Bundesinitiative IMPACT INVESTING

Impact Investing in Germany

Market Study Summary

2022

In cooperatin with

Universität Hamburg

ADVANCED IMPACT RESEARCH

ZEW Zentrum für Europäische Wirtschaftsforschung GmbH

Supported by

BMW Foundation Herbert Quandt

BertelsmannStiftung

Introduction

Germany is in the midst of a major transformation of its economic and financial systems, with sustainability-related issues increasingly taken into consideration by decision-makers in the public sector as well as by private sector financial market participants. As part of this process, impact investing represents one of the key levers for a just and sustainable transition of the real economy.

The Bundesinitiative Impact Investing [BIII: German National Initiative for Impact Investing] has made it its mission to promote and disseminate the impact investing approach by raising awareness and increasing understanding of this form of investment, so that more people choose to invest with impact. In 2020, BIII published its first market study of the German impact investing market and decided to explore it further with a new study in 2022.

The 2022 Market Study on Impact Investing in Germany was conducted in cooperation with the Sustainable Finance Research Group of Hamburg University under the scientific leadership of Prof. Timo Busch, and with Advanced Impact Research GmbH [AIR] and ZEW, the Leibniz Centre for European Economic Research. The Study received support from the BMW Foundation Herbert Quandt and from the Bertelsmann Stiftung.

The study is based on the analysis of an online survey of a wide range of investors and intermediaries focusing on impact investing volumes, impact investing approaches, impact investing motives, impact investment strategies, and on views on the future development of the impact investing market in Germany. In total, 225 participants assessed the German impact investing market.

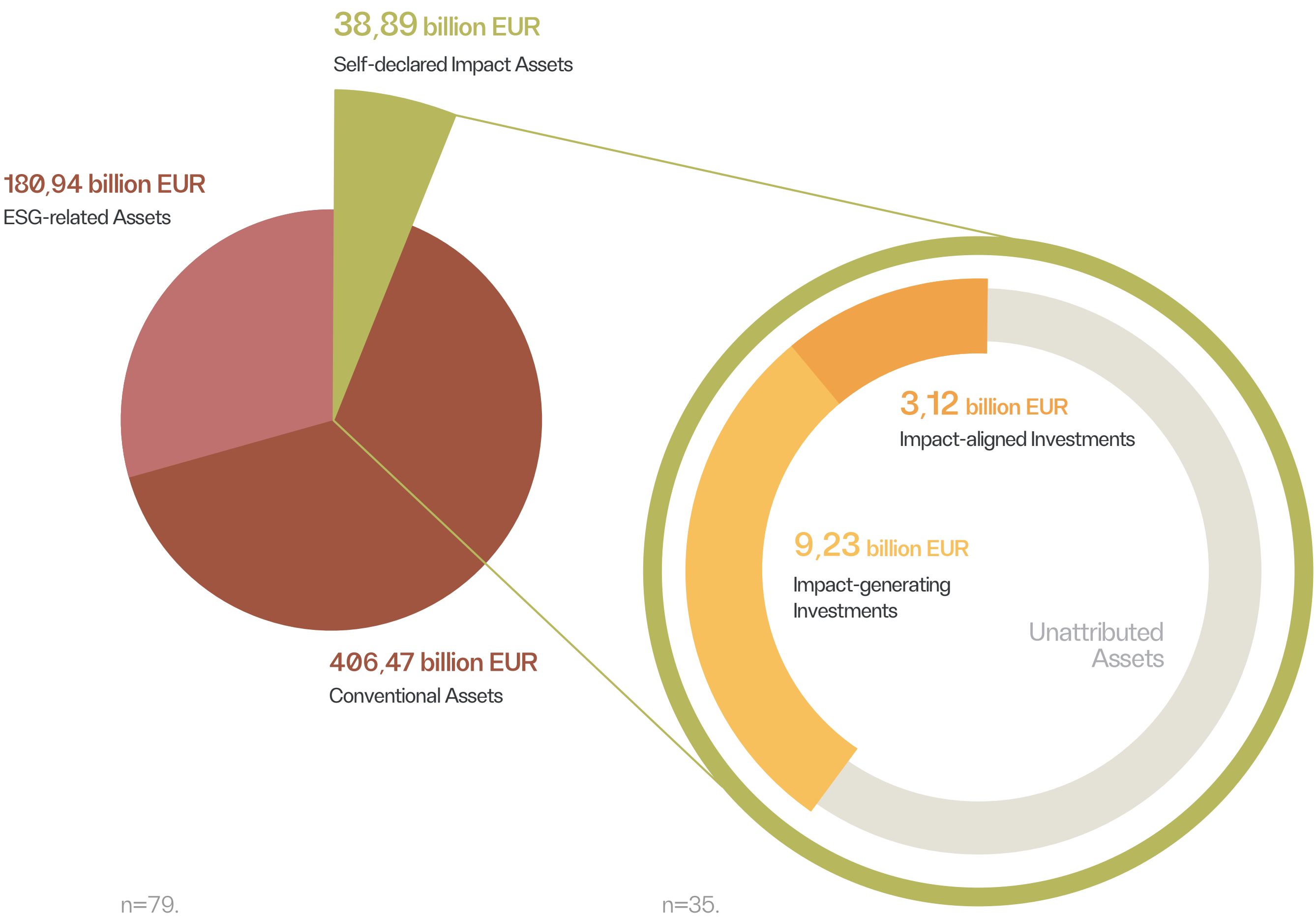
To conduct the study, the research team used the widely accepted definition of the Global Impact Investing Network [GIIN], to convey the idea that impact investments are "made with the intention to generate positive, measurable social and environmental impact alongside a financial return."[1] In addition, to better quantify the market for impact investing, the study distinguishes for the first time between impact-aligned and impact-generating investments. Impact-aligned investments focus on companies that are pioneers in their fields and have a comparatively high company impact; impact-generating investments aim to contribute to the transition of the real economy by focusing on investor impact.[2]

1. GIIN [2020]. Annual Impact Investor Survey 2020, p.74.
2. Cf. G7 Impact Task Force [2021]; Busch, T., Bruce-Clark, P., Derwall, J., Eccles, R., Hebb,T., Hoepner, A., Klein, C., Krueger, P., Paetzold, F., Scholtens, B., & Weber, O. [2021]. Impact investments: a call for [re]orientation. SN Business & Economics, 1[2].

Key Findings

The growth of the impact investing market in Germany is dynamic. The impact investing market in Germany has grown not only with regard to the number of investors but also in terms of the volumes invested. With a total of 38.9 billion euros, the volume of self-declared impact assets is significantly higher than the figures declared in previous studies.[3] About one third of those self-declared impact assets can be classified as either impact-aligned [EUR 3.12 billion] or impact-generating investments [EUR 9.23 billion].

Overview of the investment volumes



n=79. n=35.

Established impact investors are shaping the impact investing market together with newcomers. Almost three quarters [74%] of the respondents stated that they were already working with impact investments. One-third of those had been active in the market for more than ten years, two-thirds for more than three years, and another third entered the impact market less than three years ago. 20 percent of the respondents are considering or indeed planning to enter the impact investing market in the future.

Private equity is a popular asset class among impact investors in Germany. A majority of participants [71%] invests in private equity. In terms of investment volumes, the share of private equity [45%] within the total investment portfolio is also higher than that of other asset classes. However, asset owners and smaller investors are more likely to invest in private equity than asset managers and larger-scale investors.

3. BIII [2020]. Impact Investing in Deutschland – Marktstudie 2020; FNG [2022]. Marktbericht Nachhaltige Geldanlagen 2022.

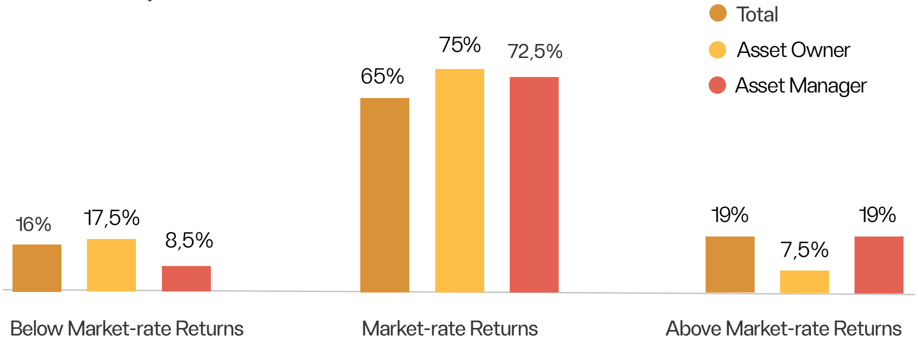
Average proportion of self-declared impact assets in the five largest asset classes

Asset class	Total	Asset Owner	Asset Manager	Investors with smaller impact volumes	Investors with larger impact volumes
Private Equity	45%	59%	33%	62%	32%
Public Equity	16%	11%	21%	6%	20%
Private Debt	16%	18%	14%	16%	16%
Public Debt	8%	2%	12%	11%	5%
Real Estate	10%	10%	5%	5%	15%

Gesamt n=57; Asset Owner n=23; Asset Manager n=25; Investoren mit kleineren Impact-Volumina n=26; Investoren mit größeren Impact-Volumina n=24. Mehrfachzuordnung möglich.

A large majority of German impact investors do not want to sacrifice returns and their expectations in terms of both impact and financial return are being met. 65 percent of the respondents aim to generate market returns with their impact investments, 19 percent strive for above-market returns, and 16 percent are satisfied with below-market returns. 70 percent of respondents indicate that both the impact performance and the financial performance of their impact portfolios are in line with their expectations [impact performance 76%, financial performance 73%].

Return expectations



Total n=101; Asset Owner n= 40; Asset Manager n=47.

German impact investors are determined to solve urgent social and environmental problems. The primary motive of impact investors is to solve urgent global problems [83%]. In addition, personal values as well as ethical beliefs play an important role [82%]. Economic motives [36%] and customer demand [35%] also play a role but are not the main arguments for participants to enter or be active in the market.

Environment, energy, and health-related topics remain at the center of impact investors' interest. Of the 17 United Nations Sustainable Development Goals [SDGs], the survey participants consider that SDG 7 - Clean Energy [51.3%], SDG 13 – Climate Action [51.3%], and SDG 3 – Good Health and Well-being [50%] are the main investment topics.

There is no widely accepted impact measurement and management [IMM] standard. IMM principles, regulatory guidelines, and frameworks such as IFC's Impact Principles[4], the EU Taxonomy[5], the IRIS+ categorization of impact[6] or the Impact Management Project [IMP] Five Dimensions[7] are used by many survey participants. However, none of those stands out as the solution to improve the state of IMM. Half of the participants have simultaneously developed their own sets of impact metrics and indicators and more than two thirds of them measure positive impact using their own, clearly defined key performance indicators. Finally, a large majority of survey participants think that in order to maintain momentum for growth in the impact investing market, a standardization of IMM methodologies as well as corresponding metrics and indicators will be necessary.

Generally used IMM tools and frameworks

Generally used IMM tools and frameworks	Multiple answers possible
We use our own metrics and indicators	51,7%
EU-Taxonomy	41,4%
Sustainable Development Goals [SDGs]	39,7%
Principles for Responsible Investment [PRI]	37,9%
IRIS+	36,2%
Impact Management Project [IMP] Five dimensions of impact	32,8%
Theory of Change [ToC]	31,0%
Operating Principles for Impact Management	25,9%
GIIN Compass	19,0%
Other frameworks	10,3%
We do not use a known impact measurement framework	8,6%
BLab assessment [B Corp]	6,9%
Global Reporting Initiative [GRI]	5,2%
SVI Principles of Social Value and SROI	1,7%

Multiple choices possible. n=58.

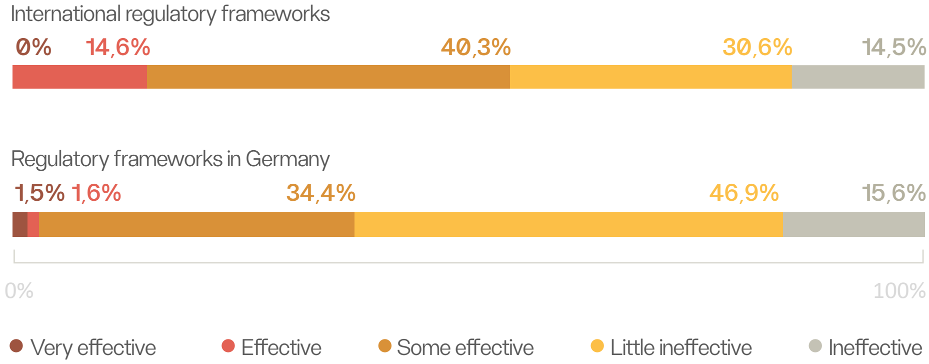
Most investors indicate having an impact management strategy with clear impact targets. The majority of participants [66.7%] reports having a clear investment strategy, which focuses on impact targets. Less than half [43.5%] track the impact of their investments across the entire investment process. However, only a few address additionality [additional contribution] compared to a baseline scenario [16,7%], with a view to establishing an overall balance of their net negative and positive impact [15,3%]. Overall, the responses suggest that there is still a need for considerable improvement in the area of impact management.

More than one third of the respondents [39%] declare the use external services for the verification of their IMM system or impact performance. Participants agree that external verification is an important requirement for more credibility and transparency of impact investments. Such a requirement can therefore contribute to the growth of the impact investing market.

4. IFC - International Finance Corporation [2019]. Operating Principles for Impact Management.
5. Regulation [EU] 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation [EU] 2019/2088.
6. Iris+ Thematic Taxonomy. https://iris.thegiin.org/document/iris-thematic-taxonomy.
7. IMP [2018]. A Guide to Classifying the Impact of an Investment. A-Guide-to-Classifying-the-Impact-of-an-Investment-3.pdf [impactmanagementproject.com].

A large number of respondents consider the legal requirements to be one of the biggest obstacles to the development of the impact investing market. As an EU member state, Germany recently adopted a set of regulatory frameworks, specifically the Sustainable Finance Disclosure Regulation [2021], the EU Taxonomy Regulation [2020], and the MiFID II directive [2018] requiring investment advisers to integrate the sustainability preferences of their clients in their investment advice. The majority of respondents consider these regulatory requirements to be insufficiently clear for the purpose of impact investing, and therefore ineffective [15.6%] and rather ineffective [46.9%]. Voluntary impact investing frameworks such as the IFC Operating Principles for Impact Management [2019] were rated slightly better by respondents.

Legal framework for impact investing in Germany and internationally



n=63.

Outlook

About half of the of respondents are of the opinion that the German impact investing market will continue to grow. Dynamic growth is anticipated in private equity [PE] over the next few years [81%], and a majority of asset managers forecast significant growth in green bonds [65%]. Over one third of participants expect the market to grow due to the implementation of retail solutions.

The environmental sector has the greatest potential and the greatest need for investment. Respondents estimate that the greatest need for capital in the future will be in the following fields: clean energy [67%], environmental protection [63%] and decarbonization [63%]. Health and education follow at 42% and 40%, respectively.

Conclusion

According to the United Nations [UN], the SDGs are to be achieved in only eight years [2030], and by 2050, the European Union wants to become carbon neutral. It is therefore very gratifying to observe the increase in both the number of impact investors as well as the growth in impact volumes. Investors who were previously mainly active in the broader ESG investment field are now engaging more and more in impact investing. For many, this approach is an opportunity to support a just and sustainable transformation of the real economy.

Nevertheless, major challenges remain. Impact investing is still not clearly distinguished from other sustainable investment approaches such as SRI and ESG. In particular, there is no widely accepted measurement and management system on which effective and accountable impact investing practices can rely. Therefore, in addition to a uniform definition of impact investing, there is a need for a standardization of IMM processes as well as for the development of KPIs that drive impact both at company and investor level.

To conclude, we should welcome the study's fundamentally positive outlook and note that the vast majority of impact investors in Germany predict that impact investing will become a relevant market segment in the next three years. They see opportunities that will foster innovation and enable the scaling of socio-ecological solutions for a regenerative economy within planetary and social boundaries. At the same time, we should push for progress in measurement and management systems, which constitute the core of the impact investing approach.

December 2022

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