

THINK TANKS and impact investing



Background

We believe that the impact investing industry in the emerging markets and, most importantly, their intended beneficiaries, would gain from the involvement of policy research organisations.

In 2020, the global impact investing market's value was estimated at over USD 700 billion¹. Notwithstanding its size and annual growth, the impact investing sector is a young industry. As such, it still faces many challenges. And so, as this movement grows and the private sector increases its explicit role in matters of public interest, there is an increased need to ensure the industry's integrity, avoid impact washing and ensure that the industry develops on the basis of sound evidence.

On Think Tanks (OTT) and [IMPACTO Consulting](#), with the support of Canada's [International Development Research Center \(IDRC\)](#) and FinDev Canada, are developing an initiative to explore and promote participation and involvement of local think tanks in the impact investing field. We believe that the impact investing industry in the emerging markets and, most importantly, their intended beneficiaries, would gain from [the involvement of policy research organisations](#), or think tanks.

This initiative has: (i) assessed the main challenges of the industry in Latin America and Africa, particularly in regards to its ability to generate, manage and disseminate knowledge, build robust impact evidence, and transform research &

¹ 2020 survey by the Global Impact Investing Network (GIIN)

dialogues into evidence-based decision-making and policy, and (ii) determined the capabilities and potential interest of local think tanks to help address these challenges, begin to build bridges between both communities, and develop a new initiative to facilitate greater involvement of local think tanks in impact investment globally.

Based on 40 interviews with impact investing sector experts including donors, Development Finance Institutions, sustainable fund managers, advisory firms, National Advisory Board members, as well as with government and think tanks from three African countries (Kenya, Nigeria and Senegal) and three countries in Latin America (Colombia, Peru and Mexico), we propose that local think tanks are well-positioned to contribute to and learn from this young industry and help it to grow in a sustainable manner and to deliver impact.

A set of recommendations have been developed based on feedback from impact investor stakeholders and have been prioritised based on considerations of think tanks' strengths as well as their capacity to take on a more active facilitation role in developing markets.

The think tank label

The think tank label includes a broad range of organisations with the shared purpose of informing policymaking and debates on issues of public interest, with arguments based on evidence. Think tanks typically conduct interdisciplinary research on public policies and seek to influence the formation of policies. The type of research that they do takes a problem-based approach and includes macro-economic, sector focused analyses that differ from market research. Think tanks have traditionally focused on informing public and private decision-makers on issues to improve decision-making and ultimately benefit societies; yet they remain largely absent from the impact investing ecosystem. In delivering their missions, think tanks fulfil several functions that may be helpful in addressing the challenges facing the impact investment industry.

The challenges

When analysing the impact investing industry under the lens of market size and impact data and practices, there are two sets of actors to consider: (i) stakeholders participating in the impact investing ecosystem and (ii) those outside the industry but that could potentially join it (e.g. traditional investors). The table shows a summary of the most pressing challenges faced by these two sets of actors.

Stakeholders participating in the impact investing ecosystem

Investors and potential investees/ enterprises have difficulties finding each other.

When they meet, they face two additional challenges: (i) enterprises are not “investment ready” and/or (ii) investors do not have a suitable product (including return expectations).

Challenge in setting impact measurement and management systems as well as collecting and assessing impact data in a systematic and comparable way.

Actors outside the industry but that could potentially join it (e.g. traditional investors)

Lack of clarity of what the impact investing industry is, how it differs from environmental, social and corporate governance (ESG) investing and other types of non-traditional investing. There are many definitions, blogs and white papers available online relative to the number of recognised impact investing resources which creates barriers to entry not only in terms of volume of information to review but also in terms of the lack of homogeneity in taxonomy.

Lack of reliable and sufficient evidence of both impact and financial return. **There is limited availability of public impact reports, and the information presented is mostly focused on outputs and/or intermediate outcomes and presented as cases.** Data on actual financial returns is limited and many times confidential. At the aggregate level, there is very limited evidence of both impacts achieved alongside financial returns. Recent studies have showed evidence of a link between ESG and financial performance when focused on financial materiality².

² Nicolas Madison and Eduardo Schiehl; [The Effect of Financial Materiality on ESG Performance Assessment](#), 2021

There seems to be a disconnection between asset owners and asset manager priorities and the country priorities.

Data on impact is often limited in terms of measuring the perspective of those experiencing the impact. Access to final beneficiaries is limited as well as information about how they experience outcome changes.

Lack of government support, adequate policy and/or regulation. Impact investors are overwhelmingly headquartered in the United States and Europe³, where governments have facilitated investment. Attracting these investors to developing markets requires policy and facilitation from local governments.

Limited research is available and research and studies that could be useful are not easy to find.

Exit strategies are limited, with few secondary markets for impact investments.

Impact investing sector tends to concentrate in a few sectors as there is limited knowledge and data about other potentially attractive sectors

Impact investing priorities do not seem to be systematically driven by actual country needs and priorities. **There seems to be a disconnection between asset owners and asset manager priorities and the country priorities.**

³ From the GIIN's Sizing the Impact Investing Market Report, 2018

**How can think tanks play a
role in contributing to solutions
to address the challenges
in the impact investing sector
in emerging markets?**

1

Consolidate, communicate and facilitate research into practice

Since the impact investing sector has **limited research capacity and/or limited ability to leverage existing studies and knowledge** this gap presents an immediate opportunity for think tanks. While most think tanks in emerging markets have not targeted traditional investors nor impact investors as key audiences for their research, many have a wealth of research already completed on key sectors.

While most think tank research has tended to have a policy focus, **there is an immediate opportunity for think tanks to understand the needs of investors and repackage and communicate existing research reports and studies to both impact investors and mainstream investors.**

2

Identify sector opportunities

With **concentration of impact investing in few sectors**, and Impact Investments not necessarily **targeting catalytic sectors/ opportunities**, **national think tanks can provide context-specific sectoral expertise and analysis embedded within the macroeconomic and policy realities of the country or region.** Think tanks can do this through research on the effectiveness of approaches to lessen pipeline challenges, such as examining effectiveness of incubation and acceleration. They can also help to map the existing enterprises in those sectors and could carry out market studies for impact opportunities in specific product areas or value chains in key sectors.

3

Inform and connect policy and markets

As trusted actors in the research to policy and policy formulation space, think tanks have the potential to **contribute to the development of national and regional capital markets** by bridging the space between the private sector and government. **Think tanks can contribute research and analysis to inform decision-making on improving the enabling environment for areas that are critical for impact investing and investment growth more generally.** With this research, think tanks are well connected with government agencies to whom policy reforms can be proposed and advocated for and through dialogues and convening of both public and closed-door meetings they can use their research to promote change to drive investments in high impact sectors.

4

Facilitate social impact evidence

A. Consolidate and communicate existing IMM knowledge products:

To address the issue of a **lack of reliable, comparable impact data**, and **lack of independent IMM capacity** in most emerging markets, **think tanks can build on their evaluation expertise to compile, consolidate and communicate data at the sector, fund and company levels to bring an independent, approach to the assessment of impact.**

Many think tanks have extensive experience conducting impact evaluations of public policies and programmes and these approaches to impact investing will help to improve the credibility of impact across different levels within the industry. Local think tanks could play a potential role in developing **databases, IMM for mainstream investors, and facilitating IMM capacity.**

B. Beneficiary representation:

Think tanks can contribute to improve **the lack of data on actual impact on beneficiaries** by raising the voices of groups or sectors whose needs and interests are not often heard, but that are affected. **Local think tanks can help assess and incorporate the perspective of stakeholders experiencing the impact (whether positive or negative, direct or indirect, intended or unintended). Think tanks are well-positioned to raise the profile and amplify the needs and interests of intended beneficiaries of impact investments.** Think tanks know the national realities of where investments are made and have experience collecting data and engaging with beneficiaries and stakeholders at the national and local level. Particularly on issues of gender, inclusion, and diversity, think tanks have demonstrated their expertise in channeling the voices of beneficiaries to ensure their interests are considered in public policy decision-making and holding the government accountable to citizens.

5

Broker and facilitate

Think tanks are well positioned to convene and facilitate dialogues with different actors in a national context and as independent actors, think tanks can also play the role of trusted broker. They can bridge dialogue between government agencies, private investors, intermediaries and enterprises (through SME associations and / or industry associations or chambers of commerce) to improve the coordination and collaboration in the impact investing ecosystem and for specific sectors/populations. This role may be feasible for some think tanks in particular contexts where the impact investing ecosystem lacks coordination and where there is an absence of actors already actively engaged.

Recommendations and corresponding topics/research questions

The following table incorporates feedback from the interviews with experts in Latin America and Africa. Interviewed experts were asked about key areas, issues, or questions that need to be addressed to foster the growth and consolidation of the regions' impact investing ecosystem. These helped us to establish the recommendations listed above, which structure the research agenda's priorities.

Recommendations

Consolidate & communicate research into practice

Identify sector opportunities

Inform & connect policy & markets

Facilitate social impact evidence

- Translate IMM
- Beneficiary representation

Broker & facilitate

Topics

The role of think tanks

Good practices and successful experiences

Good practices and successful experiences

Impact investment and public policies

Regulatory frameworks

Impact measurement and methodologies

Coordination of initiatives/efforts

Research Questions

What research products and what areas of expertise do think tanks have that is applicable to the impact investing sector?

How should think tanks change/adapt/modify their approach to increase relevance to the sector?

What financing structures and models work best in different sectors to achieve both impact and return?

To what extent do contextual factors influence the achievement of impact and return?

What has worked in a sector (eg: early childhood education) that can inform investors strategies in that sector in a certain country?

What are successful examples of investments/instruments/collaborations (NABs for example) that demonstrate the business/impact case?

What are the regulatory and policy limitations for impact investment? How does impact investing connect to public policy? Is there space for advocacy and research to change/modify these frameworks and regulations?

What effect have policies had on impact investing? What is the impact of corporate social responsibility policies in enhancing impact investment? To what extent have policies created incentives or disincentives for impact investing including: start-up acts, venture capital policies, fiscal incentives, certification, public procurement, environmental, climate policy, employment policy, - other "social impact" oriented policies that could require additional analysis, research – agriculture, healthcare etc?

Does IMM incorporate beneficiary voice, in terms of understanding the impact of the investment on citizens, target beneficiaries?

- If yes, when/how?
- If no, how to do so?

How to raise awareness/interest in measuring impact amongst enterprises, investors, fund managers?

Are think tanks positioned to play a third party verification role?

How to assess the impact of the various investment structures and models?

Who is doing what in the region?

How to improve/strengthen the effectiveness of impact investing networks?

What are the agendas of different actors? Can these agendas be aligned? To what extent?

Think tanks and impact investors will need to collaborate to assess the context and prioritise where think tanks can have the greatest impact at a national and regional level.

Overall, it is important to notice that the potential role that local think tanks could play in impact investing requires investments of time and resources, especially for think tanks to be ready to enter a space where until now they have been mostly absent. Recognising that there is stiff competition for financial resources in the sector, particularly among brokers and research actors, think tanks and impact investors will need to collaborate to assess the context and prioritise where think tanks can have the greatest impact at a national and regional level. Our study suggests that working to translate and disseminate knowledge on experiences/practices and related sectors, elevate the voice of stakeholders experiencing impact, connect the traditional financial sector actors (both public and private), generating evidence of impact and strong impact management practices, and facilitating ecosystem actors are critical areas for the development of the industry. By starting with the areas where think tanks have strengths and capacity focused on consolidating and translating knowledge and identifying sector opportunities, inform and connect policy and markets, think tanks can help strengthen the ecosystem in significant ways. As they gain experience and credibility, think tanks may expand their roles to include facilitating social impact evidence and taking on brokering and facilitation roles.

