



THE STATE OF IMPACT MEASUREMENT AND MANAGEMENT PRACTICE

FIRST EDITION

AUTHORED BY THE GIIN RESEARCH TEAM

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ABOUT THE GLOBAL IMPACT INVESTING NETWORK (GIIN)

The GIIN is a nonprofit organization dedicated to increasing the scale and effectiveness of impact investing around the world. Impact investments are made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. The GIIN builds critical infrastructure and supports activities, education, and research that help accelerate the development of a coherent impact investing industry. For more information, see www.thegiin.org.

ACKNOWLEDGEMENTS

This study was produced with the generous support of The Rockefeller Foundation.

RESEARCH SUPPORT

The Research Team would like to recognize the contributions of various members of the GIIN Team. For review and input, we thank Amit Bouri, Chief Executive Officer, Kelly McCarthy, Director of Impact Measurement and Management, and Laura Gustafson, Senior Associate of Communications.

BETA TESTERS

The following individuals beta-tested the survey instrument, and the Research Team is grateful for their time and input: Priscilla Boiardi of the European Venture Philanthropy Association, Eric Cooperstrom of NatureVest, Samantha Duncan of LeapFrog Investments, Michael Etzel of The Bridgespan Group, Emilie Goodall of FMO, Manuel Lewin of Zurich Insurance Group, Kurt Morriesen of the Principles for Responsible Investment, Jane Reisman, and Kristin Siegel of TONiC.

The following GIIN team members also beta-tested the instrument: Amit Bouri, Adam Dolin, Rebecca Kurland, Kimberly Moynihan, Peter Murphy, Hannah Schiff, Sapna Shah, and Andrew Siwo.

OUTREACH PARTNERS

Various member networks and field-builders assisted in growing the sample size for this research by extending invitations to participate to their networks. More information on these outreach partners can be found in Appendix 3.

December 2017



Through coordinated efforts to improve impact, together we can leverage the power of capital to address, and ultimately solve, the most critical social and environmental problems facing our world today.”

Letter from the CEO

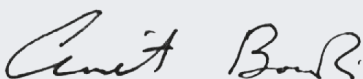
Dear reader,

Impact investors, inspired to solve global challenges through investments, wield capital as a force for transformative change. Core to their work is thus the commitment to understanding and improving impact. Impact investors have made substantial progress on this front and can capitalize on existing momentum to further strengthen their collective ability to achieve impact through impact investments, maintain the credibility of practice, and advance the industry.

The Global Impact Investing Network (GIIN) provides resources that fill knowledge gaps for impact investors to increase the scale and effectiveness of the industry. This report, *The State of Impact Measurement and Management Practice*, sheds light on how 169 investors targeting a broad range of social and environmental opportunities – such as economic growth, climate change, and health – use impact in investment management. While approaches vary from one impact investor to the next (depending on their investment strategy, values, and resources), findings demonstrate that impact is core to their activity. Regardless of the sophistication of an investor's current approach to impact, the data surface opportunities for all investors to challenge themselves to advance their strategies and ultimately deepen their impact:

- Investors should recognize that every investment creates multifaceted impact. Currently, 66% of impact investors measure only the positive impact of their investments. By monitoring negative externalities as well, investors can obtain a broader understanding of the complete impact of their activities. Investors can also explore ways to better understand and address the needs of the various stakeholders affected by their investments.
- Impact investors can enhance the rigor of their impact strategies by setting targets and embedding them into business practices. Just as all investors set financial performance targets, some 60% of impact investors set targets for the impact they seek to achieve. Having specific goals can help inform clear data collection efforts, drive performance management, and ensure accountability. Investors can then motivate their staff and investees to meet such targets using similar incentives to those used to encourage strong financial performance.
- By making more of their impact data available to key stakeholders and the broader industry, investors can strengthen the evidence base of the impact of impact investments, share lessons with others, and accelerate the field's influence over critical problems facing society and the environment. Nearly all impact investors report their impact performance in some way, with about 70% producing publicly available impact reports; the benefits of greater data transparency will increase exponentially as the industry continues to grow and mature.

Agreed-upon impact measurement conventions have already taken shape, and emerging resources provide further guidance on strategies to implement effective systems for measurement and management. Yet half of impact investors cite ongoing fragmentation in the range of approaches taken to understand and improve impact as a significant challenge facing the industry. The GIIN is committed to working alongside investors and other field-builders to further strengthen the resources available, address concerns around fragmentation and transparency, and promote best practices. Through coordinated efforts to improve impact, together we can leverage the power of capital to address, and ultimately solve, the most critical social and environmental problems facing our world today.



Amit Bouri
CEO, Global Impact Investing Network
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169

Impact Investor
Respondents

Methodology

This report captures data from 169 impact investors collected via a survey distributed between June and August 2017. Respondents answered questions about how they measure, manage, and report their impact.

INCLUSION CRITERIA

All respondents represent impact investing organizations with meaningful experience in the field, as defined by two key inclusion criteria. First, all respondent organizations must identify as impact investors that measure the social and/or environmental performance of their investments. The Research Team provided the GIIN's definition of impact investing (see Appendix 2), which respondents used to self-report their eligibility as impact investors that measure the social and/or environmental performance of their investments. Second, included respondents have either: (a) committed at least USD 10 million to impact investments since their inception and/or (b) made at least five impact investments.

DATA VALIDITY

While the GIIN Research Team conducted basic data checks and sought clarifications as appropriate prior to analysis, this report is based on self-reported data. Respondents were instructed to complete the survey with respect only to their impact investing portfolios. Respondents applied the GIIN's definition of impact investing to their portfolios as they saw fit.

ROLE OF OUTLIERS

As is often the case, a handful of outliers in a sample can have outsized influence on aggregate findings. Some respondents to this survey manage comparatively large impact investing portfolios. Where appropriate and feasible, this report presents analysis both including and excluding outliers in order to enable more nuanced interpretation of findings.

TARGET FINANCIAL RETURNS

To understand respondents' financial returns expectations, the Research Team cross-referenced data submitted to the GIIN's 2016 or 2017 *Annual Impact Investor Surveys*.¹ Of the 169 respondents to this survey, 133 had also participated in at least one of these Annual Surveys and had thus provided the GIIN with data on their target financial returns (market-rate or below-market-rate).

IMPACT REPORT HIGHLIGHTS

Respondents to the survey were invited to submit impact reports to the GIIN. The Research Team used examples from some of these reports to highlight specific reporting practices of impact investors, which are shown in Impact Report Highlight boxes throughout this report.

¹ Abhilash Mudaliar et al., *Annual Impact Investor Survey 2017* (New York: The Global Impact Investing Network, May 2017), <https://thegiin.org/knowledge/publication/annualsurvey2017>; and Abhilash Mudaliar, Hannah Schiff, and Rachel Bass, *Annual Impact Investor Survey 2016* (New York: The Global Impact Investing Network, May 2016), <https://thegiin.org/knowledge/publication/annualsurvey2016>.

CUTTING THE DATA BY SUB-GROUP TO EXTRACT NOTABLE FINDINGS

Most findings in this report aggregate data from all 169 impact investors responding to the survey. The report also presents notable differences in responses by various sub-groups of respondents, such as, for example, investors with a large majority of their capital allocated to a certain asset class or geography. Table I presents a full list of these sub-groups. The statistical significance of differences between sub-groups was tested for at the 90% confidence level. The report notes when these differences are statistically significant.

TABLE I: RESPONDENT SUB-GROUPS REFERENCED IN THE REPORT

Sub-group	Description of the category	Number of respondents
Social and environmental investors	Respondents whose primary impact objectives are both social and environmental	99
Primarily social investors	Respondents whose primary impact objective is social	60
Market-rate investors	Respondents that principally target risk-adjusted, market-rate returns	81
Below-market investors	Respondents that principally target below-market-rate returns (some closer to market-rate and some closer to capital-preservation)	52
Direct investors	Respondents that invest $\geq 75\%$ of their current impact investment AUM directly into companies, projects, or real assets	119
Indirect investors	Respondents that invest $\geq 75\%$ of their impact investment AUM indirectly into funds or other intermediaries	31
EM-focused investors	Respondents that allocate $\geq 75\%$ of their current impact investment AUM to emerging markets	83
DM-focused investors	Respondents that allocate $\geq 75\%$ of their current impact investment AUM to developed markets	55
PD-focused investors	Respondents that allocate $\geq 75\%$ of their current impact investment assets under management (AUM) to private debt	52
PE-focused investors	Respondents that allocate $\geq 75\%$ of their current impact investment AUM to private equity	44

Source: GIIN

OVERLAP BETWEEN SUB-GROUPS

The sub-groups outlined above have some notable overlap and divergence, as follows:

- Of the private equity investors in the sample, 89% are direct investors, compared to 75% of private debt investors.
- Of the investors targeting below-market-rate returns, 81% are direct investors, versus 69% of market-rate investors.

REGION AND SECTOR CODES

Organizational types, regions, and sectors referenced in the report are given shorter names for brevity, where appropriate, as defined in Tables II through IV. The survey instrument did not offer region definitions or lists of countries by region, so responses reflect respondents' interpretations of each region's boundaries.

TABLE II: ORGANIZATIONAL TYPE CODES

Code	Name of organization type
Bank/diversified financial institution	Bank/diversified financial institution
DFI	Development finance institution (a government-backed institution investing in the private sector)
Family office	Family office
Foundation	Foundation
For-profit fund manager	Fund manager: for-profit
Nonprofit fund manager	Fund manager: not-for-profit
Pension fund/insurance company	Pension fund or insurance company
Permanent investment company	Permanent investment company

Source: GIIN

TABLE III: REGION CODES

Code	Name of region
DM	Developed Markets
East Asia	East Asia
Oceania	Oceania
U.S. & Canada	United States and Canada
WNS Europe	Western, Northern, and Southern Europe
EM	Emerging Markets
EECA	Eastern Europe, Russia, and Central Asia
LAC	Latin America and the Caribbean (including Mexico)
MENA	Middle East and North Africa
SE Asia	Southeast Asia
South Asia	South Asia
SSA	Sub-Saharan Africa

Source: GIIN

TABLE IV: SECTOR CODES

Code	Name of sector
Arts & culture	Arts and culture
Education	Education
Energy	Energy
Financial services	Financial services (including microfinance)
Food & ag	Food and agriculture
Forestry & timber	Forestry and timber
Healthcare	Healthcare
Housing	Housing
ICT	Information and communication technologies
Infrastructure	Infrastructure
Manufacturing	Manufacturing
WASH	Water, sanitation, and hygiene

Source: GIIN

Executive Summary

This report presents findings from the Global Impact Investing Network's first comprehensive survey of the state of impact measurement and management (IMM) in the impact investing industry. A hallmark of impact investing is the commitment to measure – and increasingly to manage – impact. Impact management is the process by which impact investors can understand the effects of their investments on people and the planet, and set goals to adapt processes and improve outcomes. Over the years, the impact investing industry has dedicated increasing resources to IMM, deepening the sophistication of practice as the industry has developed. This report provides critical data and transparency regarding IMM practice, enabling investors to better understand this core element of impact investing. The nuanced insights presented here shed light on various approaches, expose challenges, and identify areas for improvement, encouraging investors to deepen their impact practice and improve their ability to generate positive social and environmental change. In addition to the survey findings, the report highlights notable developments in the field of IMM in three Market Spotlight sections based on secondary research.

FOUR KEY FINDINGS

- 1 Impact investors seek to create many different types of impact
- 2 Impact investors actively seek to understand and manage their impact
- 3 Impact investors embed IMM into the core of their activities
- 4 The industry has made significant progress, yet challenges in IMM persist

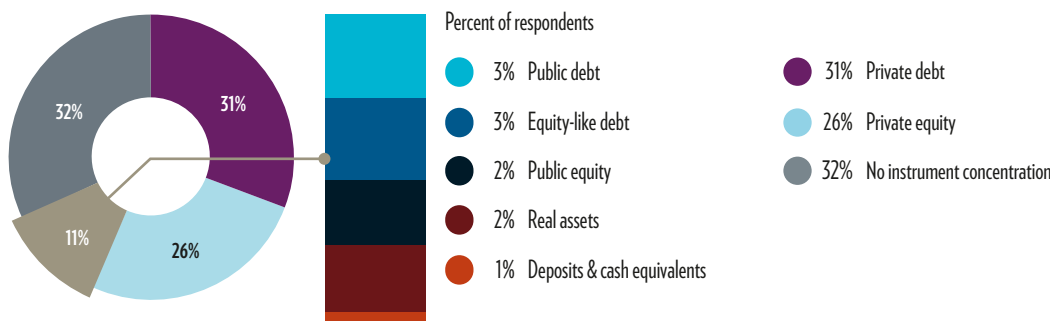
OVERVIEW OF RESPONDENTS

The 169 respondents to this survey represent a wide range of organizational types and investment strategies.

- Nearly two-thirds of respondents are fund managers. The other third comprises banks, foundations, development finance institutions, and family offices, among others.
- Nearly one in three respondents invests primarily via private debt, and about one quarter invests primarily via private equity (Figure I).
- About half of respondents focus on emerging markets; one third focus on developed markets (Figure II).

FIGURE I: RESPONDENTS WITH PORTFOLIO CONCENTRATIONS BY INSTRUMENT

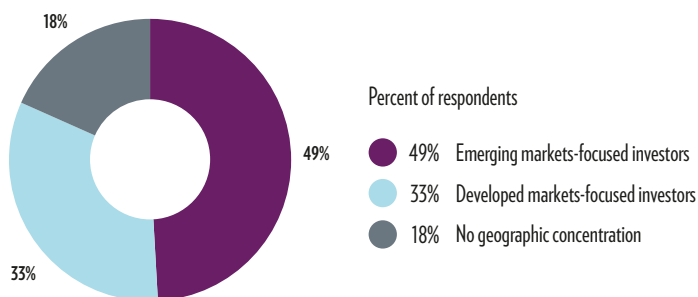
n = 169



Note: The threshold for a portfolio concentration is 75% of AUM. Source: GIIN

FIGURE II: RESPONDENTS WITH PORTFOLIO CONCENTRATIONS IN EMERGING OR DEVELOPED MARKETS

n = 169



Note: The threshold for a portfolio concentration is 75% of AUM. Source: GIIN

1

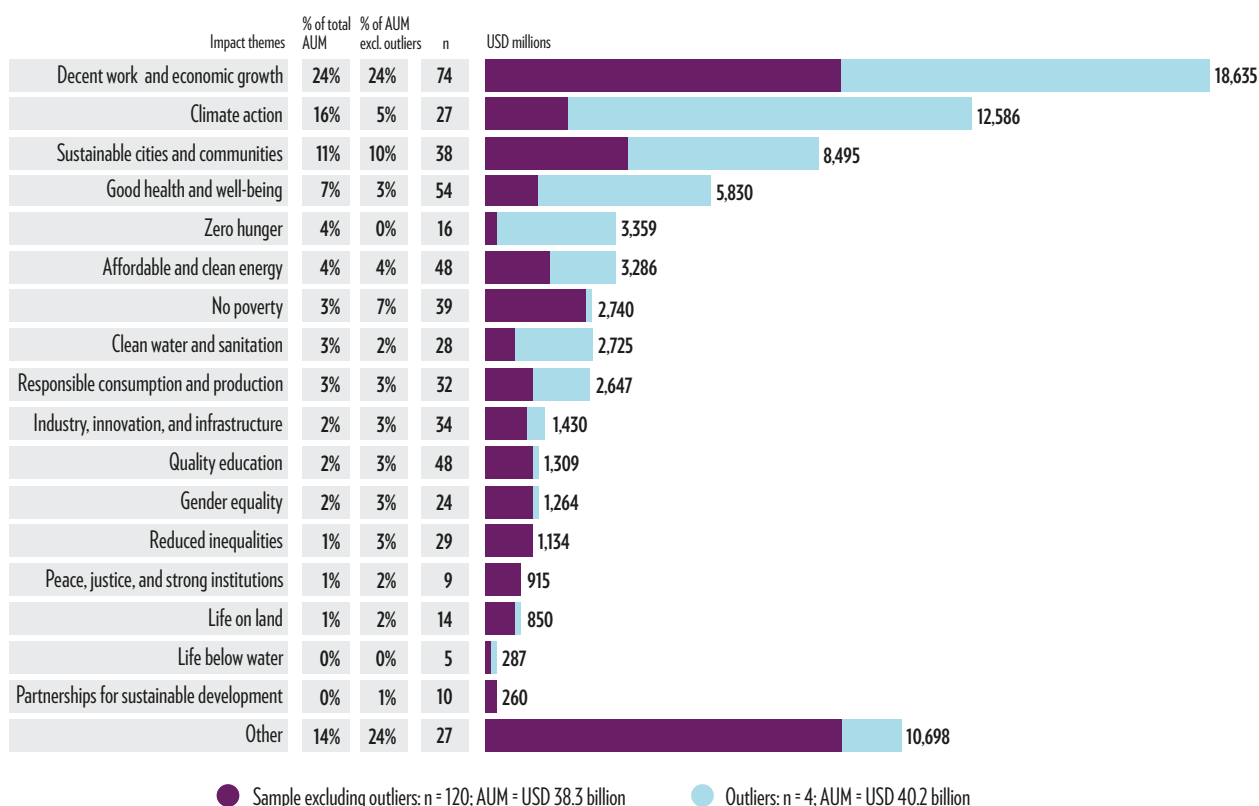
Impact investors seek to create many different types of impact

IMPACT THEMES

Respondents indicated which impact themes they target, as aligned with the U.N. Sustainable Development Goals (SDGs).² Most investors target more than one impact theme and the average investor targets four. Perhaps unsurprisingly, the highest proportion of sample AUM is allocated to 'decent work and economic growth' (24%). Sixteen percent of AUM is allocated to 'climate action', followed by 'sustainable cities and communities' (11%) (Figure III).

FIGURE III: ASSET ALLOCATIONS BY IMPACT THEME

n = 124 (optional question); respondents could select multiple options.



Note: 'Other' includes impact themes such as affordable housing, sustainable agriculture, and financial inclusion. Additionally, some respondents intend to generate impact across many different themes and do not track AUM allocations to specific impact themes. Source: GIIN

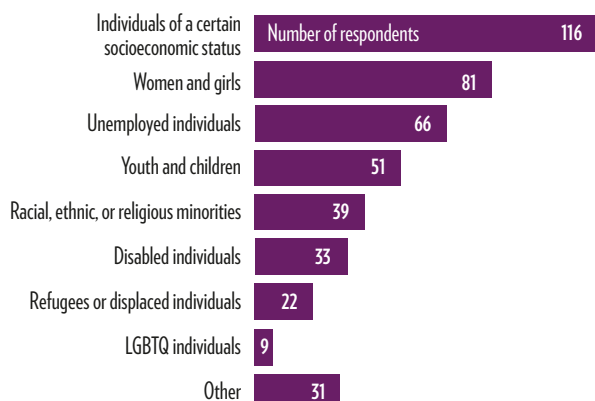
2 The U.N. Sustainable Development Goals are an ambitious set of 17 goals to which the U.N. member states agreed unanimously for the eradication of global poverty and sustainable development by 2030. "Sustainable Development Goals," United Nations Sustainable Development Knowledge Platform.

TARGET BENEFICIARIES

Impact investors seek to effect positive change for various groups of beneficiaries through their investments (Figure IV). Approximately five in six impact investors target individuals based on their socioeconomic bracket. Over half target women and girls, and just under half target the unemployed. These beneficiaries are typically reached through investees, who themselves have various stakeholders along the supply chain. Over 90% of respondents intentionally target the customers or clients of their investees (Figure V). Nearly three-quarters target investee employees, and 45% target investee suppliers.

FIGURE IV: TARGET BENEFICIARY GROUPS

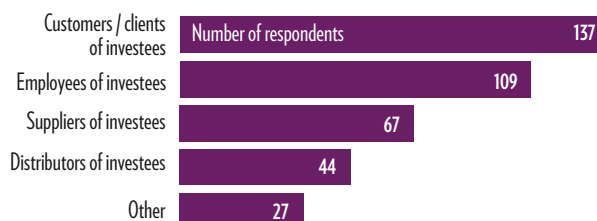
n = 140 (optional question); respondents could select multiple options.



Source: GIIN

FIGURE V: TARGET BENEFICIARIES ALONG THE SUPPLY CHAIN

n = 149 (optional question); respondents could select multiple options.



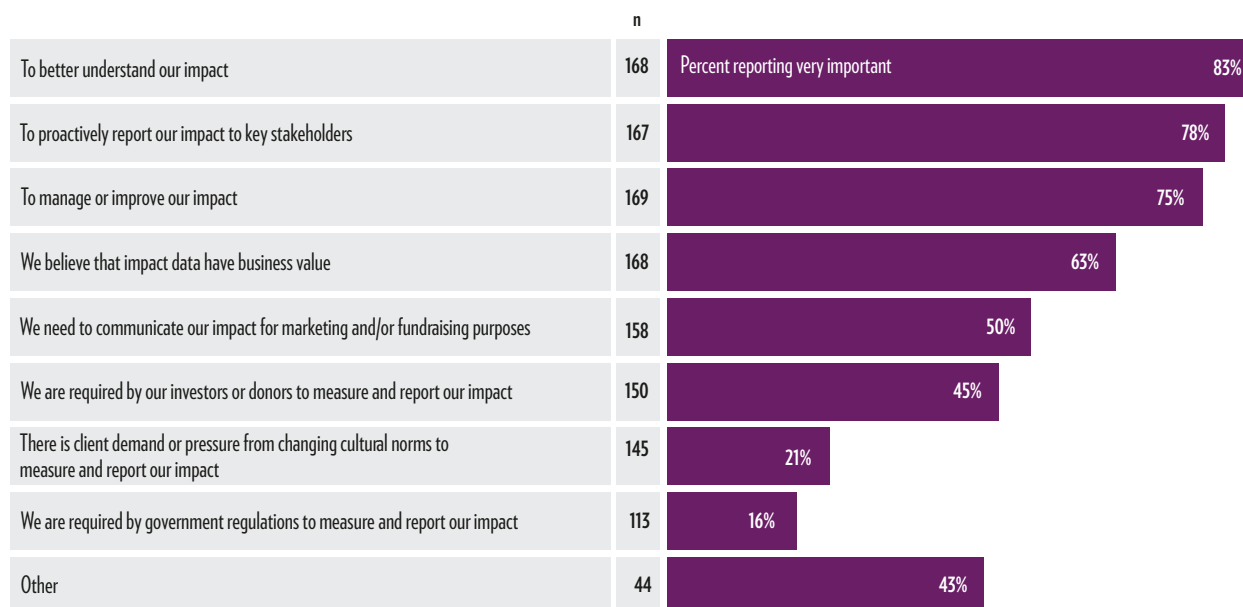
Source: GIIN

MOTIVATIONS

Impact investors measure and manage their impact for several reasons, the most important of which are to better understand their impact, report their impact to key stakeholders, and manage or improve their impact (Figure VI).

FIGURE VI: REASONS FOR MEASURING AND MANAGING IMPACT

Chart shows percent of respondents selecting 'very important'; respondents could select multiple options.



Note: 'Other' reasons for doing IMM include helping investees improve their impact, using it as a risk mitigation strategy, and because it is core to respondents' strategies (such as in the case of mission-led investors like foundations). Source: GIIN

MEASURES

The many ways investors understand impact are manifested in the different aspects of impact they seek to measure. Most respondents measure the outputs (91%) – the direct products of an organization’s activities – and outcomes (77%) – the changes that result from activities and outputs – of their investments (Figure VII). Roughly 40% of respondents each measure the breadth (the reach of impact across groups of people or ecosystems), additionality (the positive impact that would not have occurred anyway without the investment), or depth (the significance of the impact for the people or ecosystems impacted) of their impact.

FIGURE VII: TYPES OF IMPACT MEASURED

n = 169; respondents could select multiple options.

Measure social / environmental outputs	Number of respondents
Measure social / environmental outcomes	130
Measure the breadth of our impact	72
Measure whether our impact is additional	64
Measure the depth of our impact	62
Benchmark our social / environmental performance	58
Measure whether our impact is attributable	51
Measure the longevity of our impact	34

Source: GIIN

TOOLS

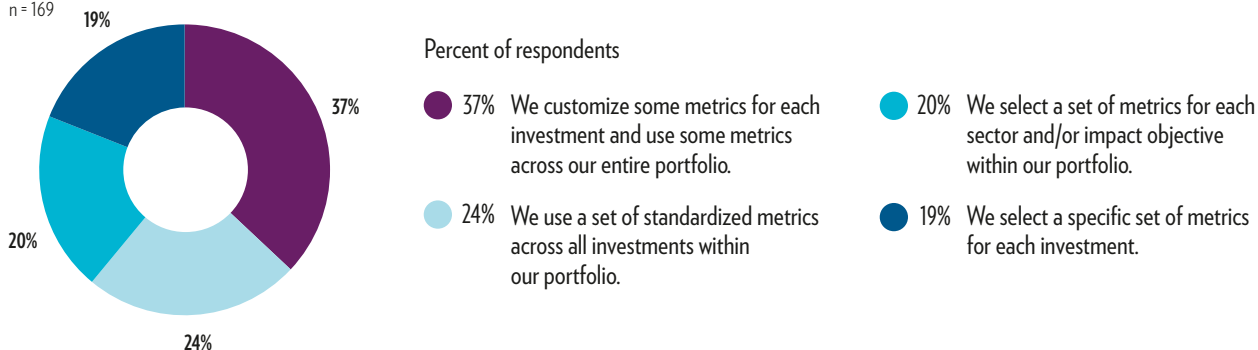
Impact investors use various available tools, indicator sets, and standards in their IMM practice, the most commonly used of which are IRIS metrics (62%). Others include the SDGs (42%), B Analytics (41%)³, and the Principles for Responsible Investment (26%)⁴.

CUSTOMIZATION

Respondents noted that selecting appropriate metrics can be challenging, especially when examining portfolio-wide impact across different sectors or themes. Thus, investors use varying levels of customization and standardization in selecting metrics across their portfolios, ranging from using standardized metrics across all of a portfolio’s investments to using specific metrics for each investment (Figure VIII). The most common approach is to use a combination of some standard portfolio-wide metrics and some metrics customized per investment (37%).

FIGURE VIII: CUSTOMIZATION/STANDARDIZATION OF IMPACT METRICS

n = 169



Source: GIIN

³ B Analytics, <http://b-analytics.net/>.

⁴ U.N. Principles for Responsible Investment, UNEP Finance Initiative and UN Global Compact, <https://www.unpri.org/>.

3

Impact investors embed IMM into the core of their activities

TARGETS AND INCENTIVES

Fifty-nine percent of impact investors set targets to measure their progress on social and/or environmental indicators. Most (71% of those that set targets) note that their employees are intrinsically motivated to achieve these impact targets, and 56% note the same for their investees (Figures IX and X). Some further incentivize their employees by factoring the achievement of impact targets into employee performance evaluations (16%) or tying their compensation to the achievement of impact targets (13%). To incentivize investees, some investors require the achievement of impact targets to disburse follow-on capital (31%), to receive the initial investment (23%), to meet loan covenants (23%), or to receive the initial investment (23%), or to meet loan covenants (23%).

FIGURE IX: STRATEGIES TO INCENTIVIZE STAFF TO ACHIEVE IMPACT TARGETS

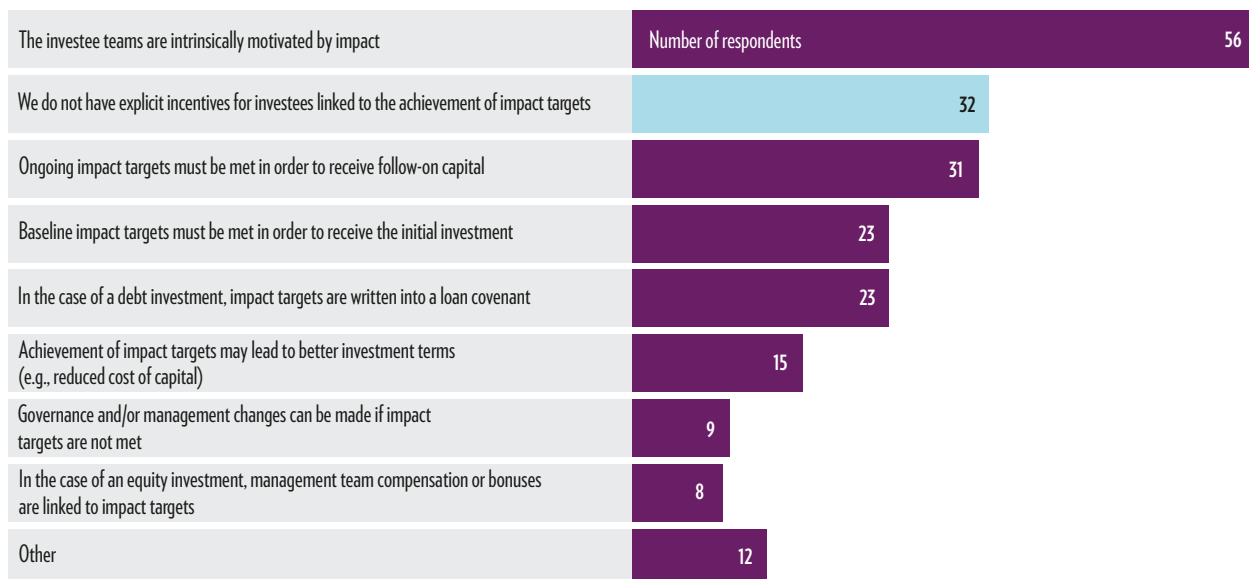
n = 100; respondents could cite multiple incentive strategies.



Source: GIIN

FIGURE X: STRATEGIES TO INCENTIVIZE INVESTEES TO ACHIEVE IMPACT TARGETS

n = 100; respondents could cite multiple incentive strategies.



Source: GIIN

REPORTING

All respondents but one report their impact to internal or external stakeholders in some fashion. Specifically, 69% report their impact to donors or investors, and 56% include impact performance results in their standard financial reports. Additionally, 40% or more of respondents produce impact reports for management and staff, or produce impact reports available to the public, or share impact performance results on an ad-hoc basis.

STAFFING

IMM is also core to the staffing and operations of impact investor organizations. Most commonly, respondents assign the responsibility of IMM to the broader investment team (46%) or implement IMM through both dedicated IMM staff and the broader investment team (42%).⁵

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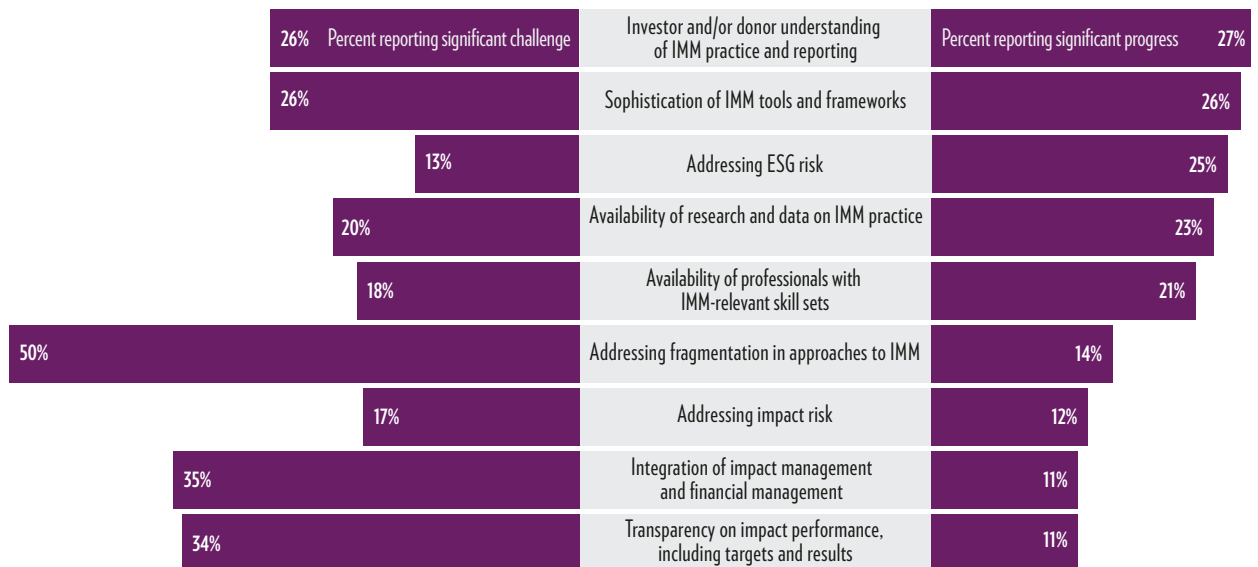
The industry has made significant progress, yet challenges in IMM persist

PERSPECTIVES ON THE STATE OF IMM PRACTICE

Respondents offered their opinions on the state of IMM practice across the industry (Figure XI). About a quarter of respondents believe that the industry has made significant progress over the past three years in the areas of investor and/or donor understanding of IMM practice and reporting (27%), sophistication of IMM tools and frameworks (26%), and addressing of ESG risk (25%).⁶ However, several challenges remain, such as fragmentation of approaches to IMM (50% believing this is a significant challenge), integration of impact management and financial management decisions (35%), and transparency of impact performance (34%).

FIGURE XI: SIGNIFICANT AREAS OF PROGRESS AND CHALLENGE IN IMM PRACTICE

N varies from 104-126 for each answer choice; optional question.



Source: GIIN

INTERNAL CHALLENGES

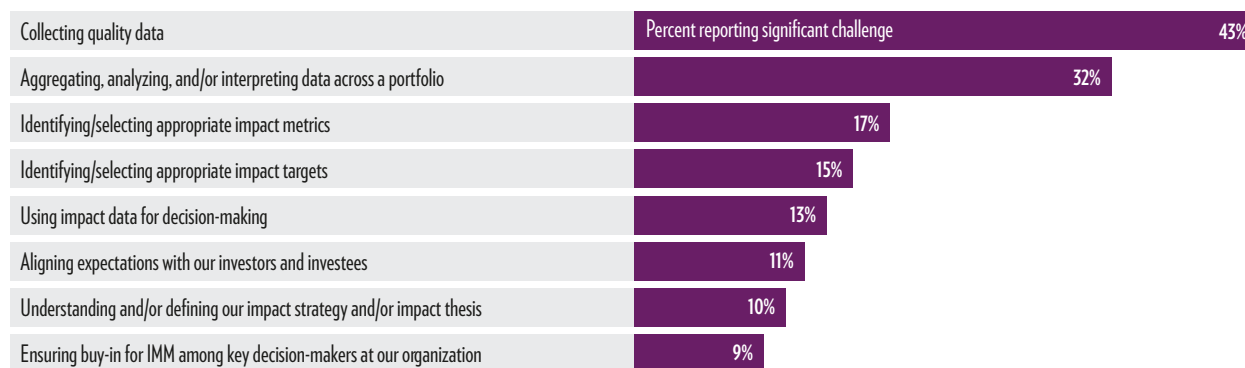
Respondents also reported on the challenges that they face when implementing IMM within their own organizations. In most aspects of IMM, such as selecting metrics and targets, using data for decision-making and aligning expectations with investors and investees, respondents generally do not note significant challenges. However, the two areas in which many respondents did indicate challenges concern measurement (rather than management), with 43% of respondents citing significant challenges in collecting quality data and 32% citing aggregating, analyzing, and/or interpreting data across a portfolio (Figure XII).

⁵ IMM staff are those with no other core responsibilities besides IMM.

⁶ ESG risk is derived from noncompliance with environmental, social, or governance criteria.

FIGURE XII: INTERNAL CHALLENGES IN IMPLEMENTING IMM

N varies from 155-167 (optional question); some respondents chose 'not sure/not applicable' and these responses are not included.



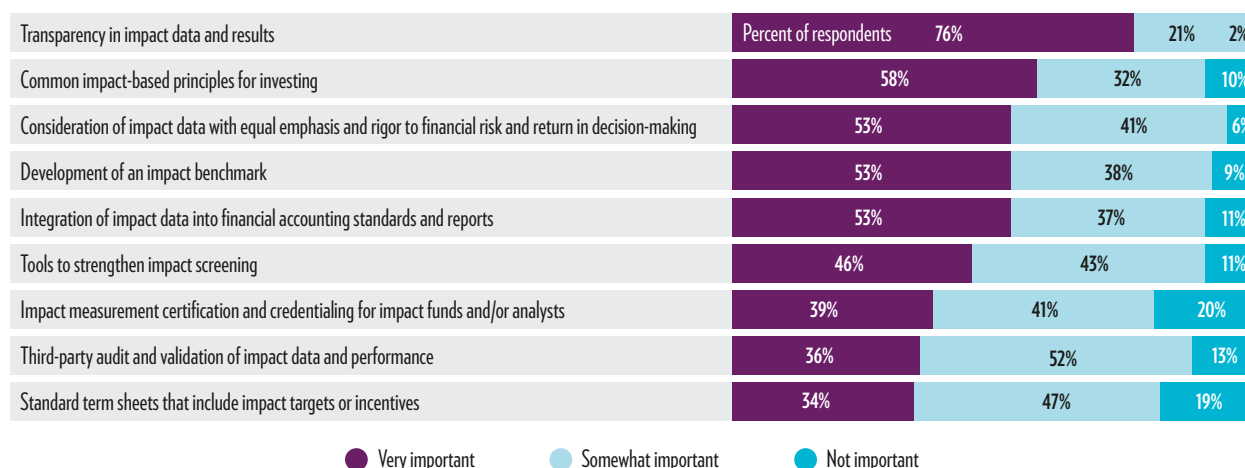
Source: GIIN

FUTURE OPPORTUNITIES

Finally, respondents reported their perspectives on the most valuable tools, ideas, and behaviors to advance IMM practice and overcome its various challenges. Seventy-six percent of respondents felt that transparency in impact data and results is very important to advancing IMM practice, and over half of respondents cited common impact-based principles for investing, consideration of impact data in decision-making with equal emphasis and rigor to financial risk and return, development of an impact benchmark, and integration of impact data into financial accounting standards and reports as very important (Figure XIII).

FIGURE XIII: IMPORTANCE OF VARIOUS TOOLS, IDEAS, AND BEHAVIORS TO ADVANCING THE PRACTICE OF IMM

N varies from 128-136 for each answer choice. Some respondents chose 'not sure/not applicable,' and these responses are not included. Ranked by percent selecting 'very important.'



Source: GIIN

The rest of this report contains more detailed analyses and further exploration of insights including investor motivations, IMM methods, and perspectives on IMM.

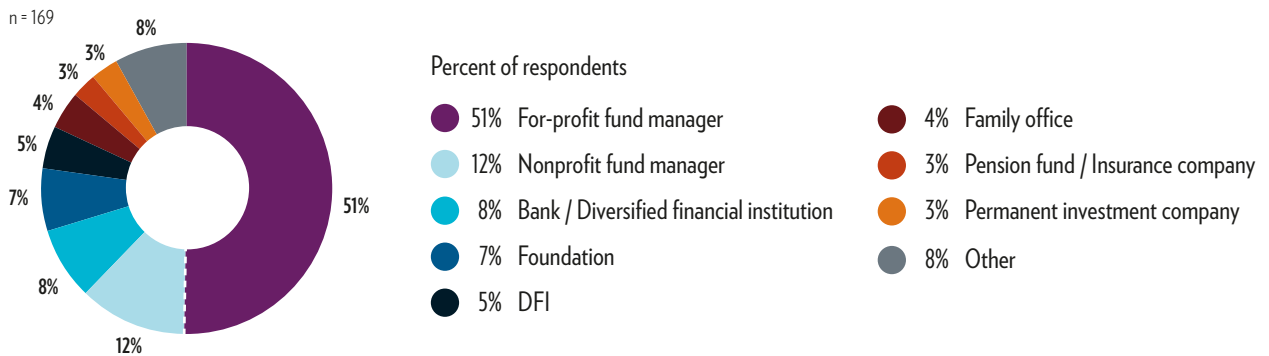
Sample Characteristics

The report findings presented are based on a sample of 169 impact investing organizations. To help contextualize the research findings, the sample is described by organization type, location of headquarters, size of impact investing assets under management (AUM), target returns, and various portfolio concentrations.

ORGANIZATION TYPE

Fund managers comprise 63% of the sample, with for-profit fund managers accounting for just over half of the total sample (and not-for-profit fund managers accounting for the remaining 12%). Banks and foundations represent 8% and 7% of the sample, respectively. Development finance institutions, family offices, pension funds and insurance companies, permanent investment companies, and other types of organizations also participated (Figure 1).

FIGURE 1: ORGANIZATION TYPE

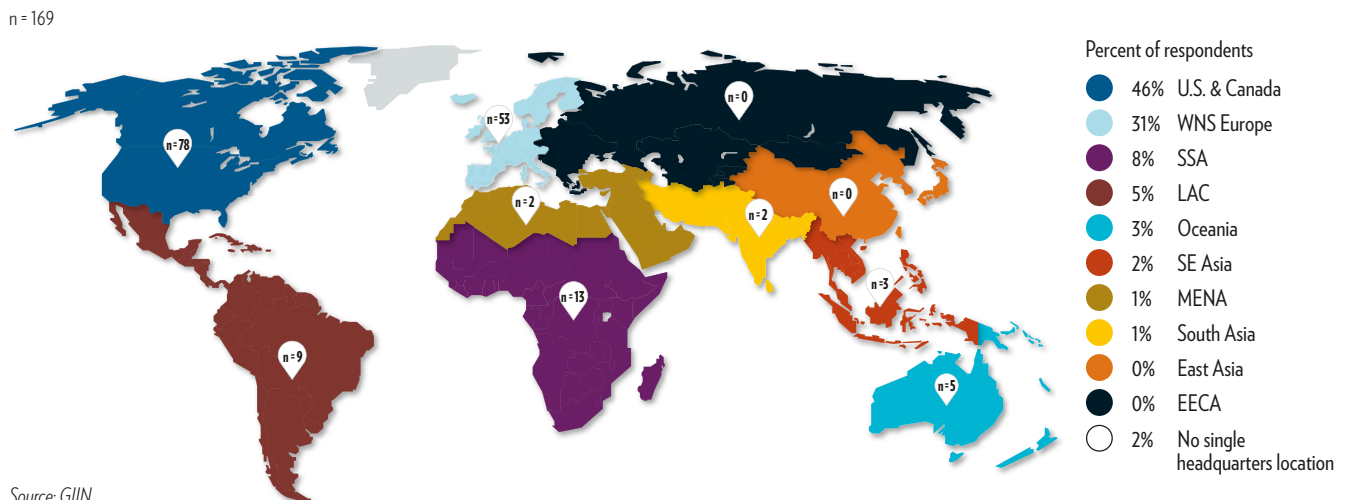


Note: 'Other' organization types include community development finance institutions, nonprofit organizations, non-governmental organizations, and others. Source: GIIN

HEADQUARTERS LOCATION

A large majority (80%) of respondents are headquartered in developed markets, with 46% headquartered in the U.S. and Canada and almost a third headquartered in WNS Europe (Figure 2). Seventeen percent of the sample is headquartered in various emerging markets, including SSA, LAC, South or Southeast Asia, and MENA. Two percent reported having no single headquarters location.

FIGURE 2: LOCATION OF SAMPLE HEADQUARTERS

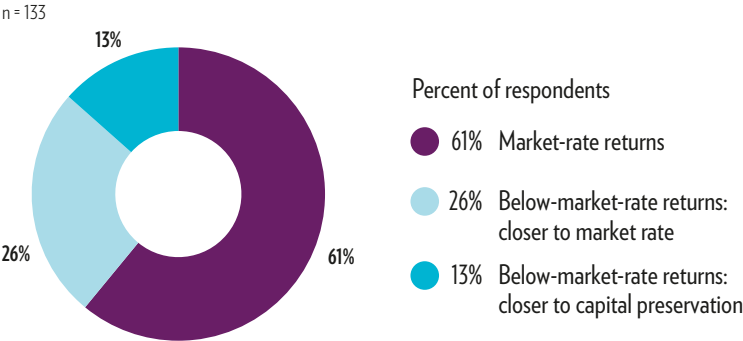


Source: GIIN

TARGET FINANCIAL RETURNS

Of the 133 respondents for which this information was available, 61% principally target risk-adjusted, market-rate returns, and 39% target below-market-rate returns (Figure 3). Twenty-six percent target below-market-rate returns that are ‘closer to market rate’ and 13% principally target below-market-rate returns that are ‘closer to capital preservation.’

FIGURE 3: TARGET FINANCIAL RETURNS PRINCIPALLY SOUGHT



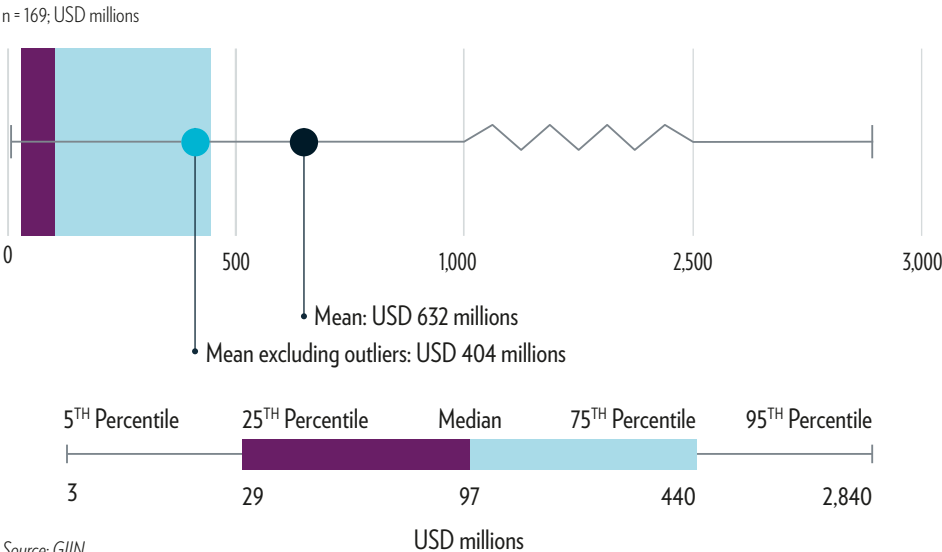
Note: These data are sourced from the GIIN's 2016 Annual Impact Investor Survey and 2017 Annual Impact Investor Survey. Source: GIIN

IMPACT INVESTING ASSETS UNDER MANAGEMENT

Respondents in the sample collectively manage USD 107 billion in impact investing assets. The average respondent manages USD 632 million in impact investing assets, while the median respondent manages USD 97 million—indicating that a few respondents manage particularly large pools of capital. In fact, the four respondents with the largest impact investing AUM manage 38% (USD 40 billion) of the total sample AUM. Excluding these four large outliers, the average respondent manages USD 404 million.

Looking at the overall AUM distribution, 75% of respondents manage USD 440 million or less, half manage USD 97 million or less, and 25% manage USD 29 million or less (Figure 4).

FIGURE 4: DISTRIBUTION OF SAMPLE AUM



The Research Team asked respondents whether they make conventional investments in addition to impact investments. Most (69%) exclusively make impact investments.

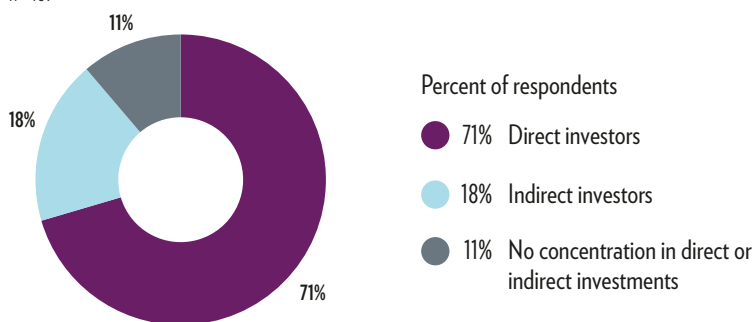
PORTFOLIO CONCENTRATIONS

The following analyses show characteristics of the sample by factors such as geographic or sector focus. Respondents indicated whether their impact investing portfolios were concentrated in any one area (for example in direct investments or a particular sector). The Research Team used a threshold of 75% of impact investing AUM to signify a portfolio concentration. This information helps contextualize findings and better understand the nature of respondents' investment and IMM activity. Further explanation of portfolio concentrations and a full list of respondent sub-groups may be found in the Methodology section starting on Page 9.

Most of the sample (71%) allocates 75% or more of their impact investing portfolios directly into companies, projects, or real assets (Figure 5), while 18% percent invest primarily indirectly, through funds or other intermediaries.

FIGURE 5: RESPONDENTS WITH PORTFOLIO CONCENTRATIONS IN DIRECT OR INDIRECT INVESTMENTS

n = 169

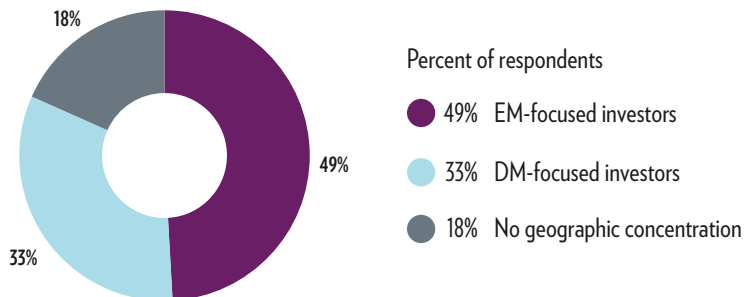


Note: The threshold for portfolio concentration is 75% of AUM. Source: GIIN

Just under half of the sample (49%) allocates 75% or more of their impact investing portfolios to holdings in emerging markets (Figure 6). A third of respondents allocate primarily to developed markets, while 18% are more balanced between both.

FIGURE 6: RESPONDENTS WITH PORTFOLIO CONCENTRATIONS IN EMERGING OR DEVELOPED MARKETS

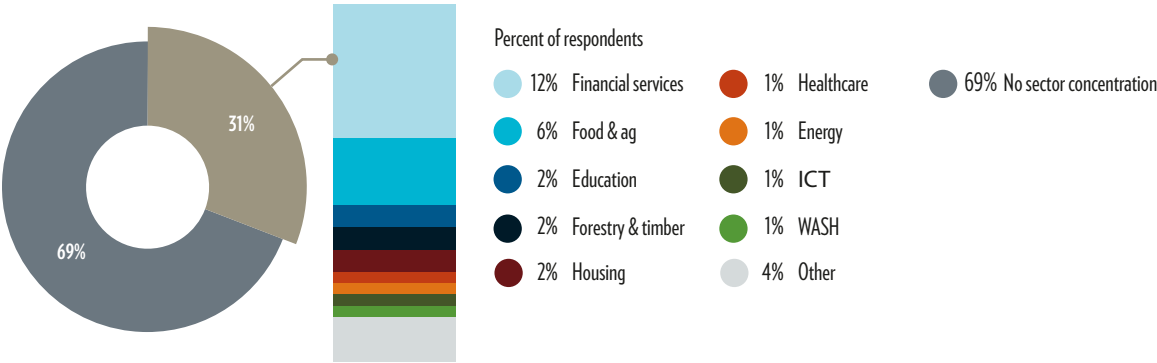
n = 169



Note: The threshold for portfolio concentration is 75% of AUM. Source: GIIN

Overall, respondents in the sample have diversified sector allocations; most (69%) have no strong concentration in any one sector (Figure 7). Respondents' most common sector focus is financial services, with 12% of the sample allocating 75% or more of their AUM to investments to this sector.

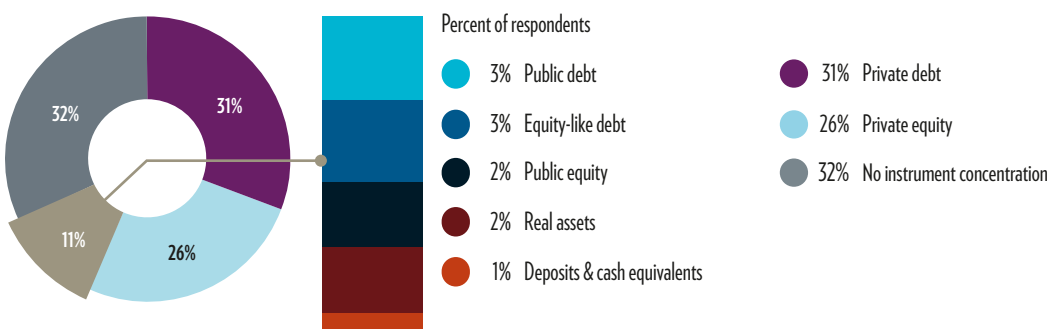
FIGURE 7: RESPONDENTS WITH PORTFOLIO CONCENTRATIONS BY SECTOR
n = 169



Note: The threshold for portfolio concentration is 75% of AUM. No respondents are concentrated in arts & culture, infrastructure, or manufacturing. 'Other' sectors include commercial real estate, media, businesses with positive climate materiality, and others. Source: GIIN

Thirty-one percent of respondents in the sample allocate 75% or more of their AUM to private debt investments, and just over a quarter allocate primarily to private equity investments (Figure 8). Almost one-third of the sample has no strong instrument concentration.

FIGURE 8: RESPONDENTS WITH PORTFOLIO CONCENTRATIONS BY INSTRUMENT
n = 169



Note: The threshold for portfolio concentration is 75% of AUM. Source: GIIN

Motivations for Measuring and Managing Impact

One hallmark of impact investing is investors' commitment to measuring and understanding the positive impact they generate for people and the planet. Through the following questions, the Research Team delved deeper into respondents' specific motivations for measuring and managing positive impact. The section explores which themes or issue areas investors seek to positively impact, and investors with social impact objectives reported which groups of society they seek to benefit.

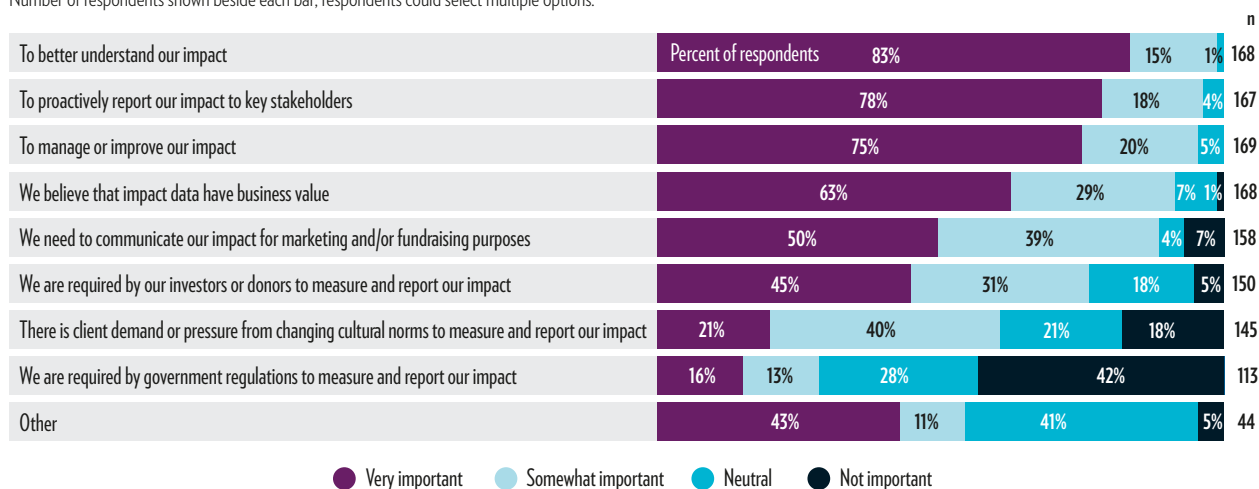
A large majority of respondents indicated that measuring and managing impact is central to furthering their impact goals. For example, 83% agree impact measurement and management (IMM) is very important for better understanding their impact, and 75% report that IMM is very important to managing or improving their impact (Figure 9). Another large majority (78%) feel IMM is very important for proactively reporting impact to key stakeholders, yet fewer than half (45%) find that requirements from investors or donors present a very important reason for IMM. Interestingly, almost half (48%) of direct investors say IMM is very important because investors or donors require them to report on impact, while only 29% of indirect investors share this view.

Sixty-three percent feel IMM is very important because impact data have business value, a notion echoed by 6 in 10 respondents to the GIIN's 2016 *Annual Impact Investor Survey*.⁷ Interestingly, U.S. and Canada-headquartered respondents were more likely to select this motivation (very important for 74%) than were WNS Europe-headquartered respondents (45%).

Few respondents report IMM being very important because of client demand or changing cultural norms (21%) or because of government regulations (16%). A greater share of U.S. and Canada-based respondents feel these reasons are very important (31% feel client demand is very important and almost a quarter cite government regulations) than do WNS Europe-headquartered respondents (12% and 11%, respectively). Overall, the findings suggest that internal motivations for measuring and managing impact are much stronger than external ones.

FIGURE 9: REASONS FOR MEASURING AND MANAGING IMPACT

Number of respondents shown beside each bar; respondents could select multiple options.



Note: 'Other' reasons for measuring and managing impact include helping investees improve their impact, using it as a risk mitigation strategy, and that it is core to respondents' strategies (such as in the case of mission-led investors like foundations). Source: GIIN

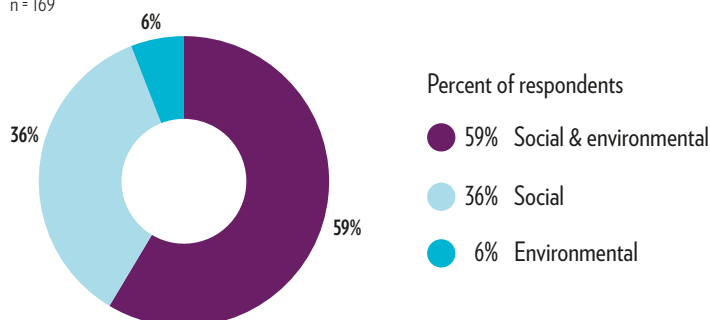
⁷ Abhilash Mudaliar, Hannah Schiff, and Rachel Bass, *Annual Impact Investor Survey 2016* (New York: The Global Impact Investing Network, May 2016), <https://thegiin.org/knowledge/publication/annualsurvey2016>.

TARGETING SOCIAL AND ENVIRONMENTAL IMPACT OBJECTIVES

Most respondents (59%) make investments in order to have both social and environmental impact (Figure 10). Just over a third of respondents (36%) primarily target social impact, while only 6% focus primarily on environmental impact.

FIGURE 10: PRIMARY IMPACT OBJECTIVE

n = 169



Source: GIIN

Interestingly, 18% of DM-focused respondents are primarily focused on environmental impact, while no EM-focused respondents are, a statistically significant difference. About 10% of PE-focused respondents primarily target environmental impact, compared to 2% of PD-focused respondents.

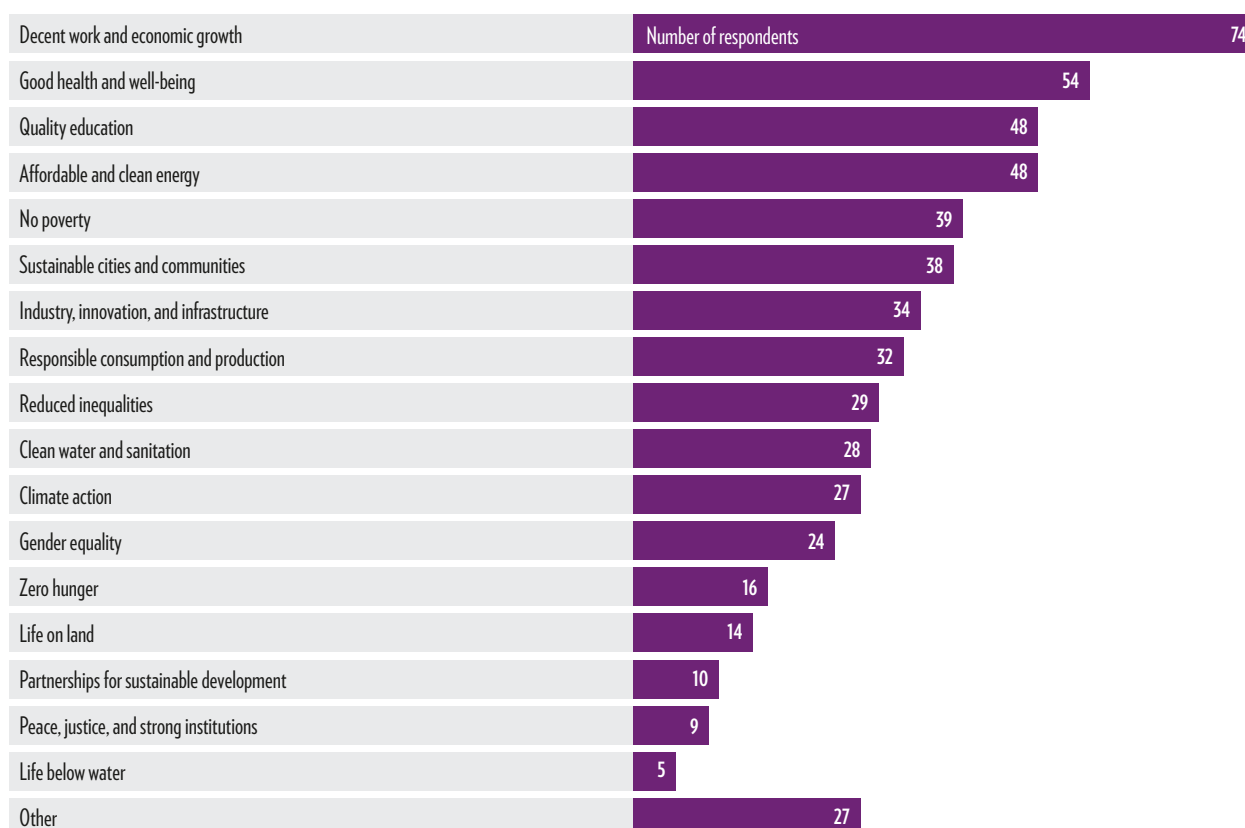
TARGET IMPACT THEMES

To gain insight on the types of positive impact investors seek to create, the Research Team asked respondents to report which impact themes they target, as aligned with the U.N. Sustainable Development Goals (SDGs).⁸ On average, respondents allocate capital to between four and five of these themes. The most commonly targeted impact theme is 'decent work and economic growth,' which 60% of respondents pursue (Figure 11). Forty-four percent target 'good health and well-being,' and 39% target each of 'affordable and clean energy' and 'quality education.'

⁸ Refer to page 40 for more information on the U.N. Sustainable Development Goals (SDGs).

FIGURE 11: NUMBER OF RESPONDENTS WITH SOME ALLOCATION TO EACH IMPACT THEME

n = 124 (optional question); respondents could select multiple options.



Note: 'Other' includes impact themes such as affordable housing, sustainable agriculture, and financial inclusion. Additionally, some respondents intend to generate impact across many different themes and do not track AUM allocations to specific impact themes. Source: GIIN

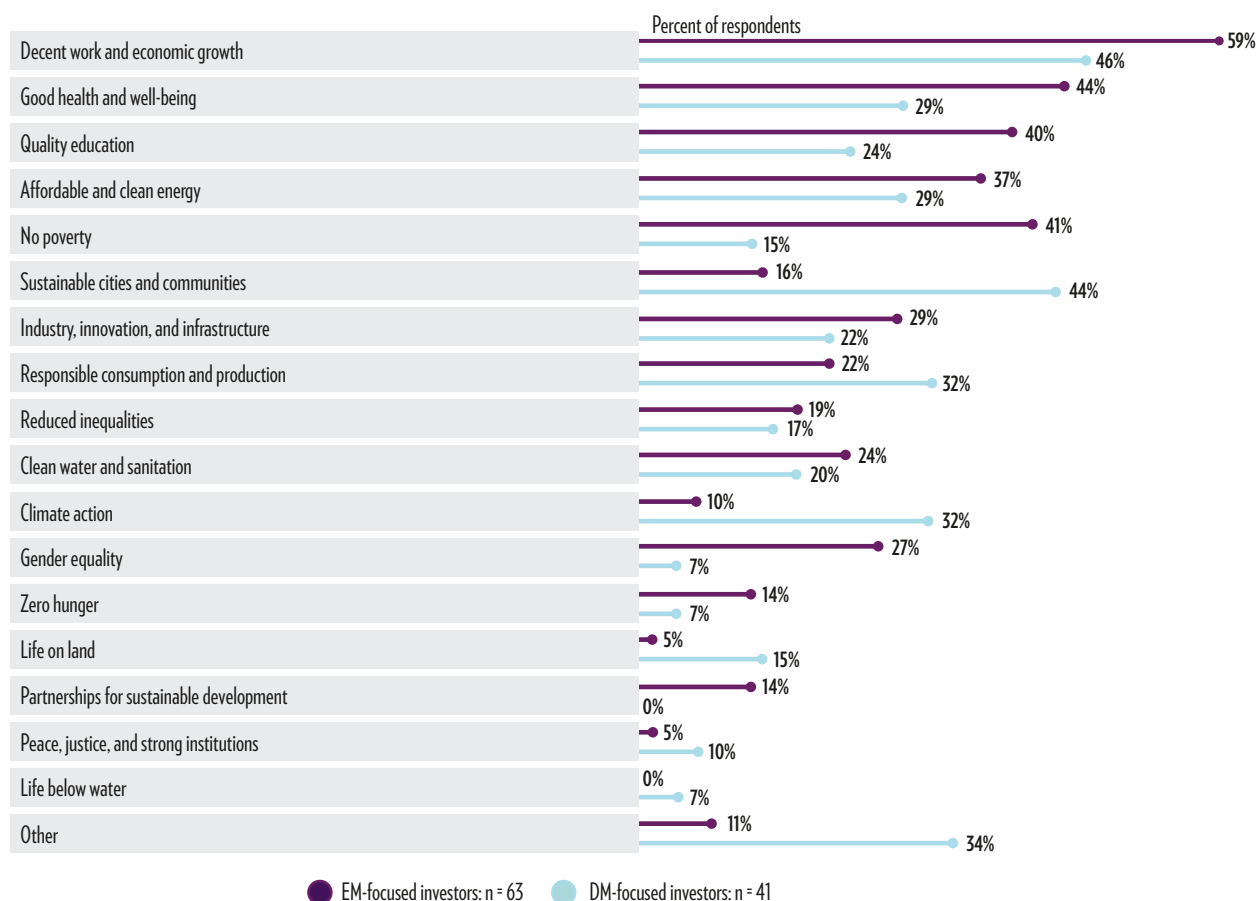
EM- and DM-focused investors target somewhat different impact objectives. A higher percentage of DM-focused investors reported targeting 'sustainable cities and communities,' 'responsible consumption and production,' and 'climate action,' while a higher proportion of EM-focused investors target 'no poverty,' 'decent work and economic growth,' 'good health and well-being,' and 'quality education' (Figure 12).⁹ These priorities likely reflect the most persistent and acute needs in their respective target geographies.

The impact themes that market-rate and below-market-rate investors target also differ somewhat. A greater share of market-rate investors allocate capital to environmentally related themes, such as 'climate action' (31% have some allocation versus 8% of below-market-rate investors, a statistically significant difference) and 'clean water and sanitation' (26% versus 15% of below-market-rate investors). A majority (69%) of market-rate investors allocate capital to 'decent work and economic growth,' versus fewer than half (44%) of below-market investors – also a statistically significant difference.

⁹ Differences were found to be statistically significant for these impact themes: 'sustainable cities and communities,' 'climate action,' and 'no poverty'.

FIGURE 12: DM- AND EM-FOCUSED RESPONDENTS WITH SOME ALLOCATION TO EACH IMPACT THEME

Optional question; respondents could select multiple options. Ranked in order of total number of respondents with some allocation to each impact theme.



Note: 'Other' includes impact themes such as affordable housing, sustainable agriculture, and financial inclusion. Additionally, some respondents intend to generate impact across many different themes and do not track AUM allocations to specific impact themes. Source: GIIN

Respondents also reported the percentage of their impact investing AUM allocated to each impact theme. As the Research Team expected, the highest proportion of sample AUM is directed at 'decent work and economic growth' (24%). The impact theme with the next-largest allocation is 'climate action' (16% of AUM), followed by 'sustainable cities and communities' (11%; Figure 13).

Impact Report Highlight: WHEB Asset Management

WHEB is a UK-based fund manager that primarily invests in public equity in developed markets. In its 2016 Annual Impact Report,¹⁰ it details how its Sustainability Fund directly and indirectly contributes to several U.N. SDGs. WHEB has mapped its impact themes and metrics to the SDGs, from which it calculated its fund allocations to companies directly contributing to specific goals:

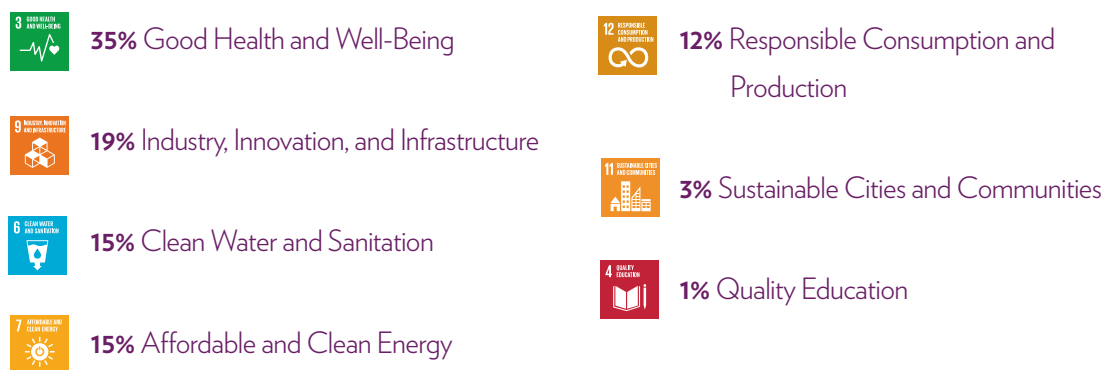
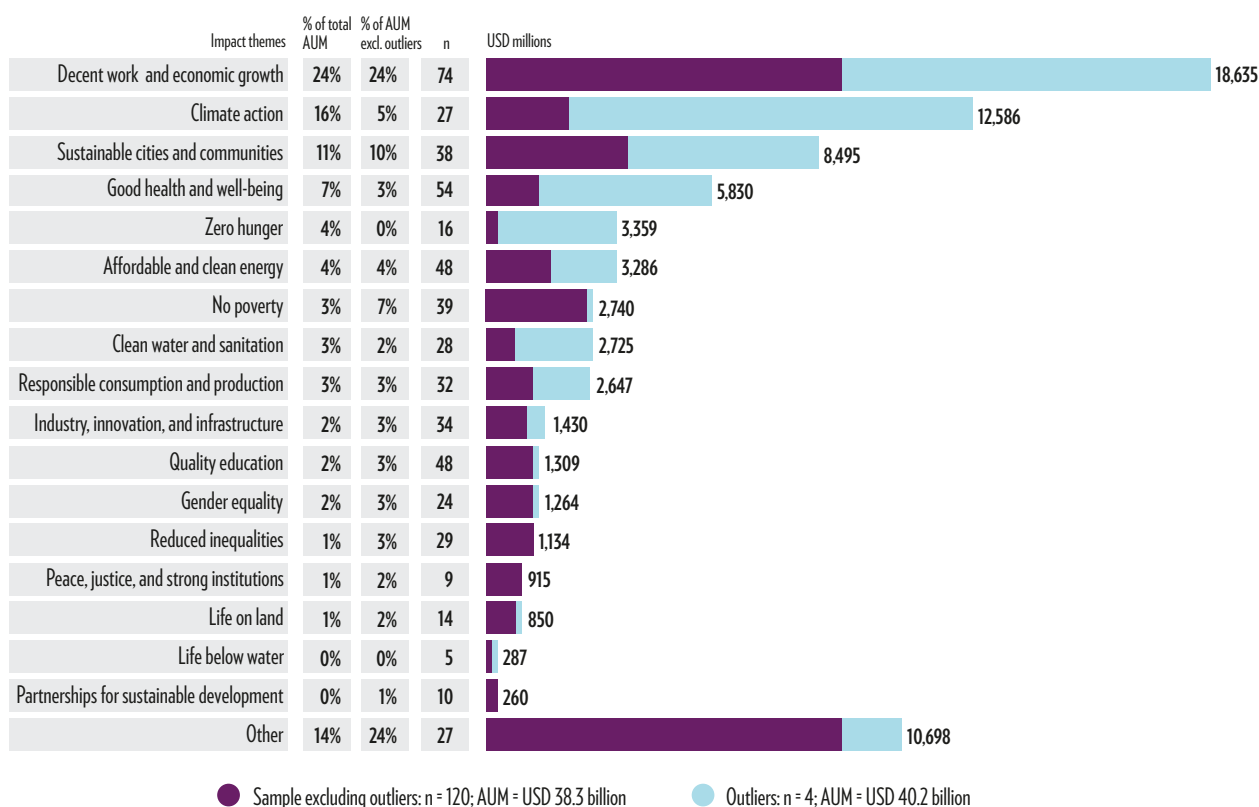


FIGURE 13: ASSET ALLOCATIONS BY IMPACT THEME

n = 124 (optional question); respondents could select multiple options.



Note: 'Other' includes impact themes such as affordable housing, sustainable agriculture, and financial inclusion. Additionally, some respondents intend to generate impact across many different themes and do not track AUM allocations to specific impact themes. Source: GIIN

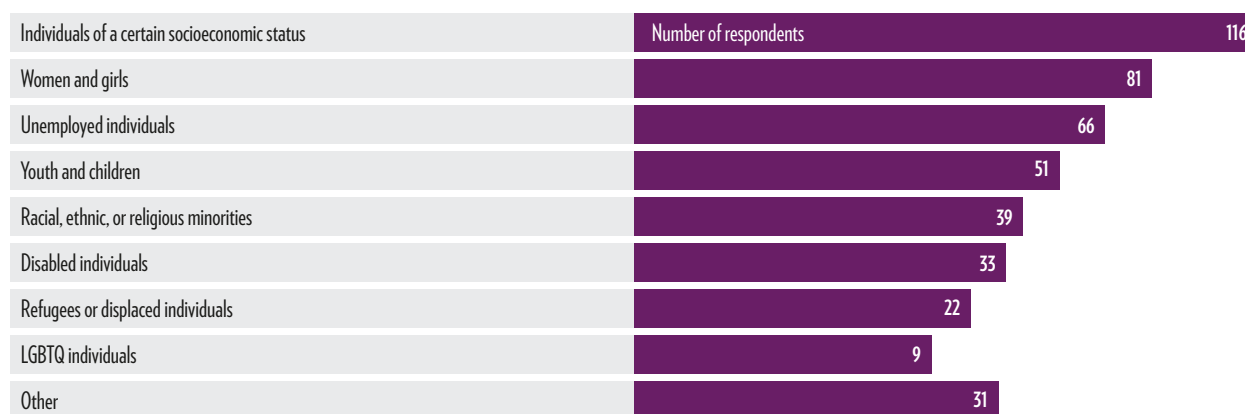
¹⁰ WHEB, *Performance Through Positive Impact* (May 2017), <http://www.whebgroup.com/media/2017/05/WHEB-Impact-Report-2016-1.pdf>.

TARGET BENEFICIARIES

Respondents pursuing social impact objectives indicated which groups of people they seek to impact. Many organizations noted that positive impact on the end beneficiaries is an important factor in IMM, among which a handful shared how they incorporate these beneficiaries' voices; these quotes are incorporated throughout the report. On average, respondents target around three beneficiary groups. Most respondents target individuals of a certain socioeconomic status (83%), and 58% seek to impact women and girls (Figure 14). Almost half target unemployed individuals, and over a third target youth and children.

FIGURE 14: TARGET BENEFICIARY GROUPS

n = 140 (optional question); respondents could select multiple options.

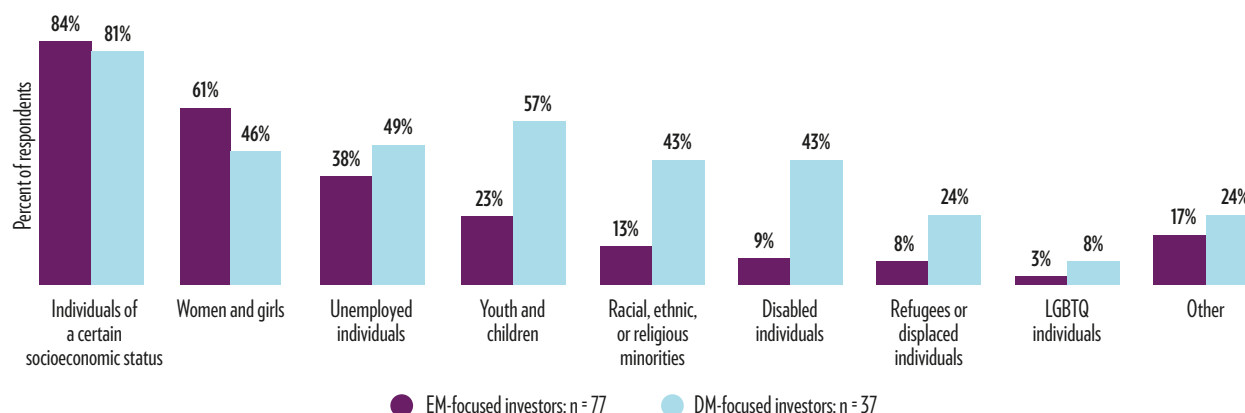


Note: 'Other' includes beneficiary groups such as former inmates, veterans, elderly people, and small businesses. Source: GIIN

DM- and EM-focused investors differ considerably in terms of beneficiaries. On average, DM-focused investors seek to impact a wider array of beneficiary groups, while EM-focused investors are slightly more concentrated. About sixty percent of EM-focused investors target women and girls (Figure 15), versus 46% of DM-focused investors. On the other hand, DM-focused respondents seek to benefit youth and children, minorities, disabled individuals, and refugees in much greater proportions than do EM-focused investors, differences which are statistically significant.

FIGURE 15: TARGET BENEFICIARY GROUPS AMONG EM- AND DM-FOCUSED INVESTORS

Optional question; respondents could select multiple options.

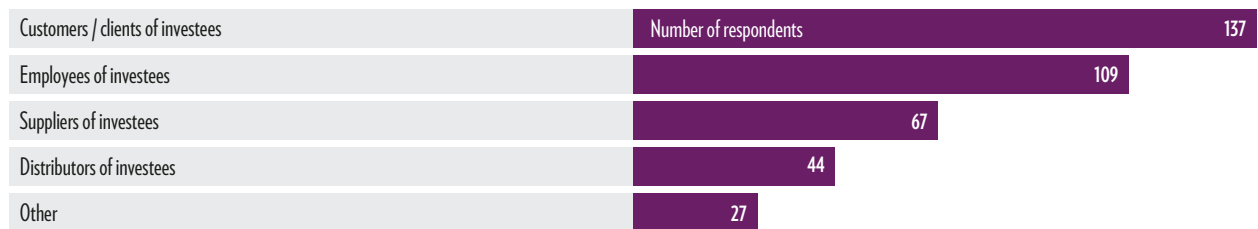


Note: 'Other' includes beneficiary groups such as former inmates, veterans, elderly people, and small businesses. Source: GIIN

Depending on an investee's business model, an investment can drive impact for a variety of groups connected to the business, including customers, employees, suppliers, distributors, among others. Respondents indicated which stakeholders along the supply chain they seek to benefit. Over 90% seek to benefit their investees' customers or clients, and almost three-quarters seek to impact their investees' employees (Figure 16). A fund manager commented, "We engage with portfolio company employees to obtain a better understanding of how the company provides opportunities for career development and growth for its workforce."

FIGURE 16: TARGET INVESTEE STAKEHOLDERS

n = 149 (optional question); respondents could select multiple options.

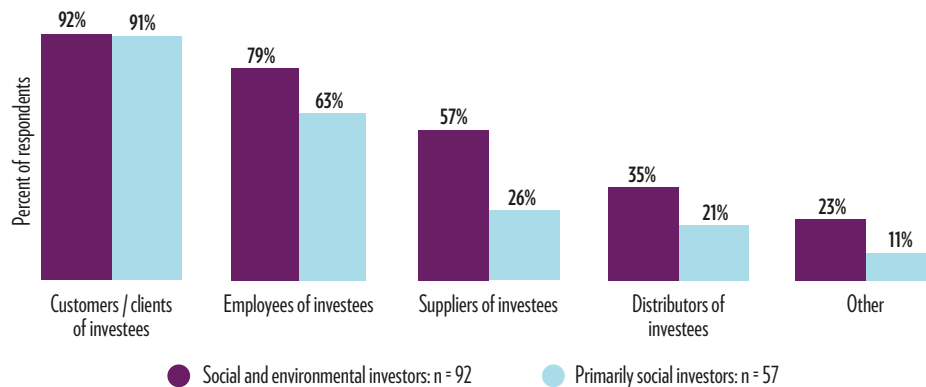


Note: 'Other' includes groups such as shareholders and wider communities – where both customers and clients live. Source: GIIN

Primarily social investors and social and environmental investors both tend to target their positive impact toward clients or customers, but social and environmental investors are more likely to additionally target suppliers, employees, and distributors of investees, all statistically significant differences. (Figure 17).

FIGURE 17: TARGET INVESTEE STAKEHOLDERS AMONG PRIMARILY SOCIAL INVESTORS AND SOCIAL AND ENVIRONMENTAL INVESTORS

Optional question; respondents could select multiple options.



Note: 'Other' includes groups such as shareholders and wider communities – where both customers and clients live. Source: GIIN

Perspectives on the Market

PROGRESS AND CHALLENGES IN IMM PRACTICE

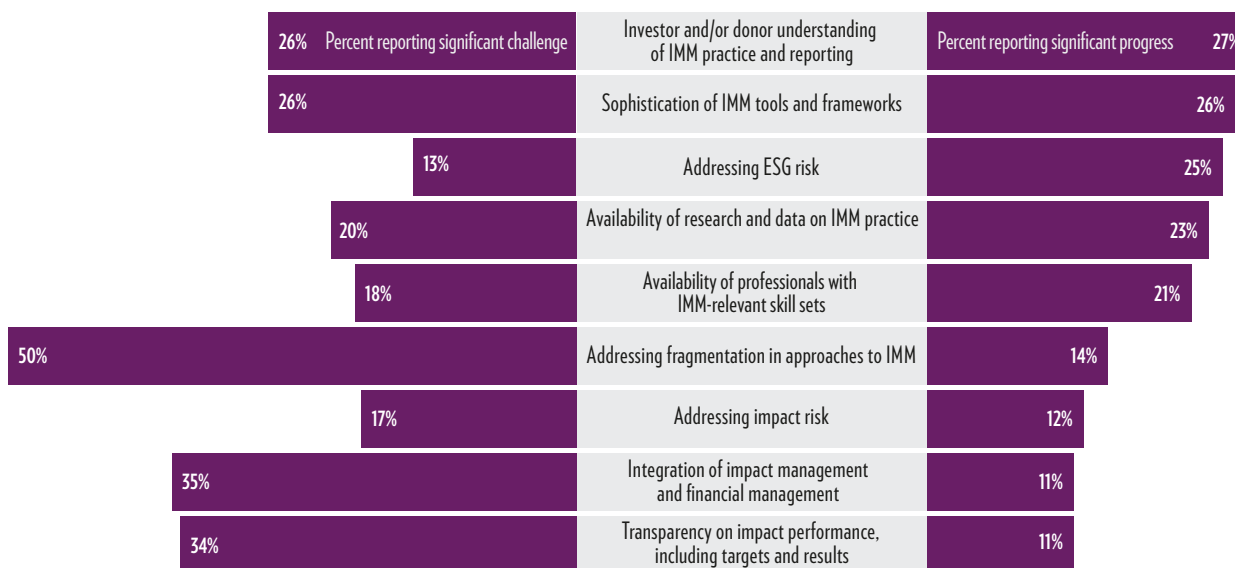
Impact measurement and management (IMM) is a core characteristic of impact investing and is a practice that has evolved significantly over the past several years. Given the importance of IMM and the progress the field has experienced, survey respondents were asked to offer their opinions on the state of IMM practice in the broader industry. The survey presented several elements of IMM practice, and respondents reported both how much progress had been made in each area over the past three years and the extent to which each aspect remains a challenge today.

While respondents generally reported some progress across most indicators over the past three years, many indicators remain significant challenges, according to respondents (Figure 18). Twenty percent or more of respondents felt that significant progress had been made in the past three years in five areas: ‘investor and/or donor understanding of IMM practice and reporting,’ ‘sophistication of IMM tools and frameworks,’ ‘addressing ESG risk,’ ‘availability of research and data on IMM practice,’ and ‘availability of professionals with IMM-relevant skill sets.’

Meanwhile, half of respondents report fragmentation in approaches to IMM as a significant challenge today, with 9% of respondents indicating that progress in this area had actually ‘worsened’ over the past three years. Over a third of respondents cited two other key challenge areas: ‘integration of impact management and financial decisions’ (35%) and ‘transparency on impact performance, including targets and results’ (34%).

FIGURE 18: SIGNIFICANT AREAS OF PROGRESS AND CHALLENGE IN IMM PRACTICE

N varies from 104-126 for each answer choice; optional question.



Source: GIIN

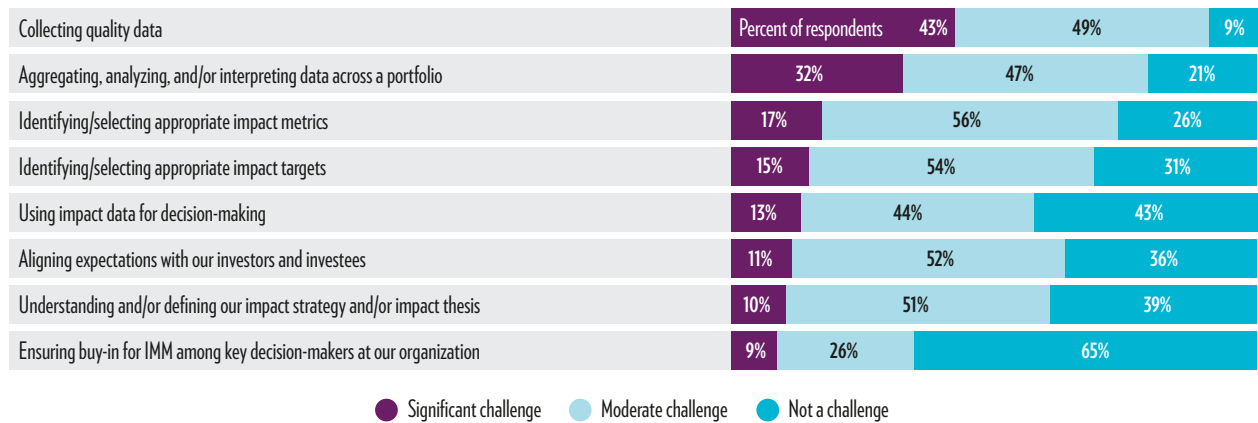
As a group, EM-focused investors cited greater progress against most indicators than did DM-focused investors, most notably in ‘addressing ESG risk’ (30% versus 19%), ‘availability of research and data on IMM practice’ (30% versus 19%), and ‘addressing impact risk’ (17% versus 6%). Direct investors were also more likely to cite progress than were indirect investors, with the greatest disparity in ‘sophistication of IMM tools and frameworks’ (30% versus 9%) and ‘availability of research and data on IMM practice’ (23% versus 9%). Across segments, respondents indicated generally consistent levels of challenge remaining for the industry.

ORGANIZATIONAL CHALLENGES WITH IMM

In addition to commenting on progress and challenges across the industry, respondents shared the specific challenges they face in implementing IMM within their organizations. Overall, respondents found issues pertaining to measurement more challenging than those concerning management (Figure 19). Forty-three percent of respondents noted ‘collecting quality data’ as a significant challenge, while another third cited ‘aggregating, analyzing, and/or interpreting data across a portfolio.’ In all other aspects of IMM—whether selecting metrics and targets, using data for decision-making, or aligning expectations with investors and investees—more respondents reported these aspects as not being challenges than reported them as being significant challenges. Promisingly, 65% of respondents indicated that ‘ensuring buy-in for IMM among key decision-makers at our organization’ was not a challenge.

FIGURE 19: SEVERITY OF IMM CHALLENGES WITHIN RESPONDENT ORGANIZATIONS

N varies from 155-167 (optional question); some respondents chose ‘not sure/not applicable,’ and these responses are not included. Ranked by percent selecting ‘significant challenge.’



Source: GIIN

OPPORTUNITIES TO STRENGTHEN IMM PRACTICE

Respondents' answers about the most necessary tools, ideas, and behaviors to advance IMM reflect the challenges described above at both the industry and organizational levels. Respondents identified ample opportunity to strengthen the industry's approach to IMM, with a particular focus on transparency, shared understanding, and rigor (Figure 20). Over three-quarters of respondents felt that 'transparency in impact data and results' is very important to advancing IMM practice, and over half of respondents cited each of 'common impact-based principles for investing,' 'consideration of impact data with equal emphasis and rigor to financial risk and return in decision-making,' 'development of an impact benchmark,' and 'integration of impact data into financial accounting standards and reports' as being 'very important.' With regard to principles, one respondent noted, "It is difficult to create a common standard, but principles for impact investing are just as important as reporting financial performance." By contrast, roughly one in five respondents considered either 'impact measurement certification and credentialing for impact funds and/or analysts' or 'standard term sheets that include impact targets or incentives' to be 'not important' to advancing IMM practice.

FIGURE 20: IMPORTANCE OF VARIOUS TOOLS, IDEAS, AND BEHAVIORS TO ADVANCING THE PRACTICE OF IMM

N varies from 128-136 for each answer choice. Some respondents chose 'not sure/not applicable,' and these responses are not included. Ranked by percent selecting 'very important.'

Transparency in impact data and results	Percent of respondents	76%	21%	2%
Common impact-based principles for investing	58%	32%	10%	
Consideration of impact data with equal emphasis and rigor to financial risk and return in decision-making	53%	41%	6%	
Development of an impact benchmark	53%	38%	9%	
Integration of impact data into financial accounting standards and reports	53%	37%	11%	
Tools to strengthen impact screening	46%	43%	11%	
Impact measurement certification and credentialing for impact funds and/or analysts	39%	41%	20%	
Third-party audit and validation of impact data and performance	36%	52%	13%	
Standard term sheets that include impact targets or incentives	34%	47%	19%	

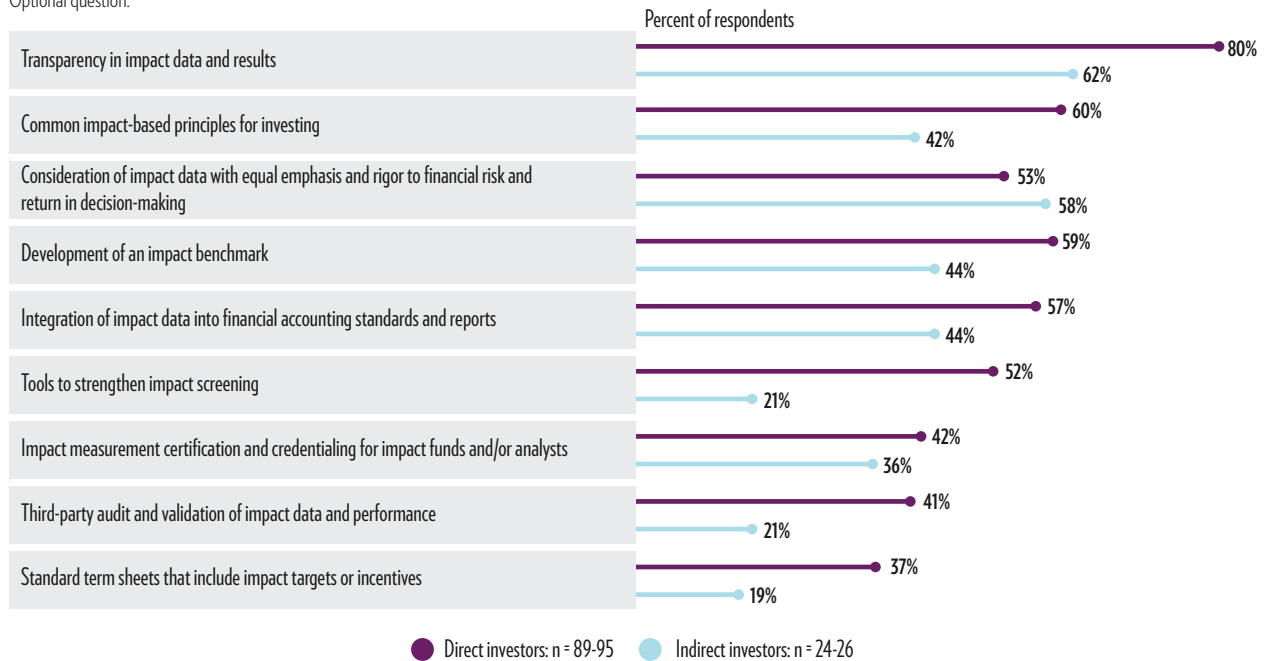
Source: GIIN

● Very important
 ● Somewhat important
 ● Not important

Direct investors placed greater importance than did indirect investors on nearly every tool, idea, and behavior for advancing IMM practice (Figure 21), with the greatest divergence on 'tools to strengthen impact screening'—52% of direct investors cited this as very important compared to just 21% of indirect investors. Direct and indirect investors also indicated substantially different views on the importance of 'third-party audit and validation of impact data and performance,' 'common impact-based principles for investing,' and 'transparency in impact data and results.' These differences reflect, in part, their disparate levels of involvement in selecting portfolio companies, projects, or real assets, and in measuring impact firsthand.

FIGURE 21: DIRECT AND INDIRECT INVESTORS THAT INDICATED EACH TOOL, IDEA, OR BEHAVIOR AS ‘VERY IMPORTANT’

Optional question.



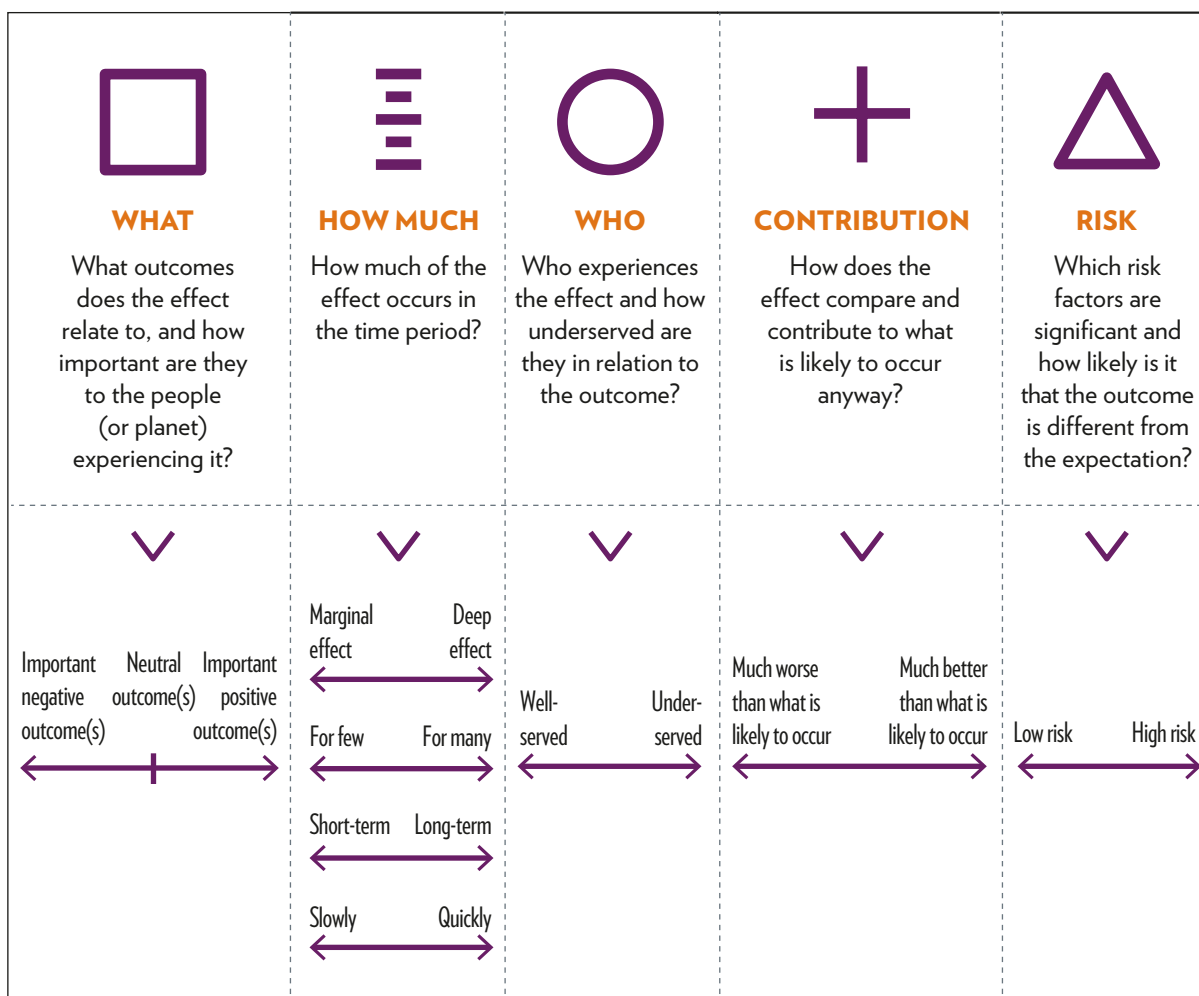
Source: GIIN

MARKET SPOTLIGHT: EMERGING EFFORTS FOR IMPACT MEASUREMENT AND MANAGEMENT

As IMM practice has advanced over the last few years, it has engendered increasingly sophisticated approaches for investors to understand the impact of their investments. The efforts outlined below seek to help investors frame their overall approach to measuring and managing their impact.

The **Impact Management Project**, launched in late 2016, is a multi-stakeholder initiative designed to identify appropriate conventions in impact expectations, communications, and management.¹¹ A multi-stakeholder process including over 700 practitioners has identified five dimensions of impact: what, how much, who, contribution, and risk (Figure 22). These dimensions can help investors frame their thinking about how people and the planet directly experience impact, which the Impact Management Project proposes as the foundation of impact management. Investors can use their existing measurement methods and metrics with this impact management initiative.

FIGURE 22: THE FIVE DIMENSIONS OF IMPACT



Source: The Impact Management Project

11 "Understand Impact," Impact Management Project (2017), <http://www.impactmanagementproject.com/understand-impact/>.

The **Investment Leaders Group (ILG)** framework, launched in 2016, was developed by the University of Cambridge Institute for Sustainability Leadership in collaboration with the ILG, a network of investment managers and asset owners.¹² The overarching framework categorizes the 17 U.N. SDGs according to six broad impact themes to help investors understand and communicate the impact of their investments: basic needs, well-being, decent work, resource security, healthy ecosystems, and climate stability. The framework proposes one representative metric for each impact theme and provides a methodology for categorizing the impact contribution of an investment or fund to these themes, from highly positive to highly negative. Currently, specific methodologies for using the framework to categorize impact are available for the themes of ‘decent work’ and ‘climate stability.’ Its creators posit that the framework’s simplicity allows investors to communicate about impact in factsheets and dashboards with ease and hope it will enable consumers to make decisions that incorporate the social and environmental impacts of various financial products and services.

The GIIN developed the **Navigating Impact**¹³ project in 2017, to help investors select impact strategies and adopt metrics that indicate performance toward their goals. The project was created in consultation with industry experts, impact investors, and standards setters. The materials are designed to align to emerging industry conventions and norms and provide an on-ramp to setting and streamlining impact strategy. Navigating Impact resources help impact investors to frame their goals and expectations; select impact strategies according to research-based evidence; select metrics; and access curated resources highlighting existing methods, tools, and guidance to measure and report impact. Navigating Impact is organized by investment theme allowing the investor to either take a deep dive into one, such as Affordable Housing in Developed Markets, or to look at the probable outcomes across multiple investment themes and assemble a number of strategies that fit their goals. At launch, resources will be available for the following themes: affordable housing in developed markets, smallholder agriculture in emerging markets, and access to clean energy in emerging markets.

The **Impact Management Principles**, published in September 2017, is a guide to IMM provided by the European Venture Philanthropy Association and Social Value International.¹⁴ It describes five steps for investors to follow when conducting IMM: (1) set objectives, (2) analyze stakeholders, (3) measure results, (4) verify and value impact, and (5) monitor and report. Each step is guided and informed by principles, such as ‘involve stakeholders,’ ‘understand what changes,’ ‘only include what is material,’ and ‘verify results.’ The framework additionally lists tools, resources, and notes for the practical application of each step in the process.

These efforts represent significant progress for the industry as they provide detailed guidance on impact management and offer new ways to conceive of an organization’s impact. While these initiatives demonstrate the growing number of resources that are helping to advance IMM practice, there has also been an increasing call for coordination and collaboration between the various developers to ensure that new initiatives are not fueling the perceived fragmentation that remains a challenge for impact investors (see Perspectives on the Market on page 30 for more information). One project that aims to reduce IMM fragmentation is the GIIN’s Investors’ Council leadership initiative on IMM. Investors’ Council members, who are leaders of the impact investing industry, are piloting the Impact Management Project to test, refine, and solidify a shared set of fundamentals for impact investing, as a first step in establishing norms for the industry.

12 University of Cambridge Institute for Sustainability Leadership (CISL), *In Search of Impact: Measuring the Full Value of Capital* (Cambridge, UK: CISL, May 2016), <https://www.cisl.cam.ac.uk/publications/publication-pdfs/impact-report.pdf>.

13 The Global Impact Investing Network, *Navigating Impact: A guide to selecting evidence-based impact strategies and aligned metrics* (New York: The Global Impact Investing Network, October 2017) <https://thegiin.org/knowledge/publication/navigating-impact>.

14 Priscilla Boiardi and Jeremy Nicholls, *Impact Management Principles* (Brussels: European Venture Philanthropy Association and Social Value International, September 2017), <https://evpa.eu.com/knowledge-centre/publications/impact-management-principles>.

Impact Measurement Practices

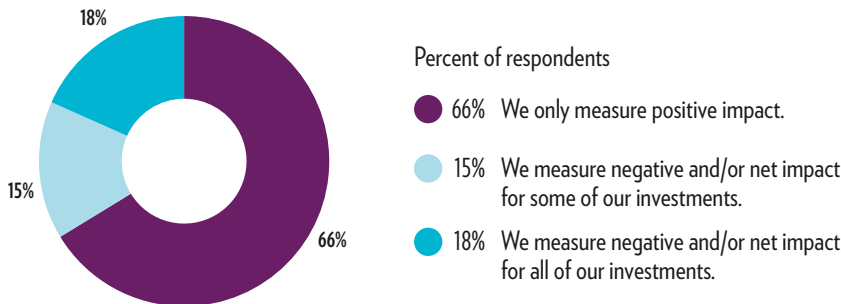
Respondents answered detailed questions about the different methods they use for impact measurement and management (IMM), specifically regarding what they measure (e.g., outputs or outcomes); how they select impact targets and metrics; and which tools, indicator sets, or standards they apply.

MEASURING POSITIVE AND NEGATIVE IMPACT

While impact investors centrally focus on driving positive social and environmental impact, investments of all kinds can also generate negative impact, such as greenhouse gas emissions or the loss of jobs. Respondents indicated the extent to which they measure the positive and negative and/or net impact generated by their investments.¹⁵ About two-thirds of respondents only track the positive impact associated with their investments (Figure 23). The other third track negative and/or net impact, either exclusively or in addition to positive impact, for some (15% of respondents) or all (18%) of their investments.

FIGURE 23: MEASURING POSITIVE AND NEGATIVE IMPACT

n = 169

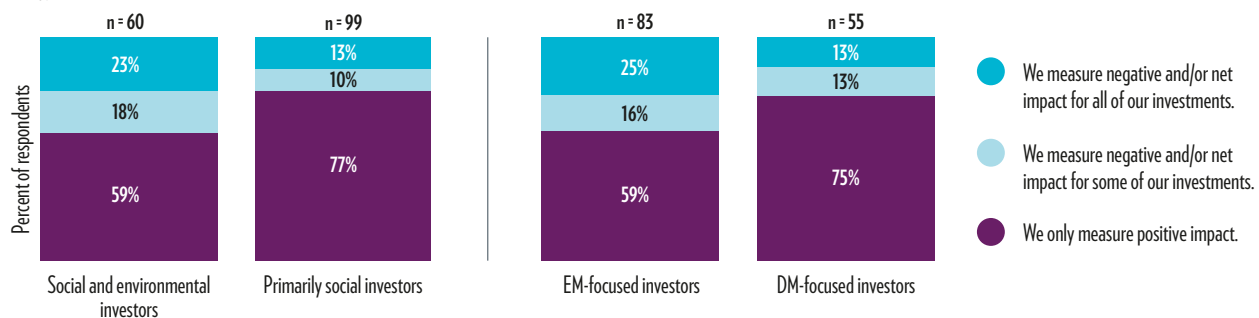


Source: GIIN

Investors with primarily social impact objectives are more likely to only track positive impact than are those seeking both social and environmental impact (77% versus 59%; Figure 24). DM-focused investors are also more likely to measure only positive impact than are EM-focused investors (75% versus 59%). Both of these differences are statistically significant.

FIGURE 24: MEASURING POSITIVE AND NEGATIVE IMPACT, BY SUB-GROUP

n = 169



Source: GIIN

¹⁵ Negative impact considers the detrimental effects and externalities of an investment. Net impact is a separate concept that compares those negative effects to other, positive effects of that investment to calculate the total, or net, impact.

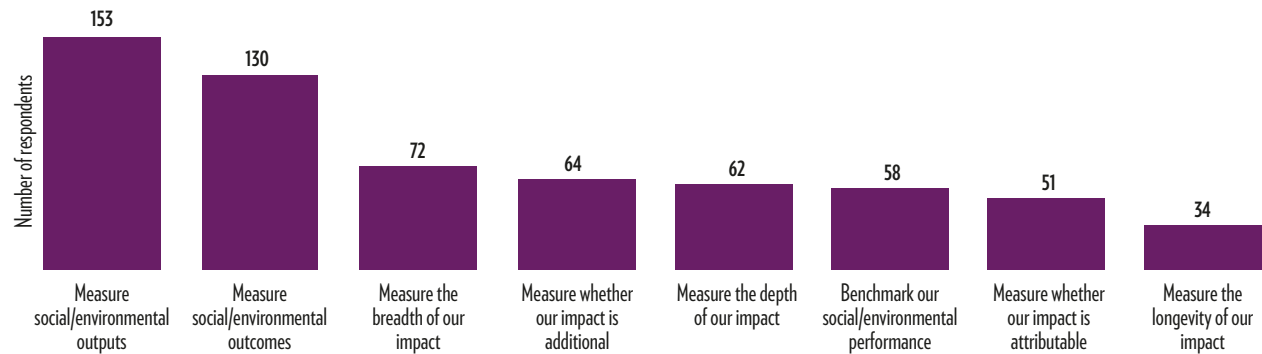
TYPES OF IMPACT MEASURED

Respondents indicated the different aspects of impact that they seek to measure. The vast majority (91%) measure the social and/or environmental *outputs* associated with their investments, while over 75% measure the social and/or environmental *outcomes* of their investments (Figure 25).

Fewer than half of respondents measure the *breadth* of their impact across different groups of people or the environment, and 38% measure whether they created impact that is *additional*. Over a third of respondents also measure the depth of their impact or *benchmark* their impact to that of their peers (37% and 34%, respectively).

FIGURE 25: TYPES OF IMPACT MEASURED

n = 169; respondents could select multiple options.



Source: GIIN

A greater share of direct investors measures whether their impact is additional than do indirect investors (41% versus 32%); the proportion of direct investors measuring attribution is roughly double (34% versus 16%, a statistically significant difference).

Outputs are the direct products of an organization's activities, such as client-provided services, goods produced, or trainings delivered.

Outcomes are the changes that result from these activities and outputs, such as client savings, higher student graduation rates, or improved health.

Breadth is the reach of impact across groups of people or ecosystems.

Additionality is whether the positive impact would not have occurred anyway, without the investment.

Depth is the significance of the impact for the people or ecosystems impacted.

To **benchmark** is to compare performance to that of peers.

Attribution is evidence that positive impact results from the investment, not from other factors (such as market growth or another party's investment).

Longevity is the durability of impact over time.

TOOLS, INDICATOR SETS, AND STANDARDS FOR MEASURING IMPACT

A wealth of resources, much of it publicly available, can help investors measure impact. These resources encompass various tools, frameworks, standards, and rating systems used at varying levels of specificity (Figure 26). Some, like IRIS, span most sectors, while others are sector-specific, like the SPI4, which focuses on financial inclusion. On average, respondents use three such resources, sometimes in addition to customized measurement methods. IRIS is the most commonly used standard (62%).¹⁶ About 40% of respondents use the SDGs and B Analytics and/or GIIRS.¹⁷ The most commonly used resources are described on Page 39.

FIGURE 26: USAGE OF VARIOUS TOOLS, INDICATOR SETS, AND STANDARDS IN IMM PRACTICE

n = 137 (optional question); respondents could select multiple options.

	Number of respondents
IRIS	85
United Nations Sustainable Development Goals (SDGs)	57
B Analytics / GIIRS	56
Principles for Responsible Investment (PRI)	35
SPI4 / Social Performance Task Force (SPTF)	19
Aeris CDFI ratings system	18
Global Reporting Initiative (GRI)	18
Leadership in Energy and Environmental Design (LEED) ratings system	16
Sustainability Accounting Standards Board (SASB)	14
Global Alliance for Banking on Values (GABV)	8
Social Return on Investment (SROI)	7
PRISM	3
Total Impact Measurement and Management (TIMM)	3
Other	28

Note: 'Other' includes Sustainability, the Pinchot Impact Index, CSRHub, MSCI ESG Ratings, the Global Real Estate Sustainability Benchmark (GRESB), and the Green Star rating system.

Source: GIIN

A higher proportion of EM-focused investors use IRIS (67%) and the SDGs (42%) than do DM-focused investors (50% and 31%, respectively), both statistically significant differences. On the other hand, a greater proportion of DM-focused investors use B Analytics and/or GIIRS ratings (45%) than do EM-focused investors (38%).

16 The GIIN offers IRIS, developed in 2009, as a free public good to support transparency, credibility, and accountability in impact measurement practices across the impact investing industry. "IRIS," The Global Impact Investing Network, <https://iris.thegiin.org/>; and "Guide to Getting Started with IRIS," The Global Impact Investing Network, <https://iris.thegiin.org/guide/getting-started-guide/summary>.

17 For more information, refer to the websites of the U.N. Sustainable Development Goals (SDGs), B Analytics, and GIIRS, respectively. "Sustainable Development Goals," United Nations Sustainable Development Knowledge Platform, <https://sustainabledevelopment.un.org/sdgs>; "B Analytics," <http://b-analytics.net/>; and "GIIRS Funds," B Analytics, <http://b-analytics.net/giirs-funds>.

MARKET SPOTLIGHT: COMMONLY USED IMPACT MEASUREMENT AND MANAGEMENT TOOLS, STANDARDS, AND FRAMEWORKS

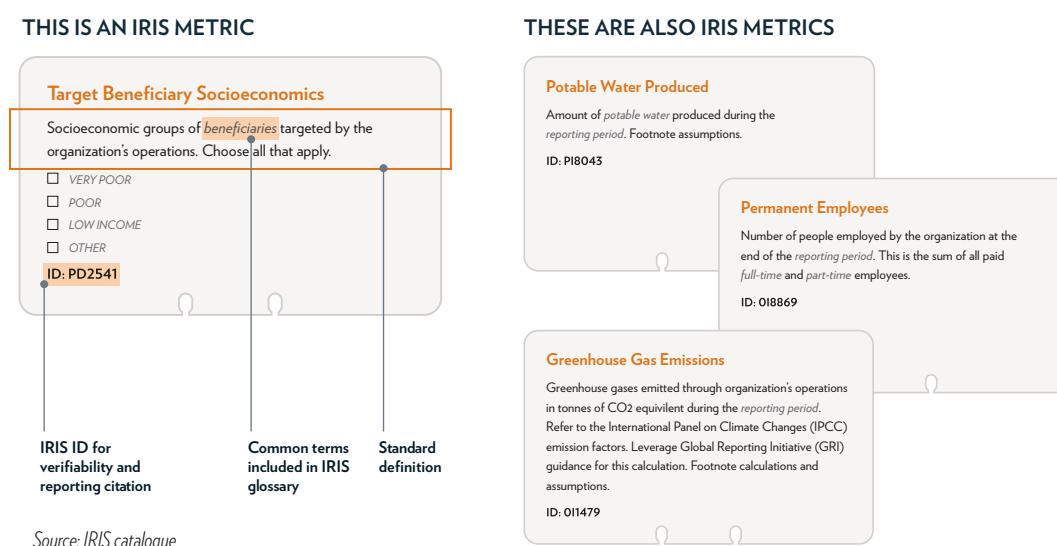
Because strong impact measurement is so essential to impact investing, field builders have prioritized developing tools to support impact investors in measuring their social and environmental impact. Impact investors take no single approach to IMM, using various tools, frameworks, and standards according to their preferences and capabilities. The following resources were the most commonly used by the respondents (Figure 26).

IRIS

In 2008, the Rockefeller Foundation, Acumen, and B Lab developed IRIS¹⁸ in response to the lack of a common language to describe investments' social and environmental performance. The GIIN became the steward of IRIS in 2009 and the catalog now contains over 500 generally accepted metrics for measuring social, environmental, and financial performance. Standardized metrics increase the credibility of impact measurement and reporting and enable better comparisons of impact performance. IRIS is aligned to many widely used standards, combining metrics across different industries into one central system in an effort to address fragmentation in impact measurement. For example, IRIS links to well-established tools such as GIIRS, the Global Reporting Initiative (GRI), the United Nations Principles for Responsible Investment (UNPRI), and the SP14 Social Performance Task Force standards for microfinance.¹⁹ Sixty-two percent of respondents to this survey use IRIS metrics in their IMM practice.

The GIIN has also developed Navigating Impact to support investors in developing and refining their IMM strategy for specific impact themes or sectors. For more information, see Market Spotlight: Emerging Efforts for Impact Measurement and Management on page 34.

FIGURE 27: EXAMPLES OF IRIS METRICS



18 For help selecting metrics from the IRIS catalogue, refer to the following guide. "Guide to Getting Started with IRIS," The Global Impact Investing Network, <https://iris.thegiin.org/guide/getting-started-guide/summary>.

19 For a full list of metrics sets to which IRIS is aligned, visit the IRIS website. "Aligned Metrics Sets," IRIS, <https://iris.thegiin.org/metrics/sets>.

UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS (SDGs)

In 2015, the United Nations member states unanimously agreed to an agenda for eradicating global social and environmental problems by 2030. This shared vision includes seventeen Sustainable Development Goals (SDGs),²⁰ which build upon the Millennium Development Goals and encompass objectives ranging from ending poverty to achieving gender equality or conserving marine resources. Each SDG is accompanied by a set of specific targets and indicators for measuring progress towards those targets.

Forty-two percent of respondents reported using the SDGs in their IMM practice, including by aligning their impact objectives to the SDGs or using them to report impact. In one example, a respondent noted that after selecting IRIS-aligned impact metrics, they work with investees to identify which SDGs their work helps to advance. The GIIN published a collection of case profiles in 2016 on how impact investors incorporate the SDGs into their work.²¹ One respondent noted that “our investees select their impact metrics based on their theories of change, and we work with them to identify IRIS definitions that match their metrics. We also identify, with [our] investees, which SDGs their work supports.”

FIGURE 28: UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS



Source: United Nations

20 More information on the U.N. Sustainable Development Goals (SDGs) can be found on its website. “Sustainable Development Goals,” United Nations Sustainable Development Knowledge Platform, <https://sustainabledevelopment.un.org/sdgs>.

21 The Global Impact Investing Network, *Achieving the Sustainable Development Goals: The Role of Impact Investing* (New York: The Global Impact Investing Network, September 2016), <https://thegiin.org/knowledge/publication/sdgs-impinv>.

B ANALYTICS

B Analytics,²² managed by the nonprofit organization B Lab, is a platform that aggregates and analyzes data on over 40,000 companies' positive impact practices and performance. B Analytics data are sourced from the B Impact Assessment, which analyzes private company practices in the areas of governance, employee well-being, community engagement, environmental impact, and positive impact on customers. B Analytics enables comparison and benchmarking, since companies that complete the assessment receive a B Impact Score, which is also used to certify B Corporations.²³ B Analytics data are also used to inform the GIIRS Ratings,²⁴ a system for rating companies and funds on their social and environmental practices.

The B Impact Assessment not only allows companies and funds to evaluate their impact but also includes tools to manage and improve their impact performance, such as improvement reports, case studies, and guides to best practice.²⁵ Forty-one percent of respondents incorporate B Analytics or GIIRS data into their IMM practice.

FIGURE 29: B ANALYTICS ASSESSMENT OVERVIEW



Source: B Analytics

PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI)



Just over a quarter of respondents reported using the Principles for Responsible Investment (PRI) in their IMM practice.²⁶ The PRI are a framework to guide institutional investors to consider matters of environmental, social, and corporate governance (ESG). In 2005, then-U.N. Secretary General Kofi Annan convened the world's largest investors to discuss the ways that factors like human rights and climate degradation affect investment performance and how such factors might be considered in investment decisions, leading to six principles that investors can voluntarily pledge to incorporate into their practice to address ESG issues. The Principles are intended to be relevant for large investors with traditional fiduciary duties and include commitments like adding ESG issues into investment analysis and seeking appropriate disclosure on ESG practices from investees. The voluntary network now has over 1,700 signatories.

22 For more information, refer to the websites of B Analytics and GIIRS, respectively. "B Analytics," <http://b-analytics.net/>; and "GIIRS Funds," B Analytics, <http://b-analytics.net/giirs-funds>.

23 B Corp Certification is a certification for high standards of social and environmental performance, transparency, and accountability. Any company that scores an 80 or above on the B Impact Assessment is eligible to become a Certified B Corp. B Corporation, <https://www.bcorporation.net/>.

24 More information on the GIIRS Rating methodology may be found on the GIIRS website. "GIIRS Fund Rating Methodology," B Analytics, <http://b-analytics.net/products/giirs-ratings/how-giirs-works/fund-rating-methodology>.

25 "Step 3. Improve Your Impact," B Impact Assessment, B Analytics, <http://www.bimpactassessment.net/how-it-works/improve-your-impact>.

26 Principles for Responsible Investment, UNEP Finance Initiative and UN Global Compact, <https://www.unpri.org/>.

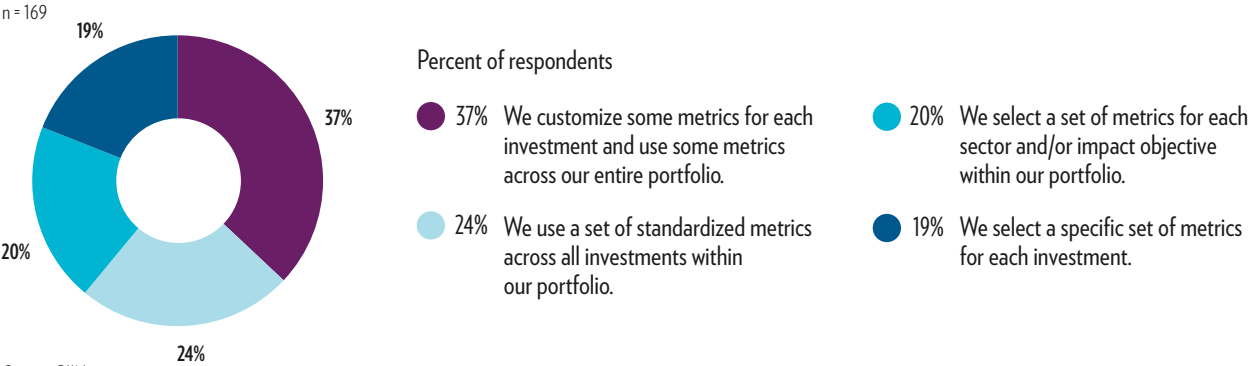
CUSTOMIZING IMPACT METRICS

Understanding impact often involves setting goals and expectations, and then selecting metrics and targets against which to measure progress. Selecting appropriate metrics can be challenging, especially when examining portfolio-wide impact across different sectors or themes. Respondents indicated the extent to which they use standard or tailored impact metrics across their portfolios, with investors reporting varying levels of customization, ranging from using metrics standardized across all of a portfolio's investments to using specific metrics for each investment (Figure 30). The most common approach (reported by 37% of respondents) is a combination of certain standard, portfolio-wide metrics with other metrics customized by investment.

A **target** is a goal against which progress is measured.

A **metric** is a quantitative or qualitative unit of measure used to track progress towards a target.

FIGURE 30: CUSTOMIZATION/STANDARDIZATION OF IMPACT METRICS



Source: GIIN

Different segments of respondents indicated notable differences in their customization of impact metrics (Table 1). A higher proportion of direct investors use standardized metrics than do indirect investors (27% versus 19%), while indirect investors are more likely to customize impact metrics for each investment (29%) than are direct investors (16%), a statistically significant difference. PD-focused investors are more likely than PE-focused investors to use a standardized set of metrics across their portfolio (31% versus 16%, also a statistically significant difference), while a greater proportion of PE-focused investors customize their metrics.

TABLE 1: LEVEL OF CUSTOMIZATION OF IMPACT METRICS, BY SUB-GROUP

	n	We use a set of standardized metrics across all investments within our portfolio	We select a set of metrics for each sector and/or impact objective within our portfolio	We customize some metrics for each investment and use some metrics across our entire portfolio	We select a specific set of metrics for each investment
Direct investors	119	27%	21%	36%	16%
Indirect investors	31	19%	10%	42%	29%
PD-focused investors	52	31%	31%	23%	15%
PE-focused investors	44	16%	7%	55%	23%

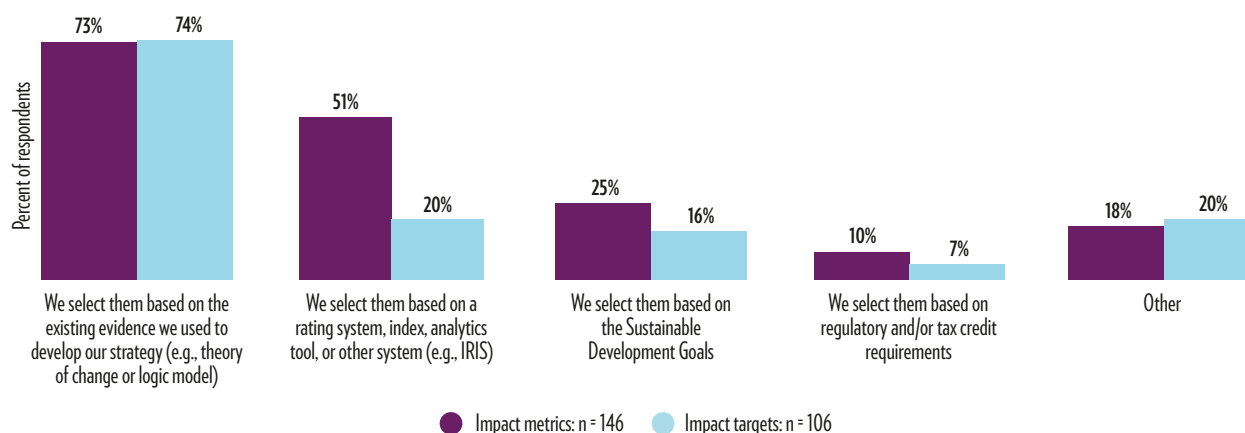
Source: GIIN

SELECTING IMPACT METRICS

Investors reported various ways they select impact metrics and targets, but more reported on selecting metrics (n=146) than targets (n=106). Nearly three-quarters select metrics based on the existing evidence used to develop their strategy (such as a logic model or theory of change), and the same proportion use this approach to develop impact targets (Figure 31). Meanwhile, although just over half of respondents use a rating system, index, analytics tool, or other system (such as those described on page 38) to select impact metrics, only 20% use these tools to develop impact targets.

FIGURE 31: WAYS OF SELECTING IMPACT METRICS AND TARGETS

Optional question; respondents could select multiple options.

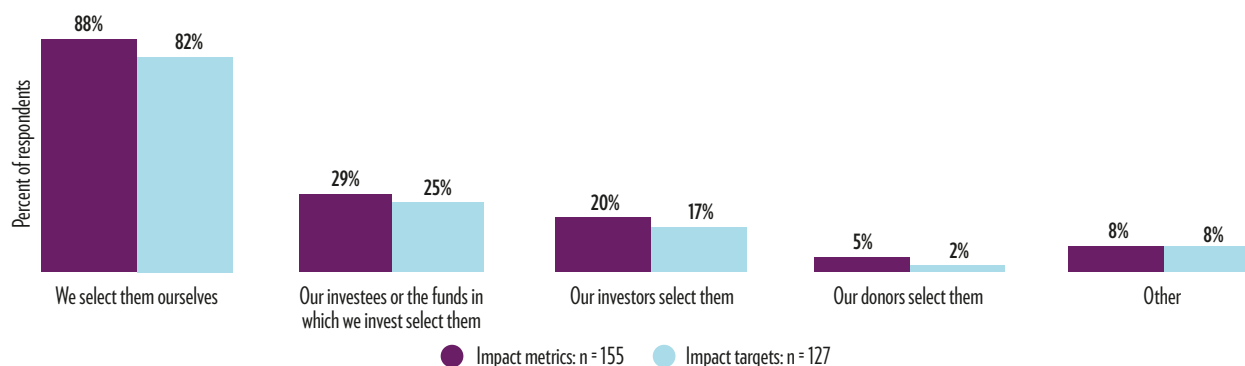


Note: 'Other' includes using proprietary data collection methods and tools, using field experience, and working with investees to select target and metrics. Source: GIIN

Respondents also indicated who selects these impact metrics or targets. A large majority of respondents select both impact metrics and targets themselves (88% and 82%, respectively; Figure 32). About 30% of respondents said that either their investee companies or the funds in which they invest select impact metrics, and 25% say that investees (companies or funds) select impact targets. Twenty percent said their investors select their impact metrics, and 17% said their investors select their targets. Very few respondents reported that their donors select impact metrics or targets.

FIGURE 32: WHO SELECTS IMPACT METRICS AND TARGETS

Optional question; respondents could select multiple options.



Source: GIIN

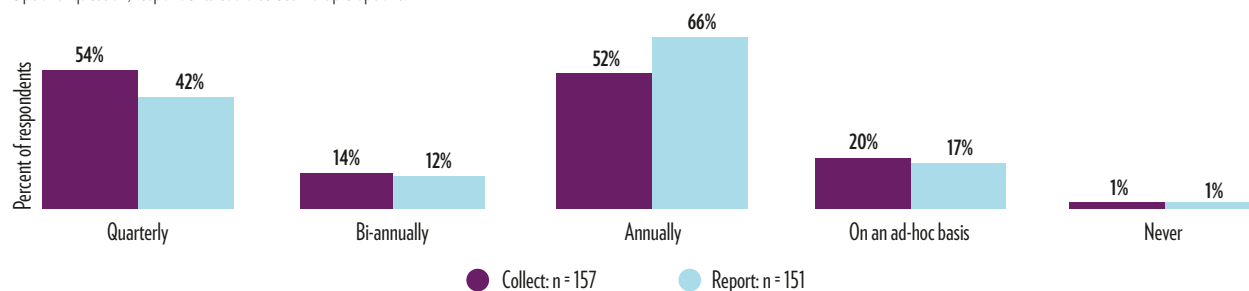
PROCESSES FOR COLLECTING AND REPORTING IMPACT DATA

FREQUENCY

Most commonly, respondents collect and report impact data quarterly (54% and 42%, respectively) or annually (52% and 66%, respectively; Figure 33). Forty-eight percent of respondents that collect annually also report annually. Twenty percent of respondents collect, and 17% report, on an ad-hoc basis. One percent of respondents never collect or report.

FIGURE 33: FREQUENCY OF IMPACT DATA COLLECTION AND REPORTING

Optional question; respondents could select multiple options.



Source: GIIN

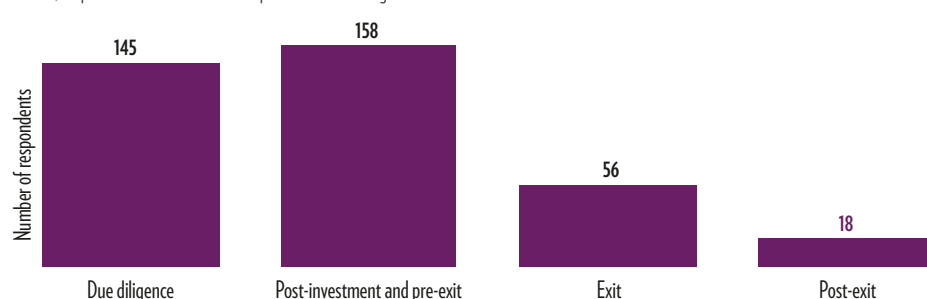
PE-focused investors are more likely to collect and report bi-annually (26% and 32%, respectively) than are PD-focused investors (4% and 8%, respectively), a statistically significant difference. A larger share of PD-focused investors collect and report on an ad-hoc basis (31% and 27%, respectively) than of PE-focused investors (18% and 13%, respectively), also a statistically significant difference.

STAGE

A large majority of respondents collect data both before investing (i.e., during due diligence) and while they are invested (86% and 93%, respectively; Figure 34). A third of respondents collect impact data at exit, and 11% collect impact data after exit. One fund manager noted, “In the due diligence process, we want to understand the beneficiaries’ assessment of the quality of the product or service that is being delivered.”

FIGURE 34: STAGE OF INVESTMENT AT WHICH INVESTORS COLLECT IMPACT DATA

n = 169; respondents could select multiple investment stages.

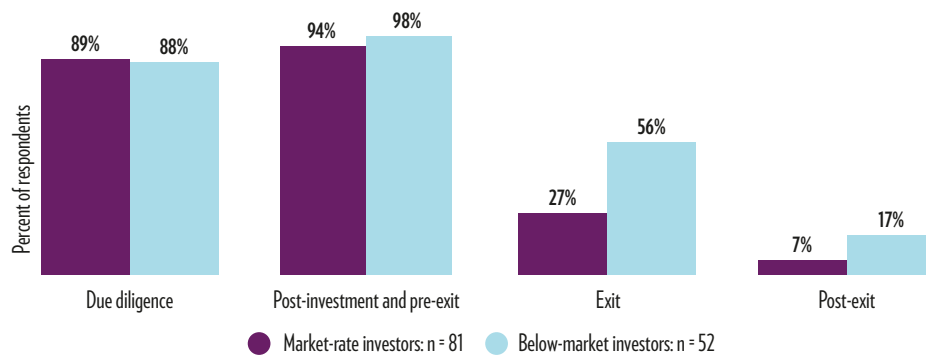


Source: GIIN

Interestingly, below-market-rate investors collect impact data at exit at higher rates (56%) than do market-rate investors (27%; Figure 35), a statistically significant difference.

FIGURE 35: STAGE OF INVESTMENT AT WHICH MARKET-RATE AND BELOW-MARKET INVESTORS COLLECT IMPACT DATA

Optional question; respondents could select multiple investment stages.



Source: GIIN

Impact Report Highlight: Quadia

Quadia is a Switzerland-based fund manager that notably invests private equity in food and clean energy. In its 2015 Performance Report,²⁷ it explains how impact data drive its investment management process, from setting an investment strategy to exiting an investment.

- **Strategy setting** - Select sectors that align with impact goals
- **Deal origination** - Vet potential investments based on sustainability
- **Due diligence** - Assess impact of product or service and scalability of business
- **Post-investment** - Evaluation of impact progress towards objectives agreed upon between investor and investee
- **Exit** - Final evaluation to establish if impact value is priced correctly and understand how investee impact will continue post-exit

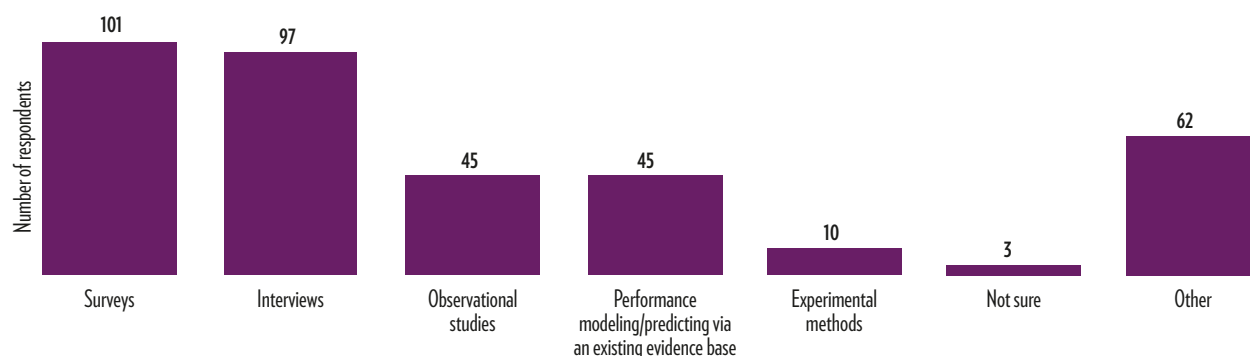
²⁷ Quadia, *Performance Report 2015*, (2016), <http://www.quadia.ch/wp-quadia/mobile/index.html#p=1>.

COLLECTION METHODS

To collect impact data, 60% of respondents use surveys and 57% use interviews (Figure 36). A little over a quarter (27%) conduct observational studies and/or model performance using an existing evidence base, such as academic studies, impact evaluations, census data, and other secondary sources. Reflecting on data collection, a fund manager wrote, “We use surveys to track our impact on the beneficiaries and end-users.” Perhaps unsurprisingly, only 6% of respondents use more resource-intensive experimental methods to collect data, such as randomized control trials.

FIGURE 36: METHODS INVESTORS USE TO COLLECT IMPACT DATA

n = 169; respondents could select multiple methods.



Note: ‘Other’ data collection methods included investee reported data, internal scorecards and dashboards, and operations and customer data collected for business reporting. Source: GIIN

Direct investors reported using surveys (66% of direct-investor respondents) and observational studies (29%) more than indirect investors did (45% and 19%, respectively). Thirty-nine percent of PE-focused investors use observational studies and 30% use performance modeling, compared to 21% and 15%, respectively, of PD-focused investors.

Impact Report Highlight: Overseas Private Investment Corporation (OPIC)

OPIC, the U.S. government’s development finance institution, supports investments in emerging markets. The agency monitors its portfolio by requiring annual surveys to be completed by active OPIC-supported projects and conducting site visits to certain projects. The surveys collect information on the impact of the projects and on relevant environmental, social, labor, and health and safety issues. OPIC reports in its 2016 Annual Report on Development Impact²⁸ that the response rate for these surveys was 81%. Site visits are also conducted. Projects selected for site visits are chosen in one of two ways: some of the site visits are randomly selected, while others are selected because of potential impact on the U.S. economy, labor rights, human rights, the environment, or local communities. In 2016, OPIC conducted 45 site visits to collect impact data.

²⁸ Overseas Private Investment Corporation, *Annual Report on Development Impact: Fiscal year 2016*, (August 2017), https://www.opic.gov/sites/default/files/files/FY16_Annual_Development_Report_Final.pdf.

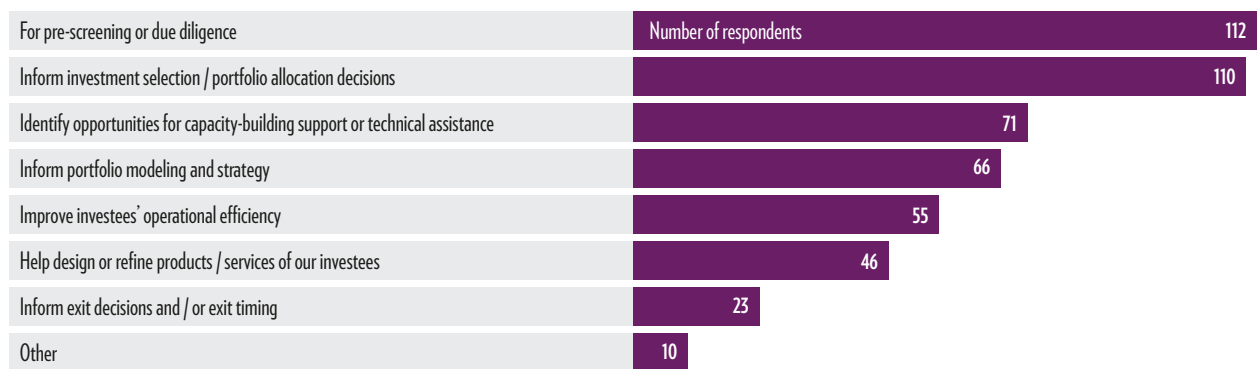
USES OF IMPACT DATA

Many investors use the impact data they collect to inform both investment and impact management decisions across their practice (Figure 37). Around three-quarters of respondents use impact data to pre-screen investments or inform due diligence (76%) and to inform investment selection or portfolio allocations (74%). Forty-five percent use these data to inform portfolio modeling and strategy.

Impact data can also inform the ways in which investors engage with investees. Just under half (48%) use impact data to identify opportunities to provide investees with capacity-building support or technical assistance. Investors also use this data to improve investees' operational efficiency (37%) and help investees design or refine products and services (31%). Sixteen percent of investors use impact data to inform their exit decisions. A fund manager noted, "Impact metrics that directly enable business decisions have the most value. Continuous measurement of impact has helped portfolio companies with customer acquisition and retention."

FIGURE 37: USES OF IMPACT DATA IN INVESTMENT MANAGEMENT PROCESSES

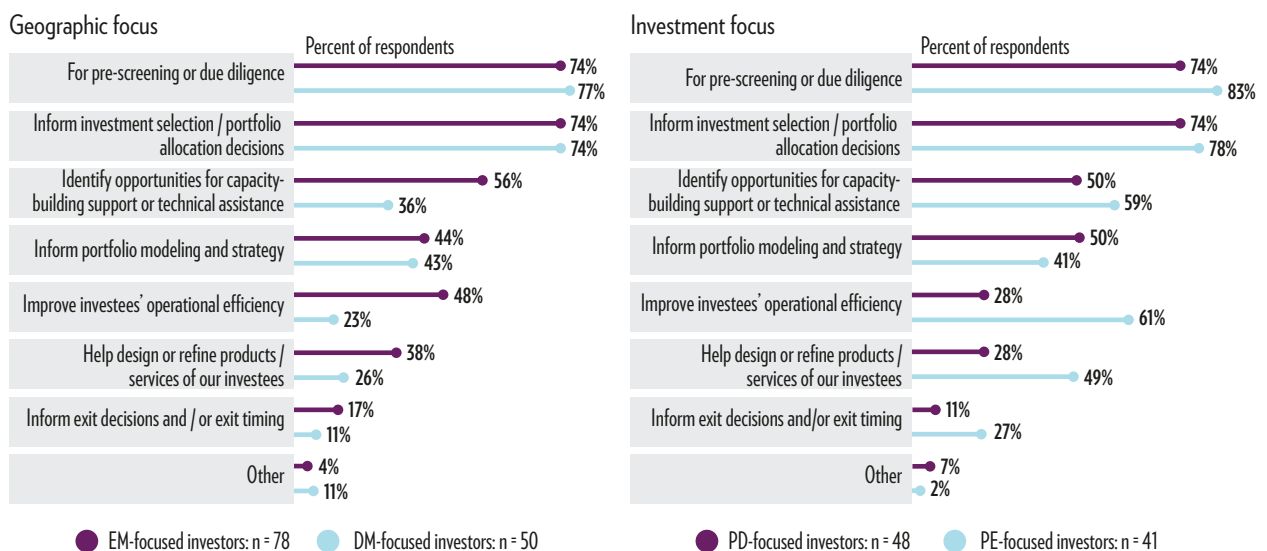
n = 148 (optional question); respondents could select multiple uses.



Note: 'Other' included risk assessment and overall assessment of impact investments. Source: GIIN

A larger share of EM-focused investors than DM-focused investors reported using impact data to inform their interactions with investees, especially in the following ways: to identify opportunities for capacity-building support or technical assistance (56% of EM-focused investors, versus 36% of DM-focused investors) and to improve investees' operational efficiency (48% versus 23% respectively; Figure 38), both statistically significant differences.

FIGURE 38: USES OF IMPACT DATA IN INVESTMENT MANAGEMENT PROCESSES



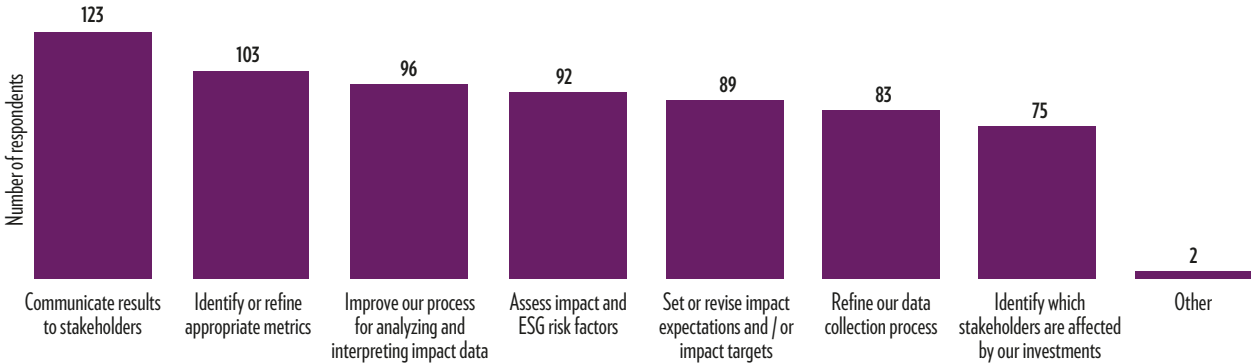
Note: 'Other' included risk assessment and overall assessment of impact investments. Source: GIIN

Some of the differences between the ways PE- and PD-focused investors reported using impact data in investment management were also notable. Eighty-three percent of PE-focused investors use impact data to pre-screen investments or for due diligence and over a quarter (27%) use impact data to inform exit decisions, while 74% and 11% of PD-focused investors, respectively, do the same. PE-focused investors are also much more likely to use these data to improve investee operational efficiency (61%) and to help investees design or refine their products and services (49%) than are PD-focused investors (28% each), both statistically significant differences.

Of course, impact investors also use impact data to inform the various processes involved in managing their impact, such as selecting impact goals, targets, and metrics; improving and deepening their impact; and streamlining data collection and analysis. In fact, over half of respondents indicated using impact data for every aspect of impact management shown in the chart (Figure 39). The most common use of impact data in impact management is to communicate results to stakeholders (85%). Almost three-quarters of respondents also use these data to identify or refine appropriate metrics (72%), and over 60% use them to improve processes for analyzing and interpreting impact data (67%), assess impact and ESG risk factors (64%), and set or revise impact targets (62%).

FIGURE 39: USES OF IMPACT DATA IN IMPACT MANAGEMENT PROCESSES

n = 144 (optional question); respondents could select multiple uses.



Source: GIIN

Capacity for Impact Measurement and Management

Demand for suitable resources to execute IMM effectively has grown alongside the impact investing industry. This section describes the various staffing structures and funding models respondents use to implement IMM.

ALLOCATION OF HUMAN RESOURCES TO IMM

Although impact investors employ various formal staffing structures, many respondents view IMM as a central component of their work, noting that all employees contribute to IMM. Most commonly, respondents assign the responsibility of IMM to the broader investment team (46%) or have both dedicated IMM staff and the broader investment team conduct IMM (42%; Figure 40).²⁹ Fifteen percent of respondents contract IMM work out to external consultants, 9% rely only on staff members who are solely responsible for IMM, and 9% integrate IMM into the responsibilities of other staff members.

Below-market-rate investors are more likely than are market-rate investors to assign responsibility for IMM to both dedicated staff and to the broader investment team (52% versus 36%, a statistically significant difference). A greater proportion also contract IMM work to external consultants, with 21% of below-market-rate investors using consultants versus 9% of market-rate investors, also a statistically significant difference.

FIGURE 40: HUMAN RESOURCES ALLOCATED TO IMM

n = 169; respondents could select multiple options.



Note: 'Other' includes incorporating IMM into the responsibilities of staff on other teams, such as operations, grant management, communications, finance, risk management, marketing, and business development. Source: GIIN

Impact investors have several reasons to integrate the responsibilities of IMM into the roles of investment management or other staff (Figure 41). Among those that do so, most (77%) believe it is more effective to integrate IMM responsibilities with investment management responsibilities. Meanwhile, 25% indicated that they do not currently have the resources to hire wholly dedicated IMM staff, and 11% believe that since other staff have sufficient time and capacity to dedicate to IMM, they do not need wholly dedicated IMM staff. One fund manager that integrates IMM responsibilities commented, "Impact is at the core of our business, and therefore every staff member is responsible for its achievement."

²⁹ IMM staff have no other core responsibilities besides IMM.

FIGURE 41: REASONS TO INTEGRATE IMM RESPONSIBILITIES INTO OTHER STAFF ROLES

n = 143; respondents could select multiple options.

We believe it is more effective to integrate IMM with investment responsibilities	Number of respondents	110
We do not currently have the resources to hire wholly dedicated IMM staff	36	
Our other staff have sufficient time and capacity to dedicate to IMM, and therefore we do not need wholly dedicated IMM staff	16	
Other	15	

Note: 'Other' includes several respondents that noted that because they are impact investors, all staff work on IMM. Source: GIIN

For respondents integrating IMM into other staff roles—such as investment/portfolio management, investment sourcing, or investor relations, among others—general trends in terms of percent of time spent on IMM stand out across the various teams. Around half of such respondents noted that those staff members spend up to 10% of their time on IMM responsibilities (Table 2). Around a quarter of such respondents noted that these staff members spend 11-20% of their time on IMM activities, and around 15% said these staff dedicate between 31-40% of their time. For no respondents do these staff spend more than half of their time on IMM responsibilities.

TABLE 2: PERCENT OF NON-IMM STAFF TIME SPENT ON IMM

























Percent of staff time	Investment / portfolio management staff n = 123	Investment sourcing staff n = 111	Investor relations staff n = 85	Other staff n = 37
0%	2%	11%	5%	0%
1 - 10%	44%	48%	45%	57%
11 - 20%	25%	19%	24%	22%
21 - 30%	14%	14%	16%	16%
31 - 40%	9%	7%	6%	5%
41 - 50%	7%	2%	5%	0%
> 50%	0%	0%	0%	0%

Note: 'Other staff' includes communications, financial analysis, sustainability, research, and management teams. Source: GIIN

For the 71 respondents that have staff solely dedicated to IMM, the median is two staff members per organization. Respondents reported high levels of coordination between these IMM staff and the investment management staff, with over half of respondents reporting significant cross-team coordination on IMM at each stage of the investment process (Table 3). Over three-quarters of respondents noted significant coordination on organizational IMM planning, which includes defining the organization's broader impact thesis (81%) and setting the organization's impact investment strategy (77%). These high levels of coordination are consistent with the centrality of IMM to impact investing.

A greater proportion of PE-focused than PD-focused investors reported significant coordination between IMM and investment management staff across the investment process. Around 90% of PE-focused investors reported significant coordination among staff to define impact theses and set investment strategy (87%), while somewhat less than 70% of PD-focused investors reported significant coordination on these aspects (69% and 68%, respectively). Around two-thirds of PE-focused investors reported significant coordination to analyze impact performance (63%) and report impact to external stakeholders (67%), whereas fewer than half of PD-focused investors reported the same (44% and 34%, respectively).

TABLE 3: RESPONDENTS REPORTING ‘SIGNIFICANT COORDINATION’ BETWEEN IMM AND INVESTMENT MANAGEMENT STAFF THROUGHOUT THE INVESTMENT MANAGEMENT PROCESS

	Overall sample	PD-focused investors	PE-focused investors
	n = 99	n = 32	n = 24
To define the organization’s broader impact thesis	81% 	69% 	91% 
To set the organization’s impact investment strategy	77% 	68% 	87% 
To assess the impact potential of an investee during due diligence	72% 	69% 	78% 
To collect data on the impact of investees	71% 	59% 	78% 
To improve impact via investment management	65% 	62% 	83% 
To set impact expectations for a specific transaction	65% 	55% 	85% 
To analyze impact performance	58% 	44% 	63% 
To report on impact to external stakeholders	58% 	34% 	67% 

Source: GIIN

INTERACTION WITH INVESTEEES

Respondents indicated how their staff interact with investees throughout the IMM process (Figure 42). The highest proportions of respondents do so during due diligence to evaluate impact potential (90%) and after investment to collect data on impact performance (88%). Most also interact with investees to align impact, risk, and return expectations (65%), set impact performance targets (58%), and deliver capacity-building support designed to improve impact (53%). Only 2% of respondents reported that their staff do not interact directly with investees about IMM.

FIGURE 42: STAFF INTERACTIONS WITH INVESTEEES THROUGHOUT IMM PROCESS

n = 144 (optional question); respondents could select multiple options.

They interact during due diligence to evaluate the impact potential of an investee	Number of respondents	129
They interact post-investment to collect data on impact performance		127
They interact to align impact, risk, and return expectations		93
They collaborate to set impact performance targets		84
They deliver capacity-building support or technical assistance designed to improve impact		76
They do not interact directly		3

Source: GIIN

EM-focused investors reported more interaction between staff and investees throughout the IMM process than did DM-focused investors. Most notably, EM-focused investors are more likely to collaborate to set targets and deliver capacity-building support (67% and 59%, respectively) than are DM-focused investors (49% and 44%, respectively), both statistically significant differences. PE-focused investors also interact more with investees than do PD-focused investors, with collaboration to set impact performance targets the largest difference between them (72% compared to 55%, respectively, a statistically significant difference).

USE OF EXTERNAL CONSULTANTS

Of the 25 respondents that hire external consultants for IMM, most reported hiring consultants to conduct evaluations and assessments (such as impact evaluations, randomized control trials, or other in-depth impact assessments; 60%) and to collect, analyze, and/or report routine impact performance data (56%; Figure 43). Fewer respondents hire consultants for services such as identifying appropriate metrics (25%), developing impact targets (16%), or defining their impact strategy, logic model, or theory of change (12%).

FIGURE 43: TASKS FOR WHICH EXTERNAL CONSULTANTS ARE HIRED

n = 25; respondents could select multiple options.

Task	Number of respondents
Conducting impact evaluations, randomized control trials, or other in-depth impact assessments	15
Routine impact performance data collection, analysis, and / or reporting	14
Identifying appropriate metrics	7
Developing impact targets	4
Defining our impact strategy, logic model, and / or theory of change	3
Other	4

Note: 'Other' includes qualitative data collection, such as photos and stories, and case studies. Source: GIIN

FUNDING IMM CAPACITY

In addition to staffing, funding is another important resource required for impact investors to execute efficient IMM. Including staff time, hiring external consultants, and any other costs associated with IMM, the majority of respondents (69%) fund IMM capacity through management fees, cash flows, or profits from *impact investments*. Smaller proportions of respondents fund their IMM capacity through management fees, cash flows, or profits from *broader investment activities* (18%) or through donor funding (16%; Figure 44). Just 4% of respondents fund their IMM capacity through a full or partial cost-share with investees.

FIGURE 44: FUNDING SOURCE FOR IMM CAPACITY

























n = 160 (optional question)

Funding Source	Number of Respondents
Through management fees, cash flows, or profits from our impact investments	110
Through management fees, cash flows, or profits from our broader investment activities	31
Through donor funding	25
Through a full or partial cost-share with our investees	7
Other	10

Notes: 'Other' includes operations budget and pro-bono or volunteer support. Source: GIIN

Sub-groups fund IMM in somewhat different ways (Table 4). Most notably, 35% of below-market-rate investors access donor funding for IMM, compared to just 1% of market-rate investors, a statistically significant difference. EM-focused investors are less likely to fund their IMM capacity through resources from broader investment activities (12%) than are DM-focused investors (27%), while EM-focused investors are more likely to access donor funding (19% versus 7%), both statistically significant differences. Primarily social investors reported funding IMM through donor funding at a higher rate (25%) than social and environmental investors (9%), a statistically significant difference.

TABLE 4: FUNDING SOURCES FOR IMM CAPACITY BY SUB-GROUP

	n	Through management fees, cash flows, or profits from our impact investments	Through management fees, cash flows, or profits from our broader investment activities	Through donor funding	Through a full or partial cost-share with our investees
Market-rate investors	81	73% 	15% 	1% 	2% 
Below-market investors	52	58% 	19% 	35% 	10% 
EM-focused investors	83	70% 	12% 	19% 	7% 
DM-focused investors	55	67% 	27% 	7% 	0% 
Social and environmental investors	99	68% 	22% 	9% 	5% 
Primarily social investors	60	60% 	13% 	25% 	3% 

Source: GIIN

Accountability for Performance

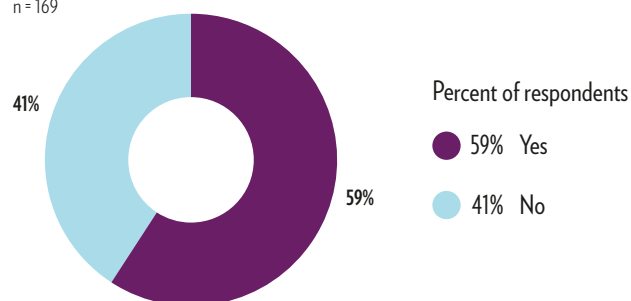
Many impact investors employ accountability mechanisms to ensure that their impact is achieved, including setting targets and providing incentives to achieve them.

SETTING AND REVISING IMPACT TARGETS

Respondents were asked whether they set specific impact targets for their investments. Fifty-nine percent of respondents do so (Figure 45). Respondents focused on emerging markets were somewhat more likely to set targets than their DM-focused counterparts (66% and 55%, respectively). Roughly half of respondents targeting both social and environmental objectives set targets, while 73% of respondents targeting only social impact objectives do so, a statistically significant difference.

FIGURE 45: INVESTORS THAT SET MEASURABLE IMPACT TARGETS

n = 169



Source: GIIN

Impact investors revise their impact performance targets for a variety of reasons (Figure 46). Among the 100 respondents that set targets, 81% cited revising them upon discovering new information or evidence. Interestingly, the exact same proportions of respondents—36% each—revise their impact targets upon either exceeding or falling short of their original targets. A similar proportion (37%) also revises targets at fixed, pre-set intervals. A smaller share of respondents revises impact targets if they underperform their financial expectations (19%).

FIGURE 46: FACTORS THAT CAUSE IMPACT INVESTORS TO REVISE IMPACT PERFORMANCE TARGETS

n = 100 (optional question); respondents could cite multiple factors.

Discovering new information or evidence	Number of respondents
Updating impact performance targets is time-bound (e.g., done on an annual, bi-annual, quarterly, or monthly basis)	37
Exceeding existing impact performance targets	36
Falling short of existing impact performance targets	36
Underperforming against financial expectations	19

Source: GIIN

Direct investors are more likely than indirect investors to revise targets upon discovering new information or evidence (85% compared to 63%, a statistically significant difference). Conversely, 31% of indirect investors revise impact targets in response to underperformance against financial expectations, compared to just 18% of direct investors who do the same.

USE OF INCENTIVES TO ACHIEVE IMPACT TARGETS

Among the 100 impact investors that set impact targets, 71% indicated that their team is intrinsically motivated by impact, perhaps unsurprisingly since many individuals seek careers in impact investing for mission-related reasons. However, several impact investing organizations also provide their staff with specific incentives to achieve impact targets (Figure 47), including embedding the achievement of impact targets in employee evaluations or tying their achievement to a proportion of compensation for some or all staff. Among the 35% of respondents that do not offer any explicit incentives to their staff to achieve targets, about half indicated that their team is intrinsically motivated by impact.

FIGURE 47: STRATEGIES TO INCENTIVIZE STAFF TO ACHIEVE IMPACT TARGETS

n = 100; respondents could cite multiple incentive strategies.

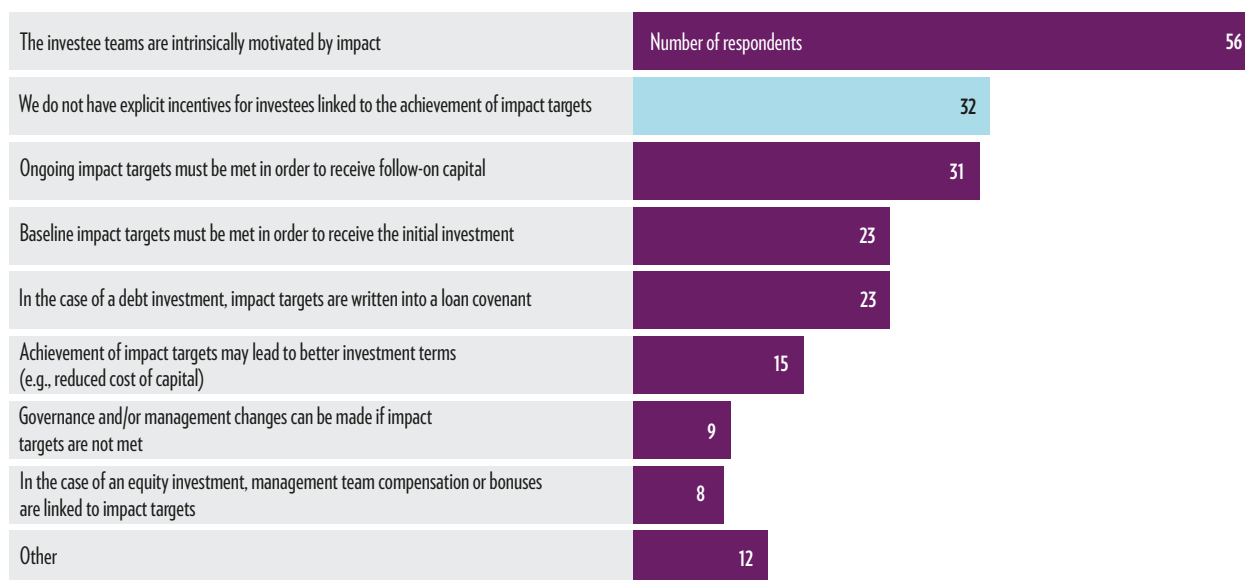


Source: GIIN

In addition to incentivizing staff, impact investors can also provide incentives to investees to achieve impact targets. Again, the highest proportion of respondents cited intrinsic motivations among investee teams to achieve impact targets (56%, Figure 48). Among the 32 respondents that have no explicit incentives for investees linked to the achievement of impact targets, 12 (38%) indicated that their investee teams have intrinsic motivations to reach these targets.

FIGURE 48: STRATEGIES TO INCENTIVIZE INVESTEES TO ACHIEVE IMPACT TARGETS

n = 100; respondents could cite multiple incentive strategies.

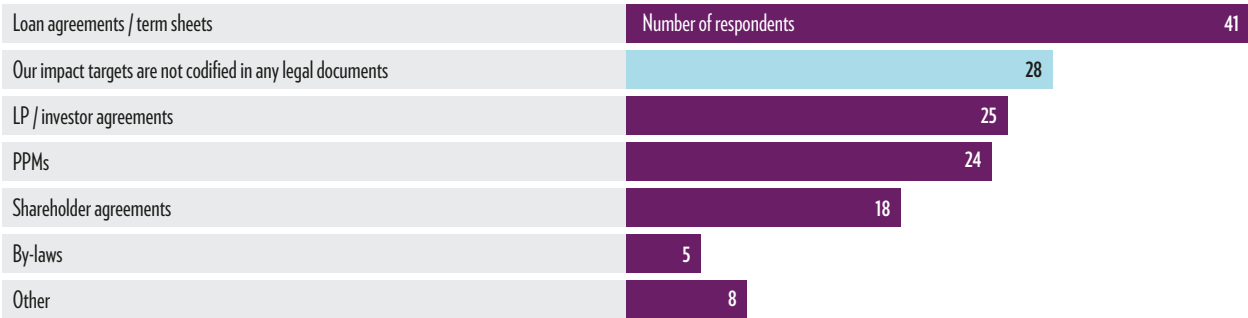


Note: 'Other' includes provision of operational team bonuses, setting of impact action plans, and ongoing dialogue and engagement with portfolio companies. Source: GIIN

Additionally, some impact investors incentivize their investees to achieve impact targets by making these targets requirements to receive capital (either follow-on capital or the initial investment), incorporating targets into the terms of the investment, or enacting governance changes if the targets are not met. Nineteen percent of respondents set targets but neither offer explicit incentives nor perceive intrinsic motivations among their investees to achieve them. Other respondents indicated following incentive strategies such as operational team bonuses, development of an impact action plan, and incentives related to measurement. Many respondents noted that their incentive strategies vary by investee or sector.

Seventy-two percent of respondents that set impact targets codify them in legal documents with either investors or investees (Figure 49). Forty-one percent of respondents codify impact targets in loan agreements and term sheets. Respondents also report a range of strategies to include impact targets in agreements with investors or shareholders, including LP and investor agreements (25%), private placement memoranda (PPMs; 24%), and shareholder agreements (18%). Others codify targets in by-laws or other documents, such as side letters, Community Benefits Agreements, and investment policy statements.

FIGURE 49: CODIFICATION OF IMPACT TARGETS INTO LEGAL DOCUMENTS
n = 100; respondents could select multiple options.



Note: 'Other' documents include side letters and Community Benefits Agreements. Source: GIIN

MARKET SPOTLIGHT: IMPACT-BASED INVESTOR INCENTIVES

Both financial and impact performance are core to impact investing. As in conventional markets, most impact investors offer both staff and investees incentives tied to financial performance, but far fewer investors provide incentives based on impact performance, largely relying instead on the intrinsic motivations of both staff and investees. As discussed throughout this section, only 30% of respondents that set impact targets provide extrinsic incentives to achieve them.

For private equity funds, such incentive structures are embedded into the determination of carried interest, which then shapes staff compensation. Below are four such examples of impact-based incentives:

- **Core Innovation Capital** calculates total carry as a function of both impact and financial performance. Ten percent of the carry is determined based on impact performance, and 90% is based on financial performance.³⁰ At the time of a liquidation event, Core's Impact Audit Committee determines a final "impact score" for the investment as an average of the yearly impact scores, which reflect performance against both short- and long-term performance metrics. Additionally, GP's are paid an annual bonus based on the impact score.
- **GAWA Capital** scores its impact performance at a deal level against 25 metrics related to the Smart Campaign's Client Protection Principles.³¹ This score is then weighted to reflect the portfolio's overall performance to fall between 0 and 1. Its carry is determined by both financial performance (which accounts for a maximum 15% carry) and impact performance (which accounts for up to 5% additional carry). The impact component is determined by weighting its impact score against the maximum 5% of potential additional carry.
- The **Media Development Investment Fund (MDIF)** provides impact-based incentives to the Emerging Media Opportunity Fund under its management. The fund develops an impact score based on performance in five key areas: country mission fit, investee mission fit, increased reach, impact on society, and sustainable exit.³² Each area is assessed on a range of 0–20 for a total score out of 100. MDIF then multiplies the fraction of the total possible score by its standard base carry of 20% to determine the fund's actual carry.
- **UBS** develops an impact coefficient, a number between 0 and 1 that weights the impact performance of its fund manager investees.³³ This impact coefficient is based on five key components: investment policy targets, implementation of ESG policy, employment growth within investee companies, sector-specific indicators, and quality of reporting. UBS then multiplies the maximum GP carry of 10% by the resulting impact coefficient to determine the final GP carry, thus explicitly linking the fund's IMM practice to fund-management compensation.

As the impact investing industry's approach to IMM grows increasingly sophisticated, one would expect the use of impact-based incentive structures to become more common. As the industry matures, investors are well-positioned to ensure that impact remains central by sharing best practices and further integrating impact into key management decisions, governance structures, and operational policies, such as incentive structures.

³⁰ The GIIN, "Impact-Based Incentive Structures."

³¹ Transform Finance, *Tying Fund Manager Compensation to Impact Outcomes*, Issue Brief (Transform Finance Investor Network, September 2016), <http://transformfinance.org/blog/2016/9/21/tying-fund-manager-compensation-to-impact>.

³² Transform Finance, *Tying Compensation to Impact Outcomes*.

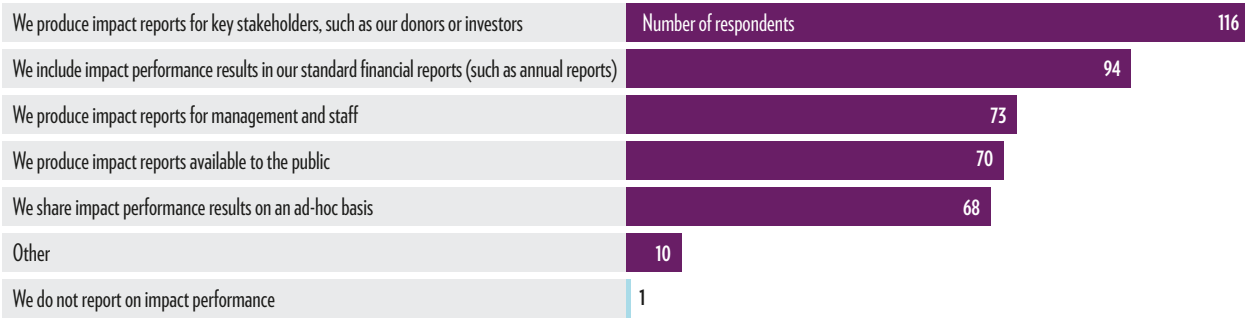
³³ The Global Impact Investing Network, *Impact-Based Incentive Structures: Aligning Fund Manager Compensation with Social and Environmental Performance*, Issue Brief (New York: The Global Impact Investment Network, December 2011), <https://thegiin.org/assets/documents/pub/impact-based-incentive-structures-aligning-fund-manager-comp.pdf>.

IMPACT REPORTING AND AUDITING

How and to whom do impact investors report their impact performance? First, nearly all impact investors responding to the survey report their impact performance (with only one exception; Figure 50). Respondents most commonly produce impact reports for key stakeholders, such as donors or investors (69%), or include impact performance results in their standard financial reports (56%), and 40% of respondents do both. Additionally, 40% or more of respondents produce impact reports for management and staff, produce impact reports available to the public, or share impact performance results on an ad-hoc basis.

Investors focused on emerging markets were slightly more likely to report their impact performance to key stakeholders (75%) or in standard financial reports (60%) than were their DM-focused counterparts (65% and 49%, respectively).

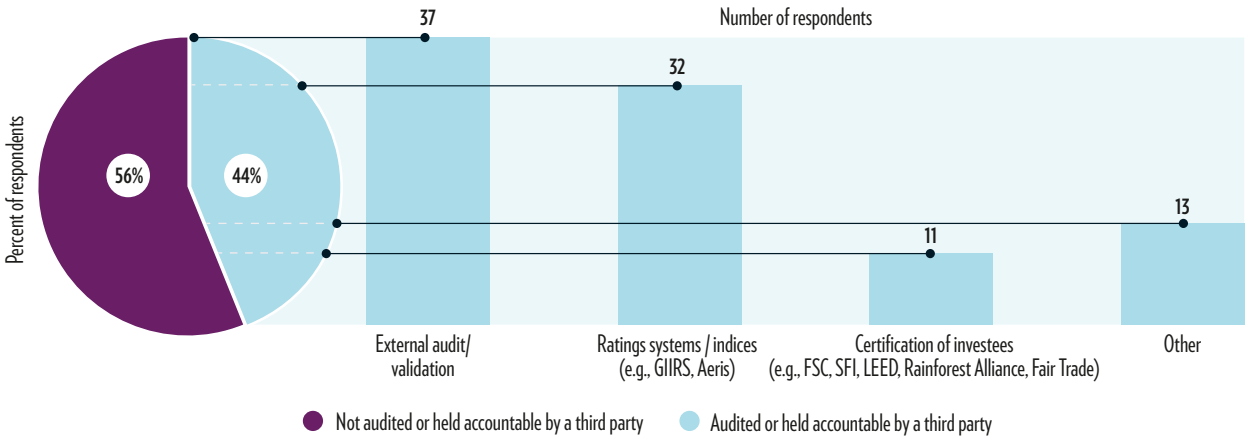
FIGURE 50: WAYS IMPACT INVESTORS REPORT THE IMPACT PERFORMANCE OF THEIR INVESTMENTS
n = 169



Note: 'Other' includes quarterly reports, blog posts, reports shared with investees, and plans to report impact results publicly in the future. Source: GIIN

Forty-four percent of impact investors use external audits or other external accountability mechanisms to track their impact results (Figure 51). Among those investors using such tools or mechanisms, 37 reported using external audits or validation (49%) and 32 reported using ratings systems or indices (43%). Perhaps unsurprisingly, direct investors are much more likely to hold themselves accountable or be audited by a third party for their impact results than are indirect investors (54% versus 16%, a statistically significant difference).

FIGURE 51: WAYS IMPACT INVESTORS ARE HELD ACCOUNTABLE OR AUDITED FOR IMPACT RESULTS
n = 169; respondents could select multiple options.



Note: 'Other' includes accountability and monitoring by investors, B Corp and PRI assessments, CRA examinations, review of metrics by ESG experts, and certification of social finance and SRI funds. Source: GIIN

APPENDIX 1. LIST OF RESPONDENTS

3Sisters Sustainable Management, LLC

ABN AMRO Social Impact Fund

ACTIAM

Adenia

Adobe Capital

Advance Global Capital Ltd.

Aegon

Alterfin

Althelia Ecosphere

Annie E. Casey Foundation

Anonymous 1

Anonymous 2

Anonymous 3

Anonymous 4

Anonymous 5

Anonymous 6

Anthem Asia

Ascension Investment Management, LLC

Asian Development Bank

Ashburton

ASN Bank

Athena Capital Advisors

Australian Ethical Investment

Avanath Capital Management

Beyond Capital Fund

Big Society Capital

BIO

BlackRock

Blue Haven Initiative

BlueOrchard Finance Ltd.

BNP Paribas

Boston Community Capital

Bridges Fund Management

Business Partners Ltd.

Caisse Solidaire

California Fisheries Fund, Inc.

Calvert Social Investment Foundation, Inc.

Candide Group

Capital Impact Partners

Capricorn Investment Group

CDC Group (Impact Fund / Impact Accelerator)

Christian Super

Citizen Capital

City Light Capital

Clearinghouse CDFI

Closed Loop Partners

Coastal Enterprises, Inc.

Community Capital Management

Community Investment Management

Conservation Forestry

Cordaid

Core Innovation Capital

CoreCo Private Equity

Creas

Creation Investments Capital Management, LLC

Credit Suisse

Dalio Family Office

DBL Partners

Deutsche Bank

Dev Equity

DOB Equity

DOEN Participaties

Developing World Markets (DWM)

EFTA

Elevar Equity

ENGIE Rassembleurs d'Energies

Epiqus Ltd

APPENDICES

Esmée Fairbairn Foundation	Lafise Investment Management	Shared Interest
F.B. Heron Foundation	Living Cities	Silicon Badia
Farmland LP	Local Enterprise Assistance Fund (LEAF)	SITAWI
FIS Ameris	Lok Capital	SJF Ventures
Fledge	Lombard Odier	SME Impact Fund CV, managed by Match Maker Fund Management Ltd
FMO	Lyme Timber Company	Social Ventures Australia
Ford Foundation	MacArthur Foundation	Sonen Capital
France Active	MainStreet Partners	SPF Beheer
Futuregrowth Asset Management	Media Development Investment Fund (MDIF)	SUD Fund
Gates Foundation	Medical Credit Fund	Sustainable Insight Capital Management
GAWA Capital	Mercy Corps	Symbiotics
Generation Investment Management	Michael & Susan Dell Foundation	The Climate Trust
Global Innovation Fund	MicroVest Capital Management	The McKnight Foundation
Global Partnerships	New Forests	Threshold Group
Grassroots Business Fund	New Market Funds	TIAA Investments
Grassroots Capital Management & Caspian Impact Investment Advisors	New Summit Investments	Treehouse Investments
Gray Ghost Ventures	Northern California Community Loan Fund	TriLinc Advisors, LLC
GroFin	Obviam	Triodos Investment Management
HCAP Partners	OMTRIX	Unitus Seed Fund
Hooge Raedt Social Venture (HRSV)	Overseas Private Investment Corporation (OPIC)	Upaya Social Ventures
ICCO Investments	Patient Capital Collaborative (PCC) Funds	Vancity
IDP Foundation, Inc.	Pearl Capital	Venture Capital Trust Fund
Impact Community Capital	Pearson Affordable Learning Fund	Veris Wealth Partners
Impact Engine	PGGM	Vermont Community Loan Fund
Impact Finance Management	Phatisa	VilCap Investments
Impact Investment Group	Prudential	Virginia Community Capital
Incofin Investment Management	Promotora Social México (PSM)	Vital Capital
IntelleGrow	Quadia	Vox Capital
Invest in Visions	RBC Global Asset Management US, Inc.	Voxtra
Investisseurs & Partenaires (I&P)	Renewal Funds	WaterEquity
JCS Investments, Ltd.	responsAbility Investments AG	WHEB
JW McConnell Family Foundation	RobecoSAM AG	Women's World Banking Asset Management
Kois Invest	Root Capital	XXML Capital
Kukula Capital Plc	Sarona Asset Management	Yunus Social Business

APPENDIX 2.

LIST OF DEFINITIONS USED FOR THIS RESEARCH

GENERAL

- **Impact Investments:** Investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. They can be made in both emerging and developed markets and target a range of returns, from below-market to market-rate, depending on the investor's goals. A hallmark of impact investing is the commitment of the investor to measure and report the impact of underlying investments.
- **Impact:** The social and/or environmental effect of investments.

IMPACT MEASUREMENT TERMS

- **Impact objective:** The overarching goal with which an impact investment is made.
- **Impact theme:** The type of impact sought.
- **Target:** A goal against which progress is measured.
- **Metric:** A quantitative or qualitative unit of measure used to track progress towards a target.

TYPES OF IMPACT

- **Net impact:** Combines negative impact to positive impact to calculate a total impact.
- **Outputs:** Direct products of an organization's activities (e.g., client-provided services, goods produced, trainings delivered).
- **Outcomes:** The likely or achieved short-term and medium-term effects of an organization's outputs (e.g., client savings, higher student graduation rates).
- **Attributable:** Ability to show that your investment caused impact not attributable to other factors (e.g., market growth) or the participation of other parties.
- **Additional:** Social/environmental impact that would not have occurred if your organization had not invested in an enterprise.
- **Depth:** Significance of the impact for the people or ecosystems affected.
- **Breadth:** Reach of the impact across groups of people or ecosystems.
- **Longevity:** The durability of impact over time.
- **Benchmark:** Comparison of performance against peers.

PERFORMANCE MEASUREMENT

- **Baseline performance:** Measurement of a metric at the beginning of a reporting period.
- **Realized performance:** Measurement of a metric at the end of a reporting period.

TYPES OF RISK

- **ESG risk:** Risk derived from noncompliance with environmental, social, or governance criteria.
- **Impact risk:** The possibility that an investment does not achieve the desired social or environmental benefits.

APPENDIX 3: OUTREACH PARTNERS

The GIIN appreciates the assistance of the following organizations, which helped to encourage impact investors in their networks to participate in the survey.



Acrux Partners is an advisory firm focused on responsible and impact investing in South America. In addition to consulting work, Acrux Partners promotes and advocates for the development and consolidation of the responsible and impact investment sector in South America.

www.acruxpartners.com



UCT GRADUATE SCHOOL OF BUSINESS

The Bertha Centre is a specialized unit at the UCT Graduate School of Business. It aims to achieve social justice and impact in Africa through teaching, research, events and practice in systems innovation and innovative business models. Established in partnership with the Bertha Foundation in 2011, it has become a leading academic center dedicated to advancing social innovation and entrepreneurship on the continent.

www.gsb.uct.ac.za



The Dutch Association of Investors for Sustainable Development (VBDO) is a not-for-profit multi-stakeholder organization. Its mission is to make capital markets more sustainable. Members include asset managers, non-governmental organizations, consultancies, trade unions, insurance companies, banks, pension funds, and individual investors. VBDO believes that we can no longer afford not to have sustainability embedded in capital markets. VBDO is the Dutch member of the international network of social investment fora (SIFs).

www.vbdo.nl

APPENDIX 4: RELEVANT LITERATURE

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For more information

Please contact Aliana Pineiro at apineiro@thegiin.org with any comments or questions about this report.

To download industry research by the GIIN and others, please visit www.thegiin.org/knowledge-center.

Disclosures

The Global Impact Investing Network (“GIIN”) is a nonprofit 501c(3) organization dedicated to increasing the scale and effectiveness of impact investing. The GIIN builds critical infrastructure and supports activities, education, and research that help accelerate the development of a coherent impact investing industry.

Readers should be aware that the GIIN has had and will continue to have relationships with many of the organizations identified in this report, through some of which the GIIN has received and will continue to receive financial and other support.

The GIIN has collected data for this report that it believes to be accurate and reliable, but the GIIN does not make any warranty, express or implied, regarding any information, including warranties as to the accuracy, validity or completeness of the information.

This material is not intended as an offer, solicitation, or recommendation for the purchase or sale of any financial instrument or security.

More information about the Global Impact Investing Network

This brief is a publication of the Global Impact Investing Network (GIIN), the leading nonprofit organization dedicated to increasing the scale and effectiveness of impact investing. The GIIN builds critical market infrastructure and supports activities, education, and research that help accelerate the development of the impact investing field.

IRIS

IRIS is the catalog of generally-accepted performance metrics that leading impact investors use to measure social, environmental, and financial success, evaluate deals, and grow the credibility of the impact investing industry.

iris.thegiin.org

ImpactBase

ImpactBase is the GIIN's searchable, online database of impact investment funds and products designed for investors. Fund or product profiles on ImpactBase gain exposure to the global impact investing community.

impactbase.org

GIIN Training Program

The GIIN training program offers practical coursework for investors looking to develop and deepen their practice, especially in the area of impact measurement and management.

thegiin.org/training

Career Center

The GIIN Career Center is a source for job openings from members of the GIIN Investors' Council and other impact investing leaders.

jobs.thegiin.org

Membership

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