Discovery Challenge: Impact Washing Is "The Norm, Not the Exception"

The Puzzle

- Impact washing: Claims unsupported by evidence
- "Norm rather than the exception" in impact investing
- ESG fund names up from 3% (2013) to 14% (2023)
- SDG funds don't differ from non-SDG peers in portfolio alignment
- Sep 2023: SEC Names Rule (80% threshold)
- But impact washing isn't illegal—no standards exist

Questions This Raises

- How can you verify impact claims?
- What's the difference between ESG and impact?
- Why don't SDG funds align with SDGs?
- Can fund names mislead investors?
- What standards should exist?
- How do you measure additionality?

[Discovery 1] This puzzle will be resolved by Goal 1—impact vs ESG definitions

Learning Goal 1

Understand Impact Investing Principles and Market

theoretical — Foundation - Distinguishes impact from ESG

What is Impact Investing?

GIIN Definition
Impact investments are investments made with the **intention** to generate positive, measurable social and environmental impact alongside a financial return.

Four Core Characteristics

1. **Intentionality**: Deliberate intent to create positive impact
2. **Evidence**: Use of data and evidence in design
3. **Impact management**: Active management toward impact
4. **Contribution**: Additionality to impact outcomes

Market Scale (2024)

- **$1.571 trillion** assets under management
- **3,907 organizations** globally
- **21% CAGR** since 2019
- **94%** meet or exceed expectations

Key Distinction
Unlike ESG integration (risk management), impact investing targets **specific outcomes** and measures **contribution** to change.

[Goal 1] GIIN Sizing the Impact Investing Market 2024 establishes definitive market sizing

The Impact Investing Spectrum

Social Mission

Impact First

Impact Investing vs ESG Integration

ESG Integration

- **Purpose**: Risk management and value protection
- **Focus**: Negative screening, risk mitigation
- **Measurement**: ESG ratings and scores
- **Returns**: Market-rate expected
- **Universe**: Public markets primarily
- **Additionality**: Not required

"Does this investment avoid harm?"

Impact Investing

- **Purpose**: Generate positive outcomes
- **Focus**: Positive impact creation
- **Measurement**: Impact metrics (IRIS+)
- **Returns**: Market to concessionary
- **Universe**: Private markets dominant
- **Additionality**: Core requirement

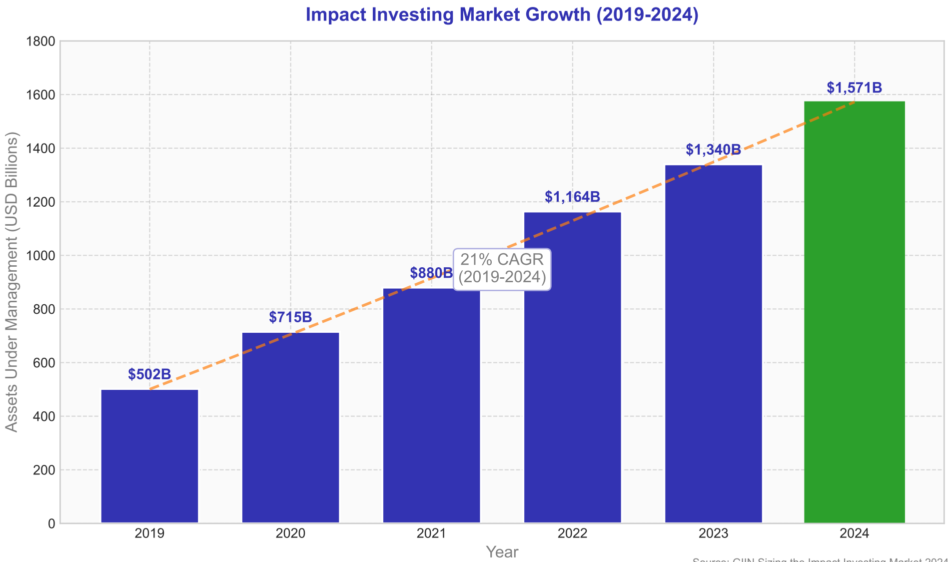
"Does this investment create good?"

Critical Difference: Impact investing requires intentionality and contribution, not just avoiding harm

---

[Goal 1] Understanding this distinction is essential for proper classification and reporting

Impact Investing Market Growth



Source: GIIN Sizing the Impact Investing Market 2024

Impact Investor Landscape

Investor Types by AUM

- **Pension funds & insurers**: 18% of organizations but 48% of AUM
- **Asset managers**: Largest number of organizations
- **DFIs/MDBs**: Catalytic role, smaller AUM share
- **Foundations**: Often first-loss positions
- **Family offices**: Growing segment

Portfolio Characteristics

- Average portfolio: **$986 million**
- Median portfolio: **$42 million**
- High variance indicates market maturation

Geographic Distribution

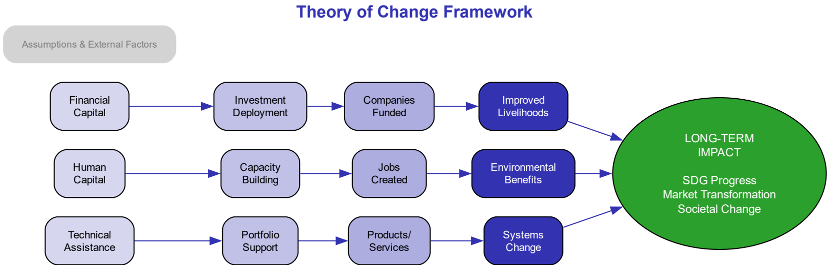
Developed markets dominate AUM, but emerging market focus is growing:

- North America: Largest concentration
- Europe: Strong regulatory support
- Asia-Pacific: Fastest growth region
- Latin America: Infrastructure focus
- Sub-Saharan Africa: Development finance

Asset Class Mix

- Private equity/VC: Dominant
- Private debt: Growing rapidly
- Real assets: Infrastructure, timber
- Public equity: Emerging

[Goal 1] Institutional investor entry signals market mainstreaming



[Goal 1] Theory of Change provides the logical model linking investment to long-term impact

Additionality and Contribution

What is Additionality?
The extent to which outcomes occur **because of** the investment that would not have occurred otherwise.

Types of Additionality

1. **Financial additionality**: Capital that would not otherwise be available
2. **Value additionality**: Non-financial support (TA, networks, governance)
3. **Policy additionality**: Demonstration effect for regulation
4. **Speed additionality**: Accelerating impact timeline

Attribution Challenges

- Counterfactual difficult to establish
- Multiple investors in same deal
- Systemic vs direct impact
- Time lag between investment and outcome

Measuring Contribution

- Depth: How much change per stakeholder?
- Scale: How many stakeholders reached?
- Duration: How long does impact last?
- Counterfactual: What would happen anyway?

[Goal 1] Additionality distinguishes impact investing from passive ESG exposure

Major Impact Investment Themes

Environmental Themes

- **Climate mitigation**: Renewable energy, efficiency
- **Climate adaptation**: Resilience, infrastructure
- **Sustainable land use**: Forestry, agriculture
- **Circular economy**: Waste, recycling
- **Biodiversity**: Conservation, restoration
- **Water**: Access, treatment, efficiency

Social Themes

- **Financial inclusion**: Access to credit, savings
- **Affordable housing**: Quality, accessible homes
- **Healthcare**: Access, quality, affordability
- **Education**: Access, quality, outcomes
- **Quality jobs**: Employment, fair wages
- **Food security**: Nutrition, access

Cross-cutting Themes: Gender lens investing, community development, just transition

SDG Financing Gap: The UN estimates a **$4.2 trillion annual gap** to achieve SDGs (up from $2.5T pre-COVID)

[Goal 1] Impact themes align with UN SDGs and major sustainability challenges

Learning Goal 1: Summary

What We Achieved

- ✓ Defined impact investing and its four core characteristics
- ✓ Distinguished impact from ESG and philanthropy
- ✓ Quantified market size ($1.571T AUM)
- ✓ Explained Theory of Change framework
- ✓ Introduced additionality concept

Can You Now...

- Explain the four characteristics of impact investing?
- Differentiate impact investing from ESG integration?
- Describe the impact investing spectrum?
- Define additionality and its importance?
- Identify major impact investment themes?

Next: Goal 2 - Apply Impact Measurement Frameworks

[Goal 1] Achieved - Foundation established for understanding impact investing market and principles

Discovery Challenge: When IRIS Metrics Don't Measure Impact

The Puzzle

- IRIS+ catalog: 400+ standardized metrics
- But: Outputs vs outcomes confusion
- Example: "Jobs created" (output) not "income increased" (outcome)
- No counterfactual: Would it happen anyway?
- Attribution problem: Your investment vs others?
- ESMA 2024: Greenwashing-related controversies increased (2020-2021)

Questions This Raises

- Are IRIS metrics measuring the right thing?
- How do you prove causality?
- What's the difference between output and outcome?
- Can you isolate your fund's contribution?
- Should impact metrics be audited?
- What about long-term vs short-term impact?

[Discovery 2] This puzzle will be resolved by Goal 2—impact measurement frameworks

Learning Goal 2

Apply Impact Measurement Frameworks

quantitative — Build - Develops measurement skills

Why Measure Impact?

Investor Motivations

1. **Accountability**: Demonstrate to stakeholders that capital creates intended outcomes
2. **Decision-making**: Allocate capital to highest-impact opportunities
3. **Improvement**: Identify what works and optimize interventions
4. **Reporting**: Meet fiduciary and regulatory requirements
5. **Credibility**: Avoid "impact washing" accusations

The Measurement Challenge

- Social outcomes often intangible
- Long time horizons for impact realization
- Attribution vs correlation difficulty
- Standardization across sectors challenging
- Cost of rigorous measurement

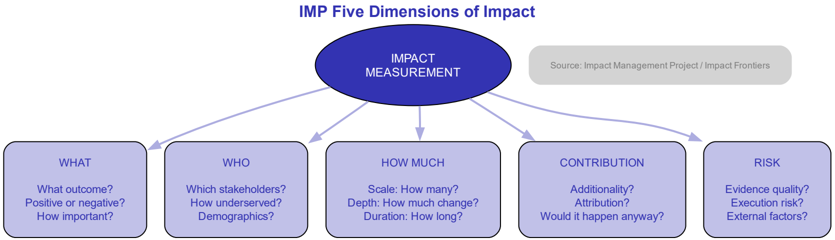
Industry Response

Standardized frameworks emerged to address:

- IRIS+ (GIIN) - Metrics system
- IMP Five Dimensions - Conceptual framework
- SDG alignment - Global goals mapping

[Goal 2] 94% of impact investors report meeting or exceeding impact expectations (GIIN 2024)

IMP Five Dimensions of Impact



[Goal 2] The five dimensions provide comprehensive framework for defining and measuring impact

Applying the Five Dimensions

WHAT - Outcome Focus

- What outcome does the investment contribute to?
- Is the outcome positive or negative?
- How important is this outcome to stakeholders?

WHO - Stakeholder Focus

- Which stakeholders experience the outcome?
- How underserved are they (geography, income)?
- What is their baseline situation?

HOW MUCH - Scale and Depth

- **Scale**: How many stakeholders affected?
- **Depth**: What degree of change?
- **Duration**: How long does change last?

CONTRIBUTION - Additionality

- What is the counterfactual?
- Would outcomes occur without investment?
- What is the investor's specific contribution?

RISK - Impact Risk

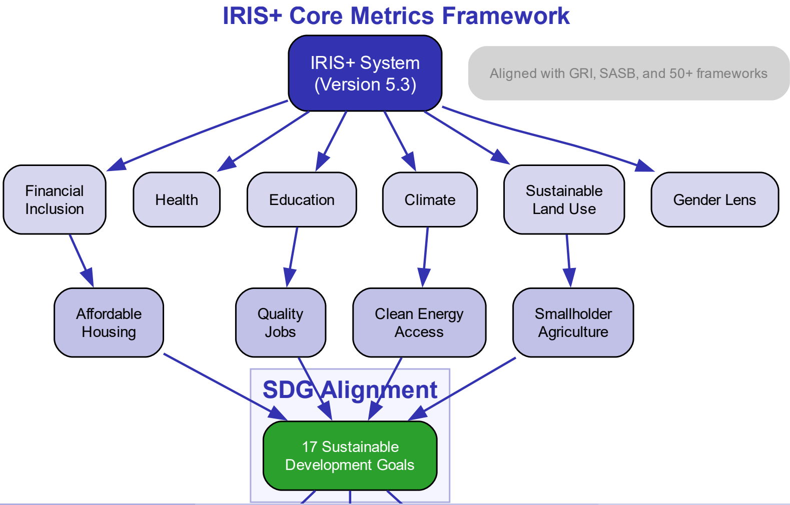
- What is the evidence quality?
- What are execution risks?
- What external factors could change outcomes?

Example Application

Solar home systems in rural Kenya:

- WHAT: Energy access, health, education
- WHO: 50,000 off-grid households
- HOW MUCH: 4+ hours daily light
- CONTRIBUTION: First-time access
- RISK: Payment default, maintenance

[Goal 2] IMP framework developed through consensus with 2,000+ organizations


IRIS+ Core Metrics Framework
IRIS+ System (Version 5.3)
Aligned with GRI, SASB, and 50+ frameworks
Financial Inclusion
Health
Education
Climate
Sustainable Land Use
Gender Lens
Affordable Housing
Quality Jobs
Clean Energy Access
Smallholder Agriculture
SDG Alignment
17 Sustainable Development Goals

IRIS+ Core Metrics Sets

What Are Core Metrics Sets?
Pre-defined collections of IRIS metrics designed for specific impact themes, providing:

- Standardized indicators for comparison
- Alignment with SDG targets
- Integration with IMP five dimensions
- Sector-specific guidance

Example: Clean Energy Access

1. Units sold/installed (output)
2. kWh generated (output)
3. Households reached (outcome)
4. CO2 avoided (outcome)
5. Income increase (outcome)

Key Impact Categories

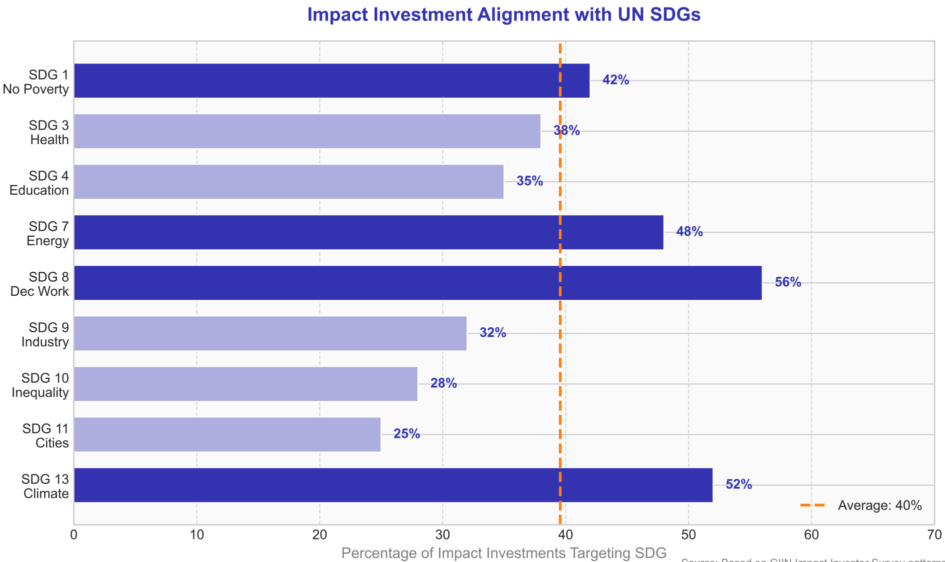
- **Financial Inclusion**: Access to credit, savings, insurance
- **Health**: Patient outcomes, access, quality
- **Education**: Enrollment, completion, skills
- **Climate**: Emissions, adaptation, resilience
- **Land Use**: Conservation, restoration, yield
- **Gender**: Women-owned, women-served

Version 5.3 (2024)

- 500+ standardized metrics
- Aligned with ISSB sustainability standards
- Enhanced SDG mapping
- Improved interoperability

[Goal 2] IRIS+ Version 5.3a released December 2024 with enhanced ISSB alignment

SDG Alignment in Impact Investing



Source: Based on GIIN Impact Investor Survey patterns

Social Return on Investment (SROI)

SROI Definition
A methodology to assign monetary values to social, environmental, and economic outcomes created by investments.

SROI Formula

$$\text{SROI} = \frac{\text{Social} + \text{Environmental} + \text{Economic Benefits}}{\text{Investment}}$$

Interpretation
A 4:1 SROI means every $1 invested generates $4 of social value.

Key SROI Concepts

- **Deadweight**: Outcomes that would occur anyway
- **Attribution**: Share of outcome due to investment
- **Displacement**: Shifting outcomes from elsewhere
- **Drop-off**: Declining impact over time
- **Discounting**: Present value of future benefits

Types of SROI

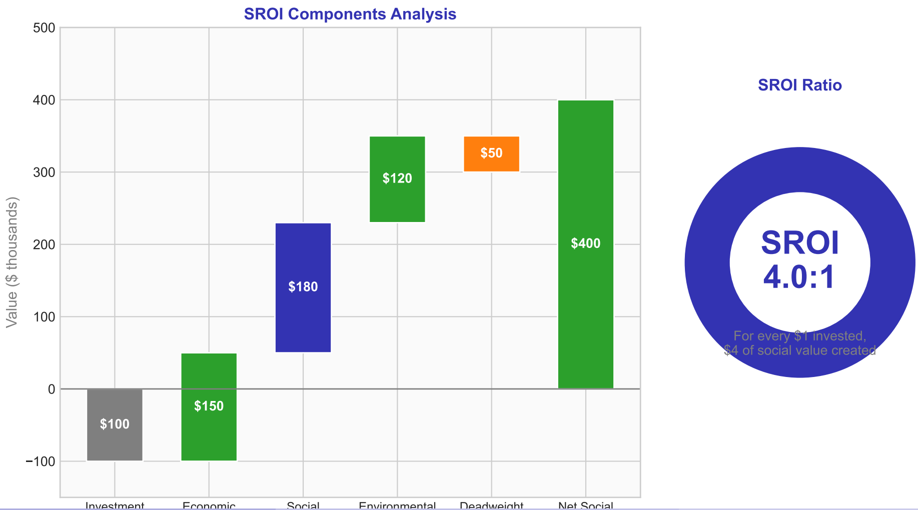
- **Forecast**: Ex-ante, planning stage
- **Evaluative**: Ex-post, actual outcomes

Principles of Social Value: Involve stakeholders, understand change, value what matters, only include what is material, avoid over-claiming, be transparent, verify the result

[Goal 2] SROI follows 8 Principles of Social Value from Social Value International

SROI Calculation Example

Social Return on Investment (SROI) Calculation Example



Learning Goal 2: Summary

What We Achieved

- ✓ Mastered IMP Five Dimensions framework
- ✓ Applied IRIS+ core metrics structure
- ✓ Mapped investments to UN SDGs
- ✓ Calculated SROI and understood limitations
- ✓ Understood deadweight and attribution

Can You Now...

- Apply the five dimensions to an investment?
- Select appropriate IRIS+ metrics for a theme?
- Calculate and interpret an SROI ratio?
- Explain deadweight and attribution concepts?
- Map investments to relevant SDG targets?

Next: Goal 3 - Structure Blended Finance and Natural Capital Investments

[Goal 2] Achieved - Measurement skills developed for IRIS+, IMP, SDG, and SROI frameworks

Discovery Challenge: Blended Finance's Subsidy or Additionality Problem

The Puzzle

- Blended finance: Catalytic capital to mobilize private investment
- But: DFIs may subsidize projects that would happen anyway
- Leverage ratios often low (1:1 to 3:1 vs 10:1 target)
- Some projects can't show how concessional capital was "additional"
- Risk: Crowding out purely commercial capital
- $30T needed for net zero—blended finance only small fraction

Questions This Raises

- How do you prove additionality?
- When is subsidy justified vs market distortion?
- What's an acceptable leverage ratio?
- How do you design first-loss structures?
- Can blended finance scale to climate needs?
- What's the role of DFIs vs commercial banks?

[Discovery 3] This puzzle will be resolved by Goal 3—blended finance structures

Learning Goal 3

Structure Blended Finance and Natural Capital Investments

applied — Apply - Develops structuring expertise

What is Blended Finance?

Definition (Convergence)
The use of catalytic capital from public or philanthropic sources to increase private sector investment in sustainable development.

Core Principle
Concessional capital absorbs risk to improve risk-return profiles for commercial investors.

2024 Market Data

- 123 deals closed in 2024
- $18 billion total financing
- 49% climate-related by count
- 62% climate-related by volume

Why Blended Finance?

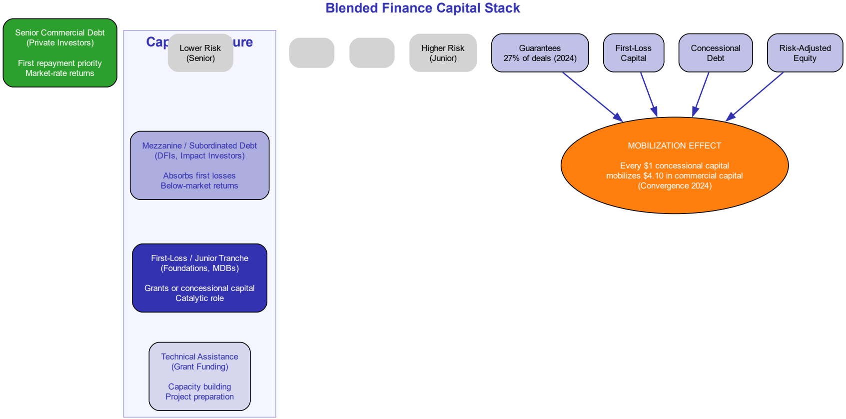
- Bridge the SDG financing gap ($4.2T/year)
- De-risk emerging market investments
- Demonstrate commercial viability
- Crowd in institutional capital
- Build track record for new sectors

Convergence Database
Historical market data:

- 1,350 transactions tracked
- $249 billion total investment
- Mobilization ratio: $4.10 per $1 concessional

[Goal 3] Convergence State of Blended Finance 2024/2025 provides definitive market data

Blended Finance Capital Stack



[Goal 3] Every $1 of concessional capital mobilizes $4.10 in commercial capital (Convergence 2024)

Blending Mechanisms and Archetypes

Primary Mechanisms

1. **Guarantees (27% of 2024 deals)**
   - Partial credit guarantees
   - First-loss coverage
   - Political risk insurance
2. **Concessional Debt (24%)**
   - Below-market interest rates
   - Longer tenors
   - Grace periods
3. **Technical Assistance (grants)**
   - Project preparation
   - Capacity building
   - Pipeline development

Instrument Evolution (2022-2024)
Shift toward risk-sharing:

- Grants: 41% → 10%
- Guarantees: 11% → 27%
- Senior debt: 19% → 24%

Key Players

- **MDBs**: World Bank, IFC, AfDB, ADB
- **DFIs**: CDC, FMO, DEG, Proparco
- **Foundations**: Rockefeller, Gates, MacArthur
- **Climate funds**: GCF, GEF, CIFs

Private Investors
Commercial banks, institutional investors, private equity seeking emerging market exposure.

[Goal 3] Instrument maturation reflects market sophistication and efficiency gains

Case Study: IFC Managed Co-Lending Portfolio Program

Program Overview
The IFC MCPP enables institutional investors to participate in IFC's loan portfolio through:

- Standardized co-lending agreements
- Portfolio-level diversification
- IFC due diligence and monitoring
- Emerging market infrastructure exposure

Structure

- IFC originates and manages loans
- Investors participate pari passu
- Portfolio approach reduces concentration
- IFC retains skin-in-the-game

Mobilization Impact

- $10+ billion mobilized from institutional investors
- Participants include Allianz, AXA, Liberty Mutual
- Geographic focus: Sub-Saharan Africa, South Asia
- Sectors: Infrastructure, financial inclusion, climate

Key Success Factors

1. Standardized documentation
2. IFC credit enhancement
3. Diversified portfolio approach
4. Strong track record
5. Alignment of interests

[Goal 3] MCPP demonstrates scalable model for mobilizing institutional capital to emerging markets

Natural Capital and Biodiversity Finance

The Biodiversity Financing Gap

- $700 billion annual gap for nature
- Current flows: $150 billion/year
- Required: $850 billion/year
- 80% of gap in developing countries

Why Nature Matters for Finance

- 55% of global GDP depends on nature
- $44 trillion at risk from nature loss
- Supply chains exposed to nature risk
- Regulatory pressure increasing (TNFD)

Natural Capital Finance Instruments

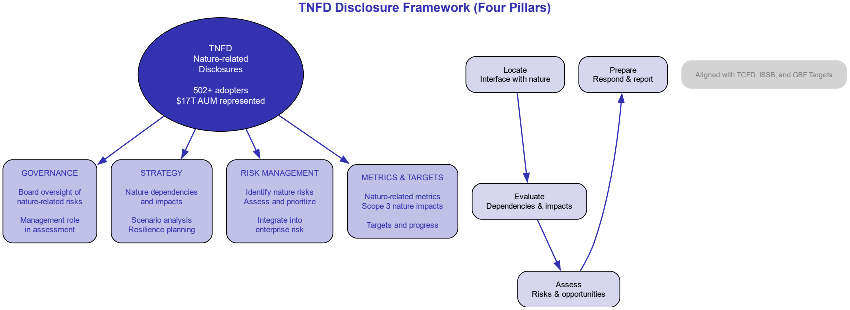
1. **Blue bonds**: Ocean/marine focus
2. **Debt-for-nature swaps**: Debt relief for conservation
3. **PES**: Payments for ecosystem services
4. **Conservation funds**: Protected area finance
5. **Biodiversity credits**: Emerging market
6. **Nature-based solutions**: Carbon + biodiversity

Kunming-Montreal GBF

2022 Global Biodiversity Framework sets:

- 30x30 target (30% protected by 2030)
- $200 billion annual finance target

[Goal 3] Financing nature requires blended approaches due to non-commercial nature of conservation



[Goal 3] 502 organizations committed to TNFD representing $17T AUM (October 2024)

Blue Bonds and Marine Conservation Finance

What Are Blue Bonds?
Debt instruments financing ocean-positive outcomes:

- Marine protected areas
- Sustainable fisheries
- Coastal resilience
- Blue economy development
- Water infrastructure

Seychelles Blue Bond (2018)
World's first sovereign blue bond:

- $15 million raised
- $5M World Bank guarantee
- $5M GEF concessional loan
- Funds: MPAs, fisheries governance
- Target: 15% EEZ protection

Market Growth

- 2018: $222 million cumulative
- 2024: $15.25 billion cumulative
- 68x growth in 6 years

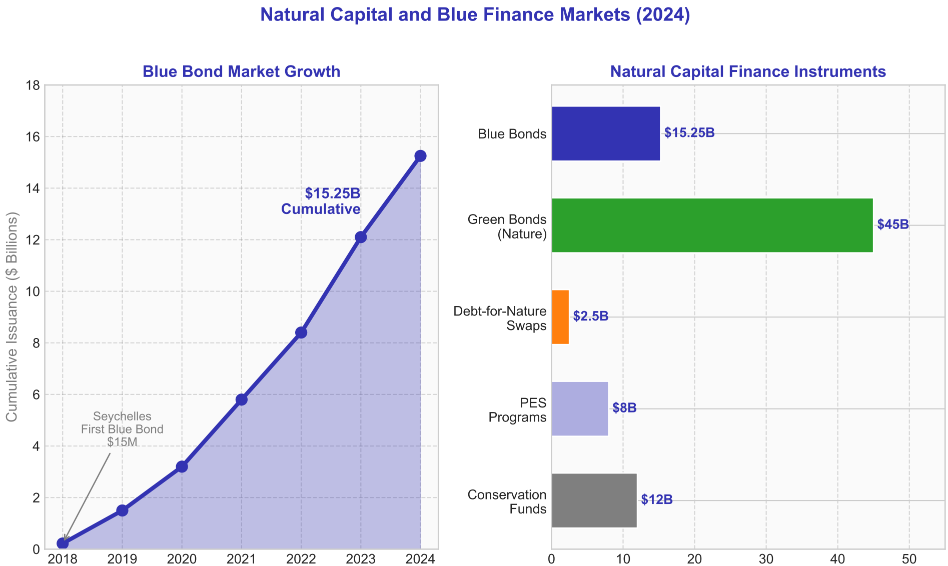
Recent Issuances (2024)

- SeABank (Vietnam): Aquaculture, fisheries
- Maynilad (Philippines): Water infrastructure
- ADB Blue Bond Incubator: Regional facility

Blending in Blue Finance

- Guarantees for first issuers
- TA for project preparation
- Concessional tranches for conservation

[Goal 3] Blue bonds combine environmental finance with emerging market development


Natural Capital and Blue Finance Markets (2024)
Blue Bond Market Growth
Cumulative Issuance ($ Billions)
0
2
4
6
8
10
12
14
16
18
2018
2019
2020
2021
2022
2023
2024
$15.25B
Cumulative
Seychelles
First Blue Bond
$15M
Natural Capital Finance Instruments
Blue Bonds
$15.25B
Green Bonds
(Nature)
$45B
Debt-for-Nature
Swaps
$2.5B
PES
Programs
$8B
Conservation
Funds
$12B
0
10
20
30
40
50

Learning Goal 3 and Week 7: Summary

Goal 3 Achievements

- ✓ Structured blended finance transactions
- ✓ Analyzed DFI mobilization mechanisms
- ✓ Applied TNFD disclosure framework
- ✓ Evaluated blue bond structures
- ✓ Assessed natural capital instruments

Week 7 Integration

Goals 1-3 form complete framework:

- Goal 1: Impact investing foundations
- Goal 2: Impact measurement tools
- Goal 3: Blended finance structuring

Can You Now...

- Design a blended finance capital stack?
- Explain guarantee and first-loss mechanisms?
- Apply TNFD's LEAP approach?
- Structure a blue bond transaction?
- Identify natural capital investment opportunities?

Key Takeaways

1. Impact requires intentionality and measurement
2. Five dimensions provide comprehensive framework
3. Blended finance mobilizes 4:1 private capital
4. Nature finance is nascent but critical

[Goal 3] Achieved - Week 7 complete: Impact investing, measurement, blended finance, natural capital