INVESTING FOR IMPACT:
Operating Principles for Impact Management

CONSULTATION DRAFT

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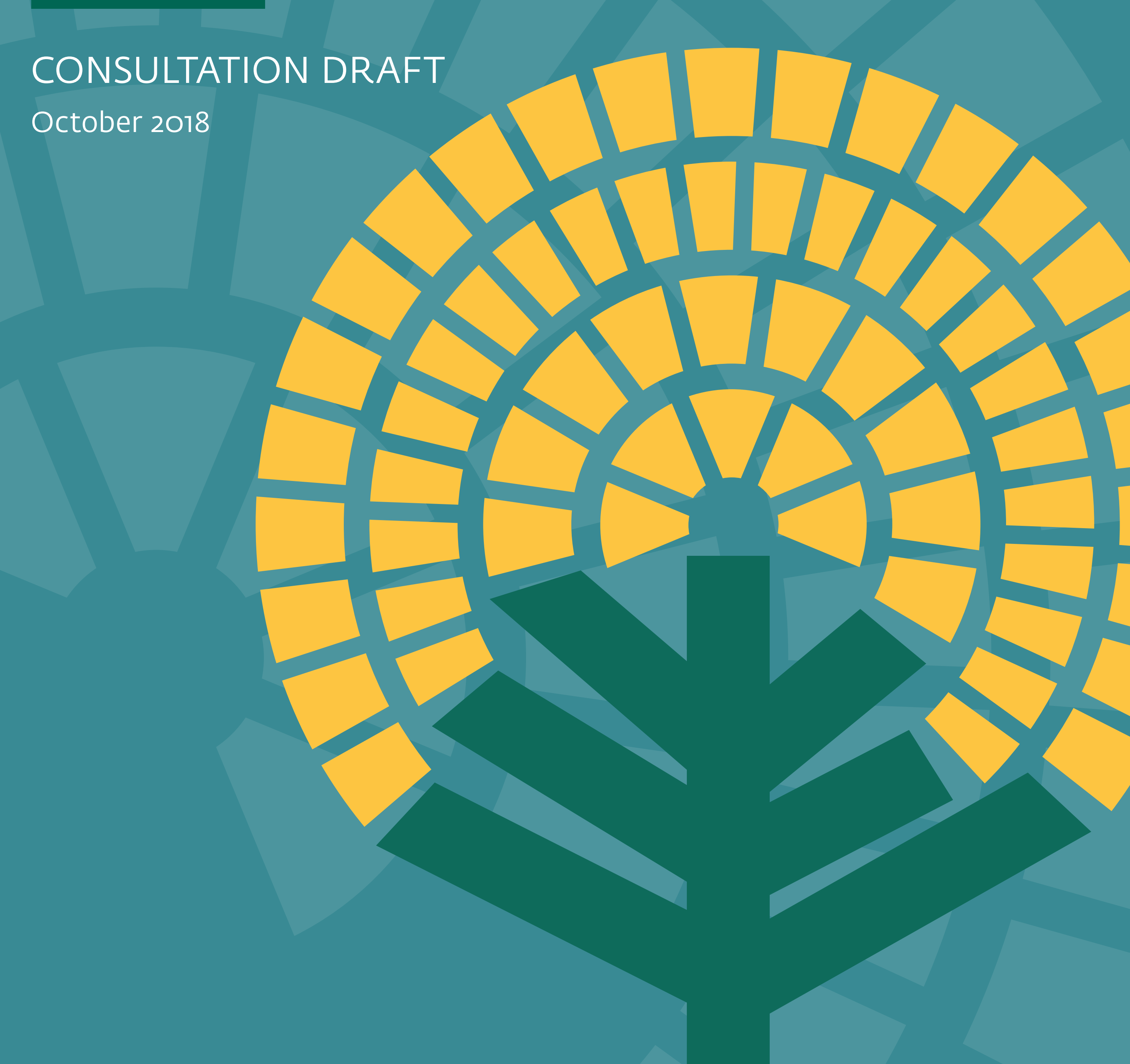

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2121 Pennsylvania Avenue, N.W.
Washington, D.C. 20433
Internet: www.ifc.org

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PURPOSE

Investing for Impact: Operating Principles for Impact Management (the Principles) have been developed by a group of asset owners, managers, and allocators to describe essential features of **managing investment funds with the intent to contribute to measurable positive social, economic, or environmental impact,[1] alongside financial returns.**

Impact investments have the potential to make a significant contribution to important outcomes by addressing challenges related to, for example, economic inequality, access to clean water and sanitation, agriculture productivity, and natural resource conservation. The Principles 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 impact asset managers, asset owners, asset allocators, and development finance institutions, and may be updated periodically. Investors may use the Principles to screen impact investment opportunities and/or ensure that their impact funds are managed in a robust fashion.

The Principles may be adopted at the institution, fund, or investment vehicle level. Firms that offer a range of investment strategies may adopt the Principles for those funds or vehicles which it chooses to identify as impact investments. Institutions and fund managers that only invest for impact may adopt the Principles at the institution or fund manager level.

The Principles may be implemented through different impact management systems and are designed to be fit for purpose for a range of institutions and funds. A variety of tools, approaches, and measurement frameworks may be used to implement the Principles.

1 The positive or negative primary and secondary effects produced by an investment, directly or indirectly, intended or unintended. Adopted from OECD-DAC.

OVERVIEW

Investing for Impact: Operating Principles for Impact Management define an end-to-end process. The elements of the process covered are: strategy, origination and structuring, portfolio management, exit, and independent verification. Within each of these five main elements, the Principles have been defined by a heading, supplemented by a short descriptive text. In total, the 9 principles (see Figure 1 below) that fall under these five main elements are considered the key building blocks for a robust impact management system.

The Principles have been formulated based on two fundamental concepts: (1) core elements of a robust impact management system; and (2) transparency of signatories' level of alignment with the Principles.

In the text below, the general term 'Manager' is used to refer to the asset manager, fund general partner, or institution responsible for managing an investment portfolio for impact. The term 'each investment' may also refer to a portfolio of related investments within a specific segment/ industry/geography.

FIGURE 1:

INVESTING FOR IMPACT: OPERATING PRINCIPLES FOR IMPACT MANAGEMENT

Strategic Intent	Origination & Structuring	Portfolio Management	Impact at Exit
1. Define strategic impact objective(s) consistent with the investment strategy. 2. Manage strategic impact and financial returns at portfolio level.	3. Establish the investor's contribution to the achievement of impact. 4. Assess the expected impact of each investment, based on a systematic approach.	6. Monitor the progress of each investment in achieving impact against expectations and respond appropriately.	7. Conduct exits, considering the effect on sustained impact. 8. Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.
	5. Assess, address, monitor, and manage the potential risks of negative effects of each investment.		

Independent Verification

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

PRINCIPLE 1:

Define strategic impact objective(s), consistent with the investment strategy.

The Manager shall define strategic impact objectives[2] for the portfolio or fund to achieve positive and measurable social, economic, or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The strategic intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible expectation of achieving the impact objectives through the investment strategy; and that the magnitude (scale and/or intensity) of the expected portfolio impact is proportionate to the size of the investment portfolio.

PRINCIPLE 2:

Manage strategic impact and financial returns at the portfolio level.

The Manager shall have a process to manage impact achievement at the portfolio level, similar to that of managing financial returns. The objective of the process is to establish and monitor expected impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

PRINCIPLE 3:

Establish the investor's contribution to the achievement of impact.

The Manager shall seek to establish and document a credible, transparent narrative on the investor's contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels,[3] and assessed for the individual investment, or from a portfolio perspective. The narrative should be stated in clear terms and supported, as much as possible, by evidence.

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2 Impact objectives can be defined as the intended impact that contributes to financial, institutional, social, environmental, or other benefits to a society, community, or group of people via one or more investment. Adapted from OECD-DAC (*www.oecd.org/dac/*).

3 For example, this may include improving the cost of capital, specific financial structuring, offering innovative financing instruments, assistance in 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.

PRINCIPLE 4:

Assess the expected impact of each investment, based on a systematic approach.

For each investment, the Manager shall assess, in advance and, where possible, quantify the concrete positive impact[4] potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) *What is the intended impact*? (2) *Who experiences the intended impact*? (3) *How significant is the intended impact*?[5] The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact differing from ex-ante expectations.

In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards[6] and follow international best practice conventions.[7]

PRINCIPLE 5:

Assess, address, monitor, and manage the potential negative effects of each investment.

For all investments, the Manager shall seek to avoid, minimize, or mitigate potential negative effects by assessing and monitoring Environmental, Social and Governance (ESG)[8] and other non-financial risks, as well as the performance of the investee in managing material ESG issues. Where appropriate, the Manager shall engage with the investee company to seek its commitment to take action to address potential gaps in current investee systems and processes, using an approach aligned with good international industry practice.[9] As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, provide support where appropriate, and address unexpected events.

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4 Impact is considered the material effect/s on people and the environment resulting from the activities financed by investors, as outlined in Principle 1. Impacts assessed within Principle 4 may also include positive ESG effects derived from the investment.

5 Adapted from the Impact Management Project *(www.impactmanagementproject.com)*.

6 Industry indictor standards include HISPO *(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.

7 International best practice indicators include SMART (Specific, Measurable, Attainable, Relevant, and Timely) and SPICED (Subjective, Participatory, Interpreted & communicable, Cross-checked, Empowering, and Diverse & disaggregated), among others.

8 The application of good ESG management will potentially have positive impacts that may or may not be the principal targeted impacts of the Manager. Positive impacts resulting from ESG matters shall be measured and managed alongside with, or directly embedded in, the impact management system aligned with Principle 4.

9 E.g. IFC's Performance Standards *(www.ifc.org/performancestandards)*.

PRINCIPLE 6:

Monitor the progress of each investment in achieving impact against expectations and respond appropriately.

The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts, including social, economic or environmental impacts, in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate corrective action,[10] consistent with the nature of the investment. The Manager shall also seek to use the results framework to capture investment outcomes,[11] or longer-term effects.

PRINCIPLE 7:

Conduct exits considering the effect on sustained impact.

The Manager shall, in good faith and consistent with its fiduciary responsibilities, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.

10 Corrective actions could include active engagement with the investee; early divestment; adjusting indicators/expectations due to significant, unforeseen, changing circumstances; or other appropriate measures to improve the portfolio's expected impact performance

11 Outcomes are the short-term and medium-term effects of an investment's outputs, while the outputs are the products, capital goods, and services resulting from the investment. Adopted from OECD-DAC (*www.oecd.org/dac/*).

PRINCIPLE 8:

Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.

The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

PRINCIPLE 9:

Publicly disclose alignment with the Principles and provide regular independent verification[12] of the extent of alignment.

The Manager shall publicly disclose, on an annual basis, the extent to which impact management systems are aligned with the Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall be publicly disclosed, subject to fiduciary and regulatory concerns.

12 The independent verification may be conducted in different ways, i.e. as part of a financial audit, by an independent internal impact assessment committee, or through a portfolio/fund performance evaluation. The frequency and complexity of the verification process should consider its cost, relative to the size of the fund or institution concerned, and appropriate confidentiality.

GLOSSARY

Environmental, Social & Governance (ESG)

ESG refers to three key factors when measuring the sustainability and ethical impact of an investment. Environmental factors look at how a company performs as a steward of the natural environment. Social factors examine how a company manages relationships with its employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls, risk, shareholder rights, and stakeholder engagement.

Impact investments

Impact investments are investments made in companies, organizations, structures, and funds with the intent to contribute to measurable positive social, economic, or environmental impact, alongside a financial return.

Source:
Adapted from the Global Impact Investing Network (GIIN) | https://thegiin.org

Sustainable Development Goals (SDGs)

The Sustainable Development Goals (SDGs) are a collection of 17 global goals set by the United Nations in 2015. They represent a universal call to action to end poverty, protect the planet, and ensure that all people enjoy peace and prosperity.

Source:
United Nations | https://sustainabledevelopment.un.org/sdgs

IFC led the development of Investing for Impact: Operating Principles for Impact Management in partnership with asset managers, asset owners, asset allocators, and development banks and financial institutions. The Principles draw on emerging best practices across a range of public and private institutions investing for impact. The following organizations and individuals provided input and participated in the development of the Principles through a series of consultations:

- Actis
- Avanz Capital
- Bridges Fund Management
- CDC Group
- Credit Suisse Group AG
- European Bank for Reconstruction and Development (EBRD)
- Inter-American Development Bank Group
- Investisseurs & Partenaires-I&P
- LeapFrog Investments
- Nuveen, a TIAA company
- Overseas Private Investment Corporation (OPIC)
- Partners Group
- RockCreek
- Société Générale
- The Rise Fund
- Simon Smiles and James Purcell (UBS)

DISCLAIMER:

The Principles have been developed to provide the process for managing and selecting investment funds for impact. The Principles do not create any rights in, or ability to, any person, public or private. Managers adopt and implement the Principles voluntarily and independently, without reliance or recourse to the International Finance Corporation, the World Bank Group, or other signatories. In a situation where there would be a clear conflict between applicable laws and regulations, and the requirements set out in the Principles, local laws and regulations shall prevail.

www.ifc.org/impactprinciples

impactprinciples@ifc.org

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