The IPAF pilot test

2° investing initiative

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About

2° Investing Initiative (2DII) is an international, non-profit think tank working to align financial markets and regulations with the Paris Agreement goals.

2DII coordinates some of the world's largest research projects on climate metrics in financial markets. To ensure our independence and the intellectual integrity of our work, we have a multi-stakeholder governance and funding structure, with representatives from a diverse array of financial institutions, regulators, policymakers, universities and NGOs.

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The paper is part of the Retail Investing Research Program at 2DII which is one of the largest publicly funded research projects about the supply, demand, distribution and policy side of the retail investment market in Europe.

Introduction

Surveys conducted by 2DII in 14 EU countries reveal that on average ~50% of European retail investors want to have a real-world impact with their savings. Other surveys show that most European retail investors also automatically expect impact of sustainable finance products. However, market reviews conducted by University Hamburg and 2DII show that misleading environmental impact claims are commonplace among some financial market participants.[1] Furthermore, mystery shopping visits conducted by 2DII in 9 EU countries reveal that only 6% of advisers were knowledgeable and transparent about the impact potential of their recommended products.[2] These results suggest that the current sustainable finance regulatory framework is not fit for purpose to effectively protect consumers from environmental impact washing and accommodate those consumers who want to invest in financial products with high impact potential.

In 2023, 2DII presented its new science-based Impact Potential Assessment Framework (**IPAF**) to help impact-oriented investors select financial products based on their potential to deliver impact (per additional euro invested). The IPAF is also supposed to help product manufacturers muscle up their impact actions and improve their impact communication ("do more and communicate better"). Alternatively, the IPAF might also be used by product distributors to assess the impact potential of their product offering or to detect financial products with high impact potential for their clients.[3] Another objective of the IPAF is to identify financial products that could be "impact-washing" and will therefore have utility for supervisory authorities.[4]

The main objective of this paper is to demonstrate the practical usability of the IPAF. We pilot tested the IPAF on primary market funds (i.e. VC/PE/PD funds and infrastructure funds, crowdfunding and saving accounts available for retail and qualified investors in Germany, France, Switzerland, Spain, Sweden or Ireland. In the two first sections of this paper we summarize the main components of the IPAF and our approach and scope of the pilot test. In the following three sections we discuss the results of the IPAF application, some best practices for the use of investor impact mechanisms and the limitations we discovered during our assessment. In section 6, we put our results in the context of other research on impact finance and elucidate the potential implications of our work for impact-oriented investors and a disclosure framework which seek to capture information on investor imapct. At the end of the paper, we give a brief summary about the main findings and next steps for evoluation of the IPAF.

[1] See Scheitza/Busch/Metzler, 2022, The Impact of Impact Funds – A global analysis of Funds with impact-claim and 2DII, 2023, Market review of environmental impact claims of retail investment funds in Europe
[2] See 2DII, 2023, Moving the blockers of retail sustainable finance or 2DII, 2023, Assessing client sustainability preferences…lost in the maze?
[3] 2DII launched a new website for product distributors including financial products with high impact potential available for retail and qualified investors in Germany, France, Spain, Sweden, Ireland and Switzerland.
[4] Note that in their progress reports on greenwashing, the ESAs highlighted impact washing as "high risk area" along the sustainable investment value chain. Indeed, our latest market review echoed this conclusion, given that 27% of 450 "green" Art 8&9 funds in our scope were using misleading environmental impact claims (see 2DII, 2023, Market review of environmental impact claims).

Section 1

The Impact Potential Assessment Framework (IPAF)

In 2023, 2DII published its new science-based framework to assess the impact potential of financial products. The Impact Potential Assessment Framework (**IPAF**) assesses financial products based only on their actions to generate real-world impact. The methodology is unique, in the sense that it allows a practical assessment of the impact potential of different financial products based on comprehensive assessment criteria derived from scientific literature. It is product agnostic and can be adapted to different financial product categories which is a key difference compared to other impact potential assessment grids on the market.[5]

A multipurpose framework

The IPAF was designed to help impact-oriented investors select financial products based on their potential to deliver impact (per additional euro invested). The IPAF is also supposed to help product manufacturers muscle up their impact actions and improve their impact communication ("do more and communicate better"). Alternatively, the IPAF might also be used by product distributors to assess the impact potential of their product offering or to detect financial products with high impact potential for their clients.[6] Another objective of the IPAF is to identify financial products that could be "impact-washing" and will therefore have utility for supervisory authorities.[7]

The assessment criteria used by the IPAF are related to "impact success factors" which were derived from a comprehensive literature review on the six key impact mechanisms widely documented by academic research (see below). Hence, the IPAF provides a practical and unique framework which allows to assess to which extend the key impact mechanisms of a financial product are used. The derivation of the impact success factors within each impact mechanism were documented and discussed in six discussion papers which are supposed to provide transparency and build the basis for further improvements:

- Grow new/undersupplied markets
- Provide flexible capital
- Engage and vote
- Provide non-financial support
- Send market signals
- Send non-market signals

We consider the derivation of impact success factors and underlying assessment criteria as a key value add of the IPAF to the development of tangible impact assessment frameworks.

A two-step methodology:

The IPAF assesses two dimensions of the impact potential of financial products in two individual steps.

- Level 1:

[5] See for instance the impact assessment grids provided by the Institute de la Finance Durable (IFD). Another difference between the IPAF and the IFD grids is that the IFD can be also used to assess the intentionality and measurability of the financial product category, while the first version of the IPAF focuses on this stage only on the additionality of the actions of a financial product. It is worth to mention, that additionality is currently not a mandatory minimum requirement in the IFD grids which means that a product could in theory score high without or a very bad additionality score (which is not possible under IPAF).
[6] 2DII launched a new website for product distributors including financial products with high impact potential available for retail and qualified investors in Germany, France, Spain, Sweden, Ireland and Switzerland.
[7] Note that in their progress reports on greenwashing, the ESAs highlighted impact washing as "high risk area" along the sustainable investment value chain. Indeed, our latest market review echoed this conclusion, given that 27% of 450 "green" Art 8&9 funds in our scope were using misleading environmental impact claims (see 2DII, 2023, Market review of environmental impact claims).

The IPAF first assesses the theoretical maximum impact potential of a financial product based on the impact mechanisms it supposedly applies (as communicated in relevant marketing documents). These impact mechanisms are the same as the mechanisms mentioned above. There are specific assessment grids and criteria for different product categories. Currently, there are assessment grids for the following product categories:

- Funds in public markets
- Funds in private markets
- Deposits
- Crowdfunding platforms

The assessment grids are publicly available.[8]

Based on its marketing documents, a product is assigned an impact potential compartment based on Impact Management Project (IMP)'s taxonomy of investor contributions (see figure below) and receives a corresponding "Compartment's Impact Potential Score" (from 0 to 6). This general score will be the multiplier of the score derived in the second step.[9]

Compartment's Impact Potential Score = Product's Impact Potential class

			No impact	Low impact potential	Median impact potential		High impact potential		
IMP Investor contribution categories			0	1	2	3	4	5	6
Applied impact mechanisms			None	S	SE	SG	SEG	SGF	SEGF
Product categories	Funds in public markets	Green/climate thematic equity funds		X	X				
		Low-carbon equity funds		X	X				
		Green/climate equity engagement funds			X				
		Green/sustainability bond funds		X	X				
	Funds in private markets	Green climate VC/PE funds		X	X	X	X	X	X
		Green/climate private debt funds		X	X	X	X	X	X
		Green/climate infrastructure funds		X	X	X	X	X	X
	Bank accounts	Green/climate current accounts		X	X	X	X	X	X
		Green/climate saving accounts		X	X	X	X	X	X
	Crowdfunding investments	Green/climate equity crowdfunding		X	X	X	X	X	X
		Green/climate peer-to-peer lending		X	X	X	X	X	X

Lecture: S=Signal that impact matters; E=engage actively; G=grow new/undersupplied markets; F=provide flexible capital

- Level 2:

The IPAF's second step is to evaluate the implementation of the impact compartment(s) based on the intensity with which financial products action the "impact success factors" documented by academic research for various impact mechanisms.[10] For each success factor we defined concrete assessment criteria to assess the implementation of the different impact mechanisms (i.e. Growing undersupplied markets; Providing flexible capital; Engagement; and Signalling).[11] For all impact mechanisms we defined 3-4 assessment criteria underlying the impact success factors.

Depending on how many impact mechanisms a financial product claims to apply, products will be assigned up to 18 assessment criteria. Each criterion will be assessed in form of a question and four rating levels (from 0,+,++,+++). Each rating level is individually defined for all assessment criteria and product categories currently in our scope. Note that products are only assessed on the impact mechanisms they apply. This means that if a product does not claim to provide flexible capital for example, it will not be given a score of 0, but the relevant

[8] 2DII, 2023, IPAF assessment grids
[9] In the same product category (i.e., private equity funds), products may be assigned different impact potential classes as they may not action the same mechanisms or communicate the same way. Thus, the impact compartment impact potential scores are not determined as illustrated in the table. However, most products within the illustrated product categories apply the demonstrated impact mechanisms.
[10] E.g. Caldecott B., Clark, A., Harnett, E., Koskelo, K., Wilson C., and Liu F., (2022), "Sustainable Finance and Transmission Mechanisms to the Real Economy", Working Paper
[11] For a more in-depth discussion of the mechanisms and their success factors please see the discussion papers mentioned above.

section of the assessment (i.e. “F” for flexible capital) and its questions will be left blank/not assessed. Additionally, in each product assessment grid we added at the beginning a criterion/question on the impact-based selection of investees/projects, transversal to the various impact mechanisms. The results of all assessments lead to the “Product Implementation Score”.

Implementation Rating	Implementation Score (as % of maximum score for the product’s impact compartment)
0	0
"+"	0 < x < 33%
"++"	33% ≤ x < 66%
"+++"	x ≥ 66%

Product Implementation Score
=
Achieved total score / maximum possible score for the product’s impact class

The final Impact Potential Score and Rating:

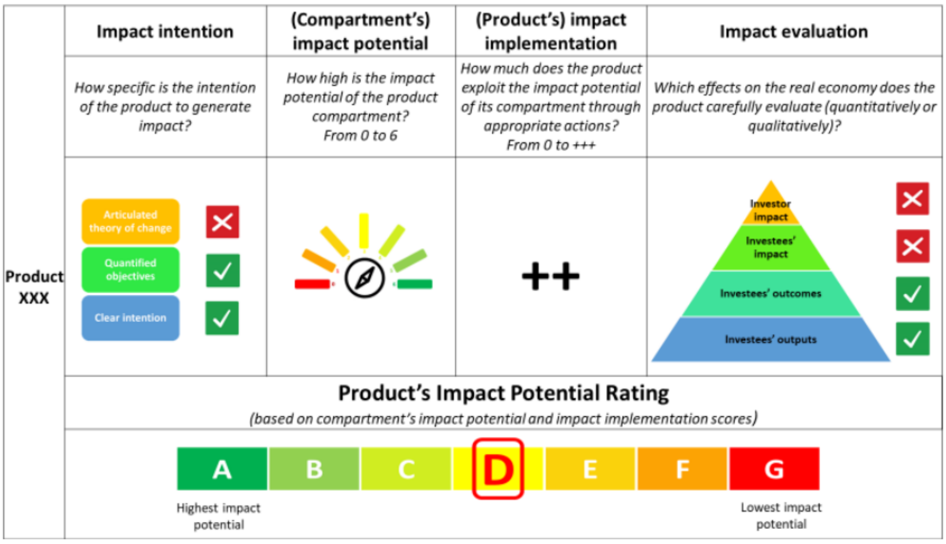
At the end of the scoring process, the IPAF delivers an “Product Impact Potential Score” which is the product of the two intermediary scores:

IP Score	IP Rating
0	G
]0;1[	F
[1;2[	E
[2;3[	D
[3;4[	C
[4;5[	B
[5;6]	A

Product Impact Potential Score
=
Compartment’s Impact Potential Score * Product Implementation Score

The Impact Potential Score is transformed into an “Product Impact Potential Rating” that goes from A (products with highest impact potential) to G (products with lowest impact potential).

Eventually, the Impact Potential Rating could be displayed in the IPAF Impact Potential Factsheet:[12]



To learn more the about the IPAF methodology, find the full IPAF report, the assessment grid, a short summary and a webinar link on the 2DII website.

[12] Note that the IPAF Impact Potential Factsheet is only at draft stage since we haven’t yet defined requirements for impact intention and evaluation.

Section 2

The IPAF pilot test

After publishing the IPAF methodology, 2DII started testing the framework to create a unique list of financial products with high impact potential available for retail and qualified investors. This assessment took place between May and October 2023 in four steps as described below.

Step 1: Establishing scope of the project

Given the objective of the two research projects which funded this paper, we focused in our first pilot-test on financial products available for retail and qualified investors (see Box 1) in the following six target countries**: France, Ireland, Germany, Spain, Sweden, and Switzerland.**

Our objective was to identify products with the highest impact potential. While the IPAF provides also an assessment grid for public market funds, we excluded this category from our pilot test since the amount of time needed to assess the potential universe of financial products (e.g. mutual funds) would exceed the scope of our projects. Furthermore, we can expect that public market funds will achieve in most cases a lower IPAF rating compared to primary market funds, savings accounts or crowdfunding since they usually don't serve undersupplied markets or provide flexible capital. In fact, our latest market review of environmental impact claims revealed 124 self-labelled "green" Art 8 & 9 retail funds available in most of the above-mentioned countries, did not substantiate their impact claims which would lead to a very low IPAF rating.

For these reasons, we decided to focus in this pilot-test only on private equity, private debt, venture capital and crowdfunding products as well as sustainable savings accounts which are available for retail or qualified investors in the target countries.[13] However, our pilot-test demonstrated the practical usability of the IPAF and shows that it could also be used to assess primary market products available for professional investors. The IPAF could also be further specified for other product categories such as real estate funds.

Box 1. Professional investors and retail investors

Annex II of MiFID II (Directive 2014/65/EU) sets out the criteria for an investor to be considered as a **professional client** when he or she possesses the experience, knowledge and expertise to make his or her own investment decisions and properly assess the risks that it incurs. **Retail investors** are clients who do not fall within the scope of the definition of a professional client. In other words, a retail investor is considered to have less literacy and less money to invest.

[13] Caldecott et al. (2022) assessed the possibility of impact across key asset classes, hypothesizing a maximum potential for impact for each. For each asset class they ranked the potential impact on counterparties, on a scale from negligible (1) to strong (5) while acknowledging that asset class was only one factor among others that can ultimately affect impact, including firm size and maturity, and the structure and type of a given transaction. Their indicative scoring suggests that the most high-impact asset class is loans, followed by private equity. Public equity is the least likely to generate impact when considering aggregated potential impact across each transmission mechanism. For instance, in public equities, they consider that "any given investor's investment in (divestment from) the publicly listed shares of green (dirty) companies are not likely to have an impact on the firm's cost of capital, as any one stake is typically small, and most listed firms have dispersed, diversified ownership structures. The magnitude of impact of any given investor's actions when acting alone is very minor, potentially small enough to be lost amid the "noisiness" of public equity pricing signals, which are influenced as much on shorter timescales by market sentiment and shorter-term trading arbitrage as by company fundamentals".

Step 2: Researching financial products with a sustainability focus and creating a long list of products
Researching financial products included desk research and network outreach to identify and filter products matching the following criteria:

- Available to retail and/or professional investors.
- Belong to one of the following categories: Private Equity, Venture Capital, Private Debt, Infrastructure, Crowdfunding or Saving Accounts.
- Has an impact focus.

The end goal was to create a longlist of products possibly relevant for each target country. This research phase lasted for three months and resulted in six country longlists totalling 528 financial products.[14]

Step 3: Selecting financial products for the short-list and applying the methodology based on publicly available information
Financial products were selected for the longlist according to the information that could be gathered from their commercial description. To be fully implemented, the IPAF requires a considerable amount of information that ranges from investment strategies, engagement policies or portfolio constitution. Numerous products failed to provide enough information, so it was decided to create a short-list in which we could assess products who were likely to meet the IPAF's informational needs. In many cases, products did not enter the short-list since they were classified as secondary market products in the deeper analysis.

The documentation reviewed varied from product to product. For certain products, most of the information could be found on the website, while others had a dedicated webpage for information disclosure. The most commonly reviewed document was the Impact Report.[15] The amount of information disclosed would often depend on the type of product reviewed. For example, a private equity product would often detail its investment strategy, as well as its engagement strategy in various documents. However, for crowdfunding products, the structure differed, and our research would mostly be concentrated on the list of projects open to investment on the platform and what conditions each project must meet in order to be commercialised by the crowdfunding platform. Only in exceptional cases (for instance if there were doubts about the minimum investment amount, the country or investor availability) the product manufacturer or a company employee was contacted by phone, email, or LinkedIn.

The shortlist totalled 121 financial products which constitute the core of the IPAF pilot-testing.

Step 4: Reviewing financial products and selecting those with the highest IPAF rating
For each target country and analyst was assigned to review available financial products. In total, seven analysts played the role of first reviewers. Each product was individually assessed according to its product category. Each applicable IPAF criteria/questions was assessed based on a four-level rating (ranging from 0 to 3). The rating was determined from the quantity and quality of the information found in the product's documentation. For each rating, the reviewer provided a short explanation. All product assessments underwent a second review by senior analysts of 2DII to ensure they were correctly assessed. If differences occurred between the first and second review, the second reviewer explained the change to the initial rating. In the case of a scoring difference, ratings were discussed between first and second reviewer.

Once all products were reviewed, a final list was created for the highest scoring products with an IPAF rating of E or above.[16] The products selected for the final list, were then further reviewed to identify their thematic focus(es) and which Sustainable Development Goals (SDGs) they were aligned with. This final list of products and all related product information is now publicly available on our new impact database for retail and qualified investors on 2DII's information platform MyFairMoney and on our new IPAF-database for product distributors.

[14] Note: the longlists established for this first iteration is non-exhaustive, the number of products available in each country can change regularly
[15] Note: not all products had an impact report.
[16] Products with a rating of G or F were *de facto* excluded from our final list of products with highest impact potential.

Section 3

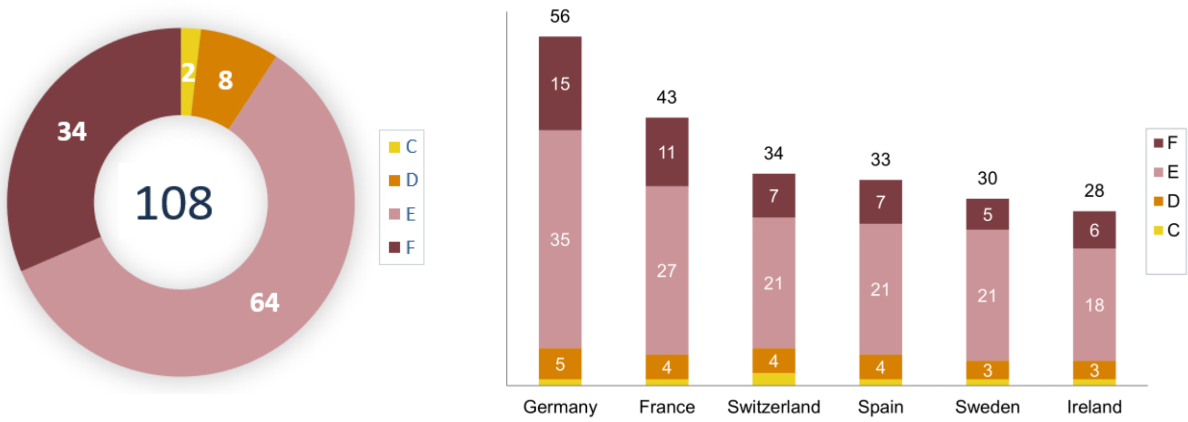
Results discussion

Limited (yet existent) availability of financial products with high impact potential for private investors

The findings from the IPAF pilot test are clear. Only a minority of 2% of products were attributed a C rating. Overall, 84% of the 108 assessed products were attributed a rating of E or lower, highlighting that most financial products in our scope with impact claims are either not disclosing the necessary information to assess their real impact potential and/or are not maximizing their impact potential (find out more about the limitations in section 4). However, this does not imply that financial products with a E rating have a low impact potential. Most of them show that they provide capital to undersupplied markets, engage with their investees or projects, and use non-market or market signalling (find out more about product best practices in section 4). This indicates that those products have still a higher impact potential than most financial products available for private investors e.g. on secondary markets (per EUR invested).

On the other hand, only 4% of products explained how they apply all four impact mechanisms and only 10% of all products provided evidence on the provision of flexible capital which revealed the lack of disclosure relevant for the assessment of key impact mechanisms. We assume that if all product manufacturers and distributors disclosed all impact-relevant information, many products would get a better rating. Against this backdrop, our results show that future disclosure frameworks must capture different information to assess the potential of financial products to have a real-world impact. Existing disclosure frameworks, including GIIN IRIS+ with a special focus on impact investing, are focusing only on "impact alignment"/"company impact" and are therefore failing to deliver relevant information for assessing the degree of "impact generation"/"investor impact".[17]

Figure 1: IPAF rating distribution



Source. 2DII (2023).

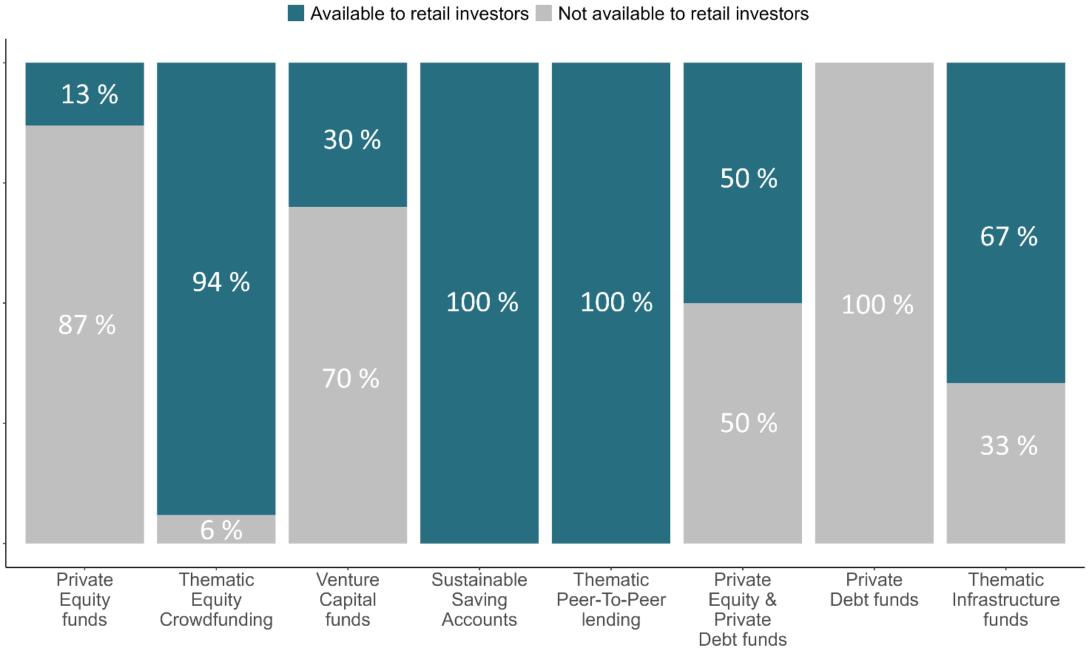
[17] Find out more about the concept of "impact alignment vs. impact generation" Busch et al. (2021), Impact investments: a call for (re)orientation and "company impact vs. investor impact" Kölbel et al. (2020), Can Sustainable Investing Save the World? Reviewing the Mechanisms of Investor Impact.

As you can see above in Figure 1, the discrepancy of product availability between countries is significant. More than half of all assessed products are available to investors in Germany, whereas only 25% of the assessed products were available in Ireland[18]. This result might indicate different levels of market maturity in terms of products with high impact potential available for retail/qualified investors.

More financial products with higher impact potential are available for qualified investors

The products such as private equity, venture capital, thematic infrastructure funds, and private debt represent 51% of our sample; however, these products are generally only available to qualified investors. While retail investors seeking to invest in financial products with high impact potential have unlimited access to crowdfunding options or saving accounts, it is worth highlighting the examples of primary market funds available for retail investors. There is an increasing trend of private market funds which become accessible for retail investors, especially green infrastructure funds also driven by the revised European Long-Term Investment Funds Regulation (ELTIF).[19] In fact, 2DII's retail surveys document a high appetite for impactful private market funds, which represents an unlocked multibillion market and significant impact opportunity.[20] While it should always be ensured that retail investors have full understanding about the risks of those products, the market gap between demand and supply raises the question whether more financial products available for qualified investors should also be made available for retail investors under specific requirements on investors knowledge and experience.

Figure 2: Product availability according to investor profile



Source. 2DII (2023)[21]

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[18] Those results included the products available at Global and European Union level.

[19] See Regulation (EU) 2015/760 on European long-term investment funds, ELTIFs are designed to increase the amount of non-bank finance available for companies investing in the real economy of the European Union.

[20] 2DII, 2023, 6 National Country Reports and 2DII, 2022, What do your clients actually want? Understanding and estimating household demand for sustainable financial products

[21] **Private Equity funds:** These funds invest on the primary markets. This means that they invest in stock of private companies that do not offer stock to the general public.

Venture Capital funds: Particular form of private equity funds that invest in startups, early-stage, and emerging companies that have been deemed to have high growth potential or which have demonstrated high growth but who also present a high-risk element.

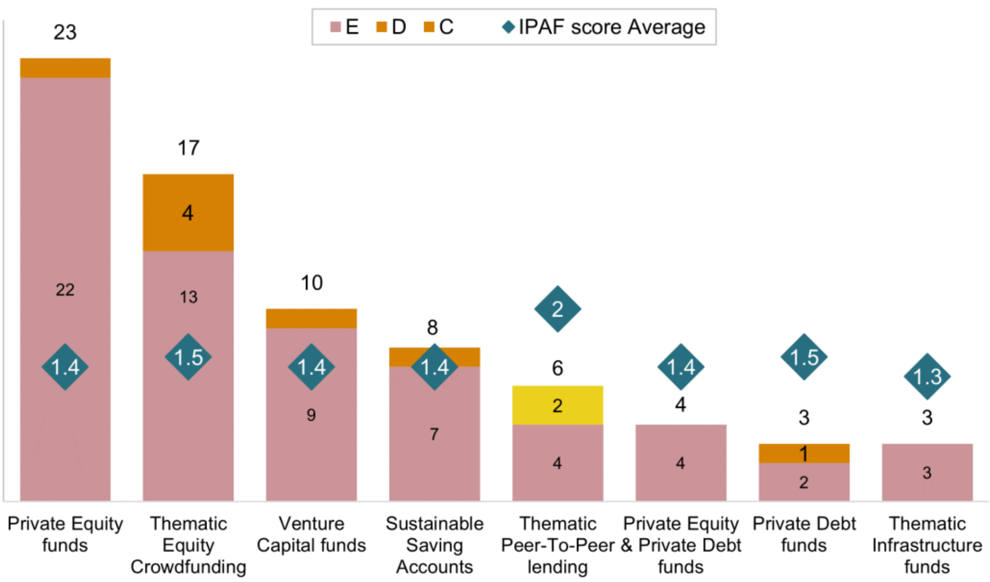
Private debt fund: This financial product enables debt finance to be provided to companies from funds, rather than banks, bank-led syndicates, or public markets.

Crowdfunding : Mechanism for collecting financial contributions from a large number of individuals to finance a project

A high disparity in the offering of product categories

Figure 3 highlights that certain financial product categories are underrepresented. For instance, while sustainable saving accounts constitute only 11.4% of our product short-list. The lack of offer of sustainable saving accounts is problematic since they provide substantial capital that could be directed towards financing impact orientated endeavours. For example, French household savings deposited onto regulated saving accounts[22], represented more than 915€ billion.[23] Our retail investor surveys document a significant unmet appetite for green and impactful savings accounts representing a multi-trillion unexploited market opportunity in Europe.[24]

Figure 3: Distribution of product categories and IPAF scores



Source. 2DII (2023)

The thematic focus of assessed products, a clear favourite: Green Energy

Figure 4 shows that "green energy" is the predominant theme among the products of our final list, with 48 of them focusing their investment in the sector. This sector and the "green tech" sector were two of the most common with around 20% of assessed products focusing their investments in them.

In recent years, private equity firms have flooded the market for "green energy" projects, now that they have become a widely recognised lucrative investment opportunity.[25] Not only might they generate attractive returns for investors, but they can also contribute to the transition of the energy sector, thus creating a positive impact. With the global increase in demand for renewable energies, the development of more efficient technology and the reduction of costs, investment opportunities are multiple. 2023, was a significant milestone for investments

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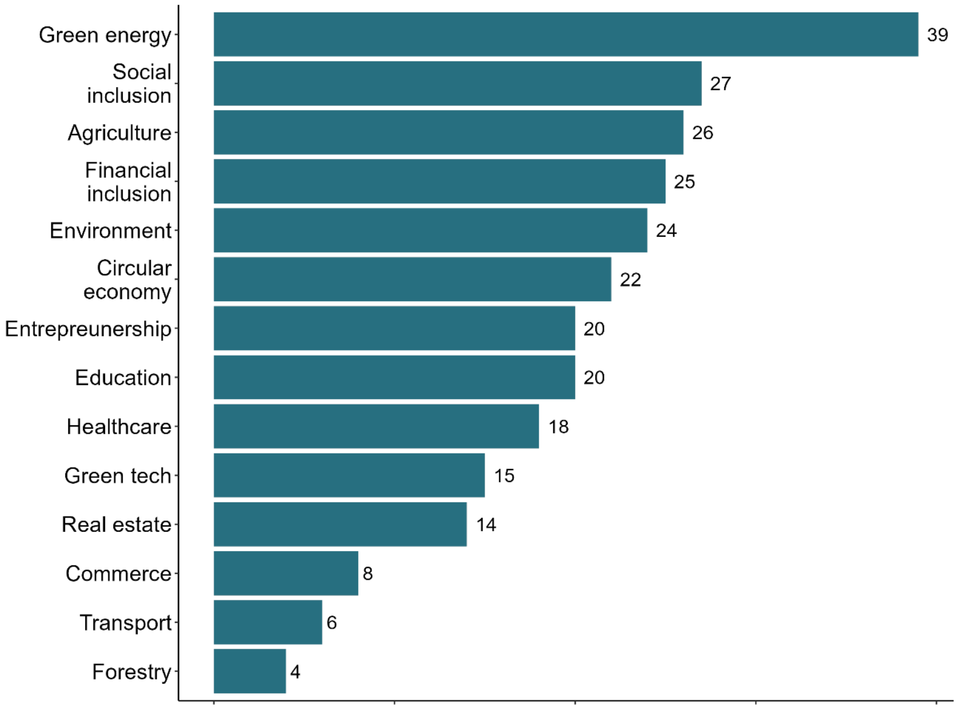
Infrastructure funds: Funds that invest primarily in facilities and utilities that provide essential services to communities.
Peer to peer lending : Mechanism that enables individuals to obtain loans directly from other individuals, cutting out the financial institution as the middleman
Savings account: Bank account that remunerates its holder according to the interest rate determined by the banking institution.
[22] Livrets A, bleus, LDD, LEP, PEL, PEP, CEL, livrets jeunes
[23] Banque de France, 2023, Epargne des ménages 2023T2
[24] 2DII, 2023, 6 National Country Reports and 2DII, 2022, What do your clients actually want? Understanding and estimating household demand for sustainable financial products
[25] BCG, 2023, Private Equity is Making Gains in Renewable Energy Use

in green energy, because for the first time, they overtook investments in fossil fuels, reaching close to $1.3 trillion, illustrating the appetite of the investment community for the sector.[26]

In addition to financial gains, considerations such as "social and financial Inclusion" and "agriculture and environment" play a crucial role for investors aiming to make a positive impact. Consequently, we observe a rising trend among private equity and crowdfunding products to focus on those topics. On the other hand, we identified less impact investment opportunities for “education” and “health care”.

Figure 4: Thematic focus



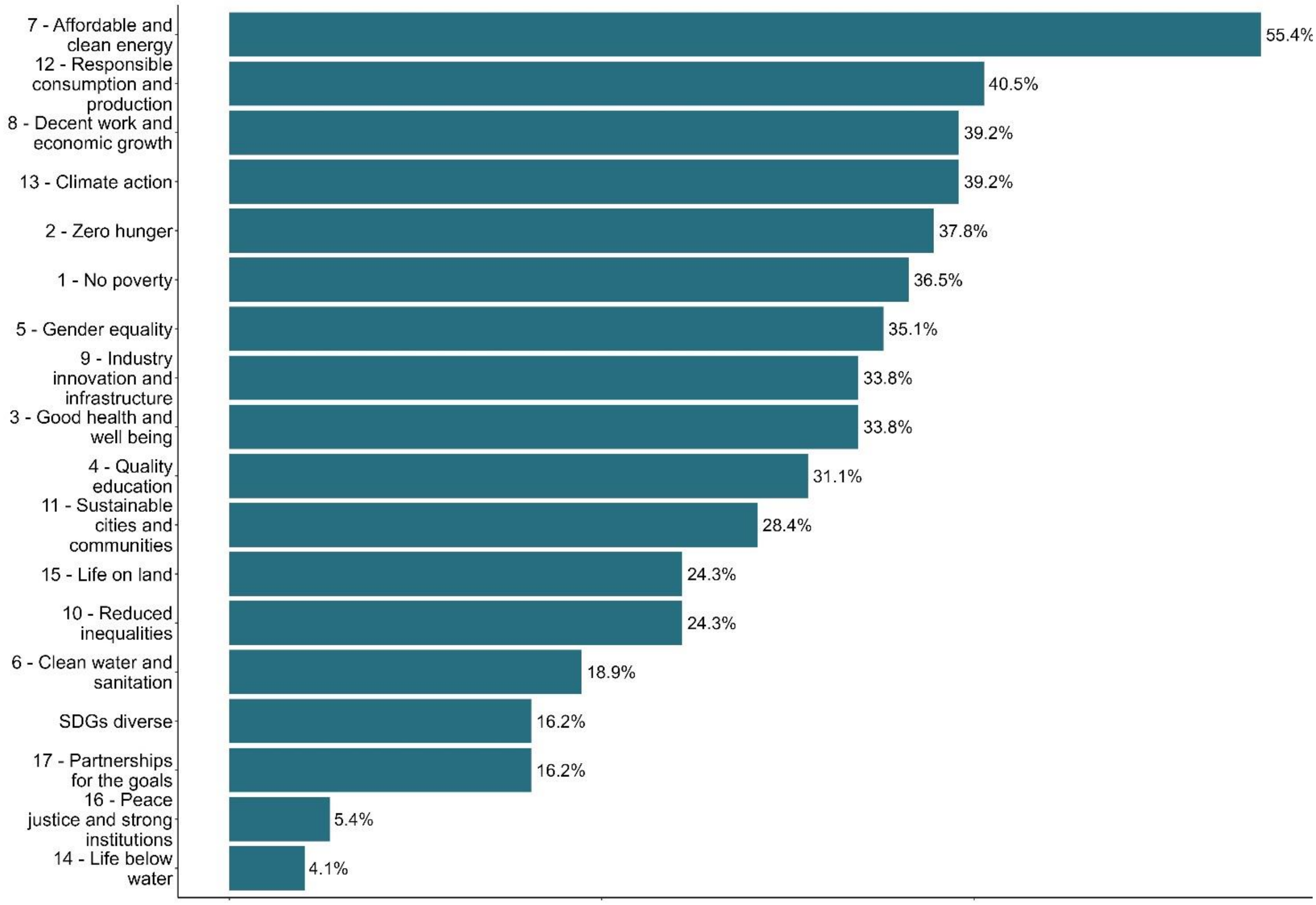
Source. 2DII (2023)

The products in our scope contribute to various SDGs

Figure 5 mirrors what has been found in the previous figure, the largest proportion of products focus on SDG 7 - Affordable and Clean Energy. Energy is not however the only focus. As it can be seen, focus on the other SDGs are closer in terms of percentages. This “reinforces” the data found in figure 4, showing that impact orientated products have a diverse range of focuses.

[26] IRENA, 2023, Global Landscape of Renewable Energy Finance 2023

Figure 5: SDG focus of products



Source. 2DII (2023)

Section 4

Best practices

The following commentary highlights best practices in each of the IPAF assessment compartments which show that it is possible to provide information and transparency about the use of the key impact mechanisms. All IPAF ratings of the financial products discussed below can be found as examples in the Annex.

A – Impact driven selection of project holders

Financial products were assessed on their selection of investees based on their capacity to achieve impact on the investees. To obtain the highest score, a product would need to provide specific impact motivated reasons for each investment in their portfolio (or at least >70%).

The section of the scoring process was organised around one question:

- *Does the product select/exclude investees based on its capacity to achieve impact through investing/excluding them?*

The Blue Orchard Microfinance fund was one of the top scoring products for this section.[27] According to the public documentation, the fund manager, assesses in advance and quantifies (if possible) the concrete positive impact potential deriving from the investment. BlueOrchard does this through its proprietary framework called *B.Impact.* The tool enables the fund to systematically assess the impact of each current and prospective investee and identify potential for improvement. The assessment is obtained through the evaluation of relevant and material ESG and impact factors across all BlueOrchard's asset classes and impact themes. The impact potential assessment combines the investment intent with impact KPIs, as well as information on the end beneficiaries. The methodology allows BlueOrchard's investment contribution to be assessed and factors potential unintended negative effects. Impact KPIs are mapped against the UN's SDGs at an individual company level and at the overall fund level.[28].

The method used by Blue Orchard enabled a good presentation of the selection process and impact potential scores on investees considered.

G – Grow new/undersupplied markets

In the IPAF methodology undersupplied markets are understood as market segments where the supply of capital lags the demand by (positive impact) project holders for a financial reason (e.g. insufficient risk-return-liquidity relations) or any other (e.g. lack of sector information or expertise by potential investors).

The section of the scoring process was organised around three questions:

- *Does the product document the funding difficulties of investees?*
- *Does the product offer innovative funding solutions?*
- *Does the product offer financial solutions tailored to investee needs?*

To obtain the highest score for each of the questions above, a product needs to disclose a substantive amount of information covering 70% of their portfolio or products offered.

The main problem was that products often failed to explain how the markets they were investing in were undersupplied/in need of finance. However, a high scoring product was the Agri-Business Capital fund which invests in agri-business agents (cooperatives, farmer organisations or SMEs) who do not have access to

[27] Find more details about the product and scoring in the Annex. Other high scoring products for this section were: Raise Impact Fund, Lendosphere, FS Impact Finance GLS Microfinance Fund and Amanda Impact Ventures.
[28] BlueOrchard, 2023, Disclosure Statement

traditional capital to grow their business.[29] All of the fund's investments go towards financing smallholder farmers in emerging markets, with investments totalling an estimated US$170 billion[30].

Besides, the fund focuses on the younger generation, which is the group that faces the most difficulties entering the labour market[31]. It catalyses blended capital and provides technical assistance to investees through a dedicated facility[32]. The financial solutions are provided to two types of entities: agri-business value chains and financial Intermediaries, offering financial solutions as debt, guarantees and equity financing[33].

In the case of SMEs and farmer organisations, the fund offers:

	Tenor	Amount range (Euros €)
Working capital facilities	Up to 24 months, typical tenor 6-12 months	200k – 400k
Term loans	3 – 5 years	400k – 800k
Sub-debt / Equity	5 – 7 years	400k – 800k

Source: ABC fund

For financial intermediaries, the fund offers the following financial instruments:

	Tenor	Amount range (Euros €)
Term loans	3 – 5 years	1M – 4M
Sub-debt / Equity	5 – 7 years	200k – 500k

Source: ABC fund

However, there is still a lack of information when it comes to the offer of innovative funding solutions tailored to investee needs.

An additional product that scored above average for this section was the Alphamundi SocialAlpha Investment Fund.[34] Alphamundi is an investment advisor dedicated to impact investing. Since 2009, they have recognised the significant funding gap between developing countries and developed countries, and that the private sector had an urgent role to play to overcome certain sustainability challenges. The SocialAlpha Fund is an impact debt fund, which was created to finance early-and growth-stage ventures that address the SDGs in Latin America and Sub-Saharan Africa across sectors including financial inclusion, sustainable food, and renewable energy, using a gender lens and with an emphasis on rural development.

The fund makes investments that seek appealing risk-adjusted returns while contributing to positive economic, social, and environmental impact[35]. Their scheme offers two solutions, the first is connecting investors to impact venture; and the second is promoting and de-risking impact investing, and channelling capital to promising ventures[36]. The fund has invested more than $50 million in 47 companies, located in developing countries. The historical average return of its investments is 2.7% per annum.[37] The investment fund has an extensive portfolio of impact ventures in undersupplied regions of the world which is why it scored the maximum on the first question of this section of the assessment.

[29] Find more details about the product and scoring in the Annex. Other high scoring products for this section were: BlueOrchard Microfinance fund, FS Impact Finance GLS Microfinance Fund and NEF savings account.
[30] Agri-Business Capital (ABC) Fund, 2020, ABC Fund
[31] World Bank database, 2023, Unemployment, Youth Total
[32] Agri-Business Capital (ABC) Fund, 2020, ABC Fund
[33] Agri-Business Capital (ABC), 2023, Ready for Funding
[34] Alphamundi, 2023, SocialAlpha Fund. Find more details about the product and scoring in the Annex.
[35] Alphamundi, 2022, Framework for Impact Measurement and Management
[36] Alphamundi, 2022, Framework for Impact Measurement and Management
[37] Alphamundi, 2023, SocialAlpha Fund Mission & History

F – Flexible capital

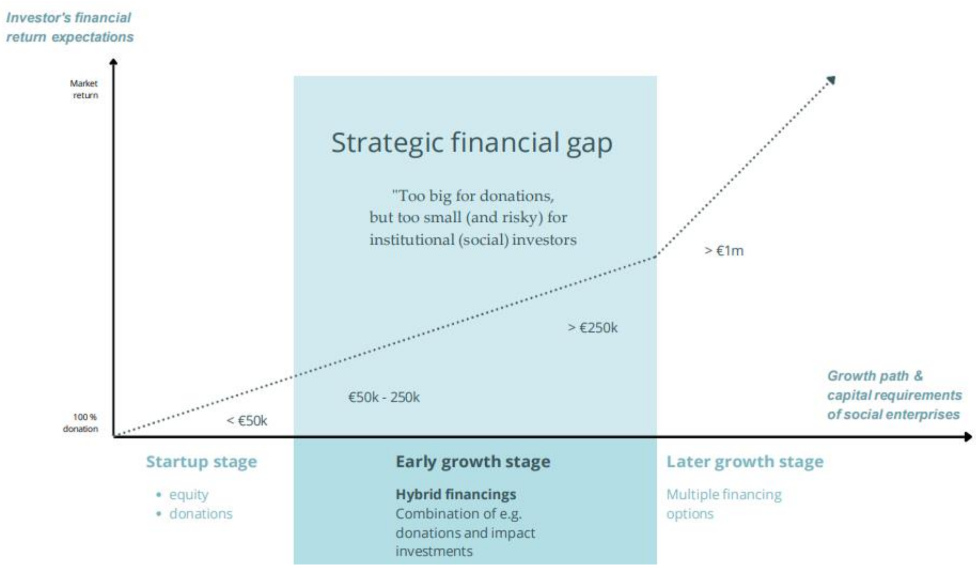
Flexible capital is understood as concessional funding. Products were reviewed based on the financing conditions they provide. The objective is to assess if more favourable conditions than market terms were offered. Only a select number of products were assessed in this section because of the lack of information on the use of flexible capital. Indeed, most self-labelled impact funds claim to achieve at least market-returns, so by nature, they were not eligible for this section.

The products that were eligible for this section, had to answer the following questions:

- *Does the product provide evidence of the specific needs of flexible capital by investees?*
- *Does the product provide evidence it offers concessional funding conditions?*
- *Does the fund insert impact-linked incentivisation schemes within its funding solutions?*

Flexible capital is the most absent section of the IPAF when it comes to assessed products. Simply put, financial products often are not reporting about it or do not offer concessional funding. Out of all the products assessed only a few documented the provision of flexible capital for their investees.[38] Financing Agency for Social Entrepreneurship (**FASE**), is one example for an impact fund with an innovative approach with focus on the provision of flexible capital. They blend repayable financing instruments for for-profit impact enterprises with donations and public grants for non-profit entities. By pooling High Net Worth Individuals, wealthy, families, family offices, business angels, venture philanthropists, foundations and even private investors they enable a full coverage of the spectrum of funding sources and return expectations - from (100%) or donation-type of returns to market rate-or investment-type of returns. In their impact report, they illustrated the relationship between investor's financial return expectation and growth path & capital requirements of social enterprises.[39]

Figure 6: Illustration of strategic financial gap



Source: FASE Impact Report

Ethex, a crowdfunding platform, was another product that advertise that their financing conditions were concessional compared to average market rates. In its documentation, Ethex states that its target interest rate is of at least 2%, whereas the market average is around 4% to 5%. Ethex is a not-for-profit organisation which was created to offer investors a "vibrant marketplace for positive investments". Investment opportunities are very diverse, however, the number of projects on Ethex platform with 2% interest is low compared to the number of projects with market average interest rates. The platform lists investment opportunities that range from grassroot

[38] Other products offering flexible capital: SLM Partners, Coop57 and Ethic Hub
[39] FASE, 2021, Impact report. Find more details about the product and scoring in the Annex.

community organisations to ethical profit-for-purpose businesses. The platform offers different types of investments according to the project. Investors have access to fixed rate bonds, withdrawable shares, ordinary shares, community shares, unsecured bonds and interestingly, for a particular project, inflation linked unsecured bonds (whit a return ranging from 2% to 7%).

IPAF compartment E = Active Engagement

Engagement is the section were the most products were assessed. Engagement is a tool that is widely used but is not always effective and therefore there is risk of *engagement washing*. Impact funds generally select companies that achieve impact for their portfolio, yet fail to show how the fund can achieve a positive impact on portfolio companies through engagement.

The objective of this section of the IPAF is to check if the product has a clear engagement objective(s) and how it follows up on the objective(s). The assessment was centred around the following four questions:

- *Does the product set clear objectives and milestones for its (shareholder or nonfinancial) engagement with investees?*
- *How significant is the capacity of the product to influence investees; decisions through active engagement?*
- *How important are the resources dedicated to active engagement by the product?*
- *Does the product have a clear escalation policy in case of unsuccessful engagement?*

To obtain the highest score for this section, products had to first show clear objectives for its investees as well as intermediate milestones. The product would also need to demonstrate that is has significant influence on at least 70% of its investees, as well as information on the internal resources dedicated to its active engagement strategy. Lastly, a product would need to clearly explain and set its escalation policy.

Executing an effective engagement strategy is a big challenge for high impact products. An example of good practice in this category is Arkea Capital, which manages the "We positive invest fund" (a private equity fund reserved for professional or qualified investors).[40] The fund supports entrepreneurs developing solutions to accelerate societal and environmental change[41]. Focusing on four thematic topics: Energy and climate transition, circular economy, human capital and well-being. In terms of engagement, the fund provides access to an ESG and impact expert to support investments in defining, monitoring, and auditing impact indicators, as well as measuring the impact of their actions, which is not yet the case for every fund. Regarding ESG, experts guide investments in their strategy and in the implementation of annual action plans.

Another product that deserves a mention is Raise Impact, a private equity fund that invests companies that are already profitable with high growth potential and who are committed to building a more sustainable future[42]. It focuses on the following sectors: energy transition, agricultural transition, circular economy and social inclusion. Regarding engagement, there are different strategies implemented to ensure a portfolio-level commitment to generating impact:

1. Commit to track consolidated impact at portfolio level in two main ways: aggregated impact KPIs and precise contributions to the SDGs[43]. Besides, the manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals[44].

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[40] Find more details about the product and scoring in the Annex. Other high scoring products for this section were: Planet A ventures, Alder and ETC Sol

[41] Arkea capital, 2023, We Positive Invest 2

[42] Raise, 2023, Raise Impact. Find more details about the product and scoring in the Annex.

[43] Raise, 2023, Impact Principles Disclosure Statement Related to Raise Impact

[44] Raise, 2023, Impact Principles Disclosure Statement Related to Raise Impact

2. Raise has a very competent ESG Impact team and committee with detailed reports, and it aims that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio[45].

IPAF compartment S = Signalling (market & non-market)

The last section of the IPAF, is organised around four questions that simultaneously assess market and non-market signalling. The assessment was centred around the following four questions:

- *How significant is the capacity of the fund to influence stakeholders (issuers or investors) by signalling its strategy?*
- *Does the fund communicate information on investees' outcomes or impact in its marketing documents to increase the visibility of investees and emulate other companies/issuers?*
- *Does the fund use media campaigns for endorsement or stigmatization of companies/issuers?*
- *How significant is the capacity of the fund to influence market terms for investees' securities or loans and, therefore, affect other transactions?*

To obtain the highest scores, products would need to communicate on over 70% of their investee impacts, are transparent regarding their tools/methodologies used, demonstrate that they could change market standards positively and provide portfolio-level evidence on their influence on market prices of investee's securities or loans (e.g. through large stake in issuances).

Across the whole of the project, there is no outstanding scores in the signalling section. Minimum scores were easy to achieve because a firm needed only to have a clear name and strategy and communicate on investee outcomes. Nonetheless for individual criteria there were several high scores which deserve to be highlighted.[46] For instance, the French investment firm Raise demonstrated its capacity to influence stakeholders by signalling its strategy. Through the clear and precise disclosure of its exclusion list, methodologies used, strategy and disclosure statement, Raise is a model to others when it comes to non-market signalling.[47] Several crowdfunding platforms do communicate on the outcomes of over 70% of their investees but this is not the case for many private market products, and even less so for sustainable bank accounts. The French platform Lendosphere which is specialised in the funding of renewable energy projects, demonstrates a good communication on the expected outcomes of its projects, as well as on past projects.[48] Another good example for the use of social media campaign for endorsement of investee companies is the retail-focused private equity firm Carbon Equity with strong media presence (>19K followers on LinkedIn) and marketing of investee companies.[49]

[45] Raise, 2023, Impact Principles Disclosure Statement Related to Raise Impact
[46] Other high scoring products for this section were: Carbon Equity, GLS Bank and Ananda Impact Ventures
[47] Raise, 2023, Impact Principles Disclosure Statement Related to Raise Impact. Find more details about the product and scoring in the Annex.
[48] Lendosphere, 2023, Projects. Find more details about the product and scoring in the Annex.
[49] Carbon Equity, 2023, LinkedIn

Section 5

Limitations

Products were not always easy to find

The research phase of the project was an important step for understanding the challenges a retail investor might face when looking for impact orientated products. There was one common theme across our research for all six countries: impact orientated products are difficult to find. For certain countries, there are lists of financial products and market overviews, but they are not comprehensive, do not focus on the theme of impact and most importantly don't distinguish between the impact potential of the self-labelled "impact products". It was quickly apparent that finding impact orientated products heavily depends on knowledge and network of the local market. Obviously, this cannot be expected from private investors which highlights the value of our assessment and final product list. The research for the pilot test revealed that many products cannot simply be found from online research with keywords. In fact, after our first results were published on MyFairMoney, even after several months of thorough research feedback from individuals allowed us to add products that we had not found in our market research.

Information gap

The main problem relates to a large information gap in relation to financial products. The IPAF functions solely thanks to publicly available information on the products. Without sufficient publicly available information, a financial product will be attributed a low IPAF score, even if it actually has a positive impact on society. Lack of information is especially a problem for private equity, venture capital and private debt products. This means it is very unclear view how, and under what conditions, investment decisions are made and how the firm want to achieve its goal: having a real-world impact. On several occasions, individuals were contacted via email or LinkedIn, with the objective to ask for more information about the product(s). These messages were very rarely answered which indicates that even if private investors try to get more information about the impact potential of these financial products, the relevant information is not provided voluntarily. This demonstrates the need for adding impact-relevant information in future disclosure frameworks and to require this information in case a financial product claims to achieve real-world impact. Because of this information gap, most of the products did not make it to the next stage of the pilot test since they reached a F rating only.

Non-transparency

Once the shortlist was established, the in-depth review of product documentation started. However, it was quickly realised, that each financial product structured its documentation differently. This meant that information was not always easily accessible, because it was structured differently. For example, many products had an impact report, but there are no harmonised formats for impact reports, making the information presented variable from product to product. Once the information is located, it was often found that within the market, there was a diverse understanding of impact measurement and reporting, which was carried out in very different ways. The main observation is that in the cases where information is available, is often spread throughout several different documents that are not always located in the same place. The products currently on offer, are not yet prepared for transparent communication as in the sense of the IPAF.

Difficulty to identify investees

To come back on the information gap for certain products when it came to publicly available information, this trend often continued when it came to the investee companies of products. This was most notable for private equity, venture capital and private debt products, whose investments in some cases were not fully disclosed, which increases the secrecy that surrounds private equity markets. On the other hand, crowdfunding products, by nature, must disclose all their investment opportunities to attract retail customers, which allows to have a better overview of the product.

Implications for impact finance

The IPAF pilot test revealed that most analysed products in our scope claim to reach or even outperform market returns and at the same time have a high sustainability impact. This mirrors the prevailing narrative in sustainable finance that maximizing financial performance and sustainability impact can go hand in hand. However, the academic literature which is discussed in the IPAF indicates that this narrative is flawed. This assumption is also backed by our IPAF pilot test. As shown in the result discussion and best practice presentation in this paper, financial products which apply most "impact success factors" identified in academic literature for the main investor impact mechanisms (i.e. growing new/undersupplied markets, provision of flexible capital, engagement and voting, non-market and market signalling) achieve the best IPAF results. The best performing financial products were those which focus on undersupplied markets with tailored and innovative funding solutions at concessional terms and at the same time support their investees with personal resources and outreach. While our IPAF pilot test is not representative for all products in each product category, our results still indicate that financial products with the highest IPAF scores (i.e. peer-to-peer lending and crowdfunding platforms) do not deliver the best financial performance (e.g. compared to VC or PE funds in our analysis).

More research on a broader scale (e.g. covering primary market funds for institutional investors) is needed about the correlation between impact potential and financial performance across financial products. Yet, we can indeed assume that if investors would maximize the potential of all impact mechanisms, then the relationship between investor impact and financial performance becomes rather negative than positive. For instance, the "provision of flexible capital" comes at financial costs if concessional capital is purposefully provided to investees or project holders in need of concessional capital or if impact-linked incentivization schemes are deployed.[50] "Growing new or undersupplied markets" requires identifying "good" investment opportunities that others have overlooked while avoiding "bad" investment opportunities that others have rightly rejected. In theory, investors might benefit from taking the risk to fund for instance undersupplied impact start-ups which nobody else wanted to finance ("sweet spots").[51] However, investors who seek to maximize their impact potential would always increase their impact by mixing different impact mechanisms. Thus, while it can be possible to achieve market-rate returns and positive sustainability impact in undersupplied markets (e.g. undetected lucrative start-ups), it is not expected that this investment will have a higher impact potential than targeted financing of the most underfunded markets at concessional terms (e.g. social enterprises, farmers in global south, reforestation projects).

Furthermore, it can be assumed that maximizing the investor impact potential of "market signalling" and "engagement and voting" also comes at a certain cost. On the one hand, differences in demand are reflected much more intensely in asset prices in inelastic than in elastic financial markets.[52] Therefore to maximise the price signalling effect of each additional EUR invested, an investor would need to focus on small market segments with very inelastic price curves even at the expense of higher risks due to limited diversification. On the other hand, maximizing the impact potential of investor engagement and voting requires investing as much resources as possible into engagement and coordination to push companies to set maximal ambitious targets even at the expense of financial performance.[53] To be clear, this does not imply that it is not possible to achieve impact and good financial performance at the same time, for instance, by influencing the share prices on markets with elastic price curves, yet, by definition, the impact of each additional EUR invested would be relatively smaller. The same can be considered for "non-financial support"[54] or "non-market signalling".[55] If investors want to maximize their influence by signalling their investment strategy (e.g. divestment criteria) or by endorsing or stigmatizing companies/issuers through social and traditional media campaigns, then maximizing these actions would logically lead to prohibitive costs.

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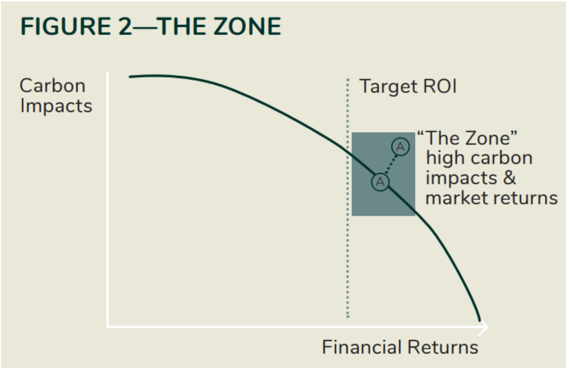
[50] See 2DII, 2023, Discussion paper series on investor impact mechanisms: Mechanism #2: provide flexible capital
[51] See 2DII, 2023, Discussion paper series on investor impact mechanisms: Mechanism #1: grow new/undersupplied markets
[52] See 2DII, 2023, Discussion paper series on investor impact mechanisms: Mechanism #5: send market signals
[53] See 2DII, 2023, Discussion paper series on investor impact mechanisms: Mechanism #3: engage and vote
[54] See 2DII, 2023, Discussion paper series on investor impact mechanisms: Mechanism #4: non-financial support
[55] See 2DII, 2023, Discussion paper series on investor impact mechanisms: Mechanism #6: send non-market signals

In contrast to claims of most impact investing products, investor impact does not come at no costs and the relationship between investor impact and financial performance is rather negative than positive.

In fact, in our market review some product providers clearly emphasise their goal to maximize investor impact with concessional capital by screening sustainable enterprises or projects in need of investments with higher risk, lower return or higher illiquidity constraints. For instance, the VC/PE investment platform Energy Impact Partners discusses their impact potential in the context of the "Efficient Impact Frontier", a concept introduced by the impact investor company Root Capital. Impact-oriented investors could be located on any point of the "Efficient Impact Frontier" where impact is >0. Nevertheless, the graph illustrates that investors who seek to increase their impact should be ready to sacrifice returns. For instance, to achieve the right balance between impact and return, some investment firms in our analysis decided to use a "core and satellite" strategy by mixing impact investment with high return expectations but lower additionality with investments in social businesses with low return expectations but higher additionality.

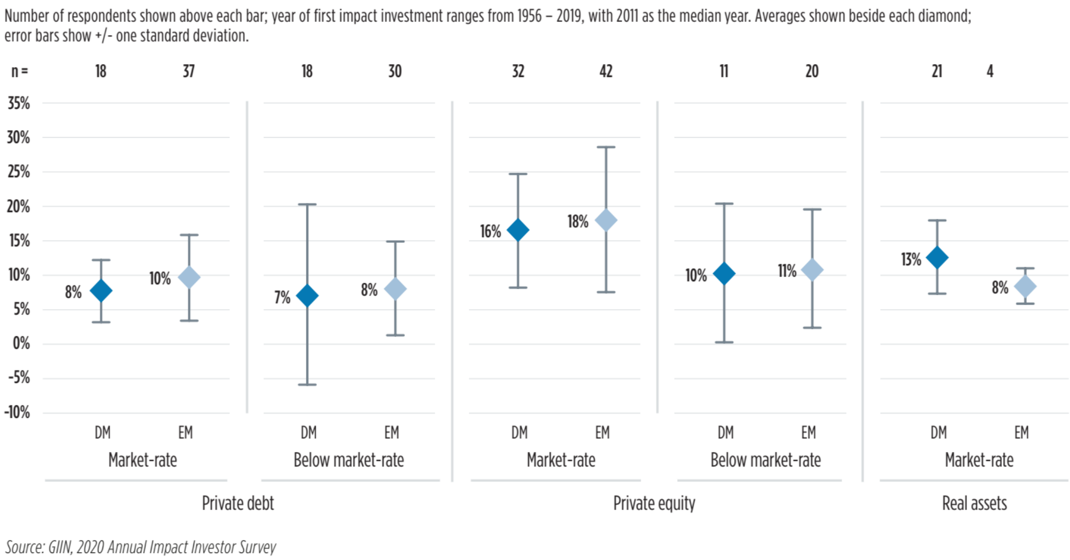


Energy Impact Partners, 2022, Know your impact

Impact-oriented investors who want to maximize the impact potential of their investment should ask themselves how they can most efficiently trade off financial performance with impact under their specific financial constraints.

Obviously, preferences on the ratio between impact and financial performance can vary among impact-oriented investors. For instance, in its 2020 Annual Impact Investor Survey, the Global Impact Investing Network (GIIN) asked 233 impact investors about their return objectives and their achieved returns. A third of them targeted below-market returns with a higher proportion in private debt than in private equity (see below).[56] In the same vein, Mudaliar and Dithrich (2019) observed in their analysis that two thirds of professional impact investors target market returns. The remaining third is split between those targeting near-market-rate financial returns (19%) and those content with financial returns sufficient to ensure no loss of capital (15%).[57]

Figure 7: Average realized gross returns since inception for impact funds (private markets)



[56] GIIN, 2020, 2020 Annual Impact Investor Survey
[57] Mudaliar/Dithrich, 2019, Sizing the Impact Investing Market

Interestingly, the share of non-professional investors who have a significant willingness-to-pay (WTP) for impact seems much higher.[58] For instance, Heeb et al. (2022) ran two experiments on the WTP for impact with a panel of 527 experienced impact-oriented private investors as well as 125 dedicated high-net-worth impact investors. The average WTP for an investment option with impact (presented in terms of CO2 t saved) among private investors was €45.67 for a €1000 investment (see below). The average WTP of the dedicated high-net-worth impact investors for the impact option was only slightly higher at €49.01 for a €1000 investment.[59]

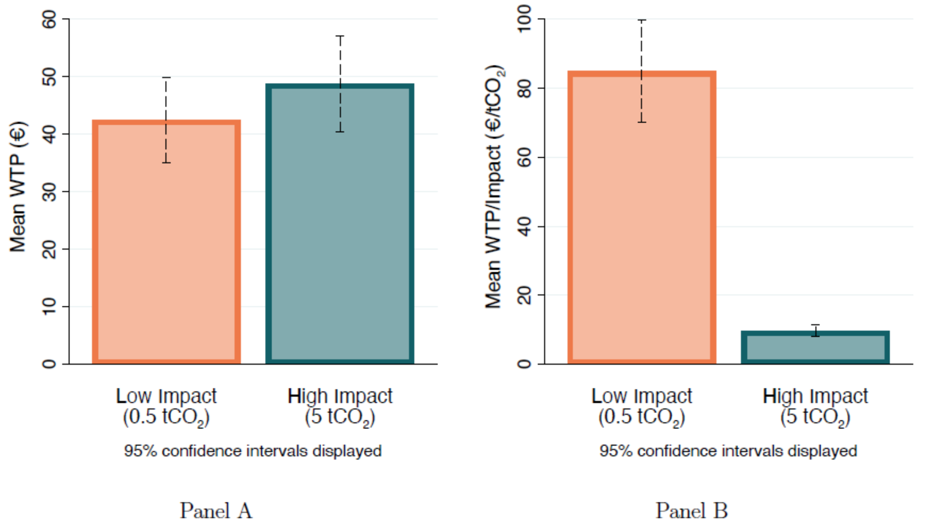


Figure 3. Response of private investors' WTP to the impact of sustainable investments. This figure shows the results of our main experiment, which investigates how private investors' WTP for sustainable investments responds to the impact of these investments. Panel A: mean absolute WTP for the sustainable investment, by impact treatment. Panel B: mean relative WTP for the sustainable investment, per ton of CO_2 saved, by impact treatment.

Another key finding of Heeb et al. (2022) was that while they observed a significant WTP of private impact-oriented investors for impact, their WTP was in average not sensitive to the magnitude of that impact. Thus, the WTP only changes marginally if they save 5 t compared to 0.5 t CO which indicates that most investors have a limit for their WTP for impact which doesn't change even if the impact increases. However, if presented with two investment options with different levels of impact where the fees are the same, the study's findings suggest that investors would choose the one offering more impact. Moreover, in their first study Heeb et al. (2021) showed that if more investment options with varying impact are presented, the range of impact (i.e., how much impact the most and least impactful investments have) strongly influences investors' WTP per unit of impact. This suggests that investors' assessment of an investment's impact is entirely relative, based on other options they have at their disposal. Finally, it implies that the willingness to pay is heavily influenced by the specific set of choices presented to impact-oriented investors.[60]

Impact-oriented investors are ready to pay for real world impact, however, their willingness to pay can be easily exploited without a set of investment options and distinction between the actual impact potential of financial products.

In fact, market reviews conducted by University Hamburg and 2DII showed both that misleading impact claims are no exception but broadly used by some industry participants.[61] In our analysis, 27% of all in scope "green"

[58] See for instance Bauer et al., 2021, Get Real! Individuals Prefer More Sustainable Investments, showing in an experiment that most pension fund beneficiaries preferred to allocate their pension money towards promoting sustainability, even the majority of those who expected a reduction in financial returns.
[59] Heeb et al., 2022, Do Investors Care About Impact?
[60] Heeb et al., 2021, Do Investors Care about Impact?
[61] See Scheitza/Busch/Metzler, 2022, The Impact of Impact Funds – A global analysis of Funds with impact-claim and 2DII, 2023, Market review of environmental impact claims of retail investment funds in Europe

funds were associated with environmental impact claims, while no fund with an environmental impact claim could sufficiently substantiate its claim according to the updated EU Unfair Commercial Practice Directive (UCPD) Guidance. Furthermore, mystery shopping visits conducted by 2DII in 9 EU countries revealed that only 6% of the tested advisers were knowledgeable and transparent about the impact potential of their recommended products.[62] These results suggests that the willingness to pay for impact of impact-oriented investors is likely exploited under current marketing and distribution practices. Hence, these findings show that the current regulatory framework is not fit for purpose to effectively protect consumers from impact washing and prevent misallocation of private capital towards financial products with low-impact potential.

Future disclosure frameworks need to capture information relevant for "investor impact" to allow market participants to assess the impact potential of financial products. The set of indicators provided in the IPAF could be used as starting point.

Against this backdrop, the IPAF can be used to help impact-oriented investors identify financial products with high impact potential and to compare the impact potential between investment options, which might help to optimize the impact/cost ratio of an portfolio and to address impact washing. Yet, as presented in section 4 we faced various limitations for a smooth application of the IPAF. These limitations included a lack of public product databases or ratings which would allow to easily identify financial products which claim to generate real world impact and a lack of quantity and structure of impact related disclosure. In fact, disclosure frameworks such as SFDR or IRIS+ focus on company impact while they are failing to request sufficient information to assess the potential investor impact. Therefore, we call to integrate the concept of investor impact in financial product disclosure frameworks and to provide frameworks which captures and structures the relevant information to allow market participants to assess the impact potential of financial products in a more efficient way. More research is needed about new quantitative datapoints which could be used as proxies to measure the impact potential of financial products. For instance, to assess to which extent a financial product helps growing undersupplied markets or provides flexible capital, we need to explain to which extent the investee had difficulties to get funding or to which extent concessional financial solutions were applied. Furthermore, to better understand the impact potential of price signalling, more research is needed to define new indicators to access the effect of investments on share prices such as market size or price elasticities of stocks.

[62] See 2DII, 2023, Moving the blockers of retail sustainable finance or 2DII, 2023, Assessing client sustainability preferences…lost in the maze?

Section 7

Conclusions and next steps

The IPAF pilot test revealed that in the scope of our analysis (i.e. primary market funds, crowdfunding and saving accounts available for retail and qualified investors in Germany, France, Switzerland, Spain, Sweden or Ireland), the offering of financial products with relative high impact potential is currently low, yet existent (74 financial products with an IPAF rating with E or higher). However, the main objective of this excersise was to test the IPAF and it's applicability. This report demonstrates that the IPAF can be used to qualitatively distinguish, based on scientific evidences, the impact potential of different financial product within and across product categories. This feauture makes the IPAF an unique and valuable open source tool to assess the impact potential or "additionality" of financial products which can be used by private investors, product manufactures and distributors, standard setters or supervisory authorities.[63]

Another key benefit of our analysis was to collect best practices of financial products which claim to generate real world impact. For each impact mechanism (i.e. growing new/undersupplied markets, provision of flexible capital, engagement, non-market and market signalling), we identified innovative strategies and approaches to achieve impact on investees or projects. For instance, some private debt or equity funds with focus on emerging markets have developed sophisticated methodologies to select investees based on their capcaticy to have impact on them.[64] In the crowdfunding space, we came across interesting funding solutions and technologies to help undersupplied start-ups or projects grow, e.g. digital shares and asset-backed bonds based on blockchain technology, convertible loans, unsecured bonds or communitiy shares.[65] Other examples showed how concessional capital is intentionally provided through blended capital. This can include a combination of repayable financing instruments for for-profit impact enterprises with donations and public funding (e.g. from the European Investment Fund) for non/low-profit social enterprises.[66] In terms of non-financial support and non-market signalling, some VC/PE funds showed also good practices such as anchoring impact KPIs into each portfolio company's governance, inhouse platforms to connect business angles with start-ups or publishing comprehensive impact potential analyses of their investees (e.g. based on product Life Cycle Assessments).[67]

The IPAF pilot test also showed that most analysed products in our scope claim to reach market returns or even outperformance and at the same time high sustainability impact. This finding mirrors the prevailing narrative in sustainable finance that maximizing performance and sustainability impact can go hand in hand. However, the academic literature which is discussed in the IPAF indicates that this narrative is likely flawed, which would also be backed by the non-representative sample of our IPAF pilot test. We argue in this paper that maximizing investor impact does not come at no costs and the relationship between investor impact and financial performance is rather negative than positive. Hence, impact-oriented investors should try to maximize the impact potential of their investment on their individual "Efficient Impact Frontier" by balancing financial performance and impact under their specific financial constraints. In fact, as several studies indicate a large share of non-professional, impact-oriented investors are willing to pay for real world impact (and to a smaller extend professional, impact-oriented investors as well). Yet, their willingness to pay can be easily exploited without a set of investment options and distinction between the actual impact potential among these options. Indeed, current product supply and distribution practices suggest that the willingness to pay for impact is likely exploited by market participants by distributing financial products with unsubstantiated impact claims or without comparing the impact potential between investment options.[68] The IPAF could be used to help impact-oriented investors to

[63] Note that existing impact disclosure frameworks, including GIIN IRIS+ with a special focus on impact investing, are focusing on "impact alignment"/"company impact" and are therefore failing to deliver relevant information for assessing the degree of "impact generation"/"investor impact".
[64] Agri-Business Capital (ABC) Fund, 2020, ABC Fund
[65] See e.g. WIWIN, Frigg, Ethex, One Planet Crowd
[66] See e.g. Fase, 2021, Impact report or Alphamundi, 2022, Framework for Impact Measurement and Management
[67] See e.g. Planet A, Raise, Adler, Energy Impact Partners
[68] See 2DII, 2023, Moving the blockers of retail sustainable finance and Scheitza/Busch/Metzler, 2022, The Impact of Impact Funds – A global analysis of Funds with impact-claim and 2DII, 2023, Market review of environmental impact claims of retail investment funds in Europe

identify financial products with high impact potential and to compare the impact potential between investment options, which might help to optimize the impact/cost ratio of a portfolio and to address impact washing.

Our pilot-test also demonstrated that the IPAF could be applied to assess the impact potential of a much larger amount of self-labelled “impact products” which are available for professional investors, such as private equity/debt funds or infrastructure funds. For instance, the IPAF product scores could be used to maximize the impact potential of a pension fund portolio by reallocating existing primary market investments (e.g. PE and infrastructure funds) towards options with the highest impact potential while respecting the financial constraints of the investment mandate. Yet, before an extension of the IPAF application to a larger product universe, 2DII plans to work on a revision of the framework based on our learnings and a series of expert discussions. This revision will address questions about impact succsess factors, assessment criteria/questions, scoring thresholds and potential weights as well as the “minimum requirements” for financial products to be suitable for impact-oriented investors.

However, our analysis also revealed some structural limitations including a lack of public impact data bases or ratings which would allow to easily identify financial products which claim to generate real world impact and a lack of relevant and structured impact related disclosures. Therefore, we recommend to integrate the concept of investor impact in financial product disclosure frameworks and to provide frameworks which captures and structures the relevant information to allow market participants to assess the impact potential of financial products in a more efficient way. More research is needed about new qualitative and quantitative datapoints which could be used as proxies to measure the impact potential of financial products. The IPAF could be a first step in this direction.

Annex: IPAF rating examples

BlueOrchard Microfinance Fund (BOMF): IPAF Score: 2,07; IPAF Rating: D

Country availability: Germany, Switzerland

Type of investor: Qualified investor

A1- Does the fund select/exclude investees based on its capacity to achieve impact through investing/excluding them?	G	G1- Does the fund document funding difficulties of investees?	G2- Does the fund offer innovative financial solutions?	G3- Does the fund offer financial solutions tailored to investees' needs?
Yes, the fund provides evidence on how its capacity to achieve impact was taken into account for each investment (for at least 70% of AuM) - 3		Yes, the fund provides portfolio-level evidence that a large majority (> 70% of AuM) of investees had difficulties to get funding - 3	No - 0	No - 0

F	F1- Does the fund provide evidence of specific needs of flexible capital by investees?	F2- Does the fund provide evidence it offers concessional funding conditions (rate, risk transfer, duration, etc.) ?	F3- Does the fund insert impact-linked incentivization schemes within its funding solutions?

E	E1- Does the fund set clear objectives and milestones for its (shareholder or nonfinancial) engagement with investees ?	E2- How significant is the capacity of the fund to influence investees' decisions through active engagement?	E3- How important are the resources dedicated to active engagement by the fund?	E4 - Does the fund have a clear escalation policy in case of unsuccessful engagement?
	Yes, the fund claims to set objectives and milestones for its engagement/non-financial support actions with investees - 1	The fund provides anecdotal evidence of its particular capacity to fruitfully engage with some of its investees through board seats, voting rights or participation to coalitions - 1	The fund mentions that it devotes internal resources (human and/or financial) for its (shareholder and non-financial) engagement activities with investees - 1	Yes, the fund claims to have a clear escalation policy - 1

S	S1- How significant is the capacity of the fund to influence stakeholders (issuers or investors) by signalling its strategy?	S2- Does the fund communicate information on investees' outcomes or impact in its marketing documents to increase the visibility of investees and emulate other companies/issuers?	S3- Does the fund use media campaigns for endorsement or stigmatization of companies/issuers?	S4 - How significant is the capacity of the fund to influence market terms for investees'securities or loans and, therefore, affect other transactions
	The fund provides anecdotal evidence of its capacity to influence issuers or investors by signalling its strategy (e.g., through a clear name) - 1	Yes, the fund communicates anecdotal information on investees' outcomes - 1	No - 0	The fund provides anecdotal evidence of its capacity to influence market terms for investees' securities or loans (e.g., through large stakes in issuances) - 1

Agric-Business Capital Fund: IPAF Score 1,69; IPAF Rating E

Country availability: Global

Type of investor: Qualified investor

A1- Does the fund select/exclude investees based on its capacity to achieve impact through investing/excluding them?	G	G1- Does the fund document funding difficulties of investees?	G2- Does the fund offer innovative financial solutions?	G3- Does the fund offer financial solutions tailored to investees' needs?
Yes, the fund documents a general selection process incorporating the capacity to achieve impact - 1		Yes, the fund provides portfolio-level evidence that a large majority (> 70% of AuM) of investees had difficulties to get funding - 3	Yes, the fund provides anecdotal evidence of using non-traditional financing tools (longer maturity, with project risk transfer, etc.) - 1	Yes, the fund provides anecdotal evidence of using tailored financing tools to match investees' needs - 1

F	F1- Does the fund provide evidence of specific needs of flexible capital by investees?	F2- Does the fund provide evidence it offers concessional funding conditions (rate, risk transfer, duration, etc.) ?	F3- Does the fund insert impact-linked incentivization schemes within its funding solutions?

E	E1- Does the fund set clear objectives and milestones for its (shareholder or nonfinancial) engagement with investees ?	E2- How significant is the capacity of the fund to influence investees' decisions through active engagement?	E3- How important are the resources dedicated to active engagement by the fund?	E4 - Does the fund have a clear escalation policy in case of unsuccessful engagement?
	Yes, the fund claims to set objectives and milestones for its engagement/non-financial support actions with investees - 1	No - 0	The fund mentions that it devotes internal resources (human and/or financial) for its (shareholder and non-financial) engagement activities with investees - 1	No - 0

S	S1- How significant is the capacity of the fund to influence stakeholders (issuers or investors) by signalling its strategy?	S2- Does the fund communicate information on investees' outcomes or impact in its marketing documents to increase the visibility of investees and emulate other companies/issuers?	S3- Does the fund use media campaigns for endorsement or stigmatization of companies/issuers?	S4 - How significant is the capacity of the fund to influence market terms for investees'securities or loans and, therefore, affect other transactions
	The fund provides anecdotal evidence of its capacity to influence issuers or investors by signalling its strategy (e.g., through a clear name) - 1	Yes, the fund communicates anecdotal information on investees' outcomes - 1	Yes, the fund provides anecdotal evidence of its use of media to signal endorsement or stigmatization of companies/issuers - 1	The fund provides anecdotal evidence of its capacity to influence market terms for investees' securities or loans (e.g., through large stakes in issuances) - 1

Alphamundi SocialAlpha Investment Fund: IPAF Score 1,44b; IPAF Rating E

Country availability: Switzerland

Type of investor: Qualified investor

A1- Does the fund select/exclude investees based on its capacity to achieve impact through investing/excluding them?	G	G1- Does the fund document funding difficulties of investees?	G2- Does the fund offer innovative financial solutions?	G3- Does the fund offer financial solutions tailored to investees' needs?
Yes, the fund documents a general selection process incorporating the capacity to achieve impact - 1		Yes, the fund provides portfolio-level evidence that a large majority (> 70% of AuM) of investees had difficulties to get funding - 3	No - 0	Yes, the fund provides anecdotal evidence of using tailored financing tools to match investees' needs - 1

F	F1- Does the fund provide evidence of specific needs of flexible capital by investees?	F2- Does the fund provide evidence it offers concessional funding conditions (rate, risk transfer, duration, etc.) ?	F3- Does the fund insert impact-linked incentivization schemes within its funding solutions?

E	E1- Does the fund set clear objectives and milestones for its (shareholder or nonfinancial) engagement with investees ?	E2- How significant is the capacity of the fund to influence investees' decisions through active engagement?	E3- How important are the resources dedicated to active engagement by the fund?	E4 - Does the fund have a clear escalation policy in case of unsuccessful engagement?
	Yes, the fund claims to set objectives and milestones for its engagement/non-financial support actions with investees - 1	No - 0	The fund mentions that it devotes internal resources (human and/or financial) for its (shareholder and non-financial) engagement activities with investees - 1	No - 0

S	S1- How significant is the capacity of the fund to influence stakeholders (issuers or investors) by signalling its strategy?	S2- Does the fund communicate information on investees' outcomes or impact in its marketing documents to increase the visibility of investees and emulate other companies/issuers?	S3- Does the fund use media campaigns for endorsement or stigmatization of companies/issuers?	S4 - How significant is the capacity of the fund to influence market terms for investees'securities or loans and, therefore, affect other transactions
	The fund provides anecdotal evidence of its capacity to influence issuers or investors by signalling its strategy (e.g., through a clear name) - 1	No - 0	Yes, the fund provides anecdotal evidence of its use of media to signal endorsement or stigmatization of companies/issuers - 1	The fund provides anecdotal evidence of its capacity to influence market terms for investees' securities or loans (e.g., through large stakes in issuances) - 1

Ethex: IPAF score 3,19; IPAF Rating C

Country availability: UK, Switzerland

Type of investor: Qualified investor, Retail Investors

A1- Does the platform select projects based on the capacity to achieve impact through them?	G	G1- Does the platform document funding difficulties of project holders?	G2- Does the platform offer innovative financial solutions?	G3- Does the platform offer financial solutions tailored to project holders' needs?
Yes, the platform documents a general selection process incorporating the capacity to achieve impact - 1		Yes, the platform provides general or anecdotal evidence of a difficulty to get funding by (some of) its project holders - 1	Yes, the platform provides portfolio-level evidence that a large majority (> 70% of AuM) of project holders benefit from non-traditional financing tools - 3	Yes, the platform provides portfolio-level evidence that a large majority (> 70% of AuM) of project holders benefit from tailored financing tools - 3

F	F1- Does the platform provide evidence of specific needs of flexible capital by project holders?	F2- Does the platform provide evidence it offers concessional funding conditions (rate, risk transfer, duration, etc.) ?	F3- Does the platform insert impact-linked incentivization schemes within its funding solutions?
	Yes, the platform provides general or anecdotal evidence of a need for flexible capital by (some of) its project holders - 1	Yes, the platform provides portfolio-level evidence that a large majority (> 70% of AuM) of project holders benefit from concessional funding solutions - 3	No - 0

E	E1- Does the platform propose recommended objectives and milestones to be scrutinized by funders?	E2- How significant is the capacity of the funders to influence project holders' decisions?	E3- How important are the resources dedicated to active engagement by the platform?	E4 - Does the platform propose a clear escalation policy in case of unsuccessful engagement by the funders (e.g., including stigmatization, exclusion)?

S	S1- How significant is the capacity of the platform to influence stakeholders (project holders or other platforms) by signalling its strategy?	S2- Does the platform communicate information on project holders' outcomes or impact in its marketing documents to increase the visibility of project holders and emulate other companies/issuers?	S3- Does the platform use media campaigns for endorsement or stigmatization of project holders?	S4 - How significant is the capacity of the platform to influence market terms for project holders'securities or loans and, therefore, affect other transactions?
	The platform provides anecdotal evidence of its capacity to influence stakeholders (project holders or other platforms) by signalling its strategy (e.g., through a clear name or a pioneering approach) - 1	Yes, the platform communicate information on project holders' outcomes for a large majority of its portfolio (> 70% of AuM) - 2	Yes, the platform provides anecdotal evidence of its use of media to signal endorsement or stigmatization of project holders - 1	The platform provides anecdotal evidence of its capacity to influence funding conditions for project holders - 1

Arkea Capital WePositiveInvest2: IPAF Score 1,64; IPAF Rating E

Country availability: France

Type of investor: Qualified investor

A1- Does the fund select/exclude investees based on its capacity to achieve impact through investing/excluding them?	G	G1- Does the fund document funding difficulties of investees?	G2- Does the fund offer innovative financial solutions?	G3- Does the fund offer financial solutions tailored to investees' needs?
Yes, the fund provides details (e.g., decision rule, weightings of criteria) of a selection process incorporating the capacity to achieve impact - 2		Yes, the fund provides general or anecdotal evidence of a difficulty to get funding by (some of) its investees - 1	No - 0	No - 0

F	F1- Does the fund provide evidence of specific needs of flexible capital by investees?	F2- Does the fund provide evidence it offers concessional funding conditions (rate, risk transfer, duration, etc.) ?	F3- Does the fund insert impact-linked incentivization schemes within its funding solutions?

E	E1- Does the fund set clear objectives and milestones for its (shareholder or nonfinancial) engagement with investees ?	E2- How significant is the capacity of the fund to influence investees' decisions through active engagement?	E3- How important are the resources dedicated to active engagement by the fund?	E4 - Does the fund have a clear escalation policy in case of unsuccessful engagement?
	Yes, the fund reports aggregate objectives and milestones of its engagements/non-financial supports at portfolio level - 2	The fund provides anecdotal evidence of its particular capacity to fruitfully engage with some of its investees through board seats, voting rights or participation to coalitions - 1	The fund provides details of the internal resources (human and/or financial) that it uses for its (shareholder and non-financial) engagement activities with investees - 2	No - 0

S	S1- How significant is the capacity of the fund to influence stakeholders (issuers or investors) by signalling its strategy?	S2- Does the fund communicate information on investees' outcomes or impact in its marketing documents to increase the visibility of investees and emulate other companies/issuers?	S3- Does the fund use media campaigns for endorsement or stigmatization of companies/issuers?	S4 - How significant is the capacity of the fund to influence market terms for investees'securities or loans and, therefore, affect other transactions?
	The fund provides anecdotal evidence of its capacity to influence issuers or investors by signalling its strategy (e.g., through a clear name) - 1	Yes, the fund communicate information on investees' outcomes for a large majority of its portfolio (> 70% of AuM) - 2	No - 0	The fund provides anecdotal evidence of its capacity to influence market terms for investees' securities or loans (e.g., through large stakes in issuances) - 1

Raise IMPACT fund: IPAF Score 2,04; IPAF Rating D

Country availability: France, Germany, UK

Type of investor: Qualified investor

A1- Does the fund select/exclude investees based on its capacity to achieve impact through investing/excluding them?	G	G1- Does the fund document funding difficulties of investees?	G2- Does the fund offer innovative financial solutions?	G3- Does the fund offer financial solutions tailored to investees' needs?
Yes, the fund provides details (e.g., decision rule, weightings of criteria) of a selection process incorporating the capacity to achieve impact - 2		Yes, the fund provides general or anecdotal evidence of a difficulty to get funding by (some of) its investees - 1	No - 0	No - 0

F	F1- Does the fund provide evidence of specific needs of flexible capital by investees?	F2- Does the fund provide evidence it offers concessional funding conditions (rate, risk transfer, duration, etc.) ?	F3- Does the fund insert impact-linked incentivization schemes within its funding solutions?

E	E1- Does the fund set clear objectives and milestones for its (shareholder or nonfinancial) engagement with investees ?	E2- How significant is the capacity of the fund to influence investees' decisions through active engagement?	E3- How important are the resources dedicated to active engagement by the fund?	E4 - Does the fund have a clear escalation policy in case of unsuccessful engagement?
	Yes, the fund reports aggregate objectives and milestones of its engagements/non-financial supports at portfolio level - 2	The fund provides anecdotal evidence of its particular capacity to fruitfully engage with some of its investees through board seats, voting rights or participation to coalitions - 1	The fund provides details of the internal resources (human and/or financial) that it uses for its (shareholder and non-financial) engagement activities with investees - 2	Yes, the fund claims to have a clear escalation policy - 1

S	S1- How significant is the capacity of the fund to influence stakeholders (issuers or investors) by signalling its strategy?	S2- Does the fund communicate information on investees' outcomes or impact in its marketing documents to increase the visibility of investees and emulate other companies/issuers?	S3- Does the fund use media campaigns for endorsement or stigmatization of companies/issuers?	S4 - How significant is the capacity of the fund to influence market terms for investees'securities or loans and, therefore, affect other transactions?
	The fund provides detailed evidence of its influence over issuers or investors by setting standards widely accepted (e.g., a popular screening model) -3	Yes, the fund communicate information on investees' impact (i.e., in comparison with a baseline) for a large majority of its portfolio (> 70% of AuM) - 3	Yes, the fund provides anecdotal evidence of its use of media to signal endorsement or stigmatization of companies/issuers - 1	The fund provides anecdotal evidence of its capacity to influence market terms for investees' securities or loans (e.g., through large stakes in issuances) - 1

Lendosphere: IPAF Score 1,53; IPAF Rating E

Country availability: France

Type of investor: Qualified investor, Retail Investor

A1- Does the platform select projects based on the capacity to achieve impact through them?	G	G1- Does the platform document funding difficulties of project holders?	G2- Does the platform offer innovative financial solutions?	G3- Does the platform offer financial solutions tailored to project holders' needs?
Yes, the platform provides details (e.g., decision rule, weightings of criteria) of a selection process incorporating the capacity to achieve impact - 2		Yes, the platform provides general or anecdotal evidence of a difficulty to get funding by (some of) its project holders - 1	No - 0	Yes, the platform provides anecdotal evidence of using tailored financing tools to match project holders' needs - 1

F	F1- Does the platform provide evidence of specific needs of flexible capital by project holders?	F2- Does the platform provide evidence it offers concessional funding conditions (rate, risk transfer, duration, etc.) ?	F3- Does the platform insert impact-linked incentivization schemes within its funding solutions?

E	E1- Does the platform propose recommended objectives and milestones to be scrutinized by funders?	E2- How significant is the capacity of the funders to influence project holders' decisions?	E3- How important are the resources dedicated to active engagement by the platform?	E4 - Does the platform propose a clear escalation policy in case of unsuccessful engagement by the funders (e.g., including stigmatization, exclusion)?

S	S1- How significant is the capacity of the platform to influence stakeholders (project holders or other platforms) by signalling its strategy?	S2- Does the platform communicate information on project holders' outcomes or impact in its marketing documents to increase the visibility of project holders and emulate other companies/issuers?	S3- Does the platform use media campaigns for endorsement or stigmatization of project holders?	S4 - How significant is the capacity of the platform to influence market terms for project holders'securities or loans and, therefore, affect other transactions?
	The platform provides anecdotal evidence of its capacity to influence stakeholders (project holders or other platforms) by signalling its strategy (e.g., through a clear name or a pioneering approach) - 1	Yes, the platform communicate information on project holders' outcomes for a large majority of its portfolio (> 70% of AuM) - 2	Yes, the platform provides anecdotal evidence of its use of media to signal endorsement or stigmatization of project holders - 1	The platform provides anecdotal evidence of its capacity to influence funding conditions for project holders - 1