GSG
Driving real impact

Investing for A Better World

Strengthening the Financial Services Value Chain to Meet the Sustainable Development Goals

PART I: DIAGNOSIS

Working Group Report from
The Global Steering Group for Impact Investment

October 2018

ABOUT THE GLOBAL STEERING GROUP FOR IMPACT INVESTMENT (GSG)

The GSG is an independent global steering group catalysing impact investment and entrepreneurship to benefit people and the planet. The GSG was established in August 2015 as the successor to, and incorporating the work of, the Social Impact Investment Taskforce under the UK presidency of the G8. The GSG currently has National Advisory Boards in 18 countries, plus the EU as members. Chaired by Sir Ronald Cohen, the GSG brings together leaders from finance, business and philanthropy to ensure measurable impact is considered in every investment and business decision. Our mission is to harness the energy behind impact investment to deliver impact at scale.

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About The GSG Working Groups

The GSG has commissioned five separate and complementary papers which address key questions and challenges within the impact investment ecosystem. The topics have been chosen by the leaders of the GSG, the National Advisory Board Chairs, the GSG trustees and the GSG partners.

Selections by this group were made based on the topics necessary to foster a well-functioning impact investing ecosystem that creates significant benefits for people and planet and comprised of global leaders in their respective fields. Significant care has been taken to ensure that the working groups have representatives of a wide variety of sectors and geographies and represent the views of global experts on the topic. Together, they will propel the market towards tipping point by 2020.

In this paper we explain how impact-focused financial instruments have been built, examine failures that exist in this process and identify opportunities for replicating success. In the other papers published as part of this series, we study which policies have succeeded in enabling impact, and give recommendations and learning for adoption in new countries.

We demonstrate how technology can be used to create social impact and what support technology impact ventures need for their financial and impact success. We provide practical guidance for setting up impact wholesalers. And finally, we discuss how to widen and deepen the field of impact investment to ensure that a wider variety of actors is represented and the focus on impact remains transparent and measured.

About Impact Investment and The Impact Economy

To navigate the complexity of achieving a future where no one lives in poverty and the planet thrives, we need a simple unifying principle: that it is the role of all actors in the society to examine how their actions affect the people and the planet.

Impact investment optimises risk, return and impact to benefit people and the planet, by setting specific social and environmental objectives alongside financial ones, and measuring their achievement. Impact management is a critical practice to reach this potential.

As more people and organisations get involved and become more successful in impact investing, there is a cumulative effect. A vibrant and growing impact economy can develop where businesses, investment and activity deliver tangible improvements in outcomes for people and the planet. In the impact economy, businesses use their capabilities to optimise both their positive impact on the world and their financial return. Investors use their resources to optimise business impact, adding and creating value beyond what would otherwise be achieved. The momentum of more positive impact being generated enlivens the possibility of an inspiring future.

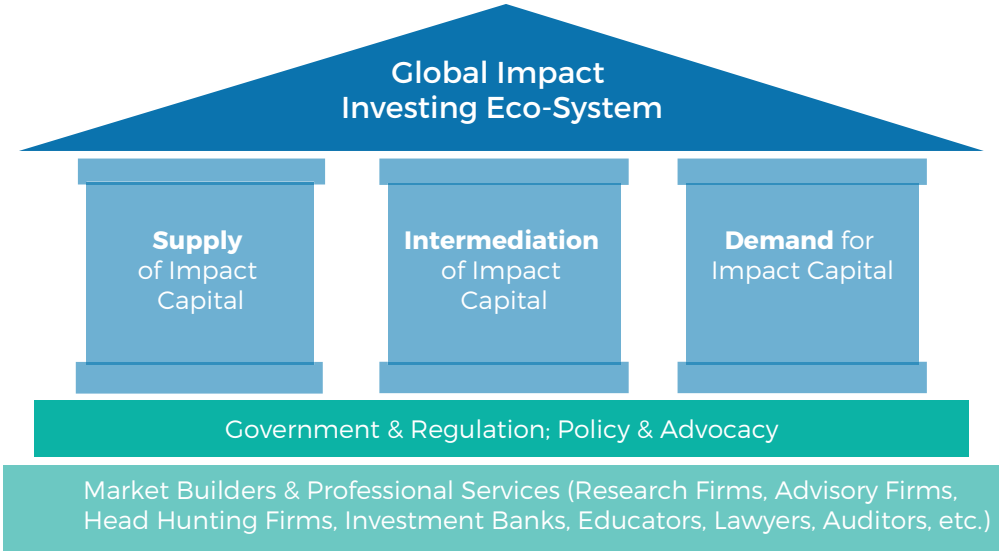
GSG Strategy: Ecosystem Development Priorities

GSG WILL OPERATIONALLY ORGANISE THE DELIVERY OF ITS STRATEGY AROUND FIVE PRIORITIES.

GSG Ecosystem Development Priorities

Priority 1: NAB & Partnership Development	▲ Proactively support NABs for Catalysing Eco-System Development (with Policy, Research or Conferences) and Grow new NAB Members ▲ Develop Strategic Partnerships to accelerate global ecosystem development
Priority 2: Communications Development	▲ Deliver high-quality Communications, Campaigns, Launch and activate Networking Platform ▲ Deliver successful and impactful Convenings, including an Annual Summit
Priority 3: Research & Knowledge Development	Create, coordinate and champion Research Projects and thematic Working Groups by working with NABs and other key experts. Launch and activate Collaboration Platform
Priority 4: Policy Development	Get 'impact investment' recognised and adopted within the G20, allowing for increased Policy attention to Impact Investment, and support NABs to engage policy makers
Priority 5: Market Development	▲ Funds Dev: Catalyse $1bn USD Impact Funds in the markets, where they can have most impact ▲ Intermediary Development ▲ Entrepreneurship/ Demand Side Development

Pillars of the Global Impact Investment Eco-system



Letter from The GSG Chair

The scale of the world's problems has changed – and so too must our response. Despite generating unprecedented wealth, our current economic system has created great inequalities and left too many people far behind. For the last five years, I have been working with over 300 colleagues across 21 countries to lead the global community to take on an audacious but plausible solution: to bring the impact movement to Tipping Point by 2020.

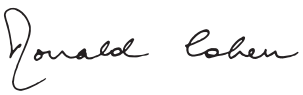
Beyond Tipping Point lies the *impact economy* in which risk, return and impact inform all decisions, be they made by governments, investors, businesses or consumers. Impact investment plays a crucial role in the creation of impact economies.

I am delighted that our global working groups will be releasing four reports at our 2018 Impact Summit in New Delhi. Their innovative research is the fuel our impact movement needs to journey to Tipping Point. I am deeply indebted to all those who have worked so hard to bring these reports to fruition.

Investing for a better world brings a sense of optimism and confidence about the financial services industry's ability to shift to optimizing risk, return and impact. The working group which has put this paper together, has brought to light half a dozen market failures that prevent capital from reaching organisations that strive to deliver measurable positive social or environmental impact. In a follow-on analysis to be published in Dec 2018, they will propose solutions to these entrenched problems, making it clear that investors do not have to choose between financial and social return, that impact itself is a key lever of business success.

We are grateful for the work, under the leadership of Lorenzo Bernasconi, of this group of sector leaders and visionaries from across the investment world. Their paper shows that the world of finance is rapidly innovating to meet the needs of our challenged world.

Taken with the papers of our other working groups, it helps to underline the necessity to unleash the power of impact investment in order to meet the great challenges we face.



SIR RONALD COHEN
Chair, GSG

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> We need to build a new system – one that delivers sustainable investment flows, based on both resilient market-based, and robust bank-based, finance. We need finance for the long term.

MARK CARNEY
Governor of the Bank of England

Executive Summary

On 30 September, 2015, the global community, represented by all 193 member states of the United Nations (UN), adopted the Sustainable Development Goals (SDGs). Three months later, world leaders charted a new course in our battle against climate change with the Paris Agreement which – for the first time – brought all nations together for a common cause: to limit global temperature increases.

The need for collective action to address the world's most urgent challenges couldn't be clearer. The world faces new and ever more complex challenges, from climate change to mass migration and global epidemics, which threaten economic growth, prosperity, peace and life as we know it.

No sector has a more important role to play than finance in determining whether or not we are successful in addressing these challenges than finance. In the words of United Nations Secretary, General António Guterres: "Finance could be, should be and will be the decisive factor — the difference between winning and losing the war".

The single and most urgent need related to all of the interconnected challenges of the SDGs is investment. According to the UN, we face an annual gap of $2.5 trillion in financing the SDGs in developing countries alone. Similarly, the International Energy Agency estimates that the current rate of investment in combating climate change equates to about half of the $3.5 trillion a year needed for the next 30 years. In today's fiscally constrained environment, it is clear that without a quantum change in the levels and direction of private investment, we stand no hope of addressing these commitments.

The finance sector has a unique responsibility in achieving the SDGs, and a singular strategic interest in ensuring that they are met. Safeguarding a more stable and prosperous long-term future is critical to all of the world's largest institutional investors, or the so-called "universal owners" with highly-diversified, long-term portfolios which are inevitably exposed to global environmental, social and economic shocks and stresses. It's not all about protecting downside risk, however. The SDGs also mark a historic opportunity for the financial services industry. With raised awareness over the urgency of the global challenges among consumers and regulators, as well as the recognition of the business case for sustainability by corporate leaders, the world is at the beginning of a seismic shift towards an "impact economy", where sustainability and social impact is fundamentally incorporated across investment, production and consumption decisions. According to the Business & Sustainable Development Commission composed of more than 35 global CEOs, sustainable business models linked to the SDGs could open economic opportunities worth up to US$12 trillion by 2030. The winners of tomorrow in finance and business alike are those who seize this opportunity by developing and investing in products and services that meet this growing customer demand and address the needs of the impact economy.

And yet, progress towards mobilising investment towards the SDGs has been slow and thin. Increased interest in Socially Responsible Investing (SRI) has not translated to a significant growth in investment in on-the-ground projects and solutions that address the SDGs. In 2016, $1 in every $4 under professional management was sieved on environmental, social and governance grounds, which is an increase of 25% from just two years earlier. However, less than 1% of global investments sought to achieve measurable societal outcomes. Moreover, according to a 2018 study by the Boston Consulting Group, the number of privately-investible large-scale projects in developing countries with the potential to advance progress toward the SDGs has actually fallen since 2012 and been flat since 2015.

Clearly, business as usual is not an option if we are serious about addressing the SDG challenge. In the words of Mark Carney, Governor of the Bank of England, we need to "build a new system" to address the SDG financing gap. This report explores the market failures that stand in the way of strengthening today's financial services value chain to achieve a step-change in the number and scale of "fit-for-purpose" investment products, i.e., products that meet the needs of the largest pools of investment capital in scalable and effective ways, whilst measurably contributing towards the SDGs. This means that the creation of impact investment products that are risk-adjusted and fit into the asset allocations of mainstream investors is necessary.

This paper – Part I of the full report – diagnoses the current gaps along the financial services product development supply chain, which are hindering more capital from flowing towards the SDGs. These gaps are multiple and cut across the consecutive stages and range of actors in the value chain, from asset owners and asset managers to Development Finance Institutions (DFIs) and philanthropy:

1. **VISIONARY LEADERSHIP & INCENTIVE ALIGNMENT**, i.e., Need for stronger leadership and commitment by key stakeholders to drive the SDG investment agenda

2. **MORE ROBUST INFORMATION**, i.e., Need for better data, clearer standards and benchmarks to drive SDG investments

3. **ALIGNED CAPABILITIES**, i.e., Need for more aligned capabilities to effectively bridge the impact finance ecosystem with mainstream finance

4. **EFFECTIVE PRODUCT DESIGN, i.e., Need for more effective product design to meet the needs of mainstream investors**

5. **EFFICIENT DISTRIBUTION, i.e., Need for stronger bridges linking the impact/development finance ecosystem to the capital markets**

6. **CATALYTIC SUPPORT**, i.e., Need for more catalytic support for the development and scale of impact products and investments

Building on the analysis developed here, we will be conducting a number of design and ideation sessions with expert practitioners with the goal of proposing a set of actionable solutions to strengthen the financial services value chain to meet the SDGs and the needs of the impact economy.

The time for action is now. The costs of not shifting quickly towards addressing the needs of the impact economy are almost unfathomable. Climate change alone threatens vast increases in extreme weather events, mass extinction of sensitive habitats, global food insecurity, unprecedented refugee flows and catastrophic impacts on coastal cities due to rising sea levels.

The world of finance has long demonstrated an ability to innovate in order to create new market sectors, improve the efficiency of markets and deliver growth and returns. This has been shown, for example, by the rise of venture capital, which developed into a new asset class to meet emerging financing needs, particularly for technology companies. Our task is to bring to bear the same resources, creativity and talent to adapt the current financial value chain to flourish in the impact economy and address the world's most critical needs before it is too late.

1 THE SDG INVESTMENT IMPERATIVE

1.1. A World Under Pressure

Ten years after the 2008 global financial crisis, the world's major economies are witnessing a "synchronised recovery" of robust gross domestic product growth, ballooning company earnings and record-breaking stock markets. Much of the developed world, including the US, UK and Germany, is experiencing some of the lowest unemployment figures on record, while the World Bank estimates that the global economy is operating at or near full capacity. Technological and economic growth over the past century has delivered extraordinary advances, which are unprecedented in human history. Global life expectancy is longer than ever before; we are more educated than any past generation, and are the participants in the wealthiest era of human history.

We also inhabit a world where 1 billion people still live in abject poverty; 1.1 billion people do not have electricity; and one in nine individuals lack access to safe water. Education remains inaccessible for more than 260 million children worldwide, while one in five children suffer from stunted growth due to malnutrition. Given today's resources, these represent indefensible losses of human life and potential.

Our world also faces new and unfamiliar risks that threaten economic growth, prosperity and life as we know it. Climate change, the depletion of the globe's natural resources, environmental degradation and rising inequality are increasing the frequency and intensity of the shocks and stresses affecting rich and poor.

News headlines remind us daily of these new and unprecedented impacts. No fewer than 17 of the 18 warmest years since modern record-keeping began have occurred since 2001, with 2016 and 2017 marking the hottest years on record. 2017 was also the costliest Atlantic hurricane season, causing more than $370 billion in damages and more than $90bn in insured losses in the US alone. In California, 15 of the 20 largest fires in state history have burned since 2000 and three of the Golden State's biggest fires ever have raged in 2018. This year, Australia is facing its worst drought in 400 years, turning normally fertile crop areas into dustbowls, draining water reserves and devastating the income of farmers on an unprecedented scale. In South Africa, Cape Town faced its worst drought in a century and narrowly averted becoming the first major urban center to run out of water. As sobering as these indicators are, they do not begin to capture the human cost of these shocks to communities and individuals.

Many of the societal challenges that the world faces are also unprecedented. 2017 saw the highest levels of displacement on record. Some 69 million people are currently displaced from their homes. Among them are nearly 26 million refugees, more than half of whom are children. Recent epidemic crises have hit more intensely than in past decades. The outbreaks of Ebola and Zika sparked panic across the world and for the affected countries, resulted in billions in economic losses and an inexcusable loss of life.

The scientific consensus is clear. Unless urgent action is taken, these impacts pale in significance compared to what might happen next. The world has warmed more than one degree Celsius since the Industrial Revolution. The effects of continuing on this trajectory of increasing global temperatures to two degrees or beyond are almost unfathomable: increases in extreme weather, mass extinction of the world's corals and other sensitive habitats, global food insecurity, massive refugee flows as whole regions, such as the Persian Gulf, become uninhabitable, and catastrophic impacts on coastal cities due to rising sea levels.[1]

> "Humanity has become a serious threat to its own future wellbeing, and perhaps even its survival, as the result of unprecedented human-caused harm to the natural environment."
>
> **PROF. JEFFREY SACHS**
> Columbia University

[1] "A World Warmer by Just 2°C Will Be Very Different From Today", The Earth Institute, June 2018.

Alongside the risks of a warming planet, we face the challenge of meeting the needs of a growing population of 7.2 billion people in a world of limited resources and a degraded environment. The persistence of development challenges, such as growing inequality, will make addressing these needs more difficult. The OECD estimates that in developed countries, including the US, the UK, and Italy, overall economic growth would have been six to nine percentage points higher in the past two decades had income inequality not risen.[2] Similarly, IMF research has shown that inequality is linked to economic and political instability, while research from The London School of Economics and The World Bank has shown causal links between inequality and increased violent crime.[3] These indicators only add weight, if any were needed, to the moral and economic imperative to take our development challenges seriously.

1.2. The SDG Financing Challenge

2015 marked a historic year in humanity's fight against these growing global risks and entrenched development challenges. The agreement of the United Nations' Sustainable Development Goals (SDGs), the most important global commitment of our time to create a prosperous, inclusive, and resilient world, was ratified by 193 countries, and three more countries signed the Paris agreement on climate change. These agreements gave new impetus and political will to resolving challenges that have been on the global agenda for decades: ending poverty, protecting the planet, and ensuring that the global population enjoys peace and prosperity in a world no longer threatened by the catastrophic impacts of climate change.

FIGURE 1:
The 17 Sustainable Development Goals

[2] F.Cingano, 'Trends in income inequality and its impact on economic growth', OECD Social, Employment and Migration Working Papers, No.163, Dec. 2014, OECD Publishing.

[3] A.Berg and J.Ostry, 'Inequality and unsustainable Growth: Two Sides of the Same Coin?' IMF Staff Discussion Note No. 11/08, April 2011, International Monetary Fund; 'How rising inequality hurts everyone, even the rich', Washington Post, February 2018.
Pablo Fajnzylber, Daniel Lederman and Norman Loayza - 'The Journal of Law & Economics', Vol. 45, No. 1 (April 2002)
Neumayer, Eric (2005) Inequality and violent crime: evidence from data on robbery and violent theft. Journal of peace research, 42 (1)

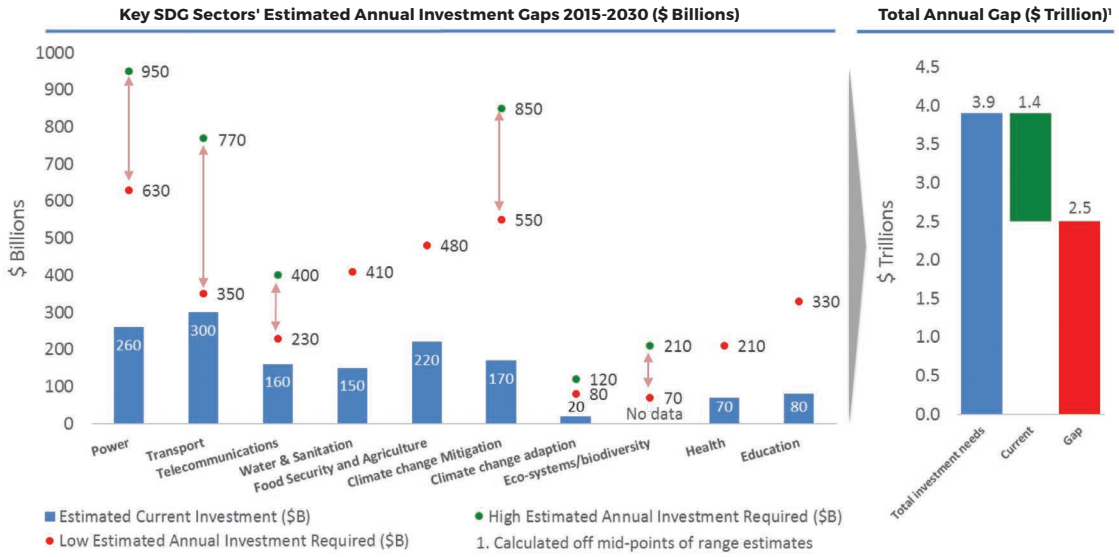
Reaching these goals will not be cheap. The UN estimates that we face an annual gap of $2.5 trillion in financing the SDGs in developing countries alone. Similarly, the International Energy Agency estimates that the current rate of investment on combating climate change equates to about half of the $3.5 trillion a year needed for the next 30 years.

These figures highlight a stark conclusion: without a quantum change in the levels and direction of investment, we stand no hope of avoiding the catastrophic costs of inaction on climate change or the urgent development challenges of our time. Addressing this financing challenge represents the single most urgent need to meet the interconnected challenges of the SDGs.[4]

In today's fiscally-constrained environment, the resources of government or philanthropy fall far short of the $2.5 trillion annual price tag. In 2017, net Official Development Aid (ODA) stood at $147 billion (a reduction of 0.6% relative to 2016), whereas philanthropic giving for development stood at a mere $8 billion. The only way to get to what is needed is to increase private investment. At a minimum, this increase will need to reach $1 trillion annually, as illustrated in Figure 2 below.

FIGURE 2:

Overview of the SDG investment gap



Source: UNCTAD, 2015

The good news is that, in aggregate, the money to fill the SDG financing gap exists. Institutional investors have an estimated $91 trillion in investable capital sitting in the global capital markets, of which more than $9 trillion is held in negatively-yielding bonds. Retail investors, in turn, hold upwards of $110 trillion in assets. A lack of capital as such is not the problem in the financing equation for the SDGs.

The challenge is one of the allocation of capital. How can we shift more of this investible capital towards projects and companies mobilising investment towards critical areas of need, whether in resilient infrastructure, healthcare, water and sanitation, education or sustainable agriculture?

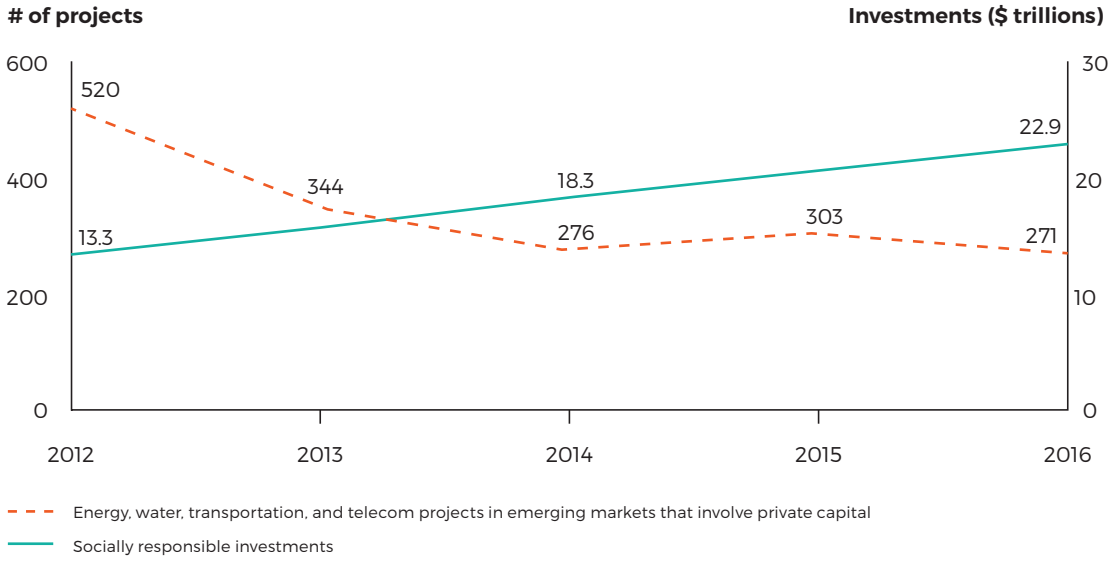
Three years since the signing of the SDGs and the Paris Accord, progress towards addressing this allocation challenge has been slow and thin. While we have seen a remarkable uptake of Socially Responsible Investing (SRI) products, this has not translated to measurable growth in investment in on-the-ground projects and solutions that address the SDGs. In 2016, $1 in every $4 under professional

[4] For ease of reference, unless otherwise stated, mention of the SDGs in this text will also assume the inclusion of the Paris Climate Agreement.

management was sieved on environmental, social and governance grounds, which is an increase of 25% from just two years earlier. However, less than 1% of global investments sought to achieve proactive, measurable societal outcomes. Moreover, according to a 2018 study by The Boston Consulting Group[5], the number of privately-investible large-scale projects in developing countries with the potential to advance progress toward the SDGs has actually fallen since 2012 and been flat since 2015. This trend also holds for the total dollars invested – down from $123 billion in 2012 to $74 billion in 2016, as illustrated in Figure 3 below:

FIGURE 3:

Number of SDG aligned projects involving private capital in emerging markets vs. Socially Responsible Investments



Source: Boston Consulting Group, "Narrowing the SDG Investment Gap" (2018)

Given these numbers, it is no surprise that recent data shows that no major industrialised country is currently on track to fulfil its Paris pledge and that the odds of meeting the two-degree target are one in 20.[5]

Business as usual is not an option if we are serious about addressing the SDG challenge. In the words of Mark Carney, Governor of the Bank of England, we will need to "to build a new system" to address the SDG financing gap. Building this new system requires innovation across the full spectrum of the financial services value chain to achieve a step-change in the number and scale of "fit-for-purpose" investment products that measurably contribute towards the SDGs and meet the needs of the largest pools of investment capital in scalable and effective ways.

[5] GIIN Annual Impact Investor Survey 2018

[6] Carbon Action Tracker (2018); Raftery (2017), "Less than 2 °C warming by 2100 unlikely", Nature Climate Change volume 7

1.3 The Promise of Finance for the SDGs

Over recent years, a number of mainstream investment products and solutions have entered the market to successfully channel large-scale private investment towards solving pressing global challenges and to set benchmarks for the shape and constitution of robust SDG-linked investment products. These products take myriad forms across sectors and geographies, from thematic bonds, to insurance-linked securities and private equity. They share three core elements: (i) they contribute measurably towards addressing a global challenge; (ii) they attract mainstream return-seeking capital and (iii) they have the potential for scale and replication. They also represent some of the fastest-growing segments in their respective asset classes.

- **Green Bonds (fixed income)**: Green bonds tie the proceeds of bond issues to environmentally-friendly investments such as wind and solar power, mass transit and upgrades in energy efficiency. The market started a decade ago, with issuances from the European Investment Bank ("EIB") and World Bank, worth just a few hundred million dollars annually. In 2017, the green bond market grew to over $160 billion, marking the seventh consecutive year of record-breaking annual issuance. Today, green bonds represent one of the fastest-growing segments of the fixed income universe, with an expected compound annual growth rate of 30% in 2018. They are becoming a key part of high-quality, core global bond allocation.
- **Disaster-related insurance instruments (insurance and insurance linked-securities)**: Disaster-related insurance instruments are a way of transferring the risks of natural disasters, such as hurricanes and earthquakes, from public budgets to the capital markets. In 1997, the market for insurance linked securities stood at less than $780 million. It has since grown by 19% annually to reach $34 billion in 2018. This market growth has been spurred by the success of Catastrophe Bonds (first used in the mid-1990s in the aftermath of Hurricane Andrew) and Sovereign Insurance Pools. Catastrophe Bonds are increasingly being incorporated into the fixed income allocation of institutional investors as a way of diversifying risk and achieving yield. Similarly, Sovereign Risk Pools are maturing and expanding, while proving to be effective risk-sharing tools. For example, the Caribbean Catastrophe Risk Insurance Facility (CRIFF) recently provided five Caribbean countries and territories including Turks and Caicos, Antigua and Barbuda with a payout of $42 million to pay for disaster relief after the devastation caused by Hurricane Irma in 2017. While not large enough to cover the full costs of relief and rebuilding, this amount was substantial (representing approximately 1% of their combined GDP) and was made available quickly (less than a fortnight after the disaster hit).
- **Clean Energy Investment Trusts – CEITs (public equity)**: Matching the predictable long-term liabilities of some institutional investors (such as pension funds) with the low-risk cashflows from infrastructure projects, such as those related to renewable energy, has been a central concern of some large, long-term focused institutional investors in recent years. However, making this natural match has been a struggle for all but the most sophisticated institutions. This is in part due to regulatory changes and a dearth of the specialist skills required to assess such investments. This has resulted in an impasse, with direct investment in renewable energy project debt and equity at less than 1% of total assets under management at institutions globally. However, Clean Energy Investment Trusts (CEITs) yield-focused, low-fee, publicly-tradable, closed-end investment vehicles and have helped overcome this challenge. CEITs effectively allow for expensive project development capital to be replaced shortly after construction with low-cost capital from the capital markets, while offering liquidity, stable yield and transparency to investors. Greencoat Capital, a UK asset manager, managed the first successful listing of this type with a listing of £260m in 2013, supported with a cornerstone investment of £50m by the UK government's Department for Business, Innovation and Skills (BIS). Greencoat's UK-listed fund has since mobilised over 20x of that amount over four years — with a current market capitalisation of £1.37 billion. The overall market for listed renewable energy funds has grown 80 times, all without subsidy. Thanks to this success, the replication of the CEIT concept is actively being explored in new markets, including India and Mexico.

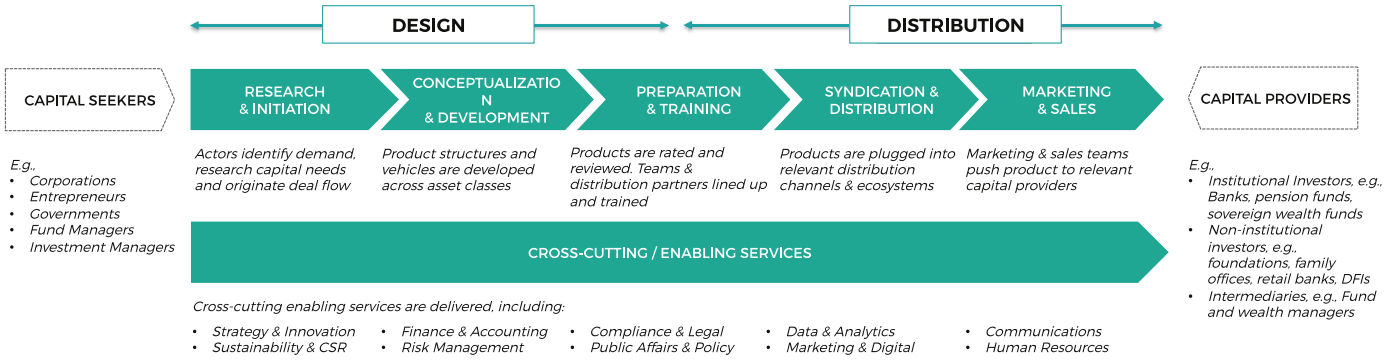
- **Mainstream Impact PE Funds (alternatives)**: Since 2015, an unprecedented amount of private equity capital has been flowing into the impact investing space with many of the world's blue-chip investment firms creating dedicated funds. From TPG's Rise Fund to Bain Capital's Double Impact Fund, asset managers are responding to their clients' demand for investments with purpose. What is noteworthy about this new generation of impact-focused PE funds is their size. Bain closed its fund with a reported US$390 million, upsized from an original target of US$250 million, while TPG raised more than US$2 billion of commitments. The investor base is composed largely of traditional private equity limited partners looking for market rate returns alongside measurable impact.

The examples highlight the promise of mainstream finance to mobilise private capital at scale towards addressing the world's SDG challenges. These early successes, however, are nowhere near enough. Cumulatively, they add up to several hundred billion dollars, whereas the SDG price-tag runs in the trillions. This raises the question of what it will take to increase the number and size of these SDG-aligned investment solutions. To Answering this question requires an analysis of what currently stands in the way of capital flowing at scale across the full spectrum of the financial services value chain, from product origination and structuring through sales, marketing, distribution and market uptake.

2 GAPS IN THE SDG PRODUCT DEVELOPMENT VALUE CHAIN

The financial services industry operates in one of the largest, most complex supply chains in the world, exchanging trillions of dollars daily across a myriad of institutions, markets, geographies, and asset classes. Despite this complexity, its basic function equates to linking the needs of capital seekers with the resources of capital providers through a set of key steps, as illustrated below:

FIGURE 4:
Summary of the Financial Services Product Development Supply Chain



Source: John Morris; C-Change analysis

Our research has brought into attention six key market gaps which cut across the full value chain. These gaps are interconnected and cut across the consecutive stages and range of actors in the value chain, from asset owners to Development Finance Institutions (DFIs) and philanthropy. The analysis does not, however, look at regulation and policy, which clearly have critical roles to play in shaping the activities of the value chain, as these are covered in another GSG paper [Catalysing an Impact Investment Ecosystem: A Policymaker's Toolkit].

FIGURE 5:
Summary of key market gaps

1. **VISIONARY LEADERSHIP & INCENTIVE ALIGNMENT**, i.e., Need for stronger leadership and commitment by key stakeholders to drive the SDG investment agenda
2. **MORE ROBUST INFORMATION**, i.e., Need for better data, clearer standards and benchmarks to drive SDG investments
3. **ALIGNED CAPABILITIES**, i.e., Need for more aligned capabilities to effectively bridge the impact finance ecosystem with mainstream finance
4. **EFFECTIVE PRODUCT DESIGN, i.e., Need for more effective product design to meet the needs of mainstream investors**
5. **EFFICIENT DISTRIBUTION, i.e., Need for stronger bridges linking the impact/development finance ecosystem to the capital markets**
6. **CATALYTIC SUPPORT**, i.e., Need for more catalytic support for the development and scale of impact products and investments

2.1 A Need for Visionary Leadership and Incentive Alignment

Bold and inspirational leadership is arguably the most important ingredient to catalysing the SDG investment value chain. It starts with asset owners, who have singular power in steering the direction of markets through their mandates and allocations. While commitment to responsible investment has grown exponentially over recent years among asset owners, too few have explicit SDG-aligned mandates and allocations. Until there is greater signaling from these market participants, the value chain will remain sub-scale.

The leadership within asset managers and investment banks also has a crucial role to play in driving forward the SDG investment agenda. An oft-cited barrier is the fact that sustainable investing remains on the periphery at many mainstream firms, sitting with functional teams under marketing or operations as opposed to being a fully-resourced line of business with its own performance standards and incentives. This lack of integration results in insufficient lifecycle management, where core business units are not incentivised to systematically develop and promote SDG-aligned opportunities.

ILLUSTRATIVE BARRIERS	ILLUSTRATIVE SOLUTIONS	PRELIMINARY RECOMMENDATIONS
▲ Lack of incentives for the lifecycle management of impact products and solutions; sustainable finance regarded as a CSR activity, as opposed to a core business priority	▲ Shifts by major financial institutions to drive sustainability and impact to a core strategic focus (e.g., Blackrock call for companies to demonstrate positive contribution to society)	▲ *Institutional Investors:* Set **clear mandates to incentivise asset managers to seek out SDG-aligned investments** ▲ *Asset Managers/Investments Banks:* **Set clear commitments towards financing the SDGs and align incentives with impact,** so that impact performance becomes a key driver of allocation and compensation decisions
▲ Lack of mandates on the part of asset owners to incentivise asset managers to seek SDG aligned investments	▲ Increased SDG-aligned carve-outs by institutional investors (e.g., Dutch pension funds PME, PGGM)	

2.2 A Need for More Robust Information

Information drives investment. The SDG investment universe, however, remains opaque and capital flows are inhibited due to information failures that arise across several dimensions. Firstly, the sector lacks meaningful indices and benchmarks that institutional investors rely on to meet their investment objectives and fiduciary responsibilities. Indices are also key in creating greater market transparency and the development of new products. While we have seen some exciting developments in this direction, such as the launch by BNP and The World Bank of the first-ever SDG index-linked bond in 2017, the overall market remains underdeveloped. For example, investment performance data from DFIs/MDBs (Multilateral Development Banks), who have an unparalleled history investing in SDG-aligned markets and sectors for decades, remains proprietary.

Secondly, information is also key to ensuring impact integrity in the SDG investment universe. Despite many efforts to create greater standardisation, the industry has failed to coalesce around a set of market metrics and reporting methodologies. The market is inundated with proprietary approaches, metrics and standards. This only adds confusion to the market and raises the risk of impact washing because investors don't have standard ways of assessing the efficacy of particular products or vehicles.

ILLUSTRATIVE BARRIERS	ILLUSTRATIVE SOLUTIONS	PRELIMINARY RECOMMENDATIONS
▲ Lack of meaningful benchmarks	▲ Development of new, SDG-focused benchmark indices (e.g. MDB/World Bank Index (UBS); CDFI Index (Enterprise – in development)	▲ *Asset managers:* In partnership with index providers, **invest in the development of new benchmarks to expand the scope of SDG-linked products** ▲ *DFI/MDBs:* **Accelerate efforts to disclosure performance** on investments and impact to achieve greater transparency and investor understanding ▲ *Industry bodies:* On the heels of TCFD, **strengthen the business case for the materiality of the SDGs** for investment ▲ *Industry bodies:* Work in partnership with the government, philanthropy and asset owners/managers, to drive **towards the harmonisation of definitions and adoption of consistent standards, metrics and methodologies for assessing SDG impact (e.g. IFC's creation of 13 principles of impact investing)**
▲ Lack of access to high-quality data on impact as well as performance and/or investment risks and market opportunities	▲ Industry-led efforts to increase disclosure (e.g. Climate-related Financial Disclosures (TCFD)) ▲ Development of specialised impact investing teams by investment consultants (e.g. Cambridge Associates)	
▲ Proliferation of impact standards and methodologies is confusing to investors and raises the risk of impact washing	▲ Development of a shared language and framework for assessing and reporting on impact goals (Impact Management Project) ▲ Introduction of voluntary industry standards for specific product types (Green Bonds Principles)	

2.3 A Need for More Aligned Capabilities

There is a lack of aligned capabilities for effectively bridging the impact/development finance ecosystem with mainstream finance. With the exception of one or two sectors, such as renewable energy, few mainstream investment banks or asset managers have built the specialised expertise to effectively capital-raise, structure and invest into SDG-aligned sectors and markets such as education, healthcare, and water infrastructure in developing countries. Similarly, a large majority of on-the-ground organisations, such as NGOs, that have the expertise of interventions that could further the SDGs, lack an understanding of finance or investment.

This human capital challenge also has another dimension. Finance professionals who are key to how investment decisions are made, particularly in the asset and wealth management industry, lack awareness, understanding and experience in the SDG space. Investing in training of these professionals – and their future colleagues – is a key priority to building the market and driving investment at scale.

ILLUSTRATIVE BARRIERS	ILLUSTRATIVE SOLUTIONS	PRELIMINARY RECOMMENDATIONS
▲ Lack of institutions/teams with combined first-class impact and investment/product development expertise ▸ E.g. Lack of understanding of the specific requirements of institutional and retail investors among the developers of SDG-investment solutions ▸ E.g. Lack of expertise among mainstream investors on successful and high-impact sustainable investment strategies	▲ Strategic investments by mainstream actors of specialised intermediaries – e.g. Mirova acquisition of Althelia Ecosphere; Goldman Sachs acquisition of Imprint Capital ▲ Development of specialised investment units by leading NGOs, e.g. Incubation of NatureVest by The Nature Conservancy to develop investment solutions ▲ Development of specialised intermediaries (e.g. Enclude, Kois Invest, Lion's Head Capital, Cornerstone Capital) that bridge the expertise gap ▲ Training and support to entrepreneurs and investors in regions and sectors where financial expertise is low (e.g. Climate Finance Lab capacity support) ▲ Partnerships between wealth management platforms and DFIs to develop new products that meet the needs of specific investors (e.g. World Bank and UBS development of pooled investment vehicles to meet the needs of private wealth clients)	▲ *Asset Managers/Institutional Investors:* **Build cross-functional teams** that are able to effectively work alongside MDBs/DFIs and the development/non-profit community to assess and develop impact products ▲ *Non-profits and Philanthropy:* **Build specialised teams** able to identify and help structure potential investment opportunities in partnership with MDBs/DFIs and private asset managers ▲ *Asset managers DFI/MDBs:* **Set clear targets to diversify investor base of fixed income issuances** away from only large-scale institutional investors through partnerships with wealth management platforms ▲ *Wealth managers and investment consultants:* **Invest in educating staff and clients** on the scope and performance of high-quality SDG-aligned products ▲ *Industry bodies:* **Strengthen investor and professional education** around impact products, principles and practices including in the development of professional credentials (e.g. CFA).
▲ Biases and lack familiarity/ understanding of impact products among wealth advisors, investment consultants and clients	▲ Educational outreach to investment professionals and students (e.g. Good Capital Project) ▲ Dedicated outreach among industry groups, such as the Global Impact Investor Network (GIIN)	

2.4 A Need for More Effective Product Design

A fourth value chain gap identified by our research is a need for more effective product design. Impact investments too often fail to meet the needs of mainstream investors impeding their uptake and scale. Cost, for example, is a key challenge. Most impact investment products are more expensive than their traditional counterparts. Green bonds, for example, carry additional costs associated with obtaining independent verification, ongoing reporting, and the auditing of the use of proceeds. Some issuers have shied away from green bonds to avoid incurring these costs. Similarly, the structuring of blended-finance vehicles is complicated and more time-consuming and costlier to structure and fundraise. These costs create friction in the market that need to be addressed for SDG investments to scale.

Product design challenges also include the disconnect between the long-term investment goals of asset owners and the shorter-term horizons, incentives and goals of asset managers. This disconnect is pertinent to the SDG investment universe: asset owners – such as pension funds – have a vested interest in seeing their investment address critical, long-term challenges such as climate change, yet the market is set-up to do the opposite.

ILLUSTRATIVE BARRIERS	ILLUSTRATIVE SOLUTIONS	PRELIMINARY RECOMMENDATIONS
▲ High transaction costs of using de-risking tools	▲ Shift de-risking from the project to market level (e.g AfricaGreen Co – *in development*) ▲ Standardisation of term sheets and approaches (e.g. Impact Terms Project)	▲ *Industry bodies:* Develop and disseminate tools **to support cost-effective analysis** of impact for specific asset classes ▲ *Investment banks:* Expand **use of unique capabilities (e.g. warehousing and securitisation) for scale of high-impact investment strategies** ▲ *Donors and DFI/MDBs:* **Seek 'wholesale' solutions for the deployment of de-risking tools** to reduce transaction costs
▲ Higher costs associated with certification and monitoring of impact products (e.g. Green Bonds)	▲ Standardisation of methodologies and definitions to lower cost and effort of verification (e.g., Climate Bonds Initiative; Green Coupon) ▲ MDB/DFI cost sharing of impact certification and reporting with issuers (e.g., IFC around green bonds in emerging markets)	
▲ Disconnect between the long-term horizons of asset owners and shorter-time horizons of asset managers	▲ Development and sharing of investment mandates with provisions oriented towards long-term goals (FCLT Global)	
▲ Projects are too small to meet the minimum ticket-size of institutional investors	▲ Warehousing facilities to aggregate small projects while reducing transaction costs (e.g. Citibank warehousing of energy efficiency retrofits) ▲ Foster product standardisation to ease scale of high impact investments (e.g. Coalition for Private Investment in Conservation)	
▲ Mainstream investment solutions are not tailored to less developed SDG regional/sectoral contexts	▲ Develop tailored regional solutions that are attractive to domestic and internal investors (e.g. The Climate Finance Lab)	

2.5 A Need for Efficient Distribution

Gaps in distribution emerged as a fifth key weakness in the value chain. Despite increased interest in impact investing and the entrance into the space by large-scale traditional asset managers, the distribution infrastructure linking the mainstream capital markets to the impact and development finance community is weak. For example, Development Finance Institutions (DFIs) and Multilateral Development Banks (MDBs) are the largest and most experienced investors in emerging market, impact-focused private equity and yet, there are still too few channels – such as equity and debt participation funds – through which mainstream investors can access and participate in these investments. In addition, distribution channels between specialised, local asset managers creating products and the mainstream capital markets are lacking. Impact funds are often local or highly specialised in specific sectors and lack access to mainstream investment platforms. Moreover, the distribution channels between providers of catalytic capital (e.g. donors and philanthropies) and developers of SDGs products is ad hoc and inefficient. Channels for linking these actors need to be professionalised and made more robust in order to add the necessary grease to the SDG product development pipeline.

ILLUSTRATIVE BARRIERS	ILLUSTRATIVE SOLUTIONS	PRELIMINARY RECOMMENDATIONS
▲ Lack of intermediation between developers of impact products and mainstream distribution and marketing platforms	▲ Intermediation between public and private finance communities (The Climate Finance Lab) ▲ Bank of America Catalytic Capital Initiative driving institutional investor commitments toward high-impact sustainable investments	▲ *Government, donors and philanthropy:* **Support and finance specialised intermediaries (e.g. Green Banks, Wholesalers) with the resources and capital flexibility** to overcome market failures to scaling investment into the SDGs ▲ *Donors, DFIs/MDBs and philanthropy:* Drive towards **developing and adapting concessional finance facilities to be more market-friendly and efficient** ▲ *Asset Managers/Institutional Investors:* Invest **resources and time to strengthen and scale existing initiatives** linking public and development finance with mainstream finance (e.g. The Climate Finance Lab and The Catalytic Capital Initiative)
▲ Sources and means of accessing concessional capital are opaque; processes for accessing funding is complicated and time-consuming	▲ Move towards more proactive outreach, transparency and a reduction in lead time to match private investors' needs (e.g. Convergence)	

2.6 A Need for More Catalytic Support

The 2018 GIIN Investor Survey highlights "appropriate capital across the risk/return spectrum" as the leading challenge to the growth of the impact investing market. Our research also highlighted a lack of catalytic support – defined here as capital and resources which are patient, flexible and risk-tolerant – as a key constraint for the development and scale of impact products and investments. Too often, promising new investment products are not developed because they lack access to suitable capital to demonstrate their effectiveness. Similarly, projects are not realised because they lack access to the long-term debt that extends beyond traditional project financing timeframes. Catalytic capital can help to address these market failures as highlighted in the table below. It is important to note, however, that the provision of catalytic capital does not equate with below-market returns or permanent subsidy. Effectively deployed, catalytic capital helps demonstrate the viability of new investment products and/or supports viable investments on commercial terms, such as in the case of Green Banks deploying long-dated loans.

ILLUSTRATIVE BARRIERS	ILLUSTRATIVE SOLUTIONS	PRELIMINARY RECOMMENDATIONS
▲ Lack of catalytic capital to cover high-development costs for new products and SDG-aligned investment opportunities	▲ Philanthropic support for new product development and piloting (e.g. The MacArthur Foundation, The Rockefeller Foundation, Convergence) ▲ Technical assistance facilities for infrastructure project development (e.g. PIDG)	▲ *Donors and philanthropy:* **Deepen and broaden the pool of catalytic capital** (including grants, guarantees, concessional capital, etc.) for the development of new products and investments ▲ *DFIs/MDBs:* **Set clear and ambitious targets for the mobilisation of private investment** into SDG-aligned sectors and markets ▲ *Governments:* **Replicate and expand the scope of specialised intermediaries "such as Green Banks"** to offer more flexible capital to meet the needs of SDG-linked investments
▲ Lack of patient capital for long-dated investment horizons	▲ Provision of long-tenor loans by Green Banks	
▲ Lack of de-risking solutions to address real and perceived high risk (e.g., currency and risk insurance, guarantees, etc.)	▲ Public and philanthropic risk mitigation (guarantees, insurance, first loss in a blended pool) ▲ Mobilisation of private investment by DFIs through syndication platforms; debt subordination in blended finance funds	

3. The SDG Investment Opportunity

The SDG challenge marks a historic opportunity for the financial services industry. With raised awareness over the urgency of the global challenges among consumers and regulators, and the recognition of the business case for sustainability by corporate and financial leaders, the world is at the beginning of a seismic shift towards an impact economy: one focused on fundamentally incorporating sustainability and social impact across investment and consumption decisions. As Vice-President Al Gore has stated, we "are in the early stages of a global 'Sustainability Revolution' that has the magnitude of the Industrial Revolution and the speed of the Digital Revolution."

Many indicators in the world of finance point to this shift. According to the Business & Sustainable Development Commission composed of more than 35 global CEOs, sustainable business models linked to the SDGs could open economic opportunities worth up to US$12 trillion by 2030. A 2017 survey by Morgan Stanley of individual investors in the US indicates that 75% are interested in sustainable investing, with this percentage climbing to 86% among Millennials who, by 2020, will control up to $24trn in globally assets. Institutional investors are also increasingly engaging strongly with sustainability issues and taking action. For example, 289 institutional investors with nearly USD $30 trillion in assets under management have signed on to ClimateAction 100+, an initiative launched in December 2017 by the world's largest institutional investors to steward the world's highest-emitting public companies onto a pathway that aligns with the Paris agreement.

Regulators are also taking this new reality of mega-threats seriously. Most recently, for example, the European Commission has called for the integration of climate and environmental, social, and governance (ESG) factors into the formal mandate of the European Supervisory Authorities (ESAs). Growing forward, the confluence of these consumer, business and regulatory trends are only likely to accelerate the push towards the impact economy.

It is already evident that the financial industry faces enormous disruption if it does not act. 2017, for example, set a record for insurance losses from natural disasters. More than $135 billion was paid out to cover the costliest-ever Atlantic hurricane season and enormous flooding losses in South Asia, the result of the worst Monsoon rains in decades. These indicators are the tip of the iceberg. According to a 2016 London School of Economics study, climate change could cut the value of the world's financial assets by $2.5 trillion. In the words of Mark Wilson, CEO of Aviva – the UK's largest general issuer: "If we do not take urgent action to limit global temperature increases to within 2˚C, the impacts upon the economy, society and our business will be nothing short of devastating".

A similar call to action on the risks of societal inequality was issued in January 2018 by Larry Fink, chairman and chief executive of BlackRock, the world's largest asset manager, who declared that "to prosper over time, every company must not only deliver financial performance but also show how it makes a positive contribution to society". Fink's intervention is widely viewed as a game-changer for companies, investors and regulators, given the strength of the message and the financial strength of the assets behind it. Many believe that Fink and BlackRock have now set the level of expectation for the minimum standard that any investor and society at large should be looking for. It is more proof that now is the time to drive the SDG investment agenda forward.

3 NEXT STEPS

Throughout history, finance has been primarily concerned with meeting the capital needs of individuals and organisations, whether these be business, corporations or government. The SDG investment challenge calls for a mind-set shift in forcing the question of how finance can also be deployed to underwrite solutions to society's biggest challenges.

The diagnosis of the challenges facing the product development value chain for impact products is only the first part of the required analysis. The next step is to design an ecosystem capable of achieving a step-change in the number and scale of "fit-for-purpose" investment products that meet the needs of the largest pools of investment capital in scalable and effective ways, *whilst* measurably contributing towards the SDGs. This will be developed by the author in partnership with the Working Group over the coming months through a collaborative process of exchange and the testing of ideas with industry leaders and market participants. All those interested are welcome to participate in this journey of analysis and discovery.

> "It is not just getting traditional investing people to know about impact, it is also the other way around: getting the impact focused people to know about mainstream investing and how it really works in that world."
>
> **BRIAN WALSH**
> LiquidNet

> "It's about scale, and the need to create a track record so mainstream markets can kick in a whole new level. I think that there is a mismatch that hinders the ability of the impact world to get the attention of mainstream markets. We need to think about innovative ways to tap into the commercial markets."
>
> **TRACY PALANDJIAN**
> Social Finance US

> "Finance, at its best, does not merely manage risk, but also acts as the steward of society's assets and an advocate of its deepest goals."
>
> **PROF. ROBERT SCHILLER**
> Yale University,
> Nobel Prize Winner for Economics

APPENDICES

APPENDIX 1: A Lay of the Land
A Review of Promising Impact Products

This appendix highlights notable examples of impact instruments and mechanism that surfaced as part of this research and have a certain value for illustrating how identified market failures (Figure Appendix 2.1.) have been overcome.

The examples listed below cut across the continuum and involve different risks and returns, although not always presented. As such, they take a variety of forms across sectors and geographies, from thematic bonds, to insurance-linked securities and listed securities. Taken together, this appendix provides a snapshot of instruments and mechanisms that proved to work and are likely to play an important role in our transition towards the impact economy.

PUBLIC / PRIVATE EQUITY *(EST. 53% of Global AUM)*

CRAFT by the Global Innovation Lab for Climate Finance **Asset Class:** Public/ Private Equity	In 2016, the Global Innovation Lab endorsed CRAFT as a first commercial investment vehicle that aims to expand the availability of technologies, products and services for climate adaptation and resilience, in order to reduce the vulnerability of individuals and businesses to climate impacts. CRAFT blends commercial and concessional capital into a private equity fund that offers strategic support to, and invests growth capital in, 10-20 companies offering climate resilience products and services both in developing and developed countries. CRAFT established a $500 million global private equity fund that invests growth capital and strategic support into companies that already offer climate resilience products and services. A complementary $20 million Technical Assistance Facility enables the provision of technical support to companies in developing countries through grants. As stakeholders in these and other economic sectors face increasing risks from climate change, CRAFT creates a market opportunity to offer services and solutions to help customers both assess and manage these risks and reduce costs.[6] The instrument effectively addresses perceived investment risk by using concessionary capital, as a risk sharing mechanism which helps to crowd in private sector investment.

Clean Energy Investment Trusts (CEIT) by Greencoat Capital **Asset Class:** Public/ Private Equity	In 2013, Greencoat Capitals Clean Energy Investment Trust (CEIT) had a listing of £260 million supported with a cornerstone investment of £50 million by the UK government's Department for Business, Innovation and Skills (BIS). Greencoat Capital, a UK asset manager, managed the first successful listing of this new financial innovation, which refer to yield-focused, low-fee, publicly tradeable, closed-end investment vehicles. CEITs effectively allow for expensive project development capital to be replaced shortly after construction with low cost capital from the capital markets while offering liquidity, stable yield and transparency to investors. As such, it addresses the challenge of finding the right match between the predictable long-term liabilities of some institutional investors (such as pension funds) and the low-risk cashflows from infrastructure projects such as those related to renewable energy, which has been a central concern, in part due to regulatory changes and a dearth of the specialist skills required to assess, such investments. In addition, the fact that the instrument is publicly tradeable addresses the liquidity risk of investing directly in renewable energy assets. Greencoat's UK listed fund has since 2013 mobilised over 20x of its initial amount of £260 million over four years - with a current market capitalisation of £1.37 billion - and the overall market for listed renewable energy funds has grown 80x, all without subsidy. Thanks to this success, the replication of the CEIT concept is being actively explored in new markets including India and Mexico.

[6] A detailed case study is available at: https://climatepolicyinitiative.org/wp-content/uploads/2017/10/Global-Lab-Instrument-Analysis-CRAFT.pdf (2017)

Impact Investment Trust by Impact PLC **Asset Class:** Public/ Private Equity	The Impact Investment Trust was introduced in 2017 by Impact PLC and aims to attract capital from all categories of investors (including private individuals) to invest in a portfolio of frontier and emerging markets impact investing funds. Through a London Stock Exchange listed, Closed End Investment Company, it offers high liquidity and a highly regulated format, with a low investment minimum through a public equity offering. Impact PLC's impact strategy is built around 3 pillars: investment into high impact sectors (i.e. healthcare, education, energy, basic infrastructure, agriculture, financial inclusions), providing growth capital to SMEs, and building responsible businesses. Although Impact PLC is not yet live as of today, its design is innovative and effectively addresses regulatory gaps and liquidity risks, which make it difficult for individual investors to invest in impact. By aggregating underlying assets of private equity funds, it creates an opportunity for insititutional investors to invest in SMEs in emerging markets through a familiar investment instrument with high levels of regulation and liquidity.

JUST U.S. Large Cap Equity ETF by Goldman Sachs Asset Management **Asset Class:** Public/ Private Equity	The JUST U.S. Large Cap Equity ETF was launched in June 2018 by Goldman Sachs Asset Management as an exchange-traded fund. The fund seeks to invest in large capitalisation U.S. companies that engage in 'just business behaviour' based on ratings produced by Just Capital, an independent non-profit that uses data and markets to create positive change in corporate behavior. The ETF tracks the Just U.S. Large Cap Diversified Index and provides broad market exposure to companies with above-average scores across all major social, environmental, and governance issues critical to the American people. The ETF is priced at 20 basis points to investors and exhibits high correlation to both the S&P 500 and the Russel 1000 indexes, making it an attractive, low-cost core U.S. equity allocation instrument. The ETF is listed on the New York Stock Exchange in 2013 with $50 million in assets and has grown to over $250 million as of 2018. The design of the instrument effectively addresses the value chain failure of insufficient attention to ESG issues in daily practice, by allowing investors to support ESG conscious organisation through their listed equity investments, while also supporting the benchmarking of company performance on ESG issues.

Social Success Note (SSN) by Yunus Social Business & The Rockefeller Foundation **Asset Class:** Public/ Private Equity	The Social Success Note (SSN) launched in May 2018 by Yunus Social Business and The Rockefeller Foundation as a new financial innovation, similar to a Social Impact Bond, that harnesses private return-seeking capital to support businesses achieving social outcomes. By aligning the incentives and interests of entrepreneurs, investors, and philanthropic outcome payers, the SSN aims to address the missing-middle financing gap for impact SMEs by directing commercial capital to social enterprises and overcome the long-entrenched trade-off between social impact and financial return. The SSN aims to achieve its goal by pricing social outcomes and transferring the value of these outcomes in the form of an additional return from an outcome payer (philanthropic entity) to a mainstream investor, solely when the social business investment delivers on predefined social outcomes. The SSN is utilised to finance the activities of Impact Water, a social business that sells, installs and maintains water filtration systems in Uganda. Impact Water will use investment capital from UBS Optimus Foundation and Outcome Payments from the Rockefeller Foundation to increase the scale of its impact to provide 1.4 million children with clean water over the next 5 years. The design of the instrument ensures that outcomes funders only pay for verified impact, which aligns the incentives of the various parties involved with the impact objectives of the vehicle.

PUBLIC / PRIVATE DEBT *(Est. 22% of Global AUM)*

African Local Currency Bond Fund (ALCB) by KfW and the German Government (BMZ) **Asset Class:** Public/ Private Debt	The African Local Currency Bond Fund (ALCB) was introduced in 2012 by the Development Bank KfW and the German Ministry for Economic Cooperation and Development (BMZ) as a sustainability bond fund. ALCB seeks to improve private sector access to long term local currency financing by promoting local currency bond markets as a source of funding for African businesses. The $70 million ALCB Fund was issued in South Africa and is managed by LHGP Asset Management with the aim of addressing systemic risks that prevent the development of corporate local currency bond markets. In addition to reducing exchange rate risk for African borrowers by reducing the need to obtain finance in foreign currency, the fund also provides technical assistance to financial service providers and selected companies in renewable energy, housing and agriculture to support sustainable borrowing. The instrument is particularly effective given that it addresses exchange rate risks faced by African borrowers who have tended to raise finance in foreign currencies due to underdeveloped local bond markets, while also providing assistance to mitigate investment risk, and importantly, acts to reduce the systemic risks in the emerging market private sector that restrict investment in the long term.

Planet Emerging Green One (EGO) by Amundi **Asset Class:** Public/ Private Debt	The Planet Emerging Green One is a green bond fund issued in 2018 in Luxembourg with a size of $1,42 billion which aims to significantly increase the scale and pace of climate finance in emerging markets by crowding in capital from investors and creating new markets. Coordinated by Amundi Asset Management, the fund brings together a large diversified network of institutional investors across Europe and the Middle East to tackle obstacles, such as reducing risk into emerging market debt investments and channelling money towards green infrastructure projects. In general, Green Bonds tie the proceeds of bond issues to environmentally friendly investments such as wind and solar power, mass transit and upgrades in energy efficiency. The market started a decade ago with issuances from the European Investment Bank ("EIB") and World Bank, worth just a few hundred million dollars annually. In 2017, the green bond market grew to over $160 billion, marking the seventh consecutive year of record-breaking annual issuance. It's one of the fastest-growing segments of the fixed income universe with an expected compound annual growth rate of 30% this year and today resembles a high quality, core global bond allocation. Through aggregation of a diverse capital base and multiple emerging market green bonds, the fund effectively addresses the perceived market risk of investing in emerging market debt, while also reducing the perceived investment risk through the management of the fund by Amundi, one of Europe's largest asset managers.

Land Degradation Neutrality Fund (LDN) by Mirova **Asset Class:** Public/ Private Debt	The Land Degradation Neutrality (LDN) Fund was introduced in 2017 by Mirova as an impact investment fund targeted at sustainable agriculture and forestry, as well as green infrastructure and ecotourism. It was issued globally as an innovative public-private partnership structure to tackle land-degradation, linked with Sustainable Development Goal #15 (Life on land). With a target size of $300 million, the fund is jointly promoted by the UN Convention to Combat Desertification and Mirova, an affiliate of Natixis Global Asset Management. The LDN Fund is the result of a collaborative design process by the Governments of France, Luxembourg, Norway, and the Rockefeller Foundation as well as an advisory group comprising representatives from public financial institutions, international NGOs and academia. By leveraging long-term non-grant financing, the LDN Fund will invest in financially viable private projects on land rehabilitation and sustainable land management worldwide, including sustainable agriculture, sustainable livestock management, agro-forestry, and sustainable forestry. A technical assistance facility will also support projects seeking investment from the LDN Fund with practical project design and implementation support to build a strong portfolio of sustainable land management (SLM) projects that satisfy the Fund's investment criteria and contribute to fighting land degradation, effectively addressing the perceived investment risk.

ESG Linked Revolving Credit Facility by Philips and ING **Asset Class:** Public/ Private Debt	The €1 billion Revolving Credit Facility was announced in 2017 by Philips in collaboration with ING as the Sustainability Coordinator of the facility, and supported by a consortium of 16 banks, including BNP Paribas, Goldman Sachs and JPMorgan. The facility is a first in the syndicated loan market that links its the pricing to a Sustainalytics rating. It has a maturity date of 2022 and substitutes Philips' current €1.8 billion facility. The revolving credit facility is for general corporate purposes, and ties the interest rate of credit provided to Philips directly to the company's year-on-year sustainability performance improvement, which includes environmental as well as social and governance factors. This is different from green loans and bonds, where the pricing is linked to specific green covenants or where the use of proceeds is limited to green purposes, and as such provides the Philips with more flexibility in terms of how it uses the funds. This kind of ESG-linked financing directly addresses the value chain failure of a lack of attention to ESG issues in daily practice by directly incentivising improvement in ESG performance.

Africa Loan Fund by BRAC **Asset Class:** Public/Private debt	BRAC Africa Loan Fund was announced in 2008 by Bangladesh Rural Advancement Committee (BRAC), an International Development Organisation, to provide long-term, local currency funding and enable BRAC to scale up its microfinance operations to reach over 700,000 borrowers through over 200 branches across Tanzania, Uganda, and Southern Sudan. The fund is a structured loan fund with an additional layer for currency (not credit) risk to ensure that low income clients do not bear the brunt of currency fluctuations, while at the same time recognising that currency swap mechanisms are not available without driving the costs of capital up with the consequence of altering the impact (segment) objectives of the issuer. This effectively addresses the product failures associated with market risk attributed to currency volatility, and the lack of localisation of foreign capital funded loan funds.

REAL ASSETS *(EST. 14% of Global AUM)*

Inclusio Affordable Housing Fund by Kois **Asset Class:** Real Assets	Inclusio is an investment vehicle launched in 2015 by Kois Invest, Degroof Petercam and Revive that raised €73.7 million from Belgian institutional, private and public investors by Q2 of 2017. The fund aims to bring affordable housing to fragile segments of the Belgian population through private funding. Through the provision of an increased volume of renovated or newly built affordable housing solutions to the market, Inclusio's goals have already been met. Inclusio currently owns 16 residential real assets and/or projects, and has ambitious growth plans. To guarantee its success, Inclusio favours active cooperation with social service providers with proven and effective social reinsertion methods in at least 25% of the projects. Furthermore, portfolio expansion is planned over the next years with a focus on buildings meeting social housing requirements and community integration. The eventual goal is to have the buildings operated by social real estate agencies/ public institutions, based on long-term renting/management contracts over a minimum of 9 years. The design of the instrument addresses the risk of insufficient returns to investors through guaranteed rental agreements, while offering dividend in line with other residential real estate investments. In addition, the investment vehicle has the potential to address liquidity risk through prospective IPO expected in 2019/2020.
Social Property Impact Fund by Cheyne Capital **Asset Class:** Real Assets	In 2014, Cheyne Capital launched its Social Property Impact Fund with £100 million initial capital. It's objective is to invest £900 million to increase the capacity of the charities and social enterprises that delivers services such as supported housing for people with disabilities, affordable housing for those on low incomes, elderly care and specialised housing for people experiencing homelessness. The fund aims to attract new sources of capital to the social investment market, while tackling a serious and growing social issue which requires a large amount of capital. The fund is seeking to address this market gap by focusing on large pools of capital with limited participation in the social investment market at present. By being backed by en experienced fund manager with a strong track record in the real estate market, the fund effectively addresses the perceived investment risk in a traditionally underfunded sector.

INSURANCE *(N/A)*

Caribbean Catastrophe Risk Insurance Facility by CCRIF SPC **Asset Class:** Insurance	In 2007, the Caribbean Catastrophe Risk Insurance Facility was formed as the first multi-country risk pool in the world, and was the first insurance instrument to successfully develop parametric policies backed by both traditional and capital markets. It is designed as a regional catastrophe fund for Caribbean governments to limit the financial impact of devastating hurricanes and earthquakes by transferring the risks of natural disasters such as hurricanes and earthquakes from public budgets to the capital markets. In 2014, the facility was restructured into a segregated portfolio company (SPC) to facilitate expansion into new products and geographic areas and is now named CCRIF SPC. The new structure, in which products are offered through a number of segregated portfolios, allows for total segregation of risk. As an illustration, CRIFF provided five Caribbean countries and territories a payout of $42 million to pay for disaster relief after the devastation caused by Hurricane Irma in 2017. While it was not large enough to cover the full costs of relief and rebuilding, the amount is substantial (representing approximately 1% of their combined GDP) and was made available quickly (less than a fortnight after the disaster hit). The design of the facility is particularly effective, as it pools the capital from multiple sovereign entities, allowing size of the instrument to scale to sustainable levels.

Extreme Climate Facility (XCF) by African Risk Capacity **Asset Class:** Insurance	The Extreme Climate Facility (XCF) is designed and established by the African Risk Capacity (ARC), a specialised agency of the African Union established in 2012 to help African Union (AU) Member States improve their capacities to better plan, prepare and respond to extreme weather events and natural disasters by providing targeted responses to disasters in a more timely, cost-effective, objective and transparent manner. The XCF is a data-driven, multi-year vehicle that provides financial support to eligible African countries to help them build their climate resilience and be financially prepared to undertake greater adaptation measures should extreme weather event frequency and intensity increase in their region. As an African-led initiative, XCF is designed to access private capital, diversifying the sources and increasing the amount of international funding available for climate adaptation in Africa. The financial obligations of African countries to the XCF are securitised and issued as climate change catastrophe bonds, providing additional climate change adaptation financing to participating African countries. The design of the instrument addresses perceived investment risk as it securitises multiple government obligations, diversifying risk for investors in the bonds, thereby also addressing the political risk associated with emerging market bonds

MULTIPLE ASSET CLASSES / BLENDED *(N/A)*

Africa GreenCo by Africa GreenCo **Asset Class:** Multiple	Africa GreenCo is a $100 million fund launched in 2017 in South Africa with the support of the Rockefeller Foundation, amongst other partners. The fund is designed to act as a creditworthy offtaker for private sector renewable energy projects in Sub-Saharan Africa. It aims to increase private sector investment in renewable energy generation projects by mitigating the credit risks associated with the lack of creditworthy off takers and the lack of viable power market to sell electricity production. The initial capital structure relies on equity funding from local governments, along with guarantees and grants from the international development community and other impact investors. The Africa GreenCo structure acts to reduce risk and project development costs for all stakeholders, address inefficiencies caused by the current 'single buyer single seller' model, reduce fiscal burden for host Governments and catalyse private sector debt and equity investment. In the long term, as GreenCo succeeds in attracting more private sector investment to the sector at lower cost, and assists in the transition to cost-reflective tariffs and ultimately utility creditworthiness, GreenCo will make itself redundant in its role as a creditworthy intermediary. As this occurs, GreenCo will transition to being one of many traders on the Africa power markets it helps to develop. The instrument is particularly effective as it addresses systemic risks that restrict the level of private sector investment in emerging market renewable energy projects, while also linking the introduction to a long-term growth strategy

India Education Outcomes Fund by Global Steering Group for Impact Investing (GSG) **Asset Class:** Multiple / Blended	The India Education Outcome Fund will be launched in September 2018 and is an effective vehicle for outcome based philanthropy that pays on the results achieved. The fund will work towards improving the quality of education in India's K12 segment. It will be focused on enhancing the government school system to deliver contracted outcomes, for a total of nine interventions, including school readiness, school to workforce transition, dropping out of girls in secondary school & disability inclusion enrolment. The focus on education outcomes is to channel more impact investment to achieve the UN Sustainable Development Goals 4 (SDGs)—which seek to ensure inclusive and quality education for lifelong learning. It will raise the majority of its funds from national and international aid agencies, philanthropists, HNIs and CSR initiatives. The Indian government recently mandated that companies must give 2% of their profits for charitable and development initiatives. Some of the funds generated from this initiative will provide the initial pool of philanthropic capital. A team under Social Finance India will be managing the fund and will be set up as a non-profit. The vehicle demonstrates the move from "proof of concept" to replication and scale of the impact bond market. The design of the instrument allows local partners with knowledge of on-the-ground realities to implement the impact objectives, ensuring maximum impact alongside operational efficiency

Climate Investor One by Netherlands Development Finance Company (FMO) **Asset Class:** Multiple / Blended	In 2017, the Netherlands Development Finance Company FMO introduced a unique $412 million finance facility, called Climate Investor One. It combines a development, construction and re-financing fund into a single fund to finance projects in energy sectors. The fund is focused on financing projects in low and lower middle income countries in the wind, solar, and hydro sectors with an average size of 25-75 MW or $80-100 million total investment cost. The facility aims to support projects in these sectors through several stages of a projects' life-cycle to ensure they get off the ground and attract new investors. It provides technical, environmental and social due diligence support for early-stage projects and provides financing through equity capital, removing the necessity for complex capital structures and providing more robust capital to absorb changes that may occur during construction. Climate Investor One also aims to unlock new capital through a pooled refinancing fund to attract investments from institutional investors. The innovative design of the facility means that these projects will require 7-21% less capital than a typical project, a significant reduction in costs, with clean energy provided at 9-18% lower cost to consumers in developing countries. Aiming to mobilise at least $2 billion in new private finance by 2020, while lowering the cost of clean electricity to consumers in developing countries, Climate Investor One is designed to address multiple product and value chain failures in the renewable energy sector. It simplifies the capital structure of deals reducing the complexity for investors in the construction fund, it lowers the development risk of renewable energy projects through the robust nature of the funding it provides, and it supports projects through the entire development life-cycle.

APPENDIX 2: A Lay of the Land
A Review of Market Building Initiatives

While this research urges for a shift in our capital markets towards SDG Investing, it recognises that a notable shift is already on its way, marked by a growing number of concrete sustainability commitments by investors, and the establishment of new initiatives, organisations and benchmarks.

This appendix offers a short-list of promising market building initiatives that surfaced as part of this research, and that effectively aims to accelerate the transition to a new impact economy. By doing so, these cases are illustrative for market building initiatives that are effectively able to address or overcome specific impact, accountability, and information failures, as defined in the third chapter of this report.

ESG Materiality Map by Sustainable Industry Classification System (SASB)	In 2014, the Sustainability Accounting Standards Board (SASB) created an 'ESG Materiality Map' in which ESG issues are mapped to the SDGs and their targets that benefit from strong performance. This mapping effort is actively used as a guide for both companies and investors who want to understand how value-creating ESG performance can contribute to the SDGs. The Map highlights 30 material ESG issues that matter to investors for each of the SASB's 79 industries and sectors. The initial Material Map developed by SASB identifies likely material sustainability issues on an industry-by-industry basis. The map allows users to view issues both on a sector and an industry level, thereby covering 10 industries each containing several specific sectors. The sustainability issues are classified in 5 different categories including sub-categorisations, ranging from fuel management to product packaging. The ESG Materiality Map provides insight into SDG materiality, therefore effectively addressing the gap relating to insufficient proof of materiality, allowing investors to effectively use impact data, and creating a common standard that can be used across different sectors and geographies.

SDG Impact Measurement Working Group chaired by Dutch Central Bank (DNB)	In 2016, several Dutch financial institutions and companies, including ING bank, the Netherlands Development Finance Company FMO, Triodos Investment Management and Unilever, jointly initiated an SDG Impact Measurement Working Group, chaired by the Dutch Central Bank (DNB). The goal of the working group is to determine a select set of SDG indicators that can be used to track and compare sustainable investments. The final list of such indicators was completed in June 2017 and offered investors and companies alike a credible and practicable set of 'top-line' impacts indicators per SDG, and concrete ways to measure the contribution of their assets (investments or loans) to the SDGs. By doing so, the efforts of the Working Group address the obstacle of impact measurement and the lack of standards and benchmarks.

Revised Guidelines EU Commission in line with TCFD metrics	In March 2018, the European Commission put forward an Action Plan on Sustainable Finance, which is part of the Capital Market's Union's efforts to connect finance with specific needs of the European economy to the benefit of the planet and society. One of the key features of the Action Plan is to enhance transparency in corporate reporting: the Commission is proposing to revise the guidelines on non-financial information to further align them with the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). By Q2 2019, the Commission will revise the guidelines on non-financial information. Building on the metrics to be developed by the Commissions technical expert group on sustainable finance, the revised guidelines should provide further guidance to companies on how to disclose climate-related information, in line with the TCFD 34 and the climate-related metrics developed under the new classification system. Subsequently, the guidelines will be amended to include other environmental and social factors. Furthermore, a European Corporate Reporting Lab will be established at the end of 2018 to develop best practices in corporate reporting, including environmental accounting.

Climate Bonds Standard and Certification Scheme by Climate Bonds Initiative	The Climate Bonds Standard and Certification Scheme was created by the Climate Bonds Initiative to allow investors and intermediaries to assess the environmental integrity of bonds. As such, it is a FairTrade-like labelling scheme for bonds. The Standard consists of a 3-step certification process, pre-issuance requirements, post-issuance requirements and a suite of sector-specific eligibility and guidance documents. The Standard is backed by the Climate Bonds Standard Board of investor representatives, which collectively represent $34 trillion of assets under management. Rigorous scientific criteria ensure that it is consistent with the two-degrees Celsius warming limit in the Paris Agreement. The Scheme is used across geographies by bond issuers, governments, investors and the financial markets in order to prioritise investments genuinely contributing to addressing climate change. The Climate Bonds have been successful in providing credible, science-based, widely-supported guidelines about what should and should not be considered a qualifying investment helps investors make informed decisions about the environmental credentials of a bond.

SDG Corporate Standards and Benchmarks as a response to the BSDC report in 2017 (a.o. World Benchmark Alliance and SDG Leadership Initiative)	In their 2017 'Better Business, Better World' report, the Business & Sustainable Development Commission (BSDC) listed five recommendations to achieve an 'SDG-proof' economic system. One of these recommendations is to create publicly available league tables that rank corporate performance sector by sector against relevant SDGs and establish sector sustainability benchmarks. Following these recommendations, two noteworthing initiatives have been established: the World Benchmark Alliance (WBA) and SDG Leadership through Reporting action platform. WBA is a common mechanism through which companies can be credited on their SDG performance, building on existing efforts and the use of corporate benchmarks to measure and compare performance of companies on the SDGs. The World Benchmark Alliance underscores and supports the BSDC's call on the need for SDG-related benchmarks to provide stakeholders with information they can use to inform investment and other economic decisions, increase transparency and facilitate trust between sectors, help track and compare corporate sustainability performance. In addition, the Global Reporting Initiative (GRI) and UN Global Compact jointly launched the SDG Leadership through Reporting initiative to accelerate corporate reporting on the SDGs. The Action platform created three SDG reporting tools, including the report *Analysis of the Goals and Targets,* aiming to help companies understand how they are impacting the SDGs and their targets, the report *Integrating the SDGs into Corporate Reporting: A Practical Guide*, that outlines three steps for companies to embed the SDGs in existing business and reporting processes in alignment with GRI Standards and recognised principles, and finally – the published *In Focus: Addressing Investor Needs in Business Reporting on the SDGs*, which provides additional information about investor-relevant aspects of corporate SDG reporting.

APPENDIX 3:
Research Approach & Interview List

This research was generated based on secondary research, as well as a consultation with 30 experts and leading practitioners. A Working Group (WG) of such experts provided active support and acted as reviewers for this paper.

On behalf of the GSG and Rockefeller Foundation, we wish to thank the Working Group as well as interviewees for their input and guidance to this research:

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APPENDIX 4
Market definitions: Impact Investment & Impact Economy

We can achieve a future where no one lives in poverty and the planet thrives. We must adopt a simple unifying principle: it is the collective responsibility of all actors in the society to be aware of their effects on people and the planet, to prevent the negative externalities and increase the positive impact. This impact management principle[1] underlies the impact economy we envision. *An impact economy necessitates that measurement of social and environmental impact is integrated in all economic activity; and central to government policy, business operations, investor behaviour, and consumer consumption.* How far different enterprises[2] - and their investors - go in their impact management practice depends on their intentions, constraints and capabilities:

A. At a minimum, enterprises can **act to avoid harm** for their stakeholders, for example decreasing their carbon footprint or paying an appropriate wage; such 'responsible' enterprises can also mitigate reputational or operational risk (often referred to as ESG[3] risk management), as well as respect the personal values of their asset owners.

B. In addition to acting to avoid harm, enterprises can also actively **benefit stakeholders**, for example proactively upskilling their employees, or selling products that support good health or educational outcomes; these 'sustainable' enterprises are doing so in pursuit of long-term financial outperformance (often referred to as pursuing ESG opportunities)[4].

C. Many enterprises can go further: they can also use their capabilities to **contribute to solutions** to pressing social or environmental problems, for example enabling an otherwise underserved population to achieve good health or educational outcomes, financial inclusion or hiring and skilling formerly unemployed individuals[5].

In an impact economy, enterprises use their capabilities to optimise both their positive impact on the world and their financial performance. Likewise impact investors bring their own resources to bear in optimising enterprises' impact, within the context of their constraints and capabilities, above and beyond what the capital markets enable. Investors use various strategies to contribute to impact, often in combination:

- *Signal that measurable impact matters*: Investors can choose not to invest in, or to favour, certain investments such that, if all investors did the same, it would ultimately lead to a 'pricing in' of social and environmental effects by the capital markets. Often referred to as values alignment, this strategy expresses the investors' values and is an important baseline. But alone, it is not likely to advance progress on societal issues when compared to other forms of contribution.
- *Engage actively*: Investors can use expertise, networks and influence to improve the environmental and societal performance of businesses. Engagement can include a wide spectrum of approaches - dialogue with companies, creation of industry standards, taking board seats or creating board-level committees, using their own team or consultants to provide hands-on management support (as often seen in private equity). The 'engage actively' strategy involves, at a minimum, significant proactive efforts to improve businesses' impact on people and the planet.
- *Grow new or undersupplied capital markets*, by anchoring or participating in new or previously overlooked opportunities. This may involve investment into sectors where there is a little information or transparency, or those where there are investment teams with no or little experience in the space therefore requiring investors and investees to build their understanding of how investment can work for the context. This may involve more complex or less liquid investments, or investments in which some perceive risk to be disproportionate to return.
- *Provide flexible capital*, by recognizing that certain types of enterprises do require capital which may be considered less likely to provide market rate return, less liquid, more risky, or in smaller sizes than would traditionally be invested to generate certain kinds of impact.

Hence, *Impact investments optimise risk, return and impact.*

Impact investors therefore typically spend their energy in the righthand column of Figure 1 below, supporting and scaling enterprises that contribute to solutions and go beyond signalling. Such investors often find it beneficial to accumulate deep knowledge and understanding of the social or environmental problem they are looking to solve and the system within which it exists, and to build capacity within investee organisations. By doing so, impact investors play a catalytic role in the evolution of the impact economy. In the near-term, since impact management practice is nascent, investors can also contribute to positive impact in by enabling large companies to avoid significant harm – for example, providing capital for environmental retro-fitting of carbon-intensive factories, or using shareholder activism to address poverty in a multinational corporation's supply-chain.

[1] This principle is based on widespread consensus achieved under The Impact Management Project

[2] The term 'enterprise' is used to cover a wide range of delivery models, including multinational corporations, small to medium sized enterprises, infrastructure projects, social enterprises and charities

[3] Environmental, Social and Governance; also referred to as Responsible Investing

[4] Also referred to as Sustainable Investing which includes ESG Integration, Sustainability Themed Investing and Positive/Best-in-Class ESG Performance

[5] Enterprises can also 'contribute to solutions' by selling products that enable others to act to avoid harm (for example, an off-grid lighting company)

FIGURE 1:

Mapping the ABC of impact to the way investors can contribute suggests opportunities for wider and deeper impact investment

IMPACT CLASSES		IMPACT OF UNDERLYING ASSETS/ ENTERPRISES		
		A	**B**	**C**
		Act to avoid harm Prevent or reduce significant effects on important negative outcomes for people and the planet	**Benefit stakeholders** Have various effects on important positive outcomes for people and the planet	**Contribute to solutions** Have a significant effect on specific important positive outcome(s) for underserved people or the planet
INVESTOR'S CONTRIBUTION	**1** **Signal that impact matters** + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	**E.g. Ethical bond fund**	**E.g. Positively-screened/ best-in-class ESG fund**	**E.g. Sovereign-backed bonds (secondary market) funding vaccine delivery to understand people or renewable energy projects**
	2 **Signal that impact matters** **+ Engage actively** + Grow new/undersupplied capital markets + Provide flexible capital	**E.g. Shareholder activist fund**	**E.g. Positively-screened/ best-in-class ESG fund using deep shareholder engagement to improve performance**	**E.g. Public or private equity fund selecting and engaging with businesses that have a significant effect on education and health for underserved people**
	3 **Signal that impact matters** + Engage actively **+ Grow new/undersupplied capital markets** + Provide flexible capital	**E.g. Anchor investment in a negatively-screened real estate fund in a frontier market**	**E.g. Positively-screened infrastructure fund in a frontier market**	**E.g. Bond fund anchoring primary issuances by businesses that have a significant effect on environmental sustainability, access to clean water and sanitation**
	4 **Signal that impact matters** **+ Engage actively** **+ Grow new/undersupplied capital markets** + Provide flexible capital	*Investment archetype not widely observed*	*Investment archetype not widely observed*	**E.g. Private equity fund making anchor investments in businesses that have a significant effect on income and employment for underserved people**
	5 **Signal that impact matters** + Engage actively **+ Grow new/undersupplied capital markets** **+ Provide flexible capital**	*Investment archetype not widely observed*	*Investment archetype not widely observed*	**E.g. Below-market charity bonds, or an unsecured debt fund focused on businesses that have a significant effect on employment for underserved people**
	6 **Signal that impact matters** **+ Engage actively** **+ Grow new/ undersupplied capital markets** **+ Provide flexible capital**	*Investment archetype not widely observed*	*Investment archetype not widely observed*	**E.g. Patient VC fund providing anchor investment and active engagement to businesses that have a significant effect on energy access for underserved people**

Source: The Impact Management Project, 2018

FIGURE 1. *The matrix helps investors to understand and describe the impact performance (or, if a new product, the impact goals) of an investment, or portfolio of investments. Much like financial asset classes are a helpful heuristic for quickly conveying whether the characteristics of an investment opportunity match an investor's financial intentions, the boxes on this matrix are an equivalent shorthand for conveying whether the impact characteristics of an investment opportunity match an investor's impact intentions.*

As we set our sight on a full-fledged global impact economy by 2030, we can expect significant growth in impact investments, which enable enterprises to contribute to solutions, optimising their risk, return and impact. Given the rise of impact entrepreneurship and the encouraging response of enterprises and investors to the SDGs, it is becoming realistic to think that every asset class can include a percentage of impact investments which, taken together, would unlock capital at scale to address the world's most pressing social and environmental challenges.

Other GSG Working Group Reports

WORKING GROUP NAME	PILLAR REPRESENTED	TOPICS
Building Impact Investment Wholesalers	**Supply of Capital**	It details the what, why and how of building impact wholesalers
Catalysing an Impact Investment Ecosystem: A Policymaker's Toolkit	**Policy & Advocacy**	It focuses on the role of government in the impact investment ecosystem and highlights how policy making can be catalytic
Enabling ventures to leverage technology for impact	**Demand of Capital**	It analyses the different enabling elements across the lifecycle of impact-tech, and focuses on recommendations to improve the global tech-for-good ecosystem
Investing for a better world	**Supply of Capital**	It focuses on recommendations to strengthen the financial services value chain to meet the sustainable development goals
Widening & Deepening the Market for Impact	**Market Builders**	It outlines the why and what of impact investing and presents a theory of change for widening participation and deepening practice with practical guidance on actors and levers

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GLOSSARY

TERM	DEFINITION
Catalytic Capital	Catalytic first-loss capital refers to socially- and environmentally-driven credit enhancement provided by an investor or grant-maker who agrees to bear first losses in an investment in order to catalyze the participation of co-investors that otherwise would not have entered the deal.
Development Finance Institution	Development Finance Institutions (DFIs) are specialised development banks that are usually majority owned by national governments. DFIs invest in private sector projects in low and middle-income countries to promote job creation and sustainable economic growth.
ESG	A set of standards for a company's operations that socially conscious investors use to screen investments. Environmental criteria looks at how a company performs as a steward of the natural environment. Social criteria examines how a company manages relationships with its employees, suppliers, customers and the communities where it operates. Governance deals with a company's leadership, executive pay, audits and internal controls, and shareholder rights. Investors who want to purchase securities that have been screened for ESG criteria can do so through socially responsible mutual funds and exchange-traded funds.
Green Bank	Green Banks are public finance authorities that use limited public dollars to leverage greater private investment in clean energy.
Green Bonds	Green bonds are designated bonds intended to encourage sustainability and to support climate-related or other types of special environmental projects.
Impact Economy	Impact Economy is the impact-focused part of the traditional global economy (currently $88 trillion nominal; $135trillion PPP) which measures and reports the social and environmental impact of all production and consumption decisions. It includes collective impact initiatives of Governments, Businesses, Investors, Consumers and all other stakeholders of the global economy.
Impact Ecosystem	A highly integrated network of players (such as individuals, government and organisations) focused on dramatically and fundamentally redefining sustainable value across varied constituencies.
Impact Enterprise	Impact Enterprises are legal entities, including both for-profit and non-profits, who have a mission to deliver social or environmental impact. Sometimes also referred to as social enterprises
Impact Intermediary	An entity that raises money from impact investors and invests that money in social enterprises (such as a fund). An intermediary may also arrange investments without actually handling money.
Impact Investment	Impact investment optimizes risk, return and impact to benefit people and the planet. It does so by setting specific social and environmental objectives alongside financial ones, and measuring their achievement.
Impact Investment Products	Impact Investment Products are all financial products which allow investors to invest along the impact continuum in ESG, SRI or Impact Investments enabling capital flows into impact markets.
Impact Investment Wholesaler	An impact investment wholesaler is dedicated to measurable impact on people and the planet. It finances funds, other intermediaries and social enterprises. It helps to develops the impact investment market. It seeks to invest where, but for the wholesaler's capital, the investee could not raise enough money.
Impact Management	The process of channelling the holistic impact of the organization into creating sustainable business value in the ecosystem.
Impact Markets	Impact Markets are all aggregate markets, public or private, primary or secondary, local or global, capital and revenue, including all impact assets and all impact investment products. They are a subset of the impact economy
Impact Measurement	Measuring and managing the process of creating social and environmental impact in order to maximize and optimize it.
Intermediary	An entity that raises money from impact investors and invests that money in social enterprises (such as a fund). An intermediary may also arrange investments without actually handling money.

TERM	DEFINITION
Multilateral Development Bank (MDB)	A multilateral development bank (MDB) is an international financial institution chartered by two or more countries for the purpose of encouraging economic development.
Paris Climate Agreement	At the Paris climate conference (COP21) in December 2015, 195 countries adopted the first-ever universal, legally binding global climate deal. The agreement sets out a global action plan to put the world on track to avoid dangerous climate change by limiting global warming to well below 2˚C.
Responsible Investment	Responsible investment is an investment strategy which seeks to generate both financial and sustainable value. It consists of a set of investment approaches that integrate environmental, social and governance (ESG) and ethical issues into financial analysis and decision-making. Responsible investment goes by many names – it is variously referred to as socially responsible investing (SRI), ethical investing, sustainable investing, triple-bottom-line investing, green investing – but underlying these differing names is a common theme focused on long-term value creation. Value in this context refers not only to economic value, but to the broader values of fairness, justice, and environmental sustainability
SDG Finance or SDG Impact Finance	SDG Impact Finance is all capital and revenue finance focused on achieving SDG goals
SDG Investment	All investment strategies whereby sustainability and/or the SDG's form a 'material' factor in investment decisions, i.e., where an intention to mitigate negative and/or achieve positive impacts exists. This includes all government expenditure such as universal basic income. Can be used interchangeably with impact assets
Social Entrepreneur	Entrepreneur leading an impact driven organisation, be it a social sector organisation or impact-driven business, to achieve social impact
Social Impact Bond (SIB)	A social impact bond (SIB) is a contract with the public sector or governing authority, whereby it pays for better social outcomes in certain areas and passes on part of the savings achieved to investors. A social impact bond is not a bond, per se, since repayment and return on investment are contingent upon the achievement of desired social outcomes; if the objectives are not achieved, investors receive neither a return nor repayment of principal. SIBs derive their name from the fact that their investors are typically those who are interested in not just the financial return on their investment, but also in its social impact
Socially Responsible Investment (SRI)	An investment that is considered socially responsible because of the nature of the business the company conducts. Common themes for socially responsible investments include avoiding investment in companies that produce or sell addictive substances (like alcohol, gambling and tobacco) and seeking out companies engaged in social justice, environmental sustainability and alternative energy/clean technology efforts. Socially responsible investments can be made in individual companies or through a socially conscious mutual fund or exchange-traded fund (ETF).
Sustainable Development Goals	The Sustainable Development Goals (SDGs), otherwise known as the Global Goals, are a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity.
Sustainable Investment	Investments made in themes or assets specifically related to sustainability (for example clean energy, green technology or sustainable agriculture). For the purpose of this paper, all investments that are made in context of the impact economy (see above) are also freely referred to as SDG (Sustainable Development Goal) investments, i.e., as investments where their social and environmental impact play a material role. As is true for the impact economy, SDG investments, lump all investment strategies that, in today's market economy are referred to as Responsible, Sustainable, or Impact investment, together. Underlying assumption is that all investments that are being screened for their societal impact, are by definition attributing to the SDGs.

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