Growing Impact

New Insights into the Practice of Impact Investing

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What is impact investing?

Definition: Those “investments made into companies or organizations with the intent to contribute to measurable positive social and environmental impact, alongside a financial return.”
Overview: Size of the market

Intent and Measurement Funds $205bn  
Other Intent Funds $210bn  
Total Private Funds $415bn

HIPSO DFIs $300bn  
Other DFIs $1,357bn  
Total DFIs $1,657bn

Total Impact and Measurement $505bn  
Total Other Intent $1,567bn  
Total All Impact $2,072bn

Source: Preqin, Global Impact Platform, EMPEA, Syminvest, GRESB, IRIS, B-Analytics, HIPSO, MDB Mobilization reports, Disclosure Statements to Operating Principles for Impact Management and DFI annual reports, Environmental Finance, Global Sustainable Investment Alliance.
PRIVATE MARKET: Funds

• Vehicles that investors can use to indirectly invest for impact

• Intent and contribution are clear; varying degrees of measurement observable
  • Intent and Measurement funds ("Impact Funds"): $205 billion in committed capital
  • Other Intent Funds: $210 billion in committed capital
  • Total: $415 billion

• A fraction of capital committed to conventional funds

• Anecdotal evidence of more ambitious fundraising
PRIVATE MARKET: DFIs

- DFIs have mandated intent to positive impact, and can demonstrate contribution to impact
- Signatories to the Harmonized Indicators for Private Sector Operations: working together toward an improved framework for impact measurement- $300 billion
- Other DFIs: $1,357 billion
- Total: $1,657 billion
PUBLIC MARKETS: Green, social and sustainability bonds

- Use-of-proceeds bonds
- Straightforward instrument to integrate environmental, social, and governance outcomes into fixed income portfolios.
- Often offer similar yields, ratings, and return profiles to other fixed income investments.
- Green bonds have opened the market for other types of bonds with a sustainability focus—social, sustainability, transition, blue, and climate bonds- and driven a growth in Green Finance.
- Although most have formal (but voluntary) guidelines that recommend transparency, disclosure and reporting to promote integrity, surveys show a lack of reporting and measurement of impact.
PUBLIC MARKETS: Green, social and sustainability bonds

• Rapid rise in issuances: $747 billion in outstanding bonds by the end of 2019

Source: Environmental Finance.
PUBLIC MARKETS: Shareholder activism and corporate engagement

- Buying stock in a company allows investors to influence and nudge corporate behavior through both direct and indirect corporate engagement:
  - communicating with senior management or boards of companies,
  - filing shareholder resolutions, or
  - voting, including proxy voting guided by comprehensive ESG guidelines
- Enormous size: Almost $10 trillion managed under these strategies by early 2018
- Extent to which these assets are bought with intent, and have impact measurement is unclear
Survey among Signatories

- Anonymous survey, 50 respondents.
- Strong focus on EM: Over 70 percent only invest in emerging markets, particularly Saharan Africa, Latin America and the Caribbean, and/or South Asia.
- Many have been active for 10+ years
- Primarily private market investments
- Half of respondents report investing along 5 or more themes; most prevalent are financial inclusion, and green or sustainable tech

Percentage of Firms Reporting an Impact Theme

- Financial Inclusion: 75.0%
- Green or Sustainable Tech: 70.0%
- Agriculture/Agri-Processing: 57.5%
- Jobs and Employment Generation: 52.5%
- Health: 42.5%
- Infrastructure: 40.0%
- Water and/or Waste Management: 40.0%
- Education: 35.0%
- Housing: 32.5%
- Gender-Lens Investing: 32.5%
- Other: 27.5%
- No Theme: 20.0%

Source: IFC.
Case Studies—Experiences of Signatories to the Operating Principles for Impact Management

32 case studies about experiences with implementing the Principles; wide range of Signatories contributed

- Principle 1: OBJECTIVE.
  - AXA
  - Christian Super
  - IFC Asset Management Company
  - Proparco
  - Saron
  - Leapfrog

- Principle 2: PORTFOLIO APPROACH.
  - responsAbility
  - Triple Jump

- Principles 3: CONTRIBUTION.
  - actis
  - Credit Suisse
  - DPI
  - Partners Group
  - Stoia

- Principle 4: EXPECTED IMPACT.
  - Calvert
  - Impact Capital
  - European Investment Bank
  - PHATISA
  - IDB
  - Invest
  - FinDev Canada
Case Studies—Experiences of Signatories to the Operating Principles for Impact Management

- Principle 5: RISKS OF NEGATIVE IMPACT.

![BlueOrchard](image1) Cordiant ![INOS](image2) Swedfund

- Principle 6: MONITORING.

![BLUE LIKE AN ORANGE](image3) financeinmotion ![symbiotics](image4) ZURICH

- Principle 7: EXIT.

![DENHAM CAPITAL](image5)

- Principles 8: REVIEW.

![IFC](image6)

- Principle 9: VERIFICATION.

![KKR nuveen](image7)
**Spotlight on Principle 4:**

**Principle 4: Assess the expected impact of each investment, based on a systematic approach**

- Phatisa is a PE firm rooted in feeding and housing Sub-Saharan Africa
- Phatisa’s has developed an Impact Measurement and Management (IMM) system which:
  - Defines steps and processes needed to ensure funds achieve strategic objectives
  - Uses an internal scoring process that assesses the potential of investments to achieve developmental outcomes against core SDGs (1, 2, 5, 8, 11, and 13)
- Minimum score needed for moving investment to due diligence stage
- Identifies initiatives to drive impact within portfolio company and creates a plan to achieve the proposed impacts
- During the investment period, data is collected and used to track performance, identify areas for improvement, and flag any unintended negative consequences
Spotlight on Principle 8:

**Principle 8: Review, document, and improve decisions and processes based on the achievement of impact and lessons learned**

- IFC has developed feedback mechanisms that support learning in real time, fill knowledge gaps and build an evidentiary base for assessing IFC strategy.

- Mandatory self-evaluations on a representative sample of investment operations.

- Evaluation ratings validated by WBG’s Independent Evaluation Group, published in IFC’s Annual Report and process of reporting is vetted by auditor.

- IEG and self-evaluation ratings are part of IFC’s Corporate Scorecard and cascaded to key performance indicators (KPIs).
  - KPIs track the differences between the self-ratings and IEG ratings, and
  - KPIs influence decisions on managerial and departmental performance and inform incentive mechanisms.
More information:

www.ifc.org/growingimpact

www.ifc.org/creatingimpact

www.impactprinciples.org
Appendix
## Operating Principles for Impact Management

<table>
<thead>
<tr>
<th>Strategic Intent</th>
<th>Origination &amp; Structuring</th>
<th>Portfolio Management</th>
<th>Impact At Exit</th>
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</thead>
<tbody>
<tr>
<td>1. Define strategic impact objective(s) consistent with the investment strategy.</td>
<td>3. Establish the Manager’s contribution to the achievement of impact.</td>
<td>6. Monitor the progress of each investment in achieving impact against expectations and respond appropriately.</td>
<td>7. Conduct exits considering the effect on sustained impact.</td>
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<tr>
<td>2. Manage strategic impact on a portfolio basis.</td>
<td>4. Assess the expected impact of each investment, based on a systematic approach.</td>
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<td>8. Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.</td>
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<td></td>
<td>5. Assess, address, monitor, and manage the potential negative impacts of each investment.</td>
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### Independent Verification

9. Publicly disclose alignment with the Principles and provide regular independent verification of the extent of alignment.