GIIN
GLOBAL IMPACT INVESTING NETWORK

Roadmap for the Future of Impact Investing:
Reshaping Financial Markets

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Letter from the CEO

Dear Reader,

The history of humankind is punctuated by ambitious movements through which pioneering actors have challenged the status quo and sought transformational change in the way the world operates. As ideas progress and gain traction, there are moments when it is important to step back and take stock of the bigger picture. Moments to think differently and dream bigger. To reflect on the lessons learned, consider the desired changes in the years ahead, and honestly assess whether enough is being done to contribute to a better, brighter, and more equitable future.

The impact investing movement has reached such a moment. Although the industry has achieved incredible growth and captured widespread interest, it is still generating only a fraction of the impact required to address the global challenges facing our communities and our planet. Our successes are dwarfed by persistent, troubling issues such as climate change, inequality, and social division. Last year, as we marked ten years since the creation of a formal global impact investing market, it became apparent to me that the current trajectory of the industry, although impressive, just wasn't going to be enough. We weren't thinking big enough to achieve major targets such as those set out in the Paris Climate Agreement or the Sustainable Development Goals. A new plan was needed to exponentially accelerate our impact.

This Roadmap is that plan. In it, we articulate a new endgame for the impact investing industry — to consider how we can have an impact on *all investing* and spur systemic change in the global financial markets. It describes the actions required for impact investing to expand, advance, and challenge the dominant paradigm. To lead the way to a new future where impact is embedded in all investment decisions and impact investing is an option for everyone.

The result of more than a year of research and consultation with hundreds of impact investing leaders around the world, the Roadmap builds on nearly 10 years of the GIIN's experience working alongside pioneering impact investors and fellow field-builders. And I believe it can be the catalyst for a new future.

This plan is intentionally ambitious and undeniably aspirational. It provides a vision, not a prediction. And success is by no means a certainty. Advancing the actions will be challenging and we will undoubtedly face obstacles. The Roadmap's success will require deep commitment and concerted action from every leader who believes in impact investing's potential to create significant, widespread progress for our world. We will need to engage people far beyond the boundaries of the market as it exists today.

Ambitious as the Roadmap may be, I believe it is not only possible, but also *essential* to global progress. We must accelerate the trajectory of impact investing in order to achieve its full potential. I know that *together* we can do more. So read on. Let us know what you think, share it with your peers, agree, disagree, embrace it, question it — but by all means, get involved. Everyone has a role to play in propelling this movement forward and building this new future.

Amit Bouri
Co-Founder and CEO, Global Impact Investing Network
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Executive Summary

We believe realizing this vision is not only possible but also *essential* to create a prosperous future for people and the planet.

At the Global Impact Investing Network (GIIN), we aspire to create a world in which social and environmental factors are routinely integrated into investment decisions, as the 'normal' way of doing things. In this world, the value proposition of impact investing (and other forms of investing that integrate impact), will enjoy wide acceptance, with plentiful evidence in their favor. Businesses and investors will hold themselves accountable to multiple sets of stakeholders, including shareholders, employees, customers, suppliers, affected communities, and local and global environments. The concept of 'externalities' will be relegated to history, with finance theory accounting for risk, return, and impact equally well. Ultimately, financial markets will be central in supporting solutions to critical threats facing the world.

This vision is aspirational and unabashedly ambitious — to some it may even seem idealistic. However, we believe realizing this vision is not only possible but also *essential* to create a prosperous future for people and the planet. While the aim is not that in the future all investing will become impact investing, more holistic considerations of impact in investing decisions must become the default rather than the exception.

Impact investing, as both an industry and as a movement, has a central role to play in the realization of this vision. As an industry, impact investing drives the flow of much-needed capital towards solutions to the most critical social and environmental challenges facing the world today. The resources available from government and philanthropy are insufficient; impact investing seeks to both bridge this gap and finance new models for addressing global problems. As a movement, impact investing seeks to have an impact on the practice of investing writ large, to fundamentally reshape expectations around the responsibilities of business and finance in society. Business leaders and ordinary citizens are increasingly challenging historic norms that prioritize short-term shareholder value over everything else, and many pioneering investors actively pursue strategies that focus on long-term value creation for a diverse set of stakeholders.

Impact investing will play an important role at the forefront of various movements critical to realizing this transformation in financial markets more broadly. It will play this role by continually setting and raising the standards for how investments can positively impact society. It will play this role by ensuring every person believes they can make a positive impact through how they invest their money, and has options to do so. And, it will play this role by generating the tools and data that allow investors to readily incorporate impact considerations in their decision-making processes and channel capital to the most effective solutions.

This Roadmap defines the immediate actions required to propel a long-term shift. Specifically, it identifies eighteen actions (across six categories) that we, the impact investing community, need to take on to exponentially enhance the scale and effectiveness of impact investing, and to accelerate progress towards our vision. It is imperative that significant progress on these actions is achieved over the next five to seven years to lead to the changes needed over the coming decades. Enacting the plan will require collective action by organizations across the impact investing ecosystem, including those centrally focused on field-building, such as the GIIN, as well as pioneering impact investors, academics, and policymakers among others.

Six Categories of Action

1. Strengthen the Identity of Impact Investing

Successful social movements have clear identities and shared senses of purpose. We need to strengthen the identity of impact investing by establishing clear principles and standards for practice, such as by more clearly articulating the defining characteristics of an impact investor, developing standardized best practices for impact measurement and management, and facilitating collaboration among investors with different goals and preferences. Specific actions needed:

a. Establish a set of common, mutually agreed principles that define what it means to be an impact investor.

b. Develop and share best practices for impact measurement, management, and reporting.

c. Clarify the roles of various types of capital by recognizing their risk-return expectations and understanding their importance in the capital spectrum.

2. Change the Paradigm that Governs Investment Behavior and Expectations

We need to reshape the overarching paradigm governing the purpose and responsibilities of finance. Those who control capital must set incentives and design requirements to access their capital that align with positive impact. In addition, the theoretical models and frameworks that underpin investment practice must be updated to integrate impact alongside risk and return. Specific actions needed:

a. Align incentives with impact, so that impact performance is a key driver of allocation and compensation decisions.

b. Launch a broad, global campaign to reshape mindsets about the role of capital in society.

Impact investing is at the forefront of movements that are reshaping expectations about the responsibilities of business and finance in society.

c. Update fundamental investment theory to integrate impact alongside risk and return.

3. Expand Impact Investment Products

The accessibility of impact investments must be increased by developing products suitable for the full spectrum of investors (from retail to institutional) and to accommodate the capital needs of various types of investees (including innovative early-stage businesses operating in frontier markets). This will help translate the current, latent demand for impact investments into a higher volume of activity. Specific actions needed:

a. Expand the number and range of retail products available in the market.

b. Expand institutional-quality investment products covering a wide range of themes, sectors, and geographies.

c. Commit capital to emerging fund managers to accelerate their development.

d. Advance blended-finance vehicles that combine capital with different risk-return expectations to meet investee needs while furthering objectives of different investors.

4. Develop Tools and Services

We need tools and services to support the integration of impact into investors' routine analysis, allocation, and deal-making activities. The essential services provided by investment banks, ratings agencies, and data providers must be expanded to incorporate impact considerations and accommodate the needs of the full spectrum of impact investors. Specific actions needed:

a. Develop ratings for impact that assess a range of factors and integrate impact into existing frameworks.

b. Build analysis and allocation tools that integrate risk, return, and impact.

c. Expand the availability of investment banking services tailored to impact investing, including capital raising, deal origination, structuring, syndication, and securitization.

5. Bolster Education and Training

Education and training of professionals in finance and business is necessary to increase awareness of impact investing, maintain the integrity of practice, and drive talented human capital into the industry. Specific actions needed:

a. Develop training programs on impact investing for finance industry professionals, such as wealth advisors and investment managers.

b. Support the development of businesses focused on impact by expanding and increasing the effectiveness of services that build the capacity of entrepreneurs and project developers.

6. Enhance Policy and Regulation

Policy and regulation can catalyze industry growth by establishing incentives for impact investments and creating a supportive regulatory environment for investors and businesses generating impact. Specific actions needed:

a. Clarify the interpretation of fiduciary duty with respect to social and environmental considerations.

b. Establish tax incentives for impact investments.

c. Create an environment conducive to impact investing, by developing regulations that incentivize product development and impact measurement and reporting.

This work needs to begin immediately and with urgency. While full realization of our vision will take time, the social and environmental problems we face are substantial, and many portend significant near-term challenges. The steps we take today will not only address the world's most immediate and pressing needs, but also set in motion ripple effects far into the future.

Transformative change requires viewing the future as something we can shape rather than as something we are largely powerless to influence. And it requires deliberate, focused, coordinated action from visionaries committed to a new future. The GIIN is committed to this future — one in which impact investments are a viable opportunity for every investor, harness the power of capital to meaningfully change the world, and reshape our collective understanding of the role of finance in society. We need to act now if we are to realize this future, and we urge you to join us in doing so.

This work needs to begin immediately and with urgency to address the most pressing needs and set in motion the long-term change we seek.

Introduction

Business and investors must embrace their responsibility as engines of progress.

Background

Investors and consumers around the world are increasingly driving momentum for positive changes in our financial and economic systems. Large corporations face pressures to act responsibly towards multiple sets of stakeholders, consumers demand increasing transparency in business practices, and environmentally or socially minded innovators excite investors and consumers alike about a more sustainable future. The scale of today's social and environmental challenges, too — with globally heightened uncertainty, widespread inequality, and significant pressures on the environment — makes it evident that the responsibility to address them does not fall on governments and philanthropists alone. Businesses and investors must embrace their responsibility as engines of progress.

Indeed, there is evidence to show that investors and other financial professionals can lead efforts to confront critical issues in local and global communities. Impact investing — investing to generate positive social or environmental benefits alongside financial returns — has seen tremendous growth and development over the past decade.* Impact investors — whether they are commercial investors, fund managers, foundations, government agencies, or individuals — now help finance a diverse set of solutions to many social and environmental issues, including expanding access to critical basic services, supporting environmental conservation, and driving the transition to renewable energy.

With growing evidence of success, investor interest has expanded rapidly, catalyzed in large part by strategic and intentional field-building efforts. In 2007, impact investing pioneers convened to determine how best to turn an exciting concept with early proof points into a robust marketplace that could influence the global financial sector. In using the term 'impact investing,' these pioneers intended a double meaning: both impact investing (making investments intended to have a positive impact) and impact *on* investing (broadly affecting investment practice

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* Indeed, 60% of active impact investors today made their first impact investments within the past decade. Abhilash Mudaliar, Hannah Schiff, Rachel Bass, and Hannah Dithrich, *2017 Annual Impact Investor Survey* (New York: The Global Impact Investing Network, 2017), 2, **https://thegiin.org/knowledge/publication/annualsurvey2017**.

> "We are once again facing one of those rare turning points in history when dangerous challenges and limitless opportunities cry out for clear, long-term thinking."[1]
>
> – AL GORE, AMERICAN POLITICIAN AND ENVIRONMENTALIST

by demonstrating that positive impact can be achieved). The Global Impact Investing Network (GIIN), proud to have taken part in both these early conversations and efforts, today continues to support investors in their quest to collectively achieve large-scale, lasting improvements on a wide range of social and environmental problems.

The Roadmap Project

The tenth anniversary of these early field-building efforts prompts reflection on the journey to date and encourages stakeholders in the field to set a new course for the next decade and beyond. The GIIN engaged more than 250 stakeholders in conversations, both joint and individual, and surveyed nearly 90 stakeholders to ascertain their views of the market and inform our vision of the future (see Summary of Methodology side box).

Notwithstanding the progress to celebrate in the impact investing industry, the needs to address continue to loom large. Exploding inequality is kindling great political turbulence in many parts of the world, even as close to a billion people live in poverty.[2] Every single industrialized nation is behind schedule in meeting the emissions reduction targets set in the Paris Climate Agreement, and the costs of climate-related disasters already average USD 200 billion per year.[3] In addition, USD 9–12 trillion are currently invested in *negative-yielding* assets, which suggests significant pessimism about the long-term global macroeconomic outlook.[4] It is no surprise, then, that stakeholders increasingly recognize that the current financial system falls short of meeting these needs.

To meet the Sustainable Development Goals (SDGs) by the year 2030, financial markets will need to provide an estimated several trillion dollars each year.[5] Impact investing presents groundbreaking opportunities to bridge these gaps and finance powerful solutions, and we further believe it can inspire and enable broader change in the financial markets — thereby *impacting* investing itself. We see many reasons to be optimistic about this goal. For one, a fundamental shift in norms is animating more holistic expectations for the role of business and capital in society. For

Summary of Methodology

The GIIN Research team undertook a multipronged approach to developing this report:

- Interviewed more than 70 thought leaders and experts in the impact investing ecosystem globally
- Held focus group discussions with over 200 practitioners in 14 cities around the world
- Undertook comparative research on the journey of successful paradigm-shifting movements
- Conducted research to understand how transformative systemic change occurs
- Conducted desk research to assess progress in the industry to date
- Surveyed nearly 90 individuals on their views on both industry progress to date as well as big ideas for the future of impact investing
- Reviewed how a variety of actors outside impact investing are thinking about the future of finance and investing

For more details on the complete methodology please see Appendix I.

another, growing evidence is demonstrating the benefits of prioritizing long-term value creation and considering non-financial factors in investment decisions.[6]

There is much work yet to be done. Challenges facing the industry include persistent misperceptions about the nature of investment opportunities, fragmentation in approaches to measuring impact, and limited market infrastructure. However, many stakeholders — including field-building organizations, governments, and investors themselves — have a strong interest in effectively channeling trillions more dollars into impact investing and ensuring that this capital creates meaningful, enduring, and positive change.

Of course, systemic change rarely unfolds along a linear path. While we need to transform the mindsets and approaches of a significant mass of investors, in many pockets of the world glimmers of the future we envision are already present today. True cost accounting — an approach that seeks to include the cost of externalities into the pricing of goods and services — is on the rise. Accountability for impact is also becoming more widespread, with a significant minority of impact investors now linking employee performance evaluation (including compensation) and investee capital commitments to impact performance. A new future for investing — with impact placed center stage — begins by identifying these successes and building on them.[*]

Purpose and Content

Experience shows that action-oriented, deliberate roadmaps are critical for shaping the world in which we want to live, reframing the future as something we can all help to create rather than something we are powerless to influence.[†] This Roadmap is an invitation to join us in building a new future in which finance is instrumental to social and environmental progress.

The Roadmap begins by presenting the GIIN's vision for the future of investing writ large. The next section details a vision for impact investing towards which all impact investing stakeholders must work to encourage wider, systemic change. The report then assesses progress in the development of the impact investing industry over the past decade, setting the stage for the six categories of action required to overcome critical barriers and achieve the vision for impact investing. These actions represent immediate, concrete steps for roughly the next decade of impact investing, steps that work towards still longer-term goals.

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* This model for systemic change is based on the "Three Horizons" framework developed by the International Futures Forum. **http://www.internationalfuturesforum.com/three-horizons**.

† There are many features of the world today that one may take for granted, but are actually the result of deliberate actions taken by some small group of visionary actors at some point in the past. For example, the open sharing of scientific discoveries required a confluence of technology, policy, and the work of early journal editors to shift norms toward transparency. The modern public health system, too, was formed on the backs of both science and social action to assert a public responsibility to control the spread of disease. Even establishing something as fundamental to our economic system as common weights and measures required political will and coordinated action by designated committees.

Audience

For anyone in a position to help build the impact investing field — whether you develop industry infrastructure, make investments, support field-building initiatives, influence policy, or advise investors — this report is for you. The roadmap in this report has been developed based on inputs from roughly 350 representatives of over 250 organizations, and the action items herein will need to be implemented in a coordinated fashion by us all. The GIIN encourages you to review this roadmap and identify the actions most suited to your organization for participation.

If you arrive at this report just getting started with impact investing or curious about the future of this market, the GIIN hopes this Roadmap inspires you with an exciting vision of what we can achieve with your participation. The impact investing movement portends significant positive shifts in the financial markets more broadly, and we invite you to join us on driving forward this transformation. Also consider accessing more introductory resources provided on the GIIN's website to familiarize yourself with the field.

Whether you are an experienced impact investing practitioner or just getting started, we encourage you to become part of this vital work. Join us in reimagining the role of capital in society.

"A long-term focus is needed to address the challenges our world faces, such as climate change or the continued growth in social inequality. With the help of committed investors that want to achieve lasting impact through their investments, we can and must make a needed contribution to addressing these challenges."

– MARILOU VAN GOLSTEIN BROUWERS, CHAIR OF THE MANAGEMENT BOARD, TRIODOS INVESTMENT MANAGEMENT AND BOARD MEMBER, GIIN

We envision a future where impact is integrated into *all* financial decisions.

And impact investing can lead us there.

II

Our Vision: Finance as a Force for Good

Today's Financial Markets

The interconnected world of today has a freer flow of both capital and labor across borders and many more economic opportunities for individuals than ever before. In recent decades, the global economic system has pulled hundreds of millions of people out of poverty and generated unprecedented cumulative wealth and prosperity. Yet, global society faces major, even existential threats from the effects of climate change, poverty, and severe inequality. Crises in one part of the world increasingly affect us all. The rapid depletion of natural resources, climate change, increased frequency of natural disasters, rising inequality, mass migration, disillusionment leading to extremism, and the perils of international security all threaten to undo our remarkable gains.

"Capitalism is in a crisis of legitimacy, for good reason. It desperately needs reform — or, rather, it needs to devolve to fulfill its original objective and serve all members of society."[7]

– LYNN FORRESTER DE ROTHSCHILD, CEO E.L. ROTHSCHILD & FOUNDER, COALITION FOR INCLUSIVE CAPITALISM

The very same global financial system that spawned the 2008 Financial Crisis and ensuing Great Recession remains largely intact one decade later. This financial system offers diverse ways to efficiently allocate large amounts of capital, moving it worldwide to fuel business and basic infrastructure. The benefits of this system, however, are distributed highly unevenly between different countries and sub-national groups. Moreover, most investment activity occurs in secondary financial markets that, however necessary to ensure liquidity, currently comprise a large share of speculative transactions that enrich investors without supporting new investments in businesses in the real economy.

In terms of participation in capital markets, financial products with a wide range of liquidity options provide many types of investors with the flexibility to choose time horizons and risk–return profiles that meet their needs and preferences. However, a large proportion of adults worldwide still lack access to even the most rudimentary investment products.

The driving force of investment activity is the primacy of the shareholder. For the large part, investment managers and intermediaries consider it their principal duty to maximize returns for their investors, and they are typically compensated based on their ability to do so. Further, in maximizing returns, managers and investors typically emphasize short-term profits, a priority that drives the consensus understanding of the 'performance' of businesses and investments. Market incentives, as such, are not focused on the long-term creation of value.

Despite this primacy placed on short-term shareholder value, many investors have begun, in recent decades, to actively screen out harmful investments, to analyze environmental, social, and governance (ESG) practices in their investment selections, or both. This shift challenges conventional wisdom: integrated reporting is becoming more widespread, and research on ESG investing increasingly demonstrates that ESG factors are material to long-term financial performance.[8]

Building on this practice, a growing number of investors are making investments with the *central purpose* of generating positive impact for people and the planet alongside financial returns. This practice is known as impact investing; impact investing assets under management are increasing at an estimated 18% per annum among currently active impact investors,[9] with many new players joining the field each year. Major financial institutions are launching impact investing arms, and others are actively investigating entry strategies. Research also shows that impact investing opportunities can generate returns to meet the expectations of investors across the risk–return spectrum.[10]

The growth of impact investing has at least three causes. First, investors of all stripes increasingly demonstrate a desire to align their investments with their values. Norms are changing around the roles of business in society, and many investors want to hold businesses accountable for broader impacts on their various stakeholders and the environments in which they operate. Interest is especially high among the demographic groups set to control the most wealth in the coming years: women and millennials.[11] Second, investors display growing understanding that considering social and environmental impact is simply good business, providing greater license to operate and improving profitability, especially in the long run. Finally, investors manifest a desire to align with major global frameworks, specifically the Paris Agreement on Climate Change and the United Nations' Sustainable Development Goals (SDGs),[12] which have explicitly called for private capital to finance solutions to social and environmental challenges.

Opportunity abounds to harness this growing momentum and exponentially increase the volume of impact investments, channeling financing towards shared goals for creating a better world. To do so, the impact investing field will need to continue to professionalize in several areas (described in detail in Section V), including by developing a stronger identity, enhancing transparency regarding performance (both financial and impact), developing products for investors across the risk–return spectrum, and bolstering general awareness among and education for finance professionals. Overall, then, the needs are both technical and behavioral. Multiple efforts underway to address these barriers show great potential to pave the way for the growth and efficacy of the field.

Four centuries of investment practice: what's next?

Now-dominant investing principles, like portfolio optimization and maximizing shareholder value, are relatively recent additions to conventional wisdom. Which principles will become widely accepted in the next wave of investment theory?

1550s
First jointly owned company established to deploy capital from multiple investors

1760s
First industrial revolution begins to fuel financial savings and investment, accompanied by the development of modern banking systems

1900s
Methods of calculating the present values of different projects become widespread

1950s
Efforts to harmonize international accounting standards begin in response to growing economic integration

1960s
Concept introduced of an optimal portfolio that manages risk and return

1970s
Doctrine of maximizing shareholder value takes hold

1990s
Adoption of international accounting standards becomes widespread

2030s?
Dominant investment theory accounts equally for risk, return, and impact?

Tomorrow's Financial Markets

The roughly 350 stakeholders consulted as part of this research expressed an overwhelming consensus that, at some point in the foreseeable future, it will simply become unacceptable to invest with disregard to impacts on people and the planet. That the practice of investing should move in this direction is a view held not just by practitioners in the impact investing ecosystem, but also many actors across the public and private sector, from the CFA to the World Bank to the EU (see The Big Picture*, page 22).*

The aim is not that in the future all investing will become impact investing, necessarily, but rather that more holistic considerations of impact in investing decisions will become the default rather than the exception. Views vary, of course, on how soon such transformation might reach a critical mass, whether closer to 10 years or 30. However, with this general direction clear, the GIIN has developed an aspirational vision for the future of financial markets, described in further detail below.

It will be 'normal' to factor social and environmental impact into all types of investment decisions. Indeed, the value propositions of all types of investing that integrate impact will enjoy wide acceptance, with plentiful evidence in their favor. Businesses and investors will be accountable to multiple sets of stakeholders, including shareholders, employees, customers, suppliers, affected communities, and local and global environments. With 'do no harm' the baseline standard for investing, investors will also allocate substantial capital toward investments that have social and environmental goals at the forefront. Impact investments will be a viable, taken-for-granted option for every investor, from retail to institutional.

Executing impact investment strategies will be facilitated by greater transparency, with comprehensible, accessible, and sophisticated standards for measuring and understanding impact. Benchmarks will aggregate performance across impact and financial indicators. Financial firms will tie incentives to achieved social and environmental impact. The concept of 'externalities' will be relegated to history, with finance theory accounting equally well for risk, return, and impact.

Rewards for unsustainable, short-term profits will recede. Analysts and decision-makers will prioritize long-term performance (both impact and financial), while also addressing urgent, near-term challenges — a requisite ingredient for long-term sustainability. As a result, a greater share of capital will be invested in the real economy; the global financial system will thereby enjoy greater stability, with major crashes fewer and farther between.

Noticeable shifts in access and power dynamics will derive both from increased representation of women and other historically underrepresented groups in high-level positions and from the consideration of broader groups of stakeholders and affected parties beyond the shareholder. The voices of investees, beneficiaries, and other affected parties will be heard more clearly and included more systematically. Furthermore, billions who were previously excluded will gain access to capital markets, enabled by new products and distribution mechanisms.

The financial markets will then have played a central role in financing solutions to mitigate critical threats previously facing the world, and in proactively addressing new challenges that emerge in future. Gradually, investment in renewable sources of energy and raw materials will render unsustainable industries largely obsolete. The trajectory and pace of climate change will have been mitigated, poverty will have been reduced, and equality of opportunity will have been expanded to previously marginalized groups.

This vision paints, by design, an aspirational future for financial markets, one towards which we all must drive. Anything less would simply be unsustainable. And while this vision will take time to be fully realized, the decisions we make today and tomorrow are critically important, as what we set in place now will ripple into the future. We must focus our collective sense of urgency to have an impact on all investing.

III

The Future of Impact Investing

How Impact Investing Can Help Realize this Vision

Fundamentally reshaping the orientations and operations of financial markets will take the collective efforts of several related movements and industries, including, among others, impact investing, long-term capital, responsible investing, inclusive capitalism, benefit corporations, conscious capitalism, and the circular economy. We all must not only believe this vision is possible but actively work together toward this future.

"Impact investing started with passion. Its continued growth and success needs to also to be driven by performance."

– JOHN GOLDSTEIN, MANAGING DIRECTOR AT GOLDMAN SACHS

Impact investing, which may be thought of as both a movement and an industry, can catalyze changes that are reshaping the relationships between people and financial markets.

As a **movement**, impact investing seeks to foster widespread behavioral change by reshaping the ways people view the purpose of money and business in society. Such a shift will inform how people make economic choices, how companies conduct business, and how all investors evaluate and value opportunities to account for impact. In short, the impact investing movement aims to raise the bar for how investments can positively impact society. Clients and consumers should be inspired to look at their peers and ask, "If they can do it, why can't we?" and, even further, "If I can make a positive impact and a financial return, why wouldn't I?" The impact investing movement succeeds when every person believes they can make a positive impact through their decisions about how they earn, save, spend, and invest their money, ultimately leading to a global citizenry that are empowered to positively influence the world through their financial investments.

"In the future, the relationship between investor and investee should be less extractive and more of a partnership."

– MARA BOLIS, SENIOR ADVISOR, MARKET SYSTEMS AT OXFAM AMERICA

As an **industry**, impact investing is a segment of broader financial markets comprising investors, service providers, and field-builders who actively seek to optimize their positive impact. The impact investing industry can accelerate the wider movement by demonstrating its own viability and developing tools and opportunities that encourage new entrants to the market. In the previously described future, all investors will seek to understand the positive and negative impacts of their investments, even if positive impact is not their primary goal. Investors must have data related to impact available to integrate into their decision-making processes that weigh risk, return, and impact. Reliable impact data will also enable investors to channel capital to the most effective solutions, further speeding the pace of progress. Impact investors are currently building, testing, and refining a wide range of tools and systems for measuring impact, which should lead to more and more efficient and effective methods that are eventually adopted by all investors. Also needed are more regular and systematic ways to include the perspectives of beneficiaries and investees in various aspects of investment decision-making.

Catalyzing the future we seek will require impact investing to scale massively in terms of players involved, volume of capital deployed, and impact achieved. Both as a movement and as an industry, impact investing is poised for this leap. The next two sections describe, first, the state of impact investing today and key priorities driving scale and, second, concrete sets of actions to propel us towards this future over the decade to come.

2030: Impact Investing and the SDGs

The Sustainable Development Goals (SDGs) are a collection of 17 interrelated global goals, detailed by the United Nations, that target ambitious progress by the year 2030 against a broad range of issues, including poverty, hunger, health, education, climate change, gender equality, water, sanitation, energy, the environment, and social justice. Meeting these goals will require several trillion dollars each year,[13] an enormous amount by any standard. Governments and philanthropists on their own cannot meet these volumes of funding; substantial inputs from private capital markets are critically needed.

Impact investors worldwide have become energized at the prospect of contributing to these global goals. Many have begun to align their portfolios to the SDGs, and other investors use the SDGs as a means to identify and develop impact investing strategies. In a recent GIIN survey, 42% of impact investors reported using the SDGs as a tool or indicator set in their impact measurement and management.[14]

We believe that, by the year 2030, impact investing will have made essential contributions towards the achievement of the SDG targets. Impact investors will be able to clearly articulate the roles they have played and the solutions they have helped finance. By demonstrating the power of capital markets to address significant global challenges, these successes will, furthermore, act as stepping stones towards realizing the broader vision for the future of financial markets described on the previous pages.

Impact Investing in Tomorrow's Financial Markets

- All impact investors adhere to key principles of practice, including the measurement, management, and reporting of social and environmental performance.
- All investors — from retail to institutional — have ready access to impact investing opportunities and are widely allocating to them.
- As a result, impact investments represent a meaningful portion of total global investment assets.
- Positive and negative impact is rigorously analyzed and integrated alongside risk and return, using sophisticated tools.
- All businesses with positive impact have access to appropriate types of capital throughout their evolution.
- There is rigorous evidence of the positive impact of impact investments on a wide range of social and environmental problems.

The Big Picture: Broader Trends Affecting Investing

Several global, large-scale trends will likely shape the future of all investing — including impact investing.

THE FUTURE OF WORK: AUTOMATION

The increasing automation of work (and many aspects of life) has become apparent everywhere. Cars park (and drive) themselves, robots fulfill online orders, and an increasing number of manufacturing processes are done by machines. The pace of automation, a process that began with the eighteenth-century Industrial Revolution, has been accelerating and will continue to increase.[15] While increasing automation promises to produce widespread increases in productivity, prosperity, and quality of life over the long term, it will engender some short-term structural shifts that will likely eliminate many jobs. Low-wage and low-skilled jobs are especially susceptible to elimination, since many of these can be easily automated. This shift will lead to needs for new employment opportunities, education so that workers may qualify for higher-skilled jobs, and safety nets for those individuals who are hardest hit by changes in the nature of work. Many policy and business leaders are even advocating the implementation of a universal basic income as a policy response to the predicted obsolescence of many jobs.[16]

Many impact investors focus centrally on demographic segments that are most likely to 'lose,' at least in the short-term, from changes related to automation. Investors will need to adapt their strategies to support their target beneficiaries through these changes, perhaps by investing in skills development or in sectors where jobs are less susceptible to obsolescence, such as facilities management or sophisticated customer service.

THE FINTECH REVOLUTION

Since the Global Financial Crisis of 2008, fintech firms have grown in prominence. As defined by the industry publication *FinTech Weekly*, a fintech firm is "a business that aims at providing financial services by making use of software and modern technology."[17] These firms, which compete with banks and other traditional providers of financial services, have emerged to fill several gaps along a spectrum, from enabling those who were previously excluded to access basic financial services to meeting consumers' rising expectations for personalized and digitized experiences.[18] The investment market, specifically, has seen the notable advent of robo-advisors, which use some degree of automation or algorithmic decision making to reduce the costs of investment management and advice for a chosen investment strategy.[19] Robo-advisors also use index funds, which further reduce the need for human engagement in investment management. With OpenInvest, for example, which is a partly automated responsible investing service, clients complete a questionnaire that is used to create a portfolio of investments in line with their values.

As impact investing industry stakeholders seek to expand access to and connect with a new generation of asset owners, they will also need to consider how fintech changes investor preferences and modes of operating. Those developing financial products should look for ways to take advantage of the efficiency benefits of this technological wave in order to channel more capital into socially and environmentally positive investments. Further, since impact preferences are often quite subjective, advisors and managers will likely continue to have opportunities, even with automated platforms, to help meet client impact goals through personalized service.

Besides investors, beneficiaries of impact investments will also see potent effects from the fintech revolution. The share of global payments made in cash has been steadily decreasing alongside the rise of electronic and mobile payments.[20] Many emerging markets already appear likely to leapfrog credit cards and online payments, proceeding straight to entirely mobile-based transactions. Given the ubiquity of cell phones, this shift opens new possibilities to provide those previously excluded with access to financial services, trace and collect data on transactions, and target and engage customers.

THE DEMOCRATIZATION OF DATA

Transparency is a defining characteristic of the future we envision — especially concerning the impact performance of investments. Increased data sharing may help dispel the opacity of where money is invested and how it is invested (i.e. investment decision-making processes). Two major technological trends could help increase transparency:

1. Blockchain technology uses a decentralized, distributed ledger or asset database accessible to all participants, who have their own identical copies, each updated with any and all changes. Used today primarily as the basis of bitcoin and other crypto currencies,[21] blockchain technology could also serve purposes of data transparency, such as documenting impact achieved in a way that is locally verifiable and globally accessible.[22]

2. 'Big data' refers to the increasing volumes of information available to businesses and governments, who can gather and mine these data for new insights to better serve customers, develop products or design policy.

The proliferation of data available and new technology that enables decentralization can increase our collective knowledge about a wide variety of investment and business issues, increasing the transparency of investment transactions and their impact. As such, the democratization of data could be one key element of the new paradigm of investing we envision. However, some argue that 'information overload' may exacerbate information asymmetries, privileging those who have the skills to both sort out and consume credible information. Further, protection of privacy is another important consideration, especially where detailed individual-level data can lead to restrictions on the services an individual may have access to.

CROWDFUNDING

Crowdfunding allows many individuals to participate in investments of shared interest, each providing small amounts of funding. Equity crowdfunding has shown particular growth, roughly doubling each year since 2012 to reach USD 2.56 billion worldwide in 2015, according to the annual Massolution Crowdfunding Industry Report.[23] Crowdfunding platforms related to impact investing (for both equity and debt) include Kiva, Ours to Own, Start Some Good, Neighborly, Lendahand, DuurzaamInvesteren, Oneplanetcrowd, and the Triodos Bank platform. This mechanism can potentially enable the democratization of investment, allowing retail investors to invest in private companies. There are, however, some potential regulatory barriers and limitations, since these securities are marketed to unaccredited investors. For example, U.S. regulation released in 2015 permits companies to offer securities through crowdfunding but imposes restrictions on how much companies can raise and how much individuals can invest in crowdfunded offerings.[24]

WEALTH TRANSFERS TO WOMEN AND YOUNGER GENERATIONS

The coming decades will see significant transfers of wealth from baby boomers to their children, largely Gen Xers and millennials. One estimate put this figure at USD 30 trillion in financial and non-financial assets over the next three to four decades.[25] Women are also poised to control increasing assets and, especially, household discretionary spending. The Boston Consulting Group estimates that, by 2028, women will control close to 75% of discretionary spending worldwide.[26] Several surveys have indicated that both of these groups — women and younger wealth holders — show greater interest in impact investing and other ways of aligning financial choices with their values than does the general population,[27] so these shifts in wealth will likely lead to further growth in the number of participants and amount of capital in impact investing. Broader trends in millennial investment behavior — such as lack of trust in the stock market resulting from the 2008 Global Financial Crisis, prioritization of technology platforms, and value placed on socially responsible brands and employers — will also require adaptation by the investment industry.[28]

The Big Picture:
Other Visions for the Future of Investing

Several prominent organizations in finance and government have looked ahead to what the future of investing might hold. Independently, and from very different origins, these organizations have all arrived at similar conclusions about the changing role of capital in society, both in terms of what is probable and what is necessary.

THE CFA INSTITUTE ON THE FUTURE OF THE INVESTMENT PROFESSION

In April 2017, the CFA Institute released a report, *Future State of the Investment Profession: Pursuing Better Outcomes — for the End Investor, the Industry, and Society*,[29] based on a survey of 1,145 professionals. The report identifies several "megatrends" related to macroeconomic changes and shifting client preferences. Notably, the report highlights, "73% of investment leaders expect environmental, social, and governance factors will become more influential." Analyzing this and other megatrends in the context of finance, the authors envision four potential scenarios for the next five to ten years:

1. **Fintech disruption:** New technologies and business models become dominant over traditional financial service providers, including robo-advisors and other personalized and digitized financial services.

2. **Parallel worlds:** Big-data services, which allow customization, enable pronounced segmentation by geography and social group.

3. **Lower for longer:** Interest rates stay low, global economic growth is slow, and political instability remains high.

4. **Purposeful capitalism:** The investment industry, following client demand and increasingly influential asset owners, operates in alignment with a broader purpose and in the interests of a wider set of stakeholders, including increased attention to both fiduciary duty and ESG principles.

The report attributes competitiveness in financial services to "trust, value, ethics, and sustainability." Further, the report emphasizes the need for investment managers to act in the interest of society at large, because "making a consistent and determined contribution to societal wealth and well-being is not just a nice goal for the investment profession — it is quite possibly a matter of existential importance."

THE EU COMMISSION'S HIGH-LEVEL EXPERT GROUP ON SUSTAINABLE FINANCE

The European Union (EU) has recognized the need for the financial system to support a transition to a low-carbon, resource-efficient economy. To achieve this goal, in December 2016, the EU established an expert group tasked with creating a comprehensive strategy for the continent.[30] Twenty representatives of civil society, finance, and academia provided recommendations and advice for both governments and the private sector, aiming to both increase investment flows to sustainable investments and mitigate risks in the financial system related to the environment.

Prominent organizations in finance and government have arrived at similar conclusions about the changing role of capital in society.

The High-Level Expert Group released its final report in January 2018.[31] The report prioritizes the following recommendations:

- Develop an EU classification system to identify target sustainable investment areas.
- Clarify investor responsibilities to extend the time horizon of investments and focus on ESG criteria.
- Improve disclosure rules to make opportunities and risks related to sustainability more transparent.
- Enable access to sustainable investing for retail investors.
- Define a European standard for sustainable financial assets such as green bonds.
- Establish a financing facility for sustainable infrastructure.
- Reform governance and oversight to include sustainability.

WORLD BANK AND UNEP ROADMAP FOR A SUSTAINABLE FINANCIAL SYSTEM

In 2014, the United Nations Environment Programme (UNEP) began to study "the Design of a Sustainable Financial System," with the aim of identifying policies that could propel more capital in support of "a green and inclusive economy."[32] In 2017, together with the World Bank, UNEP issued a "Roadmap" for private- and public-sector stakeholders in the global financial system. The report proposes that the necessary transition to a sustainable financial system is already taking place, driven by market-based, national, and international efforts.

The UNEP Roadmap offers actions over short- and medium-term time horizons (12 months and 24–36 months, respectively) that are required to continue current progress. At the global level, the report includes key considerations for developing principles of sustainable finance, recommending the adoption of a results measurement framework and the inclusion of "sustainability data as part of global financial reporting frameworks."[33]

Roadmaps are critical for shaping the world in which we want to live, reframing the future as something we can help create rather than something we are powerless to influence.

IV

Impact Investing: The Journey So Far

SURVEY: PERCEPTIONS OF PROGRESS

As part of its extensive consultations with stakeholders to inform this report, the GIIN administered an online survey through which respondents indicated their views on progress in the impact investing industry on a scale of 0–5, with 5 indicating achieving as much progress as could be expected over the past decade. Findings from this survey are described alongside the main text throughout this section. See more detail in Appendix I: Methodology.

Progress made in the impact investing industry over the last decade provides context for the actions still needed to build on past achievements and address remaining gaps in the field.

Over the course of two meetings in 2007 and 2008, a small group of pioneers investing in fields like community development, microfinance, and environmental sustainability convened at the Rockefeller Foundation's Bellagio Center in Italy. This group coined the term 'impact investing' to describe their shared purpose of investing for social or environmental benefit, a term they intended to have two meanings: both making investments to create positive impact and impacting the broader practice of investing. Participants at the Bellagio meetings envisioned the development of a formal industry to move the practice of impact investing from a state of uncoordinated activity to a mature, high-functioning market, influencing mainstream investment practice in the process.

A follow-up report in 2009, commissioned by the Rockefeller Foundation and a coalition of supporters,* authored by the Monitor Institute, and titled *Investing for Social and Environmental Impact*, outlined the field-building efforts needed to develop this market, including the infrastructure, resources, and tools required to take impact investing through various stages of development, as pictured in Figure 1. This report, the first of its kind for the industry, formed the basis and rationale for the work of several field-building organizations. Given its importance in defining the industry and shaping early efforts at its development, the Research Team assesses industry progress here against key frameworks from this report.

The industry has made significant progress moving from the "marketplace building" phase of 2009 to the "capturing the value of the marketplace" phase the report hypothesized would take five to ten years to reach. Much of this progress was achieved via 17 initiatives the report recommended, each categorized into three platforms: intermediation, infrastructure, and absorptive capacity.

* Other supporters included the Annie E. Casey Foundation, the Kellogg Foundation, and J.P. Morgan Chase Foundation. Jessica Freireich and Katherine Fulton, *Investing for Social & Environmental Impact: A Design for Catalyzing an Emerging Industry* (New York: Monitor Institute, 2009), **https://www2.deloitte.com/global/en/pages/financial-services/articles/investing-for-socialandenvironmentalimpact.html**.

FIGURE 1. Phases of Industry Evolution (2009)

TODAY | 5 - 10 YEARS?

UNCOORDINATED INNOVATION	MARKETPLACE BUILDING	CAPTURING THE VALUE OF THE MARKETPLACE	MATURITY
Disparate entrepreneurial activities spring up in response to market need or policy incentives Disruptive innovators may pursue new business models in seemingly mature industries. The industry is characterized by a lack of competition except at top end of market.	Centers of activity begin to develop. Infrastructure is built that reduces transaction costs and supports a higher volume of activity.	Growth occurs as mainstream players enter a functioning market. Entities are able to leverage the fixed costs of their previous investments in infrastructure across higher volumes of activity. Organizations may become more specialized.	Activities reach a relatively steady state and growth rates slow. Some consolidation may occur.

Source: Freireich and Fulton, Investing for Social & Environmental Impact

1. Intermediation

According to the report, efficient **intermediation**, including the development of investment banks, clubs, funds, and products, would be needed to enable interested investors to channel more capital to projects with positive impact. The 2009 report proposed the following initiatives under this category:

- Create industry-defining funds that can serve as beacons for how to address social or environmental issues.
- Place substantial, risk-taking capital into catalytic finance structures.
- Launch and grow dedicated impact investment banking capabilities.
- "Pull" existing intermediaries into impact investing by making business commitments.
- Create investment clubs focused on specific themes.
- Support the development of backable fund managers.
- Create financial products to increase accessibility.

The industry has made great strides in generating a robust and diverse set of impact investing funds, with hundreds of impact funds targeting every impact theme, geography, and asset class. Several industry-defining funds have demonstrated success at creating impact and financial returns through large-scale vehicles, including those managed by firms like The Abraaj Group, BlueOrchard Finance, Enterprise Community Partners, LeapFrog Investments, responsAbility,

SURVEY:
PERCEPTIONS OF PROGRESS

Survey responses reflect this progress, with respondents giving highest average marks to the creation of industry-defining funds (3.0), followed by the development of backable fund managers (2.7). Gaps remain, however, in the placing of risk-taking capital and the launch and growth of dedicated investment banking capabilities (2.2 each).

"In not even 10 years, we've developed an industry with a marketplace of diverse opportunities."

– YVAN RENAUD, COO OF SYMBIOTICS

and Triodos Investment Management, just to name a few. Along with growing awareness of the opportunity of impact investing, several large-scale, traditional asset managers have recently begun to enter the space and raise their own impact funds.

Gaps in intermediation still remain in four critical areas. First, few investment banks are yet focused on impact deals to facilitate the needed functions of capital raising and structuring for investees and, for investors, to aggregate deals to achieve the scale larger investors require. Indeed, the handful of attempts to develop broker–dealer platforms to channel capital between investors and investees have been intermittent, and some have had to close down prematurely. Second, while the range of investment products is impressive, examples of scaled opportunities remain exceptions and are concentrated primarily in the financial services and renewable energy sectors. Investors also identify a need for further development of fund manager capacity to manage institutional capital and to manage for impact in a sophisticated manner. A third gap relates to blended finance vehicles, which can leverage concessionary or risk-tolerant capital to pull in commercial capital to impactful deals. Blended capital will only become more important as interest in impact investing continues to grow. Fourth, retail investors lack options to participate in the field, which represents massive untapped potential; many individual investors are interested in putting their retirement funds, savings, and other investments to work for positive impact.

2. Infrastructure

The Monitor report recommended the development of an ecosystem for impact investing, complete with enabling **infrastructure**, such as common metrics and a network to serve as a platform for collective action. Specific initiatives in this category included the following:

- Set industry standards for social measurement.
- Lobby for specific policy or regulatory changes.
- Develop an impact investing network to accelerate the industry.
- Develop risk-assessment tools.
- Coordinate the development of a common language platform.
- Create publicly available benchmarking data.
- Integrate social and environmental factors into economic and finance theory.
- Launch a targeted public relations campaign to promote demonstrated successes.

The market has made particularly impressive strides over the past decade in this category. The 2009 framework envisioned creating a leadership network focused on stewardship of the burgeoning industry. The GIIN's Investors' Council — comprising a diverse set of prominent impact investing organizations — was created for just this purpose and collaborates to execute field-building activities to better define and strengthen the practice of impact investing. Over the last ten years, a proliferation of member networks has begun to serve increasingly specific segments of the impact investing market. These organizations provide valuable programming, research, and networking opportunities tailored to the unique needs of their audiences, whether foundations in the United States, venture philanthropists in Europe, or impact fund managers in India. These organizations will have opportunities to amplify each other's work through greater collaboration (and by eliminating redundancies).

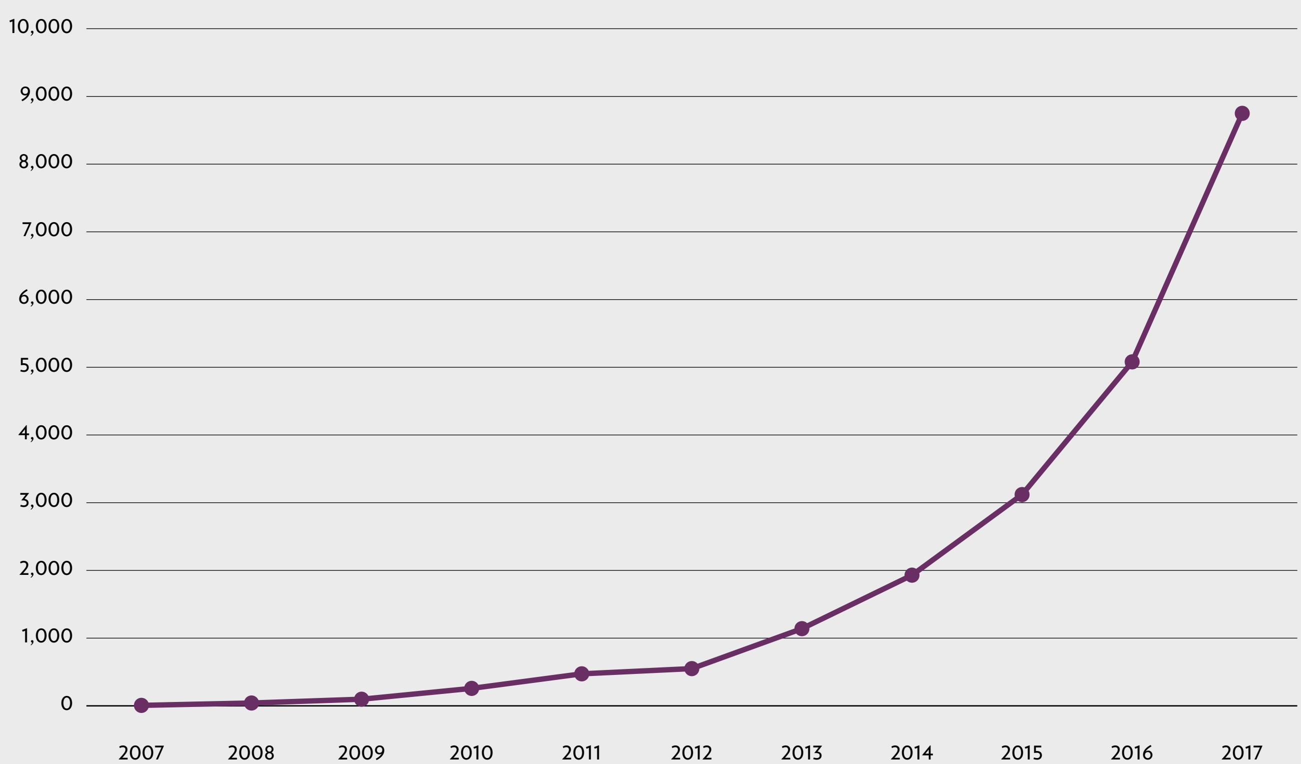
Due in large part to the deliberate efforts of these field builders, the term *impact investing* itself has gained wide recognition in financial and philanthropic circles over a relatively short amount of time. One can now hear advertisements for impact investing products on national radio shows and read articles about the latest impact investing deals in the world's most prominent newspapers (Figure 2). Still, while awareness has certainly spread, most people in the broader population remain unaware of impact investing, and those who are aware but not active tend to have a limited and superficial grasp on its practice. Impact investing is often conflated with other types of investing that integrate impact — or with philanthropy. While misperceptions do subside over time, challenges persist in educating a wider range of individuals and investment professionals about the true possibilities and realities of impact investing.

SURVEY: PERCEPTIONS OF PROGRESS

Here, too, survey responses largely corroborate these findings. Respondents gave the development of industry networks the highest average score of all 17 initiatives (3.5). Responses also reflected progress in impact measurement standards and tools (2.9). However, social and environmental considerations remain largely separate from economic and finance theory (2.2).

> "The biggest success [of impact investing] has been capturing the collective imagination."
>
> – GRAHAM MACMILLAN, SENIOR PROGRAM OFFICER AT THE FORD FOUNDATION

FIGURE 2. Number of News Articles Containing the Phrase "Impact Investing," Globally



Source: Google, as of end of 2017

An evolving set of impact measurement tools and resources helps investors measure the social and environmental benefits of their investments. Metrics like those in the IRIS catalogue, which a majority of impact investors use,[34] and ratings like GIIRS have contributed to greater standardization. However, the industry as a whole has not yet coalesced around a standard set of metrics and reporting guidelines. At present, impact investors commonly use a combination of proprietary approaches, qualitative or anecdotal information, and standardized tools to measure and report their impact.

Meanwhile, though other key pieces of industry infrastructure have started to emerge, these are still insufficiently robust or well-coordinated to support the expected growth of this vital market. Tools to assess and benchmark risk, return, and impact are especially needed. Organized advocacy platforms represent another area for further development; while country-specific groups were formed as part of the National Advisory Boards to the G8 Social Investment Task Force and others have been created since then, significant untapped opportunity remains to engage various regulatory stakeholders.

3. Absorptive Capacity

A successful investment marketplace requires not just a supply of capital but also sufficient and high-quality investment opportunities. Developing absorptive capacity entails supporting entrepreneurs and the environments in which they operate. The Monitor report proposed just two initiatives in this category:

- Support effective and scalable approaches to develop management capacity for entrepreneurs.
- Provide tools to support the research and development of innovative, scalable models.

SURVEY: PERCEPTIONS OF PROGRESS

Overall, survey respondents indicated steady progress in terms of the industry's absorptive capacity (2.5), with ample room for improvement remaining.

Many and varied resources now exist to support entrepreneurs, including accelerators, incubators, and specialized consultancies. Accelerators and incubators designed specifically for impact-seeking enterprises include Echoing Green, the Global Social Benefit Incubator, GoodCompany, Hub Ventures, New Ventures, Unreasonable Institute, Village Capital, and Villgro, among others. Many of these were launched within the past decade to support entrepreneurs who are starting businesses to provide scalable solutions to social and environmental challenges. An effort to evaluate the effectiveness of acceleration programs is being led by the Aspen Network of Development Entrepreneurs and Emory University, supported by a coalition of public and private funders.[35]

Nonetheless, investors consistently identify the lack of high-quality investment opportunities with track records as the greatest challenge constraining industry growth, and investors cite business model and execution risk as the most severe challenge facing their portfolios.[36] Investors often note that many high-potential entrepreneurs still lack a sophisticated understanding of their capital needs and investment processes and have limited skills with respect to general financial management and growth planning.

TABLE 1. Summary of Progress across Three Platforms, 2007–2017

INTERMEDIATION	INFRASTRUCTURE	ABSORPTIVE CAPACITY
• Large increase in number of funds across a wide variety of investment strategies, and development of resources to identify funds. • Several large-scale funds with proven track record, but still concentrated in the financial services sector. • Need to further develop fund manager capacity. • Greater awareness of blended finance, but greater need to convert awareness to action. • Limited investment banking services to support investors and investees raise, place, and structure capital and to better match investee needs with investor parameters.	• Development of robust leadership groups playing a critical industry-stewardship role. • Proliferation of investor networks serving different niches. • Widespread development of tools and resources for impact measurement and management, but continued lack of consensus around core dimensions or approaches. • Growing evidence base to support benchmarking risk and return. • Select policy wins in some countries, though limited progress on specific policy or regulation for impact investing in most countries; recent emergence of national policy advocacy groups.	• Establishment of several incubators, accelerators, and specialized consultants to support entrepreneurs. • Strong need to develop many more enterprises seeking to positively address social or environmental challenges. • Continued need to improve the management capacity of enterprises.

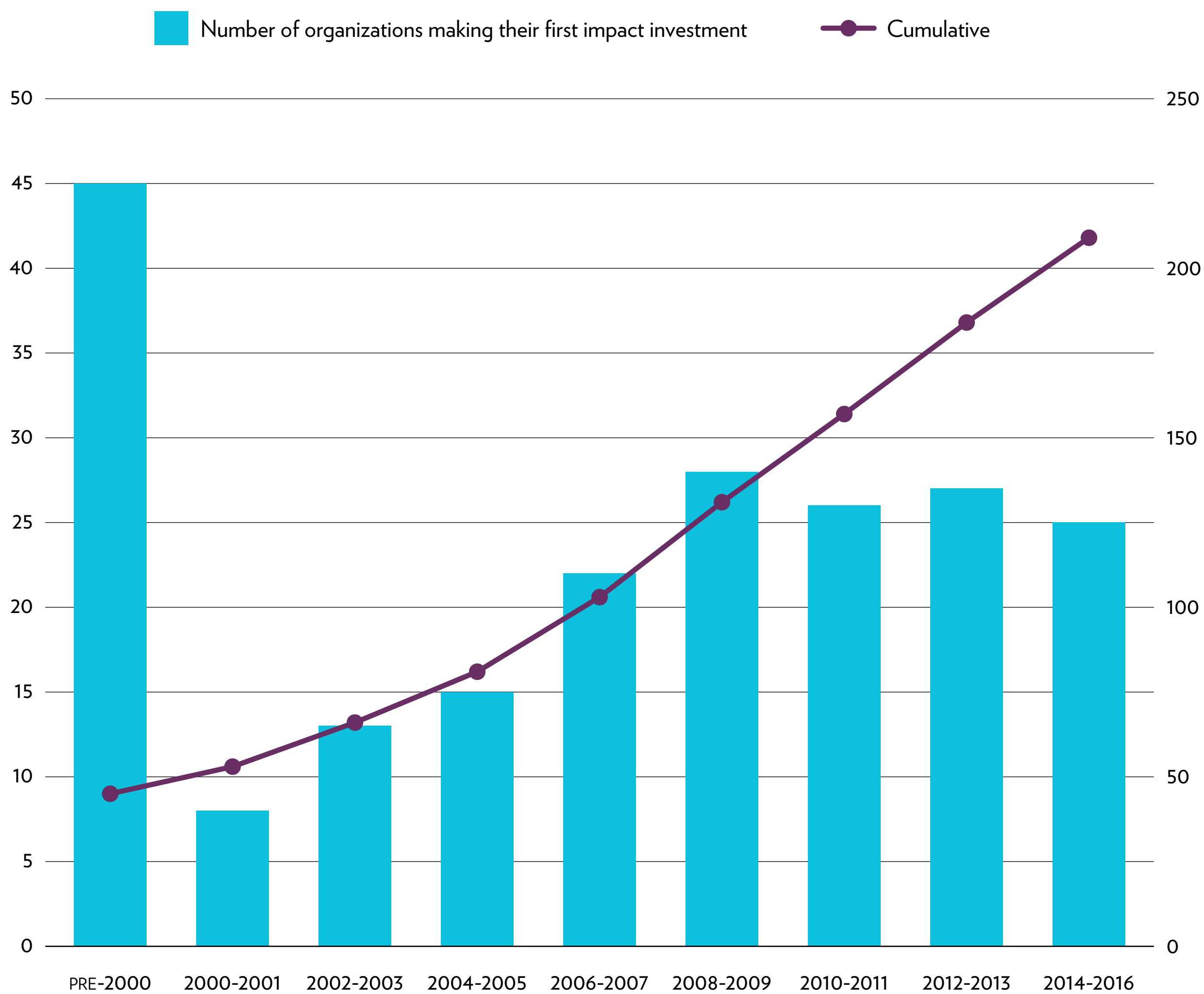
Source: GIIN

In summary, impact investing has become a recognized and legitimate investment practice among a small but critical mass of actors, and is increasingly adopted by diverse types of organizations (Table 1). For some, impact investing is a small portion of their overall portfolio; for others, it comprises everything they do. While continuing to refine their own efficiency and effectiveness at driving and demonstrating impact and financial returns, active practitioners must also determine how best to convert growing interest in the field into material benefits for communities and the environment. This ambitious task requires many players with diverse objectives, strategies, and worldviews to act in concert toward a common vision. The next section outlines the actions needed to build on the progress described above, moving impact investing into a new stage of development from which it can strongly influence the entire financial industry.

Impact investing has become a recognized and legitimate investment practice among a small but critical mass of actors.

Timelines of Major Milestones in Impact Investing

FIGURE 3. Market Growth: New Entrants



Pioneers pave the way by working to address specific social and environmental issues through investment: Notable examples include the U.S. community investing space and investors in poverty-reducing sectors like agriculture and microfinance.

The first brand-name banks establish dedicated social investing units, and new specialized intermediaries are introduced.

Pioneers prove the concept, and several scale to larger fund sizes.

Institutional investors and large-scale traditional asset managers begin announcing commitments to impact investing.

Source: *2017 Annual Impact Investor Survey*, GIIN

SEMINAL REPORTS, PAST DECADE

2009 Monitor Institute publishes *Investing for Social and Environmental Impact: A Design for Catalyzing an Emerging Industry*, which provided a roadmap to grow the market.

2010 J.P. Morgan Social Finance, the GIIN, and the Rockefeller Foundation publish *Impact Investments: An Emerging Asset Class*, which provided the first landscape analysis of the field.

2012 Monitor Group and Acumen Fund publish *From Blueprint to Scale: The Case for Philanthropy in Impact Investing*, which discusses demand-side challenges facing impactful businesses and the role of philanthropy in catalyzing impact investments.

2013 World Economic Forum publishes *From the Margins to the Mainstream: Assessment of the Impact Investing Sector and Opportunities to Engage Mainstream Investors*, which discusses constraints mainstream investors face in allocating capital to impact investments.

The GIIN releases *Catalytic First-Loss Capital*, a practical resource to advance the use of blended finance, a strategically important tool for industry growth.

2014 The Social Impact Investment Taskforce, established by the UK's presidency of the G8, releases its first report, *Impact Investment: The Invisible Heart of Markets—Harnessing the Power of Entrepreneurship, Innovation and Capital for Public Good*, which makes recommendations to governments and other players to grow the industry.

The Organisation for Economic Co-Operation and Development (OECD) publishes *New Investment Approaches for Addressing Social and Environmental Challenges*, its first paper on impact investing, which provides an overview of the market for OECD member countries and highlights the role policymakers can play in advancing the industry.

2015 The GIIN and Cambridge Associates publish *Introducing the Impact Investing Benchmark*, the first aggregate financial performance data on impact investments, focusing on private equity funds.

Wharton Social Impact Initiative releases *Great Expectations: Mission Preservation and Financial Performance in Impact Investing*, further building the body of evidence regarding the performance of impact investments in private equity.

2017 The GIIN publishes its *2017 Annual Impact Investor Survey*, the seventh consecutive edition; this survey is the preeminent provider of data on market activity, trends, and perceptions.

IMPACT MEASUREMENT AND MANAGEMENT LANDMARKS, PAST DECADE

2009 IRIS and GIIRS are formed in response to the *Investing for Social & Environmental Impact* report released by the Monitor Institute.

2011 The Sustainability Accounting Standards Board (SASB) is created as an independent, private-sector, standards-setting organization dedicated to fostering high-quality disclosure of material sustainability information to meet investor needs.

2013 B Lab launches B-Analytics, a platform for benchmarking, measuring, and reporting impact, aligned to IRIS metrics.

PwC launches its Total Impact Measurement & Management framework, which articulates the benefits of impact measurement and offers guidance on how to use impact data to drive decision-making.

2014 The DCED Standard for Results Measurement launches to provide organizations a framework, tools, and incentives to measure impact results systematically.

2015 The OECD releases Building the Evidence Base, kicking off a multi-year series of international collaborations to develop global standards on defining, collecting data on, and measuring impact, as well as to evaluate policies.

The United Nations and its member states unanimously ratify 17 SDGs for broad, global development.

2016 Bridges Impact+ launches the Impact Management Project, a multi-stakeholder effort to define the fundamentals of setting expectations for, communications around, and measurement and management of impact.

The University of Cambridge Institute for Sustainability Leadership and the Investment Leaders Group launch a framework to map the 17 SDGs against six overarching impact themes.

The World Economic Forum launches the Accelerating Impact Measurement & Management effort, a multistakeholder effort to define and collectively address key actions to reduce fragmentation in approaches and barriers investors face in integrating impact into decision making.

2017 The GIIN launches Navigating Impact to encourage the adoption of common sets of core metrics among investors with similar impact expectations.

The European Venture Philanthropy Association and Social Value International publish the Impact Management Principles, which identify the key steps for investors to follow in their impact measurement and management practice.

POLICY DEVELOPMENTS, PAST DECADE

2008

The French "90/10" social investment funds bill, which allows employees to voluntarily invest up to 10% of their savings into social and environmental projects, expands to allow participation by employee savings schemes across the country.

2011

The South African government adds amendments to its pension fund regulation, Regulation 28, that facilitate greater consideration of ESG factors in investment selection, and it also launches the Code for Responsible Investing in South Africa (CRISA).

2013

The Social Impact Investment Taskforce is established by the G8 to convene global leaders and governments in catalyzing the impact investment market.

The India Companies Act issues new corporate social responsibility (CSR) guidelines, which mandate that corporations donate 2% of their net profits to address social issues.

2014

The UK government introduces the Social Investment Tax Relief program, which offers a tax break of 30% of the value of investments made into organizations with a social purpose.

2015

193 countries adopt the 17 United Nations SDGs and 169 corresponding targets for global development.

196 countries sign the Paris Climate Agreement, which aims to mitigate global climate change.

The Global Social Impact Investment Steering Group (GSG) is established to succeed the Social Impact Investment Taskforce.

The U.S. Treasury Department allows tax-exempt foundations to make mission-related investments (MRIs) without facing tax penalties.

France becomes the first country to mandate climate change–related reporting for institutional investors.

2016

The U.S. Department of Labor revises ERISA guidance to allow pension funds to consider social and environmental goals when selecting between investments with otherwise equal risk and return.

The UK Pensions Regulator publishes a new code of practice for trustees to consider ESG factors in pension fund investments.

The Dutch Central Bank (DNB) launches a Sustainable Finance Platform to promote and encourage sustainable investment.

Transformative change requires deliberate, focused, coordinated action from visionaries committed to a new future.

V

Actions Needed to Advance Impact Investing

Impact investing can draw lessons from other transformative movements and industries that have successfully scaled and achieved their goals.

The systemic change we seek will require transformative innovation, which (as the International Futures Forum defines it) "intentionally shifts existing systems towards a wholly new sustainable way of operating in the changed environment."[37] Drawing on the successes of other transformative movements and the inputs from our consultations, the Research Team identified priority areas for the next phase of impact investing's evolution and the actions needed to execute on them.

The Research Team examined how new movements and industries (specifically within the world of finance) have successfully scaled and achieved their goals. The anti-Apartheid movement applied economic boycotts over nearly 30 years to dismantle decades of systematic, institutionalized racism and discrimination in South Africa. The women's movement in the United States gained voting and economic rights for women and combatted discrimination (with much work remaining to be done). And the environmental movement since the late nineteenth century has advocated successfully for conscious and sustainable environmental stewardship, today leading efforts to mitigate climate change. Meanwhile, microfinance, private equity and venture capital, hedge funds, and green bonds are all sub-industries of finance that, while well-known and substantial today, reached their prominence through the efforts of pioneers in their respective fields.

This analysis yielded three specific priority areas of focus for our market- and movement-building efforts. Building on these, and based on our roughly 350 consultations as part of this project, we developed a series of 18 critical actions for field builders to focus on in the coming years. First, we describe the three priority objectives:

- **Feasibility at scale.** Over the past decade, impact investing has demonstrated its feasibility in many respects, establishing general credibility. As the market grows, it must demonstrate its effectiveness on an ever-increasing scale, in terms of both progress against social and environmental challenges and the ability to generate financial returns to satisfy investors across the risk–return spectrum. Failure to do the former will turn the term 'impact' into little more than a marketing gimmick, while failure to do the latter will confine impact investing to a niche market that falls short of driving the positive impacts on the world that it must.

- **Increased accessibility.** Impact investments must be made available to a much broader set of individuals and institutions than they are at present, which includes everyone from retail investors to large institutional investors. Investment intermediaries — including fund managers, investment banks, and ratings providers — must move into impact investing (and be encouraged/incentivized to do so by field builders), as this will lead to the development of investment products and vehicles that are necessary.

- **Greater clarity and standardization.** Impact investors are a diverse group, having myriad impact motivations, targeting both competitive and concessionary returns, utilizing a full range of investment instruments, and investing around the world. This universe lacks a commonly accepted or understood segmentation, creating confusion and opacity that constrains the deployment of investment capital. The next phase of the market's evolution must address this challenge, not just to lower barriers to entry, but to in fact make entry a highly compelling proposition. An additional challenge is that the practice of impact measurement and management (IMM) is currently highly idiosyncratic, restricting the ability across the field to understand, communicate, or compare performance. The industry needs to focus on enhancing the standardization and rigor of IMM practice, so that investors can be significantly more effective in driving toward impact goals.

"By 2030, the world will be so different that we'll have new challenges that need new approaches."

– ERIC SAVAGE, CO-FOUNDER AND PRESIDENT OF UNITUS CAPITAL

The needs raised by consultees fall into six main categories of action required to execute on these priorities, overcome critical barriers, and advance toward our vision of a future in which the default is for investments to contribute to positive social and environmental impact. Summarized in Figure 4 and described in further detail thereafter, these actions will require collective work by many actors in the ecosystem including, in addition to organizations centrally dedicated to field-building, impact investors themselves, advisors, and consultants. Certain types of players are also best placed to drive specific actions, as described on the following pages. The GIIN will continue to drive many of these actions forward, as well as to foster others' commitment to the Roadmap, as described further in the *Bringing these Actions to Life* section on page 52.

By design, the actions are focused on the near term: the next seven years. Impact investing is a fast-moving market, and the broader movement is immense. The Roadmap will require regular updates as we make progress towards the future we envision.

FIGURE 4. Six Categories of Action

1. IDENTITY

Strengthen the **identity** of impact investing by establishing principles and standards and articulating a shared purpose across capital with different risk-return profiles and impact objectives.

PRIORITIES ADDRESSED:
Accessibility,
Clarity/Standards

2. BEHAVIOR AND EXPECTATIONS

Change the paradigm that governs investment **behavior and expectations** about the responsibility of finance in society via asset owner leadership and updated finance theory.

PRIORITIES ADDRESSED:
Feasibility,
Clarity/Standards

3. PRODUCTS

Expand impact investment **products** for investors across the spectrum (from retail to institutional), including risk-sharing vehicles and products that better meet the needs of investees.

PRIORITIES ADDRESSED:
Feasibility,
Accessibility

4. TOOLS AND SERVICES

Develop **tools and services** (for portfolio allocation, investment analysis, and benchmarking) that integrate impact alongside risk and return.

PRIORITIES ADDRESSED:
Feasibility,
Accessibility

5. EDUCATION AND TRAINING

Bolster **education and training** of rising and mid-career finance professionals and entrepreneurs launching businesses aimed at addressing social/environmental problems.

PRIORITY ADDRESSED:
Accessibility

6. POLICY AND REGULATION

Advocate for **policy and regulation** that creates incentives for — and crowds in — impact investments, removes constraints (such as those related to fiduciary duty), and requires impact reporting.

PRIORITIES ADDRESSED:
Accessibility,
Clarity/Standards

Source: GIIN

1. Identity

Successful social movements have clear identities and shared senses of purpose. As a **movement**, impact investing needs a stronger identity and sense of purpose reinforced by agreed-upon principles and standards of practice. As an **industry**, meanwhile, impact investing needs clarity to alleviate barriers associated with confusion around definitions and segmentation — both between impact investing and other types of investing and within impact investing itself.

"Language should enable a shared understanding without having to explain each term. We're still not there yet within the industry, let alone the mainstream."

– DAMIAN PAYIATAKIS,
HEAD OF IMPACT INVESTING AT BARCLAYS

Most consulted experts agreed that it is a priority to clarify the defining characteristics of impact investing as distinct from other types of investing, starting most usefully from principles of practice and behavior. Some also believe that explicit types of investments should be included or excluded from the field, while others argue that field-builders' efforts to narrow down what 'counts' as impact investing are unproductive, better handled by market mechanisms that would be enabled by greater transparency.

Lack of clarity about both the nature of impact investing and the various strategies within the practice constrains growth and progress. A strong identity would encourage new actors into the space, lower transaction costs for current players, and reduce the risk of impact washing — the misapplication of the impact investing label to investments that do not actively target and manage toward positive impact. Finally, better shared understanding of the roles different types of capital can play within the industry will enable easier matching of capital and investments and smoother coordination among different investors.

Specific actions needed in this section are as follows:

a. Establish principles for impact investing.

b. Share best practices for impact measurement, management, and reporting.

c. Clarify the roles of various types of capital.

1. IDENTITY

A. ESTABLISH PRINCIPLES FOR IMPACT INVESTING

WHAT	To date, impact investing has been defined by 'intentionality,' meaning that positive social or environmental impact, or both, is an explicit objective of an investment, not just a byproduct. Though intentionality must remain a defining characteristic, stakeholders widely opined that field builders should lead a process to develop a set of common, mutually agreed principles that define what it means to be an impact investor more deeply than intention. A small minority advocate for formal certification, while most believe that principles akin to 'process standards' may be sufficient. Investments made in adherence to these principles would be easily distinguishable as impact investments, and investors that demonstrate a commitment to these principles would be easily identifiable as impact investors.
WHY	Principles of practice and behavior that are more detailed than 'intentionality' can help maintain the integrity of impact investing and guard against impact washing. At the same time, by avoiding drawing boundaries too tightly, the industry can continue to welcome new players who are committed to the required impact fidelity.
WHO	The GIIN will lead this process consultatively with other industry bodies and investor practitioners, with significant input from similar efforts in related fields and from a broad set of investors and advisors.
WHEN	Beginning immediately, draft principles within a year; finalize and garner widespread industry adoption within three to five years.

"We need principles of accountability and transparency to prevent impact-washing, but we can't draw the boundaries too tight."

– ROSEMARY ADDIS, CHAIR OF THE AUSTRALIAN ADVISORY BOARD ON IMPACT INVESTING

1. IDENTITY

B. SHARE BEST PRACTICES FOR IMPACT MEASUREMENT, MANAGEMENT, AND REPORTING

WHAT	Clear best practices for impact measurement need to be developed and promoted, eventually leading to greater standardization of practice and transparency on performance (potentially to include the development of impact benchmarks). This will require field-building organizations and service providers, especially those focused on impact measurement, to reconcile the wide variety of existing measurement approaches and to collate and promote best practices. Practitioners must then commit to adopt best practices, with field leaders doing so publicly.
WHY	Fragmentation of approaches to measuring and managing impact emerged as a top challenge on a recent GIIN survey, with half of respondents identifying this fragmentation as a significant challenge and only 14% seeing significant progress in this area over the past three years.[38] The lack of a standard approach for measuring and managing impact is problematic for three main reasons. First, it demands extra time and effort from investors and asset managers to define, articulate, and comprehend the potential and actual impact of investment opportunities. Second, it prevents rigorous aggregate analysis to understand and compare the impact different investors and strategies achieve. Third, it places additional burdens on investees, who must often report differently to each investor.
WHO	While field-building organizations and impact measurement consulting firms are leading some efforts, sharing, adopting, and promoting standardization of impact measurement will require the support of a broad swath of leading investors. Those who set requirements and incentives for others (e.g., asset owners) should coordinate with one another to incentivize other stakeholders to align.
WHEN	Continue ongoing efforts to share impact measurement and management practices, such as the IRIS Users Registry,[39] Navigating Impact,[40] the Impact Management Project,[41] aggregated reports, and individual case studies by various organizations. Over the next three to five years, approaches should be tested, with best practices adopted throughout the industry.

"It's time to get down to the harder work of developing clear standards and certifications for impact labeling."

– CHRISTINA LEIJONHUFVUD, MANAGING PARTNER AT TIDELINE

1. IDENTITY

C. CLARIFY THE ROLES OF VARIOUS TYPES OF CAPITAL

WHAT	To fully realize the potential of collaborations between investors with different risk–return expectations, the field needs to better articulate and promote the value and roles that may be played by each type of capital, including by those investors looking for scaled opportunities in more established or proven segments of the market and by those focused on innovation and experimentation — even in sectors where financial markets have little current activity. The market needs both of these groups, even though they are often discussed as opposites, to work together, for this allows the development of models and markets that can scale over time. Researchers, for their part, should generate and publicize examples of what is possible when diverse investors commingle in various ways.
WHY	The diversity of impact investing strategies and types of capital (from concessionary to market-rate) confuses many prospective market participants, who may wonder whether this new field is kin to traditional philanthropy or finance — two fields with different goals, vocabularies, and tools at their disposal. Yet strategies that integrate the principles of investing with the goals of impact offer new opportunities to address social and environmental challenges and strengthen the sector overall.
WHO	Practitioners should be realistic and clear about their investment expectations and rationales regarding expected risk, return, and impact. Research organizations should collect and share examples, especially those involving below-market-rate capital, which is less readily understood than market-rate-seeking capital, and those using blended finance structures, which highlight how investors with different risk–return expectations can complement each other.
WHEN	Immediately and ongoing.

> "We can eliminate a lot of confusion by talking about the fact that there are a lot of choices an investor can make, like whether your investment must be additional or must have market-rate returns."
>
> – MICHELE GIDDENS, PARTNER AT BRIDGES VENTURES

2. Behavior and Expectations

Our vision implies changing the paradigm that governs typical investment behavior. All those who control capital must set incentives and requirements to access their capital that encourage positive social and environmental impact, including large asset owners (such as pension funds and foundations), high-net-worth-individuals, and retail investors.

If asset owners set expectations and incentivize their achievement, companies and asset managers will not only be 'pulled' into impact investing, but empowered to find different ways to create positive impact in order to succeed. Shifting the paradigm will also require updating the finance theory that underpins standard investment practice.

Specific actions needed in this section are as follows:

a. Align incentives with impact.

b. Launch a campaign to reshape mindsets about the role of capital in society.

c. Update fundamental investment theory.

"Executives must infuse their organizations with the perspective that serving the interests of all major stakeholders—employees, suppliers, customers, creditors, communities, the environment—is not at odds with the goal of maximizing corporate value; on the contrary, it's essential."[42]

– DOMINIC BARTON, GLOBAL MANAGING PARTNER, MCKINSEY AND COMPANY

2. BEHAVIOR AND EXPECTATIONS

A. ALIGN INCENTIVES WITH IMPACT

WHAT	Incentives drive behavior in any business. In conventional capital markets, decisions about asset allocation and compensation are typically linked to financial performance. We need to update incentive structures so that these decisions also reflect impact performance, for example by requiring impact targets be met to receive further investment or more favorable investment terms, or by linking compensation to certain impact metrics. There are signs of progress in this direction. In a recent survey, nearly one in four impact investors said they require baseline impact targets to be met prior to capital being disbursed, and even more (31%) require targets to be met before disbursing follow-on capital.[43] In one high-profile example, the CEO of the world's largest asset manager, BlackRock, in early 2018 announced that companies will need to demonstrate that they positively contribute to society in order to receive investment from the firm.[44] According to the survey cited above, some investors further incentivize their employees by factoring the achievement of impact targets into employee performance evaluations (16%) or tying their compensation to the achievement of impact targets (13%). Firms already tying carry to impact include Vox Capital, the Media Development Investment Fund, and GAWA Capital Partners, among others.[45] The spread of pay-for-performance products is also notable here; these products are structured so that investor returns are intrinsically tied to impact performance.
WHY	This action will increase accountability and demand for impact by aligning financial incentives with impact objectives.
WHO	Asset owners (including governments) and asset managers can both establish impact-based performance incentives, as manifested in agreements between these two groups.
WHEN	Financial incentives based on impact performance will benefit from transparent and standardized approaches to set impact targets and measure progress toward these targets. Nonetheless, individual investors can feasibly set up such structures immediately, and they should do so if they are not already. This practice is growing steadily, and should become widespread within five to seven years.

2. BEHAVIOR AND EXPECTATIONS

B. LAUNCH A CAMPAIGN TO CHANGE MINDSETS ABOUT THE ROLE OF CAPITAL IN SOCIETY

WHAT	A coordinated global campaign is needed to fundamentally shift perceptions about the role of capital in society. Asset owners (from retail to institutional) will be targeted, because what they demand, require and prioritize will influence the actions of money managers across the board. This campaign must include two distinct elements. First, it should encourage asset owners to uniformly require information on the impact of their investments. This question, once asked frequently enough, will contribute to the wave of change we seek. Someone holding a savings account at a bank can ask that bank what criteria it uses to lend and invest that capital. Larger asset owners can use their influence to require that asset managers and companies report both the potential and actual impact of their activities. (These stipulations can even be included in legal agreements.) Second, it should encourage both asset owners and field builders to widely highlight and share the tangible impacts of impact investments (and other forms of investing that integrate impact). How have these practices contributed to addressing specific social and environmental challenges over time?
WHY	Despite rapid growth and expanding awareness, impact investing — and all types of investing that integrate impact — needs to scale rapidly to help channel trillions of dollars of capital towards solutions to the critical challenges facing the world today. This can only happen by making an impact on investing, i.e. by driving the shift toward the integration of impact into investment decision-making becoming the 'new normal'. By inspiring a diverse and far-reaching audience to change its ideas about the role of capital, the campaign will not just drive adoption of impact investing but have an impact on investing practice across financial markets.
WHO	A consortium of field-building organizations must work cohesively to design and drive this campaign, with each focused on those segments of stakeholders — such as foundations or corporations or family offices or pension funds — within its own ambit of financial markets. Individual asset owners, too, should proactively embrace this campaign and its aims, by adopting behavior that demands their financial services providers be accountable for impact.
WHEN	Over the next year, field-building organizations should develop and launch this campaign, which should run for several years thereafter, with clear milestones at regular intervals.

2. BEHAVIOR AND EXPECTATIONS

C. UPDATE FUNDAMENTAL INVESTMENT THEORY

WHAT	Modern Portfolio Theory and the Capital Assets Pricing Model are the dominant methods of evaluating and pricing investment opportunities. This paradigm must be refreshed and updated to specifically integrate impact as a third dimension, alongside risk and return, with new knowledge updating the foundation of curricula for undergraduate and graduate education in finance and business as well as the tools used by investment practitioners. Some investors and academics have already moved beyond Modern Portfolio Theory. For example, investors in Toniic's 100% Impact Network use "Total Portfolio Theory" to create portfolios using these three dimensions.
WHY	Investors make decisions about which projects and companies merit financial investment based on these dominant theories. To integrate impact into those decisions, new theories and tools must underpin an updated practice. Further, more rigorous thought will advance impact investing's effectiveness in generating social and environmental benefits and financial returns.
WHO	Academics must develop and publish theory, with support from funders. Practitioner-oriented researchers and investors can provide data and other inputs on which to base this theory. Funders and field-building organizations can then champion the adoption and use of the theory and new curricula.
WHEN	Action occurs in two stages: the first to develop rigorous theory, and the second to foster widespread practical adoption. A growing number of academic researchers are actively addressing questions in impact investing, and it could take up to five years for robust, high-quality research to emerge that challenges existing paradigms. Next, efforts to drive adoption must integrate theory into both academic and practical curricula.

"Can we create a Modern Portfolio Theory 2.0 that optimizes portfolios considering financial and non-financial risks and return factors equally?"

– RON ALBAHARY, CFA, CHIEF INVESTMENT OFFICER OF THRESHOLD GROUP

3. Products

Impact investments clearly must be made more accessible by developing new products suited to the needs and preferences of the full spectrum of investors (from retail to institutional) and to accommodate the capital needs of various types of investees, including those that are characteristic of impact investing (such as very early-stage, innovative social enterprises operating in frontier markets).

"Impact investing must be democratized for the full range of investors to be successful. Otherwise, it will be perceived as the hobby of the elite."

– LAURIE SPENGLER, CEO OF ENCLUDE

Creative and diverse product development, including the creation of robust secondary markets, will help translate the current, latent demand for impact investments into a higher volume of activity. While new financial products are often developed by financial firms themselves, field builders and funders can support opportunities to test and refine new offerings with peers and investors.

Specific actions needed in this section are as follows:

a. Develop retail products.

b. Expand institutional-quality investment products.

c. Commit capital to emerging fund managers.

d. Advance blended-finance vehicles.

3. PRODUCTS

A. DEVELOP RETAIL PRODUCTS

WHAT

To date, impact investing has largely taken place through the asset classes of private equity, private debt, and real assets. By design, and often by law, these investment opportunities are only available to institutional and accredited investors. (These laws typically derive from consumer-protection considerations, namely to protect unsophisticated investors from risky investments that they may find difficult to understand or evaluate.) A global set of sustainable banks already offers basic banking services to retail investors.[46] A handful of fund products also offer notes and mutual funds focused on impact, such Calvert Impact Capital, Triodos Bank, Enterprise Community Partners, and Wellington Management (via Hartford Mutual Fund).

Yet the retail market remains largely untapped. The impact investing industry needs to develop more products for everyday retail investors that still appropriately protect consumers in accordance with ethical considerations and the law. Products must also be made available as options in pension and retirement plans and distributed via the online investment platforms retail investors increasingly prefer. Growing awareness of impact investing (driven by the campaign described in 2.b, page 47) and the education of wealth advisors and managers who interact with clients at various levels will support the democratization of impact investing. In addition, it will require mutual fund managers to think creatively about how to select and manage publicly traded companies for positive impact, something with which various firms — such as OpenInvest and Swell — are already starting to experiment. While retail opportunities can be expanded in the current regulatory environment, enabling public policy is essential to realizing the full potential of retail impact investing.

WHY

We envision every investor having viable opportunities to build wealth in a way that advances positive impact on people and the planet; impact investing cannot be available only for the wealthy. Research indicates growing demand from retail investors for access to impact investing products,* which must be met without delay so they can begin aligning their capital and their impact goals.

WHO

Asset managers with the means to develop new products for retail investors are best placed to lead this action. Regulators at the country level need to play an important supporting role, to ensure that legal frameworks are encouraging of the development of such products. Field-building organizations need to advocate for regulatory changes to enable retail impact investing.

WHEN

In practice, the development, testing, and rollout of new products can take several years; asset managers must begin this process immediately. The market's strong demand for retail impact investment products must be met. Those focused on public markets can also play a greater role by developing and expanding existing strategies for managing a portfolio of publicly traded companies for positive impact.

* For example, new Research Team analysis for the present report showed that only 24 of the 140 funds in the GIIN's latest annual survey had more than USD 500 million assets under management. For further insights, see Mudaliar et al., *2017 Annual Impact Investor Survey, 18.*

3. PRODUCTS

B. EXPAND INSTITUTIONAL-QUALITY INVESTMENT PRODUCTS

WHAT

At the other end of the spectrum, institutional asset owners lack options for "institutional-quality" funds or investment vehicles. Institutional parameters that typically need to be met concern size, track record, risk–return profile, time horizon, and ability to meet reporting requirements. Despite significant increases in the number of active funds in the market, few funds are larger than USD 500 million in assets under management. Most current large-scale, high-quality impact funds operate in the financial services sector, building on the well-established microfinance field and investors' sector-specific knowledge. Some large-scale funds also exist to invest with climate and conservation themes. Given the size and diversity of the global challenges impact investors seek to address, the industry needs large-scale funds covering a broader range of impact themes, sectors, and geographies.

WHY

A variety of institutional investors, including pension funds, insurance companies, sovereign wealth funds, and foundation endowments, have significant and growing interest in impact investments.[47] According to the GIIN's analysis of changes in fund managers' sources of capital for impact investing, from 2013 to 2015, the volume of capital funds raised from endowments grew by 28% per year, compounding, and the share raised from pension funds and insurance companies grew by 24%. To translate this growing demand into action, the industry needs to provide these investors with suitable investment opportunities. In practice, the development, testing, and rollout of new products can take several years; asset managers must begin this process immediately.

WHO

Asset managers with the means and expertise to develop new products for institutional investors should work closely with interested institutional investors, clearly communicating product requirements and anchoring new products.

WHEN

This action, already ongoing, must expand to keep pace with growing demand; the development of track record, by definition, takes time.

> "Most of the current products aren't institutional quality. They aren't scalable or won't meet the due diligence requirements of institutional investors, which is why so many large players are now introducing products."
>
> – JYOTI AGGARWALA, DIRECTOR AT BIG PATH CAPITAL

3. PRODUCTS

C. COMMIT CAPITAL TO EMERGING FUND MANAGERS

WHAT

Asset owners need to redouble efforts to capitalize and accelerate the development of emerging fund managers all over the world. This is needed to help them build track record and speed their pathway towards becoming institutional investor-ready with subsequent funds. Investors need to proactively identify and capitalize emerging fund managers that are consistent with their investment approach, diversification needs and impact theses. They can do this on their own or by pooling resources with peers. In addition, those providing support services should focus on strengthening fund manager capacity, including through skills training (such as on fund administration), technical assistance (such as on IMM), and mentoring.

WHY

As impact investing has grown, it has continued to attract new fund managers who wish to raise and deploy capital to achieve impact goals they care about and to leverage their understanding of local contexts to support the development of impactful businesses (including in frontier markets). However, a lot more is needed: To build an impact investing market that effectively channels capital at scale, it is essential to have a broader, more diverse pool of fund managers. Further, significant technical and strategic support is needed to help emerging managers become institutional quality.

Institutional investors rely on fund managers to channel large volumes of capital to investments, managing money and risks efficiently. Requirements for impact investment fund managers are higher, due to the added complexities of managing impact performance. By prioritizing the viability of a group of emerging fund managers, this activity could accelerate the entry of a diversity of institutional quality intermediaries into the market, which in turn would enable further investment by large asset owners, including those for whom investing in a first-time fund manager would not be feasible.

A handful of initiatives have emerged to address this market need, mainly through the provision of training to fund managers, and occasionally through deeper hands-on support, but few incorporate large pools of capital to proactively place bets on emerging fund managers. Capria is a notable exception, and clearly a lot more are needed.

WHO

Each investor needs to deliberately evaluate how they can invest in emerging fund managers and develop a strategy to do so. Organizations providing support services — such as training, capacity building or technical assistance — must develop offerings that are specifically suited to the needs of emerging fund managers in their respective markets.

WHEN

Work on this action must begin immediately and be ongoing.

3. PRODUCTS

D. ADVANCE BLENDED-FINANCE VEHICLES

WHAT

As the 2009 Monitor report noted,[48] products that combine capital with different risk–return expectations (including philanthropic capital) have great opportunities to create impact through an overall 'blended' level of risk and return that meets investee needs while furthering the objectives of different investors. Developing such 'fit-for-purpose' vehicles will entail establishing channels and mechanisms for investees to articulate their capital needs more strongly, potentially including capacity-building for entrepreneurs regarding financial structuring. To date, actual progress on the use of blended-finance vehicles has been slow.

Multiple organizations have begun efforts to provide resources to further the development of such vehicles, including the OECD program on the strategic use of blended finance to achieve the SDGs,[49] the World Economic Forum's Blended Finance Toolkit,[50] and the GIIN's working group on the topic. A dedicated institution, Convergence Finance, "connects, educates, and supports investors to execute blended-finance transactions that increase private sector investment in emerging markets."[51] The recent proliferation of initiatives focused on this theme reflects the importance of finding effective financing structures to fill gaps in capital supply.

WHY

Blended-capital vehicles could be used to invest in enterprises and business models that might not attract investment from an investor of a given type (such as very early-stage ventures with the potential to generate large-scale positive impact in the long run). Such vehicles can also help private investors gain experience with impact investments, reducing their risk in the short term while they learn and develop their own strategies and underwriting guidelines. This action, already ongoing, must expand to keep pace with growing demand; the development of track record, by definition, does take time.

WHO

Blended finance vehicles, by their nature, provide opportunities for all investors to participate. Service providers, such as investment advisors and consultants, also have a role to play in developing and channeling capital into blended-finance vehicles.

WHEN

Immediately and ongoing.

4. Tools and Services

"An impact rating should become a defining feature of any investment"

– VINEET RAI, FOUNDER, AAVISHKAAR INTELLECAP GROUP

A well-functioning market requires many supporting elements to ensure that the day-to-day activities of deal-making and capital allocation happen smoothly. To date, the field has seen modest and uneven development in terms of the specific needed tools or elements that comprise supporting infrastructure.

Specific actions needed in this section are as follows:

a. Develop ratings for impact.

b. Build analysis and allocation tools that incorporate risk, return, and impact.

c. Expand impact investment banks.

4. TOOLS AND SERVICES

A. DEVELOP RATINGS FOR IMPACT

WHAT	In conventional capital markets, investors rely on commonly understood third-party ratings of various investment products, such as those offered by Standard & Poor, Moody's, and Morningstar. Equity research analysts at investment banks provide a similar service for publicly traded companies. While an element of subjectivity is always involved, these ratings are based on a range of factors that are important to investors, such as assessments of risk, expected return, and liquidity characteristics. The impact investing market needs similar services, both specifically for impact and to incorporate impact into existing indices and ratings. Third-party ratings are critically needed in order to build impact rating expertise, share economies of scale in terms of research, and eliminate perceptions of possible bias. However, it is not necessary to develop a single rating methodology for all types of impact investing; it may be more appropriate to adopt different approaches for different segments of the market. Creating useful ratings for impact requires ways of understanding and measuring impact that are standard enough to compare, while being specific enough (e.g., sector-specific) to be meaningful. Investors must also compromise by using third-party ratings that may not perfectly match their ideal needs. B Lab's GIIRS,[52] one such existing service in the market, has rated 90 funds to date. The microfinance sector has multiple social ratings, including those provided by MicroFinanza,[53] MicroRate,[54] and MIX social performance awards.[55]
WHY	Rigorous third-party ratings would greatly ease investors' comparison of opportunities within particular market segments. Investors with portfolios at scale and spanning sectors and geographies will need third-party services, as their expertise in each specific strategy will be necessarily limited. Further, increasingly credible third-party ratings reduce investors' diligence costs, which is critical for increasing accessibility, as new participants especially benefit from clear ways to interpret impact information.
WHO	As in conventional capital markets, impact investors will need ratings in various market segments, by asset class, certainly, and also perhaps by impact theme and geography. Thus, the industry needs boutique developers of ratings to scale and mainstream rating actors to move into impact investing. These efforts need to be supported by input from expert practitioners, field-building organizations, and investors themselves.
WHEN	Notwithstanding the handful of options already in the market, widespread adoption of standardized ratings will only be possible after achieving greater standardization in measuring and reporting impact. Therefore, five to seven years is a realistic time horizon for this effort; meanwhile, investors should work toward greater transparency and standardization of impact measurement, and field builders should strive to produce aggregate research on impact performance that can pave the way for rigorous and well-accepted rating systems (both existing and new).

4. TOOLS AND SERVICES

B. BUILD ANALYSIS AND ALLOCATION TOOLS THAT INCORPORATE RISK, RETURN, AND IMPACT

WHAT

Investment analysis tools that examine risk, return, and impact can help investors understand opportunities, inform portfolio allocation decisions, and assess performance. Some sophisticated impact investors and service providers, such as Athena Capital,[56] the Caprock Group,[57] Morgan Stanley,* and UBS,[58] have already developed proprietary versions of such tools.

The broader development of such tools requires much more data on the financial and impact performance of impact investments, as well as theoretical models that incorporate impact alongside risk and return.

WHY

Analytic tools enable investors to evaluate investment opportunities efficiently and to allocate capital to investments meeting their needs and preferences. By incorporating impact, such tools can also, hopefully, help direct capital to the highest-impact opportunities for a given level of risk and return.

WHO

Service providers and asset managers are best-placed to spearhead development of tools, given their first-hand exposure to analytical questions and ability to benefit from the tools once created.

WHEN

As noted above, these tools' development depends to some extent on data availability and the creation of new theoretical models (see the section on Behavior and Expectations for further detail on this). Nonetheless, service providers can lay the groundwork immediately by collecting and analyzing all available data. Practitioners can also share and publicize tools they currently use for their portfolio allocation and analysis.

> "We need to give wealth advisors, pension funds, and other investors the data they need to make informed decisions on impact."
>
> – LIESBET PEETERS, MANAGING PARTNER AT D. CAPITAL PARTNERS

* Morgan Stanley is currently piloting a proprietary tool aimed at enabling its clients to understand how their portfolios are aligned with the impact priorities that matter most to them as individuals, families, or organizations.

4. TOOLS AND SERVICES

C. EXPAND IMPACT INVESTMENT BANKS

WHAT	The need for classic investment banking services for impact investments — capital raising, deal origination, structuring, syndication, and securitization — was identified in the seminal 2009 Monitor report.[59] Since then, a handful of boutique organizations have emerged to offer these services, including, among others, Big Path Capital, ClearlySo, Enclude, Imprint Capital (acquired by Goldman Sachs), Open Capital Advisors, Intellecap, Impact Investment Exchange, and Unitus Capital. These boutique firms, many of which were founded in the past 10 years, face challenging business models, but the industry needs more such firms, and existing boutique firms need to achieve greater scale. 'Mainstream' financial services players must also further extend their services to serve impact investing opportunities.
WHY	Investment banks play critical roles in capital markets, ensuring the smooth flow of capital and allocative efficiency. Impact investors often cite liquidity as a significant challenge, and investment banks help develop well-functioning secondary markets that not only enable investors to exit but also offer businesses different types of capital matched to their different stages of growth. As the industry develops, it will also need to consolidate through mergers or acquisitions — another service that investment banks provide.
WHO	Mainstream investment banks and boutique firms should provide these services. Some services may at first require the support of grant funding or early-stage investment or business commitments, support which funder or investor stakeholders could provide.
WHEN	Immediate and ongoing. These services will need to scale to meet ongoing growth in demand.

> "The responsible participation of major investment banks to engage in the market in ways that generate positive impact can help unlock capital without compromising the purpose of the movement."
>
> – TIM MACREADY, CHIEF INVESTMENT OFFICER AT CHRISTIAN SUPER

5. Education and Training

"Models of investor behavior that incorporate more than just risk and return are becoming more mainstream. I could see this becoming a chapter in finance textbooks within the next five years or so."

– ROBERT GERTNER, PROFESSOR OF STRATEGY AND FINANCE AT THE UNIVERSITY OF CHICAGO BOOTH SCHOOL OF BUSINESS

We cannot overstate the importance of human capital to building a market that challenges fundamental norms and achieves impact at great scale. Future leaders in finance and business must excel in a world where impact, risk, and return are all integrated into the investment process.

Impressive accomplishments made to raise the profile of impact investing are evidenced by media coverage and growing awareness and interest worldwide at business schools and mainstream financial firms. However, with few scaled or coordinated educational efforts and the general definitional confusion described previously, the field remains opaque to outside actors. Education is needed of both finance professionals (through graduate education and professional training) and business managers (through capacity building).

Demand for education in both of these groups and across sectors is high, particularly to develop technical skill sets that include impact evaluation and financial analysis.[60] Broader educational efforts will further increase awareness and address the risks of impact washing. Continuing to build a pipeline of investment-ready enterprises and projects through investee education and capacity development also remains a pressing need.

Specific actions in this section are as follows:

a. Train finance professionals.

b. Support the development of small and new businesses focused on impact.

5. EDUCATION AND TRAINING

A. TRAIN FINANCE PROFESSIONALS

WHAT	Training organizations in the financial services industry, such as the Chartered Financial Analyst (CFA) and the Chartered Alternative Investment Analyst Association (CAIA), should be engaged to train wealth advisors and other financial professionals on topics in impact investing. Banks and large asset managers could start from such third-party trainings to develop customized, in-house training programs to help their staff capture unmet client demand for impact investments. Indeed, some financial firms are already introducing trainings to help their wealth advisors understand and recommend sustainable and impact investment options on their platforms.[61] In addition, updated finance theory (see page 48) needs to be included in academic curricula to educate rising finance and business professionals.
WHY	One current bottleneck in translating client demand into capital deployed is that many financial advisors lack experience with impact investing. Advisors with too little knowledge to confidently recommend investments tend to avoid doing so, steering interested or potentially interested clients away from the field. While much attention has been paid to the surge in interest among business school students, we cannot lose sight of the fact that, to move quickly as a field, we also need to engage those mid-career and senior professionals already working in finance.
WHO	Industry associations of finance professionals, especially those involved in training and certification, must lead this effort. Within financial firms, in-house champions must continually push their stakeholders, pointing to potential for leadership and competitive advantage. In addition, some upfront grant funding might be needed to catalyze the initial development of curricula.
WHEN	Developing curricula may take several years for formal certification bodies, possibly requiring further research and development of common standards of practice. In the meantime, field builders and in-house champions can orient professionals towards the basics of impact investing through the resources that are already widely available.

> "As more traditional firms jump into impact investing, there will be an increasing need for impact-driven investment professionals with a diverse skill set."
>
> – LISA HAGERMAN, DIRECTOR OF PROGRAMS AT DBL PARTNERS

5. EDUCATION AND TRAINING

B. SUPPORT THE DEVELOPMENT OF BUSINESSES FOCUSED ON IMPACT

WHAT	The field must enhance capacity building for entrepreneurs and project developers in order to build a robust pipeline of impact investing opportunities. Incubators and accelerators play essential roles in shaping business ideas into investable companies and can develop strong, direct partnerships with investors.* Though many such organizations exist, with a notable surge in their founding over the past decade, there is ample room for more and for greater scale. We also need to advance our understanding of which services most effectively accelerate the development of new businesses and address gaps preventing access to finance. Investors themselves (especially direct investors) also importantly provide technical assistance and can learn from those with more experience in this area.[62]
WHY	Growth in the demand for capital (or 'absorptive capacity') must match the ongoing growth in supply. Companies of all sizes are adopting impact-focused strategies. However, capacity gaps are particularly prevalent with smaller businesses.
WHO	Incubators, accelerators, business consultants, and direct investors can expand and enhance their capacity-building support. Field builders should assist by identifying areas of greatest need and helping to refine service offerings.
WHEN	Immediately and ongoing.

"Investors should better define what they need in a transaction in order to invest, and also better support the building of their own pipeline."

– ROB SCHNEIDER, SENIOR PARTNERSHIPS ADVISOR AT USAID

* Recent research by Saurabh Lall suggests that incubators and accelerators play a role in the adoption of social performance measurement by social enterprises and nonprofits. "Measuring to Improve Versus Measuring to Prove: Understanding the Adoption of Social Performance Measurement Practices in Nascent Social Enterprises." Voluntas 28, no. 6 (December 2017): 2633–57. **https://doi.org/10.1007/s11266-017-9898-1**

6. Policy and Regulation

Policy and regulation can both remove barriers and incentivize impact investments; many other successful industries have seen exponential increases in scale resulting from changes in this area. Most stakeholders consulted agreed that government can catalyze industry growth to a greater extent than they have thus far.

Many experts advocate for tax or other financial benefits for impact investments (such as reduced interest rate caps), and some encourage refining regulations (such as to clarify fiduciary duty, incentivize community investment, or catalyze investments). Additionally, several consulted investors noted that governments play a critical role in establishing and maintaining economic and political stability, which is key to cultivating a healthy investment climate. On the other hand, some believe that policy and regulation will not likely significantly affect investment activity or, at least, are secondary to many other current needs. In the short run, these investors say that a lack of government involvement will probably not impede industry growth; in the medium term, some investors feel that policy changes, even if they were to occur, would have limited effect on the market.

Views on regulation vary by geography. U.S.-based investors generally see progress in supportive regulation as disappointing compared to other regions, but don't place a strong emphasis on it to spur growth in impact investing. Those in Europe identify progress that they feel is very important. And those in emerging markets see government's main role as providing stability for the sectors in which they invest rather than getting involved in investment regulation per se. Since regulation is often a national- or local-level issue, regional and local advocacy or field-building organizations are best placed to advocate for concrete changes. Global field-builders can lend support through research and knowledge-sharing across borders. The GSG already supports a growing network of more than 15 countries and the EU that are in various stages of developing and pursing local policy agendas.

Specific actions in this section are as follows:

a. Clarify fiduciary duty.

b. Establish tax incentives for impact investments.

c. Create an environment conducive to impact investing.

"Policy has both a primary and a secondary role in developing this market. The primary role is creating a clear regulatory framework for investing with confidence in impact sectors. The secondary role is providing tax benefits to encourage the formation of businesses that create positive impact."

– MATTHEW WEATHERLEY-WHITE, CO-FOUNDER AND MANAGING DIRECTOR OF CAPROCK

6. POLICY AND REGULATION

A. CLARIFY INTERPRETATION OF FIDUCIARY DUTY WITH RESPECT TO SOCIAL AND ENVIRONMENTAL CONSIDERATIONS

WHAT

Fiduciary duty generally refers to the standard of care an asset manager owes its clients. For instance, in many jurisdictions, legal guidelines govern how pension funds must manage the retirement savings of their clients. For obvious reasons, fiduciary duty is important to maintain. Recent years have seen increasing debate over whether upholding fiduciary duty can be consistent with incorporating social and environmental considerations into investment decision making. (A few have even raised the question of whether upholding fiduciary duty can be consistent with *not* incorporating social and environmental considerations into investment decision making.) Updated expert (i.e., legal) guidance is much needed regarding the interpretation and application of fiduciary duty in the context of impact investments (including variation by geography).

WHY

Many investors around the world have already determined that impact investing is consistent with their fiduciary duty and are active in the impact investing market. However, to tap the full potential of the market, we must expand this subset. The current lack of clarity poses genuine constraints for some investors, who are unwilling to foray into impact investments in light of their perceived risk that doing so might violate their fiduciary duty. For others, though, concern that impact investments would violate their 'fiduciary duty' simply represents status quo bias.

WHO

A coalition of policy experts and practitioners can develop recommendations, which local or regional industry associations can then advocate for governments to adopt in a way that meets geographical contexts.

WHEN

The recommended clarifications should be developed over the next one to two years. Adoption by governments may then take multiple years, and should be expedited to the extent possible by advocacy from internal government supporters and external stakeholders.

"Fiduciary duty should also comprise the monitoring, assessment, and mitigation of extra-financial risks."

– CORINNE MOLITOR, DIRECTOR AT INNPACT

6. POLICY AND REGULATION

B. ESTABLISH TAX INCENTIVES FOR IMPACT INVESTMENTS

WHAT

Taxation benefits are an oft-used tool to promote certain investment sectors by changing the effective financial return of qualifying investments. Many successful industries around the world have benefited from government support in this form. Providing tax incentives for impact investments could significantly expand the volume of capital active in the industry. Some examples already exist. In the Netherlands, tax incentives for green funds have been in place since 1995 and these have stimulated investments in renewable energy and sustainable agriculture.[63] In 2014, the UK introduced Social Investment Tax Relief of 30% of the value of a qualifying investment, defined as an investment into organizations that "have a defined social purpose,"[64] and the New Markets Tax Credit helps drive equity investments in low-income communities in the United States.[65] A timeline of other global policy developments over the past 10 years may be found in the *Impact Investing: The Journey So Far* section.

Tax benefits for social enterprises could also help to expand the pipeline of impact-generating enterprises. For example, laws in Vietnam give preferential treatment to social enterprises, including tax breaks, investment incentives, and beneficial rates for leasing land. Such policies could foster the growth of enterprises that can use impact investment to scale.[66]

WHY

Many investors might remain reluctant to participate in the impact investing market due to mismatched expectations of risk and return. Tax incentives can nudge these investors across the line. Further, even short-term or expiring incentives are often sufficient to drive longer-term or sustained changes in investor behavior. That is, tax incentives can take certain models to sustainable scale.

WHO

While ultimate decision-making authority lies with policymakers, field-building organizations and investors themselves can influence policymakers through advocacy efforts, which would be most effective if driven at a national level.

WHEN

Actors in each national market will need to determine the appropriate time horizons for their contexts given current regulation and the political environment.

6. POLICY AND REGULATION

C. CREATE AN ENVIRONMENT CONDUCIVE TO IMPACT INVESTING

WHAT

In addition to directly incentivizing behavior, regulation and policy can indirectly create a conducive environment for impact investing. Regulations that require companies or investment managers to disclose information related to impact, for example, would help increase transparency, support awareness-raising efforts, and create demand for more investment opportunities with positive impact. Regulations that support the development of products that extend access to retail investors can drive democratization of the industry. Provision of credit enhancement and funding capacity-building support for investees are also widely seen as useful roles for governments to adopt.

WHY

The actions of companies and investors are shaped in part by the regulatory environment in which they operate. National governments' policies and actions contribute to this context and enable behavior in the private sector. Government actions must drive toward the shared goals of positive social and environmental impact. Some governments, such as those of France and the Netherlands, have begun by instituting policies or regulations that require reporting climate risk and ESG factors. These could be first steps toward policies that require disclosure of not only negative but also positive impact.[67]

WHO

National governments should lead these efforts, informed by practitioners and industry-advocacy groups. Field-builders can also research and showcase policies and programs that have already played enabling roles in some markets. The National Advisory Boards that comprise the GSG (mentioned in the introduction to this category of action) play this role in the 16 markets in which they operate; analogous groups in other countries could help advance national policy initiatives.

WHEN

Actors in each individual market will need to determine their own appropriate time horizons given the state of current regulation and the political environment. Nonetheless, developing an agenda is a priority, as policy can dramatically influence the trajectory of the market and accelerate growth.

> "The government is working really hard, but needs to better understand how to collaborate with the private sector."
>
> – SANTIAGO SALINAS, HEAD OF INSTITUTIONAL RELATIONS AT THE MEXICAN ASSOCIATION OF PE & VC FUNDS (AMEXCAP)

Bringing these Actions to Life

The 18 actions outlined here — for field builders to prioritize in the near term both to help impact investing reach its full potential and to realize the fundamental sea change we envision for financial markets — we recognize, are just words. The real work will lie in their implementation, which promises to be resource-intensive, messy, and challenging. But it also promises to be deeply fulfilling: successfully scaling impact investing as both an industry and a movement will have a massive positive impact on people and the planet.

The GIIN is committed to driving forward the initiatives that are aligned with our strengths and capabilities.

As an organization dedicated to enhancing the scale and effectiveness of impact investing, the GIIN is committed to driving forward the initiatives that are aligned with our strengths and capabilities. For instance, in 2018, the GIIN will lead a consultative process to develop a set of principles for impact investing (see description on page 42). We will also use the findings in this report and the input of stakeholders consulted to inform the GIIN's strategy.

However, as noted at several points throughout this report, realizing the ambitious vision for the future of investing will require a broad-based, collective effort and leadership from many organizations and individuals. Just as this report was built on learnings from consultations with more than 350 individuals, so too, following publication, will the GIIN convene groups of impact investing stakeholders in geographies worldwide to workshop implementation plans for specific actions. Many field-building organizations already have effective working relationships with one another, but far greater collaboration is needed both to minimize redundancies and realize synergies.

A note on timing: accomplishment of some of the actions outlined here is binary in nature, such as 'develop a set of principles for impact investing'; these actions can have firm deadlines. Others which are more fluid, such as 'develop tools for financial analysis that incorporate impact,' have less specific timelines proposed in this report (e.g., 'ongoing'), and understanding of what would define success is currently unclear. In such cases, it is the responsibility of leaders in our field to elucidate these additional details.

One thing is clear though, and that is the need for urgency. While transformative change will take time to fully realize, the work towards creating the future we want to see needs to proceed immediately. We need to drive programs on each of these 18 activities so we can ensure we are making progress against critical challenges facing the world. And just as the GIIN will reach out to field builders to collaborate on these actions, we invite you to proactively reach out to us with your ideas for implementing this plan.

FIGURE 5. Timeline of Action

Continue to build immediately

- Share best practices in impact measurement and management **(1.b)**
- Clarify roles for various types of capital **(1.c)**
- Develop institutional-quality investment products **(3.b)**
- Commit capital to emerging fund managers **(3.c)**
- Develop blended-finance vehicles **(3.d)**
- Produce research and tools to evaluate impact performance **(4.b)**
- Develop investment banks for impact investing **(4.c)**
- Increase pipeline support **(5.b)**

Within one to two years (by 2020)

- Draft principles for impact investing **(1.a)**
- Launch a broad global campaign to reshape mindsets about finance **(2.b)**
- Introduce and expand education for investment managers and wealth advisors on the basics of impact investing **(5.a)**
- Recommend clarification of fiduciary duty **(6.a)**
- Recommend tax incentives and other enabling regulation (variable, depending on region) **(6.b , 6.c)**

Within three to five years (by 2023)

- Finalize principles of impact investing and garner their widespread adoption **(1.a)**
- Develop significant retail product offerings **(3.a)**
- Establish a body of high-quality research to challenge existing paradigms of investment management **(2.c)**
- Develop impact investing curricula for professional investment managers and wealth advisors **(5.a)**
- Governments adopt clarifications of fiduciary duty **(6.a)**

Within five to seven years (by 2025)

- Align asset manager incentives with impact **(2.a)**
- Integrate new research and theory on investment management into academic and practical curricula **(2.c, 5.a)**
- Develop ratings for impact and tools for analyzing risk, return, and impact **(4.a)**
- Create a policy environment conducive to impact investing **(6.c)**

By 2030

- Flow of capital to impact investments registers dramatic increase compared to 2018
- Effectiveness and efficiency of achieving impact increases, contributing to achievement of the SDGs

VI

Conclusion: A Call to Action

In the future it will simply be unacceptable to make investment decisions without regard for impact on people and the planet. We do not presume that all investing will necessarily be impact investing, but we do aspire to a world where the integration of impact considerations into investing decisions will simply become the normal way of doing things. That the practice of investing should move in this direction is a view held not just by practitioners in the impact investing ecosystem, but also many actors across the public and private sector, from the CFA to the World Bank to the EU. This vision entails fundamentally reshaping both investor mindsets and the functioning of financial markets. It is ambitious, even idealistic, but this is the future toward which we must strive; anything less will be unsustainable for human society and the planet.

Achieving the vision will require intentional leadership and commitment from many organizations invested in building a new future.

Notwithstanding current momentum in this direction, achieving the vision will require intentional leadership and commitment from many organizations invested in building a new future. The world in which we want to live comes about not by chance but through deliberate action by pioneers with determination to change the status quo.

Imagine, for instance, a world in which scientific discoveries were kept secret rather than published and shared. The immense scientific and technological progress human society has benefited from over the past several centuries would simply not have been possible. Scientists, businesses, and governments, unable to build on collective knowledge, would have limited ability to improve quality of life, slowing the pace of progress — with enormous human and economic costs. Our world, in which scientific research and data are constantly and widely shared as a matter of practice, resulted from specific collective action that drove shifts in standards toward 'open science.'

Seventeenth-century scientists typically kept their advances private as a source of prestige and profit for themselves and their patrons. Several factors spanning decades instead encouraged the open sharing of scientific research. Among these were advances in technology (the printing press), developments in policy (copyright laws), shifts in incentives (rewarding publication), and changes in norms (towards openness and transparency). By the end of the seventeenth century, the first academic journals had established the principles of peer-reviewed scientific

This movement must continue to set and stretch the benchmark for the types of positive impact that investing can have on the world.

literature. More recently, private organizations and intergovernmental initiatives have worked to extend knowledge sharing so that collective goods might benefit society even more broadly.[68]

This same sort of intentional action and cultural change — which completely upturned the historical paradigm of 'closed science' to reach the 'open science' paradigm we now take for granted — is needed today in the financial markets. Reaching this future will require tireless leadership, bold policymaking, and financial innovation — as well as increasingly demanding mom-and-pop investors.

As a group, the leadership of impact investors will be particularly important. Impact investing is the most intentional of the various forms of investing that integrate impact, with the central function to deliberately seek solutions to global challenges. This movement must continue to set and stretch the benchmark for the types of positive impact that investing can have on the world.

The time for action is now. With greenhouse gas emissions at their highest levels in human history,[69] we need immediate action to avoid pushing the climate beyond a tipping point.[70] Over 80% of global wealth generated in 2017 went to the top 1%; the bottom 50% saw no increase in wealth at all.[71] Although there is sufficient fresh water on the planet for everyone to have access to clean water, millions of people, mostly children, die every year from diseases associated with inadequate water supply, sanitation, and hygiene.[72] Each year, roughly one-third of all food produced, valued around USD 1 trillion, ends up wasted somewhere along the food supply chain.[73]

Our collective challenges are many, and they are urgent. While fundamentally shifting the way financial markets operate will take time, we must immediately make strides toward that future. Impact investing, at this pivotal moment, has unprecedented levels of interest and an influx of capital commitments. We must seize this moment to make transformative advances in the functioning of the impact investing marketplace. Failure to act carries great risk. Inability to convert interest into effective impact investments will undermine the progress we have already made in proving the concept. Worse still, failure to scale the amount of investment and impact achieved will mean our current system, which cannot meet our societal needs, persists indefinitely.

The GIIN is committed to realizing this vision, propelling the impact investing industry towards its future as a permanent, substantial part of broader financial markets. As a collective action network, we will pursue these actions in partnership with our members and various other stakeholders. But this group cannot do so alone; success requires everyone. We urge you to join us.

If you are new to impact investing:

- **Educate yourself and your colleagues** about impact investing options by exploring the resources and information available on the GIIN website and elsewhere.
- **Lead by example**; begin aligning your assets and financial decisions with your values.
- **Connect** with your local impact investing network and peers to discover how to get involved through knowledge sharing and field building.

If you are already involved in impact investing, we urge you to commit to furthering those actions in the Roadmap that are most relevant to your work. It is essential that you do your part to achieve this future, both in advancing your own practice and in collaborating with others.

Like the open science movement, the change we envision is neither strictly linear nor finite. Even once we make significant advances, much will remain to be done. Open science activists continue to push for freer and wider accessibility of data and information, facing setbacks along the way. Similarly, even as we celebrate the rapid growth and development of impact investing over the past decade, we must keep our focus on the achievements we aim for in the decades to come. The progress the world needs — to end poverty, preserve natural resources, and ensure equal opportunities for all — depends on it.

Even as we celebrate the rapid growth and development of impact investing over the past decade, we must keep our focus on the achievements we aim for in the decades to come.

Appendix I. Methodology

SUMMARY

This report is based on research conducted between March and November of 2017. A multipronged research effort was designed to incorporate the perspectives of the broadest possible range of stakeholders directly involved in impact investing, including investors, asset managers, investees, service providers, funders of field-building efforts, and field-building organizations (see Appendix II for a full list of organizations consulted). Given the nature of the research questions and desired output, the research approach was primarily qualitative, mainly using interviews and focus groups. Insights gleaned from these sources were bolstered by and gained nuance from an open survey and secondary research using both the GIIN's own and third parties' published reports. An internal Advisory Body of the GIIN's senior leadership and member-facing staff helped test and refine findings, conclusions, and the final report. Three industry experts and thought leaders also reviewed key sections of the report. Last, but not least, consultants from the Monitor Institute by Deloitte advised on the research methods and conclusions.

RESEARCH QUESTIONS

This consultative research process was designed to answer the following main research questions:

1. How has the impact investing industry evolved over the past 10 years?
   a. What were its key successes?
   b. Where has progress fallen short?
2. What is the current state of the impact investing industry with respect to its long-term growth trajectory?
   a. What key risks and opportunities lie ahead?
3. What does success look like for the industry in the coming years and decades?
   a. What major challenges might constrain the realization of this success or the development of the industry?
   b. What initiatives are needed to overcome those challenges and achieve the vision for the future?

TABLE 2. Interview Types and Topics

TYPE OF INTERVIEW	TOPICS COVERED	NUMBER
In-depth interviews with a representative sample of impact investing leaders	• Progress in impact investing in the past decade • Vision for the future of impact investing • Activities, behaviors, and actions required to achieve the developed vision	40
Targeted interviews with experts on specific topics	• The development and needs of specific aspects of the impact investing ecosystem, such as intermediaries, client demand, products, impact measurement, and research and education • Progress and needs in specific geographies	31

Source: GIIN

The data collection process was dynamic. Though early interviews and focus groups began from a 'blank slate' and were more unstructured, as the research progressed, the Research Team used subsequent interviews and focus groups to further test ideas that had emerged and delve more deeply into proposed actions.

DATA COLLECTION

Interviews

Two types of interviews were conducted (Table 2).

Both types of interview followed a semi-structured approach, where topics were tailored to the revealed knowledge and ideas of interviewees. This dynamic approach allowed us to cover the most relevant points for each individual, while still gathering comparable information across a broad set of topics.

The 71 interviewees varied by organizational type (Figure 6).

Focus groups

Focus groups gathered impact investing practitioners in various locations to foster discussion and debate of key research questions. As distinct from one-on-one interviews, focus groups allow participants to bounce ideas off of and question each other, and they allow researchers to identify areas of shared perspective versus areas of divergence or discord.

In total, focus groups engaged more than 200 people. Many focus groups were held alongside events hosted by the GIIN or other organizations in the field. Discussions centered on one or more of the following topics:

- Progress in industry development to date on specific initiatives proposed in the 2009 report.[74]
- Scenarios for the future of impact investing.
- Actions required to advance the practice of impact investing and grow the market.

Focus groups were conducted in 14 locations (Table 3).

The Research Team also solicited input from GIIN Members through an open, virtual discussion in the summer of 2017, focused on the vision for the future of investing.

FIGURE 6. Interviewees by Organization Type
n = 71

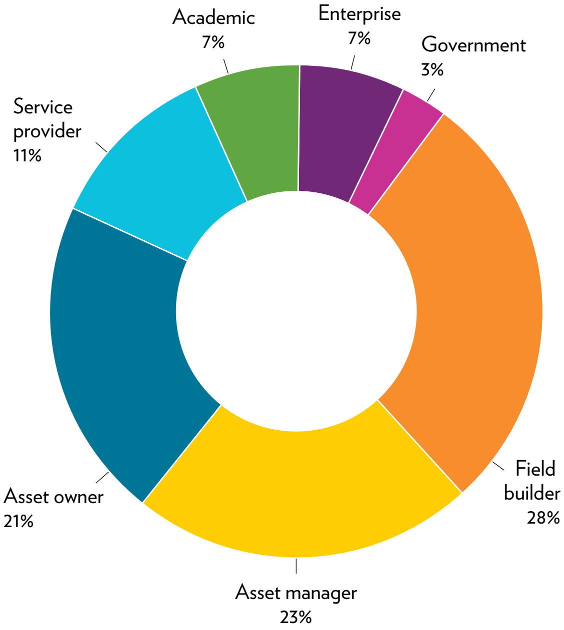


TABLE 3. Focus Group Locations and Participants

LOCATION	NUMBER OF PARTICIPANTS
Cambridge, MA, USA	5
Cape Town, South Africa	7
Geneva, Switzerland	5
Glen Cove, NY, USA	87*
Jakarta, Indonesia	20*
London, UK	10
Mexico City, Mexico	6
Mumbai, India	12
New Delhi, India	11
New York City, NY, USA	28*
Seattle, WA, USA	13
Washington DC, USA	4
Belgium, Netherlands, and Luxembourg	5#
Zurich, Switzerland	4

*Given the number of people, these were split into multiple groups. #Virtual
Source: GIIN

Expert retreats

The Research Team ran three retreats, each lasting a full day or more, to gather additional input from the GIIN's Senior Management Team, its Board of Directors, and industry leaders from impact investing and the broader financial sector. The third retreat convened a group of finance experts in Bellagio, Italy to test and refine the vision and roadmap.

Survey

To gain the perspectives of more individuals than could be reached in person and to supplement learnings from the interviews and focus groups, the Research Team created an online survey, which was available on the project website and shared with individuals wishing to contribute their views to the project. In total, 87 responses were recorded.

TABLE 4. Average Scores, Perceived Progress on 17 Initiatives from the 2009 Monitor Report

PLATFORM	INITIATIVE	AVERAGE
Intermediation	The creation of industry-defining funds that can serve as beacons for how to address social or environmental issues	3.0
	The development of backable fund managers	2.7
	The creation of financial products to increase accessibility	2.6
	The creation of investment clubs focused on specific themes	2.5
	The 'pulling' of existing intermediaries into impact investing by making business commitments	2.4
	The placing of substantial, risk-taking capital into catalytic finance structures	2.2
	The launching and growing of dedicated impact investment banking capabilities	2.2
Infrastructure	The development of one or more impact investing networks to accelerate the industry	3.5
	The setting of industry standards for social/environmental measurement	2.9
	The development of a common language platform	2.5
	Lobbying for specific policy/regulatory change	2.5
	The development of risk assessment tools	2.4
	The launching of a targeted public relations campaign to promote demonstrated successes	2.4
	The creation of publicly-available comprehensive benchmarking data	2.3
	The integration of social and environmental factors into economic and finance theory	2.2
Absorptive Capacity	The provision of tools to support research and development for innovative, scalable models	2.5
	The development of effective and scalable management capacity development approaches for entrepreneurs	2.4

Note: Respondents indicated their views on progress in the impact investing industry on a scale of 0–5, with 5 indicating achieving as much progress as could be expected over the past decade.

Roughly one-third of respondents were fund managers, and another third were service providers of various types (e.g., advisors and consultants working with entrepreneurs and investors). The remaining third included banks, foundations, field-building organizations, and others. About half were from North America, and nearly a third were from Western, Northern, and Southern Europe. The rest were based in Asia (6), sub-Saharan Africa (4), the Middle East and North Africa (1), Oceania (1), or had no single headquarters location (4).

The survey asked respondents to rate the progress of the impact investing industry across the 17 initiatives in the 2009 report (Table 4).[75] The survey also requested opinions on the importance and feasibility of a variety of ambitions for impact investing to achieve by the year 2030. Finally, it provided space for open-ended comments on additional big ideas for the future of the field and major challenges impeding exponential growth and scale.

Secondary research

Information from existing reports, websites, and databases informed various aspects of the research. Desk research especially supported the following:

- Assessment of progress in the development of the impact investing industry to date;
- Analysis of how other new financial industries or broader paradigm-shifting movements have successfully developed and evolved; and
- Review of how other major actors across the private and public spheres are thinking about the future of investing and financial markets.

Appendix III provides a full list of references.

ANALYSIS

The Research Team synthesized information derived from all the data sources described to answer the core themes of the research questions: progress in industry development to date, vision for the future, and actions needed to achieve this vision. The team coded raw data from interview and focus group transcripts according to the research questions, identifying where particular viewpoints on certain issues had strong support and where views were more dispersed or divergent. The Research Team also analyzed survey responses to determine average scores indicating progress on each initiative, reviewing qualitative data to further inform findings in this regard. As the Team developed hypotheses, they were tested in focus groups and interviews on an ongoing basis. Findings were also tested and refined with an advisory body of GIIN staff, during the retreats described.

Appendix II. List of Organizations Consulted

Individuals from the following organizations contributed their knowledge and views to this Roadmap, either by interview, focus group, or online survey. Some organizations were represented by more than one individual.

Aavishkaar

The Abraaj Group

Accion

Accion Venture Lab

Acumen Fund

Adobe Capital

Africa Healthcare Network

AgDevCo

Alliance for Peacebuilding

Ankur Capital

Ann Devine Consulting

Annie E. Casey Foundation

Anthos Fund and Asset Management

Arabella Advisors

Arun, LLC

Asha Impact

Ashburton Investments

Asian Venture Philanthropy Network

Aspen Network for Development Entrepreneurs

Athena Capital Advisors LLC

AUSiMED Limited

Australian Advisory Board on Impact Investing

B Lab

Bain Capital

Banamex

Barclays

Bates Wells Braithwaite

BBOXX Ltd

Beneficial State Bank

Bertha Centre for Social Innovation and Entrepreneurship, University of Cape Town Graduate School of Business

Bethnal Green Ventures

Bettercorp

The BetterWorld Trust

Big Path Capital

Big Society Capital

Bill & Melinda Gates Foundation

Blue Haven Initiative

BlueOrchard

BNY Mellon

Booth School of Business, University of Chicago

Boston Community Capital

Bridges Ventures

The Bridgespan Group

Business Impact Networks

Business Partners International

Calvert Foundation

Capria

Caprock Group

Case Foundation

Caspian

Catalyst at Large

CDC Group PLC

Center for the Advancement of Social Entrepreneurship, Duke University Fuqua School of Business

CERISE

Christian Super

Citi Community Capital

ClearlySo

Climate Impact Capital

Cogent Consulting

The Community Development Trust

Community Investment Management

Cordaid

Credit Suisse

Criterion Ventures

D Capital Partners

Dalberg

The David & Lucile Packard Foundation

DB & Associates

DBL Partners

de Pury Pictet Turrettini & Co. Ltd

Deloitte

Deutsche Bank

Developing World Markets

Development Bank of Rwanda

DOB Equity

Dynamica Consulting

Echoing Green

Ecosystem Integrity Fund

Eighteen East Capital

ElectriFI

Elevar Equity

Enclude

Encourage Capital

Enterprise Community Partners

Environmental Defense Fund

Equilibrium

Erste Asset Management GmbH

European Impact Investing Platform

European Investment Fund

EY

Fajr Capital

Farmland LLP

Finance in Motion

Fink Family Foundation

FMO

Ford Foundation

Fundageo Consulting & Services

Gary Community Investments

Global Impact Investing Network

Global Partnerships

Global Scenario

Goldman Sachs

Good Return

Grassroots Business Fund

Gratitude Railroad

Gray Ghost Ventures

Green Business BASE CAMP

GRI

Growth Mosaic

The Growth Partnership

Harvard Business School

Hasanah Foundation

Helios Exchange

Heron Foundation

Ideanest Investments

IFC Asset Management Company

IFMR Capital

II Nieuws

IIX Global

Impact Community Capital

Impact Hub DF (Mexico)

Incofin

Innpact

Institute of Chartered Accountants of India

Institute for Responsible Investing, Harvard University

Institutional Investors Group on Climate Change

Intellegrow

Inter-American Development Bank

Inter-American Investment Corporation

International Finance Corporation

Investing for Good

Investing in Women

InvestinGreen.Energy

Investisseurs & Partenaires

IPE Global

IPS

J.P. Morgan Chase & Co.

John D. and Catherine T. MacArthur Foundation

The J.W. McConnell Family Foundation

Karisimbi Business Partners

Kigali Farms

Kiva

Kresge Foundation

Lastanza Group (Pty) Ltd

LeapFrog Investments

LGT Impact Ventures

Lok Capital

Lombard Odier

Luminis Advisors

Margaret A. Cargill Philanthropies

MaRS Centre for Impact Investing

Media Development Investment Fund

Medora Capital

Meidlinger Partners, LLC

Menterra

Mexican Association of PE & VC Funds

Michael & Susan Dell Foundation

Mission Investors Exchange

Mission Throttle

Morgan Stanley

National Community Investment Fund

NatureVest, The Nature Conservancy

New Forests Company

New Paradigm Ventures

Nexus for Development

Nonprofit Finance Fund

Nordic Microfinance Initiative

Oikocredit

Old Mutual

Omidyar Network

Omnivore Capital

One Acre Fund

One to Watch

Orrick, Herrington & Sutcliffe LLP

The Osiris Group

Our-Green-Spine.org

Overseas Private Investment Corporation

Oxfam America

Patamar Capital

Pegasus Capital Advisors, L.P.

PG Impact

PricewaterhouseCoopers Private Limited

Private Equity Pro Partners

Prudential

Purpose Capital

PVA Advisory and Chi Impact Capital

PwC

Quadia

RBC Global Asset Management (U.S.)

responsAbility Investments AG

RobecoSAM

Rockefeller Foundation

Root Capital

Russell Family Foundation

SAB Fund

Said Business School, Oxford University

Santander Bank

Sarona Asset Management

Sasakawa Peace Foundation

Seal Cove Financial/Bay Area Impact Investing Initiative

Seale & Associates

Seattle Foundation

SecondMuse

Seedstars

Shared Interest

SOCAP

Social Finance, Inc. (U.S.)

Social Finance Israel

Social Investment Africa

Solidaridad

Sorenson Impact

Soros Economic Development Fund

Steward Redqueen

StratML Committee

Sunwealth

SVT Group

SVX Mexico

Symbiotics SA

ThirdWay Africa

ThomasLloyd Group Limited

Threshold Group

Thrive

TIAA Investments

Tide Capital

Tideline

Total Impact Capital

Treehouse Investments, LLC

TriLinc Global

Triodos Investment Management

Triple Jump

UBS

UNDP

Unitus Capital

Unitus Seed Fund

USAID

VERGE Capital

Veris Wealth Partners

Village Capital

Virginia Community Capital

Westar Trade Resources

W.K. Kellogg Foundation

Wharton School, Pennsylvania University

Working Capital for Community Needs

WR Hambrecht + Co.

XSML Capital

YES Institute (YES Bank)

Zurich Alternative Asset Management

Zurich Investment Foundation

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About the Global Impact Investing Network

The Global Impact Investing Network (GIIN) is a nonprofit organization dedicated to increasing the scale and effectiveness of impact investing around the world. The GIIN builds critical infrastructure and supports activities, education, and research that help accelerate the development of a coherent impact investing industry.

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