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ECONOMICHE, FINANZIARIE ED ATTUARIALI

WORKING PAPER N. 21/2

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Abstract

Impact investing refers to the branch of financial markets that provides instruments capable of delivering financial returns while doing good. The scientific literature and practitioners' reports have established several stylized facts over the years. It is currently possible to address motives, the scope of the activity, and the amount of capital presently involved in the market. Research fields such as Economics, Business and Accounting, and several others developed a broad literature concerning Impact Investing aims and results. There are, however, few studies that look at this issue from a wide range of perspectives. In this survey, we intend to define and summarize the main characteristics of impact investing, focusing on the actors, the financial instruments, and investment areas. We shed light on the most urgent issues that academics and practitioners must deal with, i.e., measurement and regulation. We provide some insights on the recent development of the phenomenon, analyzing the GIIN reports for global evolution. We also investigate the Italian case.

Keywords: Sustainability, Impact Investing, Social Investing, Environment

JEL classifications: G21, Q50, Q58

1. Introduction

Impact investing is a tool that delivers a financial return while doing good. It belongs to the category of sustainable investments. Still, differently from other investment types, which often operate in terms of an exclusion strategy (ruling out certain financing sectors), impact investing has a positive connotation, promoting the idea of only investing in projects with a social/environmental benefit, where financial returns are combined to the social/environmental impacts.

The first form of sustainable investment dates to the 18th century when Methodists, and later on Quackers, in the US applied early stages exclusion strategies to investment decisions, through which they intended to eliminate the so-called "sin" industries (alcohol, gambling, tobacco, weapons, sex-related industries). Today assets, managed according to sustainable finance strategies, amount to around 30 trillion dollars, with a strong increase in recent years. The growing demand for sustainable investing has its roots in the urgent need for a common commitment to work together for a world where there can be development for all that lasts in time.

The concept of sustainable development is the leading theme of our time, involving all actors in the economy, policymakers, firms, consumers, and investors. In this context, an ongoing debate on the role of finance and its mission has started to develop, a sector under pressure as never before forced by social and environmental challenges. Impact investing could be a possible sensible, but at the same time, the controversial answer to the problem. It is a sensible answer because no one is for a mode of life that diminishes our capital stock, which would

make future generations poorer, or degrades our living conditions. Yet, it is also a subject of controversy because difficult to implement, measure, and regulate.

Despite the problematic aspects linked to the implementation of impact finance, the idea that the laws of economics cannot be independent of ethical considerations, the fact that profit alone cannot be the ultimate goal of economic activity, and that just earnings of businesses must be aimed at a higher community principle, makes the path for sustainable finance necessary.

Moreover, in a context of high public debt, aging population, and increase in long-term unemployment, in which countries suffer pressures from austerity politics, impact investing may become a relevant private subsidiary to public welfare, especially in Europe. Impact investing has the potential power to lighten the gap between needed and sustainable public expenditure. As evidence of this, impact investing, after the recent financial crisis, has started to be discussed within global power arenas such as the World Economic Forum (Tohmatsu, 2013), G8 (Social Investment Taskforce, 2014), the OECD (K. E. Wilson et al., 2015), UN organizations (Volk, 2019), the Catholic Church (Louche et al., 2012), and put into motion by the EU (see, e.g., The Social Impact Accelerator initiated by the European Investment Fund) or by the US Federal Government (e.g., The Impact Fund launched by the Small Business Investment Company of the Small Business Administration).

The aim of this survey is to define impact investing, understand why it is relevant and explain the reasons for its growth, list the actors involved, report how it is measured, show the data on the phenomenon and the policy framework and regulations which

have favored this type of investment together with its limitations.

Section 2 contextualizes and defines the concept and analyzes the link between sustainability, sustainable investment, and impact investment (What). Section 3 focuses on why sustainable finance is relevant both from an ethical and economic point of view (Why).

Section 4 lists and describes the actors, which can be divided into investors (organizations and institutions), intermediaries (funds, foundations, commercial banks and insurance companies, family offices), investees (social firms, third sector), beneficiaries (individuals, households, the environment) who directly benefit from the investment. In this section, we also consider the number of financial instruments and asset classes that could be used to vehicle this form of investment, and finally, we analyze the investment areas from which the final beneficiaries can benefit (Who). Section 5 summarizes the methodologies present in the literature that aim to measure the impact of the investment and find a way of combining the financial return to the social one (How). Section 6 provides some data on the phenomenon, focusing on areas of investment, type of investors, and their geographical areas of provenance. The section concludes with the development of impact investing in Italy. Section 7 addresses the policy issues concentrating on the effort of the European Union in creating a policy framework that favors impact investing and, on the policy, instruments used to regulate it. Section 8 concludes.

2. Sustainability, Sustainable investment, Impact Investment

2.1. Sustainability

The literature has estimated 300 definitions of sustainability, making it extremely difficult to find a precise delimitation for its concept (Johnston et al., 2007). We choose to define sustainability as a situation in which human activity is conducted in a way to preserve the functions of the earth's ecosystems (ISO 15392, 2008), a transformation of human lifestyle that optimizes the likelihood that living conditions will continuously support security, well-being, and health, particularly by maintaining the supply of non-replaceable goods and services (McMichael et al., 2003), or an indefinite perpetuation of all life forms (Ehrenfeld, 2010). The Brundtland Commission also provided the most accepted definition of sustainability as a "development that meets the needs of the present, without compromising the ability of future generations to meet their own needs" (Brundtland Commission, 1987). Today the concept of sustainability is at the center of the debate in many fields as never before. Below we will present three different frameworks we believe have been important for promoting a new culture and attention to sustainability.

The first is related to the so-called triple bottom line. After the World Summit in 2022, the triple bottom line (Elkington, 1997) has been conceptualized as the balanced integration of three different interdependent and mutually spheres, i.e., environmental, social, and economic. This vision has evolved, recently, in the ESG framework, which captures very well the

three macro-areas of sustainability to which enterprises and investors are now paying attention (Wong, 2017). A holistic, sustainable vision needs to consider not only the environmental side of the problem but also the social and governance aspects. In addition to the ethical perspective, evidence about the positive correlation between ESG principles and firms' performance explains the increasing investors' interest in ESG. Let us briefly consider the individual elements of ESG:

• E (Environment) includes the energy a company takes in and the waste it discharges, the resources it needs, and the consequences for living beings as a result; not least, E encompasses carbon emissions and climate change because every company uses energy and resources; every company affects and is affected by the environment.

• S (Social) addresses the relationships a company has and the reputation it fosters with people and institutions in the communities where it operates (it includes, e.g., labor relations and diversity and inclusion).

• G (Governance) is the internal system of practices, controls, and procedures a company adopts to govern itself, make effective decisions, comply with the law, and meet the needs of external stakeholders.

The second important framework we would like to consider is the SDG's framework which has encouraged the academic and social debate on sustainability. The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, is a global call to action for sustainable development, covering areas from poverty eradication and the provision of basic services to fight against climate change and reducing

inequalities. The 17 goals (SDGs) and their 169 associated targets are "integrated and indivisible" and thus, action to implement the 2030 Agenda must consider their interlinked nature.

The 2030 Agenda for SDGs obtained two different innovative goals. It helped in disseminating the culture of sustainability at a policy level, and it inspired the creation and the application of an extended range (243) of indicators[1].

The third framework we would like to address is the concept of "just transition" (Giraud, 2015). The origin of the expression "just transition" is dated in 1998, and it considered the fact that the green economy and the maintenance of employment levels cannot be mutually exclusive: "The real choice is not jobs or environment. It is both or neither" (Kohler, 1996). Today, "just transition" can be understood as a conceptual framework, through which it is possible to capture the complexities of the transition towards a low-carbon and climate-resilient economy, highlighting public policy needs and aiming to maximize benefits and minimize hardships for workers and their communities in this transformation (Cha, 2017; Giraud, 2015). It is important to note that "just transition" is a supporting mechanism of climate action and not inaction, and it comforts the idea that environmental and social policies are not contradictory but, on the contrary, can reinforce each other (ILO, 2010). The International Labor Organization (ILO) Guidelines on "just transition" (ILO, 2015) highlight the need to secure the livelihoods of those who might be negatively affected

[1] Even if well-established indicators, academics have pointed out some limitations to the structure of some of them (Janoušková et al., 2018).

by the green transformation and stress that the emerging low carbon economy should be inclusive and based on decent work and lower inequality. The main approach is that sustainable development is only possible with the active engagement of the world of work. Employers and workers are not passive bystanders but agents of changeable to develop new pathways to sustainability.

This new sensitivity towards sustainability is not only for niche consumers, businesses, or investors. A recent phenomenon endorsed and promoted at different government levels is changing the way business and trade are conducted. Generally, the scale of today's social and environmental challenges makes it evident that the responsibility to address them does not fall on governments and philanthropists alone. Therefore, sustainability is becoming leading in more and more business strategies and business models, and, at the same time, it is expected to play a growing importance in consumer behavior and in investing strategies.

2.2. Sustainable investments

Sustainable investments have increased over the course of the last 20 years, creating a large and diverse offering that includes products and services for virtually every asset class, geographical region, and investment strategy. These investments have proven themselves to be comparable with conventional investment tools in terms of risk and return. At the same time, they create an active contribution towards bringing the economy into a more sustainable path.

A general definition of what sustainable investments is given by Eurosif (European Sustainable Investment Forum), which defines sustainable the kind of finance that brings together, in a long-term scenario, both the financial return for the investor and the social value creation, declined in climate change mitigation and social differences restraint. We could think of sustainable investment as an intermediate point between two extremes: traditional finance on one end, with the only aim of gaining financial returns, and philanthropy on the other, oriented only towards value creation. Even if there is no general agreement on what sustainable investing is, it is possible to find different approaches to the topic and different strategies to pursue it. We can observe direct approaches, i.e., thematic and impact investments, and indirect approaches, generally named responsible investments. However, more specifically, it is possible to underline seven different investment strategies, 5 using an indirect approach and 2 using a direct approach one:

Exclusion strategy excludes specific investments or classes of investment from the investible universe, such as companies, sectors, or countries. Common exclusion criteria include weapons, pornography, tobacco, and animal testing.

Norms-based screening uses international standards and norms to exclude investments not compliant with them. Examples of exclusions are firms involved in weapons, pornography, and animal testing, but they can also be based on international or domestic conflicts. The exclusion criteria are typically based on the choices made by asset managers or asset owners

ESG integration mixes traditional financial analysis with considerations on environmental, social, and governance factors.

Engagement and voting activities include engagement activities and active ownership of stockholders through voting of shares and engagement with companies on ESG matters. It particularly seeks to influence the behavior of firm management or to increase corporate disclosure

Best-in-class screening selects leading or best-performing investments within a universe, category, or class and weighs them based on ESG criteria.

Sustainability-themed investing answers to the investor's desire to invest in assets directly linked to the development of sustainability through instruments such as thematic funds.

Impact investing is generally an investment into companies, organizations, and funds with the intention of generating social and environmental impact alongside a financial return.

All seven strategies have two purposes, on one side, the investor’s interest in promoting sustainable development and business practices, and on the other, the risk/return balance intent.
Regarding the sustainability aspect, each strategy can represent the investor’s different inclinations and visions of sustainable finance. Using soft strategies – exclusion, screening, and integration – investors can have a bigger range of compliant businesses, whereas choosing hard strategies – engagement, best

in class, themed, and impact investing – investors gradually reduce their range of options to invest in.
Regarding the risk/return balance intent, while soft forms have many possibilities to mitigate the investor's risk, also allowing better financial performance, it is crucial to note that hard forms have a greater impact on society, both in social and environmental directions. All these (engagement, best in class screening, themed, and impact investing) imply a strong investor's will of supporting actions directly oriented to the common good. Below we examine in-depth a specific form of hard sustainable investment, i.e., impact investing.

2.3. Impact investing

For many years, philanthropy and investing have been thought of as separate disciplines—one championing social change, the other financial gain. The idea that the two approaches could be integrated into the same objective — in essence, delivering a financial return while doing good — struck most philanthropists and investors as far-fetched. Impact investing has a strong relation with philanthropy, considering the orientation to values. Using financial tools can provide a wider range of opportunities for achieving common development targets: impact investors are profoundly optimistic about the role businesses can play in advancing the common good and the leverage social enterprises can achieve by employing financial tools.
The term impact investing was used formally for the first time in 2007, when the Rockefeller Foundation organized a meeting

at the Bellagio Center in Italy on philanthropy and development finance (Bugg-Levine et al., 2012).
As Agrawal et al. (2019) point out, confusion about the term was diffused in the literature since the beginning, above all, between impact investing and social finance. After 2007 most researchers have used either impact investing or social finance as two interchangeable terms.
Our approach, to clarify the concept of impact investing, starts from a description of some examples of investments that are often erroneously identified with impact investing. For each of these, we present the main differences:

1. Microfinance: as Agrawal et al. (2019) point out, impact investors are different from microfinance organizations essentially for four reasons:
a. the capital invested by an impact investor is higher than the capital loaned by microfinance players.
b. impact investors have more interactions with their investees than microfinance organizations.
c. impact investing is mostly equity-based, whereas microfinance is not.
However, it is important to note that many studies include microfinance among impact investments. Also, the Global Impact Investing Network (GIIN), which produces numbers of contributions about impact investing, includes microfinance among the impact investing tools.

2. Socially responsible investments (SRI): although impact investments are like other socially responsible investments, they differ in at least one important characteristic. Socially

responsible investments are often designed to minimize negative impact, whereas impact investments usually focus on creating positive social or environmental impact (Saltuk et al., 2013).

3. Venture philanthropy: this tool does not emphasize any return on investment and, differently from impact investment, it focuses only on maximizing social return on investment and spreading accountability among investees (Nyssens & Defourny, 2013).

Impact investing represents a sub-set of responsible investing. Concretely four key characterizing elements define impact investing strategies (Mudaliar et al., 2018):

• Intentionality: investors intentionally decide to contribute to social and environmental solutions.

• Financial returns: capital remuneration is asked, even if it can range from below-market-rate to risk-adjusted market rate. Returns are what distinguishes impact investments from philanthropy.

• Range of asset classes: investments can be made across asset classes.

• Impact measurement and reporting: investors pretend measures and reports of investment acts as a confirmation of their engagement.

While united by these characteristics, the type of impact investments can also be very diverse. They include community development finance, conservation, and renewable energy finance, a growing number of opportunities in education, health, nutrition, and other aspects of human development and environmental protection. It also differs by asset class, returns

expectation, sector, and geography. Impact investing can take the form of equity, debt, cash deposits, or another hybrid form, providing a universe of opportunities that, like mainstream investments, allow for individual choices to be made on everything from risk appetite and time horizon to sector and geographic location.

As Rizzello et al. (2015) explain, the growth in the impact-investing field is promising. The major reason that drives the market and institutional interest for impact investing is that investors can pursue social and financial goals simultaneously.

In Section 3, we analyze the link between the impact investing potential and the challenge of the increasing need for resources to face social and environmental problems. However, it is important to stress that the impact investing industry today still presents many challenges to be faced, like the not yet structured supply, the limited track record, and the small dimension of the market.

3. The importance of impact investment

The insufficient charitable and government capital necessary to meet the social and environmental challenges we face is manifest.

Impact investing represents a powerful additional tool in the battle to improve lives and solve some of the world's biggest problems. Impact investing defines new revolutionary opportunities for all those who want to invest in projects and initiatives with a high remuneration potential with the aim of

building a better and more sustainable future. Furthermore, not less important is its function of promoting a change at a cultural level, as well as an approach to managing companies operating in the private and public sectors.
Impact investment, as a specific form of sustainable finance, has three main intervention areas:

Environment: considering the increasing attention that governments and international institutions all around the world are giving to building environmentally sustainable development models, specifically programming ambitious targets for the next years, impact investing can be considered a strategic tool in facing challenges imposed by the conflictual relationship between human activities (economic system) and the environment (ecosystem). Climate change is the biggest challenge that humanity will have to accept over the next ten years, but it is not the only one. Other issues include pollution problems and their effects on health, protecting oceans, the energy transition, and renewables, a sustainable food model, protecting biodiversity, sustainable urban development and mobility, hydric stress and water scarcity, extreme meteorological phenomena, over-population, and waste management.

Social problems: the financial crash of 2008 highlighted the need for a renewed effort to ensure that finance helps to build a healthy society. Today a shift in capital market thinking is required, adding a third dimension besides risk and return social value. Impact investing has the potential of transforming our ability to build a better society for all and embracing the idea

that doing good and doing well are no longer seen as incompatible. Some of the main action areas of social impact investing are caring for children and the elderly, community regeneration, financial inclusion, and supported housing.

Social entrepreneurship development: the impact-investing paradigm is based on the fundamental provisions of the social entrepreneurship sphere. Social entrepreneurship is an innovative activity initially aimed at addressing or mitigating the social problems of society in terms of self-sufficiency and sustainability. In fact, this is a business solution to the social problem that the social entrepreneur tries to solve; this is the starting point of his business. Social entrepreneurship is a balance between social goals and a commercial component, where money is not the goal, but a means to achieve these social goals. Impact investing can sustain social entrepreneurship from 2 perspectives:
a) supplying new resources to social enterprises;
b) encouraging social businesses in adopting business models with the aim of guaranteeing the financial sustainability of the organizations in the future.

3.1. Ethical and economic reasons for promoting impact investing

The recent financial crisis has unequivocally demonstrated how profit alone cannot be the ultimate goal of economic activity and how even earnings, which are necessary for the survival of a firm, must be aimed at a higher community principle, the so-called common good. More and more people all around the

world support the idea that the laws of economics cannot be independent of ethical considerations. This view emphasizes the original aim of finance as an instrument to serve the real economy and to support the authentic development of communities and people. Sustainable investment, and more specifically impact investing, represents the practical tool to change the financial world, giving new light to finance, promoting its activity at the service of the common good, conducted in the interest of the community.

From an economic point of view, impact investing emerges in a context of high public debt, an aging population, and an increase in long-term unemployment, especially if we think about Europe. Therefore, public welfare suffers the pressure from austerity politics, in some cases poor management and an increase in welfare demand. The economic and historical context makes an impact investing a relevant private subsidiary to public welfare. The growing gap between the needs arising from social benefits and the actual availability of public budgets raises several questions about how to use private resources to finance welfare needs. The risk aversion of both the public administration and social agents has stimulated the attention on how to make projects eligible that, otherwise, would remain unimplemented given their scope of innovation.

Social Finance in general and impact investing have started to play a role in the tendency towards dissolving the public/private and profit/not-for-profit divides into a project-based world, fabricating a new public governance form (McGoey, 2014; Osborne, 2006) made of collaboration and co-production. It comes with new types of public-private partnerships based on a

collaborative design involving various stakeholders such as, for example, philanthropists, entrepreneurs, financers, and local authorities. In financial terms, these public-private collaborative arrangements can be explained by the impossibility of getting rid of public support for social activities.

The blending of financial sources means that part of the public finance is now dedicated to "de-risking" investors by providing guarantees or co-investing or to securing resources by signing long-term provision contracts (Chiapello & Knoll, 2020).

This New public management paradigm aims to introduce new attitudes and management practices into the public sector, mimicking private companies' procedures and structures (Stark, 2002) since there is a belief that public management tends to be inefficient when not emulated by the market competition.

As public money is said to be scarce, it is important to carefully choose the activities and contractors that may be financed. Again, on this question, Impact Investing displays interesting characteristics as it supposes the development of a new bunch of metrics, indicators, and ratings, providing evidence that the investees indeed produce social impact (Mitchell, 2017; Reisman et al., 2018).

Institutional investors and financial intermediaries could play this role, given that their core business is the management of risk in exchange for an adequate return. Moreover, the impact investing formula can help social agents to develop innovation, traditionally a sore point for this segment of actors. Many studies have confirmed the vast potential of this market (Salamon, 2014; K. E. Wilson et al., 2015). However, despite the efforts made in the attempt to convey in a stable way private resources in this

sector, at present, the potential has not yet been expressed and is still far from its realization. Wood et al. 2012 and 2013 found many reasons why the private equity used in social initiatives has a lot of barriers: above all, financial and institutional intermediates, who play a fundamental role in allocating savings, find it difficult to understand the investment impact in terms of risk-return relationship and correlation with other asset classes in the portfolio.

4. The main actors of Impact Investment

Impact investing markets comprise four main actors: investors, intermediaries, investees, and beneficiaries. As with any other financial market, it helps matching one person's saving with another person's investment. Nevertheless, the main difference to other financial markets is the presence of the third line of evaluation. This refers to the positive externalities and benefits of the project. The zeroth element of impact requires the improvement of livelihood conditions without disruptive effect to the fabric of a collectivity.

4.1. Beneficiaries

The beneficiaries are individuals, communities, the environment, and the economy. The social benefit of economic activity is somewhat implicit for classical economic theory and moral theory. According to Vanclay (2003), the social impact should induce changes in the following fields:

- Way of life: how people live, work, play and interact with one another
- Culture: their shared beliefs, customs, values, and language or dialect
- Community: its cohesion, stability, character, services, and facilities
- Political systems: the extent to which people can participate in decisions that affect their lives, the level of democratization that is taking place, and the resources provided for this purpose
- Environment: the quality of the air and water people use; the availability and quality of the food they eat; the level of hazard or risk, dust, and the noise they are exposed to; the adequacy of sanitation, their physical safety
- Health and wellbeing: health is a state of complete physical, mental, social, and spiritual wellbeing and not merely the absence of disease or infirmity
- Personal and property rights: whether people are economically affected or experience personal disadvantage, which may include a violation of their civil liberties
- Fears and aspirations: perceptions about their safety, their fears about the future of their community, and their aspirations for their future and the future of their children.

4.2. The Investors

Who are the main actors that supply their funds to promote investments with a social impact? Several actors might be

interested in a market with such properties. For example, organizations with religious or ethical purposes tend to restrict their interest towards brown (non-green) or morally risky investments. Firms and organizations with an exclusion investment strategy are therefore relevant actors in lending impact capital. Other institutional investors might decide to have a mixed portfolio of assets, but these belong to the intermediaries' group and will be addressed below[2]. In terms of smaller groups, we can have firms or organizations that use impact investing for social corporate responsibility or households. The former is sometimes associated with greenwashing, i.e., the intentional misuse of communication or financial instruments for virtue-signaling (Cooper et al., 2018; Gatti et al., 2019; Lyon & Maxwell, 2011). Impact investing is a way to outsource the potential to generate positive change: actors specialized in impact receive funding and return interests to their investors so that both parties have the interest to generate benefits. Households, on the other hand, might not be the main actors in impact investing for the volume of capital. Nevertheless, their main channel of participation in impact investing is through banks. We will discuss further the role of such intermediaries in detail. It is important to note that portfolios and instruments are currently adjusted to produce impacts. Consumers might prefer to participate in funds related to impact investing, receiving clear information of the risks altogether with the benefits they help to generate.

[2] For example, pension funds and other public investment groups usually allocate a percentage of their shares in impact investing solutions.

4.3. Intermediaries

Intermediaries engaging in impact investing are diverse. According to GIIN reports from 2015 to 2019, the first category in terms of importance is represented by **fund managers**, which includes both profit (40% of the overall market) and non-profit funds (15-20% of the overall market). **Foundations** represented the second biggest group participating in impact investing (below 20%), **commercial banks** and **diversified investing** institutions (took 6% in less than five years), **family offices** (4%), **pension funds and insurance companies** (4%), **development financial institutions** (3%) and **permanent investment companies** (2%). All the others count for up to 9%. Family offices have acquired increasing importance in recent years, together with foundations and permanent investment companies.
Other intermediaries include:

Networks. Contracts brokering is still decentralized in the context of impact investing. Professional impact investors know standards contracts, but when it comes to new environments and possible stakeholders, there is no perfect information. Networks have a role in linking the demand and supply for capital. These may appear as associations or enterprises that serve as platforms for contract discussion. Impact investing actors might emerge from situations lacking institutionalization. Therefore, sparse knowledge allows reaching a vast number of actors, and due to their local contact, funds are linked directly to local communities. Some examples of networks are the European

Venture Philanthropy Association, Schwab Foundation for Social Entrepreneurship, Ashoka, and the Skoll Forum for Social Entrepreneurship. The latter are fellowship organizations. Their role consists in selecting social entrepreneurs and prize them with awards. The result is visibility and a small fund for operations, granted by donors or investors (Bicciato et al., 2018; Spiess-Knafl & Scheck, 2017).

Social Investment Advisors. These actors represent investment banks in impact investing. Their role is to match supply and demand for capital. Two of the major examples of this category are Big Society Capital and Financing Agency for Social Entrepreneurship. Starting capital might be originated by private accounts (the former) or donations (the latter). This capital is then invested in firms operating in thematic areas of impact investing (Bicciato et al., 2018; Spiess-Knafl & Scheck, 2017).

Social Venture Capital Funds. Similar to the concept of venture capital, this class of actors is mainly involved in capital exchange with semi-philanthropic purposes (Letts et al., 1997). The rules they follow consist of three-form assistance. One is access to the venture funds network. Another is non-financial support as consulting or advising. And lastly, the support in building measurement to performances (M. Lehner, 2017). Market selection is made according to different criteria than standard ventures. Impact assessment is relevant in order to estimate which projects or firms might be more interesting. They value competition in terms of how counterparts approach markets. Therefore, imitation strategies are common. Among these, we find BonVenture and Bridges ventures. Their main

purpose is to fund projects and firms with high social impacts, providing shareholder returns (Letts et al., 1997; Spiess-Knafl & Scheck, 2017).

Ethical Banks. These banks occupy the role of financing niches of social-economic activity. They specialize in innovative practices such as democratic decision-making. In this case, stakeholders and communities are actively involved in the investment decision. They are generally organized within the Global Alliance for Banking on Values. Operations include loans and deposits involved in impact investing.

Banks. Mainstream financial intermediaries could organize portfolios and funds to satisfy impact investing strategies. Strategies such as temperature adjustment are based on Green-House Gas (GHG) reduction: investment is concentrated on firms intended to reduce or neutralize emissions. In many cases, it can consist of exclusion strategies but often add specific impact firms' equity. Therefore, their position on secondary markets allows for the creation of a bridge between standard consumer and impact investment investees.

Social Stock Exchanges. Mature impact enterprises might choose to trade capital in the form of equities. In case this is made on an impact investing framework, we are talking of the social stock exchange. These actors allow initiative public offers for primary markets and secondary markets. As long as it complies with impact investing, this works as a standard trading platform. The main requirement is constant impact reporting. Some of the most known markets are the Social Stock Exchange and Social Venture Connection.

Crowdfunding Platforms. These platforms are generally online-based actors, with the purpose of linking a sparse community of donors/lenders to impact firms. They gained fame thanks to the innovative practice of collecting capital. Their business model unifies the economy of scale of IT services with a low-risk approach. By taking commissions for every deal, their main purpose is to match the demand and supply of capital. Legitimacy is based on the number of individuals participating, along with potential capital passing through. Due to the business model, their core audience must be acquainted with the internet and possibly to social or environmental impact. Every platform has individual rules to request funding. Reporting according to standards is one of the main points.

4.4. Financial Instruments for Impact investing

The lack of funding opportunities has been one of the major disadvantages that investees have faced and are still facing. Many social enterprises survive only through the funds collected from the government, charitable foundations, and high-net-worth individuals who make donations or accept lower financial returns on their investments in social projects. Bugg-Levine et al. (2012) have described a changing scenario in which social intermediaries (fund managers and foundations) have introduced different methods of financing social enterprises broadening the access to capital and offering different risks and returns to different kinds of investors. These new methods may help to close the gap between financial and social returns.

The market growth of impact investing is determined by a blended composition of instruments. Standard financial instruments such as debt and equity stand together with microfinance and crowdfunding. In the following, we will discuss equity, debt, grants, deals, crowdfunding, bonds, and also hybrid instruments most commonly used in impact investing (Harji & Jackson, 2012).

Equity. Liquidity demand from social impact is like many for-profit enterprises. Therefore, non-profit enterprises may sell or buy shares. On the other hand, it is in the interest of such organizations to avoid pressure on diverging from their objectives. Equity capital represents, for instance, a complex choice. By selling parts of the shares to its profits, non-profit firms could acquire liquidity for projects. The secondary market for such shares is usually limited according to contract bindings (Ben-Ner & Jones, 1995; Brown, 2006). This practice is usually due to preserving the interests of non-profit firms. The presence of unethical investors might be damaging for non-financial firms. Nevertheless, trade centers of such instruments exist, following stricter rules of exchange (Achleitner et al., 2010).

Debt. The second strand of capital transaction is debt capital. Its mechanism is similar to for-profit loans. Capital is provided in the form of debt. Its value could be repaid periodically or with a bullet payment adding interests. According to the literature, almost 60% of non-profit organizations rely on debt capital (Weber & Geobey, 2012). Generally, the interest rate is driven by affordability rather than risk (Varga & Hayday, 2016). As with any other form, it can be secured, junior or senior. Fedele and Miniaci (2010) found that for-profit firms are characterized

by higher leverage than non-profit. They explained that one of the possible reasons is an exclusion to distribution.

A hybrid form of capital is the **mezzanine** one. In this form, debt and equity capital are condensed. This means that the benefits of one could be mixed with the other. For instance, payments could be converted into shares of the activity. It is a relatively popular financing instrument as it gives structuring flexibility to build the financing around the needs of the investee (Spiess-Knafl & Scheck, 2017). The last form usually has individual applications, especially for education and startups. It is a form of debt capital recognized as a **forgivable loan**. Its purpose is to praise the debtor's efforts according to the agreements. When one objective is completed, a certain amount of loan is forgiven, or interest is tapered. **Loan guarantees** are another instrument used in which the guarantor assumes the debt obligation of a borrower if that borrower defaults. **Pooling techniques** that involve pooling funds have also opened new financial doors to social enterprises because the pooling institution can tailor its liabilities to the needs of different kinds of investors.

Grants. Other forms of financing consist of plain funds given according to projects. Especially used by foundations are interesting for early-stage non-profit firms. **Recoverable grants**, for instance, represent an opposite solution to forgivable grants. After the impact or reach of a milestone, the grants are transformed into a loan. It is not a mainstream solution due to the trivial hazards of rewards. A more used form is the **convertible** one. It converts the grants into capital shares when a project is successful. We named "vanilla" grants instruments

that have no conversion into capital. It is a form of financing used by foundations to achieve objecting, outsourcing activities. Lastly, it is usually presented as impact-investing **revenue shared agreements**. In such a framework, dealers share a sum of capital in exchange for a share of revenues in case of success. It is not a form of equity since it does not transform into equity. It is an effective form for managing cost structure for non-profit firms.

Deals. Outside plain contracts, impact investing used many forms of generic deals to deal with capitalization, knowledge acquisition, and sponsorship. One of the preeminent examples is the acquisition of ethical brands. The property allows the possibility to share information, market, and perspective. This instrument acts as sponsorship from a bigger partner that intends to increase the ethical sphere in its portfolio. An example might be the acquisition of Innocent by Coca-Cola in 2009 or Body Shop by L'Oreal in 2006. Acquired firms were producers of organic Products.

Crowdfunding. This form of financing started in 2000 because of the rapid penetration of personal computers and the internet of things. Its main feature consists of a decentralized form of financing, where one agent presents his or her idea to a plea of others. Online platforms are common and allow many forms of financing, from non-financial to strictly financial.

Among less profiting ones, we find donations and rewards. The difference consists in the returns after completion or success of the projects. Donations are unilateral. Rewards offer some prizes for the donor.

On the financial side, we consider two different kinds of instruments. The first consists of lending-based crowdfunding. In case it is peer-to-peer based, creditors choose which project to finance, whereas, for social investing, intermediaries usually intervene to mediate between creditors' interests and social objectives. In this last case, the peer-to-peer condition of choice is not valid. The second is equity-based crowdfunding which reunites on platform actors that intend to sustain the role of shareholders. This instrument is the crowdfunding way of collecting capital in exchange for shares. In such a manner, creditors take the directive role in shaping non-profit business, choosing which project to uphold and in which way to translate them. Therefore, investors share the risk too.

Social Impact Bonds, Green Bonds, Sustainability Bonds. Social impact bonds (SIB) are specialized in the impact that affects communities, standards of living, and democratization. For environmental purposes, we acknowledge the green bond (GB), which is related to projects that affect climate change, energy waste, and ecosystems preservation. A blended instrument of such a category is the sustainability bond (SB), which refers to objectives linked with both environmental and social impacts.

The actors involved are 1. an outcome funder who ultimately pays for achieving an agreed outcome (usually a government entity or international donor institution); 2. an investor(s) provides the capital to service providers to achieve agreed social outcomes for the term of the contract (individuals, trusts, foundations, commercial banks, community development financial institutions); 3. a service provider, who delivers the program (often NGO); 4. an intermediary, who structures and

may coordinate the relationship between the parties, including the investors; and 5. an evaluator, an independent third party who measures and/or validates the outcomes.

In this form of contract, responsibility is decentralized to many actors in order to share the merit of success and minimize damage on returns. In terms of risks, the creditor sustains the financial position with the issuers, but not the social one. Therefore, at the creation instant, he is mainly linked to the government, the agency of foundation that issued the bond. There, the debtor interacts with the service provider oversees the project. Independent evaluators then evaluate social, environmental returns. The outcomes are the responsibility of third parties and affect issuers' objectives. It is therefore required accountancy of success to register an impact. Such structure is typical for all impact bonds.

SIBs often abide by the "pay by results" principle. These types of bonds are sold to private investors who are paid a return only if the project (often public) succeeds. It allows private investors to take calculated risks in pursuit of profits. The government, for its part, pays a fixed return to investors for verifiable results and keeps any additional savings. In this way, the government shifts the risk of program failure from taxpayers to investors.

The main difference between green and social impact is then the objective. The contract structure is not very different. According to International Capital Market Association, both can be classified according to their main obligation characteristics. The main definitions are collected respectively in green bond principles and social business principles reports. The four main characteristics relate to the presence or not of the possibility to

claim the assets (recourse-to-issuer), project funding, and mortgage use. Some bonds are mainly directed to fund firms or other impact organizations. Thus, securitizations might involve equity or other guarantees. In other cases, specific projects are funded. The security here might take the form of a mortgage.

Characteristics	Green Bond	Social Impact Bond
recourse-to-the-issuer	Green Use of Proceeds Bond	Social Use of Proceeds Bond
non-recourse-to-the-issuer	Green Revenue Bond	Social Revenue Bond
Object orientation	Green Project Bond	Social Project bond
Object orientation with mortgage	Green Securitized Bond	Social Securitized Bond
Reference Document	Green Bond Principles (ICMA)	Social Business principles (ICMA)

Table 4: summary of green and SIB

Examples of case studies and reports are listed on an online database. Public and free fruition is consistent with the vision of Impact investing16. A brief summary of Impact bonds is highlighted in the tab. 4.

4.5. The investees

Investees are those firms that receive the invested funds. They can take the form of small growing firms, social enterprises, cooperatives, etc., but they can also take specific projects.
Social and environmental issues are classified in many practical areas of investment. GIIN provides a list of investment areas in

its annual surveys, which involve cultural, environmental, and social aspects. Agencies use certifications, memberships, and other official recognition to report impact performance and evaluate which method to use according to the area employed. In the following, we will briefly summarize the beneficiaries, the investees, and the indicators that may be taken as variables of impact per each thematic area.

Energy. Green investments in energy are topical investments at all levels of development for various aspects. Renewable energy is too costly for large-scale consumers, such as developed countries. That is why it has spread, mainly thanks to public involvement and grid development, such as in Germany. Rural areas and developing countries might have difficulty accessing cheap energy from grids and, therefore, centralized productions. The cheaper solution is to access available natural sources such as wind and sunlight. These are excellent cases for the application of local renewable energy. Demand in developed countries is constantly rising for national standards and carbon policy, but further grid development is required. A risk factor for such countries is the increased dependency on strategic minerals. Such commodities have a scarce deposit. Furthermore, they are generally concentrated in few countries. Therefore, competition from other forms of energy and material shortage represents sources of risk more in developed countries than in developing ones. Such countries do not consume as many materials as the others, and in terms of cost-opportunity to grid installment, renewable energy is easier and faster to develop.

Clean energy might impact life in many ways. Giving access to clean energy to a community outside the electrical grid allows nocturnal activities. Among these, we find reading, cleaning, and cooking for the next day. In terms of the carbon budget, it reduces GHG emissions per kilowatt produced.
The investees in the energy sector are usually firms that operate within the clean energy sector. They are divided mainly into cleantech, power storage, transport, and energy management or distribution. To be classified as belonging to the impact investing sector, such firms may voluntarily achieve certifications ISO, IEC, UL.
The most used indicator to compare sources of energy is the leveraged cost of energy. It represents the discounted cost of operational and capital costs of an installation. Apart from solar and offshore wind, most renewable energies are relatively comparable to fossil fuels.

Housing. Usually named social housing, it refers to the supply of affordable homes. According to the SDGs, they should respect eco-efficiency, health, safety, and dignity standards. The purpose of this kind of investment is the necessity to solve the emerging problem of the housing trap. Three conditions are occurring in Europe. A recent study has found that the number of families outside non-eligible to public social housing is growing. On the other hand, expenditure for rents is increasing due to stable income versus constantly growing rents. Finally, it is expected that two-thirds of the worldwide population will live in cities by 2015. A large part of these citizens will not be poor enough to access welfare benefits but not rich enough to sustain

private rents. For generational equity, the majority of young generations (18-35) live with their parents. Banks have experienced delays from mortgages payments in the last ten years of almost 50%. Lastly, migratory pressure will increase demand. One of the main problems of this area is represented by ghettoization. Outside the racial context, this term refers to the induced homogenous composition of one district. It might refer to the census, nationality (of minorities), or disabilities.

Green Housing. These are technologies for green buildings, green housing construction, maintenance, and community development. The last one refers to projects delivered to communities while respecting green standards. For international recognition, the last three have mandatory requirements.

Social Housing. It targets three vulnerable groups: elderly, students, low-income families. It differs from green housing in terms of certifications. Social housing does not require ISO certification acquisition. However, it might be required in some nations. Nevertheless, reporting is required as much as other areas of investments. Social metrics are rather stringent to avoid social washing. For instance, the expenditure criteria must be considered. For the target of low income, housing rents should not cost more than a third of the household income. Secondly, the targeting practices should comprehend a diverse panel of consumers in terms of income to avoid isolation policies.
Possible metrics to evaluate impact involve GHG emission per square meter, required for heating and buildings. Projects must

induce positive effects on an individual's wellbeing, increasing saving and access to services.

Microfinance With microfinance, we refer to the capital offered to people or organizations that lack access to conventional banking. It represents an opportunity to link financial returns with social impact. Its impact affects the context of integration and social inclusion. In particular, it is present as micro-credit, -insurance, -leasing and housing. It was estimated that the total value of this sector was around 102 billion dollars worldwide in 2015 and registered a growth of 10% yearly. Among investors offering microfinance, we have banks, non-profit organizations and cooperative societies, and credit unions. Deposits and small equity investments support the offer of capital.
Financial institutions dealing with microfinance respond to a double bottom line principle. They require to follow a social cause with the reach of specific Social Goals (SG1); tailored to the client's needs (SG2); has to generate social and economic benefits to the client (SG3). To guarantee the satisfaction of client needs, the institution of microfinance can monitor portfolio composition; this corresponds to personal information as well as a survey. Information gathered in such a manner represents a valid source for performance indicators. It is collectible in the form of the data stream, useful for regressions and quasi-experimental tests.

Food refers to sustainable agriculture. According to FAO, "Sustainable agriculture conserves land, water, and plant and animal genetic resources, and is environmentally non-

degrading, technically appropriate, economically viable and socially acceptable." Furthermore, it must follow one of these points:

- Improving efficiency in the use of resources.
- Direct action to conserve, protect and enhance natural resources.
- Agriculture that fails to protect and improve rural livelihoods and social well-being is unsustainable.
- Enhanced resilience of people, communities, and ecosystems is key
- Responsible and effective governance mechanisms

This area of investment is divided into three sectors. The first one consists of farming companies, which mostly deal with primary products, selling them to secondary actors. The second sector refers to multipurpose farming, which combines farming with packaging and light manufacturing. Membership to the international initiatives, such as Sustainable Agriculture Initiative Platform, Ceres, UN Principles of Sustainable Farming, Sustainable Agriculture Network, is considered as relevant.

Healthcare. This area involves pharmacological production, healthcare services, and technical assistance to the previous two. General requirements are the affordability of health services, accessibility of health products and services, the safety of products and services, and measurability of companies' health impacts on society.

Forestry and Timber. Investments in this area relate to the biological health and growth of forestry with the acquisition or management of its resources. It refers to timber as well as indigenous wildlife. Financial returns originate from:

- Forestry growth
- Price changes in timber and derived
- Ecosystem services induce increases in land value

Two main drivers pull capital to impact investing in this sector. Timber represents a valid source for sustainable buildings and furniture. Due to the shift in demand tastes, sustainable sources are required. Certified impact investors might take leadership in forestry care by managing growth and harvest. In this sense, it represents a stable and safe investment. Price volatility is generally lower, and given certification, competition is avoided with segmentation. Outside climate risks, forestry is neutral to other investments' risks. Lastly, timber is a durable commodity. Therefore, a supply chain failure will not affect its quality. From a social point of view, it represents a valid source of occupation and research. For environmental purposes, it captures greenhouse gasses.

According to the Principles for Responsible Investments (PRI), sustainable forestry can be split into three subsectors: forestry conservation and management, logging companies, and technological assistance. The last one refers to firms that provide technical assistance to the previous two.

Education. One of the main drivers of the human development index is education. Investing in such areas has an impact on poverty, political participation, and welfare. It generates a

tangible impact on future generations. Furthermore, it represents one of the SDGs. In more abstract terms, an educated population represents a public good: it induces long-term effects on technology diffusion and the collective participation of a community. A large portion of the world population might be targeted for these investments. Basic needs might not be the only form. For instance, advancement to higher degrees and doctorate are valid investments overall. The main vulnerability within this area is regulation, lack of transparency in some countries. In some cases, stringent education policies force countries to adhere to ineffective schedules: political or other religious indoctrination might be an example.

Education demand in developed countries might be affected by the technological level, whereas in underdeveloped countries, it is too soon to talk about technology in education. As the Covid-19 lockdown unfolded, some households, even in the developed world, had problems in benefiting from education. The first reason for this is the lack of computer and internet connection—technological lags slow education objectives. Therefore, even in developed countries, it is possible to trace the potential for impact investing in this area.

According to the Principles for Responsible Investments (PRI), four types of investment are mandatory education (primary, secondary and higher education), master's degrees, vocational school, and "technological companies". According to the first, one must comply with national initiatives. In addition, projects must be based on quality and accessibility criteria. Masters producing impact investment must have at least 20% of the students with scholarships and 25% with other economic

assistance. Vocational training requires three aspects. One is mentoring practices and training with students; availability of scholarships; courses must be configured to accept individuals with disabilities. Technological assistance to previously described services must comply with similar objectives.

Water. Due to demographic pressure and climate change, water supply has become a strategic commodity. It represents, in many cases, a source of conflict and disparity. Water scarcity touches many developing and underdeveloped countries. In these situations, most governments might have difficulty facing Capex for water infrastructure. In some cases, despite the relative abundance of water, it represents a risk due to the incubation of malaria and other diseases. In other cases, the only source is saltwater. Salinization is an effective but energy-consuming activity. Therefore, impact investing represents a viable solution for communities excluded by infrastructure and vulnerable to climate change and other risks. Water might have different destinations. One is, for instance, agriculture: this sector refers to food or agriculture investment. The other refers to clean water for human consumption. It must be portable or for hygienic purposes. In this case, we have four types of sub-areas of investment. Water management refers, for instance, to the contraction of facilities intended to treat clean and wastewater. Distribution is a separate sector, with the purpose of reaching far excluded communities. In case potable water is extracted from ocean basins, the investment refers to desalinization. Lastly, all technology patents that intend to sanitize water for rural or urban communities are named “water technology”. Certification refers

to four classes. Water management usually has mandatory requirements for certification. Impact measurements are usually intended as the number of people served or liters of water treated. Reduction in time employed to reach water springs is also relevant in developing countries.
Ways to address changes from the status quo account for different variables. GIIN, for instance, suggests reporting the number of clients served, availability of service, and similar market-based variables. Education to use water facilities is indeed relevant for some communities. Therefore, hours spend giving instructions on how to use such services is relevant as well.

5. How: impact investment measures

Impact investing, as already pointed out in previous sections, can be defined as an investment that creates measurable social or environmental benefits in addition to financial returns.
These two different elements, (1) financial risk and return and (2) social and environmental performance, raise separate considerations. Financial risk and return assessment can be most probably traced back to Ancient Greece (Bernstein & Bernstein, 1996), on the other hand, social and environmental performance, while lacking such a long historical background, can, at least in theory fulfill several crucial aims. Investors are interested in finding out the extent to which their actions help or prevent wider social goals; fund managers (e.g., intermediaries) may wish to benchmark the effectiveness of different investments against each other or over time; investees (e.g., FP or NFP firms, projects) may wish to use metrics to determine what progress is

being made and scope for improvement; and beneficiaries (e.g., communities) may wish to engage in the measurement process to influence the investment process (Reeder et al., 2015).
Traditionally, financial value creation is related to the return and risk approach and the portfolio theory pioneered by Markowitz (1952), an idea on how risk-averse investors can construct portfolios to maximize expected return based on a certain level of market risk. However, when searching for value creation in impact investing, one has also to focus on the measurement of social value (together with the environmental value), which, according to Watson and Whitley (2017), is "subjective, malleable and variable". For this reason, the state of measurement of non-financial performance is relatively weak (Saltuk et al., 2013). Mulgan (2010) propose an overview about the measure of the non-financial value and identifies four methods of measuring impact: cost-benefit analysis (CBA), social accounting (SA), social return on investment (SROI), and basic efficiency resource analysis (BER); SROI is one of the most used methods because it has the advantage to combine the Social Impact Assessment (SIA) practices and cost-benefit analysis. We will discuss the following methods in turn.

Cost-Benefit Analysis (CBA)
CBA has the objective of giving a monetary value on the benefits expected from the project and compare these to the costs which are expected to be incurred. If the benefit exceeds the cost, the project can be pursued. Often a counterfactual analysis, i.e., the assessment of the costs and benefits that would have arisen if the project had not taken place, is also performed.

There are two main categories of CBA: *ex-ante* and *ex-post*. *Ex ante* CBA, which is more commonly used, is conducted before the project starts and has the aim of helping in the decision-making process and assessing its costs and benefits. *Ex post*-CBA is carried out after a project has been completed and is used mainly to evaluate what has been learned from a project so that the collected information can be used to justify funding and in evaluating future projects.

The most important aspect, when conducting CBA, is collecting data on the costs (staff wages, training, rent, purchase of equipment, publicity, promotion, and so on) and benefits (job creation, positive effect on the local economy, indirect savings, increase in people's health or quality of life, revenues and so on) associated with a project or a set of alternative projects. Placing a monetary value on the costs and benefits might be at times cumbersome, especially when the outcomes of a project occur over a long period of time, since, in this case, the value of money changes over time. However, there are complex tools to overcome these problems. The results from an intensive CBA analysis will help organizations measure in economic terms the benefits, including the wider social value, of their projects. It can also be used to select among several projects.

Social Accounting

Social accounting is often utilized in the context of a business or corporate social responsibility (CSR), and recently it is also commonly used by NGOs, charities, and government agencies who have the aim of measuring social value. The main difference from CBA is that social accounting is related to the

organization rather than to a specific project. Social accounting has the aim of adding, to the organization existing monitoring and reporting systems, a process that comprises its social impacts, reports on its social performance, and works out an action plan to improve on that performance. Through the social accounting and audit process, an organization can be aware of its impact on the territory and on its beneficiaries and build accountability by interacting with its key stakeholders.

Essentially social accounting entails clarifying what the organization does, its scope, and who it is collaborating with. It collects quantitative and qualitative information linked to its overall objectives and underlying values. This usually lasts one year. At the end of the social accounting year, the organization gathers all the information together in the form of social accounts that are independently audited, and after revisions, the Social Report is produced. Social accounting, therefore, seeks to expand the scope of traditional accounting, including more than just finances.

SROI (Social Return on Investment)

The Roberts Enterprise Development Fund (REDF) introduces SROI analysis at the end of the Nineties out of the traditional cost-benefit analysis (Emerson et al., 2000). The New Economics Foundation (NEF, 2009) in London proposes the second important approach to SROI.

SROI is a technique that measures socio-economic and environmental impact and integrates other methods such as CBA, stakeholder engagement, and financial proxies. The technique can be used for an organization, a project, or a small

activity, and it can be related to any kind of sector. It can be applied both to assess the already realized outcomes of the project (evaluative studies) or to predict how much social value will be created if the activities meet their intended outcomes (prospective studies).

SROI is based on a set of principles that have the aim of pursuing a robust and transparent evaluation. These seven principles are:

- engage stakeholders;
- understand what changes;
- value the things that matter;
- only include what material is;
- do not over-claim;
- be transparent;
- verify the result.

SROI involves a Net Present Value approach (NPV), which, together with the Internal Rate of Return (IRR), or payback period, has been used for decades to evaluate traditional investments.

These traditional methods of investment evaluation are based on the operational cash flows (financial value) of an investment project. However, they do not include potential project benefits (or negative effects) that cannot be easily translated into cash and are thus often not included in the NPV calculation.

SROI has the aim of measuring through an NPV approach also the social value of the investment projects. Social value is the value that stakeholders encounter through changes in their lives, which is not captured by market prices. The key question is how to include this social value, which is hard to identify, into the financial project assessment?

The calculation of SROI is based on a six-step approach (Maldonado & Corbey, 2016):

Stage 1: define the project objectives and select the main stakeholders.

Stage 2: develop an impact map which creates relationships between the inputs (resources), outputs (results of the change process), outcomes (the effects that will immediately occur), and impacts (the long-term effects of the change process);

Stage 3: evaluate the previously identified outcomes through some indicators. SROI uses financial proxies when the input or outcomes do not have a direct financial value;

Stage 4: evaluate (a) deadweight (the amount of outcome that would have happened even if the activity had not taken place); (b) displacement (what are the possible unintentional outcomes); (c) attribution (an assessment of how much the outcome is caused by other projects) and (d) drop-off, i.e., the deterioration of the outcome over time. These scenarios are all valued via indicators or proxies, estimations of a value in case an exact measure is impossible to obtain.

Stage 5: the SROI (ratio) is calculated. For this, it is necessary to calculate a projection of the inputs and benefits over the project horizon. Summing up all the benefits, subtracting all negative outcomes or scenarios (deadweight, displacement, and attribution), one can calculate the impact per annum and, by using a discount rate, the Present Net Value (NPV).

SROI= (Net Present Value of Impact)/ (Present Net Value of Investment)

Stage 6: communication of the results to stakeholders.

An SROI ratio of 3:1 means that for every euro invested, the project will generate a social benefit of three euros. The ratio alone does not indicate the social value. Qualitative and descriptive evidence should accompany the number.

Strengths and Weaknesses of SROI

The literature on SROI analysis has identified several strengths and weaknesses that we are going to briefly discuss below (see Manetti (2014) and Maldonado and Corbey, (2016))

Strengths:

1. **A holistic approach based on a theory of change** (Arvidson et al., 2013; Krlev et al., 2015)**;**
2. **Based on stakeholder involvement** (Krlev et al., 2015)**.** Different from CBA analysis, in SROI, stakeholders are involved along the whole analysis process, defining the project objectives and identifying the project's outputs and outcomes.
3. **Useful as a management tool** (Arvidson et al., 2013; Krlev et al., 2015)
4. **Accountability, transparency, and communication** (Krlev et al., 2015). SROI studies are meant to be open and transparent. The calculations and the assumptions used to identify indicators, or financial proxies, need to be clearly communicated to the stakeholders.

Weaknesses:

1. **Resources needed** (Arvidson et al., 2013; Jönsson, 2013)**.** Time, money, information, and expertise are needed. SROI's success depends on the experience and judgment of experts to identify indicators and financial proxies. This lack

of expertise is especially relevant in the case of small organizations.

2. **Difficulties in measuring soft information** (Arvidson et al., 2013)**.** The choice of indicators is not only influenced by expert judgment but also by (1) the access to good-quality data (like financial proxies' databases), (2) time constraints, and (3) resources available for carrying out the evaluation. Soft information is difficult to measure, and sometimes, they are relegated.
3. **Difficulties in measuring deadweight, displacement, and attribution** (Pathak & Dattani, 2014).
4. **Allocation of costs** (Pathak & Dattani, 2014)**.** Critics argue that only direct costs (and not overhead costs) are included in the SROI. In this way, the full costs associated with the project are underestimated, and the ratio is overstated. Discount rates used are often too low because one frequently fails to incorporate inflationary.
5. **Difficult comparability** (Arvidson et al., 2010; Jönsson, 2013; Krlev et al., 2015). It is difficult to compare two or more projects based on the ratio. It is only possible to compare two similar projects which share the same market, have similar objectives and methodology.

Basic Efficiency Resource (BER) Analysis

The BER analysis is a recent approach, which seeks to (1) provide an easy framework for evaluating complex programs, campaigns, or activities; (2) depend on the simple concepts of SROI to evaluate a selected unit's impact compared to its resources; and (3) offer a relative perspective on performance where the units analyzed are compared to other similar units. For

the BER approach, a unit can refer to a specific component of a joint campaign with other organizations, whereas at the single organization level, a unit could be a particular team or work area. The main advantage of BER is that every unit may be separately considered in a way that shows its contribution to the general success of an organization and its performance compared to other units. The BER model goes beyond just measuring impact or value and is more about increasing efficiency. In this regard, in common with SROI, the focus is on assessing and improving organizations' performance. However, the main advantage of this approach is the analysis of each separate unit's contribution to social value. BER is, therefore, more suitable for larger organizations with distinct and separate work areas or for evaluating units of partnership working.

5.1. Multidimensional value creation approach

A different approach, which tries to overcome the limitations of SROI, is suggested by Viviani and Maurel (2019). The authors focus on the characteristics of the investee, which is typically a multidimensional organization, which pursues both a non-profit-oriented (social, environmental, or other) and a profit-oriented mission.

This specific firms' profile could possibly have contrasting implications. According to the traditional theory in finance (Friedrich Hayek, 1944), the multiplicity of goals often generates additional costs related to inadequate governance structures and inefficient decisions that should lead the multidimensional company to destroy value. On the other hand,

according to more recent literature, the multiplicity of goals is seen as an asset to create additional value (F. Wilson & Post, 2013; Wronka, 2013). We will discuss the positive aspects of the latter, summarized very well by Viviani and Muriel (2019), and the literature therein below.

1. Multidimensional enterprises develop specific and new business models that, when combined with the profit and not-for-profit dimensions, generate social value, which will benefit the different stakeholders. These firms can adapt to the changing environment and to stakeholder's expectations.
2. Diversifying activities can create value through a coinsurance effect, implying a decrease in default risk and consequently in bankruptcy costs.
3. Multidimensional enterprises can create value by reducing their cost of capital (cost of financial resources) thanks to the greater diversity of investors compared to traditional for-profit organizations. The enterprise can, for example, suggest specific return-risk profiles for different types of investors.
4. Innovative financial engineering, which has recently emerged to finance these categories of firms, can create additional financial value.

Unlike SROI, the approach suggested by Viviani and Maurel (2019) does not have the aim of monetizing the non-financial impact but goes beyond a purely subjective measure of value creation. Each investor compares the financial and social incomes against their subjective benchmark. The relevant aim is not so much to compare whether it is better to invest in two

different competing social activities but rather whether one should invest in a multidimensional company or in an equivalent portfolio of for-profit and not-for-profit organizations.
Their approach implies finding social organizations and for-profit companies with similar activities to the multidimensional organization.
The method is synthesized as follows. If one invests 100% of his/her wealth (CI: capital invested) in equivalent non-for-profit organizations, it will obtain an NFI/CI ratio given by A. If someone invests 100% of her wealth in equivalent for-profit organizations, she will obtain a FI/CI ratio of B. The straight line [A, B] gives the combination of NFI/CI, FI/CI that can be obtained by a mere portfolio combination of for-profit (FP) and not-for-profit (NFP) organizations. A multidimensional organization creates (destroys) value if it is above (below) the line [A, B]. If the multidimensional organization creates value, then it becomes profitable for an investor to finance its activities.
Viviani and Muriel (2019) propose an approach to transform a two-dimension problem (financial performance and non-financial impact) into a unique performance measure by "projecting" value creation either on the economic dimension or on the social.

5.2. Environmental Impact

What has been discussed up to now is especially relevant to define the Social impact of impact investing. Environmental or Green impact operates differently. The monetization of natural effects is easier or, in some cases, less relevant. One of the most

relevant issues related to Green impact is connected to carbon emission and its reduction.

Carbon Footprints determine the amount of carbon emission related to one product. Carbon quantification might involve several steps according to the level of completeness of information and responsibility taken by producers. We can have three different approaches:

1. One might be interested in the amount required to produce and sell a product or a service.
2. The "cradle to grave" approach uses the carbon footprint from raw materials to waste.
3. The Scope approach from the Greenhouse Gas Protocol is a common way to disclose carbon footprint. It is divided into three main levels of responsibilities. In particular, the approach treats enterprise activity without the segmentation of products. Scope 1, for instance, refers to the amount of greenhouse gas emitted by firm properties. Scope 2 considers the greenhouse emitted to produce the energy required for operations. Any emissions outside scope one and two are collected in scope three: supply chain, product, and employees' transport. The *caveat* that the Paris protocol suggests is that this methodology is valid for every single firm but presents double counting when considering one sector. It is valid for firms with correlated activities. Therefore, when weighing portfolio decisions, double counting may require a second analysis.

An ecological footprint is a similar approach. It differs by the focus on generic materials. The intuitive definition is the measure of human demand for natural resources. The reference

is in spatial terms rather than weight. An example might be the area required to produce a pound of beef.

Water footprint represents the amount of water required to produce a certain commodity.

The environmental impact must be necessarily blended with social policy. Strategic sectors such as waste management and water management are necessarily resource-intensive, and at the same time, their impact on communities is crucial in terms of essential services (Millar & Hall, 2013). In the case of blended projects of sustainability impact, synthetic indicators are usually employed. As stated before, in most of these cases, issuers tend to adopt independent indicators. When these are developed, SROI could aggregate indicators.

6. Historical Facts and data on Impact Investing

6.1. Some historical facts

Impact investing is geographically concentrated in Anglo-Saxon countries. The reason for this must be sought in the strong role of philanthropic organizations in the USA, which tried to use impact investing in financing their operations during the last crisis, and in the Government's active action since the years the 2000s in the UK. The Continental approach to impact investing, which is growing, is more focused on social entrepreneurship. The predominance of English-speaking activity influenced the field's development in terms of practices and officiality. Regarding activities such as stakeholder engagements, it is possible to trace exclusion strategies way before the 21st century.

The first organizations to operate in such a manner appeared in the 18th century (Spiess-Knafl & Scheck, 2017). Methodist companies rejected the possibility to enter contracts with organizations embedded in gambling, liquors, drugs, and slavery. The Quakers followed similar rules, forbidding war and slave-related businesses. Further, in time, the Pioneer Fund has founded in 1937 in Boston, the first publicly offered fund. Such an organization was based on similar principles. These early investing strategies applied by these various groups were intended to eliminate so-called "sin" industries. Today, sin stock sectors usually include alcohol, tobacco, gambling, sex-related industries, and weapons manufacturers. Again, it happened during the Vietnam war with US university endowment managers. Intellectuals and academics suggested the exclusion of military contractors. Political strife and changes in perceptions of human values accelerated the evolution of corporate social expectations. Outside a pool of "champions", the OECD published the first lines of corporate social responsibility in 1976 (Schettini & Schettini, 2002). In 2002 Standard Ethics, asked international organizations such as OECD and UNO to determine the normative characters of investment (Richardson, 2009; von Wallis & Klein, 2015).

Today, assets managed according to sustainable finance strategies amount to 30 trillion dollars, 26% of all professionally managed assets worldwide, with a strong growth rate over the years: considering the period 2014-2018, the growth rate is +6% in Europe and +16% in the USA. As the Global Sustainable Investment Review reported in 2018, not just institutional

investors are appreciating sustainable investments. Retail investors count for 25% of the increases in investment in 2018. Forecasts on sustainable investing are positive also for the future, above all considering that evidence supports that paying attention to ESG concerns does not compromise returns – rather the opposite. According to a study by Mc Kinsey & Co., which aggregates evidence from more than 2.000 empirical studies on the topic, in 63% of cases, it finds positive results, and just in 8% negative results (Friede et al., 2015).

6.2. Data

The GIIN's Annual Impact Investor Survey incorporates data and perspectives from 294 individual impact investing organizations from all over the world. Figure 1 shows that the cumulated number of funds and firms has constantly risen over time. While the number of funds appears far from a tipping point, the number of organizations is during recent years stabilizing. Total investments have almost doubled since 2013, from 26.5 billion dollars to more than 71 billion dollars in 2019.

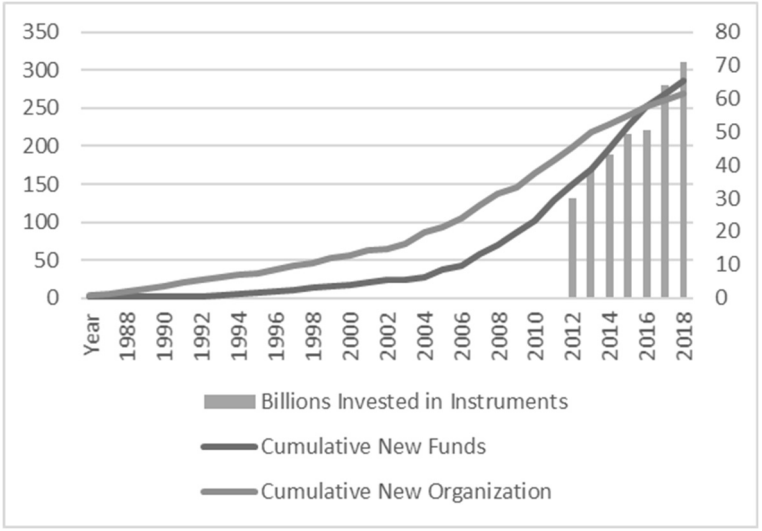

Figure 1: Market Dimension

Although the market of social impact has generated growing funds in recent years, it is still at an immature stage. Therefore, steadfast changes are expected. Along with the magnitude of growth, areas of investment varied too. GIIN reports consider twelve major areas of investment, labeling the remaining with "others". Despite its marginality, the area "others" accounts for almost 20% of all used funds between 2015 and 2020. Its reduction in proportion, though, indicates a concentration in investment direction over the years. We summarize this structural change in Figure 1. It shows the variations in the proportions, according to the yearly estimates of GIIN. The main areas which compose impact investing are microfinance and financial assistance. The former has fluctuated between a 20%

proportion in 2015 to a 16% in 2020. The latter registered an absolute decline in the last five years. Among the remaining, it is possible to find declining and growing patterns. For instance, Energy has remained around 15% of the market investments' areas, beating both financial assistance and microfinance. The Water and Hygiene area grew to 9% between 2019 and 2020. Healthcare grew too, from 5 to 8%[3]. Minor changes happened to infrastructure, manufacturing, IT. A major decline was registered from Housing, jumping from 27% to less than 8%. Agriculture registered a twofold increase from 5% to 12%.

In terms of geographical areas, the major growth of impact investing investors happened in North America, whilst minor variations occurred in the rest of the world. Despite the fact that most of the Offices are located in Western Europe and Northern America, most investments are directed to Asian and Sub-Saharan African countries. Interestingly though, 40% of the investments go to North America. Such configuration has not changed during the years of the survey, indicating an apparent north-south dynamic, except for the North American market.

Actors engaging in impact investing are diverse. Fund managers represent the majority of impact investors. This category could be divided into profit and non-profit funds. The former takes up to 40% of the impact investing market historically. The latter varies between 15% up to 20% of the overall market. Foundations represent the second biggest group participating in impact investing, usually standing below 20%. According to

[3] Considering the reduction of public expenditure of European nations (Mazzanti et al., 2020), the Impact investing trend in the health area represents a counter-cyclical trend.

GIIN reports, commercial banks and diversified investing institutions represent 6% in less than five years. This category was not mentioned among the respondents of 2015. Between other institutions, we find family offices (4%), pension funds and insurance companies (4%), development financial institutions (3%), and permanent investment companies (2%). All the others count for up to 9%. Family offices have acquired increasing importance in recent years, together with foundations and permanent investment companies.

6.3. A brief insight over impact investing in Italy

Social entrepreneurship is an economic segment, which comprises different kinds of organizations: large and small; new and old; religious and secular; nonprofit, for-profit, and hybrid. It is particularly important in the Italian economy: therefore, the potential for impact finance in Italy is enormous. According to an ISTAT report (2017), in Italy, there are around 350.492 non-profit organizations (+2,1% in 2016), with around 844.000 employees (+ 3,9%). Associations count for 85,1% (20,0% of employees), social cooperatives for 4,5% (52,2% of employees), foundations for 2,1% (12,1% of employees), other types of organizations for 8,3% (15,7% of employees).

Italy represents a relevant market for impact investing. One of the main factors is the magnitude of the investment. According to the GIIN reports, Italy stands as one of the major actors in Western Europe. Furthermore, its historical distribution of social firms on its territory allows for the blossoming of impact culture. As reported by Maduro (2018), the great crisis of 2008 and 2012

did not stop the business cycle of impact actors such as social impact firms and philanthropic organizations (Maduro et al., 2018). Data hereby reported reflects the results of a survey made annually by Tiresia, which gives a picture of the social market. As reported in Figure 2, this market has grown between 2010 and 2019. Other organizations such as clusters, banks, and others not reported have slightly reduced their presence. Also, the number of Funds has increased over time. Despite their number, the amount of managed capital amounted to more than 72 million euros in 2014 (Salamon, 2014). Firms particularly involved in social impact investing have increased their number significantly, despite the economic instability. Among these, it is possible to find actors involved in addictions recovery, immigrants' integration, and elderly care. The main difference with firms with social impacts objectives is that the former has the market objectives to satisfy those needs, while the latter has it as a collateral objective. Historically, social cooperatives had a major stake in impact businesses, while the concept of "social enterprise" was introduced in the mid-2000s. The main institutional actors are the Ministry for Employment and Social Policies and the Italian Cooperation and Development Agency, regional governments, and municipalities, who play a key role in the sector. The regulatory framework of the sector is mainly oriented towards non-profit entities and social cooperatives. The 2005 Law on Social Enterprises first attempted to introduce a legal recognition for the latter. Italy is also the first European country to adopt in 2016 a legal status for "Benefit Companies" ("Società Benefit"), which aim at achieving "common benefits" on top of making profits

(Gianoncelli & Boiardi, 2018). The main source of finance comes from public initiatives, in particular regional ones. An exception is the allocation of €200 million to cooperatives and social enterprises by the Inter-ministerial Committee for Economic Planning. A similar pattern is observed on the side of capacity-building initiatives, as shown by programs like the Open Inset Innovation Center in Turin or Fabriq in Milan. The "Social Impact Agenda per l'Italia", successor to the Italian Advisory Board of the G8 Taskforce on Social Impact Investment, also shows the growing importance of social impact investing in Italy (Gianoncelli & Boiardi, 2018). Social Impact investing has a consolidated history in Italy. Non-profit organizations have developed since the late 19th to the early 20th. The development of social impact banking can be traced recently to the '90s. Two major events occurred. The first is the foundation of Banca Etica, which represents the paramount of impact investing in Italy and abroad. Furthermore, it represents a covenant between several organizations operating within the sector. The second major event is the introduction of Bank Foundations in 1990. The expected change during the new European treaties required publicly owned bank to be privatized. According to the law Amato-Carli of 1990, the property of banks was transferred to foundations with two main objectives: allocate market shares and administrate profits according to social impact principles. These organizations provided both firms and non-profit organizations with the necessary funds and assistance to operate. The main difference between the two events regarding impact investing was the origin and impact. Organizations, like Banca Etica, usually operate within the

Third Sector, whereas Bank foundations are related to commercial banks and do not have profit objectives. The Italian development of impact investment was originally related to social matters. Only in recent years, has it spread towards green objectives.

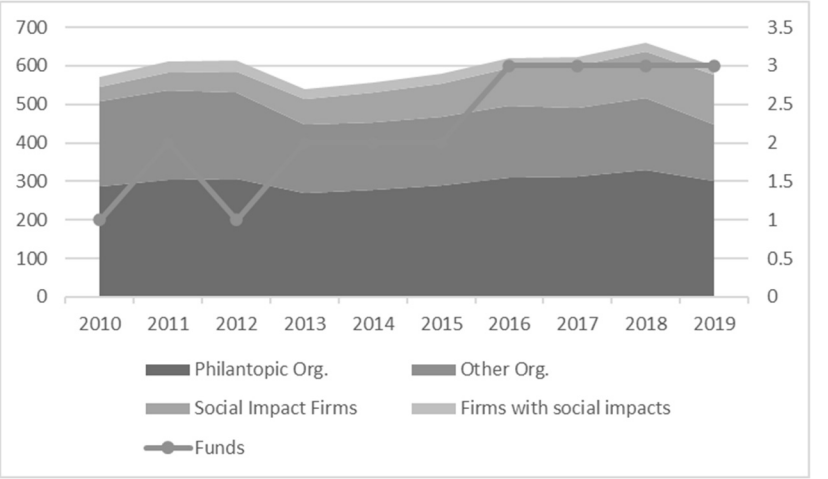

Figure 2: Impact Investing in Italy

7. Policy

Considering the actual panorama on Impact investing, besides measurement, the most challenging problem is policy. Clear and transparent policies on Impact investing can play a crucial role in enabling public and private investments. Wood et al. (2013) outline how the government often plays a key role as

underwriter, co-investor, regulator, procurer of goods and services, or provider of subsidies and technical assistance, thus enabling intentional investment for social and environmental benefits by asset owners. Furthermore, the authors mark as essential the coordination between policymakers and institutional investors in building private investment markets.
Governments can support the impact investing sector in three ways: by encouraging the supply, by directing the capital, and by regulating demand (Martin, 2014).

- **Encouraging supply:** governments, adopting development policies, can increase the supply of allocated capital to Impact Investing. These policies can be translated into investment incentives through co-investments or risk sharing, establishing requirements for investors operating in the sector, or directly financing Impact investments or intermediaries.
- **Directing the capital:** governments can utilize capital to make more efficient the actual social-environmental investments, specifically regulating market prices and improving the efficiency of transactions and market information, for example, by harmonizing the social impact measurement standards.
- **Regulating demand:** demand development policies increase the demand of Impact Investing by creating the necessary skills for the recipients of these investments to be able to absorb capital. Furthermore, the new corporate legal forms or social enterprises, which enjoy preferential tax

treatment, represent an important structural factor for demand growth.

7.1. European policies versus the rest of the World

Sustainability is a worldwide known topic. However, we are witnessing different approaches from single states and main political blocks. The meaning of sustainable growth could be perceived differently within the USA, China, and Europe, for example. This concept refers to the capability of making our economic growth socially positive and at least environmentally neutral. In Europe, the concept of sustainable development is a fundamental and overarching objective, which is contained in Article 2 of the Lisbon Treaty. The EU Sustainable Development Strategy calls for the 'integration of economic, social and environmental considerations to coherent and mutually reinforce each other' (Jenkins, 2021). More than any other political player, Europe has developed some of the most stringent environmental standards in the world. Furthermore, it has implemented ambitious policies in climate issues and has fostered the agreement of Paris on climate. One of the most groundbreaking solutions is a pioneering European climate strategy proposed by the European Commission and presented at the 2019 UN COP25 Climate Summit in Madrid, referred to as the European Green Deal. Its goal for the EU's economy is to become "zero-emission", i.e., climate-neutral by 2050. And by 2030, carbon dioxide (CO2) emissions are to be reduced by at least 55% versus the 1990 emissions. This concerns the entire economy,

including sectors not covered by the EU Emissions Trading Scheme (EU ETS), such as transport, construction, agriculture, and waste management.

Also, other economic aspects make Europe a virtuous case. Today, for example, the top 1% of earners in Europe represent 12% of income (in the US, 20%) while the bottom 50% represents 22% (in the US, 10%). Even if, since the 1980s, the USA and Europe have had similar exposure to global markets and new trends as technologies, they have differed in terms of policies and institutional direction. China is particularly late on the social side. China's Gini coefficient, which measures the degree of inequality in income distribution, has reached nearly 0.50 in recent years. This indicator is higher than most African countries and, by comparison, the Nordic countries, which are the world's most equal, have Gini coefficients of about 0.25 (Engelbrekt et al., 2015). Considering the environmental issue again, the 2020 Environmental Performance Index (EPI) provides a quantitative basis for comparing, analyzing, and understanding environmental performance for 180 countries: while China ranked 120th and USA 24th, the first ten countries are all European. In the EU sustainable development strategy, both the environmental and social pillars are important and integrated. The Just Transition Mechanism (JTM) that will include a Just Transition Fund (JTF) focuses on those regions and sectors most affected by the transition, such as those that depend on fossil fuels and other carbon-heavy processes. From a social sustainability perspective, it will strive to protect workers and citizens by funding re-skilling programs, access to energy-efficient

housing, and/or access to jobs in new sectors (budget of 7.5 billion). To ensure continuous monitoring of social sustainability in its member states, the EU has developed a valid, reliable statistical system to measure social conditions and development. The system has also been used to measure progress towards the UN SDGs (McGuinn, 2020).

Beyond the cultural orientation, the sustainability trend turns out to be the main European competitive advantage. Mature globalization processes have spread increasing competitiveness of developing countries since the 1980s, particularly from the Asian south-east, threatening the centrality of the European economy with the capabilities of these countries in producing goods at lower costs. Moreover, the latest years have known the trade war phenomenon between two bigger and stronger blocks, China and the USA. These grounds are highly related to the European preference for sustainability and to its possible future in the next years. Promoting the best green and social fair economy, building at the same time a culture of responsible consumption, and underlining the limits of traditional vision, represent the opportunity to realize a European specialization to compete on the market.

7.2. Policy objectives directed to create an ecosystem favorable to impact investing

The SDG's framework (United Nations, 2015), with its 17 goals, has had a primary role in pushing impact investing culture and market. Due to the universal provenience of its promoters, it has had an enormous preeminence, and now it is encouraging

impact investors to consider the agenda in determining their choices. In 2018, a GIIN study (Mudaliar et al., 2019) underlined that more than half of impact investors reported tracking some or all their impact performance against the SDGs. This shows the potential for impact investing to catalyze progress towards the goal. SDG's are used virtually by impact investors not only for choosing sectors but also for developing measurement metrics. In *Financing the SDGs: Impact Investing in Action* (GIIN, 2018), GIIN shows case studies that demonstrate the increasingly sophisticated and targeted ways in which impact investors are directing capital towards the SDGs. Thus, they design products to address one or several goals by incorporating them throughout the investment cycle.

The New Green Deal. European countries are facing the challenge of translating their good intentions into clear programs. In these years, the Union is focusing especially on climate change, according to priorities. The Green Deal initiative is an integral part of this Commission's strategy to implement the United Nation's 2030 Agenda and the sustainable development goals (SDG's) into the economy. Its purpose is to plan a new growth strategy to transform Europe into a more resource-efficient and competitive economy. The Green Deal is a complex architecture by turning climate and environmental challenges into opportunities across all policy areas and making the transition just and inclusive. By intervening in the various areas like biodiversity, from farm to fork, sustainable agriculture, clean energy, Sustainable industry, building and renovating, sustainable mobility, eliminating pollution, and

climate action, the Plan is impacting different players: economic, social, and institutional.

The plan arrives in a specific context: the year 2019 has been marked by important citizen mobilizations asking governments and public authorities to take urgent and ambitious actions against climate change. Moreover, in parallel, there have been intense protests in several countries resulting from fiscal and social reforms perceived as unfair. Thus, to achieve the ambition set by the European Green Deal, there are significant investment needs, especially at the firm level. The Commission has estimated that only achieving the current 2030 climate and energy targets will require € 260 billion of additional annual investment, about 1,5% of 2018 GDP. The OECD estimates that globally, € 6.35 trillion a year will be required to meet Paris Agreement goals by 2030.

Particularly affected by the strategy will be firms in industrial sectors, which need to be accompanied during this transition to protect the incredible value of the European industrial system. In this scenario impact, investing could be the leading actor, providing capital to different actors involved in this "just transition":

- For-profit Companies: particularly SMEs and businesses are operating in sectors with high carbon intensity levels, will need money to convert to a greener direction. The green transformation, indeed, implies capital both for material new investments (machinery, factories, etc.) and to prevent workers' unemployment. Together with the reconversion of old businesses, the "just transition" needs the creation of new enterprises involved in the trend of greenification. This

implies increasing investments demand in a field like renewable energy, waste management, circular economy,

- Citizens through social entrepreneurship and non-profit: the growth of social businesses around the world, and specifically in Europe, may help the socio-economic ecosystem in facing the challenges of climate change. Above all, considering the characteristics of this type of business, this sector has grown in a close relationship with the context neighboring impact investing.

Next Generation EU. In November 2020, the European Parliament and the EU Member States, with the support of the European Commission, agreed on the largest package ever financed through the EU budget, of €1.8 trillion. Following COVID 19 crisis and its consequences, the package will help reestablish a greener, more digital, and more resilient Europe, preparing for present and future challenges[4].

More than 50% of the package will finance modernization through policies that involve R&D, climate and digital transitions, economic recovery, and a new health program. Traditional policies such as cohesion and common agricultural policy will be modernized and will continue to receive significant funds to support the green and digital transitions. 30% of the funds will be spent to challenge climate change. The package also has a focus on biodiversity protection and attention on gender issues.

Regulation on Sustainability-Related Disclosures in the Financial Services Sector (RFDR). Adopted by the European

[4] The long-term budget for 2021-2027 consists of €1.074 trillion, which is combined with the temporary recovery instrument, Next Generation EU, of €750 billion.

Parliament in December 2019, it will have effect from January 2022. The legislative work outlines in its premises the role of financial markets and, in particular, private capital to foster climate policies by directing resources to sustainable firms and projects. The participation of financial actors is seen as necessary to achieve climatic goals of well below 2 degrees and with a likelihood of 1.5 of temperature anomaly. The European Institutions' objective is to mitigate information asymmetries between European markets, especially regarding the impact and definitions of actors. The RFDR is, therefore, the legal framework that predates the Taxonomy. The regulation requires firms promoting sustainable activities to publicly state the expected impact of their operations on annually redacted reports. In particular, the impact has to be expressively measured, either quantitatively or qualitatively. Benchmarks must be used for calculation and comparison, and a description of the measurement methods should be presented in the reports. As a reference, the regulation indicates the EU Climate Transition Benchmark or the EU Paris-aligned Benchmark (Art. 9). The disclosure must be accurate, fair, not misleading, concise, and straightforward (Art. 8). The definition of indicators must indicate the performance regarding the impact. The regulation presents a strict definition of sustainable investment, treated in particular in articles 8 and 9:

'Sustainable Investment' means an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water, and land, on the production of waste, and greenhouse gas emissions,

or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular, an investment that contributes to tackling inequality or that fosters social cohesion, social integration, and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.

7.3. European efforts for sustainable financial tools

The European Union is active in promoting finance as a sustainable transition tool. To realize a just transition, the Union will require massive public investment, but also increased efforts to direct private capital towards climate, environmental and social actions.

The Action plan for sustainable finance

Even if not just targeted on impact investing, the Commission plan is a milestone of the European strategy to become the most important sustainable area through financial tools. At the end of 2016, the Commission appointed a High-Level Expert Group on sustainable finance. On 31 January 2018, the expert group published its final report offering a comprehensive vision on building a sustainable finance strategy for the EU. The two key findings from the report are:

- improving the contribution of finance to sustainable and inclusive growth by funding society's long-term needs,
- strengthening financial stability by incorporating environmental, social and governance (ESG) factors into investment decision-making.

The action plan set out a comprehensive strategy to further connect finance with sustainability. The plan is part of broader efforts to connect finance with the specific needs of the European and global economies to benefit the planet and society. Especially:

a) fostering transparency and long-termism in financial and economic activity,

b) managing financial risks stemming from climate change, resource depletion, environmental degradation, and social issues; and

c) reorienting capital flows towards sustainable investment to achieve sustainable and inclusive growth.

The Commission taxonomy on green finance

The most important European Union action for improving regulation in sustainable finance is in the environmental field. On 18 December 2019, the Council and the European Parliament reached a political agreement on the Taxonomy Regulation, elaborated by a Technical Expert Group (TEG) on sustainable finance established in July 2018. The task of the TEG was to identify economic activities capable of contributing to achieving the zero-emissions target by 2050 and the related selection criteria. The taxonomy is the best-advanced regulation for the establishment of a framework able to facilitate sustainable investments.

The EU Taxonomy is a tool to help investors, companies, issuers, and project promoters to complete the transition to a low-carbon, resilient and resource-efficient economy (Alessi et al., 2019). The Taxonomy sets performance thresholds (referred to as 'technical screening criteria) for economic activities involved in high climate-intensity levels.

The Taxonomy will help at the same time companies and investors. Companies can use it to assess their sustainability level, while investors can check if one investing target company is already green compliant. Consistent with the EU Action Plan on Financing Sustainable Growth, finance is a critical enabler of transformative improvements in existing industries in Europe and globally.

To be operational, the EU taxonomy needs further actions. The recent work from the EU commission on sustainable investment adds relevant aspects to the issue. One of its main objectives was to categorize the market and its institutions. The main addressees of the tool are:

- Responsible finance players: they will use the taxonomy criteria to certificate the sustainability of the investments. For each product, the financial market operator (as of December 31, 2021) will be required to declare the extent to which the underlying investments are aligned with the Taxonomy, expressed as a percentage of the investment, fund, or portfolio.
- Governments and institutions: the taxonomy is used to allocate businesses green incentives and European help funds.

- Businesses: With over 500 employees, companies will use the taxonomy framework to inform stakeholders of their activities.

7.4. Government incentives for impact investing

Demand for impact investing and related instruments are increasing. According to the Global Impact Investing Network, the number of social impact investment funds has quadrupled in two decades to over 200 funds with USD 228 billion invested. However, it is observed a delay in relative regulation. Indeed, also GIIN, in its recent Roadmap for the future of impact investing, identified the regulation as one of the six categories where urgent actions are needed (GIIN, 2018). Policy and regulation on impact investing can catalyze industry growth by two main actions. One is the establishment of **tax reliefs** or reductions for impact investing initiatives. The other is the creation of a **supportive regulatory environment** for investors and businesses generating impact.

Visions on regulation vary by geography. GIIN reports that while US-based investors generally think that the strongest emphasis for developing impact investing should be allocated to different topics, other than regulation, European investors feel that the progress in regulation is very important. Moreover, they attribute a central role to governments in providing stability for the sector where they are investing, rather than in the investment regulation per se. Taxation benefits are a tool that often helps specific sectors increasing their success. Providing a set of tax

incentives for impact investments could potentially amplify the volume of capital active in a specific industry.
Another stimulus for developing the market of impact investing is to intervene on the demand side, promoting tax benefits also for social enterprises. The most evident effect of this action could be to expand the pipeline of impact-generating companies. In addition to incentivizing impact finance, an action-oriented to create an environment conducive to this kind of investment can have a central role. As GIIN says, regulations that require companies or investment managers to disclose information related to impact, for example, would help increase transparency, support awareness-raising efforts, and create demand for more investment opportunities with a positive impact. Regulation is also important to democratize the industry and its tools, attracting more potential investors. Along this line of reasoning, promoting the impact investing regulation could also be a driver to implement a stronger financial education among the EU's more fragile countries, e.g., Italy.
National level regulations are essential to direct private and business actions: among the most advanced initiatives in The Netherland and France. These two countries, for example, were among the first to start implementing policies or regulations that require reporting climate risk and ESG factors.

8. Conclusions

Impact investing is an investment strategy that generates specific beneficial social or environmental effects and financial

gains. New investors, funding intermediaries, and policy developments in impact investment have emerged in all corners of the world over the last decade. The impact investing scenario has moved from a very chaotic stage with an innovative intent to a stage that had the aim to construct a 'market' for this instrument. Several global networks are emerging to promote market building, such as the Global Impact Investing Network (GIIN) and the Impact Investing Policy Collaborative (IIPC). Initiatives to establish common standards for impact measurement and benchmarking are developing through the work of the Impact Reporting and Investment Standards (IRIS) (www.iris.thegiin.org) and the emergence of the Global Impact Investing Rating System (GIIRS) (www.giirs.org).

This survey aims to define the boundaries of impact investing, trying to show the path of development of the concept and its limitations.

Following Trelstad (2016), some challenges need to be further investigated. The first is related to the fact that it is usually very hard to identify an impact investing and what is not. This is a consequence of the definition of impact investing. It is too vast in covering a broad range of asset classes, themes, and return orientations.

The second is connected to the fact that impact investing is usually represented as an intermediate point between two extremes, the traditional finance on one end and philanthropy on the other. This point is not uniquely determined. Investors often seek impact at different points along the spectrum, and migrate from one end to the next increases the confusion around the boundaries of impact investing.

The third source of confusion lies in the number of steps that are taken from the sources of capital (the asset owners) to the sources of their financial return (the companies or projects that are being financed) as the number and diversity of investors grow within each step, the focus and clarity of the investor intent risk getting lost.

Fourth, impact investing needs consensus on defining impact goals and developing a formal impact management practice. As is the case for traditional finance, it needs common accounting standards, a shared language, and frameworks (asset class and norms), which are necessary to align the investor's financial goals.

Finally, the most complex issue relates to measurability. There are still very few conventions on what evidence is sufficient to demonstrate proof of impact at the company level, how to aggregate that information at the fund level, and whether and how the sources of capital can evaluate the evidence to make rational investment decisions based on an investment's combined on financial and social/environmental returns.

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