executive summary

INVESTING FOR Social & Environmental IMPACT

A DESIGN FOR Catalyzing AN EMERGING INDUSTRY

created by

Monitor Institute

WHAT IS IMPACT INVESTING?

In New York City, a low-income mother is moving into an apartment built on land developed with a loan from the New York City Acquisition Fund. The Fund, created in 2004, aims to facilitate the construction of 10,000 units of affordable housing in a city with rapidly diminishing affordable housing stock. The Fund came together when private foundations made $32 million in low-interest, subordinated loans and a city-based charitable trust invested $8 million on similar terms, enabling commercial banks to raise and place more than $160 million of commercially priced debt into the fund.

In rural Tanzania, a student is reading at home by the light of an electric light bulb powered by a solar panel her mother bought on credit from a local distributor. The distribution business could reach her village because of an equity and working capital investment made by E+Co, a nonprofit mezzanine fund focused on making debt and equity investments in businesses that develop and sell modern energy services.

In Cambodia, a small business is expanding with debt from a microfinance bank. The bank is originating new loans after accessing commercial capital markets through a $110 million loan fund structured in 2007 by Blue Orchard, a Swiss microfinance-focused asset management company, and Morgan Stanley. The loan fund, rated by Standard & Poor's, was syndicated on commercial terms among institutional investors, such as pension funds, in Europe and the United Kingdom.

The New Yorker moving into her first home, the student in Tanzania studying under electric light, the small-business owner in Cambodia expanding her payroll—**none of these people would recognize one another as co-participants in the same emerging industry**. Neither, perhaps, would the commercial banker placing debt in the Acquisition Fund, the high-net-worth individuals investing in E+Co, or the German worker whose pension fund invested in microfinance through Blue Orchard.

Yet **these are all examples of the proliferation of activity occurring as a new industry of impact investing emerges**. This industry, which involves making investments that generate social and environmental value as well as financial return, has the potential to complement philanthropy and government intervention as a potent force for addressing global challenges at scale. **This document is intended to shed light on the industry's recent emergence and highlight the challenges it faces in achieving its promise.**

OVERVIEW

There are moments in history when the needs of an age prompt lasting, positive innovation in finance—from ideas as big as the invention of money, to the creation of new institutions such as banks and insurance firms, to the development of new products and services such as mortgages, pensions, and mutual funds. Evidence suggests that many thousands of people and institutions around the globe believe our era needs a new type of investing. They are already experimenting with it, and many of them continue even in the midst of a financial and credit crisis.

That's why the idea of **using profit-seeking investment to generate social and environmental good is moving from a periphery of activist investors to the core of mainstream financial institutions.**

These impact investors want to move beyond "socially responsible investment," which focuses primarily on avoiding investments in "harmful" companies or encouraging improved corporate practices related to the environment, social performance, or governance. Instead, **they *actively* seek to place capital in businesses and funds that can provide solutions at a scale that purely philanthropic interventions usually cannot reach.** This capital may be in a range of forms including equity, debt, working capital lines of credit, and loan guarantees. Examples in recent decades include many investments in microfinance, community development finance, and clean technology.

The pressing question is whether impact investing will remain a small, disorganized, underleveraged niche for years or even decades to come—or whether leaders will come together to fulfill the industry's clear promise, making this new domain a major complementary force for providing the capital, talent, and creativity needed to address pressing social and environmental challenges.

Our premise is that there is only one acceptable answer. It matters a great deal that more of our era's assets are used to address some of its most troubling challenges.

About This Report

The point of view expressed here was formed after extensive scouring of existing studies as well as a convening of 45 investors and intermediaries interested or engaged in investing for impact. It reflects more than 50 original interviews conducted with a range of investors—including private individuals, family offices, investment banks, institutional investors, foundations, and pension funds—about their experience with investing for impact, how they think it may evolve, and what will best accelerate its evolution. While no one can predict with certainty how the global economic markets will evolve, we also have sought through these dialogues to understand the potential implications of the financial crisis of 2008 on investing for impact.

Our findings are organized into four sections:

- A description of the emerging industry
- Hypotheses about how impact investing might evolve
- An approach for accelerating the growth and impact of this style of investing
- A call to action for building the industry

1 AN INDUSTRY EMERGES

Impact Investing:

Actively placing capital in businesses and funds that generate social and/or environmental good and at least return nominal principal to the investor

Impact investing is being propelled by a powerful set of opportunities that appear likely to continue or even strengthen despite the capital market shocks that began in 2007. **But there are also many existing challenges that stand between the promise and the reality for impact investors, and these will need to be tackled for the industry's development to accelerate.**

The global financial crisis has the potential to amplify some of these opportunities and challenges. In the short term and on the downside, it will likely dampen interest among potential investors not yet engaged, who may retreat to conservative investing. General mistrust of markets and market innovations as a result of the crisis could also constrain the development of investing for impact.

On the other hand, a macroeconomic slowdown may make impact investing more attractive for those already engaged—particularly those who are driven primarily by social and environmental impact—because it helps diversification and assets are relatively cheap after the market drop in 2008. Given how seriously the market has mispriced risk, the expectations of appropriate return for appropriate risk may be changing, and this may render impact investing more attractive (for example, if relative risks such as poor governance are lower). The lack of opportunities in traditional financial markets will likely increase the ability to recruit high-level talent into investing that has a purpose beyond making money. Moreover, there is tremendous potential upside if the inevitable government regulation that results ends up encouraging investment that takes into account other factors besides financial gain.

The net effect of the economic climate on investing for impact is impossible to predict. But what is certain is that most of the following opportunities will persist—and the following challenges will need to be surmounted.

OPPORTUNITIES

Growing interest among capital providers, with a growing set of ultra-wealthy investors seeking diversification and a different approach. Interest is also being spurred by the pull of growing emerging economies and more values-driven consumer behavior, as well as the push of current and expected regulatory incentives and mandates.

Greater recognition of the need for effective solutions to social and environmental challenges, with increasingly urgent threats and growing inequities.

A steadily developing track record with early successes in community development, microfinance, and clean tech attracting positive and extensive popular press and broader interest.

A flock of talent interested in careers in this space, creating a next generation of leaders.

CHALLENGES

Lack of efficient intermediation, with high search and transaction costs caused by fragmented demand and supply, complex deals, and a lack of understanding of risk. The compensation system for traditional intermediaries also impedes getting small deals done which may have less lucrative fees.

Lack of enabling infrastructure to help people identify and function as part of an industry since the market is structured around a history of bifurcation between philanthropy (for impact) and investment (for returns). Networks are underdeveloped, and a lack of reliable social metrics makes the suspected trade-off between financial and social returns even harder to assess.

Lack of sufficient absorptive capacity for capital, with an imminent lack of impact investing opportunities into which large amounts of capital can be placed at investors' required rates of return.

Our research indicates that as a result of this confluence of opportunities and challenges this emerging industry has reached a transitional moment in its evolution. It is poised to exit its initial phase of uncoordinated innovation and build the marketplace required for broad impact, as illustrated in the diagram of the prototypical phases of industry evolution.

Sectors within impact investing—such as microfinance and community development finance—have moved through these phases at different paces, sometimes with uncoordinated innovation emerging over decades and the marketplaces built in as much as a decade or so.

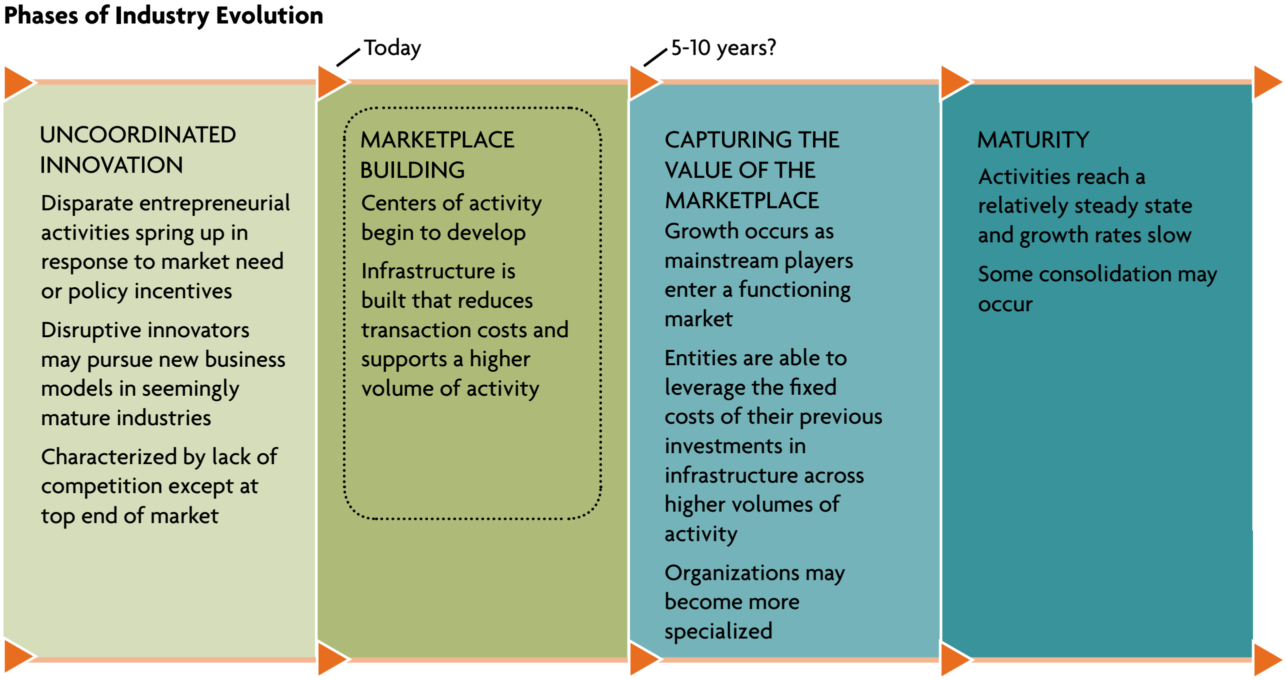
But recently it has become possible to start to see these sectors as parts of a broader impact investing industry, using the definition of "industry" applied by strategy guru Michael Porter: a "group of firms producing products that are close substitutes for each another." Increasingly, investors are looking for the best ways to achieve financial return and impact and are eager to source deals in diverse settings such as microfinance in rural India or community development in Los Angeles. At the same time, intermediaries initially developed to serve a specific sector are proving valuable platforms across multiple impact investing sectors. Actors who once saw themselves as engaging in different businesses are discovering that they are part of a broader emerging industry that is filled with uncoordinated innovation.

With coordinated effort and sufficient investment in infrastructure, investing for impact could move out of the phase of uncoordinated innovation and build the marketplace required for impact at scale—potentially during the next five to 10 years.

Over the next 5-10 years, impact investing could grow to represent about 1 percent of estimated current assets under management—about $500 billion.

A Critical Transition Point for Impact Investing: Building a Marketplace

Phases of Industry Evolution



2 THE FUTURE OF IMPACT INVESTING

How this transition is traversed—and how quickly—will determine the size and ultimate impact this new domain of investing can and will have. **The question for today is whether the bar will be set high enough—whether pioneering leaders will provide the talent, discipline, and resources that will be needed to create a coherent marketplace with high standards for impact.**

The growing, global cadre of leaders who are committing themselves and their institutions to this new style of investing have one belief in common: they insist that some level of financial return and social or environmental impact can be achieved together. Beneath this shared conviction, however, many differences must be confronted.

We know that the future scale and value of impact investing will be threatened if any of the following risks materializes:

- The risk that investing for impact will ultimately be **too hard**. Current challenges could become persistent obstacles and insufficient compensation for risk may result in lack of interest in impact investing. The will to overcome the typical challenges facing a messy, new industry could disappear if investors simply give up too soon.
- The risk that investing for impact will ultimately be **too easy**. Here, the definition of social and environmental impact would turn out to be so loose and diluted as to be virtually meaningless. At best, this outcome would turn this type of investing into a "feel good" rather than a "do good" exercise. At worst, it would actually divert capital away from philanthropy, decreasing the amount of resource dedicated to confronting serious societal challenges. The hype about using markets to do good may create a bubble—especially if there is a significant gap between expectations for financial and social returns and actual performance, which may happen if the concept is sold ahead of demonstrated social impact and/or economically viable deal flow. Poor thinking and sloppy execution might lead to returns that are substantially below expectations.
- The risk that the industry becomes **collateral damage** in the global economic slowdown that took hold during 2008. This crisis could be long and deep, and/or lead to dramatic changes in industry structure and regulation that constrain investors' appetite for the new style of investing. There is a version of this downside view that simply delays the emergence of the industry until the next economic cycle. There is also a trajectory of the financial industry problems in which all the bets on when this type of investing could emerge are called off. (At the same time, if the worst happens, much else will change as well, including regulatory changes that could actually fuel investing for social and environmental impact.)

To surmount these risks, a growing global cadre of leaders will need to **confront the paradox that investing for impact is both one thing and many things.** On the one hand, this

Impact investors can be broadly classified into two groups based on their primary objective:

- **Impact first investors, who seek to optimize social or environmental impact with a floor for financial returns.** These investors primarily aim to generate social or environmental good, and are often willing to give up some financial return if they have to. Impact first investors are typically experimenting with diversifying their social change approach, seeking to harness market mechanisms to create impact.
- **Financial first investors, who seek to optimize financial returns with a floor for social or environmental impact.** They are typically commercial investors who seek out subsectors that offer market-rate returns while achieving some social or environmental good. They may do this by integrating social and environmental value drivers into investment decisions, by looking for outsized returns in a way that leads them to create some social value (e.g., clean technology), or in response to regulations or tax policy (e.g., the Green Funds Scheme in the Netherlands or affordable housing in the U.S.).

transition requires leaders to build the collective will that can only come from seeing this emerging industry as a whole, with a common belief that some level of financial return and social/environmental impact can be achieved together.

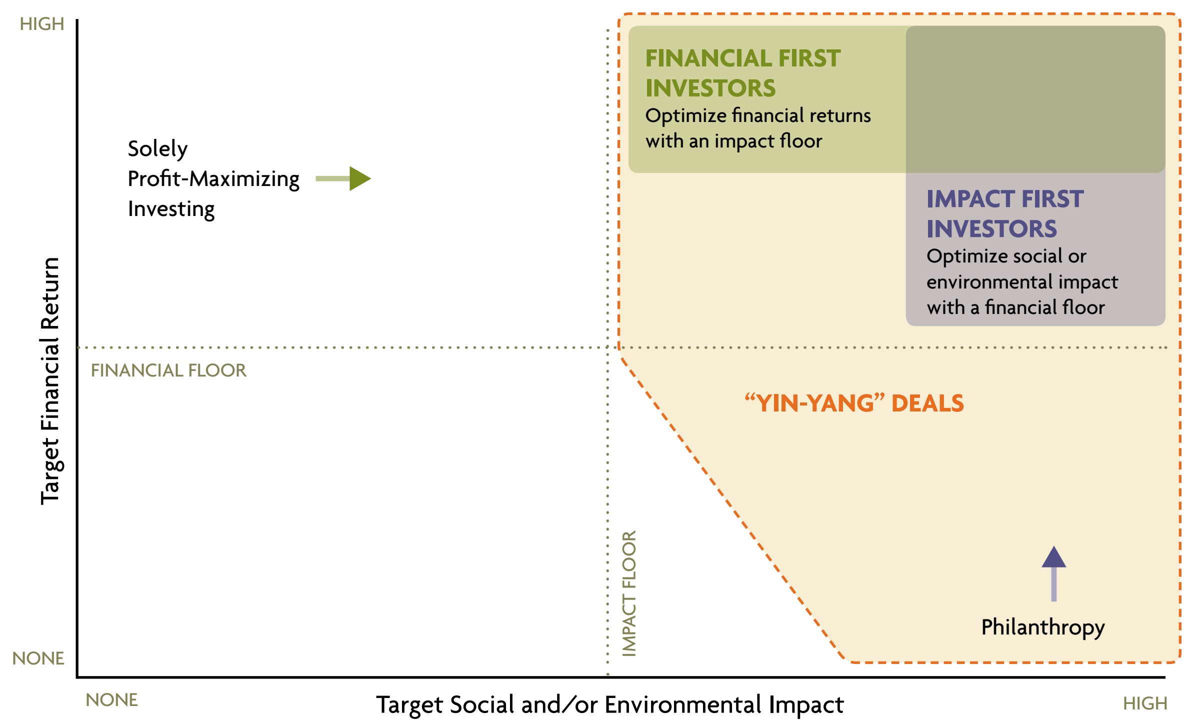
On the other hand, the promise of impact investing also requires us to understand the different reasons people engage in impact investing. The marketplace map below takes as its starting place that people really do tend to begin from either impact or financial returns first; they are trained differently, speak different "languages," and are willing to make different sorts of tradeoffs.

Sometimes impact first and financial first investors work together in what we call **"yin-yang" deals—that is, deals that combine capital from impact first and financial first investors and sometimes add in philanthropy as well**. This name is derived from the term in Chinese philosophy describing two elements that are different and yet complementary when put together. Yin-yang deal structures can enable deals that could not happen without the blending of types of capital with different requirements and motivations.

Today, organizing these types of deals efficiently is difficult, requiring unfamiliar institutions and individuals to work together by overcoming the distrust typically felt between, for example, private foundations and investment bankers. In the future, this yin-yang approach could develop—out of necessity and synergy—with a blending of the two types of capital and philanthropy through seamless networks into sophisticated investment structures that create the highest leverage of social and financial return. Increasing the scale and regularity with which these deals occur will require mechanisms for capturing learning and institutionalizing relationships, so that the effort put into creating one syndicate or deal structure can enable the next one, five, or 10 similar deals to be executed more seamlessly. More yin-yang deals may result from the successful development of impact and financial first investor markets.

Although each of these three segments—impact first, financial first, and yin yang—has inherent risks and limitations, each can grow and succeed at scale over the next decade. In the challenging economic climate post the 2008 market meltdown, impact first investors may be most likely to stay committed to this type of investing and seize the existing opportunities. Mobilizing the substantial capital of financial first investors will require developing deal structures that give those investors confidence in the likely financial return. But over time any combination of these segments could lead to the fulfillment of the promise of impact investing.

Segments of Impact Investors



3 AN APPROACH FOR ACCELERATING PROGRESS

There is no substitute for the hard work of making investments and doing what it takes to ensure that they succeed. Without that, nothing else matters. But the emerging impact investing industry could remain stuck for a long time in the first phase of its evolution—uncoordinated innovation—unless concrete actions are taken to build a more coherent marketplace. That's the only way to remove barriers and mitigate risks across the potential trajectories, both for individual segments and for the industry as a whole.

What concrete actions are needed? There is a classic chicken-and-egg problem of balancing the tension between pumping up supply versus pumping up demand. Although we believe an initial focus on improved intermediation will be important, ultimately both improved supply and demand will be required. Investors, entrepreneurs, and philanthropists all have an important part to play in providing the leadership, capital, and collaboration necessary for success in this next phase.

Detailed descriptions of all the initiatives to build a marketplace for impact investing—including examples of where these activities are already getting traction—are included in the complete report.

Three Platforms for Marketplace Building

Increasing the amount of money and the social and environmental value of impact investing will require unlocking capital by developing efficient intermediation and **by developing infrastructure to facilitate transactions.** These actions will be as essential to securing the promise of this industry as they were for venture capital. As Sir Ronald Cohen, a venture capital pioneer in the U.K., notes, "It is true in the case of social investment as it has proved to be in that of venture capital and private equity that the supply of money creates its own demand and an increased flow of capital is therefore the starting point."

Still, this simple parallel, while persuasive, is insufficient when it comes to the challenges facing entrepreneurs building businesses for impact, especially in developing countries. It takes time to develop proven, large, investable opportunities. **So action will also be required to address the imminent barrier of insufficient absorptive capacity for investment capital by supporting the development of scalable, backable business models.**

We have identified a diverse and interrelated set of initiatives, all of which are within the marketplace-building stage of industry development. They are grouped into three platforms based on the challenges constraining impact investing:

- **Unlock Latent Supply of Capital by Building Efficient Intermediation**—Enable more investing for impact by building the investment banks, clubs, funds, and products needed to facilitate existing interest.
- **Build Enabling Infrastructure for the Industry**—Build the ecosystem for impact investing, including common metrics, language, and an impact investing network that can serve as a platform for collective action such as lobbying for policy change.
- **Develop the Absorptive Capacity for Investment Capital**—Develop investment opportunities and ensure high-quality deal flow by cultivating talented entrepreneurs and supporting the enabling environment for private sector innovation and success in regions and sectors where investment can create impact.

Key Initiatives to Build a Marketplace for Impact Investing

UNCOORDINATED INNOVATION	MARKETPLACE BUILDING	CAPTURING THE VALUE OF THE MARKETPLACE	MATURITY

Challenge:	LACK OF EFFICIENT INTERMEDIATION	LACK OF ENABLING INFRASTRUCTURE	LACK OF SUFFICIENT ABSORPTIVE CAPACITY
Platform:	Unlock Latent Supply of Capital by Building Efficient INTERMEDIATION	Build Enabling INFRASTRUCTURE for the Industry	Develop the ABSORPTIVE CAPACITY for Investment Capital
Initiatives:	A. Create industry-defining funds that can serve as beacons for how to address social or environmental issues B. Place substantial, risk-taking capital into catalytic finance structures C. Launch and grow dedicated impact investment banking capabilities D. “Pull” existing intermediaries into impact investing by making business commitments E. Create investment clubs focused on specific themes F. Support the development of backable fund managers G. Create financial products to increase accessibility	H. Set industry standards for social measurement I. Lobby for specific policy/regulatory change J. Develop an impact investing network to accelerate the industry K. Develop risk assessment tools L. Coordinate development of a common language platform M. Create publicly available comprehensive benchmarking data N. Integrate social and environmental factors into economic and finance theory O. Launch a targeted public relations campaign to promote demonstrated successes	P. Support effective and scalable management capacity development approaches for entrepreneurs Q. Provide tools to support research and development for innovative, scalable models

Combining Priority Initiatives to Catalyze Progress

Of the many important initiatives above, we highlight the five that we believe together have the greatest potential to catalyze the industry’s development:

UNLOCK LATENT SUPPLY OF CAPITAL BY BUILDING INTERMEDIATION

- **Create industry-defining funds that can serve as beacons for how to address specific social or environmental issues.** These large funds would uncover and aggregate outstanding investment opportunities that can serve as powerful examples of how major social or environmental issues can be addressed. They can serve as beacons and attract a wave of additional investors and ideas, much as the Apple initial public offering catalyzed the venture capital industry. At the same time, these funds could stimulate the market’s development by attracting talented entrepreneurs to launch businesses and intermediaries while consolidating capital and reducing transaction costs associated with fragmented supply. The funds could also create platforms to seed and build the capacity of new fund managers and to roll out impact metrics or standards in ways that reinforce the funds’ financial objectives.
  - *For example:* A collection of investors commit $1 billion to an impact investing fund, which attracts fund managers, service providers, and entrepreneurs to the field. This could kick off a virtuous cycle as it becomes easier for additional investors to engage in impact investing, which in turn attracts more entrepreneurs and creates more business for intermediaries.

Five Priority Initiatives

The five priority initiatives to catalyze impact investing are:

- Create industry-defining funds that can serve as beacons for how to address specific social or environmental issues
- Place substantial, risk-taking capital into catalytic finance structures
- Set industry standards for social measurement
- Lobby for specific policy/regulatory change
- Develop an impact investing network

- **Place substantial, risk-taking capital into catalytic finance structures.** Funding creative models at sufficient scale is likely to require some yin-yang deals that combine impact first and financial first capital. Without some catalytic, risk-taking funding from impact first investors, the deals may not provide sufficiently attractive returns for commercial investors; without commercial investors, it may be more challenging to invest the volume of funds required to make a difference. As David Zellner of the Chicago-based General Board of Pensions and Health Benefits explains, "The General Board will only lend funds for social impact investments at market rates. We are often presented with investment opportunities that require below-market funds for them to be viable. However, many projects are unable to secure soft money commitments. Hence, we are unable to participate in these types of projects." Unfortunately, these unusual mezzanine structures are likely to meet increased skepticism from investors because of the complicated structures that have contributed to the financial crisis. But someone needs to go first. Impact first investors are most likely to act if it will ultimately produce substantial social or environmental benefits.
  - *For example:* Create a concessionary capital fund that can nimbly match its funds with more commercially oriented capital. The fund might focus on providing secondary financing to allow primary investors to exit while leveraging their expertise in deal sourcing.

BUILD ENABLING INFRASTRUCTURE FOR THE INDUSTRY

- **Set industry standards for social measurement.** Developing metrics will be an essential way to draw attention to the results of an effective model developed by a fund or funds. Proof of impact is going to get a lot of people excited about investing for impact—because it will demonstrate that better, larger, different, more sustainable social impact is achievable. As a portfolio manager at a major U.S. pension fund explains: "Measurement of 'ancillary' benefits is going to be an ongoing issue in impact investment. The industry needs to capture and demonstrate these benefits in order to attract more capital."
  - *For example:* Two sets of initiatives would help achieve this goal: developing rigorous metrics and a standard-setting body to implement them. For impact first investors, the most important priority is to develop rigorous metrics for assessing the relative social and environmental impact of investments and portfolios within and across the sectors and geographies that matter to them. This would allow them to assess the results from investments that may be below market rate. Understanding this potential tradeoff will be especially important to institutional investors. An additional step would be to establish a standard-setting body that would help create a threshold for what would be considered an impact investment. A basic rating system would help organize the market by making it possible to compare outcomes of investments. It would also help protect the credibility and reputation of the field from conventional investments being promoted as impact investments. There is much to be learned from the standards-setting activities in socially responsible investing, including the framework of the Global Reporting Initiative and the Ceres Principles.
- **Lobby for specific policy/regulatory change.** Policy change has been a common ingredient in the evolution of many other industries, including venture capital and private equity, and will be an important way to create incentives to draw an even broader range of investors to engage in investing for impact. As Kyle Johnson, an investment

advisor at Boston-based Cambridge Associates, describes, "I cannot underline how important the policy piece is in driving change. . . . When market behaviors are not aligned with positive social and environmental outcomes, a key question to ask is 'Why?' If the answer is that there is some form of coercion present in the market, such as the externalization of social or environmental costs, then working to change public policies to help realign market incentive structures is a really important approach to consider." Substantive change often begins in a crisis, and the financial crisis may create just such an historic opportunity. Sweeping legislation is coming in the form of fiscal stimulus and financial oversight. It can be done well or poorly, in ways that encourage investing for impact or discourage it.

  - *For example:* Policy mechanisms could include anything from a reduced capital gains tax on impact investing products to scrutiny and clarification of the meaning of "fiduciary duty" or the development of a fund to catalyze impact investments similar to the Community Reinvestment Act, but for a broader set of social and environmental issues. Governments could also leverage their role as large-scale purchasers by providing anchor demand for promising enterprises, enabling them to prove and scale their business models.

- **Develop an impact investing network.** For these initiatives to come to fruition, the creation of a network for the industry will be essential to developing the relationships, tools, infrastructure, and advocacy required. The network can enable impact investors to share experiences, pursue investment opportunities, and forge partnerships, and can serve as a source of information for organizations committed to field building. The network would be particularly valuable for deals that mix impact first and financial first investors.

  - *For example:* Investors build a global network for the impact investing field that serves as a hub for collaboration and a platform for setting clear definitions and standards. Investors develop relationships for sharing information, co-investing, and engaging in new projects. The network also provides the community with a common voice in policy advocacy efforts.

Depending on the specific geography and sector, success will require some combination of these five high-priority initiatives as well as the other initiatives listed on page 7—and undoubtedly others as well. Some actions will come to fruition quickly and help alleviate constraints in the marketplace, while others will lay the groundwork for the future structural shifts needed to broaden the market and transform the ecosystem to support a new kind of investing.

Together, these actions can help guard against the risk that investing for impact might become too easy—enabling rigor, discipline, and high standards by creating, for example, metrics that define what qualifies as impact investing. They can also help address the risk that this new style of investing stalls because it remains too hard—by building the necessary intermediation that can help avoid hype and sloppy execution.

As the industry emerges, what to call it will need to be reckoned with. The term "impact investing" was coined by a group of investors gathered by the Rockefeller Foundation in 2007.

A Tower of Babel: Terms Currently Used

- Socially Responsible Investing
- Social Investing
- Mission-Driven Investing
- Sustainable and Responsible Investing
- Blended Value
- Values-Based Investing
- Mission-Related Investing
- Ethical Investing
- Responsible Investing
- Impact Investing
- Program Related Investing
- Triple-Bottom Line
- Environmental, Social, and Governance Screening

What's Required for Success: Leadership, Coordination, and Capitalization

Taken together, these initiatives have the potential to help build the marketplace and ensure the promise of impact investing. But **the initiatives outlined will only become a reality if leaders—investors, entrepreneurs, and philanthropists—emerge to advance them.** As Chris Foy of Sainsbury Family Investments explains, "Impact investors need a collective, legitimate voice to advocate for this type of investing and recruit other investors to orient themselves toward impact. It is also important to have pathfinders who demonstrate the viability of this approach so other investors understand its potential."

A group of investors is starting the Global Impact Investing Network for leaders to work collectively toward the maturation of the industry.

Actions need to be taken to build the marketplace as a whole, seeing investing for impact as one industry with a common value chain and clear, shared challenges, regardless of geography or sector. At the same time, actions also need to focus on enabling the distinct segments of impact first, financial first, and yin-yang investors to develop successfully in their different regions and sectors.

Leaders who understand what is at stake will need to consider how others can leverage the time and effort they have put in. These pioneers will come from many places, do different things, and use different types of capital; they will include large-scale family offices, institutional investors, pension funds, investment banks, wealth managers, and private foundations. **These leaders have an opportunity to take a more active role in driving the evolution of investing for impact, as they can steer billions of dollars of capital, support collective action, command the authority to set standards, and back new businesses and funds that can fill in the gaps in the impact investing ecosystem.** And those who are just getting started will need to look to the leaders who have figured it out to see what can be learned from their experience so they don't reinvent the wheel.

These initiatives will also need to be well executed with a range of coordination and capitalization.

- **Coordination**—Many of the initiatives we outline will require a significant level of coordination or collaboration. Success will require a flexible philosophy because collaboration may require a bit of compromise. It will not be possible to build a market if everything investors want is idiosyncratic and they all insist on getting exactly what they want.
- **Capitalization**—Success will require people who will put their money into impact investments as well as people and institutions who will help capitalize the industry through intermediary and infrastructure development.

The table that follows maps the initiatives based on the minimum amount of coordination and capitalization required for them to be effective broadly. In the lower left-hand corner are immediate entrepreneurial opportunities that require less coordination and can be funded through short-term profit or medium-term development funding. In the upper right-hand corner are initiatives that require both subsidy and industry level coordination—notably, this is where three of the five high priority initiatives fall. This mapping can help actors consider what action they want to lead or participate in. For example, philanthropy may

Leadership Needed to Enact Initiatives

What type of CAPITALIZATION is required? / What level of COORDINATION is required?

	Operating alone	Small groups of individuals or institutions	Industry level coordination
Subsidy (philanthropy, government, corporate social responsibility)	N. Integrate social and environmental factors into economic and finance theory P. Support effective and scalable management capacity development approaches for entrepreneurs	F. Support the development of backable fund managers	**H. Set industry standards for social measurement** **I. Lobby for specific policy/regulatory change** **J. Develop an impact investing network** L. Coordinate development of a common language platform O. Launch a targeted public relations campaign to promote demonstrated successes
Medium-term development funding	C. Launch and grow dedicated impact investment banking capabilities K. Develop risk assessment tools	E. Create investment clubs focused on specific themes Q. Provide tools to support research and development for innovative, scalable models	M. Create publicly available comprehensive benchmarking data
Short-term profit	G. Create financial products to increase accessibility	**A. Create industry-defining funds that can serve as beacons for how to address social or environmental issues** **B. Place substantial, risk-taking capital into catalytic finance structures** D. "Pull" existing intermediaries into impact investing by making business commitments	

Note: Bold indicates a priority initiative.

have a particularly important role to play in the upper right-hand corner, building some of the infrastructure that will require a high degree of subsidy and coordination.

As this table indicates and the history of other industries teaches, **potential leaders will need to do more than just their day jobs in order to overcome current challenges and mitigate future risks.** Many entrepreneurial efforts operating in parallel, without some coordination, run the risk of re-creating the very problems of fragmentation, duplication, and underleverage that they are attempting to solve. Value could be left on the table, with a greater likelihood that the industry will succumb to the challenges and risks we have outlined.

Investors, entrepreneurs, and philanthropists therefore all have an important part to play in providing the leadership, capital, and collaboration needed to catalyze investing for impact. The industry will need stewards to marshal the collective action required to develop public goods infrastructure and to support those initiatives that may require coordination and at least an initial subsidy.

4 WHAT'S AT STAKE: A CALL TO ACTION

A vision of what impact investing could look like as a mature industry—and some potential paths to the future—are described in the complete report.

Building an industry is challenging in any context, much less in an economic climate that has evoked comparison to the Great Depression. Nevertheless, we are optimistic that some investors will keep insisting that their money be used to create social and environmental impact. The crisis in the financial markets could slow these investors down, or it could speed them up—depending on how governments and intermediaries respond. But it won't stop them. The visible need is too great, as is the impatience with the models of the past that forced those with money to choose only between looking after others (philanthropy) or looking after themselves (investing to grow capital).

Our research has led us to conclude that the best way to guard against these risks is to be explicit about them and then to take action to build the infrastructure and practices that can enable rigor, discipline, and high standards. Investors, entrepreneurs, and philanthropists all have an important part to play in providing the leadership, capital, and coordination needed to seize today's opportunities. Through effective execution of the strategies in this report, the groundwork of intermediation and infrastructure could be laid to mitigate the risks that impact investing becomes too hard or too easy. If all this happens soon, within the next five to 10 years, the industry could start to be recognized as a coherent whole, beyond the important geographical and sectoral segments that are its components.

Because this new style of investing is diverse and in a nascent stage of development, there is no way to tell exactly how big it really is, let alone how big it could become. But given the size of today's existing screened social investments, it's certainly plausible that in the next five to 10 years investing for impact could grow to represent 1 percent of global assets under management in 2008. That would create a market of about $500 billion. Such scale would create an important supplement to philanthropy, nearly doubling the amount given away in the U.S. alone today (global figures are not available).

Even if this future comes to pass, and investing for impact achieves its full potential, it will not become a substitute for philanthropy or government, nor should it be seen as one. Rather, the market will become ever more sophisticated and precise about which funding vehicle best suits which problem. Success will mean creating a meaningful and viable alternative and complement to existing approaches.

Investing for impact can have a powerful new role in the world. With commitment and rigorous action the perils of this moment can be avoided and the industry's promise can be realized, applying the wealth of our era to address some of our most troubling social and environmental challenges.

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CREDITS AND SOURCES

While Monitor Institute bears full responsibility for the conclusions stated here, no single individual or institution can take credit for the ideas in this document, including its lead authors. The ideas and arguments contained here build on many years of pioneering work by many people. And they are the product of many months of labor by a wide range of people and institutions.

Chief among them are Antony Bugg-Levine and the Rockefeller Foundation, where he is a managing director. Antony was the driving force behind the effort to create this strategy, and Rockefeller provided not only lead financial support but also countless hours of intensive involvement by many of its staff and leaders. John Goldstein of Imprint Capital Advisors and Amit Bouri of Monitor Institute also played an instrumental role in shaping the findings.

We thank all those who made this effort possible. Detailed credits and sources are available in the complete report.

ABOUT MONITOR INSTITUTE

Monitor Institute is a social enterprise that is part consulting firm, part think tank, and part incubator of new approaches. Our mission is helping innovative leaders develop and achieve sustainable solutions to significant social and environmental problems. We believe that achieving these solutions requires bold leaders to integrate pioneering ideas, effective action, and efficient capital. And we believe that today's complex challenges call for leadership from all three sectors—business, government, and nonprofit.

The Institute was founded by and is fully integrated in the operations of Monitor Group. A global advisory and capital services firm, Monitor works with the world's leading corporations, governments, and nonprofits to drive growth in the areas that are most important to them. The Institute leverages and coordinates the Group's diverse resources in 22 offices around the world to fulfill our mission. For more information, see www.monitorinstitute.com and www.monitor.com.

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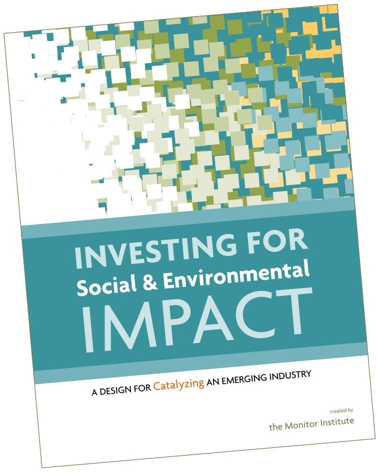

A Blueprint for Breakthrough: The Full Report

A growing group of investors around the world is seeking to make investments that generate social and environmental value as well as financial return. This emerging industry of impact investing has the potential to become a potent force for addressing global challenges. But how might it succeed or fail? Will its development take the next five to 10 years? 25 years? Or will it not happen at all? And what will it take for the industry to achieve its promise?

This executive summary provides an overview of impact investing and how leaders could accelerate its evolution and increase its ultimate impact in the world. For an electronic copy of the complete report—including a closer look at how impact investing might evolve, a blueprint of initiatives to catalyze the industry, and profiles of a wide range of impact investors—please see www.monitorinstitute.com/impactinvesting or www.globalimpactinvestingnetwork.org.

A Community in Formation:
GLOBAL IMPACT INVESTING NETWORK

The Global Impact Investing Network (GIIN) will be a platform for leaders of the impact investing industry to address many of the barriers to the industry's development identified in this report. The GIIN is forming as an independent, non-profit membership trade association of impact investors in 2009.

By bringing together the large-scale family offices, institutional investors, pension funds, investment banks, wealth managers, private foundations, and development finance institutions whose goals lie in the territory between philanthropy and the sole focus on profit-maximization, the GIIN aims to drive collectively toward the maturation of an industry that is currently inhibited by fragmentation. The GIIN seeks to add value to its members by publicizing prototypical impact investments, disseminating basic knowledge, developing industry infrastructure, and ultimately connecting impact investors across sectors and geographies through a variety of networking opportunities.

Please visit www.globalimpactinvestingnetwork.org or contact info@impactinvestingnetwork.org for more information on the Network.