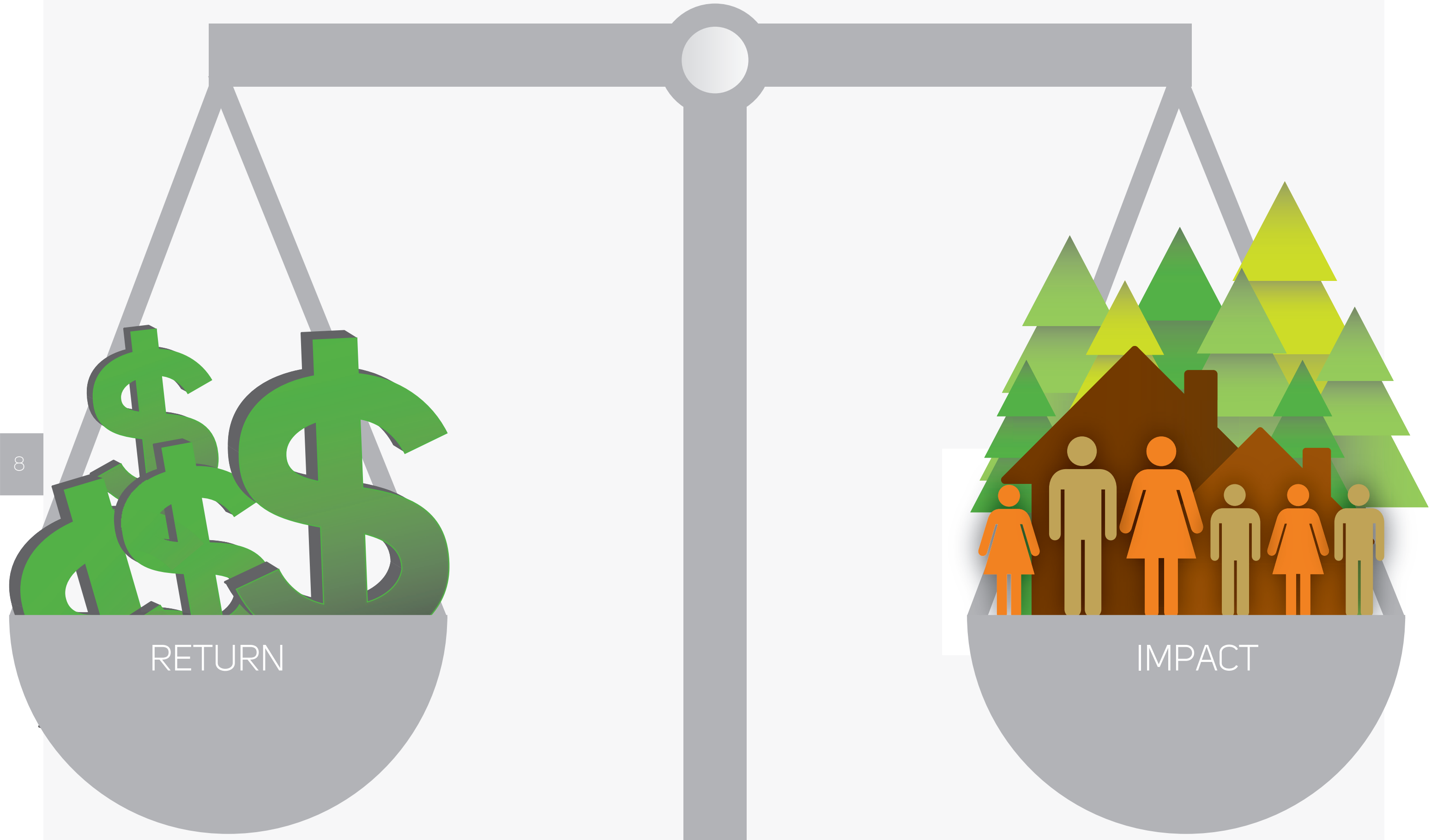
Impact Investing

Challenges and Opportunities To Scale



Impact investing goes beyond traditional socially responsible investing to seek out direct investments with high social or environmental impact.

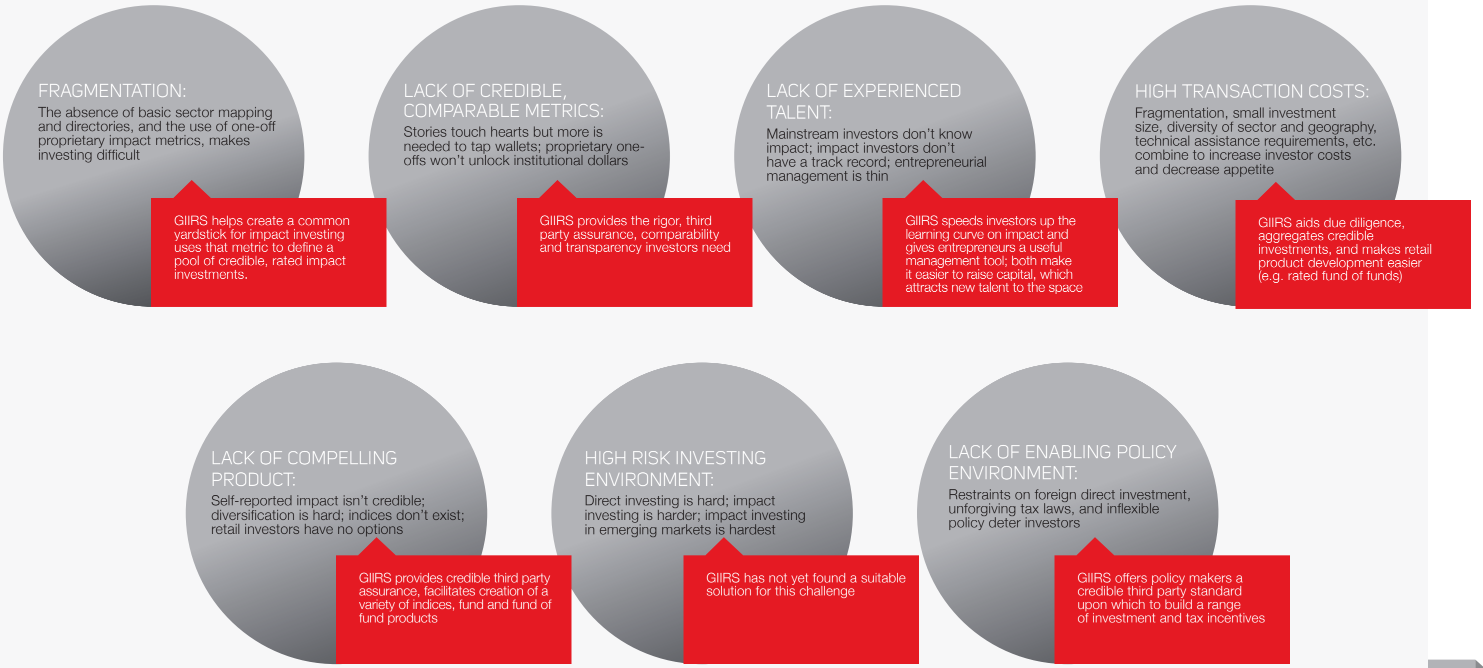
A November 2010 report by JPMorgan and the Rockefeller Foundation, titled “Impact Investments: An emerging asset class,” estimates the size of this market opportunity at between $400 billion and $1 trillion. And this only included investment opportunities in emerging markets across five sectors: housing, rural water delivery, maternal health, primary education, and financial services. JPMorgan estimates the 10-year profit potential from these opportunities alone ranged between $183 billion and $667 billion.

Coming at it from the demand side of the equation, and focused only on U.S. individual investors, a June 2010 “Money for Good” report from Hope Consulting estimates a demand for impact investments among U.S. high net worth individuals at $120 billion. Interestingly, according to Hope, half of this demand is from individuals aiming to invest smaller increments of less than $25,000. Clearly, there are many challenges in matching such diverse investor demand to market opportunities.

There is a significant opportunity to direct large sums of money to support the world’s leading social enterprises that address a broad spectrum of challenges, from poverty alleviation to environmental degradation. The key question is how will market players respond to the significant challenges which may prevent impact investing from reaching its potential?

As stated in the seminal 2009 Monitor Institute report “Investing for Social and Environmental Impact,” additional infrastructure, better intermediation, and more investable enterprises are required to attract the investors and capital to grow the asset

Impact Investing Challenges & GIIRS Response



class. Among other specific recommendations, the report cites the need to develop standardized metrics: "[a] basic rating system would help organize the market by making it possible to compare outcomes of investments. It would help protect the credibility and reputation of the field from conventional investments being promoted as impact investments."

Amit Bouri, director of the Global Impact Investing Network, agrees: "Many impact investors currently rely on anecdotal evidence that their investments have positive social and environmental impacts. Those who do collect performance data overwhelmingly use proprietary measurement systems, which limit the credibility of this data among the broader investment community."

Tools like GIIRS help the sector to scale. "Credible social ratings like GIIRS will be crucial to enable mainstream investors to convert their growing interest in impact investing into action," says Antony Bugg-Levine, managing director at the Rockefeller Foundation. "These investors do not have in-house capability to measure the social impact of investments and cannot afford to hire advisors to do this for them. GIIRS has the potential to provide them with an affordable solution that will give them the confidence to put their capital to work."

Other challenges exist as well. The Monitor Report shines a light on one of the less talked about challenges–the fact that many promising social enterprises are not ready for prime time. "There is a lack of readiness of social enterprises to absorb capital (proper governance, financials, social impact assessment) which is holding the sector back," explains Durreen Shahnaz, founder of IIX Asia, the Impact Investing Exchange based in Singapore. Many U.S. impact investors say similar things about the thin management talent among U.S. social enterprises and sustainable businesses.

Lastly, there is a need for more compelling product. Currently the sector is limited to institutional investors and high net worth individuals who know what they want. From retail investors looking to invest $500 toward poverty alleviation to a state pension fund manager seeking to deploy $5 million toward sustainable water infrastructure to a wealth advisor with clients who need the sector and geographic diversification of an impact-rated fund of funds, investors need diverse options that will earn a financial return and demonstrate social impact.

A summary of the challenges cited in the Monitor, Hope, and JPMorgan reports is provided in the above graphic. While a credible and widely-adopted impact rating system won't address all of these challenges, it is a necessary pre-condition to scaling this emerging asset class with integrity.

After all, two things seem obvious: first, impact investing isn't worthy of the name if we don't measure impact; and second, without comparability and transparency, impact investing won't scale.