THE STATE OF IMPACT MEASUREMENT AND MANAGEMENT PRACTICE

FIRST EDITION

GIIN
GLOBAL IMPACT INVESTING NETWORK

Executive Summary

This report presents findings from the Global Impact Investing Network's first comprehensive survey of the state of impact measurement and management (IMM) in the impact investing industry. A hallmark of impact investing is the commitment to measure – and increasingly to manage – impact. Impact management is the process by which impact investors can understand the effects of their investments on people and the planet, and set goals to adapt processes and improve outcomes. Over the years, the impact investing industry has dedicated increasing resources to IMM, deepening the sophistication of practice as the industry has developed. This report provides critical data and transparency regarding IMM practice, enabling investors to better understand this core element of impact investing. The nuanced insights presented here shed light on various approaches, expose challenges, and identify areas for improvement, encouraging investors to deepen their impact practice and improve their ability to generate positive social and environmental change. In addition to the survey findings, the report highlights notable developments in the field of IMM in three Market Spotlight sections based on secondary research.

KEY FINDINGS

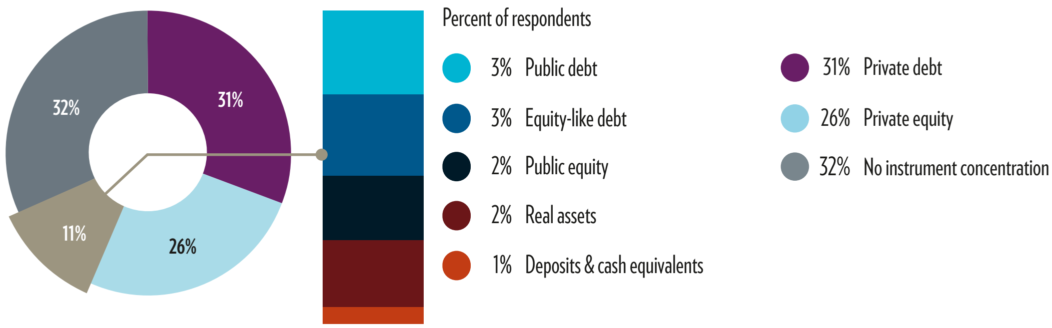
1. Impact investors seek to create many different types of impact
2. Impact investors actively seek to understand and manage their impact
3. Impact investors embed IMM into the core of their activities
4. The industry has made significant progress, yet challenges in IMM persist

OVERVIEW OF RESPONDENTS

The 169 respondents to this survey represent a wide range of organizational types and investment strategies.

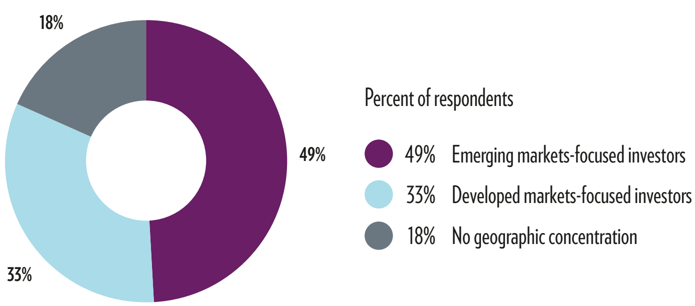
- Nearly two-thirds of respondents are fund managers. The other third comprises banks, foundations, development finance institutions, and family offices, among others.
- Nearly one in three respondents invests primarily via private debt, and about one quarter invests primarily via private equity (Figure I).
- About half of respondents focus on emerging markets; one third focus on developed markets (Figure II).

FIGURE I: RESPONDENTS WITH PORTFOLIO CONCENTRATIONS BY INSTRUMENT
n = 169



Note : The threshold for a portfolio concentration is 75% of AUM. *Source: GIIN*

FIGURE II: RESPONDENTS WITH PORTFOLIO CONCENTRATIONS IN EMERGING OR DEVELOPED MARKETS
n = 169



Note : The threshold for a portfolio concentration is 75% of AUM. *Source: GIIN*

1 Impact investors seek to create many different types of impact

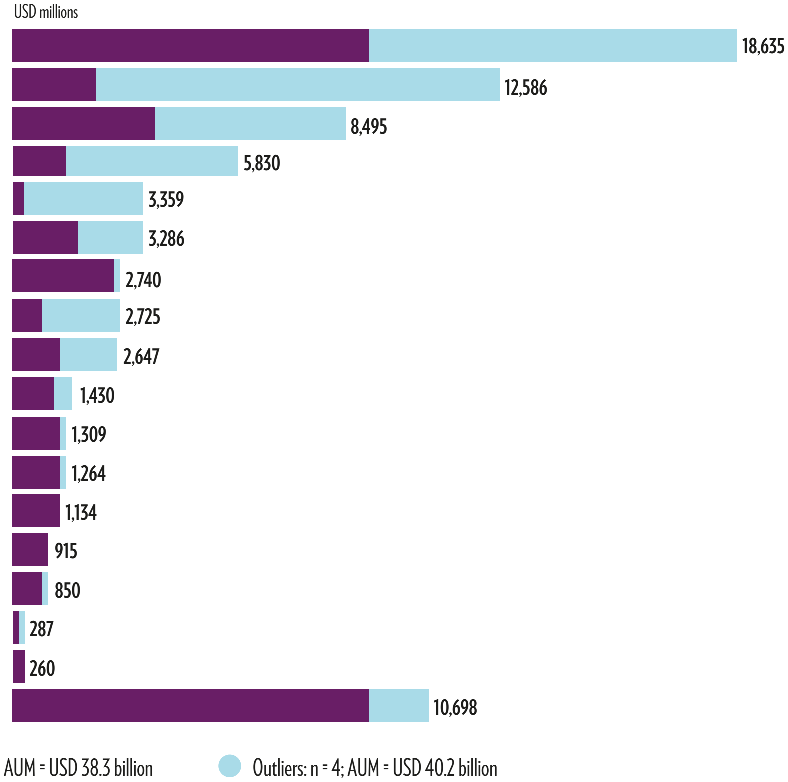
IMPACT THEMES

Respondents indicated which impact themes they target, as aligned with the U.N. Sustainable Development Goals (SDGs).[1] Most investors target more than one impact theme and the average investor targets four. Perhaps unsurprisingly, the highest proportion of sample AUM is allocated to 'decent work and economic growth' (24%). Sixteen percent of AUM is allocated to 'climate action', followed by 'sustainable cities and communities' (11%) (Figure III).

FIGURE III: ASSET ALLOCATIONS BY IMPACT THEME

n = 124 (optional question); respondents could select multiple options.

Impact themes	% of total AUM	% of AUM excl. outliers	n	USD millions
Decent work and economic growth	24%	24%	74	18,635
Climate action	16%	5%	27	12,586
Sustainable cities and communities	11%	10%	38	8,495
Good health and well-being	7%	3%	54	5,830
Zero hunger	4%	0%	16	3,359
Affordable and clean energy	4%	4%	48	3,286
No poverty	3%	7%	39	2,740
Clean water and sanitation	3%	2%	28	2,725
Responsible consumption and production	3%	3%	32	2,647
Industry, innovation, and infrastructure	2%	3%	34	1,430
Quality education	2%	3%	48	1,309
Gender equality	2%	3%	24	1,264
Reduced inequalities	1%	3%	29	1,134
Peace, justice, and strong institutions	1%	2%	9	915
Life on land	1%	2%	14	850
Life below water	0%	0%	5	287
Partnerships for sustainable development	0%	1%	10	260
Other	14%	24%	27	10,698



Note: 'Other' includes impact themes such as affordable housing, sustainable agriculture, and financial inclusion. Additionally, some respondents intend to generate impact across many different themes and do not track AUM allocations to specific impact themes. *Source: GIIN*

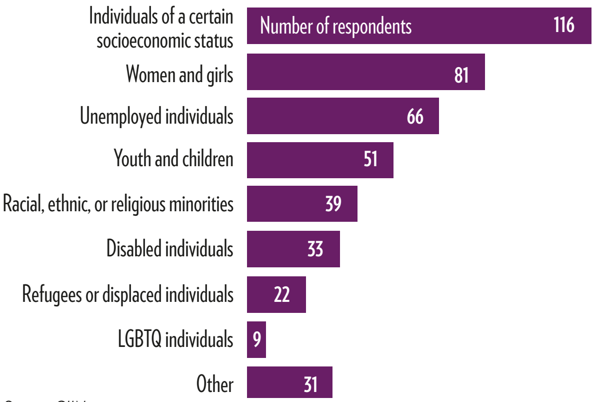
TARGET BENEFICIARIES

Impact investors seek to effect positive change for various groups of beneficiaries through their investments (Figure IV). Approximately five in six impact investors target individuals based on their socioeconomic bracket. Over half target women and girls, and just under half target the unemployed. These beneficiaries are typically reached through investees, who themselves have various stakeholders along the supply chain. Over 90% of respondents intentionally target the customers or clients of their investees (Figure V). Nearly three-quarters target investee employees, and 45% target investee suppliers.

1 The U.N. Sustainable Development Goals are an ambitious set of 17 goals to which the U.N. member states agreed unanimously for the eradication of global poverty and sustainable development by 2030. "Sustainable Development Goals," United Nations Sustainable Development Knowledge Platform.

FIGURE IV: TARGET BENEFICIARY GROUPS

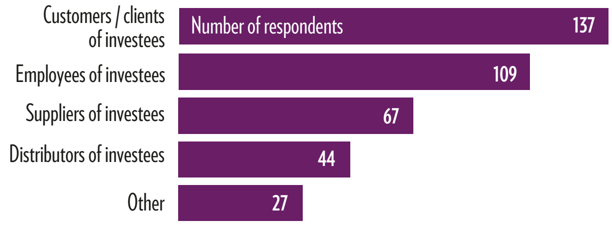
n = 140 (optional question); respondents could select multiple options.



Source: GIIN

FIGURE V: TARGET BENEFICIARIES ALONG THE SUPPLY CHAIN

n = 149 (optional question); respondents could select multiple options.



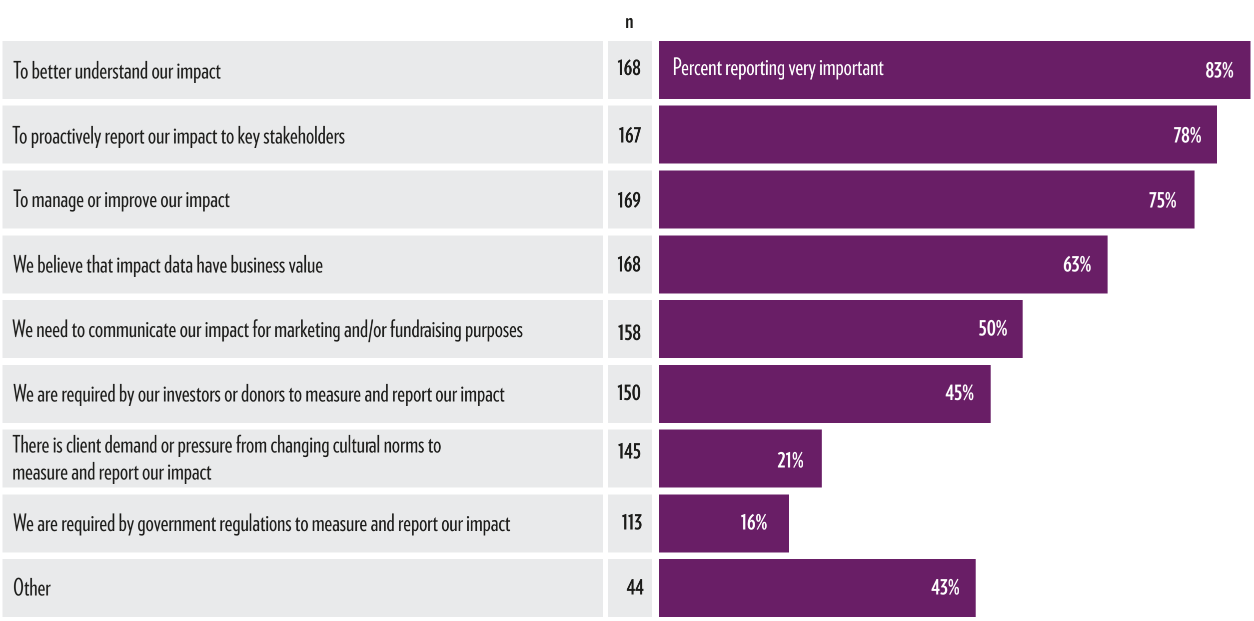
Source: GIIN

MOTIVATIONS

Impact investors measure and manage their impact for several reasons, the most important of which are to better understand their impact, report their impact to key stakeholders, and manage or improve their impact (Figure VI).

FIGURE VI: REASONS FOR MEASURING AND MANAGING IMPACT

Chart shows percent of respondents selecting 'very important'; respondents could select multiple options.



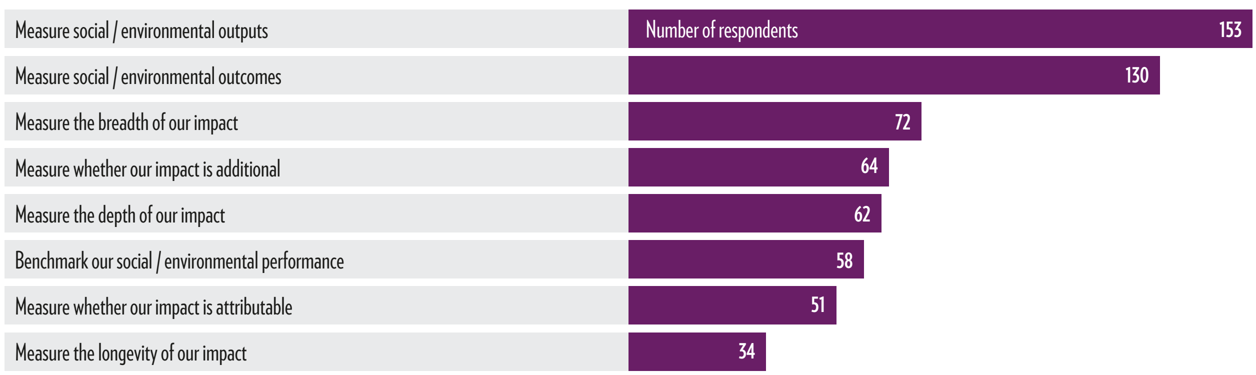
Note: 'Other' reasons for doing IMM include helping investees improve their impact, using it as a risk mitigation strategy, and because it is core to respondents' strategies (such as in the case of mission-led investors like foundations). *Source: GIIN*

2 Impact investors actively seek to understand and manage their impact

MEASURES

The many ways investors understand impact are manifested in the different aspects of impact they seek to measure. Most respondents measure the outputs (91%) – the direct products of an organization's activities – and outcomes (77%) – the changes that result from activities and outputs – of their investments (Figure VII). Roughly 40% of respondents each measure the breadth (the reach of impact across groups of people or ecosystems), additionality (the positive impact that would not have occurred anyway without the investment), or depth (the significance of the impact for the people or ecosystems impacted) of their impact.

FIGURE VII: TYPES OF IMPACT MEASURED
n = 169; respondents could select multiple options.



Source: GIIN

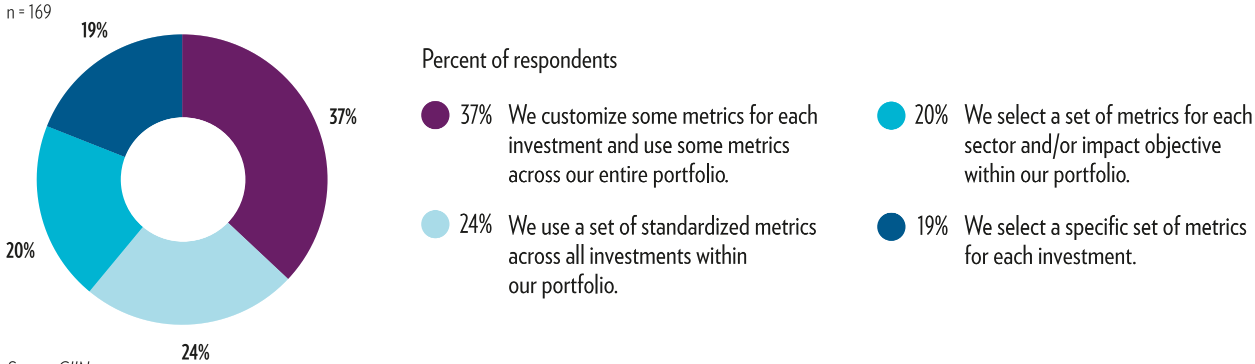
TOOLS

Impact investors use various available tools, indicator sets, and standards in their IMM practice, the most commonly used of which are IRIS metrics (62%). Others include the SDGs (42%), B Analytics (41%)[2], and the Principles for Responsible Investment (26%).[3]

CUSTOMIZATION

Respondents noted that selecting appropriate metrics can be challenging, especially when examining portfolio-wide impact across different sectors or themes. Thus, investors use varying levels of customization and standardization in selecting metrics across their portfolios, ranging from using standardized metrics across all of a portfolio's investments to using specific metrics for each investment (Figure VIII). The most common approach is to use a combination of some standard portfolio-wide metrics and some metrics customized per investment (37%).

FIGURE VIII: CUSTOMIZATION/STANDARDIZATION OF IMPACT METRICS
n = 169



Source: GIIN

2 B Analytics, http://b-analytics.net/.

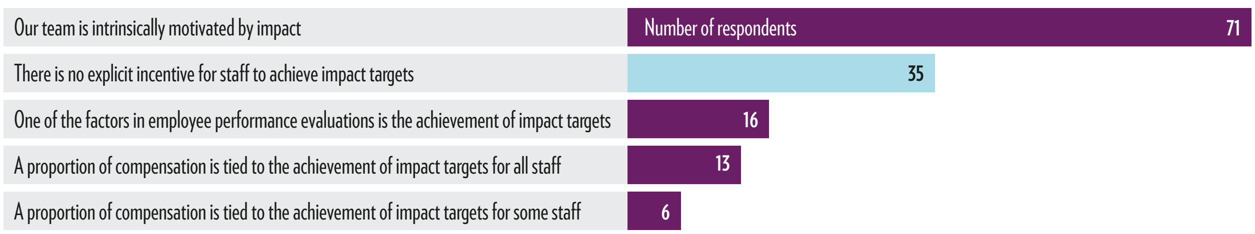
3 U.N. Principles for Responsible Investment, UNEP Finance Initiative and UN Global Compact, https://www.unpri.org/.

3 Impact investors embed IMM into the core of their activities

TARGETS AND INCENTIVES

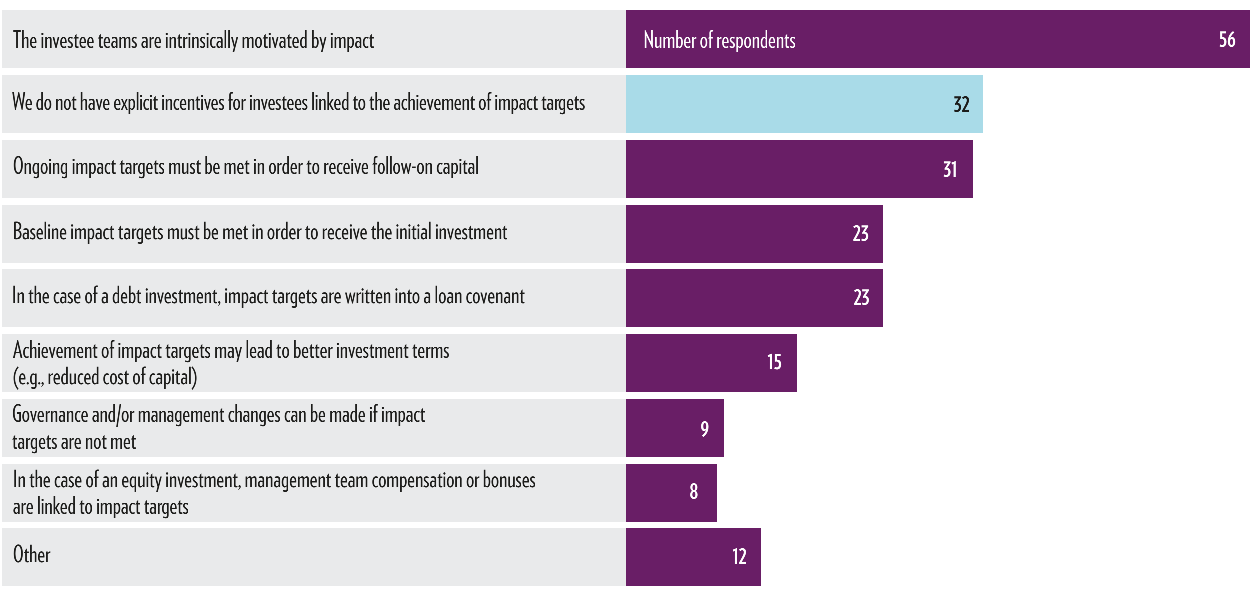
Fifty-nine percent of impact investors set targets to measure their progress on social and/or environmental indicators. Most (71% of those that set targets) note that their employees are intrinsically motivated to achieve these impact targets, and 56% note the same for their investees (Figures IX and X). Some further incentivize their employees by factoring the achievement of impact targets into employee performance evaluations (16%) or tying their compensation to the achievement of impact targets (13%). To incentivize investees, some investors require the achievement of impact targets to disburse follow-on capital (31%), to receive the initial investment (23%), or to meet loan covenants (23%).

FIGURE IX: STRATEGIES TO INCENTIVIZE STAFF TO ACHIEVE IMPACT TARGETS
n = 100; respondents could cite multiple incentive strategies.



Source: GIIN

FIGURE X: STRATEGIES TO INCENTIVIZE INVESTEES TO ACHIEVE IMPACT TARGETS
n = 100; respondents could cite multiple incentive strategies.



Source: GIIN

REPORTING

All respondents but one report their impact to internal or external stakeholders in some fashion. Specifically, 69% report their impact to donors or investors, and 56% include impact performance results in their standard financial reports. Additionally, 40% or more of respondents produce impact reports for management and staff, or produce impact reports available to the public, or share impact performance results on an ad-hoc basis.

STAFFING

IMM is also core to the staffing and operations of impact investor organizations. Most commonly, respondents assign the responsibility of IMM to the broader investment team (46%) or implement IMM through both dedicated IMM staff and the broader investment team (42%).[4]

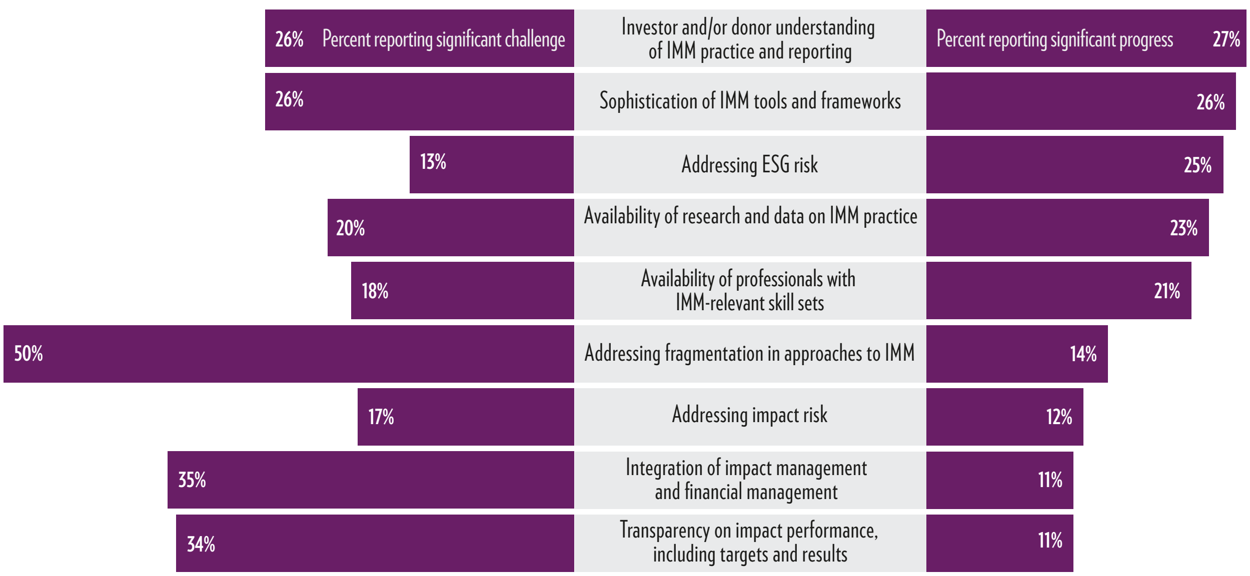
4 The industry has made significant progress, yet challenges in IMM persist

PERSPECTIVES ON THE STATE OF IMM PRACTICE

Respondents offered their opinions on the state of IMM practice across the industry (Figure XI). About a quarter of respondents believe that the industry has made significant progress over the past three years in the areas of investor and/or donor understanding of IMM practice and reporting (27%), sophistication of IMM tools and frameworks (26%), and addressing of ESG risk (25%).[5] However, several challenges remain, such as fragmentation of approaches to IMM (50% believing this is a significant challenge), integration of impact management and financial management decisions (35%), and transparency of impact performance (34%).

FIGURE XI: SIGNIFICANT AREAS OF PROGRESS AND CHALLENGE IN IMM PRACTICE

N varies from 104-126 for each answer choice; optional question.



Source: GIIN

INTERNAL CHALLENGES

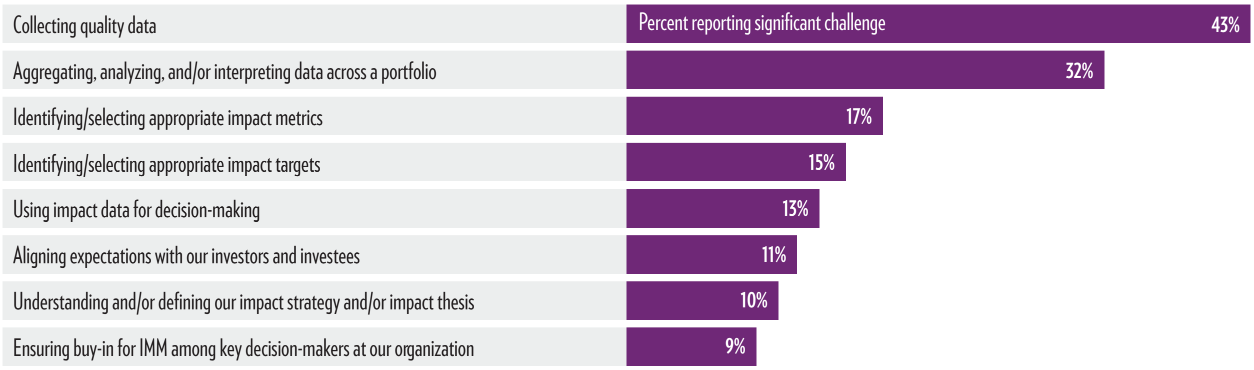
Respondents also reported on the challenges that they face when implementing IMM within their own organizations. In most aspects of IMM, such as selecting metrics and targets, using data for decision-making and aligning expectations with investors and investees, respondents generally do not note significant challenges. However, the two areas in which many respondents did indicate challenges concern measurement (rather than management), with 43% of respondents citing significant challenges in collecting quality data and 32% citing aggregating, analyzing, and/or interpreting data across a portfolio (Figure XII).

4 IMM staff are those with no other core responsibilities besides IMM.

5 ESG risk is derived from noncompliance with environmental, social, or governance criteria.

FIGURE XII: INTERNAL CHALLENGES IN IMPLEMENTING IMM

N varies from 155-167 (optional question); some respondents chose 'not sure/not applicable' and these responses are not included.



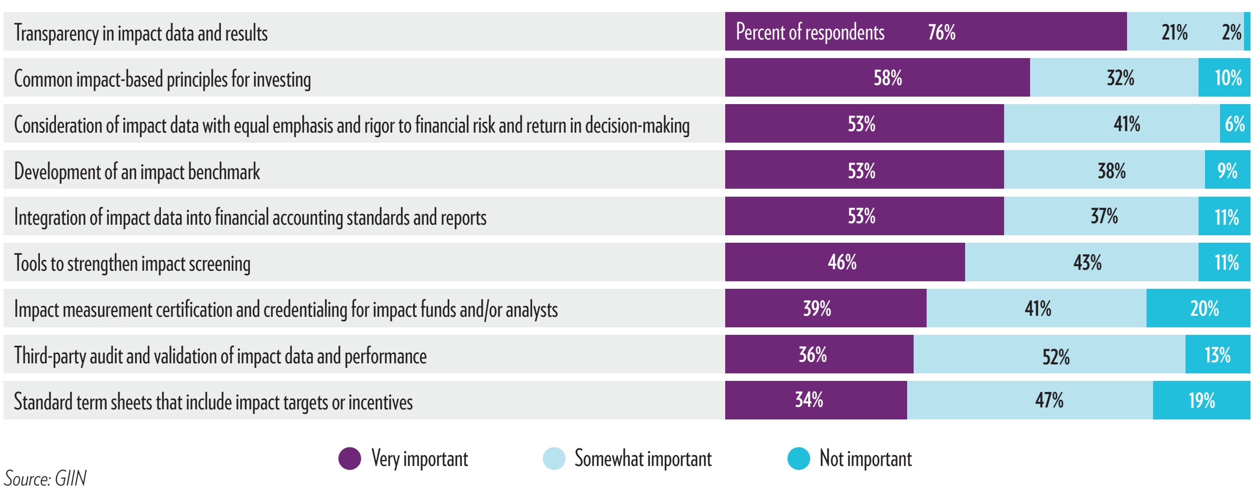
Source: GIIN

FUTURE OPPORTUNITIES

Finally, respondents reported their perspectives on the most valuable tools, ideas, and behaviors to advance IMM practice and overcome its various challenges. Seventy-six percent of respondents felt that transparency in impact data and results is very important to advancing IMM practice, and over half of respondents cited common impact-based principles for investing, consideration of impact data in decision-making with equal emphasis and rigor to financial risk and return, development of an impact benchmark, and integration of impact data into financial accounting standards and reports as very important (Figure XIII).

FIGURE XIII: IMPORTANCE OF VARIOUS TOOLS, IDEAS, AND BEHAVIORS TO ADVANCING THE PRACTICE OF IMM

N varies from 128-136 for each answer choice. Some respondents chose 'not sure/not applicable,' and these responses are not included. Ranked by percent selecting 'very important.'



Source: GIIN

The full report contains more detailed analyses and further exploration of insights including investor motivations, IMM methods, and perspectives on IMM.

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