

Rockefeller Foundation

Philanthropic Enabling Environment

IMPACT INVESTING INITIATIVE - Nov. 16, 2009

Delivering social change at scale will require more capital than philanthropy and public resources can provide. While almost all of the trillions of dollars of assets around the world remain tied up in investments that seek only to maximize financial returns, a relatively small but rapidly growing industry is emerging that could unlock enough of this investment capital to complement philanthropy in addressing pressing social challenges. This industry, called “impact investing,” is comprised of investors seeking to generate both financial return *and* social and/or environmental value—while at a minimum returning capital, and, in many cases, offering market-rate returns or better.

Despite, and sometimes because of, a proliferation of activity, the impact investing industry stands at a delicate moment. On one hand, structural forces around the world are gathering to bolster the industry’s development, despite the recent market disruptions and economic contraction in much of the world. Wealth is increasingly concentrated in the hands of people attracted to private-sector solutions to social problems at the same time that a new generation of entrepreneurs is launching viable ventures across an array of geographies and sectors that address social challenges.

On the other hand, the nascent industry remains beset by inefficiencies and distortions that currently limit its impact in the areas of the Rockefeller Foundation’s strategic focus and threaten its future trajectory. Lack of coordination hampers collaboration to build the infrastructure the industry needs to flourish. Intermediation—the placement of money between investors and the businesses and projects that can use it productively—is generally sub-scale and specifically embryonic in sub-sectors of impact investing such as public health and agriculture. And basic market infrastructure and the investment ecosystem necessary to identify, vet, and monitor investments efficiently are missing.

The Rockefeller Foundation believes that the lack of intermediation capacity and leadership to generate collective action is currently the binding constraint on expanded investment. The Foundation’s Impact Investing initiative seeks to catalyze the leadership the emerging industry needs at this crucial stage in its development to build the intermediation capacity and investing infrastructure that can unlock the industry’s impact. Specifically, the initiative is working in four primary areas:

1. Catalyzing *collective action* platforms that enable investors to work together more effectively, with a special emphasis on the development of an Impact Investing Network that provides the vehicle through which a select group of global leading impact investors and intermediaries can launch initiatives, such as an independent standards setting body, and ultimately undertake advocacy and marketing.
2. Supporting the development of *intermediation vehicles* that help place capital in new geographies and sub-sectors (not just a narrow set of issues in a limited range of countries and communities), absorb impact investments at a scale necessary to attract the institutional investors who control the lion’s share of global capital, and invest this capital into businesses and projects that require both scaled resources and upfront subsidy in order to target poor and vulnerable people.
3. Facilitating the development of *industry-wide infrastructure*, either collectively or as initiated by individual entrepreneurs, and in conjunction with the impact investing network, where appropriate.

4. Supporting *research and advocacy* efforts that promote an analytical understanding of the impact investing industry and necessary steps to facilitate its maturation.

Focus areas

- **Incubation of platforms for collective action.** The impact investing industry is currently inefficient, with duplication in some areas and gaps in others, as innovation occurs through uncoordinated activity responding to investor interest. Developing effective mechanisms for disseminating standards, sharing information, and collaborating on deals will be crucial. This lever focuses its support for coordination and collective action on the development of an impact investing network, which serves as a membership organization for a select but diverse group of impact investors, including pension funds, family offices, private banks, and foundations.
- **Support for the development of intermediation vehicles.** The history of microfinance and U.S. low-income housing development investments, as well as the evolution of mainstream capital markets, demonstrates the centrality of intermediation capabilities in unlocking investment flows. The Rockefeller Foundation believes that substantial latent investment capital will flow once intermediation develops to help place it, so the Foundation: (1) supports investment vehicles that channel funds to companies and organizations operating in sectors related to other Rockefeller issue areas (e.g., public health, agriculture urban housing in developing countries); (2) seeds a new cadre of scaled intermediaries by supporting proven intermediaries to achieve scale and fostering the entrance of new intermediaries into impact investment; and (3) demonstrates new approaches to combining grant funding, concessionary capital, and market-rate capital within a single investment or fund.
- **Building industry infrastructure.** A diverse ecosystem of public goods and services is necessary to foster industry growth, effectiveness, and accessibility. Some of these goods and services require collective action, while others may be provided through individual entrepreneurial activity. This change lever supports efforts to develop infrastructure that enables broader and more effective participation in the impact investing industry, such as the launch of an independent standards-setting body to measure and monitor the social impact of investment, market clearinghouses, deal syndication facilities, retail platforms, and liquidity mechanisms that provide secondary markets for impact investments.
- **Research and advocacy to promote the development of the impact investing industry.** Work in this category supports efforts to understand the nascent impact investing industry, to articulate the case for its growth and development, and to raise awareness and interest in the approach. Grants and other activities focus on generating a fact-based understanding of how impact investing has and is developing, and on communicating to high-priority audiences the successes, failures and challenges that impact investors encounter. We also support research that identifies impact investing opportunities and conveys these findings to investors.