THERE IS NO SUCH THING AS IMPACT, BUT ONLY PROOF OF IMPACT

By Jean-Michel Severino, Emilie Debled, Elodie Nocquet & Clémence Bourrin

The impact investment market is currently experiencing strong growth, fueled by the keen appetite of investors seeking to combine profitability with the pursuit of social objectives and by the ever-increasing needs present on the ground. The figures speak for themselves: the 229 organizations that took part in the Global Impact Investment Network (GIIN)'s seventh *Annual Impact Investor Survey* reported having invested $35 billion into more than 11,000 deals in 2017 alone (versus $22 billion in 2016). This influx of new players reveals that there is no single form of impact investment: **each impact team determines a cause of general interest to which it intends to contribute, defines an investment strategy to support a target - often under-served - and designs an impact measurement system adapted to its targeted issue**. Finding a common framework for measuring impact has seemed to be the answer to these definition problems. But here too, each impact thesis has its own indicators and its own impact measurement system!

And yet this is the key challenge facing the impact investing market: **How to distinguish between serious, rigorous and resolutely oriented public interest initiatives and those which tint conventional or responsible investment strategies with the polish of impact? Or to put in another way: how to fight against impact washing?**

To answer this question, let us turn to the notion of "intentionality", which is at the heart of the definition of impact investing. According to the GIIN, impact investments are "investments made in companies, organizations, and funds with the intention of generating a social and environmental impact coupled with a financial return." Intentionality is by definition of a declarative nature and does not necessarily translate into action. That's why it is so critical to build a frame of reference for those who wish to make their intentionality more tangible. It is in the interest of all impact investors to share good practices and proven tools and to promote their harmonization. This would not only ensure the transparency and credibility of the impact investing sector as a whole, but also mobilize additional funding towards impact funds. **To help concretely embed impact intentionality in impact investing activities, we offer a matrix of three I's: Impact thesis and targets, Indicators and Incentives.**

Impact, because any intentional impact approach must entail a preliminary explanation of the common good issue being targeted and answer three main questions: What is the nature and extent of the social and/or environmental problem to be solved? What investing activities should be undertaken to address this issue? What are the expected effects on the target population? Internally, the team will be united around precise and credible objectives. These goals will provide an objective, clear and measurable basis for selecting investment projects according to their expected impact and allow the team to monitor and evaluate the impact once the investments have been made.

Indicators, because we act according to what we measure: to ensure a true impact-led investing strategy, key performance indicators ("KPIs") must be implemented to assess performance all along the impact value chain (resources committed, tangible results on the field, main changes and effects on the target population). Depending on the objectives and the means available, several forms of evaluation can be considered, including regularly collecting impact metrics, defining practice ratings, or conducting field surveys.

Incentives, so that impact investing team's commitment to impact performance can ultimately be reflected in financial incentive structures. In recent years, several impact funds have developed impact-based incentive structures, which tie "carried interest" or other kinds of team compensation, not only to financial objectives, but also to extra-financial ones. Although they can complex to implement, these approaches include some valuable benefits: they promote a shared impact vision between investors and fund managers and enable impact management to become a key topic for monitoring and governance. They also enhance the reliability of impact measurement systems if combined with external audit mechanisms on target indicators.

As impact investment has gained in popularity, the temptation has become ever greater for profit-oriented public or private funds to complete their investment thesis with a speech on their social impact. But true impact investment goes well beyond declarations of impact or lofty speeches. As impact investors explicitly aim to contribute to a public cause through the use of a market instrument, their methodological approach consists in first identifying this objective, getting organized and incentivized, and then accepting the consequences, in terms of financial profit (or lack thereof) associated with their objective. In practice, if financial sustainability is key to impact investment, it is often necessary to make trade-offs between market-level profit and impact, while in some cases, both can be pursued . This is why a rigorous process of qualifying, measuring and evaluating results, as well as aligning interests, as presented in this paper, is essential to differentiate between "true" and "fake" impact investors. A famous French saying claims, "There is no such thing as love but only proof of love". We could say the same about impact investing: there is no such thing as impact, but only proof of impact!

About the authors

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