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Impact Investing and Sustainable Development

Executive Summary

Impact investing has become a popular approach within the international financial system, aimed at 'mobilising' private capital to achieve the United Nations' Sustainable Development Goals (SDGs). This strategy aims to fill the significant 'financing gap' that public finance cannot fill, particularly in developing countries, due to their limited ability to mobilize domestic resources and the reluctance of donor countries to increase their official development assistance.

The concept of impact investing, which promises financial returns while simultaneously achieving social and environmental objectives, has gained in popularity, particularly in Switzerland. As impact investing is often presented as a panacea for tackling major development challenges, Alliance Sud's analytical paper takes a critical look at its effectiveness, its limitations, and the extent to which it can really contribute to sustainable development.

The document begins by examining the scope of sustainable investment before focusing on impact investment, pointing out the lack of a regulatory framework and analyzing the risk of impact-washing arising from the existing vague definitions and the wide range of impact assessment approaches and reporting tools. The paper also recalls the evolution of private development finance, from microcredit to impact and "SDG finance", and the substantial financial support that government agencies (seco and SDC) have provided to date to a wide range of impact investment and blended finance initiatives.

The paper then presents the global universe of impact investing, recalling that the vast majority of impact funds are currently allocated to developed markets, before focusing on the role and specificity of private asset impact funds, which invest mainly in companies and projects in developing countries. It also contains a specific analysis of the Swiss impact investment market, noting the concentration of players, its niche nature and – given the real or perceived risks for investors – its limited impact to date in the poorest countries and in priority sectors in terms of sustainable development and access to essential goods and services for disadvantaged populations.

The document concludes with a list of recommendations addressed to regulators, donors, philanthropic organizations and private foundations, as well as NGOs, with the aim of increasing the relevance of impact investment as an effective contribution to sustainable development.

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Abbreviations

AAAA – Addis Ababa Action Agenda

BAWI – Federal Office for Foreign Economic Affairs (now SECO)

OECD/DAC – Organisation for Economic Cooperation
and Development, Development Assistance Committee

Eurosif – European Sustainable Investment Forum

ESG – Environmental, Social and Governance

DFI – Development Finance Institutions

GIIN – Global Impact Investing Network

GNI – Gross National Income

GSIA – Global Sustainable Investment Alliance

NGO – Non-Governmental Organization

ODA – Official Development Assistance

PAIF- Private Asset Impact Funds

PIDG – Private Infrastructure Development Group

SDC – Swiss Agency for Cooperation and Development

SDGs – Sustainable Development Goals

SECO – Swiss State Secretariat for Economic Affairs

SFDR – Sustainable Finance Disclosure Regulation

SI – Sustainable Investment

SIF – State Secretariat for International Finance

SIFEM – Swiss Investment Fund for Emerging Market

SIFI – Swiss Impact Finance Initiative

SSF – Swiss Sustainable Finance

UNCTAD – United Nation Conference on Trade and Development

UNPRI – UN Principles for Responsible Investment

WEF – World Economic Forum

Words marked in the main text with an asterisk (*) are explained in the Glossary.

1. Introduction: Impact investing and sustainable development: the broader landscape

1.1 The SDGs "financing gap"

"The SDGs need a global rescue plan"; failure to achieve the SDG targets will leave millions of people around the world without access to education, quality healthcare, food, and routes out of poverty, UN Secretary-General António Guterres warned world leaders gathered at UN headquarters in New York City at the Sustainable Development Goals (SDGs) Summit in September 2023. At midpoint of the implementation of the 2030 Agenda*, the UN-SG sounded the alarm on the failure in achieving the goals of this universal action plan; more than 50% of the SDGs have seen little or insufficient improvement, while for 30% of the goals, progress is stagnating or even declining. In the face of grossly inadequate levels of investment in the SDGs, far more resources need to be devoted to tackling the most pressing challenges of our time. Indeed, the latest developments on this front, with the global polycrisis, are particularly worrying, and the gap between resources needed and those allocated has widened considerably. The massive financing gap has revived the appeal of the World Bank's slogan coined in 2015: from "Billions to Trillions" to "create impact at scale".[1]

Assessing needs and tracking investment and development trends, the World Investment Report 2023 by the United Nations Conference on Trade and Development (UNCTAD)[2] indicates that while developing countries have seen a small increase in international "SDG-relevant investment", this is nowhere near sufficient to achieve the 2030 Agenda goals, let alone in the face of increased needs resulting from the global COVID pandemic. Indeed, UNCTAD has raised the bar on the **annual investment gap in developing countries for the SDGs** from USD 2.5 trillion in 2015 to a figure of over USD 4 trillion per year, with the biggest gaps in the energy sector as well as important needs in water and sanitation, and transportation.

1 SDG Trends Monitor, UNCTAD, September 2023

2 World Investment Report 2023 UNCTAD

Box 1: Putting the “financing gap” in perspective

Official Development Assistance (ODA)* by member countries of the OECD/Development Assistance Committee (DAC) amounted in 2023 to an all-time high of USD 223.7 billion, representing 0.37% of DAC members’ combined gross national income (GNI). Total ODA rose by 1.8% in real terms compared to 2022. The increase was primarily due to aid for Ukraine (USD 20 billion), humanitarian aid and contributions to international organizations. ODA for in-donor refugee costs amounted to USD 31 billion, representing 13.8% of DAC member countries’ total ODA, which does not contribute to alleviating poverty in developing countries and should therefore not be counted as ODA. Even though, the ODA levels remain far from the United Nations target of spending 0.7% of their GNI on ODA. For their part, private philanthropic providers contributed USD 11 billion for development in 2022.

The situation is no different in Switzerland. In 2023, Switzerland’s ODA ratio was 0.60% GNI (CHF 4,640 million), which represented an increase from 0.56% in the previous year. But the increase was due mainly to asylum-related costs in Switzerland borne by the State Secretariat for Migration (SEM) and extraordinary expenditure relating to the war in Ukraine and the conflict in the Middle East. If one excludes asylum costs, Switzerland’s ODA ratio reached 0.43% in 2023, compared to 0.40% the previous year. With the budget of the proposed dispatch, Switzerland’s ODA is expected to be 0.36% in 2028 (without in-donor refugee costs, including funding for Ukraine).

Additional to ODA, developed countries have committed at the 15th Conference of Parties (COP15) of the UNFCCC in Copenhagen in 2009 to collectively mobilizing USD 100 billion per year for the period 2020-2025 for climate action in developing countries. The so-called **international climate finance*** for mitigation and adaptation actions in developing countries should come from “new and additional funding”. Developed countries provided and mobilized USD 115.9 billion in climate finance for developing countries in 2022, exceeding the USD 100 billion goal for the first time. It is important to recall that most of the current funding for climate finance consists of loans and are not “new and additional”, as the bulk of it is rather a reallocation of traditional ODA funds. In November 2024, at COP29, in Baku, Azerbaijan, a new finance goal was agreed at the last minute: Developed countries pledged to triple financing to developing countries from the previous target of $100 billion per year to $300 billion per year by 2035; as well as to “secure efforts” to increase financing to developing countries, from public and private sources, to $1.3 trillion per year by 2035.

Moreover, the question of **Loss & Damage** (estimated to be between USD 290 and USD 580 billion by 2030 in developing countries)[3] or **international biodiversity financing** (USD 20 billion per year by 2025, rising to 30 billion by 2030) remains open.

[3] The concept of loss and damage has been a contentious issue in international climate negotiations for years. Developing nations argue that developed countries should bear more responsibility due to their historical greenhouse gas emissions. The Paris Agreement, adopted at COP21 in 2015, acknowledges the importance of averting, minimizing, and addressing loss and damage but does not establish liability or compensation, reflecting ongoing disagreements over this issue.

1.2 The private sector as THE solution?

The scale of the challenge is enormous, as is the range of actions needed to stimulate investment – public and private – in the SDGs in developing countries. The main challenge is to channel existing capital where it is most needed to support the deep transformation required across all sectors of society to achieve a sustainable future. Although equivalent to just 4% to 5% of the value of global assets under management (AuM)*, the volume of investment needed to achieve the 2030 Agenda goals far exceeds the capacity of the public sector alone (and ODA in particular), let alone the commitments of the Paris Climate Agreement (see box 1 above).[4]

In the light of budgetary constraints linked to high levels of public debt – almost 40% of developing countries face serious debt problems – and limited levels of ODA and current development financing, the private sector's contribution to sustainable development was therefore deemed essential.

In this broader context, "impact investing" – a term coined some seventeen years ago – has become particularly popular in recent years, as an instrument for engaging the private sector's contribution to sustainable development. With the support of the Rockefeller Foundation, a group of investors and philanthropists defined the term impact investing in 2007 as "using profit-seeking investment to generate social and environmental good." In 2009, the Global Impact Investing Network (GIIN), an independent non-profit platform, was created to "increase the scale and effectiveness of impact investing around the world".

The presumed potential of this approach to mobilize considerable volumes of private funds for "development projects" and thus help bridge the financing gap for the SDGs is appealing to many players, both in the private and public sectors.

Some market players even see this as a paradigm shift in the international development landscape, believing it more effective to pursue two objectives at once – a return on investment and a social or environmental return – rather than keeping them separate. The main argument is that the capital can be re-used many times over and can support local initiatives that are likely to operate sustainably over time (without needing to depend on additional subsidies year after year).

For the private sector, development finance* also represents an attractive long-term investment opportunity. Indeed, industrial countries are gradually becoming saturated markets, faced with declining (and ageing) populations and stagnant growth prospects, while developing countries offer the capital market a considerable opportunity to gain access to fast-growing economies that are still largely "underserved".

4 In a recent report, PwC anticipates that global Assets under Management (AuM) will almost double in size by 2025, from USD 84.9 trillion in 2016 to USD 111.2 trillion by 2020, and then again to USD145.4 trillion by 2025.

1.3 Top of the agenda, especially in Switzerland

In the context of Switzerland, a country renowned for the importance of its financial centre and for being a hub for international organizations in International Geneva, this approach is very popular and is on the agenda of many investors and development organizations. Claiming a leadership position in sustainable finance,[5] the Swiss Confederation, represented by its public development agencies the State Secretariat for Economic Affairs (SECO) and the Swiss Agency for Development and Cooperation (SDC), has made the **mobilization of the private sector in favour of sustainable development** an integral objective of its international cooperation strategy. Impact investments are set to become an integral part of development cooperation.[6]

Both Swiss cooperation agencies have for several years been promoting **blended finance*** approaches – a combination of public financing on favourable terms (concessional) and private financing on standard commercial terms (non-concessional), with public and private sector expertise – as well as various impact investment initiatives – like the *Private Infrastructure Development Group* (PIDG), or the recent *SDG Impact Finance Initiative* (SIFI) (see b ox 13 below).

The draft Swiss Strategy for International Cooperation 2025-2028 further aims at forming partnerships with the private sector through financial or investment instruments to mitigate financial risks in developing countries. These instruments, like SIFI and the Swiss Investment Fund for Emerging Markets (SIFEM), should encourage private investment in "otherwise unattractive or uncertain" countries.

[5] Sustainable finance in Switzerland: Areas for action for a leading sustainable financial centre (2022–2025). Federal Council report, 2022.

[6] Impact-Investing: Die Pionierrolle der Schweiz. Die Volkswirtschaft, 2021.

1.4 Why this paper and some qualifications

There is a broad consensus within the international finance and development community that private investments in developing countries are necessary to secure financing for the SDGs. However, many reports have pointed to the exaggerated level of expectations that has marked blended finance and impact investment strategies to date, as well as the limitations of approaches of this type. It therefore seems important to assess the extent to which the impact investment sector – with or without public support – has actually contributed to sustainable development in developing countries, and what can reasonably be expected from this "double-bottom-line" strategy.

The overall aim of this paper is to clarify what is meant by impact investment today, to take a closer look at the Swiss impact investment market and to take stock of the current situation. The paper also seeks to answer the following questions:

- What can reasonably be expected of impact investing from the point of view of international cooperation?
- What are the opportunities offered by this sector?
- What are the potential synergies with official Swiss cooperation and NGOs?
- What are the limits of this type of instrument, related to its dual mandate: financial profitability on the one hand, and developmental impact on the other?

Scope of the Study:

This paper focuses on the sub-category of impact investment applied through private investment strategies that target the real economy in developing countries, considered as part of private development finance*. The study therefore does not cover the sub-category of impact investment in developed countries (North-North flows), nor listed markets through the deployment of capital in listed companies in developing countries; this part – the largest share of impact investment – does not meet the criteria of targeting developing countries or providing significant additionality* (see Box 6).[7]

Box 2: A few key qualifications before delving deeper into the subject

The intention of this document is by no means to consider the impact investment sector as the sole solution for bridging the development financing gap, as it represents **only one means,** among others, of helping to attain the SDGs. To successfully implement the 2030 Agenda, priority must be given to mobilizing domestic public resources* as the AAAA* emphasizes, by combatting illicit financial flows (IFF)* and freeing up more fiscal space for spending by developing countries.

By focusing too much on mobilizing private finance, "traditional" ODA funds – which have a proven development impact and will remain essential for many "unprofitable" sectors that are key to reducing poverty and inequality – could be reallocated to **subsidize risk-taking by private financial actors**. While seeking to stimulate investment in low-income countries and undercapitalized communities, such ODA-funded "de-risking" interventions could instead subsidize investment in communities where financial means and education levels are relatively higher, and where income growth is already stronger, given the search for market-level financial returns.

7 Investing for Impact. The Global Impact Investing Market 2020. IFC 2020, p. 2-4.

More broadly, financial instruments for development carry an inherent risk of accentuating the **problem of over-indebtedness** in developing countries. UN Secretary-General António Guterres warned in that sense that "developing countries face borrowing costs up to eight times higher than developed countries – a debt trap. And one in three countries around the world is now at high risk of a fiscal crisis. Over 40 per cent of people living in extreme poverty are in countries with severe debt challenges".[8] These countries end up paying more in debt servicing than they do in financing public education or healthcare infrastructure.

In the same vein, the promotion of private financing instruments raises issues linked to the **increasingly pronounced financialization of economies**, particularly where nature and biodiversity are concerned, via the controversial carbon credit and biodiversity offset markets.

The disconnect between financial markets and the real economy poses serious challenges, and urgent reforms are needed to address the environmental and social impacts of financial activities. Further, when assessing the growth of impact investing in the past decade, it is crucial to recognize its niche status relative to the broader financial market. For instance, **hedge funds**, which prioritize maximizing financial returns, have experienced **tremendous growth** over the same period, commanding a significantly larger share of the market (from USD 300 billion in 1998 to over USD 5,000 billion in 2023).[9] Moreover, recent research by ActionAid International underscores the **substantial investments made by major international banks in financing fossil fuels and industrial agriculture** in the Global South. In the seven years following the adoption of the Paris Agreement, these banks have injected approximately USD 3,200 billion into fossil fuel expansion and USD 370 billion into industrial agriculture in the Global South. This amount is twenty times greater than the funding provided by Northern governments to developing countries for addressing the climate crisis.[10]

The growing disparity between financial markets and the real economy is a significant concern. Financial markets have expanded substantially relative to the real economy since 1980, and even more so since the 2008 financial crisis. This expansion has exacerbated inequalities, disparities in health and education outcomes, and has contributed to worsening the climate crisis and accelerating biodiversity loss. We cannot ignore the fact that our economic system relentlessly pursues economic growth despite facing planetary and biophysical limits. The financial market, driven by the pursuit of financial returns, is often overlooking these limits. This raises fundamental questions about the **compatibility of profit-seeking and sustainability** in the long term. A recent study highlighted the significant climate impact of financial centres like Switzerland. The emissions associated with economic activities supported by the Swiss financial centre are estimated to be 14 to 18 times higher than Switzerland's own emissions.[11] This means that these activities align with catastrophic global warming scenarios of 4 to 6°C.

8 UN High-level Dialogue on Financing for Development, New-York, September 2023

9 The growth of hedge funds is the greatest financial anomaly. TEBI, February 2024

10 How the Finance Flows: The banks fuelling the climate crisis. Action Aid, September 2023

11 Klimastandort Schweiz. Schweizer Unternehmen als globale Treiber für Netto-Null McKinsey & Company (2022)

2. Sustainable investing and impact investing: navigating the jungle of definitions

2.1 Sustainable investing: What are we talking about?

Before delving deeper into the subject of impact investing, it is worth setting the scene and explaining what is meant by the broader approach of "sustainable investment", of which impact investing is a specific dimension considered to be its most ambitious approach. Sustainable investment (SI) is generally described as a broad category of investment practices that take environmental, social and governance (ESG) factors into account when making investment decisions.[12]

Box 3: Sustainable vs Responsible Investment

Analogous to sustainable investment, *responsible investment* was defined in 2005 by the **UN Principles for Responsible Investment (UNPRI)** – a standard widely adopted by investment and asset managers – as follows: "an approach to investing that aims to incorporate ESG factors into investment decisions, to better manage risk and generate sustainable, long-term returns." The primary motivation for ESG integration remains to ensure positive, sustainable profits over the long term, before seeking to contribute to the transformation of the real economy.

While general SI approaches can support the development and growth of sustainable companies, most assets are (in general) invested in equities and bonds traded on secondary markets*, bringing no additional financial resources to companies. When investing in the stock of a listed "sustainable" company, investors are generally not buying from the company itself, but from its former owner, and so after the transaction, the company remains with the same capital as before. This transaction, on the other hand, ensures that the investments made are in line with the investor's values, and that the returns earned come from more "sustainable" activities. Conversely, SI strategies in private equity* can bring in additional capital by investing directly in companies active, for example, in decarbonization, waste reduction or sustainable sourcing.

While it seems plausible that investing in a listed "sustainable" company is not a bad thing in itself – the signal sent to the economy being all the stronger as demand increases – the transformative capacity of such an investment depends on other circumstances.[13] Most sustainable funds apply a "best in class" approach, which leads to the situation where they include companies in their portfolio from sectors that as such cannot be sustainable. To a differing degree, selective investment is combined with a commitment to active shareholding and engagement*, with the aim of producing a more direct impact.

Likewise, sustainable investment remains largely confined to developed markets where the access to capital is already less constrained. These two observations are particularly relevant when it comes to assessing investments presented as "sustainable" and their social or environmental outcomes, especially as a variety of different and more or less ambitious approaches – which can be used independently or in combination with one another – are included under this umbrella term.

[12] See the Swiss Sustainable Investment Market Study, 2024.

[13] Kölbel, J. F., Heeb, F., Paetzold, F., & Busch, T. (2020). Can Sustainable Investing Save the World? Reviewing the Mechanisms of Investor Impact. Organization & Environment, 2023.

Until recently, there was no legally binding definition of Sustainable Investment. It was only after the launch of the **EU Sustainable Finance Action Plan** in 2018 that a legal clarification of the term was approved.

Box 4: Regulatory definitions: work in progress

The **EU Taxonomy Regulation** aims to establish a unified classification system for sustainable economic activities to help redirect capital flows towards sustainable investments. It provides a definition of *environmentally sustainable investment* as "an investment in one or more economic activities which can be qualified as environmentally sustainable" namely, (1) climate change mitigation; (2) climate change adaptation; (3) sustainable use and protection of water and marine resources; (4) transition to a circular economy; (5) pollution prevention and control; and (6) protection and restoration of biodiversity and ecosystems.

Building on this work, the other pillar of the EU plan, the **Sustainable Finance Disclosure Regulation (SFDR)** framework – fully applicable since 2023 – aims to enable investors and consumers to make more informed investment decisions to contribute to the sustainable transition, by setting mandatory sustainability disclosure requirements. According to the SFDR (currently being revised), to qualify as *sustainable investment* as defined in Article 2(17), a financial product must: 1. be invested in an economic activity that contributes to an environmental or social objective; 2. not significantly harm (DNSH) any of those objectives; and 3. ensure that the investee companies follow good governance practices. Although this text represents a positive step towards greater transparency and harmonization, it has been weakened by political interests (i.e., natural gas was declared sustainable). This rather vague definition leaves room for interpretation, with repercussions for implementation and market credibility.[14]

The new **International Sustainability Standards Board (ISSB)** has published a first set of (voluntary) global guidelines on corporate sustainability disclosures and proposed rules requiring publicly traded companies world-wide to disclose climate-related risks.

Also, since 2023, according to the **Corporate Sustainability Reporting Directive (CSRD),** large companies, including listed SMEs and non-EU companies if they generate over EUR 150 million on the EU market, must report on sustainability. The aim is to provide investors – and other stakeholders– with the information they need to assess the impact of companies on people and the environment and to assess financial risks and opportunities arising from climate change and other sustainability issues. The first reports will be published in 2025.

The **Final Report on Greenwashing** published by the European Securities and Markets Authority (ESMA) in June 2024 outlines a comprehensive framework for mitigating greenwashing risks through enhanced supervisory activities.[15]

14 The SFDR regulation introduced different levels of disclosure requirements; Article 6: Disclosure on the firm's website about how sustainability risks are integrated into its investment decision-making processes. Article 8: Products promoting environmental or social characteristics or having sustainable investment as their objective. Article 9: Products with a sustainable investment objective. These products are subject to the most stringent disclosure requirements.

15 Final report on Greenwashing, ESMA, June 2024.

In Switzerland, however, there is as yet no legal definition of a "sustainable investment". Switzerland favours a voluntary approach in collaboration with market players, as illustrated by the introduction of the Swiss Climate Scores[16], a list of best practices for transparency on the climate compatibility of investments, or the Federal Council's position on preventing greenwashing in the financial market.[17]

Currently, Switzerland has no legislative or regulatory requirements on transparency or compliance with specific sustainability criteria for financial services. Similarly, there are no such obligations for financial products, except for funds, for which certain transparency requirements apply.[18] In its latest move, the Federal Council has decided against introducing regulations to combat greenwashing in the financial sector, noting the new self-regulatory provisions adopted by the Swiss Bankers Association, the Asset Management Association Switzerland, and the Swiss Insurance Association. Instead, it has tasked the Federal Department of Finance with re-evaluating the need for action after the revised SFDR is published, "but no later than the end of 2027."[19]

For its part, the leading Swiss association, **Swiss Sustainable Finance (SSF)** applies a very broad definition of *sustainable investment*: "Sustainable finance refers to any form of financial service with the objective of supporting the transition to a sustainable economy and society by integrating environmental, social and governance (ESG) factors into business and investment decisions. Such finance aims for the lasting benefit to clients, society at large and the planet."[20]

The broad scope of the Sustainable Investing (SI) concept and the ambiguous definitions of ESG criteria have caused confusion in the market, leading to customer uncertainty and negative press about the so-called "ESG jungle."

Box 5: The "ESG jungle"

To address the absence of precise definitions, efforts have been made to clarify the various approaches under SI. The updated Eurosif methodology, for example, categorizes "sustainability-related investments" into four distinct types, based on their level of ambition to contribute to a sustainable economy. This framework has been applied by Swiss Sustainable Finance (SSF) in its 2024 study of the Swiss sustainable investment market. However, it is important to note that while the Eurosif methodology aims to provide transparency on the main characteristics of SI categories – including their transition-related ambitions – **it does not evaluate the actual impact of individual investments, nor their effectiveness in driving change** ("impact magnitude"). This would require extensive additional data, which goes beyond typical market research capabilities.[21]

[16] Swiss Climate Scores, SIF 2022.

[17] The Federal Council's position on the prevention of greenwashing in the financial sector. Berne, 16 December 2022.

[18] These were defined by the Swiss Financial Market Supervisory Authority (FINMA) in November 2021. Based, notably on the prohibition of confusion and deception, FINMA requires increased transparency in fund documentation, if this uses the terms "sustainable", "green" or "ESG", or otherwise refers to sustainability, including about the fund's sustainability goals. It also recommends sustainability reporting for these funds as best practice. As regards financial services, FINMA does not impose any specific requirements in connection with greenwashing at the point of sale, due to the lack of an adequate legal basis.

[19] Federal Council notes financial sector's progress in preventing greenwashing, SIF, June 2024

[20] SSF Glossary.

[21] SSF 2024, op. cit., p. 5

Takeaways (so far)
This introduction addressed the significant divide in the concept of Sustainable Investing (SI) due to its broad definitions and diverse implementation approaches. According to a survey by SSF, institutional investors primarily integrate ESG factors into their investment processes to mitigate financial or reputational risks. In contrast, NGOs and some regulators believe the primary goal of sustainable investing should be to achieve a positive impact by aligning investments with sustainability objectives. As it stands, many investments labelled as "sustainable" do not meet customer expectations related to their impacts, highlighting the need for a clearer and more precise definition of "sustainability-related investments."

Merely incorporating ESG criteria is not enough to ensure real sustainability. Many financial products marketed as "sustainable" have little to no real impact, creating a misleading impression of progress and diverting attention from the critical issues at hand. While entailing major "greenwashing" risks,[22] the status quo hinders the necessary transformation of our economy from a non-renewable model to a genuinely sustainable one.

[22] The European Supervisory Authorities (ESAs) common understanding of greenwashing is "a practice where sustainability-related statements, declarations, actions, or communications do not **clearly** and **fairly** reflect the **underlying sustainability profile** of an entity, a financial product, or financial services. This practice **may be misleading** to consumers, investors, or other market participants."

2.2 Impact investing: lack of definition and measurement difficulties

2.2.1 Absence of a legal definition

As with sustainable investment, there is **no specific legal definition of impact investing** be that in Switzerland or elsewhere. This lack of common understanding not only leads to confusion and fragmentation of the market, but also undermines its credibility and integrity. As a result, impact investors are continually exposed to the risk of impact-washing*.[23]

Box 6: Varying (non-binding) definitions of Impact Investing

One of the most cited definitions is the one proposed by the **Global Impact Investing Network (GIIN)** which defines impact investments as "investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return." **Impact investments can be made in both emerging and developed markets**.[24] The core characteristics of impact investing include the investor's intention to have a positive social or environmental impact; the expectation of a financial return ranging from a simple return on invested capital to a risk-adjusted market-rate return* across all asset classes; and the investor's commitment to the measuring and reporting of social and environmental performance and progress achieved.

For its part, the **International Finance Corporation (IFC)**, which lays claim to having been at the forefront of impact investing in emerging market for the past sixty years, defines impact investing as an "approach that aims to contribute to the achievement of measured positive social and environmental impacts. It has emerged as a significant opportunity to mobilize capital into investments that target measurable positive social, economic, or environmental impact alongside financial returns".[25]

According to **SSF**, impact investing is "investments intended to generate a measurable, beneficial social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets and target a range of returns from below-market to above-market rates, depending upon the circumstances". SSF further considers impact investments as those having three main characteristics: intentionality, management, and measurability.

To remedy this shortcoming, many organizations and financial players in Switzerland rely **on voluntary international frameworks and principles** when referring to impact investing. However, these definitions are not binding and are often relatively vague as to what is considered impact and what criteria are required to measure the impact of the investment. The breadth of the definition is to some extent intentional, to give the market more flexibility to develop, but it also reflects a trade-off between scalability and impact quality.

23 There is currently no definition of "impact" or "impact investing" in regulations, which may lead to misleading impact claims relating to an exaggeration based on an unproven causal link between the ESG metric and real world-impact; one of the most frequent situations being the lack of clarity about where the impact is factored or achieved (European Securities and Markets Authority, 2023, p.20).

24 According to the latest study published by SSF and Tameo, only 4.7% of total assets under management (AuM) self-reported by Swiss investors applying a broad "impact investing approach" are occurring in developing countries. See A Stocktake of Swiss Impact Investing, p. 12.

25 Impact Investing at IFC.

Box 7: Impact and additionality, two sides of the same coin?

The notion of **impact** in an investment context is rooted in the development finance sub-sector. In the literature, impact is described as having **three defining characteristics**: (a) it describes a change in relation to a baseline; (b) it relates to a clearly defined parameter; and (c) it implies causality in the sense that the change would not have occurred in the absence of the said activity.[26] This last condition is also known as *additionality**.[27] So, to have a "real impact", an investor must first succeed in identifying a company/project that will "make the world a better place", a task far more complicated than it might a priori seem. Then, having found a company/project that has the desired impact, the investment must bring in "additional" resources that will enable the company to perform better than it would otherwise. In other words, without this capital injection, the beneficiary company would not have been able to undertake its action or would not have been able to do so on the same scale, at the same time, in the same place, or to the same quality standards; and, *in fine*, the injection of additional funds has had an explicit positive effect on the impact of the beneficiary company.

Some more takeaways

Existing definitions of impact investing, like those from GIIN and IFC, are problematic for two main reasons. Firstly, they cover such a broad range of asset classes, themes, and return orientations that it becomes challenging to clearly define what qualifies as impact investing.[28] Secondly, they assume that the *intention* to create social or environmental impact directly translates to achieving these benefits. This suggests that traditional profit-maximizing investments either lack social or environmental impact or that their impact is not measurable. The core issue is not whether firms can have measurable impacts (which obviously is the case), but whether investors intentionally seeking positive social and environmental returns can achieve competitive financial returns *and* more measurable benefits compared to traditional investments. It also raises the question of whether donors (private and public) can use impact investing to achieve greater impact per dollar and better capital preservation than through pure philanthropy/grants.[29]

2.2.2 Broad range of measurement and reporting practices: the risk of impact washing

With its unique dual mandate, impact investing must integrate measurement and reporting considerations that are not incumbent on its traditional counterpart. Yet, even after decades of experience and some significant improvements, it remains difficult to accurately measure the impact of these investment strategies.

26 See the literature review in Kölbel, J. F., Heeb, F., Paetzold, F., & Busch, T. (2020), op. cit., footnote 12.

27 See the three definitions of additionality (financial, value and developmental) applied by OECD/DAC to Private sector instruments / PSI, in global, Alliance Sud, spring 2024.

28 The GIIN impact investing definition includes everything from market-rate investments in public and private equity, to concessionary fixed income products, such as higher-risk loans made to smallholder farmers in Sub-Saharan Africa, to philanthropic activities that are not in the traditional sense "investible activities".

29 Trelstad, Brian, Impact Investing: A Brief History. Capitalism & Society, Vol. 11, Issue. 2, Article 4, 2016.

Exacerbated by the different definitions of impact investing, as well as by the lack of internationally comparable data and the underdevelopment of measurement practices, the **risk of impact-washing*** is one of the biggest challenges for impact investors. The absence of harmonized standards and established criteria for impact measurement and reporting remains a major obstacle to the prevention of impact-washing, i.e., the failure of investments intended to create a positive impact to produce such an effect, or even the risk of producing a negative impact.[30]

The indicators currently used to measure impact vary considerably from one player to another, and most of the measures in use report on the impact expected by the beneficiary of the investment, but do not assess the actual impact of the investment. In the absence of reliable indicators, the sector will be faced with trial and error at best, and error at worst. To enable reliable analysis and comparisons between instruments, indicators need to provide information on the intent of the investment (i.e., what it is intended to achieve) and its incremental effect (i.e., the added value it creates).[31]

Box 8: Impact: what do you mean?

There is a conceptual gap between what investors and development actors mean by impact. Most impact investment funds speak about impact but ultimately monitor and report on outputs (e.g., microfinance funds report the number of micro-entrepreneurs reached, based on data self-reported by the borrowing microfinance institutions). However, when actors in the development community refer to impact, they refer to the long-term effect of programmes, which include the intended, unintended, direct as well as indirect effects of interventions. They utilize sophisticated evaluation approaches and frameworks (incl. evaluation studies, in-depth context analyses, Randomized Control Trials, etc.)

While **internally developed tools** have long been the norm for specialized impact investors (and are still applied by the majority of fund managers, see Annex 1 on the Swiss market), **certain voluntary impact measurement and management tools** developed by the sector to manage, measure and evaluate impact in a more standardized way, such as the GIIN IRIS+, the Impact Management Project (IMP) or the Operational Principles for Impact Management, are becoming more widely adopted and implemented. While aiming for standardization, these impact measurement tools are voluntary, and there is no enforcement mechanism to ensure compliance. The broad nature of the tools and principles can lead to varied interpretations and inconsistent application across different organizations. There are no universally accepted metrics or methodologies for impact measurement. Further, determining the extent to which specific actions or investments contribute to observed impacts can be challenging, complicating the assessment of effectiveness. The tools and principles are primarily designed for investors and may not fully address the needs and perspectives of other stakeholders, such as the beneficiaries of the impact or the investees themselves. The principles focus on the impact of investment practices but may not fully address broader systemic issues or the root causes of social and environmental problems.

30 See Progress Report on Greenwashing. Response to the European Commission's request for input on "greenwashing risks and the supervision of sustainable finance policies". ESMA May 2023.

31 Cf. Prof. Rajna Gibson in Le Temps, October 4, 2023.

Box 9: Impact measurement tools

GIIN IRIS+ is a system developed by the Global Impact Investing Network to measure, manage, and optimize impact. It offers standardized metrics for assessing social, environmental, and financial performance, aligning with frameworks like the SDGs. IRIS+ provides themes and objectives for targeted impact, along with guidance on best practices for data collection and reporting. It aims to enhance credibility and effectiveness in impact investing by standardizing impact measurement.

The **Impact Management Project (IMP)** is a global initiative that aims at building consensus on measuring, managing, and reporting impact. It unites organizations to create standardized norms and practices. It brings together diverse stakeholders, including investors, enterprises, and standard-setters to agree on shared norms and practices for impact measurement and management. The IMP framework categorizes impact into five dimensions: what, who, how much, contribution, and risk, helping investors and businesses understand and communicate their impact.

The **Operational Principles for Impact Management,** launched in 2019 by the IFC, provide guidelines aiming at "ensuring that impact investments achieve their social and environmental goals". They emphasize defining impact objectives, monitoring outcomes, and managing performance. They do not prescribe specific tools and approaches, or specific impact measurement frameworks.

In addition, using the SDGs as a framework for impact management and measurement has gradually been incorporated by most impact investors as a baseline for presenting their positive contribution to solving some of the 17 most pressing challenges facing our society and the environment ("impact claim"). This practice is referred to as **'SDG intent,'** wherein impact investing principles are applied upstream to *align* the fund's investment strategy with explicit SDG goals and objectives.

"SDG funds" are increasingly growing in popularity, reaching some Euro 74 billion at the end of 2023, while still representing less than 1% of the EU fund industry. While these funds can provide a – at least partial – funding source to bridge the existing SDG financing gap, they also raise major impact washing concerns*, i.e., concerns about funds making impact claims that are not backed by their investment strategy and holdings. According to a recent study by the European Securities and Market Authority (ESMA), this is mainly due to the SDGs' broad scope, the absence of harmonized reporting requirements for private sector actors against the SDG targets, and the inherent difficulty in assessing the extent to which a single firm can contribute towards targets that were originally intended for governments. **SDG funds do not seem to display greater alignment with the SDGs compared to non-SDG funds.** It raises the question of whether these funds actually deliver on their promise to investors. For the ESMA, claiming to contribute to the SDGs should require taking steps beyond simply excluding firms based on sectoral or geographical characteristics but should consist of the active and careful evaluation and selection of assets which have proven to *contribute* concretely to specific SDGs.[32]

In terms of **impact reporting**, impact investment managers are also increasingly adopting voluntary principles and guidelines, including **UNPRI** and the **Operating Principles for Impact Management,** to improve transparency and establish common reporting frameworks across the sector.

[32] Impact Investing – do SDG funds fulfil their promises? European Securities and Markets Authority (ESMA), February 2024.

Box 10: Impact reporting tools

The **United Nations Principles for Responsible Investment (UNPRI)** provide a framework for incorporating environmental, social, and governance (ESG) factors into investment decisions. Launched in 2006, they encourage investors to "enhance long-term returns and societal goals by considering ESG issues". The UNPRI require signatories to – publicly – report annually on their responsible investment activities and ESG integration. Additionally, signatories receive private assessment reports from UNPRI, which evaluate their performance and provide feedback for improvement. ShareAction – a specialized UK-based NGO – argues that the UNPRI lacks stringent enforcement mechanisms, allowing signatories to make superficial commitments without substantial action. It also criticizes the voluntary nature of the principles, which leads to inconsistent implementation and minimal accountability. ShareAction calls for stronger oversight and more rigorous reporting requirements to ensure genuine commitment to responsible investment practice.[33]

According to the **Operating Principles for Impact Management** (see Box 9 above), investors must publicly disclose – in an annual report – their alignment with the principles, detailing their impact management systems and practices. The reports should include information on how impact objectives are set, how impact is managed and measured, and how results are monitored and achieved. An independent verification of the alignment with the principles is recommended, but not mandatory.

Despite progress made on impact management and reporting, the landscape of applied standards remains fragmented. The proliferation of reports is felt to be a burden by practitioners, while current practices still lack binding minimum guidance on requirements for demonstrating impact at company level, or on how to aggregate this information transparently at fund level.

In the absence of a mechanism comparable to fiduciary duty* to ensure "fidelity to impact" by all players in the value chain, there is a risk of a "race to the bottom" where funds or companies do the bare minimum to comply with the investor's impact objectives (implied or explicit), while retaining the ability to present the facts to their advantage.

More concerted efforts are needed to hold funds and companies to minimum standards of impact accounting, using consistent and transparent metrics, and subjecting themselves to some form of independent verification. This assumes that investors can define precisely the kind of impact they aim to achieve, and that funds are consistent in the way they measure and report on impact, to allow comparability for investors. Only then can the accountability of impact investing and the integrity of the sector be enhanced.[34]

[33] ShareAction challenges finance sector to adopt ambitious new definition of 'responsible investment'. July 2023.

[34] Impact Investing: A Brief History (2016) Brian Trelstad, op. cit., footnote 28.

2.3 From microcredit to impact investing: the Swiss public sector in the "driving seat"

In Switzerland, the beginnings of impact investing can be traced back to the 1990s, when the Federal Office for Foreign Economic Affairs (BAWI), SECO's predecessor, along with other bilateral, regional, and multilateral institutions and foundations, participated in the first commercially oriented micro-investment fund, the *Profund Fund*. This fund invested in twelve microfinance institutions in Latin America. In its ten years of existence, this USD 22 million fund has generated a 7% return and provided capital to almost a million micro and small enterprises. This success was portrayed as one of the (first) to prove the possibility of reconciling impact and return on investment, in this case through microfinance. Riding the initial wave of microfinance, Swiss Intercooperation (Helvetas) – on behalf of the SDC – organized the twice-yearly *Savings and Credit Forum*, a training and exchange event on topics related to savings and credit institutions and financial sector development with participants from the SDC, Swiss NGOs, consultants, and academics, from 1996 to 2018. Created in 1998, the *Fonds International de Garantie (FIG)* – now *Philea*, was the first Swiss specialized impact investment fund manager to launch a purely commercial microfinance investment vehicle. Later, in 2003, SECO and a private-sector investor provided seed capital for a microfinance fund targeting developing countries, set up by the newly established Zurich-based asset manager *responsAbility*. The approval for public distribution represented a first, with an impact investment product made available to a broad public through retail sales. Also, in the early 2000s, *BlueOrchard* was founded on the initiative of the United Nations, as the world's first commercial manager of debt investments in microfinance. A few years later, the *Symbiotics Group* was created to act as an intermediary between microfinance institutions on the one hand, and fund managers and investors on the other, with the idea of contributing to the financing of micro-enterprises.

These three Swiss institutions – which are now all controlled by large foreign asset management and investment groups [35] – have been pioneers in the field of impact investing for almost twenty years. Focusing primarily on microfinance, they have evolved to become leading global impact investment managers, offering impact investment solutions in developing countries across a range of sectors, including SME development, energy, and agriculture (see Annex 1).

Box 11: The evolution of the development finance narrative: from micro-credit to impact and SDG finance

Although the initial concept and implementation were driven by grassroots efforts like those of Dr. Muhammad Yunus with Grameen Bank in Bangladesh, Multilateral development banks (MDBs) played a crucial role in supporting and scaling the microfinance movement*; a bottom-up private sector solution designed to complement the efforts of top-down public aid – which was to provide low-income households with the means to meet their needs and secure their livelihoods. During the 1990s, the initial focus on **microcredit** – a small loan granted to a poor person engaged in small-scale income-generating activities, with little or no collateral to offer – gradually shifted to **microfinance** when the United Nations celebrated the International Year of Microcredit in 2005. The focus shifted to bankers – successful microfinance institutions offering small loans and, increasingly, savings, insurance, and payment systems of all kinds – with the expectation that a more systemic approach to inclusive financial systems* would emerge. The global financial crisis of 2008 marked the beginning of a new**, impact-driven** evolution, with discourse increasingly focused on the **SDGs**.
Source: *Symbiotics (2019) Swiss microfinance & Impact investment report.*

[35] Schroders, a leading global asset management company, based in the UK, acquired a majority stake in *BlueOrchard* in 2019. M&G plc, also a UK based international savings and investments business has acquired *responsAbility* in January 2022. Tikehau Capital, an alternative asset management group and investment firm based in Paris, France, acquired a majority stake in *Symbiotics* in June 2022.

In 2011, SECO transferred its development finance portfolio to the state-owned *Swiss Investment Fund for Emerging Markets (SIFEM)* – the Swiss development finance institution (DFI)* – to better facilitate commercial impact investing. SIFEM has active commitments of around USD 1 billion and an investment portfolio of USD 454 million. The fund focuses on providing long-term financing to SMEs in developing countries through local financial intermediaries, aiming to reduce poverty and promote "sustainable, inclusive economies". SECO and SDC continued to support the sector through results-based financing (RBF)* and further development finance initiatives. In 2017, SECO launched the first social impact bond* in a developing country with the Colombian government and the Inter-American Development Bank (IaDB), targeting the integration of the poorest into the formal labour market. This "payment-by-results" approach rewarded investors if the programme met specific and predefined outcomes. The same year, the "SECO 17" initiative supported various projects, including the Meloy Fund, which invests in SMEs involved in sustainable fisheries and coastal restoration in Indonesia and the Philippines.[36]

For its part, the SDC supports e.g., the ICRC's "Program for Humanitarian Impact Investment", which finances the construction and operation of physical rehabilitation centres in Mali, Nigeria, and the Democratic Republic of Congo and operates according to principles like Humanitarian Impact Bonds (HIBs)*. SDC also co-finances, among other donors, ACELI Africa, a market incentive facility designed to stimulate lending to agricultural small and medium enterprises (SMEs) in Sub-Saharan Africa; or supports The Impact-Linked Finance Fund, a Dutch foundation whose main objective is to support enterprises by linking financial returns to their performance on specific impact metrics in sectors such as renewable energy, healthcare, education, agriculture, and financial inclusion.

It is beyond the scope of this study to assess the relevance and the developmental impact of these initiatives.

On the first edition of Building Bridges* in 2019, 65 Swiss institutions and professionals signed the "Development finance declaration". This declaration recognized "the pioneering and catalytic role played by our government agencies, in particular SECO and SDC (...) through investment promotion, capacity building and impact measurement" and invited the Swiss financial authorities to improve the framework conditions to create a competitive enabling environment for the private-sector actors working in development finance. Switzerland should "anchor itself at the heart of SDG financing", to become, by 2030, the "reference business hub for private sector development finance".[37]

Building on earlier experiences, the Swiss development agencies have developed a more strategic approach, together with private foundations, to scale up their ambitions in relation to impact investing and blended finance with the "SDG Impact Investing Initiative" (SIFI) launched in 2021 aiming at mobilizing finance in support of the SDGs.[38] This type of temporary public support is intended to demonstrate that impact investing can also become commercially viable outside the microfinance and renewable energy sectors, where the burden of proof, greatly facilitated by public subsidies, has already been successfully met (see more on blended finance, Box 14).

[36] SECO's contribution over the years has been diverse, ranging from the creation of the first microfinance investment fund (responsAbility Global Microfinance Fund), to risk-underwriting (e.g., KfW SANAD Fund; UBS Loans for Growth Fund), credit lines (e.g., SECO Startup Fund, Green Credit Lines) or lately, the provision of TA funding (SECO-17; IFC Green Bond TA Program).

[37] "Putting Switzerland at the heart of SDG financing". Message to the Swiss financial authorities from the Swiss private sector development finance community.

[38] SIFI aims to leverage up to CHF 1 billion in private capital towards achieving the SDGs by 2030. This initiative, launched in December 2021 as a collaboration between SECO, the UBS Optimus Foundation, Credit Suisse Foundation, and the SDC, seeks to raise over CHF 100 million in catalytic funding to "unlock additional private investment" for sustainable development projects in developing countries.

3. Exploring the state of impact investing

3.1 Who are the main actors in impact investing in developing countries?

This analysis focuses on the "private sector development finance market", concentrating on financial investment flows – public and private – into developing country markets. Private sector development finance has emerged in the wake of development finance institutions (DFIs)*, multilateral development banks (MDBs)*and more generally public sector financing of private sector business with a development impact purpose. Its practice can be defined as offering private debt and private equity investments into the real economy in developing countries, with a view to creating both viable financial return and positive sustainable development impact.[39]

Both the main reports issued so far [40] focus primarily on Private Asset Impact Funds (PAIFs)*; however, they are not the only players in this sub-segment of impact investing. Here is a summary of the private and public players involved in "development finance".

Box 12: Development finance and PAIFs

Development finance encompasses: the public-sector players and investors: multilateral development banks (MDBs)*, development finance institutions (DFIs)* and government aid agencies; philanthropists, as well as private sector investors who invest directly and indirectly (through specialized investment funds) in businesses in developing countries.

Private Asset Impact Funds (PAIFs)* are specialized asset managers and dedicated investment funds whose investments are mainly (more than 50%) allocated to private debt and/or private equity instruments in developing countries, through direct investments and indirectly, through investment funds.

3.1.1 Private investors

Private investors active in the "development finance" market can be subdivided into **two subgroups**. On the one hand, **Private Asset Impact Funds** (PAIFs) are specialized asset managers and dedicated investment funds whose investments target private companies in developing countries, either directly through the allocation of loans or equity stakes in companies, or indirectly, via investment funds. They are the focus of chapter 3.2.3 below. The other category of private investors is provided by a **variety of players** who may directly invest, based on individual decisions, in projects/companies with the intention to have a positive impact in developing countries. This category of investors includes, in Switzerland, **pension funds** such as *Stiftung Abendrot* and *Nest Sammelstiftung*, two leaders in sustainable pension fund management, but institutional pension funds can also invest in development financing on an opportunistic basis. **Financial institutions or banks** are also making direct impact investments, as in the case of *Alternative Bank Schweiz* (ABS), but also

[39] Symbiotics' Swiss Microfinance and Impact Investments (2019)

[40] Symbiotics Swiss Micro Finance and Impact Investments Report (2019) and Tameo Private Asset Impact Fund (2023).

more and more commercial banks are exposing themselves to specific impact investments in developing countries. **Private foundations** such as the UBS Optimus Foundation are implementing their own impact investment programmes without specialized fund manager intermediaries.[41]

However, while institutional investors* are increasingly seeking opportunities in impact investing, their exposure remains limited. This is particularly true for investments in Least Developed Countries (LDCs) and countries with sovereign risk ratings below investment grade*. Significant deterrents include country and counterparty risks*. Additionally, these financial products must adhere to investors' fiduciary responsibilities*, meet investment size requirements, demonstrate a strong track record of the investment manager, and comply with regulatory frameworks set by supervisory authorities.[42]

3.1.2 Public investors

Other key players in private sector development finance are public-sector entities such as multilateral development banks*, development finance institutions (DFIs)* and government aid agencies, which invest in and support private-sector companies in developing countries. SIFEM is therefore the main player in Switzerland, even if a small DFI in comparison to some of its European counterparts.[43] At the same time, Switzerland is also a member of most of the multilateral development banks, which in turn invest in private-sector development projects in developing countries.

3.1.3 Blended finance

At the intersection of public and private sectors lies blended finance, a strategic tool and structuring approach aimed at mobilizing private investment. Blended finance is "the use of catalytic capital from public or philanthropic sources to increase private sector investment in developing countries to realize the SDGs". Blended finance is a structuring approach – not an investment approach or instrument – to address the main investment barriers for private investors, including (i) high perceived and real risks, and (ii) poor returns for the risk relative to comparable investments. The public – or philanthropic – sector uses concessional capital and guarantees to make investment opportunities more attractive by adjusting the risk-return profiles to acceptable levels for the private sector, by (i) "de-risking" the investment, or (ii) improving the risk-return profile relative to market norms.[44]

The blended finance market is growing and has so far mobilized about USD 216 billion for sustainable development purposes. Most transactions have focused on energy, followed by financial services and agriculture. However, LDCs receive a small share of this finance. From 2012 to 2017, only 6% of private finance mobilized by official development interventions went to LDCs, with over 70% going to middle-income countries. Despite being heavily promoted, the effectiveness of blended finance is hard to assess due to limited comprehensive research and data. Risks and challenges include the potential diversion of ODA, unintended incentives, financial flow distortions, and inflated results due to multiple accounting of leveraged private resources.[45]

[41] Other foundations, such as Ethos, are particularly active in the field of stewardship, engaging with Swiss multinationals of which they are shareholders to improve their sustainability performance.

[42] See iGravity (2020), op. cit., footnote 26.

[43] SIFEM was ranked at the 11th place with 0.7% of overall DFIs' portfolio. See Aid under threat: The shadowy business of private sector instruments. Eurodad 2023

[44] The OECD has defined five key principles that need to be respected for blended financing instruments. These principles aim at ensuring that blended finance effectively mobilizes private investment for development while maintaining alignment with local contexts and ensuring transparency and accountability. OECD Blended finance guidance and principles

[45] State of Blended Finance 2023 and UNCTAD SDG Pulse 2023.

Box 13: Blended finance initiatives in Switzerland

Several blended finance* initiatives have been developed in Switzerland. Different approaches are applied. In some cases, the "blending parties" (subsidized by SECO and SDC) act as catalysts for mobilizing more investments from the private sector, by providing a guarantee that if a financial loss occurs, the first loss will be taken by the public sector. Other approaches include technical assistance (TA), either to support intermediaries (financial institutions or SMEs) to help them reach more or better beneficiaries; or targeting directly final beneficiaries (e.g., small-scale farmers) to help them improve their business practices.

The *Private Infrastructure Development Group* (PIDG) is an example of a private-public initiative working as a finance organization for infrastructure development in developing countries. Funded by eight governments (led by the UK, the Netherlands, Germany, Sweden and France) and the IFC, SECO has committed USD 225 million, i.e., around 10% of the PIDG's capital, since its creation in 2002. The *SDG Impact Finance Initiative* (SIFI) is a blended finance initiative designed "to connect and promote the development finance and impact investment ecosystem in Switzerland". It aims to generate a pipeline of blended finance operations and mobilize private finance to support the SDGs. Funded primarily by donors led by SECO, SDC, and the Luxembourg Ministry of Finance, and (so far) marginally by private foundations (UBS Optimus), SIFI is dedicated to initiating, funding, and expanding "innovative" impact investment funds. According to its founders, SIFI must follow best practices in the use of public funding by ensuring additionality, subsidiarity, and complementarity, while also avoiding market distortions and preventing the crowding out of private investment.

3.2 Scoping the market landscape: various approaches, diverging results

3.2.1 Zooming in: from sustainable investment down to impact investing

To understand the impact investing market, it is essential to compare it with the broader investment market and the sustainable investment (SI) sub-sector. This helps assess its relevance and break down the approach into various asset classes, geographies, sectors, and strategies. Unfortunately, the various existing reports offer very different data when presenting the size of the SI market, which greatly complicates its analysis.

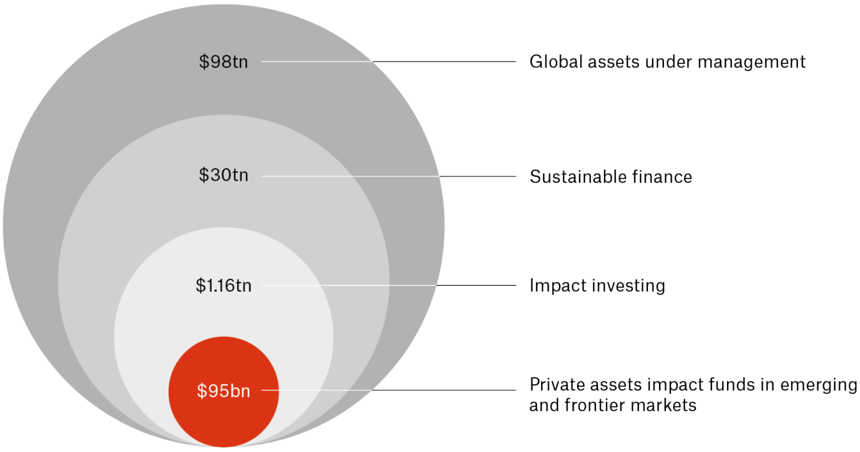
Box 14: Cross-border sustainability-specific investment vs SDG investing

UNCTAD's World Investment Report 2023 estimates that "cross-border sustainability-specific investment activity" reached USD 5.8 trillion in 2022. While international sustainable investment is crucial for funding SDGs, it predominantly targets developed markets. Investment linked to the SDGs in developing countries increased to USD 471 billion in 2022, but this growth is uneven and insufficient to meet the 2030 Agenda. Most SDG sectors, except renewable energies, are progressing slowly. Investment distribution is uneven, with LDCs facing negative trends and receiving the smallest share of SDG-related investment, dropping from 12% in 2021 to 5% in 2022. Vulnerable countries, especially LDCs, struggle to access international capital markets, paying up to seven times more than developed countries, hindering investment growth.[46]

[46] World Investment Report 2023

For the study of the *impact investment market*, additional data are needed. Tameo's Private Asset Impact Fund 2023 report – co-sponsored by SDC – provided for the first time a detailed breakdown of the impact investing financial market and its sub-categories.[47]

Figure 1: Investment universe



Source: Tameo 2023, p.16

Global assets under management (AuM) increased to around USD 115.1 trillion in 2023, rebounding from the significant drop to USD 98 trillion in 2022 – which was due to rising interest rates aimed at curbing inflation which caused a sharp decline in stock and bond values. Approximately USD 30.3 trillion, or 30% of total AuM, included some sustainability measures, underscoring the maturity – at least in numerical terms – and integration of ESG strategies within the global financial system.[48]

3.2.2 Impact investing: market breakdown

For the first time, the global impact investment market has surpassed USD 1 trillion, reaching USD 1,164 billion in December 2021, according to GIIN. This marks significant growth from USD 715 billion in 2020 and USD 239 billion in 2019. The expansion is driven by a broader interpretation of impact investing, increased awareness of environmental and social issues, and the development of standards and indicators. The market includes over 3,349 organizations investing globally with the dual aim of financial return and positive sustainable development impact.

This paper excludes impact investments **in developed economies** and **listed asset strategies**, as they do not meet the additionality criteria. Unlike micro, small and medium-sized enterprises (MSMEs) in low- and middle-income countries, which suffer from limited access to finance that inhibits their growth and potential, public (listed) companies generally do not face significant financial constraints.

[47] The report uses data from the Global Sustainable Investment Alliance (GSIA) for the global asset market size and from GIIN for a comprehensive view of the global impact investing market. Despite rigorous data cleansing, Tameo acknowledges some subjectivity in defining impact and sustainable assets.

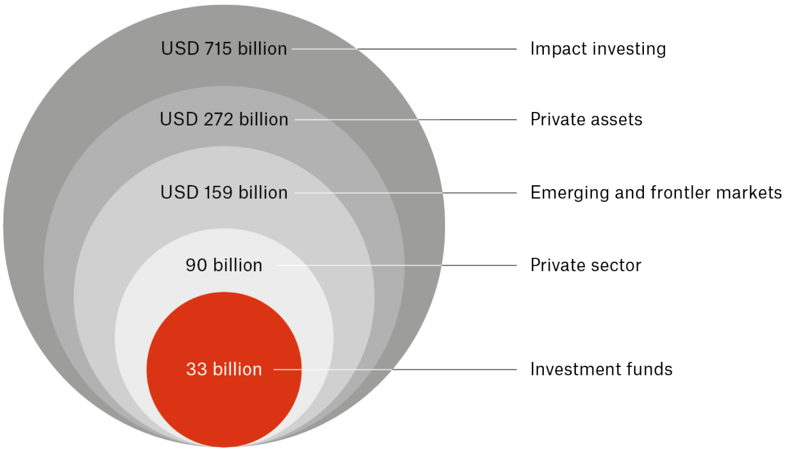
[48] PwC Global Asset & Wealth Management Survey 2023

MSMEs are often too large for microfinance, but too small or too risky for traditional commercial banks, creating a "missing middle" phenomenon. Ensuring access to finance for local private enterprises, including MSMEs, cooperatives and non-profit organizations, is essential to promote sustainable development and reduce poverty. Strengthening national financial markets with limited access to capital is also essential for effective development.

Box 15: Different impact investing clusters/sub-segments

The 2023 Tameo report lacks detailed market segmentation, but the 2020 Symbiotics report – co-sponsored by SECO – provided clearer insights. At the end of 2019, GIIN's survey indicated **USD 715 billion in impact investing assets** (which grew to USD 1,164 billion by the end of 2021, as seen above). Around 62% were invested through **publicly traded strategies** (USD 443 billion), while USD 272 billion were through **private market strategies**. Of these, about 60% (USD 159 billion) was allocated to developing economies ("emerging and frontier markets"), commonly referred to as "development finance". Development finance is split between **public sector investors** and **private sector investors** (USD 90 billion or 12.6% of the total impact investment market). **Specialized private asset impact funds (PAIFs)** account for some 37% of private development finance, or USD 33 billion (4.6% of the total impact investing market).

Figure 2: Impact Investing universe



Source: Symbiotics 2020, p. 15

Tameo's 2023 report estimates that **PAIFs held globally USD 95.3 billion in assets as of December 2022**, a 173.6% increase, due to the rise in the number of PAIFs and overall market growth.

3.2.3 Private Asset Impact Funds (PAIFs): general features

This sub-chapter presents some of the salient features laid out in more detail in the Private Asset Impact Fund Report 2023 published by TAMEO and co-sponsored by the SDC.

As of November 2023, the **overall "PAIF universe"** comprised 385 investment managers, covering 753 private asset impact funds, **with combined AuMs of USD 95.3 billion**, or USD 90.3 billion, excluding the 53 new impact funds launched in 2023 (Tameo 2023). This sub-segment therefore represents only a small share of the global impact investing market (some 8.2%).

Box 16: Type of investees*

PAIFs invest in three types of portfolio companies, i.e., investees:
Financial institutions, such as microfinance institutions (MFIs), SME banks, fintechs*, commercial banks (87% of fund investments).
Project finance transactions notably linked to infrastructure development.
Non-financial SMEs, or larger non-financial corporations, including integrated finance companies.

Place of management / incorporation

The global PAIF market is **highly concentrated**, with 83% of AuMs held in the top 10 high-income countries. US-based investment managers lead with a 24% share, followed by Switzerland (13%), the Netherlands (12%), the United Kingdom (10%), and Germany (7%). Luxembourg is the top centre for **fund incorporation** (25% of AuM and 134 funds), surpassing the USA (16%) and Mauritius (11%), due to favourable legal, tax, and regulatory conditions. Switzerland, a major **fund manager**, is not in the top ten for fund incorporation. The market is also concentrated among companies, with the top ten representing 31% of the market.

Types of investments

Private equity* strategies dominate the PAIF market, making up over half and typically using a closed-end structure* with an 8 to 10-year lifespan. These strategies involve taking ownership stakes in investees, offering (potentially) higher impact leverage but with greater risk. **Private debt**, or fixed-income funds*, account for about a third of the market, mainly operating as open-ended funds* that provide capital in exchange for fixed income and capital repayment.

Vehicle type

While the predominant structure among impact funds comprises traditional investment funds (85%), other entities invest from their balance sheets (i.e., their own funds). These include cooperatives, foundations, investment companies and NGOs, which often adhere to a philosophy of below-market rate return, positioning them as "impact first vehicles".*

A sample for more precision ("PAIF sub-sample")

To date, publicly available data does not provide detailed information on impact investing trends, nor on fund allocation by country or sector. To address this gap, Tameo surveyed 83 investment managers from 26 countries, managing 194 impact funds, or around 32% of the global impact investment fund universe ("PAIF sub-sample": USD 28.5 billion). The survey is biased, as Swiss-based managers represented 35% of the sample, covering around 85% of total Swiss PAIF volume.

This makes the observations particularly relevant for understanding the Swiss impact investing market. The sample includes leading Swiss impact investors such as responsAbility Investment AG, BlueOrchard Finance Ltd, Symbiotics, INOKS Capital, Enabling Qapital AG, Blue Earth Capital, Bamboo Capital Partners, Impact Finance Management, AlphaMundi Group, Philea, and iGravity.

The survey sample disproportionately represents certain impact sectors, notably **microfinance** (51% of total portfolio flows). The top ten investment managers account for 66% of the total, indicating high market concentration. **Financial institutions** attract 87% of the fund investments (USD 20.6 billion) due to a focus on financial inclusion and microfinance. These institutions are considered as a "de-risked" strategy for investing indirectly in various themes like SMEs and energy efficiency.

Investment products focusing on **direct investments** in projects and companies are increasing. **Non-financial SMEs,** mainly targeted by food and agriculture funds, attract 7% of the fund investments.

Box 17: Financial institutions vs non-financial SMEs* (by sector)

PAIFs favour different investee types based on the sector. **Housing, water & communities funds, and microfinance funds** focus almost exclusively on **financial institutions**. In contrast, **food & agriculture funds** primarily target **non-financial SMEs** (54% of their portfolio). **Health & education funds** allocate 29% to non-financial SMEs, including healthcare enterprises and educational institutions. **SME development funds** follow two approaches: 76% focus on SME finance institutions like SME banks, while 18% directly invest in non-financial SMEs. **Climate & energy** and **multi-sector funds** also use project finance, constituting 6% and 5% of their portfolios, respectively.

Regarding **business stages**, PAIFs predominantly direct their capital towards mature companies (57%). Growth-stage companies* accounted for a substantial share as well, accounting for 38%, while, in contrast, early-stage companies* represent only 6% of the total allocation.

3.3 Systemic constraints to impact investing: risks, trade-offs, and other barriers

Private sector investors aim to increase allocations to alternative asset classes* and emerging markets, aligning strategies beyond just risk/return. Despite the growth and hype around impact investing, two main obstacles prevent it from becoming mainstream: high perceived and real risks, especially in developing countries outside major emerging economies, and low returns relative to mainstream financial products. Country risk* and counterparty risk* are significant structural deterrents.

3.3.1 Risks (real vs. perceived)

Investments in private development finance targeting developing countries and SMEs often face a relatively unattractive risk/return profile*. Investors perceive these transactions as riskier than other investments with comparable financial returns, mainly due to country and counterpart risk. Investing in countries with below-investment grade* sovereign risk, especially LDCs, often falls outside investors' mandates. Developing countries are considered as high-risk, with the median sovereign credit risk rated "B" among 145 developing nations, compounded by currency risk. Additionally, focusing on SMEs through private asset strategies presents higher risks compared to traditional, more liquid public market investments with extensive publicly available information.

3.3.2 Trade-offs

The issue of **trade-offs between profitability and impact** is and will remain central for impact investing. Achieving both social/environmental impact and financial returns adjusted to market risk is highly debated. **Full market returns with high-impact social outcomes** are **rare** and often rely on government subsidies or philanthropic support, not true market returns. Even the OECD has noted that not all the SDGs can be addressed through the mobilization of private finance, as there are significant limitations to what companies can profitably achieve under normal circumstances.[49]

Financial returns may be lower than expected, posing a danger that financial capital will shift away from impactful projects. When impact investing focuses solely on profit maximization, the quality of impact and development is compromised.

Another trade-off for investors is that impact and systemic transformation require **long-term strategies**, while financial incentives focus (too often) on short-term returns. Harmful investments often

[49] Making private finance work for the SDGs (OECD 2022)

yield high profits due to unaccounted for, negative externalities, like carbon emissions or health impacts. Conversely, beneficial investments may be unprofitable as markets do not reward positive externalities, such as improved health from reduced pollution.

3.3.3 Constraints and other barriers: relatively high costs, small "ticket size", and illiquidity

Low returns – given the actual/perceived risk – compared with conventional financial products are a major obstacle to the widespread adoption of impact investing. Investors often cite the lack of attractive products to invest in, and high transaction and product costs. It is indeed difficult to identify companies with a measurable social and/or environmental impact that require additional capital, especially when the beneficiaries are spread across sectors and countries. This process is costly, particularly in developing countries where local expertise is required. Furthermore, investors have difficulty finding "quality" assets or "bankable" projects, and the small size of transactions hinders the development of impact finance. Institutional investors often require larger investment amounts than companies (especially SMEs) need, making smaller operations less attractive.

Finally, the **illiquid nature*** of impact assets forces investors to adopt a long-term perspective. Unlike traditional investment products, which offer investors a high degree of liquidity – particularly in the stock and secondary markets – private assets are relatively illiquid products – and some are even more so than others, notably closed-end and equity funds – for which investment requires the commitment of "patient capital" over several years.

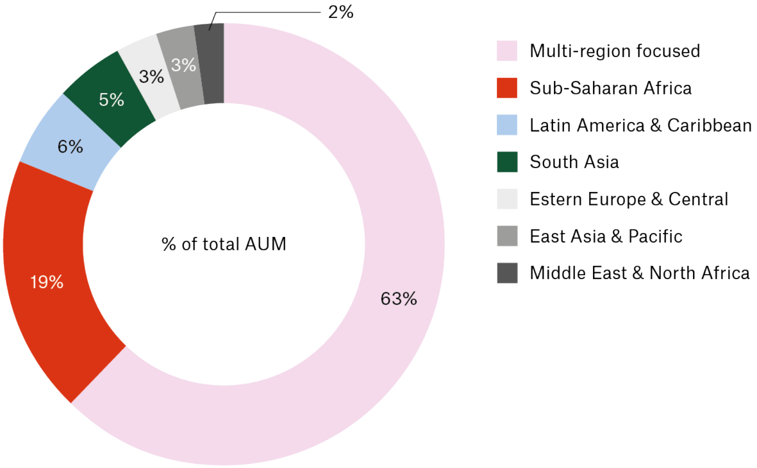
3.4 Main investment trends and evolution of the global impact investing market

3.4.1 Regional and country allocation

Knowing the region and country where the impact investment fund's capital is deployed is crucial for assessing the fund's financial and developmental additionality*. Specifically, understanding the proportion of investments directed towards low- and middle-income countries is key to evaluating leverage in emerging or "under-supplied" capital markets. Unfortunately, as stated, these data are not all publicly available and had to be obtained separately by Tameo from a limited number of fund managers, representing less than a third of the global impact investment fund universe. All analysis is based on self-reported data submitted directly by investors. These data should hence be analysed with some degree of precaution.

Regional focus (overall PAIF universe)
While most PAIFs have a single regional focus, globally most impact funds managed by PAIFs have a **multi-regional focus**. **Single-region funds**, except for those in Eastern Europe & Central Asia, are significantly smaller than multi-regional funds, which provide a greater diversity of opportunities with a broader investment scope. Nearly two-thirds of funds, whether single or multi-regional, focus on Sub-Saharan Africa, followed by Latin America & the Caribbean, South Asia, and East Asia & the Pacific.

Figure 3: Funds by focus region

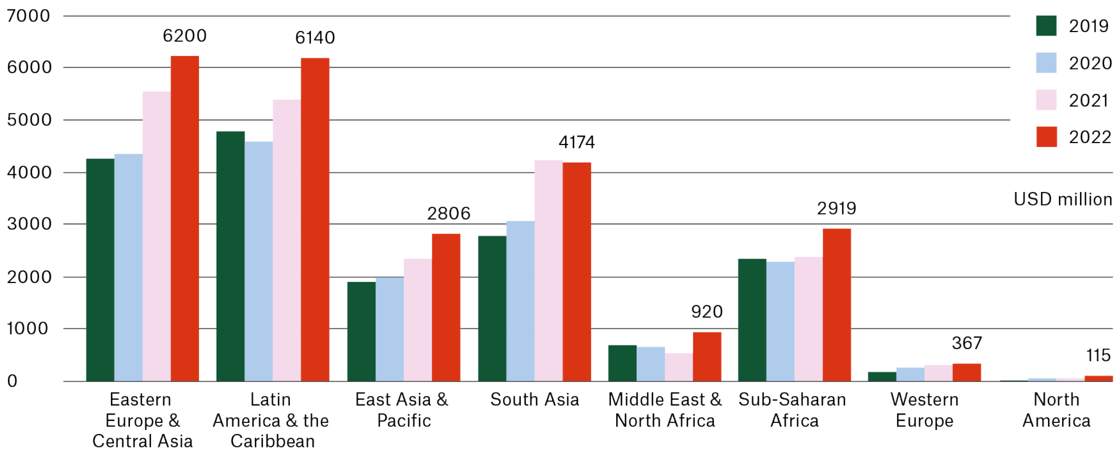


Source: Tameo 2023, p. 6.

Regional portfolio ("PAIF sub-sample")

Consistently, since 2019, the **regional dynamics** of fund investments have been notably shaped by **Eastern Europe & Central Asia**, as well as **Latin America & the Caribbean**, both commanding a substantial share of approximately a quarter of the total direct impact portfolio. **South Asia** still holds the third position, representing 18% of the total direct impact portfolio, followed by **Sub-Saharan Africa and East Asia & Pacific**, both accounting for 12% of investments. The **Middle East & North Africa region** constitutes a smaller share at 4%.

Figure 4: Outstanding volume by region



Source: Tameo 2023, p. 50

Country focus ("PAIF sub-sample")

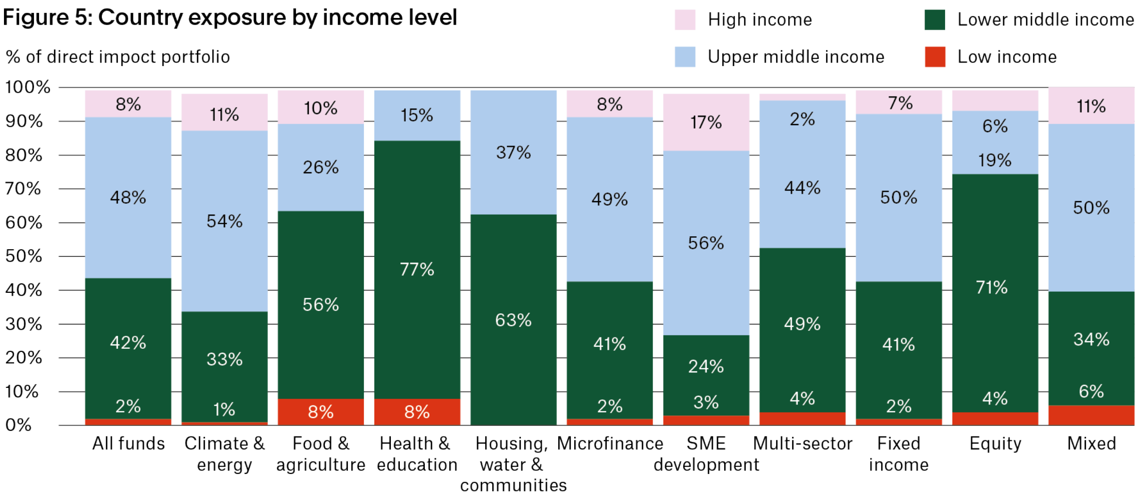
As of December 2022, the USD 28.5 billion in impact investments covered by the TAMEO survey were deployed across 124 developing countries.

India led in portfolio outstanding, holding **11.6% of the total volume** and ranking first in several sectors, including microfinance and food & agriculture. India is followed by **Ecuador** (5.7%), **Georgia** (5.0%), **Cambodia** (4.2%), and the **Russian Federation** (3.2%). Rounding out the top 10 are **Mexico** (the top destination for SME development funds), **Uzbekistan, Peru, Armenia,** and **Bolivia.** The top 20 also includes **Kazakhstan, Kenya** (leading in health & education funds), **El Salvador, Panama, Colombia, China, Egypt, Indonesia, Turkey, and Vietnam**.

Country classification *("PAIF sub-sample")*

In terms of volume, the surveyed PAIFs' direct impact portfolio is predominantly distributed in middle-income countries, accounting for 90% across lower and upper-middle income economies. These PAIFs allocate 42% of their capital to lower-middle-income countries (LMICs) and 48% to upper-middle-income countries (UMICs). High-income countries constitute a mere 8% of the direct impact portfolio. **Capital directed towards low-income economies (LICs) remains scarce, representing only 2% in 2022.**

Figure 5: Country exposure by income level



Source: Tameo 2023, p. 128

Allocations to **Least Developed Countries** (LDCs) remain low, with **only 9.6%** of total PAIF funds covered by TAMEO's survey allocated to LDCs as of December 2022 (USD 1.9 billion). These funds were active in 28 countries out of 46 categorized by the UN as LDCs. Historical trends show a negative growth in the proportion of funds allocated to LDCs. **Cambodia**, a key market for microfinance funds, accounts for 44% of the LDC volume. **Uganda, Bangladesh**, **Tanzania, Myanmar,** and **Senegal** each account for 4-9% of the LDC volume. Other LDCs receive minimal investment, indicating a significant gap. Due to perceived risks linked to low sovereign ratings, grant financing and concessional capital are more suitable for LDCs.

Table: List of LDC allocations

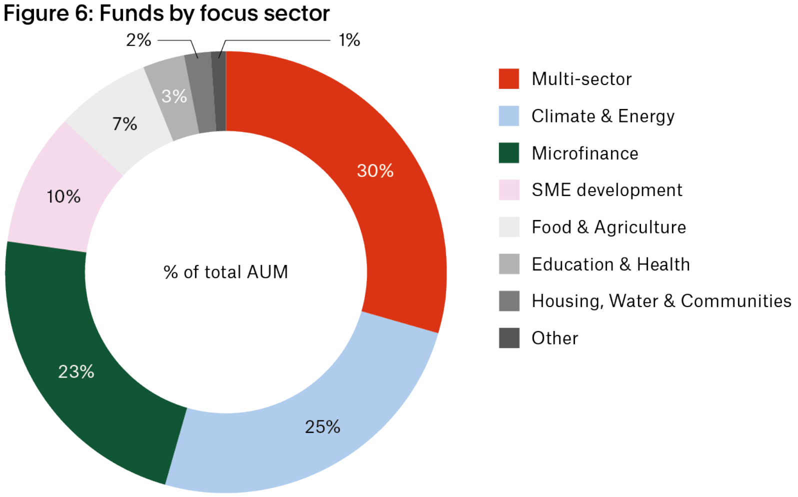
Country	Portfolio outstanding (in USD million)	% of total country portfolio	Number of funds investing
Cambodia	839.8	4.19%	51
Uganda	169.7	0.85%	47
Bangladesh	142.1	0.71%	12
Tanzania	136.1	0.68%	36
Myanmar	130.3	0.65%	42
Senegal	90.9	0.45%	35
Zambia	58.8	0.29%	19
Burkina Faso	55.8	0.28%	24
Congo, Dem. Rep.	44.9	0.22%	15
Mozambique	43.6	0.22%	9
Nepal	30.6	0.15%	9
Malawi	29.9	0.15%	9
Togo	29.1	0.15%	9
Benin	24.6	0.12%	12
Madagascar	22.2	0.11%	12
Mali	20.9	0.10%	10
Rwanda	20.6	0.10%	14
Sierra Leone	9.2	0.05%	9
Timor-Leste	8.2	0.04%	9
Haiti	7.5	0.04%	12
Angola	5.7	0.03%	4
Niger	2.6	0.01%	3
Liberia	2.4	0.01%	4
Lesotho	2.1	0.01%	1
Comoros	0.7	0.00%	1
Guinea	0.2	0.00%	1
Lao PDR	0.2	0.00%	1
Somalia	0.0	0.00%	1
Total	**1928.6**	**9.63%**	

Source: Tameo 2023, p. 130.

3.4.2 Sector outreach (overall PAIFs)

Microfinance funds pioneered development finance in the late 1990s, but the impact investing landscape has since diversified. Since 2015, non-microfinance strategies have dominated new fund launches. **Multi-sector** funds are now the most widespread, comprising USD 28.3 billion. **Climate & energy** funds follow closely with some USD 24 billion, just ahead of **microfinance funds** (USD 22 billion). **SME development** funds account for USD 9.2 billion, slightly more than **food & agriculture** funds (USD 6.3 billion). **Health & education**, as well as **housing, water, and utilities** funds, remain marginal.

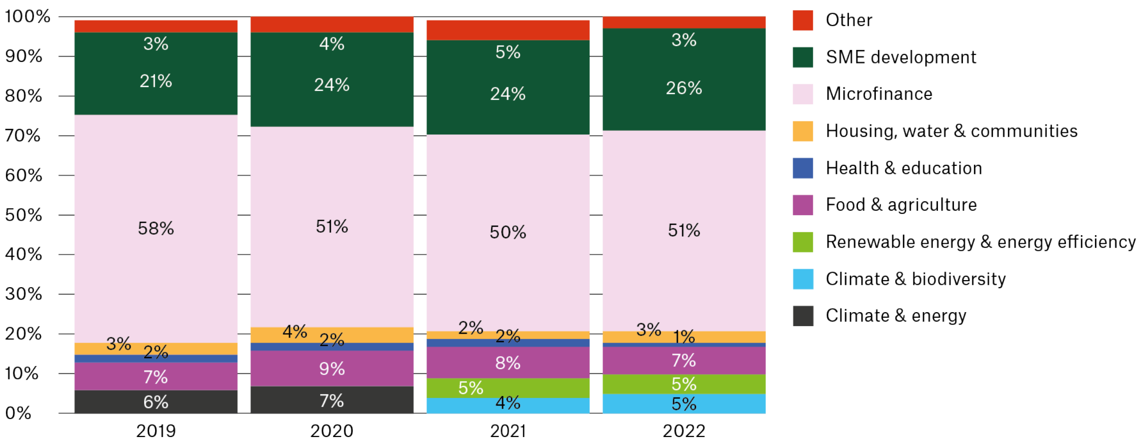
Figure 6: Funds by focus sector



Source: Tameo 2023, p. 6

Regional allocation varies significantly **by impact sector**. Latin America & the Caribbean is key for climate & energy (35%) and multi-sector funds (33%). Sub-Saharan Africa leads in food & agriculture and health & education funds. SME development funds prefer South Asia. Housing, water, and community funds focus on Asia, with South Asia (39%) and East Asia & Pacific (22%) making up 61% of the portfolio. Microfinance funds primarily invest in Eastern Europe & Central Asia (34%) and Latin America & the Caribbean (25%).

Figure 7: Portfolio breakdown by impact sector
% impact portfolio



Source: Tameo 2023, p. 44

Funds dedicated to **housing, water & communities, food & agriculture**, and **health & education** are most inclusive, directing most of their impact portfolios to **low- and lower-middle-income countries**. In contrast, **SME development** and **climate & energy** funds allocate over two-thirds of their portfolios to **upper-middle and high-income economies**.

Annex 1 presents an analysis of the Swiss impact investing market.

4. Conclusions and Recommendations

A) Conclusions

A niche market only

– Despite its substantial growth in recent years, with some 1.2% of the global financial market (98 trillion dollars against 1,164 billion dollars), the **impact investment sector remains a niche in the global financial market**, and even more so if we consider the share allocated to developing countries (0.097%). Only a very small proportion of the world's vast financial resources is directed towards impact investment in developing countries. And only a limited proportion of these funds are committed to prioritizing impact over return. This is due to several factors, including the perception of high risk, a limited financial infrastructure and a limited pool of investment opportunities that guarantee the financial returns expected by investors. It should be remembered that the primary objective of financial investors is to maximize risk-adjusted returns. Investors prefer opportunities that allow them either to obtain a higher return for a given level of risk, or to bear less risk for a given level of return. Also, the financial system (as it is structured today) does not aim to generate 'development impact'; current incentives force portfolio managers to generate financial returns and generating impact is (a priori) not part of their mandate.

Loopholes: too vague and generic definitions

– The definitions currently applied – which are vague and generic – lead to a patchwork of different approaches with equally **disparate development outcomes**. In the absence of a clearer and more precise definition, it is difficult to measure and assess the impact of investments in a consistent way. Furthermore, without a credible certification, companies and funds can falsely claim to be impact-driven to attract investors, leading to greenwashing (misleading claims about environmental impact) or impact washing (misleading claims about social impact).

Weak measurement tools

– In addition, it remains **difficult to measure the "real" impact of investments**, due to the different types of approaches and tools applied and the predominant use of "internally developed tools". Despite the increased use of standardized instruments, financial players apply different criteria to measure success, which makes it difficult to ensure the consistency of impact assessments. In the absence of mandatory measurement standards, the risk of "impact washing", where investments are presented as having an impact without substantial evidence, increases. In addition, resources may be allocated to projects with less significant or less measurable impact, reducing the overall effectiveness of the sector.

Inconsistent and non-transparent reporting

– The **lack of consistent and transparent reporting** between fund managers hampers the comparability of data, making it difficult to assess the performance of different funds. This inconsistency reduces investors' ability to make informed decisions and gives rise to scepticism about the **authenticity and effectiveness of impact statements**. As a result, trust in fund managers is undermined, and potential investors may be deterred from entering the field of impact investing.

Limited outreach to the poorest countries …

– Impact investing quickly comes up against geographical and sectoral constraints. It has **difficulty reaching the poorest countries**, which suffer most from a lack of access to finance and are the most dependent on international funding to achieve the SDGs. The least developed countries (LDCs), as this report has shown, account for less than 10% of all impact investments. These countries generally present higher (real or perceived) political and economic risks, suffer from underdeveloped financial infrastructures and present limited investment opportunities that meet the criteria for impact investments. In these countries, "traditional" development cooperation (financed by ODA) should remain the priority.

… and to key sectors for poverty reduction and adaption to climate change.

– Impact investment has (so far) been very limited in social infrastructure or adaptation to climate change. While substantial investments have been made in microfinance and SME financing and, to a lesser extent, in climate and energy, several key sectors in terms of poverty reduction and access to essential goods and services remain underfunded. For example, investment in agriculture – smallholders and subsistence farmers in developing countries are the most vulnerable to climate change – particularly in sustainable agricultural practices, resistant crop varieties and efficient irrigation systems, remains scarce. Other sectors essential to reducing poverty and inequality, such as housing, water, health and education, account for only a marginal share of the total impact portfolio. To guarantee universal access to health and education and other essential public services, these sectors will remain primarily financed by public resources, which may have to be supported by ODA.

Mobilizing domestic public resources, combatting illicit financial flows, and providing a substantial level of ODA for the poorest countries should remain the priorities for financing the SDGs.

– Because of its constraints, the impact investment sector alone can in no way fill the financing gap for achieving the SDGs. Priority must (continue to) be given to mobilizing domestic public resources (Domestic Resource Mobilization, DRM) and combatting illicit financial flows (IFF), as well as freeing up fiscal space for spending by and in developing countries. These are prerequisites for ensuring that developing countries have sufficient financial leeway to make the investments and expenditures needed to achieve their development goals and improve the well-being of their populations. For the poorest countries (low-income and least-developed countries), substantial amounts of ODA – in line with the long-standing international target for developed countries to devote 0.7% of their GNI to development cooperation – will remain necessary to help these countries implement the SDGs.

No substitute for the necessary deep transformation of financial markets

– Impact investing can never be a substitute for the necessary in-depth transformation of global financial markets and the commitment to align financial flows with the objectives of the Paris climate agreement. To achieve this goal, credible regulations, and incentives, in addition to awareness and education, must be put in place to move the entire financial system towards sustainability. This includes credible carbon pricing, strict emissions regulations, mandatory climate-related financial disclosures (applicable to companies and financial institutions), as well as "climate-aligned investments". The entire financial sector must commit – in a binding and measurable way – to prioritize climate-friendly investments, redirecting capital from carbon-intensive industries to sustainable alternatives; finally, companies in all sectors have a responsibility to adopt sustainable business practices, reducing their carbon footprint to achieve carbon neutrality by 2050, at the latest.

B) Recommendations

I. To regulators (SIF)

1. If Switzerland wants to become a **leader in the impact investment sector in developing countries** – i.e., capitalizing on the strength and diversity of its financial sector and the expertise of the development community – it will need to put in place an ambitious strategy involving private, public, academic and NGO players to ensure its relevance. Major developments in terms of regulations and incentives, including more precise definitions, impact measurement and reporting tools, labels and certification will be needed to ensure this leadership position.

2. A reliable and verifiable **Swiss label for impact investment** products should be introduced.

3. The new requirements must have a **binding nature** and be **enforceable**. In the case of non-compliance with the transparency requirements, clients and investors (and also the regulator/FINMA) must have recourse to legal action.

II. To impact investors (even in the absence of regulation)

4. "Impact goals" must be clarified: impact investments must aim for **credible, causal, and measurable impact**. Mere "alignment with the SDGs" should not be considered as impact investment. A specific contribution to one (or more) impact objective(s) must be clearly defined, measured, and transparently reported.

5. **Transparency** must be enhanced regarding the description of the "impact approaches": the impact finance service provider must describe the management process used to achieve the desired impact, define key performance indicators (KPIs) to measure the actual impact, and monitor these KPIs to optimize the investment strategy.

6. **Accountability must be improved**: harmonized, regular, and effective **reporting** must be established on defined "impact targets", using existing (or yet to be developed), recognized and relevant indicators (e.g., for climate alignment targets). This should include the strategies employed, the metrics used to measure impact, and the outcomes achieved.

7. **"Impact statements"** must be **scrutinized** to ensure that they meet specific climate and/or environmental or social objectives. They should be subject to rigorous **verification processes** and **third-party audits** to ensure that the claims made in impact statements are accurate and reliable. This should involve engagement with communities affected by investments, to ensure that their perspectives and needs are considered. Impact statements should be integrated with financial performance reporting to provide an overview of the overall value of the investment (financial returns and impact outcomes). Mechanisms must be put in place to hold companies and funds **accountable** for their statements.

8. Impact investors should **partner with NGOs** which can share expertise, provide de-risking or concessional capital, to channel capital towards enterprises in specific sectors or geographies where NGOs are active, allowing these enterprises to create jobs and/or provide access to essential goods and services.

III. Recommendations to donors (incl. SECO and SDC)
Government agencies should:

9. Implement blended finance instruments – which should prioritize de-risking in targeted projects in LDCs, as complementary, but not as a substitute for grant financed development cooperation.

10. Provide a solid analysis of the respective social and environmental impacts to which they wish to contribute through their involvement when they allocate subsidies/grants (i.e., via blended finance initiatives).

11. Demand from impact investors a precise definition of impact, an investment strategy, including precise key performance indicators, high-quality monitoring, and reporting tools (see above).

12. Ensure that grants/subsidies are linked to predefined and measurable outcomes and not distributed upfront without clearly defined expectations.

13. Swiss development agencies' support for impact investment initiatives/programmes should focus primarily on the priority countries of Swiss international cooperation.

14. Use their "convening power" to encourage philanthropic organizations/private foundations to subsidize the pipeline of fundable projects (by contributing to TA funds). They should also use their influence in target countries for political dialogue to help reducing political risks.

15. Ensure that international impact investments are in line with developing countries' development priorities and support partner countries in identifying and channelling impact investments to the most relevant sectors/companies from a poverty reduction point of view.

16. Countries of the Global South have considerable resources at their disposal thanks to pension funds, insurance companies and local banks. Swiss cooperation partner countries should be helped to adapt their regulatory frameworks to facilitate the investment of these funds in their regions, thus creating a South-South impact investment sector.

IV. Recommendations to philanthropic organizations/private corporate foundations
Philanthropic organizations/private corporate foundations should:

17. Consider impact investing, pursuing a dual strategy of investing part of the endowment for impact, as well as using part of the "programmatic" funds to support locally sustainable entrepreneurial initiatives.

18. Allocate more programmatic funds in the form of grants or high-risk "patient capital" to support the research and development of business incubation and acceleration projects and other high-impact activities. Their strategy should include allocating some funds as grants (with no expectation of return) and some as patient capital (with an expectation of long-term return).

19. Foundations should fund research and development (R&D) initiatives to explore new technologies, products, or services with the potential for social or environmental impact. This may include funding academic research, pilot programmes and feasibility studies.

20. Foundations should use their influence to promote best practice, share knowledge and encourage other organizations to engage in impact investing, instead of relying on public subsidies.

V. Potential roles for NGOs (international and national)

NGOs can play a crucial role as facilitators and partners in impact investing. NGOs often have in-depth knowledge of local contexts through their long-standing presence in countries and through local staff.

21. NGOs can help to understand local needs, identify opportunities, and mitigate risks associated with impact investment.

22. NGOs can provide in-depth sectoral expertise on specific social or environmental issues. They can provide advisory services to impact investors to build local value-chains, validate business models and opportunities.

23. In some cases, local NGOs can even act as intermediaries or "honest brokers" between investors, social enterprises, and communities to build mutual trust and ensure that all stakeholders are properly included and benefit.

24. They can help to monitor and evaluate the impact of investments, ensuring that projects are delivering the intended benefits and providing transparent reporting to stakeholders.

25. NGOs can provide training, mentorship, and technical assistance to intermediary financial institutions, as well as to social enterprises and impact-driven organizations. This support can enhance their operational efficiency and scalability.

26. They can capacitate local partners to run incubator and accelerator programmes to nurture early-stage social enterprises, helping them develop viable business models and attract investment.

Glossary of terms

Words marked in the main text with an * are explained below:

Addis Ababa Action Agenda (AAAA): The AAAA was the outcome of the 2015 Third International Conference on Financing for Development, held in Addis Ababa, Ethiopia. It was adopted by Heads of State and Government on 15 July 2015 with a view to providing a new global financing framework to mobilize and deliver the resources, technology and partnerships needed for sustainable development.

Agenda 2030: The 17 Sustainable Development Goals (SDGs), with their 169 targets, form the core of the 2030 Agenda. They balance the economic, social, and ecological dimensions of sustainable development, and place the fight against poverty and sustainable development on the same agenda for the first time.

Additionality refers to the (supposed) added value that private investors bring by providing new finance and/or positive development impact to development and climate-related projects.

Alternative asset classes refer to investment categories that fall outside traditional asset classes such as stocks, bonds, and cash. These can include real estate, private equity, hedge funds, commodities, or infrastructure.

Asset managers invest on behalf and in the best interest of their clients. They select financial instruments such as stocks and bonds that are listed on international exchanges, or they invest in unlisted assets such as private companies or real estate. BlackRock is the world's largest asset manager with more than 10,000 billion CHF in assets under management. The largest Swiss asset managers are traditionally bank-owned or insurance-owned. However, independent Swiss asset managers are increasing their market share.

Assets under Management (AuM) is the total market value of the investments managed by a person or entity on behalf of investors.

Asset owners are generally the institutions or people – pension funds, insurance companies, official institutions, banks, foundations, family offices and individual investors – who own the actual assets.

Blended Finance, or 'blending', can be broadly defined as the combination of public concessional finance – finance on more generous terms than the market has to offer – with private or public resources. This generally has the goal of 'mobilizing' or 'leveraging' development finance from other actors.

Building Bridges initiative is a Swiss-led effort to promote sustainable finance by fostering collaboration among investors, policymakers, financial institutions, and civil society to align investments with the United Nations' Sustainable Development Goals (SDGs).

Closed-ended vs. open-ended funds. Closed-ended funds have a fixed number of shares and a defined lifespan, (typically not allowing new investments or withdrawals after the initial offering), while open-ended funds continuously issue and redeem shares at their current net asset value, allowing investors to enter or exit the fund at any time.

Countries with sovereign risk ratings below investment grade are those rated BB+ or lower by Standard & Poor's, Ba1 or lower by Moody's, and BB+ or lower by Fitch, indicating a higher risk of default compared to investment-grade countries. Examples include Kenya, Senegal, and Vietnam.

Country Risk refers to the potential for a country's economic, political, or social conditions to affect an investment. This risk includes a wide range of factors such as political instability, changes in government policies, economic mismanagement, social unrest, and other country-specific events that could negatively impact the financial performance of investments within that country. Key components include so called political, economic, and sovereign risks.

Counterparty Risk, also known as default risk or credit risk, is the risk that the other party in a financial transaction might not fulfil their contractual obligations. This risk is crucial in investments involving derivatives, bonds, loans, and other financial instruments.

De-risking instruments involve either a direct use of public money or backing a project with public funds, both of which put public funds at risk. Blended finance typically involves the use of de-risking instruments but is not one itself.

Development finance: Whereas the broad concept of financing for development, as reflected in the Addis Ababa Action Agenda (AAAA) covers a comprehensive range of financing sources, development finance is narrower in scope. The defining criterion for development finance is the intentionality of the flow, i.e., it is based on an explicit development mandate or purpose. At the international level, this comprises official development finance (ODA) which is concessional and non-concessional bilateral and multilateral finance in support of development; **private development finance** relates to private funds that are governed by a development mandate, i.e., financing provided, e.g., by philanthropic organizations or Private Asset Impact Funds (PAIFs) for development purposes in developing countries (see below).

Development finance institutions (DFIs) are specialized development organizations, usually majority-owned by national governments. DFIs invest in private sector projects in low- and middle-income countries to promote job creation and sustainable economic growth. They can be bilateral, supporting their government's foreign development policy, or multilateral, serving as private sector arms of International Finance Institutions (IFIs) established by multiple countries. DFIs source capital from national or international development funds or benefit from government guarantees, ensuring creditworthiness. DFIs strive to mobilize (additional) private capital from commercial banks, investment funds, and private businesses.

Domestic Resource Mobilization (DRM) refers to the ability of a State to mobilize its own resources and collect taxes to pay for essential services (education, health, social protection, security, and the like). It is at the very heart of a properly functioning government and is essential for public investment in equitable and sustainable development and for the reduction of dependence on aid.

ESG stands for "environmental, social, and governance," and is a framework that considers non-financial factors impacting a company's long-term success. ESG criteria include environmental sustainability, social impact, and the quality of a company's governance practices. ESG factors form the basis for the different SI approaches.

Foreign Direct Investment (FDI): Investment reflecting a lasting interest and control by a foreign direct investor, resident in one economy, in an enterprise resident in another economy.

Fiduciary duty is the responsibility that fiduciaries are tasked with when dealing with other parties, specifically in relation to financial matters. In most cases, it means that the duties involve a fiduciary (usually an asset manager) overseeing the wealth of their clients, acting on the client's behalf, and in their best interests.

Fintechs – portmanteau word for "financial technology" – refers to companies that use technology to improve, innovate, or automate financial services and processes. These companies operate in various segments of the financial industry, including banking, payments, investments, lending, insurance, and personal finance management. Technologies used might include artificial intelligence (AI), blockchain, big data, and mobile applications to offer more efficient, accessible, and user-friendly financial services.

First loss guarantee: A type of guarantee in which the provider of the guarantee agrees to bear losses incurred up to an agreed percentage in the event of default by the borrower.

Growth vs early-stage companies: Growth-stage companies are businesses that have moved beyond the start-up phase and are experiencing rapid revenue increases and market expansion, whereas early-stage companies are start-ups in the initial phases of development, focusing on product development, market research, and initial customer acquisition.

Hedge Funds are investment funds that pool capital from accredited investors or institutional investors to employ diverse strategies, including leveraging, short-selling, and derivatives, to generate high returns regardless of market conditions.

Humanitarian Impact Bonds (HIBs) are financing mechanisms that raise private capital to fund humanitarian projects, with investors' returns contingent on the achievement of specific, measurable outcomes.

Illicit financial flows (IFF) refer to the movement of money across borders that is illegal in its source (e.g., corruption, smuggling), its transfer (e.g., tax evasion), or its use (e.g., terrorist financing). With billions of dollars estimated to be illicitly leaving developing countries every year, this drain of public resources undermines the efforts of countries to mobilize more domestic resources to meet the **SDGs** by 2030.

Illiquid nature of (impact) assets means that these investments are not easily converted into cash or traded on a regular basis – contrary to publicly traded stocks or bonds – and this can impact an investor's ability to quickly access funds or adjust their portfolio.

Impact first vehicles/funds are entities which are investing their own funds – e.g., cooperatives, foundations, investment companies and NGOs – often with a philosophy of below-market rate return.

Impact washing concerns are concerns about funds making impact statements ("impact claim") that are not backed by their investment strategy and holdings.

Inclusive finance/Financial inclusion is universal access, at a reasonable cost, to a wide range of financial services, provided by a variety of institutions. Inclusive finance strives to enhance access to financial services for both individuals and micro-, small, and medium-sized enterprises (SMEs). In developing countries, access to financial services is crucial to strengthen financial sectors and domestic resource mobilization and can therefore make a significant contribution to social and economic development. In the 2015 Addis Ababa Action Agenda (AAAA), countries agreed to consider financial inclusion as a policy objective in financial regulation.

Institutional investors are organizations such as pension funds, insurance companies, mutual funds, and sovereign wealth funds that pool and invest large sums of money in various financial assets on behalf of their members or beneficiaries.

International climate finance refers to transnational financing (public and private) needed to enable mitigation and adaptation initiatives, as well as financing loss and damage, particularly in developing countries with limited resources.

Investment-grade projects (or non-investment grade): Investment grade refers to the quality of a company's credit. To be considered an investment grade issue, the company must be rated at 'BBB' or higher by Standard and Poor's or 'Baa" or higher by Moody's. Anything below these 'BBB' or 'Baa" ratings is considered non-investment grade. Most institutional investors are restricted to in investment grade issues or OECD countries.

Investees refers to the entities or companies that receive investments from the investment fund. These are the businesses or projects in which the fund allocates its capital with the expectation of generating returns. The term encompasses a wide range of potential recipients, including start-ups, small and medium-sized enterprises (SMEs), large corporations, infrastructure projects, and social enterprises, depending on the specific focus of the investment fund.

Least developed countries (LDCs): Low-income countries suffering from the most severe structural impediments to sustainable development. There are currently 45 economies designated by the United Nations as LDCs (33 are in Africa), entitling them to preferential market access, aid, special technical assistance, and capacity-building on technology among other concessions.

Low Income countries (LICS): Low-income economies are defined by the World Bank as those with a GNI per capita of USD 1'135 or less in 2022; of 26 LICs, 23 are in Africa. Lower middle-income countries (LMICs) are those with a GNI per capita between USD 1,136 and USD 4,465; upper middle-income countries (UMICs) are those with a GNI per capita between USD 4,466 and USD 13,845.

Micro, small and medium-sized enterprises (MSMEs): Small and medium-sized enterprises (SMEs) are defined as firms employing 5 to 50, and 50 to 250 employees, respectively. Firms with up to 5 employees are usually referred to as micro firms.

The microfinance movement is widely attributed to Dr. Muhammad Yunus and was effectively launched in the 1970s. It began with Yunus's efforts to provide small loans to impoverished individuals in Bangladesh, who lacked access to traditional banking services. His pioneering work led to the establishment of Grameen Bank in 1983, which became a model for microfinance institutions worldwide. Dr. Yunus and Grameen Bank were jointly awarded the Nobel Peace Prize in 2006 for their efforts to create economic and social development from below.

Multilateral Development Banks are supranational institutions set up by States, which are their shareholders. Their remits reflect the development aid and cooperation policies established by these States. Their common task is to foster economic and social progress in developing countries by financing projects, supporting investment, and generating capital. The World Bank group, the African Development Bank and the Asian Development Bank are examples of MDBs.

Official development assistance (ODA): The concept of ODA, or aid, was defined over fifty years ago. It refers to financial support – either grants or "concessional" loans from OECD-DAC member countries to developing countries. These funds are provided to advance development in areas such as health, sanitation, education, infrastructure, and strengthening tax systems and administrative capacity, among others.

Patient capital is another name for long-term capital. The investor is willing to make a financial investment in a business with no expectation of turning a quick profit. Instead, the investor is willing to forgo an immediate return in anticipation of more substantial returns down the road.

Private Asset Impact Funds (PAIFs): Specialized impact fund managers with over 50% of their non-cash assets allocated to private debt or private equity instruments, primarily in emerging and frontier markets, with a "development impact bias".

Private development finance: Sub-category of impact investing applied through private investment strategies as the provision of private debt and equity investments in the real economies of developing markets, with a view to creating both a financial return and a positive impact on sustainable development. This includes topics such as microfinance, SME financing, sustainable agriculture, community development (affordable housing, sustainable infrastructure, clean utilities, etc.), renewable energies (hydro, solar, waste, wind, etc.), affordable healthcare and education.

Private equity vs private debt (or fixed-income funds): Private equity involves taking ownership stakes in companies, often providing more control and potential for higher returns but with higher risk, while private debt involves lending capital to companies in exchange for fixed income and the repayment of principal, generally offering lower risk and more predictable returns.

Results-based financing is an umbrella term referring to any programme or intervention that provides rewards to individuals or institutions after agreed-upon results are achieved and verified.

Risk-adjusted market-rate return: It is a measure of the return on an investment after accounting for the risk taken to achieve that return. It evaluates the performance of an investment by considering both the potential gains and the risks involved, allowing for a more accurate comparison between different investments.

Secondary market: The secondary market is where investors buy and sell securities. Trades take place on the secondary market between other investors and traders rather than from the companies that issue the securities. People typically associate the secondary market with the stock market.

Shareholder Engagement or voting strategies (also called stewardship approach): Engagement is an activity performed by shareholders with the goal of convincing management to take account of ESG criteria. This dialogue includes communicating with senior management and/or boards of companies and filing or co-filing shareholder proposals. Successful engagement aims to incentivize changes in a company's strategy and processes to improve ESG performance and reduce risks.

Social Impact bond (SIB): This is a financial instrument that raises private capital to fund public social programmes, with returns for investors contingent on achieving specified social outcomes. If the programme meets its goals, investors receive a return on their investment from the government or other backers, but if it fails, they may lose their capital.

Sustainable development: A development process that aims to "meet the needs of the present without compromising the ability of future generations to meet their own needs" (Brundtland Commission)

Sustainable Investing (SI): Any investment approach integrating environmental, social and governance (ESG) factors into the selection and management of investments, measured through volumes applying one or more of the existing commonly accepted SI approaches.

List of boxes

ANNEXES:

Annex 1: Analysis of the Swiss impact investing market

Qualifications:
1) In its recently published study (A Stocktake of Swiss Impact Investing), SSF mentions impact investing to the tune of CHF 180 billion in AuM, applying a "broad definition" as a self-declared sustainable finance approach by Swiss assets managers and asset owners. Of this total, 95.3% is occurring in developed countries and all regions. **Only 4.7% of AuM is occurring in developing countries.** Hence, this data set is not considered as relevant for the purposes of this study, which will therefore focus on the data provided by Tameo on private asset impact funds (PAIFs)

2) Impact funds are managed by private companies that are not subject to detailed reporting obligations. Impact data is often only made public in aggregate form at fund level, with little granularity. The result is a general lack of transparency and comparability of publicly available data. For the purposes of this document, data specific to the Swiss market was obtained through a separate mandate awarded to Tameo.

Swiss Impact Investment Market: Key features (Source: TAMEO 2024)[50]
The universe of Swiss impact investment managers deploying capital in emerging markets (not exclusively) is relatively large and heterogenous with 18 players managing close to USD 15 billion in capital. About USD 11 billion of this amount comprises so-called private assets, referring to investments in equity (shares) and debt issued by privately owned companies – as opposed to 'public' (listed) companies – and therefore correspond to 100% financial additionality.

To put this figure in perspective, that is **0.589 %** of overall volume of "sustainability related investments" (SSF 2024)[51] or **0.116 %** of the total volume of assets under management (AuM) at banks in Switzerland in 2023 (CHF 8,391.7 bn).[52]

Overall, the market is highly concentrated, with the three largest managers – responsAbility, BlueOrchard and Symbiotics –together holding about 80% of the total market share, and the six largest managers holding 93%.

50 This market is defined as Swiss, as it is composed of investment funds managed by Swiss-based fund managers ("PAIF manager"). These fund managers may be owned or controlled by foreign entities (which is the case for the three main ones) and the investment funds may be registered outside of Switzerland.

51 Swiss Sustainable Investment Market Study 2024. Exchange rate USD/CHF as of Nov November 25

52 Banking Barometer 2024, Swiss Banking.

Table 1: List of Managers (*)

PAIF Manager	Total AUM + AUA (USDm) (**)	Total AUM (USDm, excl. AUA) (***)	Private Assets (USDm, excl. FoF)
responsAbility Investments AG	4800	3740	3740
BlueOrchard Finance Ltd	4236.8	4144.9	3503.2
Symbiotics	2800	1063.1	1063.1
INOKS Capital	734.8	734.8	734.8
Blue Earth Capital	687	687	687
Enabling Qapital, AG	669.7	669.7	669.7
Bamboo Capital Partners	189	189	189
Persistent Energy Capital	175	55	55
SUSI Partners AG	120	120	120
Fundo	105.8	105.8	105.8
Seedstars	90.5	90.5	90.5
Zoscales Partners	75	75	75
Impact Finance Management S.A.	72.1	72.1	72.1
AlphaMundi Group	55	55	55
South Pole	26.1	26.1	26.1
iGravity	25.6	25.6	25.6
Clarmondial	17.8	17.8	17.8
Philea	2.2	2.2	2.2
Total (USDbn)	**14.882.4**	**11.873.6**	**11.231.9**

(*) These are all the Swiss based fund managers identified by Tameo with at least one impact fund focusing on emerging markets.

(**) AUA = Assets under Advisory: these are advisory mandates where the company does not take the final investment decision.

(***) AUM = Assets under management correspond to the total assets of the funds affiliated to each manager, which may include cash and non-impact portfolios. In other words, not all assets under management are invested in impact projects in developing countries.

Source: Tameo 2024

Regional allocation

Latin America & the Caribbean with 24% and **Eastern Europe & Central Asia** with 20% are the regions benefiting most from impact investments managed by Swiss managers, most likely because of their relative political and economic stability as well as a conducive investment environment (with a few notable exceptions).

Interestingly, **Sub-Saharan Africa** and the **Middle East & North Africa** receive only 13% and 2% of total investments, respectively.

When considering the **number of investees** on average per fund, Latin America & the Caribbean ranks first again with about 13 and an average **ticket size** (i.e., *value or monetary amount of a single transaction)* of USD 2.73 million. It is followed by Eastern Europe & Central Asia (average number of investees, 9.2; USD 3.21 million average exposure) and Sub-Saharan Africa (average number of investees, 8.1; USD 2.28 million)

Table 2: Regional Allocation

Region	USD million	%	Number of investees on average per fund	Average exposure per investee (USD million)
Latin America & the Caribbean	1936.0	24.4	12.9	2.73
Eastern Europe & Central Asia	1622.5	20.5	9.2	3.21
East Asia & Pacific	1479.5	18.7	6.8	3.96
South Asia	1375.0	17.3	6.4	3.91
Sub-Saharan Africa	1017.5	12.8	8.1	2.28
Western Europe	253.0	3.2		
Middle East & North Africa	159.5	2.0	1.6	1.81
North America	88.0	1.1	0.6(*)	2.67
Total	**7931 (+)**			

(+) The regional allocation is higher than the country allocation, as these are two separate indicators in the Tameo survey. Some funds managers provide data by region, but not by country. The opposite never happens, so there is always a higher total amount in the regional split.

(*) Averages may be less than 1, because for many funds, the number of investments in certain regions equals 0, especially in North America.

Source: Tameo 2024

Country allocation

Regarding the country allocation, the **ten largest countries** (all in the Global South) make up about **half of the total exposure** of Swiss impact investment managers.

India is the largest market for Swiss impact investment managers with about 15%, followed by **Cambodia**, **Georgia**, **Ecuador,** and **Vietnam**.

A total of 35 countries corresponds to an allocation of 85% of total investments, when considering only countries with at least 1.0% investment exposure.

Out of the main 35 countries, **19** are **priority countries** for Swiss International Cooperation (2021-2024).

Of the total 35, 17 are categorized as **Upper Middle-Income Countries** (UMICs), and **4** as **Lower Middle-Income Countries** (LMICs).

Only four of the thirty-five are **Least Developed Countries** (LDCs), namely, **Cambodia** (6%), **Bangladesh** (2%), **Tanzania** (1%) and **Myanmar** (1%).

Table 3: Country Allocation (Total: USD 7,408 million)

(Re. total allocation, see + above)

Country name	USD million		Priority countries	LDCs (4)	LICs (4)	LMICs (11)	UMICs (17)
India	1103.9	15%					
Cambodia	442.1	6%					
Georgia	404.6	5%					
Ecuador	398.9	5%					
Vietnam	290.1	4%					
Armenia	248.3	3%					
Uzbekistan	244.8	3%					
Kazakhstan	229.6	3%					
Mexico	202.4	3%					
Peru	195.9	3%					
China	175.2	2%					
Panama	174.4	2%					
Mongolia	148.2	2%	until 2024				
Kenya	148.0	2%					
Costa Rica	145.7	2%					
Indonesia	132.9	2%					
Bangladesh	125.8	2%					
Colombia	124.1	2%					
Germany	100.9	1%					
South Africa	99.3	1%					
Guatemala	96.0	1%					
Nigeria	95.0	1%					
Bolivia	94.5	1%	until 2024				
El Salvador	86.5	1%					
Brazil	81.2	1%					
Côte d'Ivoire	78.2	1%					
Chile	71.1	1%					
Ghana	70.8	1%					
Egypt, Arab Rep	68.8	1%					
Botswana	68.7	1%					
Bosnia and Herzegovina	68.0	1%					
Singapore	66.5	1%					
Tanzania	65.1	1%					
Tajikistan	64.6	1%					
Myanmar	63.1	1%					

Source: Tameo 2024

Table 4: Sector Allocation (see list of definitions in Annex 2)

Sector name	USD million	Percentage	Number of investees on average per fund	Average exposure per investee per sector (USD million)
Microfinance	3796.8	46%	23.30	2.91
SME Development	2912	35%	13.40	3.88
Food & Agriculture	784	9.5%	5.60	2.50
Climate & Biodiversity	319.2	4%	1.30	4.38
Other	179.2	2.2%	1.70	1.88
Renewable Energy & Energy Efficiency	112	1.4%	1.30	1.54
Housing, Water & Communities	84	1%	0.90(*)	1.67
Education	44.8	0.54%	0.80(*)	1.00
Healthcare	33.6	0.41%	0.40(*)	1.50
Total	**8265.6**(X)			

(×) The sector split is a separate question in the Tameo survey. Some fund managers report on sectors, regions, and countries (separately), while others report on sectors and/or regions. This leads to differences in the sum of total volumes.

(*) Averages may be less than 1, because for many (incl. multi-sector) funds, the number of investments in certain sectors is equal to 0.

Source: Tameo 2024

Microfinance is – unsurprisingly – the sector with the highest allocation of funds managed by Swiss impact investment managers, with about half of the total assets. If **Microfinanc**e and **SME development** are combined, this figure rises to over 80%, confirming the fact that these two sectors remain a top priority for fund managers, given their financial performance. This is also confirmed by the average number of investees per fund, with Microfinance and SME development leading the way at 23 and 13, respectively.

Food & agriculture with about 10% and **Climate & Biodiversity** with 4% of total assets also represent relatively large exposure on the part of Swiss impact investment managers. On the other hand, sectors such as **Housing, Water & Communities**, **Health**, and **Education** receive less than 2% of investment capital. This can be attributed to the fact that these sectors are often considered public goods managed by local governments and NGOs, and therefore less likely to showcase a vibrant investable private sector (with some notable exceptions).

Impact measurement tools

When asked about the tools or frameworks used to manage and measure the impact performance of the fund, almost all the Swiss impact investment managers mention using an **"internally developed tool",** showing how much Impact Management and Measurement practices remain individualized and fragmented. Still, most of the managers use more than one tool or framework, including the SDGs, IRIS+ and the Impact Management Project (IMP).

Table 5: Impact management / measurement

Tools or frameworks to manage and measure the impact performance of the fund (#)	Number of funds	% of individual respondents (=)
Internally developed tool	50	93%
SDGs	40	74%
IRIS+	18	33%
Impact Management Project (IMP)	27	50%
SDG Compass	3	6%
HIPSO	3	6%
Other(s)	2	4%
Total individual respondents (=)	**54**	

(#) This list includes tools and frameworks used for both impact management and reporting. Most fund managers use methods developed "in-house". In addition, a fund may use several of these tools/frameworks at the same time, hence the calculation of single respondents to calculate the percentage.

(=) This is the number of individual funds associated with Swiss PAIF managers. Data are taken from the Tameo survey.

Source: Tameo 2024

Annex 2: Definitions of sectors

(as applied by TAMEO)

Sector	Definition (as applied by TAMEO)
Renewable energy & energy efficiency	Energy financing with a sustainable bias includes strategies to use energy in a more efficient manner as well as to use renewable energy and clean technologies for alternative production and consumption schemes, or a combination of both. Overall, the multiplicity of models and businesses in this segment best address SDG 7 (Affordable and Clean Energy)
Climate & biodiversity / Nature-based solutions	Refers to financing strategies that address ecosystems conservation and restoration, including agroforestry, reforestation, and nature-based solutions. Overall, the multiplicity of models and businesses in this segment best address SDG 13 (Climate Action).
Education	Refers mostly to student and school loans, but integrates a wider educational realm, including innovative digital learning solutions, and knowledge transfer and management. Frequently linked with SDG 4 (Quality education).
Food & agriculture	Agricultural value chain financing, whether production, trade, distribution or other models, with a focus on businesses which increasingly adopt a sustainable approach to extraction and harvesting of natural products from the planet, whether crops, cattle, fisheries or other plants and animals, extendable to forestry. Frequently linked with SDG 2 (Zero hunger), SDG 14 (Life below water) and SDG 15 (Life on land).
Healthcare	Refers to the financing of hospitals and clinics, healthcare plans, services and insurance, and the production and distribution of health products and solutions. Frequently linked with SDG 3 (Good health and well-being).
Housing, water & communities	This category groups housing, infrastructure and utilities investments, and the industries that develop, support and construct them, with a bias towards sustainable innovation to, for instance, provide green buildings, transportation, water or waste collection and treatment systems, accessible and affordable for the base of the pyramid. Frequently linked with SDG 6 (Clean water and sanitation), SDG 9 (Industry, innovation and infrastructure) and SDG 11 (Sustainable cities and communities).
Microfinance	Microfinance institutions, as well as downscaling commercial banks and fintechs that seek to address the financial security needs (through savings, payments, insurance and credit lines products) and consumption needs (through consumer, working capital and fixed asset loans) of low- and middle-income households at the base of the pyramid. Frequently linked with SDG 1 (No poverty), SDG 5 (Gender equality) and SDG 10 (Reduced inequalities).
SME development	Refers to the financing of small and medium businesses, considered as vehicles of employment, growth and economic development. Such formalized companies are also the best means to address new normative developments in responsibly producing and consuming the goods and services offered to the public. Frequently linked with SDG 8 (Decent work and economic growth), and SDG 12 (Responsible consumption and production).

Source: Tameo 2024

Annex 3: Example of a collaboration between an impact investor and an NGO

Case Study: Balim Investments – An impact investment partnership between HEKS/EPER, Somaha Foundation[53] and iGravity to promote livelihoods of rural communities in Sub-Saharan Africa.

In June 2024, HEKS/EPER, Somaha Foundation, and iGravity – a specialized impact investment manager – came together to formally launch BALIM. This initiative aims to provide debt financing to small and medium-sized enterprises (SMEs) in the agri-food, renewable energy, and water sectors in selected countries in West and East Africa. BALIM focuses on investing in enterprises that can enhance smallholder farmer incomes, reduce environmental impact, ensure local food security, and create job opportunities. In addition to financial support, BALIM offers capacity building to companies, helping them to strengthen their core business skills and transition towards sustainable agriculture practices.

The investment and allocation guidelines of BALIM include the following:

Facility assets	CHF 6.1million at inception, with target of 50M over next 5 years
Instrument	Senior loans
Target financial performance	Single digit IRR for equity holders
Currency	Preference for hard currency loans (in USD or EUR), with max. 15% allocation to local currency loans
Target impact	Increased income, resilience, and food security of rural communities in sub-Saharan Africa and improved environmental outcomes
Target investees	– *Company stage:* Post-revenue or profitable – *Entrepreneur profile:* No hard requirements, but preference for local companies – *Growth trajectory:* Low, medium, and high growth companies
Geography	– *Primary countries:* Uganda, Senegal, Tanzania, Kenya – *Secondary countries:* Countries across Sub-Saharan Africa as approved by BoD – *Focus:* Enterprises with location or major impact in rural or semi-rural zones
Target sectors	– *Priority sector:* Income and employment, agriculture and food security, environmental protection – *Secondary sectors (in order of priority):* WASH, access to finance, natural resources / land tenure (including NTFPs – Non-Timber Forest Products), communications tech, energy, education, and health

53 Somaha Foundation is a Zurich-based private foundation established in 2021. It supports people in need and is committed to an open and diverse society and to protecting nature from exploitation and destruction.

	Target beneficiaries	– Rural, base-of-the-pyramid communities – Marginalized groups (youth, women, ethnic minorities, etc.)
	Oversight	– Investment Committee with shareholder representatives & external experts – Monthly / quarterly calls with borrowers
	Risk	Impact-first*, open to higher risk taking

Source: i-Gravity 2024

BALIM focuses on investing in SMEs in remote and marginalized areas, particularly firms created and managed by African entrepreneurs. As a pioneering institutional investor for many of these companies, BALIM aims at enabling them to establish a solid track record that can facilitate future partnerships with local financial institutions. As priority beneficiaries of BALIM's activities, businesses should develop and grow and engage in a variety of exchanges with local communities: these companies could process and trade products from local small-scale farmers. In this way, they may strengthen demand for commodities and create new sales channels. At the same time, they will advise farmers and strengthen their know-how. The companies will also create jobs and ensure a decent income for local communities. Local communities may hence benefit from improved access to goods and services and security of supply.

HEKS/EPER and Somaha Foundation serve as the driving forces and initial investors behind BALIM, with HEKS/EPER initially implementing the proof of concept through direct loans to selected SMEs. iGravity's primary role is to look for local SMEs with a promising business model that is relevant to the local community, but which do not have access to adequate financing.

This a priori promising collaboration, which has just been launched, will need to be monitored and reported on in detail, to confirm its relevance and, if necessary, to draw lessons for a possible replication in other regions.

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