When impact has an equal bearing

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Governments have been tackling social and environmental issues for generations. Philanthropists have been bettering the world with their gifts for a century or more. Impact investing is, to many, a new kid on the block, but one which is undeniably gaining traction and sophistication with every passing year, bolstered by the experiences of these purpose-driven forbearers.

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Impact investing is based on the belief that one can profit while also addressing pressing social and environmental issues. But, in order to do so effectively and responsibly, there must be a common understanding of how capital is creating tangible, positive change in the lives of people and in the environment in which we live. This is where measuring and managing towards impact comes in.

The Global Impact Investing Network (GIIN) was formed in 2009, and today our members include more than 220 investors, fund managers, wealth advisers and other industry actors in 33 countries. Impact measurement has been at the heart of our work from the beginning, stemming from a fundamental question: what would it take to enable investors to consider impact – the social and environmental performance of their investments – alongside financial performance? Or more ambitiously, what would need to happen for investors to give impact performance an equal bearing to financial performance in investment decisions?

Collectively accelerating progress

For donor agencies, non-profits, development finance institutions and other development-orientated organisations, the fundamental concepts and principles of impact measurement have been established for decades[1]. Most investors have comparatively had far less exposure to impact measurement lingo, concepts, practices or resourcing considerations. But investors are an extremely data-driven crowd, so to enable the impact-investing industry to continue to grow and mature, I believe this community will need to work together to strengthen industry resources in three areas: a common language to understand impact data alongside financial information; increased guidance on meaningful impact measurement and management practices; and an evidence base for impact investing as a strategy to address social and environmental issues.

1. Use a common language

In order for more capital to flow to impactful businesses, investors need credible, standardised impact information based on a common metrics language. Impact Reporting and Investment Standards (IRIS) is the catalogue of generally accepted performance metrics that leading impact investors use to measure the social, environmental and financial results of their investments. Managed by the GIIN, it addresses the market need for a common metrics language and provides investors with a comparable means of analysing data on performance.

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With the recent launch of its fourth upgrade, the development of IRIS is part of an ongoing process to establish metrics that are important for impact investment decision making. IRIS is built in collaboration with, and to complement, the leading methodologies, rating systems and reporting frameworks designed for investors. It provides investors with clear instructions and examples that enable consistency in data collection, management and

reporting across the industry. According to the GIIN's annual survey of impact investors, most report using IRIS-aligned metrics. But 'most' doesn't mean the work is done. Standards setters and impact investors need to continue to work together to streamline the utility of the language across the industry. Wealth advisers can play a particularly useful role in this industry-building work by adopting strong impact measurement practices and metrics, educating the brokers with whom they work about impact, and sharing insights from their work with mission-driven investors. This is one way of helping investors match their investment motivations with the metrics that matter most for investment analysis and decision making.

2. Contribute to a community of leading practice

The GIIN believes that impact investing's potential will only be achieved through collaboration and partnerships among the many stakeholders involved. The industry requires a strong community of practice to help investors collectively learn and raise the bar together. Although there is a great deal of testing and experimenting with impact measurement practice in the industry today, investors can feel on their own as they try to figure out the practical implications, such as what depth of measurement rigour is appropriate, and which metrics and type and amount of impact information is sufficient to inform decisions. Because of their role in the investment process, advisers often find themselves sitting at the frontlines of these deliberations. Increasingly, we at the GIIN are being approached by wealth advisers who are motivated to find more reliable ways to assess impact deals on social and environmental parameters to help bolster their client's decision-making process. Although nascent in its deployment as a common practice, I see this as a promising development towards greater consideration of social and environmental information in portfolio allocation discussions. But, the lessons learned from these exchanges will do little to move the industry forwards if they remain behind boardroom doors. We need to continue to connect and exchange views about important developments in impact measurement and management. This will enable us to figure out what works, develop best practices and overcome any challenges to realising the full value of the industry's work so we can help streamline the flow of capital towards impact.

3. Build an evidence base

Impact measurement and management should provide intrinsic value for the investor, their investees and the beneficiaries of an investment, beyond the financial bottom line. However, lack of robust evidence that impact measurement and management can also deliver fundamental business value limits the practice and reinforces the perception that it is a costly add-on, rather than an integral and value-adding component of the investment process. The desire to create impact does not always drive sufficient commitment to impact measurement. Combining desire with a strong business case and evidence base of performance will be more effective at getting investors to attach appropriate financial and human resources to impact measurement and seriously consider impact information for decisions. Some are naturally hesitant about openly sharing performance data. But the only way to progress in truly understanding how interventions deliver impact is for each impact investment stakeholder to share data on actual performance, supporting research, what assumptions were used and the qualitative reflections of our experiences.

The way forwards

An increasing number of investors are experimenting with innovative and inspiring ways to understand how their capital is generating positive change, but the industry still has a way to go to agree upon a coherent – and realistic – perspective on what constitutes effective impact measurement practice. What level of proof or depth of measurement should be expected of all impact investors? Is there a need to differentiate expectations for investors depending on their impact objectives and the type of capital they are deploying?

Each of us has a role to play in helping answer these questions and moving the industry forward. As an industry-building organisation, the GIIN is working closely with a variety of partners to help advance the industry discourse and sophistication on the three opportunities noted above, as well as a number of other industry topics. We work in collaboration with wealth advisers, leading practitioners, standards setters and sector experts to ensure impact investors have the information they need to understand whether their strategies are delivering intended impact. For those who, like us, believe in the immense potential of impact investing and the critical significance of good impact measurement, I encourage you to reach out and collaborate with us to accelerate progress collectively towards a common understanding for how capital can create tangible, positive change in our communities and for the environment.

Kelly McCarthy *is a Senior Manager in IRIS and Impact Measurement at the The Global Impact Investing Network focusing on Impact Reporting and Investment Standards (IRIS) and impact measurement. She manages strategic partnerships and adoption among investors and other standards-setting bodies, and supports the GIIN's work to bring practical impact measurement guidance and infrastructure to the impact investment industry. Kelly is also a member of the Emerging Markets Standards Advisory Council of the Global Impact Investing Rating System (GIIRS) and served as secretariat to the co-chairs of the Impact Measurement Working Group of the Social Impact Investment Taskforce, established by the G8, which produced the industry reports Measuring Impact and the Guidelines for Good Impact Practice.*

The GIIN is a non-profit organisation dedicated to increasing the scale and effectiveness of impact investing. Impact investments are investments made into companies, organisations and funds with the intention to generate social and environmental impact alongside a financial return. They can be made in both emerging and developed markets, and target a range of returns from below-market-to-market rate, depending on investors' specific objectives. The GIIN builds critical infrastructure like IRIS and ImpactBase, and supports activities, education and research that help accelerate the development of a coherent impact-investing industry.

[1] Vogel, Isabel. Review of the Use of 'Theory of Change' in International Development. Report. April 2012. http://r4d.dfid.gov.uk/pdf/outputs/mis_spc/DFID_ToC_Review_VogelV7.pdf.