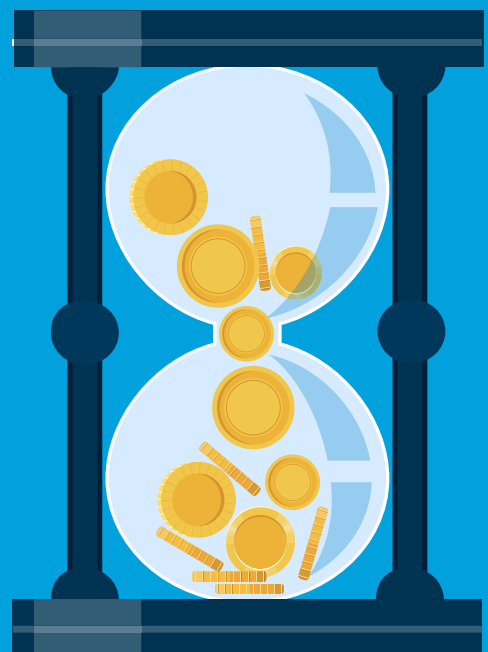




The impact of impact investments

October 2018

[KPMG.com/in](https://www.kpmg.com/in)





Foreword

The impact movement has the same characteristics as many other revolutionary movements, in that it is inclusive, decentralized and replicable across different geographies. It is therefore fast reaching a point of no return, a point at which those with the power to change lives with capital know and understand how their capital can play a part in creating positive impact.

As this capital is transferred into the hands of our millennials, and they begin to lead this revolution, expectations regarding the availability and transparency of data proliferate the debate. Over the years, this has presented a real and significant barrier to impact investment reaching the mainstream.

This is why, we at the GSG, have been working hard over the last year to publish research on this subject. To meet this pressing need, KPMG in India has produced this paper which provides much needed clarity on *The impact of impact investment*. It outlines the benefits and where these investments will continue to be most effective over the coming years. It proves that, to date, there have been no less than 500 million beneficiaries of impact investment and in about two more years, we expect this number to reach 1 billion. Even more significantly, these are some of the most deprived communities in the world, many having been greatly affected by poverty and climate change.

I am honored to present this paper and hope that it will provide more information for those participating or looking to participate in the movement. As the movement grows, it becomes ever more important to keep people at the heart of every decision we take.

I wish to deeply thank KPMG in India for all they have done for us at the GSG, for the movement, and for those beneficiaries whom we commit to supporting on a day to day basis. This is a significant step toward enabling impact investment to become a truly global and unstoppable movement.



Amit Bhatia

Chief Executive Officer

The Global Steering Group
for Impact Investment

Preface

Globally and in India, impact investment has reached the cusp of a revolution- a revolution which has the power to impact millions of lives. Industry reports clearly prove that impact ventures have delivered the desired social and environmental outcomes alongside financial returns, thereby lifting millions of people out of poverty and addressing key environmental and social concerns.

Notwithstanding such contributions, impact investment still accounts for 1 per cent of capital allocated globally. It has the potential to further benefit many more people and address key social challenges in sectors such as education, health, housing, poverty alleviation, climate change, among others.

This study underscores the untapped potential of impact investments to drive the next wave of innovations at an unprecedented pace and scale. It presents a sketch of the global impact investing eco system with an estimate of current market size and sector-wise growth forecasts till 2020.

Backed by secondary research and consultations with senior members of the KPMG's Global Impact Investing Institute, the paper estimates that by 2020 more than 1 billion people would be benefited by impact investments. Throughout the research we have been guided by the broad ethos of the KPMG's Global Impact Investing Institute which views real impact investing as "solving a social or environmental need by implementing with fidelity, measuring outcomes, and achieving sustainable financial rewards".

I take this opportunity to appreciate GSG for catalysing the growth of the impact investment landscape.



Nilaya Varma

Partner and Head

Government and Healthcare
KPMG in India





Table of contents



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2. Introduction	02
3. Impact capital deployed	04
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Executive summary

Impact investment assets under management (AUM)



Impact investment beneficiaries (estimated)



84%

Estimated increase in impact investment AUM from 2017-20



104%

Estimated increase in impact investment beneficiaries from 2017-20



54,285,000,000

Estimated impact investments in clean energy and climate change (2020 cumulative – USD)



95 million

Estimated beneficiaries of impact investments in Sub Saharan Africa (2017)



197,538,000,000

Estimated beneficiaries of impact investments in healthcare (2020 projected)



84 million

Estimated beneficiaries of impact investments in South Asia (2017)

Introduction



What is impact investing?

Impact investing is a financial undertaking that aims to generate specific and measurable beneficial social or environmental effects in addition to financial gain. Impact investing is the latest iteration of responses to seemingly intractable social and environmental problems. At its core is the idea of applying private sector capital and learning to traditionally 'public' sector issues.

Impact investors intentionally and explicitly seek the dual objective of producing both financial and social/environmental returns. As evidenced by its growth, investors are seeking innovative dual return assets and there is also growth in measuring impact and outcomes. These investments not only enhance the profile of an organization by demonstrating social value and enable it to contribute towards sustainable development, but can generate a return to capital. It is this financial gain that contrasts impact investing from more traditional Corporate Social Responsibility programmes which also seek better societal outcomes.

Why is it important?

Impact investment balances risk, return and impact to help benefit people and the planet. It does so by setting specific social and environmental objectives alongside financial ones, and measuring their achievement (GSG). Real impact is measurable, drives change at scale and adds up for everyone.

How big is the pie?

- USD 468 billion impact investment AUM by 2020
- >3500 Impact Investors
- >3 million impact enterprises
- ~ 1 billion estimated beneficiaries by 2020
- Market estimated to grow >16 per cent through to 2020.

Context of this study

Central to impact investing is the setting of measurable impact objectives and tracking the performance. However, fundamental to this is the impact of investments to drive social change to benefit the people and the planet, while delivering financial returns. Hence, this study aims at providing estimates of the number of lives touched upon by impact investments.

Key insights

- Impact investment has been estimated to impact the lives of approximately 507 million people as on date, and is further projected to impact 1.03 billion people by 2020
- Estimated increase in impact investment AUM from 2017-20 is 84 percent
- Two sectors— Healthcare and clean energy and climate change, are estimated to dominate the global impact investing landscape by 2020.

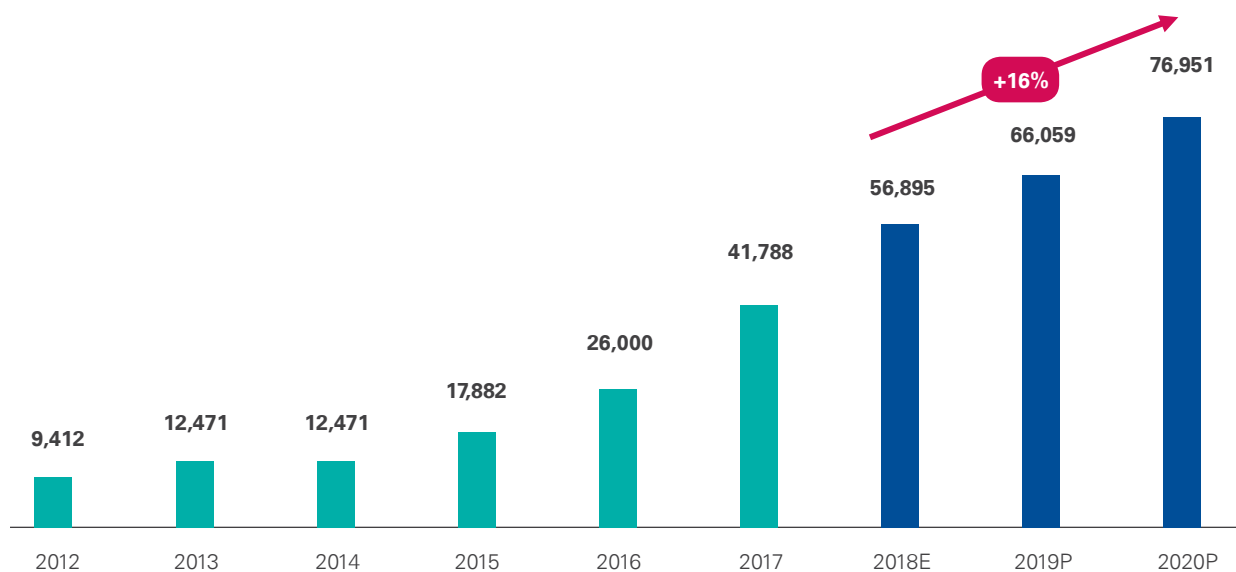


Impact capital deployed



Exhibit 1: Impact capital in USD million deployed by year (fresh deployments) - Global

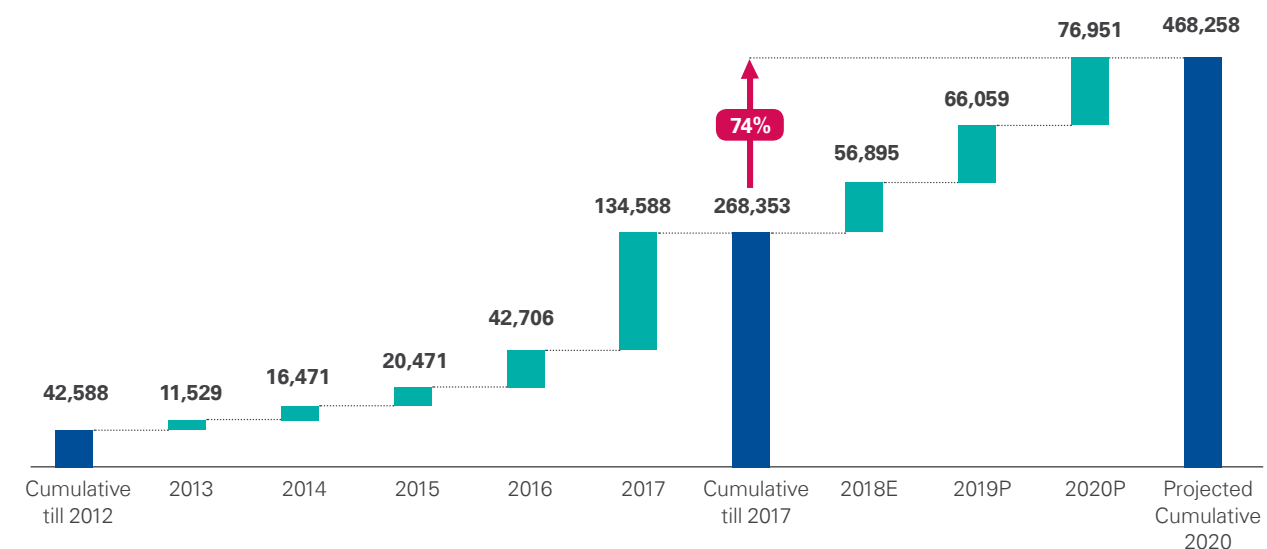
16 per cent Year on Year (YoY) growth in fresh impact capital deployed projected from 2018-2020



Source: GIIN Annual Impact Investment Survey reports 2013-2018, KPMG in India's analysis 2018 based on approach outlines elsewhere in this report

Exhibit 2: Assets under Management (AUM) for impact investors in USD million deployed by year (additions and cumulative) – Global

74 per cent additional AUM from impact capital projected to be deployed by 2020

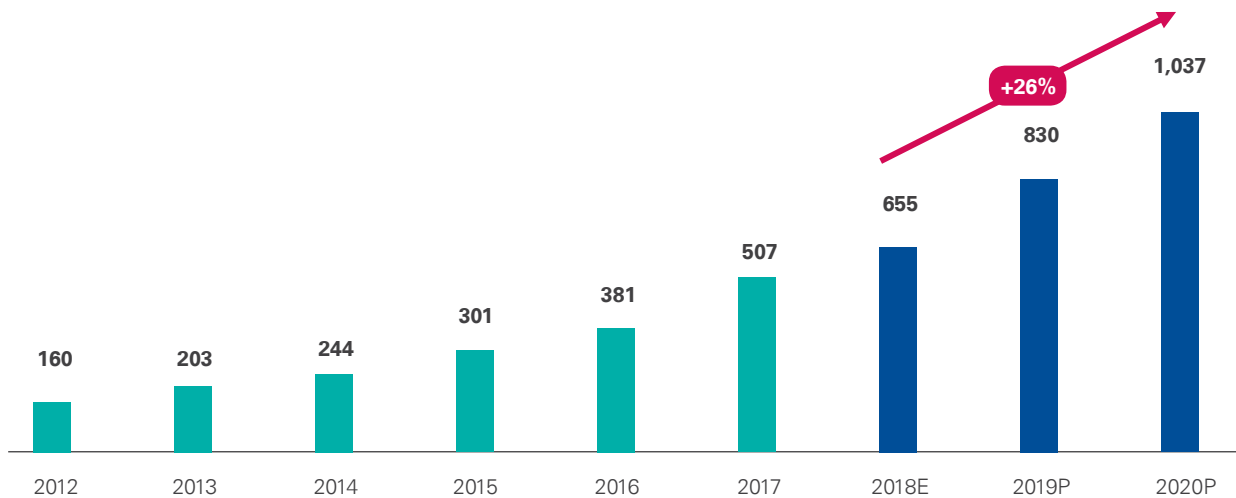


Source: GIIN Annual Impact Investment Survey reports 2013-2018, KPMG in India's analysis 2018 based on approach outlines elsewhere in this report

Beneficiaries of impact investment

Exhibit 3: Estimated beneficiaries of impact investments in million by year (fresh deployments) – Global cumulative

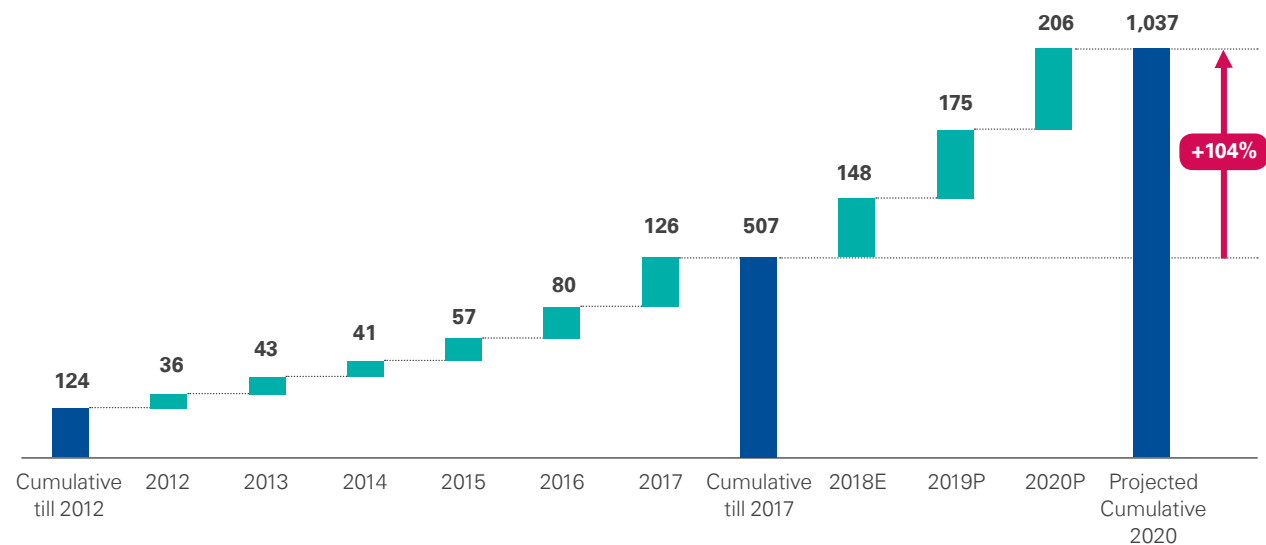
26 per cent YoY growth in cumulative beneficiaries of impact investments projected from 2018-2020



Source: KPMG in India's analysis 2018 based on approach outlines elsewhere in this report

Exhibit 4: Estimated beneficiaries (in million) of impact investments by year - Global

104 per cent addition to impact investment beneficiaries projected by 2020



Source: GIIN Annual Impact Investment Survey reports 2013-2018, KPMG in India's analysis 2018 based on approach outlines elsewhere in this report

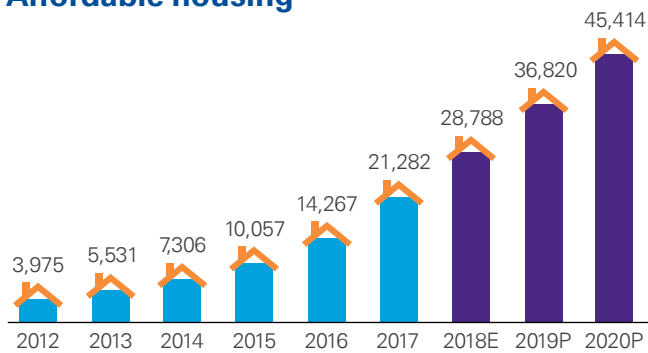
Impact capital deployed by sector



Exhibit 5: Sector-wise impact capital in USD million Deployed by year (cumulative deployments)

Affordable Housing and Climate Change/Clean Energy expected to continue to be among the largest investment areas

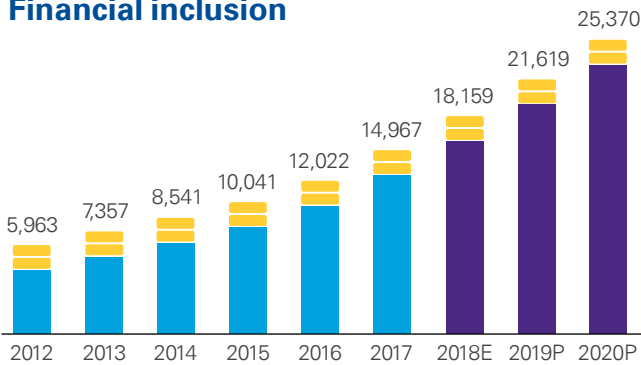
Affordable housing



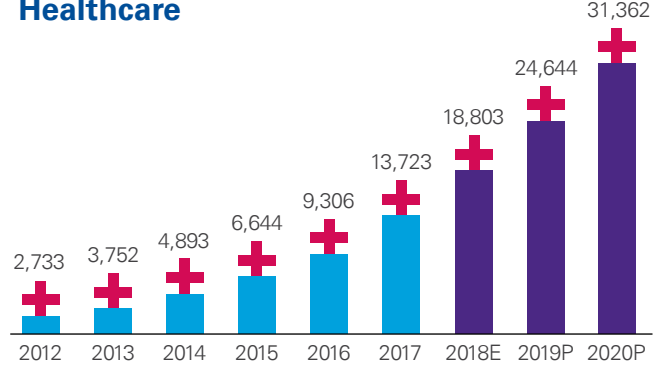
Food and agriculture



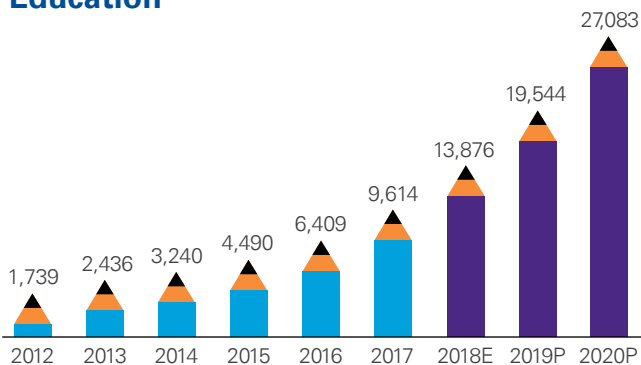
Financial inclusion



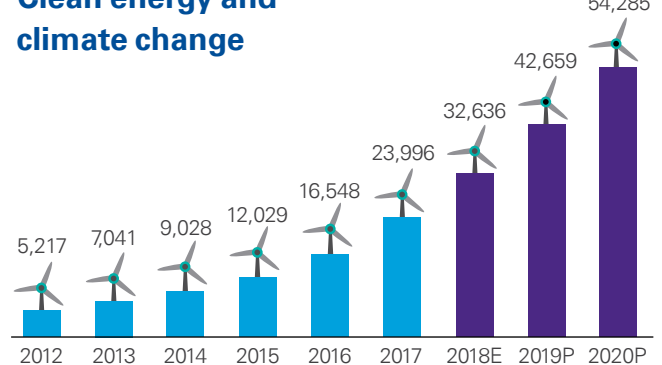
Healthcare



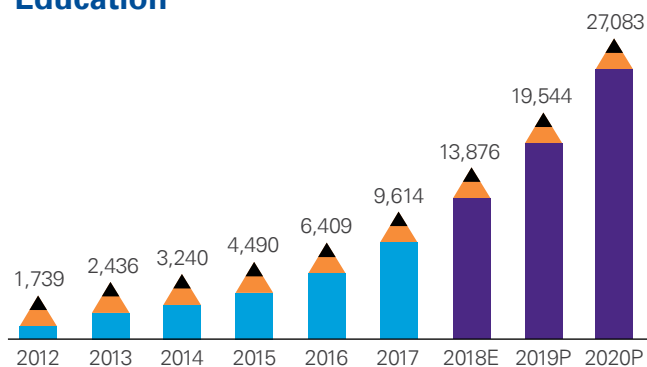
Education



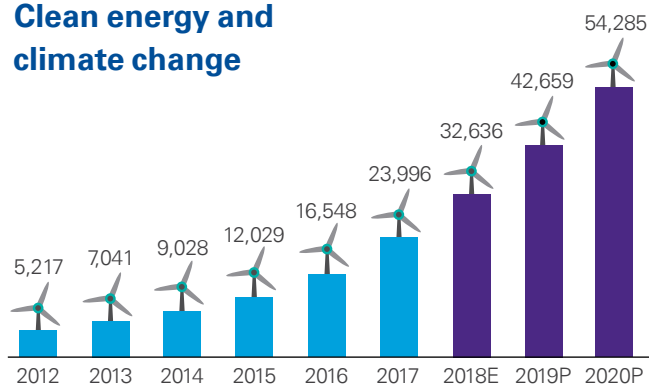
Clean energy and climate change



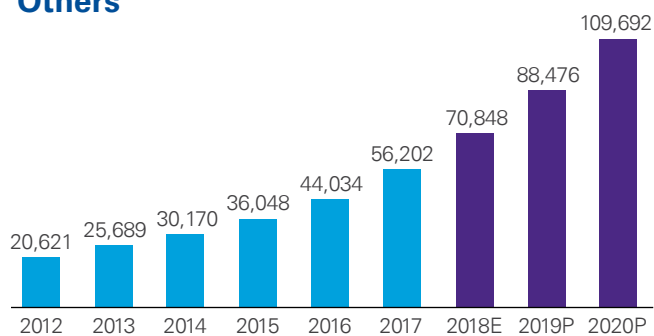
Education



Clean energy and climate change



Others



Source: GIIN Annual Impact Investment Survey reports 2013-2018, KPMG in India's analysis 2018 based on approach outlines elsewhere in this report

All numbers in USD million

'Others' includes WASH, gender, ICT, disability and other non-classified investments

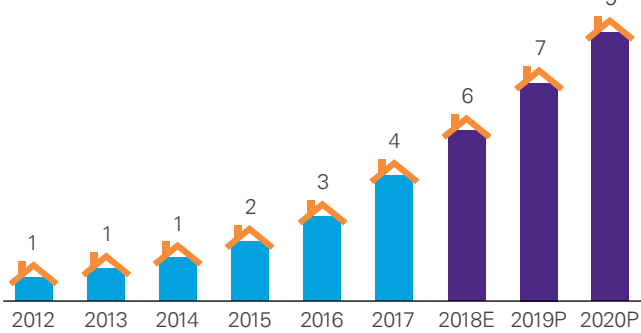


Beneficiaries of impact capital by sector

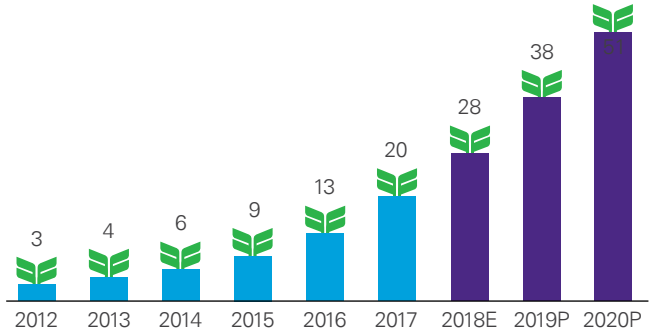
Exhibit 6: Sector-wise estimated beneficiaries of impact investments in million – cumulative, global

Climate Change/ Clean Energy and Healthcare expected to continue to be among the largest contributors till 2020

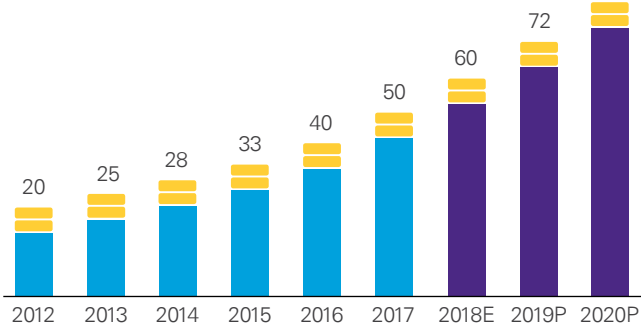
Affordable housing



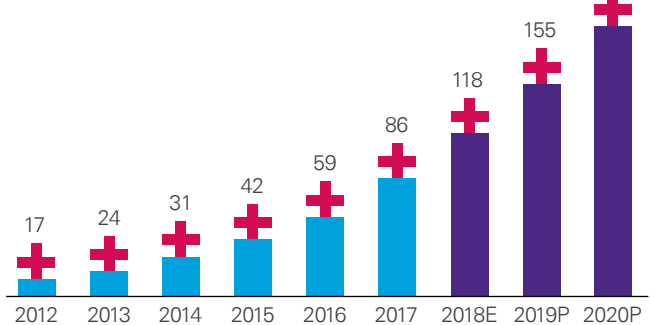
Food and agriculture



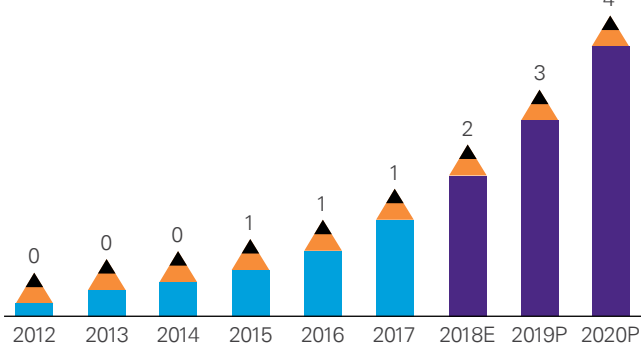
Financial inclusion



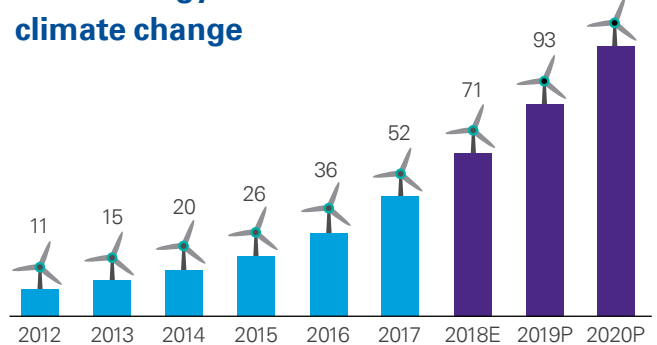
Healthcare



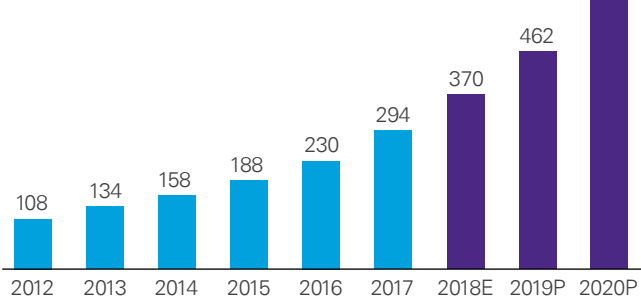
Education



Clean energy and climate change



Others



Source: KPMG in India's analysis 2018 based on approach outlines elsewhere in this report.

All numbers in USD million

'Others' includes WASH, gender, ICT, disability and other non-classified investments.

Impact capital deployed by region

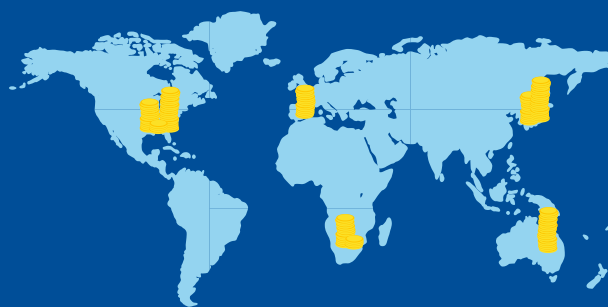
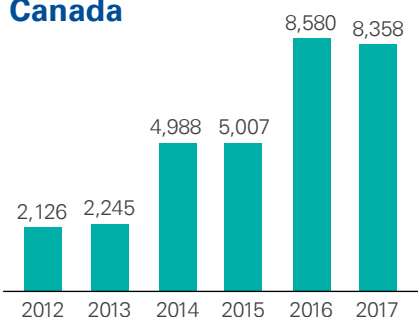
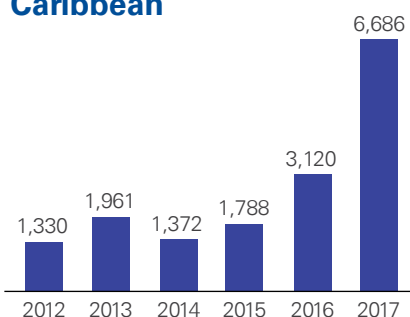


Exhibit 7: Region wise impact investments in USD million (at market exchange rates) – fresh deployments
U.S. and Canada dominate, but Asian geographies growing rapidly.

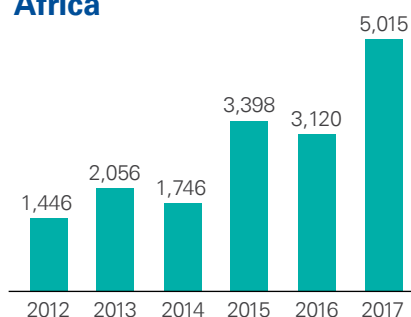
U.S. and Canada



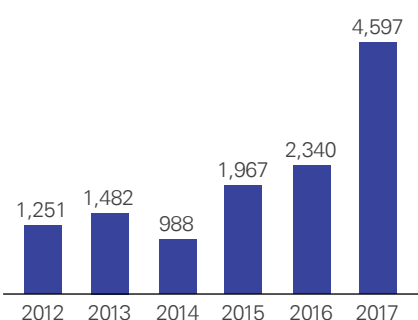
Latin America and Caribbean



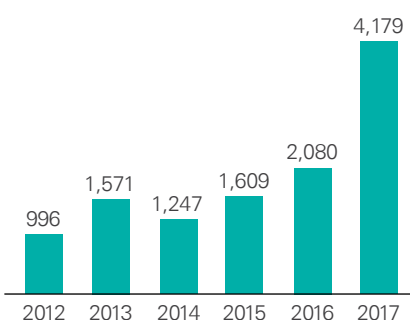
Sub-Saharan Africa



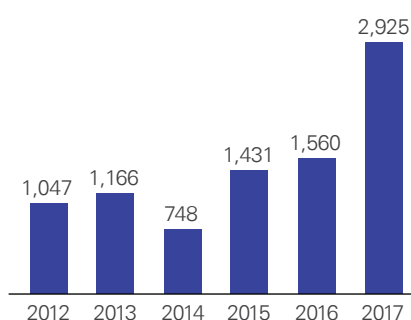
Western, Northern, and Southern Europe



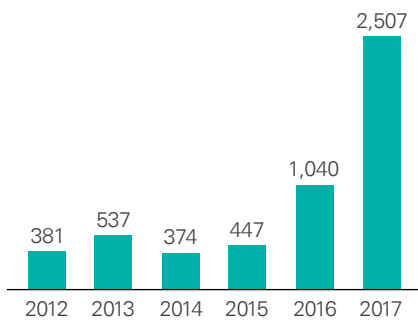
Eastern Europe, Russia, and Central Asia



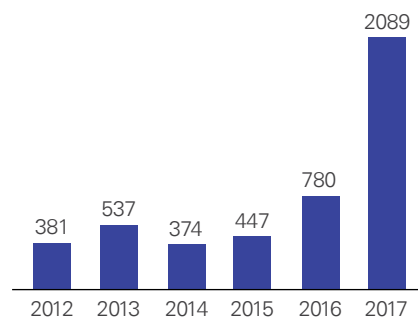
South Asia



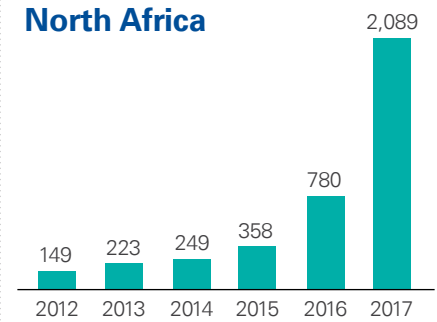
South East Asia



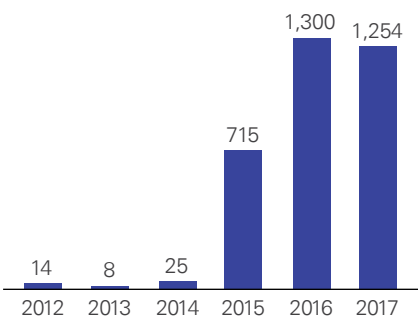
East Asia



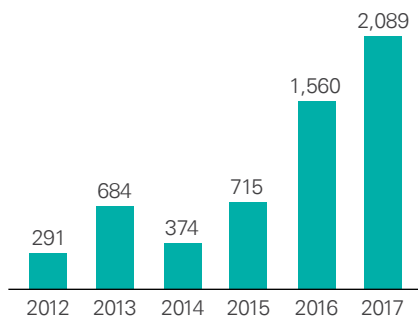
Middle East and North Africa



Oceania



Others



Source: GIIN Annual Impact Investment Survey reports 2013-2018

Numbers for US and Canada higher possibly due to investment vehicles being located here, but actual work in other regions

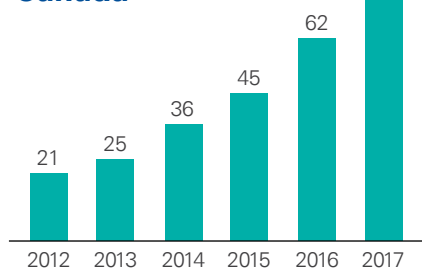


Beneficiaries of impact capital by region

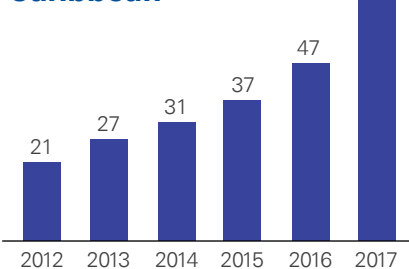
Exhibit 7: Region wise impact investments in USD million (at market exchange rates) – fresh deployments

U.S. and Canada dominate, but Asian geographies growing rapidly.

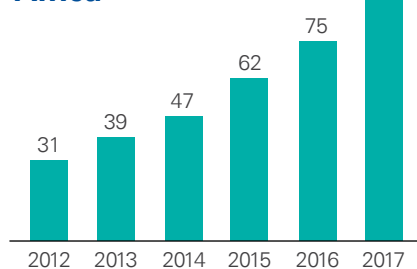
U.S. and Canada



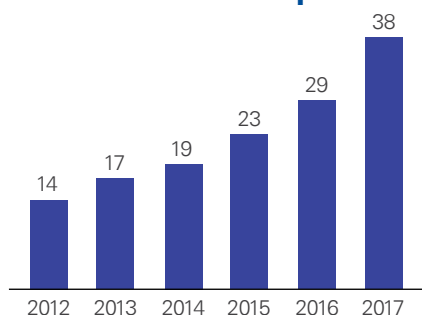
Latin America and Caribbean



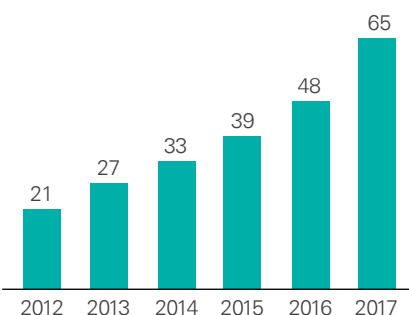
Sub-Saharan Africa



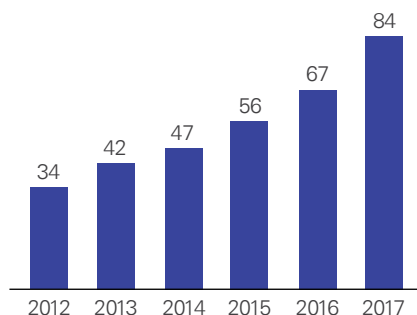
Western, Northern, and Southern Europe



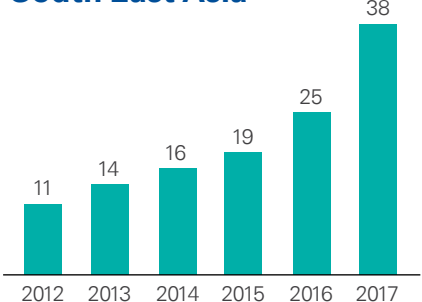
Eastern Europe, Russia, and Central Asia



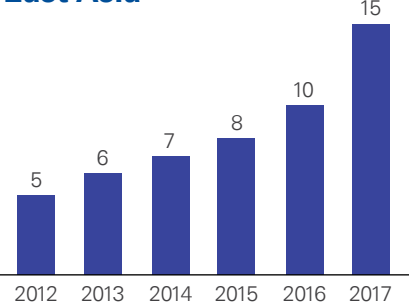
South Asia



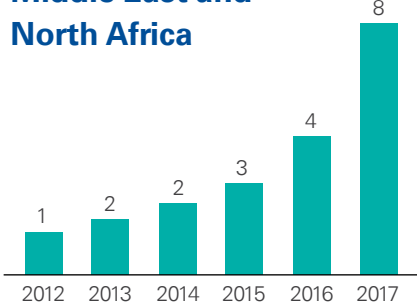
South East Asia



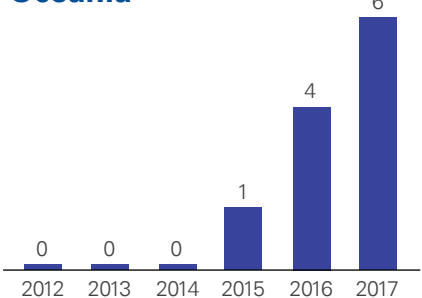
East Asia



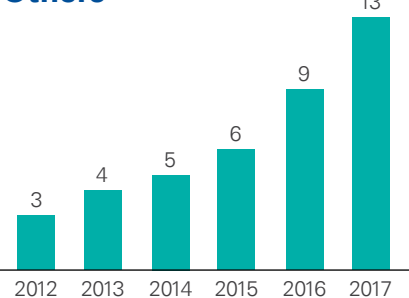
Middle East and North Africa



Oceania



Others

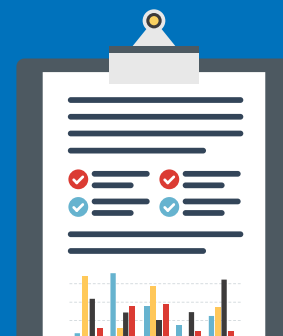


Source: KPMG in India's analysis 2018 based on approach outlines elsewhere in this report

For calculating region wise beneficiaries, a PPP correction factor (Source: World Bank) of a representative country from the region was applied to the investment figures from Exhibit 7. Thereafter an adjusted share was obtained, which was used as a proxy to determine beneficiary share among regions.

Numbers for U.S. and Canada higher possibly due to investment vehicles being located here, but actual work in other regions.

Measuring and reporting impact



The most commonly/frequently reported metrics by impact investment Asset Management Companies (AMCs) listed below, give a sense of the indicators where impact capital is moving the needle



Food and agriculture

- Agriculture productivity
- Access to irrigation water
- Increase in (crop) water productivity
- Income increase for farmers



Affordable housing

- Access to quality affordable housing
- Occupancy rate of housing units
- Reduction in rate of homelessness



Financial inclusion

- Livelihood opportunities due to better access to finance
- Number of micro-insurance products sold
- Number of jobs created in formal and informal sector



Education

- Primary completion rates for girls and boys
- Enrolment rates for girls and boys
- Early Child Development Index (ECDI)
- Access to quality education



Healthcare

- Maternal Mortality Ratio (MMR)
- Neonatal, infant, and under five mortality rates
- Increased access to affordable quality healthcare



Clean energy

- Number of individuals at the base-of-the pyramid who gain access to electricity
- Access to affordable, reliable and modern energy services
- Tonnes of CO2 equivalent offset as a result of organization's product or service



Others

- Access to clean water
- Access to safe sanitation
- Clients expose corruption and hold the powerful accountable (Media)

Way forward



One of the strong indicators of the impact of impact investments, is to demonstrate, with evidence the number of beneficiaries such investments are touching. The following recommendations, we believe, would facilitate the same in a uniform, standardised manner, across the board. These recommendations could be action items for the respective governments and/or organisations working in the impact investments space.



Standardised reporting of type

- Classification of various impact investment instruments – avoid double counting or fall through
- Standardisation of reporting metrics
- Effect policy changes to enable standardisation.



Aligned regulations

- Regulations can be enacted to recognize impact investors-relax regulations that prevent organisations from getting engaged in profit-making ventures
- Provide customised incentives such as tax breaks to promote growth of industry.



Measurements aligned to SDGs

- Use the SDG framework to address global issues such as access to clean water, improving health and well being
- Leverage impact investing for attaining the SDG goals- long term investing commitment to attain key outcomes
- Track and report performance in line with SDG metrics.



Promote data transparency

- Develop tools to encourage transparency e.g. a transparency charter
- Publish details on operational costs alongside the annual report
- Transparency of individual operations and transparency across the market to build more knowledge, trust and attract investors.



Standardised definitions

- Adopt a standard global definition of impact investment and uniform standards in measuring and reporting social and environmental outcomes.



Track attributability

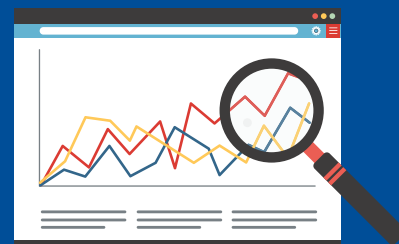
- Demand by capital providers to stimulate fund managers to report attributed results
- Provide assistance to fund managers in effective and efficient data collection from investee companies
- Adopt SROI approach to attribution which involves asking beneficiaries for their view about what has made a difference.



Global data repository

- Create a global data repository of impact investors, enterprises, deal size, and impact data in line with the World Bank Open Data
- Provide free access to global investment data repository
- Further, provide access to data collected through sample surveys (GIIN surveys) of beneficiaries and capital providers.

Inclusive impact – select case studies



Green Bonds- Water bond, U.K.

Green Bonds finance projects that deliver environmental benefits, such as the development and installation of renewable energy plants, waste and pollution control, efficient transport services and water treatment and distribution. Having invested GBP 250 million in programmes, the bond will mature in 2025 and investors will receive their return basis estimated environmental benefits.

Impact enterprise facilitating artisans in India

The enterprise designs and sources hand-made products made from sustainably sourced wood, metal, and textiles exclusively from artisans in India and retails its products in the U.S. 43,075 artisans are part of value chain gaining market access at fair price and have earned USD 1.4 million (Cumulative 2017).

Providing an affordable vision

Avoidable blindness from cataract is one of the grim realities of India with approximately 10 million people living with it. This impact enterprise has set up innovative vision centres at existing general physician facilities in small towns and serviced over tele-medicine from its hospital. Services are affordably priced to support all economic segments, especially the underprivileged.

Powering sustainable growth

This impact enterprise is a next generation utility impacting lives in Africa and South East Asia, providing access to affordable, clean energy to off-grid communities. It produces and markets solar home systems to provide clean and safe electricity and have lightened homes of 625,000 people in 35 countries.

Driving next stage of financial inclusion

This enterprise is strengthening communities by connecting loan borrowers with savers seeking to invest their money. The company's interest rates are 30-60 per cent below average market rates. On an average, a client saves USD 650 in interest paid annually and investors earn more than 3X vs saving in traditional banks.

Social Impact Bonds: Australia

This was Australia's first SIB, and raised AUD 7 million in funding. The programme will support over 700 families over 7 years to improve parenting and allow children in foster care to return safely to their families. The impact of the intervention will be measured through a quasi-experimental design where families in the programme will be compared to similar families who were not provided the intervention.

Source: KPMG Global Impact Investing Institute: Impact Investing Lexicon



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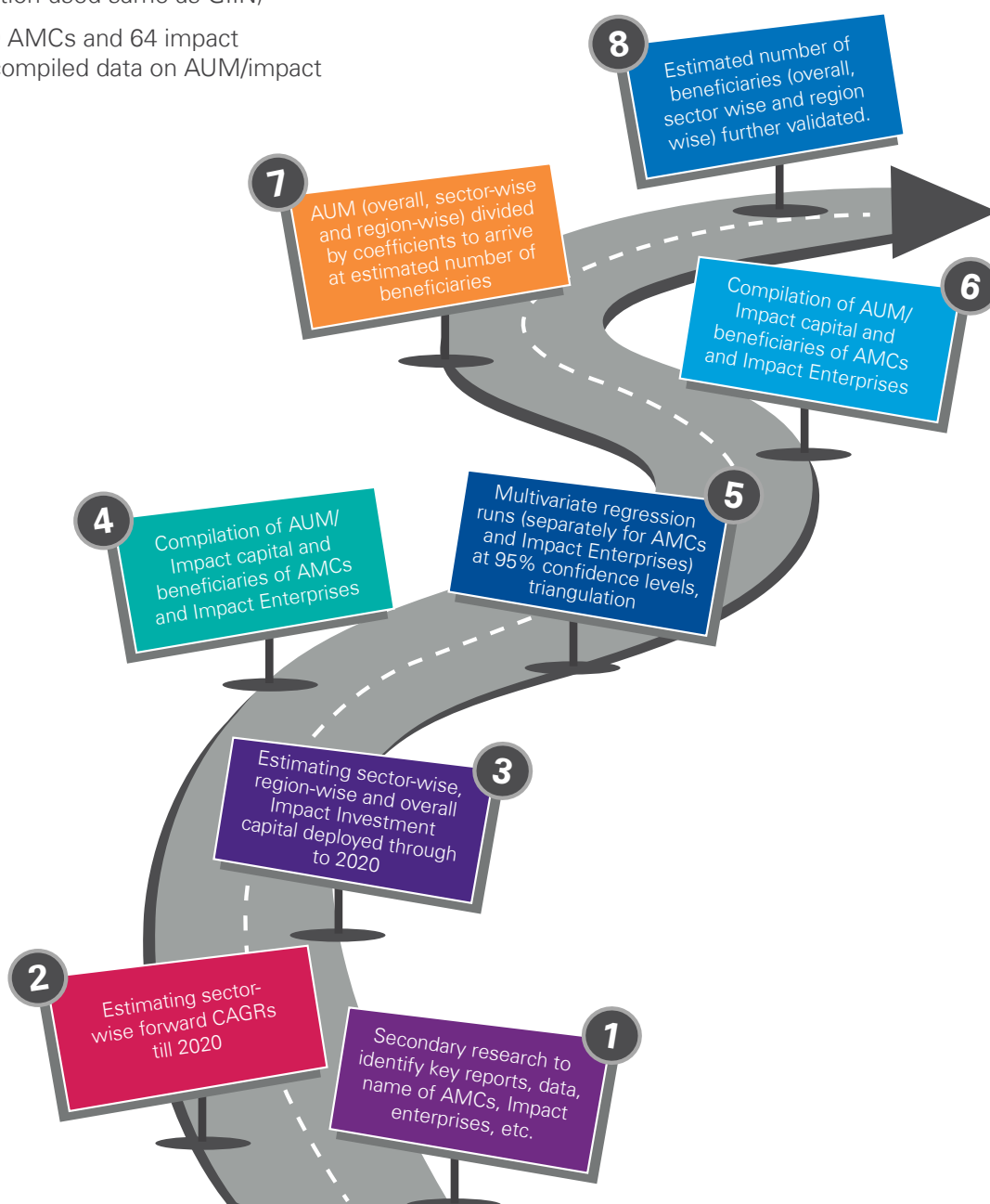
Approach adopted

With an objective of estimating the beneficiaries of impact investment, we have followed the following approach:

- We have used the Global Impact Investment Network (GIIN) annual survey reports, and other internal databases, including internal working documents of the GSG, to establish an estimate for a year-wise fresh impact capital deployed (overall and sector-wise), and basis that, the cumulative assets under management (AUM) from 2012 till date. We then have used various industry projections to establish forward CAGRs by sector, and totalled to arrive at the total projections till 2020. These numbers were also broken up by regions (classification used same as GIIN)
- We shortlisted 49 AMCs and 64 impact enterprises, and compiled data on AUM/impact

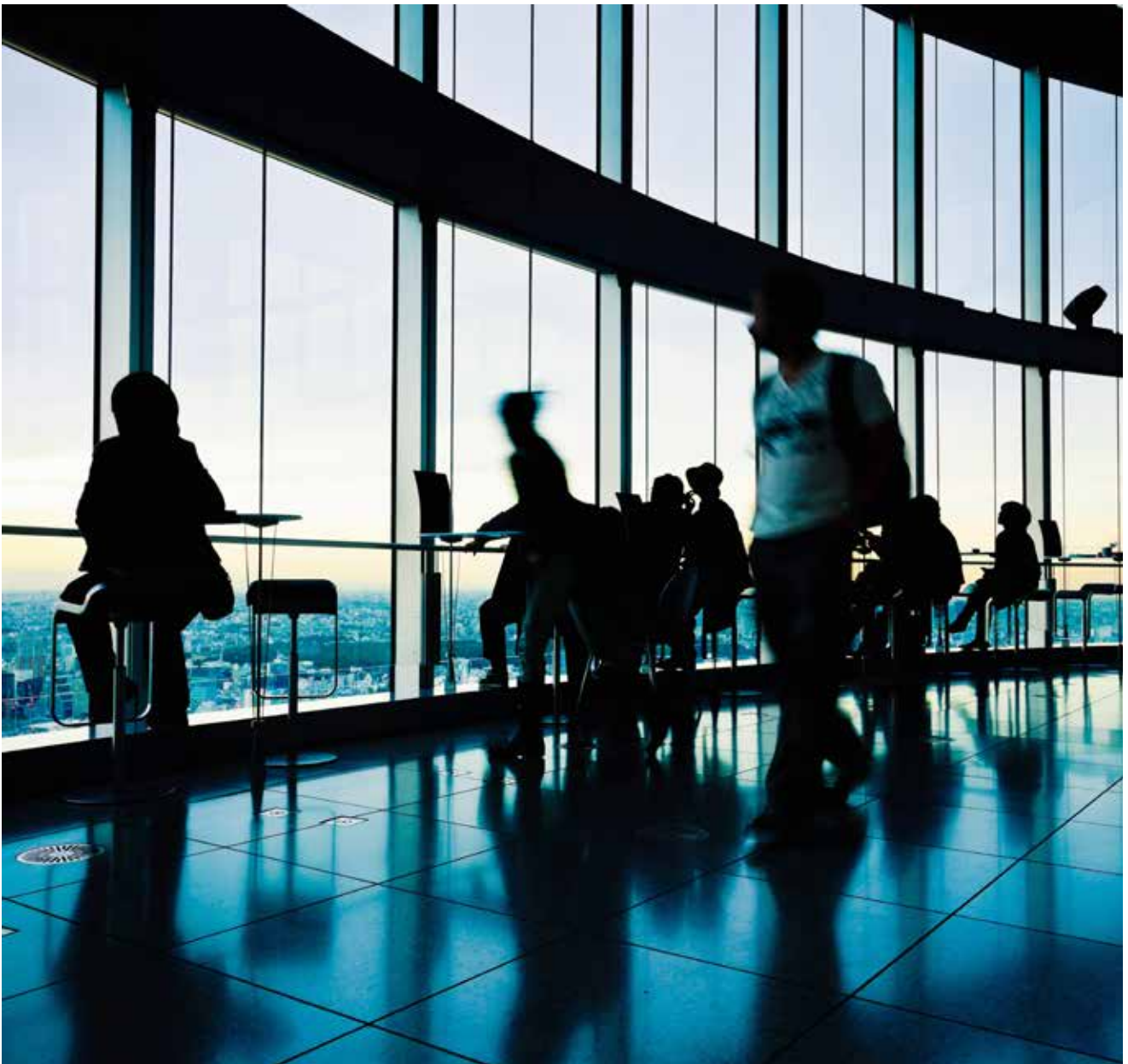
capital Invested and the number of beneficiaries touched. These AMCs and impact enterprise selection was done in a way that all sectors and regions were more or less uniformly represented. Basis these numbers, a multivariate regression was run, separately for AMC and impact enterprise and coefficients for estimates investment per beneficiary was arrived at and triangulated. The regressions were done at a 95% confidence level. These coefficients were then internally validated.

- The AUM (overall, sector-wise and region-wise) were then divided by these coefficients to arrive at estimated number of beneficiaries. These numbers were also further validated.



Limitations of the adopted approach:

- A geography/sector skew in the cohort of AMCs and impact enterprises selected will impact final outputs
- In a few cases, the AMCs and/or investees headquarters are located in a region, while their operational area might be another region, in such cases, the region of headquarters gets reported. Correction for the same has not been done due to lack of data
- All limitations of multivariate regression apply
- Due to constraints on time, no primary research/ data validation has been done; all numbers used are from public domain
- Sector-wise projections for impact investing growth has been done as per expert inputs, and no interviews for AMCs have been conducted
- No primary validation of beneficiary numbers arrived at has been done, and proxies to establish the same for a few impact enterprises have been used.



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About GSG

The Global Steering Group for Impact Investment (GSG) seeks to catalyse a dynamic global ecosystem for impact investment as a key enabler of innovation, entrepreneurship, and capital to deliver impact at scale.

The GSG works with a global network of National and Regional Advisory Boards, partners, and other key stakeholders to drive forward the growth of the impact investment market to a tipping point by 2020.

The GSG was founded in August 2015 as an independent, multi-sectoral and global network catalysing impact investment and entrepreneurship to benefit people and the planet. It succeeded the Social Impact Investment Taskforce established under the U.K. Presidency of the G8. In July 2016, a majority of stakeholders surveyed at the GSG Summit in Lisbon indicated support for the GSG to be formalised as an entity to continue to provide multi-lateral, cross-sector leadership for global market development supported by a dedicated team.

The GSG was incorporated as a charitable company (no. 10665679) in England and Wales in March 2017. It was registered as a charity with the Charity Commission for England and Wales (no. 1175658) in November 2017. It is managed by a Board of Trustees, who are also its directors for company law purposes. The GSG was established to further charitable purposes; in particular, to develop and promote impact investment with the aim of alleviating poverty, protecting the environment and developing sustainable economic growth, and also to educate in relation to impact investment.

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KPMG's Global Impact Investing Institute is a global body that brings together KPMG professionals' impact investing work experience and insight to support clients. It works as a single point of contact enabling clients to access industry experts from their sector, region, and with the necessary skillset to address their challenge. The Institute also manages KPMG's global knowledge, supports our market-leading thought leadership, and develops strategies, tools, and methodologies to help ensure that our approach remains at the leading edge of impact investing.

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