segmentation:
Better quality market data on the sources and uses of impact capital can help to inform financing strategies and capital raising activities consistent with the vision, mission and business model of impact-oriented enterprises. Without agreement on market segmentation, even the most seasoned impact investors can miss nuances and opportunities to optimise their activities.



Fatigue of impact investors:
Engagement of impact investors to collect best experiences and reliable data is fundamental. In the European context the same players are requested to participate in many similar research initiatives, providing data and feedback. This increases confusion around the role of the different studies and fatigue to provide support.

For practitioners of impact investing, there is an overlying effect to many of these data gaps lead to an overarching problem: they lack the data they need to **benchmark** against other organisations. Without effective comparison methods, practitioners remain unsure whether they're on the right path. Activities stay siloed. Knowledge stays bottled up.

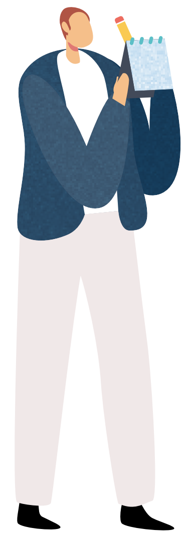
While the benefits of a standard, common approach to sizing impact investment markets are clear, the task of developing a standard methodological approach has proven to be difficult. A number of organisations with national, regional and global perspectives have been looking into this challenge for some time.



The purpose of this initiative has been to leverage the collaboration among a number of European National Advisory Board (NABs), academic centres and supranational organisations, i.e., EVPA and GSG, to catalyse the development of a common European methodological approach to market sizing of national impact investment markets.

Clarity, coherence and harmonised understanding are our goals.

How to action a harmonised market sizing?



2010

1st EVPA industry survey on European Venture Philanthropy and Social Investment

EVPA

2016

5th EVPA industry survey on European Venture Philanthropy and Social Investment

EVPA

1st Market report on Social Impact Investment in Germany

2018

6th EVPA industry survey on European Venture Philanthropy and Social Investment

EVPA

1st Tiresia Social Impact Outlook in Italy

Tiresia

—

1st study on the state of the French Social Impact Investment Market

2019

2nd Tiresia Social Impact Outlook in Italy

Tiresia

2nd Inventory of The French Investment Market with Impact by Impact Invest Lab

2020

Italian, French, German and Spanish NAB launch the data harmonisation group to discuss different mkt sizing approaches and invited GSG and EVPA to join

Social Impact Agenda Per Italia – Fair – SpainNAB – GSG – Impact Investing – EVPA

EVPA, SpainNAB and ESADE first joint data collection

ESADE – SpainNAB – EVPA

—

Impact Investing in Germany 2020 + 7th EVPA industry survey on European investing for impact

Impact Investing – EVPA

2021

EUSES session on common European impact investment market: statement to work together to create a consortium for an harmonized framework

Social Impact Agenda Per Italia – Fair – SpainNAB – GSG – Impact Investing – EVPA

—

1st Spanish NAB market study on social impact investment in Spain

ESADE – SpainNAB

Dutch and English NAB join the group discussion

NAB – Impact Investing Institute

—

Launch of the 1st harmonised «European Impact Investment» questionnaire

2022

1st joint report on European Impact Investment

SpainNAB – GSG – Dutch NAB – Tiresia – Social Impact Agenda per Italia – Impact Investing Institute – Big Society Capital – Fair – King Baudouin Foundation – Solifin – Esade – EVPA

—

1st study on impact investing in the Netherlands in 2021

Dutch NAB

Launch of the data harmonisation consortium

—

Workshop at the GSG leadership meeting to gather feedbacks from a global audience

GSG

—

Dutch, German and English NAB – Belgian taskforce join the consortium – Turkish NAB dissemination partner

1st study on impact investing in Belgium 2022

King Baudouin Foundation – Solifin

—

Zoom 2022 on solidarity and social impact finance in France

Fair

—

Impact investing in Germany 2022

Impact Investing

Estimating and describing the UK impact investing market in 2021

Impact Investing Institute

—

2nd Spanish NAB market study on social impact investment in Spain

ESADE – SpainNAB

—

Impact investing in Italy 2022

Social Impact Agenda per Italia – Tiresia

2023

1 **Structure the data harmonisation consortium**

—

2 **Facilitate replication on other world regions**

—

3 **Work on a common European impact investment database**

Main challenges

PRACTICAL

1 **Harmonising timelines:** Timelines for these studies vary by country; changing a national schedule would have been difficult.

2 **Governance:** It was a challenge to build a reliable structure with clear roles that at the same time could ensure flexibility required during pilot.

3 **Reaching common agreement:** As in all multi-stakeholder initiatives, positions were sometimes divergent and presented challenges for building consensus.

4 **Data collection methodologies:** These varied by country, and in some cases involved partnership with extra third-party organisations.

5 **Tailored partnerships:** market sizing and data collection approaches varied country by country, thus final agreements have been negotiated bilaterally and they touched upon elements such as data collection, sharing and aggregation, as well as consortium coordination and promotion.

METHODOLOGICAL

6

Impact investment scope: All national partners had their view and understanding on what could be classified as impact investment in their countries, which sometimes diverged from EVPA's and GSG's understanding.

7

Reporting burden vs. significance: the length of the questionnaire has been subject to a lot of discussion, since there is a never-ending trade-off between reporting burden and knowledge produced by metrics collected.

8

Heterogeneity of population: impact investment approach is adopted by an increasing variety of capital providers, with different terminologies, reporting habits and sometimes even understanding of impact investment.

9

Heterogeneity of national contexts: each country has its own history, terminology and perceptions around impact investment; therefore it has been challenging to harmonise on a series of widely recognised concepts and ensure they were interpreted correctly by all investors.

The impact investment pillars

SCOPING THE MARKET SIZING

Sizing the market of impact investing requires a definition of its scope. Where are the boundaries?

Members of the Consortium have already contributed to developing frameworks for impact and are acknowledged experts in defining the boundaries of impact investing. Much of this knowledge is collected in the deliverables of the Impact Management Project (IMP), which ran from 2018-21.

The IMP proposed an ABC classification and Impact Classes as a sort of litmus test for impact investments. These are useful tools for the market as they are, but when putting these ideas into practice, the Consortium identified further room for refinement.

Our Triad of Impact leverages the best of the IMP's framework and includes additional market nuances previously underrepresented.

Defining the Triad of Impact

1 INTENTIONALITY

Definition

Intentionality is a conscious and deliberate search for a social and/or environmental impact, with the aim of pursuing a positive result for a defined community. Intention(s) must be explicitly declared *before* the deployment of capital.

In practice

Declared intentions take the form of impact objectives (what outcomes, for whom), investment selection and non-financial support. Regarding the *type* of impact intended, the IMP class C is a useful guiding framework. Intentionality is also a way of clarifying the relative importance of social vs. financial returns.

2 MEASURABILITY

Definition

Measurability concerns the quantifiable part of impact investing. Practitioners must identify *measurable* social impact objectives, which are intended to be generated with capital. Without a system of measurement in place, which may include some qualitative measures, impact cannot be defined.

In practice

Beyond having just any system for measurement, impact investors seek *standardized* tools, frameworks and principles. The impact objectives they intend to measure need to be agreed upon **before** the deployment of capital, but also need to be monitored and managed **during** the investment cycle and measured **afterward**. This process aims to link impact directly to investment and, often, link investor financial incentives to impact returns. The process concludes with an audited impact report.

3 ADDITIONALITY

Definition

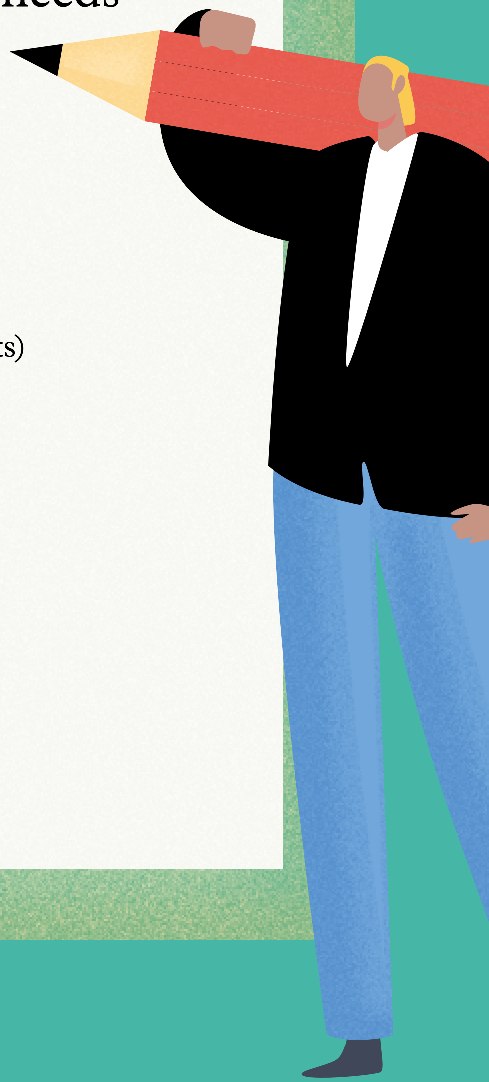
Additionality is the quality of an investment to add. An investment characterised by additionality will lead, or has led, to effects which would not have occurred without it. In the case of social outcomes, they are better than what would likely have occurred without the investment.

In practice

As detailed in IMP's Impact Classes, investments with additionality have the capacity to grow new or undersupplied capital markets. They can provide flexible capital, as capital providers accept disproportionate, risk-adjusted returns. Investors prioritising additionality can also engage actively to improve impact, providing a wide range of non-financial services.

Impact checklist

As previously mentioned, the IMP's ABC classes and Impact Classes comprise a key framework for setting the boundaries of impact. Building on this, the following checklist provides a quick view of what an impact investment needs to have for eligibility in this study.

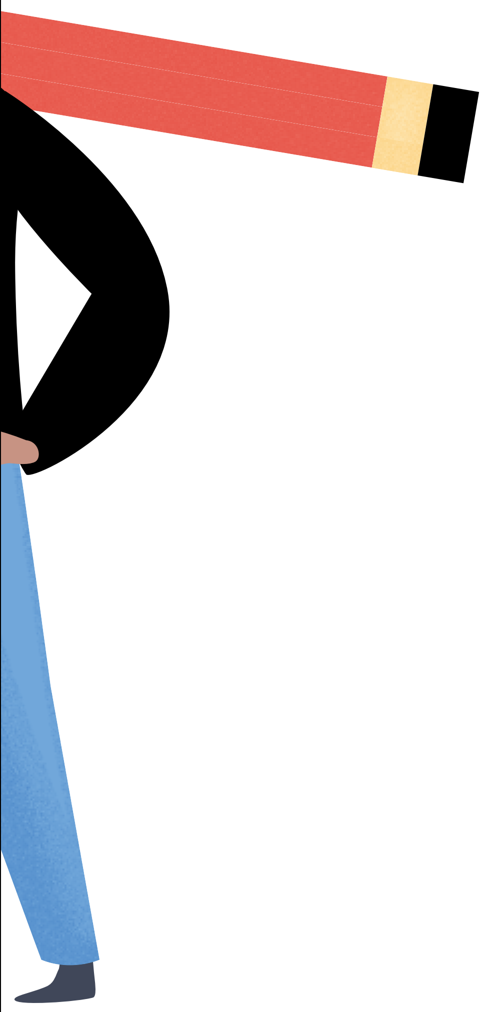


- **Intentionality**
  (at least level C with private assets)
- **Measurability**
- + **Additionality**

Harmonisation milestones

KEY ELEMENTS, TERMS AND DATA ENTRIES

In highlighting milestones on the road to data harmonisation, we should first step into the survey respondents' shoes and examine some of the survey language and terminology they saw. The Consortium attempted to calibrate questions and language toward clarity for all; the following examples serve to illuminate how we did this.



A new unit: impact investment vehicles

Because different organisations often implement different strategies to achieve impact, we settled on the term **impact investment vehicle** to characterize "funds/programmes/ vehicles that make direct investment in social purpose organisations, managed by the organisation itself."

"Direct investment" is key to the clarity we sought in choosing this wording, and specifically addressed an important hazard: double-counting.

Direct vs. indirect investment

The survey methodology employed several techniques to avoid double-counting and stay focussed on the supply of impact capital channelled towards social purpose organisations (SPOs). These methodological choices served to make an unambiguous distinction between direct and indirect investments.

We included a fundamental question distinguishing between **direct** investment into SPOs, and **indirect** investments in third-party vehicles which may have represented other potential respondents.

We also included **"commercialisation"** as a third option in the question, since in the past some funds reported data on funds they commercialise but do not manage; since the *managing* organisations may have also responded to the survey, we sought to categorise commercialising organisations by themselves as an effort to avoid double-counting.

Definitions by example

Direct investment: an organisation manages investment in SPOs

Indirect investment: an organisation invests in or channels through third-party funds/programmes that invest in SPOs

Commercialisation: an organisation commercialises funds managed in other countries or by other organisations

KEY QUESTIONS

The Consortium agreed on a series of key data entries for aggregation. Key questions included:

- **Number of impact investment vehicles managed**
- **Assets Under Management:** total assets under management and subgroup of investment with additionality
- **Type of organisations, including:** VC/PE impact fund manager, private financial institution, foundation, family office
- **Asset classes, including:** private and public debts, private and public equity, social outcomes contracting and real assets
- **Geographies:** where capital is invested
- **Source of funding:** institutional investors, individuals – retail, high net-worth individuals (HNWIs), EU funding, financ—ial institutions and other
- **SDGs targeted**
- **IMM initiatives adopted, including:** Operating Principles for Impact, Management, SDG Impact Standards, EVPA five-steps process, Impact Management Project (IMP) 5 dimensions of impact

Survey limitations

Representativeness

Any given survey poses inherent hindrances to representativeness since all data are self-reported. In our case, representativeness was especially limited in countries with no partners yet. The final estimates provided take into account the different level of representativeness in different countries and rely on the high representation of the national markets with partners, which represent the biggest and most developed impact investment markets in Europe.

Language and terminology

Jargon varies country by country, so it can be difficult to have full comparability, but we are committed to solve this issue through all available language resources. For example, in Germany the wording to identify ABC strategies is slightly different but it does not hinder comparability.

Double-counting

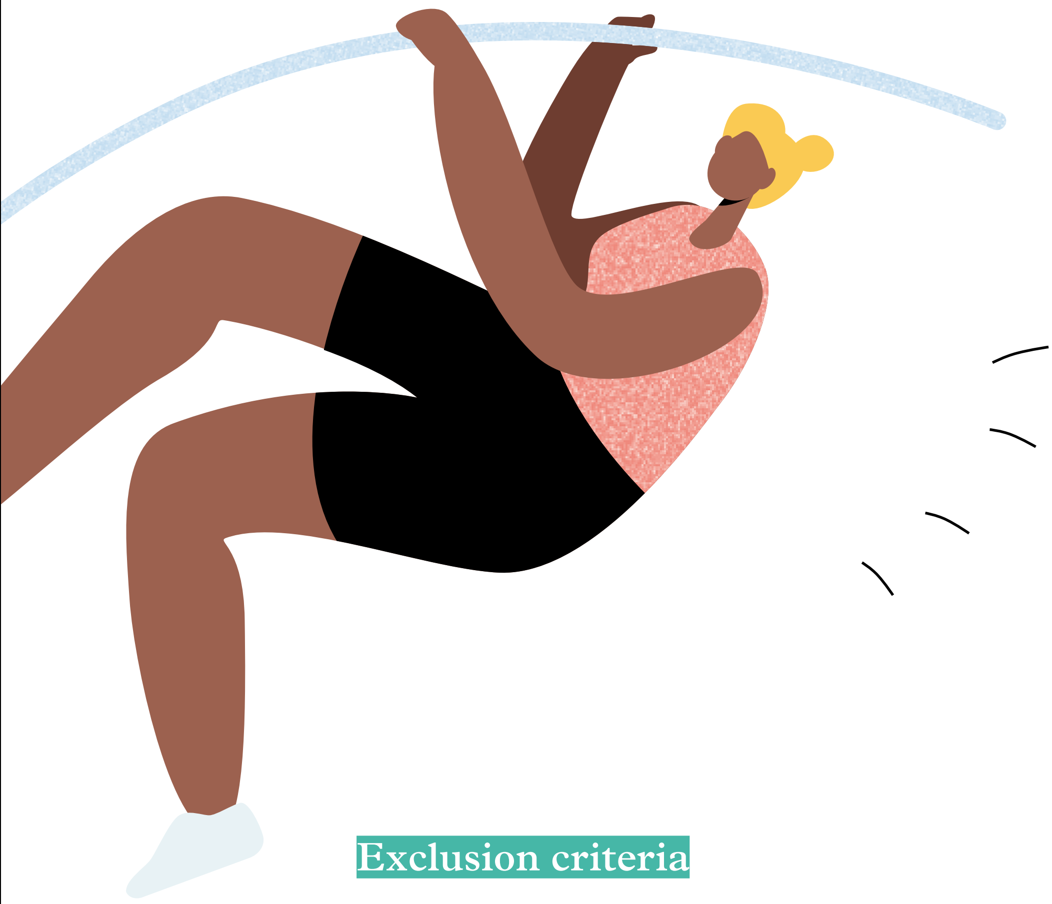
Though the Consortium took important steps to minimise double-counting (as previously detailed), we remain open to the possibility that an organisation could have reported some data twice.

Categorisations

The Consortium lacks a *globally* aligned categorisation regarding sources of capital, sectors, beneficiaries, type of investees, stages of development and financial instruments/asset classes. However, the categorisations we used are aligned with other studies.[17]

Geographical focus

To capture the money flow geographically, the Consortium looked at where money has been invested, i.e., the country where the investee is based. This method does not always coincide with where its *operations and ultimate impact* are generated. However, it would have been too complex to ask investors to report on operations of all the investees in their portfolio. In the future we may investigate this further.



Exclusion criteria

The Consortium collectively agreed to exclude certain segments of capital that some may argue are part of impact investment. These include:

- **Microfinance:** Microfinance *institutions* are considered as social purpose organisations, while microfinance *services* offered to social purpose organisations are considered as impact investments. Further collaboration with leading networks in the field of microfinance, such as European Microfinance Network (EMN) and Microfinance Centre (MFC), will increase the representativeness of this category of impact investors in the overall sample.

- **Ethical banking:** Ethical and social banking are included in the scope of the study, if they satisfy the ‘intentionality’ and ‘measurability’ pillars. As for microfinance, further collaboration with leading networks in the field of ethical banking, such as the European Federation of Ethical and Alternative Banks and Financiers (FEBEA), will increase the representativeness of this category of impact investors in the overall sample.

PART 3

Key learnings and implications for impact stakeholders

Introduction

SDGs are still unmet and 2030 is not so far away. This European effort of a first harmonised market sizing exercise unveiled lots of untapped potential when it comes to:

A How **impact investors** engage in the ecosystem

B How **mainstream investors** could enter the impact space

C How **policymakers** could enable a more favourable environment for impact investment

D How **market builders** could play a role globally

The following **calls for action** represent viable strategic next steps for a community united around accelerating positive change for people and planet. We hope **impact investors, mainstream and sustainable finance investors, policymakers, and market builders** all find actionable insights to bring back to their organisations, and avenues to collaborate with new stakeholders for impact.

Calls for action

IMPACT INVESTORS

Impact investors have an opportunity to go beyond their niche while preserving impact integrity; ideally this community would move from 0.5% to 10% of total European investment to contribute in a more consistent way to SDGs. Strategies for achieving this goal include:

1

Stay focused on additionality and impact management: Impact investment is transformative when it targets companies that contribute to solutions and seeks impact that would not have happened without investment interventions. Embedding impact management as a key component of impact investment is the only way to transform measurement into valuable input and drive better decisions.

2

Let data open doors: When national figures are comparable, comprehensive, and representative, benchmark and gap identification can happen, contributing to a greater mobilisation of resources.

3

Beyond AUM: AUM growth is powerful to show the market is expanding steadily. However, there is room for consideration of additional KPIs. Consensus around the right KPIs can help communicate the trends and real impact of the sector to an increasingly interested mainstream market.

MAINSTREAM AND SUSTAINABLE FINANCE INVESTORS

Mainstream and sustainable finance investors show great potential to help solve the world's most pressing social and environmental challenges. Here are some ways they can act on that potential:

1. **Embrace impact:** By embedding impact into strategies, goal-setting and decision-making processes, finance players have the opportunity to contribute to solutions and be accountable when it comes to the risk of impact washing.

2. **Build understanding, share wisdom:** Impact investment is different from sustainable finance; mutual understanding could benefit all market players and help allocate capital where it is needed most.

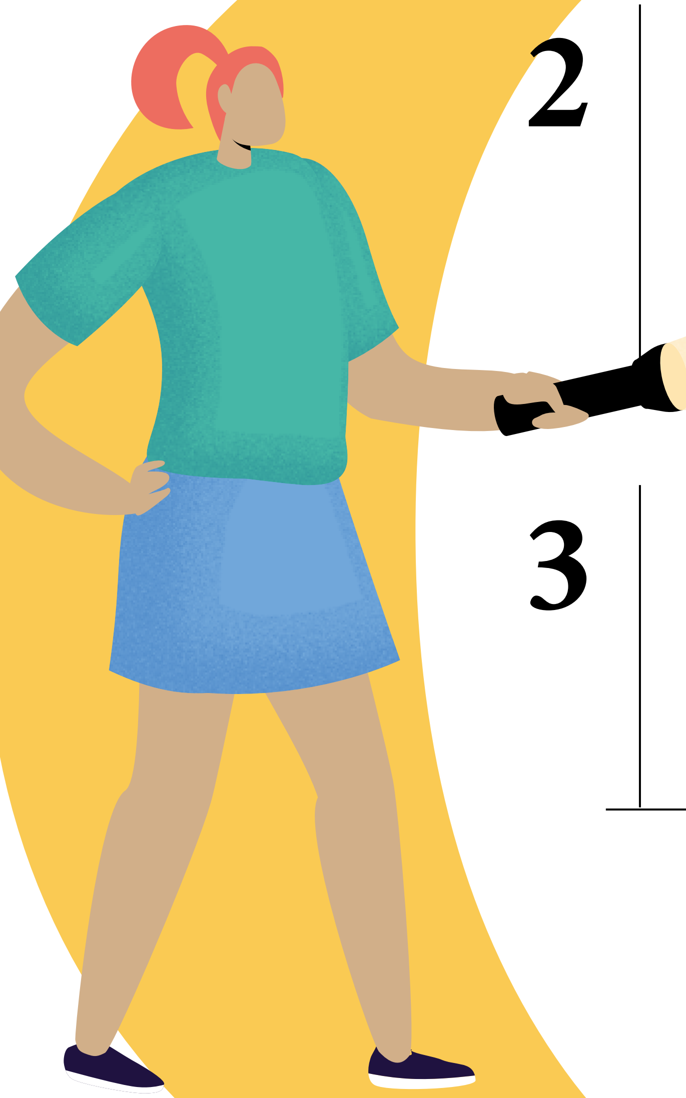
3. **Collaborate for market sizing:** Despite national differences, there's lots of room for impact investment and sustainable finance stakeholders to collaborate, both at national and European levels, to jointly size respective markets. Data transparency and common understanding can help accelerate positive change.

POLICYMAKERS

Policymakers seeking to create a favourable environment for impact finance can take the following steps:

1 **Make access to funding for impact investors easier:** National and European policies can democratise access to impact investment; the case of 90/10 funds in France shows the effectiveness of this approach.

2 **Support data harmonisation efforts:** Evidence and data are key to understand market gaps, allow benchmarking, trends-analysis, and country comparisons, and ensure well-functioning markets. When policymakers are directly engaged in building this data infrastructure, they are better equipped to design policies from reliable analysis and independent statistics.



3 **Share perspective:** Policymakers are in a unique position to see the whole picture across geographies, finding connections that sectoral actors might miss. Joining strategic conversations on impact and co-designing impact interventions represent opportunities for policymakers to turn their valuable perspective into action.

MARKET BUILDERS

Market builders can contribute to the acceleration of impact investment globally by these strategies:

1. **Identify and share best practices:** Market builders are in a unique position to share their experience and knowledge of the market to inspire investors to engage in the impact space and replicate successful models; they're also well positioned to include policymakers as part of impact-related discussions happening at national and regional levels.

2. **Co-develop a global market-sizing methodology:** The methods of this study are ripe for replication in world regions beyond Europe. A common understanding and a harmonised data infrastructure that ensures benchmarking are required to unleash the true transformational power of impact investment across geographies.

3. **Look for partners:** Collaboration is essential to achieve one common market for impact investment and create tangible solutions. Networks and market building organisations, local ecosystems, research centres and universities are all valuable allies in this effort.

Endnotes

1 Source: https://www.oecd.org/dev/OECD-UNDP-Scoping-Note-Closing-SDG-Financing-Gap-COVID-19-era.pdf

2 This aggregated amount is computed summing the European estimates of private equity, private debt, public equity and public debt markets. Sources: InvestEurope (Private equity - Dec 2021), Arcmont Asset Management (Private debt - Dec 2021), World Bank (Public equity - Dec 2018), International Capital Market Association (Public debt - May 2020)

3 Source: The Association for Financial Markets in Europe (AFME): ESG Finance Report European Sustainable Finance

4 The recent "Sizing the Impact Investing Market: 2022" released by the GIIN estimate the global impact investment market to be USD 1,164 billion, 55% of which have been managed in Europe. For conversion, we used exchange rate at 12/31/2021: 1 Euro is 1.1374 in US Dollars. For more information: https://thegiin.org/research/publication/impact-investing-market-size-2022/

5 Direct impact investments are investments directly made into social purpose organisations, including social enterprises, which support social and environmental challenges.

6 Thanks to our consortium's common effort, the present study approximately covers 75% of the entire European impact investment market: € 61bn (total AUM in 2021), meaning that the full ecosystem can be estimated to be € 80 billion, as stated above. In the next edition of the study, the consortium expects to reach more partners in certain geographies, which are currently underrepresented (e.g., the Nordics, Switzerland, the CEE region), to get an even more precise and comprehensive estimate of the market size.

7 GIIN "Sizing the Impact Investing Market: 2022", available at: https://thegiin.org/research/publication/impact-investing-market-size-2022/

8 This growth rate has been computed by comparing the market size of 2021, i.e., $1,164 bn, with the one reported in 2018, i.e., $502 bn. Sources: GIIN "Sizing the Impact Investing Market: 2019" and "Sizing the Impact Investing Market: 2022"

9 For more information, look at "Venturing Societal Solutions - The 2020 Investing for Impact Survey", available here: https://www.evpa.ngo/insights/venturing-societal-solutions-2020-investing-impact-survey

10 Created by the 'Fabius' law of 19/02/2001, solidarity-based funds, known as '90/10' funds, are required to invest between 5 and 10% of their assets in accredited 'solidarity-based enterprises of social utility' (entreprises solidaires d'utilité sociale – ESUS) organisations. Source: https://www.finance-fair.org/sites/default/files/2022-05/FAIR-study-on-9010-2019.pdf

11 For more information on InvestEU: https://ec.europa.eu/commission/presscorner/detail/en/qanda_22_1549

12 McKinsey estimated the net flows from the retail and HNW segment to be about € 270 billion in 2020 in Western Europe. Source: "European asset management after an unprecedented year", available at: https://www.mckinsey.com/~/media/mckinsey/industries/financial%20services/our%20insights/european%20asset%20management%20after%20an%20unprecedented%20year/european-asset-management-after-an-unprecedented-year.pdf

13 This result would need further investigations in the future since respondents may have selected this option to report the fact that they include references to the SDGs in their IMM systems, without necessarily focussing on the UNDP standards (for more info: https://sdgimpact.undp.org/about-the-sdg-impact-standards.html).

14 Private debt and private equity (PE) refer to capital lend and invested into companies that are not publicly traded.

15 Source: "Venturing Societal Solutions - The 2020 Investing for Impact Survey", available here: https://www.evpa.ngo/insights/venturing-societal-solutions-2020-investing-impact-survey

16 "Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return." Source: https://thegiin.org/impact-investing/

17 While defining the categorisations to be used in the harmonised questionnaire, the consortium looked at all European national studies as well as at international studies such as the GIIN Impact Investor Survey and the European Social Enterprise Monitor conducted by Euclid.

Acknowledgments

EVPA would like to thank the Global Steering Group for Impact Investment (GSG) for the support in convening this group and for coordinating together with us the much-needed discussions that arose from it. We believe the collaborative relationship between EVPA and GSG represents an inspiring case that could prove how far it can get when goals and hopes are shared.

EVPA and GSG would like to thank all the partners of the data harmonisation consortium: SpainNAB, Esade Center for Social Impact, Social Impact Agenda per l'Italia, Tiresia, Politecnico di Milano – Department of Management, Economics and Industrial Engineering, FAIR, the Netherlands Advisory Board on Impact Investing, the Bundesinitiative Impact Investing, Solifin, King Baudouin Foundation, the Impact Investing Institute and Big Society Capital. This is a shared milestone that would have not been possible without the effort and the contribution of every single member of the consortium.

EVPA and GSG would like to acknowledge the Turkish NAB and the Belgian Federation of Philanthropic Foundations for the dissemination effort to collect responses in Turkey and Belgium respectively.

A special thanks goes to all the colleagues who supported with data collection and analysis, Joan Josè (EVPA Research and Data Analyst), Martino Esposito and Chiara Paravelli (MSc students from Politecnico di Milano), as well as with text editing and design, Benjamin De Vries (EVPA Storytelling Manager), Dragan Stojanovski (EVPA Head of Marketing and Communications) and Caroline Cornil (EVPA Communication Design Manager); your work has been crucial. Last but not least, thanks to EVPA CEO Roberta Bosurgi for the support in shaping the messages in a straight and meaningful way.

Finally, EVPA would like to thank all the organisations that responded to the Impact Investing Survey, whether through the survey disseminated by EVPA or by one of the national partners of the consortium: your time and commitment have been precious.

This report has been realised thanks to the financial support of:

Co-funded by the European Union

Fondazione CRT

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Please use this reference to cite this report:
Gaggiotti, G., and Gianoncelli, A., (2022) "Accelerating Impact - Main takeaways from the first harmonised European impact investment market sizing exercise". EVPA.

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Co-funded by
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Co-funded by the European Union, by the EaSI strand of the ESF+ programme.

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