The 5Ws *of* impact investing

The European Impact Investing Consortium position paper

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1 Why?

Building the foundations

Harmonised data, methodologies and definitions are needed to establish an aligned, credible and recognised baseline across the European impact investing sector. It is only through this alignment that overall progress can be effectively measured.

Acknowledging the task at hand, Impact Europe (formerly EVPA), GSG Impact and the European GSG National Partners from Germany, Italy, Spain, the Netherlands, Belgium and the UK, plus selected academic partners like ESADE and Politecnico di Milano, and FAIR, a network of players in the field of social impact finance in France, came together in 2021 and formed the European Impact Investing Consortium with a clear objective: bring harmonisation in market definitions and sizing and lay the groundwork for a solid, trustworthy, and recognised study on European impact investing.

In 2022, we published the first-of-its-kind report, **Accelerating Impact[1]**, solidifying our commitment to overcoming data challenges and standardising impact investing practices in Europe. Yet, our work did not stop there.

The release of papers from GSG National Partners in the Netherlands[2] in 2022 and from Spain[3], Germany[4], and Belgium[5] in 2023 went hand in hand with ongoing discussions on the definitions, boundaries, and nuances of ESG, sustainable and impact investing. As we have strived to **align and find a common ground, we believe it is the right time to share the outcomes of this consensus-building effort[6].** We also intend to put these results to the test, engaging with practitioners and other stakeholders (including sustainable finance operators, policymakers, and traditional media outlets) through our renewed data collection efforts.

This position paper does not only reflect the perspective of European market building organisations at national and regional level, but also builds on most widely acknowledged standards and definitions at global level, such as those developed by the Impact Management Project (IMP, now hosted by Impact Frontiers[7]) and the Global Impact Investing Network (GIIN).

2 What?

The consensus result

THE NECESSARY CONDITIONS

At the core of what distinguishes impact investing from other investment approaches that may incorporate impact considerations are two fundamental characteristics: *intentionality and measurability*. Impact investors' commitment to **intentionality** must be systematic, encompassing all investments within the fund, and integral to the decision-making process at the time of each investment (ex-ante).

To ensure ongoing positive contributions to social and environmental goals, **investors should measure their impact**. However, it is necessary to go beyond measuring, focussing on managing impact, thus using the impact data collected to understand what is working well and what to improve, making sure to take better informed decisions. Having processes in place to not only measure but also actively manage impact ensures ongoing improvement and adaptation to challenges and opportunities to amplify impact outcomes.

SEPARATING PRIVATE AND PUBLIC IMPACT INVESTING

Another important achievement of the Consortium is having made clear that, in all strategies, there should be a **distinction** between public and private markets, since processes, investees and levers to drive impact are very different. Private impact investing typically entails a longer investment horizon, deeper engagement with investees, and a broader array of financial instruments, providing access to investment opportunities that are often not available to, or easily accessed by, broader stakeholders, such as institutional investors.

Conversely, investing in public markets often limits the levers at disposal of capital providers to influence impact-driven decisions. While sharing the overarching goal of creating positive social and environmental impact, it often follows shorter term investment horizons and is subject to different expectations regarding liquidity and risk-return profiles. Despite the lack of widely acknowledged criteria to distinguish sustainable from impact investing in public markets, the Consortium acknowledges the opportunity to recognise this segment of the market and in the next survey will test a series of questions that were developed starting from the guide on listed equities published by the Global Impact Investing Network (GIIN)[8] and the questions on listed assets included in their survey.

THE INVESTOR STRATEGIES MAP

Agreeing that each investor strategy yields distinct results and outcomes was not challenging to achieve consensus on; hence, our main discussions were directed towards how these strategies could be segmented. In doing so, we looked at **two main dimensions**: the investor level, to assess *how* the capital is allocated, and the investee level, to assess *where* the capital is allocated.

1> Investor level – How is capital allocated?

The decision on how to allocate the capital is steered by the **investors' intentionality**, i.e. their conscious and deliberate search for a social and/or environmental impact, with the aim of pursuing a positive result for a defined community[9] and the planet. Adding the extra lens of **additionality** to the intentionality element can bring more clarity when it comes to the specific contribution the investors bring to their investments. Investors have two primary choices:

- Investor additionality is an intervention that will lead, or has led, to effects which would not have occurred without it. Given the well-acknowledged difficulties to prove additionality, we decided to assess it through evidence of an investor contribution. We distinguish between two types of investor additionality:
    - non-financial additionality: reflecting active engagement from the investor that improves the investee's impact performance, and
    - financial additionality: accepting disproportionate risk/return ratios or providing patient, flexible and/or concessionary capital to undersupplied or underfunded projects. A notable example of achieving this is by deploying catalytic capital, which targets gaps left by mainstream finance or the public sector, in pursuit of impact for people and the planet, which otherwise could not be achieved.
- No investor additionality occurs when investors do not actively pursue additional impact with their own contribution.

In its methodology [10], on classifying sustainability-related investments for the purpose of future market studies, the European Sustainable Investment Forum (Eurosif), introduces four distinct categories including "impact-generating" and "impact-aligned" investments. While there are similarities between Eurosif's and this paper's approaches, in particular recognising the role investors can play in making positive impact through investments and active engagement, some substantial differences still persist.

The discussions between Eurosif and the European Impact Investing Consortium aimed at convergence and finding common ground are ongoing and will benefit the whole financial system.

2> Investee/asset level – Where is capital allocated?

To make informed decisions about where to direct capital for the greatest positive effect, it is key to identify the strategies of the investees supported. In understanding where the capital flows, our consortium builds upon the most adopted framework by impact investing practitioners: the ABC of Impact[11] developed by the Impact Management Project (IMP), which ensures a clear understanding of the actions and intentions of investee organisations. This classification distinguishes various types of assets/companies[12]:

A – Act to avoid harm: organisations that identify where they (or their asset) is causing harm to people and the planet, and focus on improving those outcomes to get nearer the sustainable range established by social and environmental thresholds[13].

B – Benefiting stakeholders: on top of acting to avoid harm for all stakeholders (A), these organisations also generate an improved well-being for one or more groups of people and/or the condition of the natural environment, so that it is within the sustainable range established by social and environmental thresholds.

C – Contributing to Solutions: organisations that actively contribute to addressing social and/or environmental challenges with specific and relevant solutions, improving the well-being of a group of people or the condition of the natural environment so that the outcome is improving towards the sustainable rang. Due to the additional impact these companies seek to generate, we use the term "investee additionality" to describe them, which is should be distinguished from "investor additionality".

Note: see the annex for illustrative examples of the different enterprises' intentions.

While categories A and B can create positive impacts or significantly reduce negative ones, only category C indicates that investees organisations actively focus on developing solutions to urgent social and environmental challenges[14]. To complement and support the distinction between the different categories, we propose using the five dimensions of impact developed by IMP[15], as recently suggested by Impact Frontiers[16].

Combining the investor and investee levels, and segmenting investor strategies accordingly, we identified five investor strategies, which are listed below.

1. **Responsible Investing**: investments that do not actively seek to generate additional impact. Instead, they flow towards organisations that are A-cting to avoid harm, already showing improvements compared to the past. The end goal of these investments is to witness an improvement in the current performance, even if it remains outside the sustainable range.
2. **Sustainability-Improving (or Transition) Investing**: investments that are actively supporting harmful organisations to help them develop a serious and consistent strategy to achieve outcomes within the sustainable range. Investors adopting this strategy support investees financially and/or non-financially[17].
3. **Sustainable Investing**: investments that aim at generating long-term financial returns while promoting sustainable outcomes. Investors pursuing this strategy incorporate ESG factors into decision-making and allocate capital to organisations classified as B, whose performance is within the sustainable range when measured in the baseline year, and it is either maintained or improved when measured in the investment period.
4. **Impact Investing**: Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. Impact investing primarily focuses on organisations classified as C[18] providing capital at market conditions and without investing significant non-financial resources to improve the impact of their investees.
5. **Additional Impact Investing**: investments directed to impact enterprises that often target underserved capital markets and are classified as C – contributing to solutions. Investors adopting this strategy create a positive impact that would not have occurred without their financial and/or non-financial contribution.

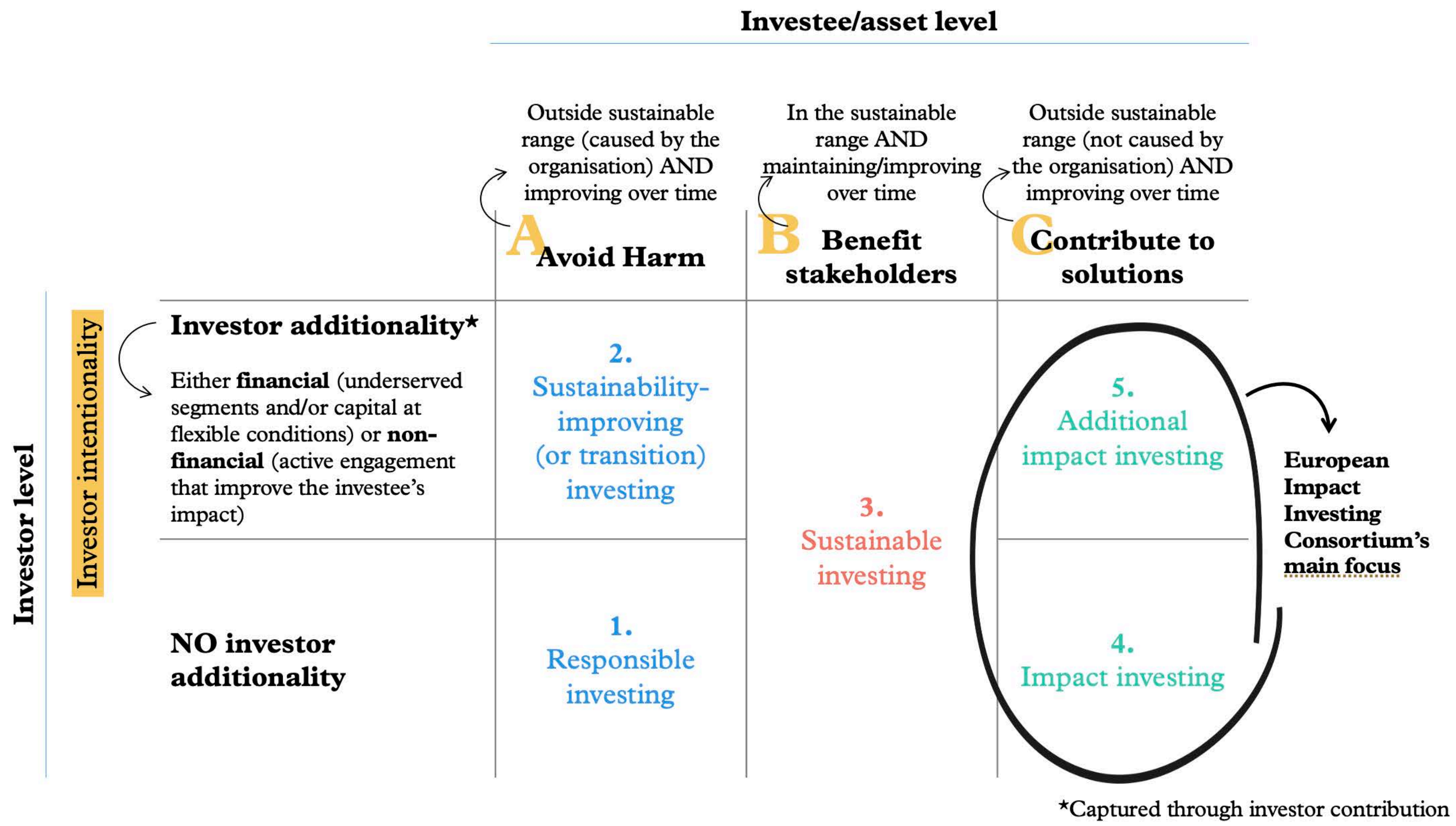

Figure 1: Investor strategies map

The primary work of this consortium focuses on **impact investing,** recognising the **additional** impact investing nuance, where the emphasis lies on actively pursuing additional positive impact with investments.

Impact Investing:

Three defining features

1. a clear ex ante intention to contribute to solving social and/or environmental problems in addition to earning an appropriate financial return, starting from capital recuperation;

2. impact measurement and management, using the impact data collected to understand what works and what to improve, ultimately taking better informed decisions;

3. financing companies or projects whose primary mission is to provide solutions to address social or environmental challenges and/or benefit otherwise neglected/underserved target groups.

3 Who?

Financial Operators Taxonomy

We propose the following taxonomy to categorise capital providers included in the study, as summarised in the table below. Organisations have been distinguished into **four typologies**:

Private impact funds: these entities conduct venture capital, private equity or private debt investments, mainly adopting a direct relationship with the investees through dedicated investment vehicles sometimes regulated under the Sustainable Financial Disclosure Regulation (e.g. investment funds) or provide seed capital and incubation activities through direct investments (e.g. business angels, foundations or incubators). They often operate either with the aim of achieving market-aligned financial returns or below-market rate returns. Among the investment funds, we isolated finance provided by Funds-of-Funds, which are investment vehicles whose objective is investing in other investment funds. Accordingly, the target of Funds-of-Funds can be investment funds considered in our data gathering process, which risks double-counting the impact finance mobilised. Given this investment approach, we consider the finance mobilised by Funds-of-Funds 'indirect', and we control for the portion of capital they allocated to investment funds already in our list.

Banking: These actors are financial institutions funding entrepreneurs and corporations through debt (or private equity) instruments. These institutions primarily operate through direct investments but in certain cases also through owned investment vehicles.

Institutional investors: These financial institutions are insurance companies, pension funds and institutional asset managers. Specifically, we consider the financial resources deployed by pension funds and insurance companies as invested in certain assets, which can be considered as 'direct' or 'indirect' investments. Institutional asset managers can also operate through 'direct' and 'indirect' investments. In the latter case, we exclude the amount of finance mobilised to entities or investment funds already included in our list of respondents.

Public investors: This category includes (i) national promotional/investment banks, which are legal entities that receive a specific investment mandate by the European Member States to spur development, promotion and financial support; and (ii) development finance agencies or entities, which are specialised development banks or subsidiaries set up to support private sector expansion in developing countries. They are usually majority-owned by national governments and source their capital from national or international development funds or benefit from government guarantees.

A more detailed table of financial operators can be identified in the annex.

4 Where?

The Geographical Scope

As European regional and national networks of investors, our focus is on the supply of impact finance managed in Europe, which can be invested and benefit impact organisations worldwide. Therefore, our attention is consistently directed towards understanding where assets are managed.

For direct investments, we analyse the destination of capital flows looking at where investees are based, while for indirect investments we assess if it flows to funds managed in Europe, which are already included in the study and would cause double counting.

Despite the discussion and harmonised effort was initiated in Europe, the Consortium is already promoting the effort globally and exploring collaboration opportunities with other market building organisations, such as GIIN, other GSG National Partners outside of Europe, and Impact Europe's sister networks, i.e. Latimpacto, AVPN and AVPA. The aspiration is to reach global consensus on market definitions and sizing in the coming years.

5 When?

Future Roadmap

The European Impact Investing Consortium is conducting a new market sizing effort in 2024 to fulfil three main objectives: (i) provide much needed figures on European impact investing, (ii) contribute to the advocacy efforts of our respective organisations when it comes to European Institutions but also to national governments, and (iii) test the consensus outlined in this paper with practitioners and other relevant stakeholders.

The Consortium still relies on resources and capacity collected by partners separately, but the ambition is to develop a structure and governance in the coming years, to guarantee a bi-annual market sizing effort that relevant stakeholders, including policy-makers, and market operators can rely on[19].

The road to full harmonisation in impact investing is still long, but our efforts are well underway, and this position paper represents another important milestone of this necessary and collective journey.

Annex

TABLE OF FINANCIAL OPERATORS

The table below has been taken by the one included in the above-mentioned report, but some categories and reference definitions have been slightly modified to apply to a European context.

Financial Operator Taxonomy

1ST LEVEL: CLUSTER	2ND LEVEL: SUBSTANTIAL ACTIVITY[20]	REFERENCE DEFINITION
Private Impact Fund	PE/VC fund manager	Asset Management Companies (SGR) through Collective Investment Schemes (OICR) that engage in Venture Capital (VC) or Private Equity (PE) activities
	Equity/debt crowdfunding	Financing tool for small-scale personal or professional projects open to various participants, including small savers
	Business angel	Risk capital financing provided by a specialized intermediary, including individuals
	Mutual fund in cooperative form with a predominance of equity instruments	Funds for promoting and developing cooperation through investments in venture capital, with profit allocation constraints to reserves
	Family office	Entities providing support to individuals or families with significant wealth in financial management operations
	Listed company investment fund manager	Fund open only to so-called “qualified” investors, including banks, stockbrokers, and other entities identified by the national law, whose capital allocation predominantly involves other funds
	Fund-of-funds	Funds for financial activities, in which only so-called “qualified” investors, including banks, stockbrokers, and other entities identified by the national law, can participate, and whose capital allocation involves relationships primarily with other Funds

	Accelerator offering financing services	Entities that accompany the growth of startups through forms of financial transfer and capacity building
	Corporation	Entities that are “legally recognized and organised for commercial activities
	Foundation	Entities that are often linked to an impact mission and can take various legal forms depending on national law
Banking	Debt intermediated by financial institutions	Portion of a company’s capital constituted by credits granted by banks or third-party entities.
	Private debt [unquoted debt securities and direct lending] or private equity	
Institutional Investor	Institutional asset managers	Institutional asset managers work for asset owners like insurance companies, pension funds or banks
	Pension fund	Collective Investment Scheme (OICR) that collects contributions from workers and/or employers and invests them in financial instruments with the aim of providing a pension benefit (life annuity or capital) at the end of the worker’s career
	Insurance company	Companies exclusively and professionally engaged in insurance activities.
Public investor	National promotional bank	National promotional banks and institutions (NPBIs) are legal entities that carry out financial, development and promotional activities
	Development finance agency or entity	Specialised development banks or subsidiaries set up to support private sector development in developing countries. They are usually majority-owned by national governments and source their capital from national or international development funds or benefit from government guarantees.

ABC CLASSIFICATION AND THE FIVE DIMENSIONS OF IMPACT

Data		Dimension of impact	Acts to reduce harm if ...	Benefit stakeholders if ...	Contribute to solutions if ...
Measure outcome at year 0 (baseline)	Performance on metric at baseline		**Baseline performance is ...**		
... Relative to threshold	Societal or ecological threshold		Outside sustainable range (caused by the organization)	In sustainable range	Outside sustainable range (not caused by the organization)
			Compared with baseline, current performance is ...		
Measure outcome at year 1 (current period)	Performance on metric in current period		Improving (getting nearer the sustainable range)	Maintained/improved	Improving (moved from the unsustainable range to the sustainable range)
... Relative to threshold	Societal or ecological threshold		Outside sustainable range	In sustainable range	In sustainable range
... In context	Relative importance of the aspect of well-being changing	What	Important	Important	Important
	Degree of change experienced by the end-stakeholder (year 1 level - year 0 level)	How much (depth)			Meaningful change, significant to the overall well-being of the end-stakeholder
	Segmented by demographic and geography	Who			May help identify those most in need of positive outcome
	Counterfactual	Enterprise Contribution			Would not otherwise occur
	Impact risk assessment	Impact risk		*Not a criterion for ABC*	
	Number of people experiencing outcome	How much (scale)		*Not a criterion for ABC*	
	Duration of the outcome	How much (duration)		*Not a criterion for ABC*	

Figure 2: ABC classification based on the data categories within the five dimensions of impact (Source: Impact Frontiers)

LIST OF ENDORSING INSTITUTIONS

Impact Europe (formerly EVPA) is the investing for impact network in Europe. We gather capital providers along the full continuum of capital (foundations, impact funds, banks and financial institutions, corporate impact actors, public funders) to increase prosperity and social progress for all, fix inequalities and injustices and preserve the planet. Together, we rally people, capital and knowledge to accelerate, scale and safeguard impact.

FAIR was born in 2021 from the merger of Finansol, historic actor of social finance, and Impact Invest Lab (iiLab), innovation lab on impact. Federating social impact finance in France and representing a French expertise centre abroad, FAIR gathers more than 130 social enterprises, banks, asset managers, NGO, schools and committed individuals. FAIR manages a label, the Finansol label, which helps the public distinguish social products from other products. Over 190 such products have been awarded the Finansol label as of today. FAIR hosts the French GSG National Partner which is part of the GSG network.

GSG Impact aims to transform global financial systems with the goal that every investment, business and government spending decision takes into account impact, alongside risk and return. Active in over 50 countries, the GSG Impact Partnership focuses on creating a more equitable and sustainable world through collective action advancing impact. We bring together global leaders, investors, governments, regulators, social innovators and philanthropists, and harness our collective voice to advocate for impact globally.

Hellenic Impact Investing Network (HIIN) is the official GSG National Partner for Impact Investing in Greece and reference point for the Global Hellenic Community. It aims at creating awareness and mobilizing action around Sustainability and Impact in Greece and South East Europe, and educate investors and entrepreneurs on the methodology. Furthermore, it aims at supporting the creation of the local ecosystem and a friendly environment for such investments in Greece, and connecting it to the global impact community, among others by showcasing innovative, pioneering regional impact opportunities.

Impact Finance Belgium (IFB) is a membership association with an overall goal to increase investments generating positive impact. Our members include parties such as institutional investors, impact investors, public investors, banks, social and impact enterprises, and other network organisations. Our activities include the publishing of research, organizing expert events, connecting stakeholders and facilitating practitioners in the ecosystem. IFB is part of the GSG Impact Network.

Impact Investing Institute is an independent non-profit, set up by the UK government in 2019. It was established markets actors to connect capital to impact. The Institute's mission is to accelerate the impact investing field — mobilising the trillions in private money to support a fairer, greener, more resilient economy. Since it's founding, the Impact Investing Institute has become a focal point for impact investing in the UK and globally. It acts as a centre of expertise and has an established track record in convening key organisations in finance, the social sector, business, government and regulation to accelerate momentum around impact investment. It provides action-oriented solutions to lower the key barriers to the growth and effectiveness of the market. It is part of the GSG Network.

MAZE was born in 2013 with the support of the Calouste Gulbenkian Foundation, to prove that impact is the biggest economic opportunity of our times. MAZE offers financial and non-financial tools to everyone committed to delivering positive social and environmental outcomes. Since 2014, MAZE plays the role of secretariat and technical advisory at the Portuguese GSG National Partner, having led the work that launched the impact investment strategy 2014-2020 and Impact Agenda 2030, as part of the GSG Impact Network.

Foundation Netherlands Advisory Board (NAB) on impact investing is an initiative launched in 2020 by several Dutch financial sector players, social investors and impact fund managers. It is focused on scaling up investments in impact and increasing cooperation in the Dutch impact investing sector. The NAB is part of a global network of similar GSG National Partners, grouped together under the Global Steering Group for impact investment (GSG).

Social Impact Agenda per l'Italia is the GSG's National Partner for Italy and promotes the development of impact finance in Italy. The network gathers 24 organisations, representing investors, social enterprises, market builders, philanthropic institutions, which work together to establish a new economy that combines economic sustainability with positive social and environmental impact. SIA carries out advocacy, research, communication and market development activities, in order to create a favourable ecosystem for investments with positive impact.

Spain NAB, Consejo Asesor para la Inversion de Impacto, founded in 2019 is the Spanish independent non-profit association for impact investing which gathers the leading 45 institutions in the sector including investment companies and banks, business, foundations and civil society. Its mission is to develop the impact investing sector in Spain undertaking market research and building the impact community at the national level to develop market knowledge and strengthen partnerships, with the goal of mobilising public and private support for impact investing in Spain.

Endnotes

[1] Available at: https://www.impacteurope.net/insights/accelerating-impact
[2] Netherlands Advisory Board on impact investing (2022) "Are we punching below our weight". Available at: https://www.nabimpactinvesting.nl/mapping
[3] Spain NAB (2023) "Funds Task Force. Learnings and findings". Available at: https://spainnab.org/publicacion/funds-task-force-2022/
[4] Bundesinitiative Impact Investing (2023) "Position Paper" Available at: https://bundesinitiative-impact-investing.de/wp-content/uploads/2023/08/2300804_BIII_PP1_eng_final.pdf
[5] Impact Finance Belgium (2023). ESG and Impact. Available at: https://impactfinance.be/researches/esg-and-impact-how-to-navigate-through-these-two-approaches-their-principles-standards-labels-and-tools/
[6] This position paper reflects the ambition of the consortium partners to develop common criteria to define the impact investing market in Europe; however specificities across national financial markets mean differences in definitions and methodologies may subsist at national level.
[7] https://impactfrontiers.org/
[8] GIIN (2023) "Guidance for Pursuing Impact in Listed Equities". Available at: https://thegiin.org/research/publication/listed-equities-working-group/
[9] Accelerating Impact (2022). Impact Europe. Available at: https://www.impacteurope.net/sites/www.evpa.ngo/files/publications/EVPA_Accelerating_Impact_2022.pdf
[10] The methodology for Eurosif Market Studies on Sustainability-related Investments is available at: https://www.eurosif.org/news/methodology-for-eurosif-market-studies-on-sustainability-related-investments/
[11] The ABC of Impact: Modifications and Clarifications, 2023. (2023). Impact Frontiers. Available at: https://impactfrontiers.org/wp-content/uploads/2024/01/The-ABC-of-Impact-Modifications-and-Clarifications-2023.pdf
[12] For sake of completeness, we should acknowledge the existence of organisations that *D – Do cause harm*, if an unsustainable outcome is not improving, and that *M – May cause harm*, if there is no performance information available for an outcome.
[13] Research on thresholds is nascent and our understanding of them is growing all the time, meaning that consensus-driven thresholds may still fall short of those that truly indicate sustainability or the unsustainable tipping point. More information is available at: https://impactfrontiers.org/norms/five-dimensions-of-impact/what/#good-outcome
[14] Funds Task Force. Learnings and findings (2023). Spain NAB. Available at: https://spainnab.org/publicacion/funds-task-force-2022/
[15] Five dimensions of impact. Impact Frontiers. Available at: https://impactfrontiers.org/norms/five-dimensions-of-impact/
[16] ABC at enterprise level. Available at: https://impactfrontiers.org/norms/abc-of-enterprise-impact/enterprise-level/
[17] This strategy is identified with the term "transition" finance/investing by European Institutions (ESMA and the European Commission), while the UK Financial Conduct Authority (FCA) used the term "Sustainability Improvers". More information available at: https://www.esma.europa.eu/sites/default/files/2024-05/ESMA34-472-440_Final_Report_Guidelines_on_funds_names.pdf and https://www.fca.org.uk/publications/policy-statements/ps23-16-sustainability-disclosure-requirements-investment-labels
[18] For a more specific explanation of the asset allocation that would classify an impact investor, please refer to the joint letter to the European Commission on SFDR, sent on 12 December 2023, available here: https://www.impacteurope.net/insights/letter-european-commission-sfdr
[19] The consortium's ambition is for national studies to be conducted a bi-annual basis; however the frequency of national studies may still differ between countries.
[20] the categories provided in the second level - substantial activity, reflects the response options of the European Impact Investing Survey

The 5 Ws *of* impact invest-ing

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