



GUIDE TO

INVESTING FOR IMPACT:

*Operating Principles
for Impact Management*

October 2018

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Creating Markets, Creating Opportunities



IFC led the development of Investing for Impact: Operating Principles for Impact Management (the Principles) in partnership with asset managers, asset owners, asset allocators, and development banks and financial institutions. The Principles draw on emerging best practices across a range of public and private institutions investing for impact. The following organizations and individuals provided input and participated in the development of the Principles through a series of consultations:

- Actis
- Avanz Capital
- Bridges Fund Management
- CDC Group
- Credit Suisse Group AG
- European Bank for Reconstruction and Development (EBRD)
- Inter-American Development Bank Group
- Investisseurs & Partenaires-I&P
- LeapFrog Investments
- Nuveen, a TIAA company
- Overseas Private Investment Corporation (OPIC)
- Partners Group
- RockCreek
- Société Générale
- The Rise Fund
- Simon Smiles and James Purcell (UBS)

THE IMPACT INVESTING LANDSCAPE

What is impact investing?

All investments have consequences—not just for individual investors, but also for whole communities and for the economy at large. In addition to creating financial returns for the investor, investments can create jobs and expand the provision of goods and services. They may also have positive and negative effects on society and the environment.

Investors increasingly recognize the need to avoid negative effects and to follow international norms and principles designed to address Environmental, Social and Governance (ESG) risks. Some investors avoid investments in specific industries that they see as causing harm—for example, tobacco and gambling. Impact investing goes well beyond avoiding harm and managing ESG risks. It aims to harness the power of investing to do good for society by choosing and managing investments to generate positive impact while also avoiding harm.

Impact investing can be defined as “investments made into companies, organizations, vehicles and funds with the intent to contribute to measurable positive social, economic and environmental impact alongside financial returns.”¹

In today’s capital markets, there is a broad universe of investors who seek to do good or avoid harm. These range from those who negatively screen for ESG risks, to those that actively seek ESG opportunities, to those who seek positive social, economic, and environmental impacts across their portfolios.

How does impact investing differ from mainstream investing?

Impact investing adds a second objective to managing an investment portfolio. In addition to aiming for financial returns, the impact investor also aims to achieve positive impact on targeted social, economic, or environmental goals. This requires integrating impact considerations, alongside financial considerations into the portfolio’s investment strategy, into decisions about whether to buy and sell assets, and into the information and data that investors monitor and manage.

As with other forms of investing, impact investors have different appetites for financial risk and different targets for financial returns. They may also target different impact goals, and scale of impact that they aim to achieve. Investing for impact does not imply having to sacrifice financial performance—an important consideration for investment managers who have fiduciary duties to their investors.

Foundations and philanthropic organizations, development finance institutions, and specialist impact fund managers were the pioneers of impact investing. Today, a much wider range of asset owners is seeking to achieve impact with their investments. To meet this demand, asset managers increasingly offer impact investment products alongside their mainstream investment products.

One segment of the impact investing market focuses on investments in social enterprises, or social enterprises that have explicit intent to achieve impact. However, many impact investors also find opportunities to achieve impact by investing in commercial enterprises that may not, themselves, have the intent to achieve impact. For this reason, the definition of impact investing rests on the investor’s intent to have impact, not on the intent of the investee enterprise.

¹ Modified from the GIIIN definition: <https://tbegiin.org/impact-investing>.

Why is impact investing important?

Investors are increasingly looking to invest with impact, and this is especially the case with women and millennials, who will control a greater portion of wealth in the coming years.² A growing number of investors are adopting the Sustainable Development Goals (SDGs),³ and other widely recognized goals such as COP21,⁴ as a reference point to illustrate the relationship between their investments and impact goals. Within these global frameworks, private investors have been identified as a critical source of funding.⁵

What is the potential for growth in impact investing?

Global assets under management (AUM) in 2016 amounted to close to \$100 trillion.⁶ Directing some of these assets into impact investments provides an opportunity to take sizable steps towards the achievement of global goals such as the SDGs. The market for impact investment—currently estimated at \$228 billion AUM—is still relatively small, but is scaling up.⁷ However, the growth trajectory for impact investing shows significant momentum, with the industry growing fivefold between 2013 and 2017.⁸ And more than a quarter of AUM worldwide already are held in socially responsible investments that take account of Environmental, Social, or Governance (ESG) issues—a first step to financing with positive impact.⁹

What constitutes an impact investment?

There is a compelling case for impact investing: doing well by doing good. The question for many investors is how to capitalize on these opportunities. What is needed to facilitate a higher percentage of investments that target impact? What are the gaps that need to be filled?

Despite greater interest in impact investing, and more product launches claiming to target impact, there is no standard for what constitutes an impact fund or investment vehicle. This has created complexity and confusion for investors. Asset managers developing impact investment products also lack a common standard to refer to in designing their impact management systems.

Having a common discipline and market consensus on how to manage investments for impact will, for example, help asset owners differentiate impact investments from other opportunities, and enable asset managers to follow best practices in managing funds for impact. The Principles have been developed by a group of asset owners, managers, and allocators to enhance discipline around impact investing, mobilize more funds for impact investments, and increase the potential impact that such funds could achieve.

2 GIIN, 2018. Roadmap for the Future of Impact Investing: Reshaping Financial Markets.

3 The Sustainable Development Goals (SDGs) are a collection of 17 global goals set by the United Nations Development Programme. www.undp.org/content/undp/en/home/sustainable-development-goals.html.

4 Cop21 refers to the 2015 United Nations Climate Change Conference in Paris, France, which negotiated the Paris Agreement that aims to keep global warming below 2°C. www.cop21paris.org/about/cop21.

5 UNDP, 2017. Impact Investment to Close the SDG Funding Gap. Blog post on ‘Our perspectives’, by Mara Niculescu, Partnership Development Analyst, UNDP Europe and Central Asia.

6 IMF, 2016. “IMF Working Paper: From Global Savings Glut to Financing Infrastructure: The Advent of Investment Platforms”.

7 GIIN, 2018. Annual Impact Investor Survey.

8 GIIN, 2013, 2018. Annual Impact Investor Survey. Note that the number of respondents increased in 2018 (n=229), over 2017 (n=208), and 2016 (n=157), which partially accounts for this increase in AUM.

9 Morgan Stanley Institute for Sustainable Investing and Morgan Stanley Investment Management, 2018. Sustainable Signals: Asset Owners Embrace Sustainability.

INVESTING FOR IMPACT:

Operating Principles for Impact Management (The Principles)

What are the Principles?

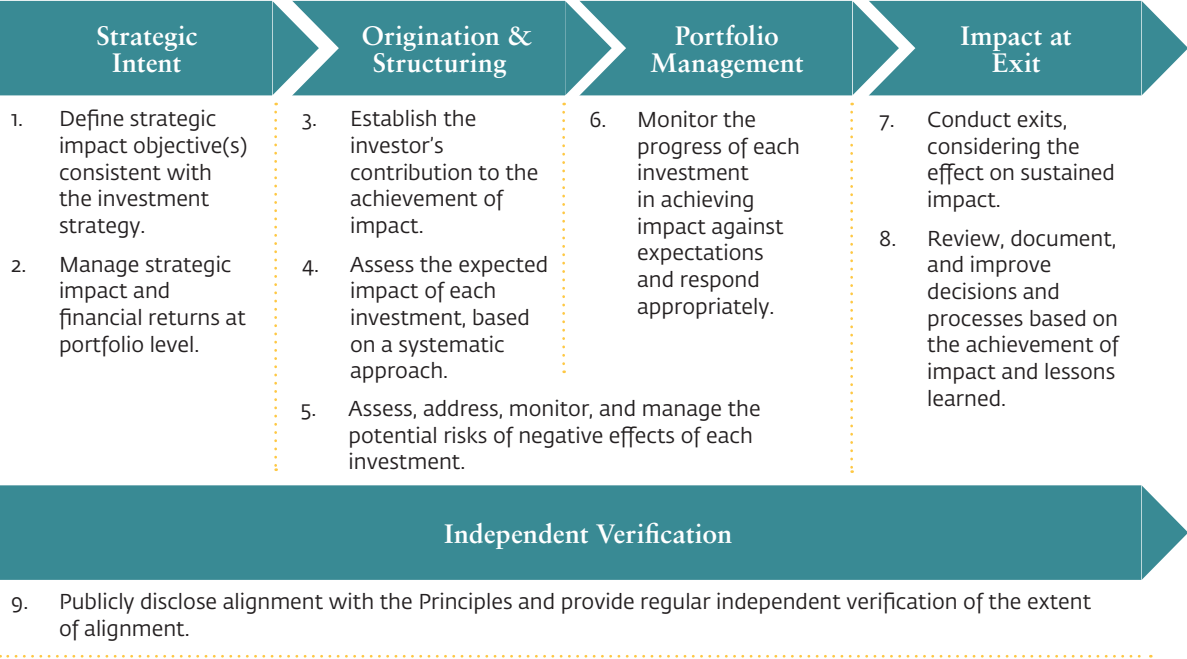
The Principles describe the essential features of **managing investment funds with the intent to contribute to measurable positive social, economic, or environmental impact,¹⁰ alongside financial returns.** This goes beyond asset selection that aligns investment portfolios with impact goals (for example, the SDGs), to requiring a robust investment thesis of how the investment contributes to the achievement of impact.

The Principles have been designed from the perspective of an end-to-end process. The five elements of this process are: strategy, origination and structuring, portfolio management, exit, and independent verification. The nine Principles that fall under these five main elements are the key building blocks for a robust impact management system. As such, they aim to ensure that impact considerations are integrated into investment decisions throughout the investment lifecycle.

The Principles may be implemented through different impact management systems and are designed to be fit for purpose for a wide range of institutions and funds. Also, a variety of tools, approaches, and measurement frameworks may be used to implement the Principles. The Principles do not prescribe which impacts should be targeted, or how impacts should be measured and reported. They also complement other industry initiatives, such as IRIS,¹¹ and green/social bond principles, which seek convergence towards common approaches to impact measurement and reporting.

¹⁰ The positive or negative primary and secondary effects produced by an investment, directly or indirectly, intended or unintended. Adopted from OECD-DAC.

¹¹ IRIS is a catalog of generally-accepted performance metrics used by a majority of impact investors (iris.thegiin.org).



How were the Principles developed?

The Principles were developed by the International Finance Corporation (IFC), drawing on its own impact management practices, and consulting with a range of asset owners, asset managers, asset allocators, multilateral development banks (MDBs), and development finance institutions (DFIs), including the collaborating institutions listed in this guide.

The Principles draw on emerging best practices across a range of public and private institutions that are investing for impact. These include MDBs and DFIs that have both financial and development impact objectives, and decades of experience investing for impact in emerging markets. The Principles also draw on the more recent experience of specialist impact funds and asset managers that have developed robust impact management systems. In addition, they build on industry-wide initiatives around impact management, including the Impact Management Project (IMP).¹²

How can the Principles be used, and by whom?

The Principles are intended to be a reference point for investors for the design and implementation of their impact management systems. They may be implemented through different types of systems, which are designed to be fit for purpose for different types of institutions and funds. They do not prescribe specific tools and approaches, or specific impact measurement frameworks. They do not provide guidance on how they are to be implemented. The ambition is that industry participants will continue to learn from each other as they implement the Principles.

Each asset owner and asset manager would align their management systems to the Principles. However, the manner in which the Principles are applied will differ by type of investor and institution. Asset owners and asset managers may apply the Principles to the relevant parts of their portfolios. For example, asset owners and their advisors may use the Principles to screen impact investment opportunities. Asset managers and their advisors may use the Principles to assure investors that impact funds are managed in a robust fashion.

12 The IMP is an initiative focused on coalescing over 700 practitioners from different disciplines and geographies to build consensus about what is relevant when referring to and managing impact. For more information, see: www.impactmanagementproject.com.

ADOPTING THE PRINCIPLES

Who can adopt the Principles?

Any asset manager or asset owner of impact investments may publicly adopt the Principles by becoming a signatory to the Principles. The Principles may be adopted at the institutional, fund or investment vehicle level. Asset managers with a diverse set of investment products may adopt the Principles for those funds or vehicles which they choose to identify and bring to market as impact investments. Institutions and asset managers who invest in bonds, funds and other investment vehicles may apply the Principles to their own fund investment process; the Principles do not have to be followed by the investee. The Principles are designed to be scalable and relevant to all sizes of investment portfolios, asset types, sectors, and geographies.

What is the governance structure of the Principles?

A small secretariat will be established to maintain the Principles, manage the list of signatories, and maintain a website for housing the Principles, signatory forms and list of signatories. The longer-term governance structure will be developed in consultation with signatories and other stakeholders, with due regard for signatories' fiduciary, regulatory, and confidentiality concerns.

What is the cost of becoming a signatory?

Signatories will pay a nominal fee to cover the administrative costs of the secretariat. The fee structure is expected to be based upon signatories' AUM.

What are the benefits of becoming a signatory?

Signatories to the Principles will be part of a select group of impact investors who publicly demonstrate their commitment to implementing a common approach for managing investments for impact, and maintaining a robust, end-to-end impact management system. This will set the firm, fund, or investment vehicle apart, and enable signatories to brand themselves and/or their products as aligned with the Principles.

What are the obligations of a signatory?

Signatories commit to:

- Affirm their intent to incorporate the Principles into their business processes and, for all investments that are intended to achieve impact, they will seek to manage and/or select funds and investment vehicles that are managed in accordance with the Principles. For existing assets, the Principles should be applied prospectively.
- Publicly report, on an annual basis, on their website and/or in the Annual Report their commitment to the Principles and the extent to which impact management systems are aligned with them, taking into consideration fiduciary and regulatory obligations. This annual report should not exceed five pages, and because reporting is based on how the impact management system aligns with the Principles, the report should be similar from year to year.
- Publicly report, on an annual basis, the total amount of assets that are managed in alignment with the Principles. If the signatory is applying the Principles to only part of its business, this should be disclosed—for example, by listing which funds align with the Principles.
- Payment of an annual fee.

Note that reporting on individual investments and their impact is not part of the reporting requirements.

What is the process for becoming a signatory?

To become a signatory, an organization submits: a letter of commitment, its first annual disclosure of the extent to which its impact management system aligns with the Principles, the total AUM that align with the Principles, and the required fee. General guidance, instructions, and templates are available on the Principles website: www.ifc.org/impactprinciples.

What is involved in independent verification?

Because the Principles rely on self-reporting, it is important that, from time to time, signatories provide independent verification of the extent to which their impact management system aligns with the Principles. This independent verification can be conducted in different ways, i.e., as part of a financial audit, carried out by an independent internal impact assessment committee, or through a portfolio/fund performance evaluation. The frequency and complexity of the verification process should consider its cost, relative to the size of the fund or the institution concerned, and the requirements for appropriate confidentiality. The conclusions of this verification shall be publicly disclosed, subject to fiduciary and regulatory limitations.

What is the timeline for the finalization of the Principles?

A consultation draft of the Principles will be available for comment until end-December 2018, after which final documents will be made available for signature. The Principles are expected to be launched in April 2019, with an initial set of signatories.

How can I find out more?

More information can be found on the Principles website at www.ifc.org/impactprinciples.

OTHER FREQUENTLY ASKED QUESTIONS

Are the Principles applicable to both private and public markets?

The Principles can be applied to any asset allocation made with the intent to contribute to measurable positive social, economic, or environmental impact, alongside financial returns. The Principles require a credible investment thesis that explains how the investment (or program of investments) contributes to the achievement of impact. This is usually easier to establish for private asset strategies where additional capital flows to the enterprise and/or the investor has direct engagement with the enterprise. However, there may be active public asset strategies, or secondary market transactions, that also credibly contribute to impact. Sustainable investing strategies that align public equity and debt portfolios with impact goals (e.g., SDGs) or ESG standards, and secondary market transactions investing in impact investments must demonstrate a credible contribution narrative to the achievement of those impacts in order to qualify to adopt the Principles.

What is the difference between these Principles and the Principles for Responsible Investing?

The PRI is an international network of investors working together to put a set of six responsible investment principles into practice. These are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practices. While the Principles build on elements of the PRI, they are process-focused and designed specifically for investors that define themselves as impact investors.

How do the Principles relate to other impact measurement and management initiatives?

In developing the Principles, a number of existing initiatives have been consulted. The Principles build on and align with these initiatives. These include:

- The *Global Impact Investing Network (GIIN)* an organization dedicated to increasing the scale and effectiveness of impact investing by facilitating knowledge exchange, highlighting innovative investment approaches, building the evidence base for the industry, and producing valuable tools and resources. The GIIN has identified impact measurement (and management) as a core component of impact investing.¹³ The Principles define the elements of a robust impact management system.
- The *Impact Management Project (IMP)* is a consensus-built convention for impact management that provides practical norms for how organizations understand, measure, and manage their impact. The Principles provide the overarching elements of a robust impact management system, while the IMP provides implementation guidance for the integration of impact considerations into investment or business management decisions.
- A number of impact measurement tools (e.g. IRIS, GIIRS, GRI, SASB, and HIPSO)¹⁴ provide specific indicators and/or frameworks to help investors articulate and report the impact of their investments.
- The Green Bond Principles (GBP) and the Social Bond Principles (SBP) are voluntary process guidelines that recommend transparency, disclosure and reporting of the environmental sustainability and/or social benefits of investments underpinning Green Bond, Social Bond and/or Sustainability Bond issuance.

IFC is continuing to explore how to strengthen alignment and synergies between the Principles and other related global initiatives.

¹³ GIIN, “What is Impact Investing” (<https://thegiin.org/impact-investing/need-to-know/#core-characteristics-of-impact-investing>).

¹⁴ More information can be found via the following links: HISPO (indicators.ifipartnership.org/about/), IRIS (iris.thegiin.org), GIIRS (b-analytics.net/giirs-funds), GRI (www.globalreporting.org/Pages/default.aspx), and SASB (www.sasb.org).


**DISCLAIMER:**

The Principles have been developed to provide the process for managing and selecting investment funds for impact. The Principles do not create any rights in, or ability to, any person, public or private. Managers adopt and implement the Principles voluntarily and independently, without reliance or recourse to the International Finance Corporation, the World Bank Group, or other signatories. In a situation where there would be a clear conflict between applicable laws and regulations, and the requirements set out in the Principles, local laws and regulations shall prevail.

A stylized graphic featuring a sun with yellow rays and a green plant with three leaves, set against a background of overlapping teal and blue circular patterns.

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Contact us at
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More information is available at
www.ifc.org/impactprinciples

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