

ACTION GUIDE

Sizing Impact Investment Markets

POLICY
DEVELOPMENT
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Sizing Impact Investment Markets

Guidance for NABs

NAB Action Guide from
The Global Steering Group for Impact Investment

This guide provides NABs with (i) an overview of international and national efforts at sizing impact economies, (ii) the methodologies that are emerging and (iii) the choices NABs will need to consider in embarking on a market sizing effort for their national or regional impact economy.

1. Introduction

Stakeholders across the global impact economy recognize that a persistent barrier to scaling the market, is the lack of foundational market size and maturity data at a national and regional level.

As is the case for stakeholders in any industry, market data serves not only as a baseline reference for growth potential and opportunity in a market, but also informs investment and product innovation decisions relative to alternative options. Many investors, in particular large institutional investors such as pension funds with legislated investment mandates, will only enter the impact investment market when greater clarity and specificity can be provided.

International policymakers and field-builders also value aggregating such data into a regional and global view, in order to look at trends and implications across geographies, sectors, asset classes and impact areas, to inform national and multinational policy initiatives and regulatory changes.

Finally, standard global definitions and methodologies for market sizing would provide all stakeholders in the impact economy with reassurance that the market is being scaled with integrity. A standard yardstick, particularly in a global investment environment, would help to ensure that the intentions, actions and claims of all actors – suppliers and users of capital as well as market intermediaries – can be

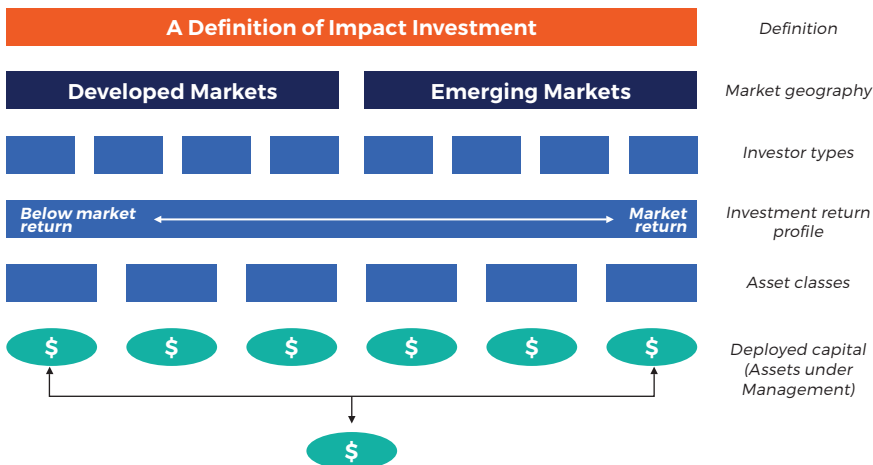
robustly and transparently assessed and verified.

While the shared goal of a standard global approach is clear, and efforts to that end are underway, it is a complex task. A large number of organizations are working on this agenda across a number of initiatives including the GSG, GIIN, OECD, the Impact Measurement Project (IMP), World Bank Group, European Commission and others.

In the absence of a standard global methodology, different approaches to market sizing have emerged at a regional and national level. Many NABs in the global network have already undertaken a market sizing initiative for their national or regional impact economy.

The GSG encourages NABs to undertake these valuable market sizing efforts every three to five years. Notwithstanding the challenges of comparing estimates across markets because of the different approaches taken, these efforts deliver significant value in terms of local market data collection, the dialogue that such initiatives generate across the five pillars of the impact economy and the benefit such efforts can provide in supporting NAB advocacy efforts with government.

Importantly, in the context of this guide, the GSG does not endorse one market sizing methodology over any other. It is the GSG's hope that a standard global methodology



▲ **Definition of impact investing:** The GSG's definition of impact investing is as follows:

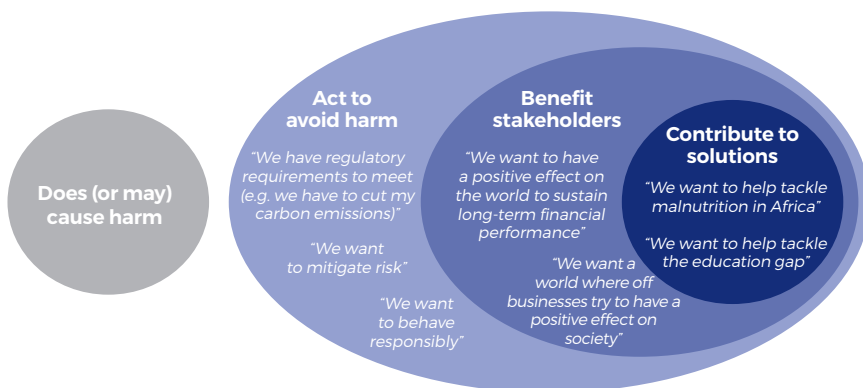
- ▶ *Impact investment optimizes risk, return and impact to benefit people and the planet, by setting specific social and environmental objectives alongside financial ones, and measuring their achievement.*

As highlighted below, the GSG's definition is aligned with the definition

used by the Global Impact Investing Network (GIIN), with a shared emphasis on intentionality and a requirement that such investments explicitly seek a financial return and explicitly incorporate measurement of social and environmental outcomes.

The GSG's definition is also aligned with the ABC Framework developed by the Impact Management Project (IMP) as shown below, making explicit the test for intentionality.

Investors' intentions relate to three types of impact: A, B or C



▲ **Market geography:** Each NAB will determine the geographic scope of its market, most likely at a national level, a selection of markets in a geographic region (as Eurosif does) or as a grouping of nation states (as the Bertha Centre study does for Sub-Saharan Africa).

▲ **Investor types:** The taxonomy used for investor types can vary depending on unique market characteristics, but in broad terms the taxonomy used in the G8's 2014

Impact Investment: The Invisible Heart of Markets report is useful:

- ▶ Government & multilateral institutions;
- ▶ Social investment wholesalers;
- ▶ Charitable trusts and foundations;
- ▶ Local funds, including pension funds;
- ▶ Institutional investors & banks;
- ▶ Corporates;
- ▶ High net worth individuals; and

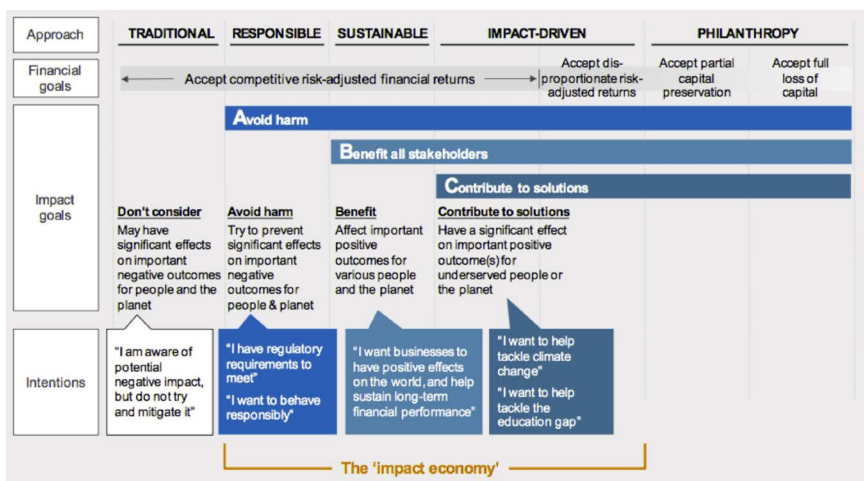
- Mass retail investment platforms (such as crowdfunding platforms).

▲ Investment return profile:

Consistently across methodologies used, capital providers seeking no financial return (such as philanthropy) are excluded and thus a market sizing initiative should be limited to investors seeking some form of

financial return on their deployed capital; either a competitive market return or a below market return. The UK National Advisory Board's 2017 The Rise of Impact report nicely illustrates the return continuum for impact investment consistent with the GSG's definition and incorporating IMP's ABC Framework.

Figure 2: The spectrum of impact



- ▲ **Asset classes:** Financial innovation across the impact economy continues at pace and increasingly blurs the traditional distinctions between equity and debt. Nevertheless, the taxonomy of asset classes adopted by the G8's Social Impact Investment Taskforce in its 2014 report with the addition of

disaggregating public and private equity is a useful construct:

- Secured loans;
- Unsecured loans;
- Bonds, including impact bonds;
- Quasi equity;
- Private equity; and
- Public equity.

2. Selected Approaches

Outlined below are a selection of different market sizing methodologies used across a wide range of market types, levels of market maturity and geographies (national, regional and global).

2.1 THE GIIN METHODOLOGY

In April 2019 the GIIN published *Sizing the Impact Investing Market*, in which it estimates that over 1,340 organizations currently manage USD 502 billion in impact investing assets worldwide.

The GIIN methodology is anchored by its long-standing definition of 'impact investing':

▲ *Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.*

The GIIN's extended definition goes on to include:

▲ *Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending on investors' strategic goals.*



The GIIN's 2019 report builds on its well-established *Annual Impact Investor Survey* which has helped to propagate the GIIN's impact investing definition across a large number of leading impact investors and collected data for a number of years. As such, the GIIN's definition and methodological approach has become an early model and starting point for other market sizing initiatives, as highlighted below.

Key features of the GIIN's methodological approach can be summarized below but a full overview is provided in the GIIN's 2019 *Sizing the Impact Investment Market report*.

Key Methodology Features – GIIN

Issue	Approach
Market geography	Worldwide: All developed and emerging markets
Investor types	All
Return continuum	Across the full return continuum (exc. Philanthropy)
Asset classes	All
Direct/ Indirect Investment	Direct only (to avoid double counting)
Individual Investors	Excluded
Data Sources	Survey instruments cross-referenced with GIIN data sets
Self-Reported AUM	Yes. Rely on AUM data provided by survey respondents
Adjustments	<ul style="list-style-type: none"> ▲ Where 2018 data not available, numbers are grossed-up using industry average growth rates ▲ Estimate AUM when not provided based on average AUM of known similar investors ▲ Added 20% for share of market not likely known to GIIN

Source: GIIN 2019, Sizing the Impact Investing Market

2.2 A PAN-EUROPEAN APPROACH - EUROSIF

Eurosif is a pan-European sustainable and responsible investment (SRI) membership organization promoting sustainability through European financial markets. Impact investment is one of the SRI investment strategies explored by Eurosif and its members through its research and market building efforts.

The 8th edition of Eurosif's European SRI Report estimated that the European impact economy (covering 13 of the EU's national economies) had reached €108 billion in assets under management (AUM), up from only €20

billion in 2013. While it references the global research undertaken by the GIIN it does not explicitly state that it has adopted the GIIN definition in its own methodological approach.

Like the GIIN, Eurosif uses a survey methodology distributed to asset owners and managers through national member-based organizations. In 2018 it surveyed only 13 of the EU's 28 member economies. In total, 263 asset managers and asset owners with combined AUM of €20 trillion participated in the 2018 survey. Eurosif estimates that collectively they represent approximately 70% of the European market.

European Data Table

Countries Europe in € million	Best-in-Class	Sustainability Themed	norms-based Screening	ESG Integration	Engagement and Voting	Exclusions	Impact Investing
Austria	14,023	992	9,871 (15,145)	3,695 (32,439)	12,358 (35,920)	76,543 (14,382)	1,030
Belgium	15,570	8,101	31,654	97,428	18,502	249,014	1,151
Denmark	100	65	50,080	16,527	23,820	211,048	0
France	295,178	20,620	1,845,679	920,055	23,897	768,128	1,894
Germany	22,068	9,184	50,789 (554,445)	49,612 (984,334)	92,084 (881,470)	1,487,161 (83,336)	5,232
Italy	58,137	52,861	105,842	70,425	135,729	1,449,554	51,960
The Netherlands	83,449	7,125	631,721	627,477	724,809	724,704	1,391
Poland	0	0	6,841	2,500	5,431	7,181	0
Spain	10,364	12,665	11,327	67,995	11,750	176,742	9,171
Sweden	25,419	1,966	305,833	297,182	874,724	720,292	6,422
Switzerland*	40,889	18,775	64,435 (462,094)	77,069 (325,923)	77,925 (1,386,026)	2,348,797 (84,228)	15,041
United Kingdom	20,536	16,463	28,391	2,007,847	2,854,400	2,195,394	15,284

Like the GIIN, Eurosif also relied on self-reported data provided by survey respondents, underscoring the likelihood that survey respondents are

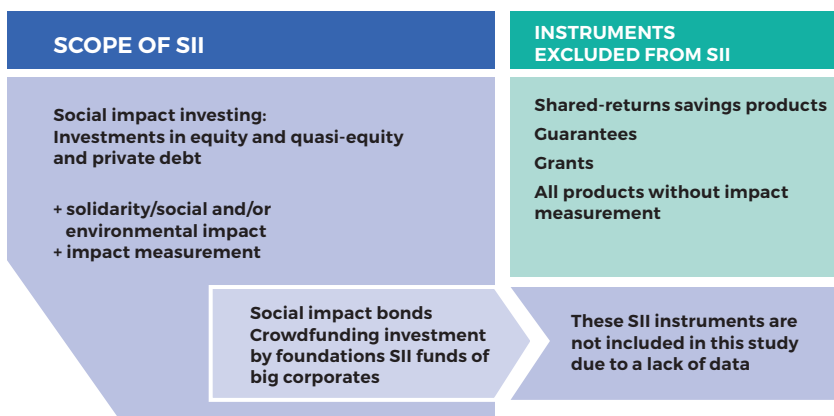
not applying a consistent definition of impact investing when disaggregating their AUM into different responsible and social investment strategies.

2.3 FRANCE – NATIONAL ADVISORY BOARD

The National Advisory Board (NAB) of France commissioned the *State of the French Social Impact Investment Market* report in 2018, adopting a definition of impact investing similar

to that used by the GIIN. Similar to the GIIN, funds deployed for no financial return (i.e. philanthropy and grants) were excluded and intentionality and impact measurement were considered essential requirements.

Figure 2: The scope of SII



Source: State of the French Social Impact Investment Market

The report sized the French market at approximately €3.2 billion at the end of 2017.

Unlike the GIIN approach, the French NAB did not employ a survey methodology but rather worked with leading French Development Finance Institutions (DFIs) and the largest national member organizations for impact investors, the France Invest Impact Commission and Finansol, to assemble published data including:

▲ ... all social impact investments and

commitments by private and public financial institutions through direct and intermediated channels.

The French NAB is careful to qualify the conclusions by noting that ultimately the data is still self-reported by asset managers and owners and that double counting remains a risk to the overall assessment despite the best efforts of the data team. It also notes that AUM from corporate foundations and social impact bonds (SIBs) are not fully accounted for in the estimate.

ASSETS UNDER MANAGEMENT BY CATEGORY



2.4 ITALY – TIRESIA & POLITECNICO MILANO

The Social Impact *Outlook 2018* was produced in Italy by Tiresia and the Politecnico Milano. Like the GIIN and the French NAB, this Italian study highlighted the desire to ensure that investments classified as impact investing demonstrate intentionality, additionality and a commitment to measurement.

Reflecting the methodological difficulty of doing this, the Italian report disaggregated its estimates of market size into three grades of impact investment:

- ▲ Strictly Impact;
- ▲ Impact; and
- ▲ Almost Impact.

The 'Strictly Impact' classification most closely matches the definition set by the GIIN.

Like the GIIN and Eurosif, the Italian study adopted a survey methodology covering 9,382 social

impact oriented organizations. It gathered 479 responses from social sector organizations and 60 financial institutions.

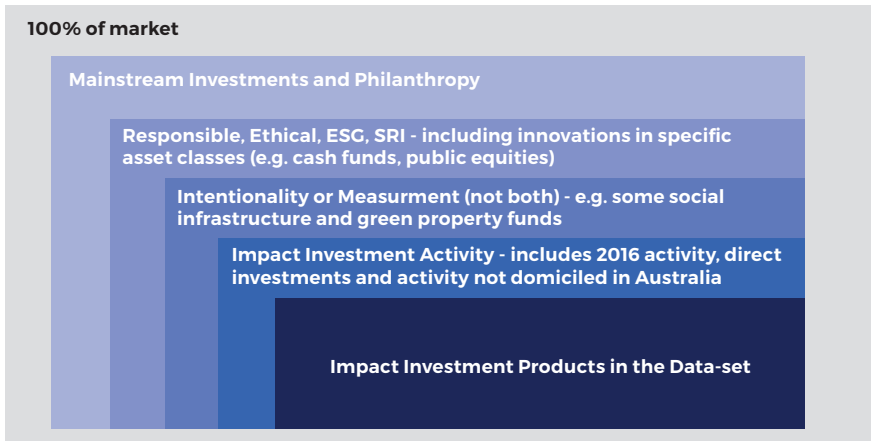
2.5 AUSTRALIA – IMPACT INVESTING AUSTRALIA

Impact Investing Australia published its *Benchmarking Impact* report in 2016 with an intention of sizing the market but also, more ambitiously, the financial, social and environment impact achieved by those investments. As such, its scope and methodology are more expansive.

Like other methodologies, Impact Investing Australia grounded its approach in the GIIN definition of impact investing, including intentionality and measurement criteria and excluding capital not seeking a financial return (i.e. grants and philanthropy).

The Australian research was based on a survey instrument supplemented by interviews with respondents. The survey, however, was limited only to providers of Australian domiciled wholesale and retail impact investment products, thereby excluding both private market activity and investment products from organizations domiciled outside of Australia. In this sense, the Australia methodology is more narrowly defined than that adopted by other approaches.

Figure 2: The Data-set presented in this report includes those investments active at 30 June 2015 which are designed for and measure positive impact



Source: Impact Investing Australia, 2016

Eleven organizations completed the survey with nine of them providing financial data for 14 products encompassing 71 assets. The Australian study sized the market in 2015 at AUD 1.2 billion in assets under management.

2.6 AFRICA – THE BERTHA CENTRE FOR SOCIAL INNOVATION & ENTREPRENEURSHIP

The Bertha Centre at the University of Cape Town Business School in South Africa has been publishing the *Investing for Impact Barometer* since 2013.

In its 2017 *Barometer* report, it sized the impact investing market across Sub-Saharan Africa at USD 70.3 billion including regional breakdowns for Southern, East and West Africa.



Like Eurosif and others, its report seeks to measure and assess a number of different responsible and social investment strategies, one of which is impact investing consistent with the GIIN definition.

Like the Australian approach, the Bertha Centre methodology only encompasses certain types of investors and products; in its case,

assets managed by professional fund managers for a fee (asset managers and private equity /venture capital funds). Like other approaches, it excluded funds of funds in an attempt to mitigate the risk of double counting.

2.7 CONCLUSION

While the GSG encourages NABs to lead or support market sizing initiatives for their national or regional impact economy on a periodic basis (every three to five years), the examples and challenges highlighted in this guide clearly suggest that market sizing remains a significant and complex methodological challenge, and that conclusions reached about aggregate AUM need to be carefully caveated and treated as indicative only.

The GIIN definition of impact investing is emerging as a global reference point but the challenge remains to apply this definition in practice, given the highly idiosyncratic practices of investors

and market intermediaries, the difficulty of verifying intentionality and additionality, and severe challenges with the availability and reliability of data in local markets.

In the absence of generally accepted impact accounting standards and reporting requirements, national and regional market sizing initiatives are inevitably reliant on self-reported data and the considerable challenge of disaggregating direct and intermediated investing to avoid double counting.

Where standard definitions and data gathering conventions are emerging, the GSG encourages NABs seeking to undertake or support a market sizing initiative to embrace those emerging standards to the greatest degree possible.

To this end, the GSG recommends the following reference protocols for market sizing initiatives:

GSG Recommended Methodology Reference Points

Dimension	Approach
Definition of 'Impact Investing'	GIIN Definition
Market Geography	Per the remit of the Advisory Board (national Regional)
Return Continuum	UK NAB <i>The Rise of Impact Reports</i> 'Spectrum of Impact'
Investor Types	Adapted G8 report definitions suggested above
Asset Classed	Adapted G8 report definitions suggested above
Direct/ Indirect Investment	Only direct investments to avoid double counting
Date collection	Online survey with follow-up interviews when needed for clarification

3. Expected Benefits

Despite the inherent difficulty in conducting a market sizing initiative and depending on the cost implications for a NAB to sponsor or support such an effort, there is benefit in working with stakeholders across the national impact economy to start collecting survey data.

While final aggregate estimates will inevitably be directional at best, the Bertha Centre's Africa *Barometer* highlights that survey data can provide market participants with valuable thematic insights looking across asset classes, specific investment product types and Sustainable Development Goal (SDG) impact areas.

More ambitiously, the Australian report highlights the opportunity to start engaging impact investors and recipients to gather data on impact performance, again across SDG impact areas, asset classes and product types.

This sort of impact performance assessment has the potential to trigger a number of positive feedback loops across the impact economy. It is invaluable not only for impact investors to inform their internal impact performance measurement efforts, but also to help inform the intervention models used by impact enterprises on the demand side.

Benefits from Market Sizing Initiatives



National Advisory Board

- ▲ Opportunity to engage stakeholders and begin collecting survey data to size the market and inform market participants on key thematic trends.



National Impact Economy

- ▲ Building a foundation of market data to inform investment decisions and help to grow broader interest and engagement across the five pillars of the impact economy.



Global Impact Movement

- ▲ Ongoing shared learning from national and regional market sizing initiatives.
- ▲ Building momentum towards global definitional and methodological standards for the future.

4. Pre-requisites for Success

▲ **National and international consultation on issues of definition and methodology:** Any NAB looking to undertake a market sizing initiative will benefit tremendously from consultation with the GSG and other NABs in the global network, as well as local impact economy stakeholders and specialist data and research partners. Italian, South African and European market sizing initiatives have all partnered with public sector research partners to develop and deploy survey instruments and market sizing analysis.

▲ **Financial resources:** Design of the methodology, whether a survey instrument, interviews, collection of existing reported data or a combination of the three, will require careful evaluation and then significant time to deploy in the field. Most market sizing initiatives surveyed in this guide have taken at least six months from inception to completion of report writing. NABs will need to have, or be able to source, the funds to pay for in-house and external resources required. Report sponsorship would be one option to consider.

5. Activities, Roles & Responsibilities

At this stage the GSG does not have either the methodological expertise or the financial resources to support NABs in undertaking market sizing initiatives. Nevertheless, what the GSG can do is direct NABs interested in undertaking a market sizing initiative to colleagues across the global NAB network who have developed significant methodological expertise and tradecraft in this area.

Longer term, the GSG is committed to driving the market towards more

standardisation and comparability of information, including with respect to a globally accepted methodology for market sizing. The GSG intends to work with other market players in 2020 to produce a clear set of guidelines on how to approach market sizing.

As and when new standards and tools emerge, the GSG will update this guide and continue to evaluate how best to support NABs with their market sizing efforts.

6. Anticipating implementation challenges and risk factors

As outlined in this guide, through the case studies provided, definition and data collection challenges are considerable for market sizing initiatives and cannot be under-estimated.

As the authors of the reports profiled in this guide have demonstrated, aggregate estimates will, most likely, need to be heavily qualified and methodological assumptions should be clearly identified for the reader.

7. Additional and Related Information Resources

Further information related to market sizing initiatives is listed below:

▲ GIIN Impact Investment Definition and Core Characteristics:

› https://thegiin.org/assets/Core%20Characteristics_webfile.pdf

▲ GIIN 2019 *Sizing the Impact Investment Market* report:

› https://thegiin.org/assets/Sizing%20the%20Impact%20Investing%20Market_webfile.pdf

▲ Eurosif 2018 SRI Study:

› <http://www.eurosif.org/2018sristudy/launch/>

▲ *State of the French Social Impact Investment Market*, 2018 Report:

› https://www.researchgate.net/publication/332948290_STATE_OF_THE_FRENCH_SOCIAL_IMPACT_INVESTMENT_MARKET_2_3

▲ *Benchmarking Impact: Australian Impact Investment Activity and Performance Report 2016*, Impact Investing Australia:

› <https://impactinvestingaustralia.com/wp-content/uploads/Benchmarking-Impact.pdf>

▲ *Social Impact Outlook 2018* (Italy):

› <http://www.tiresia.polimi.it/social-innovation/tiresia-social-impact-outlook-2018-2/>

▲ *The Africa Investing for Impact Barometer, 2017*:

› <https://www.gsb.uct.ac.za/impact-barometer>

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