

SciencesPo



Impact Investing in Europe

Capstone Policy Project for the
European Investment Bank Institute
and the
European Investment Fund
as part of the Master in Public Affairs at Sciences Po

Introduction

- About us
- Project objectives
- Research process

We are Sciences Po students in the Master of Public Affairs program. We have each worked for a number of years across government, consulting, private companies and entrepreneurship.



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Economist,
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The overall aim of the policy project is to **improve the EIB Group's ability to connect impact entrepreneurs with impact investors** in Europe.

Our project included an **investigation** of the impact investing **landscape**, an assessment of **areas for improvement**. We then identified **proposals that could strengthen** the ecosystem.

The research process included **analysis of widely used definitions** from leading industry organizations, **interviews with practitioners**, and **assessment of the existing tools** that connect entrepreneurs with investors.

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The journey of an impact entrepreneur is complex

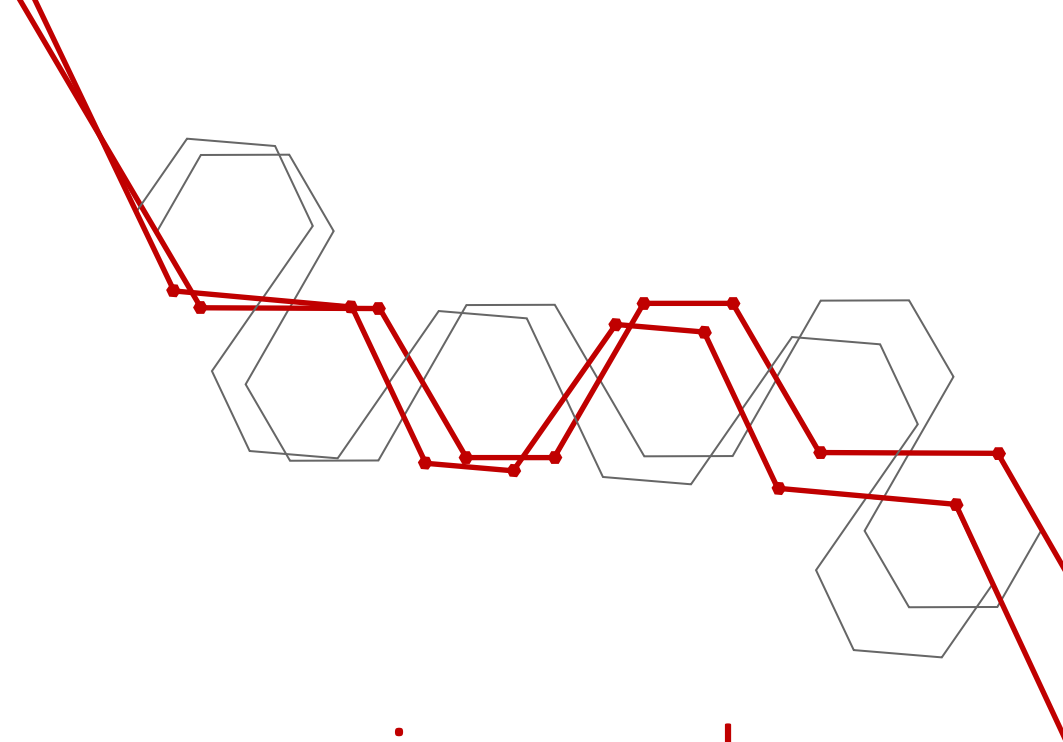
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There are a number of market failures in the impact investor marketplace

3

The EIB Group can work to address market failures in three main areas

1



The journey of an impact entrepreneur is complex

An impact entrepreneur prefers an impact investor, holding all else equal.

But getting access to **impact investors is complicated:**

- What is an impact investor? What do they expect?
- How can the most important information about impact investors be found?

The answer to "what constitutes an Impact Investor?" depends on who you ask. Definitions from representative organizations in the ecosystem are quite fragmented, with inefficient overlaps or gaps regarding types of investors, areas for impact, and roles of all players in the ecosystem.

Impact Investing common characteristics

	GIIN	Case	EVPA	OECD	IMP	Ch. et al. (2019)
Declared Impact intentionality	X	X	X	X	X	X
Financial and social return on investment expected	X	X	X	X	X	X
Investing flexibility among organisations and assets	X	X	X	X	X	X
Importance of impact measurements and data	X	X	X	X	X	
Long term horizon of investments			X	X		
Ecosystem understanding of impact investing	X		X	X	X	X
Social impact approach of impact investing	X		X	X	X	X
Impact strategies approach			X		X	X
Investment axis approach		X	X			
Importance of innovation				X		
Importance of impact investing policies			X	X		

Definitions of impact are not standard. Investor expectations around impact and financial returns vary widely. Entrepreneur-investor matching is nuanced and very individual. A comprehensive, inclusive, and standard definition of impact investing, used across the ecosystem, is needed.

“We have met with a lot of impact funds, but they cannot categorize us as we don’t have their key numbers. At first, we were looking only at impact [investors], but we were surprised not to get funds from them – so you have to be open.”

- Founder and CEO of an environmental impact enterprise

How to find information on impact investors?

*There are many overlapping platforms and databases for finding impact investors, none of which provide all desired functionality. The amount of options complicates the research process by **forcing entrepreneurs and investors to dedicate resources just to choose a platform even before they get any value out of it.***

	We Changers	evpa	AngelList	crunchbase	dealroom.co	THE CASE FOUNDATION	IMPACTBASE	IMPACTSPACE	Impact Database	IMPACTASSETS	CAPNEXUS	SVX	AVERAGE
Focus of the platform	●	●	●	●	●	●	●	●	●	●	●	●	● ★
Vetting & Network	●	●	●	●	●	●	●	●	●	●	●	●	●
Aid in fundraising	●	●	●	●	●	●	●	●	●	●	●	●	●
Startup stages	●	●	●	●	●	●	●	●	●	●	●	●	● ★
Sector coverage	●	●	●	●	●	●	●	●	●	●	●	●	●
Geography Filter	●	●	●	●	●	●	●	●	●	●	●	●	● ★
Fees or sign/paywall	●	●	●	●	●	●	●	●	●	●	●	●	● ★
Funding vehicles	●	●	●	●	●	●	●	●	●	●	●	●	● ★
Usability/Complexity	●	●	●	●	●	●	●	●	●	●	●	●	●
Database maint.	●	●	●	●	●	●	●	●	●	●	●	●	●
Connection/Contact	●	●	●	●	●	●	●	●	●	●	●	●	●
OVERALL RATING	●	●	●	●	●	●	●	●	●	●	●	●	

2

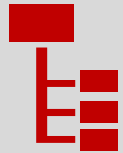
Addressing the market failures

The difficulties that entrepreneurs face occur across the ecosystem:

- There is a range of market failures that prevent the market from operating efficiently and for entrepreneurs – and others – from being able to discern ‘quality’ impact investors
- The EIB Group can leverage its position to address market failures

Our interviews and research highlighted four 'market failures' that reduces the ability of impact entrepreneurs and impact investors to connect.

No universally agreed-upon definition of *impact investing*.



Lack of a system for classifying different types of impact investors.

Access to quality information is problematic for all actors in the ecosystem.



The 'quality' of impact investing is difficult to discern.

Proliferation of platforms leads to information saturation; quality information about other actors in the impact investing ecosystem is needed.

“There is a lot of information out there already. To be honest, there is not enough time to screen all the start-ups out there. What I need more is quality information. Maybe... about what is new.”

- Dedicated social impact venture capital fund manager

"Impact-washing" is a concern.

“Impact is the new sustainability – nobody is clear what it means and everybody can claim to be an impact investor.”

- Impact investment fund manager

The EIB Group can continue leverage its market influence to strengthen the impact investing sector across Europe. Indeed, the EIF already shapes the impact investing sector by financing impact investors.



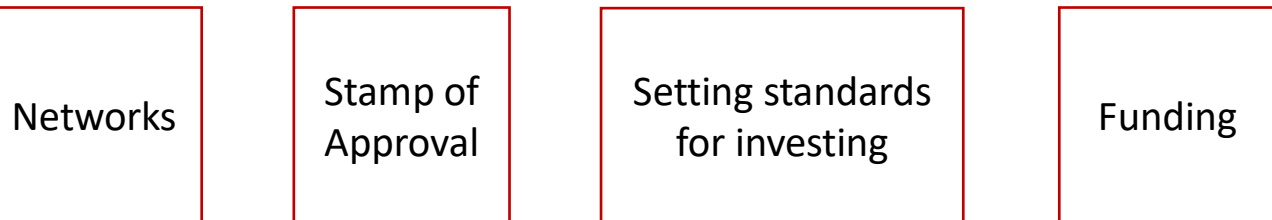
Impact investing aligns with the missions of the EIB Group:

“We help the economy, create jobs, promote equality and improve lives for EU citizens and for people in developing countries.”

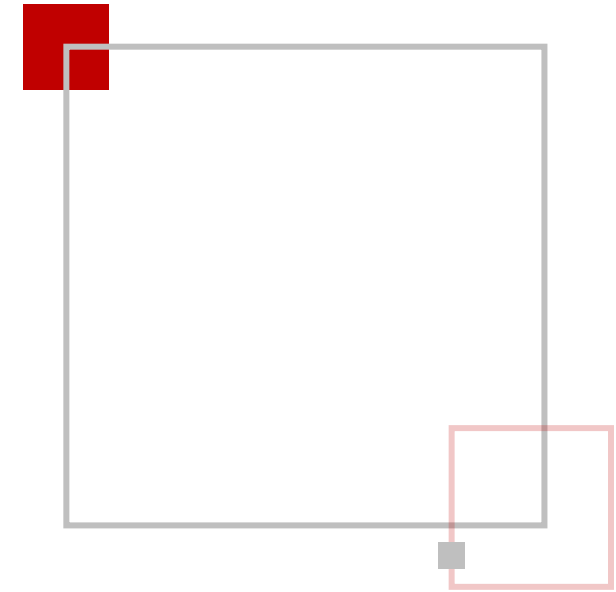
The EIB Group can leverages its existing ‘market facilitator’ role to trigger more investment from the private sector in impact investing.

“The combined expertise of our economists, engineers, financial analysts and climate specialists ensures the success of our projects. In turn, the stamp of approval from our specialists triggers more investment from the private sector.”

Market levers of the EIB Group:



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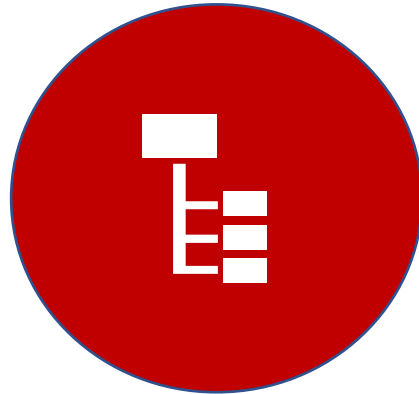


Our proposals for the EIB Group

Our proposals seek to improve the operation of the impact investing marketplace in line with the core role and market-leading position of the EIB Group:

- Proposal 1: Support a more comprehensive taxonomy for impact investing.
- Proposal 2: Improve existing platforms to connect entrepreneurs and investors.
- Proposal 3: Move towards a rating of impact investors.

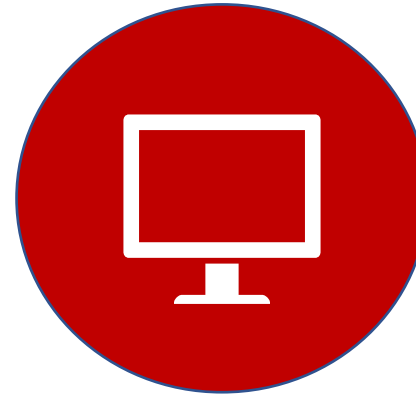
We identified three proposals that seek to leverage the role of the EIB group to address the key issues that we found with the impact investing ecosystem.



PROPOSAL 1

- Taxonomy -

Adopt and promote a standardised taxonomy for impact investors. Encourage reporting.



PROPOSAL 2

- Improving investor databases -

Encourage the improvement of existing impact investing databases.

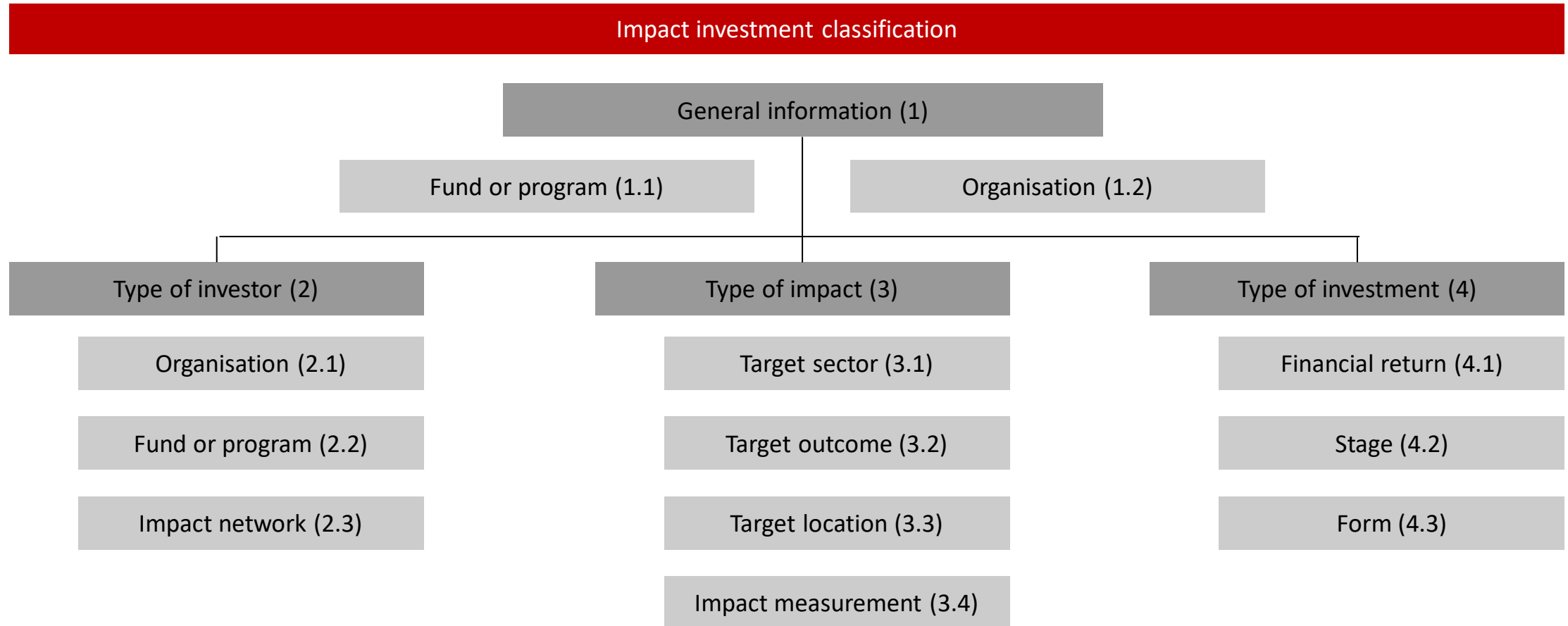


PROPOSAL 3

- Investor rating system -

Promote a rigorous EIB definition to support best practice impact investing.

Simple and universal language for classifying different types of impact investors in a way that is useful for entrepreneurs, investors, limited partners and other participants in the ecosystem.



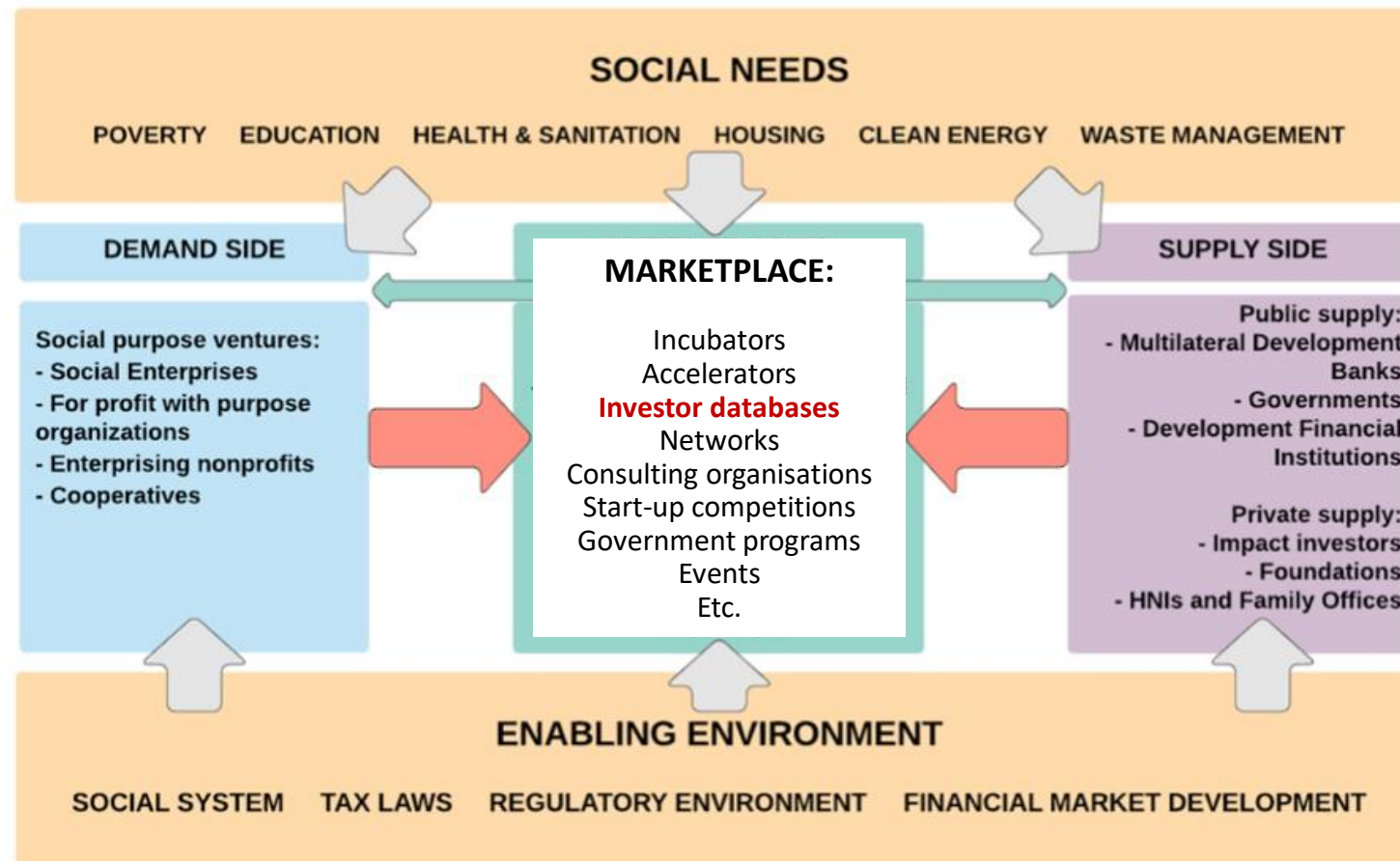
The taxonomy provides a system for classifying different types of impact investors. The taxonomy relies on the availability of standardised information from investors being made public.

No	Field	Values	Notes on field	ASSESSMENT: Ability to automate data collection	ASSESSMENT: Value of the information for entrepreneur	ASSESSMENT: Minimum recommended field (Y/N)
1	GENERAL INFORMATION					
1.1	Fund or program					
1.1.1	Fund or program name	<Text>	Base unit for the taxonomy. This allows for different types of funds or programs that make impact investments. Allows for multiple entries for one organisation with different funds or programs.	Moderate	High	Y
1.2	Organisation					
1.2.1	Organisation name	<Text>		High	High	Y
1.2.2	Website	<Text>		High	High	Y
1.2.3	Headquarter address	<Text>		High	High	Y
1.2.4	Headquarter country	<Text>		High	High	Y
1.2.5	Contact email	<Text>		Moderate	High	N
1.2.6	Year founded	<YYYY>		High	Moderate	N
1.2.7	Mission statement	<Text>	Short descriptive text outlining the purpose of the organisation.	Low	High	N
2	TYPE OF INVESTOR					
2.1	ORGANISATION TYPE					
2.1.1	Investor type ¹⁸	National government Development finance institution Multilateral development bank	Based on the definition adopted by OECD for the Social Impact assessment.	Moderate	Moderate	N
2.1.2	Legal structure	Philanthropic foundation Family office or high net worth individual Dedicated early stage impact fund Commercial bank Private equity (impact) fund Asset manager Insurance company Investment bank Pension fund Sovereign wealth fund Accelerator (intermediaries) Incubator (intermediaries) Corporate Regional government Local government Other		High	Low	N
2.1.3	Total assets under management	<Number>		Low	Low	N
2.1.4	Total impact investing assets ¹⁹ under management	<Number>	Impact investing assets based on self-declaration in line with the GIN definition of impact investment as "investments made in companies, organizations, and funds with the intention of generating a social and environmental impact coupled with a financial	Low	High	N

No	Field	Values	Notes on field	ASSESSMENT: Ability to automate data collection	ASSESSMENT: Value of the information for entrepreneur	ASSESSMENT: Minimum recommended field (Y/N)
2.1.5	Number of impact funds or programs	<Number>	return." This definition is inherently based on institutional intentions and not on specific evidence of a commitment to impact.	Low	Low	N
2.1.6	Average impact fund or program size	<Number>	Average value of impact investment fund.	Low	Low	N
2.1.7	Number of impact investments	<Number>		Low	Low	
2.1.8	Number of impact investment exits	<Number>		Low	Low	
2.2	FUND OR PROGRAM TYPE					
2.2.1	Total size of impact fund or program ²⁰	<Number>		Moderate	High	Y
2.2.2	Status	Open Closed Ongoing Unknown		Low	High	N
2.2.3	Date of creation	<Date>		Low	High	N
2.2.4	Date of closure (if applicable)	<Date>		Low	Low	N
2.2.5	Minimum investment size	<Number>		Low	High	Y
2.2.6	Maximum investment size	<Number>		Low	High	Y
2.2.7	Percentage of carried interest linked to impact-based KPIs	<Percentage>	Percentage of financial compensation for management that is linked to social and environmental performance against impact-based key performance indicators (KPIs). Impact KPIs should be agreed before the investment is made. KPIs should be linked to an established management framework, such as the Impact Management Project. Refer to GIN for details ²¹ .	Low	Moderate	N
2.2.8	Percentage of other total management fees linked to impact-based KPIs	<Percentage>		Low	Moderate	N
2.2.9	Target proportion of fund or program with impact	<Percentage>	Allows for funds or programs that dedicate part of the fund to impact investing.	Low	Moderate	Y
2.2.10	Names of Limited Partner investors	<Text>	Different Limited Party investors have different standards for investment and due diligence (e.g., i.e. E&I is prescribed to have a rigorous standard for social impact investing).	Low	Low	N
2.3	IMPACT NETWORK					
2.3.1	Memberships or Participation (Multiple choice)	GIN EVPA Impact Management Project Finance for Tomorrow (Paris) (Europe) Japan Foundation Centre Eternet Other etc.	Indicating the connection to the impact investing ecosystem. This list is incomplete and should be amended and updated as appropriate.	Moderate	Low	N
2.3.2	Connected accelerators /	<Text>		Low	High	N

No	Field	Values	Notes on field	ASSESSMENT: Ability to automate data collection	ASSESSMENT: Value of the information for entrepreneur	ASSESSMENT: Minimum recommended field (Y/N)
3	Incubators					
3	TARGET IMPACT AREA					
3.1	SECTOR					
3.1.1	NACE Macro-Sector Level 1 ²² (Multiple choice)	A Agriculture, Forestry and Fishing B Mining and Quarrying C Manufacturing D Electricity, Gas, Steam and Air Conditioning Supply E Water Supply, Sewerage, Waste Management and Remediation Activities F Construction G Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles H Transportation and Storage I Accommodation and Food Service Activities J Information and Communication K Financial and Insurance Activities L Real Estate Activities M Professional, Scientific and Technical Activities N Administrative and Support Service Activities O Public Administration and Defense; Compulsory Social Security P Education Q Human Health and Social Work Activities R Arts, Entertainment and Recreation S Other Service Activities T Activities of Households as Employers; Unincorporated Goods and Services Producing Activities of Households for Own Use	This is aligned with the standard EU sector categorization. This allows for connection to the EU Taxonomy for Sustainable Development for measurement of sustainable business practices.	Moderate	High	Y
3.1.2	NACE level 2 (as applicable)	[Adopt NACE classification]		Moderate	High	N
3.1.3	NACE level 3 (as applicable)	[Adopt NACE classification]		Moderate	High	N
3.1.4	NACE level 4 (as applicable)	[Adopt NACE classification]		Moderate	High	N
3.2	OUTCOME					
3.2.1	Target outcome area ²³	Social and Environmental Primarily Environmental Primarily Social		Moderate	High	Y
3.2.2	Target SDG ²⁴ (Multiple choice)	GOAL 1: No Poverty GOAL 2: Zero Hunger GOAL 3: Good Health and Well-being GOAL 4: Quality Education GOAL 5: Gender Equality GOAL 6: Clean Water and Sanitation GOAL 7: Affordable and Clean Energy GOAL 8: Decent Work and Economic Growth GOAL 9: Industry, Innovation and Infrastructure GOAL 10: Reduced Inequality GOAL 11: Sustainable Cities and Communities GOAL 12: Responsible Consumption and Production GOAL 13: Climate Action		Low	High	Y

Improved databases with complete listings of impact investors could better support the operation of the impact investing 'marketplace' by providing additional information to impact entrepreneurs.



The EIB Group is better positioned to support existing platforms to improve their functionality for entrepreneurs and investors than to maintain an inhouse database.

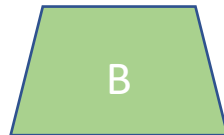
	INTERNAL DEVELOPMENT Create internal EIB Group database of investors (including development and maintenance)	EXTERNAL DATABASE (PREFERRED) Support existing external databases to be improved
Advantages	<ul style="list-style-type: none"> • Maintain control over the structure and information in the database. • Potential for the database to be viewed as authoritative and independent. • Potential to leverage existing relationships with impact funds to extract quality information for databases. 	<ul style="list-style-type: none"> • Aligns with EIB Group role as market facilitators. • More agile development. • More responsive to entrepreneur and user needs. • Lower cost of development and maintenance. • A range of databases already exist so this avoids duplicating development effort.
Disadvantages	<ul style="list-style-type: none"> • EIB Group may be less aware of an entrepreneurs needs than third party developers. • Potentially less expertise and capability for development and maintenance of a database. • Less agile to respond to user needs. • More expensive than smaller developers. 	<ul style="list-style-type: none"> • Less control over information that is used in the database. • May not result in a successful database that supports the ecosystem. • EIB Group may not support the ‘winners’. • May complicate the EIB Group role as ‘fund of fund’ if not managed carefully and impartially.

Once a taxonomy is adopted by impact investors, and investors report using the taxonomy, it will be possible to rate impact investors to distinguish between high and lower impact investors.

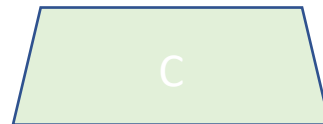
There is a need for a definition that distinguishes between the quality of impact investing.



Type A Impact Investor : represents the best practice in impact investing.



Type B Impact Investor : represents impact investing that is measured and auditable.

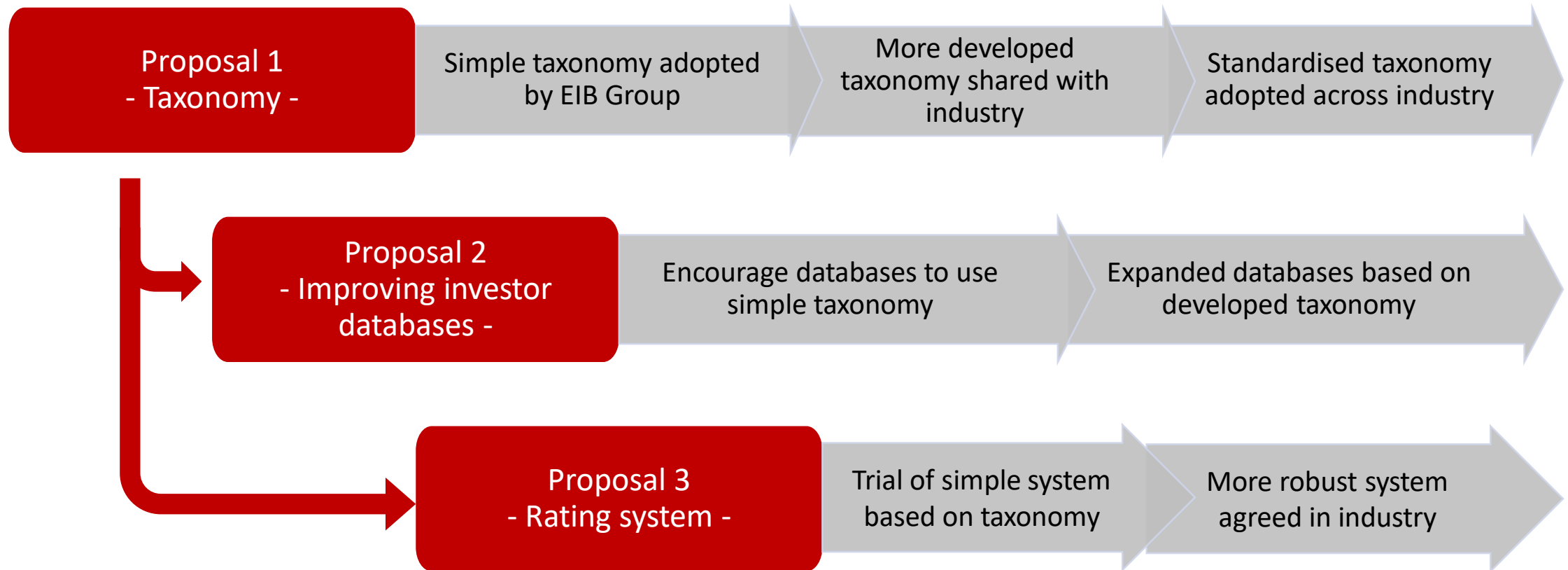


Type C Impact Investor : represents the broadest criteria for impact investing.

Rating system that uses tangible criteria from the taxonomy to create robust and verifiable differentiation.

	Type C Impact Investing	Type B Impact Investing (Meets five or more criteria)	Type A Impact Investing (Meets 5 or more criteria)
1) Declared will towards impact generation	Average of M1 and M2 between 0%-10%	Average of M1 and M2 between 10%-70%	Average of M1 and M2 between 70%-100%
<i>Metric 1 - Carried interest linked to impact based KPI</i>	0%-10%	10%-70%	70%-100%
<i>Metric 2 - Target proportion of fund with impact</i>	0%-10%	10%-70%	70%-100%
2) Return on investment expectation	Market rate or below market rate	Market rate or below market rate	Market rate or below market rate.
<i>Metric 1 - Expected return</i>	Market rate or Below but close to market rate	Below to market rate or capital preservation	Potentially below market rate, capital preservation or grant
<i>Metric 2 - Risk Appetite</i>	Low to High	Low to High	Low to High
3) Investment flexibility	Traditional Investor - Low flexibility	Traditional Investor - Moderate flexibility	Traditional or untraditional Investor - High flexibility
<i>Metric 1 - Type of financing instruments</i>	Equity or Debt only	Beyond equity or debt	Full range of options from equity or debt to cooperative agreements or profit sharing
4) Data/measurements collection on impact	Little collection	Not valued collection	Valued and compulsory collection
<i>Metric 1 - Measurability of impact</i>	No formal measurement	Formal evaluation but may not be externally valued	Formal evaluation and externally valued
<i>Metric 2 - Delivery organisation intent</i>	Incidental social outcome	Social mission intent	Compulsory reporting; External certification/label; Legally binding constraint.
5) Ecosystem approach of the industry	Unconnected investor	Connected Investor	Ecosystem investor
<i>Metric 1 - Network memberships/participations</i>	0 to 1	1 to 3	2 to 4
6) Clear idea of social impact generated	General target outcome area only	Defined target area and group	Defined target areas and groups
<i>Metric 1 - Target outcome area</i>	Not defined or Defined	Defined	Defined
<i>Metric 2 - Target impact area(s)</i>	Not defined	Defined	Defined
<i>Metric 3 - Target stakeholder group</i>	Not defined	Not defined or Defined	Defined
7) Clear investment strategy	Low investment with impact	Investment with impact	investment for impact
<i>Metric 1 - Investment stage</i>	Any	Any	Any
<i>Metric 2 - Management involvement</i>	Passive or Active	Active but more focused on increasing profitability	Active and more focused on increasing impact

Implementation of the proposals can be staged as resources allow at the EIB. Defining a taxonomy will support improving the functioning of databases and implementing a rating system.



Discussion

- Proposed areas for discussion



What thoughts do you have on the taxonomy? How can the EIB Group promote a common impact language?



How can we move towards an industry-wide adoption of the proposed impact investor taxonomy? What could the EIB Group do to facilitate the taxonomy ?



What could be the unintended consequences of having a rating system for impact investors? What might be ways to mitigate these issues?

Thank you