GSG
Driving real impact

The Impact Principle

Widening participation and deepening practice for impact investment at scale

Working Group Report from
The Global Steering Group for Impact Investment

October 2018

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ABOUT THE GLOBAL STEERING GROUP FOR IMPACT INVESTMENT (GSG)

The GSG is an independent global steering group catalyzing impact investment and entrepreneurship to benefit people and the planet. The GSG was established in August 2015 as the successor to, and incorporating the work of, the Social Impact Investment Taskforce under the UK presidency of the G8. The GSG currently has National Advisory Boards in 18 countries plus the EU as members. Chaired by Sir Ronald Cohen, the GSG brings together leaders from finance, business and philanthropy to ensure measurable impact is considered in every investment and business decision. Our mission is to harness the energy behind impact investment to deliver impact at scale.

THE IMPACT PRINCIPLE: WIDENING PARTICIPATION AND DEEPENING PRACTICE FOR IMPACT INVESTMENT AT SCALE

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The views expressed here do not necessarily represent the views of the individual Working Group Members or the organisations that employ them or with which they are associated. The information contained in this document does not constitute legal or financial advice in any respect. All errors are the responsibility of the authors.

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About The GSG Working Groups

The GSG has commissioned five separate and complementary papers which address key questions and challenges within the impact investment ecosystem. The topics have been chosen by the leaders of the GSG, the National Advisory Board Chairs, the GSG trustees and the GSG partners.

Selections by this group were made based on the topics necessary to foster a well-functioning impact investing ecosystem that creates significant benefits for people and planet and comprised of global leaders in their respective fields. Significant care has been taken to ensure that the working groups have representatives of a wide variety of sectors and geographies and represent the view of global experts on the topic. Together, they will propel the market towards tipping point by 2020.

In this paper, we discuss how to widen and deepen the field of impact investment to ensure that a wider variety of actors are represented and the focus on impact remains transparent and measured.

In the other papers, we study the role of government in the impact investment ecosystem and highlights how policy making can be catalytic. We explain how impact-focused financial instruments have been built, examine failures that exist in this process and identify opportunities for replicating success. In addition, we provide practical guidance for setting up impact wholesalers.

Finally, we also demonstrate how technology can be used to create social impact and what support technology impact ventures need for their financial and impact success.

About Impact Investment and The Impact Economy

To navigate the complexity of achieving a future where no one lives in poverty and the planet thrives, we need a simple unifying principle: that it is the role of all actors in society to examine how their actions effect the people and the planet.

Impact investment optimizes risk, return and impact to benefit people and the planet, by setting specific social and environmental objectives alongside financial ones, and measuring their achievement. Impact management is a critical practice to reach this potential.

As more people and organisations get involved and become more successful in impact investing, there is a cumulative effect. A vibrant and growing impact economy can develop where businesses, investment and activity deliver tangible improvements in outcomes for people and the planet. In the impact economy, businesses use their capabilities to optimise both their positive impact on the world and their financial return. Investors use their resources to optimise business impact, adding and creating value beyond what would otherwise be achieved.
The momentum of more positive impact being generated enlivens the possibility of an inspiring future.

GSG Strategy: Ecosystem Development Priorities

GSG WILL OPERATIONALLY ORGANISE THE DELIVERY OF ITS STRATEGY AROUND FIVE PRIORITIES.

GSG Ecosystem Development Priorities

Priority 1: NAB & Partnership Development

- Proactively support NABs for Catalysing Eco-System Development (with Policy, Research or Conferences) and Grow new NAB Members
- Develop Strategic Partnerships to accelerate global ecosystem development

Priority 2: Communications Development

- Deliver high-quality Communications, Campaigns, Launch and activate Networking Platform
- Deliver successful and impactful Convenings, including an Annual Summit

Priority 3: Research & Knowledge Development

Create, coordinate and champion Research Projects and thematic Working Groups by working with NABs and other key experts. Launch and activate Collaboration Platform

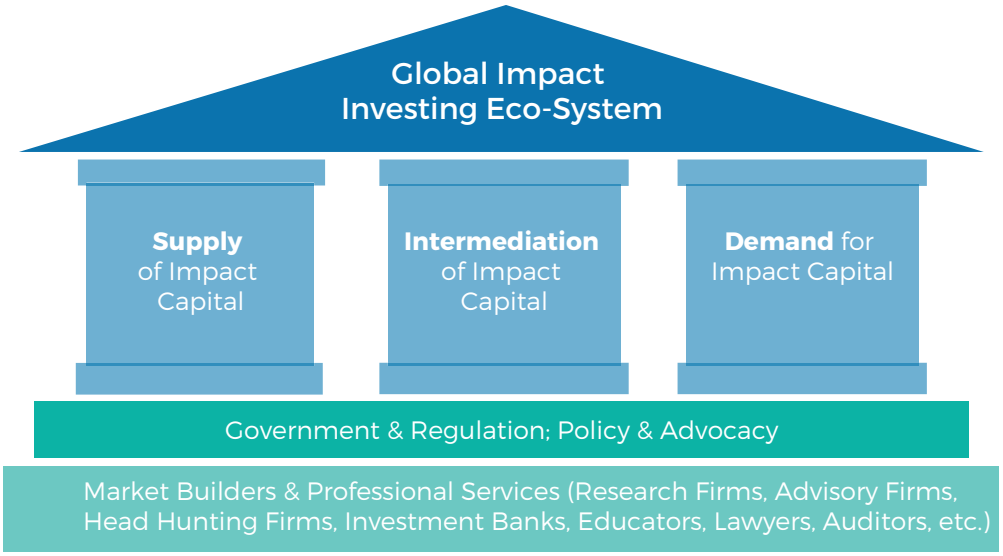
Priority 4: Policy Development

Get 'impact investment' recognised and adopted within the G20, allowing for increased Policy attention to Impact Investment, and support NABs to engage policy makers

Priority 5: Market Development

- Funds Dev: Catalyse $1bn USD Impact Funds in the markets, where they can have most impact
- Intermediary Development
- Entrepreneurship/ Demand Side Development

Pillars of the Global Impact Investment Eco-system



From The Working Group

OCTOBER 2018

This paper is for people and organisations already participating in impact investment and for those who have not yet started. It will enable them to understand why impact matters and the levers to widen and deepen impact investment as a powerful tool for meeting the needs and aspirations of people, conserving our planet and delivering on the promise of inclusive growth and prosperity.

For those already active, this paper can guide them to participate more effectively and deepen their practice. For those not yet active, it aims to encourage participation and provide practical guidance on where and how to get started.

A truly dynamic group of people have contributed to this paper. They are each leaders contributing through their own work to creating systems that put people first and contribute to a more inclusive and sustainable future. Their collective vision is for a dynamic system for impact investments that can see significantly more capital directed in a more purposeful ways in service of that future.

I am delighted to present this paper from the working group members.

ROSEMARY ADDIS
Working Group Chair

"Impact investing is a practice and an industry, yes, but – most importantly – it's also a movement, a movement that seeks to reshape the fundamental purpose of business and capital by integrating impact as the 'new normal'."

ABHILASH MUDALIAR
Research Director, Global Impact Investing Network

"We each have a role to play in forging a world with impact at its heart. Impact is grounded in the people and environment that we strive to serve. Like lighting up a night sky, whether we have the resources of a candle or spotlight, our actions contribute to a collective brilliance that has the power to reshape markets, lift our communities, and cleanse the environment. This report focuses us on the powerful ways in which we can work to maximise our impact on society and the world."

SHANTHAKUMAR BANNIRCHELVAM
Managing Director, Global Strategy Partners

"Robust market growth proves out the powerful linkage between the more disciplined practice of impact investing that has emerged in recent years, and the arrival, with greater confidence, of new entrants and innovations. Deepening and widening constitute a virtuous cycle, in other words, that is both essential and unstoppable."

BEN THORNLEY
Managing Partner, Tideline Inc

"We are running out of time. The global issues encapsulated in the SDGs require action NOW if we are to avoid the detrimental and irreversible effects of a failure to act for current and future generations. Impact investing is providing an important mechanism to collaborate, participate and actively engage around solutions to these issues but it needs broader engagement to reach scale. An important collaboration in itself, this document brings together a diverse and highly experienced group of market participants to outline immediate actions for readers to help in growing individual and organisational impact."

SALLY MCCUTCHAN
Executive Director & CEO, Impact Investing Australia

"The time is ripe to build platforms for effective collaboration between a whole range of stakeholders that drive our economic systems. Every stakeholder - from individuals, to governments and large pension funds - plays a unique key role, has an important contribution to make and something to gain. We now have sufficient elements in place to carefully and thoughtfully design [financial] interventions at a scale that make a difference on the SDGs and that can disrupt current perverse system dynamics. We can do it by working with each other and let us in the process put finance and investment back at the service of healthy economies and larger planetary and societal objectives."

ERICA BARBOSA – VARGAS
Director Solutions Finance and Impact Investing JW McConnell Family Foundation

"To meet the sustainable development goals (SDG's) it is estimated that we need financing of between US$5-7 trillion annually, much of which will need to come from the private sector. Impact investing has a significant role to play in financing the global goals and in aligning the needs of people, planet and capital. Widening and deepening the market is therefore crucial to ensure that capital flows can be directed to the SDGs."

FIONA REYNOLDS
CEO PRI

"We are today at a crossroads, as a small impact investing market already exists, but its edges are blurred, and it is yet to be structured. To scale impact investing (and avoid SDG-washing), it is crucial to organise this nascent market and equip it with the relevant tools and metrics - essentially, impact measurement methodologies; a common framework with widely shared definitions and concepts; and certification bodies.

One key success factor for impact investing will be to establish clear links within the new triptych: (I) financial return, (ii) return, and (iii) impact; and to prove that social value also creates financial economic value, through the goodwill it provides. This working must be pursued to investigate the topic further, and to support the growth of the market."

MAHA KERAMANE
Head of Social Business and Microfinance for Europe, BNP Paribas

"Banking institutions provide critical products and services allowing impact focused enterprises to successfully address the many challenges facing our world today. Increased focus by banking institutions in supporting these enterprises will positively impact the success of these enterprises. The explicit inclusion of banking institutions in this report is an important step forward in comprehensively addressing the need for deep and wide participation in impact investing."

DAVID KORSLUND
Strategic Adviser to the Board, GABV

"We live in a time of social and environmental crisis, with no time to lose. Impact investing has great potential to help us address these huge problems, but the road to truly realising that potential stretches ahead of us. We need to leverage the growing interest and excitement around impact investing to drive much wider and deeper change in the way mainstream finance works, towards a world where all capital not only avoids harm but also seeks to build a better future."

HARVEY KOH
Partner FSG

"The promise of impact investing - to deliver on both financial returns and social impact in the pursuit of innovative solutions to pressing challenges - remains compelling. Over the last decade, we have seen encouraging progress in mobilizing capital, social innovation, and mainstream engagement. In order to realize the full potential of impact investing at scale, we will require a renewed pledge for inclusive stakeholder engagement, and an unwavering commitment to impact transparency and integrity. This report is an important and timely reminder for impact investing to retain its relevance and credibility as it thrives."

KARIM HARJI
Programme Director, Oxford Impact Measurement Programme, Said Business School, University of Oxford

"The Sustainable Development Goals, and the world we face if we don't get closer to achieving them, is urging investors to manage all impacts that matter - positive and negative, intended and unintended. These global goals therefore provide common ground for previously siloed tribes: they are as relevant to investors who want to mitigate risk as to those with an intentional positive theory of change. They apply to both public and private capital markets, as well as development finance. If these different tribes can share approaches to measuring and managing impact on the SDGs - behaving as one tribe that is both deep and wide - then we might just stand a chance of achieving them."

CLARA BARBY
CEO, Impact Management Project

Letter from The GSG Chair

The scale of the world's problems has changed – and so too must our response. Despite generating unprecedented wealth, our current economic system has created great inequalities and left too many people far behind. For the last five years, I have been working with over 300 colleagues across 21 countries to lead the global community to take on an audacious but plausible solution: to bring the impact movement to Tipping Point by 2020.

Beyond Tipping Point lies the *impact economy* in which risk, return and impact inform all decisions, be they made by governments, investors, businesses or consumers. Impact investment plays a crucial role in the creation of impact economies.

I am delighted that our global working groups will be releasing four reports at our 2018 Impact Summit in New Delhi. Their innovative research is the fuel our impact movement needs to journey to Tipping Point. I am deeply indebted to all those who have worked so hard to bring these reports to fruition.

Widening participation and deepening practice for impact investment at scale, is a seminal paper. It provides a holistic view of the impact investment field and how to catalyse the systemic change we urgently require. It enables actors to place themselves within the broader system, and to better understand how their role affects others. The overarching paper of this series of four, it complements them in providing irrefutable evidence that the finance and philanthropy are both rapidly innovating to meet the massive needs of our challenged world.

This paper makes it clear that there are three key priorities which we cannot do without. The first is commonly accepted and transparent impact measurement. The second is the creation of a supportive political environment. The third is powerful leadership, to mobilise and unity all actors.

Finally, my sincere thanks go to Rosemary Addis, the Chair of our Australian National Advisory Board, who led this working group. She convened and chaired meetings across 10 countries in reaching consensus about how the impact investment movement should go about achieving both broader and deeper impact on people's lives.

SIR RONALD COHEN
Chair, GSG

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Executive Summary

New evidence changes everything. A principle has come to light that everything has impact, positive or negative. Figuring out which effects and then preventing the negative and increasing the positive drives more positive impact for people and the planet.

This paper highlights the opportunity for growing energy and momentum to drive the next breakthroughs toward positive impact at scale, including achievement of the SDGs. Impact investment, designed to achieve positive impact and measure the results, has impact hardwired into its design and management and has a powerful role to play.

There has been significant progress in growing impact investment and the momentum building has reverberated well beyond assets under management. However, investments that over-emphasise financial return still frame the dominant systems driving local and global economies.

The focus of this paper is to inspire and accelerate progress toward a future where significantly more capital flows to solutions and drives positive impact at scale. In that future, impact is integrated into decision making and performance of investments.

The first part (Part I) of this paper focuses on priorities for action based on a theory of change developed based on the contributions and insight of the working group and accumulated literature and developments in impact investment and related fields to date. The theory of change provides a dynamic map and brings key levers into sharp relief. It highlights where focused attention can accelerate progress and where coordinated action can achieve more than individual actors or transactions can deliver alone.

The theory of change illuminates the elements of widening participation and deepening practice: to mobilise more actors, continue to take catalytic action to spur others towards collective and effective responses, drive positive effects at scale and highlight where progress is being made.

Three priorities are identified to drive a quantum leap in progress. This effort is designed and needs to bring together views and voices from different geographies and cultures as well as those already involved in movements driving more positive impact.

- Leadership to amplify and connect the calls to action across different movements to the 2030 Agenda and put more collective focus on actions that will have a breakthrough effect for scale.
- Powerful advocacy to engage governments and multi-lateral leadership bodies including the G-20, to further enable impact investment, invest in market infrastructure and provide conducive regulatory environments in which it can flourish.
- Coordinated action to drive practice of impact management and prioritise principles and standards for transparent, accountable impact practice and reporting.

The second part (Part II) of this paper is intended to assist various actors to translate the ideas presented into action. It includes practical tools and roadmaps that will inform strategy and collective action; these are complemented by case studies that show what leaders are already doing.

This paper highlights
the opportunity for growing energy and momentum to drive the next breakthroughs toward positive impact at scale, including achievement of the SDGs.

The Impact Principle

New evidence changes everything.

Nearly 500 years ago, Copernicus, in his work, *On the Revolutions of the Celestial Spheres*, brought to bear new evidence that challenged long-held notions about the universe and opened the way for new perspectives.

His understanding and insight enabled others, including Galileo, Newton and Locke, to illuminate principles of science and reason. As curious minds and tenacious leaders sought data and applied scientific methods, the ideas drove fundamental breakthroughs everywhere- from navigation and industry to ideals of liberty and progress.

A similar transformation is taking place now – in impact investment. The notion that two chief world systems of profit and impacts on people and the planet are separate and distinct is being challenged by growing evidence that they are interdependent and integrated.

A principle has come to light that everything has impact, positive or negative. Figuring out which effects matter and then preventing the negative and increasing the positive drives more positive impact for people and the planet. This principle also applies to individual and collective choices in town halls and in board rooms: what people decide to buy, how businesses operate, how community services are delivered, the policies governments prioritise and how and where investors place capital and engage with markets.

The potential to create more opportunities for more people to make positive choices, the cumulative effect of which achieves impact at scale is the unifying vision mobilising people around the world to get behind impact investment.

PART 1
of this paper focuses on key areas for action that can reinforce a positive cycle that motivates people to participate and encourages them to stay and become more active and effective because they have confidence in what is being achieved and can see progress being made.

PART II
builds on the experience of practitioners in impact investing and in other fields of practice to propose concrete guidance to make it easier for more people to see where they can translate interest to action and contribute to the development of impact investment.

PART 1

TOWARD THE AGE OF IMPACT

"In 1543 the Polish astronomer and cleric Nicolaus Copernicus had already proposed that movements in the skies could be predicted more accurately than before if one supposes that the Earth and other planets revolve around the Sun. However, prior to Galileo's release of The Starry Messenger, Copernicus' new model of the heavens seemed little more than an abstract mathematical scheme for making astronomical predictions. Those who read Copernicus' work often took it simply as an experiment in thought rather than a realistic representation of the heavens and Earth. For Galileo, on the other hand, the Copernican system was not a mental exercise but an approximation of the way the heavens really do hang together.[1]"

[1] Science, Technology & the Copernican Revolution. Big History Project. The Khan Academy: image: primary school students learning the solar system by Lumina sourced at https://www.stocksy.com/1147717/primary-school-students-learning-solar-system

1. INVESTING IN IMPACT AT SCALE

1.1 Building Momentum for Impact

This paper highlights the opportunity for growing energy and momentum to drive the next wave of breakthroughs toward impact at scale. Lessons from the past decade of focused practice, alongside a longer history of fair trade, microfinance, community and development practice and responsible investment, have informed a focus on breakthroughs that will accelerate progress in moving capital away from current systems where the impact is not clearly in frame, often not known or accounted for, towards a future where impact is integrated into choice and decision making.

The call for more inclusive growth and institutions that serve all members of society is growing. It comes from the grass roots to major corporates, asset managers to community sector to banks, micro-enterprise to pension funds and insurance companies.

The clear framework of the 2030 Agenda for Sustainable Development[2] has given shape to shared aspirations for a world with no poverty or hunger, where people have access to quality education and enjoy good health and well-being, and climate action conserves and sustains life on land and in the sea. More is being learned about the interrelationship between social progress and environmental effects and economic growth, including that economic growth does not necessarily lead to better social outcomes.[3]

There is potential to direct trillions in additional capital to new solutions, directing capital away from harmful effects and into more positive impact necessary to meet the 2030 Agenda. Significant growth in socially responsible practice and impact investment is directing more capital toward promising solutions. This is expanding the available resources for positive impact beyond government budgets and philanthropy. The available research is echoing lessons from socially responsible investment that social and environmental returns and financial returns can be positively correlated.[4]

Momentum is growing: 92% of investors surveyed by State Street want companies to identify and report on material environmental, social and governance issues they consider affect financial performance.[5] 75% of millennials think their investments can influence climate change and 84% of this generation say their investment can help lift people out of poverty.[6]

The voices calling for a new paradigm where impact counts are growing louder and clearer. Now is the time to seize this appetite for greater impact and take action to widen participation in impact investment, deepen the practice and achieve impact at scale.

1.2 Directing Investment to Impact

Capital is a necessary ingredient for impact at scale; the flow of capital provides powerful incentives for what is achieved and valued. Many positive initiatives do not get started and cannot grow without resources. Without attention to impact, finance continues to flow to activity that creates negative effects for people and the planet.

Impact investment, designed to achieve positive impact and measure the results, has impact hardwired into its design and management. This has a powerful role to play in meeting the SDGs and will play an integral role in developing the impact ecosystem. The focus on impact can, in turn, put focus on what people need and opportunities for solutions.

[2] Transforming our World: the 2030 Agenda for Sustainable Development including 17 Sustainable Development Goals and 169 targets; adopted September 2015

[3] See, for example the Social Progress Imperative, and SDG Index; Porter, M, 2014

[4] The GIIN Market Trends Report, 2016; Cambridge Associates & GIIN, *Introducing the Impact Investing Benchmark*, 2015; Gray, J & Ashburn, N & Douglas, H & Jeffers, J, *Great Expectations: Mission Preservation and Financial Performance in Impact Investing*, 2015

[5] Eccles, R and Kastrapeli, M, *The Investing Enlightenment*, 2017

[6] Morgan Stanley, *Sustainable Signal: Sustainable Investing Survey 2017*, 2017

Navigating impact investment

To meet the promise of impact investment, impact must be clearly in frame. Just as greater appreciation that risk could have on financial performance of investments in the late 20th century led to risk becoming a more explicit and integrated vector in decision making, the next evolution is to integrate impact as an explicit factor in investment decisions.

Some entering impact investment are motivated by growing pressures such as food and water security. Others are motivated by the potential to achieve outcomes that benefit more people equitably and sustainably. Yet others see potential to develop new products and services or open new markets that meet people's need for safe water and sanitation, education, clean and reliable energy, transport and housing.

Impact investing is an innovation story in its own right. It is also an enabler of innovations, providing the capital to finance new models, infrastructure and entrepreneurial activity focused on addressing issues affecting our society.

Just as risk-adjusted return ultimately links to the underlying assets and enterprises into which investment is being directed, so too impact relates to the effects, positive and negative, that underlying assets and enterprises have on people and the planet.

Like expectations of risk and return, expectations for impact need to be informed by data and experience. Recent collaborative efforts have established the first broad-based consensus on how impact is understood and managed[7].

These and other developments and insights enable a new paradigm of risk, return and impact.

Figure 1 provides a conceptual framework of how the intentions and capabilities of investors map to the impact of different investment products. Box 1 illustrates the possibilities with vignettes, that show how the concept translates to concrete opportunities for investment and impact.

The matrix below helps investors understand and describe the impact performance for an existing investment, or portfolio of investments and the impact goals of new products. Much like financial asset classes are a helpful heuristic for quickly conveying whether the characteristics of an investment opportunity match an investor's financial intentions, the boxes on this matrix are an equivalent shorthand for conveying whether the impact characteristics of an investment opportunity match an investor's intentions for achieving impact.

An investment's impact is a function of:

- The impact of the underlying asset(s)/ enterprise(s)[8] that the investment supports (on x-axis);
- The contribution that the investor makes in enabling the enterprise(s) to achieve that impact; (on y-axis).

How far different enterprises - and their investors - go depends on their intentions, constraints and capabilities:

A. Enterprises can **act to avoid harm** for their stakeholders. For example, reducing CO_2 emissions, or reducing child labour in supply chains. This includes environmental, social and governance risk management.

B. Enterprises can also actively **benefit stakeholders**. For example, selling products that support good health or educational outcomes. This includes pursuing environmental, social and governance opportunities.

C. Enterprises can also use their capabilities to **contribute to solutions** to pressing social or environmental problems. For example, providing health or educational services in communities that currently have no access to them, or providing financial services to people without credit or bank services.

Impact practice builds on existing foundations in business and investment as reflected in the incorporation of EGS and socially responsible investment as part of the toolbox to assess what will avoid harm, benefit stakeholders or contribute to solutions. Impact enterprises use their capabilities, not just to avoid harm and benefit their stakeholders, but also to contribute actively to solutions, thereby optimising both their positive impact on the world and their financial viability.[9] Impact investors bring their own resources to bear to optimise enterprises' impact, within the context of their constraints and capabilities.

Applying impact strategies requires investors to consider and communicate how they add value to an enterprise's positive impact above and beyond what the capital markets are already enabling. The objective is to make progress on societal issues that will otherwise go unaddressed. Impact investments channel more resources to enterprises to optimise their impact and this is most effective when investors utilise the full suite of strategies.

There are archetypal strategies that investors use to contribute to impact, often in combination. An investor can:

- Signal that impact matters, to favour certain investments such that, if all investors did the same, it would lead to a pricing-in of effects on people and planet by the capital markets. Often referred to as values alignment, this strategy is an important baseline for an impact economy but has a much lower probability of making near-term progress on societal issues when compared to other forms of contribution.
- Engage actively, by using expertise, networks and influence to improve the environmental and societal performance of businesses.
- Grow new or undersupplied capital markets, by anchoring or participating in new or previously overlooked opportunities. The investor seeks a commercial return even though the transactions may be more complex, less liquid or involve some perceived risk disproportionate to return.
- Provide flexible capital, recognising that certain types of enterprises will require capital on lower risk-adjusted financial terms to generate certain kinds of impact, including by accepting more risk, investing over longer periods, in smaller units or agreeing terms not usually offered by commercial investors.

[8] The term *enterprise* is used to cover a wide range of delivery models, including multinational corporations, small to medium sized enterprises, infrastructure projects, social enterprises and charities and includes intermediaries and investment managers

[9] Some investment opportunities in solutions to pressing societal issues can be invested in to achieve market-rate, or even market-beating returns; others that require an intentional balancing of financial viability and impact performance.

FIGURE 1:

Mapping the ABC of impact to the way investors can contribute suggests opportunities for wider and deeper impact investment

IMPACT CLASSES		IMPACT OF UNDERLYING ASSETS/ ENTERPRISES		
		A	**B**	**C**
		Act to avoid harm Prevent or reduce significant effects on important negative outcomes for people and the planet	**Benefit stakeholders** Have various effects on important positive outcomes for people and the planet	**Contribute to solutions** Have a significant effect on specific important positive outcome(s) for underserved people or the planet
1	**Signal that impact matters** + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	**E.g. Ethical bond fund**	**E.g. Positively-screened/ best-in-class ESG fund**	**E.g. Sovereign-backed bonds (secondary market) funding vaccine delivery to understand people or renewable energy projects**
2	**Signal that impact matters + Engage actively** + Grow new/undersupplied capital markets + Provide flexible capital	**E.g. Shareholder activist fund**	**E.g. Positively-screened/ best-in-class ESG fund using deep shareholder engagement to improve performance**	**E.g. Public or private equity fund selecting and engaging with businesses that have a significant effect on education and health for underserved people**
3	**Signal that impact matters** + Engage actively **+ Grow new/undersupplied capital markets** + Provide flexible capital	**E.g. Anchor investment in a negatively-screened real estate fund in a frontier market**	**E.g. Positively-screened infrastructure fund in a frontier market**	**E.g. Bond fund anchoring primary issuances by businesses that have a significant effect on environmental sustainability, access to clean water and sanitation**
4	**Signal that impact matters + Engage actively + Grow new/undersupplied capital markets** + Provide flexible capital	*Investment archetype not widely observed*	*Investment archetype not widely observed*	**E.g. Private equity fund making anchor investments in businesses that have a significant effect on income and employment for underserved people**
5	**Signal that impact matters** + Engage actively **+ Grow new/undersupplied capital markets + Provide flexible capital**	*Investment archetype not widely observed*	*Investment archetype not widely observed*	**E.g. Below-market charity bonds, or an unsecured debt fund focused on businesses that have a significant effect on employment for underserved people**
6	**Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital**	*Investment archetype not widely observed*	*Investment archetype not widely observed*	**E.g. Patient VC fund providing anchor investment and active engagement to businesses that have a significant effect on energy access for underserved people**

INVESTOR'S CONTRIBUTION

Source: The Impact Management Project, 2018

BOX 1:

Vignettes of impact investments contributing solutions

Across China, Nigeria and Paraguay, 3.3 million eye procedures, including over 280,000 cataract surgeries have helped restore sight for millions in three hospitals financed by the innovative and ambitious Eye Fund I. Managed by US-based Deutsche Bank Community Development Finance Group, the US$14.5 million fund facilitated affordable eye care organisations in these underserved markets to grow their aggregate income from US$18 million to US$31 million in annual revenues and expand services. Seven years after its launch, the fund successfully paid back its investors and demonstrated the power of a clear and compelling investment thesis.

More than 250,000 farmers across 7,000 villages in India have more reliable access to markets for more than 1 million litres of fresh milk every day because Dodla Dairy is connecting them with larger markets for their products. The company secured a US$50 million equity investment from the TPG Rise fund which enables them to grow in response to urbanisation, health consciousness, and rising incomes. In turn, Dodla Dairy is helping small hold farmers to secure financing and invest in production capability, improve agricultural yields and, ultimately, increase their household incomes.

More than 1,850 people with learning disabilities in the UK have stable housing in one of the approximately 880 homes owned or leased by Golden Lane Housing (GLH), which contributes to them meeting their personal goals. GLH finances its property portfolio and related activity through a combination of bank loans and Retail Charity Bonds. GLH also provides specialist services to tenants in partnership with over 100 other service providers. GLH was the first charity to raise capital through a £1.8 million 10-year social investment bond in 2003 and raised more than £30 million in retail charity bonds from 2013–2017, with the last 2 offers closing early due to over-subscription. GLH measures and reports publicly on 3 key dimensions of the impact of its work financed by Retail Charity Bonds: self-assessment by tenants of improvements in their quality of life, effects for tenants' families and reductions in public spending.

Blockchain enabled technology solutions provided by BanQu are creating economic identities for some of the world's poorest people, including refugees and displaced populations. This ground-breaking technology connecting the unbanked to the global economy through a secure, distributed ledger of financial and personal records has received financing to develop and scale as part of the Rockefeller Foundation Zero Gap initiative designed to promote innovative finance solutions to close the gap for development funding and finance.

Sources: Tideline, *The Eye Fund I:Impact Performance Review Summary Report, 2018*; https://tideline.com/an-innovative-model-for-financing-affordable-eye-care-delivers/; https://www.dodladairy.com/; http://therisefund.com/select-investments.htmlhttps://www.glh.org.uk/; https://propertyfundsworld.com/2017/11/02/257861/retail-charity-bonds-launches-39-cent-golden-lane-housing-retail-charity-bond; Golden Lane Housing Social Impact Report 2018; https://assets.rockefellerfoundation.org/app/uploads/20180522150402/Zero-Gap-Overview-Web-Version.pdf; https://www.banquapp.com/

Mapping the potential for impact and investment

There is significant potential to direct more capital to achieve more and deeper impact. Ten years after the initiative sponsored by the Rockefeller Foundation placed concerted focus on market development there has been significant progress[10] – and a lot of territory that remains uncharted.

The 2018 GIIN Impact Investor Survey reports that 226 respondents collectively hold US$228.1 billion in impact investment assets under management.[11] Research collated from sustainable investment surveys indicates assets under management for sustainable investment have reached approximately US$23 trillion, and integration of sustainable investment overtook negative screening from 2014.[12]

While market size is important, what is more important is the direction of travel. There has been steady and accelerating growth in both socially responsible and impact investing and there is more coherent and growing practice.

The building momentum suggests that the ambition to mobilise an additional 5% of global assets under management each year (approximately US$6 trillion) more purposefully toward achieving the SDGs is and should be, a realistic goal. Figure 2 illustrates potential for mobilising additional capital for solutions by 2030.

In addition to growing the capital flow to more positive impact, achieving the promise of impact investment will mean driving, growing and disseminating solutions that are responsive to people's needs and can sustain the planet.

At the heart of delivering impact is what people want and need. Opportunities for impact and investment arise from greater understanding of the needs and aspirations for financial services, education and healthcare, quality options for old age, quality stable jobs and choices that are better for the environment.

To ensure investments connect with what people need, there is work to do along the value chain. More than 80% of institutional investors have indicated they plan to engage investee companies on the SDGs.[13] Corporate leaders have estimated achieving the SDGs opens up approximately US$12 trillion in new market opportunities and cost reductions across four key segments: food and agriculture, cities, energy and materials, and health and well-being.[14]

The 2030 Agenda provides a commonly agreed set of priority positive outcomes with indicators[15]. The SDGs have gained currency, including with business and institutional investors, in an environment primed to pay greater attention to systemic risks and the way in which business and investment can better serve the needs of more people (Figure 3).[16]

[10] For example, the GIIN, *Roadmap for the Future of Impact Investing: Reshaping Financial Markets*, 2018

[11] The GIIN, *Annual Impact Investor Survey*, 2018

[12] Morgan Stanley, *Sustainable Signals*, 2018 and C-Change analysis for these GSG papers; Convergence for the Blended Finance Taskforce, *Who is the Private Sector?*, 2018 see Figure 9.

[13] ShareAction March 2016 cited in UN supported Principles for Responsible Investment, *A Blueprint for Responsible Investment*, 2017

[14] Business & Sustainable Development Commission, *Better Business: Better World*, 2017

[15] Global Goals Dashboard with Major Indicators adapted from 2018 Progress report

[16] See for example, PGGM and APG work to develop an SDG taxonomy https://gateway.sdgcharter.nl/SDI, UN supported Principles for Responsible Investment, *Investment case for SDG alignment 2017*; Burckart, W, Lydenberg, S, Ziegler, J, *Measuring Effectiveness: Roadmap to Assessing System Level and SDG Investing*, 2018

FIGURE 2:

Mapping investment product to the impact investor matrix illustrates the potential for mobilising additional capital for solutions by 2030

IMPACT OF UNDERLYING ASSETS/ ENTERPRISES

INVESTOR'S CONTRIBUTION		A	B	C
	Does or may have significant effects on important negative outcomes for underserved people or the planet	**Act to avoid harm** Prevent or reduce significant effects on important negative outcomes for people and the planet	**Benefit stakeholders** Have various effects on important positive outcomes for people and the planet	**Contribute to solutions** Have a significant effect on specific important positive outcome(s) for underserved people or the planet
1	**Signal that impact matters** + Engage actively + Grow new/ undersupplied capital markets + Provide flexible capital	**By 2030, c.10% of the bond market is invested in green or social bonds** **By 2030, c.25% of the market capitalisation of public companies is aligned with the Sustainable Development Goals**		**$12 trillion* in bonds** **$20 trillion in public equities**
2	**Signal that impact matters** + Engage actively + Grow new/ undersupplied capital markets + Provide flexible capital	**By 2030, c.15% of private equity is growing and actively engaging with portfolio companies to increase their positive impact on pressing social or environmental challenges**		**$400 billion in mainstream private equity**
3	**Signal that impact matters** + Engage actively **+ Grow new/under-supplied capital markets** + Provide flexible capital	**By 2030, c.15% of real estate and infrastructure investments are enabling construction of affordable homes and other essential infrastructure in places where they are most needed**		**$500 billion in real estate and infrastructure**
4	**Signal that impact matters** **+ Engage actively** **+ Grow new/under-supplied capital markets** + Provide flexible capital	**By 2030, nearly half of all venture capital is backing entrepreneurs that have developed innovative social or environmental solutions, such as bringing better education or financial literacy to underserved markets**		**$300 billion in venture capital**
5	**Signal that impact matters** + Engage actively **+ Grow new/under-supplied capital markets** **+ Provide flexible capital**	**By 2030, social impact bonds have scaled to deliver significant improvement in better outcomes for targeted hard-to-reach populations, such as reduced offending rates or homelessness.**		**$800 billion in Social Impact Bonds**
6	**Signal that impact matters** **+ Engage actively** **+ Grow new/under-supplied capital markets** **+ Provide flexible capital**			

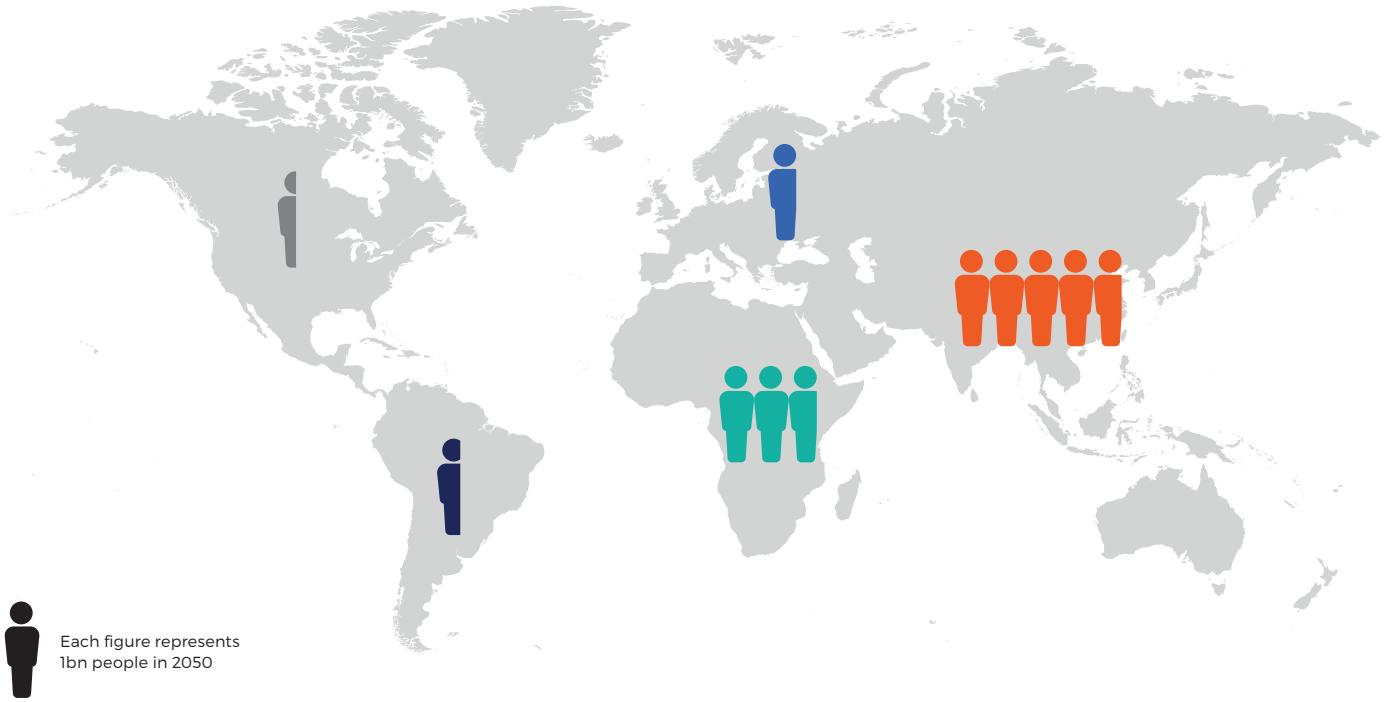
The continued growth* in active engagement by both fixed income and public investors means that a significant percentage of this capital could work to improve the impact of companies and projects on people and the planet

As an innovative investment product, without a proven track record, SIBs have been kick-started by investors that are willing and able to take apparently disproportionate risk (given the capped level of financial return, which is usually set by the outcomes-payer). Over time, however, it is possible that SIBs prove to be an investment opportunity capable of delivering predictable and competitive risk-adjusted financial returns, rather than requiring flexible capital. If so, given the return drivers of many SIBs (an investor's financial return is dependant on whether, for example, children achieve better exam results, rather than on the price of oil), they may have a lower correlation profile to the rest of the market. These features could make SIBs particularly attractive to investors seeking less correlated returns.

Source: The Impact Management Project, 2018

FIGURE 3:

Growing population across Africa and Asia and the 2030 Agenda highlight where solutions are needed



The world's population is projected to be 9.8 billion in 2050, driven by substantial growth across Asia and Africa.

The SDGs frame clear opportunities for smart, progressive, enterprises and investors to open new markets and design products and services that meet the needs of people and the planet.*

The world's poorest people spend as much as 60% of their household income on food, creating an opportunity of over US$155 billion. Agricultural science and technology can help improving productivity of more than 80% of the 900 million hectares of arable land in Africa.

Over 3 billion people do not currently have access to essential health services. The spread of mobile internet technologies are extending access to remote consultations, creating a US$130-320 billion opportunity.

28 million children in Africa do not have access to education or improved learning outcomes. These needs are estimated to create a US$16 billion investment opportunity into the sector.

By 2030, 60% of the world's population will live in cities. Cities account for 70% of global energy-related emissions and could result in 440 million urban households living in substandard housing by 2025. This is expected to create investment opportunities in affordable housing and energy efficiency greater than US$3 trillion.

*opportunities may relate to additional SDGs than the one highlighted as the primary goal

Sources: World Bank data on population projections by 2050 and United Nations Medium-Variant Projections, 2015; The SDG Center for Africa, *Africa 2030: How Africa can Achieve the Sustainable Development Goals*, 2017; World Health Organisation, *WHO estimates cost of reaching global health targets by 2030*, 2017; UNESCAP, *Sustainable Development Goals in Asia and the Pacific*, 2017; World Bank and WHO, *Universal Health Coverage Global Monitoring Report*, 2017, Business and Sustainable Development Commission, *Better Business Better World*, 2017; Caerus Capital, *The Business of Education in Africa*, 2017.

2. WIDENING & DEEPENING IMPACT INVESTMENT

2.1 Mapping the course towards scale

Impact investment will scale if there is coordinated effort and leadership focused on key levers to mobilise participation and deepen practice.

The areas brought into focus in this section have been developed in consultation with practitioners and stakeholders. This paper builds on known elements of the impact investment ecosystem and maps them in a dynamic way to bring the levers for breakthrough into sharp relief.

Figure 4 presents a simplified visual of the actors and activity, including financial flows, in a dynamic system that drives more positive impact. Figure 5 presents a theory of change for accelerating movement from the current system where the dominant financial system which over-emphasises financial return to a future where taking impact into account increases investment directed to solutions, which in turn, drives thus impact at scale.

This theory approximates how the actors, barriers and levers can work to drive more toward the desired future to highlight opportunities to accelerate progress. The levers identified are sufficiently general to allow for adaptation for the unique circumstances of local economies and sufficiently focused to identify common actions and where the cumulative effect of actions can accelerate global progress.

The theory draws lessons for impact investment from the following fields of practice where investment and innovation have developed to deliver solutions and create value.

- Development of infrastructure, bonds, venture capital and private equity, which showed that traction grows as practice and data demonstrate there is opportunity to diversify risk and return from mainstream financial institutions and listed equities; and growth occurs with new models that make it easier to participate and reduce transaction costs.
- Research and literature about successful enterprises and businesses about management, business and financial models that help organisations grow and mature.
- Community sector, development and philanthropic practice of formulating and applying a clear theory of change to set objectives and then map a path to reach them.
- Field work on how effective solutions get adopted and disseminated, for example in in areas from maternal and child health to road safety, that underscore how important it is to engage people, design for scale and take targeted, catalytic action to spur others to collective and effective responses.[17]
- Significant growth in socially responsible investing[18] and the related body of practice for integrated environmental, social and corporate governance factors in investment decision making and its more recent evolution as investors and corporates start to engage with the SDGs and seek more information from their investees and supply chains on how they manage social and environmental factors.

Activating the theory of change for impact investment

Impact investment is large and diverse; it touches many areas that affect people's lives and the planet. The theory of change takes a dynamic approach to identifying high value levers that can realise a shared vision and highlight where to allocate talent and resources for greatest effect. It maps the causal logic, starting with what needs to change in a way that enables leaders to set priorities foraction in a targeted and strategic way for maximum effect.

The starting point is not a blank canvas; impact investment has grown out of market-based and community activity and has built its own foundations. There are already multiple nodes of useful activity and innovative ideas and actors. Although momentum is building, things are not yet well positioned to drive the necessary scale.

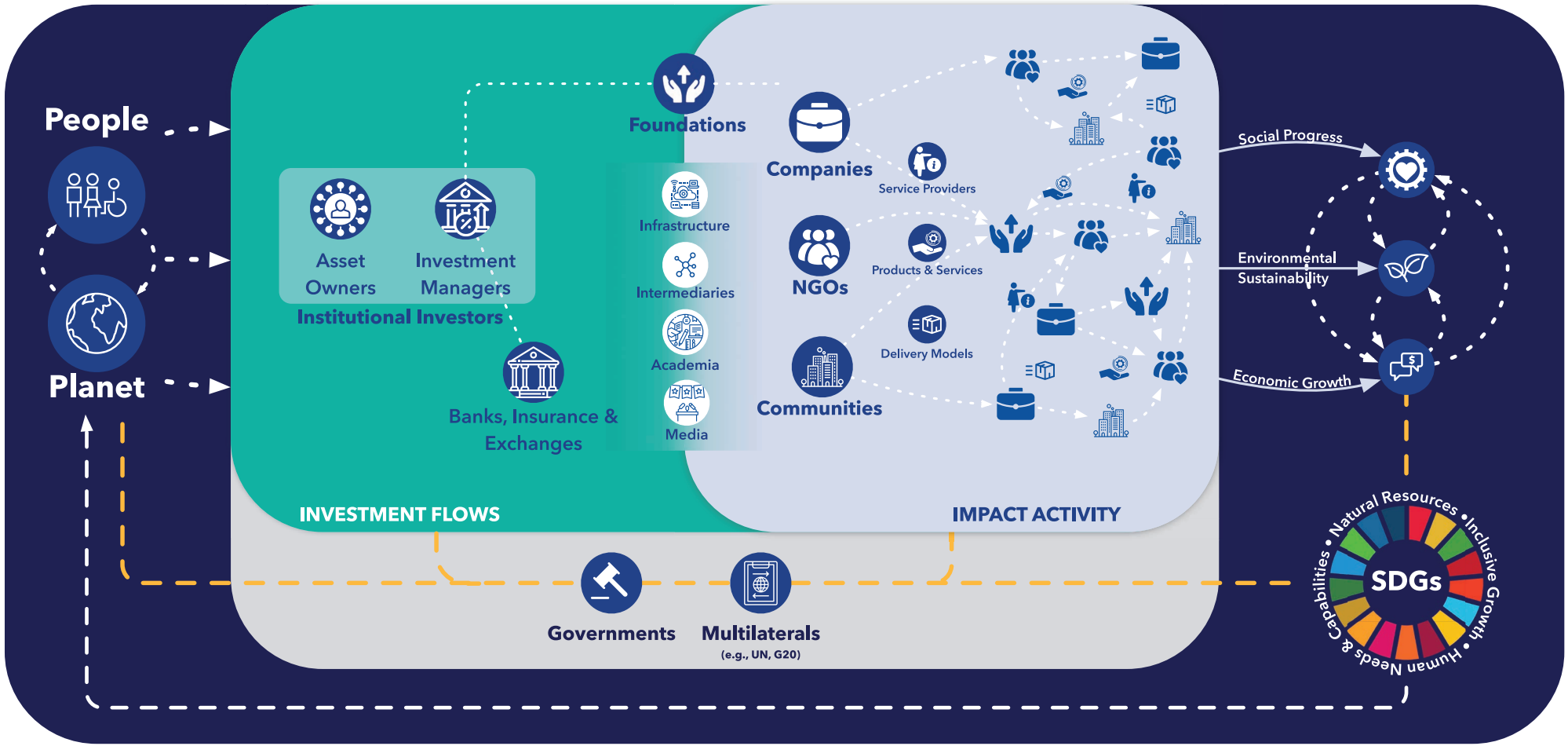
This presentation of the impact investment system highlights the current dominance of investments that over-empahsise financial return alongside the desired future state where more capital flows to solutions delivering impact at scale and meeting the aspirational targets of the SDGs. This underscores that achieving the vision for the future will require a critical mass of actors putting increasing focus on the social and environmental effects of their choices and driving more capital effectively toward impact.

This approach brings focus to levers with highest potential leverage to mobilise more actors, drive catalytic effects that spur others to collective and effective responses and drive scale and bring clarity to where progress is being made.

[17] Mason, C and Kwok, J, *Facilitating Access to Finance: Discussion Paper on Investment Readiness Programs, 2010*; Little, M, *Achieving Lasting Impact at Scale, Part One and Part Two*, 2011

[18] Convergence and Tideline for Blended Finance Taskforce, *Who is the Private Sector?*, 2017

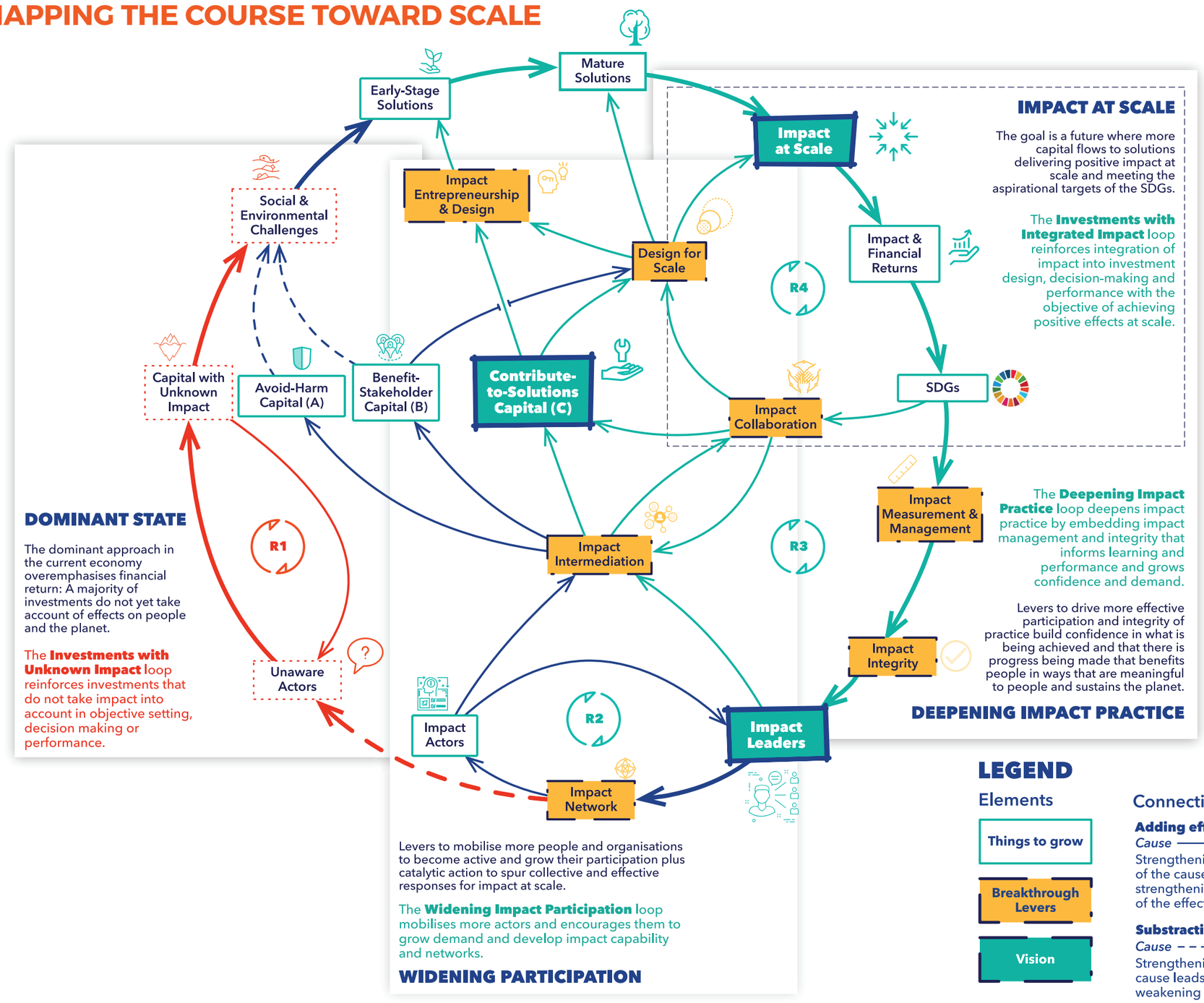
FIGURE 4:
High-level view of an impact ecosystem



Source: Design by Murphy, R in collaboration with Addis, R and Barbosa-Vargas, E for the JW McConnell Family Foundation adapted from UN Global Compact and KPMG, *SDG Industry Matrix: Financial Services*, 2015 and UN Global Compact, UNCTAD, UNEPFI, *PRI Private Sector Investment and Sustainable Development*, 2015

FIGURE 5:
A theory of change for increasing the stock of investment directed to solutions and driving greater impact[19]

MAPPING THE COURSE TOWARD SCALE



GLOSSARY

Impact Actors are all actors entering the impact investment ecosystem and growing practice

Impact Leaders are those impact actors who are pioneers or develop deep specialisation and capacity for impact

Impact Network refers to the range of developing communities of practice and industry for impact

Impact Intermediaries refer to the range of roles and organisations that intermediate solutions, capital and connect, aggregate, advise on, measure and evaluate them

Avoiding Harm Capital, ***Benefit Stakeholder Capital*** and ***Contribute to Solutions Capital*** refer to the ABC of the impact management project

Design for Scale means design of capital or solutions or both for scaling effects, direct or indirect, including replication and dissemination to increase reach, driving changes in mindset, behaviours and networks and changes that increase capacity for reach and impact invading policy and regulation

Impact Collaboration means collaboration to drive greater scale and positive impact, including between non-traditional partners, with a focus on catalytic action and flexible capital to enable effects unlikely to occur otherwise

Impact Integrity means commitment to commitment to impact management and accountable impact practice and governance, including applicable principles and standards

LEGEND

Elements

- Things to grow
- Breakthrough Levers
- Vision

Connections

Adding effects
Cause ⟶ *Effect*
Strengthening/increase of the cause leads to strengthening/increase of the effect

Substracting effects
Cause - - -> *Effect*
Strengthening of the cause leads to weakening of the effect

Today's dominant reinforcing feedback loop
Cause ⟶ *Effect*

Priority causes and effects to deliver impact at scale
Cause ⟶ *Effect*

Loops

Reinforcing loop
These loops reinforce behaviours and actions and have a multiplier effect.

[19] The mapping presented here is a high-level version of a more detailed theory of change; see Appendix 1

Source: Design by Murphy, R; adapted from Hsueh, J and Blankinship, B; Omplexity, 2018 in collaborations with Addis, R and Barbosa-Vargas, E for the JW McConnell Family Foundation and the GSG Working Group on Widening and Deepening Impact Investment

The focus of the following sections are those breakthrough levers that create positive reinforcing effects, encouraging attention and action in areas where change can be driven systematically for scale.

Mobilising more actors for impact, for which the levers are:

- Raising awareness and education, growing demand for more impactful choices;
- Growing and strengthening impact networks to develop capacity and leadership;
- Widening the opportunity set of products and solutions; and
- Strengthening and deepening intermediaries who can build expertise, advise and connect others.

Continuing to catalyse positive development, for which the levers are:

- Collaborating for new solutions and to accelerate social and financial innovation;
- Providing flexible capital to unlock innovation and investment; and
- Encouraging constructive engagement of governments and policy makers to further enable impact investment.

Design for the impact objectives, for which the levers are:

- Setting clear impact goals so the objective is defined;
- Designing for scale so, where appropriate, solutions can scale and investment can be aggregated; and
- Developing impact leadership to increase the capability for impact practice.

Developing impact integrity, for which the levers are:

- Embedding impact management so it is clear what is being achieved and whether that is making a difference to people and the planet so adjustments can be made;
- Committing to accountable practice and governance to build trust and confidence; and
- Developing industry-based principles and standards to set expectations and drive consistency and comparability.

Placing the levers in this dynamic relationship emphasises that the task is not to pick which group or movement is more correct, but to drive collective and complementary actions at key leverage points for powerful effect. That also highlights areas opportunities to collaborate more closely with groups that are already working to shift dynamics of the dominant system that over-emphasises financial return, such as the PRI and the Global Alliance for Banking on Values.

2.2 Widening Participation in Impact Investing

It is desirable to mobilise more and different actors to participate in impact investment and encourage those already active to grow their participation. The call from those active to get on and do is powerful. It will be more effective if it is easier to find entry points, make informed choices and navigate the system.

Achieving a more inclusive future where capital flows into communities and countries and facilitates local agency and infrastructure and opportunity,[20] means unlocking not just capital, but also solutions and demand. Navigation requires landmarks, instruments and guides, people and organisations who can develop the infrastructure that marks out the routes for others and erects signposts, connects interest with opportunities and makes it easier to find a way in and through the complexity of impact investment.

Focused attention on the highest value interventions and connections will build momentum that can take the whole system to a tipping point. Supply of capital on appropriate terms is a powerful incentive for existing and new intermediaries, and to drive and reward different behaviours. Reinforcing networks that provide leadership and legitimacy for impact investment, broaden awareness and forge alliances across sectors around common goals enable impact that would not otherwise occur.

The following section highlights priorities for targeted strategic action that can unlock significantly more impact and investment and continue to drive momentum.

Mobilising for Impact

Growing impact investment requires mobilising actors across the value chain, from asset owners or managers of large pools of capital, corporations delivering products and services, entrepreneurs and innovators tackling problems and individuals who want to buy more sustainable products and put more of their money to work aligned with their values.

Mobilising numerous and different actors for impact will not be orderly or linear. If reliance is placed on transactions alone, mobilisation will be slower and may prove insufficient. The industry needs smart practices that build on current activities, translate lessons from impact investing globally and from other fields, and encouraging individuals and organisations to participate, and spurring existing actors to grow their practice.

AWARENESS RAISING, EDUCATION AND GROWING DEMAND

Impact investing is still relatively unknown in many places. Raising awareness can generate interest and understanding. Telling the stories that make solutions and impact compelling in increasingly wider networks can drive demand for investment and ignite the ingenuity of problem solvers and entrepreneurs.

Education and frameworks need to develop so people and organisations can engage in a useful way and translate their interest to action. For example, institutional investors need to understand opportunities to engage for financial return and impact; philanthropic foundations need to understand how they can use the different types of capital (investments and grants), and still meet regulatory requirements. Further, advisers need resources that enable them to inform their clients appropriately about choices and performance.

The experience so far has reinforced that people will gravitate to impact investment where there are opportunities to combine their core skills and experience with a sense of purpose. Motivated individuals can move organisations. In turn, when enough organisations mobilise, entire industries and sectors can move.

Growing interest can develop a pipeline of capable talent once people with skills to contribute are more educated about impact investing and its potential. Avenues with greatest reach to raise awareness and educate talented people are universities and professional bodies. More formalised training through these channels needs to be continued and developed, in fields and countries where it is harder to access formal education.

GROWING AND STRENGTHENING IMPACT NETWORKS

Some growth will happen organically. Each major actor who steps forward is a role model who reinforces that investing to benefit more people and the planet is possible, mobilises more problem-solving talent and opens potential for promising solutions to scale; for new opportunities to change people's lives for the better and create new value in the process.

Emerging networks around impact investing have already contributed to momentum. The process of connecting across networks, including between the GSG, GIIN, the PRI, Global Alliance for Banking on Values, B Lab, B Team, Aspen Network for Development Entrepreneurs and the Coalition for Inclusive Capitalism has started through the Allied Efforts initiative and efforts such as this paper. Continuing to build and link networks will be imperative.

Industry bodies such as the Chartered Financial Analysists, International Federation of Accountants and International Council of Trade Unions are also beginning to engage with impact investment in more structured ways. The Impact Management Project has provided another focal point for engagement across disciplines.

National Advisory Boards came into view in 2014 to drive cross-sector collaboration and connect between the global effort of the Social Impact Investment Taskforce and local market development. There are now National Advisory Boards in 20+ countries coming together in and through the GSG. These bodies bring together leaders across sectors in their countries and across the globe for the common purpose of growing and developing impact investment. They have a critical role to play in growing a truly global field of practice and re-balancing the flow of capital to enable a more inclusive G-20 world view where low and middle-income countries participate more directly.

WIDENING THE OPPORTUNITY SET: PRODUCTS AND SOLUTIONS

In addition to supply of capital, the pipeline of deals and vehicles for investment needs to be developed. For the SDGs to be met, focus on capital alone will not be enough, some work needs to start where the people and problems are and design solutions that can scale and attract capital.

[20] Jackson, E and Harji, K, *Accelerating Impact: Achievements, Challenges and What's next in Building the Impact Investment Industry*, 2012

[21] Cheng, P (ed), *The Impact Investors' Handbook: Lessons from the World of Microfinance*, 2011

[22] This is such an important topic that it is the subject of a an entire GSG report in this series

Building informed and confident capacity for a range of organisations to seek and obtain finance on appropriate terms will be an important factor for the growth of impact investing, as it is for other fields of practice.[21] More choice in accessible financing options provides micro, small and medium enterprises, community organisations and social enterprises greater flexibility and efficiency in how they utilise capital and extend their reach. Moreover, availability of these options is one of the things that stimulates demand, which is also a powerful lever to drive more activity.

Product innovation is another critical element in mobilising actors and matching opportunities to the right types of capital.[22] A considerable amount has been learned and achieved. Transactions and experiments will contribute to building models and track record, which will, in turn, build confidence in different parts of the market and assist a range of actors to see how they can participate.

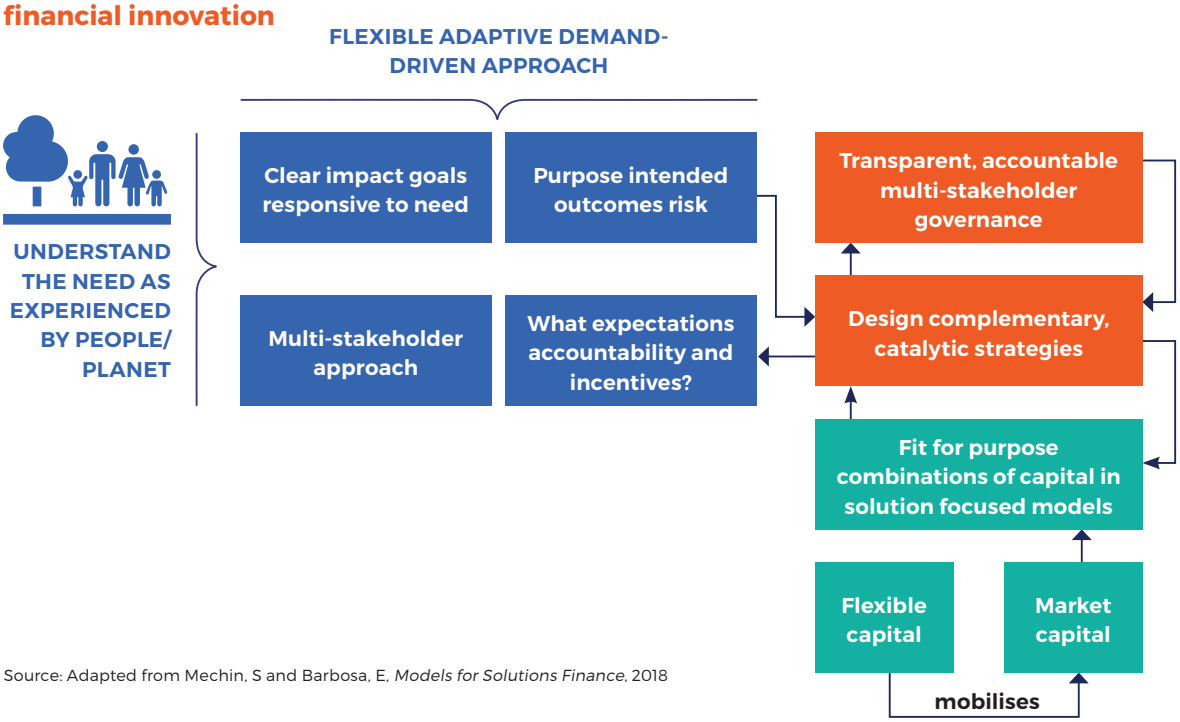
Opening up seed and early stage capital and development advice for early stage enterprises could accelerate and increase the number reaching an investable stage. Clearer links can be drawn between impact investment and what already exists to stimulate growth in commercial enterprises and private equity investment. In addition, there is work tailored for impact enterprises to inform steps to close the pioneer gap between seed funding and later stage capital. Creative investors are applying these lessons to accelerate the maturation curve for promising solutions.[23]

Standardised investment products will enable institutional investors to readily participate. Insights from responsible investment, including evidence that well managed integration of environmental, social and governance factors reduces risk, creates value, and can lead to outperformance.[24] Pooled investment structures, including green bonds and sustainable development bonds,[25] are one approach that could be employed to bring large scale investment, provided the models are designed with clear impact goals and embed impact management.

Meeting the SDGs will require at least some strategies that work backwards from the goals to understand the need and design solutions accordingly. This means starting with the demand or, more accurately, with the needs of people and the planet, then design to combine skills and experience in order to find solutions and mobilise capital. Figure 6 outlines how a solution-focused approach can work. Box 2 provides case examples of this social and financial innovation. This approach is important because people on the ground can be disconnected from those working on the same issues elsewhere and from expertise that can apply different models or find how their work could attract investment. In addition, investors too may be disconnected from the realities on the ground.

Impact-driven actors including philanthropists, family offices and non-government organisations are well-positioned to lead this important work; universities, incubators, corporations and platforms also have a role. Collective action can accelerate development and spread research and development costs. Further, understanding how different actors are contributing solutions to the broader whole will help set priorities.

FIGURE 6:
Taking a solution focused approach and examples of solutions focused financial innovation



Source: Adapted from Mechin, S and Barbosa, E, *Models for Solutions Finance*, 2018

[23] Jackson E and Harji, K, *Accelerating Impact: Achievements, Challenges and What's next in Building the Impact Investment Industry*, 2012; Koh, H, Karamchandani, A and Katz, R, *From Blueprint to Scale: The Case for Philanthropy in Impact Investing*, 2012; Omidyar Network, Across the Returns Continuum, 2016

[24] For example, see Mercer, *Demystifying Responsible Investment Performance*, 2007 and *Shedding Light on Responsible Investment Performance*, 2009

[25] Product innovation is the subject of a separate report for the GSG

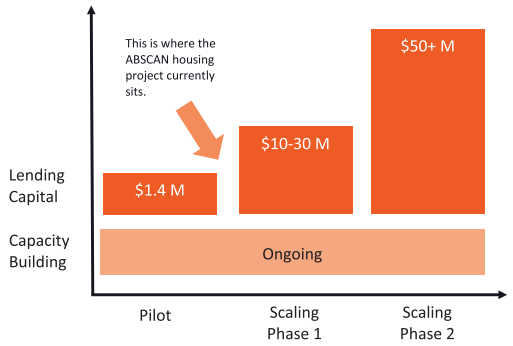
BOX 2:

Examples of social and financial innovation driving scalable solutions

A new solution for aboriginal housing in Canada emerged from a partnership between the JW McConnell Family Foundation and the Aboriginal Savings Corporation of Canada (ABSCAN). A clear need existed- 60% of houses on reserves needed repair and there was a projected shortfall of 80,000 units over 10 years. Defining a successful outcome for resident sand understanding barriers to local housing markets helped find a solution.

The solution enables residents to build and own their own houses, and to rent, buy or sell them. This is generating quality jobs in the communities for carpenters, plumbers and the community now runs a school to train young men and women in these jobs.

The Foundation combined grant and investment capital to create a revolving loan fund operated by ABSCAN, and enable capacity building.



Explanatory Notes:

- Pilot phase enabled by equal grant and investment contributions from government and McConnell.
- Capacity building work does not stop even if lending capital and investment structures are set over specific periods of time.
- Funds needed for capacity building may increase initially, proportionate to the increase in loaned capital, but would be expected to decrease over time.
- CA$ 50+ million investment planned through access to mainstream capital markets via warehouse credit facility.

Flexible investment terms through program related investment reduced the risk for a commercial financing from Royal Bank of Canada so it could provide a larger load. Having established a track record and market readiness with minimal default (<2%), a broader partnership will extend the program toward the additional 80,000 units needed across Canada.

A solution to address the problem of energy in rural India illustrates the potential for effectively combining capital intermediation with industry facilitation. In 2015, Rockefeller Foundation established Smart Power India, with the vision to spur economic development in villages through access to reliable electricity. Smart Power India provides industry facilitation, including project and business development support for energy supply companies (ESCOs), engages with government agencies to inform policies at national and state levels, supports load development, and involves community to ensure local buy-in and sustained demand for power, and economic impact.

In 2018, the Foundation invested US$3 million in cKers Finance, a specialist financial intermediary, focused on scaling India's decentralized renewable energy industry. This also led to a partnership between cKers and Smart Power India. The partnership will facilitate referrals of mini-grid ESCOs between the two organisations, as well as regular information sharing and coordination to strengthen the ecosystem.

Sources: JW McConnell Family Foundation, Beyond Impact Investing, Towards Solutions Finance, Issue #1, 2016; Background on Smart Power India provided by FSG; http://www.smartpowerindia.org/

STRENGTHENING AND DEEPENING INTERMEDIATION

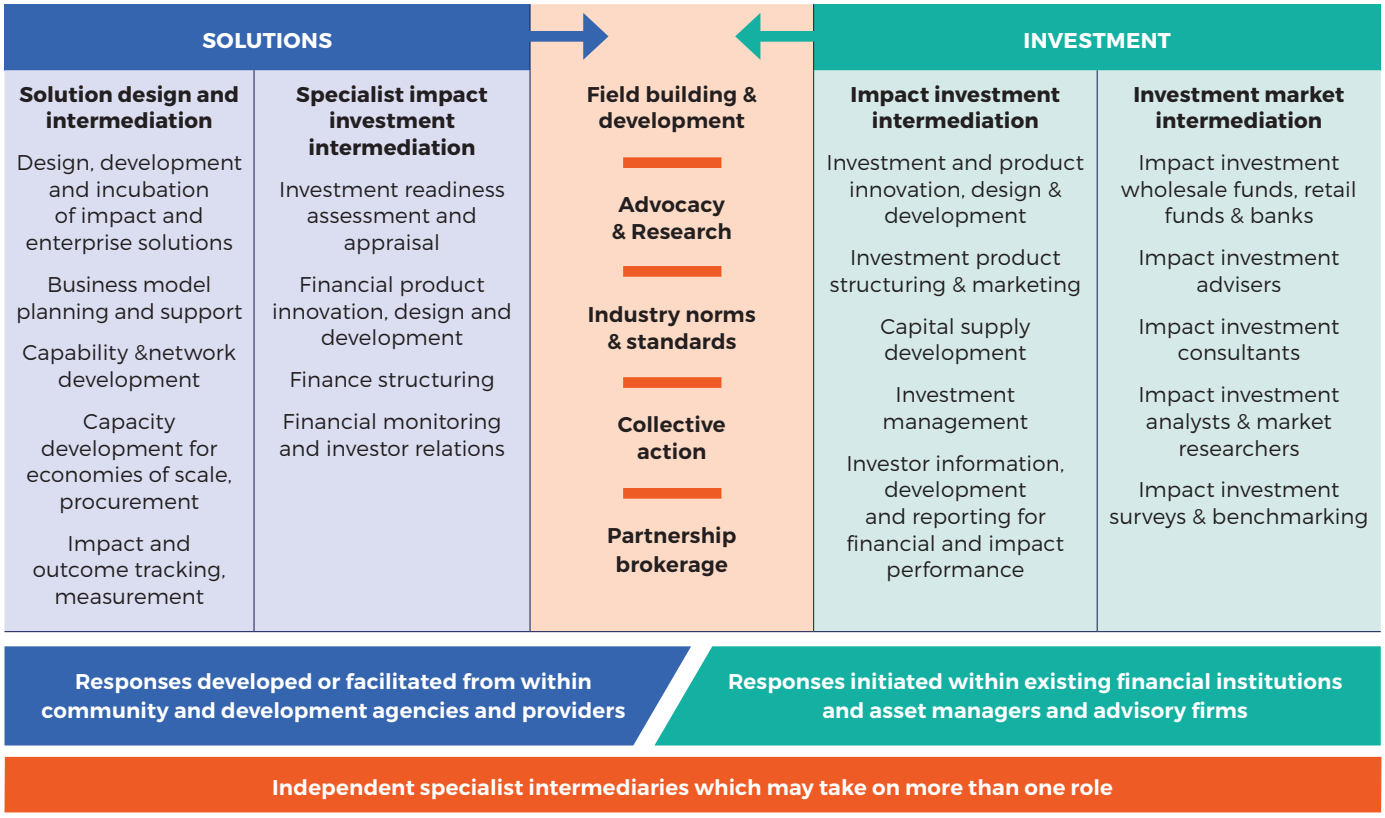
There are not yet enough systematic ways in which those seeking and offering finance through impact investing can find one another. Intermediation is vital to unlock capital, direct it to impact investments and generate a pipeline of quality deals. Existing and new intermediaries help others to navigate the system, connect people and organisations with one another and with information and opportunities. Intermediaries can build critical mass of expertise and talent more rapidly than individual actors in other parts of the system.

Supporting new and existing intermediaries will be key to mobilising more talent with critical skill. Encouraging these lynchpin actors to become active and increase focus on impact, and ensuring they can operate sustainably will help everyone move faster and more effectively. Figure 7 provides an overview of the range and roles of intermediaries and Box 3 includes examples of some of those different intermediaries.

Existing intermediaries such as consulting firms and investment banks can play an important role by reaching their client base and utilising their existing platforms and networks to drive more participation. Corporate supply chains can intermediate new markets and NGO distribution networks can be a powerful force in disseminating impactful solutions. Funds play a vital role by allowing smaller amounts and different types of capital to be pooled, ensuring that more and different types of investors can participate.

Specialist intermediaries build competence and subject matter expertise in impact and can supplement and complement the skills in other organisations. Platforms, including technology driven solutions can facilitate collaborations, connect people and data, and enable experience and know-how to be shared.

FIGURE 7:
Examples of the range and roles of different types of intermediaries



Sources: Impact Strategist, 2018 adapted from Burkett, I, *Reaching Underserved Markets*, 2013

BOX 3:

Examples of intermediaries and their role in the impact investment ecosystem

To encourage private capital to drive inclusive growth in emerging markets, USAID is actively building new forms of collaboration with the investment community through its INVEST platform. This platform provides intermediation designed to enhance access to viable investment opportunities, and lower transaction costs and risk in high-impact areas such as agriculture, financial services, infrastructure, energy, clean water, health, and education. The platform includes a flexible toolbox of USAID resources including grants, guarantees, technical expertise, networks, and convening power. Significantly, it provides access to a network of other intermediaries such as impact specialists Convergence and Tideline, with expertise across industries and geographies to design, develop and execute investment opportunities with high impact.

Integrated positive impact advisory services provided by Enclude have assisted clients across 80 countries to build capacity, design solutions for scale and mobilise over US$500 million in capital. A recent example is capital advisory services in the sale of Fenix International, a next generation energy company operating in Sub-Saharan Africa, to French multi-national, ENGIE. Enclude worked with Fenix through the process to communicate its value, assess the value proposition from different types of investors, structures, and negotiate a successful close. Efforts focused on enabling Fenix to optimise financial and impact outcomes. The transaction was structured to achieve a profitable exit for Fenix's investors, preserve its embedded impact and benefit Fenix employees through an innovative share participation scheme. This landmark transaction marked the first involvement by a strategic investor in the solar home systems sector and is expected to accelerate access to modern energy for ~600 million off-grid customers in Sub-Saharan Africa.

An ambitious mission to transform a fragmented impact intermediation ecosystem has motivated Amsterdam-based startup C-Change to develop Impact Pro(filer). This is one of the innovative intermediary platforms emerging to drive the next wave of collaboration. The platform is designed to make it easy and worthwhile for enterprises to share their impact commitments and achievements, company information and (non-) financial support needs with multiple networks, deal platforms and funders at the same time using standardized impact profile and next generation technologies such as blockchain. The platform will be rolled out with the expert support from existing standard and alignment setting bodies such as the World Benchmarking Alliance and the Impact Management Project, and with networks including ImpactSpace and the SOCAP Group. It will incorporate established standards guidance including the GIIN's IRIS and B Lab, and United Nation's Data4SDGs. Rollout will include a global 'BIZ4SDGs' and city-level campaign to drive widespread adoption. This is one of several initiatives that are making it easier to navigate the growing impact ecosystem. Others include the Artha Platform and Sphaera.In addition, dialogues have been initiated to promote connectivity across platforms and networks, one such dialogue is supported by Bertelsmann Stiftung.

Source: USAID Information Sheet, *The Invest PLATFORM: Mobilizing Private Investment for Development*, 2018 and https://www.usaid.gov/pcm; Enclude, *Sale of Fenix International to ENGIE*, 2018; C-Change, www.c-change.io; http://arthaplatform.com/; https://sphaera.world/

Catalysing impact

The story of impact investing already showcases the power of pioneering leadership to forge new paths and make progress. Even as more actors mobilise, leaders will need to continue to drive innovation and collaboration to shape what is needed next and continue to motivate others, including governments, by example toward more collective and effective responses.

COLLABORATION FOR NEW SOLUTIONS AND FIELD BUILDING

Collaboration will continue to play a lynchpin role to build and facilitate industry infrastructure and enable a dynamic value chain fit for purpose to grow impact investment. Evidence shows that aspirational goals need to be met with ambition and collaboration that reimagines the ecosystem.[26]

Given the large numbers of people and organisations and vast efforts already go into tackling pressing social and environmental issues, continued focus on how to re-imagine the ecosystem and demonstrate more effective ways of working requires ongoing leadership[27] and problem-solving to achieve breakthroughs.

Targeted collective action can enable outcomes that would not occur otherwise, for example resolutions of barriers that inhibit high impact solutions from maturing and reaching people where they are needed and prevent many individual enterprises from reaching their goals.[28] And there are a range of barriers that still need to be resolved, from the very practical such as lack of physical infrastructure that hampers access to communities, to cultural norms about whose responsibility it is to tackle societal issues to ways of working that make it harder to bring together a mix of skills and experience quipped to deal with all of the dimensions of a problem.

Those committed to impact can shape how their collective efforts will make a meaningful contribution to developing the field and delivering concrete targets including the SDGs. This includes identifying characteristics of a mature and effective impact investment ecosystem across different geographies, cultural contexts and levels of economic development.[29] This is achievable provided there is collaboration on market infrastructure, platforms and data.

While some actors will be better placed than others to lead action in interests of the field as a whole, everyone can play a role, including by supporting field building and contributing to development of frameworks knowledge and standards. Focused initiatives create concrete goals and space for collaboration that can be the equivalent of a transit lane on a busy freeway, enabling different actors to come together with a shared objective and drive progress.

FLEXIBLE CAPITAL TO UNLOCK INNOVATION AND INVESTMENT

Flexible capital is a powerful yet under-utilised tool for unlocking additional capital and prove new and innovative enterprise and financing models. It can be used in a range of creative ways, including to:

- overcome barriers to financial innovation such as perceived risk or limited liquidity or track record
- meet shortfalls in available funding for intermediaries
- enable research and development
- back leaders and provide incentives for collaboration
- support development of enterprise models and design
- support ongoing field building and development of market infrastructure including awareness raising, education and data development.

Flexibility can take different forms including grant funding, longer term of finance, capacity development, concessional capital, letters of support, guarantees or other risk mitigation. Figure 8 provides a high-level overview of different structures that combine flexible and market capital.

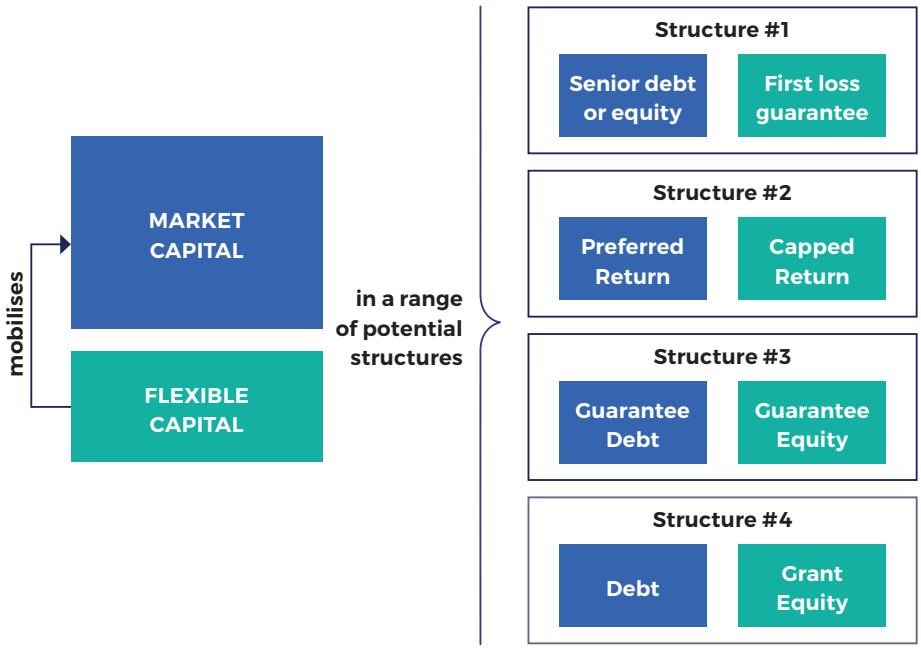
[26] Kaplan, R, Serafeim, G and Tugendhat, E, *Inclusive Growth: Profitable Strategies for Tackling Poverty and Inequality*, 2018

[27] For example, Burgess, C, Scholz, A, Wood, A & Selian, A, *From Billions to Trillions: How a transformative approach to collaboration and finance supports citizens, governments, corporations, and civil society to share the burdens and the benefits of solving wicked problems*, 2018

[28] Koh, H, Hegde, N, Karamchandani, A, *Beyond the Pioneer: Getting inclusive industries to scale*, 2014

[29] Koenig, A, *Creating Social Impact Investing Markets – Where We are Now and Where Do We Want to Get to?*, 2014

FIGURE 8:
Structures for flexible capital to mobilise additional resources



Source: Adapted from Convergence, Who is the Private Sector?, 2018

Flexible capital can drive partnerships and collaboration between investors with different requirements and constraints for financial return and taking on risk. Utilising flexible capital in belnded structures and to drive new solutions is gaining traction in areas including development finance with focus on achieving the SDGs.[30] Lessons can be drawn from related areas of micro-finance and community development finance where flexible capital has been used for decades to create a multiplier effect.

A range of platforms are emerging to accelerate the opportunities for collaboration and flexible capital. Meanwhile, development finance institutions are proactively intermediating this kind of powerful catalytic activity. For example, the Inter-American Development Bank resource mobilisation platform and USAID INVEST.

In some cases, a single organisation has different types of capital at its disposal and can work across a continuum of returns to meet overall objectives. These may include financial return, positive impact in priority areas for them and market development effects. The Omidyar Network has been a leader in experimenting with utilising capital for different types of return and for different purposes.[31] Other foundations and family offices have also creatively employed capital to optimise objectives for impact and financial return.[32]

Development Finance Institutions have started using their capital to create catalytic effects; although, current mobilisation rates remain low relative to other areas such as micro-finance or community development finance.[33] Some governments have also experimented with this approach - including as partners in impact wholesale funds that bring together public and private capital in a purpose-designed institution that has flexible capital and specialist capacity.[34]

The real power of flexible capital is the potential for catalytic effect: driving solutions at scale for better outcomes, unlocking private capital which can deliver more outcomes and contributing to the infrastructure and tools of practice that widen participation in impact investment and make execution more efficient and effective. Box 4 sets out examples of where flexible capital has been utilised to achieve outcomes that would have been otherwise impossible.

There is significantly more potential to build on what leaders are doing and utilise flexible capital to drive new solutions and impact investment to resource them at scale.

[30] For example, the work of the Business & Sustainable Development Commission and the Blended Finance Taskforce

BOX 4:

Examples of where and how flexible capital is being used to enable impact that would not otherwise occur

Innovative financing has contributed to marine conservation and fisheries reform in the Seychelles through the Seychelles Conservation and Climate Adaptation Trust (SeyCCAT), created as a partnership between investors and the Seychelles government. The innovative structure brokered by the Nature Conservancy's NatureVest unit and JP Morgan Chase & Co allowed for conversion of a portion of the national debt to investment in expanded marine conservation coupled with a commitment to increase the Exclusive Economic Zone. The initial 2016 structure combined US$15.2 million in 10-year debt capital and US$5 million in grant funding. Further, SeyCCAT will manage an endowment for 20 years to fund marine conservation activities. Building on this foundation, SeyCCAT became the first entity to have a blue bond approved by the World Bank. The blue bond will be issued by the Government of the Seychelles, alongside a US$5 million World Bank partial credit guarantee and a US$5 million Global Environment Facility loan. The transaction structure and connections with investors were facilitated by the World Bank and GEF. The blue bond will provide additional finance for transition to sustainable fisheries in Seychelles which will set a global precedent.

A public-private partnership designed to drive investment in some of the poorest countries in the world between the Danish state and pension funds to increase private investments toward achieving the SDGs. The fund has a broad mandate across the 17 SDGs. Investments are expected to be made in private sector enterprises in Africa, Asia, Latin America as well as parts of Europe targeting development within strategic sectors including sustainable energy, agribusiness, infrastructure, water and sanitation as well as industry, services and the financial sector. The Kr4 billion fund leverages Kr1.65 billion in public funds with Kr2.4 billion from 6 pension funds and is expected to unlock investments of up to Kr30 billion. The fund has committed to measure its impact on an ongoing basis.

Promising interventions to prevent or treat diseases that disproportionately burden low-income countries are financed through the US$108 million Global Health Investment Fund (GHIF). The fund finances advance development of drugs, vaccines, diagnostics and other interventions. Investment types to date range from debt to preferred equity. The fund is focused on upstream drug development which is higher risk and less appealing for investors. The intent is to prove up the model to attract future investment in this area at a significantly greater scale. It is too soon to have figures for impact. The GHIF is back-stopped by a guarantee from the Gates Foundation and has attracted investment partners as diverse as Grand Challenges Canada, JP Morgan, GSK, Merck, Pfizer and the International Finance Corporation. All GHIF investors have an additional buffer of protection with the Gates Foundation and SIDA underwriting the first 20% of losses and a further 50% of subsequent losses, should they occur.

Source: https://www.worldbank.org/en/news/press-release/2017/09/29/board-approves-over-20-million-for-seychelles-sustainable-fisheries-and-marine-resources-conservation; Virdin, J, et al, *Financing Fisheries Reform: Blended capital approaches in support of sustainable wild-capture fisheries, 2018*; Blended Finance Taskforce; *New 4bn Fund Contributes To UN Sustainable Development Goals*, 2018, https://www.ifu.dk/wp-content/uploads/Fact-sheet-final-SDG-.pdf; http://www.ghif.com/

CONSTRUCTIVE ENGAGEMENT OF GOVERNMENTS AND POLICY MAKERS

Governments are significant stakeholders and potential beneficiaries of impact investment. Progress will be faster and more impactful with their constructive engagement.

Policy, regulation and taxation can encourage, or potentially inhibit or distort development of impact investment. Governments play a critical signalling and convening role; they also set regulatory boundaries and incentives. Additionally, they contribute data, provide evidence and research capability, and bring extensive experience in delivery, along with critical flexible capital.

While there has been increasing focus on the policy environment for impact investing in some countries, few have embedded relevant policy tools into their approach to enable the field; some Governments have not even entered the discussion yet. The Social Impact Investment Taskforce highlighted policy as a key lever for development of impact investment, and the World Economic Forum and other groups have called for urgent action.

This is not a blank slate. Policy makers can look to international frameworks for impact investing policy analysis and design and draw upon a growing body of literature and learning.[35] Examples and policy inspiration come from jurisdictions as diverse as US, Canada and European Union, Africa, India, and Central and South America. Many of the tools are applied regularly in economic policy; there are already established benchmarks, including OECD initiatives upon which to draw.[36]

These initiatives and examples of government adoption of impact investment in the policy toolbox highlight the potential to draw on established principles of economic policy to drive impact investment.

- Providing critical flexible capital. Combined with their signalling effect, this can be brought to bear in policy priority areas and help direct capital where it is needed. Government capital can also help create valuable market infrastructure such as impact wholesale funds where they can powerfully enable more intermediation.[37]
- Removing regulatory barriers is a unique function of governments. The PRI, for example, have advocated that clarifying fiduciary duties of trustees of institutional investors, is an area where appropriate reform balances prudential responsibilities with h a contemporary reflection of the significance of social and environmental effects This will result in responsible investing practices that can reduce barriers to investment.
- Commissioning outcomes and supporting enterprise development to promote solutions and stimulating flow of revenue to impact-driven organisations. This can profoundly effect on the way that impact is delivered and ensure that innovation and effectiveness is incentivised.[38]
- Providing a sound and reliable environment for investment that encourages confidence. This is particularly so in less developed markets where barriers to investment and enterprise development will also inhibit impact investment.

[31] Bannick, M, Goldman, P, Kuzbanksy, M and Saltuk, Y, *Across the Returns Continuum*, 2017; forthcoming work led by FSG will feature 8 other leading organisations utilising this approach.

[32] A select group of foundations and family offices have been at the forefront of total asset management for net financial and impact returns, for example FB Heron Foundation, RS Group, KL Felicitas Foundation, Blue Haven initiative

[33] Blended Finance Taskforce, *Better Finance*: Better World, 2018

[34] Impact wholesale funds is the subject of a separate GSG paper; see also https://www.bigsocietycapital.com/about-us/our-investment-numbers

[35] For example, Thornley, B and Wood, D, Impact Investing: Policy Analysis and Design, 2011, Addis, R, *The Role of Governments and Policy in Social Finance in Nicholls et al (eds) Social Finance*, 2015

[36] See http://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/social-impact-investment-initiative.htm

[37] Impact wholesale funds are the subject of another GSG report in this series

[38] Social Impact Investment Taskforce, *Impact Investment: The Invisible Heart of Markets*, 2014

2.3 DEEPENING IMPACT INVESTMENT PRACTICE

Deepening impact investment practice is imperative to fulfil its promise.

Without clear intentions and measurement of results, there can be no indication of whether progress is being made or whether small inroads continue to be outweighed by activity that is does harm. If well-intentioned efforts to do better are not connected to what matters for people and the planet, there is a risk of entrenching dynamics of the system that over-emphasises financial capital.

Without meaningful information, it is harder for people to make good choices. If too much is done in the name of impact without reflection and accountability, there is a risk of disappointment, or worse, cynicism and loss of confidence that undermines genuine efforts to do things differently. The expectation should be to understand and adjust, committing to a process of impact management that includes learning and improving.

Over time, more information based on accessible and practical measurement and metrics will make the task easier. Those engaging in this field need to commit to understanding and building knowledge, frameworks and standards. Moreover, leaders can accelerate this process by their example.

Designing for impact

Clear impact goals make social and environmental effects an explicit part of the equation. If impact is not genuine, investors will lose confidence and people will lose heart; key stakeholders will not engage. On that course, impact investment may only be a minor or weak add-on to the current ways of working.

Impact management and measurement are fundamental to achieving better understanding of what effects matter and how to create more positive effects. This will be vital to grasping and filling known needs effectively and continuing to build capacity to tackle larger and more complex problems.

SETTING CLEAR IMPACT GOALS

Thoughtful, intentional design is an integral part of impact practice. As has been observed, if you don't know where you are going, any road will take you there. Clear goal setting is a critical step. Each individual and organisation needs to shape their contribution to the field and work out how they want to engage.

Developments in impact management have provided more insight into the fundamentals of impact and provided tools to develop and communicate impact goals.[39]

Establishing goals for an individual organisation, enterprise or investment is still a strategic task and is currently made more complex for want of efficient feedback loops of data, frameworks and products with verified performance.

It will get easier over time as the process of goal setting enables clearer measurement which in turn contributes to aggregate data sets, platforms, frameworks and standards. This is how building blocks for scale will be developed. Over time, this will inform knowledge and understanding needed to build confidence and decision-making.

[39] The Impact Management Project, resources on people's experience of impact, understanding impact and setting goals http://www.impactmanagementproject.com

[40] See for example, PGGM and GIIN Investor Council mapping of their portfolios to the matrix http://www.impactmanagementproject.com/insights/

[41] For example, FB Heron Foundation, JW McConnell Family Foundation, RS Group

Some investors start with mapping what is already in their portfolio to determine where impact is currently being created, what could be leveraged and where existing investments could be adapted for greater impact.[40] For corporates or impact-driven business, the dimensions of impact will inform strategy and business planning. Foundations have a broader tool box within their mission to utilise different forms of capital and deliver complementary or amplifying effects using grants, investment capital, convening power, brand and experience.[41]

Collective effort to set impact goals is also necessary to organise the flow of impact investment opportunities and activity toward achievement of the SDGs and identify gaps where more catalytic or solutions-focused action may be required.

DESIGN FOR SCALE

More will be achieved when design of capital or solutions or both promotes scaling effects, direct or indirect. Scale will mean different things based on context and circumstance. In some cases, the focus will be on larger opportunities or more capital. In other cases, it will be on deeper impact or how to diffuse and gain acceptance for more known solutions. For some circumstances, design for scale will focus on key enabling infrastructure and policies or innovations in the value chain that can create participation and remove barriers.

While objectives for scale may differ, the common focus is on removing barriers not only for individual firms but also industry value chains, for public goods (or their absence) relevant to the industry; and for policy and government action.[42] This includes looking for opportunities to scale industry sectors and drive market development. For example, growing one maternal-child health service could reach more mothers and babies; investing in training for midwifery or accessible technology to make clinical practice available across multiple services and geographies, reaching many more people.

To create a system of more effective solutions will require designs for growth, replication and dissemination. Attracting capital to workable solutions will mean designing experiments and proof-of-concept models with the end in mind, so that if successful, they can grow and be aggregated into larger opportunities that attract capital.

Box 5 provides examples of designing for scale that will help in attracting more capital, reaching more people and focusing on where investment can leverage the greatest impact.

[42] Koh, H, Hegde, N, Karamchandani, A, *Beyond the Pioneer: Getting inclusive industries to scale*, 2014; Bannick, M and Goldman, P, *Priming the Pump*, 2012

BOX 5:

How leaders are designing solutions for impact and investment at scale

Small and growing businesses in frontier markets are the focus for collaborative field building to accelerate promising, scalable models. The Collaborative for Frontier Finance (CFF) is demonstrating the power of collective effort to design new approaches that can accelerate promising, scalable models and define a common vision and action agenda to close the US$940 billion financing gap. The International Finance Corporation estimates exist for small and medium enterprises in low and middle income countries.

Founding partners Omidyar Network, the Dutch Good Growth Fund, and Info Dev are working with the Global Development Incubator to establish a platform to connect, pool, and facilitate capital to support these businesses and the intermediaries that facilitate their growth. The CFF's mission is to catalyse US$5 billion in early stage funding by 2023 and collaborate with different stakeholders, from investors to governments, to grow relevant finance and enabling interventions. The high priority levers in frame for the CFF are building an evidence base, advocating for investment, capacity building and accelerating or launching successful models to demonstrate possibilities.

An investment thesis has been developed to engage investors and broaden the sense of possibilities about what types of opportunities exist in the Pacific. The approach focuses on articulating priority trends and ideas for the future that can enliven a new vision and engage investors to think differently about the Pacific.

The investment thesis has been developed by Pacific Readiness for Investment in Social Enterprises (RISE), an initiative of the Australian Government, being implemented by Coffey, to scope and develop
investment opportunities in the Pacific. It centres on six trends:
1. Resilience in the face of climate change; **2.** Value chains producing unique quality; **3.** Capturing expanding value in the informal sector; **4.** Political stability shaped by geographic position; **5.** Strength in the domestic labour market and purchasing power; and **6.** Connected efficiently through tech and transport. The possible futures are also informed by a gender lens, drawing on knowledge of gender patterns in the Pacific context and culture.

The investment thesis creates a compelling and hopeful vision of the future to engage multiple stakeholders and focuses on opportunities today that can encourage investment in activities that will promote success in the future.

Sources: https://static1.squarespace.com/static/59d679428dd0414c16f59855/t/5ac814361ae6cf686a966e9b/1523061819815/CFF+Overview_+Summary+of+initiative.pdfBannick, M & Goldman, P, *Priming the Pump*, 2012; Jurgens, C and Steffen, R, *Advancing the Roadmap for Impact Investing* March 22, 2018; http://www.pacificrise.org/our-investment-thesis/

IMPACT LEADERSHIP BY DESIGN

Achieving a fundamental shift in the market will require leadership that embraces diversity, uncertainty and emergence. That is, leaders who can navigate complexity and uncertainty. This includes encouraging market enablers and infrastructure providers that generate benefits for all market players. Also, contributions to market development need to be valued and encouraged to incentivise building capability, demonstrating efficacy and developing a coherent body of practice.

Lessons from impact investment and other fields demonstrate that strategic intention needs to be matched with execution capacity. Expertise will need to be developed in specific areas, most critically, impact management and its governance and in analysis and measurement. Just like in financial markets, medicine or law, capability will need to be developed and professionalised over time.[43]

Research indicates that top performing impact investment funds have leaders with experience across traditional sector, industry or geographic boundaries who can engage stakeholders, including governments with confidence and trust.[44] This reflects characteristics identified by management and leadership commentators as requisites for future leaders capable of envisioning and creating more ecosystem driven economies.[45]

Growing the leadership and capability to deliver impact will be key to embedding, testing, sharing and expanding the insights from developments in impact investment to date across industries and geographies.

Impact integrity: principles and standards for practice

One of the hallmarks of impact investment to date has been the integrity of many entering it, they genuinely seek to contribute to a better world and develop shared understanding. The early communities of practice have been highly networked and collaborative. This is essential for building confidence.

As impact investment grows and more people and organisations are encouraged to enter, maintaining integrity of purpose and providing increasing clarity to integrate impact into practice will be important for maintaining trust and building confidence.

Increasing rigour will need to be applied to understand what effects are making a difference and make adjustments should be made to ensure progress. As easier goals are reached, further commitment will be required to deliver solutions for those who are harder to reach and problems that are harder to solve.

Through this process of maturing impact investment, it is likely that greater and clearer segmentation will be required to identify which actors are best suited for a particular geography or issue area or opportunity, and to efficiently match solutions to available resources.

EMBEDDING IMPACT MANAGEMENT

Broad-based commitment to impact management starting with mapping of impact goals and objectives linked to frameworks that provide shared focus and targets, including the SDGs, would be a major step forward. This would further drive a process of convergence, start to build comparable data that can be shared, inform understanding and enable better assessment of where there is alignment between investors and opportunities.

Integration of impact and financial goals is a hallmark of the models adopted by leading impact investment practitioners. These approaches incorporate design and assessment of both risk and return (or value-add) when assessing impact, linking it with the financial risk and return profile and potential.[46] This process is already being implemented by individual organisations and can be further developed across sectors and segments.

Tools are being evolved to understand more thoroughly the impact of investments and of enterprises. With more informed understanding, decisions can be made more effectively to optimise impact over time. Using mapping tools, including the impact investor matrix,[47] helps illustrate clearly how asset owners and managers deliver different types of impact and where there are opportunities to meet the needs of people and the planet through enterprise and investment solutions.

Impact management is also becoming more sophisticated with several pioneers assessing indirect impact, including positive and negative effects an enterprise or investment may create for a sector or for impact investment.[48] The theory of change will also provide tools to leaders to map and manage their contributions.

Driving more bottom-up impact management will also be critical to scaling impact. Although government funded services, community sector and development are often evaluated, much of the evaluation is bespoke, often funder or donor driven based on programmatic approaches. Overall, it is not enough to inform decisions for a broader set of stakeholders and investors. For solutions-driven activity and investment to connect, more impact management will need to be embedded for service design and delivery as well.

[43] Ruff, K and Olsen, S, *The Next Frontier in Social Impact Measurement isn't Measurement at All*, 2016

[44] Clark C, Emerson J, & Thornley B, *The Impact Investor*, 2014

[45] Scharmer, O and Kaufer, K *from the Emerging Future*, 2013

[46] Clark, C, Thornley, B and Emerson, J, *The Impact Investor*, 2014

[47] See Section 1.2 and www.impactmanagementproject.com

[48] See Bannick, M and Goldman, P, Priming the Pump, 2012; Bannick, M, Goldman, P, Kuzbanksy, M and Saltuk, Y, Across the Returns Continuum, 2017; FB Heron Foundation https://www.heron.org/

COMMITTING TO ACCOUNTABLE PRACTICE AND GOVERNANCE

As new actors enter the field, transparency will be key to maintaining trust. That includes transparency about how individual organisations are approaching impact, including where their activity maps on the spectrum from avoiding harm to contributing solutions, and how much of its activity is directed to positive impact.

The first step is for leaders to make a clear commitment to understanding impact and impact management. Where activity and investment are held out as impact investment, that includes demonstrating intention and measurement. As people and organisations take up impact investment, systematic development of capability and systems to support integration will be vital. Reinforcing commitment and capability with governance systems and processes, as in other areas of practice, will be vital to maintaining focus and accountability.

Impact practitioners and their stakeholders are seeing a growing need to demonstrate the validity of impact investing strategies to a larger and diverse audience in order to build trust. By contrast, low trust could fuel a disconnect making it more difficult for institutions and organisations to play a role in delivering impact.

Other areas of practice that rely on integration of social, environmental and governance factors provide lessons for impact investment. For instance, B Lab provides an audit mechanism for corporates integrating sustainable practice; it has successfully led to legislation adopted in several jurisdictions. The legislation provides a framework that can be enforced by stakeholders and is increasingly supporting practice with data and analytics.[49] The Global Alliance for Banking on Values has developed a scorecard and some of its members utilise (so called) golden shares to entrench the positive mission of organisations.[50]

A commitment to accountable practice includes measurement and reporting of performance. Without this, how can progress be measured or choices be made? Data and application of principles has led to methods and frameworks for measuring financial performance and profit thought too difficult till the mid-19th century. Similarly, impact measurement will become more developed and less variable over time.

The available data is building and over time people will get better at interpreting information and making more insightful comparisons of performance. The more that impact is mapped and measured against clear goals, the more the skills and knowledge for it will develop. Achieving this requires transparency about the basis on which goals are set, how measurement is undertaken and performance is reported; this should include disclosure of assumptions and data gaps.

Enhancing trust will be key. As more people seek to make investments aligned with their values, failure to deliver and be accountable for performance can carry a much wider risk for reputation and credibility. This is true for both individual actors and impact investment as a whole. As demand grows for more positive impact choices, impact performance reporting will become and important competitive tool to distinguish product offerings.

Clear commitment from leaders to reporting impact performance will provide powerful signals to markets and make it increasingly easier to derive and impose standards. Some organisations have already started doing this by providing integrated reporting, which accounts for human, natural and other capital as well as financial outcomes.[51] Some impact funds entering the market such as TPG Rise Funds are making commitments to applying evidence-based impact measurement;[52] this is to be encouraged.

Transparent insight into organisational design, business models and effects, informs decisions and contributes to accountability and provides common ground for advisers and investors to communicate with organisations to set expectations about performance.

Over time, demand will reinforce expectations: citizens, consumers, clients, employees, investors, savers, members of pension funds, people and organisations can all play a role in holding organisations they deal with accountable for their commitment to social and environmental goals and how they manage impact.

[49] See https://bcorporation.net/about-b-lab

[50] See GABV Principles http://www.gabv.org/about-us/our-principles; other examples in Social Impact Investment Taskforce *Mission Alignment Working Group Report*, 2014

[51] See The Integrated Reporting Initiative http://integratedreporting.org/

[52] http://examples.integratedreporting.org/home and http://therisefund.com/impact-measurement.html

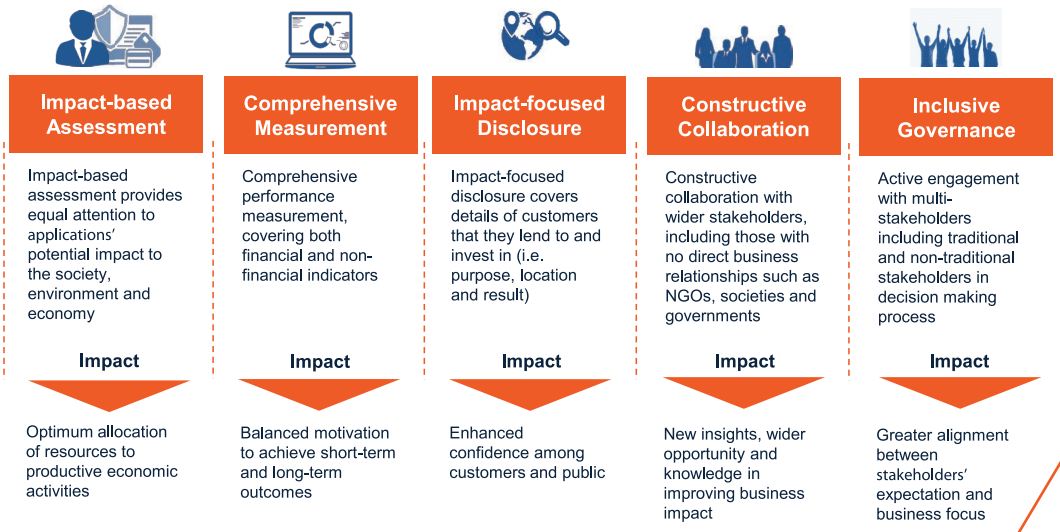
BOX 6:

Examples of good practice for impact integrity

The UK National Endowment for Science and the Arts (NESTA) has been a standard bearer for impact measurement and has recently commissioned an audit of its first impact fund. Nesta released Standards of Evidence to measure the impact of its programmes in 2013 and has contributed the framework to the Impact Management Project. It recently commissioned an independent Impact Strategy Audit Report on the Nesta Impact Investments 1 Limited (NII1). The £17.6 million fund NII1 was one of the UK's first impact investment funds. Established in 2012, it invests in innovative, high-growth businesses with a focus on education, health and community.

The report looked beyond the direct impacts of the fund to include Nesta's approach and industry contribution, including lessons on challenges and successes that can be shared. The report highlights strengths in NII's partnership-oriented and iterative approach, which includes significant effort and resources on developing sector strategies including Theory of Change and KPIs integrated into impact plans and notes the commitment to industry development and transparency. Part of Nesta's focus was to encourage other impact investors to increase transparency and submit themselves to independent scrutiny; the full report and a management response have been published.

The Global Alliance for Banking on Values (GABV) scorecard is shaping prudential regulators' views on values-based banking. Based on the Principles of Values-based Banking, the GABV scorecard is designed to enable banks to self-assess, monitor, and communicate progress on delivering values-based banking. The scorecard has been adopted under guidance of banking regulators in several markets including Nigeria, Malaysia and Peru. Malaysia's Central Bank, Bank Negara Malaysia (BNM) has issued guidance to inform values-based banking. Although, BNM has stopped short of regulation, it has asked bank executives under its jurisdiction to attend annual meetings with BNM in order to discuss their approach.



Sources: https://www.nesta.org.uk/report/nesta-standards-of-evidence/; Itad, Nesta Impact Investment Strategy Audit Report ,2018; Global Alliance for Banking on Values, Berlin Declaration, 2013; Global Alliance for Banking on Values, Principles for Values-Based Banking, http://www.gabv.org/; Global Alliance for Banking on Values, Banking on Values Scorecard, http://www.gabv.org/

TOWARD INDUSTRY-BASED PRINCIPLES AND STANDARDS

Growing interest in the opportunities presented by impact investment and rapidly growing uptake has increased the urgency for collaboration and alignment around principles, benchmarks and standards. The GIIN has called for professionalising and clarifying good impact practice through a combination of clearer identity, detailed principles and education.[53] Across impact investment practitioners, expectations are starting to coalesce around standard setting for good practice.

The Impact Management Project has delivered the first shared foundations for impact management practice including fundamentals for how to think about impact, set impact goals and align them with investment strategies. The dialogue about which of these conventions should be developed into industry norms and standards, is already underway amongst practitioners from various disciplines who contribute to this work. The OECD is releasing the second phase of its work on developing the evidence base early in 2019; it has been active in setting principles for blended finance and green finance.[54]

Prototypes and initiatives are already drawing on other market infrastructure including measurement, impact ratings and indices. Analysts like GiveWell and Charity Navigator assess and compare community sector impact. Rating and assurance capability is developing including the Good Analyst and bond ratings in community investment by groups such as Aeris.[55]

Some organisations have relied primarily on transparency and disclosure to achieve both accountability and make information available; for example, members of the Global Alliance for Banking on Values have clear principles and a scorecard for values-based banking. Impact Base and Impact Asset 50 provide information on funds and their performance. Taxonomies, measurement tools and indices are taking shape and initial benchmarking of performance has started.[56] Examples of good practice in impact integrity (Box 6) are developing; these bring colour to principles taking shape.

Organisations in related fields are starting to extend practice tools to impact investment. The Global Reporting Initiative has developed depth of expertise in important areas including materiality principles and has worked with the United Nations Global Compact on reporting SDG progress.[57] Responsible investment practice is building new roadmaps and platforms, including some specifically for impact investment. In addition, several platforms are developing to drive investment toward the SDGs e.g., the PRI have recently released an impact investment market map[58] and the International Finance Corporation and Business Council for Sustainable Development released an impact methodology framework. The International Finance Corporation has also released principles for flexible capital in private sector projects and has impact investment principles of practice in development.[59]

There is more potential for impact investment to learn from other fields of practice including financial assurance and development evaluation. The financial sector has established processes and standards for assurance which can be adapted and applied for impact. In community sector and development, there is an established body of evaluation practice.

These are all positive developments and reflect that a process of principles and standards is already starting. Some of the work is industry based, for example the GIIN led initiatives with investors. The first cross-sector convening on impact integrity is planned for the Alpbach Forum in August 2018 to design impact principles.

The combined effect of these initiatives will ground what impact investment can and should be as a powerful force to improve outcomes for people and the planet. The focus must also be to deter activity in the name of impact that does not have substance and connection to the needs of the people and the planet and ensure that practitioners learn from missteps and wrong turns.

The question remains whether strong leadership, good practice and industry-led principles and standards will be enough to assure impact integrity. Some jurisdictions have already started down the path of regulation. South Africa mandated integrated reporting for listed companies.[60] Central banks in other countries, including Malaysia, have issued guidance based on the Global Alliance for Banking on Values Scorecard.[61]

As this process of standard setting plays out, the opportunity is to create expectations of transparency and accountability for impact that bring much greater weight to the drive from the system currently dominant to a future where impact counts.

[53] The GIIN, *Roadmap for the Future of Impact Investing: Reshaping Financial Markets*, 2018

[54] Wilson, K and Silva, F, *Impact Investing: Building the Evidence Base*, 2015; https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/OECD-Blended-Finance-Principles.pdf; http://www.oecd.org/cgfi/blended-finance.htm; http://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/private-finance-for-sustainable-development.htm

[55] https://www.investingforgood.co.uk/news/good-analyst; https://www.aerisinsight.com/about-aeris-ratings/

[56] For example, Cambridge Associates & the Global Impact Investing Network, *Introducing the Impact Investing Benchmark*, 2015, Impact Investing Australia, *Benchmarking Impact* 2014 and RIAA, *Benchmarking* Impact 2107

[57] https://g4.globalreporting.org/how-you-should-report/reporting-principles/principles-for-defining-report-content/materiality/Pages/default.aspx ; https://www.globalreporting.org/information/SDGs/Pages/Reporting-on-the-SDGs.aspx

[58] https://www.unpri.org/thematic-and-impact-investing/impact-investing-market-map/3537.article

[59] https://www.ifc.org/wps/wcm/connect/7ddc9a80488552c3ac8cfe6a6515bb18/Measuring+Impact+Framework+Methodology.pdf?MOD=AJPERES&CACHEID=7ddc9a80488552c3ac8cfe6a6515bb18; and https://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/solutions/products+and+services/blended-finance/blended-finance-principles impact investment principles scheduled for release November 2018

[60] King Code of Governance for South Africa 2009 (King III); see https://www.cpajournal.com/2017/07/28/integrated-reporting-south-african-experience/

[61] Bank Negara Malaysia, *Values Based Intermediation*, 2018

3. SETTING THE COURSE FOR SCALE

3.1 Vision for Impact at Scale

So far in this paper, the attention has been on activating breakthrough levers that will widen and deepen impact investment. Where does that lead?

As more people and organisations get involved and become effective in impact investing, there is a cumulative effect. A vibrant ecosystem for delivering tangible outcomes and more choices to people is opening up, giving life and possibility to a vision of an inspiring future. Momentum in activity and practice goes hand in hand with vision.

As positive breakthroughs are realised across communities and countries, adaptations of practice uniquely suited to each place will emerge as part of a rich collective contribution to a global economy that values positive impact. Holding up the successes and actively developing impact leadership can unite leaders across movements, sectors and geographies behind the vision for a world where people have choices, are healthy and educated; have somewhere to live and a stable job, can access the products and services they need, and where the environment is conserved and sustained. In this future, the SDGs are met: there is zero poverty, no hunger, people enjoy good health and well-being, can access quality education, and the environment and the oceans are conserved and sustained.

There is every reason to look to this future with optimism and ambition. Despite geopolitical complexity, hardship and real need experienced by many, the skills, technology and information are available to make real progress.

In this future, the purpose of capital is clear: it is an enabler for creating and sustaining a dynamic impact ecosystem.

3.2 Setting the Course

People across the world are calling for a future defined by such a vision for more inclusive and sustainable growth, including achievement of the 2030 Agenda. Whether from global banking or local community services, from the accounting industry or sustainable fisheries or from Côte d'Ivoire or Germany, Peru or the USA, they are saying the same thing just in different languages: everything has an impact and that counts.

Practical and insightful contributions from the Working Group and stakeholders have brought to life a theory of change that identifies breakthroughs needed to move rapidly to this future. Coming together from various disciplines and industry bodies, they have brought insights needed for impact investment to reach its potential and drive impact at scale.

The first step is mobilising people who want a better future and have ideas to contribute. It continues with building and sustaining the networks for them to engage in increasingly informed and rigorous practice. This demonstrates what is possible which, in turn, provides inspiration and role models that more people want to get behind.

To have maximum effect, the efforts need to continue to build impact leadership and sustain the attention of those best positioned to catalyse the field, including political leaders and policy makers across the globe. It is imperative to develop the impact management, frameworks, knowledge and standards, that will drive performance and integrity of the field. This builds confidence for more people to contribute.

Many people have already brought great ideas, ambition and optimism; they have worked l hard to make inroads into social and environmental issues to grow impact investment as a driver of real change. Now is the time for a quantum leap forward. Momentum is building and the SDGs provide a framework for targeted action that can improve lives of millions, if not billions, of people.

Three priorities are identified to drive a quantum leap in progress.

- Leadership to amplify and connect the calls to action across different movements to the 2030 Agenda and put more collective focus on actions that will have a breakthrough effect for scale.
- Powerful advocacy to engage governments and multi-lateral leadership bodies including the G-20, to further enable impact investment, invest in market infrastructure and provide conducive regulatory environments in which it can flourish.
- Coordinated action to drive practice of impact management and prioritise principles and standards for transparent, accountable impact practice and reporting.

The aim is to bring together views and voices from different geographies and cultures as well as from those already involved in movements driving more positive impact. Further, the three levers build on what is already being done by practitioners, industry bodies and network organisations around the globe. The aim is to amplify their efforts and calls to action by illuminating the impact principle as the unifying feature and encouraging people to become active in making choices for more positive impact.

The GSG and its National Advisory Boards can use their network reach to powerful effect, working with partners and communities to create a multiplier effect across the local, regional and global ecosystem.

The call is for bold, enlightened leaders to join with shared purpose, urgency and optimism and be part of making sure that impact investment accelerates as a powerful force to drive the impact ecosystem and fulfil the vision for a more inclusive, prosperous and sustainable world.

PART 2

NAVIGATING IMPACT

"To journey across the vast expanses of space, navigators drew on age-old methods and invented new ones.

Space navigators drew upon techniques used on the sea and in the air. They also had to invent a new science of space navigation, using star sightings, precise timing and radio communications. The great distances spacecraft had to travel called for even greater precision in timing and positioning than ever before.[62]"

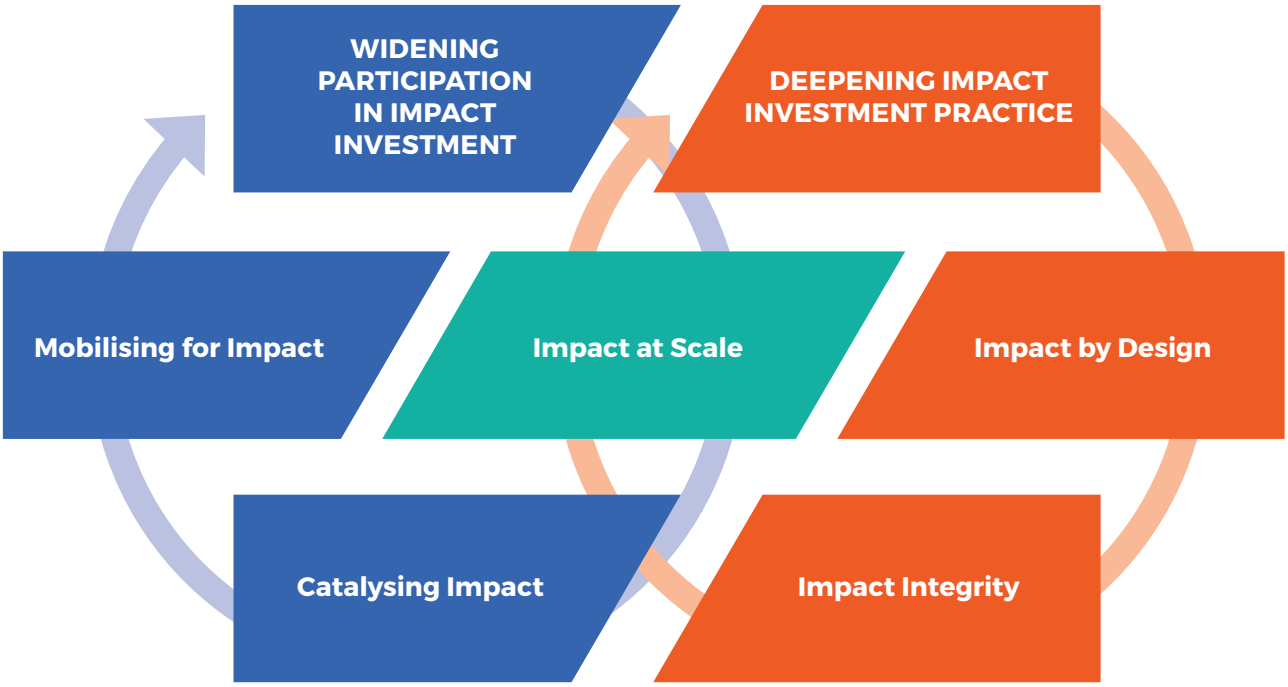
[62] Time and Navigation: The untold story of getting from here to there, Smithsonian Institute https://timeandnavigation.si.edu/navigating-space; Photo by Jira Saki, sourced at https://www.stocksy.com/496674/learning

About this part

The challenges of translating interest to action and evolving practice are real across all sectors. Good intentions will not be enough to see any significant widening and deepening of the market. The starting point is comprehending and appreciating each organisation's role and contribution to the impact ecosystem. In a market where cross sector collaboration is common, it is not just useful but highly necessary.

To ease navigation, the themes and actions identified in Part I are organised around headings of widening participation in impact investing and deepening impact investment practice (Figure 9).

FIGURE 9:
Dimensions of widening and deepening impact investment



Source: GSG Working Group, 2018

This part begins with an overview of what different market actors can do in each of these four areas, as individuals and within organisations. Priorities for collective action are highlighted to focus attention on high-value opportunities to promote progress at an industry and sector level.

This is followed by practical primers that provide tools for interested individuals to navigate impact investment and chart their course, whether they are just beginning or developing and refining their strategies.

The guidance provided for selected actors: banks, institutional investors and corporations; and on utilising key levers: flexible capital and a solutions-focused approach, outlines practical tools and steps that will help a range of actors move forward.

These add to the frameworks and methods available. They should be treated as living and evolving processes that contribute to the growing body of practice; they can be improved developed and extended to other actors and levers.

Overview of Actors and Levers

Table 1 below provides an overview of the opportunities for actors across the impact value chain to engage and contribute to widening and deepening the field of impact investing. The section following, (Charting the Course) provides an even deeper dive by selected actor. Box 7 sets out top priorities for collective action.

TABLE 1:
Key actors and levers for widening and deepening impact

PRIORITY ACTORS	WIDENING		DEEPENING	
	Mobilising for Impact	**Catalysing Impact**	**Impact by Design**	**Impact Integrity**
DIMENSIONS OF IMPACT AT SCALE	▲ Educate and activate. ▲ Incentivise and support actors who can drive impact design. ▲ Intermediate impact.	▲ Coordinate with leaders. ▲ Invest in market infrastructure. ▲ Encourage different combinations of actors to work together in a coordinated way.	▲ Set clear goals, measure progress and re-set direction. ▲ Develop and invest in capability and leadership. ▲ Design for scale.	▲ Embed impact measurement and management. ▲ Commit to accountable practice. ▲ Establish clear impact governance.
INSTITUTIONAL INVESTORS	Make allocations to impact, including alignment with the SDGs. Run communications campaigns aimed at raising client awareness and understanding of impact products and offerings. Use Requests For Proposals (RFPs) and other mechanisms for engaging the market to solicit ideas and develop partnerships.	Signal impact matters by making public statements and commitments potentially collectively and through investment decisions. Engage actively as an investor and stakeholder, individually and collectively to advocate for impact and related disclosures.	Design an organisational strategy that integrates impact into goals for long term value creation, diversification, managing systemic risk and customer and employee attraction and retention. Ensure strategic asset allocation is clear about objectives for impact at scale. Embed impact into organisational culture through capacity building and KPI alignment.	Develop a rigorous and transparent impact framework that is embedded into the investment decision making process. Commit to accountability through rigorous measurement and Integrated reporting. Engage actively with the field to drive consistency in reporting and measurement. Use technology to enable access to impact reporting and facilitate client choice.
INDIVIDUALS	Take up opportunities for investment and engagement more aligned with values. Break the investment taboo; talk with friends in a social context about making impact investments.	Signal impact matters through consumer demand and choice including for banking and pension fund activities. Engage actively to communicate expectations that others in the value chain avoid harm and benefit people and planet.	Clarify which social and environmental outcomes are of interest and analyse how current investments and/or donations are aligned with these. Investigate and Invest in products and support service providers that are aligned with impact goals. Identify opportunities for learning more about impact and building capacity.	Push service providers (e.g. wealth managers and pension funds) to report and describe impact alongside financial returns and risks. Actively choose product and service offerings that disclose impact through accreditation systems (e.g.. Fair trade) or high levels of impact disclosure in reporting.

TABLE 1:
Key actors and levers for widening and deepening impact (continued...)

PRIORITY ACTORS	WIDENING		DEEPENING	
	Mobilising for Impact	**Catalysing Impact**	**Impact by Design**	**Impact Integrity**
BANKS	Engage new and existing partners and advisors in the effort to create impact solutions. Develop public facing educational capabilities and resources for clients Engage other parts of the bank (e.g. CSR; investor relations) in impact delivery.	Join and lead field-building initiatives including support for impact investing wholesalers with capital and capacity. Dedicate resources and leverage expertise from diverse partnerships to develop product in nascent and under-served markets.	Define and understand impact goals at the organisational level and revise corporate strategy to integrate impact. Operationalise impact through business strategies and products and service offerings permeating all facets of client and market engagement. Create dedicated units and carve outs to facilitate the bank's commitment to raising and deploying impact capital and build capacity. Provide additional institutional flexibility to product developers.	Develop rigorous impact management and reporting systems for transparent impact reporting to clients on products and services. Engage with other industry participants to establish consistency in impact reporting and disclosure and alignment with global standards [if available]. Implement policies and practices for impact that align with agreed practice. Establish clear governance and KPIs around impact goals and report on the bank's impact.
CORPORATES	Offer to leverage the firm's unique expertise and networks in the service of new types of partnerships (e.g. with development agencies or philanthropic foundations) Develop and contribute to thought leadership by sharing lessons.	Join impact investing networks and peer groups to share and leverage knowledge and capacity. Proactively explore opportunities to use investment to advance internal and external stakeholder interests. Where thematic alignment is strong, play an anchor role.	Clarify and communicate the corporation's agreed role in impact and its related KPIs. Ensure high-level executive sponsorship and buy-in on impact initiatives. Develop strategies for engaging with and supporting suppliers on impact. Consider collaborating with competitors on thematic areas of interest.	Take accountability for reporting on impact in a transparent and rigorous manner. Align with global standards, if available, or partner with other industry players to develop a consistent impact reporting approach. Set minimum impact benchmarks for suppliers (including financiers).

PRIORITY ACTORS	WIDENING		DEEPENING	
	Mobilising for Impact	**Catalysing Impact**	**Impact by Design**	**Impact Integrity**
GOVERNMENT	Expand the policy toolbox and build public sector capacity for the future. Support key actors such as social enterprises to provide more diverse and effective means of meeting citizen needs and delivering a more resilient social sector. Develop authentic pathways for soliciting citizen input. Call for EOIs which leverage the multiplier effect of impact investing for priority areas of government spending.	Invest in infrastructure such as an impact investing wholesaler to help scale the national market. Open up data accessibility (subject to privacy) and analyse and clarify the costs in key areas of social service provision. Convene key stakeholders around areas of policy priorities aligned with impact. Evaluate the current regulatory impediments to impact investing (e.g. Fiduciary duty clarification) with a flexible view to amendment.	Increase the "spill over" effects of economic growth and explicitly design for and measure targeted impact outcomes. Establish a dedicated unit as a "go to place" for other impact investment actors. Design and implement a government procurement framework with impact as a key component.	Increase measurement and transparency of outcomes for people and the planet from public funds. Strengthen the culture of M&E and results-based policymaking. Create robust rules and standards requiring disciplined impact measurement and management by partners. Consider strengthening regulation around impact disclosure requirements for corporations including the potential adoption of integrated reporting.
DEVELOPMENT FINANCE INSTITUTIONS	Engage key partners in target markets on impact and the strengthening of impact practice. Identify and consider filling specific market gaps. Share lessons and learnings to raise awareness, educate and activate others.	Create dedicated capabilities for deploying flexible capital. Develop custom solutions/platforms for activating intermediaries and leveraging grant capital for maximum catalytic effect. Play an active, collaborative role with peers and other market builders.	Commit to targets for deploying and leveraging high impact capital in support of compelling impact theses that link those resources to concrete developmental outcomes. Seek the necessary policy flexibility for driving financial innovation.	Transparently report against global standards (as available) on impact achieved. Convene stakeholders around consistency of impact goals, reporting standards and accreditation.
FAMILY OFFICES	Commit to building understanding of impact management practice. Engage partners in conversations about what they do, and what the principals might need. Be open to partnering with specialists on client education and discovery.	Join and contribute to peer groups. Be prepared to develop early-stage markets of interest to the principals, by directly building the requisite financial infrastructure.	Clarify and communicate to partners the family office's primary, actionable areas of interest Work closely with partners to develop robust impact theses in thematic areas. Put all tools on the table if needed (i.e. grants, DAFs, PRIs, endowment or investment capital). Set specific targets around impact allocation for investment capital.	Establish rigorous impact measurement and management requirements of partners. Require high levels of accountability and transparency around the impact created.

TABLE 1:
Key actors and levers for widening and deepening impact (continued...)

PRIORITY ACTORS	WIDENING		DEEPENING	
	Mobilising for Impact	**Catalysing Impact**	**Impact by Design**	**Impact Integrity**
FOUNDATIONS Foundations should adopt a similar approach to family offices above with a few additional activities	Weigh the value of field-level advocacy and education initiatives.	Convene key stakeholders around aligned impact goals to solve key issues. Take more risks in a catalytic role than has historically been the case for some foundations. Lead by example. Invest in field building e.g. Support for impact investing wholesalers.	Partner closely with program teams and external partners to amplify thematic impacts (e.g. grantees, service providers and peers)	Share learnings and approach with the broader market. Engage with peers and key stakeholders around consistency in impact reporting and disclosure requirements.
IMPACT DRIVEN ENTERPRISES	Go to market with new and more diverse models for delivery. Leverage Technology to drive new solutions. Raise awareness and tell stories of impact and business success.	Open new market opportunities through innovative approaches to existing issues. Leverage flexible capital around a solutions orientated approach.	Set clear impact goals and objectives and develop a strategy that embeds these into business operations. Consider and track potential supplementary benefits of core impact objectives e.g. local job creation Attract and retain quality employees who are aligned around impact goals.	Embed impact into organisational mission and values. Develop an impact measurement management framework and related KPIs. Focus on reporting with transparency and high standards of disclosure.
COMMUNITY SECTOR AND NGOS	Leadership for more industry and impact-led activity designed to attract new and different resources. Share successes and knowledge more broadly to encourage industry participation in impact investing.	Create community sector industry research and development capability. Share data and frameworks as appropriate.	Orient and utilise more resources to achieve mission. Design for scale and sustainability in operations.	Develop a rigorous impact measurement and management framework which allows (but is not driven by) reporting to funders. Convene other sector actors to enable better and more consist management and reporting of impact.

BOX 7:

Top priorities for collective action

Impact investing will often include collaborations to increase effectiveness and coordinate with partners and industry leaders to create a powerful effect. Priorities for collective action include:

- Achieving structured collaboration between and within actor groups around over-arching impact goals. This could be collective alignment with the SDGs, where currently alignment is largely dependent on individual actors. Once established, a consistent over-arching goal(s) would help focus product innovation, facilitate awareness and capacity building and direct investment to areas of need.
- Developing industry standards in impact measurement and reporting. This would be further enhanced by an accreditation system or impact audit. Although impact management itself may not be standardised, but establishing a set mechanism for financial reporting would enable a mechanism for accountability, transparency and comparability for investors targeting impact.
- Establishing a strategic communication system that facilitates knowledge sharing, deal and data exchange for impact investors. In traditional financial markets, investor access to information and capital flows is streamlined by platforms, systems, technology and sophisticated intermediation. In this early stage of the impact market development, impact data is highly decentralised; this needs to change as impact deals often involve finding multiple actors to enable a blended finance structure.
- Advocating for policies to reduce disincentives and potentially increase incentives in target geographies and industries/asset classes. Areas of success in this respect in a number of countries include: clarification of fiduciary duties, tax incentives, and program/mission related investment allowances.

NETWORK ORGANISATIONS, INDUSTRY FACILITATORS AND FIELD BUILDERS TO CONNECT WITH:

- Global Impact Investment Network (*https://thegiin.org*)
- GSG (*http://gsgii.org*)
- UNEP Finance Initiative (*http://www.unepfi.org*)
- Global Alliance for Banking on Values (*http://www.gabv.org*)
- Banking Environment Initiative (*https://www.cisl.cam.ac.uk/business-action/sustainable-finance/banking-environment-initiative*)
- Global Partnership for Financial Inclusion (*https://www.gpfi.org/*)
- UN PRI (*https://www.unpri.org/*)
- The Impact Management Project (*http://www.impactmanagementproject.com/*)
- EY Beacon Institute (*https://www.ey.com/gl/en/issues/ey-beacon-institute*)
- Coalition for Inclusive Capitalism (*https://www.inc-cap.com/*)
- Global Partnership for Financial Inclusion (*https://www.gpfi.org/*)
- Cambridge Institute for Sustainable Leadership Investment Leaders Group (*https://www.cisl.cam.ac.uk/*)
- Business for Sustainable Development Commission (*http://businesscommission.org/*)
- Committee Encouraging Corporate Philanthropy (*https://cecp.co/*)

Navigating Impact: The Actors

The guidance for actors is targeted at banks, institutional investors and corporations all of which have historically been less focused on impact than philanthropy, governments and family offices. These actors have a critical role if the market is to reach greater scale:

- Banks and corporations whose activities collectively touch and enable almost every transaction can create more pathways for organisations and individuals to participate; and
- Institutional Investors who can drive positive impact through their investment choices by engaging actively with investees over longer term investment horizons.

A similar methodology could be applied in developing an approach to impact for a broader range of actors including: wealth advisers; fund managers and other intermediaries.

As Table 2 sets out, there several myths and misconceptions that could constrain impact at scale. An important step for all the actors is to recognise these perceived issues and understand the opportunities they present within the context of their organisations.

TABLE 2:

ADDRESSING COMMON MYTHS & MISCONCEPTIONS	
✗ There is a necessary trade-off between impact and financial return.	✓ Evidence does not support this; there is a growing track record demonstrating returns vary according to investor choices and strategies around impact, risk and return factors.
✗ All impact opportunities are small scale.	✓ These actors have significant capacity for innovation and market development; there are large, concrete opportunities to meet credit gaps and invest in communities.
✗ All impact investments are new and risky.	✓ There are potential impact opportunities for all actors leveraging existing products, clients and customer groups that deliver impact.

Navigating Impact: Banks

BANKS AND BANKING HAVE A CRITICAL ROLE

Banks touch nearly every person and critical to the function of any organisation is some form of bank product/account.

- Banks can enable or provide finance for organisations expanding their impact to deliver benefit to people and the planet and contributing new solutions
- Banks can act as intermediaries aggregating and/or syndicating opportunities for impact to enable different groups to participate.
- Banks can finance organisations and infrastructure that creates jobs and impact in local economies.
- Banks are focused on the financial health of existing customers and have the potential to reach customer groups that have difficulty accessing appropriate finance.
- Banks can advise clients on opportunities to invest aligned with their values.

Banks are critical partners for the recipients of impact capital. Banks' active participation can enable capital flows that have immediate and growing impact.

CASE FOR BANKS TO MOBILISE FOR IMPACT

Impact investment can unlock opportunities that align a bank's impact goals with its core business, stakeholder values and future growth. It can:

Enhance trust and reputation with stakeholders and social licence to operate by signalling that impact matters and aligning stated institutional values and impact goals.

Attract and retain customers and employees with opportunities more aligned with their values.

Develop growth strategies for new products and services to existing customers and extending products and services to new customers, including potential alignment to the SDGs.

Increase competitive edge by differentiating product offerings around impact.

Leverage traditional corporate responsibility and philanthropic activity by strengthening integration with core banking product and service offerings.

Generate new value creation opportunities through partnerships and collaboration where interests and values are aligned.

FAST FACTS

- The combined assets of the top 100 banks is >US$100 trillion.[1] Of that >US$46 trillion is held by the top 25 banks.[2]
- Banks made up 6% of respondents to the 2018 GIIN Survey and reported impact investment growth projections of 24%[3]
- 54 Banks are currently members of the GABV and collectively have assets of US $164 billion.
- Bank debt represents >50% of finance to micro, small, and medium-size enterprises, which make up 90% of global businesses and account for >50% of employment. But, the unmet need for credit among SMEs is >US$3 trillion globally and >US$2 trillion in low and middle-income countries, with 85% of SMEs suffering from credit constraints.[4]
- Between 2014 and 2017, banks reached 500 million individuals. Still, nearly a third (31%) of adults around the world and half (56%) of women did not have an institutional bank account. That's 1.7 billion unbanked individuals.[5]

> "When you see the kind of progress impact investments have had in solving social and environmental challenges, it's extraordinary to think about what could be achieved as the industry grows and becomes more efficient."
>
> **JAMIE DIMON**
> JP Morgan Chase

GETTING STARTED AND GROWING IMPACT

HORIZONS		GETTING STARTED	GROWING IMPACT
WIDENING PARTICIPATION	***Mobilising for Impact***	▲ Allocate responsibility to a small team to drive and filter opportunities ▲ Analyse current products and services that align with SDGs and potential for replication at scale. ▲ Identify needs of current clients and customers that deliver benefits to people and the planet ▲ Develop an internal communication campaign to spread awareness and knowledge	▲ Facilitate cross-department collaboration (eg. CSR, IR) to embed impact across the bank. ▲ Build partnerships and design new impact offerings for existing and new customers ▲ Understand segment needs and develop opportunities for customers in new or under-supplied markets ▲ Build acceptance of new models and specialised solutions
	Catalysing Impact	▲ Create an engagement plan that clearly signals impact matters internally and externally. ▲ Identify and engage with partners with impact expertise [NGOs, government etc].	▲ Actively align with stakeholders including partners with flexible capital around impact goals and issues [e.g. SDG alignment]. ▲ Join and lead field-building initiatives including: support for impact investing wholesalers and other intermediation and origination activities.
DEEPENING PRACTICE	***Impact by Design***	▲ Set clear impact goals and strategies at organisational level. ▲ Develop positions to limit engagement with harmful investments and promote benefit and solutions. ▲ Scope an initial impact filter to identify and prioritise early opportunities.	▲ Develop flexible processes for approving new programs and scaling approaches that work. ▲ Integrate impact assessment into client acceptance and risk management processes.
	Impact integrity	▲ Investigate mechanisms for more formalised reporting and disclosure. ▲ Adopt methodology for internal evaluation and reporting of impact outcomes. ▲ Collaborate with other industry actors to evolve a consist system of impact reporting and disclosure.	▲ Build impact into governance and company priorities including KPIs. ▲ External reporting against industry standards of impact metrics. ▲ External accreditation of impact outcomes as available and rigorous framework of internal evaluation and analysis.

TOP PRIORITIES FOR COLLECTIVE ACTION

Impact investing at scale requires collaborations to increase effectiveness and coordinate with partners and industry leaders to create a powerful effect. Three priorities ripe for collective action are:

- Structured collaboration to focus alignment on impact goals [SDGs] for the industry. This will better enable awareness building and product innovation.
- Development of strategic communications mechanism to enable deals, knowledge and data flows across banking and with a link to blended finance investors.
- Advocacy for policy to reduce disincentives or create incentive for impact deals.

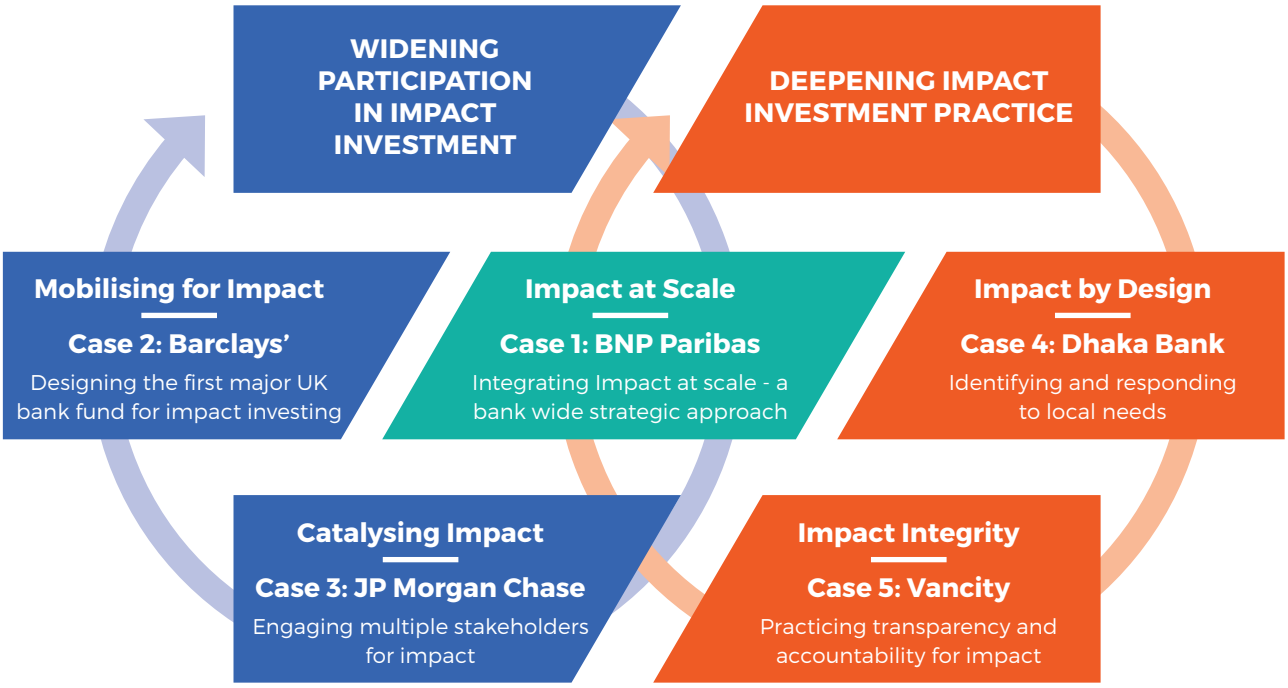
NETWORK ORGANISATIONS, INDUSTRY FACILITATORS AND FIELD BUILDERS TO CONNECT WITH AND THROUGH:

- Global Impact Investment Network (*http://www.thegiin.org*)
- UNEP Finance Initiative (*http://www.unepfi.org/*)
- Global Alliance for Banking on Values (*http://www.gabv.org*)
- Banking Environment Initiative (*https://www.cisl.cam.ac.uk/business-action/sustainable-finance/banking-environment-initiative*)
- Global Partnership for Financial Inclusion (*https://www.gpfi.org/*)

> "Banks must choose a new path. They need to recognize that the health of their businesses is inextricably linked to the long-term prosperity of their clients and communities and to sustained local and global economic growth. They have to turn their tremendous capability for innovation to financing consumer, social, and environmental solutions that benefit society while increasingly representing good investment opportunities for private capital. Doing so is the only way to preserve their legitimacy and their competitiveness."

MICHAEL PORTER
Bishop William Laurence University Professor, Harvard Business school and Co-Founder FSG

WHAT LEADERS ARE DOING



Case Study 1

BNP PARIBAS GROUP
TAKING A BANK-WIDE STRATEGIC APPROACH

BNP Paribas Group's strategic approach has been developed over two decades. It is designed to position the group as a leader in sustainable banking.

Its 12 commitments under 4 pillars on social and environmental responsibility include: investment and financing with a positive impact; systematic integration of ESG risks; products and services that are widely accessible; and partnering with clients in transition to a low carbon economy.

Since 2015, the bank's approach puts a focus on the SDGs and includes products and services designed to:

- Avoid harm through integrated SRI offerings and climate change abatement.
- Benefit stakeholders through targeting business sectors with positive contributions including education, health, agriculture and renewable energy and segments including microfinance and social enterprise.
- Contribute solutions through focus in areas including renewable energy and structuring social impact bonds

Measures include innovation in the bank's own processes e.g. testing an internal carbon price to evaluate customer resilience to energy transition and manage risk.

MOBILISING FOR IMPACT

First department for sustainable development established 2001; Company Engagement Department created 2017 to coordinate and strengthen initiatives across the bank.

In 2017, SRI AUM grew by 38.4% to €34.6 billion (relative to 1.8% increase in total AUM), €12.3 billion went to renewable energy projects and 16.5% of loans went to contributions to achieving the SDGs.

CATALYSING IMPACT

Targeted products make it easier for retail and institutional customers to contribute to the SDGs through their savings. These include Positive incentive loans, green loans, and social impact bonds.

Advisory role in UN partnership to finance measures that assist small farmers with renewable energy, agroforestry and water access.

IMPACT BY DESIGN

30 funds certified in 2017 focused on best of class engaged issuers and thematic funds targeting environmental protection or social well-being and 16 ethical indices targeting impact. The Finansol label was also granted to 5 funds investing in the solidarity economy and microfinance.

The bank provides incentives for clients to improve their ESG performance by linking improvements to reduced cost of finance, e.g. debt facilities to BPost and Barry Callebaut.

IMPACT INTEGRITY

Impact management and measurement practices include tracking funds intermediated toward the UN SDGs, targeting specific issues, financing for renewables and emissions reductions. The bank uses measures linked to GRI, UNEP Fi, ISO 26000, the Global Compact and SDGs.

Impact governance at the Executive Committee of all group entities to steward integration of the principles. 20% of Group Incentive Scheme is allocated against social and environmental objectives decided by EXCO with CSR, road map over 3 years.

It disseminates knowledge and best practice to customers and employees on SDGs and environmental best practice.

LESSONS FROM PRACTICE

Embedding impact into the core and culture of an organisation takes time and done well requires a multi-pronged approach.

Banks that reactively respond to pent up client demand will not be as well positioned as those that proactively educate clients and direct it.

New products and services development is done best by creating a positive cycle of change through proactive engagement with employees and customers holding impact integrity at the core. Clear goals and incentives need to be set to ensure cultural alignment.

Case Study 2

BARCLAYS' MULTI-IMPACT GROWTH FUND

In 2017, Barclays designed the Multi-Impact Growth Fund after identifying a growing interest among its investors in socially and environmentally beneficial investment products.

The Fund uses an existing "fund of funds" product structure but incorporates impact considerations by investing in other funds that have investment strategies which seek positive social and environmental returns.

MOBILISING IMPACT
Designed the £7.7million Multi-Impact Growth Fund to give customers access to impact investing. Barclays has designed the first impact investing vehicle of its kind from a major UK bank.

LESSONS FROM PRACTICE
Understanding client interest and needs is an important first step in impact product development. Leveraging deep impact investment expertise through a fund of fund approach can limit cost, risk and time to market while delivering an attractive product offering to satisfy client demand.

> "The Sustainable Development Goals provide a focus for the world's efforts to meet global challenges including climate change, water management and sanitation and equitable education. The opportunity clearly exists for the private sector to create and commercialise sustainable solutions at scale."

STUART GULLIVER
Group Chief Executive,
HSBC Holdings plc

Case Study 3

JP MORGAN CHASE

JP Morgan Chase was an early leader in several areas to catalyse impact investment. It was a founding partner of the GIIN and partnered with them for the first 6 years of the global impact investor survey.

JP Morgan Chase has also formed a number of other partnerships to created platforms and solutions that combine flexible and bank capital.

One example is the Gates Global Health Investment Fund providing finance to advance the development of health interventions including drugs, vaccines, and diagnostics to fight diseases that disproportionately burden low- and middle-income countries.

Another is NatureVest, a partnership with The Nature Conservancy to provide an impact investment platform for investors, bringing together conservation leaders, communities, policymakers, and investors.

CATALYSING IMPACT
JP Morgan Chase invested in research to attract more impact investors, and forged partnerships with social enterprises, NGOs, and other investors to generate greater deal flow.

They provided new investment and capital market services to various stakeholders, in addition to investing the bank's own capital.

The Bank has also committed to facilitating US$200 billion in Clean Energy Financing by 2025.

LESSONS FROM PRACTICE
Partnerships with key impact experts and stakeholders such as NGOs and governments can enable and accelerate a banks understanding of the aspects of impact risk and return. This can help the bank identify needs and facilitate the flow and growth of impact focused capital.

Case Study 4

DHAKA BANK LIMITED
EXCELLENCE IN BANKING

By recognising the informal, yet highly active level of businesses in rural communities, Dhaka Bank has identified and prioritised early opportunities in developing customised financing products that meet the needs of local businesses in rural Bangladesh. These include agricultural loans timed to the local growing seasons and capital equipment loans for weavers. Dhaka Bank's values-based practices have allowed the bank to contribute to solutions in overlooked geographies. It has enabled the extension of services to and customer growth in formerly unbanked populations. For instance, in Belkuchi, a rural sub-district, this focus saw the bank's commercial customer base grow from five to 1800 in five years.

IMPACT BY DESIGN
Having a distinct SME unit has allowed the bank flexibility to approve innovative programs and scale approaches that work. It has allowed them to work with women entrepreneurs and micro and small businesses that have different needs and practices than traditional, large businesses.

Impact is built into governance by considering environment and social risk in core risk management.

LESSONS FROM PRACTICE
Setting up a separate department or unit dedicated to an impact priority can help banks recognize areas to grow value, innovate new products, and meet sustainability goals.

> "There are many investors that have pent up demand and are waiting for the right opportunities to deploy capital into impact investing.... What is preventing them from doing this is the unavailability of another party who takes the first step to provide risk capital. Our thought was we could be that provider."

MARK NARRAN
VP Deustche Bank

Case Study 5

VANCITY

Vancity has created and follows a set of guidelines, (Ethical Principles for Business Relationships), to make decisions about all business relationships. They actively seek opportunities to do business with organisations that create community impact in what they call "*Community Impact Transactions*".

Vancity engages with its clients, and encourages involvement in impact initiatives. This includes qualifying for impact loans and other opportunities to move further along the impact spectrum.

Vancity also engages in field building by working with the GABV to develop industry standards and reporting benchmarks. Vancity engages in such field building practices because it seeks to play a greater role in driving positive change and creating a more inclusive, sustainable society.

IMPACT INTEGRITY
Impact management and measurement practices include a working group dedicated to reviewing impact transactions, organisational and management targets that specifically measure the bank's impact. Confidence and integrity is supported by a CRM system which is used to collect data on non-financial performance, such as % triple bottom line assets and SDG alignment. This also leverages Vancity to support clients to move from avoiding harm to contributing solutions.

LESSONS FROM PRACTICE
Designing and implementing guidelines and processes to manage impact through all activities is important for impact integrity. This can encourage clients to be more sustainable and allow the bank to monitor its broader impact. Sharing practices with other banks, external organisations, and industry alliances can also advance field building.

Navigating Impact: Institutional Investors

INSTITUTIONAL INVESTORS HAVE A CRITICAL ROLE

Institutional Investors have capital at scale to leverage and drive impact.

- As "universal owners", positively investing in the economy contributes to investing success by enhancing return potential and reducing systemic risks.
- Significant trends such as population growth, ageing populations, climate change, increasing resource scarcity, and rising in-country inequality increase the complexity of investment decisions. By adopting an impact investing lens, institutional investors can lead the way in a new paradigm for better understanding and management of emerging risks across asset classes.
- Institutional investors can enable broader client engagement and awareness around impact investing by demonstrating strong impact and investment returns.
- Institutional Investors through capital allocation and shareholder advocacy can catalyse positive changes in corporate behaviour both reducing negative externalities and generating positive impact.

The amount of capital and asset class diversity of Institutional Investors means their more effective engagement in impact investment can have an immediate and growing impact.

CASE FOR INSTITUTIONS TO MOBILISE FOR IMPACT

Impact investment can unlock opportunities that align an Institutional Investors' impact goals with its investment strategy, stakeholder values and future growth. It can:

Enhance trust and reputation with stakeholders and social licence to operate by signalling that impact matters through the alignment of stated institutional values and impact goals.

Attract and retain clients and employees with opportunities and offerings more aligned with their core values.

Develop growth strategies for new products and services to existing customers and extending products and services to new customers, including potential alignment to the SDGs

Increase competitive edge by using an Impact investing framework for identifying emerging market trends and socially oriented commercial investment opportunities ahead of the curve, enabling first-mover advantage.

Better meet members expectations and provide member choice – including attracting and retaining the millennial generation as they become the beneficiaries of significant intergenerational wealth transfer in coming years.

FAST FACTS

- Signatories to the UN Principles for Responsible Investment have total assets of US$89 trillion[1]
- The combined assets of the largest 100 institutional investors is >US$37 trillion; and >US$23.8 trillion of that is held by the top 25 institutions[2]
- Institutional investors made up 4% of respondents to the 2018 GIIN Survey and invested US$5.4 billion in 2017 into impact investment[3]
- Millennials are expected to inherit US$59 trillion over the next 3 decades – the largest intergenerational wealth transfer in history. [4]
- 84% of millennials are interested in sustainable forms of investment, and are twice as likely to both invest in funds that target specific social/environmental outcomes AND divest because of objectionable corporate activity.[5]

> "The desire that we share with our clients is for their participants to enjoy a good pension in a sustainable, liveable world. A good pension is more than just money.
>
> This is why we want to achieve good returns with our investments and at the same time have a tangible impact on creating a sustainable world. We are convinced that financial and social returns go hand-in-hand."

PGGM Annual Responsible Investment Report (2015)

GETTING STARTED AND GROWING IMPACT

HORIZONS		GETTING STARTED	GROWING IMPACT
WIDENING PARTICIPATION	***Mobilising for Impact***	▲ Allocate responsibility to a small team to drive activity and identify opportunities ▲ Assess and map existing portfolios and assets to understand where impact is currently created and what could be leveraged. ▲ Consider where existing investment products (VC, PE, Property and Infrastructure funds) could be adapted with an impact lens. ▲ Roll out an internal communication campaign to spread awareness and knowledge of how impact aligns with organisational values.	▲ Embed impact into the broader strategic objectives of the organisation particularly focusing on client/member engagement strategy and related investment product and service development. ▲ Extend communication campaign to build acceptance of new models and specialised solutions both organisationally and to potential and existing clients, external product providers and asset consultants [as applicable].
	Catalysing Impact	▲ Create an engagement plan that clearly signals impact matters internally and externally. ▲ Make initial soundings of key impact intermediaries to understand potential co-investment opportunities. ▲ Engage actively as an investor and stakeholder to advocate for practices that drive impact including related disclosures.	▲ Actively align with organisations with impact expertise [NGOs, Government etc.] to build understanding of impact risk and return. ▲ Explore co-design and other opportunities to target specific impact areas and/or participate in blended financing models for impact.
DEEPENING PRACTICE	***Impact by Design***	▲ Set clear impact goals and strategies at an organisational level. ▲ Scope an initial impact filter to identify and prioritise early opportunities.	▲ Incorporate a rigorous impact framework into the investment decision making process. ▲ Facilitate cross-departmental collaboration to enable broader capacity development. ▲ Build impact into governance and risk assessment.
	Impact integrity	▲ Issue a transparent statement on the nature of organisational impact commitment. Report against this where possible. ▲ Establish the foundations of a process for collecting data and assessing impact risk and return. ▲ Engage in field building with a focus on promoting consistency of industry approach in the use of tools and practice development.	▲ Adopt impact reporting and disclosure guidelines with a commitment to transparency. ▲ Implement a rigorous impact measurement, management and reporting framework. ▲ Tie staff KPIs to both financial and impact outcomes of the organisation and its products and services. ▲ Engage in field building to promote the adoption of industry standards and reporting benchmarks.

TOP PRIORITIES FOR COLLECTIVE ACTION

Impact investing at scale requires collaborations to increase effectiveness and coordinate with partners and industry leaders to create a powerful effect. Three priorities ripe for collective action are:

- Structured collaboration to focus alignment on impact goals [SDGs] for the industry. This will better enable awareness building and product innovation.
- Development of a set of industry standards around impact measurement and reporting. This would be further enhanced by an approved accreditation system or impact audit.
- Advocacy for policy to create incentives for impact deals; clarify fiduciary duties; and improve company disclosure requirements.

NETWORK ORGANISATIONS, INDUSTRY FACILITATORS AND FIELD BUILDERS TO CONNECT WITH AND THROUGH:

- Global Steering Group on Impact Investment (*www.gsgii.org*)
- UN PRI (*https://www.unpri.org/*)
- The Impact Management Project (*http://www.impactmanagementproject.com/*)
- The GIIN Initiative for Institutional Impact Investment (*http://www.thegiin.org*)
- Cambridge Institute for Sustainable Leadership Investment Leaders Group (*https://www.cisl.cam.ac.uk/business-action/sustainable-finance/investment-leaders-group*)
- Impact Investment Network (*https://www.google.co.uk/search?q=impact+investment+network&rlz=1C1CHBF_en-GBGB792CH792&oq=impact+investment+network&aqs=chrome..69i57j0l5.3176j1j4&sourceid=chrome&ie=UTF-8*)
- UNEP Finance Initiative (*http://www.unepfi.org/*)
- Global Partnership for Financial Inclusion (*https://www.gpfi.org/*)

> “Banks must choose a new path. They need to recognize that the health of their businesses is inextricably linked to the long-term prosperity of their clients and communities and to sustained local and global economic growth. They have to turn their tremendous capability for innovation to financing consumer, social, and environmental solutions that benefit society while increasingly representing good investment opportunities for private capital. Doing so is the only way to preserve their legitimacy and their competitiveness.”

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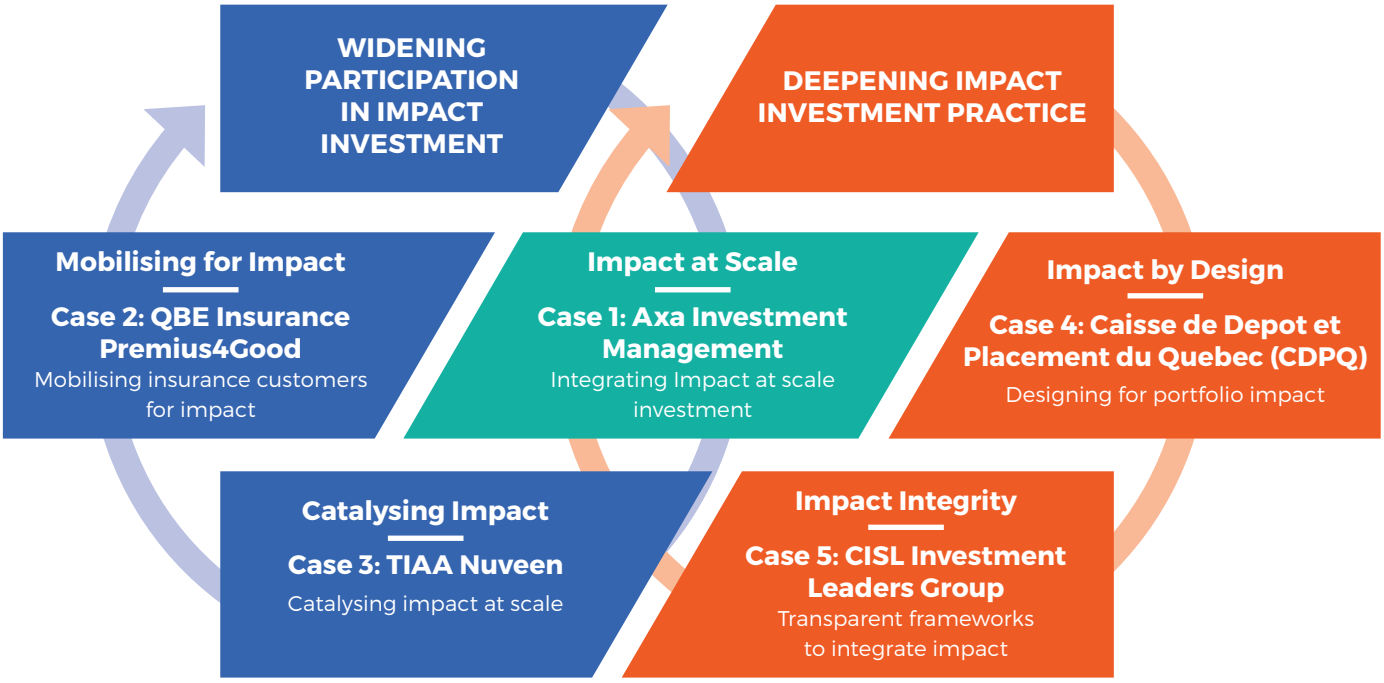
WHAT LEADERS ARE DOING



Case Study 1

AXA INVESTMENT MANAGERS

AXA Investment Managers (AXA IM) are an active, long-term, global, multi-asset investor with €746 billion in assets under management.

Impact Investing sits on a continuum that AXA IM have made available to clients.

This continuum spans the following classifications

- ESG Embedded: All funds excluding index and distribution funds have responsible investment policies, active engagement and proxy voting, along with an ESG Scorecard.
- ESG Integrated (€437 billion): ESG specific strategies are provided for interested investors, set out in the diagram below.
- Impact Investing (€1.2 billion): AXA IM's aim to make an intentional, positive, and measurable impact on society. They target specific themes and sectors using both liquid and illiquid funds and tailored mandates.

Equity	Fixed income
ESG strategies available **ESG Equity strategies** • ESG global SmartBeta equity • ESG themed active management (e.g. Human Capital)	• ESG Buy & Maintain credit • Money market • High yield • Thematic bond (e.g. Planet Bonds)
Multi Asset	**Alternatives**
ESG Multi-Asset strategies • ESG diversified growth • ESG equity/credit	**ESG and Impact strategies** • Impact strategies I & II

Source: AXA-IM

MOBILISING FOR IMPACT

AXA IM is targeting a 4x increase in green investment to €12 billion by 2020.

AXA IM's focus on impact led to them winning mandates from Big Society Capital and the Jean-Jacques Laffont Foundation.

CATALYSING IMPACT

Under UN SDG 3 governing health, AXA IM has set the impact targets of improving the lives of 10 million people annually by 2025 and to save the lives of approximately 100,000 people annually by 2025.

An example of this is AXA IM's investment into a cholera drug, Euvichol that has prevented an estimated 100,000 cases of cholera to date and prevented 1,200 deaths.

IMPACT BY DESIGN

AXA IM have developed a framework of 14 impact themes covering social, environmental impact. In public equities, they use the UN SDGs to firstly identify themes to be addressed, then assess the relevant underlying investments. This equally requires the manager encouraging corporate disclosure on societal and environmental impacts.

AXA IM have started measuring the green share of their portfolio – the average percentage of an issuers' products and services that make a positive contribution to the energy transition.

IMPACT INTEGRITY

AXA IM are developing data visualisation tools to allow clients to more easily see the impact performance of their assets.

Within their target impact areas, they have defined quantifiable impact metrics such as those set out for health above.

LESSONS FROM PRACTICE

Provide clients with a continuum of impact across asset classes. This widens impact by allowing clients to select their exposure based on their risk/return profile, and deepens the market by using the UN SDGs as a focal point.

Automate the transparency of impact outcomes for clients.

Case Study 2

QBE INSURANCE GROUP – PREMIUMS4GOOD

QBE's Premiums4Good (P4G) offering has mobilised impact by allowing clients to direct up to 25% of their insurance premiums into impact investment.

This comes at no cost or risk to the customer, and creates an opportunity for them to connect their insurance spend with impact. Impact integrity is maintained through the Classification of Social Investments Committee that includes representatives drawn from Big Society Capital, Philanthropy Australia, and Impact Investing Australia.

Premiums4Good began in an innovation challenge, sponsored by senior leaders, to connect growing insurance premiums with growing demand for social impact investment.

QBE see the future opportunity as moving the P4G program to scale; capitalising on early mover differentiation and greater choice for customers. This will help increase the funds directed to impact.

MOBILISING FOR IMPACT

By June 2018, QBE had invested $430mn into 30 securities that meet its investment and impact criteria. Within the wider P4G pool, QBE has a specific commitment to social impact bonds and aims to bring an institutional investor perspective to support development of the market. QBE is invested in 9 SIBs, across multiple jurisdictions, including seeding the first US SIB/PFS Fund.

LESSONS FROM PRACTICE

Leveraging existing product and distribution capabilities can help build a differentiated offering that mobilises impact by getting a clear mandate from customers to invest in assets that generate social benefits and financial returns.

Initial pilots across multiple locations can test the concept prior to scaling globally.

> "To reduce risk and to help communities. These are among Zurich's aims in providing insurance, and in managing its customers' premiums. Responsible investment promises to achieve both, which has led us to adopt it in theory and in practice."

ZURICH INSURANCE GROUP
Responsible Investment Position Paper (2017)

Case Study 3

TIAA NUVEEN

Nuveen is the investment management arm of TIAA which manages nearly US$1 trillion in a wide range of asset classes for institutional investors around the world as well for its parent company's general account.

Core to the impact investment thesis is that low-income consumers are underserved and can create superior risk-adjusted returns for businesses that serve them.

Nuveen has invested over US$1 billion into impact investing, which is allocated into companies, funds, and projects that have the intentional objective of creating social or environmental good alongside quantifiable and measurable investment performance. The focus areas are Affordable Housing (predominantly US-based), Inclusive growth, and Resource Efficiency.

CATALYSING IMPACT

Investing into affordable housing in the United States so families can afford better health and education.

Investing into companies that address needs in emerging markets with a focus on financial inclusion. A clear example is Capital Float, financing unsecured SME loans in India to create inclusive growth.

LESSONS FROM PRACTICE

Devising a strategy that targets specific impact areas and that leverages existing assets and capabilities can reduce execution risk and focus efforts.

Case Study 4

CAISSE DE DEPOT ET PLACEMENT DU QUEBEC (CDPQ)

Created in 1965, CDPQ today manages more than CAD$300 billion. They invest their clients' funds worldwide, targeting high-quality assets rooted in the real economy.

CDPQ sees themselves as business builders and owners, rather than strictly investors. This is applied as an integration of both profitability and impact into investment strategy.

Two approaches are used to effect impact outcomes:

- Direct investment into industries with a positive impact such as infrastructure, green energy and public transportation projects;
- Active engagement by interacting with and influencing portfolio companies to drive positive impact.

IMPACT BY DESIGN

CDPQ analyses the environmental and social impact of all its investments, and also evaluates governance.

A specific focus is climate change. CDPQ measures the climate impact of their portfolio, with a target of reducing their carbon intensity by 25% by 2025, and increasing their low carbon asset base by CAD$8 billion by 2020.

LESSONS FOR PRACTICE

Setting impact goals and incorporating an impact framework into the investment processes across all asset classes, helps align investment teams and clients around impact objectives.

Case Study 5

CAMBRIDGE INSTITUTE FOR SUSTAINABLE LEADERSHIP – INVESTMENT LEADERS GROUP

The Investment Leaders Group (ILG) is a global network of pension funds, insurers and asset managers committed to advancing the practice of responsible investment with US$12 trillion under management. Members include Aon, State Street, Aegon, Pimco, Zurich, Nuveen, Nordea, HSBC, First State Investments, UBP, and LBP. It is a voluntary initiative, driven by its members, facilitated by the Cambridge Institute for Sustainability Leadership (CISL), and supported by academics in the University of Cambridge.

The ILG´s vision is an investment chain in which economic, social and environmental sustainability are delivered as an outcome of the investment process as investors go about generating robust, long-term returns.

IMPACT INTEGRITY

The ILG and its institutional investor members have developed an outcome-based framework for reporting investment impact that communicates impact to retail clients and pension plan beneficiaries.

LESSONS FOR PRACTICE

Collective action with other leading actors to develop impact frameworks and mandate principles can help drive impact integrity, and raise client awareness and confidence of impact.

> "Our investment committee has approved new responsible-investment policies, which is how we formally brought the SDGs into our investment process. This not only guides how we invest, but also how we engage with companies and our external fund managers."

NICOLE BRADFORD
Portfolio Head,
Responsible Investment, CBUS

Navigating Impact: Corporations

CORPORATIONS PLAY A CRITICAL ROLE

Corporations provide goods and services that are both necessary and enriching in the day-to-day lives of all people.

- Corporations are essential in providing capital, creating jobs, developing skills, and cultivating new trends and attitudes.
- Supply Chains, brands, new products and services are just a few of the ways in which corporations touch people and can enact positive change.
- Corporations have the ability to deploy more flexible capital that can be used to finance innovative models or invest in businesses and social enterprises

The ubiquitous nature of corporations makes them critical actors in driving societal change, with their business practices having a marked impact on the world. Broader engagement of corporations in the movement can thus significantly contribute to solving the world's most pressing issues.

CASE FOR CORPORATIONS TO MOBILISE FOR IMPACT

Impact investment can unlock opportunities that tie a corporate's societal goals with its core business activities, stakeholder values and future growth strategy. It can help corporations:

Acquire a foothold in different markets, new distribution channels and increase brand name recognition. Businesses focused on positive societal impact are better placed to build customer engagement and trust.

Attract greater talent and deliver higher-quality products and services. A new generation of employees now demand meaning in their work. Attracting and retaining high quality, values aligned talent promotes productivity and better customer outcomes.

Gain access to market insights, disruptive models, and innovation. Changing customer expectations aligned with better societal outcomes together with the accelerated pace of digitalization means disruptive models and social innovation are common aspects of impact investment.

Improve risk management. Positive social and environmental impact in a supply chain mitigates reputational, operational and regulatory risk.

Drive competitive advantage. Companies that prioritize purpose have been proven to perform better than competitors and have more robust strategy development. Alignment around purpose can streamline decision-making, lead to better employee engagement, and drive customer

FAST FACTS

- The largest 500 corporations globally employed >43m people, indirectly controlled 100s of millions of workers in their supply chain, paid >US$700 billion in taxes, sold >US$22 trillion in products and services, and controlled assets of >US$100 trillion[1]
- 90% of consumers asked in an APCO study expected brands to be involved in tackling society's most pressing concerns.[2]
- In 2017, corporate venture capital (CVC) investors participated in 1791 deals totalling US$31.2 billion. Nearly 50% of the Fortune 100 and 20% of the Fortune 500 are involved in CVC, the most commonly found investing with purpose approach.[3]
- A 2016 CECP study found a third of large companies are "somewhat" or "highly" active in impact investing.[4]
- 87% of executives surveyed by Harvard Business Review Analytics believed a company performs best when their purpose goes beyond profit.[5]
- There are over 1,229 Certified B Corps from 41 countries and 121 industries.[6]

> "Companies must ask themselves: What role do we play in the community? How are we managing our impact on the environment? Are we working to create a diverse workforce?
>
> As we enter 2018, BlackRock is eager to participate in discussions about long term value creation and work to build a better framework for serving all your stakeholders. Today, our clients – who are your company's owners – are asking you to demonstrate the leadership and clarity that will drive not only their own investment returns, but also the prosperity and security of their fellow citizens."

LARRY FINK
Chairman and CEO, Blackrock

GETTING STARTED AND GROWING IMPACT

HORIZONS		GETTING STARTED	GROWING IMPACT
WIDENING PARTICIPATION	***Mobilising for Impact***	▲ Assign responsibility to a small team to identify impact focus areas and opportunities. ▲ Map current products and services and related supply chain to impact areas/SDGs. Analyse both negative and positive impact. ▲ Conduct high level assessment of client needs/expectations around current business practices/products and impact outcomes. ▲ Develop a communication campaign to raise awareness, share learnings and build knowledge, thought-leadership and alignment around impact activities.	▲ Embed impact into corporate strategy and facilitate cross-departmental collaboration to operationalise. ▲ Adapt product and servicing offerings including new product development in line with impact objectives. ▲ Evaluate market entry opportunities [new segments/under-supplied markets] ▲ Leverage the corporation's unique expertise and networks in the service of new types of partnerships.
	Catalysing Impact	▲ Create an engagement plan driven top down that signals impact matters internally and externally. ▲ Allocate initial flexible capital pool [CSR or other] for impact R&D and new market opportunities. ▲ Join and support networks and peer groups e.g. shared value, B Corp, impact investment as best fits with organisational priorities and strategy.	▲ Support and leverage the capacity of NGOs and impact experts to build capacity and identify solutions-oriented opportunities. ▲ Actively partner or do business with supply chain or financiers that have a positive impact with minimum acceptance standards. ▲ Use CVC or another form of flexible capital to enable impact initiatives focused on solutions.
DEEPENING PRACTICE	***Impact by Design***	▲ Document company values and clear alignment with impact goals and strategies. ▲ Explore collaborations both between internal departments and external partners around initially avoiding harm and negative impact but then potentially on impact thematics. ▲ Assess material negative impact in supply chain and explore opportunities for positive impact.	▲ Build a rigorous impact framework into governance and business strategy. ▲ Develop and roll out cultural transformation process focused on impact alignment and capability development. ▲ Tie staff KPIs to both financial and impact outcomes of the organisation and its products and services. ▲ Address material negative impact in supply chain and explore opportunities for positive impact.
	Impact integrity	▲ Issue a transparent statement on the nature of impact commitments. Report against this where possible. ▲ Build the initial foundations of a data collection process for assessing impact. ▲ Engage suppliers on understanding their impact practices and reporting. ▲ Engage in field building with a focus on promoting consistency in tools, practice development and reporting standards.	▲ Adopt impact reporting and disclosure guidelines with a commitment to transparency. ▲ Implement a rigorous impact measurement, management and reporting framework. ▲ Actively monitor supplier impact reporting with minimum standards. ▲ Form a community of practice to share knowledge and lead the adoption of industry standards and reporting benchmarks.

TOP PRIORITIES FOR COLLECTIVE ACTION

Impact investing at scale requires collaborations to increase effectiveness and coordinate with partners and industry leaders to create a powerful effect. Three priorities ripe for collective action are:

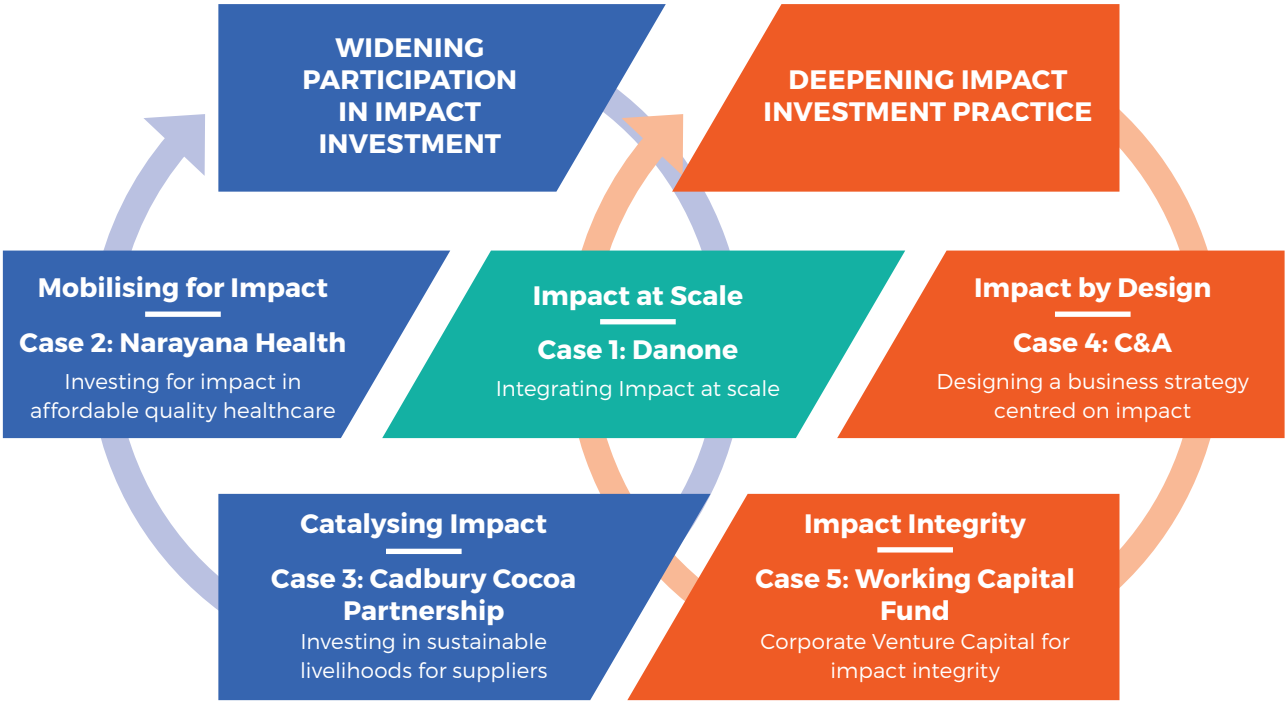
- Support for intermediation and industry facilitation that enables impact at scale [this could include collaboration around initiative to develop an in-market wholesaler]
- Development of a set of industry standards around impact measurement, reporting and disclosures. This would be further enhanced by an approved accreditation system or impact audit.
- Pro-active engagement leading to a community of practice with impact experts; government and NGOs to build knowledge, tools and capacity around impact.

NETWORK ORGANISATIONS, INDUSTRY FACILITATORS AND FIELD BUILDERS TO CONNECT WITH AND THROUGH:

- Global Steering Group for Impact Investment (*www.gsgii.org*)
- Business for Sustainable Development Commission (*http://businesscommission.org/*)
- EY Beacon Institute (*https://www.ey.com/gl/en/issues/ey-beacon-institute*)
- Global Partnership for Financial Inclusion (*https://www.gpfi.org/*)
- Coalition for Inclusive Capitalism (*https://www.inc-cap.com/*)
- Committee Encouraging Corporate Philanthropy (*https://cecp.co/*)

> “Business needs to be an active contributor to finding the solutions that have an impact on society. After all, if business cannot show what positive impact it has, why should the citizens let this business be around?”
>
> **PAUL POLMAN**
> CEO, Unilever

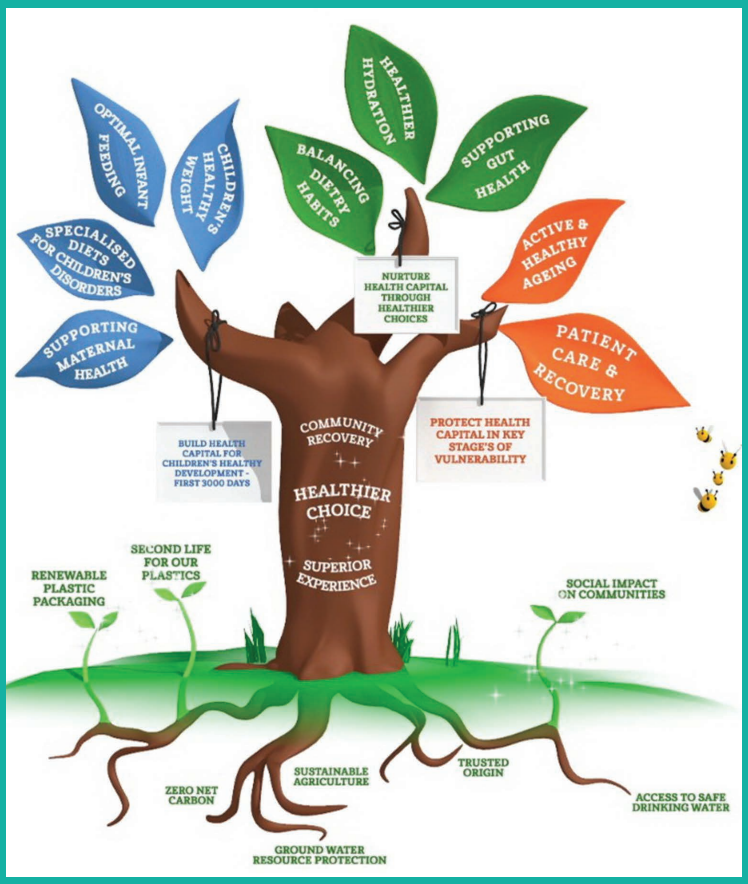
WHAT LEADERS ARE DOING



Case Study 1

DANONE
INTEGRATING IMPACT AT SCALE

Danone's strategy to drive positive social and environmental impact is expressed in its strategy: the Alimentation Revolution, which is illustrated through the symbol of a tree.



Danone has utilised a combination of tools and models for impact including social business in partnership with Grameen, impact investment funds and products, supply chain measures, and commitment to B Corp certification. This is all part of its long term commitment to sustainable business and pursuing social progress and economic success.

MOBILISING FOR IMPACT
Danone negotiated a €2 billion Syndicated Credit Facility under which borrowing costs reduce as it increases its positive social and environmental impact against a set of objective criteria.

CATALYSING IMPACT
Danone has established social impact funds that invest into affordable access to water, restoring natural ecosystems, and small producers. Illustrating their Impact, the Danone Communities Fund provided access to clean water for 1 million people.

IMPACT BY DESIGN
Danone was able to issue a €300 million bond to invest into projects that improve social impacts including responsible breeding, developing social entrepreneurs, health research and improving health coverage and parental leave policies. The bond was oversubscribed; demand exceeded €700million.

IMPACT INTEGRITY
Danone's program towards B Corp certification reflects a commitment to create trust that the company is doing business in a way that meets rigorous standards of social and environmental performance, transparency and accountability. 30% of Danone's global business has achieved including DanoneWave, the largest public B Corp.

LESSONS FROM PRACTICE
Develop an integrated strategy to widen and deepen your impact that aligns shareholders, stakeholders, and suppliers.

Case Study 2

NARAYANA HEALTH

Narayana Health's mission is to be the lowest cost high quality healthcare service provider in the world. Their existing network of 50 healthcare facilities has demonstrated their capacity to deliver an affordable, globally-benchmarked quality-driven healthcare services model.

Narayana Health is headquartered in Bengaluru, India, and operates a network of hospitals across the country with 5,900 operational beds that span 23 hospitals, 7 heart centres, and a network of primary care facilities across India.

MOBILISING IMPACT
To serve the unmet need for healthcare in India, Narayana designed one of the world's largest low cost health insurance schemes and an affordable low-cost healthcare model.

This attracted an impact investment of US$41 million from CDC, a development finance institution that laid the foundation for Narayana's IPO.

LESSONS FROM PRACTICE
Target areas of unmet need, and source investment from investors who share your impact mission.

> "At Danone, we believe that each time we eat and drink, we can vote for the world we want. This has inspired the definition of our long-term goals which flow directly from our 'One Planet, One Health' vision. As we strengthen our business model and nourish our dual economic and social project, we have every confidence we will deliver our business and financial agenda, as well as create and share sustainable value for all."

EMMANUEL FABER
CEO, Danone

Case Study 3

CADBURY COCOA PARTNERSHIP

In 2008, Cadbury joined the Business Call to Action and launched the Cadbury Cocoa Partnership to encourage the development of thriving cocoa communities in Africa, Southeast Asia, and the Caribbean with a £43 million commitment. The partnership aims to promote sustainable livelihoods, increase crop yields by 100%, create new sources of income, and address child labour, health, gender diversity, and sustainability.

CATALYSING IMPACT
The initiative has grown to a US$400 million commitment to support sustainable cocoa farming in major cocoa-growing communities, with 10 impact KPIs covering Farming, community, livelihoods, youth, and the environment.

LESSONS FROM PRACTICE
Identify and invest into supply chain partners to create a positive social and environmental impact.

Case Study 4

C&A

C&A is a 177 year old retail business that prides itself on its contribution to community, society, and the environment. Using their material issues as an input, they developed an integrated sustainability strategy with three pillars: sustainable products, sustainable supply, and sustainable lives. Each of these then have tangible targets such as sourcing 100% of cotton sustainably by 2020 (Products), 100% of products from A/B rated suppliers to ensure safe & fair working conditions (supply) and to increase employee sustainability engagement scores (lives).

DESIGN FOR IMPACT
C&A have built impact into governance and tied their impact activities into the core business strategy.

LESSONS FOR PRACTICE
Leverage your scale in the areas where the corporation can have the biggest impact and translate this into measurable goals.

> "..our research suggests, that companies' projects are generally not ambitious enough. Instead of trying to fix local problems, corporations and other actors need to reimagine the regional ecosystems in which they participate if they are to bring poor farmers and unemployed urban youths into the mainstream economy."
>
> **ROBERT KAPLAN, GEORGE SERAFEIM AND EDUARDO TUGENDHAT**
> Harvard Business Review Jan-Feb 2018

Case Study 5

HUMANITY UNITED
WORKING CAPITAL FUND

Working Capital is an example of corporates integrating impact through corporate venture capital (CVC). To create this first-of-its-kind fund, Humanity United teamed up with leading brands, foundations, and impact investors that share a commitment for more responsible supply chains. Investors include the Walmart Foundation, the C&A Foundation, and The Walt Disney Company. The unique structure of aligning with leading companies as funders helps leverage innovative solutions for sustainable impact to improve labour practices in the global operations and extended supply chains of multinational corporations.

IMPACT INTEGRITY
The corporates involved along with the management team from Working Capital engaged an external developmental evaluation team from the outset of the fund. This team have acted as a learning partner to the management team, provided technical guidance on impact measurement approaches, and supported investee capacity.

LESSONS FOR PRACTICE
Integrate impact into CVC by embedding impact management across the investment lifecycle and bringing inspecialist external impact expertise to build capacity.

Navigating Impact: The Levers

The guidance relating to levers centres on approaches for enabling and catalysing markets. It is targeted to those with capacity to provide flexible capital and those interested in a solutions-oriented approach.

This material is designed to:

- examine at a high level the dynamics of the sector, the approach along with potential for contribution
- summarise quick facts that pertain to the scale and potential of the opportunity
- articulate the case for action
- highlight where to begin and how to build practice, along with identifying where more coordinated collective action at an industry or market level can have a powerful effect
- illustrate, with cases, what industry leaders are already doing and how they are doing it.

As Table 3 sets out, just as there are myths and misconceptions relating to specific actors there are also myths that relate to the levers that drive the market. An important step for all actors involved in providing flexible capital and/or adopting a solutions-oriented approach is to recognise perceived issues and understand the opportunities they present.

TABLE 3:

ADDRESSING FURTHER MYTHS & MISCONCEPTIONS	
Investment capital and grant capital do different things and should be kept separate.	Different types of capital with different return expectations can usefully be combined for impact which creates greater choice and diversification.
Solving societal problems should be left to governments and philanthropy.	Combining different types of capital enables better outcomes and promising solution-oriented models to be proven and scale.
It is wrong to provide subsidy. The pricing of risk and return should be left to the market.	There are incentives in many market contexts. Used properly, they can catalyse nascent markets and enable vital infrastructure.
Environmental and social issues are separate from finance.	Financial decisions have social and environmental effects, and social and environmental issues can affect financial performance, positively or negatively.

Navigating Flexible Capital

PROVIDERS OF FLEXIBLE CAPITAL ARE A CRITICAL LINK

Flexible capital (including grants, guarantees, first loss capital, capital provided at lower or capped rates of return) enables new models and market effects that drive scale. This type of capital is critical as:

- Some types of impact can only be achieved by taking on greater risk or accepting more modest financial returns, at least until models are proven.
- Lowering risk expands opportunities and may make it easier for larger scale investors to participate.
- It can make high-impact transactions more suitable and attractive for a broader range of investors, or encourage investment into geographies, sectors and models traditionally considered higher risk.
- Local knowledge is often needed to drive approaches suitable for the need and the regulatory and political environment. Despite potentially strong impact outcomes local solutions in some areas will not be supported without some form of flexible capital.

THE CASE FOR UTILISING FLEXIBLE CAPITAL

The case to utilise flexible capital varies based on who is providing it, in each case something more, or different, is achieved than could be achieved otherwise, and:

For philanthropy and donor organisations, more capital is put to work for mission because it opens more ways to use investment and grant dollars, prove new models aligned with mission and unlock other capital to drive scale.

For governments, it can overcome barriers and gaps in early market development, support and encourage existing and new intermediaries, accelerate market infrastructure and direct private capital to areas of policy priority.

For High Net Worth Individuals, it can help prove new and innovative models delivering strong impact and financial returns.

For DFIs, it can encourage private sector capital into new geographies and sectors to accelerate development and direct capital toward priority areas, including infrastructure development and achievement of the SDGs

For other investors, availability of flexible capital builds confidence, de-risks investment into new models and enables more investment that contributes to solutions while building a track record.

FAST FACTS

- US$51.2 billion has been mobilised through flexible capital for sustainable development, the majority of which has been for financial services, clean energy and climate action.[1]
- >50% of respondents to the 2018 GIIN survey said they participated in deals with flexible capital.[2]
- Three foundations account for 56% of flexible philanthropic capital provided for development.[3]
- Institutional investors currently allocate ~US$2 trillion (1% of their AUM) to alternative assets in developing countries or relevant areas identified as high potential for blended finance.[4]
- Multi-lateral development banks' current ratio for mobilising private capital is <1:1.[5]
- 42% of the flexible finance for development leverages junior/subordinate capital from public or philanthropic investors[6]
- Since 1994, the CDFI fund has awarded or committed over US$47 billion to expand economic opportunity for underserved people in the US.[7]

> "Based on our experience, we are certain that today's impact investment market cannot reach its full potential by focusing on commercial forms of investment capital alone. Catalytic capital [patient, flexible, risk-tolerant financing] must be part of the mix. By cultivating innovation, scale and impact, it can be a powerful force that improves the lives of millions of people and protects the planet for generations to come."

DEBRA SCHWARTZ
Managing Director, Impact Investments, MacArthur Foundation

GETTING STARTED AND GROWING IMPACT

HORIZONS		GETTING STARTED	GROWING IMPACT
WIDENING PARTICIPATION	***Mobilise for Impact***	▲ Identify target areas for impactful solutions aligned with mission ▲ Foster new collaborations, e.g. between foundations and banks	▲ Develop investment thesis to diversify strategies ▲ Actively align with stakeholders including mainstream investors
	Catalyse Impact	▲ Target investments that prove up new models. ▲ Focus on helping innovative change-makers scale. ▲ Invest in infrastructure for the market and scale.	▲ Seek out models to involve new stakeholders at the margins. ▲ Target investments building and shaping new markets ▲ Increase emphasis on driving market-level change
DEEPENING PRACTICE	***Design by Impact***	▲ Set clear impact goals and strategies ▲ Set threshold expectations for impact, risk and return aligned to impact goals.	▲ Build impact goals into investment thesis at market level ▲ Design for direct and indirect impacts including new models, infrastructure and policy change.
	Impact integrity	▲ Transparent statement on nature of commitment to impact. ▲ Be clear about subsidy and its purpose and embed accountability into monitoring and reporting process. ▲ Align incentives with impact and financial goals.	▲ Share lessons and data to drive market development. ▲ Create and report against measures for additionality including related market development effects. ▲ Be explicit about and monitor the impact risks and market level impact.

TOP PRIORITIES FOR COLLECTIVE ACTION

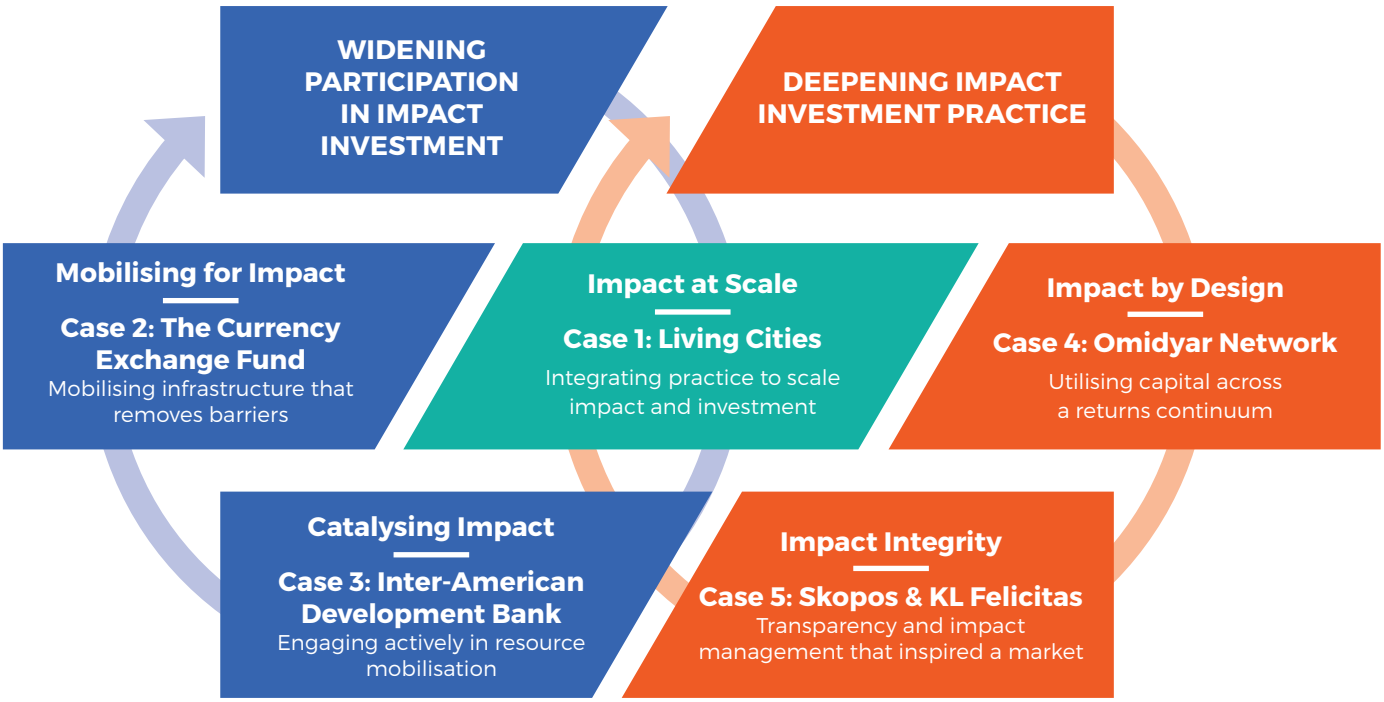
Deploying flexible capital well often includes partnership and collaborations to increase effectiveness and coordinate with partners and industry leaders to create a powerful effect. Three priorities ripe for collective action are:

- Structured collaboration to focus alignment on impact goals [SDGs]. This will better enable awareness building and product innovation.
- Development of strategic communications mechanism to enable deals, knowledge and data flows between blended finance investors and intermediaries.
- Advocacy for policy to reduce disincentives or create incentives in target geographies, industries or asset classes.

NETWORK ORGANISATIONS, INDUSTRY FACILITATORS AND FIELD BUILDERS TO CONNECT WITH AND THROUGH:

- Global Steering Group for Impact Investment (*www.gsgii.org*)
- The Impact Management Project (*http://www.theimpactmanagementproject.com*)
- The GIIN Blended Finance Working Group (*https://thegiin.org/blended-finance-working-group*)
- Venture Philanthropy networks including EVPA and AVPN
  EVPA (*https://evpa.eu.com/*)
  Asia VPN (*https://avpn.asia/*)
  Africa VPN (*https://avpa.africa/*)
- OECD DAC Blended Finance Initiative (*http://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/blended-finance.htm*)
- Business and Sustainable Development Commission (*http://businesscommission.org/*)
- Blended Finance Taskforce for the Global Goals (*http://businesscommission.org/our-work/blended-finance-taskforce-for-the-global-goals*)
- Community Development Financial Institutions Fund (US) (*https://www.cdfifund.gov/Pages/default.aspx*)
- Mission Investors' Exchange (*https://missioninvestors.org/*)

WHAT LEADERS ARE DOING



Case Study 1

LIVING CITIES

Living Cities is a fund manager established in 1991 that has demonstrated how combining different types of capital can deliver leverage for social change and community infrastructure.

Innovative capital is one of its key tools, and it is used with other innovations, research, networks and convenings to accelerate the uptake of promising solutions to social problems.

Its Catalyst Fund is ranked as one of the top 50 Impact Funds in the ImpactAssets50. Its portfolio of investments ranges from affordable housing to social impact bonds.

MOBILISING FOR IMPACT

The fund is a partnership involving 22 of the world's largest foundations and financial institutions. They pool different types of capital to enable fit-for-purpose finance on behalf of low-income individuals in cities across the US.

CATALYSING IMPACT

Through a portfolio of different funds, Living Cities has deployed approximately US$57 million over 29 investments, leveraging over US$1.13 billion in additional funding.

IMPACT BY DESIGN

Intentional design across Living Cities' initiatives targets issues relevant to its specific cities, including schools, affordable housing, clinics, childcare and job training facilities, among others. Specific screening criteria are developed for new financial instruments, such as pay for success.

IMPACT INTEGRITY

Living Cities publishes its values and commitment to mission and accountability through evaluating effectiveness and setting up management and reflective processes to improve impact and inform future directions. Living Cities also provides and enables data and tools as a resource for others to manage and measure their impact.

LESSONS FROM PRACTICE

Living cities is an example of collective effort that combines financial innovation, public sector innovation, and data. This collaborative initiative responds to a need to put people first in their communities and drive social change. A track record over >25 years demonstrates a capacity to target finance to communities and combine different types of capital to do more and better.

Case Study 2

THE CURRENCY EXCHANGE FUND (TCX) INFRASTRUCTURE TO REMOVE BARRIERS

TCX addresses barriers that foreign lenders face, specifically the significant FX risk of providing local currency loans in emerging markets, which require affordable hedging options, (e.g., cross currency swaps, currency forwards, interest rate swaps), that do not negate targeted financial returns.

TCX offers hedges for currencies and tenors not served by commercial banks. This is done through two tiers of capital: common equity contributed by development agencies (first-loss capital) and subordinated convertible debt contributed primarily by DFIs.

MOBILISING FOR IMPACT

TCX facilitates local currency financing in low- and middle-income countries across sectors, including financial services, energy, and infrastructure.

TCX leverages ~US$700 million of capital to support US$2 billion of currency exposure. TCX is rated A- by S&P.

LESSONS FOR PRACTICE

First loss capital contributes to capital stability and increases risk bearing capacity. Sharing lower risk parts of the portfolio with the private sector increases leverage and can be an effective means of risk mitigation.

> "Private sector financing will be critical to reaching the 2030 goals...We also welcome the OECD's efforts to bring donors and other stakeholders together around policy principles for blended finance. These initiatives will help us make the best use of scarce development finance resources, having more development impact and mobilising more than would otherwise be possible, without getting in the way of the private market."

NANNO KLEITERP
Chair European Development Finance Institutions

Case Study 3

THE INTER-AMERICAN DEVELOPMENT BANK'S RESOURCE MOBILISATION INITIATIVE

IDB is a DFI with nearly 60 years' track record in Latin America and the Caribbean.

IDB places high priority on innovation, alignment with stakeholders and mobilising additional funds from external sources.

The tools include advisory assistance, help arranging credits to de-risk deals, flexible capital, and data and research through studies and project identification and evaluation.

Resource mobilisation is complemented by other measures including building civil society and institutional capacity.

CATALYSING IMPACT

Acting as a catalyst is an express part of the IDB mandate with proactive measures to mobilise additional funds from external sources in its regional member countries.

In 2017, the Bank's Office of Outreach and Partnerships mobilised US$3.2 billion in resources – comprising ~US$350 million in grant funding and US$2.9 billion in co-financing.

In 2018, IDB has allocated 9.4% of its Management Budget, ~US$52 million to support strategic activity for resource mobilisation.

LESSONS FROM PRACTICE

IDB uses a diversity of strategies to engage actively with borrowers and private sector partners and non-traditional partners. Catalytic impact is embedded in strategy, backed up by budget to actively deploy tools fit for purpose to pursue new opportunities and advance development goals.

Case Study 4

OMIDYAR NETWORK: INVESTING ACROSS THE RETURNS CONTINUUM

The Omidyar Network (ON) has evolved its practice utilising capital across a returns continuum from grant capital through to fully risk adjusted market rate returns.

ON utilises its expertise and knowledge in different geographies and industry sectors to design strategies that enable it to make informed decisions about taking risk.

IMPACT BY DESIGN
ON designs its approach across five impact areas: education, emerging technologies, governance and citizen engagement, financial inclusion and property rights. Its impact management and measurement is also informed by reference to key impact effects it seeks to generate or amplify at market as well as enterprise level. These include: pioneering new models, building market infrastructure and enabling policy influence.

LESSONS FROM PRACTICE
Design a clear strategy to achieve a range of impact investing options, taking into consideration the kinds of risk, returns, and impact different opportunities offer, and how using different types of capital and strategies can serve different objectives to expand and strengthen the impact investing market.

In addition to strategy design for market-rate impact, ON has shared its lessons through Priming the Pump (2012), Across the returns Continuum (2017) and will publish new work in 2018 with FSG on further synthesis of the lessons from their work and other impact investors operating across the continuum, from philanthropy to pension funds.

Case Study 5

SKOPOS IMPACT FUND & KL FELICITAS FOUNDATION: RADICAL TRANSPARENCY

Skopos Impact Fund its roots in the philanthropic activity of the Netherlands based Brenninkmeijer family back to 1841. KL Felicitas Foundation was founded by Charly and Lisa Kleissner in 2000. Both are leading examples of impact integrity from the old and new philanthropy and family offices.

These pioneers in impact management are helping to develop tools and frameworks that have inspired the next wave of initiatives, including the Impact Management Project which followed on from Skopos' More than Measurement work and TONIIC and Sonen Capital out of the Kleissners' work.

IMPACT INTEGRITY
Both foundations have designed impact management frameworks and been transparent about their approach, including the development of impact goals and how the framework translates into investment portfolio. Both have worked with industry leaders including Bridges Impact+ and NPC to demonstrate what is possible, push practice and encourage others to follow.

LESSONS FROM PRACTICE
Both exemplify how transparency and impact management can pave the way for a much broader and deeper participation. KL Felicitas and Skopos have each shared the logic behind development of its impact management and measurement frameworks to inform and inspire others.

> "By pursuing investments that have a wide range of return and impact profiles, flexible impact investors can help to reduce or eliminate the risks associated with new markets. In that way, they can also create opportunities for strictly commercial investors to scale up promising innovations."
>
> **OMIDYAR NETWORK**

Navigating Solutions

SOLUTIONS ORIENTED DESIGN IS CRITICAL

Taking a solutions lens means starting with the problem, and understanding that without an approach of this kind:

- The SDGs are unlikely to be achieved.
- Dimensions of the problem that inform what is needed for capital to reach demand, such as data to inform decision-making, education or capability in the value chain, will be missed
- Capital intended to benefit stakeholders or contribute solutions may not be directed effectively.
- Solutions that work may not be designed for or attract the capital needed to scale.
- Risks of impact washing are greater because themed investment opportunities may not bring additional capital or meet impact goals
- Financial models or structures may dictate solutions rather than be evolved collaboratively to fund effective impact at scale.

THE CASE FOR ENGAGING WITH A SOLUTIONS FOCUS

A solutions focus adds and creates value because ...

- Problems need to be solved and needs met where and how people experience them, and this informs impact goals and management.
- Most investors, particularly those with capital at scale, are several steps removed from the experience on the ground, so design needs to connect capital to the problem in ways that make sense.
- Understanding the problem can illuminate new and under-supplied markets and junctures where risk has been mispriced.
- Understanding the issues illuminates gaps in the ecosystem and opportunities for segment specific product design.
- Understanding what people need and want, and how that fits with how they live and work, is necessary to design solutions that can scale.
- Addressing dynamics of geography, local value chains, behavioural dynamics and other factors illuminate impact risks and provide information useful to assessing other risks that may affect impact and financial performance.

FAST FACTS

- US$2.5 trillion per annum is the estimated gap between the cost of meeting the SDGs and current projections for public and private investment toward them[1]
- US$146 billion/annum is the current level of overseas development assistance[2]
- 60 major SDG related business opportunities are expected to realise ~ US$12 trillion in business savings and revenue by 2030[3]
- At least 1 billion people who need eye glasses do not have them, at an estimated cost to global productivity of >US$200 billion[4]
- ~20-40 million people work in forms of modern slavery, and ~150 million children work in fields, mines and rubbish dumps[5]
- > 124 million children and young people do not have access to education[6]
- Obesity levels doubled across the globe between 1980 and 2014[7]
- In 2015, 880 million people lived in slums, up from 689 million in 1990[8]
- 90% of urban growth by 2030 is expected to be in Africa, Asia, Latin America and the Caribbean[9]

> "Solving social problems [becomes] a multidisciplinary exercise that challenges businesses, governments, philanthropists, and social enterprises to think holistically about their role and their relation to others—not as competitors fighting over an ever-shrinking pie, but as potential collaborators looking to bake something fresh that serves as many stakeholders as possible"
>
> **W D EGGERS**
> The Solutions Revolution, Deloitte

GETTING STARTED AND GROWING IMPACT

HORIZONS		GETTING STARTED	GROWING IMPACT
WIDENING PARTICIPATION	***Mobilise for Impact***	▲ Identify target areas for solutions aligned with mission ▲ Foster new collaborations, e.g. between foundations and banks ▲ Identify internal resources to build capability and focus effort.	▲ Develop investment thesis to diversify strategies ▲ Cultivate a broader set of relationships and interventions.
	Catalyse Impact	▲ Focus on helping innovative change makers scale ▲ Lead where possible to convene, curate and engage others in problem-solving ▲ Engage with platforms aggregating data and product innovation	▲ Better understand and tailor capital to the needs of those involved in delivering a solution. ▲ Invest in growing platforms and intermediaries that address barriers to solutions and scale
DEEPENING PRACTICE	***Design by Impact***	▲ Ask what problems are trying to be solved and identify impact goals. ▲ Commit to experimentation and learning, informed by the need and priorities of those affected ▲ Take inspiration from proven financial instruments.	▲ Grow understanding of how dynamics at play impact the stakeholders involved ▲ Remain flexible and adapt as problem and partners' needs evolve. ▲ Build on existing models and innovate
	Impact integrity	▲ Transparent statement on nature of commitment ▲ Be clear about roles and risks	▲ Share lessons and data to drive market development ▲ Be explicit about and monitor the impact risks

TOP PRIORITIES FOR COLLECTIVE ACTION

Contributing solutions requires a more integrated approach to deploying and adapting models to catalyse, scale and sustain impact and overcome the limitations of current market and social system inefficiencies. Three priorities ripe for collective action are:

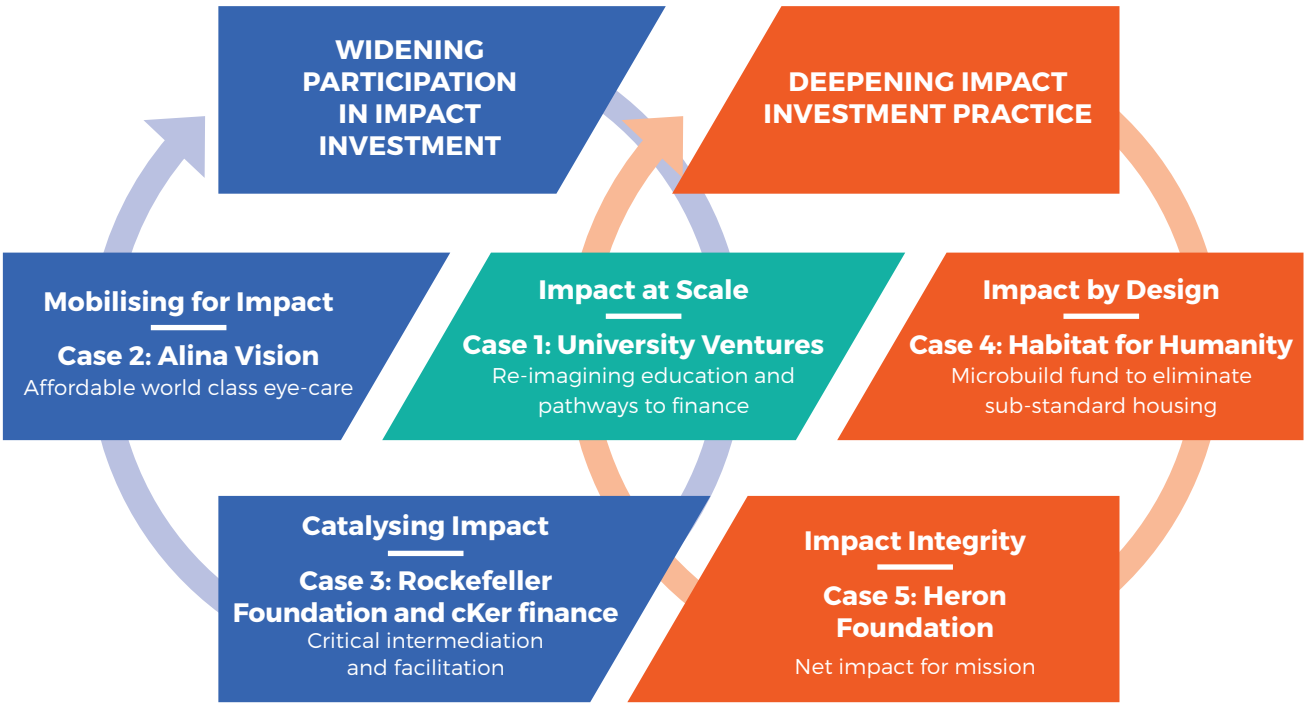
- Structured collaboration in impact areas where solutions are targeted, including on required data, measurement and management, to ensure integrity of reported impact outcomes.
- Convenings and the development of Communities of practices around issue areas [potentially SDG aligned] that involve a broad-cross section of actors sharing knowledge, learnings, skills and expertise to drive solutioning.
- Proactive support for origination and intermediation and the market builders driving the creation of structures and transaction that are both investible and solutions orientated.

NETWORK ORGANISATIONS, INDUSTRY FACILITATORS AND FIELD BUILDERS TO CONNECT WITH AND THROUGH:

- Global Steering Group for Impact Investment (*www.gsgii.org*)
- The Impact Management Project (*http://www.theimpactmanagementproject.com*)
- Venture Philanthropy networks including EVPA and AVPN
  EVPA (*https://evpa.eu.com/*)
  Asia VPN (*https://avpn.asia/*)
  Africa VPN (*https://avpa.africa/*)
- Mission Investors' Exchange (*https://missioninvestors.org/*)
- Business for Sustainable Development Commission (*http://businesscommission.org/*)

> "Business needs to be an active contributor to finding the solutions that have an impact on society. After all, if business cannot show what positive impact it has, why should the citizens let this business be around?"
>
> **PAUL POLMAN**
> CEO, Unilever

WHAT LEADERS ARE DOING



Case Study 1

UNIVERSITY VENTURES: CLOSING THE GAP BETWEEN EDUCATION AND EMPLOYMENT

University Ventures (UV) is focused on closing the gaps between education and employment. They invest in solutions for global higher education. UV partner with higher-education institutions to deploy private capital to innovative programs that target the needs of particular groups.

Examples include:

- Vemo Education, the first company to help universities develop, launch, and implement income share agreements.
- St George's University of London's medical programme in Cyprus, the first British-accredited medical programme outside the UK.
- Revature, an intermediary/career accelerator providing pathways for college students into the IT industry.

MOBILISING FOR IMPACT

UV investments range from established universities to higher education service companies that seek to revolutionise student experiences and pioneer new approaches to learning and talent search.

Since 2011, UV has raised ~USD$250 million through two funds dedicated to advancing the development of the next generation of colleges and universities.

CATALYSING IMPACT

UV mobilises the broader higher education sector and stakeholders with an approach to 'innovate from within' to encourage and facilitate more extensive innovation activities.

Through nine pooled investment vehicles, UV manages ~USD$330 million in assets.

IMPACT BY DESIGN

UV works with stakeholders to coordinate and align human capital development with the needs of our changing economy. Its team combine expertise in investment and higher education. UV's investment thesis allows for a diversity in investments, from seed start-ups to growth stage companies and investments in a variety of interventions targeted to place and need.

IMPACT INTEGRITY

UV shares its analyses on key issues with the higher education community. UV's frequent publications further highlight lessons learned and trends in the industry.

LESSONS FROM PRACTICE

Constant engagement with relevant stakeholders has kept UV well informed on their target impact sector's greatest challenges and the roles of different stakeholders. UV's diversity of investments has catalysed multiple interventions that tackle issues in human development in ways that have remained true to the missions of the higher education institutions.

Case Study 2

ALINA VISION: EYE CARE FOR EVERYONE

Alina Vision was founded by the Fred Hollows Foundation an International NGO, which is also an anchor donor and investor. Alina Vision's purpose is aligned with the mission of the foundation to end avoidable blindness. The new entity will oversee and provide financing to a local network of more than 60 affordable eye care hospitals providing:

- ▲ 400,000 additional sight-saving surgeries/year
- ▲ 1.1m cataract surgeries (40,000 free) over 10 yrs
- ▲ 2.2m cataract surgeries and pairs of glasses in remote and low-income communities over 10 yrs

Alina Vision aims to significantly increase the growth rate of affordable eye-care globally by expanding services in underserved communities, identifying challenges inhibiting industry growth and developing sustainable solutions in partnerships with healthcare providers and funders.

MOBILISING IMPACT

The initiative targets a global issue that affects >2 billion people. The first eye care centre is due to open in Vietnam in late 2018, and another nine centres planned over three years including in Indonesia, India and China.

A private investor funded holding company was launched with a proof of concept grant from Convergence in 2017. An initial capital raising of US$12 million facilitated through Convergence is the foundation for a target of US$300m over 10 years from range of investors.

LESSONS FROM PRACTICE

The Fred Hollows Foundation leveraged experience from its existing NGO activities (historically funded by grants) to create an investible and sustainable business model aligned with its mission. A combination of grant and equity funding seeded the new venture and partnership with strategic platform, Convergence. Targeting the issues and different circumstances of place and the accumulated expertise of low cost high quality eye-care, the model is designed for replication and scale. Tiered pricing models provide cross-subsidisation and make services more accessible to low income communities.

> "Poverty, climate change, violence and similar ills are systemic, geographically unbounded and multi-sector. We lack the time or the resources to work only transactionally. Urgency dictates that we use ALL our capital, we pull everyone into the game – big public companies, small businesses, non-profits, government, individuals and more – and that we operate as agents of connection through financial, social, reputational, moral and more forms of capital in a world in flux."

CLARA MILLER
CEO Emerita, FB Heron Foundation

Case Study 3

ROCKEFELLER FOUNDATION SMART POWER INDIA AND CKERS

Rockefeller Foundation established Smart Power India in 2015, as an industry facilitator to address the problem of rural energy poverty through access to reliable electricity, using models such as renewable energy mini-grids.

In 2018, the Foundation made a US$3 million investment in cKers Finance, a specialist financial intermediary focused on helping to scale up India's decentralised renewable energy industry. Established in 2017, cKers specialises in making project finance viable at a small scale, and develops innovative asset-backed financing approaches, including securitised structures.

CATALYSING IMPACT

The foundation's investment in cKers is dedicated to its mini-grid portfolio. The structure of subordinated debt is intended to position cKers to attract senior debt funding from a wider range of providers and on more favourable terms. The investment has established a partnership between cKers and Smart Power India to facilitate referrals of mini-grid ESCOs, information sharing and coordination to strengthen the overall ecosystem.

LESSONS FROM PRACTICE

There is tremendous potential in the powerful combination of capital intermediation and industry facilitation. This initiative meets a substantially underserved need in the Indian energy sector. Investing in cKers will enable the development of a deep and operationally nuanced understanding of the space, which will help in identifying opportunities as well as effectively assessing and mitigating risk.

Case Study 4

HABITAT FOR HUMANITY MICROBUILD FUND

Habitat for Humanity is a global non-profit with a mission to solve the issue of affordable housing and shelter. It works in partnership with future homeowners, volunteers, donors and partner organisations across 70 countries.

In 2013, the organisation's Terwilliger Centre for Innovation launched the MicroBuild Fund, the first impact investing fund dedicated to housing microfinance. The Fund ensures low-income families around the world have access to the resources necessary to build safe and durable homes that meet their needs.

In its first five years, the US$100 million fund has provided access to better housing to >415,000 people and has approved US$90 million in loans across 49 institutions in 28 countries. In 2017, the fund was a winner of a Classy Award, which recognises the most innovative solutions to the world's toughest issues.

DESIGN FOR IMPACT

The fund is designed to drive innovation and scale housing finance for low-income households. In its sixth year of operation, it builds on existing models while innovating to expand the variety of financing instruments and the geographic range it serves.

Various practices deriving from a solutions-focused approach has allowed the MicroBuild Fund to maximise its benefit to the families it seeks to help. These include: reaching clients through local currency loans which prevent exchange-rate losses and; providing a technical assistance program which ensures families receiving the loans better understand and improve their property rights.

LESSONS FROM PRACTICE

The fund fills a key gap in financial inclusion, the gap between housing finance and microfinance institutions. It does this by innovating to meet the needs of the people it serves. The fund tracks its progress to understand and scale the success of its practices and identify more problems it can address within its target sector.

> "Lack of access to eye care prevents billions of people around the world from achieving their potential and is a major barrier to economic and human progress."
>
> **MADELEINE K. ALBRIGHT**
> former US Secretary of State

Case Study 5

FB HERON FOUNDATION NET CONTRIBUTION FOR MISSION

Heron Foundation was established in 1992 with a corpus of approximately US$300m. Its mission is to help people and communities in the United States help themselves out of poverty.

In 1996, Heron recognised that the scope of the social problems it was trying to address required more significant resources than its mandated 5% payout ratio. The focus was shifted to dedicating more of its corpus to impact.

By 2012, Heron had moved to fully integrating its approaches to utilising different types of capital to expand reliable employment and economic opportunity and reach 100% deployment to mission by 2017.

IMPACT INTEGRITY

Heron is a leader in impact integrity through:

- ▲ Transparency of approach and lessons learned.
- ▲ An integrated team and governance in service of mission.
- ▲ Impact management and measurement, including of direct and indirect impact across the portfolio.
- ▲ Cataloguing and disclosure of all holdings.

In 2005, Heron also helped to develop the U.S. Community Investing IndexTM 1 (USCII, Bloomberg Ticker: CMTYIDX) to identify publicly listed companies that contribute positively to the communities in which they source, operate, and sell.

LESSONS FROM PRACTICE

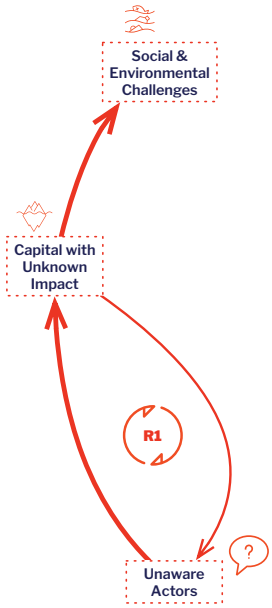
Heron has brought its capital to bear in a solutions oriented approach aligning impact mission and investment strategy. A focus on transparency, knowledge sharing and rigorous impact management has delivered high levels of impact integrity along with a significant contribution to market development.

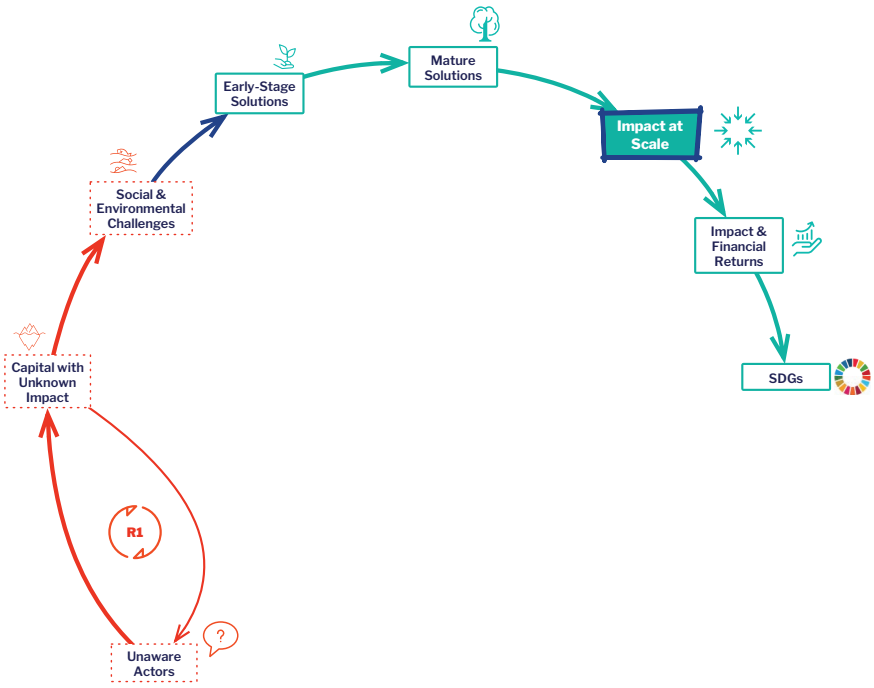
APPENDICES

APPENDIX 1
A more detailed walk through mapping of the theory of change for impact investment

The theory of change starts from the world today where there has been significant progress but Investments that over empahsise financial return still frame the dominant systems driving local and global economies. It brings focus to the levers that can provide a breakthrough to mobilise more actors, continue to take catalytic action to spur others to collective and effective responses and drive positive effects at scale and bring clarity to where progress is being made. It paints the picture of possibility for a future defined by a system that fully integrates impact, where more capital flows to solutions capable of delivering impact at scale and meeting the aspirational targets of the SDGs

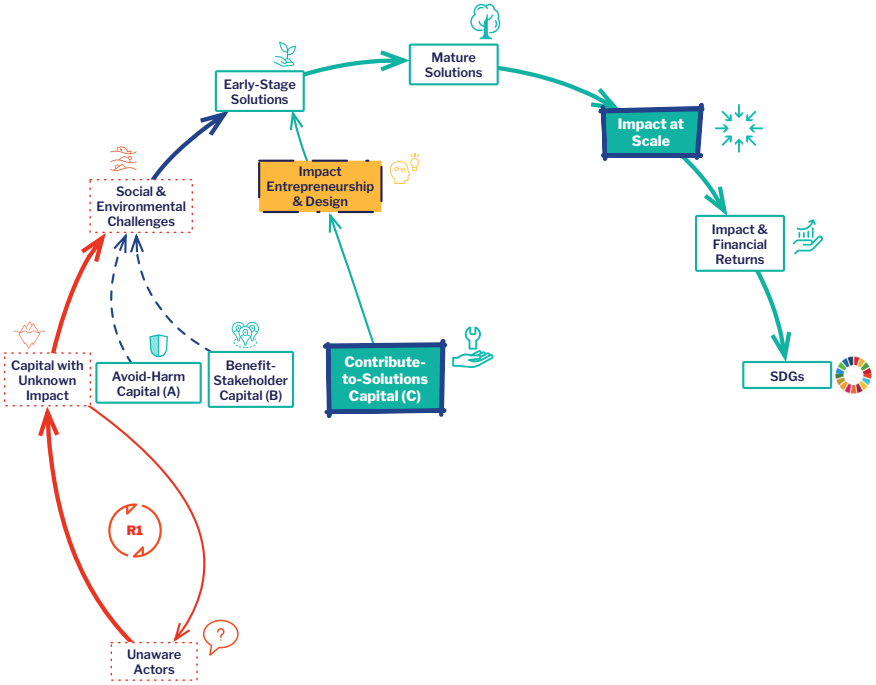
The dominant approach in the current economic paradigm over-emphasises financial return. Some capital is managed to avoid harm and to have important positive outcomes that benefit people and the planet. However, a majority of investments do not do not contribute in an intentional and accountable way for effects on people and the planet.

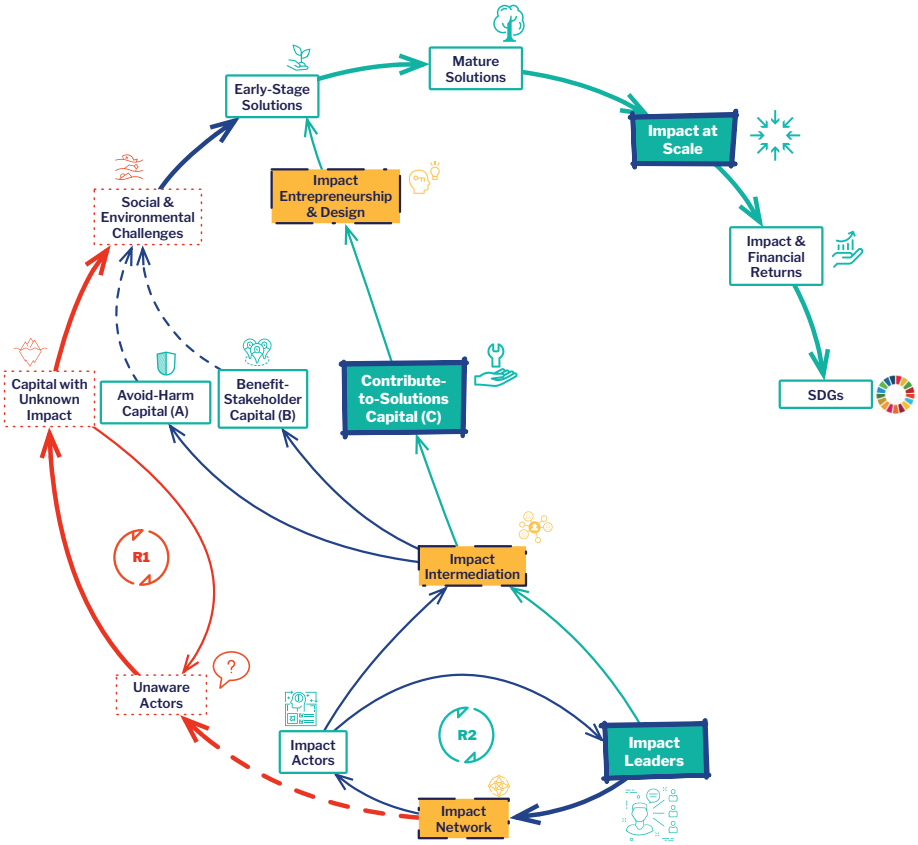




The goal of impact investment is to see a future where solutions can develop, mature and be disseminated to deliver positive impact at scale, achieving the SDGs, in a manner that meets the needs and aspiration of people and sustains the planet.

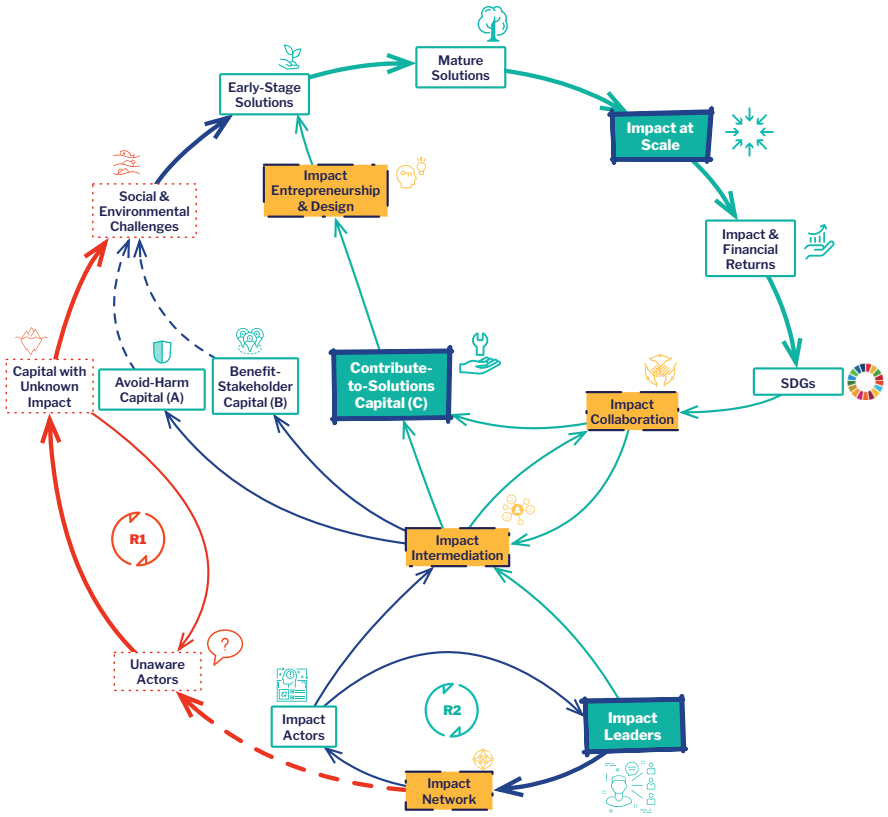
Some capital currently flows to solutions that have a significant effect on specific positive outcomes and to impact driven entrepreneurs and enterprises. Much of that relies on individual organisations and entrepreneurs to push through the system to grow and address barriers to maturity and greater impact.





Mobilising more and different people and organisations (actors) to participate can grow the stock of solutions that drive more positive impact and the flows of capital toward them.

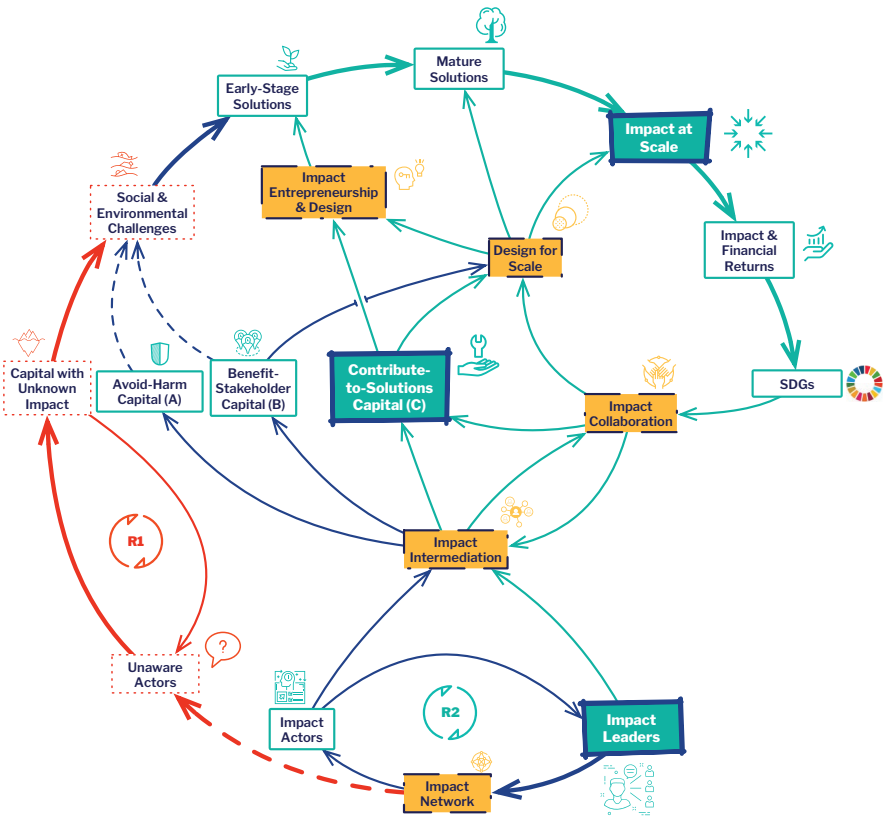
Focus on key levers can accelerate the cycle for mobilising actors, increasing their engagement and creating impact leaders. Those levers include: awareness raising, education, growing and strengthening impact networks, widening the opportunity set of investment products and solutions, and strengthening and deepening intermediaries who build expertise, advise and connect other actors.



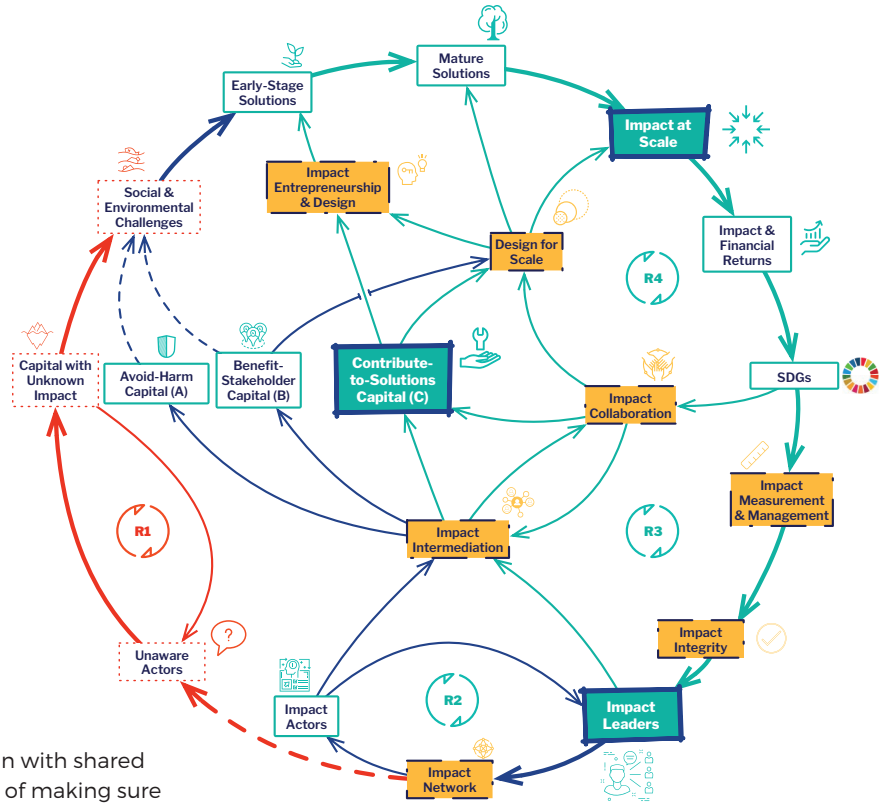
Impact investment will grow faster and with greater impact if some actors take targeted, catalytic action to spur others to act and enable more effective responses.

Focus on key levers to drive innovation and scale is critical to building out the impact investment ecosystem. The key levers include: collaboration for new solutions, flexible capital to unlock innovation and investment and constructive engagement of governments and policy makers to further enable the impact ecosystem.

The effect is greater still with deepening of impact practice, starting with ensuring clarity of intentions and objectives expressed in clear impact goals. More potential for impact will be realised when solutions are designed to scale, opportunities are aggregated and that effective collaboration enables more and better outcomes than would otherwise be achieved.



Matching clarity of intentions with impact management will contribute data to inform understanding, frameworks and standards and enable more informed choices and drive accountability. Commitment to accountable practice and governance will encourage the learning, accountability and transparency necessary for an increasingly larger and more dynamic ecosystem to maintain confidence in what is contributing to solutions, build resilience for when things do not go to plan.



The call is for bold, enlightened leaders to join with shared purpose, urgency and optimism and be part of making sure that impact investment accelerates as a powerful force to drive the impact ecosystem and fulfil the vision for a more inclusive, prosperous and sustainable world.

LEGEND

Elements

- Things to grow
- Breakthrough Levers
- Vision

Connections

Adding effects
Cause ——→ *Effect*
Strengthening/increase of the cause leads to strengthening/increase of the effect

Substracting effects
Cause — → *Effect*
Strengthening of the cause leads to weakening of the effect

Today's dominant reinforcing feedback loop
Cause ——→ *Effect*

Priority causes and effects to deliver impact at scale
Cause ——→ *Effect*

Loops

Reinforcing loop
R
These loops reinforce behaviours and actions and have a multiplier effect.

GLOSSARY

Impact Actors are all actors entering the impact investment ecosystem and growing practice

Impact Leaders are those impact actors who are pioneers or develop deep specialisation and capacity for impact

Impact Network refers to the range of developing communities of practice and industry for impact

Impact Intermediaries refer to the range of roles and organisations that intermediate solutions, capital and connect, aggregate, advise on, measure and evaluate them

Avoiding Harm Capital, ***Benefit Stakeholder Capital*** and ***Contribute to Solutions Capital*** refer to the ABC of the impact management project

Design for Scale means design of capital or solutions or both for scaling effects, direct or indirect, including replication and dissemination to increase reach, driving changes in mindset, behaviours and networks and changes that increase capacity for reach and impact invading policy and regulation

Impact Collaboration means collaboration to drive greater scale and positive impact, including between non-traditional partners, with a focus on catalytic action and flexible capital to enable effects unlikely to occur otherwise

Impact Integrity means commitment to commitment to impact management and accountable impact practice and governance, including applicable principles and standards

The system mapping to articulate the high level and complex theory of change for impact investment was developed by Joe Hsueh and Brian Blankinship, Omplexity for JW McConnell Family Foundation and this Working Group in collaboration with Rosemary Addis and Erica Barbosa-Vargas. Graphics to translate the Theory of Change to Figures shown in this paper by Ryan Murphy PhD student at Memorial University, Canada.

APPENDIX 2
Market definitions: Impact Investment & Impact Economy

We can achieve a future where no one lives in poverty and the planet thrives. We must adopt a simple unifying principle: it is the collective responsibility of all actors in the society to be aware of their effects on people and the planet, to prevent the negative externalities and increase the positive impact. This impact management principle[1] underlies the impact economy we envision. *An impact economy necessitates that measurement of social and environmental impact is integrated in all economic activity; and central to government policy, business operations, investor behaviour, and consumer consumption*. How far different enterprises[2] - and their investors - go in their impact management practice depends on their intentions, constraints and capabilities:

A. At a minimum, enterprises can **act to avoid harm** for their stakeholders, for example decreasing their carbon footprint or paying an appropriate wage; such 'responsible' enterprises can also mitigate reputational or operational risk (often referred to as ESG[3] risk management), as well as respect the personal values of their asset owners.

B. In addition to acting to avoid harm, enterprises can also actively **benefit stakeholders**, for example proactively upskilling their employees, or selling products that support good health or educational outcomes; these 'sustainable' enterprises are doing so in pursuit of long-term financial outperformance (often referred to as pursuing ESG opportunities)[4].

C. Many enterprises can go further: they can also use their capabilities to **contribute to solutions** to pressing social or environmental problems, for example enabling an otherwise underserved population to achieve good health or educational outcomes, financial inclusion or hiring and skilling formerly unemployed individuals[5].

In an impact economy, enterprises use their capabilities to optimise both their positive impact on the world and their financial performance. Likewise impact investors bring their own resources to bear in optimising enterprises' impact, within the context of their constraints and capabilities, above and beyond what the capital markets enable. Investors use various strategies to contribute to impact, often in combination:

- *Signal that measurable impact matters*: Investors can choose not to invest in, or to favour, certain investments such that, if all investors did the same, it would ultimately lead to a 'pricing in' of social and environmental effects by the capital markets. Often referred to as values alignment, this strategy expresses the investors' values and is an important baseline. But alone, it is not likely to advance progress on societal issues when compared to other forms of contribution.
- *Engage actively*: Investors can use expertise, networks and influence to improve the environmental and societal performance of businesses. Engagement can include a wide spectrum of approaches - dialogue with companies, creation of industry standards, taking board seats or creating board-level committees, using their own team or consultants to provide hands-on management support (as often seen in private equity). The 'engage actively' strategy involves, at a minimum, significant proactive efforts to improve businesses' impact on people and the planet.
- *Grow new or undersupplied capital markets*, by anchoring or participating in new or previously overlooked opportunities. This may involve investment into sectors where there is a little information or transparency, or those where there are investment teams with no or little experience in the space therefore requiring investors and investees to build their understanding of how investment can work for the context. This may involve more complex or less liquid investments, or investments in which some perceive risk to be disproportionate to return.
- *Provide flexible capital*, by recognizing that certain types of enterprises do require capital which may be considered less likely to provide market rate return, less liquid, more risky, or in smaller sizes than would traditionally be invested to generate certain kinds of impact.

Hence, *Impact investments optimise risk, return and impact*.

Impact investors therefore typically spend their energy in the righthand column of Figure 1 below, supporting and scaling enterprises that contribute to solutions and go beyond signalling. Such investors often find it beneficial to accumulate deep knowledge and understanding of the social or environmental problem they are looking to solve and the system within which it exists, and to build capacity within investee organisations. By doing so, impact investors play a catalytic role in the evolution of the impact economy. In the near-term, since impact management practice is nascent, investors can also contribute to positive impact in by enabling large companies to avoid significant harm – for example, providing capital for environmental retro-fitting of carbon-intensive factories, or using shareholder activism to address poverty in a multinational corporation's supply-chain.

[1] This principle is based on widespread consensus achieved under The Impact Management Project

[2] The term 'enterprise' is used to cover a wide range of delivery models, including multinational corporations, small to medium sized enterprises, infrastructure projects, social enterprises and charities

[3] Environmental, Social and Governance; also referred to as Responsible Investing

[4] Also referred to as Sustainable Investing which includes ESG Integration, Sustainability Themed Investing and Positive/Best-in-Class ESG Performance

[5] Enterprises can also 'contribute to solutions' by selling products that enable others to act to avoid harm (for example, an off-grid lighting company)

FIGURE 1:

Mapping the ABC of impact to the way investors can contribute suggests opportunities for wider and deeper impact investment

IMPACT CLASSES		IMPACT OF UNDERLYING ASSETS/ ENTERPRISES		
		A	**B**	**C**
		Act to avoid harm Prevent or reduce significant effects on important negative outcomes for people and the planet	**Benefit stakeholders** Have various effects on important positive outcomes for people and the planet	**Contribute to solutions** Have a significant effect on specific important positive outcome(s) for underserved people or the planet
1	**Signal that impact matters** + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	**E.g. Ethical bond fund**	**E.g. Positively-screened/ best-in-class ESG fund**	**E.g. Sovereign-backed bonds (secondary market) funding vaccine delivery to understand people or renewable energy projects**
2	**Signal that impact matters + Engage actively** + Grow new/undersupplied capital markets + Provide flexible capital	**E.g. Shareholder activist fund**	**E.g. Positively-screened/ best-in-class ESG fund using deep shareholder engagement to improve performance**	**E.g. Public or private equity fund selecting and engaging with businesses that have a significant effect on education and health for underserved people**
3	**Signal that impact matters** + Engage actively **+ Grow new/ undersupplied capital markets** + Provide flexible capital	**E.g. Anchor investment in a negatively-screened real estate fund in a frontier market**	**E.g. Positively-screened infrastructure fund in a frontier market**	**E.g. Bond fund anchoring primary issuances by businesses that have a significant effect on environmental sustainability, access to clean water and sanitation**
4	**Signal that impact matters + Engage actively + Grow new/ undersupplied capital markets** + Provide flexible capital	*Investment archetype not widely observed*	*Investment archetype not widely observed*	**E.g. Private equity fund making anchor investments in businesses that have a significant effect on income and employment for underserved people**
5	**Signal that impact matters** + Engage actively **+ Grow new/ undersupplied capital markets + Provide flexible capital**	*Investment archetype not widely observed*	*Investment archetype not widely observed*	**E.g. Below-market charity bonds, or an unsecured debt fund focused on businesses that have a significant effect on employment for underserved people**
6	**Signal that impact matters + Engage actively + Grow new/ undersupplied capital markets + Provide flexible capital**	*Investment archetype not widely observed*	*Investment archetype not widely observed*	**E.g. Patient VC fund providing anchor investment and active engagement to businesses that have a significant effect on energy access for underserved people**

INVESTOR'S CONTRIBUTION

Source: The Impact Management Project, 2018

FIGURE 1. *The matrix helps investors to understand and describe the impact performance (or, if a new product, the impact goals) of an investment, or portfolio of investments. Much like financial asset classes are a helpful heuristic for quickly conveying whether the characteristics of an investment opportunity match an investor's financial intentions, the boxes on this matrix are an equivalent shorthand for conveying whether the impact characteristics of an investment opportunity match an investor's impact intentions.*

As we set our sight on a full-fledged global impact economy by 2030, we can expect significant growth in impact investments, which enable enterprises to contribute to solutions, optimising their risk, return and impact. Given the rise of impact entrepreneurship and the encouraging response of enterprises and investors to the SDGs, it is becoming realistic to think that every asset class can include a percentage of impact investments which, taken together, would unlock capital at scale to address the world's most pressing social and environmental challenges.

GLOSSARY

TERM	DEFINITION
2030 Agenda	The 2030 Agenda for Sustainable Development and the SDGs. Transforming our World: the 2030 Agenda for Sustainable Development including its 17 Sustainable Development Goals (SDGs) and 169 targets was adopted on 25 September 2015 by Heads of State and Government at a special UN summit.
ESG	A set of standards for a company's operations that socially conscious investors use to screen investments. Environmental criteria looks at how a company performs as a steward of the natural environment. Social criteria examines 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 and internal controls, and shareholder rights. Investors who want to purchase securities that have been screened for ESG criteria can do so through socially responsible mutual funds and exchange-traded funds.
GABV	Global Alliance for Banking on Values
GSG	Global Steering Group for Impact Investment
Impact Ecosystem	A highly integrated network of players (such as individuals, government and organisations) focused on dramatically and fundamentally redefining sustainable value across varied constituencies.
Impact Enterprise	Impact Enterprises are legal entities, including both for-profit and non-profits, who have a mission to deliver social or environmental impact. Sometimes also referred to as social enterprises
Impact Investment	Impact investment optimizes risk, return and impact to benefit people and the planet. It does so by setting specific social and environmental objectives alongside financial ones and measuring their achievement.
Impact Management	The process of channelling the holistic impact of the organization into creating sustainable business value in the ecosystem.
Impact Measurement	Measuring and managing the process of creating social and environmental impact to maximize and optimize it.
Impact Risk	The possibility that the investment does not achieve the desired social or environmental benefits.
Intermediary	An entity that raises money from impact investors and invests that money in social enterprises (such as a fund). An intermediary may also arrange investments without handling money.
OECD	Organisation for Economic Co-operation and Development
PRI	The UN supported Principles for Responsible investment, established in 2005; as at 2018 with over 2000 signatories committed to steps on environmental, social and governance integration
Responsible Investment	Responsible investment is an investment strategy which seeks to generate both financial and sustainable value. It consists of a set of investment approaches that integrate environmental, social and governance (ESG) and ethical issues into financial analysis and decision-making. Responsible investment goes by many names – it is variously referred to as socially responsible investing (SRI), ethical investing, sustainable investing, triple-bottom-line investing, green investing – but underlying these differing names is a common theme focused on long-term value creation. Value in this context refers not only to economic value, but to the broader values of fairness, justice, and environmental sustainability
Sustainable Development Goals	The Sustainable Development Goals (SDGs), otherwise known as the Global Goals, are a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity.
The GIIN	The Global Impact Investing Network
Theory of Change	A tool by which an organization describes the problem it wants to solve, the outcomes it will seek and the activities it will do in pursuit of those outcomes.

About The Working Groups

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Acknowledgements

This paper is truly a synthesis of contributions from the Working Group and many other leaders in impact investment and in fields and industries that have lessons to provide.

Thanks to all Working Group members for their time and the resources in kind, in particular to those who picked up the pen on cases and points of nuance and who contributed their own thought leadership to inform this analysis to widen and deepen impact investment.

The system mapping to articulate the high level and complex theory of change for impact investment was developed by Joe Hsueh and Brian Blankinship, Omplexity for JW McConnell Family Foundation and this Working Group in collaboration with Rosemary Addis and Erica Barbosa-Vargas. Graphics to translate the Theory of Change to Figures shown in this paper by Ryan Murphy PhD student at Memorial University, Canada.

Shan Bannirchelvam has expertly coordinated the Working Group effort and the contributions from many over many months. Sally McCutchan spent many hours providing critical insight and strategic focus to refining and building on drafts of the Part II material. Research assistance was provided by Rachel An, intern at Brightlight Impact Advisory and Julie Segal, Impact Investment Analyst, JW McConnell Family Foundation. Editing and strategic communications support provided by Donald Simpson.

Organisations that provided case study material beyond what was available publicly include BNP Paribas, FSG, Evalysis, Vancity Credit Union, Enclude, JW McConnell Family Foundation, C-Change TIAA Nuveen and QBE Insurance. C-Change, the GIIN, GABV, and PRI provided research material.

Other impact leaders contributed insights at the GSG Leadership meetings in London May 2018 and a related convening for this Working Group, including: David Carrington, James Perry, Susan De Witt, Caroline de Bruin, Jane Newman, Laurie Spengler, Karen Wilson, Fran Seegull, and Christina Leijonhufvud.

Thanks to Brightlight Impact Advisory, Tideline, JW McConnell Family Foundation, The Impact Management Project, Impact Investing Australia and Impact Strategist for resources in kind. And to the JW McConnell Family Foundation and Impact Strategist for financial contributions that enabled this work to go further and deliver a richer and more useful paper. Thanks also to the Australian Department of Foreign Affairs and Trade for their support of the Australian Advisory Board on Impact Investment contributions to the GSG effort.

Other GSG Working Group Reports

WORKING GROUP NAME	PILLAR REPRESENTED	TOPICS
Building Impact Investment Wholesalers	**Supply of Capital**	It details the what, why and how of building impact wholesalers
Catalysing an Impact Investment Ecosystem: A Policymaker's Toolkit	**Policy & Advocacy**	It focuses on the role of government in the impact investment ecosystem and highlights how policy making can be catalytic
Enabling ventures to leverage technology for impact	**Demand of Capital**	It analyses the different enabling elements across the lifecycle of impact-tech, and focuses on recommendations to improve the global tech-for-good ecosystem
Investing for a better world	**Supply of Capital**	It focuses on recommendations to strengthen the financial services value chain to meet the sustainable development goals
Widening & Deepening the Market for Impact	**Market Builders**	It outlines the why and what of impact investing and presents a theory of change for widening participation and deepening practice with practical guidance on actors and levers

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