Impact Management: A Guide *for* Small *to* Mid-market Fund Managers *in* Emerging Markets

Handbook

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IFC—a member of the World Bank Group—is the largest global development institution focused on the private sector in emerging markets. We work in more than 100 countries, using our capital, expertise, and influence to create markets and opportunities in developing countries. In fiscal year 2024, IFC committed a record $56 billion to private companies and financial institutions in developing countries, leveraging private sector solutions and mobilizing private capital to create a world free of poverty on a livable planet. For more information, visit www.ifc.org.

Contents

Acronyms

EM . . . . emerging market
ESG . . . . environmental, social, and governance
GHG . . . . greenhouse gas
GIIN . . . . Global Impact Investing Network
HIPSO . . . . Harmonized Indicators for Private Sector Operations
IFC . . . . International Finance Corporation
IRIS+ . . . . Impact Reporting and Investment Standards
OPIM . . . . Operating Principles for Impact Management
PRI . . . . Principles for Responsible Investment
SDGs . . . . Sustainable Development Goals
SMEs . . . . small and medium enterprises

About this guide

The International Finance Corporation (IFC) developed this guide to support fund managers investing in small to mid-market companies in emerging markets (EMs) in implementing impact management best practices.

IFC, a key contributor to the Operating Principles for Impact Management, recognizes that while the investment industry has seen a proliferation of frameworks and knowledge products to embed impact into investments, many small to mid-market fund managers in EMs find it difficult to make use of these tools (see the appendix). As a result, many fund managers in EMs face challenges in defining and managing "impact" and meeting diverse investor expectations around impact.

This guide aims to support small to mid-market fund managers in EMs in incorporating impact into fund origination, structuring, deployment, and exit. Its primary audience is any fund manager establishing or operating a fund that involves active value-creation and portfolio company management—including private equity, venture capital, and structured capital funds. While larger, well-established fund managers may have the resources to navigate the impact landscape and develop the internal capacity and systems needed to manage impact, smaller fund managers in EMs have limited capacity to dedicate to an impact function. Even for more sophisticated managers who have established their approach to impact management, the guide may offer insights on how impact-focused investors think about impact.

This guide provides a structured approach to help fund managers align their impact management practices with investor expectations. It is divided into two sections. The first section explores the meaning of impact for funds and outlines the considerations fund managers must incorporate into their impact management approach. The second section provides practical guidance on developing and applying an impact management approach throughout a fund's life cycle—collectively referred to in this guide as a fund's Impact Action Plan. This section does not specify solutions or indicators to apply in every circumstance, but instead provides the foundation to construct a fund-level Impact Action Plan, supported by reference materials for a fund to draw on as needed.

Throughout the guide, fund managers will find insights reflecting the experiences of IFC and other institutional investors. Drawing on IFC's experience with EM funds, the insights shared here also reflect the requirements of a wider range of institutional investors who seek to maximize impact through their portfolios. The aim is to empower fund managers in EMs to confidently navigate the complexities of impact management, respond effectively to investor demands, and contribute to the growth of the sustainable finance industry.

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Executive summary

Impact investing is an investment approach that seeks to deliver financial returns alongside measurable economic, social, or environmental outcomes. In a fund context, impact management encompasses not just what the fund invests in but how the fund is structured, how investment decisions are made, and how portfolio companies are actively managed and monitored over time.

Funds that pursue impact follow the Operating Principles for Impact Management throughout the investment cycle, and articulate what outcomes they seek to contribute to and why those outcomes matter in the markets they invest in. This intent differentiates impact from incidental positive effects that may arise from any well-run business. For funds operating in emerging markets (EMs), this intentionality is often closely linked to development challenges such as job creation, access to essential services, inclusion of underserved populations, and environmental sustainability.

These ambitions also need to be supported by evidence and data to inform investment design and decisions. Impact-oriented funds rely on data to identify priority challenges, inform investment decisions, and design value-creation strategies. Using evidence—rather than relying on assumptions or broad thematic alignment alone—helps direct capital to where it is most likely to contribute to meaningful outcomes.

Managing impact in a fund requires an active strategy. Impact does not occur automatically when capital is deployed. Funds must monitor progress against their stated objectives, engage with portfolio companies to address gaps, and adjust strategies when outcomes fall short of expectations. This ongoing management distinguishes intentional impact funds from those that simply label themselves as "impact" without operational follow-through.

As early as possible in a fund's life, a fund manager should start planning for how it will embed impact in the fund's design and processes via an Impact Action Plan. A conversation between a fund manager and its investors around managing and reporting impact is a key feature of many institutional investors' expectations and is now a common requirement for smaller EM funds. An Impact Action Plan is critical for a fund to engage with its investors on impact as it operationalizes impact in the fund's strategy. Figure ES.1 summarizes the key elements of an Impact Action Plan.

FIGURE ES.1
Key elements of a fund's Impact Action Plan

Phase	1. Establishing the fund's impact management approach		2. Applying the fund's impact management approach		
Fund actions	**1. Define the fund's impact objective in line with the fund's strategy** • Identify the development challenge, considering thematic and sector-specific activities to identify priority or focus impact areas. **2. Develop the fund's impact thesis** • The impact thesis explains why and how the fund's strategy, investments, and actions deliver a desired impact objective. **3. Quantify the fund's impact by identifying outcomes** • Align impact objectives to outcomes, using standardized indicators where possible.	**4. Set fund-level targets (optional)** • Identify fund-level targets in advance to support the impact objective. **5. Develop the fund's impact process and assign responsibilities to deliver it** • Establish the processes for how it embeds impact considerations in its investment decision-making. • Identify the partner/staff responsible for this function.	**6. Build a pipeline and select investees with an impact approach, alongside financial and business considerations** • Assess each prospective portfolio company to ensure it aligns with the fund's impact objective. • Assign a specific impact indicator to the company that aligns with the fund-level impact objective; determine any targets/key performance indicators. **7. Embed impact into investee engagement and the value-creation plan** • Embed impact requirements into the value-creation plan. • Develop the company's capacity to meet impact objectives.	**8. Monitor and report on impact** • Implement a regular impact reporting process. • Collect and report impact results. • Provide clear and consistent results.	**9. Apply lessons learned and responsible exits** • Incorporate impact lessons in a timeous manner. • Update the fund's impact strategy based on lessons learned. • Conduct responsible exits.
Investor signal	*Demonstrates an intent to catalyze impact.*	*Shows when impact is considered and how much it influences fund investment decisions.*	*Demonstrates follow-through to work with each portfolio company to deliver impact outcomes.*	*Provides evidence that impact results were delivered and how they were achieved, building trust with stakeholders.*	*Signals how insights gained from past investments enhance impact in new investments.*
Fund stage	**Pre-investment**		**At- and post-investment**		

Defining a clear impact objective anchors the fund's strategy and sets expectations with investors from the outset. By identifying the development challenge the fund seeks to address, selecting a focused set of outcomes, and, where of interest for some fund managers, setting outcome targets, the fund establishes a common reference point against which performance can be assessed. This clarity is critical in a fund context, where portfolio composition is not fully known at fundraising and where multiple investors may have different impact priorities.

Embedding impact into investment decision-making, alongside financial considerations, demonstrates a fund manager's intention to deliver impact, as it ensures that impact guides what the fund invests in and how value is created, rather than treating it as a reporting exercise after the investment. Assigning responsibilities, documenting processes, and integrating impact into value-creation plans help align investment teams and portfolio companies around shared objectives. This step is particularly important for smaller and mid-market funds with limited resources, as it helps focus effort on the most material outcomes.

Effectively conveying how a fund will deliver impact could help scale resources from limited partners, which provide capital to funds. Development finance institutions and other large institutional investors typically follow a portfolio-based approach to select what to invest in and where. A portfolio approach means balancing the organization's objectives across a portfolio of many investments. While not all funds need to develop a dedicated impact strategy, being able to demonstrate that a fund can manage and deliver impact can carry significant weight in the limited partner's decisions when financial returns carry greater risk or when capital resources are limited, especially for development finance institutions and impact-oriented limited partners.

Robust impact monitoring and reporting closes the loop between intention and results. Consistent, transparent reporting allows investors to understand not only what outcomes were achieved, but how they were achieved and at what scale. Establishing baselines, tracking progress over time, and aggregating results across portfolio companies enable funds to demonstrate credibility, build trust with investors, and reduce the burden of bespoke reporting across multiple investors.

Integrating lessons learned into an end-to-end process also ensures that impact management remains dynamic rather than static. By periodically reviewing outcomes and reflecting on what worked and what did not—for instance, through post-deal reviews, investment committee debriefs, and structured impact assessments—funds can adapt their strategies to deliver impact. Moreover, feedback loops strengthen the capacity to manage the impact of future funds, and improve and institutionalize impact performance over time. For fund managers with experience in fundraising and deploying multiple funds, this learning function is a strong signal that impact is being taken seriously as a core element of fund management.

Taken together, these steps provide a practical, scalable framework for managing impact in a fund environment. They help bridge the gap between investor expectations and fund capacity, ensuring that impact objectives are not only articulated but also embedded, measured, and continuously improved throughout the life of the fund.

What *is* impact *in* a fund?

Firstly, impact investing in a fund is investing. It differs from philanthropy, as impact-oriented funds seek financial returns alongside socioeconomic and environmental outcomes (GIIN 2023). Fund managers who pursue impact allocate capital to investees (companies or projects) and manage their portfolio, aiming to maximize financial performance while delivering development outcomes.

What is impact investing?

The Global Impact Investing Network (GIIN) defines impact investing as: "Investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return."

SOURCE: GIIN 2025a.

The general practice of impact investing is now well defined across capital markets and guided through a set of core characteristics, outlined by the GIIN (2019a, 2025a) as follows:

Core characteristics of impact investing applied to funds

1. **Intentionality**: Impact investing is distinguished by a clear and deliberate intention to generate measurable economic, social, and environmental benefits. Fund managers in this space are purposely seeking development impact as well as financial returns, focusing their investment decisions on achieving positive outcomes to address socioeconomic and environmental challenges.
2. **Use of evidence and impact data in investment design**: Pursuing impact objectives requires the use of available evidence and data to inform decision-making and track progress. By leveraging data reporting, fund managers can adjust investment strategies and tailor value-added activities, ensuring that their capital is allocated effectively to achieve the desired financial returns and impact outcomes.
3. **Management of impact performance**: Achieving impact objectives requires actively overseeing investments to ensure that they remain aligned with their intended socioeconomic and environmental outcomes. To this end, fund managers regularly track and manage portfolio performance to stay focused on the original goals defined at the outset of the investment.
4. **Contribution to the growth of the industry**: Impact investors play a vital role in advancing the broader field by sharing their experiences and lessons learned. By contributing knowledge, fund managers help the industry adopt best practices and avoid common pitfalls, ultimately strengthening the impact investing ecosystem.

Structuring a fund to deliver impact

Impact is an increasingly standard feature in a fund and limited partner's relationship in emerging markets (EMs). For small to mid-market funds in many EMs, where access to funding is limited, attracting institutional investors with an impact objective can be foundational to anchoring a fund's fundraising and catalyzing further commitments. Global Private Capital Association data indicate that over 60 percent of disclosed commitments in EMs in 2025 came from development finance institutions, and both the GIIN (2025a) and the Institutional Limited Partners Association (2026) report that institutional investors are increasingly incorporating impact-driven investments as part of their strategic portfolio allocations.

Funds that aim to deliver impact align with the Operating Principles for Impact Management (OPIM) (GIIN 2025b) throughout their lifetimes. Funds define strategic impact objectives consistent with the investment strategy and manage impact on a portfolio level. Moreover, during origination and structuring, they establish the manager's contribution to achieving impact, including assessing expected impact and monitoring the actual impact of investments. During portfolio management, fund managers monitor the progress of each investment against the investment objectives and adjust strategies accordingly. Finally, fund managers conduct exits while considering the effect on sustained impact and review processes to learn lessons from their investments.

Not all funds need to focus on impact, as it is only one of several decision points for a limited partner, alongside other important considerations such as strategic fit, financial performance, and environmental, social, and governance (ESG) risks. However, to attract capital from impact-oriented investors, including development finance institutions and foundations, a fund needs to understand the impact objectives of prospective limited partners and how an investment in the fund will support each limited partner in meeting its own objectives.

Differentiating between managing impact and ESG risks for funds

- ***ESG risk management***: Throughout the investment cycle, fund managers identify ESG risks and incorporate practices to address and prevent them. By understanding these risks, the fund manager and its portfolio companies can price in these risks and manage them in line with their financial strategies.
- ***Impact management***: When setting up a fund, fund managers intentionally set desired socioeconomic objectives and work with investee companies throughout the investment cycle to achieve these objectives as well as financial returns.

SOURCE: PitchBook 2021.

The challenges of incorporating impact in a fund

Structuring a fund with impact objectives requires additional design choices—on governance, strategy, data, and reporting—beyond those typically required for financial performance and ESG risk management. For fund managers in EMs, these choices can be challenging due to smaller teams, less mature data systems, and diverse limited partner requirements.

The following factors contribute to the challenges of incorporating impact in a fund in EMs:

- **Proliferation of tools and frameworks**: Fund managers in EMs face a crowded landscape of standards, taxonomies, indicators, and reporting guidance, including OPIM, PRI, IRIS+/HIPSO, and SDG Impact. Navigating multiple references and distinguishing between "required" and "good practice" can be time-consuming and confusing, especially for smaller teams or new fund managers.

- **Blind pool portfolio of companies**: A fund manager generally operates under a blind pool structure with an overall investment mandate. For many fund managers in EMs, this could include operating across sectors and countries, introducing significant uncertainty into the potential impact. In contrast, when investors consider the impact objectives of a stand-alone investment in a specific deal, they have significant details about the company, its strategy, and its expected outcomes, enabling them to define a direct line from investment to the expected impact objective.

- **Defining impact targets and reporting requires aligning with the perspectives of various limited partners**: Impact is inherently linked to the fund's strategy. However, defining impact targets and reporting progress to the fund's multiple limited partners can pose challenges, as limited partners may define impact differently, use different indicators, and require different methodologies and timelines for data collection, aggregation, reporting, and verification. It can be difficult for fund managers to navigate limited partners' varied requirements (BlueMark and CASE 2023), increasing the time and cost of data collection and aggregation for reporting, and raising the risk of misalignment with a limited partner's requirements.

- **Complex data collection and analysis to report on impact**: Smaller and new funds may have less capacity to establish an impact management system to collect, analyze, and report data from multiple portfolio companies. Similarly, portfolio companies—particularly small and medium enterprises (SMEs)—have limited data reporting capacity and may lack reliable baseline data or information management systems. Fund managers may need to invest additional resources to strengthen the data reporting capacity of their portfolio companies and align definitions across investees, which adds complexity to impact reporting. Smaller funds also face limitations in managing portfolio companies and designing and implementing portfolio-level impact strategies and value-added actions to achieve the desired impacts. These challenges are compounded when accounting for multiple limited partners with different impact objectives and data needs, which can be time-consuming to meet.

- **Governance and incentives to deliver impact**: In addition to aligning the fund manager's impact objectives with those of limited partners and portfolio companies, embedding impact in the day-to-day fund's operation requires clear responsibilities and ownership, including decision rights, and escalation paths to guarantee meeting the desired impact objectives. The fund manager may need to align impact objectives with the investment team's incentives, checks, and balances, as without these, impact can become a compliance or reporting activity rather than a driver of investment decisions and portfolio engagement.

This guide addresses these challenges by offering fund managers a practical approach to embedding impact within a fund. It aims to help fund managers navigate different frameworks and limited partner expectations by providing a clear, step-by-step approach to integrating impact into a fund throughout the investment cycle. The guide enables fund managers to demonstrate credible impact intent, integrate impact into investment decision-making and value creation, and engage constructively with limited partners, without turning impact management into a compliance-driven or overly complex exercise.

Practical steps *to* integrate impact management into *a* fund

This guide is centered on defining an Impact Action Plan that fund managers can implement to effectively deliver impact throughout the fund's life cycle—from fundraising through investment, holding, and exit. Building on industry standards such as the OPIM (GIIN 2025b), the elements that make up an Impact Action Plan are structured in two phases, outlined below and in Figure 1.

Phase 1: Establishing the fund's impact management approach (pre-investment)

1. Define the fund's impact objective in line with the fund's strategy.
2. Develop the fund's impact thesis.
3. Quantify the fund's impact by identifying outcomes.
4. Set fund-level targets (optional).
5. Develop the fund's impact process and assign responsibilities to deliver it.

Phase 2: Applying the fund's impact management approach (at- and post-investment)

6. Build a pipeline and select investees with an impact approach, alongside financial and business considerations.
7. Embed impact into investee engagement and the value-creation plan.
8. Monitor and report on impact.
9. Apply lessons learned and responsible exits.

The following sections focus on the elements a fund manager can use to design and implement an Impact Action Plan.

FIGURE 1

Key elements of a fund's Impact Action Plan

Phase

1. Establishing the fund's impact management approach

Fund actions

1. Define the fund's impact objective in line with the fund's strategy

- Identify the development challenge, considering thematic and sector-specific activities to identify priority or focus impact areas.

2. Develop the fund's impact thesis

- The impact thesis explains why and how the fund's strategy, investments, and actions deliver a desired impact objective.

3. Quantify the fund's impact by identifying outcomes

- Align impact objectives to outcomes, using standardized indicators where possible.

4. Set fund-level targets (optional)

- Identify fund-level targets in advance to support the impact objective.

5. Develop the fund's impact process and assign responsibilities to deliver it

- Establish the processes for how it embeds impact considerations in its investment decision-making.
- Identify the partner/staff responsible for this function.

Investor signal

Demonstrates an intent to catalyze impact.

Shows when impact is considered and how much it influences fund investment decisions.

Fund stage

Pre-investment

2. Applying the fund's impact management approach

Fund actions

6. Build a pipeline and select investees with an impact approach, alongside financial and business considerations

- Assess each prospective portfolio company to ensure it aligns with the fund's impact objective.
- Assign a specific impact indicator to the company that aligns with the fund-level impact objective; determine any targets/key performance indicators.

7. Embed impact into investee engagement and the value-creation plan

- Embed impact requirements into the value-creation plan.
- Develop the company's capacity to meet impact objectives.

8. Monitor and report on impact

- Implement a regular impact reporting process.
- Collect and report impact results.
- Provide clear and consistent results.

9. Apply lessons learned and responsible exits

- Incorporate impact lessons in a timeous manner.
- Update the fund's impact strategy based on lessons learned.
- Conduct responsible exits.

Investor signal

Demonstrates follow-through to work with each portfolio company to deliver impact outcomes.

Provides evidence that impact results were delivered and how they were achieved, building trust with stakeholders.

Signals how insights gained from past investments enhance impact in new investments.

Fund stage

At- and post-investment

Phase 1: Establishing the fund's impact management approach

1. Define the fund's impact objective in line with the fund's strategy

As a first step when establishing a fund, the fund manager should identify a fund-level impact objective aligned with the fund's investment strategy. This objective will clearly define what the fund aims to achieve throughout its lifetime, in alignment with its investment strategy, which includes the fund's geographic focus, target segment, and type of instrument. A well-defined and documented impact objective will serve as a reference point for the fund's investment team to integrate impact into investment decision-making and value-creation activities. The impact objective guides key structuring decisions by helping the fund manager determine the types of investees (companies or projects) the fund will target, identify the supporting resources the fund and its investees will need to achieve these objectives, and lay the foundation for how the fund will pitch itself to investors. The depth and scope of the fund's impact objective will depend on the fund manager's ambition and the extent to which impact is a core element in the fund's investment strategy.

Determining a fund's impact objective requires identifying the development challenge(s) it seeks to address. Fund managers that intend to deliver impact should select the relevant challenge that their investments aim to address. Selecting a development challenge helps strengthen the intention of the fund to deliver a specific impact. This challenge may be as general as expanding access to capital for companies, or narrower, such as reducing the gender gap in access to equity for female-owned or -led SMEs. Guidance can be drawn from different resources such as the Sustainable Development Goals (SDGs) or the World Bank Group Scorecard Framework. On their own, these are relatively broad objectives; however, they provide a good starting point for how fund managers can align their impact with well-established development challenges in EMs. Table 1 provides some examples of development challenges a fund could address.

To facilitate impact management, funds should avoid pursuing too many impact objectives and instead seek to focus on their main investment areas. A growing number of EM funds are adopting thematic investment strategies and may invest with a specific objective in mind. For instance, an agribusiness-focused fund may address food security and low agricultural productivity by investing in companies that promote sustainable agriculture models. In such cases, the thematic objective should serve as the basis for the impact objective, as it is the common thread across portfolio companies.

TABLE 1

Defining the fund's targeted development challenge(s)

United Nations SDGs	Examples of development challenges that a fund could address
1. **No Poverty**: End poverty in all its forms everywhere	Lack of access to financial services and credit for low-income populations.
	Lack of jobs for women.
2. **Zero Hunger**: End hunger, achieve food security and promote sustainable agriculture	Low agricultural productivity among small enterprises.
3. **Good Health and Well-Being**: Ensure healthy lives and promote well-being for all at all ages	Lack of access to affordable primary and preventive healthcare.
4. **Quality Education**: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	Skills mismatches between education systems and labor market needs.
	Digital divide limiting access to online learning.
5. **Gender Equality**: Achieve gender equality and empower all women and girls	Gender gaps in access to venture capital.
	Limited access to health services for women.
6. **Clean Water and Sanitation**: Ensure availability and sustainable management of water and sanitation for all	Inadequate sanitation infrastructure.
	Poor wastewater treatment and water pollution.
7. **Affordable and Clean Energy**: Ensure access to affordable, reliable, sustainable and modern energy for all	Dependence on coal and kerosene for cooking and lighting.
	High cost and unreliability of electricity.
8. **Decent Work and Economic Growth**: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	High youth unemployment and underemployment.
	Limited access to finance for SMEs.
9. **Industry, Innovation and Infrastructure**: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation	Inadequate transport infrastructure (roads, ports, rail) limiting trade and connectivity.
	Low broadband penetration and digital infrastructure gaps.
10. **Reduced Inequalities**: Reduce inequality within and among countries	Gaps in access to equity capital in EMs compared to developed markets.
11. **Sustainable Cities and Communities**: Make cities and human settlements inclusive, safe, resilient and sustainable	Inadequate affordable housing supply in urban areas.
	Urban air pollution and poor solid waste management.

United Nations SDGs	Examples of development challenges that a fund could address
12. **Responsible Consumption and Production**: Ensure sustainable consumption and production patterns	High carbon footprints from industrial production and supply chains.
	Unsustainable agricultural and fishing practices depleting natural resources.
13. **Climate Action**: Take urgent action to combat climate change and its impacts	Exposure of companies to climate-related disasters with limited resilience.
	Insufficient climate finance flowing to developing countries.
14. **Life Below Water**: Conserve and sustainably use the oceans, seas and marine resources for sustainable development	Marine plastic pollution.
	Lack of sustainable livelihoods for coastal fishing communities.
15. **Life on Land**: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss	Deforestation and habitat loss driving biodiversity collapse.
	Insufficient funding for protected area management and conservation.
16. **Peace, Justice and Strong Institutions**: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels	Cybercrime and data security threats.
	Digital divide in access to digital public services.
17. **Partnerships for the Goals**: Strengthen the means of implementations and revitalize the Global Partnership for Sustainable Development	Technology transfer gaps between developed and developing countries.
	Difficulty attracting private capital to high-impact but perceived high-risk markets.

2. Develop the fund's impact thesis

As a second step, the fund manager should define an impact thesis that explains why and how the fund's strategy, investments, and actions deliver on a desired impact objective. An impact thesis is a fund's statement that explains how the fund will address a selected development challenge for a specific segment (investee companies) or population (investee's customers). In practice, the impact thesis will explain how the action of the fund—providing capital and operational support to investee companies (or projects)— has an effect on a defined problem (or outcome), either directly via its portfolio companies or indirectly through the investee's products, services, and customers served. For instance, a fund that includes multiple investments in healthcare companies could establish that its support will enable these companies to lower costs or expand services to patients, resulting in treatment provided to more people, thereby improving health outcomes and helping to address a key development challenge (SDG3).

A useful way to define the investment impact thesis is to ask:

- What development challenge does the fund aim to address?
- What types of investments can help to address this development challenge?
- Why will providing capital to investees (companies or projects) help address the selected development challenge?

In practice, a fund manager could examine a fund's pipeline (and the track record for follow-on funds) to identify the activities the fund's investees are undertaking and determine whether this indicates that the capital allocation helps achieve a specific impact objective. The fund manager will then be able to identify its focus development channels and can place its investments in the relevant context.

TABLE 2

Examples of linking actions implemented during the fund's lifetime to address development challenges

Development challenges	Fund actions
Jobs: Lack of jobs	• Fund provides capital (such as venture capital, private equity capital, debt finance, and structured capital) to a wide variety of job-intensive companies (or projects) across real sectors, such as retail, manufacturing, tourism, and food. • Fund advises investees on how to create job opportunities.
Opportunities for women: Gender gaps in access to capital	• Fund allocates capital to women-owned or -led companies. • Fund advises investees on how to increase access to and quality of services or products for women.
Sustainability: Insufficient capital for climate action	• Fund finances companies that enable sustainability outcomes such as improving climate change mitigation, adaptation to climate change, or resilience to climate shocks. • Fund provides technical expertise to investees to develop technologies to deliver sustainability outcomes or improve greenhouse gas (GHG) accounting.
Financial inclusion: Low access to financial services for SMEs	• Fund invests in financial institutions (such as banks, microfinance, and financial technology) to expand the number and value of SME loans. • Fund advises investees on consumer-protection practices to improve the quality of SME lending.
Digital access: Limited digital penetration	• Fund invests in companies or projects that develop digital solutions. • Fund provides technical expertise to expand the market by improving the adoption and user experience of the digital solution.
Energy transition: Rising GHG emissions from fossil fuels	• Fund finances companies that expand sustainable energy generation, such as through solar panels. • Fund advises investees on scaling up the production of solar panels.

Some funds will also want to articulate a more rigorous impact thesis backed by a theory of change. This is a causal narrative that maps the impact thesis into a logical chain, from inputs and activities to outputs, outcomes, and impact. Besides being a reporting framework, the theory of change could be used by fund managers to quantify and manage impact in a rigorous way. Moreover, it allows fund managers to test if activities are producing intended results, and improve the fund's activities and assumptions over time.

Figure 2 illustrates an example in which a fund aims to address the development challenge of a lack of jobs. In this case, the fund may select the impact thesis of increasing access to growth equity for SMEs, under the premise that SMEs will create jobs. The fund's inputs include capital, its team, and its value-creation plan. The fund's activities involve deploying capital to targeted SMEs and providing hands-on advisory support to help them grow. The outputs are the direct, measurable results of the activities, such as the number of SMEs that have received growth capital. The outcomes are the changes in the SMEs after accessing capital, such as opening a new store or building a new factory. Finally, the impact is the socioeconomic or environmental result of the outcomes, which are the jobs created by the SMEs at a new store or factory.

FIGURE 2

Example of a private equity fund's theory of change that aims to create new jobs

	COMPONENT	DEFINITION	QUESTION	EXAMPLE
	Development challenge	The evidence-based development challenge or market failure that the fund aims to address.	What is the development challenge that the fund aims to address?	• Lack of jobs.
	Impact thesis	The hypothesis of how a fund will contribute to addressing the development challenge through its investments and activities.	How is the fund going to contribute to addressing the development challenge?	• Increase access to growth equity for SMEs to create new jobs.
THEORY OF CHANGE	**Inputs**	The resources deployed by the fund, including capital, team, and knowledge.	What are the resources deployed by the fund to address the development challenge?	• Fund's equity capital. • Fund's investment team. • Fund's value-creation plan.
THEORY OF CHANGE	**Activities**	The actions implemented by the fund to generate outputs, including investment and advice.	What are the actions undertaken by the fund to generate outputs?	• Fund manager directly allocates capital to SMEs. • Fund manager provides advice on market expansion to scale up SMEs.
THEORY OF CHANGE	**Outputs**	The direct and measurable results of the fund's activities.	What are the direct and measurable results of the activities undertaken by the fund?	• Number of SMEs with access to growth equity capital.
THEORY OF CHANGE	**Outcomes**	The changes in the investees generated by the outputs.	What are the changes at the investee level generated by the outputs?	• Number of SMEs that expand their operations by opening new stores or factories.
THEORY OF CHANGE	**Impact**	The development effect generated by the outcomes.	What are the changes in the investee, the investee's customers, or the market generated by the outcomes?	• Number of jobs created by SMEs at new stores or factories.

3. Quantify the fund's impact by identifying outcomes

Moving from a general impact objective to an impact strategy that addresses a specific development challenge requires the fund to identify outcomes to be monitored. Outcomes in a fund context are the direct results of the fund's capital and value-creation support on the investee's operations, such as enabling a company to expand services to new customers. In this case, the outcome is the number of new customers reached by the services. The variety of companies a fund can target is broad; however, insight on what outcomes the fund could report on can be gained by reviewing standardized impact indicator sets that predefine specific sector-related outcomes and their definitions.

The fund could leverage two widely used, publicly available impact indicator sets aligned with development challenges: (1) Harmonized Indicators for Private Sector Operations (HIPSO) and (2) Impact Reporting and Investment Standards (IRIS+). These resources provide a harmonized list of impact indicators for tracking a company's impact outcomes. Using indicators that include input from key impact stakeholders also increases the likelihood that the fund can use the same data reporting specification across multiple investors. The benefit of using indicators from these public resources is that it enables the fund manager to leverage significant efforts from key impact stakeholders, such as development finance institutions, that have predefined them, centered around a theory of change that ties the outcome to a development challenge. This means that these indicator sets provide a list of relevant indicators that the fund can review and select from. The fund should also factor in the specifics of its portfolio and the capacity of the portfolio companies to report.

At this stage, funds do not need to identify every possible outcome they may achieve before investment. Generally, investors prefer to use a limited number of indicators that best reflect the fund's investment strategy and the outcomes it aims to achieve. Where possible, the fund should prioritize outcomes that occur consistently across the portfolio to facilitate fund-level aggregation when reporting to investors. On investing in each company, the fund can then also identify other outcomes specific to a company that they may want to use to augment (but not replace) the fund-level priority outcomes. Table 3 elaborates on Table 2 by showing some common examples of a fund's impact on outcomes to address the development challenges.

TABLE 3

Examples of fund outcome indicators

Development challenges	Examples of outcome indicators	Use considerations
Jobs: Lack of quality jobs	Direct jobs created by the investment (operations and maintenance) [HIPSO TA-07]	• Expanding access to quality jobs is the backbone of EM development and improving people's prosperity. • A fund can evaluate how many jobs its portfolio companies have created since the fund's investment by tracking the current number of jobs relative to the number of jobs at the fund's point of entry. • One way to make results comparable across different companies is to normalize by dividing the net jobs created by the capital deployed to each investment.
Opportunities for women: Gender gaps in access to capital	Number of female-founded enterprises [HIPSO TA-04]	• There are a number of ways a fund manager can expand economic opportunities for women via a fund. An industry reference for understanding these options is the 2X Challenge,[1] which covers a range of fund- and portfolio-level actions around creating opportunities for women. • A key way a fund can directly influence opportunities for women is through its investment choices, by allocating to women-led companies. • Relative performance could be gauged by comparing to industry benchmarks, such as 30 percent used by 2X or regional market benchmarks published by IFC (IFC 2025).
Sustainability: Insufficient capital for climate action	S&P Shades of Green	• Funds can review how portfolio companies are categorized using S&P's Shades of Green,[2] maximizing allocation of capital toward "dark green" activities. Examples of these activities include investment in renewable energy generation, electric vehicle rollout, and energy-efficiency technology and processes.
	tCO_2e GHG emissions avoided [HIPSO TA-11]	• A commonly used indicator to quantify sustainability commitments is GHG emissions (tCO_2e avoided). It is a useful indicator as it can be aggregated from outcomes across different types of companies.
Financial inclusion: Low access to financial services for SMEs	Number of loans outstanding [HIPSO FI-01]	• A fund targeting financial services is likely to support an expansion in access to finance. In this case, the fund can set objectives for the dollar amount and the number of loans expected to be generated.
	Value of loans outstanding [HIPSO FI-01]	
Digital access: Limited digital penetration	Number of active customers/businesses using the company's software	• A fund that specializes in providing digital services or tools can cut across many sectors. Tracking the number of active customers or businesses using a digital product, tool, or platform can enable aggregation and comparison, and indicate digital penetration.
Energy transition: Rising GHG emissions from fossil fuels	Levelized cost of energy	• Levelized cost of energy ensures that in addition to providing energy, the fund's assets do so at a rate that improves energy affordability in the target market.
	Energy generated (MWh) [HIPSO EN-01]	• A fund targeting energy transition should be able to report the net increase in energy generation from its assets.

SOURCE: Compiled by authors, based on the Global Private Capital Association's HIPSO.

1 2X Global: Unlocking Gender-Smart Capital at Scale. https://www.2xglobal.org/.
2 S&P Global Ratings 2024. https://www.spglobal.com/ratings/en/multimedia/spo-explaining-the-shades-of-green-2024.

4. Set fund-level targets (optional)

Once a fund has identified the outcomes aligned with development challenges, it could further cement its impact ambition by identifying fund-level targets in advance against these outcomes. The ability to set targets will be a strong signal of the fund's impact management capacity, as it demonstrates the fund's ability to develop and apply an impact theory of change. However, setting targets at the fund level is difficult, and in many cases not possible or expected, as it requires the fund to set a target that will apply to its portfolio, prior to actually making any investments.

For fund managers that have raised previous vehicles, the fund-level target could be based on their track record of delivering against a specific objective in prior funds. For instance, a fund manager with a strategy to invest in energy transition and efficiency is launching its fourth fund. In such cases, it may be possible to extrapolate from portfolio results to date to set reasonable expectations for a future fund's results, giving investors a sense of the magnitude of potential impact.

Setting an ex-ante target against the fund impact objective may be highly desired by certain impact investors, but it may not be feasible in some cases. For a fund that positions itself as an impact fund, it would be important to set fund-level targets as it shows intent and ambition to deliver socioeconomic and/or environmental outcomes—a critical part of impact investing—in addition to financial returns. However, for many funds that do not position themselves as impact funds or face limitations in doing so, the primary focus may remain on defining (1) an impact objective, (2) an impact thesis, and (3) relevant indicators to track progress toward it.

The impact objectives, outcomes, and targets selected by the fund should align with those of the limited partners. Limited partners may define their own targets for their portfolio of funds, companies, and projects. Fund managers and limited partners should communicate with each other to understand and coordinate how the fund can contribute to and align with the limited partners' impact objectives. In these cases, the investor should work with the fund manager to define targets that are achievable. It is possible that multiple investors may want to set different targets for the same outcome, as they will have different internal expectations for what constitutes a sufficient threshold or outcome level. While transparency on impact expectations across investors is encouraged, impact targets required only by specific investors may not need to be widely adopted and promoted by the fund, such as in its Limited Partner Agreement, and could remain as bilaterally agreed points with the specific investor in a Side Letter.

5. Develop the fund's impact process and assign responsibilities to deliver it

After setting the fund-level impact thesis and outcomes, the fund manager needs to establish the processes and responsibilities for embedding impact considerations into its investment decision-making. In other words, the fund manager needs to outline how it will screen potential investees for their alignment with the fund impact strategy, create value to achieve the fund-level objectives and targets, and track progress toward achieving them. This step will help investors understand when impact is considered and how much it influences the fund manager's investment decisions.

Clearly identifying when and how impact will feature in investment decision-making and the fund's life cycle provides an important indicator for limited partners of how influential impact considerations will be in investment decisions and value-creation activities with investees. For instance, this should include when impact considerations are first reviewed, what criteria the fund manager uses to qualify/disqualify investments on an impact basis, and whether specific methodologies will be used to collect, analyze, and report impact data. Table 4 outlines the range of actions that a fund manager should consider in designing these processes.

TABLE 4

Impact, separate from ESG, is a key consideration at each stage of the investment decision life cycle

Decision points	» Identify when impact is assessed, from pipeline shortlisting, through investment decision and portfolio management, to responsible exit.
Decision criteria	» Describe what impact considerations, such as thresholds, would need to be seen to qualify an investment at each stage of the decision cycle.
Engagement	» Outline at what point, pre- and post-investment, the fund manager will engage with portfolio companies on impact and when impact-related key performance indicators or targets are set.
Methodology	» Document the methodology that will be used to ensure impact is assessed consistently for each company.
Responsible persons	» Assign the partner/staff responsible for this function and demonstrate they have sufficient capacity and experience to manage the process.

In addition to establishing a process, it is critical to assign clear roles and responsibilities for managing impact. Without established responsibilities, it is unlikely that impact will feature prominently in decision-making. This step needs to set out who is responsible for conducting impact analysis and overseeing the impact management process and reporting. Best practice would be to assign impact oversight to an investment committee-level partner who is required to represent impact in investment decision discussions. The fund manager should also ensure that responsible persons have appropriate experience and capability to conduct impact analysis; in some cases this could include hiring external consultants to support this function. However, even if consultants are hired for analysis, oversight and representation of impact in decision-making within the fund manager should be clearly established.

The responsibilities and activities for achieving impact are relevant information to include in the fund's Private Placement Memorandum. It is useful to document these steps as part of the investment decision life-cycle process chart and identify the person responsible in the fund organization chart. When investors are conducting due diligence on a fund, a lack of documentation on when impact is included in the investment process indicates that impact is not a key consideration for the fund manager. An investor will gain a negative impression of a fund if it is pitching itself as impact oriented but does not have this documentation in place.

Phase 2: Applying the fund's impact management approach in the investment cycle

After laying the foundations of the fund-level impact management approach, a fund aiming to deliver impact should incorporate impact into its investment process. In the next steps, the guide will explain how the elements developed in the first phase (fund establishment) are implemented throughout the fund's investment and supervision cycle.

6. Build a pipeline and select investees with an impact approach, alongside financial and business considerations

Before investment, to embed impact when building an investee pipeline, fund managers can incorporate impact criteria to select potential investees for due diligence. For this, fund managers can assess each company's or project's fit and contribution to the fund-level impact objectives. Potential investees in the fund's pipeline may be at different stages of growth, have different products, target different markets, use different strategies, and have different operating footprints, among other elements. Fund managers can translate the fund impact thesis, or theory of change, to the pipeline investee's specific circumstances by demonstrating how each company's operations or activities help achieve the targeted fund outcomes. For example, a fund with a fund-level objective of supporting sustainability outcomes should be able to demonstrate how each company in its pipeline and selected in its portfolio will contribute to the selected outcomes by, for instance, implementing decarbonization activities that avoid or reduce GHG emissions.

The companies ultimately selected for investment by the fund should contribute to achieving the fund's impact objectives and specific outcomes, which proves the fund's intention to deliver impact. When fund managers select investees, they should systematically assess the investee's alignment with the fund's impact objective (see section 5). To select companies based on impact criteria, fund managers can use tools to measure the intended outcomes of each investee, including impact scorecards or impact metrics (see Table A.3). This means that each company's contribution to the fund's impact objective is defined pre-investment with the portfolio company and not just in after-the-fact reporting.

A critical aspect of this step is identifying the company-level thesis and outcomes that capture each portfolio company's contribution to the fund's impact objective. A key difference between setting the fund-level and company-level objectives is that, at this point, the process is applied with a specific company in mind. This means that the fund manager should have relatively good information gained through due diligence on the company's financial model, target segments, and strategy. The fund manager can use this information to identify specific company-level impact objectives and communicate how each portfolio company aligns with the fund's impact strategy. At this stage, the fund has already developed its impact thesis for target sectors or thematic areas—with identified outcomes (section 1–3). As such, this step is primarily about selecting the key company-level outcomes that apply, rather than creating new or customized outcomes for each company. Fund managers can also use resources such as the Impact Management Project and IRIS+ to help clarify the company-specific adaptation of the fund outcome and ensure alignment with the company's context, creating a simple key performance indicator for the company to report progress against.

Providing an initial assessment of impact expectations for high-probability companies also helps to reinforce the fund's capacity and intent to achieve impact outcomes. This is essential when the impact objectives relate to characteristics that are defined at the point of investment—for example, a fund-level commitment to invest in certain countries, sectors, or types of companies. Table 5 provides an example of how fund- and company-level impact alignment can be achieved.

TABLE 5

Example of company-level alignment with fund-level impact objectives

Fund-level development challenge	Fund-level impact objective	Company-level impact application
Jobs: Lack of quality jobs	Fund will drive job creation by providing capital and value creation to scale companies operating in labor-intensive sectors. **Fund outcome**: Number of new jobs created across the fund's portfolio during the holding period.	Company operates a labor-intensive retail trade business, requiring significant on-the-ground, customer-facing engagement. The company will use the capital from the fund to expand its footprint regionally, opening 10 new stores, which will require significant on-the-ground hiring (potentially estimated during due diligence from the company operating plan). The company will also provide significant training for its new employees (potentially demonstrated through hours delivered) to equip them with the skills required to maintain the company's quality standards during the expansion, ensuring that the jobs created are quality jobs that equip its workers with transferable skills. **Reporting required**: Number of full-time-equivalent employees, reported annually over holding period, potentially augmented by the number of training hours delivered to these employees.

7. Embed impact into investee engagement and the value-creation plan

Once the fund manager has selected its portfolio companies, it should proactively engage with each investee to improve its capacity to manage impact and help investees deliver impact outcomes through their value-creation plan. A first assessment of the investee's impact capacity can be implemented at the point of investment once the fund manager has conducted due diligence and has a reasonable basis for assessing a company's expected outcomes. At this point, the fund will have assigned a specific impact indicator that aligns with the fund-level impact objective, and may have set a specific target for the company against this indicator—for instance, an expectation of the number of new people hired, or the number of new treatments that can be provided annually.

The fund manager should assess whether the company has the capacity and processes in place to track and report impact outcomes, and should support the investee in strengthening this capacity in order to deliver fund-level impact outcomes. Where gaps exist, actions to build the company's capacity to meet impact objectives can be integrated into the fund's value-creation plan, or a separate impact plan for more established fund managers. Value-creation activities include providing advisory services and capacity building to maximize development impact, as well as identifying impact indicators that will be monitored and reported.

Fund managers play a critical role in enabling impact by working closely with their investees from an early stage to help them identify realistic and relevant impact objectives grounded in the investee's business model, operating context, and capacity. Rather than imposing rigid targets, fund managers can support investees in clarifying the outcomes that are plausible to track (preferably outcomes that are already tracked by the investees), defining simple indicators, and establishing practical baselines, while progressively strengthening systems for data collection and monitoring.

Fund managers pursuing impact can integrate impact into their core business strategy by linking social outcomes directly to commercial performance. By integrating impact into value-creation plans, impact will be delivered as a core element of the fund's operations and engagement with investees, and as a result of stronger and scalable business execution. For instance, a fund manager that aims to improve access to healthcare in rural areas can also drive revenue growth of its investees (healthcare providers) by funding market expansion into rural areas and advising on customer retention.

The capacity to measure and manage impact at both the investee and fund levels can evolve throughout the fund's lifetime, starting with basic, readily available data and progressing to data of greater depth and quality. Acknowledging the characteristics of the investee (such as size and maturity), some investees may not be able to commit to formal targets at the fund's investment stage. As part of its value-creation support and engagement with investees, the fund manager may focus on providing guidance, learning, and continuous improvement, ensuring investees are supported to report what they can and when they can, and to increasingly link operational performance to meaningful impact results in a pragmatic and proportionate way. Table 6 provides a checklist of key areas to review as part of a fund's impact engagement.

TABLE 6

Checklist of company-level impact engagement

Assign outcomes	» Align the activities of the company with the fund's impact objectives and assign the specific impact outcomes that the company will contribute to.
Assign targets or key performance indicators	» Assess company operations, form expectations on outcomes, and potentially set company-level targets.
Review capacity	» Review the company's capacity to implement and report against impact objectives, identify any gaps, and include improvements that enhance impact in the company value-creation plan.
Establish reporting	» Agree on reviewing and reporting requirements for the company on impact, aligned with the fund's reporting requirements.

8. Monitor and report on impact

Monitoring and reporting are critical elements of impact management as they allow investees, fund managers, and limited partners to understand the impact results delivered by the fund (or investment vehicle) and how these were achieved. Impact reporting increases data and management transparency among investees and fund managers, strengthens fund managers' credibility and positioning in the industry, and builds trust among investees, fund managers, current and prospective fund limited partners, and other stakeholders in the industry. Therefore, setting up a rigorous impact reporting system that follows industry standards is critical to measuring and reporting on the impact outcomes achieved by the fund, including data collection, management, reporting, and governance.

The fund's impact reporting should follow a common set of best practices throughout the investment cycle. Table 7 summarizes best practices for impact reporting for fund managers to improve data reporting quality, transparency, and credibility. As a basic best practice, during the establishment of the fund, fund managers should clearly articulate and document the fund's impact objectives and value-creation logic, aligning expectations among the fund manager and the fund's investees and limited partners. During capital deployment and investment supervision, fund managers should regularly report on key performance indicators to investors.

TABLE 7

Best-practice reporting for fund managers

Articulate objectives	Use standardized indicators	Present relative performance	Integrate stakeholders	Demonstrate transparency
• Articulate the fund's impact strategy/ objective. • Set expectations of what should be achieved and by when. • Include narrative on how the fund actively contributes to achieving these outcomes through its value-creation strategy.	• Use standardized indicators, such as from HIPSO and IRIS+. • Prioritize indicators that cover multiple investments over long lists of one-off indicators. • Keep indicators consistent over time and across investments where possible.	• Define the baseline that any results are compared to. • Show change since investment. • Show performance over time. • Show performance relative to external benchmarks.	• Identify impacted stakeholders and how they are affected. • Include information about direct stakeholder experiences, such as interviews or case studies, that support the impact data.	• Report against the full portfolio in each reporting period. • Be forthcoming on any risks or areas of shortfall to achieving the intended impact. • Discuss any lessons learned in implementing the fund's impact strategy.

Effective reporting uses standardized indicators and compares the investee and fund-level results reported against the impact objective or targets initially defined during the fund's establishment. This is a vital step, as it demonstrates the fund manager's intentionality and commitment to impact. As explained in Phase 1 of this guide, to ensure high-quality, transparent data reporting, fund managers should use standardized indicators and contextualize them against the baseline (when the fund invested in the investee) and the endline (when the fund exited the investee). For instance, in the case of a fund that aims to create jobs and has monitored the number of jobs created by its investees, it is important to both report the outcomes achieved by each investee and contextualize the numbers by comparing the baseline and endline figures to capture the fund's development impact. For example, if the company has created 100 new jobs since investment, noting that there were zero or 1 million baseline jobs at the time of investment is critical context for this impact statement.

Impact reporting systems, including data collection, measurement methodology, and reporting at the fund and investee level, should be aligned with the limited partners. Fund managers can align fund-level reporting templates with investor needs by closely coordinating with limited partners on their expectations and objectives from fundraising, through the fund's lifetime, to ensure that these reports provide the information limited partners need to meet their own objectives. Effective communication and alignment on reporting, from the establishment to the execution of the fund, also helps avoid the fund having to conduct supplementary reporting for each investor.

Where possible, reporting should be consistent and standardized across the portfolio and across years and should cover all portfolio companies, including final values for any exited companies. Individual company-level results can then be aggregated to provide a summary of the fund's achievement against its impact objective. This helps limited partners to form an overarching view of the fund's impact performance and, therefore, the impact performance of their investment. The ability to aggregate results also links back to the initial selection of objectives and indicators. It is recommended to focus on a narrower set of indicators that multiple companies report against, rather than a wide set of indicators that have a limited number of observations.

Impact reporting should be conducted at least annually on a predetermined schedule and cover the fund's full portfolio. For example, providing data for all portfolio companies as at December 31 each year (and final values for any exited companies). Investors do not look favorably on gaps in reporting. At best, gaps signal potential issues with reporting processes; at worst, they suggest an effort to hide poor impact performance. In the absence of information, an investor is likely to assume the worst anyway, so it is better to report results and include specific context of why it occurred, rather than not report.

Table 8 identifies common problems with impact reporting for funds. These include result bias, insufficient transparency, limited comparability of indicators, fund misalignment with limited partners and investees, measurement constraints of data at baseline and endline, and results that have not been sufficiently interpreted or contextualized.

TABLE 8

Common problems with impact reporting for funds

Selective results	» Excluding impact information on all investees and highlighting winners only biases results.
Ignores risks and underperformance	» Omitting negative results and risks to achieving expected results compromises transparency.
Custom indicator	» Using own indicators rather than indicators from standardized sets, such as HIPSO or IRIS+, reduces comparability and alignment with limited partners.
Missing baseline/targets	» Excluding the baseline or target makes it difficult to understand whether the fund is achieving its objectives, obscuring impact intent.
Only shows high-level results	» Presenting high-level "big" numbers with insufficient information on how they were achieved, such as individual company-level breakdowns, makes it difficult to interpret results.

9. Apply lessons learned and responsible exits

The final stage in an end-to-end Impact Action Plan is to demonstrate a feedback loop to review impact outcomes delivered and incorporate lessons learned from the fund into portfolio management and future investment decisions. Impact learning has multiple benefits for fund managers, limited partners, and investees. By reviewing the successes and challenges in managing and delivering impact throughout the fund's lifetime, fund managers can improve their impact and reporting systems in follow-on funds. Moreover, by incorporating lessons learned about impact, fund managers can demonstrate to prospective limited partners of future vehicles that they have a clear intention and ambition, and know how to deliver on impact. Particularly, impact-oriented investors seek to understand whether the fund has built-in impact learning processes that enable them to continually integrate learning from past funds into follow-on funds.

What is responsible exit?

A responsible exit approach integrates environmental, social, and development impact considerations into exit decisions, ensuring that outcomes achieved during the investment are sustained and that risks are responsibly managed after exit. It is guided by five core principles:

1. Assess development impact before exit.
2. Manage and mitigate environmental and social risks.
3. Use leverage pre-exit to ensure implementation of an environmental and social action and other action plans and mitigate significant risks.
4. Account for institutional constraints and risks.
5. Consider mobilization impacts.

SOURCE: IFC 2024.

Impact learning should occur throughout the investment cycle and at the end of the fund's life, as it allows the fund to review its impact position, engage with its impact-oriented limited partners on progress, and provide a final consolidated view of the fund's impact results to its investors. Reviews should provide an accounting of the fund's results against its impact objectives, as well as the actions the fund took to support their achievement. Reviews should also include lessons learned that could be integrated into the strategy of follow-on funds. This could include expanding areas of successful impact and adjusting the strategy in areas where the fund underperformed on impact.

Impact does not finish at the end of the fund's engagement with the company; it should be sustained. While the exit concludes the fund's financial involvement with a company, impact considerations may continue after exit. For both the fund manager and limited partners, their reputation may be influenced by ongoing outcomes for the fund's investees, even when they are no longer involved. There are clear limitations to the ongoing ability to influence the company after exit; however, an important consideration, particularly for development finance institution investors, is ensuring a responsible exit. A responsible exit puts the investee in a good position to continue building on any impact achieved during the fund hold period. For example, in the case of a limited partner that invests in a sustainability-focused fund on the basis that the fund will preserve land for carbon sequestration as part of its business model, if the land is bulldozed for other purposes once the fund exits, it nullifies the impact and entire purpose of the impact investment.

The fund manager's ability to demonstrate that it can modify its impact strategy to enhance impact outcomes based on lessons learned is particularly important in EM funds. EM funds are also generally repeat relationships between a fund and its potential investors. Even for first-time managers or fund managers who have not previously focused on impact, it is beneficial to proactively reflect on how the fund will incorporate impact outcomes and what insights could be gained from outcomes of past investments to inform the new fund's impact management operations. For impact investors, a fund's ability to sustain and enhance its impact delivery can be as critical as its financial performance.

Appendix *and* references

Appendix: Supporting resources

There is growing interest in and demand for products that address impact. Over the last 20 years, management practices have evolved to focus on objectives beyond financial returns alone. Resources for impact investing can be categorized into three groups: principles and standards, disclosure frameworks, and metrics.

FIGURE A.1

Key elements of the impact standards landscape

Principles/standards	A broad framework and/or set of criteria for structuring an impact management system, which includes measurement and reporting of impact.
Disclosure framework	Mandatory or voluntary guidelines for the disclosure of data, aimed at promoting transparency and accountability in the market.
Metrics standard/ guideline	Guidelines aimed at harmonizing measurement of impact and ESG reporting; includes a list of indicators to use for measurement of impact.

Principles and standards

These resources focus on high-level definitional aspects, outlining the concept of impact and the principles of impact investing. They include general frameworks and sets of criteria for structuring an impact management system, which includes measuring and reporting on impact.

TABLE A.1

Impact investing principles and standards

Resource	Description	Link
Operating Principles for Impact Management (Impact Principles)	The Operating Principles for Impact Management provide a reference point against which the impact management systems of funds and institutions may be assessed. They draw on emerging best practices from a range of asset managers, asset owners, asset allocators, and development finance institutions.	» OPIM
SDG Impact Standards	The SDG Impact Standards are decision-making standards, not performance or reporting standards. They are designed to help organizations integrate operating responsibly and sustainably, and contributing positively to the SDGs, into organizational systems, investment frameworks, and decision-making practices, using a common language and shared approach to do so.	» SDG Impact Standards
United Nations Principles for Responsible Investment (PRI)	The six Principles for Responsible Investment offer a menu of possible actions for incorporating ESG issues into investment practice.	» UNPRI
2X Challenge	Sets out a suite of indicators, mapped to the 2X Challenge criteria, that can be used by investors to establish and monitor the gender impact of their investment.	» 2X Challenge

Disclosure frameworks

Mandatory or voluntary guidelines for the disclosure of data, aimed at promoting transparency and accountability in the market.

TABLE A.2

Impact investing frameworks

Resource	Description	Link
GIIN Impact Measurement and Management	Impact Measurement and Management includes identifying and considering the positive and negative effects one's business actions have on people and the planet, and then determining ways to mitigate the negative and maximize the positive in alignment with one's goals.	» Impact Measurement and Management
Joint Impact Model	Using input data such as revenue and power production from investment portfolios, the Joint Impact Model enables users to estimate financial flows through the economy and their resulting economic (value added), social (employment), and environmental (GHG emissions) impact. These impacts can be used to measure and report on the contribution of individual institutions to the Paris Agreement and the SDGs. The Joint Impact Model is characterized by its harmonized and transparent methodology and assumptions, public availability, collaborative nature, up-to-date macroeconomic statistics, security features, and user-operated style.	» Joint Impact Model
Impact Management Project	The Impact Management Project provides a forum for organizations to build consensus on how to measure, assess, and report impacts on environmental and social issues.	» Impact Management Project » The Imperative for Impact Management (2023)

Metrics standards and guidelines

These guidelines aim to harmonize the measurement of impact and ESG reporting, and provide a list of indicators to measure impact. Specialized groups have synthesized knowledge to produce sector-specific or thematic metrics of impact that can be used to report against outcomes, such as HIPSO or IRIS+. Consulting companies have also developed approaches for working with companies to assign these types of metrics.

TABLE A.3

Impact investing metrics

Resource	Description	Link
Harmonized Indicators for Private Sector Operations (HIPSO)	These standard metrics with their definitions and units of measurement are widely used by development finance institutions and their partners. The HIPSO indicators are aligned with the SDGs.	» HIPSO
IRIS+	IRIS+ makes it easier for investors to translate their impact intentions into real impact results. It is the generally accepted system for impact investors to measure, manage, and optimize their impact. IRIS+ increases data clarity and comparability, and provides streamlined, practical guidance for impact investors in an easy-to-navigate system.	» IRIS+

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