

Demystifying Impact Investing

Talk of impact investing seems to be everywhere these days – at conferences, in the press, firm websites, and in investor marketing material. Google Trends reveals that the search for “impact investing” is up to a relative scale of almost 100 (peak popularity) today from 2 just 10 years ago. The use of the term “impact investing” is much more prevalent in documents and other items tracked by Google than terms such as “ESG investing” and “responsible investing.” Indeed, a search for “impact investing” returns 45% more results than “responsible investing,” 100% more than “sustainable investing,” 180% more than “SDGs,” and almost 1000% more than “ESG investing.”

Investors are acting on this curiosity. Many are now demanding that their investments do good while also doing well financially. Fund managers are busy developing impact products that aim to meet investors’ demand, delivering both impact and finance returns.

But there is still the lingering question: what exactly is impact investing? Google won’t help confused investor to find a single answer.

The more talk there is of impact investing, the less clear some investors seem to be on what actually qualifies as “impact investing.” Many investors are unsure how to evaluate fund managers that claim they are achieving real positive impact. Many investors also want to make sure that the important idea of “impact” doesn’t get diluted – in other words, that “impact washing” doesn’t prevail.

Our parent company, International Finance Corporation (IFC), has worked with others in the impact investing industry over the last several months to develop guidance to the market about what impact investing is. IFC comes to this with over six decades of experience as an impact investor. IFC could be considered the original impact investor. Since 1956, it has proven that investing with impact creates new investment opportunities that can lead to good financial returns and to societal improvements – like more jobs, increased access to health care, cleaner air, and better educations. IFC is also currently the largest impact investor, with \$57 billion in portfolio under management.

To develop this market guidance, IFC worked in partnership with a core group of asset managers, asset owners, asset allocators, and development finance institutions to create the Operating Principles for Impact Management (the Principles). The goal is to create a common market understanding about impact investing.

The Principles

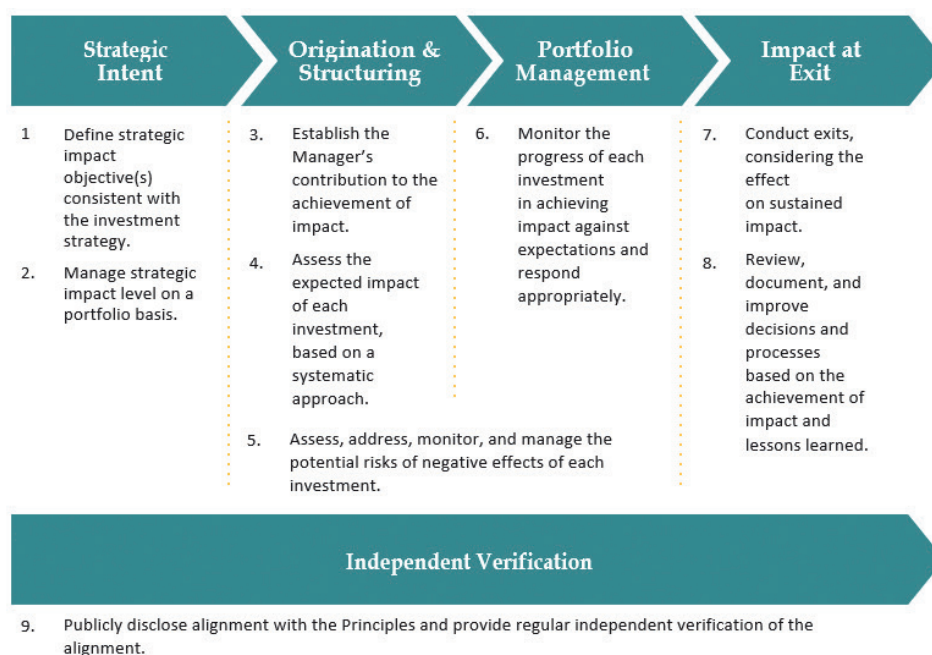
The Principles define three attributes of an impact investor: (a) intent for impact, (b) a credible contribution thesis, and (c) an impact measurement system. They will help asset owners decide where to allocate funds for impact, by signaling which asset managers are following a disciplined impact management process. They will also help asset managers develop and implement impact management systems based on best practices in the industry.

Designed to apply across a range of asset classes, investment strategies, and portfolio sizes, the Principles are deliberately short and high-level. They recommend the continuous tracking of impact performance and verification of the data around it. In addition, impact management systems should be built upon the foundation of already-strong ESG management practices, ensuring that impact investors seek positive impact and “do no harm.”

The Principles encourage investors to integrate impact with financial considerations at all stages of decision making – from establishing an investment strategy to originating investments, to managing a portfolio, and to conducting exits. Importantly, they do not prescribe what level of impact or financial returns investors should target, so they are broadly applicable across the industry.

Putting Theory to Practice

At IFC Asset Management Company (AMC), we’ve come to impact investing because of our mission to provide the world’s leading third-party investors with access to IFC’s unique pipeline of impact investments in emerging markets. In recent years, our investors have become more and more interested in understanding the social and environmental impacts that our investments are having. We welcome this focus because we know that good managers are just that and they will achieve both financial and social success if that is the target.



Source: IFC. 2019. *Investing for Impact: Operating Principles for Impact Management*

We know that it's not enough to simply intend to have positive impact. We must prove it through measurement and reporting. Increasingly, measurement of impact is one of the defining attributes of impact investment, and investors are demanding that impact investment managers strengthen their identification of the impact their investments have. Investors use this information to understand the social and environmental value their portfolios are having and to adjust as necessary. Many investors are further reporting out about impact to their beneficiaries or other stakeholders.

At AMC, we believe that codifying how we create evidence of impact is the key to developing a vibrant impact investment market. The sharing of evidence, harmonizing of approaches, and strengthening of the evidence base increases everyone's understanding of how and why impact occurs, and it will lead to more capital flowing to the best investments.

AMC will be among the firsts to adopt the Principles. Using the Principles and IFC's impact measurement system (the Anticipated Impact Measurement & Monitoring (AIMM) system), AMC will provide investors transparency into the societal impact of their capital, alongside the financial reporting AMC regularly does.

Impact investing has the potential to deliver trillions of dollars to address the world's most pressing development needs, including creating safe jobs with fair wages, mitigating and adapting to climate change, providing health and education services, and empowering women. We are excited to work with other organizations to grow this industry in pursuit of reaching this potential.

About IFC Asset Management Company (AMC)

IFC Asset Management Company, LLC, (AMC) a wholly owned subsidiary of IFC, mobilizes and manages capital to invest in businesses in developing and frontier markets. Created in 2009, AMC provides leading institutional investors with unique access to IFC's emerging markets investment pipeline and investment expertise, while providing positive development impact in the countries in which it invests. AMC funds' investors include sovereign wealth funds, pension funds, and development-finance institutions. It has raised approximately \$10 billion across 13 investment funds covering equity, debt, and fund-of-fund products. For more information, visit www.ifcamc.org

About International Finance Corporation (IFC)

International Finance Corporation (IFC), a sister organization of the World Bank and member of the World Bank Group, is the largest global development institution focused on the private sector in emerging markets. We work with more than 2,000 businesses worldwide, using our capital, expertise, and influence to create markets and opportunities in the toughest areas of the world. In fiscal year 2018, we delivered more than \$23 billion in long-term financing for developing countries, leveraging the power of the private sector to end extreme poverty and boost shared prosperity. For more information, visit www.ifc.org.