RISK, RETURN... AND IMPACT?
CURRENT ATTITUDES OF SELECTED GERMAN INVESTORS TOWARDS SOCIAL IMPACT INVESTING
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Stephan Eckert, B.Sc.; M.Sc. / Univ.-Prof. Dr. Henry Schäfer
University of Stuttgart, April 2015
Social Impact Investment in Germany

The Social Impact Investment Taskforce (SIITF) was established during the United Kingdom’s G8 presidency in 2013. It consists of state and civil society representatives of the member countries. This independent public-private taskforce was mandated by British Prime Minister David Cameron to formulate recommendations for the constitution and further development of international markets in which supply and demand for social impact investment capital can be effectively brought together.

The SIITF was chaired by Sir Ronald Cohen, founder of the Apax investment group and former chair of the UK Taskforce on Social Investment, which was active between 2000 and 2010. The German government was represented within the SIITF by Susanne Dorasil of the Federal Ministry of Economic Cooperation and Development (BMZ). Germany’s civil society sector was represented by Dr. Brigitte Mohn of the Bertelsmann Stiftung.

Each of the G8 states, including Germany, participated in the creation of National Advisory Boards (NABs) at the national level. In Germany, this board was composed of representatives from the social sector, financial sector, foundations, academia and public sector. The German NAB provided the international Taskforce with information on the specific circumstances in Germany and its members’ experiences with private investment capital within the social sector. In addition, it offered information on experiences related to German social impact investment initiatives in developing and emerging countries. The members of the German NAB were invited to participate by the Bertelsmann Stiftung in cooperation with the BMZ and the Federal Ministry of Family Affairs, Senior Citizens, Women and Youth (BMFSFJ). Dr. Brigitte Mohn served as chair of the German NAB.

One key finding of the final report of the German NAB, published in September 2014, was the need for more information about the attitudes of German investors towards social impact investing, hitherto considered a black box. This report can therefore be seen as a contribution to the NAB’s market-building efforts in line with its recommendations.

This English version of the inquiry has been abridged to display the key findings to an international audience. The full version is available in German and can be downloaded at [www.bertelsmann-stiftung.de](http://www.bertelsmann-stiftung.de).
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I. INTRODUCTION AND EXECUTIVE SUMMARY

Social impact investing (SII)\(^1\) presents a relatively new opportunity for investors to exercise civic responsibility in a purposeful and measurable way by means of their financial investments.

The core idea behind SII is to deploy private capital in order to achieve not only financial returns, but also measurable positive social and/or ecological impacts among individual stakeholders, societal groups or society at large.

Within the framework of its civil society programme, the Bertelsmann Stiftung is pursuing the question of how SII can be used to strengthen Germany’s social sector financing system. The primary focus is on innovative services, projects and enterprises engaging in prevention as well as the scaling of effective approaches. The German National Advisory Board to the international Social Impact Investment Taskforce analysed the compatibility of SII with the German social system, tested various model areas of social service delivery for implementation of SII and published the results in its final report.\(^2\)

This inquiry aims to gauge the potential for specific groups of investors to engage in SII as well as to analyse the inhibiting factors currently holding them back. For this purpose, a survey was conducted among foundations, family offices and wealthy individuals in order to establish their motives, their previous experiences, their preferences for specific social and/or environmental impact areas and their requirements in respect to SII. The geographical focus of the survey was mainly on Germany.

The research is based on qualified interviews with representatives of foundations (17 foundations), with family offices (18 institutions) and with wealthy individuals or ‘High Net Worth Individuals’ (HNWI), referred to in this text as private investors (15 persons). Previous studies suggest that these groups have a strong affinity towards SII\(^3\) and are receptive towards related concepts such as socially responsible investing (SRI).\(^4\) In addition to the partially standardised personal interviews, a partial survey was conducted by means of a questionnaire.

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1. This term has gained international currency and is used in various non-English speaking countries, including Germany. The German term "wirkungsorientiertes Investieren" (WI), suggested by the German NAB, is increasingly being used as a distinct concept in the German-speaking countries and can be used synonymously with “social impact investing”. In this English translation the term “social impact investing” (SII) will be used consistently.
Key findings:

- There is relatively little awareness of SII among all three surveyed groups. Only a small number of the foundations, a few family office clients and an even smaller proportion of private investors in Germany have taken an active interest in the subject to date.

- The predominant instrument for achieving impact among foundations is through the traditional method of grant making, while family office clients and private investors donate money or, if possible, create a foundation of their own.

- Insofar as survey participants are already engaging in SII, the proportion of impact investments among the assets of the surveyed groups is very small, only rarely exceeding 10% of their overall portfolios. In most cases it accounts for less than 3%. Most of the survey participants do not see SII within the context of their assets as a whole, but rather as a separate, isolated subdomain.

- The number of social impact investments made by the surveyed groups is relatively small. The financial resources allocated to SII are only rarely distributed among a large number of projects. Usually the number of investments is fewer than five, in most cases it is fewer than three.

- The selection of suitable SII is not conducted as part of a structured investment allocation process but according to the individual, often highly personal preferences of the investors. Priority is mostly given to specific individual projects that are intelligible and tangible, and which in some cases also enable the investor to be directly involved. Anonymous traditional forms of investment such as private equity and venture capital funds, or even the acquisition of direct stakes in enterprises, play almost no role in SII. The individual approach taken by investors for each SII is very complex and can hardly be generalised, so that it appears very unstructured and non-systematic. Private investors, in particular, often find themselves overwhelmed by the challenge of identifying and selecting suitable enterprises for SII and consequently display an urgent demand for competent advisers.

- In this context, family offices are not considered very helpful by private investors, since they do not have the required expertise and are not sufficiently sensitized to the issue of SII. So far, family offices have been unable to assume a “gatekeeping function”, despite the latent demand of private investors.

- In principle, all three surveyed groups of investors are prepared to at least partially forgo financial returns on their investments for the sake of positive impact achievement. For all three groups, however, preservation of capital is an absolute minimum requirement with regard to SII. Particularly larger foundations, with their concomitant administrative organisation, are partly dependent on earnings from their capital investments and are therefore only prepared to forgo financial returns to a very limited extent. Interestingly, among the three surveyed groups it is the private investors who have the highest demands in respect of returns on their investments.
There is universal agreement that financial return and positive impact do not inevitably constitute a trade-off. "Win-win situations" (or social benefit combined with a financial yield) are considered feasible. However, the interplay between these two factors depends very strongly on the specific project concerned and the area or purpose for which SII is deployed. Potential conflict situations are not ruled out by the survey participants.

With regards to the thematic focus of potential impact investments, family office clients and private investors are open-minded in principle, although personal association with the respective theme usually plays a decisive role. Foundations prefer investments which correspond to their particular declared purpose (mission investing). Fundamentally, however, SII is regarded as difficult in many thematic spheres because it is not deemed possible to present a "business case". There is often a lack of commercially viable investment opportunities that also yield financial returns. According to the majority of the survey participants, the environmental sector is very suitable for SII, especially because a reliable statutory framework exists (e.g. the Renewable Energy Act). Figure 1 summarises the preferred target sectors for SII.

Fig. 1: The five most suitable target sectors for SII in Germany

The surveyed investors often feel insufficiently competent to make decisions about SII and do not have any specific idea of either the returns to be expected, the risk involved or the impact that might be achieved. All three groups lack suitable models that would enable them to assess social impact investments in these respects. In particular owing to the absence of this basic information for making informed investment decisions, SII is subjectively regarded to hold significantly higher risk than conventional or sustainable investments.
There is a general tendency to forgo liquidity in favour of positive impact achievement across all three investor groups. On average, foundations are prepared to remain invested in SII for a surplus of 5.6 years compared to conventional investments, while the corresponding values for family offices and private investors are 5.9 years and 4.8 years respectively.

All the surveyed groups show a clear preference for SII that unfold impact in regional proximity. More distant locations or undefined geographical areas for SII are deemed less attractive. For the achievement of social impact, investments which provide support to projects and enterprises in developing countries (such as microfinance institutions) are regarded as attractive. This does not apply, however, to investment in projects designed to have an environmental impact in developing countries. In these cases, the investors consider the uncertainties to be too great.

**Fig. 2:** The five most suitable target regions for SII in Germany

All three groups reported benchmarking and the measurement of impact to be of relatively low importance. If impact measurement is required, then what is sought is not so much a quantitative index but rather the definition of individual investment goals and monitoring of goal attainment. A standardised index that is transferable to a wide variety of projects and enterprises is not required, and in fact is sometimes regarded very critically on account of the great diversity and individuality of the investments.
The most prominent inhibiting factors for SII in Germany are a “lack of products and solutions”, a “lack of best practices as guidance”, “lack of consultation opportunities and offers” and “a lack of intermediaries”. These factors reflect the fact that the market for SII is currently still beset by a high degree of uncertainty and a lack of transparency. This lack of transparency is further amplified by the terminology used in the sphere of SII, which is still perceived as being very unclear.

Fig. 3: The five most significant inhibiting factors for SII in Germany

The inhibiting factors appear similar for all three groups. Since the different groups of investors included in the survey are subject to different legal and particularly regulatory conditions (e.g. foundations are regulated under varying state, not federal, legislation on foundations), there are also differences in their respective perception of the inhibiting factors. A further important aspect is the fact that there are differences both between and within the individual groups of investors regarding their access to resources, expertise and advisory services when making investment decisions on SII.
II. CONCLUSIONS

The results gleaned from the research at hand allow for the following conclusions:

► According to the three groups of surveyed investors, the market for SII in Germany is largely still in its infancy. It is currently no more than a niche within the niche of sustainable investments.

► Understanding the highly varied motives for investment, the return expectations, the risk problems and uncertainties that exist among the examined groups of investors as well as cutting through these issues to provide suitable investment products are efforts still at an early stage on the part of SII providers.

► For most of the respondents, SII has an exotic status and many of the SII projects are effectively counted as alternative investments, which have a negligible role in Germany. Another type of SII is available in the form of closed-end funds, which have benefits that correspond to the requirements of SII. However, their anonymity and the lack of opportunities for active participation mean that they do not meet the desires expressed in the survey by private investors and family offices regarding opportunities to be actively involved and to exercise direct monitoring. Furthermore, many SII investments lack exit options.

► There is a shortage of competent advisers who possess both financial and project-related expertise. Usually, investors can take advantage of purely financial expertise on the part of their financial service providers. When experts in the SII sector are viewed in isolation, there is a lack of experts who have the ability to assess environmental and social impacts. There seems to be a complete vacuum when it comes to experts who have combined competences in both the financial and impact areas.

► The significance of sophisticated impact measuring systems seems to be purely academic. In particular, an all-singing, all-dancing multipurpose measurement system that can be applied to all project types, investment sectors and structures, and which also permits comparisons among different projects currently seems to be superfluous from a practical viewpoint. What does however seem to be required, are heuristic measurements that are simple in design and that give investors the feeling of being able to understand the projects and enterprises on a stand-alone basis.

► This corresponds to the high level of desire for local impact that was identified among all surveyed groups. Particularly because projects and enterprises financed through SII are so individual in their manner of functioning and their effects, and because investors often have a personal desire to be involved in SII, close contact is an important qualifying characteristic for social impact investments. Geographically anonymous SII projects are more likely to evoke uncertainty and are unlikely to arouse the interest of potential investors. An exception to this is microfinance, which does enjoy a certain degree of esteem among all three groups of investors.
Foundations, which in the Anglo-American context often function as pioneers in the SII market, do not currently seem able to fulfil this role in Germany. Despite the persistent low-interest phase requiring the search for alternative investments that can generate high yields, albeit at the expense of considerable risk, the foundations included in the survey are still hesitant toward SII. Apart from the reasons expressed by all the surveyed groups of investors, it would seem that for foundations it is above all the uncertainty regarding statutory and regulatory issues that constitutes a major impediment.

Established financial service providers such as family offices are sceptical towards SII, with some of them regarding themselves as a critical conscience, whose task is to prevent clients from engaging in environmental or social “adventures” and to protect the clients’ assets. They themselves point to their lack of expertise in SII. Most of them are currently not in a position to assume a gatekeeping role for SII.

In the case of private investors, an ambivalent relationship exists between philanthropy and SII: on the one hand, SII is seen as an opportunity to formulate impact requirements and to be kept informed about them. On the other hand, many investors capitulate in the face of the difficulties and the expense of finding out about the non-transparent potential investment projects with an environmental or social impact, assessing them and then maintaining scrutiny once they have invested in them. In this case, donations seem to be a less complicated alternative, and they at least help the donor to preserve a clear conscience.

What can we learn from this inquiry?

The current investment focus for SII is decidedly in the environmental sector rather than the social sector. On the one hand, this is due to the very significant government promotion of renewable energy sources, at least before the most recent amendment of the German Renewable Energy Act. On the other hand, by initiating the energy turnaround and introducing regulations designed to alter structures for that purpose, government has created a strong stimulus for improving the calculability of risks and returns from environment-related SII. In order to achieve a similar growth stimulus for the social sector, state support would evidently be beneficial. This could also extend to the removal of uncertainties concerning the interpretation of foundation legislation and the conduct of supervision which is currently hindering involvement in SII.

In order to achieve a widespread effect, the existing system of banks and savings banks as well as private banks and family offices need to be mobilised. It will depend on them whether SII gains traction with a broader range of investors while providing intelligent product solutions for the real investment requirements and capital needs of projects and enterprises. In these areas there is a considerable lack of expertise. Directions for action, special training courses, examples of best practice, partly standardised procedures, network partnerships etc. seem to show promise in this regard. Fund-based SII products may play an avant-garde role, but in view of the low level of affinity for these forms of investment among German investors, they are unlikely to have a high degree of effectiveness in developing a market on their own (unless they are designed as tax relief schemes).
There is a lot to be said for cooperative product developments with a strong project character and for the regional establishment of enterprises. Consequently, it would seem that regional ecosystems are required in order to reduce risks and do justice to the desire of some respondents for active participation in the projects and enterprises they help to finance. To a certain extent, this could also mitigate the lack of competent advisers with regards to the inner workings of social projects, their impact potential, risks and yield opportunities.

In the course of this inquiry the attitudes of the three key groups of potential investors in SII in Germany, namely foundations, family office clients and private investors, was analysed. In addition, a structured approach was taken to examining the respective groups’ expectations regarding SII and their preferences towards SII projects. These factors are of decisive importance for understanding how these groups deal with SII, for recognising their respective expectations and ultimately for creating suitable and target-group oriented structures and products. Furthermore, the information obtained can be used to develop the market for SII in Germany and to reduce the currently large number of inhibiting factors. It has been shown that for many investors, throughout all the groups surveyed, a great degree of uncertainty prevails in the SII market. Investors describe the market as incomprehensible and unstructured. In some cases, however, there is also uncertainty and a lack of transparency on the part of the product providers and government authorities. It is therefore urgently necessary to improve clarity and certainty for all those involved in the SII market. Positive examples of success can help to produce the necessary transparency and are also important for overcoming the prejudice that often exists concerning SII (e.g. lower financial returns). A further important reason for the rudimentary state of the German SII market is the lack of research on investors’ specific demands towards SII. Particularly useful research could be conducted on the quantitative relationship between conventionally invested assets and SII with regard to the overall risk and return structures of the total asset volume of selected types of investors. A further area of interest is the extent to which it is possible to assess the value of SII, taking into account both financial returns and real impact.

From the investors’ point of view, little further knowledge is required about the problem of impact measurement, a topic that has been greatly emphasised among scholars and advisory groups, yet seems to be of little practical relevance for investors. At most, heuristic approaches to impact measurement seem to require further investigation and would be a worthwhile field for additional research.

As this research has clearly shown, social impact investing is concerned with a type of investment that cannot be adequately described and understood using the established conventional parameters of professional asset management. The introduction of the dimension of impact into the investment process creates far-reaching challenges which affect all those involved in the SII market. In order to meet these challenges, it is essential to develop a fundamental understanding and to comprehend the basic mechanisms and structures of this non-conventional market. This inquiry has attempted to close this gap in an initial, explorative form and inevitably raises numerous points which urgently call for further research. All in all, it has been shown, on the one hand, that the market for SII in Germany is still in its infancy and that a great deal of fundamental work still needs to be done. On the other hand, SII will be able to draw on a significant potential demand as soon as the required structures have been created.
III. COMPARATIVE ANALYSIS OF RESULTS

On many points, there are strong similarities between the surveyed groups. However, the very different legal, institutional and economic conditions of the individual groups of investors at times give rise to very different approaches and expectations in dealing with SII.

Fig 4: Proportion of SII in respondents’ overall portfolios

The proportion of SII among the respective overall assets is relatively small among all groups (see Figure 4). The majority of all the respondents do not yet engage in SII or currently do not wish to engage in SII, the proportion of SII in the overall portfolios of the respective respondents is rarely higher than 10%. With a proportion of 84.4%, the family offices show the largest share of respondents without any SII. In addition, a significant proportion of family office clients currently also have no intention of investing in SII. Generally speaking, SII is regarded at most as a tolerable admixture among the overall assets of an investor. Frequently, SII is not regarded within the context of the overall assets, but rather as a small individual sub-portfolio that is considered separate from the actual business of asset management. It has an exotic status and is not accepted as a full value investment (“if all else fails, an SII that has gone wrong can be viewed as a donation”). In some cases there is a significant distinction between the evaluation criteria used for SII and those used in the professional asset management of the main portfolio.
The number of SII projects among respondents is also relatively small (see Figure 5). Only in a few exceptional cases the financial resources invested in SII are distributed among more than ten projects; mostly it is less than five, and in the case of family office clients it is mostly less than three. From the point of view of diversification, in particular, this number is critical. The fact that many investors do not regard SII within the context of their overall portfolios, but rather as something separate, means that a higher number of SII projects would be necessary in order to achieve diversification.

Fig. 6: Readiness to forgo financial returns in favour of impact
In principle, all groups display a degree of readiness to forgo financial returns in favour of impact (see Figure 6), but only to a limited extent: significantly negative returns are usually not accepted. Social impact investments are hardly regarded as capable of providing above market returns. The majority of the respondents demand positive returns, although most respondents would accept these being below market levels.

The preservation of the capital base is, however, of decisive importance for all three groups. Interestingly, among the three surveyed groups, private investors showed the highest expectations with regards to financial returns. According to the statements of the interviewed staff, some family office clients would clearly be willing to accept a comparatively low level of financial return. However, a certain minimum level of returns from SII is often indirectly demanded by the family office. This again reflects the frequently made observation that family offices tend to regard themselves as cautionary admonishers or sobering correctives for the client concerning SII.

Foundations are shown to be partly dependent on the yield from their invested assets, as these often represent their working capital. Therefore, their degree of tolerance towards returns below market levels for SII is limited.

Fig. 7: Distribution of investment periods in SII compared to conventional investments

All surveyed groups demonstrated willingness to invest their assets for a longer period in social impact investments compared to conventional investments. This willingness is particularly strong among family office clients. On average, they are prepared to forgo liquidity in favour of impact for an additional 5.9 years. The corresponding value for foundations and private investors is 5.6 years and 4.8 years respectively. In general, it can thus be stated that investors display a lower time preference in the case of SII than in that of conventional investments. Hence, investors are more patient regarding SII and do not require short amortisation periods (see Figures 7 and 8).
The frequently expressed concern among all groups of investors that the risk involved in SII is more difficult to assess contradicts this higher level of patience: as a rule of thumb, it can be stated that higher risk levels require shorter amortisation periods, and thus also shorter periods of capital commitment. This contradiction can possibly be explained by the higher level of willingness to view unsuccessful social impact investments as donations, should the need arise.

A further reason may be the limited range of private equity and venture capital products available as SII. These SII products inevitably display comparatively low levels of liquidity owing to the lack of exit options and specialised secondary markets.

The lower expectations regarding liquidity can also be explained by the fact that the SII sector has up to now consisted of comparatively low volume investments which do not have to be liquid within a specific period of time. The interviews corroborated the fact that cash assets which must be available in the form of liquid assets on a specific planned date are not invested in SII. This information reinforces the current status of SII as not constituting a full value investment that meets professional demands.
Fig. 9: Preferred target regions for SII for general impact

Fig. 10: Preferred target regions for SII for social impact
With regards to the preferred target regions for SII, a very interesting and surprisingly clear picture emerged across all three groups of respondents (see Figures 9–11). Only a minority of the respondents expressed no geographical preference for their investments. This anomaly is particularly evident in the realm of social impact achievement. The majority of investors showed strikingly clear preferences for SII within their local region, ideally within their city or district. This results, among other things, from the high level of uncertainty and lack of transparency on the SII market. Regional projects are regarded as safer, and the opportunity to visit the project location personally seems to provide additional value and reassurance for many investors. It can also be interpreted as an expression of consciously desired civic participation by means of financial investment.

Developing countries are also seen as attractive target regions for investing in projects, albeit only for social impact. The reasons for this are the obvious poverty and the large amount of poverty reduction that can be achieved for each euro invested. SII projects that focus on the whole of Europe and projects focusing on emerging markets are regarded as less attractive. Asia, North and South America are apparently very unattractive for social impact investing from the point of view of the surveyed investors.

Among the respondents, the family offices could potentially play a special role as enablers for improving access and promoting professionalisation in the SII sector. As providers of financial services they play a traditional mediating role between the recipients of capital, i.e. project operators
and social enterprises, and those who provide equity or third-party capital, i.e. the investors. On the basis of this function, family offices could theoretically assume the role of a gatekeeper for SII, taking responsibility for prior scrutiny and, in the subsequent investment phases, for monitoring and communication with investees on behalf of investors.

**Fig. 12:** Activity of family office clients in the SII sector

![Activity of family office clients in the SII sector](image)

Figure 12 shows the distribution of the responses given by the surveyed family offices to the question regarding the proportion of their clients who show an active interest in SII or who are already investing in SII. According to the statements given by the surveyed family offices, on average only approximately 17% of clients show any active interest in SII. This may lead to the conclusion that SII are regarded as unattractive by very wealthy family office clients. However, in the interviews there were clear indications that this comparatively low level of interest is often due to a lack of knowledge about the very existence of SII. A majority of the clients simply do not know about the opportunities or products available in the SII sector.

However, relying on the family offices to spread the idea of SII to their clients does not seem very promising. According to the statements made by many family offices themselves, they are not keen to suggest active participation in the SII sector. While they do demonstrate a willingness to take an interest in SII, it is usually only pursued if their clients express active interest or make specific enquiries. Family offices see themselves in the traditional role of an asset manager and they sometimes find it difficult to provide advice about SII, particularly when the focus is not on financial returns but rather on impact. In this case they quickly fall into the role of admonisher and critical advocate on behalf of the client’s estate.
Family offices do not currently act as gatekeepers for SII – a traditional function that they fulfil efficiently in the sphere of asset management focusing on purely financial returns.

Whereas 17% of family office clients show an active interest in SII, just under a third of these individuals (6.3% of the clients) actually make such investments in practice. This would seem to indicate that the threshold between theoretical interest and active implementation is still too high. This assumption is reinforced when the main inhibiting factors for SII, which were also investigated, are taken into account.

The survey shows very clearly that not all thematic areas for potential SII can be regarded as equally suitable (see Figure 13). Whereas in some areas no urgent need for SII is perceived (water provision, infrastructure, micro-financing), other areas are regarded as very “worthy of support” (“child and youth welfare”, “vocational training and qualification for the labour market”). However, in many of these areas there is no perceived possibility of generating financial returns. These areas are therefore more usually seen as target sectors for donations. Areas that are regarded as suitable for SII are, in particular, “clean energy and technology”, “social enterprises and social business”, “housing” and “climate change”.
Fig. 13: Preferred thematic target areas for SII in Germany

<table>
<thead>
<tr>
<th>Thematic Target Area</th>
<th>Mean</th>
<th>Very unsuitable</th>
<th>Very suitable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clean energy and technology</td>
<td></td>
<td></td>
<td>4.15</td>
</tr>
<tr>
<td>Social enterprise and social business</td>
<td>3.58</td>
<td>3.61</td>
<td>4.13</td>
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<tr>
<td>Housing</td>
<td>3.33</td>
<td>4.00</td>
<td>3.81</td>
</tr>
<tr>
<td>Climate change</td>
<td></td>
<td>3.74</td>
<td>3.88</td>
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<tr>
<td>Food and agriculture</td>
<td>3.71</td>
<td>3.72</td>
<td>3.87</td>
</tr>
<tr>
<td>Welfare and care for the elderly</td>
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<td>3.42</td>
<td>3.55</td>
</tr>
<tr>
<td>Education</td>
<td>3.13</td>
<td>3.45</td>
<td>3.67</td>
</tr>
<tr>
<td>Healthcare</td>
<td>3.43</td>
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<td>3.62</td>
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<tr>
<td>Infrastructure</td>
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<td>3.73</td>
<td>3.82</td>
</tr>
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<td>Microfinance</td>
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<td>3.59</td>
<td>3.80</td>
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<td>Water provision</td>
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<td>3.80</td>
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<tr>
<td>Vocational education and qualification for the labour market</td>
<td>3.09</td>
<td>3.36</td>
<td>3.65</td>
</tr>
<tr>
<td>Child and youth welfare</td>
<td>2.82</td>
<td>3.62</td>
<td>3.81</td>
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</table>
The list of current inhibiting factors for SII in Germany is long. Generally, however, the most significant inhibiting factors are closely interrelated and clearly reflect the fundamental problems that exist on the German SII market (see Figures 14 and 15):

The problems start with terminology and the difficulty of distinguishing SII from conventional investing and also from donations and SRI (socially responsible investing). For this reason, labelling has been demanded from some quarters.

All three groups criticise the lack of suitable products and solutions (Top 1). The low number of suitable SII products and, closely related to that, the low number of financial service providers (Top 3) are certainly also a reason for the low number of SII projects in the portfolios of active investors. Most investors simply find it difficult to locate suitable products in a market that is perceived as very lacking in transparency (Top 4).

These problems are further exacerbated by the lack of consultation opportunities and offers (Top 5). Investors often do not know who they can turn to for advice. Best practices and established standards in dealing with SII could help to reduce the uncertainty on the market and encourage more investors to participate in SII. Yet the number of best practices is regarded as too small or as hardly existent (Top 2).
**Investor attitudes towards Social Impact Investing in Germany**

**III Comparative analysis of results**

**Fig. 14: Major inhibiting factors for SII in Germany**

<table>
<thead>
<tr>
<th>Minor factor</th>
<th>Mean</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of products and solutions</td>
<td>4.21</td>
<td>4.75</td>
<td>4.28</td>
<td>3.94</td>
<td>3.94</td>
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<td>Lack of best practices as guidance</td>
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<td>Lack of transparency in the market</td>
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<td>Lack of consultation opportunities and offers</td>
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<td>Legal obligation to preserve capital*</td>
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<td>Products lack transparency</td>
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<td>Insufficient sources of information</td>
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*Response not available to all groups

Legend:
- Foundations
- Family offices
- Private investors
- Overall
Fig. 15: Minor inhibiting factors for SII in Germany

<table>
<thead>
<tr>
<th>Minor factor</th>
<th>Mean</th>
<th>Major factor</th>
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<tbody>
<tr>
<td>Poor risk-adjusted return expectations</td>
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<tr>
<td>Lack of legislation and regulation</td>
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<td>Products are too complicated and difficult to understand</td>
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<td>Lack of risk management instruments</td>
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<td>Lack of state support</td>
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<td>Incompatible with investment guidelines*</td>
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<td>2.94</td>
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<tr>
<td>Minimum investment amounts too high</td>
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<td>Investor protection guidelines too strict</td>
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<td>Reporting too expensive</td>
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<tr>
<td>Incompatible with obligations as trustee*</td>
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<tr>
<td>Lack of protection for investors</td>
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<tr>
<td>SII is not compatible with the purpose of the foundation*</td>
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<td>Lack of statutory duty to engage in SII</td>
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<td>Lack of protection for investors</td>
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</table>

*Response not available to all groups
Investor attitudes towards Social Impact Investing in Germany

III Comparative analysis of results

Fig. 16: Private and foundation assets in relation to the proportion of SII in the respective portfolios and the number of projects

Figure 16 shows the assets of foundations and private investors respectively in relation to the proportion of SII in their portfolios and in relation to the number of SII projects.

Interestingly, this comparison shows that in the case of foundations there is a significant inverse relationship between asset volume and the relative proportion of SII among the total assets. There is a bipolar distribution which resembles an oblique barbell. From this perspective, this lends support to the hypothesis that investors have major problems finding suitable projects for SII. While it is still comparatively easy to invest several hundred thousand or a few million euros in hand-picked projects, there is a complete lack of structures, platforms and scalable projects for investing significant amounts (e.g. multiple millions) on the SII market. Thus, in this case the restraint is due not to the demand side but, interestingly, to the supply side.
In the case of private investors, the barbell formation can also be discerned but it is not as strongly evident and is not as oblique as in the case of the foundations investigated in this survey. The small size of the bubbles reflects the smaller number of SII-financed social and environmental projects or enterprises that are supported by these investors compared with the foundations. Here again it is evident that in this group of investors there is engagement in SII among those with smaller and among those with very large assets. As in the case of foundations, the private investors in the middle range of asset volumes show only a small degree of engagement in SII.
BIBLIOGRAPHY


