Impact Investment
The market, Measurement & the EIF

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**EIF**

**In a nutshell**

<table>
<thead>
<tr>
<th><strong>OBJECTIVE</strong></th>
<th><strong>HOW</strong></th>
<th><strong>WHERE</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>To support <em>smart, sustainable</em> and <em>inclusive</em> growth for the benefit of European SMEs.</td>
<td>By offering a wide range of <em>targeted products to support</em> SMEs and mid-caps, ranging from venture capital to guarantees and microfinance.</td>
<td>Working with financial intermediaries across the EU-28 and EFTA countries, candidate and potential candidate countries.</td>
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- ‘the SME financing gap’
  - information asymmetries → undersupply of external financing
  - Fill the gap

- Europe’s social mission: improve social cohesion (‘inclusive growth’)
  - Improve social outcome of disadvantaged societal groups
  - Address spatial heterogeneity in labour markets
Support for different development stages

SME Development Stages

PRE-SEED PHASE  SEED PHASE  START-UP PHASE  EMERGING GROWTH  DEVELOPMENT

Higher Risk  Lower Risk

Technology Transfer

Microcredit

Business Angels

VC Seed & Early Stage

Formal VC Funds & Mezzanine Funds

Loans / Credit Lines / Guarantees / Credit Enh.

Leasing, Factoring & Export Credit

Social impact Investments

Inclusive Finance

Source: EIF
The market of impact investments

Global evolution since 2000 (according to PitchBook)

An exponentially growing market…

The emergence of something permanent, or a temporary counter-cyclical phenomenon?

Source: Author, based on PitchBook
The market of impact investments

PitchBook’s classification/definition

"Impact Investing:
This vertical includes companies that have received investment from those funds and/or investors with an Investment Preference of "seeks impact investment." For a fund to qualify as an impact fund, it must meet criteria 1-3 below:

1. Investing for financial returns
2. Investing to intentionally create a positive social/environmental impact
3. Actively measuring the impact that is created (with ESG criteria, UN SDGs, IRIS, GIIRS, etc.)
   OR
4. Self-identify as an impact fund.

Additionally, this vertical includes companies that have received investment from "not-for-profit venture capital" investors.

- Financial returns
- Intentionally create impact
- Impact measurement"
The market of impact investments

Some more PitchBook statistics: global sub-markets

Investment volumes, by global region (2000-2018)

- EU28: 37%
- North America: 29%
- Asia: 13%
- Rest of the World: 21%

Investment volumes, by Deal Type (2000-2018)

- Venture Capital: 54%
- Private Equity: 25%
- Merger & Acquisition: 21%

Evolution of deal count (VC/PE/MA), by global region

Preliminary data
The market of impact investments

Some more PitchBook statistics: EU-focus

Investment volumes by deal type (2000-2018)

The EU Venture Capital market (cumulative investment amounts)
Social impact at the EIF

The Social Impact Accelerator

• First pan-European public-private partnership
• addressing the growing need for availability of equity finance to support social enterprises.
• Provide alternative sources of employment for marginalized groups
• Promote inclusive growth

Investment principles

• Fund-of-Funds
• Targets funds that invest in social enterprises across Europe
• Entrepreneurial solution to societal issues through scalable approach
• Social impact and profit go hand in hand
• MEASURABLE impact
Measuring impact

• Basic principle: accountability
• Impact measurement framework
  • 1 to 5 social impact indicators (jobs created)
  • Define quantifiable targets for each of the indicators
  • Progress evaluated on yearly basis
  • Social multiples (per indicator, per fund, for SIA)

Case Study: ResQ Club

Slogan: “Leave no meal behind”  Sector: (FoodTech)

Disruption:
• Revolutionise current wasteful food retailer business model and encourage responsible food consumption by matching supply and demand through mobile application

Investment Rationale:
• Clear business model, easy to understand and cost-efficient.
• Model with a potential for duplication in Europe

Social impact indicators:
• Amount of food saved (tons): 2000/year
• Amount of users reached: 500,000
Measuring (social?) impact

At the level of EIF

Reporting

• Recurring: Investment volumes, number of jobs/companies supported
• One off, sophisticated analyses: exits, estimation innovation value

Causal estimation

• EIF addresses (consequences of) market failures → Additionality
• Economic activity not created, absent public intervention
• = philosophy behind impact assessment framework
• Propensity score matching framework
  • Compare a group of firms supported by EIF to an otherwise identical group of firms that haven’t been received EIF support
  • Outcome variables: assets, profit, productivity, employment
• Challenging: labour intensive, data intensive, hard to apply to social impact (depending on how you define social)
• BUT: the ideal to strive for nevertheless
Thank you
... for your attention!

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