

## Market Overview

The United States has a long history with impact investment, spurred by a mix of supportive public policy, innovative philanthropy and community engagement. Market growth has accelerated in the last 10 years, as mainstream financial institutions have responded to growing investor demand for sophisticated impact-investment products. The current ecosystem is highly supportive (consultants, networks, etc.), but should be nurtured further.

The U.S. Impact Investing Alliance has a permanent staff, and is focused on advocacy, investor engagement and movement building.

### IMPACT INVESTMENTS HIGHLIGHTS<sup>1</sup>

#### Supply of Impact Capital

- ▲ According to the GIIN 2019 Impact Investor Survey, fund managers say they raise impact-related capital from family offices or high-net-worth individuals (HNWIs) (66% of fund managers agreed), foundations (63%), pension funds (37%) and retail investors (22%).
- ▲ According to USSIF's 2018 investment-trends report, USD 12tn, or 26% of all investment dollars in the United States, are invested with impact, mainly in the public markets.

#### Intermediation of Impact Capital

- ▲ In 2018, fund managers (for-profit and not-for-profit) carried out more than 7,500 impact-relevant investments amounting to nearly USD 18bn. Forecasts for 2019 exceed USD 20bn.
- ▲ Two-thirds of impact investors principally seek risk-adjusted, market-rate returns (66%). A further 19% primarily seek below-market returns that are closer to the market rate, while the remaining 15% target returns closer to a capital-preservation rate.

#### Demand for Impact Capital

- ▲ In emerging markets, U.S.-based investors primarily fund enterprises working on poverty, gender equality and economic-growth issues. U.S.-funded impact enterprises in developed markets are more likely to be working on sustainable community, climate or institutional issues.
- ▲ The United States is home to more than 1,200 certified B Corps.
- ▲ In 2019, 181 high-profile CEOs signed the Business Roundtable's pledge to pursue long-term value for all stakeholders, including customers, employees and communities as well as shareholders.

#### Government and Regulation

- ▲ In 2017, the U.S. federal government designated economically distressed areas in all 50 states to be Opportunity Zones eligible for incentives meant to spur new business investment.
- ▲ Implementation of the 2018 BUILD Act, which created the new U.S. International Development Finance Corporation, is ongoing. This new development-finance structure is meant to streamline and expand the authorities of the Overseas Private Investment Corporation (OPIC).
- ▲ In 2018, USD 100mn in federal funding was appropriated for Pay for Success projects, with the goal of improving social-services outcomes. Announcement of the first round of funding awards is expected by late 2019.

#### Market Builders

- ▲ The U.S. Impact Investing Alliance focuses on ecosystem development, while the Global Impact Investing Network (GIIN) facilitates knowledge exchange.
- ▲ The United States also has a vast pool of boutique consulting firms, incubators and accelerators, professional networks, universities and competitions that help advance the impact economy.
- ▲ Robust philanthropic support has enabled the development of a strong field-building ecosystem. Key funders include the Omidyar Network, the Rockefeller Foundation, the Ford Foundation, the MacArthur Foundation, the Heron Foundation and the Sorenson Impact Foundation.

Indicators <sup>A</sup>	
GDP PPP (2011 US\$, billions)	17,662.3
Total Population (millions)	324.5
GINI Index	41.5
HDI	0.924
MPI	N/A
EPI	71.19

#### KEY PLAYERS

Asset Owners	Asset Managers	Impact Entrepreneurs
Blue Haven Initiative	Acumen	Build Education
Ford Foundation	Bain Capital Double Impact	Greyston Bakery
Heron Foundation	BlackRock	Launch Pad
MacArthur Foundation	Calvert Impact Capital KKR	Patagonia
Omidyar Network	Closed Loop Partners	Remitly
OPIC	DBL Partners	Sixup
	Elevar Equity	Terracycle
	Nonprofit Finance Fund	

#### SPOTLIGHT DEALS<sup>B</sup>

Company	Total Funding	Investor	Sector
Impossible Foods	USD 687.5mn	Khosla V, Serena V, Google V, Temasek	Food
EVERFI	USD 251mn	Jeff Bezos, The Rise Fund, Rethink Impact	EdTech
d.light	USD 197mn	Gray Ghost Ventures, Acumen, FMO, Shell Foundation, EIB	Energy
EIB Green Infrastructure	USD 25mn	Goldman Sachs, Calvert Foundation	Green Infrastructure
SIB Family Stability	USD 11.2mn	BNP, Nonprofit Finance Fund	Child and Family Welfare

## ABCs of the U.S. Impact Economy<sup>C</sup>

An impact economy is a just and equitable economic system in which positive impact is produced in an environment of risk and return. In an impact economy, governments, organizations, investors and consumers are motivated to include marginalized and underserved sections of the society in the mainstream economy, while also giving consideration to the needs of our planet and its environment.

The following table describes actions undertaken by a variety of stakeholders in the United States for the adoption of strategies intended to **A**void harm, **B**enefit all stakeholders and **C**ontribute to solutions. The U.S. has a long history of social investment dating back to the Community Reinvestment Act, with considerable engagement by private philanthropic groups. The impact-investing sphere has further developed thanks to targeted public policies and public-private partnerships.

	Avoid Harm	Benefit all stakeholders	Contribute to Solutions
<b>IMPACT IN BUSINESS</b>	<ul style="list-style-type: none"> <li>▲ In 2016, a total of 1,002 investment funds in the U.S. had incorporated ESG factors into their investment decisions.<sup>2</sup></li> </ul>	<ul style="list-style-type: none"> <li>▲ Pension funds are increasingly active in the impact-investing market both as investors and intermediaries. For example, the California Public Employees' Retirement System established the California</li> <li>▲ Initiative in 2001 to invest private equity in traditionally underserved markets. Between 2001 and 2017, the California initiative invested approximately USD 1bn in 569 private companies across the state.<sup>3</sup> Similarly, the State of Wisconsin Investment Board has invested more than USD16bn in businesses with ties to the state in an effort to promote equitable economic development.</li> </ul>	<ul style="list-style-type: none"> <li>▲ There are currently 1,237 B Corps in the US.<sup>4</sup></li> </ul>
<b>IMPACT IN INVESTMENT</b>	<ul style="list-style-type: none"> <li>▲ Impact investment in the U.S. continues to expand at a healthy pace. Total U.S.-domiciled assets under management (AUM) using SRI strategies – mostly assets invested in public markets – grew from USD 8.7tn at the start of 2016 to USD 12tn at the start of 2018, an increase of 38%. This represents 26% of the market's total AUM of USD 46.6tn.<sup>5</sup></li> </ul>	<ul style="list-style-type: none"> <li>▲ The US leads the green-bond market with a cumulative issuance since 2007 of USD 118.6bn (20% of the market share). In 2018 alone, USD 34.1bn in green bonds were issued in the United States, more than double the volume of the nearest rival.<sup>6</sup></li> </ul>	<ul style="list-style-type: none"> <li>▲ According to GIIN, the U.S. and Canada account for 58% of the global USD 502bn impact-investment-related AUM.</li> </ul>
<b>IMPACT IN POLICY</b>	<ul style="list-style-type: none"> <li>▲ California's Transparency in Supply Chains Act of 2010 requires companies subject to the law to disclose information regarding their efforts to eradicate human trafficking and slavery within their supply chains. This information should be provided on the company website or, if a company does not have a website, in the form of written disclosures.<sup>7</sup></li> </ul>	<ul style="list-style-type: none"> <li>▲ Ten states that are home to over a quarter of the U.S. population, and which account for a third of U.S. GDP, have active carbon-pricing programs, and are successfully reducing emissions. This includes California and the nine Northeast and Mid-Atlantic states that make up the Regional Greenhouse Gas Initiative (RGGI). The RGGI was the first mandatory cap-and-trade program in the United States to limit carbon dioxide emissions from the power sector.<sup>8</sup></li> <li>▲ The United States has well-established federal procurement requirements for disadvantaged groups, such as businesses owned by women, Native Americans or people with disabilities.</li> <li>▲ Programs complemented by tax credits that benefit investors include the New Markets Tax Credit (2002), which subsidizes investment in low- to moderate-income communities (below two-thirds of the prevailing income in the region), and the Opportunity Zones (OZs) policy (2018), which recognizes "economically distressed communities where new investments, under certain conditions, may be eligible for preferential tax treatment."</li> </ul>	<ul style="list-style-type: none"> <li>▲ In addition to tax credits for investments in environmentally friendly projects, various legal forms for impact businesses have been adopted. For example, laws allowing the creation of benefit corporations have been approved in 36 states, with similar efforts underway in six more.<sup>9</sup></li> <li>▲ The New York State Energy Research and Development Agency (NYSERDA) works to attract private capital to expand the state's clean-energy economy. For instance, in 2016, NYSERDA launched the Clean Energy Fund, a USD 5bn, 10-year commitment to concessionary finance to support the development of clean-energy infrastructure in New York.</li> </ul>
<b>IMPACT ON CONSUMPTION</b>	<ul style="list-style-type: none"> <li>▲ The U.S. sustainable-consumer-product market is expected to reach USD 150bn by 2021.</li> <li>▲ Millennials are twice as likely as Baby Boomers (75% vs. 34%) to express a willingness to reduce their impact on the environment by paying more for products that contain environmentally friendly or sustainable ingredients (90% vs. 61%), organic / natural ingredients (86% vs. 59%), or products that make social responsibility claims (80% vs. 48%).<sup>10</sup></li> </ul>		

# SDG Dashboard and Trends

## CURRENT ASSESSMENT - SDG DASHBOARD



■ Major challenges 
 ■ Significant challenges 
 ■ Challenges remain 
 ■ SDG achieved 
 ■ Information unavailable

## SDG TRENDS



↓ Decreasing 
 → Stagnating 
 ↗ Moderately improving 
 → Maintaining 
 ↑ On track 
 ●● Information unavailable

## Key Initiatives

### Community investment programs

The United States has a history of community investment programs that provide access to capital for low- to moderate-income groups, while offering various fiscal incentives to capital providers.

### Access to capital

The Community Reinvestment Act (1977) was created to combat uneven lending practices in low- to moderate-income communities, in part by enabling capital flows into community-development finance institutions (CDFIs) through the use of compliance-based incentives. The CDFI Fund (1994) is a fund administered by the Treasury Department that certifies CDFIs and offers them financial and technical assistance as well as bond guarantees. In 2017, the CDFI Fund guaranteed two bond offerings, allowing funds to be raised from the capital markets for the first time.

### DFIs

U.S. development-finance systems were reformed with the passage of the BUILD Act in 2018. This legislation prompted the creation of the U.S. International Development Finance Corporation (DFC), which will combine the operations of the former Overseas Private Investment Corporation (OPIC) with aspects of USAID, including the Development Credit Authority. The legislation further expands the authorities of the new DFC, enabling it to make equity investments and doubling the size of its authorized portfolio. The DFC's scheduled launch of October 2019 was delayed due to funding issues.

### Capacity building for impact-oriented businesses

At the state level, many initiatives support all types of entrepreneurship, with impact-oriented businesses also benefiting.

The state of New York is a good example, with a USD 1bn fund committed to climate change.

### Impact as a fiduciary duty for philanthropic groups

Private foundations have actively invested in impact since the 1960s, when the tax code was amended to recognize "program-related investments" (PRIs). Typically concessionary, PRIs are treated as charitable grants, and can be made to for-profit or non-profit entities. Additional guidance released in 2015 clarified that foundations may also consider an investment's impact on the charitable purpose when investing endowed dollars.

### Outcomes-based contracting

Outcomes-based contracting is proliferating in the United States, with 21 SIBs commissioned in 12 states. More than 60 additional deals are currently in development. In 2018, the government created the Commission on Social Impact Partnerships to administer a new federal outcomes fund for initiatives that promote cost savings.

### Gender-lens investing

Gender-lens investing is on the rise in the United States. Bloomberg has created the sector-neutral Bloomberg Gender-Equity Index, comprising more than 100 listed companies across 10 sectors in 24 countries. The index aims to provide investors with standardized data on gender equality. Moreover, the Overseas Private Investment Corporation (OPIC) has launched the 2X Global Women's Initiative to mobilize more than USD 1bn to invest in projects supporting women in developing countries.

# Road to Impact Economy

## PATH TO TIPPING POINT 2020

### Create standardized metrics for impact investing

As outlined above, the United States has many successful policies providing financing to social and environmental projects. However, there is as yet no standardized measurement of impact for these projects. Public and private actors alike would benefit from more and better data illuminating the benefits of supporting such projects. In particular, the success and continuation of the Opportunity Zones tax benefit will depend on the ability to measure outcomes effectively.

### Focus on outcomes-based contracting

Outcomes-based contracting practices have largely been successful in the United States. It will be important to demonstrate the scalability of these tools over time. A more standardized approach such as rate cards could also be helpful to further develop and streamline the contracting process.

### Demonstrate feasibility at scale

Feasibility can be proven by demonstrating progress relative to social and environmental challenges, and by generating satisfying financial returns for investors across the risk-return spectrum.

## TRANSITION TO IMPACT ECONOMY 2030

- ▲ Social needs prevail in the U.S., where income equality has risen in every state since the 1970s. The top 1% of families in the United States earned an average of 26.3 times as much income as the bottom 99% in 2015, up from 25.3 times in 2013.<sup>11</sup> A reduction in income inequality will be important in the transition to an impact economy.
- ▲ Certain groups such as women, people of color and those with migrant backgrounds continue to be underrepresented in institutions and positions of power. Impact enterprises or other inclusive business approaches could foster their inclusion in the transition.
- ▲ The U.S. is among the world's largest emitters of CO2 and GHG on a per capita basis. Given the current climate crisis, impact investing could spur innovations with regard to the development of climate-friendly and sustainable solutions.

#### Footnotes:

<sup>A</sup> **Environmental Performance Index** Available in: <https://epi.envirocenter.yale.edu/>; All other **indicators** available in: <http://hdr.undp.org/en/countries>

<sup>B</sup> Information tends to be limited for specific rounds of funding. Therefore, in **Spotlight Deals**, 'Total Funding' refers to the total money that a specific company has raised. The investors listed may have participated in one or several rounds, and may have done so as lead or co-investors.

<sup>C</sup> The **ABC** of the **U.S. Impact Economy** table is adapted from the IMP framework.

#### Sources:

<sup>1</sup> Data corresponds to the whole universe of respondents in the GIINS Annual Impact Investor Survey 2019. However, given that more than half of the respondents (58%) are based out of the U.S., this data is representative of the United States.

<sup>2</sup> OECD (2019). Social impact Investment 2019: The Impact Imperative for Sustainable Development. Available at: <https://doi.org/10.1787/9789264311299-en>

<sup>3</sup> OECD (2019). Social impact Investment 2019: The Impact Imperative for Sustainable Development. Available at: <https://doi.org/10.1787/9789264311299-en>

<sup>4</sup> B Lab (2019). Available in : <https://bcorporation.net/>

<sup>5</sup> USSIF (2018). Report on US Sustainable, Responsible and Impact Investing Trends 2018. Available at: <https://www.ussif.org/files/Trends/Trends%202018%20executive%20summary%20FINAL.pdf>

<sup>6</sup> Climate Bonds Initiative (2018). Green Bonds State of the Market 2018. Available at: <https://www.climatebonds.net/resources/reports/green-bonds-state-market-2018>

<sup>7</sup> State of California Department of Justice (n.d). The California Transparency in Supply Chains Act. Available at: <https://oag.ca.gov/SB657>

<sup>8</sup> C2ES (2019). U.S. State Carbon Pricing Policies. Available at: <https://www.c2es.org/document/us-state-carbon-pricing-policies/>

<sup>9</sup> Benefit Corporation. State by State Status of Legislation. Available at: <https://benefitcorp.net/policymakers/state-by-state-status>

<sup>10</sup> Nielsen (2018). U.S sustainability market to reach \$150 billion by 2021. Available at: <https://www.nielsen.com/us/en/insights/article/2018/was-2018-the-year-of-the-influential-sustainable-consumer/>

<sup>11</sup> OECD (2019). Social impact Investment 2019: The Impact Imperative for Sustainable Development. Available at: <https://doi.org/10.1787/9789264311299-en>

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