Pacific Community Ventures

Impact Due Diligence: Emerging Best Practices

A synthesis of due diligence practices employed by leading impact investors who systematically assess investments' anticipated impact

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About the Author

Pacific Community Ventures (PCV), a nonprofit social enterprise and community development financial institution (CDFI) based in Oakland, California, envisions a world of thriving communities where everyone has a fair shake. Our mission is to invest in small businesses, create good jobs for working people, and make markets work for social good. We achieve our mission through a combination of fair lending, free mentorship, skilled volunteerism, impact investing consulting services, and field-building research.

This report was developed by PCV's research and consulting team, which leads projects intended to foster the growth and increase the efficacy of the impact investing field. The team's extensive experience developing impact due diligence systems, both for PCV's loan fund and several consulting clients, has both inspired and informed this initiative. PCV's experience in impact due diligence formally began in 2014, when the organization worked with Community Vision (formerly NCCLF) to develop a quantitative social impact rating tool. Since then, PCV has partnered with several other investors to develop formalized impact due diligence approaches, including BlueHub Capital, Community Housing Capital, and the MacArthur Foundation.

Our Research Partners

IMPACT MANAGEMENT PROJECT

The Impact Management Project (IMP) is a forum for building global consensus on how to measure, manage and report impact. Since 2016, the IMP has brought together a Practitioner Community of over 2,000 organizations to establish norms and share best practices. The IMP also facilitates the IMP Structured Network, an unprecedented collaboration of standard-setting organizations who are coordinating efforts to provide complete guidelines for impact measurement and management.

GIIN GLOBAL IMPACT INVESTING NETWORK

The Global Impact Investing Network (GIIN) is the global champion of impact investing, dedicated to increasing its scale and effectiveness around the world. By convening impact investors to facilitate knowledge exchange, highlighting innovative investment approaches, building the evidence base for the industry, and producing valuable tools and resources, the GIIN seeks to accelerate the industry's development through focused leadership and collective action. Ultimately, the GIIN focuses on reducing barriers to impact investment so more investors can allocate capital to fund solutions to the world's most intractable challenges. The GIIN does this by building critical infrastructure and developing activities, education, and research that help accelerate the development of a coherent impact investing industry.

Acknowledgements

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We would also like to thank our advisors, Karim Harji, Program Director of the Oxford Impact Measurement Program, and independent consultant Jane Reisman, who offered valuable support throughout this project. Thanks to Belissa Rojas of IDB Invest, Christian Rahbek Rosenholm of the International Finance Corporation, and Catherine Dun Rappaport of BlueHub Capital for providing insightful feedback. Last, but not least, a special thanks to our interview subjects: the fund managers, foundations, development finance institutions, institutional investors, consultants, and industry experts who helped us document lessons in effective impact due diligence. For a full list of organizations that participated in this project, see Appendix A.

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Executive Summary

While the practice of impact measurement and management (IMM) has become increasingly sophisticated and widespread in recent years, most investors focus primarily on what happens after, not before, investments are made.

This diminishes the potential value of IMM because the social and environmental performance reported by companies after receiving investments has, in many cases, little to no influence on either strategic or tactical investment decisions. For many investors, leveraging insights from impact analyses to guide portfolio construction and ongoing management—i.e., the second 'M' in IMM—remains an aspiration rather than established practice.

As a result, while IMM helps impact investors more effectively understand and communicate their societal or environmental value to their investors and stakeholders, in many cases, measurement systems have not enabled investors to demonstrably achieve more positive impact than they would have otherwise.

Most impact investors have clearly-defined impact goals, which they use to screen out investments with negative impacts or 'screen in' those expected to generate positive impacts consistent with their objectives.

Once investments are screened for impact, investment decisions are ultimately made by analyzing expected risk-adjusted financial returns. Few investors systematically examine which investments are expected to generate relatively more or less impact, which can help them more closely align their investments with their objectives and increase the likelihood that their portfolios reflect their values and goals.

Thankfully, leaders in the field are increasingly recognizing the crucial importance of methodically assessing anticipated impact. Systematic impact due diligence is one of nine of the International Finance Corporation's Operating Principles for Impact Management, and is cited by the GIIN's Roadmap for the Future of Impact Investing as critical to exponentially enhancing the scale and effectiveness of the industry. At the same time, many investors do not know where to begin.

Impact due diligence creates value for a broad range of stakeholders across the impact investing ecosystem.

The Impact Due Diligence Initiative

In response, PCV launched the impact due diligence initiative in partnership with the Impact Management Project (IMP) and with research support from the Global Impact Investing Network (GIIN). The objective of this project was to assess emerging best practices in impact due diligence as well as develop practical guidance across asset classes and impact areas to help investors undertake their own impact due diligence efforts. This project has been informed by extensive desk research on emerging best practices in impact due diligence, interviews with leading practitioners, researchers and consultants, the PCV team's experience developing impact due diligence systems for clients and for PCV's loan fund, and discussions at numerous conferences and industry convenings.

The first of two reports, **Impact Due Diligence: Emerging Best Practices**, surfaces the shared impact due diligence approaches and practices employed by industry leaders. **The Impact Due Diligence Guide**, our companion report to be launched in the coming months, will offer detailed recommendations regarding the design and implementation of approaches to impact due diligence.

Value of Impact Due Diligence

Impact due diligence creates value for a broad range of stakeholders across the impact investing ecosystem, including impact investors, investees and the field at large. Key benefits include fostering internal alignment around intended impacts and priorities, deepening understanding of investees' activities, supporting the construction of more positively impactful portfolios, improving investor and investees' ability to communicate impact, strengthening relationships between investees and investors, and increasing firms' ability to attract additional capital. In combination, the benefits of widespread adoption of impact due diligence should attract additional capital to the field and thereby foster the formation of more inclusive and sustainable financial markets.

A Call to Action

This report intends to provide actionable advice to a diverse community of impact investors. While the report highlights emerging best practices adopted by leading impact investors, each organization's approach to impact due diligence will need to reflect its unique priorities and constraints. For example, investors' impact themes, staffing model, internal expertise, and asset class influences their ability to evaluate their investments' expected impacts. We hope that investors will use the portions of this report that are most useful to them and look forward to sharing our detailed step-by-step recommendations in the forthcoming **Impact Due Diligence Guide**.

We do not expect all investors will be able to adopt each of the best practices outlined in this report. Rather, we believe what is most important is that investors embark on the process of formally assessing expected impact alongside financial risk and return. In so doing, the practice of impact investing will be better positioned to contribute towards a more sustainable financial industry that meaningfully tackles—rather than contributes to—the world's most pressing challenges.

What is most important is that investors embark on the process of formally assessing expected impact alongside financial risk and return.

EMERGING AREAS OF BEST PRACTICE

While systematic impact due diligence approaches are still emerging across the impact investing industry, seven areas of best practice stand out among investors who have developed impact due diligence approaches. These include the following:

ASSESSING IMPACT USING THE FIVE DIMENSIONS

BRIDGING THE DIVIDE BETWEEN ESG AND IMPACT ASSESSMENTS

ALIGNING WITH THE SUSTAINABLE DEVELOPMENT GOALS

ELEVATING THE PERSPECTIVES OF KEY STAKEHOLDERS

EVALUATING A COMMITMENT TO IMPACT AND LEARNING

ADOPTING A PORTFOLIO-WIDE APPROACH

PRIORITIZING ACCESSIBILITY

1 **Assessing Impact Using the Five Dimensions**: The Impact Management Project (IMP) is a useful and widely accepted set of norms for understanding and assessing impact. Investors should check their approaches against the five dimensions of impact to ensure they are comprehensively assessing expected impacts on people and the planet.

2 **Bridging the Divide Between ESG and Impact Assessments**: When assessing anticipated impact, investors should ensure they are evaluating all impacts an enterprise has that matter to people and planet including those related to business operations (i.e. ESG considerations) as well as products or services. In this way, investors can evaluate all impacts that matter–not just the intended positive ones.

3 **Aligning with the Sustainable Development Goals**: Since the Sustainable Development Goals (SDGs) were released by the United Nations Assembly in 2015, investors have used these 17 goals as a means of articulating the connections between their investments' impacts and the United Nation's global development agenda. Incorporating the SDGs into impact due diligence helps ensure that prospective investments' anticipated impacts align with the global development agenda, as well as enable effective communication about expected impact across a diverse portfolio. This best practice is most appropriate for investors whose strategies are intentionally designed to contribute to the SDGs or whose objectives have significant overlap with the global goals.

4 **Elevating the Perspectives of Key Stakeholders**: Incorporating the perspectives of those who are impacted by investees helps investors better align on impact goals, mitigate impact risk, amplify stakeholder voices, develop feedback loops between investors and investees, and assess both investor and investee contribution.

5 **Evaluating a Commitment to Impact and Learning**: Investors should explicitly assess investees' commitment to achieving impact as well as their ability to improve, adapt, and learn. Specifically, investors should evaluate whether investees' impact thesis is clearly defined, their understanding of key stakeholders' needs, the robustness of their IMM systems, whether they have financial incentives linked to impact performance, and their ability to change strategies and tactics based on results.

6 **Adopting a Portfolio-Wide Approach**: Investors should develop a consistent impact due diligence approach that enables direct comparisons of different types of investments across a portfolio. This is an essential component of effective, impact-driven portfolio management. Sector-specific questions and indicators are in some cases necessary to achieve a sufficient level of rigor in impact due diligence, particularly for those with diverse portfolios. However, investors should adopt sector-agnostic frameworks and generalizable questions and indicators, where possible, to ensure impact due diligence processes are more easily implementable and results are comparable.

7 **Prioritizing Accessibility**: To ensure that their impact due diligence approaches can be easily adopted, investors should use consistent language, appropriately balance rigor and efficiency, and seek to understand the expectations of internal and external audiences. While new impact due diligence systems will take time for staff to learn, investors should strive to build ones that are not burdensome to facilitate adoption. This will encourage investor and investee relationship-building and set internal stakeholders up for success in performing their impact due diligence-related roles.

Introduction to Impact Due Diligence

This report examines the leading practices employed by impact investors who formally assess anticipated impact during due diligence, which we broadly define as all aspects of the investment process that occur before making an investment.

Impact due diligence will not only enhance investors' capacity to make more informed investment decisions and increase the impact of their portfolios; it will also help safeguard the entire field against "impact washing" as the market grows.

Our research identified three main approaches to impact due diligence as part of **impact measurement and management (IMM)**: narratives of expected impact, due diligence questionnaires, and quantitative tools. These archetypes are not mutually exclusive, as many investors employ two or all three approaches.

NARRATIVES OF EXPECTED IMPACT

Written descriptions of anticipated impact enable investors to consistently document their impact-related expectations. Typically appearing as a paragraph in an investment memorandum, narratives of expected impact are often the first formalized approach investors employ to evaluate impact expectations. While this method lacks the standardization of a systemized due diligence tool, narratives of expected impact can allow investors to develop an understanding of the types of information that should be collected using impact due diligence questionnaires and quantitative impact due diligence tools.

DEFINING ANTICIPATED IMPACT

When we refer to assessing expected or anticipated impact, which is used interchangeably throughout this report, we are not only referring to the projected impacts of an investment. This is, in fact, only one component of an evaluation of expected impacts. Instead, assessing anticipated impacts encompasses an examination of potential investees' current impact, forecasted impact over the life of the investment, as well as current and expected impact risks. For detailed guidance on developing processes to assess anticipated impact, please see our forthcoming companion report, **The Impact Due Diligence Guide.**

DUE DILIGENCE QUESTIONNAIRES (DDQS)

Impact-focused questionnaires are sets of questions about prospective investees' impact that usually all potential investees are required to answer. Impact DDQs can be standalone documents or integrated into 'traditional' DDQs that assess an investments' expected financial risk and return.[1] Impact DDQs allow investors to implement a consistent approach to impact due diligence and are typically used to gain a holistic understanding of a potential investee's objectives, anticipated impacts, and unique characteristics. These primarily qualitative assessments can be utilized to gain a nuanced understanding of prospective investees' anticipated impact.

QUANTITATIVE TOOLS

Quantitative tools help investors translate both qualitative and quantitative information about prospective investees into standardized, numeric scores that can be more easily compared across a portfolio as well as all prospective investment opportunities.

To develop quantitative impact due diligence tools, investors select relevant indicators based on their investment strategy and impact themes, relying on the IRIS+ taxonomy of investment themes, IRIS+ metrics and core metrics sets where possible, and develop scoring guidelines to inform the assessment. Each indicator is then assigned a weight to ensure the tool reflects the investor's priorities. Quantitative due diligence tools then produce expected impact scores that can be used to inform investment decisions.

Value of Impact Due Diligence

Formal impact due diligence creates value for a broad range of stakeholders across the impact investing ecosystem, including impact investors, investees and the field at large.

> "Before developing our quantitative impact due diligence approach, our intended impact was codified in everyone's brains. Everyone had a clear idea of the impact we were seeking. After updating our strategic goals, however, we began to see a greater need for systematic impact due diligence."
>
> **—Caitlin Rosser**
> Senior Officer, Impact and Communications, *Calvert Impact Capital*

IMPACT INVESTORS

Impact due diligence benefits investors by:

- **Fostering internal alignment** around their intended impacts and priorities
- **Deepening their understanding** of investees' activities, as well as their strengths and weaknesses, in relation to impact
- Informing investment terms and enabling investors to select deals that **maximize expected impact for a given level of risk-adjusted financial return**, in some cases enabling investors to make investments they wouldn't have made otherwise
- Benchmarking expected impact of prospective investments against past ones, thereby supporting the construction of **more positively impactful portfolios**
- Improving their ability to **communicate their impact**
- **Strengthening their relationships with investees** and investors and increasing their ability to attract additional capital

INVESTEES

Impact due diligence benefits investees by:

- **Building or strengthening relationships** with investors by fostering understanding of each other's priorities and goals, thereby creating shared expectations for accountability and impact management
- Helping them **understand their strengths and weaknesses** in relation to impact, communicate their impact more effectively, and refine their approach based on identified areas for improvement
- Informing investors' referrals to other organizations who offer **financial or advisory support** that could benefit the investee
- **Increasing access to capital for high-impact investees,** as they will be more likely to receive investments and on more favorable terms, as the practice of impact due diligence becomes widespread

THE IMPACT INVESTING FIELD

Impact due diligence benefits the field by:

- Supporting the deployment of capital to more impactful investment opportunities, **increasing the field's overall efficacy**
- Signaling the importance of impact, bolstering the public's confidence in the field's **commitment to driving positive change**
- Demonstrating the increasing sophistication with which impact capital is being deployed, **attracting additional capital** to the field

Research Process

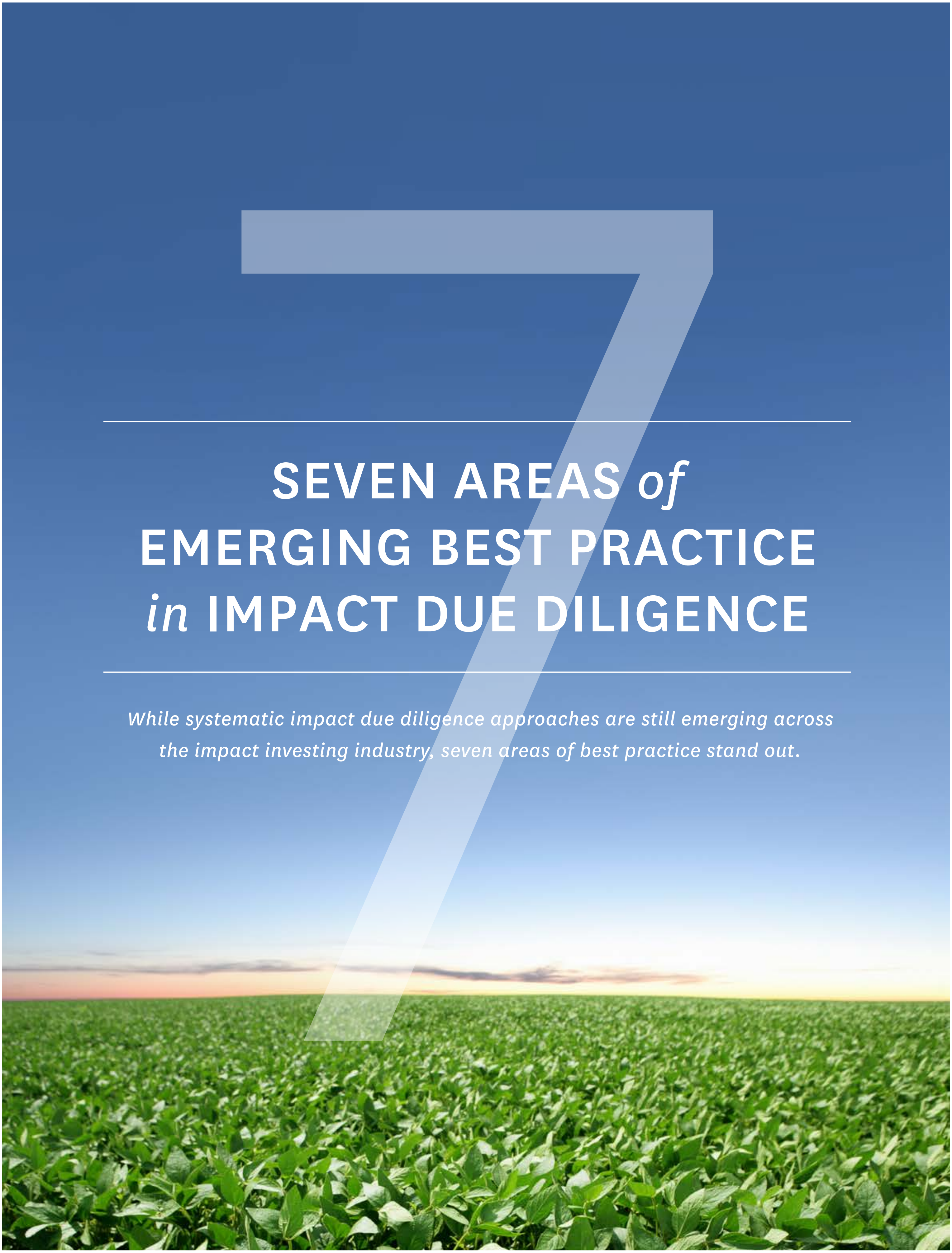
The research and findings contained within this report have been informed by:

- Extensive desk research on emerging areas of best practice in impact due diligence
- 38 interviews with impact investing practitioners, researchers, IMM experts, and consultants
- Facilitated discussions with investors, researchers, and IMM experts at conferences and industry convenings
- PCV's own experience developing impact due diligence tools for clients and PCV's loan fund[2]

For a more detailed description of our research process and a list of interviewees, please see Appendix A. For the IMM approaches, research, and other resources examined in preparing this report, please see Appendix C.

SEVEN AREAS *of* EMERGING BEST PRACTICE *in* IMPACT DUE DILIGENCE

While systematic impact due diligence approaches are still emerging across the impact investing industry, seven areas of best practice stand out.



Assessing Impact Using the Five Dimensions

1

Through extensive engagement with representatives from the whole investment value chain, the Impact Management Project (IMP) has facilitated consensus that there are five dimensions of impact.

These dimensions provide guidance on the type of data needed to understand and assess impact performance.[3]

The five dimensions enable investors and enterprises to better understand and answer the question: *What is impact?* The dimensions include *what, who, how much, contribution, and risk*.[4] Together they help enterprises and investors collect the required data to understand their impact on people and planet. Both social and environmental impact can be measured across the five dimensions. Thus, they are applicable to investors with any impact goal.

As a starting point, investors should gather information about the needs of their stakeholders—including the planet—to understand the relative importance of the investors' potential or actual impacts. This understanding should then be used to inform the development of impact goals.

Through this process, investors should use the five dimensions to ensure their impact goals are sufficiently comprehensive. For example, by checking their goals against the five dimensions, an investor could realize they have yet to set goals related to *Who* they intend to impact.

At the same time, investors need not set goals with regards to all five dimensions, as some may be less relevant to their investment strategy or less important to their stakeholders. For example, an investor may not seek to impact any particular demographic group, so setting goals related to *Who* may be less relevant. In this case, investors should be transparent with their internal and external stakeholders if they do not have a goal with regards to one or some of the five dimensions.

THE FIVE DIMENSIONS OF IMPACT

WHAT

What outcome(s) do business activities drive?

How important are these outcomes to the people (or planet) experiencing them?

WHO

Who experiences the outcome?

How underserved are the affected stakeholders in relation to the outcome?

HOW MUCH

How much of the outcome occurs—across scale, depth and duration?

CONTRIBUTION

What is the enterprise's contribution to the outcome, accounting for what would have happened anyway?

RISK

What is the risk to people and planet that impact does not occur as expected?

Impact Management Project. 2019.

The five dimensions act as a checklist to ensure the investor has robustly assessed impact.

Within due diligence, investors should use the five dimensions to verify that they have a comprehensive understanding of their anticipated impact—both positive and negative—which they should then monitor after investments are deployed. To put it simply: the five dimensions act as a checklist to ensure the investor has robustly assessed impact. For detailed guidance on using the five dimensions, please see the IMP's website. For an example of how the five dimensions can be used to frame impact goals, see this case study on Partners Group's PG LIFE strategy.

Standardized impact metrics can be used to apply the five dimensions and assess anticipated impact during due diligence. The GIIN has evolved IRIS from the catalog of generally accepted social and environmental performance metrics, into IRIS+, a system that helps impact investors translate their impact intentions into an effective IMM approach. IRIS+ provides core metrics sets and practical, how-to guidance for a wide number of common investment themes and goals, increasing data clarity and comparability. Core metrics sets are aligned to the five dimensions and the UN Sustainable Development Goals and are informed by industry and academic evidence documenting the linkage between investment strategies and outcomes.[5]


Plambeck

Bridging the Divide Between ESG and Impact Assessments

2

While often thought of as separate areas of practice, investors should incorporate an examination of environmental, social, and governance (ESG) factors within their assessments of expected impact to comprehensively evaluate the anticipated impacts of the potential investee.

If this does not occur, an investor will not be able to generate a holistic picture of the investee's business and evaluate all positive and negative impacts that matter, including intended and unintended ones. This leads to higher impact risk.

In many cases, impact investors do not integrate these analyses or only evaluate the impact of investees' products and services without systematically considering their business practices. The former is colloquially (and erroneously) referred to as assessing the "impact" of the investment while the latter is typically referred to as the ESG assessment.

Investors should reference available guidance on integrating ESG assessments into investment processes to incorporate ESG within impact due diligence. CDC Group offers a robust toolkit for fund managers: The ESG Toolkit.

Investors also should look to the IFC's Sustainability Framework, the B Impact Assessment, SASB and GRI to ensure that they have covered relevant ESG risks, impacts, and opportunities in their impact due diligence approach.

Furthermore, investors can refer to generally accepted metrics included within the IRIS+ taxonomy that are classified as Operational Impact (OI) and Product Impact (PI).[6] Examples of these metrics include Operational Certifications (OI1120), Fair Compensation Policy (OI3819), and Hazardous Waste Avoided (PI2073).[7, 8, 9]

It is also important to note that ESG assessments typically focus on whether a company has the internal policies and procedures in place that are conducive to modern standards of good business practice, or corporate hygiene. Does the enterprise have a procedure for disposing of hazardous materials? Do they deliver formal training to their employees? Does the enterprise have a code of ethics? These types of questions are clearly important to answer. However, ESG assessments typically only include data related to the efforts of implementing these practices, rather than the resulting impacts that these efforts achieve.

In consideration of the five dimensions of impact, an examination of ESG within impact due diligence should include data on the actual change in outcome achieved (in the 'what' dimension) as well as other contextual data (like the baseline level of need of the stakeholder group affected, in the 'who' dimension). For example, do the enterprise's formal training sessions lead to a higher skill level among employees, than would otherwise have been achieved?

Collecting data on the impact of these ESG policies and procedures is particularly important for efforts to reduce negative impacts. If data is not available on whether negative impact has been reduced, then impact risk remains high. However, it is important to note that potential investees may have limited historical data on outcomes associated with improvements to business practices and may be better positioned to report on this information over the course of the investment rather than during due diligence.

"Collecting data on the impact of these ESG policies and procedures is particularly important for efforts to reduce negative impacts.

CASE STUDY

Bridges Fund Management

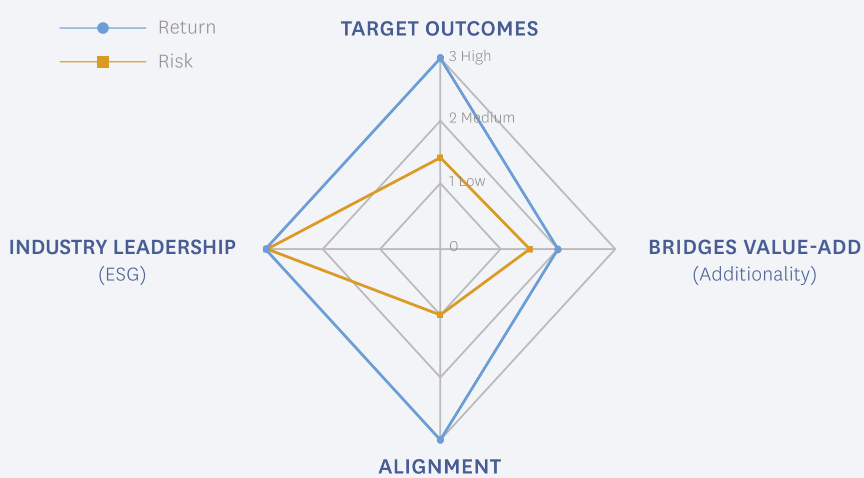
Bridges' Impact Radar scores investees on four key criteria when considering their ability to generate positive social change.

BRIDGES FUND MANAGEMENT IS A PRIVATE FUND MANAGER THAT INVESTS IN SOLUTIONS TO PRESSING SOCIAL AND ENVIRONMENTAL CHALLENGES.

Bridges' Impact Radar is their impact due diligence system that scores investees on four key criteria when considering their ability to generate positive social change. These four criteria account for the expected positive and negative impacts of an investment, including both intentional and unintentional effects:

1. **Industry leadership:** How well are we managing our impact on key stakeholders to protect and enhance value?
2. **Target outcomes:** How well are we solving pressing societal challenges?
3. **Bridges value-add:** What are we doing that wouldn't happen anyway?
4. **Alignment:** How effectively do impact and financial returns go hand-in-hand?

Bridges measures industry leadership with the B Impact Assessment to ensure that their impact due diligence system incorporates a comprehensive assessment of ESG factors. The other three criteria focus on the intended positive impact for the target stakeholder group. Bridges scores each of the four criteria on both expected impact return and the level of impact risk taken, to generate an overall risk/return profile for the investee and their portfolio overall.



The Bridges' Impact Radar, 2017

Aligning with the Sustainable Development Goals

3

The 17 Sustainable Development Goals (SDGs), identified by the United Nations in 2015, represent a global call for action targeted towards promoting peace and prosperity for people and the planet, now and in the future.[10]

Each of the 17 SDGs is tied to several specific 2030 targets, many of which are quantitative in nature.[11]

While the SDGs are a powerful tool for mobilizing resources towards shared objectives, many are concerned about impact washing, or unsubstantiated claims of impact, related to the SDGs. Given this concern, along with their desire to construct more impactful portfolios driving progress in alignment with the global agenda, investors have begun to integrate the SDGs into their impact due diligence approaches. In so doing, assessments of anticipated progress towards these global goals can be used to guide decision-making at the time of investment. That said, integrating the SDGs into due diligence is most appropriate for investors whose strategies are intentionally designed to contribute to the SDGs or whose objectives have significant overlap with the global goals.

BENEFITS OF USING THE SDGS AS A FRAMEWORK FOR ASSESSING ANTICIPATED IMPACT

Incorporating the SDGs into impact due diligence enables investors to:

- Ensure prospective investments' anticipated impacts align with the global development agenda
- More effectively communicate anticipated impact across a diverse portfolio
- More clearly communicate expected impact to a broader set of impact investors

For additional guidance on embedding the SDGs into investment approaches, including as a part of due diligence, investors should review the GIIN's recent report on this topic: Financing the Sustainable Development Goals: Impact Investing in Action and refer to guidance on using IRIS+ to describe and measure impact performance towards the SDGs.[12]

CASE STUDY

HIP has mapped 117 metrics to the SDGs and looks for alignment between prospective investments' anticipated impacts and the SDGs.

HIP INVESTOR, AN INVESTMENT ADVISER, USES AN ESG LENS TO CONSTRUCT IMPACT-FOCUSED PUBLIC EQUITY PORTFOLIOS OFFERING COMPETITIVE RISK-ADJUSTED RETURNS.

HIP has mapped 117 metrics to the SDGs and looks for alignment between prospective investments' anticipated impacts and the SDGs; each investment is classified as a direct hit (indicating full alignment with an SDG's indicators), indirect hit (indicating partial alignment with an SDG's indicators), or zero (indicating no alignment with an SDG's indicators). HIP then looks at the prospective investment's anticipated performance against the specific metrics to assess the extent of the anticipated contribution.

FORMALLY ASSESSING ANTICIPATED IMPACT IN ALIGNMENT WITH THE SDGS

When integrating the SDGs into impact due diligence, it is crucial that investors do more than simply determine to which SDGs investments are aligned with: they must assess how investments are expected to *contribute* to the SDGs. This can be done by examining an investment's linkage to SDG Targets.

Assess Contributions to Specific SDG Targets

As a next step, investors using the SDGs to guide impact due diligence should link anticipated investee impacts to the more detailed targets underlying each goal because these targets are more concrete and actionable than the high-level goals. When linking impact due diligence to specific targets, impact investors should consider two approaches:

- Assessing investees' anticipated direct contribution to the indicator(s) of interest
- Examining the share of investees' revenue contributed to a specific target

Assessing Direct Contribution to Targets

Some investors assess investees' anticipated contributions to the SDG targets within impact due diligence. Investors using this approach should begin by identifying the impact metrics that link to the potential investees' activities, and determine which of these link to SDG targets.

To do this, investors should refer to the IRIS+ catalog of metrics, which includes a comprehensive set of metrics for each SDG target that has been identified as investable. Cerise's MetODD-SDG tool, which outlines sub-indicators tied to each SDG, and Toniic's Impact Theme framework, which offers guidance on aligning IRIS+ metrics with the SDGs, can also serve as helpful resources for this exercise. After identifying targets and indicators linked to each SDG, investors roll up impact across specific indicators to more holistically assess impact in alignment with that SDG. To aid with adoption, IRIS+ has developed specific guidance to help investors use IRIS+ to describe and measure impact performance toward the SDGs, as well as curated core metrics sets which are aligned to the SDGs at the goal level.

Assessing Indirect Contribution to Targets through Revenue Analysis

Other investors assess a prospective investments' anticipated contributions to the SDGs by examining the link between investees' revenue streams and contributions to SDG targets. Investors taking this approach should look for companies with a clear link between the company or asset's core product, service, or focus area and at least one SDG target, which is often measured by considering companies who generate a majority of their revenues in ways that support progress toward at least one SDG target.[13]

"

I think pretty much [all impact investing] is aligned to at least one SDG. Investors should assess impact by developing an impact thesis supported by evidence. They should also seek to learn about the experience of investees' customers, employees, and suppliers—and whoever else is being directly impacted by the enterprise."

—Tom Adams

Chief Impact Officer, *Acumen Fund*

SDG Impact

SDG Impact provides investors and businesses the clarity, insights, and tools required to support and authenticate their contribution to achieving the SDGs.

THE UNITED NATIONS DEVELOPMENT PROGRAMME (UNDP), A MEMBER OF THE IMPACT MANAGEMENT PROJECT'S GLOBAL NETWORK OF STANDARD-SETTING ORGANIZATIONS, IS DEVELOPING RESOURCES TO FOSTER MORE EFFECTIVE INVESTING FOR SUSTAINABLE GOOD.

Specifically, the UNDP is developing SDG impact standards which will take the form of principles and tools for investors and enterprises. The UNDP is also developing a SDG Impact Seal and certification training, which will be a UNDP-managed process for investors and enterprises to authenticate alignment of their impact management practices with the SDG impact standards.

United Nation. Sustainable Development Goals. 2015

Elevating the Perspectives of Key Stakeholders

4

Too often, investment funds focus primarily on the priorities of their shareholders or investors rather than the perspectives of the people most affected by their investments.

Engaging and soliciting feedback from key stakeholders when developing impact due diligence approaches enables investors to incorporate the perspectives of those who are impacted by the company or project they are funding.

Engaging All Affected Stakeholders, published by Action Group 3 of the World Economic Forum's initiative to Accelerate Impact Measurement and Management, explains why stakeholder engagement must be an integral part of impact management—and therefore impact due diligence—practices. Investors interviewed as part of this research amplified the following reasons highlighted in the World Economic Forum report:[14]

- Aligning on impact goals
- Understanding and mitigating impact risk
- Amplifying stakeholder voices
- Developing feedback loops

DEFINING KEY STAKEHOLDERS

According to the World Economic Forum's Action Group 3, **stakeholders are "persons or groups directly or indirectly affected by an intervention, including those who may have stakes in a project and/or the ability to influence its outcome, either positively or negatively."**[15] When building impact due diligence approaches, investors should determine which stakeholders are important to involve based on their unique investment thesis and impact goals.

Interviewed investors included the following groups in the development process of their impact due diligence approaches: investment staff, potential investee staff, customers, users, suppliers, distributors, impacted local people and communities, NGOs and civil associations, and local government, and the planet. The most commonly cited examples of key internal and external stakeholders that investors should consider engaging include investment staff, investees, customers, employees and suppliers.

IMPORTANCE OF ENGAGING KEY STAKEHOLDERS

Aligning on Impact Goals

Investors cite the importance of early alignment with investees and other stakeholders around the impact they are seeking to achieve. This can be articulated through a logic model, theory of change, or another format that works for each investor's investment process (see the Glossary for definitions). Our companion report, **The Impact Due Diligence Guide**, will offer recommendations on how to develop these tools and incorporate stakeholder voice in the investment process.

Understanding and Mitigating Impact Risk

Investors cite that conversations with investees help investors understand how investees think about their work and whether they are aware of potential impact risks. In some cases, investees have developed an awareness that they did not previously have—and this helps mitigate impact risk.

ENGAGING KEY STAKEHOLDERS

Amplifying Stakeholder Voices

During discussions of impact goals, investors should ensure that key stakeholder voices are brought forth, and should also strive to keep stakeholders at the table beyond initial discussions about impact alignment and risk. Investors have identified that stakeholder perspectives are valuable throughout the development of impact due diligence approaches. Social Value UK and Keystone Accountability developed a Stakeholder Engagement training course that provides a framework for measuring stakeholder engagement so that investors can understand where they have room to grow in their stakeholder engagement practices.[16]

To help investors incorporate stakeholder engagement into their practices, IRIS+ offers specific metrics such as *Importance of outcome to stakeholders* (OI5495) and *Stakeholder Engagement* (OI7914) which can be used to assess ongoing engagement efforts, as well as practical guidance on how to incorporate the voices of affected stakeholders into IMM.

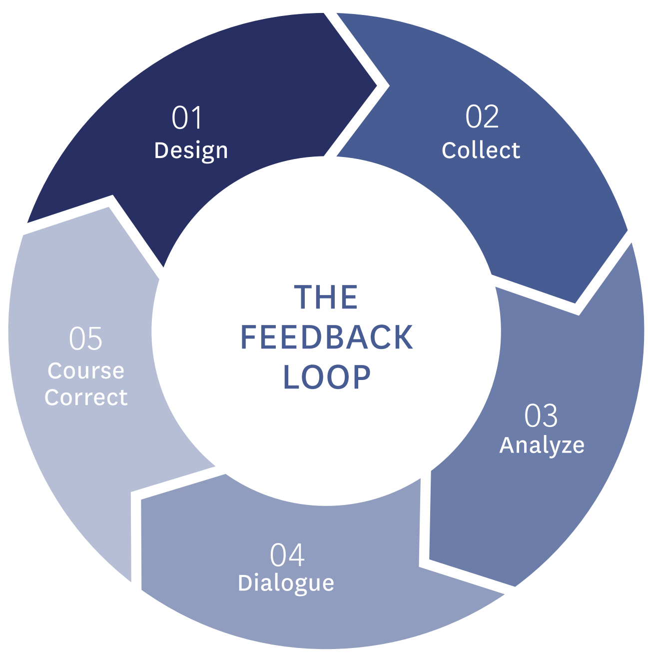
> "As head of impact at an investment fund, you want to get as close to the people experiencing the impact as possible. In many cases that means speaking with the lending team, but if you're able to engage directly with enterprise managers, beneficiaries, and other stakeholders, that's even better."
>
> **—Mike McCreless**
> Impact Management Project and Former Senior Director of Strategy and Impact, *Root Capital*

Developing Feedback Loops

Beyond incorporating stakeholder voices, investors recommend developing feedback loops early with investees and intended beneficiaries so that opportunities for innovation and improvement on products and services can be identified and acted upon. Feedback Labs provides a framework for organizations to have thoughtful discourse, analyze their findings, take action, and close the loop with their stakeholders.[17] They are currently developing the "Feedback Labs Quiz," with a planned launch of mid-2019, which will be used by organizations seeking to assess how successfully they solicit and use feedback from their key stakeholders.

Assessing Contribution

Additionally, while there are several methods for collecting data to assess *Contribution*, including market research, evidence-based research, and randomized control trials, stakeholder feedback is a key method that also allows investors to incorporate stakeholder voice into their activities and gain a deeper understanding into whether stakeholders believe an enterprise or project is or is not causing an improvement for them, as well as the key drivers behind outcomes. By amplifying stakeholder voice and developing feedback loops, investors can create dialog with stakeholders to assess the contribution of their and investees' activities.



Steps of a Closed Feedback Loop. Feedback Labs, based on Constituent Voice Methodology, 2019

CASE STUDY

By engaging key stakeholders through Lean Data, Acumen aligns on impact goals and mitigates impact risks prior to making an investment.

ACUMEN IS A NON-PROFIT IMPACT FUND PROVIDING EQUITY AND DEBT INVESTMENTS TO ENTERPRISES WORKING IN THE ENERGY, HOUSING, AGRICULTURAL AND HEALTH SECTORS.

After assessing the overarching need for a product or service and developing a simple evidence-based, theory of change, Acumen uses a "light" version of their Lean Data approach to speak with 100-150 customers, employees, or suppliers to understand the anticipated impact of the product or service and potential impact risks prior to investment. During this outreach, they probe to understand an enterprise's impact as well as potential challenges with the product or service. Acumen also maps who the customers are based on poverty level so that they accurately understand who the enterprise is reaching. By engaging key stakeholders through Lean Data, Acumen aligns on impact goals and mitigates impact risks prior to making an investment.

Evaluating a Commitment to Impact and Learning

5

Impact investors should explicitly assess investees' commitment to and ability to achieve impact, especially how they learn and adapt.

Specifically, investors should evaluate the following characteristics during due diligence:

- ***Commitment to impact***—Is the investee trying to drive positive change in the marketplace? Do all levels of the organization share this commitment to impact? (Note that, for fund managers investing through public equities, this commitment to impact could be demonstrated by leadership in shareholder engagement campaigns.)
- ***Clearly defined impact model***—Does the investee have a clearly defined impact model and investment thesis, as evidenced by a theory of change or logic model?
- ***Robust IMM Systems***—Does the investee have a robust IMM system consistent with the IFC's Operating Principles for Impact Management? Is impact data and performance used to inform decision-making?
- ***Incentive structure***—Does the investee have financial incentives tied to impact performance?

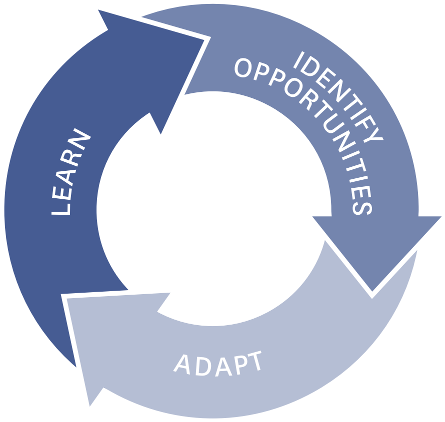
NPC's Impact Risk Classification framework, which assesses the IMM practices of investors and businesses, is also a valuable tool to systematically assess many of the elements described above and can help inform an examination of impact risk. The Impact Risk Classification framework has been used by the KL Felicitas Foundation to assess their portfolio of investments across asset classes.[18]

EVALUATING ORGANIZATIONAL RESPONSIVENESS

Beyond assessing a commitment to impact, investors should evaluate investees' ability to improve, adapt, and learn. Investors and investees should seek to understand their key stakeholders and their needs, refine their strategies to increase the value they create for these key stakeholders, and learn from results of any changes made.

Importance of Assessing Investee Responsiveness

Investors should strive to support investees who are collecting data and using it to inform decision-making, as they may be more likely to achieve positive impact. Additionally, high organizational responsiveness can lower impact risk: when investors are collecting and responding to impact data, they are more likely to leverage these insights to improve their performance and prevent negative outcomes.



Representation of Organizational Responsiveness

Methods of Evaluating Organizational Responsiveness

Investors should employ different approaches to assessing organizational responsiveness depending on whether they are investing in financial intermediaries or enterprises.

Investors deploying capital to financial intermediaries should examine:

- The strength of their IMM system (for guidance, refer to the IFC's Investing for Impact: Operating Principles for Impact Management)
- Their impact targets, performance against their targets, and any steps taken to fill the gaps, where applicable
- Their understanding of any negative outcomes related to their activities, and any actions taken to address these negative outcomes
- Examples of impact-related insights generated by their IMM system that have been used to inform decision-making

While most enterprises will not have developed robust IMM systems, it is still important for investors to look for evidence that they are using data to drive decision-making and create value for key stakeholders; Acumen's Lean Data is one approach that enterprises employ towards this end.

"

We look at the philosophy of the manager. We are always investing in self-described impact funds, but we want to understand the extent to which management is truly committed to impact. Is this a firm that's pretending to do impact, or are they deeply committed to their impact goals? We want to know that their mission is embedded into their entire investment approach."

—Abigail Rotheroe

Head of Impact, *Project Snowball*

THE LEAN DATA APPROACH

The Lean Data approach calls for investors deploying capital to enterprises to examine: [19]

KNOWLEDGE	Their depth of knowledge and understanding of their target beneficiaries, target customers, and impacts.
TARGET BENEFICIARIES	Their target beneficiaries, the enterprise's actual beneficiaries, and any steps taken to bridge the gap (where applicable).
TARGETED IMPACT	Their targeted impact on beneficiaries, actual impact on beneficiaries, and any steps taken to bridge the gap (where applicable).
NEGATIVE OUTCOMES	Their understanding of any negative outcomes related to their activities, and any actions taken to address these negative outcomes.
CUSTOMER INSIGHTS	Examples of other customer insights that have been used to inform decision-making.

CASE STUDY

SNOWBALL

Project Snowball has developed a framework for assessing general partner's ability to generate positive impact through their investments.

PROJECT SNOWBALL IS AN IMPACT INVESTOR FOCUSED ON BUILDING AND FINANCING PRIVATE EQUITY STRUCTURES THAT CAN MAKE IMPACT INVESTING ACCESSIBLE TO SMALL RETAIL INVESTORS.

Project Snowball has developed a framework for assessing general partners' ability to generate positive impact through their investments. The framework assesses each manager's impact philosophy and culture, impact process, and engagement providing significant insights into the general partner's commitment to impact and learning.

Assessment of General Partners

Impact Philosophy and Culture

- Shared values
- Commitment to impact across levels of management
- Impact as an integral driver of fund success
- Impact as a driver of decision-making and learning
- Protections to prevent mission drift
- Manager's commitment to growing new markets
- Manager's provision of flexible capital

Impact Process

- Presence of an impact thesis or theory or change
- Evidence that impact is integrated into the investment process
- Evidence that impact is understood through data collection and rigorous IMM

Engagement

- Support for investors in measuring the impact of their investments
- Engagement and reporting on ESG issues
- Influence on the field

CASE STUDY

SOCIAL VALUE UK

Social Value UK's founder believes that investors should prioritize using data to inform incremental changes in strategy.

SOCIAL VALUE UK IS A MEMBERSHIP ORGANIZATION FOCUSED ON CHANGING THE WAY THE WORLD ACCOUNTS FOR VALUE.

Social Value UK prioritizes stakeholder engagement through the constituent voice approach and looks for evidence that the insights gleaned from its activities are used to inform strategy and improve impact. Jeremy Nicholls, Social Value UK's founder, believes that investors should prioritize using data to inform incremental changes in strategy. Rather than focusing on collecting comprehensive data related to impact, investors should use the results of their shifts in strategy as a means of assessing impact data's validity. Social Value UK advocates that investors ask prospective investees how they use collected data and which decisions the information will be used to inform. Nicholls noted that if he could only evaluate one area as part of impact due diligence, it would be organizational responsiveness.

Adopting a Portfolio-Wide Approach

6

Investors should seek to develop a consistent impact due diligence approach that enables direct comparisons of different types of investments.

Sector-specific questions and indicators are in some cases necessary to achieve a sufficient level of rigor in impact due diligence, particularly for those with diverse portfolios. In these cases, the five dimensions can be leveraged to facilitate comparisons between diverse impacts. However, investors should adopt sector-agnostic frameworks and generalizable questions and indicators, where possible, to ensure impact due diligence processes are more easily implementable and results are comparable.

To this end, creating sector-agnostic frameworks also facilitates the development of a common language for impact discussions when making investments.[20] While impact decision-making is complex, investors cite that having a consistent approach across sectors helps them imbue their decision-making with increased consistency when comparing investments across sectors.

DEVELOPING A PORTFOLIO-WIDE APPROACH

Investors recommend incorporating the following considerations to develop a consistent approach across sectors:

- Consider the underlying theory and evidence that the investee's activities lead to impact [21]
- Focus on evaluating potential investee's processes rather than outputs
- Incorporate qualitative and quantitative indicators [22]
- Offer specific definitions to enable different sectors to adopt a common language

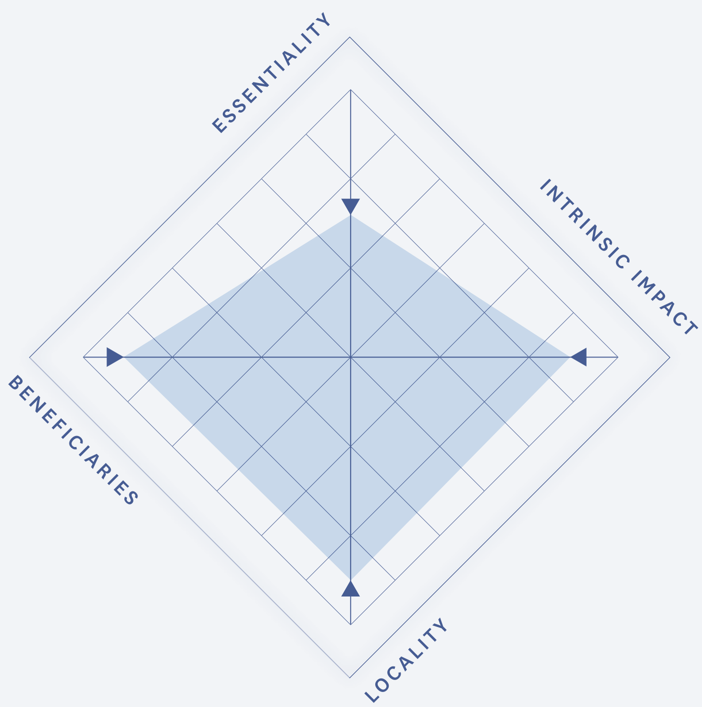
Some investors use Social Return on Investment, or social value accounting, as it is an already developed, generalizable approach that enables comparison across investments.[23]

CASE STUDY

Vital Capital's Impact Diamond systematically assesses and scores the potential impact of every investment.

VITAL CAPITAL IS A PRIVATE EQUITY FIRM THAT INVESTS PRIMARILY IN SUB-SAHARAN AFRICA ACROSS SEVERAL SECTORS, INCLUDING AGRICULTURE, HEALTHCARE, RENEWABLE ENERGY, WATER, EDUCATION, AND HOUSING.

Vital has used their Impact Diamond to systematically assess and score the potential impact of every investment across four dimensions: essentiality, beneficiaries, locality, and intrinsic impact. While their investments are diverse, the Diamond was developed to allow Vital to understand the impact of the potential investee, regardless of their sector, and be able to compare investees across sectors, allowing them to develop a common language for impact. Vital Capital outlines their methodology in detail in Crafting Impact.



Vital's Impact Diamond®

CASE STUDY

IFC International Finance Corporation
WORLD BANK GROUP

Creating Markets, Creating Opportunities

The IFC's Anticipated Impact Measurement and Monitoring system evaluates a project's anticipated impact along two dimensions: project and market outcomes.

WITH A COMMITTED PORTFOLIO OF OVER $57 BILLION AS OF THE END OF 2018, THE INTERNATIONAL FINANCE CORPORATION (IFC) IS THE LARGEST GLOBAL DEVELOPMENT INSTITUTION FOCUSED EXCLUSIVELY ON THE PRIVATE SECTOR IN DEVELOPING COUNTRIES.

In 2017, the IFC started to pilot a new impact due diligence tool called the Anticipated Impact Measurement and Monitoring (AIMM) system. The system evaluates a project's anticipated impact along two dimensions: project and market outcomes.

Since the beginning of 2018, IFC has evaluated the impact potential of all new investments along these two dimensions. The AIMM system enables the IFC to measure and monitor the 'development' impact of its investment, which improves the IFC's ability to select and design projects that maximizes its development reach, sets ambitious targets and the incentives to achieve them, and strengthens its capacity to finance an optimal mix of projects that deliver both high development impact and solid financial returns.

PROJECT OUTCOMES *(includes direct and indirect effects)*	CONTRIBUTION TO MARKET CREATION *(includes systemic effects on markets)*
Stakeholder effects	Competitiveness
Economy-wide effects	Resilience
Environmental and Social Effects	Integration
	Inclusiveness
	Sustainability

Prioritizing Accessibility

7

To ensure that their impact due diligence approaches can be easily adopted, investors should use consistent language, balance rigor and efficiency, and seek to understand their internal and external audiences.

While these approaches will take time for staff to learn, investors should strive to build ones that are not burdensome to facilitate adoption.

IMPORTANCE OF ENSURING APPROACHES TO IMPACT DUE DILIGENCE REMAIN ACCESSIBLE TO KEY STAKEHOLDERS

Investors should build accessible impact due diligence approaches to:

- Facilitate their adoption
- Reduce potential burdens on users
- More readily embed them in existing investment processes
- Encourage investor / investee relationship-building
- Set stakeholders up for success in performing their roles

PRINCIPLES FOR ENSURING APPROACHES TO IMPACT DUE DILIGENCE REMAIN ACCESSIBLE

Simplifying and Standardizing Language

While investors may tend toward internal vocabulary or industry jargon when developing their tool, it is important to simplify terminology to familiar language that can also be understood by all of their stakeholder groups. Investors should utilize The Impact Management Glossary and the IRIS+ Glossary for standard terms and definitions to contribute to field cohesion. IRIS+ indicators should also be leveraged, and other data dictionaries may be appropriate in sector-specific scenarios.

Prioritize Stakeholders' Needs When Designing Impact Due Diligence Processes

Not only is it important to standardize language so that all stakeholders can easily participate in impact due diligence discussions, but investors also recommend thinking through the most appropriate methods for engaging internal and external parties on impact due diligence given their expectations and existing responsibilities.

Developing an approach that is pragmatic and efficient will facilitate both its adoption and its subsequent use by staff members.[24] By clearly communicating the intended impact the investor is looking to have early on, staff will benefit from this transparency in being able to better perform their duties.

CASE STUDY

Root Capital is able to confirm impact alignment with their borrowers during the impact due diligence process.

ROOT CAPITAL IS A PIONEER IN DEVELOPING QUANTITATIVE IMPACT DUE DILIGENCE TOOLS.

Root Capital is a non-profit social investment fund financing agricultural enterprises that support smallholder farmers across Africa, Latin America, and Southeast Asia. When conducting impact due diligence, Root strives to prioritize the accessibility of its approach with borrowers. Root minimizes duplication of efforts by utilizing information that is already collected during financial due diligence from borrowers. Additionally, Root's loan officers fill out the data used in the due diligence tool following conversations with the borrower, encouraging the loan officer to build a relationship rather than 'tick boxes.' Once the loan officer has entered in all the information they can, the borrower fills out the remaining information to complete the assessment. Through streamlining their data collection approach and focusing on building relationships, Root is also able to confirm impact alignment with their borrowers during the impact due diligence process.

Conclusion

The limited adoption of formalized impact due diligence approaches represents a significant missed opportunity in the field of impact investing.

Just as the development of financial analysis methods have greatly enhanced investors' capacity to predict and improve financial returns, systematic impact analysis—both before and after investments are made—must become common practice for the industry to realize its full potential. This is especially important given the urgency and magnitude of the global challenges we face.

Investors should not be daunted by the diversity and complexity of approaches taken to assess anticipated impact. Rather than seeking to implement all approaches and practices described in this report, investors should commit to making incremental improvements to their impact due diligence, reference sections of this report most relevant to them, and seek to consistently improve their approach over time.

In so doing, we will realize our collective vision of building a more sustainable financial industry that meaningfully tackles—rather than contributes to—the world's most pressing challenges.

For those seeking more tactical guidance regarding impact due diligence design and implementation, including due diligence questions employed by leading impact investors, we look forward to sharing our companion report, **The Impact Due Diligence Guide**, which will be released in the coming months.

APPENDIX A

RESEARCH METHODOLOGY

This report has been informed by extensive desk research on best practices in impact due diligence; 38 interviews with leading practitioners, researchers, and consultants; and the PCV team's experience developing impact due diligence systems for clients and PCV's own loan fund.

During the desk research phase, PCV examined nearly 50 organizations, including investors and advisors, to understand practices they had developed on impact due diligence.

Based on this review, PCV created a list of practitioners and advisors engaged in impact due diligence for the interview phase; the IMP and the GIIN also provided input to the list of potential interviewees. Interviews took place from August to October 2018 and were 60 minutes in length.

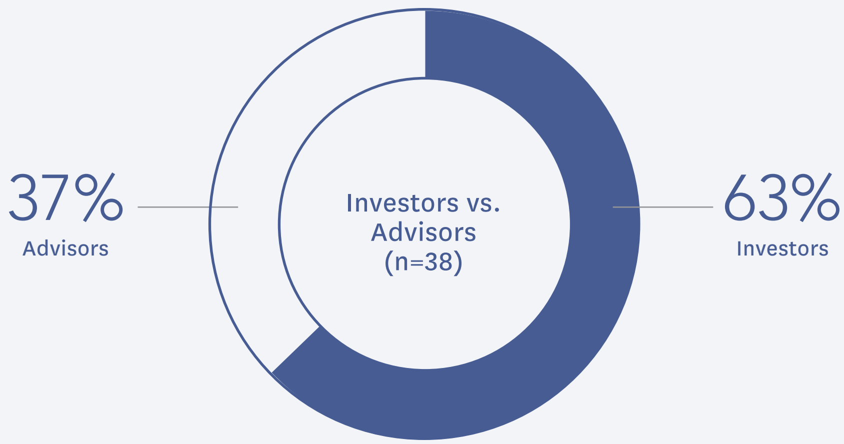
INTERVIEWEES		
NAME	**ROLE**	**ORGANIZATION**
Abigail Rotheroe	Head of Impact	Project Snowball
Abiskar Shrestha	Investment Manager	MicroVest
Anna Kanze	Chief Operating Officer	Grassroots Capital Management
Ashley Elliot	Global Liaison	GIIN East Africa
Barbara Magnoni	President	EA Consultants
Belissa Rojas	Strategy and Monitoring Sr. Specialist, Development Effectiveness Division	IDB Invest
Ben Carpenter	CEO	Social Value UK
Brendan Maher	Vice President of Integrated Capitals	Heron Foundation
Bryan Locascio	Senior Associate	Tideline
Caitlin Rosser	Senior Officer, Impact and Communications	Calvert Impact Capital
Catherine Banat	Director of Responsible Investing	RBC Global Asset Management
Charly Kleissner	Co-Founder	Toniic and KL Felicitas Foundation
Christian Rosenholm	Senior Professional	International Finance Corporation
Christina Gotfredson	Impact Manager	Gary Community Investments
Conor Sullivan	Associate	Bridges Fund Management
David Pritchard	President, Board of Directors	Social Value US / Independent Consultant
David Sand	Chief Impact Strategist	Community Capital Management

INTERVIEWEES		
NAME	**ROLE**	**ORGANIZATION**
Dean Hand	Alternative Investments Manager	Ashburton Investments
Elizabeth Teague	Senior Social and Environmental Performance Manager	Root Capital
Eric Rice	Portfolio Manager, Global Impact Portfolio	Wellington Management
Erica Barbosa Vargas	Director, Solutions Finance	McConnell Foundation
Francois de Borchgrave	Managing Director	KOIS Invest
Genevieve Edens	Senior Manager, Social Impact	WaterEquity
Jean Chorazyczewski	Program Director, Business Assistance	Fair Food Network & Michigan Good Food Fund
Jeremy Nicholls	Founder and Former CEO	Social Value UK
Jurgen Hammer	Chief Investment Officer and Head of Social Performance Management	Grameen Credit Agricole Microfinance Foundation
Karim Harji	Programme Director	Oxford Impact Measurement Programme, Saïd Business School, University of Oxford
Luke Apicella	Manager, Prudential Impact Investments	Prudential Financial
Mariah Collins	Manager	Bridgespan
Matt Barry	Chief Impact Officer	Gary Community Investments
Mike McCreless	Senior Director of Strategy and Impact	Root Capital
Namrita Kapur	Managing Director, DEF+Business	Environmental Defense Fund
Oscar Benitez	Manager	Third Sector Capital Partners
Paul Herman	CEO and Founder	HIP Investor
Pieter Oostlander	Founding Partner	Shaerpa
Saheba Sahni	Senior Investment Associate	Tufts University Investment Office
Sara Olsen	Founder and CEO	SVT Group
Stephanie Cohn Rupp	Managing Director	Tiedemann Advisors
Sydney Bolger	Associate	Tiedemann Advisors
Sophie Mechin	Development Manager, Solutions Finance	McConnell Foundation
Tamar Pashtan	Head of ESG	Vital Capital
Tanay Tatum-Edwards	Business Development Associate	MicroVest
Tom Adams	Chief Impact Officer	Acumen Fund
Tony Berkley	Vice President, Strategy and Impact	Prudential Financial
Yulia Romaschenko	Director of Programmes and Donor Relations	Charities Aid Foundation Russia

APPENDIX A

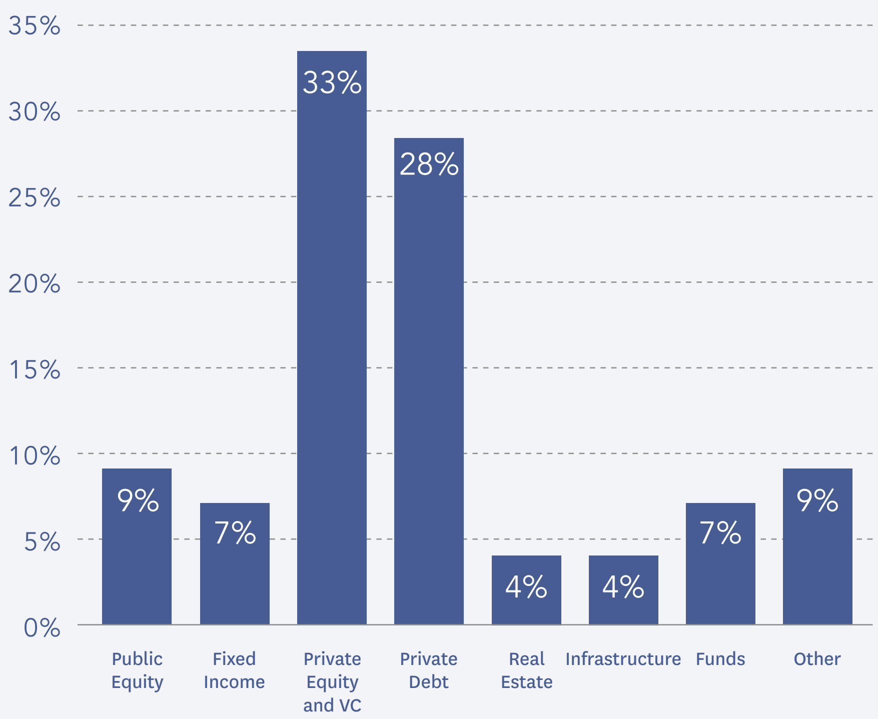
RESEARCH METHODOLOGY *(continued)*

CHARACTERISTICS OF INTERVIEWEES



NUMBER OF INTERVIEWEES

Of the 38 interviewees, 24 (or 63%) were investors; 14 (or 37%) were advisors. Advisors included consultants or members of field-building organizations.



INVESTORS BY ASSET CLASS

(Percent of Respondents)*

Of the 24 investors interviewed, respondents favored private debt and private equity/venture capital (61%).

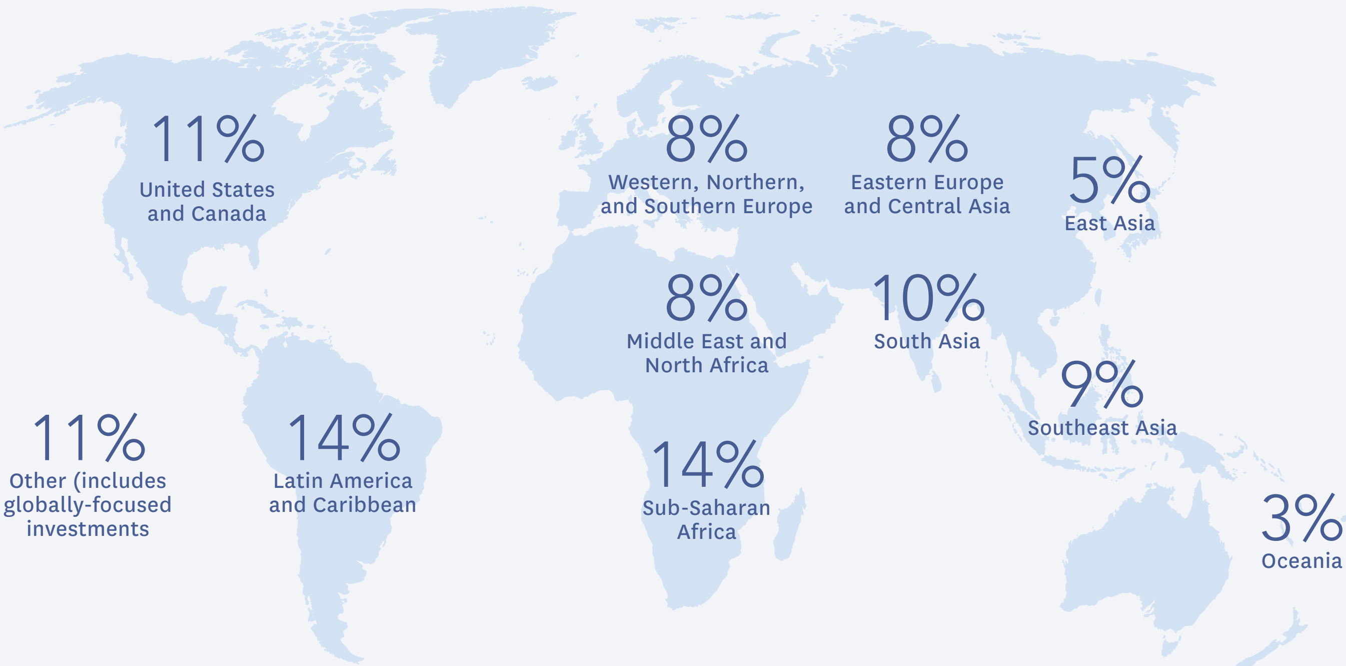
** Note: Investors may allocate to multiple asset classes (24 investors interviewed)*

INVESTORS BY GEOGRAPHIC ALLOCATION

(Percent of Respondents)*

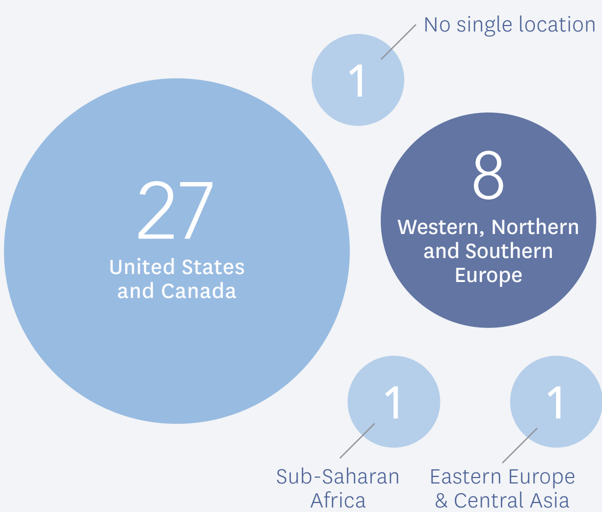
62% of investors invest in emerging markets. Of all regions, Latin America and the Caribbean and Sub-Saharan Africa are the two most common regions receiving investment. The U.S. and Canada, South and Southeast Asia, and other (including Global) were not far behind.

** Note: Investors may allocate to multiple geographies (24 investors interviewed)*



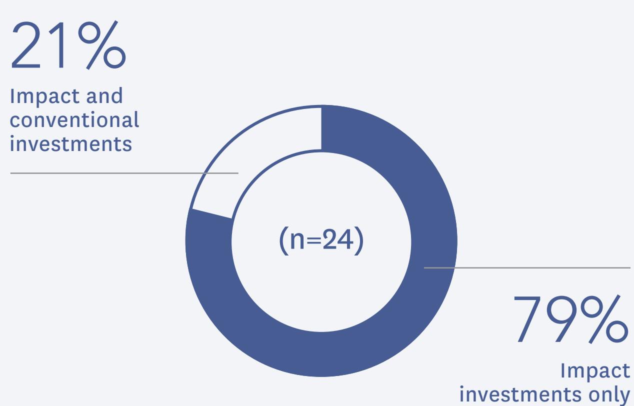
INTERVIEWEE HEADQUARTERS LOCATION

Most interviewees (27 of 38) were part of organizations headquartered in North America (the U.S. and Canada). Western, Northern, and Southern Europe came in second with eight interviewees.



IMPACT-ONLY & CONVENTIONAL INVESTORS

Of the 24 investors, 79% exclusively make impact investments while 21% make both impact and conventional investments.



APPENDIX B

GLOSSARY OF TERMS

Below is a glossary of terms, including organizations and abbreviations, used throughout the report along with their definition.

TERM	DEFINITION
IMPACT MEASUREMENT AND MANAGEMENT (IMM)	To make effective impact investments, impact measurement and management must be practiced post-investment. Investors should identify and consider the positive and negative effects one's enterprise's actions have on people and the planet and then figure out ways to mitigate the negative and maximize the positive in alignment with one's goals. More guidance is provided by the GIIN, among other organizations.
STAKEHOLDER	Persons or groups directly or indirectly affected by an intervention, including those who may have stakes in a project and/or the ability to influence its outcome, either positively or negatively.
IMPACT MANAGEMENT PROJECT (IMP)	Facilitates a global network of standard-setting organizations to coordinate efforts that can accelerate widespread impact measurement and management; through this work, they developed the five dimensions of impact.
GLOBAL IMPACT INVESTING NETWORK (GIIN)	The global champion of impact investing, dedicated to increasing its scale and effectiveness around the world. The GIIN convenes impact investors to facilitate knowledge exchange, highlight innovative investment approaches, build the evidence base for the industry, and produce valuable tools and resources.
LOGIC MODEL	Graphic depiction (road map) that presents the shared relationships among the resources, activities, outputs, outcomes, and impact for a program. It depicts the relationship between a program's activities and its intended effects.
THEORY OF CHANGE	Graphic depiction (road map) of how and why a desired change is expected to happen in a particular context. It maps out the resources, activities, outputs, outcomes, and impact for a program. It can include what happens both inside and outside a program's "sphere of accountability," as well.
INDICATOR	Unit of measure, either qualitative or quantitative, that indicates the state or level of something.

APPENDIX C

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ENDNOTES

1 For an example of a traditional due diligence questionnaire developed by the Institutional Limited Partners Association see: https://www.ctpf.org/sites/main/files/file-attachments/ilpa_due_diligence_questionnaire.docx.

2 For background on PCV's work with Community Vision (formerly NCCLF) to develop its Social Impact Rating System see: https://impactalpha.com/what-can-impact-due-diligence-tools-do-for-you-daec923a733d/.

3 See: https://impactmanagementproject.com/impact-management/what-is-impact/.

4 Ibid.

5 See: https://iris.thegiin.org/sdgs-iris.

6 See: https://iris.thegiin.org/metrics?filters=environmental-policies-performance%2Cgovernance-ownership%2Csocial-policies-performance.

7 See: https://iris.thegiin.org/metric/4.0/OI1120.

8 See: https://iris.thegiin.org/metric/4.0/OI3819.

9 See: https://iris.thegiin.org/metric/4.0/PI2073.

10 See: https://www.un.org/sustainabledevelopment/sustainable-development-goals/.

11 See: https://sustainabledevelopment.un.org/content/documents/11803Official-List-of-Proposed-SDG-Indicators.pdf.

12 See: https://iris.thegiin.org/.

13 See: https://thegiin.org/assets/Financing%20the%20SDGs_Impact%20Investing%20in%20Action_Final%20Webfile.pdf, page 16, 20.

14 See: https://sptf.info/images/SIWG-WEF-AG3-Engaging-all-affected-stakeholders-December-2017.pdf.

15 Ibid.

16 See: https://keystoneaccountability.org/courses/.

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22 Ibid.

23 See: http://www.socialvalueuk.org/app/uploads/2016/03/The%20Guide%20to%20Social%20Return%20on%20Investment%202015.pdf.

24 See: https://www.partnersgroup.com/fileadmin/user_upload/Documents/Media_PDFs/20190206_Investors_Perspective_Partners_Group_case_study.pdf.

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