

Impact Investing in Germany 2020 – A Dynamic Growth Market

Executive Summary



Volker Then and Tobias Schmidt

Preface

Impact investing is no longer a visionary idea of a small group of innovators but rather a differentiated and highly dynamic growth market with investments in the billions. This is the key finding of the present market study of the Bundesinitiative Impact Investing e. V. (Bundesinitiative – German National Initiative for Impact Investing) which was carried out by the Centre for Social Investment (CSI) of Heidelberg University. Impact investing in Germany has thus reached the next stage of development and today is a broad movement: A movement which again and again shows across investor groups, asset classes and themes that there is no contradiction between financial return and impact.

This is good news but it also implies a series of new challenges. It is necessary to set and practice standards – especially for impact measurement – to further build knowledge and expertise, to increase transparency regarding the market and individual investment approaches, and to enhance cooperation between different stakeholders.

Bundesinitiative considers these challenges to be its key tasks. Therefore, I would like to invite you to become a part of this trans-sectoral competence platform for impact investing in Germany and actively help us spread and deepen the impact investing approach in Germany. Collectively we can unlock additional capital to overcome social and ecological challenges and contribute to the successful achievement of the Sustainable Development Goals of the United Nations. At the same time, we will have to build bridges to related approaches such as Sustainable Finance while also preserving the integrity of the impact investing market by preventing impact-washing.

Will the current COVID-19 crisis and its dramatic human, social and economic consequences undermine these efforts? Personally, I think it is too early for a definitive answer, but in these times of crisis especially, I see a new interest in impact investing based on the desire to invest capital in meaningful, impact-oriented and value-driven ways. We should above all take action and join forces to mitigate and overcome this crisis with the aid of impact investments.

Finally, I would like to thank everybody who made this study possible: The team of the Centre for Social Investment under the supervision of Dr. Volker Then, who gathered, interpreted and analyzed the data according to the highest scientific standards as well as everybody who contributed their knowledge, contacts and constructive feedback. I would also like to thank all participants in the stakeholder dialogues and the online survey. Furthermore, I want to thank the Bertelsmann Stiftung and the Bundesverband Deutscher Stiftungen (Association of German Foundations) who, together with the BMW Foundation Herbert Quandt, made this study possible.

Dr. Frank Niederländer
Chairman, Bundesinitiative Impact Investing e. V.
Member of the Board, BMW Foundation Herbert Quandt

Introduction

The present Market Study 2020 of the Bundesinitiative Impact Investing e. V. (German National Initiative for Impact Investing – hereinafter “Bundesinitiative”) was carried out by the Centre for Social Investment (CSI) of Heidelberg University and supported by BMW Foundation Herbert Quandt, Bertelsmann Stiftung and Bundesverband Deutscher Stiftungen (Association of German Foundations).

The study was conceptually prepared by CSI and Bundesinitiative since October 2019 by conducting nation-wide stakeholder dialogues first with market actors from the Bundesinitiative network followed by an extended circle of participants from the eco-system. In the process, perceptions of the market segment among the actors in Germany were documented, problems in the field recognized and the need for clarification identified. These dialogues were very helpful for the conception of the study, even though the responsibility for the scientific research procedure lies exclusively with CSI.

The overall aim of the Market Study 2020 is to create transparency, improve market understanding and provide orientation for the further development of the market.

To achieve the abovementioned goals, the study is based on three components:

- An online survey,
- the comparative research of existing studies and information, also from other European countries, and
- the development of a collection of case studies in vignette format, to showcase individual approaches of exemplary organizations as well as companies.

The results will be prepared in various formats and presented to the public from June 2020.

Parts of the Market Study 2020 have already been prepared under the impression of the COVID-19 crisis. The online survey was in the field until 19th March 2020. The interviews for the case studies were conducted entirely after this date. Accordingly, the study reflects the state of the impact investing market prior to the COVID-19 crisis but allows for a first outlook on its impact on the impact investing market.

The last study on the impact investing market in Germany identified an investible asset volume of € 69 million (held by social venture capital funds and foundations) for 2015, which was not yet fully invested and a potential growth of € 7-8 million was projected for the following year.¹ Since then, billions have been attributed to the market segment. To clarify the current size of the impact investing market in Germany results of the Market Study 2020 are presented in this summary. They are based on a comprehensive online survey among German market actors which was conducted by the CSI of Heidelberg University in February and March 2020. A total of 400 organizations were invited to participate in the survey. 122 of them registered for the survey and 81 replied fully. The response rate was 20 percent despite the beginning of the COVID-19 crisis. This executive summary outlines the key findings.

CSI would like to thank the funders, the numerous colleagues and the teams of the Bundesinitiative and especially the BMW Foundation Herbert Quandt for a very constructive and always very supportive cooperation not the least considering the ambitious schedule of the study.

¹ Bertelsmann Stiftung (2016): Social Impact Investing in Deutschland 2016. Kann das Momentum zum Aufbruch genutzt werden? p. 18 – 20.

Impact Investing in Germany on its Way to Becoming Mainstream in All Segments

The market volume in Germany depends on the comprehension and selectivity of the term impact investing. If one distinguishes four basic investment strategies in a first step, the market can be structured in a differentiated way. This differentiation of strategies follows the OECD capital spectrum from the reports on impact investing since 2015.² The results can be transferred into a so-called onion layer model. The centre of the model is based on strategies that follow a narrow understanding of the term impact investing. In detail we differentiate as follows:

Impact investing in a narrow understanding:

- Impact-First focuses primarily on social and/or environmental returns and only secondarily on financial returns.
- Finance-First aims for financial returns, which are, however, strategically explicitly combined with social or environmental returns.

Impact investing in a broad understanding:

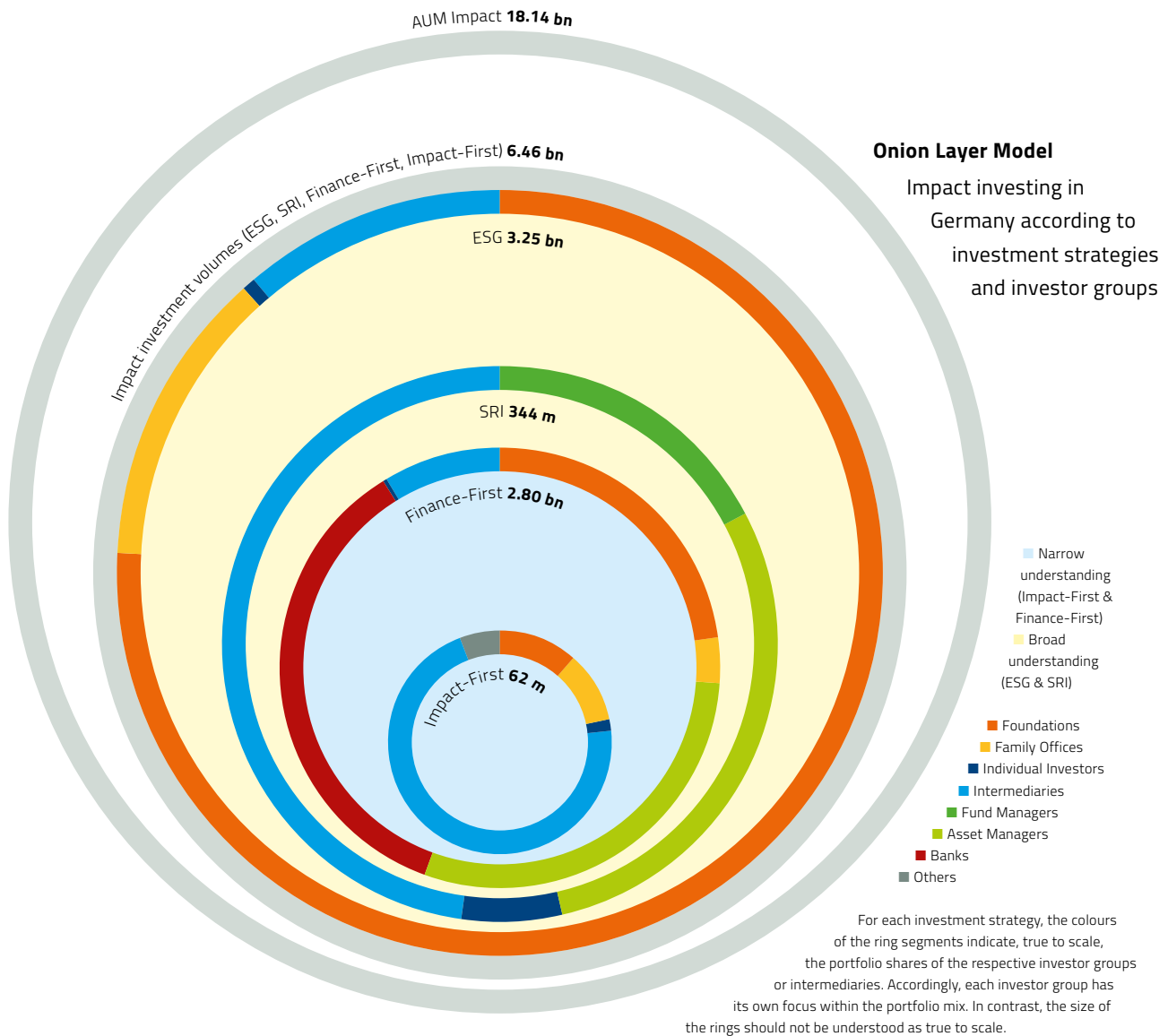
- Socially Responsible Investments (SRI) aim to achieve financial returns but generate positive social or environmental externalities.
- ESG Investing (Environmental, Social, Governance) generates financial returns but explicitly avoids social, environmental or governance risks or corresponding negative externalities.

Such an analytical classification must be distinguished from the self-perception of market actors, which was addressed in a separate item of the questionnaire.

The figure on the right illustrates three interrelationships and relates investment strategies, investor groups and definition characteristics:

- The four inner circles reflect the volume of assets invested according to the four investment strategies (Impact-First, Finance-First, SRI and ESG) and represent their distribution among investor groups for each strategy to scale by coloured circle segments.
- The figure shows the sum invested in each investment strategy (the width of the circle rings hints at the respective investment volume but is not true to scale).
- It distinguishes the narrow understanding of impact investing (Impact-First and Finance-First) in the inner circles, marked light blue, from the broad understanding marked light yellow.
- The inner grey circle adds up the impact investing volumes of all four investment strategies assigned on the basis of the respondents' breakdown of strategy information.
- The grey outer circle, on the other hand, comprises the much larger sum of assets under management, which the investors and intermediaries themselves assign to impact investing in their portfolios, without providing corresponding information on the strategy for their entire volume.

² OECD (2015): Social Impact Investment: Building the Evidence Base, OECD Publishing, Paris. OECD (2019): Social Impact Investment 2019: The Impact Imperative for Sustainable Development, OECD Publishing, Paris.



Impact investing in a broad understanding accounts for a market volume of approximately € 6.5 billion, which includes all four strategies according to the OECD spectrum. In a narrow understanding (Finance-First and Impact-First), the market in Germany comprises approximately € 2.9 billion.

According to a narrow understanding half of the impact investing market is of the same order of magnitude as the 50 percent share of organizations that systematically measure impact.

Considering Assets under Management (AUM) in relation to impact, as investors or intermediaries themselves state it in the broadest sense (without a breakdown of their investment strategies), a total volume of € 17.3 billion (in equity and debt capital) is given. In addition to this there are € 831 million in loans granted by banks active in the impact investing market. This results in a total market volume of € 18.1 billion.

Five Years of Dynamic Growth in Retrospect

The market has shown considerable dynamics, especially in the last five years. The Market Report 2016 identified a market volume of € 69 million for the end of 2015 (after € 24 million for 2012) and projected a growth of € 7-8 million for 2016.³ This report obviously followed a much narrower definition than the Eurosif Survey 2014, which indicates a market volume of €1.366 billion for Germany. The 2020 market report of the Forum Nachhaltige Geldanlagen (FNG, Forum Sustainable Investments) shows a market volume for impact investments of € 5.2 billion in 2017, € 13 billion in 2018, and € 8.1 billion in 2019.⁴ Comparing this growth dynamic with that of the ESG segment, impact investing is growing significantly

³ Bertelsmann Stiftung (2016): Social Impact Investing in Deutschland 2016. Kann das Momentum zum Aufbruch genutzt werden?, p. 18 – 20.

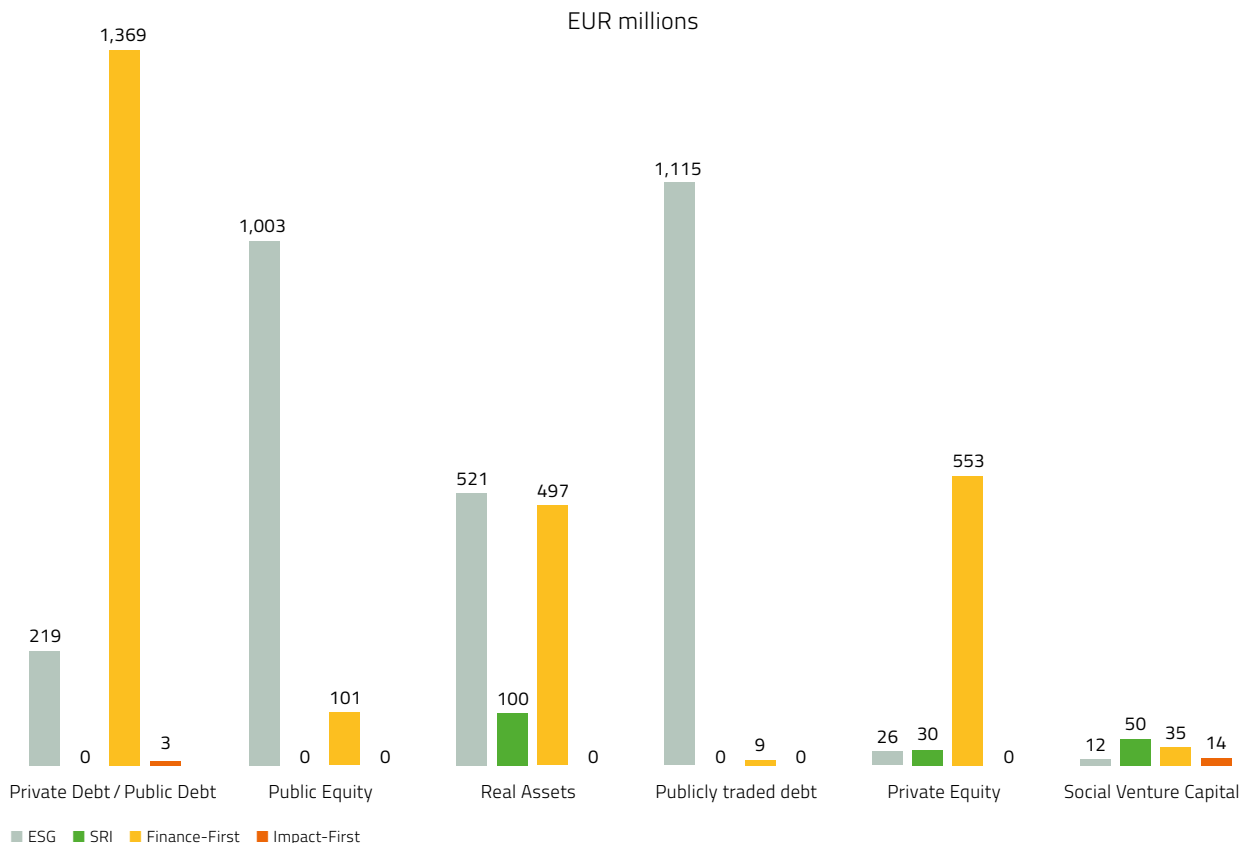
⁴ Forum Nachhaltige Geldanlage e.V. (FNG 2019, 2020): Marktbericht Nachhaltige Geldanlagen 2019, 2020 – Deutschland, Österreich und die Schweiz

faster, albeit still at a lower absolute level. The growth rates of impact investing are also evident in the following detailed results of this study.

Foundations and Family Offices as Drivers of Innovation in the Market

More than half of the total investment volume of all four investment strategies of € 6.5 billion (broad understanding of impact investing), or 56 percent to be precise, i.e. € 3.6 billion, is attributable to foundations and family offices. Out of the volume mentioned in the core of the onion layer model (narrow definition of impact investing: € 2.9 billion), foundations and family offices invested approximately € 750 million - i.e. more than a quarter of the total volume according to a narrow impact investment approach. In addition, these amounts have been invested by a small circle of a few (15 organizations) strong actors.

Investment strategies and asset classes – investors



Banks (€ 1 billion) and Asset Managers (€ 823 million) have caught up in regard to impact investing and now hold a considerable share of the market. In relation to all four strategies, these two investor groups contribute the majority of the other funds besides foundations and family offices.

The Market Today is Highly Differentiated – Impact Investments are Made in All Asset Classes

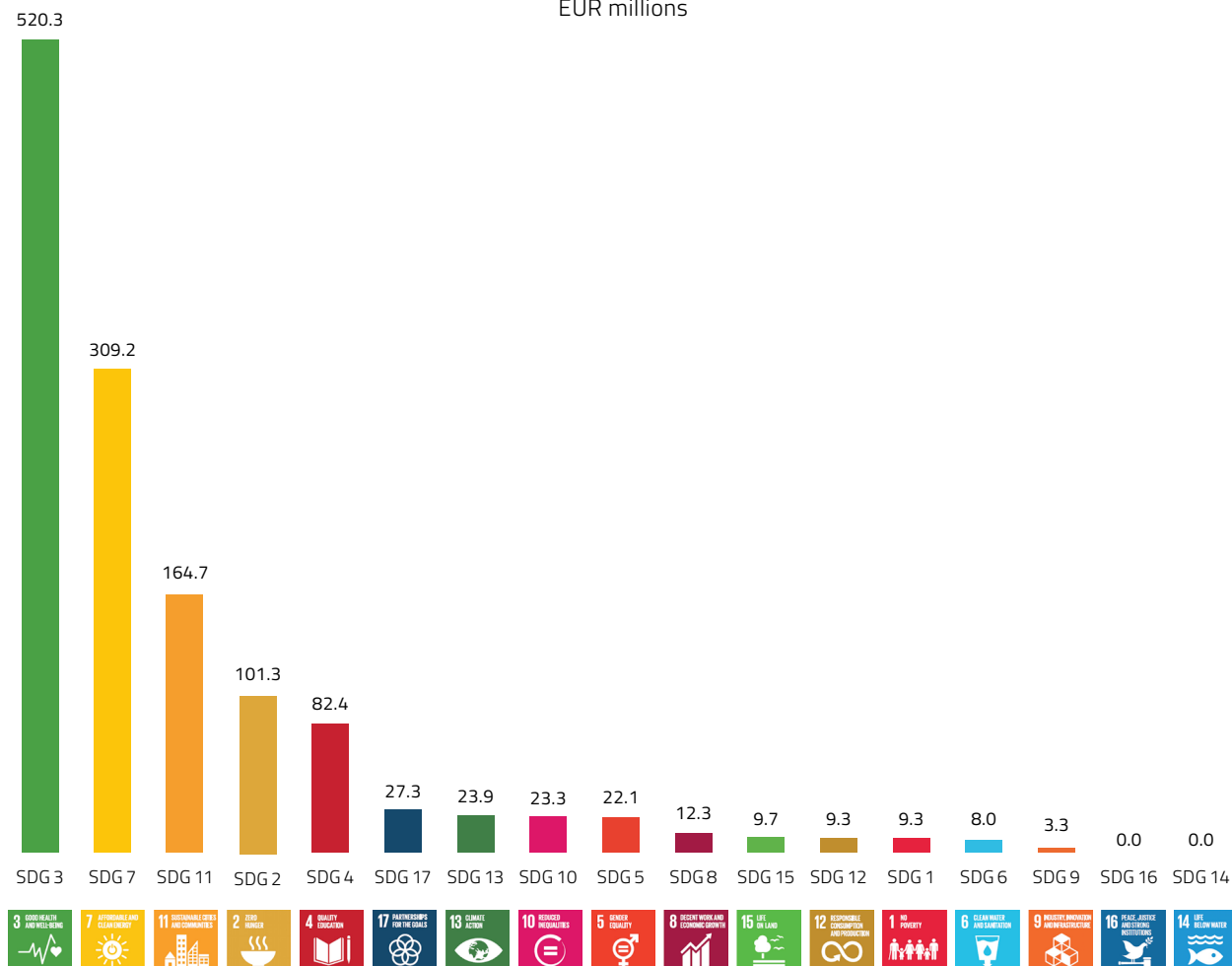
In the early years of impact investing – still in the first German market study by the Bertelsmann Stiftung – the impact investing market was primarily shaped by private equity and private venture capital. These asset classes have increased more than tenfold in a 5-year compar-

ison period: At that time, investments of € 69 million were identified, whereas now the total volume of private equity and (social) venture capital across all investors and intermediaries has reached € 884 million. Foundations and family offices alone have invested around € 133 million in these two asset classes, intermediaries some additional € 163 million.

The diversity of the market is also evident in the remaining asset classes: With more than € 1 billion each, public equity, private / public debt, publicly traded debt or real assets are strongly represented within all four “onion rings”. Private / Public Debt is the largest asset class, at around € 1.5 billion. In addition, loans from banks with a confessional or ethical background amount to over € 500 million.

Investment volume UN Sustainable Development Goals (SDG) – investors

EUR millions



Impact Investing and the COVID-19-Crisis

A significant number of participants filled out the online survey at the beginning of the COVID-19 crisis in the first half of March 2020 (until 19th March 2020). It can be assumed that initial assessments of the effects of the crisis have been incorporated into the responses of the participating organizations. In addition, for all case studies the interviews with executives of the organizations took place after 19th March 2020, mostly in April. The additional consideration of the case studies allows us to draw a more precise picture of the impact of the pandemic on impact investing (see full report coming out soon).

Based on such feedback it is apparent that participants expect the impact investing market and the related sustainability issues to become even more important in the wake of the crisis. The fundamental alignment of investors and intermediaries towards societal values is becoming more relevant than ever, which is already evident in the stock taking of half a billion investments in SDG 3 Good Health and Well-Being. This positive market outlook is confirmed by other surveys among market actors, such as those conducted by the Financing Agency for Social Entrepreneurship (FASE) and the Social Entrepreneurship Network Germany e.V. (SEND). It is clear that investors maintain and further their support for the investments which they manage, especially start-ups, thus making this segment in particular more resilient.

The data on impact investing in Germany identified by this study have to be understood as minimum estimates. From the preparation of the survey and the registration for the online survey we know that on the one hand numerous large actors of all organizational forms took part in the survey, but on the other hand some relevant players did not respond (and in some cases even apologized for it due to the time pressure in the COVID-19 situation). Therefore, all data regarding the market dynamic should be taken as lower bound data, while the actual market size is likely to be much larger.

One Billion Euros for the TOP 3 SDGs

The Sustainable Development Goals play an increasingly important role as a global reference framework for impact investors. They cover the entire range of global challenges and thus provide orientation. This is also reflected in the corresponding investment volumes.

Almost € 1 billion was invested in the TOP 3 SDGs: SDG 3 Good Health and Well-Being (approx. € 520 million); SDG 7 Affordable and Clean Energy (approx. € 309 million); SDG 11 Sustainable Cities and Communities (approx. € 164 million).

Looking to the future, market participants see the greatest global need in Climate Action (SDG 13), Good Health and Well-Being (SDG 3), Affordable and Clean Energy (SDG 7) and Quality Education (SDG 4). Regarding the greatest needs for impact investing in Germany climate protection, clean (renewable) energy, demographic change and education are again the top issues providing for investment opportunities. This shows that these global megatrends are also at the top of the agenda for impact investors predestined to be part of the solution to the global challenges.

Organizations are also active in the field of international development cooperation and use impact investments as an important instrument. Due to only a few responses to the question of investing in development cooperation, we can offer a proportionate volume of at least € 808 million among all strategic approaches, which was raised by investors and intermediaries. The majority of the funds are being invested in Africa.

Transparency and Better Understanding of the Market are Crucial for Further Dynamics

In the survey, a whole section of questions was devoted to market dynamics. In particular we addressed the assessment of the future development as well as current challenges of the market. These questions served primarily to get an impression of conditions both favourable to further market dynamics and conducive to solve perceived problems.

The market participants expect an even stronger dynamic with regard to market development primarily from learning processes of the market actors themselves and much less from questions of legislation.

More than 50 percent of investors and almost 50 percent of intermediaries cite market transparency as the greatest challenge to the development of the impact investing market.

Interestingly, the lack of understanding of the market by (potential) investors comes second, also from the point of view of the investors themselves. For intermediaries, the regulatory framework plays the second most important role, whereas investees even designate it on top of the list (although the number of responses from investees is overall low).

The lack of standardized methods of impact measurement and the complexity of business models come in third place and describe the agenda to strengthen impact management competencies in the future, especially of the investees, but also of the investors themselves (capacity building). The participants already active in

impact investing expect a stronger market development dynamic, i.e. primarily through learning processes of the market actors themselves and much less from regulatory changes.

Accordingly, improved information sharing and market transparency as well as the increased pressure on the capital provider/lender side are named as the most important driving forces behind the future growth of the market, followed by the diversification of asset classes as well as tax incentives (which are mentioned primarily by the few investees).

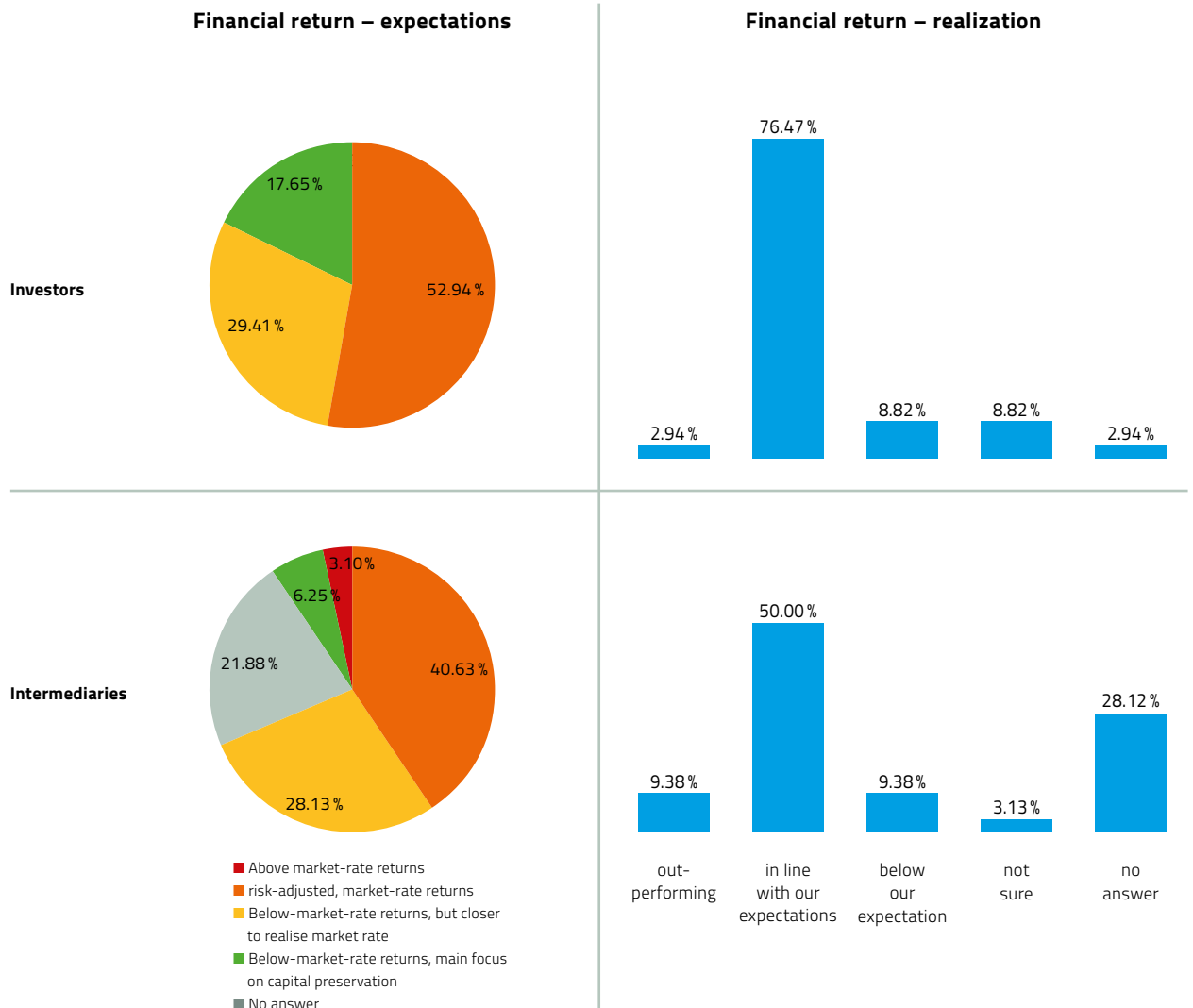
Impact Measurement Standards Called For – But in Practice Underdeveloped and Inconsistent

All in all, a picture of an underdeveloped state of impact measurement can be drawn and, above all, inconsistent approaches, in which no internationally discussed external approach plays a clear role as a favorite. While the importance of impact measurement is certainly seen and emphasized a closer look reveals a very varied picture of the actual practice: Impact is identified primarily on the basis of the market branch or field of action in which investments are made, but also on the basis of agreed targets and controlling. Qualitative expert feedback or quantifiable empirical data collection according to scientific standards follow in the frequency of the mentions, less frequently business objectives of the investees or own organizational objectives play a role.

Half of the impact investors do not measure impact, the other half mainly through internal approaches of impact measurement. By contrast, two-thirds of intermediaries measure impact, again using an internal methodology rather than an external approach (generally used in the field). External approaches, i.e. those that are offered and discussed internationally, are known, but are only used rarely.

In addition, among the ten most important external approaches that we asked about, analogous to the survey of the Global Impact Investing Network⁵, investors

⁵ GIIN (2020): The State of Impact Measurement and Management Practice. Second Edition.



and intermediaries name some common favorites that they are aware of, but which are applied much less or not at all. Investors mention above all (in order of frequency): IRIS+ (the tool of the Global Impact Investing Network), United Nations Principles for Responsible Investment (UNPRI) and the Social Reporting Standard (SRS). However, investors mainly use their own internal measurement approaches, if at all, and do not pursue a solution that has already been developed. Intermediaries cite parallel methods such as the UNPRI, IRIS+ and the SRS, while the Harmonized Indicators For Private Sector (HIPS0) are not known in the field.

In contrast to its own definition claim that impact should be measured and documented, the field displays a very substantial need for the advancement of impact

measurement. All in all, the approach leaves much to be desired. Proposed international standards are partly not known or only inconsistently applied. Internal approaches are fragmented, diverse, and specific to the organization.

Business Models Meet Expectations – Return and Impact Not Mutually Exclusive

Three quarters of the investors consider the financial returns of their investments to be in line with their expectations, and two-thirds consider their expected impact to have been realized. More than half of the investors expect risk-adjusted, market-rate returns, almost 30 percent returns below-market-rate returns, and 18 percent are only interested in capital preser-

vation. Half of all intermediaries consider both return expectations - financial and social / ecological – to be fulfilled, with the financial return expectations being more widely spread than those of investors: Only 40 percent expect risk-adjusted, market-rate returns, almost 30 percent below-market-rate returns, and 22 percent did not respond to the question. In addition, 28 percent of the intermediaries gave “No answer” to their social / ecological expectations. In total, the picture is one of largely fulfilled financial return expectations. The fulfillment of social and ecological return expectations is less consist-

ent. This corresponds to the perception of risks, which investors see above all in the insufficient management competence of the investees, the complexity of the business models and social or ecological underperformance. Intermediaries share this risk assessment, but add high transaction costs and, at less weight, regulatory framework conditions.

Outlook: Future Assignments for Bundesinitiative

Prioritizing the factors that can further strengthen the market, the market actors in this survey also defined clear recommendations for the future agenda of Bundesinitiative:

- Transparency and better knowledge of each other and of existing practices
- Case studies for practical illustration
- Development of a better understanding of the market among investors
- Methods of impact measurement and learning processes on the complexity of business models
- Regulatory improvements of the framework conditions (secondary).

The fact that investors themselves prominently mention their own imperfect understanding of the market testifies to the innovative character of this still young market segment. The present study provides a first fundamental basis for future systematic market research. The case studies will guarantee a more in-depth look at the practice and thus increase transparency and clarity. This can be the starting point for a comprehensive and systematic repository of market information. The stakeholder dialogues in preparation for the market study have already proven to be of great interest to market actors and documented a great willingness to participate in further discussions.

The Market Study 2020 represents a base line for further strengthening market transparency. In terms of methodology and results, it can serve as a starting point for a deeper analysis of the ecosystem through longer-term monitoring in the future.

This monitoring must above all achieve the following:

- Increased reach among ecosystem actors on the basis of a systematically developed online portal of market participants.
- Regular data collection for trend analysis (recommended at least every three years).
- Contribution to a European comparison of market developments
- Basis for a continuous feedback regarding the work of Bundesinitiative. At the same time this can function as an evaluation of the strategy of Bundesinitiative.
- Improved database for political advocacy and the lobbying in the interest of the market segment.

Bundesinitiative Impact Investing e. V.

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Bundesinitiative Impact Investing e. V. (German National Initiative for Impact Investing) is the German platform for impact investing. The overall goal is to help develop the German impact investing market and thus introduce the impact investing space to the public. Based on this approach, additional capital can be unlocked to deal with social and ecological challenges in keeping with the Sustainable Development Goals of the United Nations.

In order to achieve this goal, Bundesinitiative is raising the awareness for the societal impact of investment capital. Bundesinitiative strengthens the cooperation between and among different actors on both the national and international level as a member of the Global Steering Group for Impact Investment (GSG). In addition, Bundesinitiative is helping create improved political and legal frameworks for impact investing in Germany and develop standards, especially for impact measurement.

The office of Bundesinitiative Impact Investing e. V. is located in Berlin. Members can be either natural or legal entities that support the goals of the Bundesinitiative.



Centre for Social Investment (CSI)

The Centre for Social Investment (CSI), founded in 2006, is a research unit of the Max-Weber-Institute for Sociology at the Faculty of Economics and Social Sciences at the Heidelberg University. It sees itself as an interdisciplinary research, education and information centre and as a scientific service provider for the third sector.

The central research topics of the CSI are, besides the eponymous social investments and innovations the foundation system, civil society and the social economy. Particular attention is paid to innovative cross-border cooperation - whether between sectors or between organizational forms. Research projects are carried out at national, European and international level from a comparative or often explorative perspective.

The research of the CSI aims to contribute to increasing the effectiveness of social enterprises, to contribute to the identity formation of the third sector, and to analyze its legal, economic and social framework conditions. The research results are put into practice not only through mechanisms of teaching, professional qualification and publications, but also through innovation formats of cross-sectoral cooperation, e.g. in innovation laboratories.



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