The Supply of Impact Capital in Spain in 2022

September 2023

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Authors

Guillermo Casasnovas
Professor at Esade and member of the Esade Center for Social Impact

Teresa Picardo Gomendio
Researcher, Esade Center for Social Impact

Marta González Labián
Head of Impact and Sustainable Finance at SpainNAB

This project has been led by SpainNAB and had the technical support of:

Elena Castro Urdin
Impact and Sustainable Finance Analyst at SpainNAB

José Luis Ruiz de Munain
Managing Director of SpainNAB

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Presentation

Rigorous and up-to-date data is necessary to provide transparency and to understand the size, trends, and challenges of the supply of impact capital in Spain – and especially the impact investment market. Such data will help drive the mobilization of capital. With this study, SpainNAB and Esade Center for Social Impact aim to shed light on industry practices and help the sector grow with integrity.

We have carried out this study annually since 2021 to examine the supply of impact capital in Spain, identifying the market players involved and the characteristics of their strategies. We also explain some issues that are currently under debate in the sector and that will shape its future development. With this third edition, we add new distinctions based on the work of SpainNAB's Funds Task Force that enable us to better understand the market. Thanks to the continuity of our methodology, we have also been able to track changes over time. Key concepts have been updated as the market develops, but we have ensured continuity in the methodology so that it is possible to monitor the development of the market year after year.

From its first publication, the impact of this study has gone beyond Spain, and it has contributed to the launch of the European Impact Investment Consortium for Data Harmonization, in which the Global Steering Group for Impact Investment (GSG), national advisory boards (NABs), and academic partners came together, led by the investing for impact community EVPA, to work toward a harmonized snapshot of the state of impact investing in Europe. As a result, the first joint effort to size and segment the European impact investing market culminated in the publication of the EVPA-led report 'Accelerating Impact' at the end of 2022. This effort showed that the entire European ecosystem can become stronger by working together, and so speak with a single voice to EU institutions and national governments to accelerate transformative impact investing and encourage measures to catalyze its growth.

This study reveals that the supply of impact capital in Spain continues to experience strong growth, with new market players adding to the contribution of existing players. Impact investors in Spain provide crucial support for the growth of social and environmental enterprises.

We would like to express our gratitude to all the organizations that participated in the survey, the members of the expert committee, CaixaBank, and the Anesvad Foundation. This study would not have been possible without their support.

José Luis Ruiz de Munain

Managing Director of SpainNAB

Spain NAB
CONSEJO ASESOR PARA LA INVERSIÓN DE IMPACTO

Lisa Hehenberger

Professor at Esade and Director of the Esade Center for Social Impact

esade
RAMON LLULL UNIVERSITY
Center for Social Impact

International preface

In March last year, the EVPA impact investment community, the GSG, as well as several NABs and academic partners, launched a consortium to provide a clear and reliable picture of the impact investment market in Europe. SpainNAB and Esade Center for Social Impact played an active part in this initiative.

Currently, the notions of 'impact' and 'sustainable' investing remain ambiguous to many people, even though their meanings are becoming more widely understood. The consortium is focused on creating more transparency around impact investing, which is necessary to help the sector grow and realize its potential for transforming society. The consortium brings together key impact market players and builds on two years of discussions about harmonizing methodologies and data collection strategies. Its first initiative was the launch of the European Impact Investing Survey, culminating in the publication in December 2022 of the first European study that aggregates data on impact investing practices in Europe in a consistent and comparable manner.

We would like to thank SpainNAB and the Esade Center for Social Impact (our Spanish partners) for their pioneering role in developing the methodology and publishing the first exercise in harmonized European sizing and data segmentation. Moreover, we highlight their work in reaching a consensus definition, delimitation, and segmentation of impact capital in the Spanish ecosystem, as reflected in the position paper of the Funds Task Force, which aligns with that used by the European consortium and so harmonizes Spanish and European practice.

For the second consecutive year, this report uses data collected from the harmonized survey that was used for the first time in the last edition. As a novelty, the report also includes the segmentation of impact capital according to investor additionality (resulting from the work for consensus at national level and aligned with the segmentation of the European study).

We hope that this work serves as a model for national and regional processes being undertaken by other GSG advisory councils and EVPA-like organizations operating in other parts of the world. Our goal is to develop a globally harmonized understanding of the supply of impact capital and, especially, the impact investing market that supports the mobilization of capital at scale and with integrity.

Cliff Prior
CEO of the GSG

GSG Driving real impact

Roberta Bosurgi
CEO of EVPA

evpa INVESTING FOR IMPACT

Executive summary

This study of the supply of impact capital in Spain in 2022 estimates the volume of assets managed from Spain that are directed to impact companies or organizations. It also includes a market segmentation, a description of the main characteristics (sources of capital, size, term of operations, financial instruments, and destination), as well as an analysis of the most common impact measurement and management practices.

This study defines the **supply of impact capital** as that which has a clear intention to help solve social or environmental problems in addition to earning a profit; measures and manages the impact generated by investments; and finances companies whose mission is to contribute solutions for underserved social or environmental challenges. The profit sought may be equal to, above, or below the risk-adjusted market return – but must seek, at a minimum, to preserve the capital invested.

Thirty-two market players with assets managed in Spain were identified in the **impact investing segment**. These players (including private impact funds, foundations, crowdfunding platforms, public finance funds, family offices, corporate venture capital, as well as insurance companies and pension funds) were managing €1.208 billion in 2022.

In the **impact bank financing segment** (including ethical and social banking and impact finance cooperatives)[1], six market players were identified who managed a total of €1.743 billion in 2022.

Beyond measuring the size of the Spanish market, the study draws five conclusions on the development and outlook for the supply of impact capital.

1. Impact investment grew 58%, driven by private impact funds

Private impact funds led growth over the last year, as assets managed by these funds doubled. This figure demonstrates the attractiveness and consolidation of the sector, though challenges remain, and some segments of impact companies or organizations still find it difficult to attract funding.

2. Impact bank financing is a focal point within the supply of impact capital

In terms of volume, tradition, and capillarity, the role of **ethical and social banking institutions** is fundamental. The focus of the impact bank financing segment differs substantially from impact investing because this financing usually supports the ordinary activity of the invested organizations and direct involvement in their operations is not needed.

3. Greater transparency needed for investor additionality[2]

One of the defining characteristics of impact investing is investee additionality (that is, the ability of investees to generate social or environmental impact that would not otherwise have occurred, contributing solutions to

1. Includes banks and financial services cooperatives – see definition in the Methodology section.
2. We speak of 'investor additionality' and 'investor contribution' to simplify the text and follow the terminology used in the Impact Management Project. Both terms also refer to additionality and the contribution of those financial institutions that offer impact bank financing.

underserved challenges). Furthermore, this year the study also looks closely at the different types of investor contributions that define **investor additionality**: addressing undersupplied markets, providing flexible capital, and offering broad and significant non-financial support focused on impact. It distinguishes a segment of the market that can be considered **additional impact investing**, in which investor additionality is demonstrated through at least one of these three forms of contribution. **In a first approximation, and recognizing the difficulty of this measurement, we estimate that 67% of impact investment (and 55% of impact bank financing) has investor additionality.**

4. Convergence in the use of certain impact measurement tools

Measuring impact is a process that requires considerable human, technical, and financial resources, and it is a key challenge for both the suppliers of impact capital and the organizations that require capital. In addition, some market players have incorporated incentive systems for their managers linked to impact results. Market players often use several complementary tools in their impact measurement and management systems – and develop their own metrics or indicators based on consultation and experience. Over the last two years, there has been a convergence towards certain tools, including the theory of change, the five dimensions of the Impact Management Project (IMP), and the sustainable development goals (SDGs).

5. The main challenges of impact investing are the regulatory framework, impact integrity, and impact measurement

Issues relating to the regulatory framework, impact washing and green washing, and impact measurement have been identified as the main challenges for the supply of impact capital. The concluding section of this report discusses possible **practical measures to further stimulate the expansion of impact capital**, which are essential for nurturing impact companies and other organizations while maintaining the integrity of the sector.

1. Introduction

We define impact capital as that which has a clear intention to help solve social or environmental problems, as well as to obtain a profit; measures and manages the impact generated by its investments; and finances companies and other organizations whose main mission is to address neglected social or environmental challenges (see definition in Methodology). **This sector has been experiencing strong growth at the international level** in recent years, and an increasing number of investors, governments, associations, and foundations are undertaking this form of investment, guided by the profitability-risk-impact trinomial. However, this growth has also brought confusion. Everyone is talking about impact investing, but what is the minimum common denominator? How does it differ from other practices such as sustainable investment or philanthropy? What can be done to prevent the concept from being distorted? This report does not seek to enter these debates but does aim to help build a sector in which transparency, integrity, and the progress towards consistency are standard practices.

In Spain, too, there is growing interest, which is taking shape around the SpainNAB association. Through this association, investors, companies, public bodies, and third sector organizations learn and share best practices and progress. One of the main challenges identified in Spain, as well as internationally, is the need to be rigorous in terms of the assets included in the supply of impact capital. As detailed in the methodology section, this study has used rather restrictive criteria to define what can be considered impact investment and bank financing, and what part of it has additionality.

Our main objective is to size, segment, and better understand the supply of impact capital in Spain, so that market players and other stakeholders can understand the characteristics, challenges, and opportunities resulting from the inclusion of specific impact metrics in investment and financing decisions.

The volume of impact capital assets managed in Spain in 2022 was €2.951 billion, representing a growth rate of 21% compared to 2021. This growth is in line with the forecast made in the previous edition of this report. This study analyzes separately the supply of impact investment and the supply of impact bank financing.

3. The SpainNAB Funds Task Force published a report on these issues which can be downloaded at: https://spainnab.org/images/pdfs_conocimiento/Task_Force_Fondos.pdf
4. Last year's study accounted for €2.399 billion in assets under management in 2021, but that figure has been updated to €2.434 billion after identifying two small vehicles that were previously overlooked.
5. Casasnovas, G., Jenkins, S., Osoro, C., Hehenberger, L., González, M., and Ruiz de Munain, J. L. (2022): "La inversión de impacto en España en 2021". SpainNAB. https://spainnab.org/images/pdfs_conocimiento/La-inversion-de-impacto-en-Espana-en-2021.pdf

2. Methodology

The data in this report was gathered between January and April 2023 through a survey sent to organizations managing impact capital in Spain. The survey was distributed to asset owners and intermediaries that manage investments or finance companies (including private impact funds, foundations, traditional financial and ethical banking organizations, financial services cooperatives, microfinance organizations, family offices, business angels, crowdfunding platforms, entities that finance international development, and government financing entities).

Table 1: Actors participating in the study

Criteria	# Number of actors *
Completed the survey	50
• Manage direct investments, with management located in Spain	40
o Included as part of the supply of impact capital (IMP class C)	38
→ Impact investment	32
→ Impact bank financing	6

* The unit of analysis in most survey questions is vehicles, not actors.

The survey included various questions about the volume and characteristics of each vehicle managed (fund, portfolio, program, etc.) and of the investment and financing transactions executed. To ensure continuity in the methodology and make it possible to monitor the evolution of the market year on year, most questions were maintained from the previous edition. Those questions were the result of a pioneering effort by the European Impact Investment Consortium (EIIC) to harmonize market data; the EIIC is led by EVPA and includes the Global Steering Group for Impact Investment (GSG) and the main European NABs (national advisory boards for impact investing). However, certain questions were added or improved to further clarify and differentiate investment strategies in accordance with the SpainNAB Funds Task Force's work on the definition and segmentation of impact investment. This work, in turn, has informed and is aligned with continued development of the European Impact Investment Consortium methodology.

Concretely, new questions related to the five dimensions of the Impact Management Project (IMP) were added to support the classification of vehicles in categories A, B and C, and thus strengthen concepts linked to the impact of the investee companies, which are central to the definition of impact investment/financing. Also, questions related to investor contribution, particularly non-financial additionality, have been enriched as a tool for segmenting the market according to investor additionality.

It is important to emphasize that the data submitted via the survey was not audited, though follow-up calls were made to clarify or correct possible inconsistencies.

The following criteria and definitions were used during analysis:

- **Impact capital supply**. This encompasses impact investment and impact bank financing, both of which: have a clear intention to contribute to solving social or environmental problems in addition to obtaining a profit; measure and manage the impact generated by investments; and finance companies centered on addressing underserved social or environmental challenges.
    - Following the Impact Management Project (IMP) impact classification system[6] — which differentiates assets as Class A (act to prevent harm), Class B (benefit stakeholders), or Class C (contribute to solutions for underserved social or environmental challenges, generating an impact that is better than what would have otherwise occurred by offering new or clearly better solutions)—only Class C is included in the supply of impact capital.
    - Following this definition, financing offered by microfinance entities is included only when the microcredits are provided to social enterprises. Investments made by funds into microfinance entities with a clear focus on impact are also included.
    - Due to the nature of the study, as with similar studies, the reported market size should be considered as the 'floor' (the minimum) for the sector in Spain, as there may be other market players making impact investments that have not been reported on the survey. The study has focused on the supply of capital for unlisted companies (see 'Criteria for listed assets' below).
    - Within the supply of impact capital, this edition of the report differentiates between investment and bank financing since these two segments have significantly different characteristics (see definitions below and the main characteristics for both segments).
- **Impact investing.** This includes the supply of impact capital (see definition above) from market players that normally provide growth capital (mainly fund managers and foundations).
- **Impact bank financing.** This includes the supply of impact capital (see definition above) provided by banks and financial services cooperatives to impact organizations and businesses that help tackle underserved challenges.
- **Spanish market.** As in the previous edition, to avoid double counting and to gain a detailed understanding of investment and impact management strategies, we focus on market players based in Spain that finance and manage direct investments in impact companies. In other words, the criterion for inclusion was that the management function is located in Spain, not that the origin or destination of the investment or financing be Spanish.
- **Investor additionality [7].** Investments can have financial additionality (when the investor provides flexible capital or addresses undersupplied capital markets) and/or non-financial additionality (when the investor engages actively, in a broad and significant manner, to improve the impact of the invested company and thus generates

6. Now known as Impact Frontiers.
7. We speak of 'investor additionality' and 'investor contribution' to simplify the text and follow the terms used by the Impact Management Project. Both terms also refer to additionality and the contribution made by financial institutions that offer impact bank financing.

an impact that would not otherwise have occurred). These variables, which also have their origin in the Impact Management Project, may have a subjective character: What is a 'market' return? When is a sector considered to be 'undersupplied' with capital? What non-financial contribution is sufficiently relevant? Following the recommendations of the expert committee, the analysis in this report follows a demanding and restrictive criterion for understanding which answers imply additionality[8].

- **Criteria for listed assets.** The ‘minimum’ criteria for considering that an investment in listed assets meets the definitions and criteria described above is currently the subject of significant debate, and so a conservative decision has been taken not to include them in the market size figure. A section summarizing the current international debate is included at the end of the report.

- **Impact business or other impact organization** (hereafter referred to as impact organizations). These are organizations that help address underserved social or environmental challenges through a business model, regardless of their legal forms[9].

8. See the following report for an in-depth discussion on additionality in impact investing: Casasnovas, G., Jenkins, S., Alarcón, J., González, M., and Ruiz de Munain, J. L. (2023) “Funds Task Force: Learnings and findings.” SpainNAB.
9. San Salvador, C.; Casasnovas, G.; Hehenberger, L. (2021): Necesidades de financiación de las empresas sociales en España. Esade Center for Social Impact and Open Value Foundation.

3. Impact Investment

3.1 SIZE AND SEGMENTATION

The study identified seven categories of market players that fulfill criteria for managing impact investment capital in Spain, totaling **€1.208 billion of assets under management at the end of 2022**. These categories include: impact VC/PE fund managers, foundations, crowdfunding platforms, family offices, corporate venture capital, public funds and financing entities, insurance companies, and pension funds. In 2021, assets under management in impact investing totaled €764 million[10], indicating that **growth for this segment was 58% in 2022 compared to the previous year.**

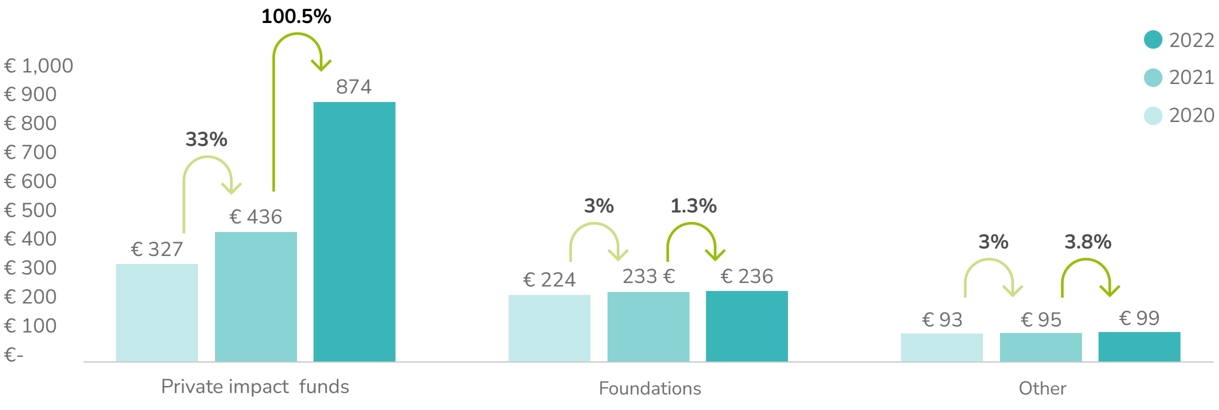
The **17 private impact funds** identified managed **€874 million in 2022, which is double the previous year's figure**. These impact funds are leading the development of the sector, promoting a focus on transparency and integrity.

The **16 foundations** identified managed **€236 million in 2022**, up 1% on the previous year.

Given their smaller representation in the market, the **remaining market players are grouped in the 'other' category**. These players, which include crowdfunding platforms, family offices, corporate venture capital, crowdfunding funds or entities, insurance companies, and pension funds, **managed €99 million in 2022** – up 3.8% on 2021.

The **significant increase in assets under management in the Spanish impact investment market** in 2022 is due especially to the increase in the volume of funds managed by **private impact funds.**

Figure 1: Impact investment assets under management (million €) and growth rates



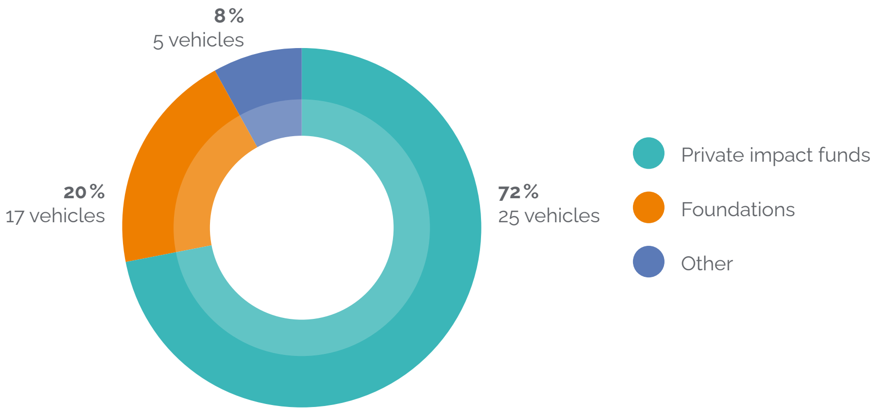
There are three reasons for the growth in the volume of assets under management. Firstly, several vehicles existing in 2021 significantly increased their assets under management. Secondly, nine new vehicles emerged in 2022, most of them managed by private impact funds, representing 5.6% of total assets under management in impact

10. The 2021 impact investment figure was modified after updating the classification of two vehicles to ensure comparability.

investing. As shown in Figure 2, the share of private impact funds in the Spanish impact investing market increased and stands at 72% (compared to 57% in 2021), making the share of other market players relatively smaller. Finally, some funds made decisive changes in their investment practices that support reclassification as impact investors. These practices include, for example, the strengthening of intentionality in their investment strategy, the use of the five dimensions of the Impact Management Project, and the creation of impact committees.

Figure 2: Impact investment assets by type of actor

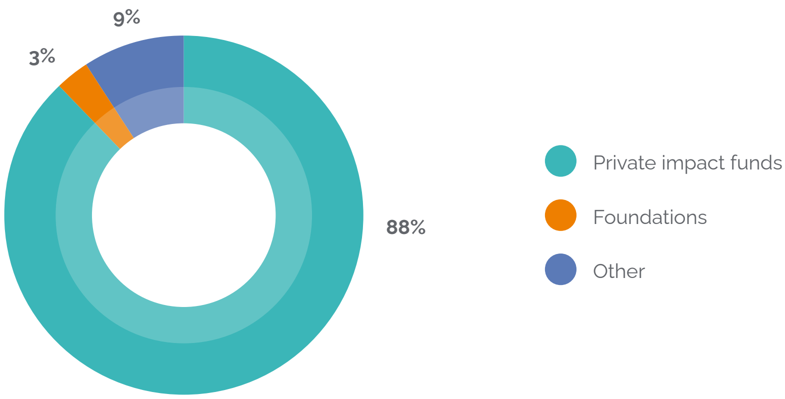
% of total impact investment assets under management in 2022 (%) and number of vehicles



The market players in the study on the impact investment side reported €200 million in new investments in 2022. Most of these investments came from private impact funds, but there are also crowdfunding operations (included in the category 'Other impact investment') and, to a smaller extent, from foundations.

Figure 3: New impact investments made in 2022

% of total value of new impact investment operations



The forecast for the volume of assets under management for 2023 for the identified impact investment players indicates that significant growth will continue. For example, seven private impact funds and three foundations expect growth of more than 50% in assets under management.

Figure 4: Growth expectation for assets under management in 2023
% of vehicles answering this question (n=34)

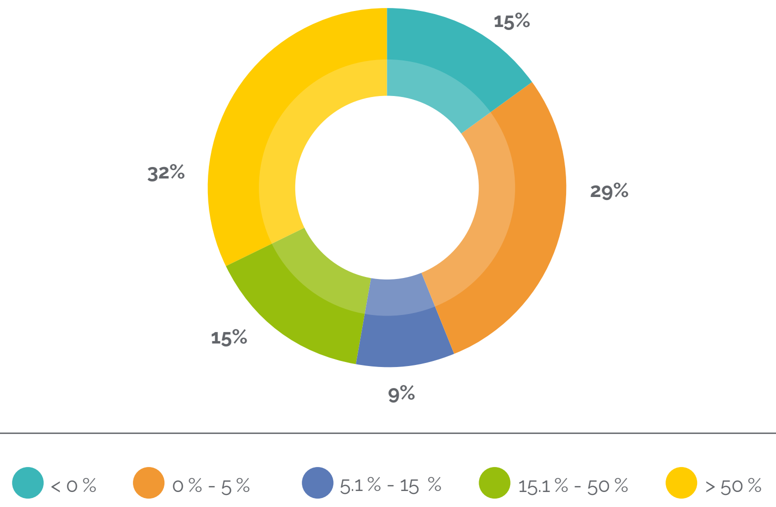
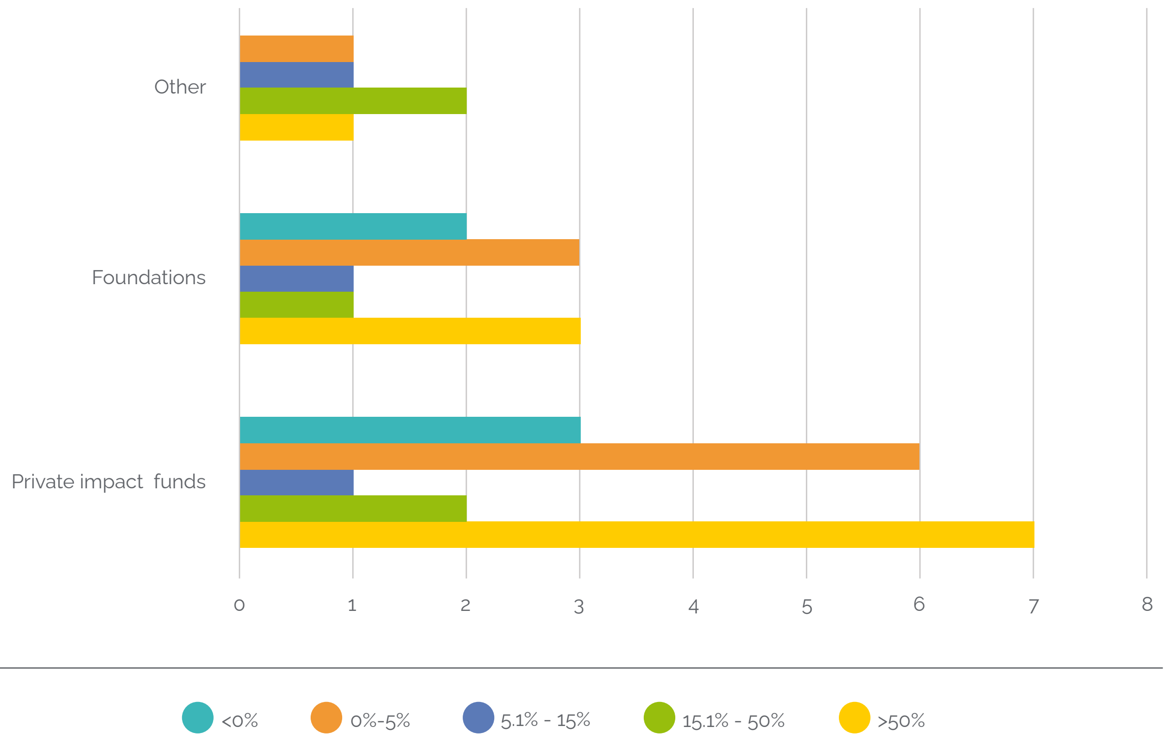


Figure 5: Growth expectation for assets under management for 2023 by type of actor
Number of vehicles reporting each range of expected growth, by type of actor (n=34)



In terms of expected profitability, among those who answered this question, the average rate of return for private impact funds was 6%, for foundations it was 4%, and the other impact investment players reached 15%.

Table 2: Average expected financial return by type of actor

Average expected rate of return weighted by the volume of assets managed in each vehicle

Type of player	minimum	maximum	average	n
Private impact funds	2%	20%	6%	11
Foundations	0%	10%	4%	11
Others	15%	15%	15%	1

Investor additionality, both financial and non-financial, is an important concept that defines **additional impact investing segment.** This concept encompasses those operations where: the investor engages actively, in a broad and significant manner, to improve impact (non-financial additionality); or the investor addresses new or undersupplied markets (financial additionality); or flexible capital is provided (financial additionality). As detailed above in the 'Methodology' section, a restrictive criterion has been followed to identify the portion of impact investments that have additionality.

Impact investors often provide non-financial support, in addition to capital, to enhance the impact of their investments. Investors may do this by offering support for impact measurement and management, staff training on impact-related issues, or strategic and operational support linked to the investor's intentionality. This active involvement should take place regularly over a period of time, beyond the beginning of the investment relationship, and several of the above conditions must be met. Only in this way can we speak of broad and significant non-financial support that is aimed at impact. Some €703 million of the funds show **non-financial additionality** (representing 58% of the total volume of assets under management in impact investing). Private equity fund managers led the way in active and significant engagement practices.

Moreover, 12% of impact investment transactions (or €143 million in assets under management) in 2022 were aimed at **growing new or underspupplied markets**. Most of these deals were carried out by private impact fund managers, but also by some foundations. These deals channel capital to companies who would find it difficult to find financing in the absence of impact investors.

In addition to creating new markets or strengthening incipient markets, financial additionality can occur when investors provide **flexible capital**, that is, when more flexible conditions are offered than those available on the market. Within the scope of this study and within the framework of the restrictive criterion used, we refer to the granting of a risk-adjusted rate of return that is lower or much lower than that offered on the market. Some 17% of impact investment transactions (or €206 million in managed assets) offered more flexible terms than those found in traditional financial markets. These practices were carried out by private impact fund managers and foundations, a trend that was also visible in previous years.

For impact investment to offer additionality it must meet at least one of the forms of additionality (i.e., offer significant and broad impact-driven non-financial support; provide flexible capital; or address undersupplied markets). Following these criteria, we can say that 67% of the impact investment identified in this study offers additionality.

Diagram 1: Investor contribution in impact investing

Investor contribution	Investment in companies and other impact organizations	
	Significant and active engagement	58%
	Address undersupplied markets	12%
	Provide flexible capital	17%

When asked whether they prioritize profit or impact, **most impact investment actors reply that both are equal priorities.** Two private equity fund managers replied that profit is the clear priority. Foundations, on the other hand, are almost equally divided between those who say that financial return and social impact are equal priorities, and those who say that social impact is a clear priority. Finally, among the other impact investment players, most consider profit and impact to be equal priorities.

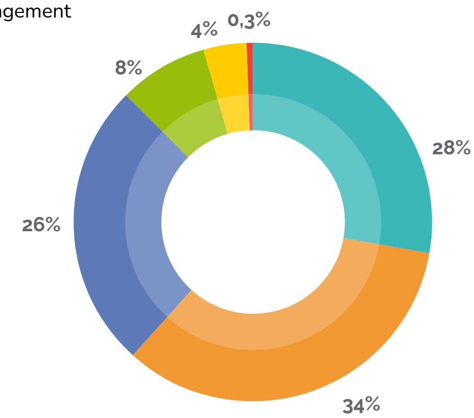
3.2 MAIN CHARACTERISTICS

3.2.1 Sources of capital

Impact investors reported diversified sources of capital. In similar proportions, the largest sources of capital were institutional investors (34% of total assets under management), national and European public funds (28%), and individual investors (26%). In the case of individual investors, the majority came from high-net-worth individuals. Foundations contributed a significant although smaller share (8%), and their share was similar to the previous year.

Figure 6: Sources of impact investment capital in 2022

% of assets under management



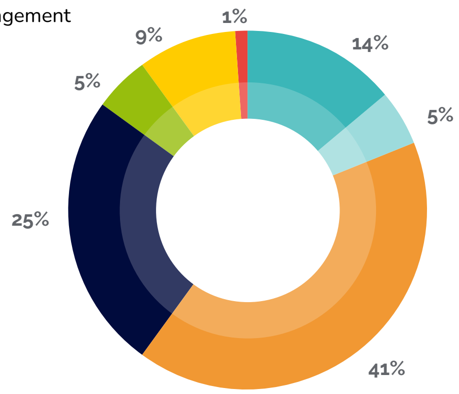
Public funds · Institutional investors · Individual investors · Foundations · Others · Own income from endowment

The largest source of capital for private impact funds were institutional investors (41% of total assets under management by these funds), followed by individual high-net-worth investors (25%), and national and European public funds (19%).

Like the previous year, institutional investors and high-net-worth individuals continue to play a major role as sources of capital for impact funds.

Grafico 7: Sources of capital for private impact funds in 2022

% of assets under management



State or local public funding · EU Funding · Institutional investors · High-net-worth individuals · Foundations · Others · Own income from endowment, trust and others

3.2.2 Size and term of investments

The average size of investment operations by type of player in 2022 shows little change on 2021[11]. A comparison of the average size of investment operations with bank financing operations shows that the former are considerably larger, a trend that is repeated from 2021 (see Section 4.2). This is predictable given the characteristics of investment operations compared to bank financing operations.

Table 3: Average size of operations by type of actor

Type of actor	Average size of operations by type of actor	n
Private impact funds	€ 2,354,955	21
Foundations	€ 268,357	14
Other	€ 450,000	5

Impact investments have longer time horizons than impact bank financing operations. More than half (55%) make deals with a horizon of between 4 and 8 years, and almost 30% make investments with a time horizon of more than eight years.

Figure 8: Duration of impact investments (total)
% of vehicles answering the question (n=42)

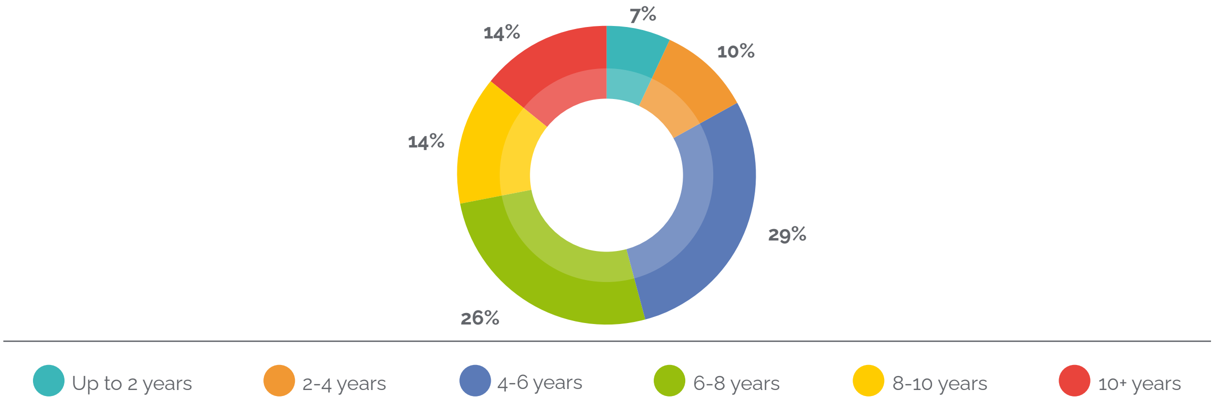
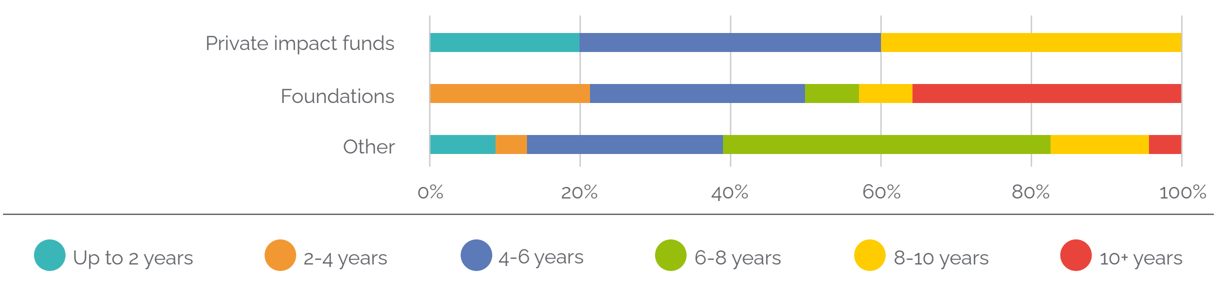


Figure 9: Duration of impact investments by type of actor
% of vehicles answering the question (n=42)

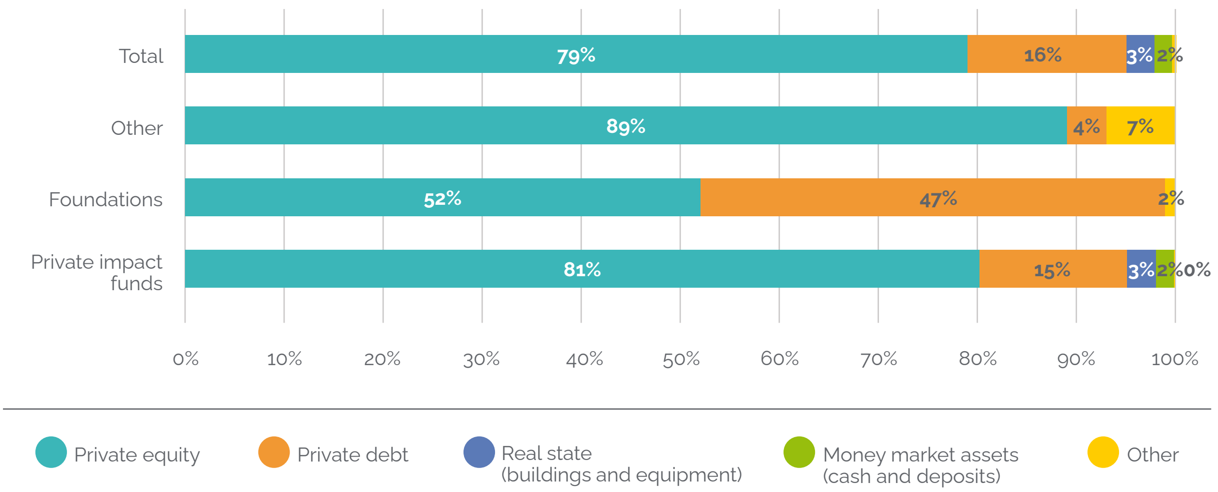


11. An outlier was not included in the estimate of the average size of private equity fund operations. If this outlier is included, then the average size reaches four million euros.

3.2.3 Investment instruments

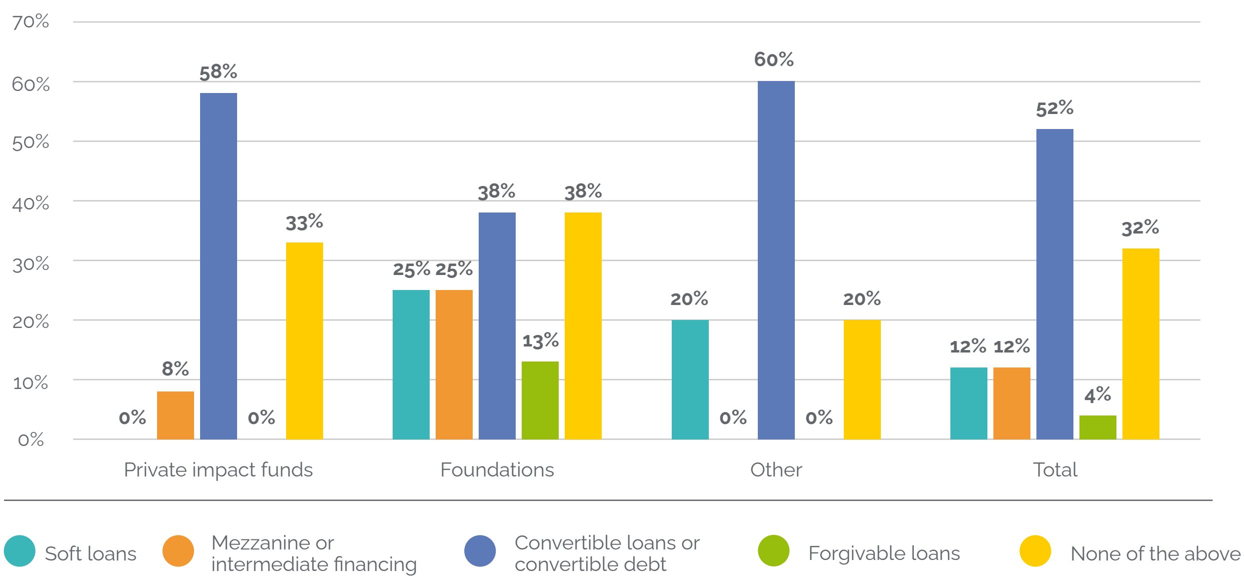
Investment vehicles in the impact investing sector are mostly structured as private equity. Some 81% of the assets managed by private impact funds are structured as private equity, as well as 89% of assets managed by other impact investment players. Foundations are more evenly split between private equity (which account for 52%) and private debt (which account for 47%).

Figure 10: Financial instruments used in impact investing
% of assets under management



Some market players are using hybrid financial instruments – although this still represents only a small fraction of the total impact investing supply. Particularly noteworthy is the use of convertible loans, a trend that was also seen last year (used by 52% of impact investment players). Some players also use mezzanine financing and soft loans. utilizan financiación intermedia o mezzanine, y créditos blandos o soft loans.

Figure 11: Hybrid financial instruments used in impact investment
% of actors (n=25). The question allows multiple responses, and so the sum may be greater than 100%



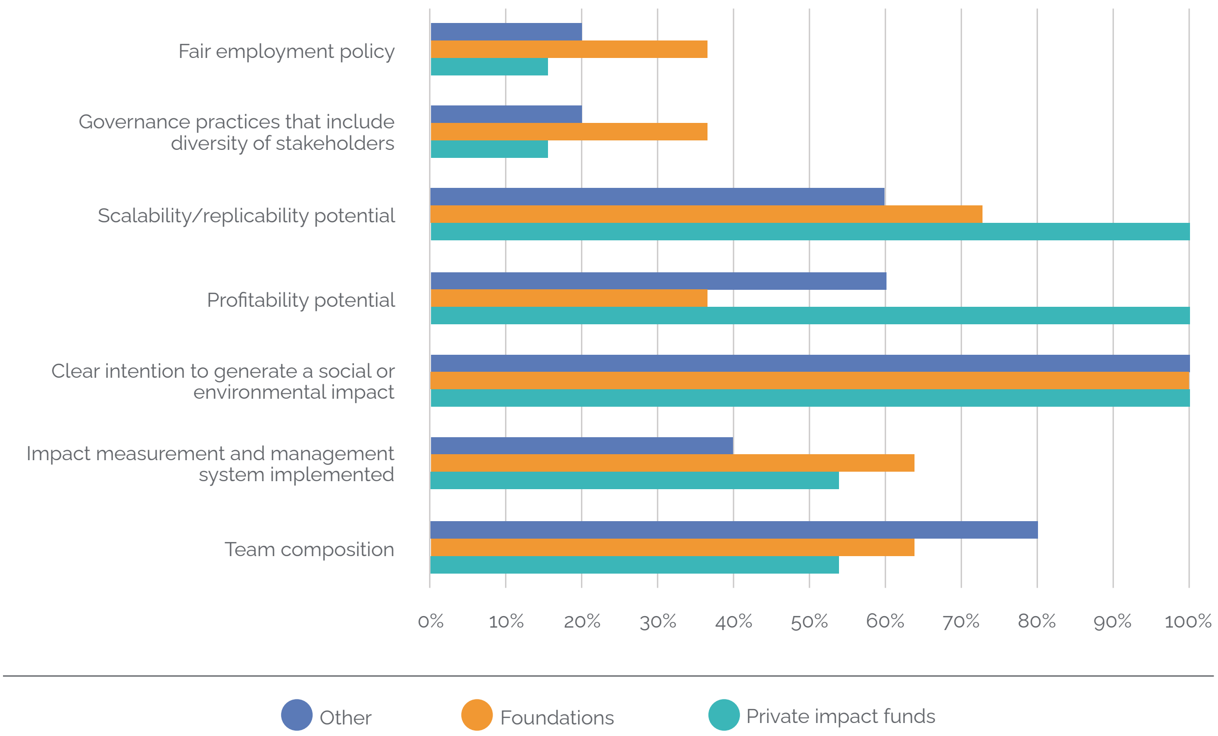
3.2.4 Destination of investments

The factors taken into account during the process of selecting the impact organizations in which to invest vary according to the type of actor, and there are also differences in the typical criteria considered in impact investing and impact bank financing.

All players evaluate the mission or intention to generate a social or environmental impact. Additionally:

- 100% of private impact funds evaluate scalability/replicability potential and profitability potential. Most also look at the team and the impact measurement and management system.
- Most foundations pay attention to scalability/replicability potential, the impact management and measurement system, and team composition.

Figure 12: Criteria used for the selection of investee companies
% of actors answering the question (n=29)

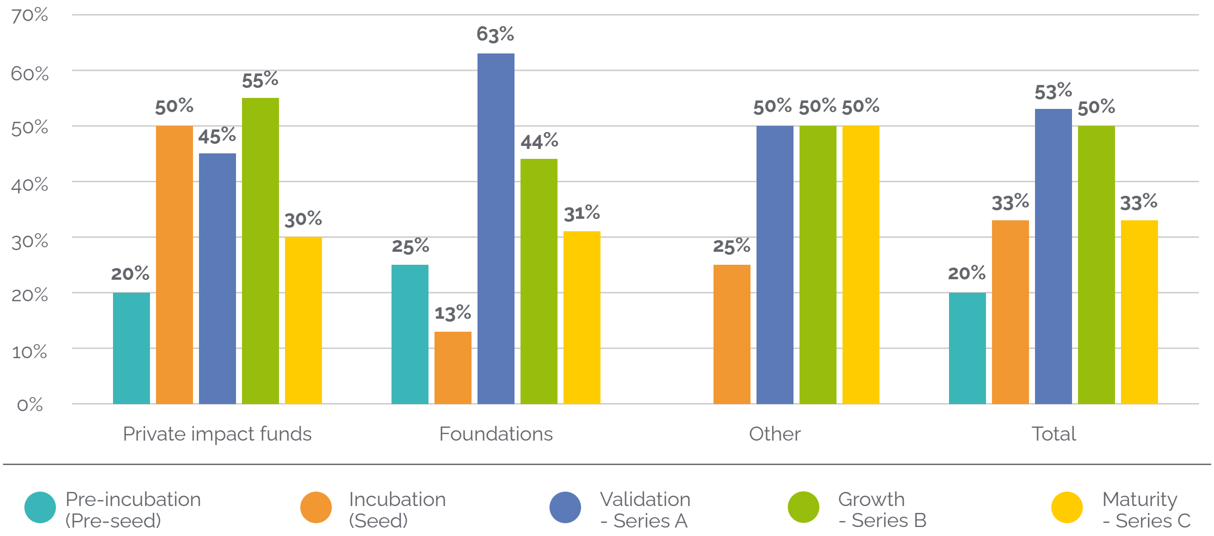


Impact investment is made in all stages of development, but the concentration of capital supply is greatest in series A and series B stages. This trend was also seen in previous years.

- Private impact funds also allocate a considerable portion (50%) to companies in incubation or seed stage.
- 20% of private impact funds and 25% of foundation vehicles are allocated to the pre-incubation phases.
- 30% of private impact funds and 31% of foundation vehicles target mature impact organizations.

Figure 13: Investment stage

% of vehicles that invest in each stage, out of the total number of vehicles responding to the question, by type of actor (n=40). This question allows multiple responses for each vehicle, so the sum is greater than 100% for each type of actor.

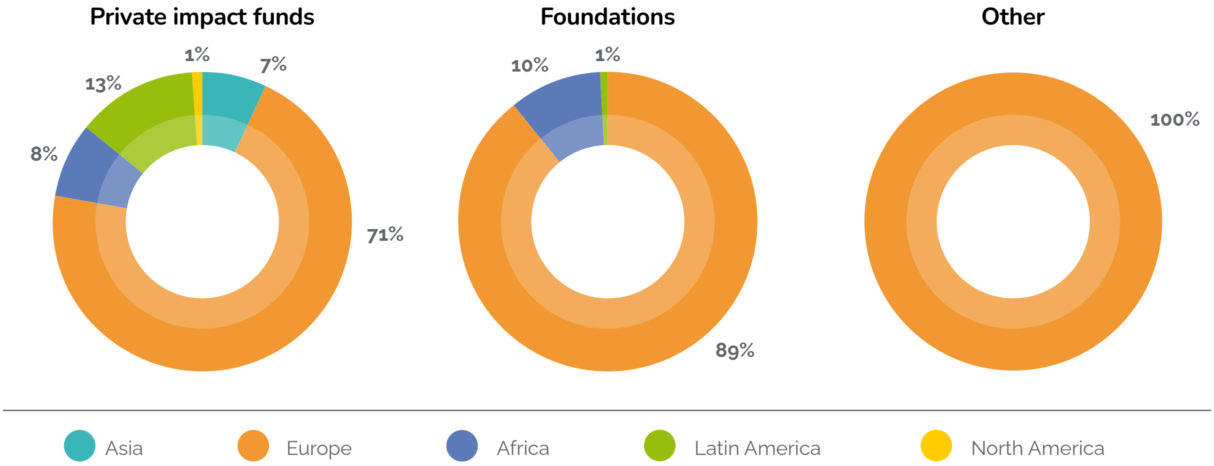


This study focuses on the supply of private investment that is managed in Spain, but the destination of the capital may be international. Most impact investment capital managed in Spain has been invested in impact organizations in Europe. The average amount of capital invested in Spain is 86% of the total capital invested across all vehicles.

- Greater geographic diversification can be observed in the vehicles managed by private impact funds, with 13% going to Latin America, 8% to Africa, and 7% to Asia.
- 10% of reported foundation assets are directed to Africa.

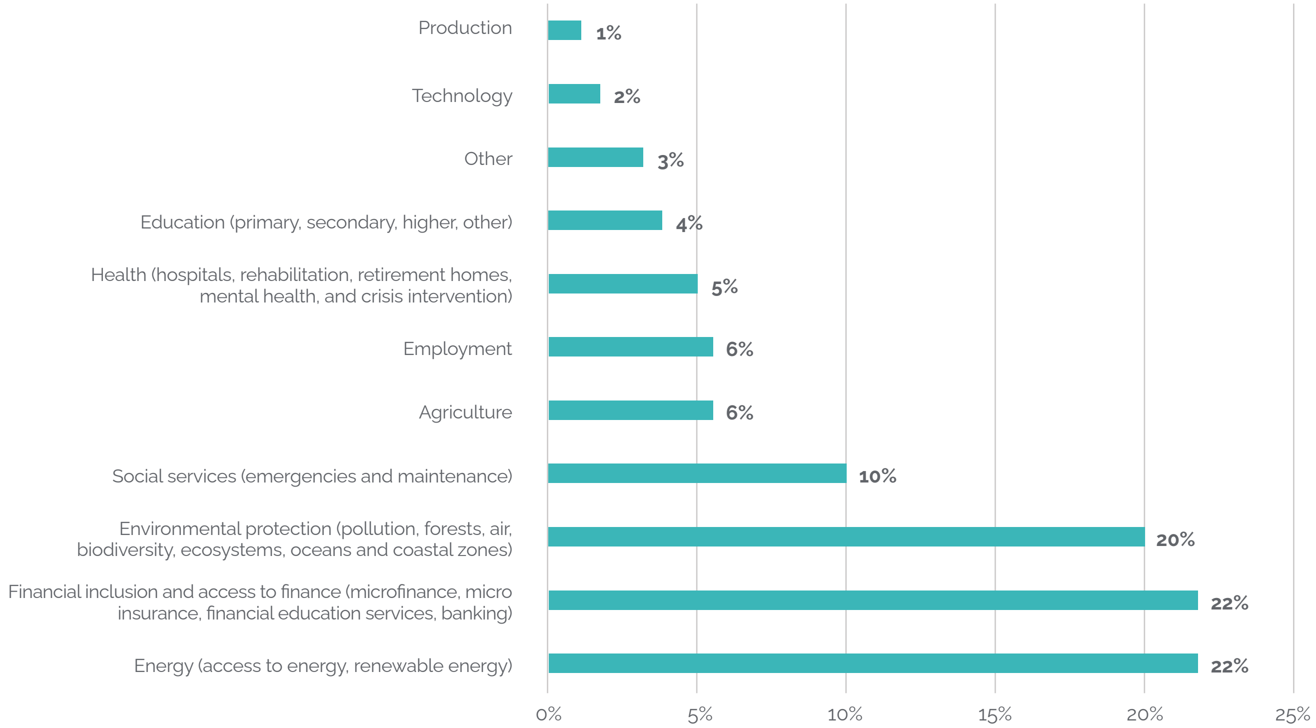
Figure 14: Capital invested by region

% of assets under management



Energy, financial inclusion and access to finance, and environmental protection were the leading sectors in impact investing in 2022, with each representing more than 20% of assets under management. A change is observed with respect to the sectors that attracted the most impact capital in 2021, mainly with a decrease in the agricultural sector.

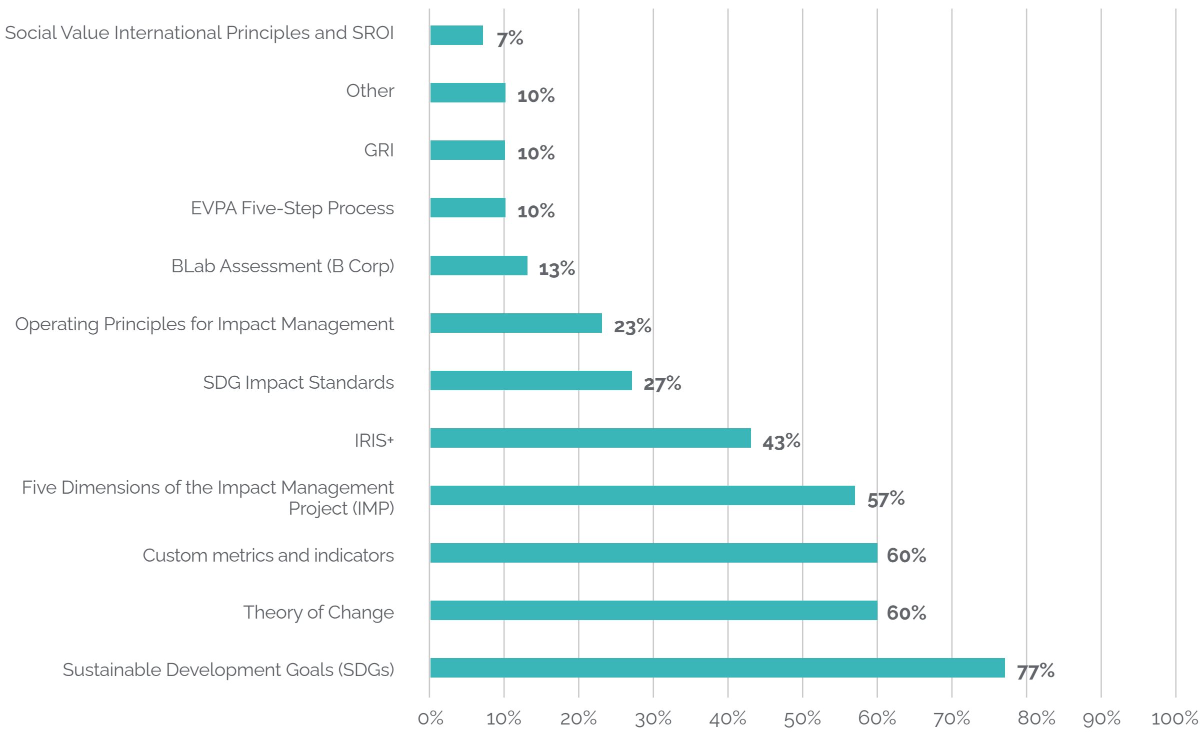
Figure 15: Impact investment capital invested by sector
% of assets under management



3.3 IMPACT MEASUREMENT

Impact measurement and management is one of the three pillars of impact investing, together with intentionality and additionality. The tools most commonly used by impact investors—used by more than 60% of them—are the SDGs, the theory of change, and custom metrics and indicators. Also noteworthy is the increase in the use of the five dimensions of the Impact Management Project, which is used by 57% of impact investors.

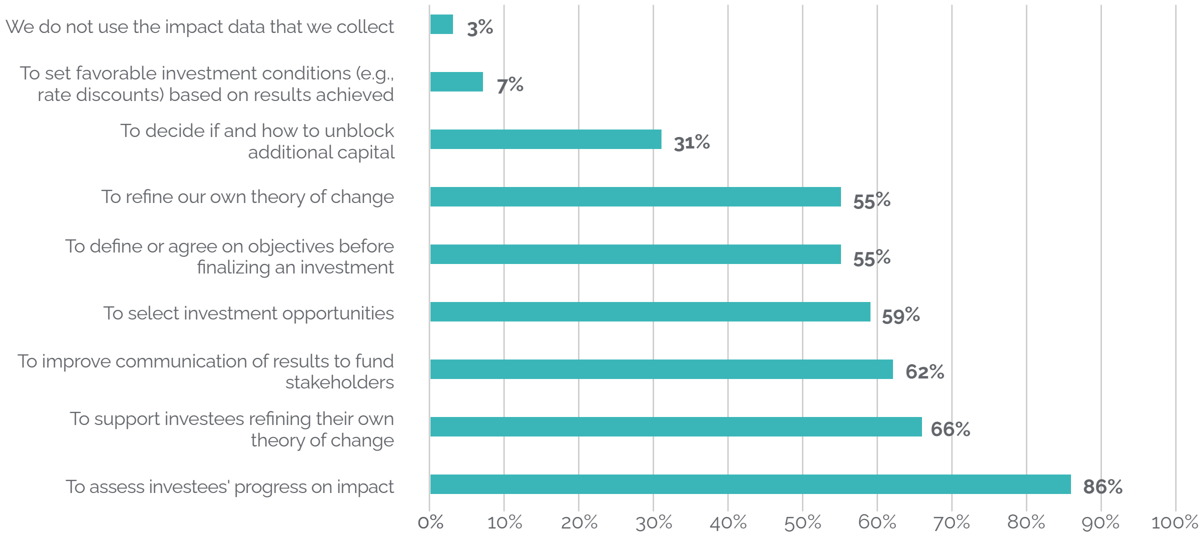
Figure 16: Tools used to measure impact in impact investment
% of total actors responding to the question (n=30)



Beyond the tools used to produce impact data, the relevance of that data is determined by the ways in which the data is used to make decisions. We note that:

- More than 85% of market players use impact data to assess the progress of investees in terms of impact.
- 66% use impact data to support the beneficiary companies in improving their own theory of change.
- Approximately 60% use impact data to improve the communication of results with fund stakeholders or to select investment opportunities.

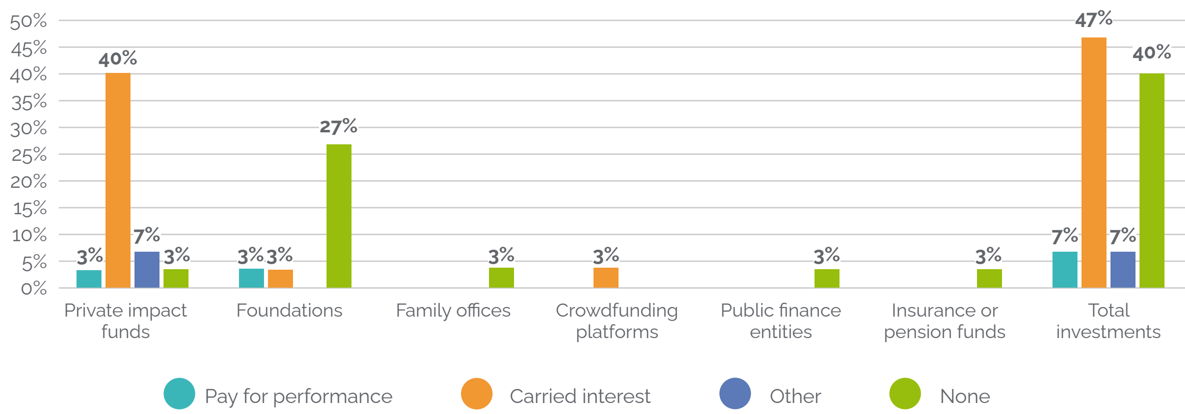
Figure 17: Use of impact measurement data in impact investment
% of total actors responding to the question (n=29)



Most foundations, family offices, government financing programs, and insurance companies and pension funds do not have systems that link incentives for executives or managers to impact. However, other market players, such as private impact funds, embrace measures that link executive incentives to impact results.

- Among private impact fund managers, nearly half use the practice of impact carry, whereby some of the fund managers' variable remuneration depends on the impact achieved. Among the market players using this practice (14 in total), more than 85% are private impact fund managers. This year, unlike last year, a small number of other types of players – such as some crowdfunding platforms and foundations – started using this practice.
- Some private impact funds and foundations use pay-for-performance practices.
- Among the market players who indicated that they use other ways of linking impact to incentives (different than the question answer choices), some include incentives linked to the implementation and adoption of specific projects (such as impact measurement projects). Other players indicate that they link the variable compensation of the investee companies' executives (different than fund executives) to annual impact targets.

Figure 18: Use of incentive systems linked to impact results in impact investment
% of actors responding to the question (n=30)

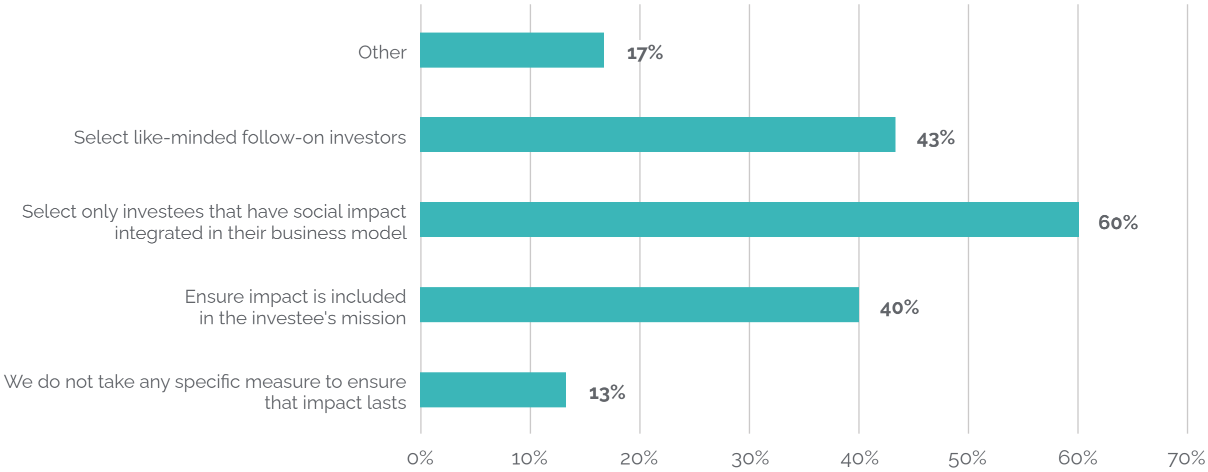


It is crucial in impact investing to pay attention to the entire investment cycle, from selection to monitoring to exit. Regarding exit, we find that most impact investment players take measures to ensure the continuity of the impact approach after their exit:

- 60% select only investee organizations whose social impact is tightly integrated into their business model, so that future investors cannot continue the economic activity without the social impact.
- 43% select like-minded follow-on investors, i.e., investors aligned with the impact objectives.
- 40% integrate impact considerations into the investee's mission, e.g., modifying the investees' articles of incorporation, by-laws, or other statutes, as companies must do to obtain B Corp certification.

While a minority (13%) still take no measures to ensure that impact is lasting, more impact investors appear to be placing more importance on maximizing impact through and beyond the exit process as the sector develops.

Figure 19: Measures taken to ensure that impact continues after exiting an impact investment
% of total actors responding to the question (n=30)

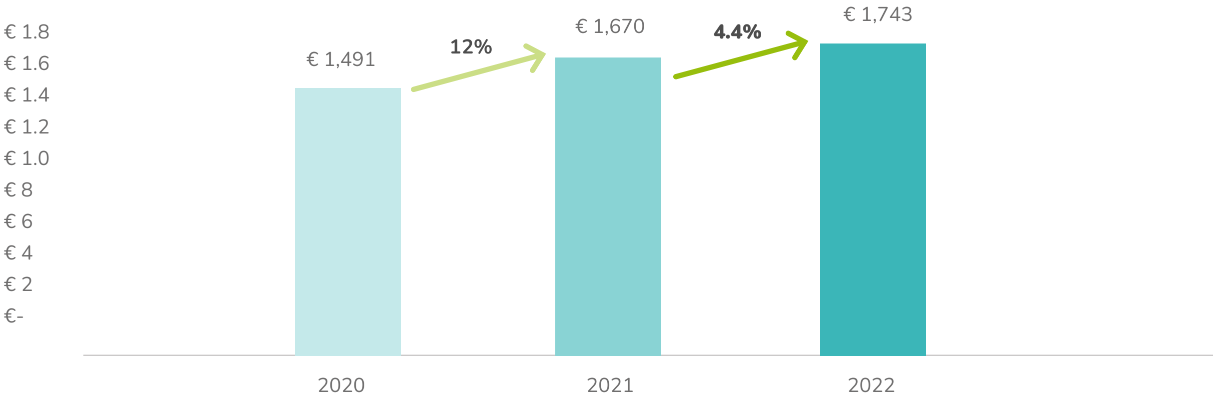


4. Impact Bank Financing

4.1 SIZE AND SEGMENTATION

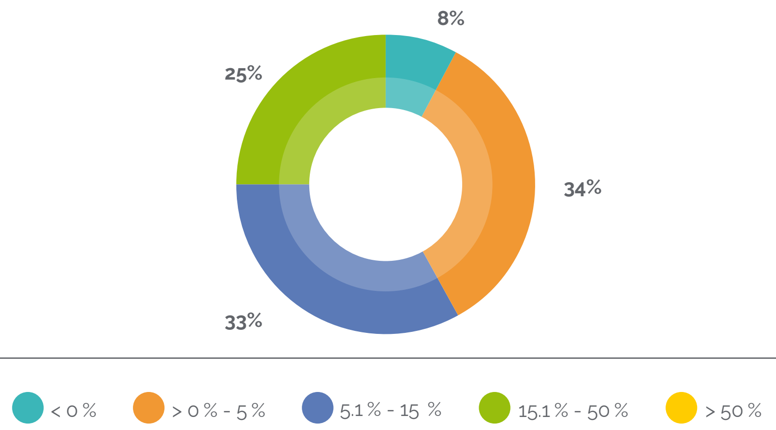
The study identified six market players that fulfill criteria for managing impact bank financing in Spain with a **total of €1.743 billion in assets under management at the close of 202**2 (this figure was €1.670 billion in 2021). These six players were ethical and social banks and financial services cooperatives and managed nine impact-focused vehicles. The growth in the volume of assets managed by this segment was 4.4% when compared to the previous year (2021).

Figure 20: Capital managed in impact bank financing (billion €) and growth rates



Most of the vehicles in the bank financing segment expect growth in assets under management in 2023 between 0-5% or 5.1-15%. None expects growth to exceed 50% in 2023.

Figure 21: Growth expectation for impact bank financing assets under management in 2023
% of vehicles responding to this question (n=12)



* Includes banking entities and financial services cooperatives – see definition in the Methodology section

Regarding the expected profit, there was not a significant number of responses from market players. The single response indicated an average interest rate of 4%.

Impact bank financing, like impact investing, may have financial and non-financial additionality. In 2022, none of the impact bank financing vehicles offered broad, significant, and impact-driven non-financial support (continuing the trend seen in 2021). In the case of financial additionality, 47% of the total volume of assets managed in impact bank financing (€821.8 million) addressed undersupplied markets, while 9% (€160 million) provided flexible capital.

As in impact investment, for impact bank financing to have additionality it must meet at least one of the forms of additionality (i.e., significant non-financial support, offer flexible capital, or address undersupplied markets). With this data, we can say that 55% of the impact bank financing identified in this study offers additionality.

Diagram 2: The contribution of financial institutions in impact bank financing

	Financing for companies and other impact organizations	
Contribution of the financial entity	Significant and active engagement	0%
	Address undersupplied markets	47%
	Provide flexible capital	9%

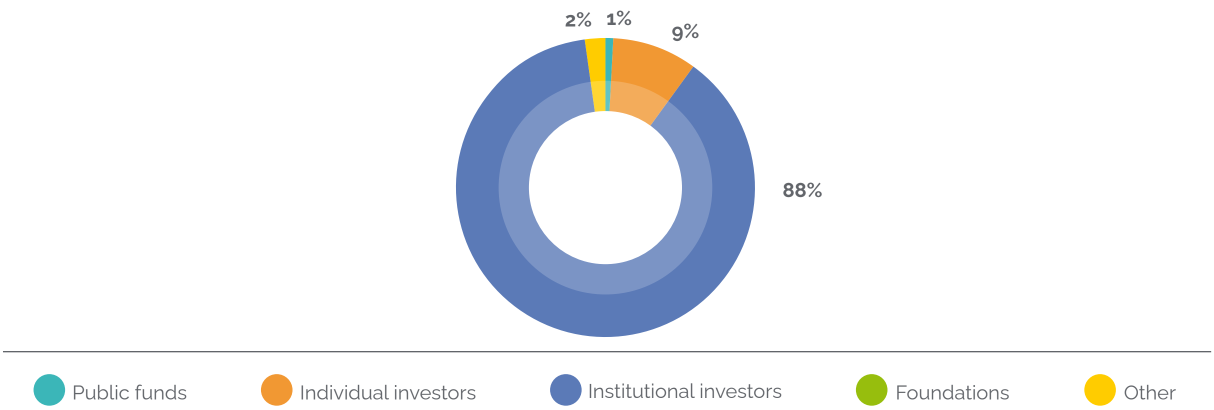
When banks and cooperatives are asked about **priority between profit and social impact,** the vast majority (90%) respond that these are **equal priorities**, while the social impact is clearly the priority for 10%. None claimed that profit is more important than social impact.

4.2 MAIN CHARACTERISTICS

4.2.1 Sources of capital for impact bank financing

The largest sources of capital in impact bank financing were individual investors in the form of retail (88% of total assets under management). The second largest source, although a minority, were institutional investors (9%). Public funds (1%), foundations (0%), and other sources (2%), were insignificant sources of capital for impact bank financing.

Figure 22: Sources of capital for impact bank financing 2022
% of assets under management in impact bank financing

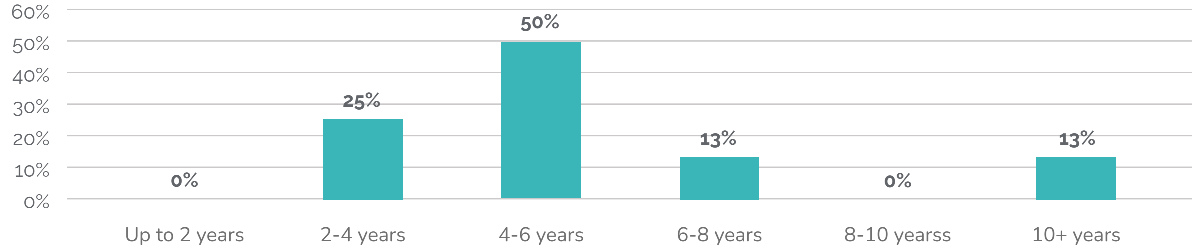


4.2.2 Size and term of financing

The average size of bank financing transactions was €68,341 – down 19% on 2021. As might be expected, the average size of financing transactions is significantly smaller than investment transactions.

Most impact bank financing vehicles have financing terms of 4 to 6 years, with only two vehicles offering longer terms. Although there is variety in term lengths, the terms for bank financing transactions are typically shorter than those of investment transactions.

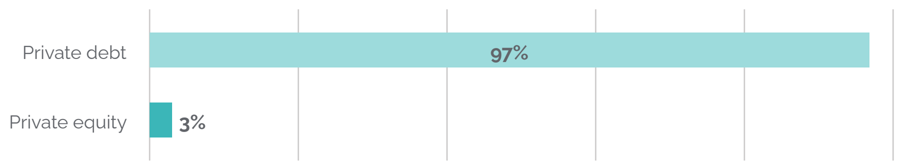
Figure 23: Financing terms of impact bank financing operations
% of total vehicles responding to the question (n=8)



4.2.3 Impact bank financing instruments

As expected, most impact bank financing vehicles are structured as (private) debt. Soft loans stand out among hybrid financial instruments.

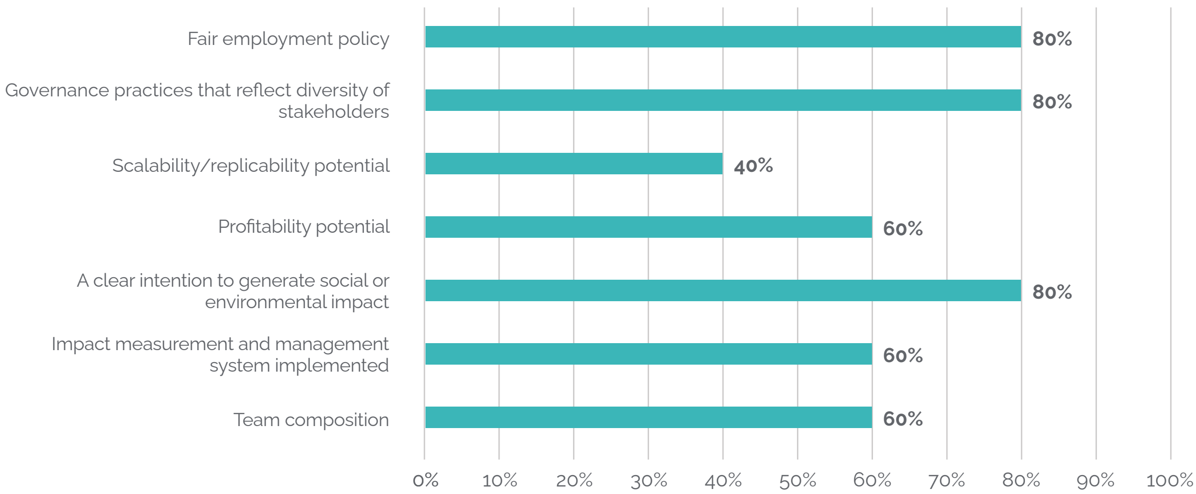
Figure 24: Financial instruments used in impact bank financing.
% of assets in vehicles responding to the question (n=5)



4.2.4 Destination of the financing

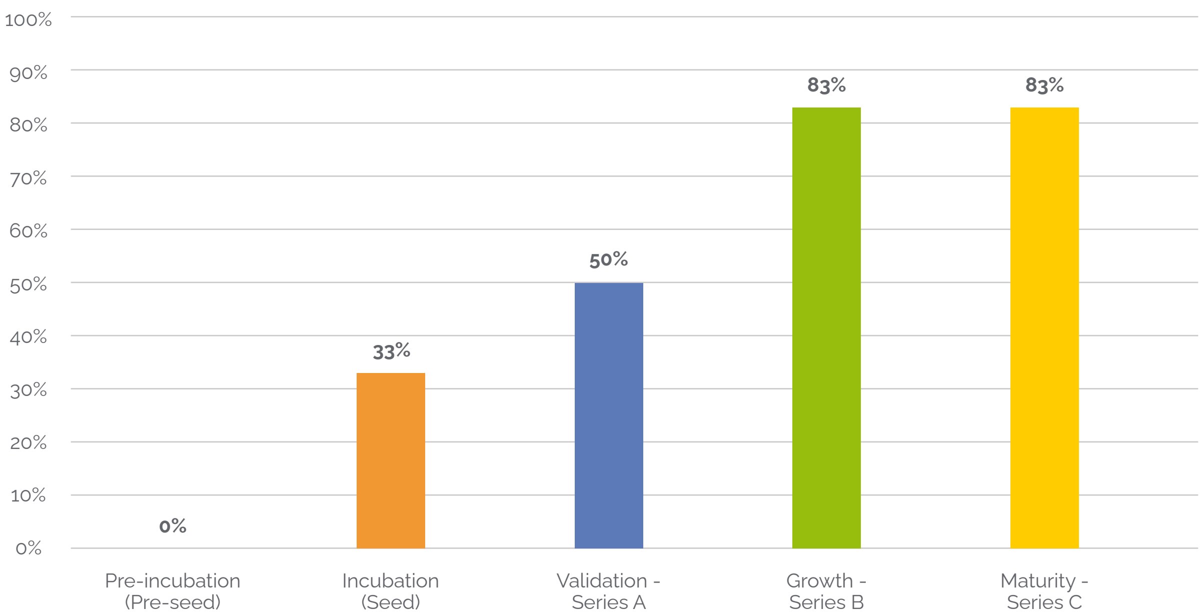
In the process of selecting which impact organizations to fund, some 80% of actors evaluate the mission or intention to influence social or environmental impact, employment policy, and governance practices. Profitability potential, impact measurement and management, and organizational team composition are considered less commonly.

Gráfico 25: Criteria used to select companies that receive impact bank financing
% of total actors responding to the question (n=5)



The supply of impact bank financing grows with the development stage of impact organizations. Portfolio vehicles concentrate their activity in the growth and maturity stages.

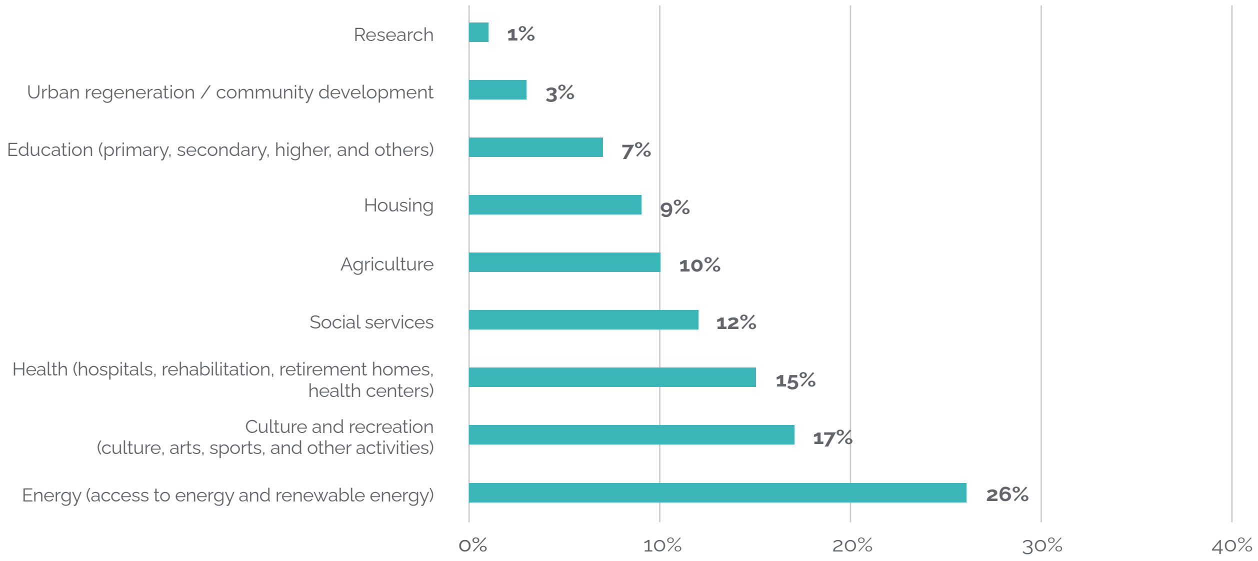
Figure 26: Investment stages (impact bank financing)
% of vehicles that invest in each stage, out of the total number of vehicles responding to the question (n=6). This question allowed multiple responses for each vehicle, so the sum is greater than 100%



All vehicles in the impact bank financing segment invest 100% of assets in Spain, in contrast to impact investment, where there is greater geographical diversification of invested capital (both within and outside Europe).

In terms of sector, energy led the way in impact bank financing, receiving 26% of financing in 2022. The cultural, recreational, and healthcare sectors each continued to account for 15-17% of capital.

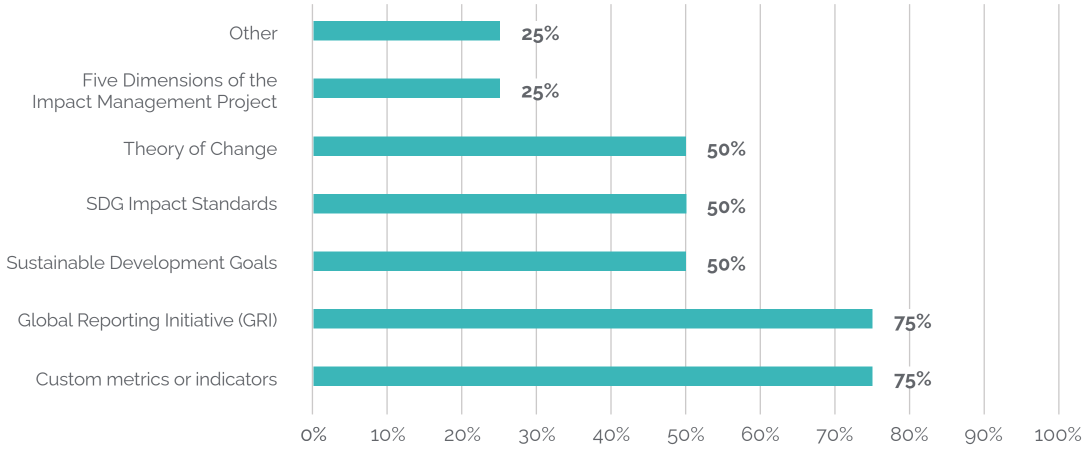
Figure 27: Impact bank financing by sector
% of assets under management in each vehicle



4.3 IMPACT MEASUREMENT

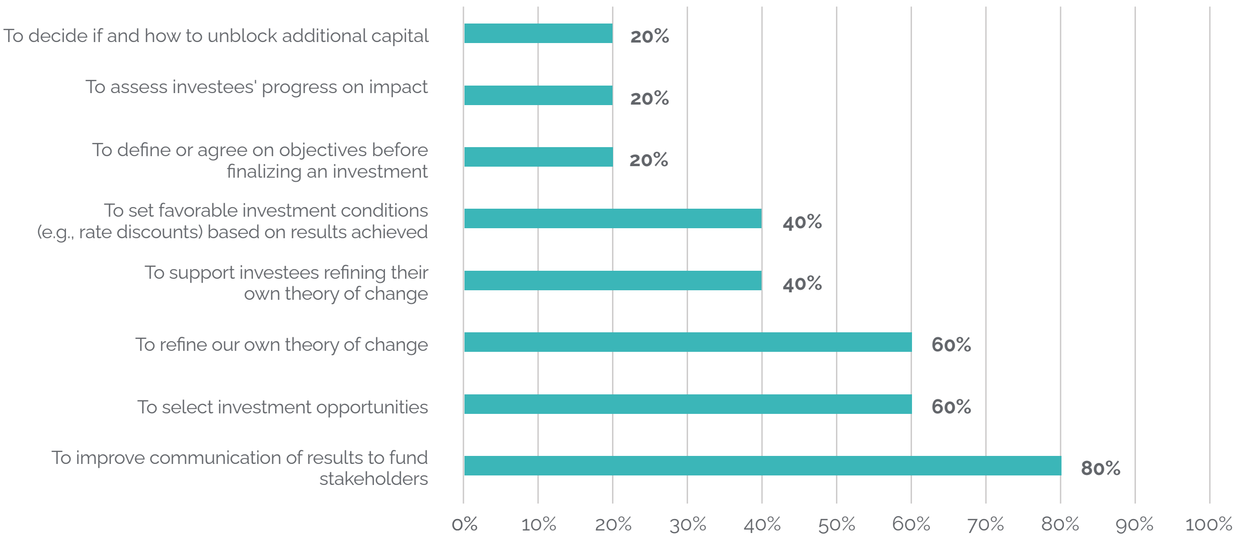
Impact measurement and management is one of the pillars of impact bank financing, along with intentionality and additionality. The Global Reporting Initiative indicators, together with custom metrics and indicators, are the most widely used tools in this segment. To a lesser extent, the use of the SDGs, SDG Impact Standards, and theory of change are highlighted.

Figure 28: Tools used for impact measurement (impact bank financing)
% of total actors responding to the question (n=4)



Some 80% of impact bank financing players use data to improve the communication of results to stakeholders, while 60% of players use data to refine their own theory of change and/or to select investment opportunities.

Figure 29: Use of impact data (impact bank financing)
% of total actors responding to the question (n=5)



Only one bank, of those responding to the question, indicated that they have a system that links incentives for executives to impact; in that case, the impact measurement project determines part of the bonus for the whole company.

5. Conclusions

Below we offer the five conclusions we have drawn from the information analyzed in the previous sections.

1. Impact investing grew 58%, driven by private impact funds

Impact investments reached €1.208 billion in assets under management at the close of 2022, up from €764 million in 2021. Private impact funds have been the main drivers of impact investing in Spain – as in other countries. These funds usually have a similar structure to venture capital funds, in which a fund manager launches an investment vehicle (for institutional investors, family offices, and public investors) to finance growth companies. In the case of impact funds, the investors want measurable social or environmental impact as well as profit.

Successive studies by SpainNAB show how these funds have experienced significant growth in recent years. From €92 million in 2018, to €436 million in 2021, and **€874 million in 2022**. These increases demonstrate the interest of institutional investors in investment vehicles in which impact has a central place, as well as the ability of managers to **channel investment towards companies that contribute relevant solutions to underserved social or environmental challenges**.

A few years ago, it was common to hear that not many investors were interested in this type of approach, or that there were not enough social enterprises in which to invest. However, the growth and results obtained by these impact funds show that it is an attractive and viable sector. At the beginning, there was a greater sense of risk or uncertainty on the part of investors, but they have become more committed as the results – both in Spain and in other countries – **have demonstrated that profit can be made alongside the achievement of significant social or environmental impact.**

However, this growth presents new questions and challenges. In which market segments should these impact funds invest? What are investor expectations? What is their own contribution to improving the impact of investees? Which social enterprises are still unfunded? These questions point to the additionality of impact investing – an aspect we review in the third conclusion.

2. Impact bank financing is a focal point within the supply of impact capital

This year we have seen the importance of differentiating between investment and bank financing within the supply of impact capital. The former usually adopts venture capital practices adapted to investment in impact companies or organizations and includes investment by foundations and other market players (such as impact crowdfunding platforms or business angels and family offices) that invest directly in impact organizations. These investors support companies that need growth capital to scale, and so they assume a greater risk and are involved in developing the strategies of the invested companies.

This **approach differs** from the sector we have termed 'impact bank financing', which includes **ethical banking or other organizations (such as financial service cooperatives) with specific financial products for impact companies**

or other impact organizations. In these cases, the financing offered is usually for the ordinary activity of the impact organization and so does not require much direct involvement in the operations of the investee. These loans or lines of credit sometimes compete with traditional bank financing and may offer more flexible or favorable terms. This study shows that practices such as non-financial support or incentive systems linked to impact are less relevant in this segment.

One of the **key challenges** in this segment, linked to the greater size of these portfolios relative to impact investing, is to implement **robust systems for measuring the impact** of their activity. This process, as in the impact investing segment, should focus on using this data for more than communicating results with key stakeholders. This data is valuable because it makes it possible to determine whether capital is being used appropriately to achieve the impact objectives. Several of the organizations participating in this study are deepening their application of this process within the framework of associations such as **FEBEA** (European Federation of Ethical and Alternative Banks and Financiers) and **GABV** (Global Alliance for Banking on Values). SpainNAB aims to start collaborating in the year ahead to support these players in Spain.

This segment of impact bank financing is reasonably consolidated in Spain, considering that many of these organizations have been providing recurring financing to support the daily operations of companies for more than a decade. In 2020, we identified €1.491 billion of funds in the impact bank financing sector; in 2021 it was €1.670 billion; and in 2022 it reached €1.743 billion. **Ethical and social banking organizations are a fundamental part of impact capital in Spain in terms of volume, tradition, and capillarity.**

3. Greater transparency needed for investor additionality [12]

One of the key aspects for sizing and segmenting the supply of impact capital is that of additionality, (i.e., what social or environmental impact is produced that would not otherwise have taken place). A recent report by the SpainNAB Funds Task Force distinguishes between **investee additionality and investor additionality**. The former refers to the relevant contribution of investees to underserved social or environmental challenges (which places them in category C – contributing to solutions – of the Impact Management Project terminology and so within the scope of impact capital offerings). Measuring or testing this additionality is challenging, and this study has not conducted an audit to establish if investors are funding companies whose social mission is at the core of the business. However, to ensure greater transparency in self-classification, various questions were asked about the type of impact generated[13]: its scope and depth, the degree to which the target population can be considered underserved, and the likelihood that the investees' contribution is better than what would have occurred in the company's absence. These questions were included not for the purpose of reporting but to make self-classification more transparent and clarify impact approaches.

12. We speak of 'investor additionality' and 'investor contribution' to simplify the text and follow the names used in the Impact Management Project. Both terms also refer to additionality and the contribution of financial institutions that implement impact bank financing.
13. These questions were defined following the structure of the five Impact Management Project dimensions.

Investor additionality is the impact that would not have occurred if the investment had not been made. Following recommendations to segment the impact investing market based on investor additionality, made by the SpainNAB Funds Task Force and the European Impact Investment Consortium for data harmonization led by EVPA, this year's survey included several questions intended to increase our understanding of investor strategies to generate additionality, namely three key aspects of the Impact Management Project framework: addressing undersupplied capital markets; the provision of flexible capital; and active engagement to increase impact. For example, in the first case, we asked whether invested companies were likely to have found financing elsewhere; in the second case, we asked if the financial return sought is above, equal to, or below market returns. These questions are relatively straightforward and make it possible, in most cases, to distinguish between investments that provide additionality and those that could have been made by a more traditional investor. However, some answers (e.g., ‘We are looking for a similar financial return, but with more flexible conditions’) are more subjective, and it is not clear that these investments can be considered to have additionality. Following the recommendations of the study's expert committee, a restrictive criterion has been followed that only counts impact capital as having ‘additionality’ if there is a clear reason to believe that the transaction provides capital that the investee could not otherwise have accessed, or not with the same conditions.

For contributions based on active involvement, two questions were asked to understand if an investor's non-financial contribution is broad, significant, and impact-driven – and so could be considered as producing additionality. One question was focused on the nature of the involvement (whether it was focused on enhancing impact or not) and the other on the periodicity (whether it was substantial rather than a one-off). Vehicles were considered to have non-financial additionality only when both criteria were met.

Based on the data gathered through these questions on investor contribution, we identified a **subsegment of ‘additional’ impact capital (investment or bank financing): 67% of impact investment and 55% of impact bank financing appear to offer additionality,** meeting criteria for at least one of the three forms of investor contribution[14], though these numbers should be considered reasonable approximations because it is difficult to make precise distinctions based on available data.

This increased transparency is important because reveals the need to attract capital to those segments where it does not flow naturally and where flexible capital is needed (i.e., where there is financial additionality). It is understood that direct aid from the public or philanthropic sectors should be directed to those segments that offer impact capital with additionality. It is also important to recognize the value of impact investment that provides flexible capital, whether as **concessionary capital and/or patient capital**, and finances those challenges that require profound transformations that would be difficult to fund without such capital. One example is **catalytic capital**, which attracts investors seeking market returns by de-risking investments, and can be used to create innovative financial vehicles and instruments, such as **blended finance**, to attract money at scale to capital-starved sectors or activities[15].

14. Address undersupplied capital markets; offer flexible capital; or become involved in an active and meaningful manner.
15. Casasnovas, G., Jenkins, S., Alarcón, J., González, M., and Ruiz de Munain, J. L. (2023) “Task Force de Fondos, Aprendizajes y Resultados”. SpainNAB. https://spainnab.org/publicaciones

4. Convergence in the use of certain impact measurement tools

Impact measurement and management are key aspects in the current development of financial markets and the business sector in general, as they generate data about social, environmental, and governance objectives that should be accounted for. This is crucial in the impact investing and financing sector, as the definition itself states that such investors want measurable social or environmental impact. However, despite the resources and efforts of many organizations, the measurement and management of impact is often considered difficult because of challenges associated with quantification, comparison, and accuracy.

Although it is difficult to unify measurement systems when investors work in different sectors and realities, over the last two years we have observed a convergence towards certain tools, particularly the theory of change, the five dimensions of the Impact Management Project, and the sustainable development goals (SDGs).

- The **theory of change** provides a framework to explain how an organization aims to reach long-term results from given starting conditions and inputs, identifying testable cause and effect relationships. It is useful for understanding and communicating a company's business and impact model. In other words, this tool can be used to define a roadmap towards the desired impact goal, with explicit stages along the road. The wide adoption of this framework by market players demonstrates its usefulness, especially for establishing impact intentionality. Output and outcome indicators are selected to track progress against the roadmap, and these can be ad hoc (which reduces comparability with other investors or companies) or from standardized catalogs (such as IRIS+).

- The **five dimensions of the Impact Management Project** defines five key dimensions to explain, measure, and manage an organization's impact in an integrated manner (what, who, how much, organizational contribution, and risk). Specific categories of data on which to base the assessment of each dimension are identified. The framework was appreciated for its integrated and focused approach by the SpainNAB Supply Side Task Force[16] (especially the investment segment) and most participants of the SpainNAB Demand Side Task Force.[17] Last year, market players participating in the Funds Task Force identified its usefulness not only as a measurement tool[18] but also as a generally accepted tool for making ex-ante analyses of potential investments. The supply and demand sides both agree that this framework should be used in combination with other standardized tools and indicators that are specific to the sector and impact goals of the investee in order to enable comparison.

- The **SDGs** are a set of 17 global goals focused on the eradication of poverty and the protection of the planet, and which form the basis of the 2030 Sustainable Development Agenda. Capital suppliers use them to classify their investment or financing operations according to the specific goals to which they contribute. The 17 goals are subdivided into specific targets. While these are useful as an overall framework and for identifying the areas relevant to sustainable development, they are often insufficient for identifying specific impact indicators for economic activities.

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16. SpainNAB Funds Task Force 2022 and some capital offer market players from the SpainNAB Social Task Force 2022.
17. Formed by a large part of the SpainNAB Social Task Force and Companies Task Force.
18. For more information, see the resources available online on the Impact Frontiers website. See, for example, the following article on result indicators related to the 'what' dimension: https://impactfrontiers.org/norms/five-dimensions-of-impact/what/#selecting

- Market players often use several complementary tools in their impact measurement and management systems – and go on to develop their own metrics or indicators following consultations. Banks have recently led the way regarding the adoption of specific indicators based on economic activity (as encouraged by EU regulation) and their experience may prove valuable to others. The adoption of measurement standards such as **IRIS+** could be useful in this area.

Measuring impact requires considerable human, technical, and financial resources – and is a key challenge for organizations that both provide and receive impact capital. It is common for players on the supply side (especially in the investment segment) to make a significant effort to help their investees develop impact measurement and management systems, especially when financial incentives are linked to impact results.

Although there is no easy or single solution, industry experts in Spain[19] agree on the following guidelines for impact measurement and management systems:

- It is often preferable to select few impact indicators so that the effort is manageable. **Three to five impact KPIs may be sufficient** to quantify the impact of a company's economic activity, although the number of KPIs will vary case by case.

- It is critical to identify **outcome indicators** (not output indicators) that measure the most **material effects** of the organization's activity.

- **Impact indicators should be selected using a backward approach** (i.e., thinking first about the end-use and working backwards). What value will the data add to management decisions? What information is needed to know whether impact objectives are being met? If impact results are not as expected, what data is needed to know what actions might improve impact (e.g., more capital, different products/services, different processes, etc.)?

- To be useful for management, indicators should be measured periodically, ideally every year, or coinciding with the frequency with which strategic decisions are made.

- Ideally, so that results can be compared with those of similar projects, information about the measurement methodology and conversion factors (if any) should be provided together with the indicator data.

5. The main challenges of impact investing are the regulatory framework, impact integrity, and measurement

Like any growing sector, impact investing (more than impact bank financing, which has a longer tradition) faces significant challenges and opportunities. Respondents highlight three main challenges: the regulatory framework;

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19. These are the experts who participated in the Impact Investing Days organized by the Esade Center for Social Impact in April 2023; in the sessions of the Funds Task Force during 2022; and in the Demand Task Force session organized by SpainNAB and Esade Center for Social Impact on 9 May 2023.

issues related to impact washing or green washing; and impact measurement (especially the lack of evidence and/or comparability of impact results).

We discussed the third challenge in the previous conclusion: although there is some convergence on the tools used, the results are still far from the expectations and needs of investors and their stakeholders. For this reason, it makes sense to encourage the adoption of the IMP's ABC framework and five dimensions of impact as part of organizations' impact measurement and management systems by organizations both on the supply and demand sides, so that investment decisions can be based on a common logical framework supported by readily available data, while simultaneously encouraging the use of standardized indicators such as IRIS+.

With respect to **impact integrity** (which is related to impact washing or greenwashing) and **the development of a regulatory framework and other regulatory actions** around impact investment and bank financing, the industry highlights opportunities **to support continued growth of the supply of impact capital while maintaining integrity.**

1. It is essential to promote international harmonization in the criteria for **identifying, measuring, and segmenting the impact investment market globally** – and especially within the European Union.

2. It is necessary to **support collaboration between European NABs and** the work of the European Impact Investing Consortium toward harmonization of impact investment data in Europe led by EVPA (of which SpainNAB is a member). One of the objectives of these forums should be to provide a united European voice calling for a **complete revision of the Sustainable Finance Disclosure Regulation** and the possibility that it incorporate investment labels. Ensuring that impact investing is expressly recognized in one of the labels according to harmonized criteria from the European impact ecosystem would improve transparency and help mobilize the flow of capital to impact investing.

3. The Spanish ecosystem should follow closely and participate in other **global efforts to align international practices to better inform investor decisions** (such as the work of Global Impact Investing Network in pursuing impact investing strategies for listed equities).

4. The development of a **code of good practice** for impact investors or funders who want to operate with a high level of integrity would raise the bar in the sector. It would enable greater scrutiny by stakeholders, giving them greater clarity regarding the claims and expectations of end-investors, which in turn would make it possible to hold them accountable to their commitments. Likewise, it would help future market players understand the practices or minimums that must be met to be called an impact investor or financier.

5. Based on this code of good practices, the Spanish ecosystem has identified the opportunity to **establish a certification for impact capital providers** (similar to what is being promoted in France) in the absence of regulatory certification. This initiative would enable asset owners to identify those vehicles that provide impact investment or bank financing, as well as those that offer additionality.

6. Some asset managers, particularly those that manage European Social Entrepreneurship Funds (EuSEF), suggest measures to ensure that their vehicles are not disadvantaged relative to similar non-impact vehicles. These proposed measures include:

    - Assimilate EuSEF tax regimes to those of venture capital firms.
    - Assimilate the EuSEF minimum investment level to that of other funds with similar risk characteristics, such as the European Long-Term Investment Funds, which contemplate a lower minimum participation to make them accessible to more investors (€10,000).
    - Recognize EuSEF assets as suitable for investment of up to 10% in the Spanish regulation on collective investment institutions (article 48.1.j), thus assimilating them with venture capital organizations.

Market players point to several drivers that can enhance the growth of the sector. The **increased presence of institutional investors**, the consolidation of the ecosystem through **multi-player collaboration**, the **establishment of a common definition of impact investing**, the development of a **standardized impact management and measurement methodology**, and the **strengthening of the management capacity of third sector businesses.** The common goal is to increase capital flows to impact organizations.

6. Other Industry Trends

6.1 INDIRECT INVESTMENT

As explained in the methodology section, our study focuses on quantifying the supply of impact capital that directly finances companies and other impact organizations that address underserved social or environmental challenges through their business models. This implies that indirect investment (capital that is invested in funds that finance social enterprises) is not counted. If these 'funds of funds' were also included in the study, then some of the capital would be double counted.

Although not included, **indirect investment plays an important role in impact investment and financing** as it provides financial resources to vehicles that make direct investments.

- For example, Arcano Partners has a fund that invests in impact private impact funds in Europe and the United States. The portion that is invested in Spanish funds is counted in the study through the responses of those funds, and the portion that is invested in other countries is outside the geographic scope of this study.

- Another example is Oryx Impact, a fund managed in Spain that invests in African impact funds, not directly in companies. It is not counted in this study, but this does not diminish the important (albeit indirect) impact of this fund on African social enterprises.

- Fundación Anesvad is a foundation that invests in several of the Spanish impact funds included in the study. If the foundation were to make direct investments in social enterprises, they could be counted, but not when investment is made via other funds.

6.2 INVESTMENT IN LISTED ASSETS

When investing in listed assets, the possibility of having an 'additional' impact (resulting in an outcome that is better than what would likely occur without the investor's contribution) is limited. However, the debate remains open as to whether and how impact investing in listed assets can be achieved with integrity while ensuring its key characteristics. In the absence of a minimum consensus, investment in this asset class has been excluded from the study to maintain a conservative approach and align with EVPA practices and other international players in terms of sector size. Nevertheless, it is an area of obvious interest and potential for producing significant large-scale positive impacts and is therefore a debate we follow closely.

The Global Impact Investing Network (GIIN) published a guide in March 2023 to help investors **better evaluate the specific impact objectives of different listed asset fund offerings**.[20] The report notes that funds that invest in listed assets have several characteristics that make them unique when assessing their impact orientation:

- The relationship between investors and invested companies is more distant, and the former generally **have less influence** compared to private impact funds.
- These funds have a large number of investment opportunities and tend to be more **diversified**, so it is more difficult to manage specific social or environmental impacts.
- The greater **liquidity** and short-termism prevailing in listed markets means that fund managers must implement clear strategies to sustain support and engagement for a period that is long enough to achieve the desired impact.
- The business models of listed companies tend to be **more complex and diversified**, and so understanding and measuring their net impact is more difficult.
- Despite increasing requirements for data reporting and transparency, it is often **difficult for investors to find specific impact measurement and management data.**
- The need for most exchange-traded funds to compare themselves with established **indices** and benchmarks discourages managers from pursuing innovative impact-focused strategies.

This guide also aims to **help asset managers understand the expectation**s that should be considered when designing listed impact portfolios. It identifies the key concepts of the Global Impact Investing Network's definition of impact investing in listed assets and how they can be implemented in practice by managers of these funds:

20. Global Impact Investing Network (March 2023): Guidance for pursuing impact in listed equities.
https://thegiin.org/research/publication/listed-equities-working-group/

1. **Definition of fund strategy.** This is related to the concept of intentionality and means that the fund's investment strategy should seek to contribute to a positive social or environmental impact alongside a financial return. This includes setting transparent financial and impact objectives.

   - The fund's prospectives should include a theory of change that establishes an explicit thesis regarding how the investment will achieve specific impact objectives and the strategies the fund will use to achieve them.

2. **Portfolio design and selection.** This is related to the use of impact data in investment design and means that the fund manager should select those companies with the greatest potential to contribute to the achievement of the impact objectives established in the fund strategy. Each component of the portfolio is systematically monitored and managed relative to the impact objectives throughout the investment cycle.

   - This involves defining a strategy and an investment universe aligned with the fund's impact objectives.
   - The business model and main lines of activity of the invested companies must contribute to the fund's impact objectives.
   - The holding period for the assets should align with the fund's impact objectives.

3. **Engagement.** Funds should use engagement strategies to improve the impact management and performance of of invested companies.

   - The priorities for such involvement should be based on the fund's theory of change.
   - The effectiveness of engagement should be evaluated on whether changes took place that contribute to the fund's impact objectives.
   - Divestment decisions should be aligned with the engagement strategy and its effect on impact objectives.

4. **Use of impact data.** Funds should use impact data in decision making to manage investments toward the achievement of social and environmental objectives. Quantitative and qualitative information should be used to improve impact.

   - The fund should assess the impact of the invested companies by considering how each company contributes to impact objectives in the fund's theory of change.
   - The fund should base its measurement approach on accepted research (e.g., academic literature, field research) that demonstrates the link between the outputs obtained and the specific outcomes pursued.

The Global Impact Investing Network recognizes that the nature of the investor contribution in listed markets is different than in private markets and describes the features that may vary[21]. For listed assets, there are generally two ways in which investors could contribute.

1. Firstly, at a minimum, investors in listed equities should contribute by engaging with companies in their portfolio **to influence business strategy or operations in a manner directly linked to their theory of change.** These investors should play an important role in the governance and oversight of a company's strategy and capital allocations, including supporting management decisions to reinvest retained earnings in activities with relevant potential impact.

2. Secondly, there may be other circumstances in which investors can make **positive efforts in the market to support investees**. The most direct examples are **investing in IPOs or participating in new capital raising rounds to improve market access for their investees.** Although investments in secondary markets do not generally offer new capital directly to companies, they can influence the value of shares, which influences the ability of companies to pursue other financial strategies. **Only in certain situations, investors may be able to make a significant contribution to supporting share price.**

21. Hence the explanation at the beginning of this section that the contribution of the investor in listed markets will rarely cause an additional impact investment scenario.


DANKE!
THANK YOU!
MERCI!
GRAZIE!
GRACIAS!
DANK JE WEL!

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EXPERT COMMITTEE MEMBERS IN 2023

Agustín Vitorica, **GAWA Capital**, expert in VC/PE and the international development sector
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Emilio Ayanz, **CREAS**, expert in VC/PE
Fabrizio Ferraro, **IESE**, expert in ESG in listed assets
Gorka Goikoetxea, **ANESVAD** (sponsor), expert in foundations
José Carlos Villena , **COFIDES**, expert in the international development sector
José Moncada, **LA BOLSA SOCIAL**, La Bolsa Social, expert in VC/PE and the social sector
Yolanda Minguito, **TRIODOS Bank España**, Triodos Bank España, expert in ethical and sustainable banking

STUDY PARTICIPANTS:

Participation in the study does not imply that participants were counted in reported market size figures for impact investment or impact bank financing in Spain.

Some participants have chosen to remain anonymous.

- AGARTHA CAPITAL SL
- AltamarCAM Partners SL.
- Angela Impact Economy SL
- Arcano Partners
- AYO Social Ventures S.L
- Bolsa Social Impacto FESE
- Bolsa Social S.L.
- Caja Laboral Popular S coop
- CAPSA FOOD
- Coop57, sccl
- Creas Impacto FESE, S.A.
- EKI Fundazioa
- EUROCAPITAL WEALTH MANAGEMENT EAF SL
- Fiare Banca Ética / Banca Popolare Etica scpa
- Fundació Seira
- Fundación AltamarCam
- FUNDACIÓN ANESVAD
- Fundación Antonio Aranzábal
- Fundación Ayuda en Acción
- Fundacion BBK
- Fundación Daniel y Nina Carasso
- Fundación Educación y Cooperación
- Fundación finanzas éticas
- FUNDACIÓN SHIP2B
- GAWA Capital Partners SGEIC S.A.
- Global Social Impact Investments SGIIC
- Impact Bridge Asset Management SGIIC S.A.
- IMPACT PARTNERS IBERICA, S.L.
- Microbank
- Mutua Madrileña
- MUTUALITAT DELS ENGINYERS, MPS
- Netri Fundación Privada
- Open Value Foundation
- Portocolom AV
- Q-Impact Investment Management, S.A., S.G.E.I.C.
- REPSOL IMPACTO SOCIAL, S.L.
- Santander Asset Management S.A., SGIIC
- Seaya Sustainable Tech Capital
- SEED CAPITAL BIZKAIA
- Ship2B Ventures SGEIC, S.A.
- SUMA CAPITAL S.G.E.I.C., S.A
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