How to do

Corp-orate impact invest-ing

Impact Europe

Exe-cutive Sum-mary

Impact investing can be a bridge between impact and business. This report shows what the bridge is made of and shares the experience of crossing it. →

Companies and corporate foundations can adopt diverse approaches to engage in impact investing. Each approach presents shared benefits between what's good for business and what's good for positive impact on people and planet: win-wins. The motivations and insights of practitioners inform a comprehensive picture of impact investing in a corporate setting, culminating in a practical guide to getting started.

The report outlines key characteristics of impact investing — intentionality, measurability and additionality — in order to clarify its benefits for people and planet. We explore how impact investing differs from other approaches on the continuum of capital, like catalytic grant-making or sustainable finance.

The report identifies the **main drivers** to engage in impact investing:

- adopting an innovative and holistic strategy,
- collaborating with new stakeholders
- balancing impact and profit.

Analysis of the main engagement approaches show how practitioners can pursue these win-wins:

- Companies may engage in impact investing to bridge impact with business objectives and address business needs, such as supply chain challenges and sustainability goals. Impact investments can be deployed by **internal teams (sustainability or corporate venturing), an impact investment fund, the treasury department or intermediaries.**
- Executing impact investing through corporate foundations offers the advantages of separation from commercial interests and the freedom to experiment and learn. Impact investments can be deployed by the **programmatic side, an impact investment fund, investing part of the endowment or intermediaries.**

We explore why and how corporate impact actors create **synergies between impact investing and other corporate areas** including philanthropy, sustainability, corporate venture capital (CVC), supply chain, product and service innovation, human resources and sustainability. These synergies present opportunities for both impact and business audiences:

- The **impact case** underscores four key opportunities: scaling the impact, deepening the support, extending the impact strategy and bridging impact and business.
- The **business case** identifies opportunities to learn about new markets and inclusive business, transform the value chain and deliver on the corporate purpose.

We conclude with **five essential steps** to get started with impact investing:

- cultivating the right mindset,
- choosing the right strategy,
- engaging relevant stakeholders,
- establishing structures,
- investing!

How to do Corporate impact investing

1_ Introduction

Impact investing is a dynamic and rapidly expanding segment within the financial industry, driven by investors committed to achieving both social and environmental impact alongside financial returns. The most recent markets sizing conducted by the European Impact Investment Consortium estimates the European direct impact investment market as €80 billion (0.5%). As the private sector is increasingly recognised for its role in addressing social challenges, more companies are exploring this approach as a strategic component of their sustainability strategy.

This trend is developing in the context of increasing convergence between impact and business agendas. The rising consumer awareness of social and environmental issues has driven a shift towards prioritising ethical and sustainable products and services. Regulatory changes – such as the Corporate Sustainability Reporting Directive (CSRD) and Corporate Sustainability Due Diligence (CSDD) – are pushing companies towards more responsible business practices. These regulations hold companies increasingly accountable for their impact on society and the environment. Lastly, the integration of Environmental, Social, and Governance (ESG) criteria in investment decisions has become mainstream and highlights how these factors affect financial performance.

As global social and environmental challenges intensify, stakeholders ranging from consumers to governments and investors have become increasingly vocal in demanding that companies adopt sustainable and responsible practices. As a result, corporate social responsibility (CSR) efforts have evolved significantly over the past decades, becoming larger, more sophisticated and more integrated within business strategies. In addition, it is increasingly common that corporate innovation departments include a focus on developing solutions and business models that address pressing social and environmental challenges, highlighting the potential of social innovation to accelerate the corporate impact journey.

External and internal pressures drive companies to start realising there may be win-wins between impact and business agendas.

At the forefront of this journey are corporate impact actors. As shown in our research among Impact Europe members, Corporate Social Investors (CSIs) – encompassing corporate foundations, impact funds, CSR and corporate citizenship teams – and companies have become more closely aligned over the past years. For CSIs, this alignment presents an opportunity to provide the organisations they support with access to corporate resources, expertise and networks.

Companies value their CSIs for their strategic contributions to sustainability strategies and their potential to accelerate the corporate impact journey.[1] However, despite significant and ongoing progress, there remains a gap between impact and business needs.

Impact investing is a promising solution to bridge it. By reconciling impact and profitability, impact investing offers win-wins for impact and business audiences. It enables investors to achieve financial objectives while contributing to positive change. Impact investing promotes long-term value creation by fostering innovation in business models and technologies that address social and environmental challenges.

[1] Malmendier, N., Faujour, S., and Gianoncelli, A., (2023) "Putting the S in ESG". EVPA.

As we witness growing interest in corporate impact investing, the **motivations** behind corporate foundations and companies engaging in impact investing, as well as the **benefits** of this approach, bear further scrutiny. While other approaches (e.g., philanthropy, corporate venture capital) may also yield benefits such as **employee retention, a social license to operate and access to innovation**, this publication aims to highlight the unique value added by impact investing.

Based on an analysis of Impact Europe's corporate membership, we found that 40% are engaged in impact investing (N=43, excluding banks, insurance companies, and other financial institutions). This percentage encompasses both direct and indirect investments, but it does not account for impact investments made through the treasury department. As Impact Europe is the investing for impact network, we can assume that we count a significant part of the corporate impact investing market in our network and therefore this percentage is most likely higher than the actual share of corporates engaged in impact investing. In the coming months, Impact Europe plans to gather additional data on the corporate impact investing market.

The insights shared here are based on both qualitative and quantitative engagements with experts and practitioners who are leaders in corporate impact investing.

In numbers

25
organisations

INCLUDING

3
experts

6
corporate foundations actively involved in impact investing

9
companies engaged in impact investing

7
intermediaries investing for impact on behalf of companies and corporate foundations

Since corporate impact investing has only existed for about fifteen years, all organisations who shared their insights for this report can be considered pioneers: when a bridge is built, someone must be the first to cross it. They tested approaches, experimented, learned and continuously improved. These activities undergird the insights presented here, forming a strong foundation for the bridge between impact and business.

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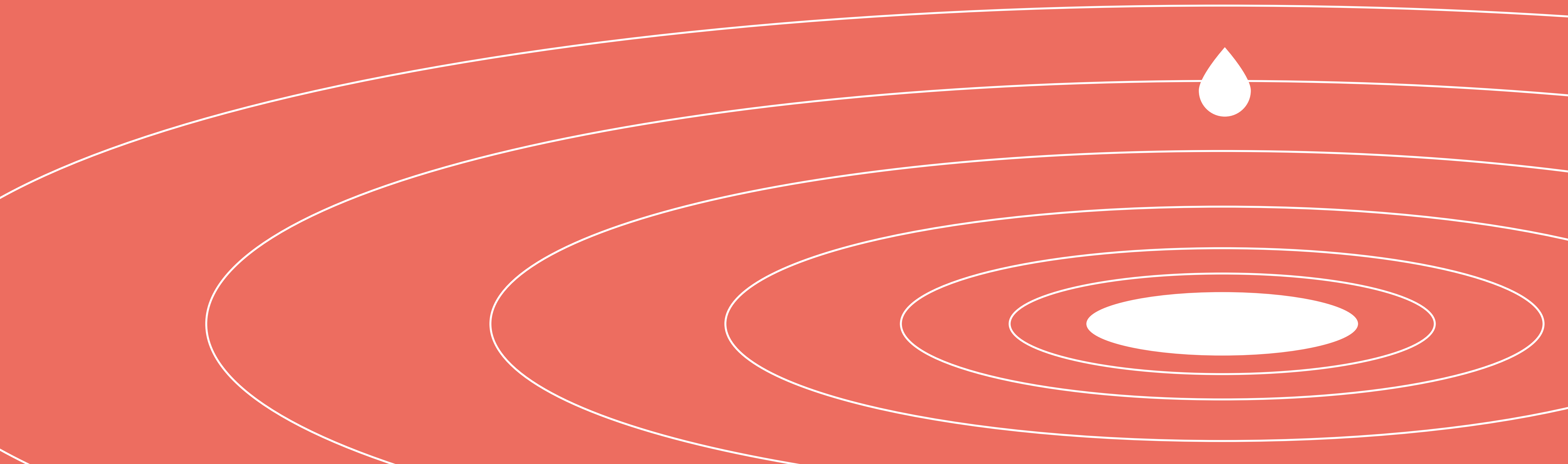
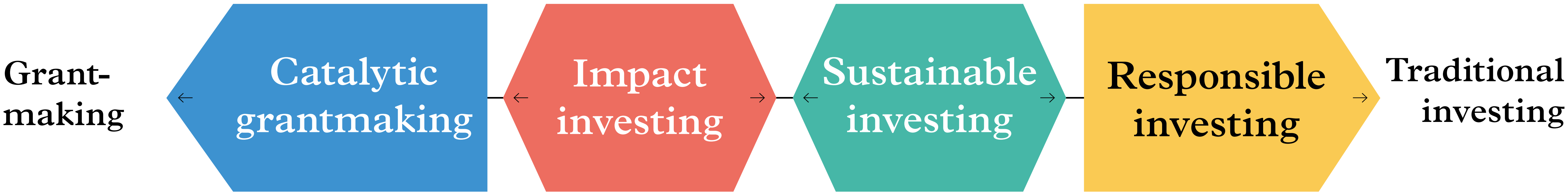
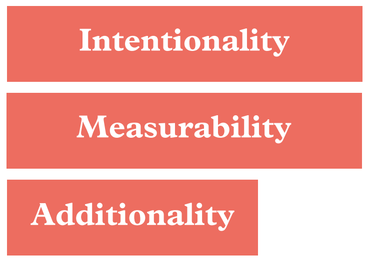
WHAT *is* Impact Investing?

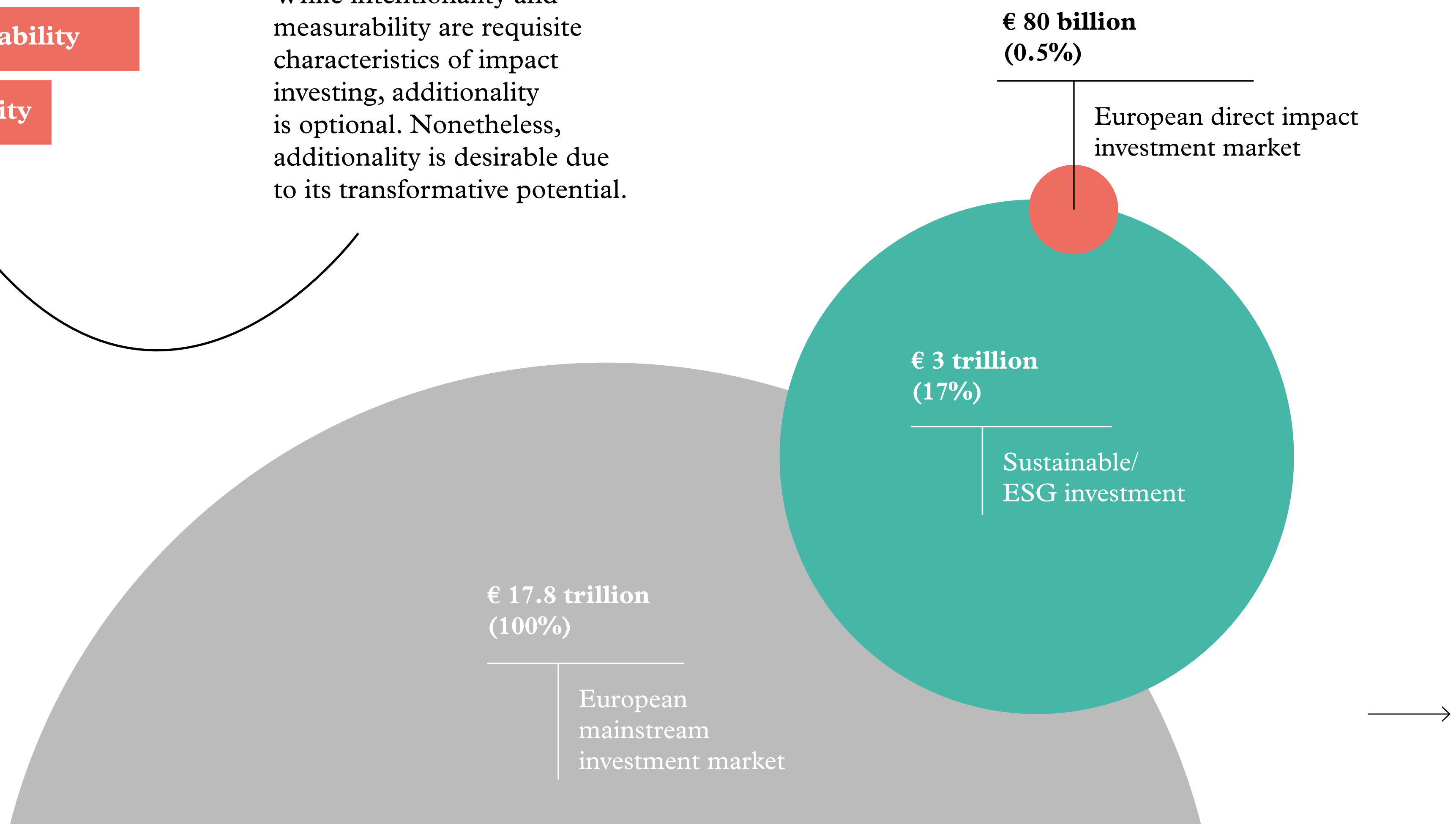


Impact investments are made with the intention to generate positive, measurable social and environmental impact alongside a financial return. Impact investing primarily supports organisations that actively contribute to addressing social and/or environmental challenges with specific and relevant solutions.





On the continuum of capital, impact investing is positioned between catalytic grant-making and sustainable investing. Unlike catalytic grant-making, which deploys grants as a financial instrument, impact investing involves debt, equity and hybrid financial instruments. Impact investing differs from sustainable investing due to its intentional approach towards addressing specific social or environmental challenges with measurable outcomes. On the other hand, sustainable investing emphasises the integration of ESG factors into investment decisions to foster responsible and sustainable practices.



TRIAD *of* IMPACT

The Triad of Impact outlined in our Accelerating Impact report clarifies the nuances of impact investing:[2]

[2] Gaggiotti, G., and Gianoncelli, A., (2022) "Accelerating Impact - Main takeaways from the first harmonised European impact investment market sizing exercise". EVPA.

Impact investing

Intentionality

Intentionality is a conscious and deliberate search for a social and/or environmental impact, with the aim of pursuing a positive result for a defined community. Intention(s) must be explicitly declared before the deployment of capital.

Measurability

Measurability concerns the quantifiable part of impact investing. Practitioners must identify measurable social impact objectives, which are intended to be generated with capital. Without a system of measurement in place, which may include some qualitative measures, impact cannot be defined.

Furthermore, practitioners should establish processes not only to measure impact but also to actively manage it, to ensure ongoing improvement cycles and more informed decision-making, which ultimately leads to better outcomes.

Additionality

Additionality is the quality of an investment to add. An investment characterised by additionality will lead, or has led, to effects which would not have occurred without it. In the case of social outcomes, they are better than what would likely have occurred without the investment.

Impact investments can vary in terms of financial returns, **ranging from below-market to market rates**. The decision regarding which end of the range to prioritise depends on the motivations behind engaging in impact investing. If the primary goal is to use endowment or treasury capital efficiently while achieving positive impact, aiming for market rates may be non-negotiable. If the objective of an impact investment is to support unproven or high-risk solutions within the context of social innovations or supply chain challenges, the approach may require patient and risk-tolerant capital, potentially resulting in returns below market rates.

Catalytic grantmaking

Strategic approach adopted by philanthropic organisations to support impact ventures addressing social and environmental challenges solutions, which are not yet ready for repayable financial instruments or lack a viable business model. Catalytic grants complement early-stage income and offer valuable assistance in research, capacity building and scalability testing, transforming early-stage ventures into self- or financially viable organisations with scalability potential. This dual support de-risks social and environmental solutions and attracts follow-on funding that might not have been mobilised otherwise.

Impact investing

Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. Impact investing primarily focuses on organisations that actively contribute to addressing social and/or environmental challenges with specific and relevant solutions.

Sustainable investing

Investments that aim at generating long-term financial returns while promoting sustainable outcomes. Investors pursuing this strategy incorporate ESG factors into decision-making and allocate capital to organisations that benefit stakeholders, whose performances are within the sustainable range.

Responsible investing

Investments that flow towards organisations that are primarily acting to avoid harm, already showing improvements compared to the past. The end goal of these investments is to witness an improvement in the current performance, even if it remains outside the sustainable range.

3_ WHY COMPANIES **Should Consider** *Impact Investing*

WIN–WINS

Impact investing offers a wide range of benefits, from the achievement of impact objectives and securing a license to operate, to gaining access to innovation and market insights. Nevertheless, similar positive outcomes can also be achieved through other approaches such as philanthropy or corporate venture capital. Therefore, it is crucial to illustrate the unique added value of impact investing.

There are three main drivers for companies and corporate foundations to engage in impact investing. These drivers are win-wins, benefiting both impact and business agendas, as well as both investees and investors as stakeholders:

Adopting an Innovative and Holistic Strategy: Companies and corporate foundations engage in impact investing as an additional way to contribute to their sustainability strategy or impact thesis. Sustainability is a field of complex challenges, where one tool (e.g., financial instrument) may not be sufficient; a more diverse set of stakeholders bring additional perspectives often necessary to solve them. Expanding the toolkit not only broadens the range of available solutions but also amplifies existing approaches. Investees gain access to a wider range of financial resources and instruments and can work alongside companies towards the final goals of positive impact for people and planet.

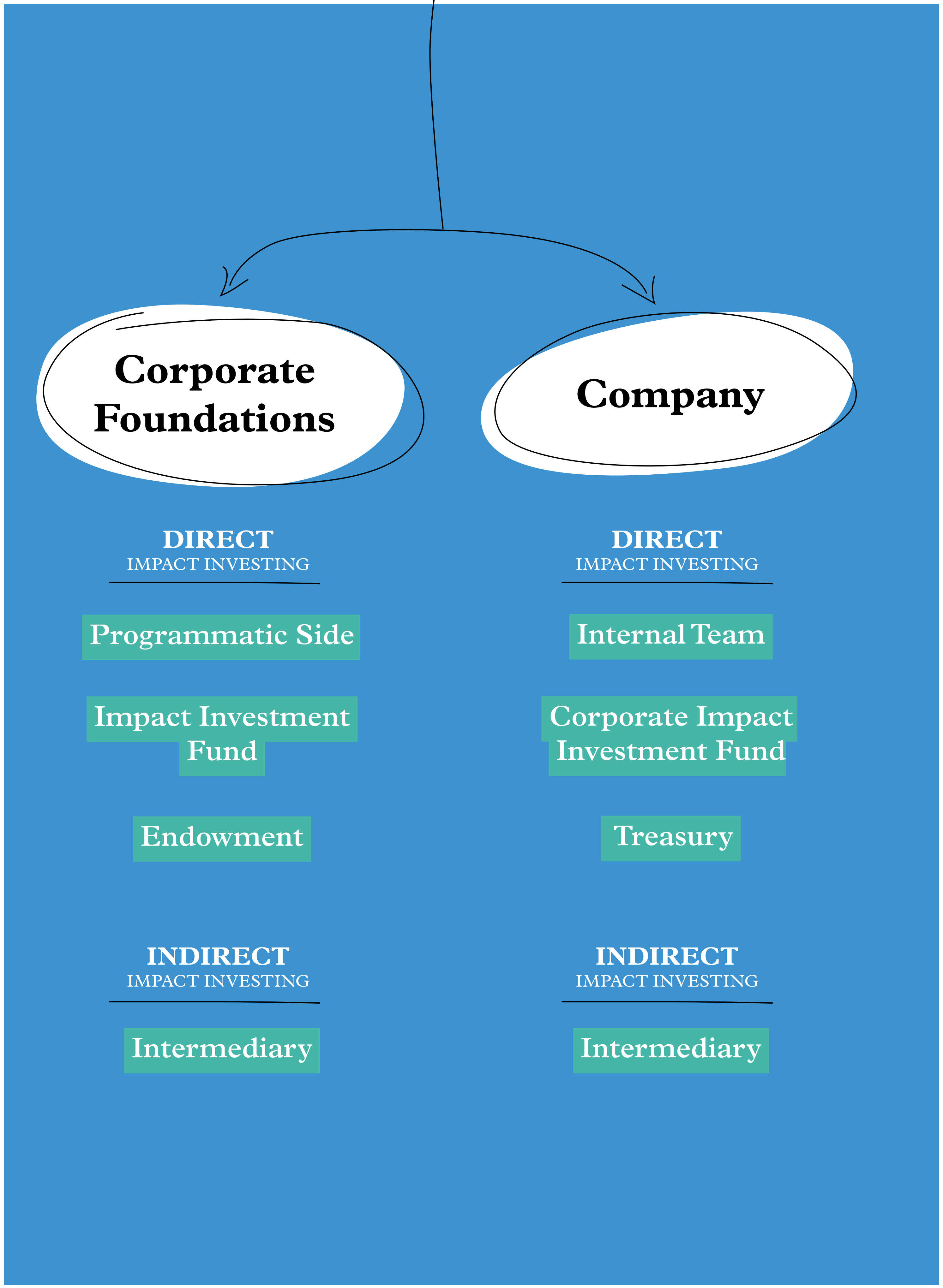
Collaborating with New Stakeholders: Impact entrepreneurs are unique innovators, as they combine goals for people and planet with financial sustainability in their business models. Impact investing is how companies can meaningfully engage with them. From a business perspective, partnering with impact entrepreneurs can offer valuable insights and potentially lead to mutually beneficial commercial collaborations. In an ideal two-way collaboration, impact entrepreneurs gain not only financial resources – necessary to scale – but also a chance to learn from corporates how to scale.

Balancing Impact and Profit: Impact investments aim to generate both social and/or environmental impact and financial returns. While philanthropy may lack the aspect of financial sustainability and corporate venture capital prioritises financial returns over impact, impact investing overcomes these two limitations by a balanced focus on impact and profitability. This balance presents the advantages of revolving capital which allows deployed funds to be reinvested to continuously generate impact; in addition, as investments and support strengthen the sustainability of the investee's business model, the generated impact is sustained. Of all the win-wins, this gives equal benefits to companies and impact actors.

4_ Approaches

Companies seeking to engage in impact investing can choose from several approaches. The first distinction to consider is whether the impact investing initiative is led by the corporate foundation or by the company itself.

Additionally, it is important to differentiate between direct impact investing, where a company or its corporate foundation makes or manages investments directly, and indirect impact investing, where an intermediary makes impact investments on the company's or corporate foundation's behalf.



Corporate Foundations

When a corporate foundation starts engaging in impact investing, positive change is the primary motivation and driving force.

The decision to position impact investments within a corporate foundation instead of the company is driven by two main reasons:

- **Separation from commercial interests:** By deploying impact investments within a corporate foundation, the initiative is unconcerned by business constraints such as short-term cycles and cash flow limitations. This separation allows resources to be ring-fenced for long-term impact.
- **Freedom to experiment and learn:** Since foundations are guided by a purely philanthropic mission, impact investments are not exposed to strong return expectations (unless linked to the endowment). This freedom enables more risk-taking in pursuit of achieving high impact.

The following approaches apply to all foundations, including corporate ones.

DIFFERENT WAYS

FOR A (CORPORATE) FOUNDATION TO ENGAGE IN IMPACT INVESTING:

Programmatic Side

Benefits of deploying impact investments directly from the foundation's programmatic budget next to grants:

- Ensuring strong alignment of impact investments with charitable objectives and philanthropic grant-making.
- Facilitating synergies between grant-making and impact investing activities.

Ageas Foundation Portugal utilises both grants and impact investments within its programmatic side. This approach ensures a strong alignment between grant-making and impact investing, as both address the same thematic focus areas of health, aging and social exclusion. Proximity creates synergies with impact investment driving innovation within the foundation.

For example, Pedalar Sem Idade initially received grants to pilot its idea; once ready to scale, the foundation's impact investments offered further support. In addition, both teams continuously learn from each other. For example, the grant-making analysis became more robust as it benefited from the investment's team rigorous due diligence process.

Impact Investment Fund

Benefits of setting up a separate structure:

- Navigating the strict regulatory environment which might not allow foundations to directly invest from their programmatic budget.
- Ring-fencing capital around a distinct cause or focus.

Impact Ventures by the Johnson & Johnson Foundation is a $50m impact fund that invests in companies and entrepreneurs innovating to improve health equity for underserved patients around the world. It was established to enable the foundation to provide debt or equity investments and broaden its reach to support early growth-stage companies with impactful business models.

Endowment

Benefits of deploying endowment capital as impact investments.

- Enhancing the endowment's contribution to the foundation by generating impact aligned with the foundation's mission while also achieving financial returns.
- Avoid the risk of misalignment between endowment investments and programmatic spending and ensuring strategic alignment between investment and mission objectives.
- Implementing a holistic impact strategy. All foundation activities align with the common goal to leverage existing assets for change.

Unlike many corporate foundations that just rely on annual funding, BMW Foundation benefits from both corporate contributions as well as an endowment that totalled €142 million in 2020. To better work towards its mission of strengthening our societies and democracies, and laying the foundation for a fairer and more liveable future, the foundation strategically aligns its endowment with its core activities. Accordingly, the foundation tries to invest its endowment in impact funds that not only support its mission but also deliver market-rate returns. This approach reflects the foundation's attempt to maximise the impact of its financial resources with a holistic approach to achieve its mission.

Intermediary

Benefits of making indirect investments by channelling the capital towards a third-party who deploys it as impact investments.

- Overcoming regulatory barriers which prevent the foundation from deploying its own impact investments.
- Avoiding high costs of setting up a separate structure, such as a separate impact investment fund.
- Benefiting from the thematic expertise, local and global networks, and investment know-how of an organisation with a proven track record.

Yunus Social Business (YSB) enables corporate foundations to engage in impact investing in two ways. They can provide grants to YSB that are then invested into its funds and serve as first-loss capital that catalyses commercial capital. These funds are used to support social entrepreneurs, with the returned capital from successful ventures continually reinvested. Alternatively, corporate foundations can invest their endowment directly into YSB's funds, generating financial returns while creating impact aligned with their mission. For example, the first-loss-capital collaboration with YSB allows Anglo American Foundation to engage in impact investing in Brazil and benefit from its existing track record in the country.

Companies

When a company initiates impact investing, positive change might be the starting point, but often business considerations are also embedded in the approach. The decision to position impact investments within the company instead of the corporate foundation is driven by two main reasons:

- **Bridging Impact and Business:** When closely aligned with the company's operations, impact investing can leverage corporate expertise and resources to generate both social and business value. This proximity ensures strategic alignment with the company's overall mission and operations, facilitating cross-fertilisation between impact-driven activities and the broader business strategy.
- **Addressing Business Needs:** If the goal of the impact investing initiative is to address supply chain issues or achieve sustainability goals, it is more appropriate for the company to take the lead, as these objectives typically extend beyond the scope of a corporate foundation's philanthropic mission.

DIFFERENT WAYS FOR A COMPANY TO ENGAGE IN IMPACT INVESTING:

Internal Team

Benefits of having impact investments deployed from within the company (e.g., through the sustainability team, a business unit or the existing corporate venturing arm):

- Starting small instead of setting up a separate structure.
- Leveraging existing processes to ensure cost-efficiency and operationalise fast.

Sanofi decided to deploy impact investments directly from within the company, rather than establish a separate fund. They started small to avoid the complex governance processes and internal structuring typically associated with setting up an impact investing fund. This streamlined approach allows the company to efficiently extend its reach into impactful ventures while minimising structuring and governance hurdles usually linked to new initiatives, thus maximising the effectiveness of its resources and minimising the implementation timeline.

Corporate Impact Investment Fund

Benefits of setting up a separate structure:

- Create a distinct brand and name.
- Facilitate collaborations and/or co-investments with other stakeholders.
- Ring-fence risks in a separate vehicle.
- Compact governance and quick decision making.

IKEA Social Entrepreneurship was established as a separate vehicle for several strategic reasons. It aimed to create its own identity, closely associated with but distinguishable from Inter IKEA, allowing it to focus specifically on social entrepreneurship initiatives. This distinct branding improves recognition within the impact sector and facilitates collaborations with other stakeholders. By creating a separate structure, Inter IKEA could effectively ring-fence the associated risks given that impact investing was a new approach for the company. Opting for the Dutch BV structure over a foundation format facilitated a closer alignment with Inter IKEA's core business while connecting it with the social entrepreneurs it supports through investments.

Treasury

Benefits of directly deploying impact investments through the treasury department:

- Ensuring treasury capital efficiency by creating impact related to the company's sustainability goals alongside financial return.
- Positioning impact at the core of the company.

PayPal's treasury department has developed an impact investment strategy that prioritises capital preservation and financial returns, while also directing institutional capital toward traditionally underinvested communities and businesses. By focusing on racial and gender equity in its investment commitments, PayPal aims to cultivate a diverse and inclusive workplace that attracts and retains top talent. This impact investing strategy is aligned with PayPal's mission of fostering an inclusive digital economy and supporting underserved communities.[3]

[3] Gilbert, S., and Ortiz Galan, A., (2023) "Corporates Deploying Impact Investing Strategies: Early Observations on Emerging Practice". GIIN.

Intermediary

Benefits of making indirect investments by channelling the capital towards a third-party who deploys it as impact investments, i.e., becoming a limited partner (LP) in an existing fund:

- Taking an ecosystem approach and addressing industry challenges together with other companies in a pre-competitive environment.
- Amplifying the impact by pooling resources with other investors around a common cause.
- Benefiting from the thematic expertise, local and global networks, and investment know-how of an organisation with a proven track record.
- Getting on the learning curve by starting small in collaboration with a third-party.

Acumen invests in social enterprises across the capital spectrum, including through commercial funds with a sector and geographic focus. Acumen has engaged corporations in these funds who are seeking to gain market insights, develop a pipeline of investable opportunities and foster commercial partnerships – all while advancing sustainability goals. This approach is an efficient use of capital because Acumen can leverage pooled funding in blended finance vehicles from investors with similar interests but different levels of risk appetite. By tapping into Acumen's investment expertise, thematic focus, and deep local knowledge, these investors can benefit from established resources and insights instead of having to build these capabilities from scratch.

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Creating Synergies WITH *Impact Investing*

Supply Chain

Philan-thropy

Human Resources

Product & Service Innovation

Sustain-ability

Corporate Venture Capital

Any of the approaches mentioned above can be a stand-alone activity.

However, impact investing will only reach its full potential if it creates synergies with other impact initiatives, the sustainability agenda or functions within the company. To maximise synergies and create greater positive change for people and planet, one must consider the strategic positioning of impact investing and identify the areas where it can add most value.

Below is a brief list outlining some of the most common areas where synergies can be created, according to the interviewees. As the sector continues to evolve, there are likely many other opportunities to explore within the organisation to increase the added value of impact investing initiatives.

Philanthropy

Impact investing can complement philanthropy by providing a pathway for social innovations to be considered for investment once they outgrow grant support. Additionally, some investees may have hybrid structures that include non-profit arms, which can benefit from grants provided by the corporate foundation.

Sustainability

Impact investing can be integrated into the company's overarching sustainability strategy and contribute directly to sustainability goals, reinforcing the company's commitment to positive environmental and social impacts.

Corporate Venture Capital (CVC)

Impact investing efforts that successfully reduce the risk profile of investees and increase return on investment (ROI) may align well with the objectives of CVC, creating a shared investment pipeline.

Supply Chain

Impact investing can prepare and support impact enterprises to engage in commercial partnerships with the business, e.g., through social procurement. This integration into the company's value chain not only scales the impact of these enterprises but also contributes to making the company's operations more inclusive and sustainable.

Product & Service Innovation

Through its focus on social innovation, impact investing generates valuable insights that can inform the development of more inclusive and sustainable products and services tailored to underserved communities.

Human Resources

Impact investing often involves corporate employees in providing technical assistance to investees, enhancing the support to these enterprises. This engagement also equips employees with valuable skills for the broader corporate impact journey.

FURTHER READING
Our 2021 study Collective Corporate Impact Strategies highlights strategic positioning strategies for various corporate impact vehicles to broaden the impact on society, scale the impact of social innovation and deepen the impact on particular communities. Readers seeking to understand how these departments break silos and build synergies may find it useful.

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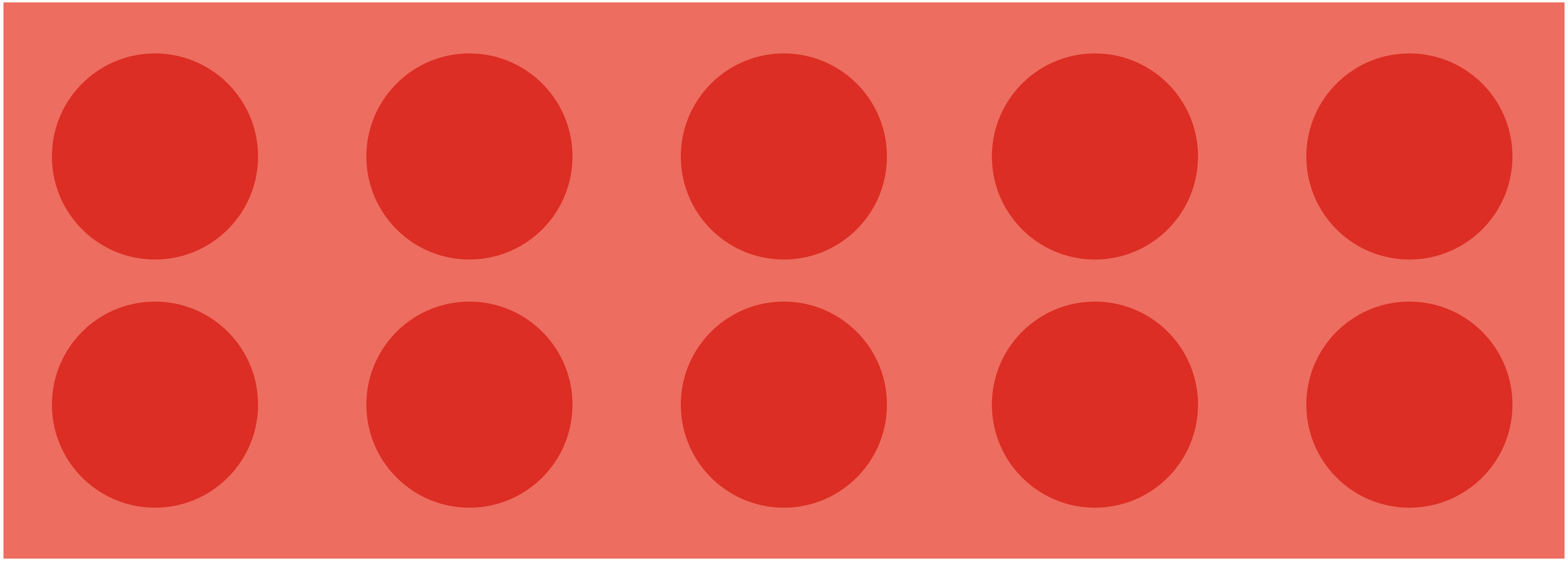
BUILDING THE *Impact* AND *Business Cases*



Before getting started with impact investing, it is necessary to gain buy-in from various stakeholders. Some will want to understand how impact investing aligns with the impact objectives and contributes to achieving them. Others will ask about the value that impact investing brings to the business. We've identified **four compelling arguments** for each perspective. These can be leveraged alongside the win-wins outlined in Section 3.

1. The Impact Case

Scale the Impact

Many social innovations struggle to realise their full potential due the 'missing middle' issue, which refers to the difficulty of securing the right type of funding to grow and scale. Impact investing plays a crucial role in bridging this gap by providing the necessary financial support to enable scale. With the help of impact investment, social ventures can reach a stage where they become attractive to commercial investors or can engage with businesses on a commercial basis, such as becoming suppliers or partners.

Rabo Foundation, Rabo Rural Fund and Rabobank help farmer-based organisations scale their impact on smallholder farmers and their communities in developing countries. The impact fund fills the gap between the philanthropic foundation and the commercial bank. As a result, the three entities are able to operate along the continuum of capital and provide continuous support to farmer-based organisations at each stage of development, ensuring they do not get stuck in the so-called missing middle.

Deepen the Support

Adding impact investing to the existing tools helps solve specific social or environmental challenges. Organisations and beneficiary groups receive multi-faceted support, tailored to their specific needs. This will eventually contribute to profound and lasting change in the supported communities.

Schneider Electric has a holistic approach to providing access to electricity, which involves its foundation, its inclusive business and several impact investing funds. The foundation makes technical and vocational training in energy-related fields available to disadvantaged people. The inclusive business makes affordable and green energy products for low-income population living in remote rural areas available. The impact funds make capital and technical support available for innovative local start-ups with energy access solutions. As such, impact investing is a crucial piece of the puzzle to provide access to electricity in certain areas.

Extend the Impact Strategy

Adding impact investing allows for the engagement of a wider range of stakeholders or the coverage of a wider range of causes. This may include additional social challenges, geographies or stakeholders. Extension may not be feasible through existing methods alone, which makes impact investing important to ensure no critical areas are overlooked in pursuit of overarching impact goals.

Repsol Foundation is dedicated to the energy transition with social impact. To achieve this, the foundation has several pathways in place which run in parallel to extend the reach to a wide range of beneficiaries. One of them is Repsol Impacto Social, a special vehicle 100% owned by the foundation, created in 2019 to extend the foundation's strategy to the social entrepreneurship ecosystem through impact investing. Its activity is focused on four areas: carbon offsetting, sustainable mobility, circular economy and energy efficiency.

Bridge Impact and Business

Corporate impact investing targets investees close to or part of the company's sector. This proximity underscores the importance of what the company can offer beyond financial support. For instance, the company may provide the investee with access to its expertise for technical assistance or to strengthen the business model. Furthermore, the brand association can enhance the investee's standing within the sector. As such, impact investing is a way to make the company's strength available where it can add the most value in terms of impact.

While Renault Foundation pursues a traditional philanthropic approach, focused on non-profit organisations, the impact fund Renault Caremakers Invest aims at creating impact alongside economic viability. The impact fund's investees are social entrepreneurs seeking for economic sustainability and scaling-up. They have a stronger need to benefit from Renault's business acumen and industrial expertise than the organisations supported by Renault Foundation. Caremakers Invest, with the support of Renault Group sponsors from business units, provides knowledge on business strategies, industrial processes, logistics optimisation and scaling operations effectively alongside financial support. By aligning with Renault's strengths in business and industrial practices, Caremakers Invest enhances investees' growth and sustainability. →

Learn about New Markets

Impact investing often operates in riskier or underserved markets that go beyond a company's core commercial activities. By engaging in impact investing, companies gain valuable insights into the specific needs and circumstances of these underserved communities. This firsthand knowledge can uncover opportunities for the company to adapt or expand its business to better serve these populations. Impact investing thus becomes a strategic tool for market exploration and discovery.

ENGIE Rassembleurs d'Energies was set up in 2009 by the French utility company ENGIE. Its initial focus was on energy access in emerging countries and the energy scarcity in developed countries. In 2015, the company decided to expand its commercial activities in African markets by providing access to electricity through its own business. The impact fund's experience in the market and its portfolio of relevant investees accelerated and de-risked this endeavour. ENGIE's acquisition of one of the fund's portfolio companies, Fenix International, illustrates this acceleration.

Learn about Inclusive Business

Impact entrepreneurs exemplify the integration of impact and financial goals within their business model. Companies aspiring to be inclusive and sustainable can gain valuable insights from these entrepreneurs, who have mastered the delicate balance between impact and profitability. By engaging in impact investing, companies can gain inspiration and practical knowledge to implement similar approaches within their own contexts, fostering greater inclusivity and sustainability in their business strategies.

Danone wants to demonstrate that business can be a force for good. In addition to pursuing a B Corp certification, the company leverages impact investing to pioneer ways to be more inclusive. Through investments in the Livelihoods Funds, Danone and other companies support solutions that address common supply chain challenges. Danone also set up Danone Communities, which invests in impact start-ups that are reaching sustainable social impact by leveraging business mechanisms. The impact fund shares insights from its investments in business models, demand creation or innovative financing model with Danone to inspire the company to do business differently.

Transform the Value Chain

Companies can tip their value chain towards inclusivity and sustainability by investing in supply chain projects or in social entrepreneurship. Supply chain projects generate tangible social, economic and environmental benefits for key stakeholders (e.g., farmers). Supporting the social entrepreneurship ecosystem can increase the pool of businesses available to be integrated in and positively contribute to a company's value chain. Both approaches will enhance the overall positive impact of a company's operations.

IKEA wants to create a better everyday life for as many people as possible by including products and services from social entrepreneurs in its offer. While the first business partnerships were developed from within the company in 2012, the success prompted Inter IKEA to set up IKEA Social Entrepreneurship B.V in 2018. This entity aims to accelerate the movement of social entrepreneurship in general, while also looking for new, innovative partnerships between social entrepreneurs and IKEA. To date, 12 social business partners are part of the Inter IKEA production, providing 11,200 job and income opportunities.

Deliver on the Corporate Purpose

Today, many companies have articulated commitments that go beyond their core business activities and encompass stakeholders who are not directly targeted by their products or services. These stakeholders often belong to underserved communities lacking the same access to the essential products and services as others. Impact investing is a tool to support social innovations that align with the company's purpose, but fall outside its core business scope.

Sanofi wants to build a healthier, more resilient world. However, not every region in the world has a sufficiently developed market for pharmaceuticals, a main barrier to providing access to healthcare. Sanofi recognised this limitation and set up the Global Health Unit (GHU), which addresses this barrier in countries where Sanofi is not commercially active. The GHU is built on three pillars: (1) Support for NGOs and health ministries and healthcare professionals (HCP) associations, (2) access to affordable medicine and (3) an impact investing fund. The impact fund supports startups and innovators who can deliver scalable, sustainable healthcare solutions in underserved regions. It ensures the company lives up to its purpose beyond the core business. →

2. The Business Case

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GET STARTED

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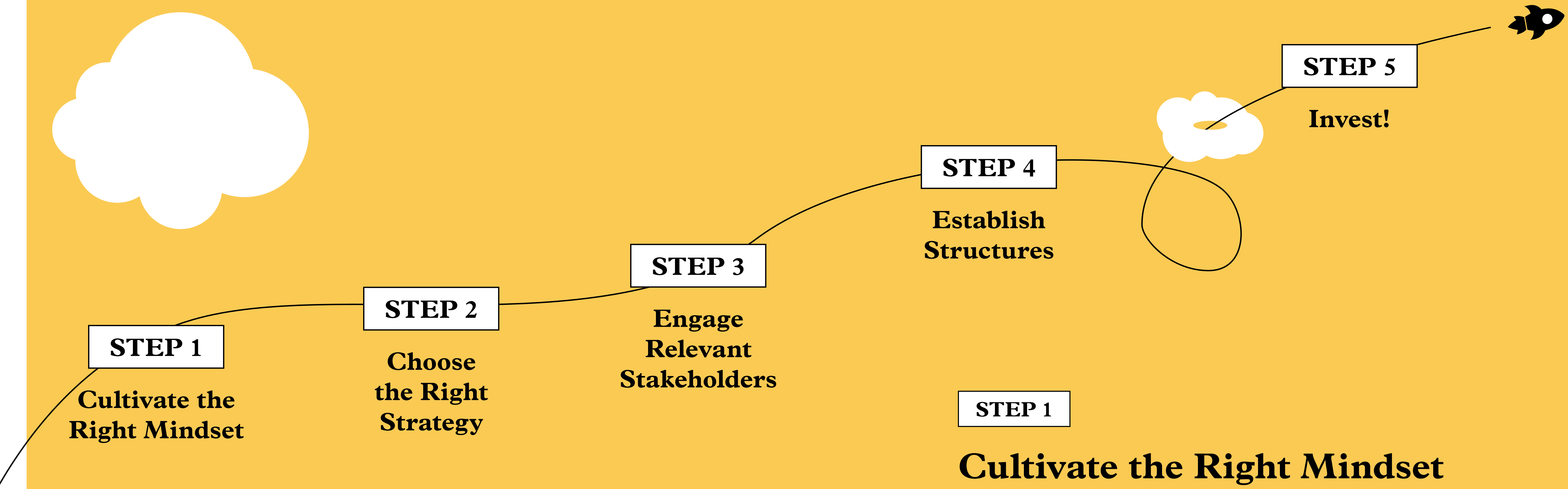


Embarking on an impact investing journey represents an evolution from the traditional way of working for many companies and corporate foundations. With a variety of approaches available, the idea of getting started might seem overwhelming. The five steps outlined here intend to serve as a roadmap, offering guidance to begin your impact investing journey.

Companies can initiate impact investing through the foundation or the company; the steps apply to both. Nonetheless, some elements are more or less relevant depending on the chosen approach.

STEP 1

Cultivate the Right Mindset

While impact investing comes with numerous benefits, it might not always align with the typical business or philanthropy mindset. One must begin by understanding what impact investing is and fully embracing its unique characteristics.

- **Acknowledge Unknowns**: A corporate foundation might be unfamiliar with the operational dynamics of investments, while a company would need to get familiar with the impact sector's values. Moreover, impact investments often operate in unfamiliar markets, requiring companies to establish trust and gain local knowledge. Be prepared to invest time and effort in understanding these new environments.
- **Embrace Versatility**: Impact investing comes in various forms in terms of risk profiles, return expectations or time frames. Typically, a corporate foundation's endowment or a company's treasury require market rate returns, while other approaches are more flexible and can accept below market rate returns in exchange for higher impact.
- **Broaden Perspectives**: Impact investing is a powerful tool for achieving impact goals or addressing specific business challenges. However, taking too narrow an approach could mean missing out on broader opportunities. If an investment focuses on ecosystem building, for example, it may not immediately provide strategic benefits for your business or intended beneficiaries. Nevertheless, in the long term, these investments have the potential to yield unexpected and substantial returns, both in terms of impact or business benefits.

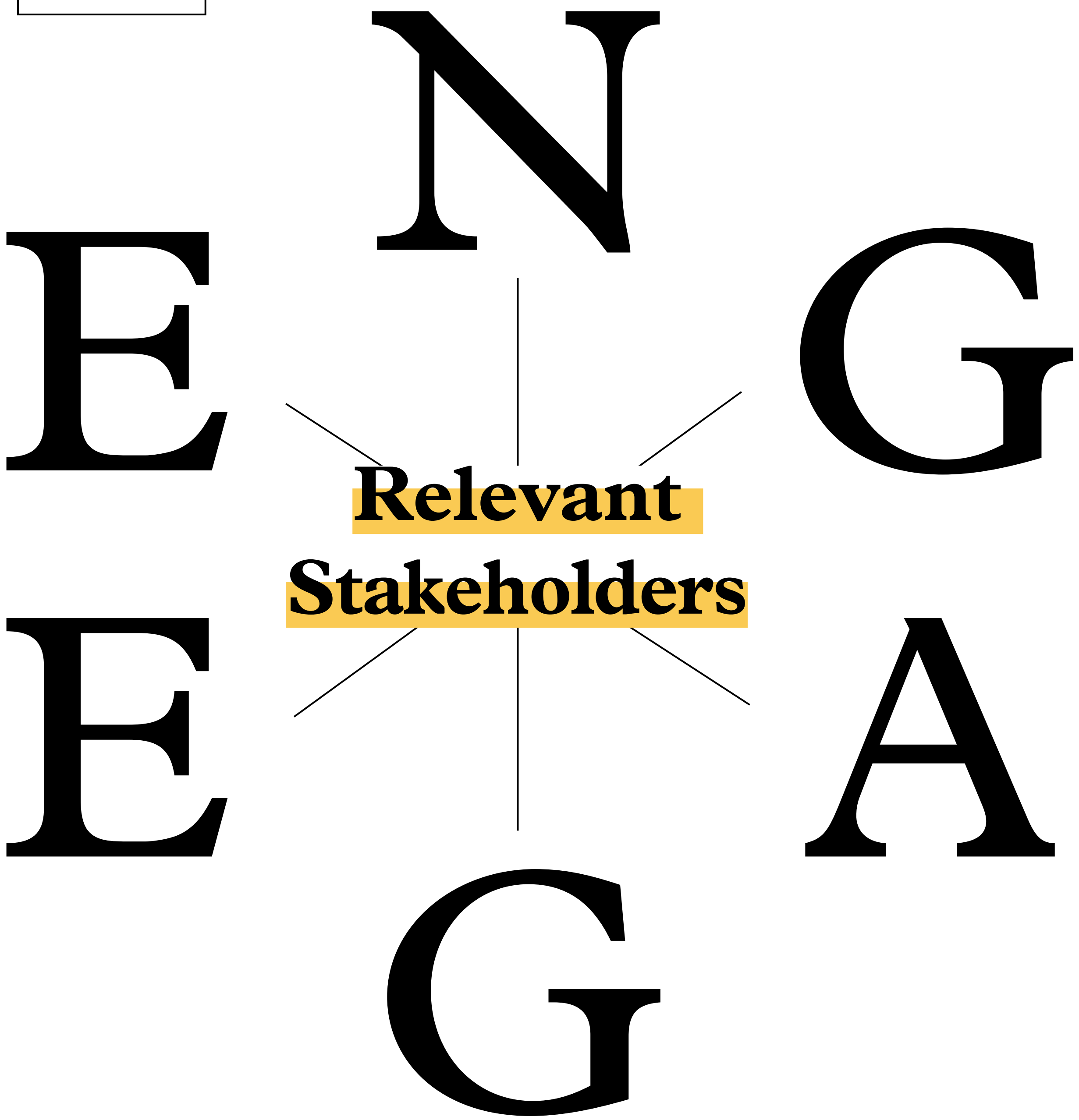
STEP 2

Choose the Right Strategy

The second step involves pinpointing the optimal approach to achieve your objectives. While impact investing typically emphasizes both impact and profit, for companies, the strategic value is an additional consideration. This consideration can help companies decide whether to integrate impact investing within the company or the corporate foundation.

- **Define the Strategic Value**: Clearly outline the strategic value your organisation aims to achieve with impact investing. If the objective is to enhance capital efficiency and align investments with specific impact objectives, then the treasury department could be the appropriate area for this initiative. On the other hand, if the goal is to tackle a specific business challenge, extend the impact strategy into new sectors or foster learning about inclusive business, another approach might be more suitable and effective. In both cases, it is key to ensure alignment with the company's sustainability strategy or purpose.
- **Prioritise with Care**: With impact investing, companies can pursue impact, profit and strategic value, but prioritising one may come at the expense of the others. It's key to differentiate between must-haves and nice-to-haves to ensure alignment with your overall objectives. Companies often identify one clear success metric, despite the fact that broader benefits might arise as well.
- **Ensure Added Value**: When defining your company's impact investment thesis, ensuring added value is crucial. Firstly, consider what unique support you can offer beyond financial capital. This means taking into account the corporate resources, networks and expertise that are at your disposal. Secondly, ensure that your investment thesis adds distinctive value to the sector in a manner that competitors cannot replicate. While this strategic thinking is common among companies, it also holds true for corporate foundations aiming to leverage non-financial support from their related company's strengths.

STEP 3



Before launching impact investing operations, it's essential to onboard a range of internal and external stakeholders. The specific stakeholders involved may vary depending on where impact investing is initiated and the chosen approach.

An approach that includes these stakeholders ensures that the implementation of impact investing is well-supported and aligned with the organisation's broader goals and objectives.

This list encompasses the stakeholders most frequently mentioned during our interviews. →

INTERNAL STAKEHOLDERS

1. Internal Leadership and Governance

- **Top Management:** Ensure the buy-in for impact investing within the company, allocating resources and championing the initiative across the organisation.
- **Board:** Approve strategic direction for impact investing initiatives, ensuring alignment with the company's or foundation's mission and values.

2. Financial Management

- **Treasury Department:** Manage financial resources allocated for impact investing initiatives, including capital allocation, liquidity management, and risk mitigation.
- **Finance and Administration Department:** Handle financial administration and reporting related to impact investing activities, ensuring transparency and accountability in financial operations.
- **Corporate Venture Capital:** Ensure that their mandates and remits are distinct from the impact investing team's objectives, while also considering potential synergies once the impact investing team is operational.

3. Legal and Compliance

- **Legal Department:** Ensure that all impact investing activities comply with relevant laws and regulations, including structuring investment vehicles and drafting agreements.
- **Tax Department:** Advise on tax implications and incentives related to impact investing efforts, especially relevant when investments are made across countries.

4. Sustainability and Impact Measurement

- **Sustainability Department:** Integrate impact investing efforts with broader sustainability goals and initiatives.

5. Business Operations

- **Middle Management in Business Units:** Ensure alignment with the activities and priorities of the business units relevant to the impact investing thesis. Their buy-in is crucial to ensure their involvement in non-financial support for investees.

6. Brand and Communications

- Ensure that impact investing efforts align with the company's brand and messaging, maintaining consistency and integrity in communication. Develop communication strategies to engage internal and external stakeholders about impact investing initiatives, highlighting the company's commitment to social and environmental impact.

EXTERNAL STAKEHOLDERS

1. External Network Organisations

Collaborate with external partners and organisations to identify opportunities and best practices in impact investing, leveraging networks for knowledge sharing and partnership development.

2. Academia

Engage with academic institutions for research, insights and expertise on impact investing, fostering innovation and thought leadership in the field.

3. Peers

Engage with other companies and corporate foundations to exchange or even initiate joint impact investing projects or initiatives, leveraging collective expertise and resources for greater impact.

4. Consultancies

Provide expertise and advisory services on impact investing strategy and implementation.

5. Incubators and Accelerators

Act as pipeline partners and identify potential investees in the social innovation ecosystem.

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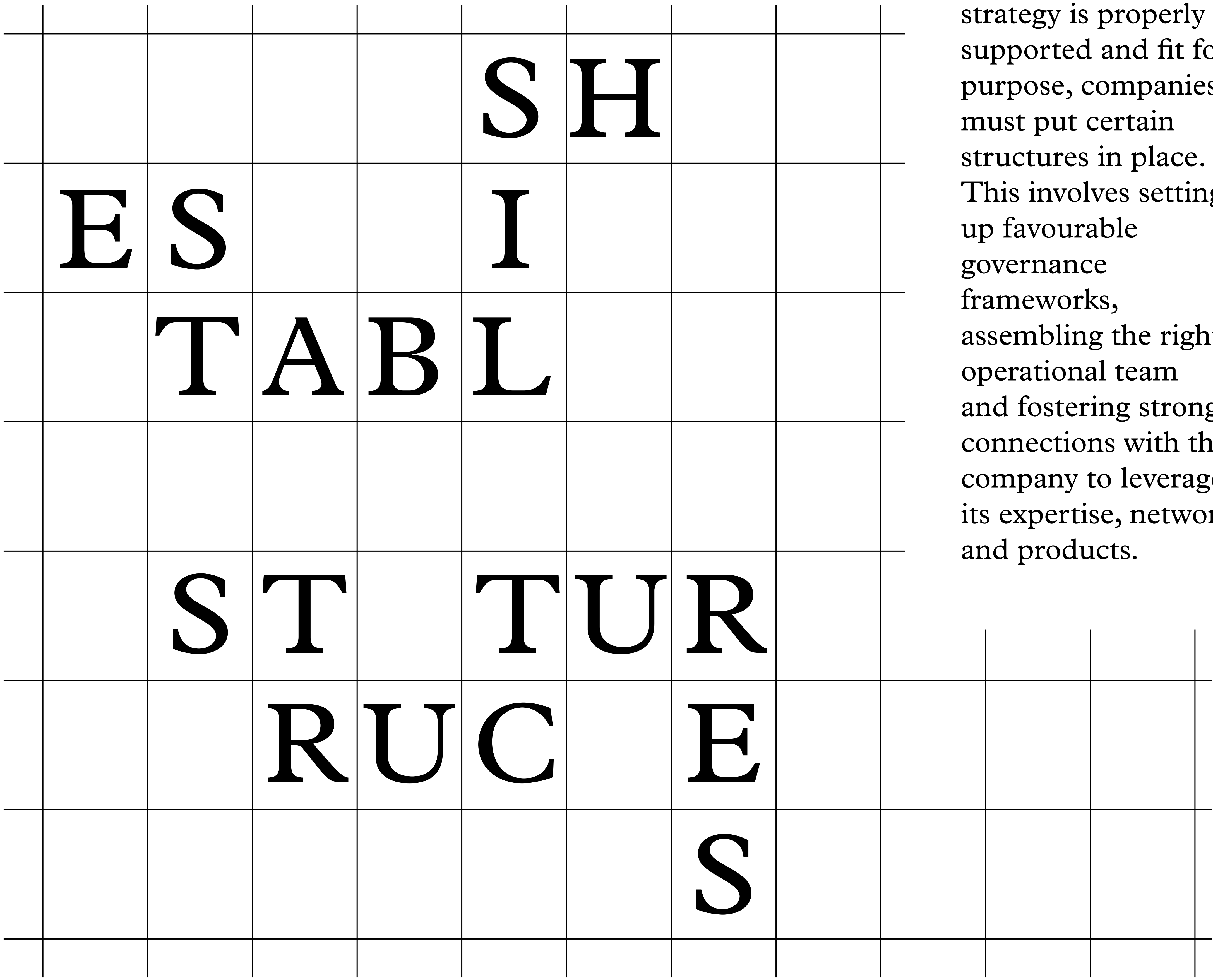
STEP 4

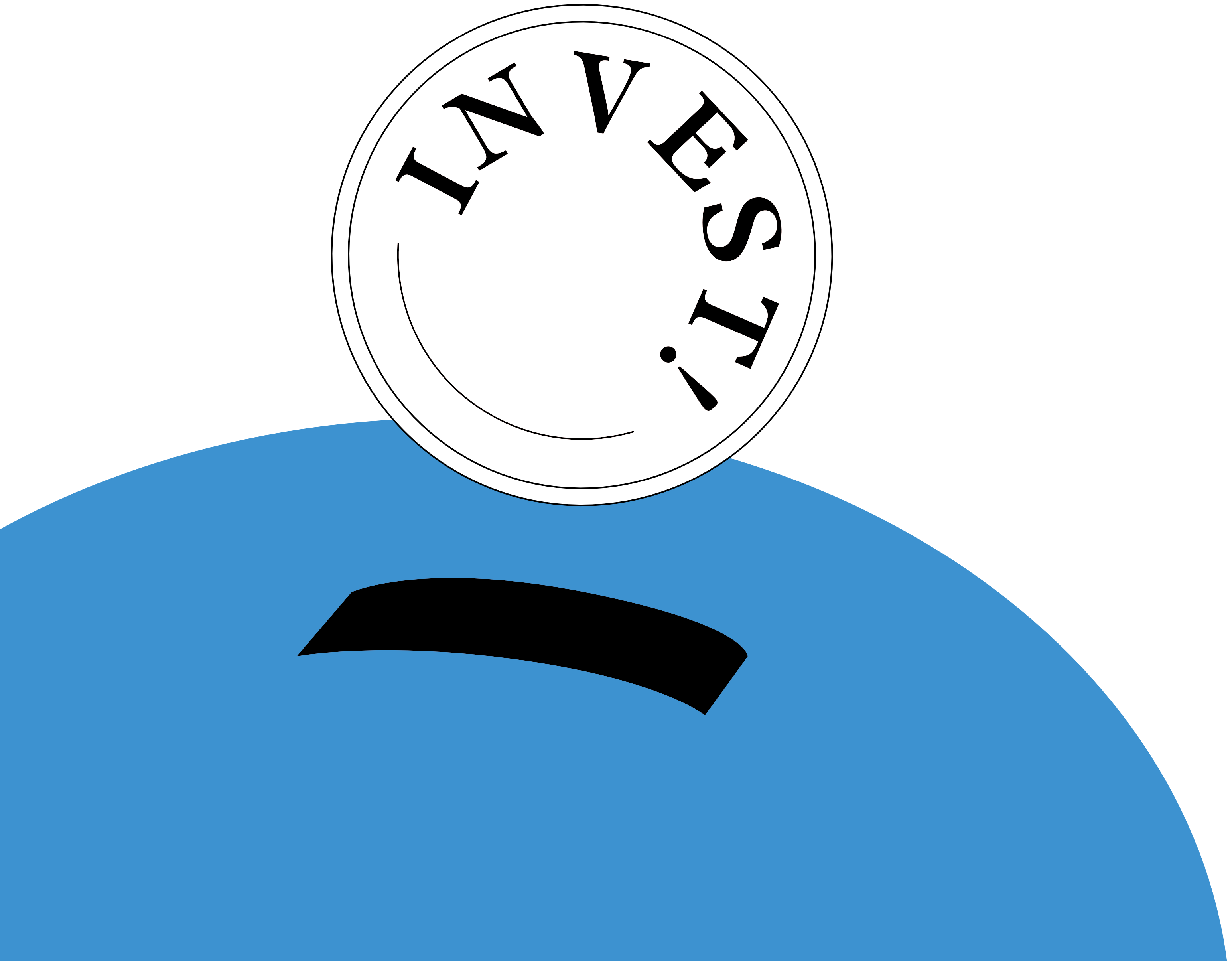


To ensure that the impact investing strategy is properly supported and fit for purpose, companies must put certain structures in place. This involves setting up favourable governance frameworks, assembling the right operational team and fostering strong connections with the company to leverage its expertise, networks and products.

- **Establish Effective Governance:** Position key stakeholders on the board, investment committee or advisory committee. C-level executives on the board can ensure continuous buy-in, while business unit representatives facilitate synergies with business priorities. Involving external stakeholders without a relationship with the company is also crucial to strike the right balance between business and impact considerations.
- **Develop Necessary Expertise:** Ensure that your team possesses the required skills, such as business assessment, financial instrument deployment and impact measurement and management. Assess whether these skills should be developed in-house or if leveraging existing corporate support functions would be more efficient.
- **Foster Collaboration with the Business:** Given the importance of going beyond financial support, cultivate relationships with corporate expertise, networks and products as necessary. Implement an employee engagement program to ensure that investees can leverage the company's strengths from the outset.

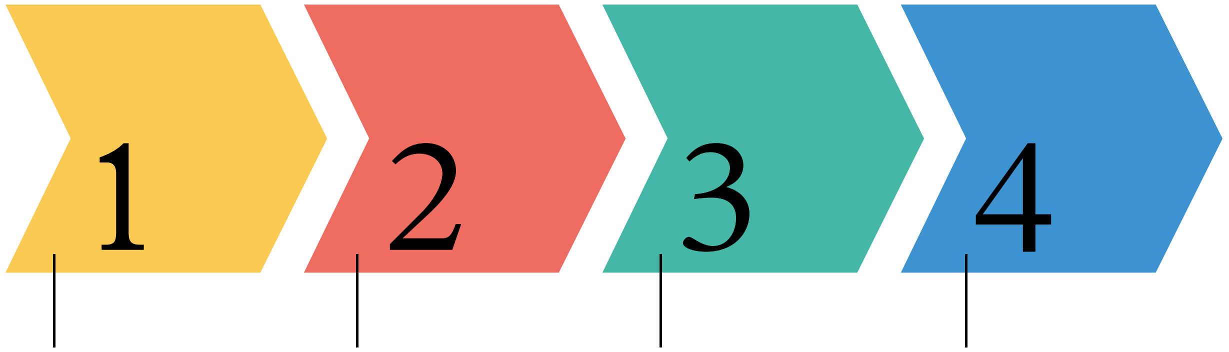
STEP 5

Reaching step number five means that everything is in place to begin deploying impact investments. Managing impact investments is complex and many considerations depend on your approach. However, the following four responsibilities are commonly found in any impact investment strategy:



Investment process

INVESTMENT APPRAISAL



Deal screening: Actively seeking investment opportunities that align with the investment strategy.

Due Diligence: Thoroughly screening potential investments by analysing and validating a business plan. strategy.

Investment Decision & Deal Structuring: Structuring investments to optimise financial returns while achieving impact goals.

Investment Management: Diversifying and actively managing a portfolio of impact investments, including the management at the investee level. impact goals.

Further reading: The Investing for Impact Toolkit, a practical guide to the investment journey, including tailored financing, non-financial support, impact measurement & management and exit.[4]

The corporate impact actors we interviewed for this report recommend some widely applicable maxims as well: start small, celebrate successes along the way, learn from any potential failure and gradually build a track record of impact. Over time, if impact investing efforts prove successful, it may lead to an increase in budget allocation, shifts in strategy and the emergence of synergies with the core business.

[4] Gianoncelli, A. and Picón Martínez A., (2020) "The Investing for Impact Toolkit". EVPA.

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OUT-LOOK

The field of corporate impact investing is still relatively young.

The corporate foundations and companies interviewed for this report all embarked on their journeys within the past fifteen years. Nevertheless, these examples have shown the potential of impact investing to build a bridge between impact and business.

From an impact perspective, impact investing is an approach to mobilise more resources from companies into the impact space. The financial viability of impact investment resonates well with business stakeholders, which facilitates getting buy-in and support. Additionally, it has the potential to generate sustainable impact and scale it to reach a broader population. From a business perspective, impact investing acts as an accelerator for the corporate impact journey. It creates coherence between a company's impact and business agendas, which strengthens the overall sustainability strategy and purpose.

The most recent markets sizing conducted by the European Impact Investment Consortium estimates the European direct impact investment market as € 80 billion (0.5%) and observed an 26% annual growth of European impact investment assets under management[5], a critical development given the significant funding gap of $1.13 trillion facing social enterprises globally.[6] Corporate impact investing can play a key role in accelerating this trend and addressing the challenge. Drivers of the trend include regulatory pushes, like the CSRD or CSDDD, but also the transformative potential impact investing has for society and business.

To fully realise this potential, it is advisable to foster connections with other areas of the business or foundation to create synergies rather than operating in isolation. Additionally, adopting multiple approaches to impact investing, as in the cases of Philips and Philips Foundation or Visa and Visa Foundation, is recommended to cover the whole spectrum of benefits that impact investing has to offer.

As inspiring examples continue to emerge, so do the arguments for strengthening both the impact and the business cases. While advantages like talent acquisition, retention and a social license to operate are often associated with sustainability strategies, this report highlights additional, unique benefits of corporate impact investing. Ultimately, this progress should lead impact investing to build an even stronger bridge between impact and business. If the bridge is stronger, more companies will cross it.

5 Gaggiotti, G., and Gianoncelli, A., (2022) "Accelerating Impact - Main takeaways from the first harmonised European impact investment market sizing exercise". EVPA.
6 Bonnici, F., (2024) "10 million enterprises putting people and planet first". World Economic Forum. Link: https://www.weforum.org/agenda/2024/01/social-enterprises-financial-policy-support/

9_ ANNEX

METHODOLOGY

At the beginning of 2024, Impact Europe conducted a series of semi-structured interviews with companies, corporate foundations, and other organisations actively engaged in impact investing.

Additionally, the team incorporated data from relevant interviews conducted during previous research studies, including the *Collective Corporate Impact Strategies* study conducted in 2021.

To complement qualitative insights, quantitative data was collected through a survey.

This approach ensured that the findings presented in this publication are not merely anecdotal but representative of broader perspectives and experiences within the impact investing landscape.

CONTRIBUTORS

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The Human Safety Net

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