INVESTING FOR IMPACT:
Operating Principles for Impact Management

Feedback Summary

Comments from stakeholders during the consultation process and IFC's responses

There is lack of clarity about what constitutes a 'good' impact investment, and how much impact is 'sufficient'.

- The Principles provide the framework for setting impact objectives. Principle 1 describes how to set impact objectives and align them with the SDGs or other widely accepted goals, and that the scale and/or intensity of the intended impact corresponds to the size of the portfolio. A threshold for 'good' or 'sufficient' would therefore be relative to the defined impact objective and size of the Manager's portfolio. As well, Principle 3 requires that the Manager shall seek to establish and document a credible narrative on its contribution to achieving positive and measurable social or environmental impact for each investment.

Does the investee also have to be a signatory to the Principles?

- The Principles are intended for investors in impact investments. Thus, the Manager must have systems and processes that align with the Principles. Principle 1 states that the intention for impact does not need to be shared by the investee, and so the investee is not required to be a signatory.

Do not align incentives to impact performance as this can lead to "gaming" of impact metrics and may not lead to the desired behavior and results. Strengthen the requirement to align incentives to impact performance.; Requiring aligning incentives to impact performance is redundant.

- The Principles ask the Manager to consider aligning incentives to impact performance, while acknowledging that this might not possible, practical, or reasonable for some investors.

Reporting on a portfolio level is redundant. Impact management on a portfolio level is important and needs to be strongly emphasized. Basing investment on average impact will justify investments with no impact, or a negative impact.

- The Principles do not require reporting on specific impact outcomes, even on a portfolio level; nor do they prescribe that an average impact must be achieved. Instead, the Principles require an end-to-end process, which ensures that all applicable investments are managed using systems and processes that align with the Principles. The scale or intensity of the impact will vary across investments, and the actual impact may meet, exceed, or fall short of expectations.

Signatories should comply at an organizational level.

- Signatories should have to explicitly report which business lines or assets follow the Principles, including the total assets under management in alignment with the Principles.

The Principles need more clarity about what constitutes a narrative and how material a contribution needs to be. How does this apply to the listed market? Does the contribution need to be established on a portfolio level or for individual assessments?

- For each of the investments, the Principles require a credible narrative about the Manager's contribution to the achievement of impact. As much as possible, these narratives should be supported by evidence. Contributions may include one, or a combination of: improving the cost of capital, active shareholder engagement, and/or specific financial structuring; offering innovative financing instruments; assisting with further resource mobilization; creating long-term, trusted partnerships; providing technical/market advice or capacity building to the investee; and/or helping the investee to meet higher operational standards.

The Principles should stipulate quantitative and qualitative measures and assessments. Quantitative measurements should be based on relative levels instead of absolutes. What are the standard indicators?

- The Principles do not prescribe specific measurement tools or approaches. Instead, to accommodate a wide range of investors who are managing different products of different sizes, the Principles refer to widely accepted industry tools and industry indicator standards, including: HIPSO (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), among others. Indicators shall, to the extent possible, be aligned with industry standards.

Monitoring is cost-intensive. Setting key performance indicators specific to each investment and monitoring them during the life cycle of the investment would be ideal. How is monitoring different from improving processes and decisions based on achievement of impact?

- Monitoring and learning are essential parts of managing investments for impact. Monitoring is the prerequisite for the continuous improvement of processes to ensure achievement of impact and, when needed, possible course correction. Data needs and limits will depend on the particular asset class and investees' own information-gathering capacity. Hence, the data collected should be appropriate and suitable for assessing each investment's progress toward achieving impact.

When assessing the expected impact of each investment, based on a systematic approach, negative effects should also be considered. Rigorous evaluations of negative effects should be conducted as well. The draft does not effectively communicate the value of 'intentional' ESG integration into the business model or into a particular investment decision-making process.

- Principle 4 seeks to help identify what should be considered positive impacts by using suitable results measurement frameworks, including the likelihood that positive impacts could occur, as well as the risk factors that might compromise them. Principle 5 explicitly considers how to manage potential negative impacts. We are also clarifying that the Manager shall use a systematic and documented process to both identify and manage ESG risks for each investment. In addition, to showcase good international industry practice, we footnote the IFC Performance Standards and the IFC Corporate Governance Methodology.

Expand on the ESG risk management requirements. Simplify ESG risk management for small funds. Assessment of ESG risks should take place during due diligence.

- We have extended Principle 5 to explicitly include identifying and managing ESG risks, including avoiding and mitigating them. To avoid confusion, we have also removed the reference to other non-financial risks.

Do impact considerations at exit consider fiduciary duty? Principle 7 seems to be specifically linked to equity investments.

- We acknowledge that in some cases, there might be conflicts of the impact considerations with fiduciary duty. Hence, the Principles specify that the Manager shall consider the effect of an exit in good faith and consistent with its fiduciary concerns at the time of exit. An exit as described in the Principles does not exclusively apply to equity but may i.e. include debtor bond sales. For self-liquidating debt investments, including loans or bonds, the investment generally concludes at maturity rather than requiring an active exit decision.

Self-evaluation is not credible as part of independent verification as it is too vague a concept. How do the Principles ensure that verifiers truly have an independent view? Could IFC certify a list of suitable verifiers? Is it necessary to contract outside consultants?

- Independent verification may be conducted in different ways, i.e., as part of a financial or non-financial audit, by an independent evaluation committee, or through a portfolio/fund performance evaluation function. The verification can be conducted by an in-house audit or evaluation office as long as controls are in place to ensure that governance of the audit or evaluation function is independent. It is not necessary to contract outside consultants for this purpose. If applicable, the annual disclosure statement must include the name and registered address of the independent verifier and a paragraph summarizing the process undertaken.

Small funds might not have the budget for independent reviews. Innovative solutions must be identified.

As noted above, based on what is appropriate for the size of the portfolio and the Manager's capacity, the independent review can be accomplished in a variety of ways and with different frequencies. Clarify which information needs to be reported under the Principles, as opposed to the information that might only be reported to investors. What does 'extent of alignment' mean in the context of public disclosure? Does this mean that shortcomings in complying with the Principles need to be disclosed? Align the disclosure reporting cycle with the Manager's own annual reporting requirements.

- The Principles' forthcoming reporting and governance documents will outline all reporting requirements in detail, including the time frame, registration fee, and consequences for non-compliance. We have removed the word 'extent', as the Manager shall disclose the alignment of its impact management systems, while outlining gaps and shortcoming, as well as its efforts to become fully aligned. The disclosure of individual investments and their impact or financial performance is not required.

The Principles neglect the protection of indigenous people and human rights. Why do the Principles not explicitly mention the UN Global Compact, the UN Guiding Principles on Business and Human Rights, or the OECD Guidelines for Multinational Enterprises?

- The footnote providing examples of good international industry practice (GIIP) has been expanded to address this concern. Comprehensive frameworks for GIIP such as the IFC Performance Standards explicitly recognize the private sector's responsibility to respect human rights, including indigenous peoples' rights.