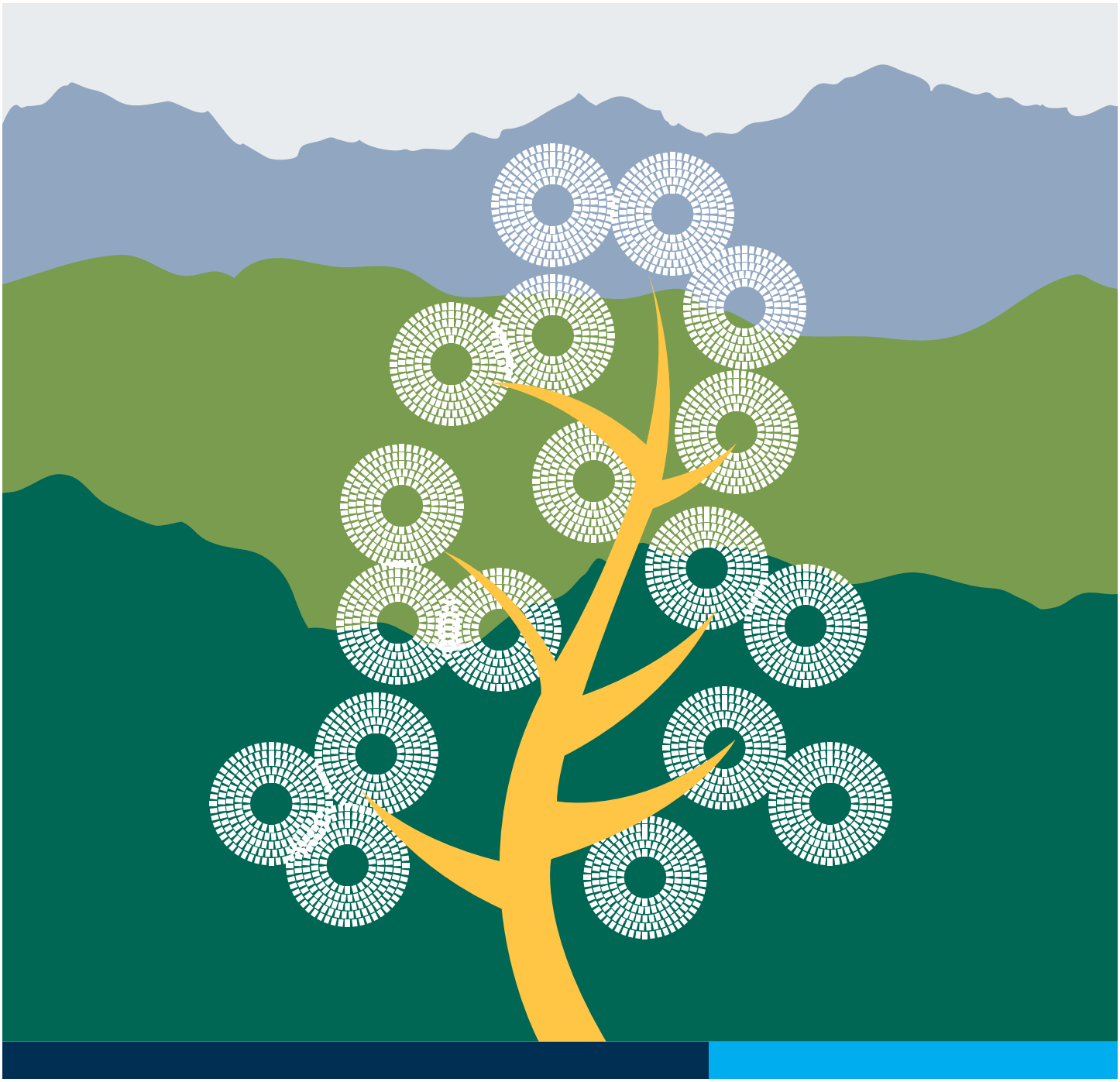

INVESTING FOR IMPACT

The Global Impact Investing Market 2020

IFC | International Finance Corporation
WORLD BANK GROUP
Creating Markets, Creating Opportunities

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IFC—a member of the World Bank Group—is the largest global development institution focused on the private sector in emerging markets. We work in more than 100 countries, using our capital, expertise, and influence to create markets and opportunities in developing countries. In fiscal year 2020, we invested $22 billion in private companies and financial institutions in developing countries, leveraging the power of the private sector to end extreme poverty and boost shared prosperity. For more information, visit www.ifc.org.

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FIGURES AND BOXES

ABBREVIATIONS AND ACRONYMS

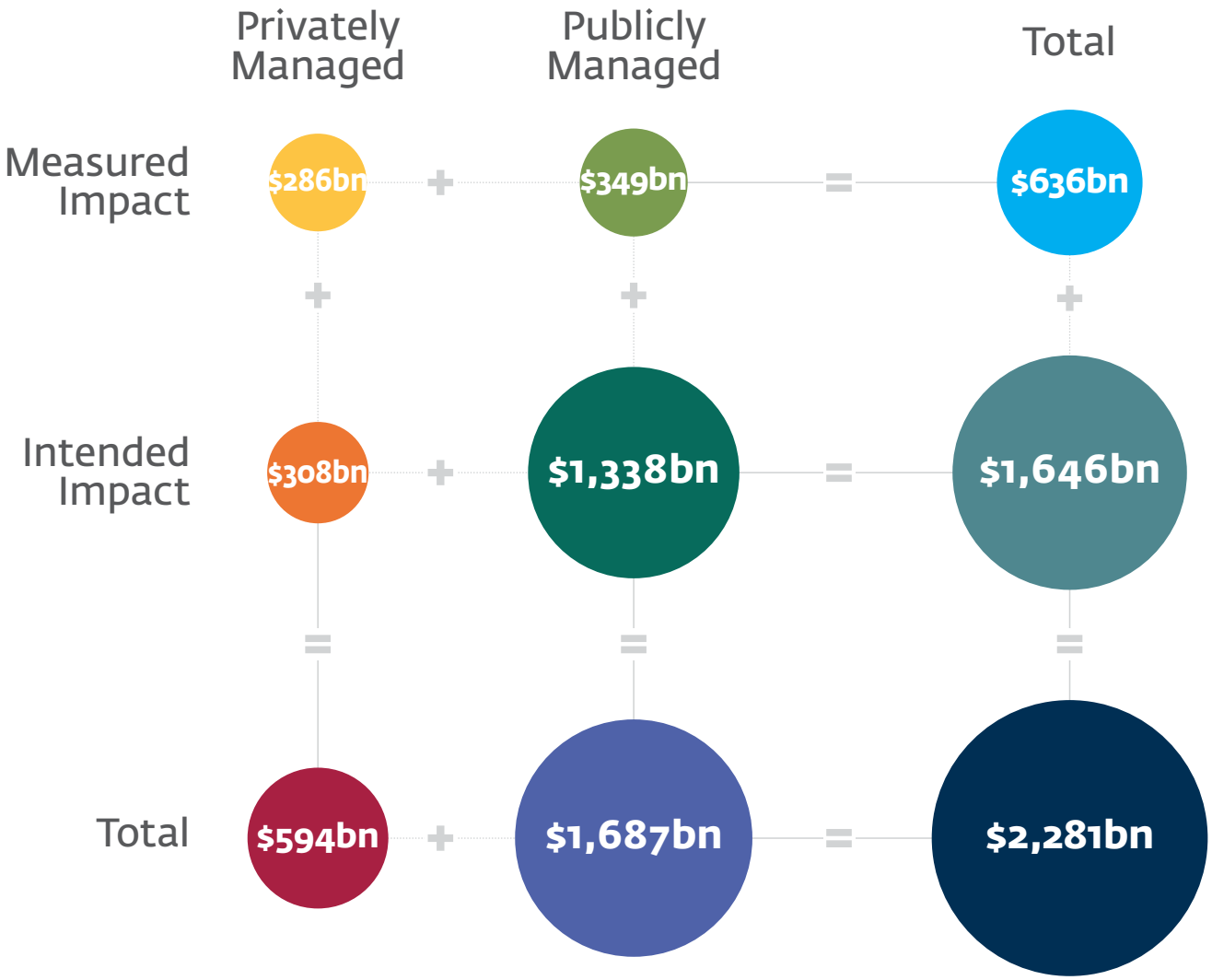
ADB	Asian Development Bank
AFDB	African Development Bank
AUM	Assets under Management
BOAD	West African Development Bank
BPS	Basis points
BSTDB	Black Sea Trade and Development Bank
CDB	China Development Bank
CEB	Council of Europe Development Bank
COVID-19	Coronavirus Disease 2019
DCA	Development Credit Authority
DFC	Development Finance Corporation
DFI	Development Finance Institution
DM	Developed Market
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
EF	Environmental Finance
EIB	European Investment Bank
EM	Emerging Market
EMPEA	Emerging Market Private Equity Association
ESG	Environmental, Social, and Governance
ETF	Exchange Trade Fund
EUR	Euro
GIIN	Global Impact Investing Network
GIP	Global Impact Platform
GP	General Partner
GRESB	Global Real Estate Sustainability Benchmark
GSIA	Global Sustainable Investment Alliance
GSS	Green, Social and Sustainability
HIPSO	Harmonized Indicators for Private Sector Operations
ICMA	International Capital Markets Association
IDFC	International Development Finance Club
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IPO	Initial Public Offering
IRIS	Impact Reporting and Investment Standards (IRIS). Refers to the generally accepted catalog of impact metrics, part of the IRIS+ system
ITFC	International Islamic Trade Finance Corporation
JSIF	Japan Sustainable Investment Forum
JII	Joint Impact Indicator
KFW	Kreditanstalt fuer Wiederaufbau
KPI	Key Performance Indicator
LIC	Low-Income Country
LP	Limited Partner
MDB	Multilateral Development Bank
MIC	Middle-Income Country
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
OPIC	Overseas Private Investment Corporation
PE	Private Equity
RIAA	Responsible Investment Association Australasia
SDG	Sustainable Development Goals
SEC	Securities and Exchange Commission
SLB	Sustainability-Linked Bond
SURE	Support to mitigate Unemployment Risks in an Emergency
US	United States
US$	United States Dollar
USAID	United States Agency for International Development
US SIF	The Forum for Sustainable and Responsible Investment
VC	Venture Capital
WB	World Bank
WBG	World Bank Group

Note: All dollar amounts are U.S. dollars unless otherwise indicated

Core messages

- Impact investing has seen a boost in popularity during the COVID-19 pandemic due to increased awareness of climate change and social challenges such as unequal access to healthcare and racial and gender inequality.
- 2020 also saw an increasing level of maturity compared to 2019.
  - In 2020, we were able to identify more assets invested for measured impact than before. These are assets with a clear intent for positive impact, a credible thesis of contribution, and for which there is a measurement system in place—criteria that together meet the definition of impact investment.
- The availability of information on the measured impact assets under management has also increased. As of May 31, 2021, 97 signatories to the Operating Principles for Impact Management have published their disclosure statements, which constitutes half of measured impact assets under management (AUM). This is a testament to the increasing level of transparency and discipline in the market. In private markets, although there was less fundraising by measured impact funds than in 2019 due to travel restrictions and heightened uncertainty, there were more funds in the market than ever before.
- In the public markets, various assets saw a significant increase in issuance in 2020. Social bond issuances increased eightfold over 2019, sustainability bond issuances increased by a factor of three over 2019, and green bonds broke $1 trillion in cumulative issuances.
- Though it holds immense potential from its size alone, impact investing through shareholder activism relies on the size of the asset manager to be effective, and thus might be difficult to replicate on a broader scale.

FIGURE O.1 Overview of Market Segments



Source: Preqin, Global Impact Platform, EMPEA, Syminvest, HIPSO, MDB Mobilization reports, Disclosure Statements to Operating Principles for Impact Management, DFI annual reports, Pitchbook, Crunchbase, IMP+ACT

INTRODUCTION

In this report, we attempt to measure the global market for impact investing. In 2020, we not only saw increased activity in the market, but also an increasing level of maturity compared to 2019. This is despite the fact that COVID-19 introduced immense uncertainty across global markets and led to unprecedented travel restrictions, which caused delays in fundraising for many funds. Impact investing has seen a boost in popularity due to heightened awareness of social challenges such as unequal access to healthcare and racial and gender inequality, as well as increased attention to the effects of climate change. 2020 also marked a profound shift in the way institutions invest, as many investors have recognized that companies with strong ESG practices outperformed during the pandemic.[1]

This report identifies impact investors by three observable attributes that distinguish them from other investors:

1. They have intent to achieve social and/or environmental goals through their investment.
2. There is a credible narrative by which their investment contributes to achievement of the intended goals—that is, how the actions of the impact investor will help achieve the goals.
3. They have a system of measurement in place that links their intent and the contribution of their investment to improvements in social and environmental outcomes delivered by the enterprise in which the investment was made.

Investors with these attributes can be credibly called impact investors, and their investments can be labeled impact investments. However, even for established and dedicated impact investors, compliance with these attributes might not be readily observable by the public. This is particularly true for investors that also manage other types of investments alongside impact investments. Combined with a rising number of investors labelling themselves as impact investors, it is becoming more difficult for asset owners to determine which investment strategies and assets should be considered impact investments.

This report identifies assets that can be credibly observed to be managed with intent for positive impact, have an identifiable contribution, and have a measurement of impact. We call investments that credibly satisfy all three of these conditions "measured impact" investments. We also identify investments for which available information satisfies the intent condition, but does not observably and credibly satisfy *both* the contribution and measurement conditions. We call these "intended impact" investments. It is worth noting that most measured and intended impact investments take place in private markets. This report also describes recent developments in the much larger market for publicly traded assets, where there are opportunities for impact investing on a larger scale. Hence, impact investments are not defined by their membership in an asset class with common risk and return characteristics, but rather by the approach of the investor.

[1] Clark, Robert, and Esther Whieldon. "ESG Funds Beat out S&P 500 in 1st Year of COVID-19; How 1 Fund Shot to the Top." S&P Global, Market Intelligence, April 6, 2021. https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/esg-funds-beat-out-s-p-500-in-1st-year-of-covid-19-how-1-fund-shot-to-the-top-63224550.

CHAPTER 1

Sizing the Market for Impact Investing

Size of the market: Overview

Historically, there have always been investors who cared about more than just financial returns. Governments and philanthropists, for example, have created investment vehicles with mandates to promote social and environmental goals. Over the last decade, impact investing has gained prominence as an approach to investing that aims to achieve both financial returns and social and/or environmental goals. This has created a dynamic yet somewhat disorganized market of diverse participants, standards, and concepts. Although still relatively small, this market is attracting considerable interest, and it has the potential to increase in scale and thereby contribute to the achievement of the Sustainable Development Goals (SDGs) and the goals embedded in the Paris Climate Agreement.

Given that assets managed by privately owned funds and institutions can be readily distinguished from assets managed by public institutions, the size of the market for impact investing is assessed along two dimensions: First, by whether the assets are managed by privately or publicly owned entities; and second, to what extent these assets are managed with intent, with a credible contribution to impact, and with a measurement system in place.

At the core of the market where intent, contribution, and impact measurement are identified, there are $286 billion of investments managed by privately owned asset managers and institutions, and $349 billion managed by 36 DFIs, for a total of $636 billion. In 2019, only $505 billion of investments were identified as measured impact assets.

In the broader market, where only intent for impact is identifiable, there are $308 billion of investments under private management. This includes $245 billion of investments by 895 privately managed funds investing in private equity (PE), venture capital (VC), real assets, real estate, infrastructure, or private debt, for which impact measurement in place cannot be observed; and $63 billion from 115 privately managed funds investing in public markets that lack clarity about how such investments contribute to the intended impact.

The broader market also includes $1.338 trillion managed by publicly owned DFIs and national/regional development banks. Of these, 11 multilateral development banks (MDBs) cumulatively manage $18 billion in intended impact assets, and 67 other national development banks (NDBs) and regional development banks manage $1.320 trillion in intended impact assets. This includes large development banks such as China Development Bank, which have a mandate to promote economic and social progress but may not have systems in place to measure impact. This gives a total of $1.646 trillion of intended impact assets. This implies a slight increase over our 2019 estimate of $1.567 trillion in intended impact assets.

In conclusion, investments of $2.281 trillion could be considered impact investments under a broad definition. This is equivalent to about 2 percent of global AUM.[2] Hence, impact investing remains a small market niche, but one that is attracting growing interest.

In addition, the availability of data on impact assets under management has also improved. As of May 31, 2021, 129 institutions were signatories to the Operating Principles for Impact Management (also known as the Impact Principles). Since they were launched in April 2019, 97 institutions have published a public disclosure statement on how they manage assets for

[2] PwC. 2020. "Asset and Wealth Management Revolution: The Power to Shape the Future." https://www.pwc.com/gx/en/industries/financial-services/assets/wealth-management-2-0-data-tool/pwc_awm_revolution_2020.pdf.

impact, including the size of assets managed according to the Impact Principles. In addition, 64 independent verification summaries have been published, confirming an alignment of their impact systems with the Impact Principles. This is a testament to the transparency level in the market, as well as its growing discipline.

Size of the market: Segments

Privately managed measured impact investments

Privately managed measured impact assets include assets managed by pooled investment funds with intent for positive impact, identifiable contribution, and measurement of impact, as well as assets managed by private sector signatories to the Operating Principles for Impact Management.[3] As assets under management for each fund are not readily reported or observable, AUM is proxied with the cumulative capital committed to the fund in the last ten years.

Privately managed signatories to the Impact Principles collectively manage $83 billion in measured impact investments, of which 89 asset managers manage $52 billion, and nine asset owners manage $31 billion. Some of these assets are invested through pooled investment funds, but they also include investment mandates and direct investments into portfolio companies. The vast majority of these funds invest in private markets, but they also include the committed capital to one public debt fund and four public equity funds, investment mandates, and direct investments into portfolio companies. RockCreek has the largest amount of assets—$14.2 billion—privately managed in alignment with the Operating Principles for Impact Management.

In addition to measured impact funds managed by signatories, 849 privately managed funds control $203 billion in measured impact assets. There was less fundraising for measured impact funds launched in 2020 than for funds launched in 2019, but there were also more funds in the market than before. Data show that in 2020, 76 impact funds were launched, aiming to raise more than $21 billion collectively.[4] In 2019, 168 impact funds were launched; these funds had already raised $40 billion of their collective $54 billion target by the end of 2020. In total, 1001 privately managed measured impact funds were identified, compared to 887 measured impact funds for which data was available in 2019. A larger number of funds in the market increases the availability of impact investment opportunities for private sector individuals and institutions. However, the total of $286 billion in measured impact investments managed by private funds and institutions is still only around 4 percent of the global private capital industry, which grew to more than $7 trillion in 2020.[5]

Among measured impact funds, the majority—52 percent—focus on investments in developed markets (DMs), while 40 percent invest primarily in emerging markets (EMs). Another 7 percent invest globally.[6] Yet there is evidence that funds are increasingly seeking out opportunities in more challenging environments. Among impact funds launched in 2020, more focused on investments in EMs, compared to the number of funds primarily investing in DMs. Thirty-three funds focused on investments in EMs, 30 focused on investments in DMs, and 13 funds invested with a global focus. In preceding years, the number of impact funds with DM focus had consistently exceeded the number of impact funds focusing on EMs. This shows that even during a global pandemic, impact investors are determined to invest increasingly where needs and investment opportunities are greatest (Figure 1.1).

Nevertheless, the global distribution of committed capital to measured impact funds is still largely allocated to developed markets (56 percent). North America and Europe and Central Asia alone account for 48 percent of committed capital to measured impact funds; 12 percent of committed capital is allocated to global funds, and 19 percent of committed capital

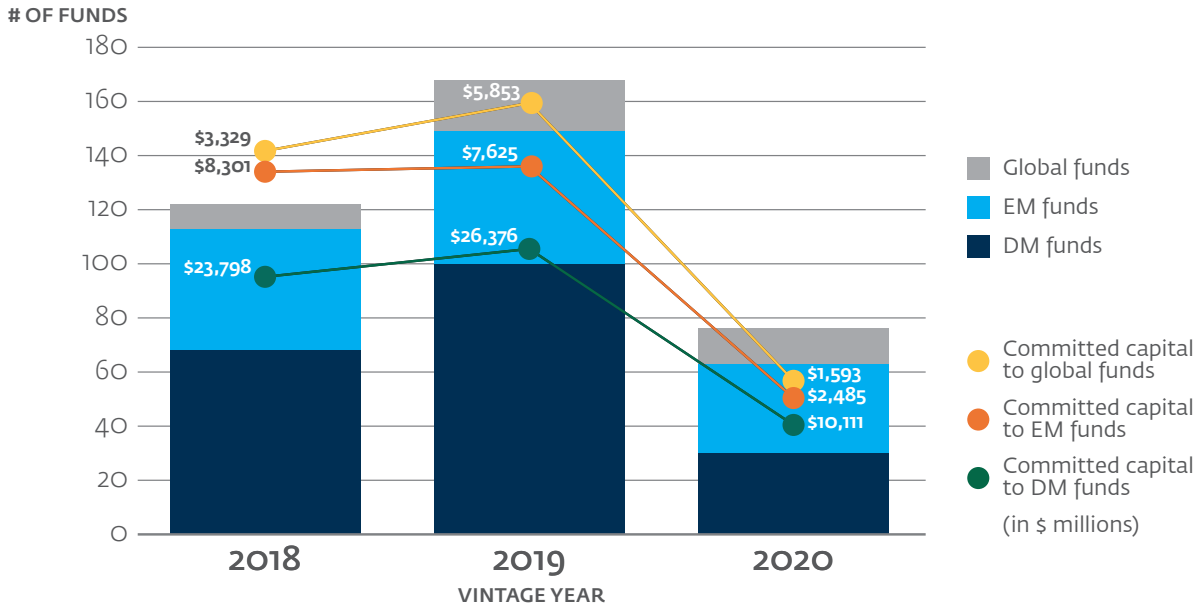
[3] We identify private signatory funds in our assembled fund data to avoid double counting of these assets both in the signatories' disclosed assets and in the estimate of fundraising by measured impact funds.

[4] For which there is available data for committed capital.

[5] Wigglesworth, Robin. 2021. "Private Capital Industry Soars Beyond $7tn." *The Financial Times*, June 11, 2021. https://www.ft.com/content/4d0e6f18-2d56-4175-98c5-e13559bdbc25.

[6] For the remaining one percent, no market focus could be determined.

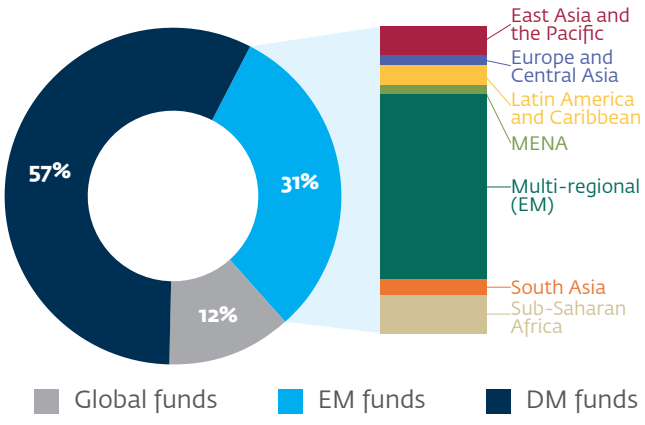
FIGURE 1.1 2020 Saw Fewer New Impact Funds and Less Fundraising



Source: Preqin, Global Impact Platform, EMPEA, Syminvest, Pitchbook, Crunchbase, IMP+ACT, GRESB, IRIS, B-Analytics, Impactbase.

is allocated to measured impact funds that invest exclusively in emerging markets but target more than one region.[7] Commitments to multiregional emerging market funds make up the majority of all commitments to emerging markets, in contrast with single region or country mandates (Figure 1.2).

FIGURE 1.2 Most Measured Impact Capital is Committed to DMs



Source: Preqin, Global Impact Platform, EMPEA, Syminvest, Pitchbook, Crunchbase, IMP+ACT.

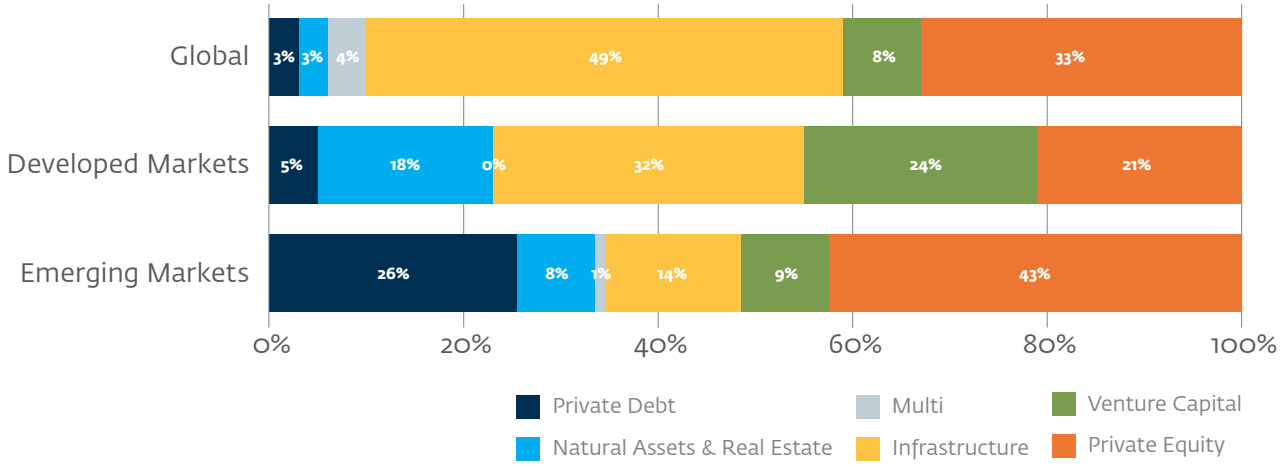
For measured impact funds' committed capital, there is a greater focus on private equity and venture capital for funds investing in emerging markets only, compared to measured impact funds that invest in DMs or globally. More than half (52 percent) of measured impact capital invested in EMs is invested in equity, including both PE and VC strategies; another 26 percent is invested in private debt (Figure 1.3).

Investments in real estate and real assets have taken a hit during the COVID-19 crisis, as travel restrictions and lockdowns restricted movement: in 2019, $103 billion committed to these asset classes was identified, which constituted half of all committed capital to measured impact funds. By the end of 2020, only 42 percent was invested in these asset classes.

2020 saw a number of larger scale fund launches. For example, Apollo's new impact platform is raising a $1 billion private equity fund. The platform focuses on private equity-type investments into later-stage companies to generate impact at scale. Arcano launched a €300 million impact fund that makes primary, secondary, and direct co-investments in funds and businesses with a focus on environmental impact.

[7] Excluding intended impact funds that invest in public equity and public debt, to preserve comparability to measured impact funds.

FIGURE 1.3 Market Focus Determines Asset Class Preferences



Source: Preqin, Global Impact Platform, EMPEA, Syminvest, Pitchbook, Crunchbase, IMP+ACT
Note: Excludes three funds of funds, one hedge fund, three public debt funds and two public equity funds for clarity.

Neuberger Berman raised a $280 million impact fund that focuses on essential products and services that contribute to social and environmental solutions such as water filtration and a dispenser company that is displacing plastic water bottles, a next-generation broadband technology platform, and an online tutoring solution for K-12 students.

Legal Aspects

While the market for impact investing is growing, regulatory challenges to investing remain. In the United States, for example, there has been a lively debate around fiduciary responsibilities and the permissibility of considering environmental or social factors in selecting investments.

In Germany, new legislation establishes a special regime for impact investment funds with the objective of leveraging more commercial capital for the implementation of the SDGs in developing and emerging economies. To qualify for the impact investment regime provided under the legislation, fund managers need to become signatories to the Operating Principles for Impact Investment.

Privately managed intended impact investments

Using a broader definition of impact investing, an additional 895 privately managed funds investing in private equity, venture capital, real assets, real estate, infrastructure, or private debt are managing $245 billion of intended impact investments. For these funds, an impact measurement system was not observed to be in place.

An additional $63 billion is managed by 115 funds investing in publicly traded assets where it is not clear how such investments contribute to the achieved impact, even if there is a measurement system in place. Consequently, these assets were counted toward intended impact investments. Investments in public equity often involve the purchase of secondary shares, as there are relatively few investments in initial public offerings (IPOs) or subsequent share issues that directly supply capital to the investee firm. In addition, except where large stakes are accumulated and/or the shareholder is a large asset manager whose views can move the market, shareholders may have little or no influence on the behavior of publicly listed firms. Shareholders can vote on board resolutions, but these have limited scope to affect firm operations. Similarly, buying and selling bonds based on social and environmental criteria in deep capital markets may have little effect on the social and environmental performance of the issuing firm.

Publicly managed measured impact investments

In publicly managed assets, 29 DFIs and publicly financed investment vehicles that are signatories to the Operating Principles for Impact Management manage $303 billion, and another seven DFIs that have committed to measuring their impact using Harmonized Indicators for Private Sector Operations (HIPSO) manage $46 billion.[8,9] Similar to non-DFI signatories to the Impact Principles, these institutions provide publicly available evidence that their investments are managed with intent, and with a measurement system in place. For DFIs, their contribution to the achievement of impact is clear: they deploy capital necessary to solve a market failure, or provide risk mitigation or some other benefit to a market that is not delivering these services adequately through private finance alone, based on screening to ensure that their investments are 'additional' to what the market can provide.

These DFIs include nine multilateral institutions, 15 bilateral institutions, and five pooled investment vehicles. MDBs have $223 billion in assets, while NDBs and funds account for $80 billion in assets. IFC continues to have the largest amount of assets—$81 billion—in alignment with the Operating Principles for Impact Management, followed by European Bank for Reconstruction and Development (EBRD) ($59 billion) and European Investment Bank (EIB) ($40 billion).

This report estimates that private sector operations of development banks that invest for measured impact has increased by 32 percent over 2019.[10] This may be partly due to better visibility of DFIs' private sector operations and the availability of data. On the other hand, many DFIs have taken action in financing COVID-19 recovery efforts. DFIs braced for losses resulting from the COVID-19 pandemic and focused on providing liquidity support to existing clients. IFC alone is providing $8 billion in fast-track financial support to existing clients, with $2 billion each for a facility supporting critical industries such as infrastructure, manufacturing, agriculture and services; a program supporting trade in global supply chains; a program that aims to provide working capital to struggling businesses; and a program that supports emerging market banks. Notably, three out of these four facilities intend to channel assistance through intermediary financial institutions. The EBRD recorded a 10 percent increase in annual business investment relative to 2019. The new U.S. development finance institution, DFC, which was formed in late 2019 through a merger of the Overseas Private Investment Corporation (OPIC) and the Development Credit Authority (DCA) of the United States Agency for International Development (USAID), has ramped up its financing as well.

Impact Measurement

In an effort to build clarity, credibility, and comparability in impact management, the industry has shown strong interest in standardization of impact measurement. Clear impact metrics are essential to making the economic and social contributions of investments measurable, which allows investors to improve their development effectiveness and demonstrate accountability.

To contribute to this effort, IFC worked with other impact investors and the GIIN (Global Impact Investing Network) to bring together the two leading impact indicator sets—Harmonized Indicators for Private Sector Operations (HIPSO) and the IRIS+ catalog of impact metrics—into a set of Joint Impact Indicators (JII) that can provide a common basis for measuring and reporting impact.

Among signatories to the Operating Principles for Impact Management, we estimate that around four fifths of institutions already report using IRIS and/or HIPSO indicators.[11] The joint indicators for climate, gender, and jobs were published in March 2021, with close to 50 impact investors endorsing the joint statement and committing to adopting the JII. These indicators are specifically tied to SDG 5 (Gender Equality), SDG 13 (Climate Action), and SDG 8 (Decent Work and Economic Growth). This is a major

[8] Excludes IFC Asset Management Company.

[9] For more information about HIPSO, see the HIPSO website at https://indicators.ifipartnership.org/.

[10] Based on a calculation comparing all HIPSO DFIs' private sector operations to last year's estimate of the private sector operations of the same banks, regardless of whether they are signatories to the Impact Principles.

[11] IFC calculation based on disclosure statements published as of Summer 2020.

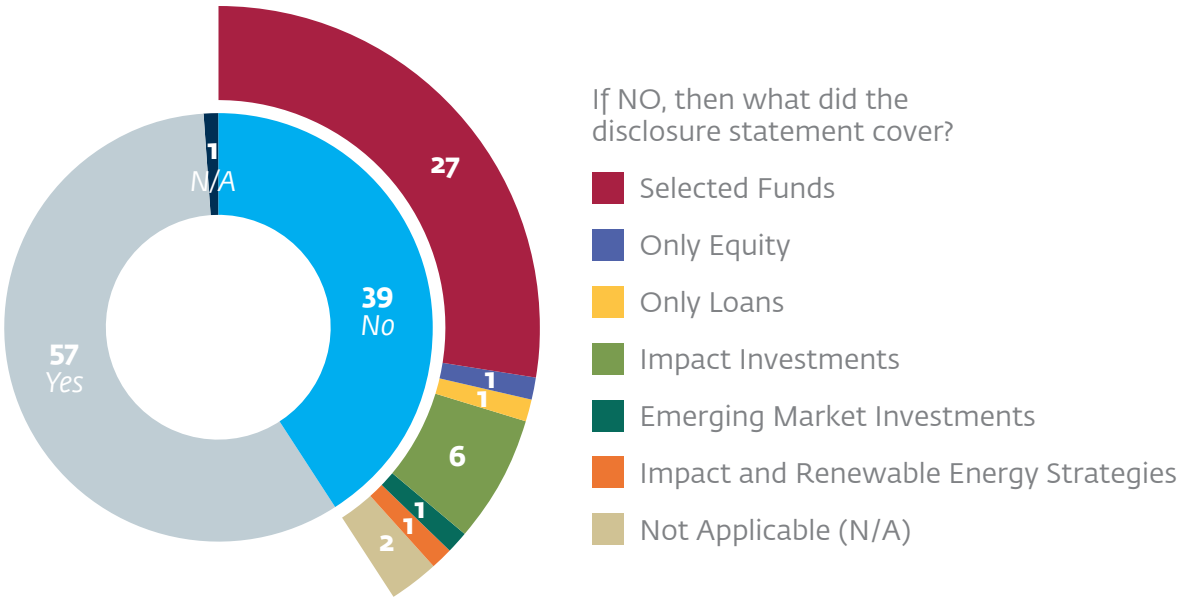
BOX 1.1 What We Have Learned From Disclosure Statements to the Impact Principles

As of May 31, 2021, there were 129 signatories to the Impact Principles from 31 Countries, with covered assets totalling $391.1 billion.[a] Ninety-seven signatories have published disclosure statements.[b] The "Covered Assets" published in each signatory's disclosure statement not only vary in terms of value, range, and strategy, but also offer vastly different depths of description: Some signatories describe all covered assets in detail, including their value, while others may cover specific products or specific business lines.

Of the 97 published disclosure statements, 57 signatories have indicated that their covered assets, managed in accordance with the Impact Principles, represent all of the signatory's assets/investments.[c] Most DFIs manage all of their assets according to the Impact Principles and also tend to manage larger portfolios according to the Impact Principles than asset managers or asset owners do. Non-DFIs are more likely to manage only a fraction of their business according to the Impact Principles.

Out of the 39 signatories whose covered assets represent a subset of their asset portfolio, 27 signatories' covered assets comprise pooled investment funds they manage, six cover their own defined "Impact Investments," one signatory includes only its emerging market investments, one includes only its loan portfolio, one only its impact and renewable strategies, and one only its equity investments (Figure 1.4). For two signatories, special cases apply.

FIGURE 1.4 Do Signatories' Disclosure Statements Cover All Their Assets Under Management?



[a] Signatories and Reporting. n.d. *Operating Principles for Impact Management*, as of May 31. 2021. https://www.impactprinciples.org/signatories-reporting. Includes IFC Asset Management Company as separate signatory.

[b] This figure includes Albright Capital and Trill Impact AB, which have assets totaling $0. There are 32 remaining signatories who have not published disclosure statements, most of which have only recently adopted the Principles.

[c] Some of the assets of the 57 signatories only mentioned their own account investments. Only IFC explicitly includes mobilization.

step forward for harmonized impact measurement and reporting. The JII can help reduce the reporting burden on investees and facilitate comparability and learning among impact investors. Explicitly, JII are suited to be used by both private and public sector institutions.

Publicly managed intended impact investments

A broader pool of other multilateral, national, and regional development banks manages $1.338 trillion in intended impact assets. Of these, 11 MDBs that have neither adopted HIPSO nor are signatories to the Operating Principles for Impact Management manage $18 billion in intended impact investments in the private sector. This group of MDBs includes large institutions like the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank.

These banks primarily extend loans and assistance to governments and the public sector to further economic and social development. Despite their overall large portfolio size, they usually have comparatively small private sector portfolios, or are currently in the process of building up their private sector portfolios.

In addition, 67 NDBs, regional development banks, and sub-regional development banks that lend only to their member countries cumulatively manage $1.320 trillion in intended impact assets. This group of DFIs includes large NDBs such as the China Development Bank, the Brazilian National Bank for Economic and Social Development (BNDES), and the German Kreditanstalt fuer Wiederaufbau (KfW), as well as a plethora of smaller banks. For some of these, limited information on their private sector operations is available.

Green, Social, and Sustainability Bonds

While impact investing has grown rapidly in private debt and equity markets, it is also attracting growing interest from retail and institutional investors that invest mainly in public equity and bond markets. Some of this interest has already spurred the creation of measured impact funds by signatories to the Operating Principles for Impact Management. These funds invest in Green, Social, and Sustainability Bonds (GSS). GSS bonds are use-of-proceeds bonds that identify the types of spending that are eligible to be financed with the bond proceeds.

Impact investing using GSS bonds is possible if an investor buys the bond(s) with the intent for positive impact, and the issuer measures and reports to the investor on the impact that is directly related to the funds raised with the bond. Hence, GSS bonds have some of the characteristics of an impact investment vehicle. The GSS market is growing rapidly both in volume and range of investment structures. It encompassed $1.294 trillion in outstanding value by the end of 2020, an 87 percent increase over 2019 (Figure 1.5).[12] A testament to growing diversification, green bonds in 2018 and 2019 made up 85 percent and 81 percent of issuances, respectively, while for 2020 this share dropped to 49 percent. 2020 saw $167 billion and $139 billion in social and sustainability bonds issuances, respectively, compared to $298 billion in green bond issuances. Yet these are fractions of the total $128 trillion outstanding in global bond markets.[13]

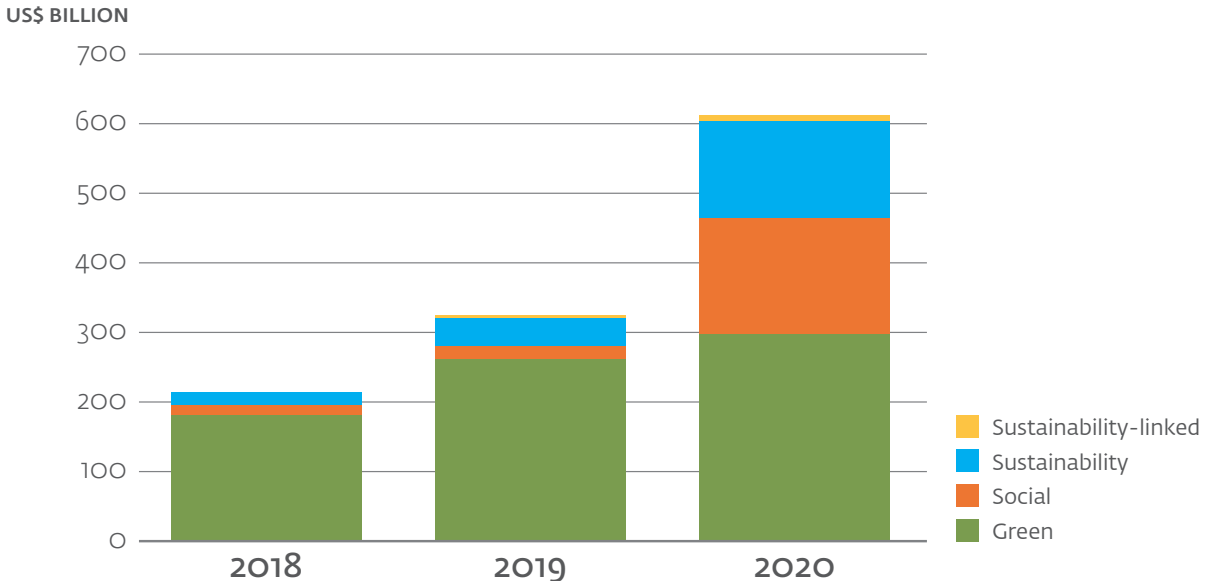
Social and sustainability bonds have been an attractive instrument to raise assets for COVID-19 recovery projects and efforts for state-associated and private institutions alike. After cumulatively issuing only $1.3 billion in social bonds in 2019, supranational institutions issued $67 billion in social bonds in 2020, primarily to support COVID-19 recovery efforts.[14] Among these, the European Union issued three social bonds with the intent to raise $47 billion for the European instrument for temporary Support to mitigate Unemployment

[12] The value of all green and social bonds outstanding is as of year-end 2020. This includes sovereign issuance. Outstanding bonds refers to bonds that were issued between 2010 and 2020, and that had a maturity date of the year 2021 or later. This includes the total value of issuance in instances where bonds of different lengths of maturity are issued together and at least one has not matured yet, as well as the issuance value where part of the principal might have matured before the maturity date. Bonds with missing maturity dates could not be counted against outstanding bonds. We base our estimate on data from Environmental Finance (EF), which includes self-labelled green/social/sustainable bonds. EF claims that the majority of these bonds adhere to one or more guidelines.

[13] International Capital Market Association. 2020. "Bond Market Size." https://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/Secondary-Markets/bond-market-size/.

[14] Supranational bonds are defined as those issued by entities formed by two or more central governments to promote economic development for the member countries. Sovereign bonds are issued with support of a government; agency bonds include bilateral DFIs as well as other government-sponsored entities such as Fannie Mae.

FIGURE 1.5 Composition of Green, Social, Sustainability, and Sustainability-linked Bond Issuances



Source: Environmental Finance.

Risks in an Emergency (SURE). Meanwhile, financial institutions and corporates doubled their issuance of social and sustainability bonds.

In October 2020, Citibank issued the largest ever private sector social bond, a $2.5 billion instrument to support affordable housing, particularly for communities of color. Alphabet Inc., Google's parent company, issued a cumulative $5.75 billion in sustainability bonds, the proceeds from which will be used to finance investments in the circular economy, and to support black-owned businesses, affordable housing, and COVID-19 responses, in addition to environmental causes.

Cumulative issuances for green bonds over time have exceeded $1 trillion. Of this, $889 billion in green bonds were outstanding by end of 2020. In September 2020, the German government took a step toward the development of the global sustainable bond market by trying to establish a green bond yield curve. For this purpose, Germany pledged annual twin issuances of a green bond with a conventional bond at the same maturity dates and coupons. Its first issuance shows that the green twin traded at a 2 basis point-lower yield to maturity in the secondary market—a price tag for a green issuance for which there was mixed evidence in the past.[15,16] Green bonds usually trade with a lower yield than comparable conventional bonds because their availability is limited, and as a result they are more expensive for investors to buy. This is an important consideration given the popularity of GSS bonds and the pressure on funds to invest sustainably, as well as for expectations of future growth in the still relatively small green debt market.

Beyond GSS bonds, the relatively new sustainability-linked bonds (SLBs) are almost exclusively issued by corporates. Sustainability-linked bonds embed key ESG performance indicators (KPI) that issuers commit to achieve at the company level, which triggers either a penalty (usually a higher coupon) should they fail to achieve the KPI or a reward (usually a lower coupon)

[15] Löffler, Kristin Ulrike, Aleksandar Petreski, and Andreas Stephan. 2021. "Drivers of green bond issuance and new evidence on the "greenium." *Eurasian Economic Review* 11, no. 1: 1–24.

[16] See Kapraun, Julia, Carmelo Latino, Christopher Scheins, and Christian Schlag. 2021. "(In)-Credibly Green: Which Bonds Trade at a Green Bond Premium?" *Proceedings of Paris December 2019 Finance Meeting EUROFIDAI-ESSEC*. And Bachelet, Maria J., Leonardo Becchetti, and Stefano Manfredonia. 2019. "The Green Bonds Premium Puzzle: The Role of Issuer Characteristics and Third-Party Verification" Sustainability 11, no. 4: 1098. https://doi.org/10.3390/su11041098.

if they achieve it. Unlike GSS bonds, the funds raised with this instrument are not tagged to a specific use of proceeds but can be used for general corporate purposes.

Sustainability-linked bonds have been seen as having the potential to link the investment in a bond directly to the achieved outcome. They have also received criticism in cases where the step-up penalties were perceived as insufficient to incentivize companies to pursue material changes, and where the embedded KPIs were perceived to be not ambitious enough.

Nevertheless, SLBs may have the potential to avoid greenwashing—the practice of presenting one's business or investments as more environmentally friendly than they are—by measuring ESG performance at the corporate level instead of in connection with the specific use of proceeds. Thus, with appropriate KPIs embedded in them, SLBs have the potential to be a stronger instrument for achieving impact at the corporate level.

The first SLB was issued in September 2019 by the Italian energy group ENEL. Given the large demand, the Executive Committee of the Green and Social Bond Principles published sustainability-linked bond principles in mid-2020. In September, the European Central Bank announced that SLBs will be eligible as collateral for its asset purchasing program starting in 2021, which might have encouraged $8.4 billion in new SLB issuances over the last four months of 2020. In total, corporates and agencies issued $8.8 billion in SLBs in 2020. Landsvirkjun, a state-owned Icelandic electricity generator, is the only non-corporate to issue such a bond. French oil supermajor Total has committed to making all of its new bond issues sustainability-linked.

Shareholder Action and Corporate Engagement Strategies

At a size of $95 trillion, public equity markets dwarf private equity and private debt markets.[17] Corporate engagement and shareholder action strategies have long been a tool used by shareholders to influence the management of firms, including nudging them in the direction of more sustainable and responsible management.[18] Despite most S&P 500 companies publishing corporate ESG reports (90 percent in 2020, up from 86 percent in 2019 and 20 percent in the 2000s), investors are seeking more transparency and more accountability with respect to the environmental and social footprints of companies and their impact on long-term shareholder value.[19] Industry-specific standards such as the Task Force on Climate-Related Financial Disclosures (TCFD) enable businesses to identify and communicate financially material sustainability information to investors, which make it easier for them to compare risks and information across firms and industries. Effective March 2021, the Sustainable Finance Disclosure Regulation (SDFR), introduced by the European Commission, imposes mandatory ESG disclosures on all EU financial market participants and advisers, including foreigners that market products to EU investors, not only those with an ESG focus. Going forward, the Financial Standards Board, which manages the IFRS accounting standards, proposes to establish an International Sustainability Standards Board to establish common global reporting standards for sustainability.

In 2020, we estimate that $6.395 trillion in assets, excluding Europe but including Australia and New Zealand, were managed under active corporate engagement and shareholder action strategies.[20] This

[17] DeCambre, Mark. 2020. "Value of the World-Wide Stock Market Soars to Record $95 Trillion, Despite Resurgence of Coronavirus." *MarketWatch*, November 12, 2020. https://www.marketwatch.com/story/value-of-the-world-wide-stock-market-soars-to-record-95-trillion-despite-resurgence-of-coronavirus-11605196894.

[18] Defined as the use of shareholder power to influence corporate behavior, corporate engagement and shareholder action strategies may be conducted through means such as communications with senior management or boards, filing or co-filing shareholder proposals, and proxy voting in alignment with comprehensive ESG guidelines.

[19] Reali, Peter, Jennifer Frzech, and Anthony Garcia. 2021. "ESG: Investors Increasingly Seek Accountability and Outcomes." *Harvard Law School Forum on Corporate Governance*, April 25, 2021. https://corpgov.law.harvard.edu/2021/04/25/esg-investors-increasingly-seek-accountability-and-outcomes/.

[20] Values are for start of 2014, 2016, 2018, and 2020 respectively. Data for 2018 are reported as of December 31, 2017, except for Japan, which reports as of March 31, 2018, and currencies were converted to U.S. dollars at the exchange rate prevailing at the time of reporting. Data for 2020 were sourced directly from USSIF, RIAA, and JSIF. Recent data for Europe was not available as of May 31, 2021. See reports from Global Sustainable Investment Alliance, Global Sustainable Investment Reviews 2014-2018, Responsible Investment Association Australasia (RIAA), The US Forum for Sustainable and Responsible Investment (USSIF), and Japan Sustainable Investment Forum (JSIF).

number represents a 35 percent increase from 2018 and reflects a growing trend toward a more active shareholder engagement process. Estimates for Europe were not available as of May 31, 2021. However, Europe's assets managed under these strategies had reached $5.831 trillion in 2018. Particularly strong growth in assets managed under corporate engagement and shareholder strategies can be observed in Canada, where they grew by 79 percent between 2018 and 2020, and in New Zealand, where they grew by 63 percent in the same time period. While countries such as Japan, Australia, and the United States have exhibited more modest growth in these assets (by 30 percent, 20 percent, and 12 percent between 2018 and 2020, respectively), global growth has been robust over the past few years.

While shareholder engagement on ESG issues has been shown to decrease companies' downside risks, the extent to which shareholder action strategies generate measurable positive environmental and/or social impact is unclear.[21] A small number of active equity funds (including funds managed by Blackrock and Wellington) claim that they target positive environmental and social impact. They engage in shareholder activism by buying larger stakes, holding them for longer, and putting forth proxies for shareholder vote—with the goal of influencing management. These are specific strategies that rely on the size of the asset manager to be effective, and so might be difficult to replicate by smaller asset managers.

Recently, some shareholder-coalition proposals and actions have resulted in meaningful advances to address climate change, including the commitment by HSBC Bank to phase out the financing of coal-fired power and thermal coal mining.[22] ClimateAction 100+, a coalition of over 500 investors including the Church of England pension board, APG, and Robeco, got Royal Dutch Shell to commit to reducing its carbon emissions, to setting carbon reduction targets, and to linking these to executive pay.[23] Engagement from an investor coalition of more than 90 firms representing $11.4 trillion of combined assets under management resulted in six leading fast food chains, including McDonalds, Domino's Pizza, and Wendy's Co., to commit to science-based targets to reduce emissions.[24] In April 2021, the UN-convened Net-Zero Asset Owner Alliance released a resource designed to help asset owners set expectations for, evaluate, and engage with asset managers on their climate-related proxy voting activities.

As success in using shareholder engagement strategies for impact investing depend largely on the level of influence of the investor, few such opportunities may currently exist. However, the effects of such strategies on firm impact through public equity markets should not be ignored, as the overall impact, scaled by the large amounts of capital in public markets, can be significant. As more large asset managers develop public markets impact strategies, there might be greater scope for credible contribution to impact.

Despite the increasing use of shareholder engagement strategies to push for change, regulatory and legislative challenges remain, especially in the United States. September, 2020, U.S. Securities and Exchange Commission (SEC) amendments to shareholder-proposal rules "severely limit the ability of shareholders to file resolutions on key environmental, social, and governance issues," according to the Interfaith Center on Corporate Responsibility, and thus make it difficult for small shareholders to effectively engage with their investee companies. However, initial indications suggest that new SEC leadership in 2021 may take a different direction.[25,26]

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[21] Hoepner, Andreas G. F., Ioannis Oikonomou, Zacharias Sautner, Laura T. Starks, and Xiao Y. Zhou. 2018. "ESG Shareholder Engagement and Downside Risk." https://www.q-group.org/wp-content/uploads/2018/02/SHAREHOLDER-ENGAGEMENT-2018-01-31.pdf.

[22] Environmental Finance. 2021. "HSBC Bows to Investor Pressure and Announces Coal Phase-Out Plan." https://www.environmental-finance.com/content/news/hsbc-bows-to-investor-pressure-and-announces-coal-phase-out-plan.html.

[23] Raval, Anjli, Leslie Hook, and Attracta Mooney. 2018. "Shell Yields to Investors by Setting Target on Carbon Footprint." *The Financial Times*, December 2, 2018. https://www.ft.com/content/de658f94-f616-11e8-af46-2022a0b02a6c.

[24] Ceres. 2021. "Fast Food Giants Ramp Up Climate Commitments Under Pressure from Investors in 'Breakthrough Year'." https://www.ceres.org/news-center/press-releases/fast-food-giants-ramp-climate-commitments-under-pressure-investors.

[25] U.S Securities and Exchange Commission. 2020. *Procedural Requirements and Resubmission Thresholds under Exchange Act Rule 14a-8.* https://www.sec.gov/rules/final/2020/34-89964.pdf.

[26] Interfaith Center on Corporate Responsibility. 2021. "Investors and Consumer Groups Urge Members of Congress to Overturn Trump-Era SEC Rule Changes." https://www.iccr.org/investors-and-consumer-groups-urge-members-congress-overturn-trump-era-sec-rule-changes.

Conclusion

Investors employ a variety of strategies to achieve impact in private and public markets. The portion of the market in which intent to contribute to measurable impact is clearly observable, and in which there exists a direct narrative of contribution to impact, is relatively small and mostly restricted to investments in private markets. Privately managed measured impact assets include the disclosed assets by private signatories to the Operating Principles for Impact Management and other private impact funds with a measurement system in place. Publicly managed measured impact investments include the disclosed assets by DFI signatories to the Impact Principles and the private sector operations of other HIPSO DFIs. These entities collectively manage $636 billion in assets.

Under a broader definition that includes the wider universe of development banks, private impact funds without identified measurement systems, as well as public impact intent funds, this report estimates an additional $1.646 trillion is invested with an intent for impact.

Collectively, up to $2.281 trillion might have been invested for impact by the end of 2020. Even larger amounts of capital are invested in public markets, including in green, social, and sustainability bonds and in shareholder action strategies. There is limited evidence of intent, measurement, and contribution for the individual investor in public markets, but these strategies have the potential to be developed to serve as ways to invest for impact.

FAQ

What is the definition of impact investing?

Impact investments are investments made in companies or organizations with the intent to contribute to measurable positive social or environmental impact, alongside a financial return.

Are impact investments the same as sustainable or responsible investments?

Impact investments are a particular type of sustainable and responsible investment, which have an explicit *intent* to generate positive social and environmental impact, in addition to considering environmental, social, and governance (ESG) risks to operational or financial performance.

What are measured impact investments? What are intended impact investments? What is the difference?

This analysis starts by identifying investments for which we are able to identify an intent for positive impact. Among these, it identifies investments with "measured impact"—for which we were able to observe what the actual impact is measured using a measurement system, and that there is a credible mechanism through which the investment contributes to achieving impact—from investments that lack at least one of these two observed attributes.

What are privately managed assets or funds, as opposed to publicly managed assets and funds?

Privately managed assets or funds are managed by private sector entities such as fund managers or investment banks, as opposed to assets or funds that are managed by government-owned entities such as development finance institutions (DFIs) and national development banks.

CHAPTER 2

Methodology

Definitions

This chapter lays out our approach to estimating the size of the market for impact investing. This includes illustrating the scope of our work, introducing market participants, and describing the methodology used for assessing each group of market participants in detail.

First, we need to define the term "impact investments." We identify impact investments as investments made into private sector companies or organizations with the specific intent to contribute measurable positive social or environmental impact, alongside a financial return.[27]

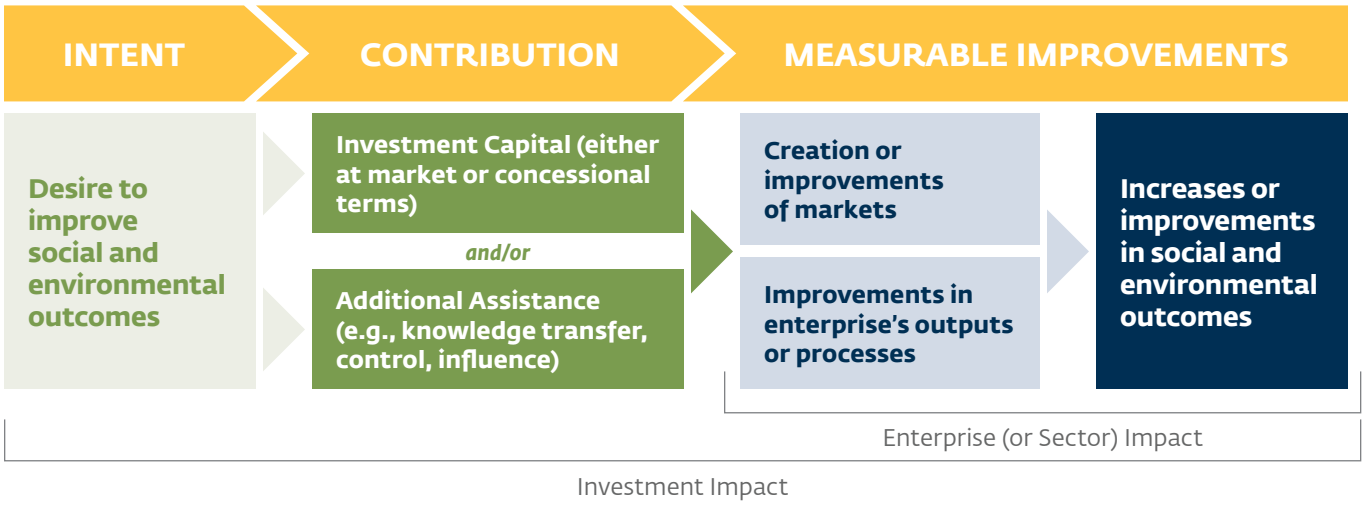
Specifically, our definition encompasses three observable attributes of impact investors that distinguish them from other investors, such as those managing responsible or sustainable investments: Intent, Contribution and Measurement.

Intent. The investor articulates an intent to achieve a social or environmental goal by identifying outcomes that will be pursued through the investment and specifying who will benefit from these outcomes.

Contribution. The investor follows a credible narrative, or thesis, which describes how the investment contributes to achievement of the intended goal—that is, how the actions of the impact investor will help achieve the goal. Contribution is considered at the level of the impact investor and can take financial as well as nonfinancial forms. Examples include longer maturity of capital, lowering interest rates, or mitigating risk. It is worth noting that in the realm of impact investing, it is seldom possible to attribute a result to a single activity. Thus, the thesis is a credible narrative that the outcome would not have occurred—at least not to the same extent—without the investment.

Measurement. The investor has a system of measurement in place to link intent and contribution to the improvements in social and environmental outcomes delivered by the enterprise in which the investment was made. The measurement system enables the investor to assess the level of expected impact, ex ante, in order to continuously monitor progress and take corrective actions when appropriate, and then finally to evaluate

FIGURE 2.1 The Impact Investing Thesis



[27] This may include investments in state-owned firms.

the achievement of impact, ex post. Investments may be made into the full range of asset classes, and by a wide range of institutions and funds, if by doing so the investor contributes to achieving impact.

Measured Impact and Intended Impact. Following the methodology laid out above, which was introduced in the 'Creating Impact' report,[28] we use the three attributes described above to identify assets managed for impact and estimate the 2020 market size for impact investing. This includes assets for which evidence is available to show that they are managed with intent for positive impact, identifiable contribution, and measurement of impact, as well as assets for which information on their alignment with these three elements of impact investing is insufficient based on available data. All estimates reflect the financial year 2020.

We estimate the total market size using two market size definitions:

1. **Narrow definition—Measured Impact:** Investments for which all three conditions are credibly satisfied will be considered 'measured impact' investments.
2. **Broad definition—Intended Impact:** Investments for which available information satisfies the intent condition but does not observably and credibly satisfy both the contribution and measurement conditions will be called 'intended impact' investments.

Scope. The scope of this assessment includes

1. Privately managed assets for which an intent for positive environmental and social impact can be observed (see below for detailed description of sources):
    a. Assets directly invested by private institutions, including investments by asset managers on behalf of others,
    b. Assets managed by pooled investment funds.
2. Publicly managed assets by institutions with a stated mandate to achieve positive environmental and social outcomes: Assets managed by multilateral and bilateral DFIs, national and regional development banks and similar public institutions. This includes investments from their own capital (own account) and from capital mobilized from third parties (e.g., loan syndications).

Within this broader universe of private and public assets that are managed for impact, we identify the subset that fulfills the 'contribution' and 'measurement' criteria, that is, the assets that are managed for 'measured impact.'

Especially for impact assets directly invested by private institutions, there is very limited available public information on whether they fulfill the 'contribution' and 'measurement' criteria. We use several proxies to identify funds and institutions that manage assets for 'measured impact.'

The first proxy is whether the fund or institution is a signatory to the Operating Principles for Impact Management.[29] This includes DFIs, investment funds, asset managers, and asset owners. All signatories annually self-disclose in detail and with independent verification how they manage assets with intent, contribution, and measurement. Hence, all assets described in the disclosure statements by signatories are included in the "measured impact" category.[30] The mandatory annual disclosure statement both describes the 'covered assets' managed in accordance with the Impact Principles—which can correspond to a part or all of a signatory's investments—and provides the cumulative value of the covered assets under management.[31]

[28] International Finance Corporation. 2019. "Creating Impact: The Promise of Impact Investing." https://www.ifc.org/creatingimpact.

[29] Impactprinciples.org

[30] Many signatories are large institutions managing a plethora of products, including sustainable and conventional products. A signatory is only required to manage the assets or products outlined in their disclosure statement in adherence to the Impact Principles; this does not apply to their other assets.

[31] As there is no template for these disclosures, the information offered varies by signatory. Signatories are not obligated to disaggregate the value of their covered assets in detail, nor do they have to indicate which specific strategies they employ for their impact investments (e.g., asset class or region).

[32] https://indicators.ifipartnership.org/partners/

The second proxy is whether the fund or institution uses the Harmonized Indicators for Private Sector Operation (HIPSO).[32] HIPSO are a set of impact measurement indicators used by many DFIs. DFIs using HIPSO all measure the impact of their investments in the private sector. DFIs also inherently have a development mandate. Thus, all HIPSO signatories are included in the "measured impact" category. DFIs that are neither signatories to the Impact Principles nor have adopted HIPSO may still operate with the intent to create development impact.

The third proxy is whether the fund or institution publicly engages in industry-relevant databases and associations. Privately managed funds that are not signatories to the Impact Principles show intent by self-identifying as impact investors. They may indicate the use of a measurement system by being listed on the Global Impact Platform, which reviews each fund, or by publishing a 'classification statement' using the IMP+ACT reporting tool. We assume that the contribution criterion is met if funds invest in private (i.e., non-publicly traded) assets within the following categories: debt, equity, real assets, real estate, or infrastructure. In these asset classes, contribution typically comes by way of new capital infusion and/or by providing technical assistance to the investee firm that enables it to create new or additional impact.[33]

If there is not sufficient evidence of the use of a measuring system, or if funds invest in publicly traded assets, they are considered intended impact funds.

This method is likely to underestimate the total market size. With the scope as defined here, we may not capture all impact investments, but only those that are readily observable through publicly available information and data from selected proprietary databases. Our analysis excludes investments by Community Development Organizations due to a lack of data, as well as the broader spectrum of themed and/or impact branded exchange traded funds and mutual funds, which often simply apply ESG screens to investments.

Detailed methodology for market sizing by investor type

1) Privately Managed Assets

a. Pooled Investment Funds

First, we assemble fund-level data on funds with a stated intent for positive impact using publicly available sources and sources with restricted access.

We source data on the following basis:

- All funds in the Global Impact Platform (GIP) by Phenix Capital, a specialized database of impact investing funds and organizations,
- Funds that self-identify as 'impact investing' in the online database of the Emerging Market Private Equity Association (EMPEA),[34]
- All funds from Syminvest, Symbiotics' Online Platform for Microfinance and Small Enterprise Impact Investments,
- Funds indicating an "ethos" or an intent to further or engage in economic development, environmental responsibility, microfinance, and/or social responsibility in Preqin, an alternative assets database.

This results in a fund-level database that features information on asset class, vintage year, focus region, focus market for each fund, as well as a variable capturing all assets under management (AUM) for each fund.[35] Where there was conflicting information, we gave preference to data from GIP over Preqin over EMPEA data over Symbiotics data.

Additionally, we sought supplemental data where there is missing data on AUM, target size, asset class, vintage year, or focus market or region for a specific fund from the following sources:

- Pitchbook, a Venture Capital, Private Equity and M&A Database,
- Crunchbase, a platform for finding business information about private and public companies, and
- Publicly accessible press releases and fund websites.

[33] For a detailed description, please see chapter 1.1 in IFC's *Creating Impact: The Promise of Impact Investing* report.

[34] EMPEA's definition of 'Impact Investing' refers to any fund with a stated social or environmental impact objective in its mandate, regardless of the fund's strategy or sector focus.

[35] We assume all AUM of a fund is invested by the fund manager using the same approach to impact investing.

We exclude funds in our assembled database that are managed by development finance institutions (DFIs) to avoid double counting, as these assets are already included in DFIs' private sector portfolios and/or disclosure statements to the Impact Principles. As some DFIs may invest in private impact funds, some duplication of assets is possible. We removed fund duplicates from our estimation to the best of our knowledge.

Second, we identify measured impact funds within the assembled database.

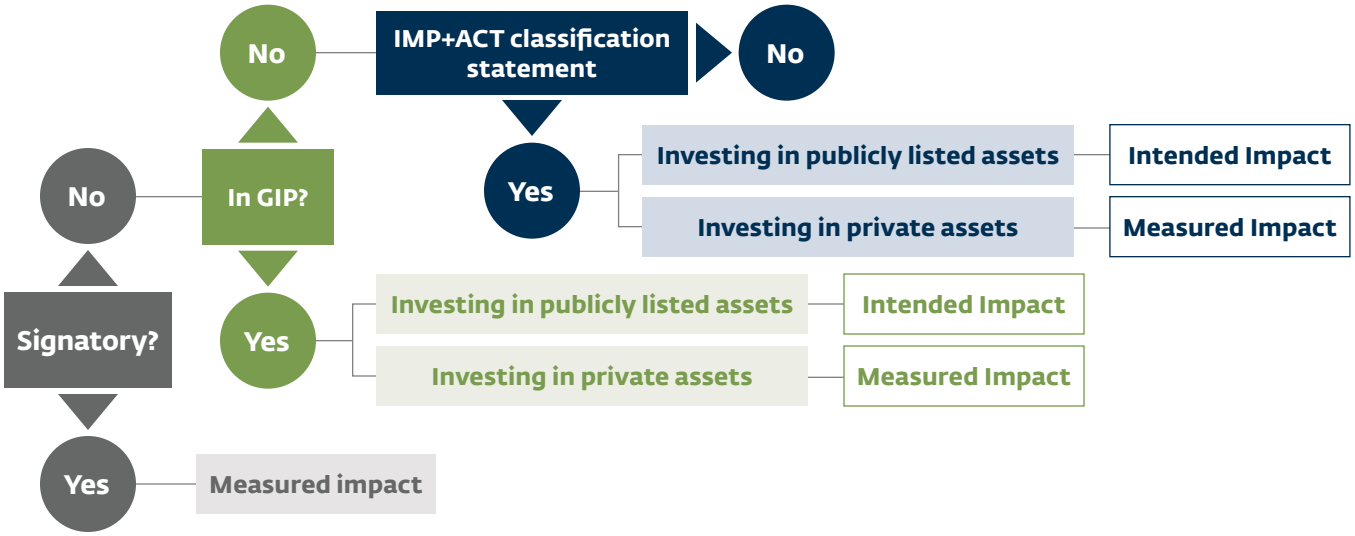
Funds that have been explicitly disclosed by a (non-DFI) signatory to the Impact Principles as being managed according to the Impact Principles are considered measured impact funds, regardless of asset class. When assessing assets managed by these funds, we give priority to information shared in the mandatory impact disclosure statements. Data on commitments that was reported in the disclosure statements that are not included in the fund database assembled from the abovenamed sources (GIP, Preqin, etc.) were added to the pool of privately managed fund assets. We cannot account for double counting of funds managed by signatories to the Impact Principles that do not provide enough detail in their disclosure statement to identify individual funds.

For the remaining funds in the assembled database, we use further proxies to identify whether funds measured their impact. The Global Impact Platform confirms the existence of measurement systems and/or indicators used to measure impact for each fund. Hence, funds investing in private assets that are present in the GIP qualify as measured impact funds.

Moreover, funds that publish a classification statement following the IMP+ACT Classification System are considered Measured Impact Funds if they invest in privately traded assets. IMP+ACT is a reporting tool for investment practitioners to demonstrate their commitment to impact measurement. Except for funds managed in accordance with the Impact Principles, funds that invest in public equity or public debt lack a clear narrative of contribution, even if the investor employs a measurement system.[36] As a result, AUM of such funds investing in public asset classes were not counted toward the pool of measured impact investment assets, but to the pool of intended impact assets.

Any fund remaining in the database is considered an intended impact fund.

FIGURE 2.2 Decision Tree for Intended Impact Funds Versus Measured Impact Funds



[36] Please see IFC, 2019, 'Creating Impact- The Promise of Impact Investing', p.8-9 for a detailed explanation.

Technical notes:

AUM: Assets under management (AUM) of a fund may vary over time and is not publicly available information. We proxy fund AUM with the committed capital to not-liquidated investment funds from 2010 to 2020 investing in equity, fixed income, real estate, infrastructure, and natural resources, or in more than one of these.

Their cumulative fundraising is equivalent to assets under management (AUM) of funds under the assumption that it takes 10 years to return capital to investors. Hence, we include funds with a vintage year of 2010 and younger. This does not capture any capital appreciation by the fund, and so is likely to be an underestimate.

Exchange rate: For funds not disclosing assets in U.S. dollars, we used the exchange rate of the currency of disclosure to the dollar on December 31, 2020. Some fluctuation in the recorded AUM between last year's "Growing Impact' and this report might be due to changes in the exchange rate between December 31, 2019 and December 31, 2020.

Asset classes: Given that specific funds rarely change the asset classes they invest in, we assumed continuity of investment strategy in case this data was missing for a specific fund for a specific period. More specifically, if a fund was missing the variable asset class but this information was available for said fund in data that we assembled for a previous year's market sizing, we proxied current asset class with past asset class. We drop funds of funds to avoid double counting assets between investee funds and the fund of funds.

Syminvest does not include the granularity in asset classes needed for our purposes and thus was not considered for determining asset class. In addition, GIP does not allow for a classification that indicates investments in more than one asset class; and the EMPEA database excludes real estate funds.

Regions: For regional classification, we followed World Bank country classification standards to the greatest extent possible. It is important to note that in determining regional focus of funds, we consolidated different (and sometimes conflicting) data about where individual funds invest. Offered data included 'geographic focus,' which, depending on the database, might offer the specific country, region, or subregion of investment focus, or denote whether a fund has a country-specific, regional, sub-regional, or multi-regional focus. Other information included primary region focus, geographic exposure, geographic detail, or subregion. From this information, we triangulated the best possible focus of investment for each fund.

Markets: Funds investing exclusively in high-income countries are labeled as investing in 'Developed Countries'; those that invest only in low-income countries or middle-income countries invest in "Emerging Markets"; if they invest in both, their target market is denoted as "Global". This categorization is already included on the Global Impact Platform, but had to be deduced for other data sources.

Sources: Preqin, Global Impact Platform, EMPEA, Syminvest, Pitchbook, Crunchbase, IMP+ACT, and publicly available information where necessary.

b. Investments by non-DFI signatories to the Impact Principles

All investments disclosed by non-DFIs in disclosure statements with respect to the Impact Principles are considered 'measured impact' investments. This includes investments through funds, as well as direct investments by the signatories. Since many signatories only disclose the total AUM in accordance with the Impact Principles, and not necessarily the AUM of the individual funds they manage, we cannot determine the size of assets *specifically* committed to funds managed by private signatories from their disclosures alone.

If reported in an alternative currency to the U.S. dollar, we use the exchange rate for each currency from Dec 31, 2020.[37]

2) Publicly Managed Assets

We assess publicly managed assets by adding up impact investment volumes of DFI signatories to the Impact Principles, non-sovereign operations by other DFIs that use the Harmonized Indicators for Private Sector

[37] Find Exchange Rates at exchange-rates.org.

Operations, as well as non-sovereign operations of other MDBs, and national and regional development banks, while removing duplicates between groups.

a. Investments by signatories to the Impact Principles

All investments disclosed by DFIs in disclosure statements with respect to the Impact Principles are measured impact investments. If reported in an alternative currency to the U.S. dollar, we use the exchange rate for each currency from Dec 31, 2020.

b. Private Sector Investments by HIPSO Signatories

Another overlapping set of impact investors includes DFIs that are signatories to HIPSO, as many of these are also signatories to the Impact Principles. These institutions aim to further development impact through common development indicators, hence fulfilling the criteria of both intent and measurement system. To avoid double counting, we removed institutions that are also signatories to the Impact Principles. Remaining institutions include the Asian Development Bank (ADB), African Development Bank (AfDB), West African Development Bank (BOAD), Black Sea Trade and Development Bank (BSTDB), International Islamic Trade Finance Corporation (ITFC), Council of Europe Development Bank (CEB), and OPEC Fund for International Development.

These institutions' private sector operations are proxied by their committed portfolios, consisting of investment portfolios of loans, equity investments, and debt securities to non-sovereign entities; the stock of third-party investment that has been directly mobilized by DFIs; and gross exposure to guarantees to non-sovereign entities. In general, DFIs only expect to pay claims on a small fraction of their gross exposure to guarantees or risk insurance. However, the amount of exposure—not the ultimate payout—represents the contribution to financing investees' operations.

For ADB and AfDB only, estimates of private sector mobilization commitments are available for the last four years in the MDB mobilization reports. We avoid overestimation by considering direct mobilization only, for which there is a direct link between activities of these MDBs and mobilized assets. Here, we estimate mobilization assets by assuming that the stock of mobilization assets is equal to five times the four-year average of annual commitments. These estimations were preferred to mobilization disclosed in other sources.

Sources: Operating Principles for Impact Management, Annual and Financial Reports, HIPSO, MDB Mobilization reports 2016-2019.

c. Non-Sovereign Lending by Non-Impact Principles, Non-HIPSO MDBs, and Other National and Regional Development Banks

In addition, we manually compile a list of development banks, which we define as institutions with some government ownership and a mission statement to promote economic development. Specifically, we first cross-compare lists on development banks by the Organisation for Economic Co-operation and Development (OECD) and the International Development Finance Club (IDFC). In addition, we conducted an Internet search for "development bank" for each World Bank member country. Banks were included in the list if they satisfied three criteria: (a) their mission statement and reference documents suggest a mission that relates to social and economic development, as opposed to just financial return, (b) they have some government ownership or were originally formed by an act of government (multiple banks are identified in some countries), and (c) recent balance sheets were available. We excluded DFIs that are signatories to the Impact Principles or to HIPSO.

We include 11 multilateral development banks and 68 bilateral and national development banks with charters or mission statements describing intent to contribute to social or environmental impact alongside financial return. We define their relevant portfolio as those assets allocated to non-sovereign operations and to guarantees to non-sovereign entities, identified by consulting annual reports and financial statements for all multilateral and bilateral development banks. We exclude treasury and sovereign operations. Where organizations did not specifically differentiate between investments in private and public entities, either in their financial statements or in their charter, their portfolios were not counted. Estimates are for 2019 or latest financial year available.

For the largest 20 NDBs, individual annual reports and/or financial statements were used to identify non-sovereign portfolios/guarantees. For the remaining NDBs, we estimate the private portfolio based on the 2017 World Bank Survey of National Development Banks. Specifically, we use the self-reported share of private sector lending and guarantee operations as a percentage of total assets and apply that value to the 2019 or most recently published Total Assets of an organization. Where, for an NDB in our sample there was no value in the 2017 World Bank Survey of National Developments Banks, we estimated the private sector portfolios by applying the median value of the share of private sector lending and guarantee operations as a percentage of total assets, calculated based on the 2017 Survey of National Development Banks. By using the median instead of the mean, we avoid large or small outliers that might skew the estimate. In the survey, national development banks reported 52.4 percent of their total assets as private sector lending/guarantee portfolio at the median, based on the latest available data.

For the largest development banks—China Development Bank, Kreditanstalt fuer Wiederaufbau (KfW), National Bank for Economic and Social Development (BNDES), Korea Development Bank (Republic of Korea), Japan Bank for International Cooperation (Japan), Development Bank of Japan—we contacted the institutions directly to obtain estimates of the non-sovereign portfolio and/or consulted IFC's country offices for an estimate. If not reported in U.S. dollars, we used exchange rates of December 31, 2019 for reported 2019 portfolios, of June 30, 2020 for DFIs that report H1 2020 data, and of December 31, 2020 for reported 2020 portfolios.

Sources: Annual and financial reports of the respective banks.

3) Changes in methodology compared to "Growing Impact"

Disclosure Statements: This information was not available for the 2019 'Growing Impact' report, except for select signatories.

Funds: In the past, we have also cross-checked funds and fund managers against users of the Global Real Estate Sustainability Benchmark (GRESB); against IRIS, a widely used impact measurement system for impact investors; and against B-Analytics, an impact assessment platform for B-Corporations. However, this is no longer possible due to the fact that these platforms are either discontinued or do not publish fund-level data. In addition, this is the first year that IMP+ACT information was used.

Other DFIs: In previous years, we used the average value of the share of private sector lending and guarantee operations as a percentage of total assets, calculated based on the 2017 Survey of National Development Banks.

Please note that due to changing availability of data, it is difficult to compare market estimates from year to year. This report makes a best effort to estimate market size based on available resources.

Independent auditor's limited assurance report on the estimate of the market size for impact investing for the year ended December 31, 2020.

To the President and the Board of Directors,

In response to your request, we, EY & Associés, have performed a limited assurance engagement on your estimate of the market size for impact investing (the "Indicators") in "Investing for Impact, The Global Impact Investing Market 2020" for the year ended December 31, 2020. The following Indicators have been reviewed:

	Privately Managed	Publicly Managed
Intended Impact	M$ 307,828	M$ 1,337,966
Measured Impact	M$ 286,466	M$ 349,135

IFC is responsible for the preparation of the Indicators in accordance with the reporting criteria applicable during the year ended December 31, 2020 (the "Reporting Criteria"), as described in the methodology section of "Investing for Impact, The Global Impact Investing Market 2020".

Our independence and quality control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

We apply the International Standard on Quality Control and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance and ethical requirements, professional standards and applicable legal and regulatory requirements.

Our responsibility

Our responsibility is to express a limited assurance conclusion on the Indicators and Statements based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements 3000[1] ("ISAE 3000") issued by the International Auditing and Assurance Standards Board. This standard requires that we plan and perform this engagement to obtain limited assurance about whether the Indicators and Statements are free from material misstatement. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal controls, and the procedures performed in response to the assessed risks.

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[1] ISAE 3000: "Assurance Engagement other than reviews of historical data", International Federation of Accountants, International Audit and Assurance Board, December 2003.

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Nature and scope of our limited assurance engagement

We have performed the following procedures:

- We have assessed the Reporting Criteria with respect to their relevance, completeness, neutrality and reliability.
- We have conducted interviews with the people responsible for data collection and compilation.
- We have implemented analytical procedures and verified, on a test basis, the consolidation of the Indicators.
- We have collected supporting documents for the Indicators, such as annual reports and databases.

Limitations of our procedures

Our limited assurance engagement was limited to the Indicators and Statements identified in the table above and did not cover other disclosures in "Investing for Impact, The Global Impact Investing Market 2020".

Our tests were limited to document reviews and interviews with head office employees. Within the scope of work covered by this report, we have not participated in any activities with external stakeholders and have only conducted limited testing aimed at verifying the validity of information on a sample of individual contributions.

Limited Assurance Conclusion

Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the Indicators have not been prepared, in all material respects, in accordance with the Reporting Criteria.

Paris-La Défense, July 9, 2021

The Independent Auditor

Caroline Delérable
Partner, Sustainable Performance & Transformation
EY & Associés

Operating Principles for Impact Management

The Operating Principles for Impact Management, or Impact Principles, are intended to serve as the global standard for the design and implementation of impact management systems, ensuring that impact considerations are integrated throughout the investment lifecycle. They may be implemented through different types of systems, each of which can be designed to fit the needs of the individual institution. The Impact Principles do not prescribe specific tools or approaches or specific impact measurement frameworks. The expectation is that industry participants will continue to learn from each other as they implement the Impact Principles.

The Impact Principles are scalable and relevant to all types of impact investors and portfolios sizes, as well as to different asset types, sectors, and geographies. The Impact Principles may be adopted at the corporate, line-of-business, fund, or investment vehicle level. Asset managers with a diverse set of investment products may decide to adopt the Impact Principles only for select funds or vehicles they consider to be impact investments, and need not adopt them for all of their assets. Similarly, asset owners that invest in bonds, funds, and other investment vehicles may apply the Impact Principles to their own investment processes. The Impact Principles do not have to be followed by the investee company, fund, or asset.

The way the Impact Principles are applied will vary by type of investor. Asset owners and their advisors may use them to screen impact investment opportunities. Asset managers may use the Impact Principles to assure investors that impact funds are managed in a robust fashion.

As of July 8, 2021, 133 signatories to the Impact Principles managed $403 billion in accordance with the Impact Principles. For more details about the Operating Principles for Impact Management, the signatories, and how to become a signatory, please visit: https://www.impactprinciples.org/.

Overview of the Impact Principles

STRATEGIC INTENT	ORIGINATION & STRUCTURING	PORTFOLIO MANAGEMENT	IMPACT AT EXIT
1 Define strategic impact objective(s) consistent with the investment strategy.	3 Establish the Manager's contribution to the achievement of impact.	6 Monitor the progress of each investment in achieving impact against expectations and respond appropriately.	7 Conduct exits considering the effect on sustained impact.
2 Manage strategic impact on a portfolio basis.	4 Assess the expected impact of each investment, based on a systematic approach.		8 Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.
	5 Assess, address, monitor, and manage potential negative impacts of each investment.		

INDEPENDENT VERIFICATION

9 Publicly disclose alignment with the Impact Principles and provide regular independent verification of the alignment.

Source: Secretariat, Operating Principles for Impact Investment. www.impactprinciples.org/9-principles

FURTHER READING

Additional reports about Impact Investing published by IFC Thought Leadership: ifc.org/thoughtleadership

Growing Impact: New Insights into the Practice of Impact Investing

June 2020—90 pages

Impact investing in private markets could be as large as $2.1 trillion in assets under management, but only a quarter of that, $505 billion, is clearly measured for its impact, both for development impact and financial returns. The report also highlights the enormous potential to invest for impact in public equity markets. Today, assets totaling about $10 trillion are actively managed and these strategies could be directed toward achieving impact. The publication includes trends in impact investing, survey results of investor practices, and 32 case stories from signatories to the Operating Principles for Impact Management on how they are implementing them.

The Impact Principles, launched in April 2019, were developed by IFC and leading impact investors.

The Impact Principles continue to attract investors, and the number of signatories continues to grow—as of October 2020 there were 106 signatories, compared with 58 at the time of launch.

Creating Impact: The Promise of Impact Investing

April 2019—82 pages

Impact investing has emerged as a significant opportunity to mobilize public and private capital into investments that target priority development needs, particularly in emerging markets. Investors are increasingly looking to invest with impact by aligning their strategies to achieve the UN Sustainable Development Goals. To better understand what it would take to scale up credible impact investing, IFC published the *Creating Impact: The Promise of Impact Investing* report, which offers the most comprehensive assessment to date of the potential global market, along with practical suggestions for next steps.

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Creating Markets, Creating Opportunities

JULY 2021