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# IMPACT INVESTING



Global Impact Investing: Market Size and Forecast - From 2015 till 2020



01

## OBJECTIVE OF THE STUDY

To present an outline of the global eco-system of impact investing market with a sector and country level estimate of market sizes and growth forecasts

03

## COUNTRIES COVERED

Argentina, Australia, Brazil, Canada, Finland, France, Germany, India, Israel, Italy, Japan, Mexico, Portugal, The UK and The US. The list will be expanded further by 10–12 additional countries

05

## CURRENCY

- The currency used in the report is USD, with market size indicated only in USD million or billion appropriately
- The data wherever available in other currency, an average annual currency conversion rate was used for the particular year to convert the value to USD

02

## SCOPE

- To find, collate, study and present the information the status of market status of impact investing at the global level with sectoral and market (country) breakdown
- To assess and estimate the current market sizes across sectors on selected markets
- To forecast growth of impact investing markets at global and country level

04

## YEARS CONSIDERED FOR DATA POINTS

- Historical Year: 2010
- Reference Year: 2015
- Forecast Year: 2020

06

## STAKEHOLDERS

- Impact Asset Owners – Institutional Investors, Development Banks, Foundations, Family Offices, High-Networth Individuals
- Impact Asset Managers – Private Equities, Venture Capitalists, Wealth Managers, Funds, Advisors and Intermediaries
- Impact Enterprises – Profit with Purpose companies or Social Enterprises
- Impact Enablers – Research and Consulting Firms, Professional Services, Networks and Associations, Incubators and Accelerators

## GIIN Study

- GIIN, since 2010, annually publishes findings of its Impact Investor data based on the survey. This is highly revered and most referred source of understanding the size and growth of impact investment globally.
- GIIN in its annual publishing lists two important data points: 1) investments made by survey participants and 2) investments planned for next year. Additionally it also publishes cumulative investments made till the year of the survey.
- We have assessed the GIIN surveys and the data therein and have attempted to estimate the proportions of potential exclusions. Post adding the size of exclusions, we arrived at our estimate.

## BoP based Revenues

- We referred to the estimate of population at the Bottom of Pyramid and their income.
- We made some assumption on the likely spending pattern at BoP and the likely revenues the Impact Enterprises can potentially generate from this market.
- Based on this, we used two approaches 1) Return on Capital Employed (RoCE) based approach and 2) Market Cap to Revenue Multiple based approach; to arrive at the likely market size of the Impact Investing

## Private Capital Adoption

- Rather than the overall global financial assets in the listed space, impact investing, barring few exceptions, so far has remained in the private space only
- Private Capital refer to the broader spectrum of private closed-end funds, including private equity, private debt, private real estate, infrastructure and natural resources
- We believe basing adoption rate towards impact investing on private capital is a better estimate than on overall global financial assets
- We have considered a suitable adoption rate to arrive at the market size of impact investing

Impact investment has made substantial progress since 2007, and it is evolving as a self-sustaining and growing market, despite the challenges. The trends, at present, are supportive and encouraging, but more involvement from the governments and other such enablers—that currently are only peripheral stakeholders—will accelerate the growth of impact investing.

This report is a high-level outline of impact investment, along with its key constituents. The key objective of this study is to estimate and forecast the global market size of impact investment channelized largely through private players and aimed at pure impact enterprises within our understanding of the definition of impact investing. The study, to start with, presents the impact investment market size and forecast of a few countries; it will cover many more countries as the study progresses. This study is a supply-side assessment of the demand of impact capital and not hitherto the demand of products and services offered by impact enterprises. The market is scattered and fragmented, with different players. Though due care has been taken to estimate and assess the market size, few instances of double counting cannot be ruled out. If there are indeed such instances, the market size may vary and be lower than the figures presented. Exits by investors during the forecast period have not been considered.

The predicted growth rates are supported by our understanding of aggregated key trends and drivers under neutral or current—business as usual—conditions. However, in the case of major developments or high-impact events—such as big ticket announcements by large corporates or foundations and governments bringing about favorable regulatory reforms and/or extended incentives (e.g., tax reliefs)—the projections could reach higher levels.

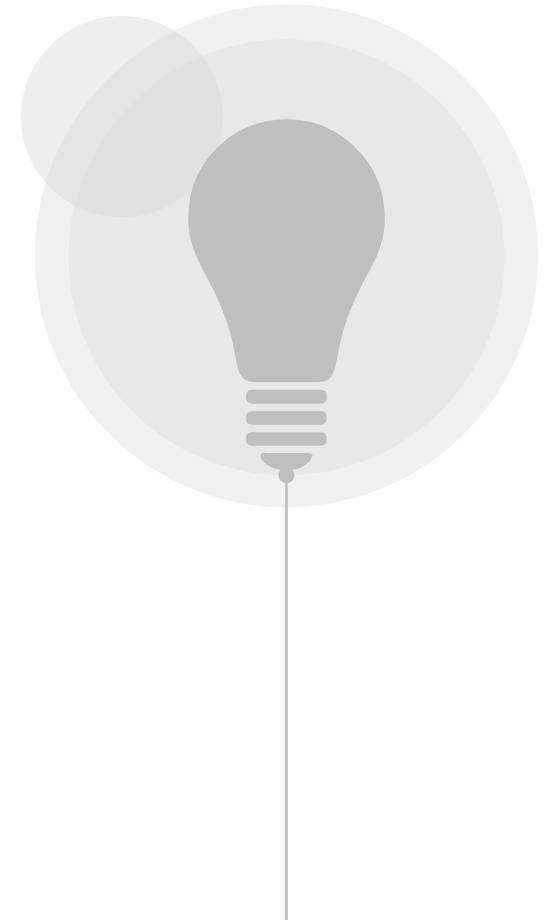
We have adequately gleaned, analyzed, evaluated and brainstormed to gather information and cull out insights from secondary space, and validated these consultatively through key stakeholders and impact investors before building and framing our key takeaways on trends, drivers, developments, restraints, and challenges. However, these are still, at best, estimates. As the market grows and more accurate and close to actual numbers start pouring, variance with our estimates, albeit, and hopefully thin, may remain. This could be due to the absence of a generally accepted definition of impact investment, sample error in data collection and analysis, scant reporting, and perhaps distorted information from respondents.





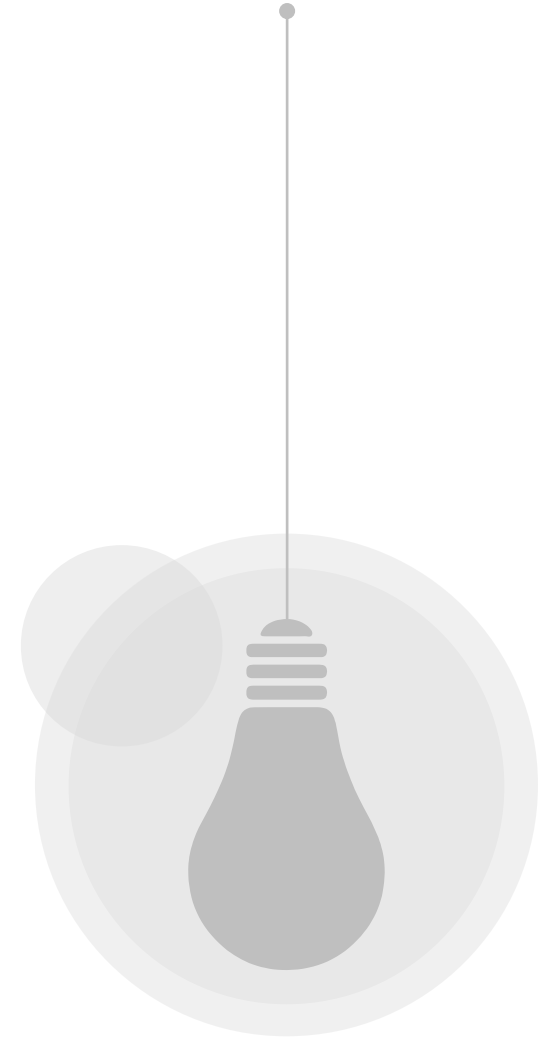
## HIGHLIGHTS

- Impact investment market to grow from about **USD 138** billion in **2015**, with AUM purely with or through private impact investors, to **USD 307** billion by **2020**—implying a CAGR of **17.3%**
- Impact investment in **2015 was >USD 40 billion**
- **US market** size expected to reach **USD 100+ billion** by **2020**
- **Europe** leads the impact investing space with about **54%** market share
- **North America**, with just the **US and Canada**, commands an impressive share of about **38%**
- Growth rates in **LATAM** to remain very high due to low current base
- With **USD 1 trillion** plus economy, and as the net-user of Impact Capital, **India** leads the growth pack
- Among emerging economies, India will be the first to reach **USD 10 billion** by **2022**
- **Africa**, though not part of this study, is an attractive destination for impact investing; growth rates either akin to or more than LATAM
- Impact investing market in many **LATAM and Africa** countries to grow at a **CAGR of more than 30%** in the next **5 years**
- The **six** major sectors—**housing, healthcare, education, clean energy access, climate change and agriculture**—will grow **>2 times** over 2015–2020



## HIGHLIGHTS

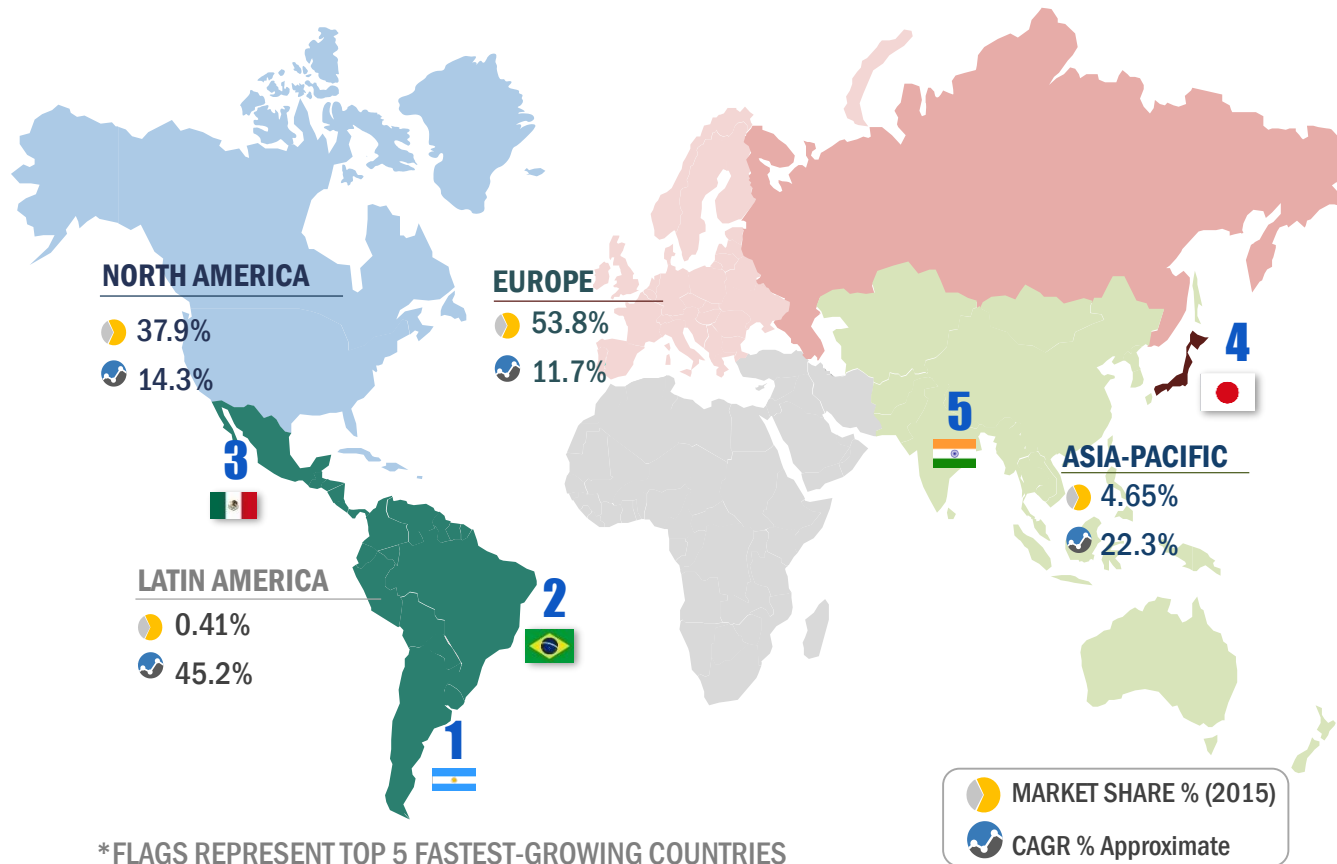
- **Southeast Asia** remains the preferred market for impact investors, as the range of social issues is vast and a basic infrastructure to absorb impact investing is in place
- Sectoral focus varies across geographies. Businesses aimed at uplifting **bottom of the pyramid** dominate in economically emerging regions such as **Asia, Africa, and Latin America**. Here, the beneficiaries are direct, and they act as customers or consumers for businesses. Social impact draws more interest in these regions than environmental impact
- In impact investment, the main asset classes are **private debt and private equity** – constituting **about 75%** of the overall asset pie. Asset classes are getting diversified with the introduction and launch of innovative financial instruments such as social impact bonds; development impact bonds; green bonds; and other quasi-equity, quasi-debt hybrid products. Most impact investment companies are privately held, without any offload to public or retail investors.
- **Housing, microfinance, rural livelihood, healthcare, and education** remain major issues, as well as key drawers of impact capital in emerging economies; **healthcare, parental care, clean technology, climate-change infrastructure, recidivism, refugees, retirees** are the major focus areas in developed economies
- Without any surprise though, economically developed regions—such as **North America and Europe**—are net positive outbound sources of impact capital. Most investors, especially funds, raise the impact money from developed economies to deploy in social enterprises of emerging economies
- Principal capital providers include **development banks and investment funds**. Lately, other institutional investors, such as **pension funds and insurance companies**, have grown their stake handsomely. However, the marginal presence of retail investors indicates that the market is yet to see financial broadening and deepening



# EXECUTIVE SUMMARY – MARKET SHARE OF REGIONS



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- **Europe** leads the impact investing space with about **54%** market share
  - However, due to the large size, its growth appears to be relatively less
- The Netherlands, Denmark, Switzerland—which are not part of this study—lead impact investing in Europe
- Germany, France, and the UK—which are part of our study—are other significant contributors
- **North America**, with just two countries, the US and Canada, commands an impressive ~38% share
- As a single country, **the US** is the largest impact investing market
- **Latin America**, with a meager share of less than **half a percentage**, promises the maximum growth (due to the low base effect)
- Within our selected countries for the study, Argentina, Brazil, Mexico, Japan, and India lead the growth pack, albeit on a low base
- **Africa**, though not part of this study, is an attractive destination for impact investing, with growth rates either akin to or more than LATAM
- **Asia Pacific**, with its reasonable growth rate, will garner more market share and remain a net user of impact capital

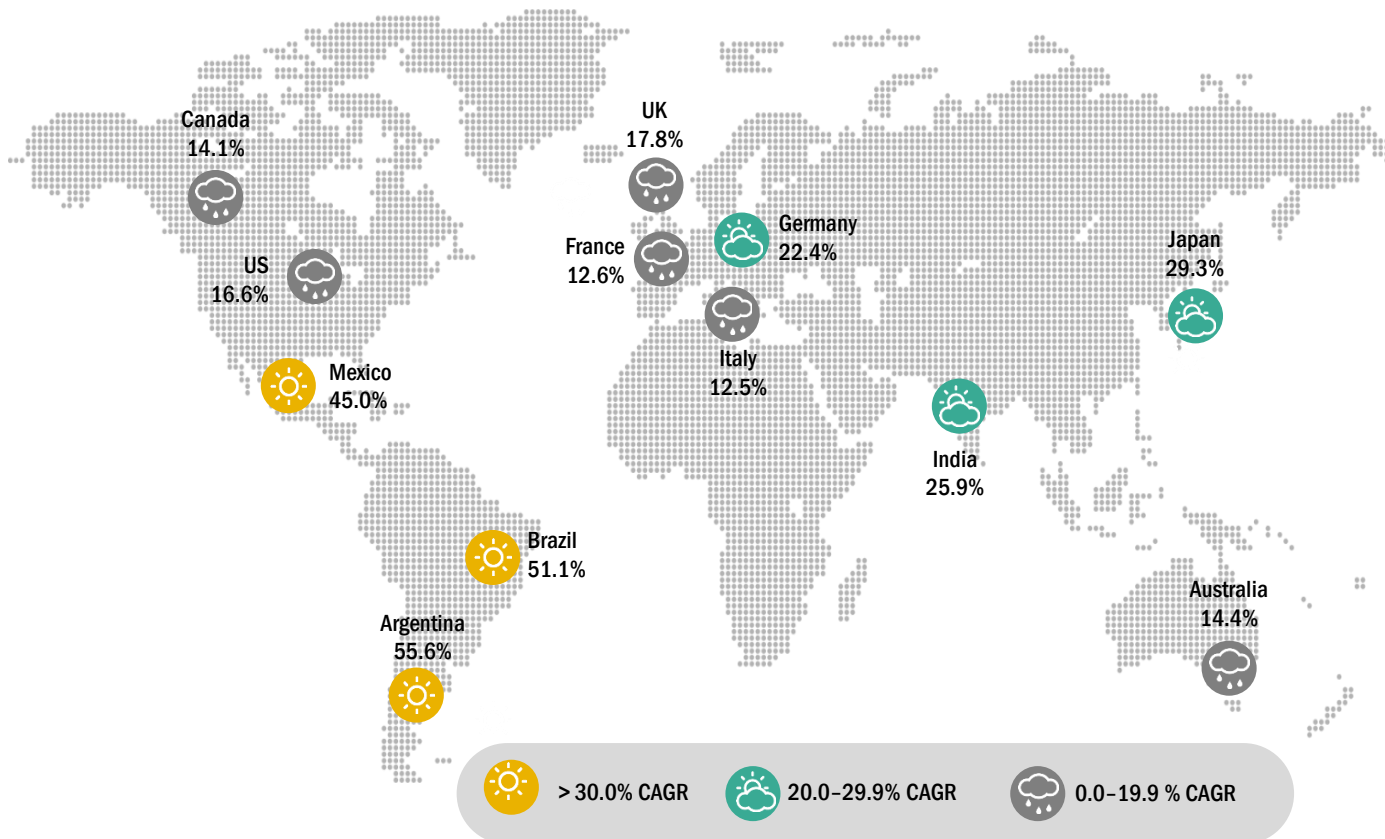


# EXECUTIVE SUMMARY – TOP GROWING COUNTRIES



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GROWTH FORECAST IS FROM 2015 TO 2020(F)



- Growth rates in **LATAM** seem very high due to the low base
- With **USD 1 trillion** plus economy, and as the net-user of Impact Capital, **India** leads the growth pack
- **Germany** is the key growth engine of Europe
- Growth rates may moderate from **2020** onwards



01

Nothing is beyond impact; classifying real impact enterprises and investors is a big paradox

02

In a not so clearly defined impact investing space, window dressing is often resorted to in order raise impact money

03

Sectoral expertise is a key enabler to scout for scalable and profitable opportunities

04

Rigorous implementation and process-based approach catalyze the likely sustenance of impact enterprises

05

Talent matters more at the startup stage of a venture's life, and it is difficult to source at this stage

06

For the bottom-of- the-pyramid customers and end users, it is imperative to spell out the context and content clearly

07

End-user demand is intricate to estimate, surveys are prone to error

08

As impact is visible over time, patience and persistence are constantly tested

09

Technology should be viewed as a means, not the end

10

In a portfolio approach, there is plan exits for investment mistakes, rather throwing more money on non-starters and non-movers

11

Risk mitigation solutions should be integrated irrespective of the enterprise gestation period

# IMPACT INVESTING – INFLECTION PUSH AT ALL LEVELS



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# IMPACT INVESTING – STEPS IMPERATIVE TO TAKE IT TO THE NEXT LEVEL



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- 01 **Clarify** what impact investing means
- 02 **Have** products available for small investments under USD 25,000
- 03 **Tailor** messages to different investment segments
- 04 **Make** impact investing available to individual investors, not just accredited investors
- 05 **Emphasize** that these are investments that one can get returns from
- 06 **Address** issues relating to how new the market is
- 07 **Increase** awareness of impact investing and opportunities within it to individuals and their financial advisors
- 08 **Enhance** retail participation through availability of structured and easy-to-understand financial products
- 09 **Encourage** Impact and Social Enterprises to list them in sustainability dedicated forum of stock exchanges or specially dedicated Social Stock Exchanges

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