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Generations Fall 2020 - Impact Investing: How to Define Your Goals and Measure Your Impact

The goal of impact investing is to achieve good monetary returns while having a positive impact on society. This article explains how investors can define and measure the social returns of impact investing. It is not always clear how to determine the social impact of an investment. There is no single agreed-upon measure, and measurement must be personalized, because the social impact of an investment is directly related to the individual investor's goals. There are two core principles of impact investing: (i) understanding the type of outcome desired (e.g., investors differentiate between the impact of a product itself and the impact of a company's operations); and (ii) using frameworks and metrics to measure the outcome (rather than the output) of investments. This article, the first of a series, provides a general overview of how to develop an impact investing strategy by defining investment goals and measuring the social impact of investments. *What Is Impact Investing?* The term "impact investing" is generally understood to represent seeking returns on investments while generating positive outcomes for society. The phrase "impact investing" was first introduced in the 2000s by The Rockefeller Foundation. At the same time, the Global Impact Investing Network (GIIN) was launched. GIIN is a nonprofit advocacy group that has grown to become a key authority on impact investing. GIIN defines impact investments as "investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return."[1] *Differences From Other Investment Strategies* Impact investing is used somewhat interchangeably with environmental, social and governance (ESG) integration and sustainable or socially responsible investing. Although these terms mean different things to different people, there are commonalities among them. ESG integration is defined as "the explicit and systematic inclusion of ESG issues in investment analysis and investment decisions."[2] Sustainable or socially responsible investing refers generally to the practice of implementing a "negative screen" to filter out certain sectors deemed by the investor to be harmful (e.g., tobacco or firearms) and investing in efforts that promote social good in addition to financial returns. ESG integration and impact investing are both more rigorous forms of sustainable or socially responsible investing. What distinguishes impact investing from other forms of socially responsible investing is the investor's emphasis on measurement. The impact investor prioritizes targeted investments with a measurable social outcome, whereas ESG integration is an investment strategy premised on the belief that material ESG factors can be indicative of a company's long-term performance. Impact investing, ESG integration and sustainable or socially responsible investing are complementary and can be combined. *Defining Investment Goals* The first step of impact investing is to choose whether to pursue an "impact first" or "financial first" investing approach. An impact first approach prioritizes the achievement of a specific social or environmental goal over financial return, whereas the primary goal of a financial first approach is to achieve a high monetary return on investment. The second step is to determine the social causes or issues to address through investing. Impact investments span numerous sectors, asset classes and geographies, and they can be made in for profit businesses, nonprofit organizations or investment funds. Once an investor defines his or her goals, the investor must research and identify investment opportunities that align with those objectives. *Measuring the Social Returns on Investments* It is often difficult to determine how to measure the social impact of an investment in a way that is both understandable and meaningful. Notwithstanding that hurdle, an investor's ability to assess the performance and progress of an investment is a hallmark of impact investing.[3] This exercise may be broken down between measuring product impact and operational impact. A real-world example of product impact is Maven Clinic, a telehealth company that uses its technology to address a societal need, "the gaps in care that women and couples face, particularly around fertility, pregnancy, and postpartum care."[4] An example of operational impact is 4Ocean, which removes one pound of trash from oceans and coastlines for each bracelet (made from such trash) sold. Although the 4Ocean bracelet does not necessarily better society, the company's practice of funding ocean trash removal through the sales of bracelets has made a significant environmental impact. An investor's approach to impact measurement is usually tailored to the particular investment goals. For example, the mission of the Calvert Social Investment Foundation, Inc. is to maximize the flow of capital to disadvantaged communities in order to create a more equitable and sustainable society. One investment made by the Calvert Foundation was in Craft3, a nonprofit, non-bank community development financial institution with a mission to strengthen economic, ecological, and family resilience in Pacific Northwest communities of the United States. To measure the performance of its investment, the Calvert Foundation uses the following metrics:

- Board of directors: female
- Board of directors: minority/previously excluded
- Financed enterprises owned or controlled by women
- Financed enterprises owned or controlled by minorities
- Jobs created (in financed enterprises)
- Jobs maintained (in financed enterprises)
- New lending volume

Measurement tools available to impact investors include (i) GIIN's Impact Reporting and Investment Standards, which is a set of industry-recognized metrics that measure the social, environmental, and financial performance of investments; (ii) the Sustainable Development Goals, consisting of 17 interrelated global goals that provide a framework for investors to measure social and environmental impact, developed by the United Nations; and (iii) the Global Impact Investment Rating System developed by B-Lab, a nonprofit organization that certifies benefit corporations and promotes the benefit corporation structure, among others. Credible and accurate impact measurement remains one of the challenges of impact investing "due mostly to the expense of gathering data, the extended time horizons of addressing social issues, the many types of impact to be had, and the messiness of predicting human behavior."[5] One solution is to invest in an impact investment fund, in which case the investor relies on reports by the fund to determine the impact of his or her investment. *Getting Started* Impact investing may require more research, analysis and deliberate action on the part of the investor than traditional investing. If an investor is willing to do the work, adopting an impact investing strategy may afford the opportunity to "do well by doing good."

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[1] Global Impact Investing Network, "What You Need to Know About Impact Investing."

[2] Principles for Responsible Investment, "What is ESG integration?"

[3] Global Impact Investing Network, "What You Need to Know About Impact Investing."

[4] Maven Clinic.

[5] *Forbes*, "Investing's Final Frontier: Impact Measurement."

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