

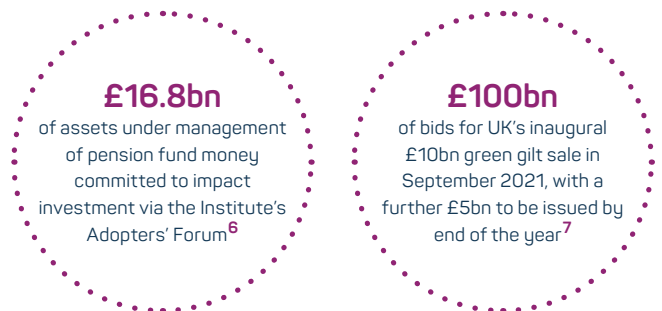
## Impact investment and its role in tackling climate change

- Impact investment – estimated to be a \$715 billion sector globally<sup>1</sup> – is investment made with the **intention** to generate **positive, measurable social and environmental impact** alongside a **financial return**.
- Impact investing is distinguished from sustainable or responsible investment approaches through its focus on contributing solutions to social and environmental problems, and its commitment to measure the impact outcomes of its investments.
- The impact investing field is well-established: institutional investors such as pension funds and insurers are stepping into the field, working alongside mainstream asset management firms to deliver impact investing approaches.
- Impact investors have long been concerned with financing climate change mitigation and adaptation, and increasingly are focused on embedding social impacts into that climate work to deliver a just transition. Impact investors seek a shift to net zero that is fair and socially inclusive, and that delivers on the interconnected aims articulated in the UN SDGs. Over 50% of the Global Impact Investing Network 2020 survey respondents reported climate-related SDG themes had informed their impact investment.<sup>2</sup>
- Despite this growth and interest in impact investing, the financing gaps to deliver the UN SDGs remain large. Globally, SDG financing needs are estimated at \$5-7 trillion annually<sup>2</sup>, while in developing markets alone there is a \$2.5 trillion annual gap in SDG financing, including the need for action on climate change.<sup>3</sup>

## A view from the UK

- Demand for impact investment is growing internationally as well as in the UK. There are deep pools of capital managed from the City of London, allied to green finance expertise, which means the UK has the opportunity to be a market leader in green and sustainable finance.
- As an example of UK leadership, the Impact Investment Institute, in partnership with the Green Finance Institute and the Grantham Research Institute, pressed successfully for the issuance of £15bn of green gilts by the UK government with reported social co-benefits.<sup>4</sup>
- Despite the scale and scope of the UK market, the total size of impact investment has to date not been rigorously quantified compared to other markets, such as Australia and Spain.<sup>5</sup>
- The Impact Investing Institute, with support from the professional services firm EY, is addressing this gap and is in the process of defining and sizing the UK impact investment market. It is due to report its findings in full in January 2022.
- Emerging findings from the survey highlight respondents' conviction that impact investment has an increasingly vital role to play in tackling negative environmental impacts.

“ Tackling climate change quickly is hard, but if we work together, we can make a difference.  
**Anne Richards, CEO, Fidelity International** ”



<sup>1</sup> Source: Global Impact Investing Network, 2020, Annual Impact Investor Survey

<sup>2</sup> Source: <https://www.unepfi.org/publications/rethinking-impact-to-finance-the-sdgs-a-position-paper-and-call-to-action>

<sup>3</sup> Source: <https://www.un.org/sustainabledevelopment/sg-finance-strategy>

<sup>4</sup> Source: Press release: UK government announces Sovereign Green Bond - Impact Investing Institute

<sup>5</sup> Source: <https://impactinvestingaustralia.com/wp-content/uploads/Benchmarking-Impact.pdf>; [https://spainnab.org/images/pdf/Informe\\_SpainNab\\_v3.pdf](https://spainnab.org/images/pdf/Informe_SpainNab_v3.pdf)

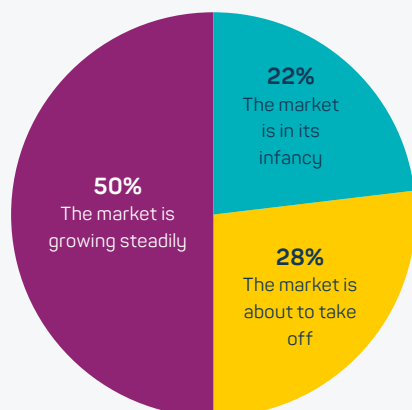
<sup>6</sup> Source: Impact Investing Adopters Forum | Pensions For Purpose

<sup>7</sup> Source: <https://www.ft.com/content/94d604a9-50b9-49f1-b377-a7b6e4083d01>

## Initial findings from an incoming report set to define the market

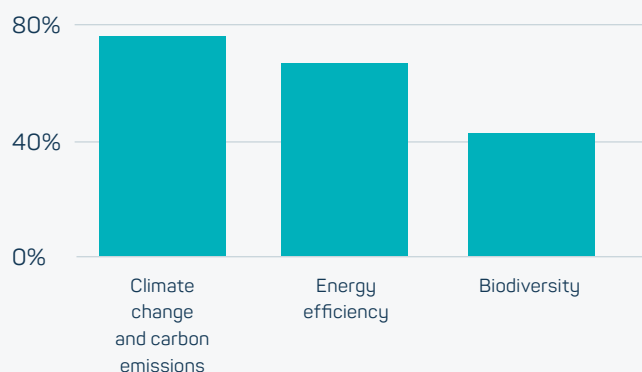
78% of respondents believe the climate impact investment market is either about to take off or is steadily growing

What do you think is the state of the market for climate impact investing?



Climate change and carbon emissions, energy efficiency, and biodiversity were the top 3 focuses for respondents' impact investment

For your impact investments with an environmental focus, which of the following are focus areas for your investments?



A majority of respondents stated that the proportion of impact invested assets that were targeted towards the climate change challenge by the end of 2020 was between 5% to 20%.

Interviews with leading impact investment specialists are also highlighting important insights:

- **The just transition market opportunity:** Respondents see the need to connect social and environmental solutions rather than treating them separately, with impact investment driving just transition outcomes e.g. linking the provision of affordable housing with higher energy efficiency. Respondents also see a need for innovative financial tools including blended finance vehicles and (aggregated) impact investing vehicles that enable retail investors and savers to invest.
- **The importance of raising awareness of impact investment:** The rate of future impact investment growth depends, in part, on raising awareness of the potential of impact investing across multiple actors, such as pension fund trustees and investment managers.
- **The need to consider and investigate nature-based investments:** There is a growing community of investors hungry for nature-based investments that match their strategy, provide an attractive risk-adjusted return, and enhance their reputation. There will also be a role for financial de-risking products, such as insurance, to create increasingly attractive risk-return-impact profiles for large, mainstream investors.
- **The importance of on-going measurement and progress reporting vs. 'point in time' assessments:** Social impact investors and government have advanced measurement practices that enable the active management of impact in investments. Private sector investors coming into this space can learn from these practices, moving beyond 'point in time' snapshots or case studies to becoming investors who actively monitor impact over time.

You can learn more about our efforts to size the UK impact investing market on our website:

[www.impactinvest.org.uk/project/sizing-the-uks-impact-investing-market](http://www.impactinvest.org.uk/project/sizing-the-uks-impact-investing-market)

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