

LEVEL EEI

WORKSHOP 2: GENERATING MORE IMPACT IN PRIVATE MARKETS

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Workshop objectives

- Brainstorm to...
 - Define and specify impact mechanisms to be used in private markets
 - List key moderators of impact success for various private markets' products and design relevant questions to assess how products deal with those moderators
- ... in order to pave the way for impact assessment frameworks and provide avenues for product manufacturers to improve the impact potential of their products



Workshop breakdown

Phase 1: introducing impact mechanisms in private markets (15 min)

Phase 2: collective work on definitions / minimum requirements for impact mechanisms in private markets (full group, 45 min)

Phase 3: presentation of a climate impact assessment framework for financial products (15 min)

Phase 4: improving the impact potential of specific products (small groups, 45 min)



Phase 1: introducing impact mechanisms in private markets

Understanding investor impact mechanisms

- Investor impact mechanisms have been precisely documented by the Impact Management Project and follow-up research.
- 6 (non-exclusive) mechanisms have been identified and leave the door open to various combinations of investor contributions (see following slide).

IMP classification	CSP augmented classification	OPIM examples
Grow new/undersupplied markets		
Provide flexible capital		improving the cost of capital
		specific financial structuring
		offering innovative financing instruments
Engage actively	Provide non-financial support	assisting with further resource mobilization
		providing technical/market advice or capacity building to the investee
		helping the investee to meet higher operational standards
	Shareholder engagement	active shareholder engagement
Signal that impact matters	Market signals	creating long-term trusted partnerships
	Non-market signals	

Figure 1 | The Impact Classes available

IMPACT OF UNDERLYING ASSETS / ENTERPRISES

		A	B	C	
		Act to avoid harm	Benefit stakeholders	Contribute to solutions	
INVESTOR'S CONTRIBUTION	1	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	E.g. Ethical bond fund	E.g. Positively-screened / best-in-class ESG fund	E.g. Sovereign-backed bonds (secondary market) funding vaccine delivery to understand people or renewable energy projects
	2	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	E.g. Shareholder activist fund	E.g. Positively-screened / best-in-class ESG fund using deep shareholder engagement to improve performance	E.g. Public or private equity fund selecting and engaging with businesses that have a significant effect on education and health for underserved people
	3	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	E.g. Anchor investment in a negatively-screened real estate fund in a frontier market	E.g. Positively-screened infrastructure fund in a frontier market	E.g. Bond fund anchoring primary issuances by businesses that have a significant effect on environmental sustainability, access to clean water and sanitation
	4	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	<i>Investment archetypes not yet defined</i>	E.g. Positively-screened private equity fund making anchor investments in frontier markets	E.g. Private equity fund making anchor investments in businesses that have a significant effect on income and employment for underserved people
	5	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	<i>Investment archetypes not yet defined</i>	<i>Investment archetypes not yet defined</i>	E.g. Below-market charity bonds, or an unsecured debt fund focused on businesses that have a significant effect on employment for underserved people
	6	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	<i>Investment archetypes not yet defined</i>	<i>Investment archetypes not yet defined</i>	E.g. Patient VC fund providing anchor investment and active engagement to businesses that have a significant effect on energy access for underserved people

A second typology of impact mechanisms

- Caldecott et al. (2022) argue that, in order to have a positive environmental impact, investors or financial institutions must make a clear and measurable difference in one or more of the following ways:
 - reducing (increasing) the cost of capital for (un)sustainable activities;
 - increasing (reducing) access to capital for (un)sustainable activities;
 - encouraging or enabling sustainable practices by counterparties, such as companies, sovereigns, and individuals.

Table 3: Potential Impact Rating Scorecard

	Public equity	Fixed Income (bonds)	Fixed Income (loans)	Private Equity	Real Assets	Hedge Funds
Cost of capital	1 / 3	2 / 4	3 / 5	2 / 3	2 / 3	2 / 4
Access to liquidity	1 / 3	2 / 3	3 / 5	2 / 4	1 / 3	1 / 4
Adoption of practices	2 / 4	1 / 3	3 / 5	3 / 5	2 / 4	1 / 4

1=Negligible / 2=Limited / 3= Moderate / 4= Significant / 5=Strong

Impact mechanisms in private debt

Table 3: Potential Impact Rating Scorecard

	Public equity	Fixed Income (bonds)	Fixed Income (loans)	Private Equity	Real Assets	Hedge Funds
Cost of capital	1 / 3	2 / 4	3 / 5	2 / 3	2 / 3	2 / 4
Access to liquidity	1 / 3	2 / 3	3 / 5	2 / 4	1 / 3	1 / 4
Adoption of practices	2 / 4	1 / 3	3 / 5	3 / 5	2 / 4	1 / 4

Impact mechanisms in private equity

Table 3: Potential Impact Rating Scorecard

	Public equity	Fixed Income (bonds)	Fixed Income (loans)	Private Equity	Real Assets	Hedge Funds
Cost of capital	1 / 3	2 / 4	3 / 5	2 / 3	2 / 3	2 / 4
Access to liquidity	1 / 3	2 / 3	3 / 5	2 / 4	1 / 3	1 / 4
Adoption of practices	2 / 4	1 / 3	3 / 5	3 / 5	2 / 4	1 / 4

Phase 2: collective work on definitions /
minimum requirements for impact mechanisms
in private markets

Investor Impact Mechanism (based on IMP classification)

Description

Grow new/undersupplied capital markets		Allocating capital to impactful companies whose growth is limited by access to financing.
Provide flexible capital		Allocating capital to impactful companies that require flexible financing conditions to grow.
Engage actively	Provide non-financial support	Provide resources beyond capital that enhance the growth of impactful companies (e.g., know-how, reputation, network).
	Shareholder engagement	Encouraging management to improve as an active owner (e.g., management dialogue, voting).
Signal that impact matters	Market signals	Sending price signals to the entire market that encourage improvement (e.g., screening based on ESG criteria).
	Non-market signals	Sending signals to society at large that influence the public discourse on pressing challenges.

Source: Heeb & Kölbl (2021)

Grow undersupplied markets

Definition:

Allocating capital to impactful companies whose growth is limited by access to financing

Questions:

- How to improve the definition?
- Which examples can you provide?
- What are important KPIs to watch?
- What would be relevant thresholds for those KPIs?

Provide flexible capital

Definition:

Allocating capital to impactful companies that require flexible financing conditions to grow

Questions:

- How to improve the definition?
- Which examples can you provide?
- What are important KPIs to watch?
- What would be relevant thresholds for those KPIs?

Provide non-financial support

Definition:

Provide resources beyond capital that enhance the growth of impactful companies (e.g., know-how, reputation, network)

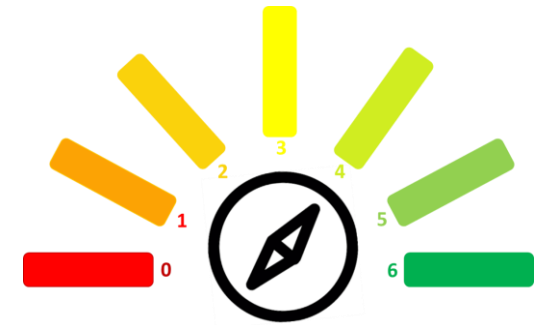
Questions:

- How to improve the definition?
- Which examples can you provide?
- What are important KPIs to watch?
- What would be relevant thresholds for those KPIs?

Phase 3: presentation of an impact assessment framework for financial products

Description of the two-step methodology

1. Attributing an average impact potential rating to each product category, based on IMP's investor contribution categories
 - From 0 to 6 (using a speedometer)
2. Attributing an impact exploitation score for specific products within a category
 - Each product receives a rating (0, +, ++ or +++) based on its ability to exploit the full impact potential of its product category



Rating	Total score (as % of maximum score for the product category)
0	0
"+"	$0 < x < 33\%$
"++"	$33\% < x < 66\%$
"+++"	$x > 66\%$

“Climate impact potential synthetic rating” methodology

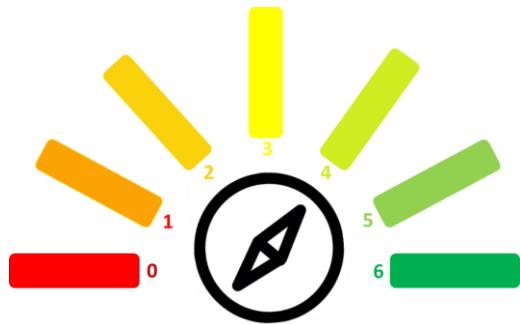
1. Synthetic score = Category Impact Potential Score * Product Exploitation Score
2. The synthetic score is transformed into a synthetic rating
 - 0 => G
 -]0;1] => F
 -]1;2] => E
 -]2;3] => D
 -]3;4] => C
 -]4;5] => B
 -]5;6] => A



Product
XXX

Category impact potential

*How high is the impact potential of the product category?
From 0 to 6*



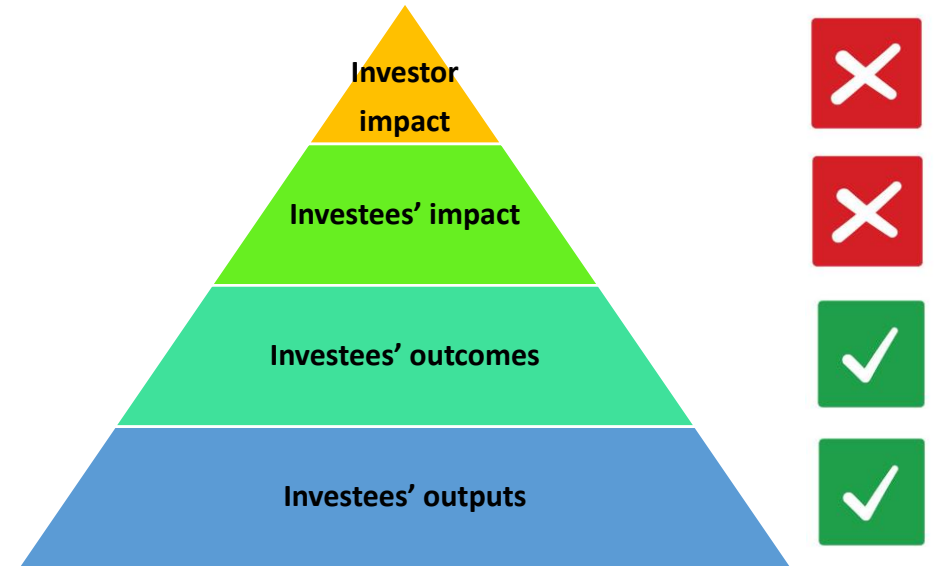
Potential exploitation (of the product)

*How much does the product exploit the impact potential of its category?
From 0 to +++*

++

Impact evaluation (by the product)

Which effects on the real economy does the product carefully evaluate (quantitatively or qualitatively)?



Product's Climate Impact Potential Synthetic Rating

(based on category impact potential and potential exploitation scores)



Highest impact potential

Lowest impact potential

In need for qualifying questions for each product category

Which questions to ask for assessing the exploitation score of specific products in each product category ?

Ex: Green private equity funds

Ex: Green private debt funds



		No impact potential	Low impact potential	Median impact potential		High impact potential			
IMP Investor contribution categories		0	1	2	3	4	5	6	S = Signalling
Applied impact mechanisms		None	S	SE	SG/SF	SEG/SEF	SGF	SEGF	E = Engage actively
									G = Grow undersupplied markets
									F = Provide flexible capital
Product categories	Green impact investing funds				X	X	X	X	
	Thematic VC/PE funds		X	X	X	X	X	X	
	Thematic private debt funds		X	X	X	X	X	X	
	Sustainability-linked loan funds				X	X	X	X	
	Sustainability loan funds		X	X	X	X	X	X	
	Thematic infrastructure funds					X	X	X	
	SIB funds					X		X	
	Microfinance / Solidarity funds					X		X	
	Thematic crowdfunding					X		X	
	Thematic PtoP					X		X	
	Sustainable saving accounts					X		X	
	SDG Engagement funds				X				
	ESG Engagement funds				X				
	Best-in-class equity funds		X	X	X				
	Exclusion equity funds		X	X	X				
	Thematic equity funds		X	X	X				
	Low-carbon equity funds		X	X	X				
Sustainability bond funds		X							
Sustainability-linked bond funds		X							

Phase 4: improving the impact potential of specific products

Improving the impact potential of specific product categories

Product categories

Choose one product category among the following ones:

- Green private equity funds
- Green private debt funds
- Sustainability-linked loans
- Sustainability/green loans
- Green equity crowdfunding
- Green peer-to-peer lending

Questions to answer

- What are the main moderators of impact success in the product category?
- Are there existing guidelines for designing high impact products within the category?
- If yes, do you consider them to be sufficient? What could be done to improve them?
- List the specific questions to ask for assessing impact potential of products in the category

- How to scale up those (high impact) products?