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**Global sponsor**  
![CaixaBank](image)

**Project sponsor**  
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Preface

Having rigorous, up-to-date data on the sector is essential to ensure the transparency and relevance of impact investment so that it may drive the impact economy in Spain and Europe. Through this study, SpainNAB and the Esade Center for Social Impact aim to shed light on impact investment practices and help this sector grow with integrity.

One year ago, we published the first snapshot of this market in Spain, in which we identified the different players and the characteristics of their strategies. In this second edition, we grew the database to support continued analysis of the supply of capital for impact investment in Spain and its evolution over time. Furthermore, we explain certain basic issues that are currently under discussion in the sector and will affect its future development.

The impact of this study already extends beyond our market and contributed to the launch, in March of this year, of the European consortium consisting of the Global Steering Group for Impact Investment (GSG) and several of its national advisory boards (NABs) and other academic partners, formed to provide an integrated snapshot of the state of impact investment in Europe. By working in coordination with the broad European ecosystem, we will be able to address EU institutions and national governments with a single, more powerful voice, with the goal of promoting transformative impact investment and championing measures to catalyze its growth.

We would like to express our thanks to all the entities that have taken part in our survey, the members of the Expert Committee that informed the study, and CaixaBank and the Anesvad Foundation, without whose support this study would not have been possible.

José Luis Ruiz de Munain
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In March this year, the EVPA impact investment community, the Global Steering Group for Impact Investment (GSG) and several of its national advisory boards (NABs) and other academic partners launched a consortium that aims to provide a clear, reliable image of the impact investment market in Europe. Although the concepts of “impact” and “sustainable” investment are increasingly widespread, they are still vague or intangible for many people. This effort will help make impact investment practices more transparent, a necessary step to help the sector grow and fulfill its potential to transform society.

The consortium brings together the main impact agents and is based on two years of discussion about how to standardize data collection strategies and methodologies. Its first venture was to launch the first European Impact Investment Survey, designed to collect and aggregate impact investment data exhaustively from all the parties involved, country by country throughout Europe in a consistent and comparable manner.

We would like to thank SpainNAB and the Esade Center for Social Impact, our partners in Spain, for their pioneering contribution to these efforts and for contributing to the process and development of the methodology. This is the first report to be published with data collected using the standardized survey.

We look forward to the next stage of this work in the second half of this year when the consortium will present its global findings at the European level. Meanwhile, the methodology can be used as a basis for national and regional estimates of market size by the national advisory boards of the GSG and organizations similar to the EVPA that operate in other parts of the world.

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Impact Investment in Spain in 2021

A. IMPACT INVESTMENT GROWS STRONGER IN SPAIN

The study covers different types of players, among which private impact funds (mainly venture capital), ethical and social banks, and foundations stand out. Impact funds have been crucial for the growth and recognition of impact investment in Spain and globally, and they have pioneered practices such as impact measurement and the use of impact metrics to calculate the financial returns of fund managers. These private impact funds account for €435.8m (18% of the total). In the last year, new vehicles have appeared and assets under management have grown by 33%, practically a five-fold increase of the figure three years earlier (€229.9m in 2018).

Amounting to €1,637.7 million (68% of the total), ethical and social banking continues to be the largest segment. Although it has a lower growth rate (10%) as a more mature sector, Foundations continue to play a prominent role with €229.9m (10% of the total). Other players include crowdfunding platforms and publicly owned funds. In aggregate, as of December 2021, Spain’s impact investment sector had consolidated at around €2.40 billion, which is 1% higher than the 2020 figure (€2.38bn), but represents a growth rate of 12% (from €2.13bn) on a like-for-like basis (accounting for the capital managed by the entities participating in the study for which data is available both years). These numbers reflect the sector’s good health in Spain, and its composition reveals the diversity of the players and strategies involved.

B. DIFFERENT WAYS TO CONTRIBUTE AS AN INVESTOR

The variety of contributions to impact made by investors is also noteworthy and is analyzed in this study using the Impact Management Project (IMP) framework. This contribution, also known as “investor additionality” and #10 (reduced inequalities), followed by the health and education sectors.

C. EUROPEAN FUNDS, INSTITUTIONAL INVESTORS, AND HIGH-NET-WORTH INVESTORS: THE MAIN SOURCES OF CAPITAL FOR PRIVATE IMPACT FUNDS

The analysis of the sources of capital for private impact funds reveals the importance of public finance (20%) – mainly European – and, above all, private-sector finance from institutional investors (39%) and high-net-worth investors (31%). Public investment plays an important role because it can catalyze private investment, as it can signal the robustness of the impact fund and contribute a substantial part of the capital that must be raised, or can sometimes enable private investors to have more favorable risk-adjusted returns, in arrangements known as blended finance. As a whole, and similarly to other countries, 56% of investment vehicles seek returns in line with conventional investments, whilst 41% (particularly foundations) seek lower returns.

Regarding the sources of financing for the sector as a whole, of particular note is the role of individual investors (who account for 75% of the total), who, most as customers of ethical and social banks, enable social enterprises to fund their projects with loans.

D. INVESTING IN DIFFERENT TYPES OF ORGANIZATIONS

More than three quarters (75%) of the impact investment managed in Spain is invested in this country. 15% in other European countries, and 11% in developing countries in Latin America, Africa, and Asia. In the case of private impact funds, 36% is invested in Spain and 64% in developing countries. The pre-seed and seed stages are the stages that are targeted least often, while those most often targeted are companies in the stages of validation (particularly by foundations), growth (particularly by impact funds) and maturity (particularly by ethical and social banks). Invested entities always have a clear social mission, but they vary in their structure and restrictions on the payment of dividends.

Regarding the size of transactions, the average ranges from €20,000 to €6m. Ethical and social banking normally provides the smallest investments (approximately €85,000 on average), while impact funds invest an average of €2.5m per transaction. The financial instruments used also vary, although the predominant ones are equity (unlisted) in the case of foundations; debt financing in the case of ethical and social banks; and a combination of both (39% debt and 61% equity) amongst impact funds.

E. IMPORTANCE OF MEASURING IMPACT

The measurement of social and environmental impact is a key element of impact investment, although approaches vary and progress toward greater sophistication is gradual. A positive example is the focus being placed on measuring outcomes (the relevant changes generated in/for the beneficiaries), particularly by impact funds, where 90% are working on measuring them. The tools used most widely by participants in the study are the Theory of Change and the Sustainable Development Goals (SDGs) (each used by two thirds of participants), although the Impact Management Project (IMP) also stands out (used by almost 50%), as do custom indicators and metrics. The SDGs targeted most frequently are #8 (decent work and economic growth) and #10 (reduced inequalities), followed by the health and education sectors.
The trend is for investors to use impact data not only to communicate, but also to learn and manage the organization better. Impact funds in particular also use impact data to set goals and assess the progress made by investees. Impact verification remains a challenge, as currently more than 50% of investors do not carry out any type of audit or external review. Finally, almost 60% of organizations in the study link financial results to the impact achieved in some way. In this respect, the practice of linking the carried interest (the variable remuneration for fund managers) not only to the financial return of the fund but also to the impact generated is noteworthy. This practice is followed by 70% of private impact funds.

F. THE FUTURE: A NICHE MARKET OR MARKET TRANSFORMATION?

In the last section of the study, we outline the opportunities for growth expressed by respondents and also the obstacles—such as the lack of impact measurement standards or the danger of impact washing. Carrying out this study and comparing it with similar studies from other countries also leads us to ask ourselves whether impact investing is destined to be a niche market or has the potential to transform the broader financial sector. This debate relates to other important questions, particularly regarding the criteria used to define what is meant by impact investment (which goes beyond sustainable and responsible investment) and how the market should be segmented. One of the main points of discussion is whether it is possible to undertake impact investment in listed equities or debt. This matter is discussed in the last section of this report. On one hand, it would be desirable to increase the volume of global financing that integrates impact criteria in the investment strategy; on the other hand, however, it would be detrimental and dilute the potential impact of this sector to incorporate strategies that are less ambitious in relation to social and environmental impact, particularly with regard to the most disadvantaged groups or the contexts most neglected by current mainstream investment. Just as these issues are being debated in other countries and on a global scale, SpainNAB has convened a working group to explore different approaches.
Introduction

Impact investment, defined as investment that intentionally seeks to make a measurable social or environmental impact together with a financial return, continues to attract financing and attention around the globe, in a context in which consumers, employees, entrepreneurs, and investors increasingly factor impact into their decision making. Spain is no exception, hence the importance of generating knowledge to better understand what impact investment consists of and where it is heading in Spain. Amidst discussions about what should be regarded as impact investment and what practices should be encouraged, this report uses a similar methodology to that of the last edition to size and segment the impact investment market in Spain. In line with the Global Steering Group for Impact Investing (GSG)’s view and building upon general consensus in the sector, the report uses the Impact Management Project (IMP) framework to define and segment different investment strategies. Moreover, an effort has been made to harmonize with other countries at a European level, led by the European Venture Philanthropy Association (EVPA), which will make it possible to compare data and learn from each other.

Although this is a diverse sector whose boundaries are still blurred, impact investment is channeling billions of euros into companies that have clear social and environmental impact goals, with particular emphasis on their financial sustainability and impact measurement. This report sets out the different approaches and practices used by impact investors to achieve these goals, ranging from sources of finance to the characteristics of investee companies, and from financial instruments to the way in which impact is measured.

The report aims once again to reflect the plurality of impact investment in Spain, with the intention of helping to attract more capital—particularly for those social enterprises and impact sectors that still struggle to find adequate funding—and more support from public administrations, universities, the media, and other players that can contribute to the growth of the impact economy in Spain. The social needs are many, and a relevant and transparent contribution from the financial and business sector is more important than ever.

Methodology

This report presents data from a range of actors making or managing impact investment, obtained through a survey conducted from January to March 2022. The survey, designed in collaboration with the international associations EVPA and GSG with an eye toward harmonizing results with other European countries, inquired about the volume and characteristics of assets under management and investments made in 2021, as well as their plans for 2022.

OBJECTIVES

The overall goal of this study was to obtain a snapshot of the state of the supply of capital for impact investment in Spain, which will allow us to observe the evolution of the sector over the years. As in the previous edition, the specific objectives were to size the sector, segment the different types of impact investment, and analyze their characteristics.

The survey used in the study this year was harmonized with a European initiative led by EVPA, so that different countries can contribute to this European study with aggregate data about the sector in each country. This meant modifying some questions with respect to the previous year, which limits the possibility of making certain year-on-year comparisons.

DEFINITIONS AND INCLUSION CRITERIA

Definitions and inclusion criteria are in line with those of last year’s study, were based on other studies carried out by leading international organizations and on discussions with an Expert Committee consisting of 15 representatives of different market segments (see the “Acknowledgements” section).

Impact investment is defined as investment that intentionally seeks a measurable social or environmental impact together with a financial return. Only respondents who said they made or managed investments with the intention of generating a positive social or environmental impact together with a financial return were included. The third factor, measurement, was not used to exclude respondents, but rather as a research variable. Additionality was also used as a segmentation variable, considering the different types of investor contributions defined by the IMP (see the “IMP Impact Classes” box).

Supply of impact investment is defined as the supply of capital that impact organizations can access to finance their activities and which meets the intentionality and financial return criteria. This includes the financing that banks provide to impact companies, along with other investment activities. Applying the same definition, microfinance is only included when the microloans are granted to social enterprises; in general, microfinance institutions are regarded as investees in which impact investors invest. This year’s report focuses on the capital available to unlisted companies (see “Listed assets” below). Due to the nature of the study, and in line with similar studies, the reported market size must be considered as the “floor” (the minimum size) of the sector in Spain because other players may also be making impact investments that are not reported in the study.

Spanish market. As in the previous year, to avoid double-counting and to gain a detailed understanding of strategies for managing impact investments, we have focused on the players based in Spain who manage direct investments in impact companies. In other words, the inclusion criterion is that the investment management activity resides in Spain, not that Spain is the origin or destination of the invested capital. However, having agreed on survey questions with the teams carrying out similar studies in other European countries, when data is aggregated it will be possible to know the investment managed in those countries that finances companies in Spain.

Types of impact. The report draws on the IMP methodology to understand and classify the different types of impact sought by these investments. IMP defines various “impact classes” based on two dimensions: the impact that investee companies and projects seek to generate, and the strategies used by investors to contribute to that impact (see figure “IMP Impact Classes”). In this study, the activity of each respondent was classified at the level of the investment vehicle using questions designed to understand these two dimensions: the impact of the underlying assets was used as an inclusion criterion (only vehicles investing class C assets are included) whilst the investor’s contribution was used as a segmentation variable.

Listed assets. The “minimum” criteria for considering whether investments in listed assets meet the definitions and criteria outlined above is a matter of debate, and therefore a conservative decision was made not to include them in the market sizing figure. However, a dedicated section has been included with examples of investments that could be regarded as impact investment in this area (see section “The Debate About Impact Investment in Listed Assets”). This section explains the nature of the debate and the steps being taken to reach a consensus.

Social enterprises. These are organizations that seek to contribute to resolving certain societal challenges through a sustainable business model, regardless of their legal structure.2


IMPACT CLASSES

The Impact Management Project (IMP) defines different impact classes by combining two dimensions: the impact that the companies and projects receiving investment seek to make, and the strategies employed by investors to contribute to that impact.4

The impact generated by the companies and projects receiving investment is defined according to the categories A, B or C. In class A, the invested projects “act to avoid harm” on people and/or the planet. In class B, they seek to “benefit stakeholders”, generating positive effects for stakeholders in general. In class C, investees “contribute to solutions” by addressing specific social or environmental challenges and creating a positive impact for underserved people or challenges.

Figure 1: Types of impact generated by investees

<table>
<thead>
<tr>
<th>Act to avoid harm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit stakeholders</td>
</tr>
<tr>
<td>Contribute to solutions</td>
</tr>
<tr>
<td>Generate a significant positive change for otherwise underserved people or the planet</td>
</tr>
</tbody>
</table>

Source: Adapted from IMP

The investor’s contribution is categorized numerically from 1 to 6, depending on which of the following strategies are employed to generate impact:

- **Signal that impact matters**: The investor chooses not to invest in or favor certain investments, such that if all investors did the same, it would ultimately lead to a ‘pricing-in’ of effects on people and the planet in capital markets. Some people consider this a form of values alignment.
- **Engage actively**: The investor uses expertise and networks to improve the environmental/social impact of investee companies.
- **Grow new or undersupplied capital markets**: The investor anchors or participates in new or previously overlooked opportunities that offer an attractive impact and financial opportunity. This may involve taking on additional complexity, illiquidity, or the perception of disproportionate risk.
- **Provide flexible capital**: The investor recognizes that certain types of enterprises will require acceptance of lower risk-adjusted returns in order to generate certain types of impact. For example, creating a new market for previously marginalized populations may require patient capital that cannot deliver a commercial return.

Figure 2: Investor contribution strategies

- C1: Signal that impact matters
- C2: Engage actively
- C3: Grow new or undersupplied capital markets
- C4: Engage actively
- C5: Provide flexible capital
- C6: Engage actively

Source: Elaborated by authors based on IMP definitions

SURVEY DISTRIBUTION

The survey was sent to all actors known or thought to be making or managing impact investments, identified by SpainNAB, Esade and the Expert Committee, or through social media. We approached assets owners and intermediaries that manage investments, including PE and VC funds, microfinance funds, foundations, conventional financial entities and ethical and social banks, microfinance institutions, family offices, business angels, crowdfunding platforms, international cooperation entities, and development and public financing entities, among others.

DATA COLLECTION AND CLEANING

The main data collection instrument was an online survey. The participants who indicated that they managed direct investments were asked to list the different impact investment funds or other vehicles they managed, and the aim of most questions was to differentiate the strategies of each vehicle. Follow-up calls were made to many respondents to clarify possible inconsistencies, but the data was not audited.
METHODOLOGY

POPULATION

The following table shows the number of organizations that received and answered the survey and met the different inclusion criteria: a total of 31. Another 15 answered the survey but could not be included because they either did not manage impact investment at all, made only indirect investments, did not manage it in Spain, or invested only in listed assets.

Table 1: Number of organizations participating in the survey

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Number of organizations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Received the survey</td>
<td>125+</td>
</tr>
<tr>
<td>Answered the survey</td>
<td>46</td>
</tr>
<tr>
<td>• Direct investment managed in Spain</td>
<td>34</td>
</tr>
<tr>
<td>• Make or manage impact investment (class C), including listed assets</td>
<td>33</td>
</tr>
<tr>
<td>• Excluding listed assets</td>
<td>31</td>
</tr>
</tbody>
</table>

Most sections of this report analyze the vehicles (39) managed by these organizations making class C investments (excluding listed assets), as most questions in the survey asked about each vehicle. If a vehicle combined more than one strategy or characteristic, the respondents were instructed to choose the answer that reflected the majority of the vehicle’s assets under management (AUM). As a result, the data provided is the closest possible approximation of the reality of these investments.
Size of the market

Impact investment grows stronger in Spain

Figure 3: Investment vehicles and AUM in 2021

Assets under management (millions of euros and percentage of total)

- Private impact funds: €435.8m (18%)
- Foundations: €229.9m (10%)
- Ethical and social banking: €1,637.7m (68%)
- Other: €95.2m (4%)
- Total: €2,398.6m

Investment vehicles (number and percentage of vehicles)

- Private impact funds: 15 (39%)
- Foundations: 9 (23%)
- Ethical and social banking: 9 (23%)
- Other: 6 (15%)
- Total number of vehicles: 39

The study identified six categories of actors that manage impact investment vehicles in Spain, with a total of €2,398.6m in assets under management at the end of 2021.

- The 15 private impact funds (PE/VC funds) identified managed €435.8m, or 18% of the entire sector. This category includes funds run by managers specialized in impact investment and impact funds managed by conventional fund managers. These impact funds have spearheaded the creation of a market infrastructure for impact investment in recent years and have been pioneers in promoting and consolidating business initiatives in the impact economy.

- The ethical and social banking segment includes nine vehicles (loan portfolios) managed by ethical banks, workers’ credit unions and other banking entities that offer impact finance. They have been operating in Spain the longest, and their portfolios of loans to social enterprises amount to €1,637.7m, 68% of the entire sector.

- Foundations can make impact investment via their endowments, as an investment strategy aligned with their mission, or using their operating budgets, as a strategy to generate impact in a financially sustainable way. Nine foundation vehicles were identified, managing €229.9m, or 10% of the market.

- Insurance companies and pension funds, public finance funds, corporate funds and crowdfunding platforms are a minority in terms of both number of vehicles and assets under management. They manage €95.2m, 4% of the total. For this reason, this report does not feature a breakdown of these categories, although we will follow their evolution over time and consider including this breakdown in future studies.

Figure 4: Growth of AUM from 2020 to 2021

<table>
<thead>
<tr>
<th>2020</th>
<th>2021</th>
<th>% growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>€3,000</td>
<td>€2,500</td>
<td>-16.6%</td>
</tr>
<tr>
<td>€435.8</td>
<td>€432.9</td>
<td>-0.6%</td>
</tr>
<tr>
<td>€1,490.7</td>
<td>€1,637.7</td>
<td>15.5%</td>
</tr>
<tr>
<td>€223.7</td>
<td>€229.9</td>
<td>2.8%</td>
</tr>
<tr>
<td>€92.5</td>
<td>€95.2</td>
<td>2.9%</td>
</tr>
<tr>
<td>Total</td>
<td>€2,398.6</td>
<td>-16.6%</td>
</tr>
</tbody>
</table>

Of particular note is the growth of private impact funds: their assets under management increased 33% from 2020 to 2021 thanks to the emergence of new fund managers and new funds run by existing managers. These figures show that the sector is in a phase of remarkable growth, with almost a fivefold increase in size since 2018 (€92m in 2018, €229m in 2019, €327m in 2020 and €444m in 2021).*

Overall, impact investment assets managed by participants in this year’s study were 12% higher than in 2020. This increase was 10% in ethical and social banking and 3% in foundations.

Figure 5: Expected growth of AUM in 2022

- Foundations: 11%
- Ethical and social banking: 19%
- Private impact funds: 43%
- Other: 11%

*Numbers adjusted to universe of comparable funds.
The sector expects to continue growing at a significant rate in 2022. Forty-three percent of vehicles are expected to grow between 0% and 5%, and forty-six percent expect higher growth. Private impact funds stand out, with one fifth expecting the assets they manage to increase by more than 50%.

Survey participants reported €512.3m in new investment in 2021. Most of this volume consists of loans by ethical and social banks, but there were also significant investments by private impact funds.
Market segmentation

DIFFERENT WAYS TO CONTRIBUTE AS AN INVESTOR

To segment the market, as explained earlier in the section about methodology, we used the impact classes defined by the Impact Management Project (IMP). These categories (C1-C6) have the following characteristics:

Table 2: Investor contribution strategies

<table>
<thead>
<tr>
<th>Impact category</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>C1</td>
<td>Signal that impact matters</td>
</tr>
<tr>
<td>C2</td>
<td>Signal that impact matters + Engage actively</td>
</tr>
<tr>
<td>C3</td>
<td>Signal that impact matters + Grow new/undersupplied capital markets</td>
</tr>
<tr>
<td>C4</td>
<td>Signal that impact matters + Engage actively + Grow new/undersupplied capital markets</td>
</tr>
<tr>
<td>C5</td>
<td>Signal that impact matters + Grow new/undersupplied capital markets + Provide flexible capital</td>
</tr>
<tr>
<td>C6</td>
<td>Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital</td>
</tr>
</tbody>
</table>

• The largest impact class by AUM is the C4 category, which represents a change from the previous edition in which C2 was the largest segment. This change is mainly due to the reclassification of part of the ethical and social banking portfolios. Last year, the IMP criteria were not well known in ethical and social banking, and the vast majority of its volume was conservatively classified as C2. This year, some entities have reclassified part or all of their portfolios after studying them in greater detail in relation to IMP criteria.

• As regards the number of vehicles, categories C4 and C6, which include most of the private impact funds and foundations, stand out once again. This investment is usually intended for social enterprises for which it would not be easy to obtain other sources of financing (i.e. the investors are growing undersupplied markets). When such finance is at market prices, it is recorded in category C4 (20% of vehicles), and when the expected risk-adjusted return is lower, it is recorded in C6 (16% of vehicles).

5. See https://impactmanagementproject.com
6. Details in ‘Methodology’ section
Segmentation by type of vehicle shows that private impact funds engage actively with investees to improve impact and tend to develop underserved markets, and also that 55% of these assets are managed with a view to obtaining returns equal to or higher than the market risk-adjusted rate.

Most of the assets managed by foundations (90%) fall within the C4 category, which means that they are engaging actively to improve impact and focus on undersupplied markets, but expect a return in line with the market to be able to reinvest it in their charitable missions.

Though category C1 is small (4% of the whole), it is worth noting that investor contribution in this category is limited to signaling that impact matters, and it is difficult to justify the additionality of investors in these instances. However, in keeping with the IMP framework and in anticipation that these issues will continue to be discussed in the sector, we consider all vehicles in category C as impact investment vehicles.
Key characteristics

EUROPEAN FUNDS, INSTITUTIONAL INVESTORS, AND HIGH-NET-WORTH INVESTORS: THE MAIN SOURCES OF CAPITAL FOR PRIVATE IMPACT FUNDS

Figure 9: Sources of capital (2021, total market)

- Most of the capital for impact investment comes from individual investors, as customer deposits are the main source of funding for ethical and social banking, which, as we saw earlier, has the largest AUM.

- The role of institutional investors is also important, and to a lesser extent, national and European funds (14%), which can help mobilize private capital by acting as an anchor, providing guarantees to minimize risk and, in some instances, being a catalyst, i.e., having a multiplier effect on private capital. “Other” consists almost entirely of ethical and social banks’ own capital.

Figure 10: Sources of capital for private impact funds in 2021

- The breakdown of sources of capital is especially relevant in the case of private impact funds, which have a diverse range of investors. As reported last year, their main source of funding (38%) is institutional investors, who commonly invest in venture capital or private impact funds and have recently identified impact investment as a particularly interesting asset due to its combination of social and financial returns. High-net-worth investors are also very important (31%) whilst national and European public financing, which together account for 20%, can also play an important role as a lever for attracting other investors.

Figure 11: Expected financial return compared to the risk-adjusted “market” rate of return in 2021

- 56% of vehicles were expected to obtain financial returns similar to those of comparable investments that are not impact investments, although 15% have more flexible conditions. 41% of the vehicles in this study expect lower returns (18% somewhat lower and 23% much lower, close to the preservation of capital). Only 3% expect returns somewhat higher than market returns.

- In general, foundations expect lower returns whereas private impact funds vary considerably and ethical and social banks offer returns similar to market rate.

Table 3: Expected financial return by type of vehicle in 2021

- In the case of private impact funds, the expected return refers to the percentage return received by investors after handling fees. In the case of ethical and social banking and foundations, it refers to the return received by said entities.
• Expected returns vary considerably depending on the type of vehicle, but the average of private impact funds is higher than that of ethical and social banks and foundations. With respect to ethical and social banking, the difference is mainly due to the instrument employed (equity has greater risk than debt). As for foundations, the difference is usually due to the type of capital offered (more flexible and patient in the case of foundations).

INVESTING IN DIFFERENT TYPES OF ORGANISATIONS

Figure 12: Capital invested by region

<table>
<thead>
<tr>
<th>Region</th>
<th>Total</th>
<th>Private impact funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>5%</td>
<td>2%</td>
</tr>
<tr>
<td>Africa</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>Latin America</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>Spain</td>
<td>86%</td>
<td>53%</td>
</tr>
<tr>
<td>Europe except Spain</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>No established criteria</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Other regions</td>
<td>2%</td>
<td>1%</td>
</tr>
</tbody>
</table>

• Although this study focuses on capital managed in Spain, investment may be made in organizations inside or outside of Spain. Most of the capital is, however, invested in Spain (86%).

• Private impact funds invest mainly in Spain (33% of investment), but also in other regions such as Latin America (28%), Africa (22%) and Asia (13%). Generally, some funds focus on Spain and others on developing countries.

Figure 13: Types of organizations receiving investment in 2021

<table>
<thead>
<tr>
<th>Type of Organization</th>
<th>Total</th>
<th>Private impact funds</th>
<th>Ethical and social banking</th>
<th>Foundations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-profit organizations</td>
<td>20%</td>
<td>13.0%</td>
<td>13.4%</td>
<td>13.4%</td>
</tr>
<tr>
<td>Non-profit organizations with commercial activities</td>
<td>80%</td>
<td>86.1%</td>
<td>23.6%</td>
<td>23.6%</td>
</tr>
<tr>
<td>For-profit social enterprises with profit lock</td>
<td>0%</td>
<td>0.3%</td>
<td>0.5%</td>
<td>0.5%</td>
</tr>
<tr>
<td>For-profit social enterprises without profit lock</td>
<td>0%</td>
<td>0.3%</td>
<td>0.5%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Traditional businesses with intentional social impact</td>
<td>0%</td>
<td>0.3%</td>
<td>0.5%</td>
<td>0.5%</td>
</tr>
</tbody>
</table>

• Ethical and social banking entities in Spain provide financing only to organizations in Spain.

• Foundations invest more than half of the capital in Spain (52%), but also invest in other regions such as Africa (24%), Asia (13%) and Latin America (17%).

Figure 14: Investment stage in 2021

<table>
<thead>
<tr>
<th>Stage</th>
<th>Total</th>
<th>Private impact funds</th>
<th>Ethical and social banking</th>
<th>Foundations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incubation - Pre-seed</td>
<td>0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Start-up - Seed</td>
<td>20%</td>
<td>10.0%</td>
<td>10.0%</td>
<td>10.0%</td>
</tr>
<tr>
<td>Validation - Series A</td>
<td>20%</td>
<td>10.0%</td>
<td>10.0%</td>
<td>10.0%</td>
</tr>
<tr>
<td>Growth - Series B</td>
<td>60%</td>
<td>30.0%</td>
<td>30.0%</td>
<td>30.0%</td>
</tr>
<tr>
<td>Maturity - Series C</td>
<td>5%</td>
<td>2.5%</td>
<td>2.5%</td>
<td>2.5%</td>
</tr>
</tbody>
</table>

• Impact investment primarily funds organizations that intend to be financially sustainable. Most of the vehicles targeted various types of companies, although clear preferences can be seen depending on the type of vehicle. Ethical and social banking focuses on traditional companies seeking to make an intended social impact, whereas impact funds and foundations invest mainly in for-profit social enterprises, with or without profit lock.
Impact investment in Spain in 2021

- Impact investment is channeled to organizations at every stage of development, but, as in the previous year, there are more vehicles with capital available for validation and growth stages than for pre-seed and seed stages (no distinction was made between the latter two in the previous edition). As in the previous year, private impact funds focus on growth stages (when the business model is already proven and scaling up becomes possible). Foundations tend to fund the early pre-seed, seed and validation stages, when risk is greater and patient capital is often needed, although they also fund organizations during the growth stage.

Figure 15: Criteria used in 2021 to select investment opportunities

- The criteria for selecting organizations in which to invest vary according to the type of entity, although everyone agrees that having a well-defined mission/intention to make a social or environmental impact is one of the most important criteria.
- Private impact funds also prioritize returns (100%), scalability/replicability (88%) and team composition (88%). Ethical and social banks prioritize the existence of an impact measurement and management system (75%), while scalability/replicability seems to be most important for foundations (100%).

Figure 16: Capital invested by sector in 2021

Impact investment in Spain spans a wide range of sectors but focuses mainly on agriculture (30.5%) and healthcare (20.2%). However, in this instance, the number of vehicles in the sample is small and may not be representative.

Figure 17: Financial instruments in 2021
Impact investment in Spain in 2021

KEY CHARACTERISTICS

- More than 85% of impact investment is in the form of loans (unlisted debt) whilst the other 13% is invested in unlisted equity.

- All impact investment reported by ethical and social banks is channeled through loans, whereas private impact funds invest somewhat more than half of their assets in unlisted capital.

- This does not mean that impact investment funds cannot invest in listed assets (see the chapter “Barriers, Opportunities and Debates Regarding Sector Growth”) but that, for the time being, the decision is to analyze it separately until clearer criteria are defined regarding which investments in listed assets meet the parameters of this study.

Figure 18: Hybrid instruments used in 2021

Despite still accounting for a small proportion of the capital invested, some entities use other hybrid instruments—convertible loans being the most common (44%).

Table 4: Average investment by type of vehicle in 2021

<table>
<thead>
<tr>
<th>Type of vehicle</th>
<th>Average investment (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private impact funds</td>
<td>€2,481,304</td>
</tr>
<tr>
<td>Ethical and social banking</td>
<td>€34,868</td>
</tr>
<tr>
<td>Foundations</td>
<td>€391,286</td>
</tr>
</tbody>
</table>

- Average investment (including loans in the case of ethical and social banks) is €1 million. This figure is clearly lower in the case of foundations and ethical and social banks, but higher in the case of private impact funds.

Figure 19: Average duration of investments as of 2021

The average duration of investments varies considerably. In the case of 40% of vehicles, the average duration is four to six years, whilst in 17% of cases it is two to four years, and in 31%, more than six years. Investments by private impact funds tend to have shorter terms than those of ethical and social banks or foundations.

Figure 20: Non-financial support in 2021

Another way in which many impact investors contribute value to the organizations in which they invest is through non-financial support. More than 90% of vehicles report having helped their investees by providing something other than capital.

- The breakdown by type of vehicle, as in the previous year, reveals that private impact funds and foundations provide non-financial support to a greater extent, both to improve the organizational capacity of investee companies and to underpin their economic sustainability and impact management.
Impact investment in Spain in 2021

**KEY CHARACTERISTICS**

The beneficiaries of impact investment vary widely because most vehicles target several groups. The environment is one of the main beneficiaries for more than 55% of vehicles, followed by children and youth (54%), people with disabilities (51%) and the unemployed (49%). The specific challenges of women are also the target of more than 40% of vehicles.

**Figure 21: Final beneficiaries of invested capital in 2021**

n = 35 vehicles (percentage of vehicles)

- The environment
- Children and youth (including teens, NEETS, etc)
- People with disabilities
- Unemployed people
- Women
- People with diseases (mental or physical)
- Elderly people
- People in poverty
- Migrants, asylum seekers and/or refugees
- No set criteria
- Minority ethnic communities
- People who are homeless
- People who have experienced crime or abuse
- Ex-offenders
- Other

0 % 10 % 20 % 30 % 40 % 50 % 60 % 70 %

**Figure 22: Sustainable Development Goals addressed by investors**

n = 35 vehicles (percentage of vehicles)

- SDG 1. No poverty
- SDG 2. Zero hunger
- SDG 3. Good health and well-being
- SDG 4. Quality education
- SDG 5. Gender equality
- SDG 6. Clean water and sanitation
- SDG 7. Affordable and clean energy
- SDG 8. Decent work and economic growth
- SDG 9. Industry, innovation and infrastructure
- SDG 10. Reduced inequalities
- SDG 11. Sustainable cities and communities
- SDG 12. Responsible consumption and production
- SDG 13. Climate action
- SDG 14. Life below water
- SDG 15. Life on land
- SDG 16. Peace, justice and strong institutions
- SDG 17. Partnerships to achieve goals
- We do not focus on any SDG

0 % 10 % 20 % 30 % 40 % 50 % 60 % 70 % 80 %

- As for Sustainable Development Goals (SDGs), all are addressed by some impact investor. The most often targeted are SDG 8 (Decent work and economic growth) and SDG 10 (Reduced inequalities), and also SDGs 3 (Good health and well-being) and 4 (Quality education).
The most commonly used standardized measurement tools are the Theory of Change and SDGs (64%), Impact Management Project (IMP) (48%) and IRIS+ (32%). Non-standard indicators and metrics are also used very often (56%).

It is important to highlight that many of these tools are complementary and used in different stages of the investment process. Some are for standardizing the process, others for standardizing the indicators, some are for standardizing portfolio management, and others are principles of action.

In terms of impact measurement, 72% of entities say they are working on measuring outcomes (noteworthy changes brought about in beneficiaries’ well-being) in addition to outputs (tangible products stemming from an organization’s activities).

Impact measurement indicators are used mainly to evaluate the progress made by investee companies, but also to improve communication about results to different stakeholders.

However, scarcely more than half of organizations use their impact measurement systems to select investment opportunities or define objectives before finalizing the investment (although this practice is far more common amongst private impact funds), and around 60% use them to check and improve the hypotheses underlying their impact model, i.e., the Theory of Change (foundations are the leaders in this practice). They are even less likely to adjust investment conditions or make decisions about unlocking additional capital based on impact data. This means that, as in the previous year, there is still a long way to go from measuring impact to managing for impact with a view to maximizing the positive impact and minimizing the negative impact.
Impact investment in Spain in 2021

**KEY CHARACTERISTICS**

**Figure 25: Risk monitoring in 2021**

- Risk monitoring tends to focus on the risk of failing to achieve the social goals declared beforehand (62%) or generating unintended negative impacts (42%). Risk monitoring is undertaken in all types of vehicles but is more common in private impact funds.

**Figure 26: Impact verification in 2021**

- Most of the private impact funds and almost half of the ethical and social banks audit their impact performance or their impact measurement system. None of the foundations that took part in this survey audited their measurement system or outcomes, but more than half were considering doing so.

**Figure 27: Incentives for managers linked to impact performance in 2021**

- In some cases, finance or management fees are also calculated according to the social impact achieved. The above figure shows that this link between financial incentives and social performance occurs mainly in private impact funds, particularly the link between carried interest (the variable remuneration for fund managers) and the impact generated in 70% of them.

**Figure 28: Measures to ensure impact is preserved after exit in 2021**

- Few organizations reported exits, so it has not been possible to analyze this topic in greater depth, but some did say they have strategies to ensure impact is preserved after their exit: selecting only investees that have social impact embedded in their business model.
The future: niche market or market transformation?

Figure 29: Challenges hindering growth of the impact investment sector

- In the respondents’ view, the main challenges hindering the growth of the impact investment sector are related to the measurement and management of the impact: on the one hand, the lack of standards (81%) and, on the other hand, the lack of evidence and/or comparability (77%). Other important factors are greenwashing or impact washing (64%) or a lack of understanding about impact investment of potential investors (60%).

- The main driver identified that could influence the growth of the impact investment sector is related to remedying one of the deficiencies identified in the previous figure: the development of a standardized methodology for impact measurement and management (73%). Other factors are the presence of the public sector by means of regulatory support and facilitation (69%) and the presence of institutional investors (65%).

If the respondents’ view, the main challenges hindering the growth of the impact investment sector are related to the measurement and management of the impact: on the one hand, the lack of standards (81%) and, on the other hand, the lack of evidence and/or comparability (77%). Other important factors are greenwashing or impact washing (64%) or a lack of understanding about impact investment of potential investors (60%).
Impact investment has traditionally focused on investing in private assets, i.e., unlisted debt and equity. The characteristic features of these less-liquid assets give investors more control and transparency regarding the use of the funds and the impact they make, which is why this type of investment is well-suited for fulfilling the criteria of intentionality, additionality, and impact measurement.

**Intentionality.** In impact investing, the intention to contribute to solving a social or environmental issue lies at the heart of the investment strategy and is embodied in specific goals regarding what impact is sought (it must be positive and significant) and for whom (it must benefit underserved groups and/or the planet). Amongst private funds that engage in impact investment, it is considered good practice to invest in companies whose established social goals are at the heart of their business model. This is more difficult in the case of listed companies because they usually prioritize financial results due to market pressures.

**Additionality.** Investor additionality is about what investors do to generate impact that would not occur without their investment. It is very difficult to verify that an investor has indeed made an impact that would not have happened otherwise, but certain approaches can provide a “credible narrative” about an investor’s contribution. An investor can be said to provide additionality, for example, if the investee could not obtain the same sort of finance without the investor, or if the investor engages actively with the company to increase its positive impact in a relevant and effective way. In practice, it is very difficult to know whether investment in a listed company involves additionality due to the large number of possible investors and the limited influence each of them usually has over the company.

**Measurement.** Impact measurement must also be a focal point of the investment strategy in order to manage and optimize it. Investee companies, both listed and unlisted, should incorporate certain impact indicators into their own management, and investors should do the same with their investment process. This is easier when the impact generated is directly related to the business activity so that trade-offs between financial and social results can be minimized and managed.

In the case of investment in listed equities, due to the obligation to maximize financial returns for shareholders, it might be more difficult to link financial results to impact indicators, or generate sufficiently detailed impact data that are integrated into management decisions. There is, however, a growing tendency to advocate for impact investment in listed assets, with a view to scaling the sector to address more social or environmental needs whilst also making it accessible to all types of investors. The need to mobilize capital on a large scale is real, due to the urgency of today’s social and environmental problems, and evidenced by the gap in financing the Sustainable Development Goals, which is estimated by the OECD to be 5 trillion in annual investment.

However, there is no consensus about how to ensure the integrity of impact in investments in liquid markets. For example, to develop guidance on how investing in listed equities could integrate impact strategies, the Global Impact Investing Network (GIIN) established a working group at the end of 2019. In its first report, in June 2021, this group identified four areas of innovation needed to differentiate sustainable investment from impact investment: 1) strategy definition, 2) investment selection processes, 3) performance measurement, and 4) engagement strategies.

Although the GIIN group identified several funds that constituted individual examples of specific innovations, “they found no fund that featured fundamental changes in all four areas. Hence, many existing financial products are an adaptation of sustainable investment strategies, but vary as regards the extent of the evolution they represent.”

In this respect, impact investment in listed assets must be able to answer questions such as:

- How can one ensure that listed companies will have the clear-cut intention of generating social or environmental impact when under pressure from financial markets to maximize short-term financial return?
- What impact indicators or methodologies should listed companies report?
- Do investors in listed assets provide any kind of relevant financial or non-financial additionality to increase the company’s impact? Can shareholder engagement strategies be regarded as non-financial additionality, and under what conditions?

Despite these questions, some listed assets may indeed be clearly focused on social and environmental impact. For example, social and sustainable bonds that comply with IOMA principles for each category, ensure to a considerable extent that the funds will be dedicated to projects with eligible green or social objectives, thereby settling the intentionality question. Moreover, this means a commitment to fulfilling the other three main factors of these principles: the assessment and selection of projects to ensure to a considerable extent that the funds will be dedicated to projects with eligible green or social objectives, thereby settling the intentionality question. Moreover, this means a commitment to fulfilling the other three main factors of these principles:

- The assessment and selection of projects to ensure to a considerable extent that the funds will be dedicated to projects with eligible green or social objectives, thereby settling the intentionality question.
- The development of robust and transparent measurement and reporting frameworks that allow investors to assess, report, and verify the impact of their investments.
- The promotion of policy and market changes that align with the goals of sustainable development.

However, some of the issues outlined above apply in this instance too, such as the limited investor additionality in liquid markets (even more difficult to justify with regard to assets as highly sought after as these). Furthermore, it is difficult to verify compliance with IOMA principles during the lifespan of the bond, apart from voluntary recommendations about external verification. This could lead to

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8. Strategies by which investors in listed companies try to influence the behavior of such companies by actively participating in shareholder assemblies and/or holding private meetings with the team of directors.
greenwashing or impact washing if the company strays from its commitments about the use of the funds, and the investor does not have access to updated information about this after making the investment.

All this makes it difficult to distinguish genuine impact investments in this type of bond from those that are sustainable or responsible. At present, the outstanding balances of green bonds, social bonds and sustainable bonds issued by issuers domiciled in Spain are, respectively, 43.8 billion, 9.1 billion and 14.7 billion euros. These reveal there is investor appetite for contributing to social or environmental solutions, but they are far from the real volume of impact investment in listed debt due to a lack of clear guidelines about such differentiation.

In this respect, the Sustainable Finance Disclosure Regulation (SFDR) has attempted to clarify matters by classifying types of financial products according to the extent of their commitment to sustainability. However, impact investment is not expressly mentioned: the Regulation only differentiates between products with sustainability risks incorporated (art. 6), those that promote environmental or social characteristics in some way (art. 8) and those that target sustainable investments (art. 9) in the sense of investments in economic activities that contribute to a social or environmental goal, “providing that the investments do not significantly harm any such goal and that investee companies follow good governance practices.”

According to this definition, impact investment should be classified under article 9, but a product in article 9 need not necessarily be regarded as an impact investment. Despite these ambiguities, the present study has found examples in Spain that illustrate the potential of strategies for impact investment in listed assets. One such example is the social bonds issued by CaixaBank, in which a considerable part of the eligible portfolio supports €972m of microloans for vulnerable families granted by MicroBank and acknowledged in the Impact Taskforce report presented to the G7 in December of 2021. In this instance, the listed debt instrument issued by CaixaBank offers liquidity to the microloan entity so that it can continue generating new social assets. The entity measured the impact in detail, specifically its contribution to SDG 1 to end poverty. Mapfre, another actor mentioned in the same report, launched the Mapfre Compromiso Sanitario fund in 2020, which is underpinned by bonds issued by the Region of Madrid and raised more than €50 million to purchase medical supplies for the fight against Covid-19. Finally, the Gesiuris I2 Desarrollo Sostenible ISR fund of Gesiuris AM is specialized in investing in bonds issued by development agencies, with a small percentage of AUM invested with variable return in traditional companies financed by the same development agencies and which develop infrastructure in low-income countries. All these instances, regardless of discussions about the additionality of this type of finance, comply with the definition of seeking a measurable social or environmental impact in addition to financial returns. Because of the present-day debate about whether impact investment is possible in listed assets, these investments were not included in the study figures.

11. Source: Bloomberg with data updated on 04.05.2022
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- Zubi Capital

Participants who wished to remain anonymous are not included in this list. Not all participants manage direct impact investments, and therefore not all participants have been included in the market numbers for impact investment in Spain.
About SpainNAB

SpainNAB is the national advisory board for impact investment in Spain, established as an alliance of 28 leading organizations in the investment community, business, the third sector and civil society. It represents Spain on the Global Steering Group for Impact Investment (GSG), which has 35 member countries. SpainNAB’s mission is to drive and promote impact investment in Spain. This type of investment intentionally seeks to make a positive and measurable social and/or environmental impact together with a financial return.

About the Esade Center for Social Impact

The Esade Center for Social Impact (ECSI) develops research with rigor, reach, and relevance for and about social impact. The center is part of Esade Business School and works to improve the ability of people and organizations to better understand and solve complex global challenges. As part of its mission, ECSI seeks to create conditions for interactions that further in-depth understanding of problems, ask difficult questions to spur novel thinking and innovative ideas, pilot progressive change, and generate knowledge, tools, solutions and leaders that enable social change.

About GSG

GSG (Global Steering Group for Impact Investment) brings together the leading players from the public and private sectors to collaborate with our mission to change economies to make positive impacts for all people and the planet. To achieve this goal, we innovate, promote and facilitate an effective and diverse global impact movement by working closely with national advisory boards (NABs) and focusing on achieving scaled results, through impact investment, where they are needed most. There are GSG NABs currently in more than 35 countries, and another 35 countries are currently creating their own NABs. A NAB is a local platform representing all the stakeholders necessary to refocus significant capital flows on making a positive social and environmental impact. Led by the private sector, but in close collaboration with national governments, NABs create awareness and market intelligence, help change policies, and mobilize additional financial resources for the public good. GSG is a British charity that seeks to contribute to solutions for social and environmental challenges, promoting the use of impact approaches in philanthropic, business and investment decision-making.

About EVPA

EVPA, the investing for impact community, is a unique network at the intersection of business and purpose, driven by knowledge and focused on impact. We rally people, capital, knowledge, and data to catalyse, innovate and scale impact. EVPA brings together a diverse group of capital providers (impact funds, corporations, foundations, private equity, banks, public funders) and social innovators of all sorts – from household names to emerging new players. Together we work to increase prosperity and social progress for all, fix inequalities and injustices and preserve the planet.