UNDERSTANDING IMPACT:

The Current and Future State of Impact Investing Research

An ImpactAssets issue brief exploring critical concepts in impact investing

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INTRODUCTION

The goals of any type of research include increasing understanding, building credibility, collecting and organizing information, and debunking myths. The field of impact investing can benefit from all of these outcomes. With a short history, research focused on impact investing is currently scarce, leaving the subject ripe for further exploration. A more clearly defined research agenda that spans all areas of this rapidly growing field holds tremendous potential to increase mainstream adoption and deepen the impact of strategic investments.

This Issue Brief offers an assessment of the current state of research on impact investing, with reference to the broad sustainable investment landscape that encompasses public and private, as well as domestic and global markets. Additionally, the Brief proposes a defined agenda for future research in both academic and professional practices.

To evaluate the state of research on impact investing, the authors interviewed a variety of stakeholders in the field of impact investing[1]. They then gathered their perspectives on research conducted to date, and areas in need of further inquiry. Those reflections and insights are aggregated here, with the goal of inspiring a more focused conversation about the research agenda. We believe that discussion will drive deeper understanding, thereby increasing the flow of capital to the field, and elevating the ultimate value of impact investments.

[1] A complete list of those interviewed may be found following the conclusion of this IA Issue Brief.

THE CURRENT STATE OF IMPACT INVESTING RESEARCH

The history, context, and current state of impact investing research offer many important insights. A strong base of research exists on investment practices in public markets that create sustained financial returns while delivering positive social and environmental impact. These practices are often categorized as SRI or ESG investing[2]. However, this Issue Brief will focus on the research landscape of impact investing through private debt and equity, where data can be harder to come by. We will begin with an overview of public market research for context, and then summarize the evolution of impact investing research to date.

Previously Charted Territory: SRI/ESG Public Market Research

A quick review of public market research on SRI and ESG strategies is relevant to this topic for two reasons. First, the fields of SRI and ESG investing are substantially more mature than impact investing, and provide an example of the robust research practice and community that can be built for impact investing. Second, SRI and ESG approaches are a critical component of the comprehensive effort to execute a unified investment strategy to deploy capital for the greatest total value to society, our environment, and our long-term financial needs. Any strategic impact investing research agenda should be designed with an awareness of existing research on public markets, and leverage that knowledge for subsequent inquiry.

The SRI and ESG communities have been developing research to quantify and evaluate sustainable investing in the public markets for over twenty years. As early as 1995, the US Social Investment Forum (US SIF) reported their findings on market size, which seems to be the research "on-ramp" for nascent investment approaches.

Today, there are multiple generations of performance research that refine and build upon the findings from earlier studies. A robust library consisting of hundreds of reports[3] that document and analyze the performance of ESG and SRI strategies currently exists. This academic research has increased clarity and agreement on the concept that strategies with exclusionary criteria perform competitively with the peer group, whereas integrating positive ESG criteria actually adds value. This is due to factors such as enhanced risk mitigation, employee retention, and tighter operating margins.

Leading economists and other academics have built the body of research for SRI and ESG investing, which has attracted interest through initiatives such as the Moskowitz Prize. UC Berkeley and US SIF initiated this highly regarded annual award in 1996. Since then, it has grown to attract global entries that explore a wide range of topics and contribute important insight to socially responsible investing. Publications such as *The Responsible Investment Quarterly* produced by the

2 Sustainable, Responsible Investing (SRI) and integrating Environmental, Social, Governance (ESG) factors into investment analysis.
3 http://www.ussif.org/performance

PRI[4], also garner interest and attention. These publications curate academic research on responsible investing, and provide a clear and concise resource for investment professionals.

Developed around SRI and ESG investing, practitioner-focused analysis and investment research is now a thriving academic practice. Investment managers and consulting firms built ESG research teams to synthesize academic research into applicable frameworks, which serve to shape investment strategies. Additionally, these research teams gather environmental, social, and governance information from companies, which further inform individual investment decisions. Both academic and practitioner research are necessary to support the knowledge and practice of sustainable investing in the public markets. Both disciplines are now established careers to aspire to and they become increasingly professionalized with each year.

With a head start of a few decades, the fields of SRI and ESG investing have established a thriving research community. That community is creating valuable analysis and insight by combining longitudinal, quantitative research with applicable analysis, fellowships, and scholarship awards. Funding prizes and fellowships for the academic community, as well as salaried roles for the practitioner community may seem tactical or incremental. But these steps build an infrastructure for research that serves as a foundation for the adoption of impact investing, and builds insights needed to create positive impact.

The New Frontier of Impact Investing

When early leaders formalized the field of impact investing in 2007, they were largely motivated by a need to distinguish the discipline from SRI. There was an immediate need to define impact investing and assess its potential. As soon as the term was coined, early leaders of the field recognized the need for research on both the supply and demand of mission-aligned capital. Despite the existing body of research on socially responsible investing, defining the market size of investors who were both interested and able to make private debt and equity impact investments was, in many ways, an uncharted landscape.

Pressing questions included the number of investible social enterprises seeking capital, the amount of capital available, and the types of capital best suited for social entrepreneurs. At the core of these inquiries was a fundamental question: If there was an emerging supply of assets ready to move toward creating intentional impact, would there be appropriate demand to absorb and effectively utilize that capital?

Stemming from those original questions, impact investing researchers have primarily focused on understanding the landscape and surveying the market. The goal has been to understand how many investors are interested in, or are already deploying capital for "impact."

[4] http://www.unpri.org/

Hope Consulting produced *Money for Good* in May of 2010 and J.P. Morgan and the GIIN have been producing annual reports on market opportunity since November 2010. These research efforts have been widely cited to document the opportunity of impact investing. However, such high-level data does not help practitioners understand how to more effectively put capital to work on issues they care about. And, these reports don't seem to sufficiently persuade those still skeptical about impact investing. Several hurdles, including performance, measurement, deal flow, and liquidity, are claimed as necessary obstacles to be surmounted by research before skeptics will move to action. However, the broad reach of the Hope Consulting and J.P. Morgan reports has undoubtedly raised the awareness of impact investing by many asset owners, which was a critical first step in building the field.

The "need for research" is, I fear, just another hurdle put up by hesitant investors to decline to flow capital towards impact-oriented funds or companies... along with "if there was more product", or "if only there existed valid impact tracking", or "if we could just see more market-rate investments". We need to be realistic about what research will accomplish in terms of convincing investors, but I believe it is critically important to legitimize the field.
— Matthew Weatherley-White
The CAPROCK Group

Intermediaries with an interest in growing the field of impact investing — such as fund managers and service providers — have taken a more qualitative and applied approach to research. This approach generally results in frameworks that attempt to reassure and guide investors in their efforts to invest in social and environmental impact, with financial return.

These research reports contain important and interesting information, but often fall short of the rigorous, objective, data-rich standard of the academic community. Because the impact investing field was formalized less than ten years ago, and private markets are smaller and less centralized than public markets, there have been a limited number of enterprises, investors, and specific deals for researchers to probe. However, there are dozens of potent examples that illustrate the scale and impact that capital markets can bring to global challenges. Organizations have coupled these anecdotal examples with theoretical frameworks to compile much of the "research" on impact investing that exists today.

For those new to the impact investing discussion, the following publications may be viewed as foundational research within the field:

- *The Blended Value Map*, Hewlett Foundation, October 2003
- *Blended Value Investing: Capital Opportunities for Social and Environmental Impact,* World Economic Forum, March 2006
- *From Fragmentation to Function,* Skoll Centre for Social Entrepreneurship, December 2007
- *Investing for Social and Environmental Impact,* Monitor Institute, January 2009
- *Money For Good I,* Hope Consulting, May 2010
- The Impact Investor Survey
  - *Impact Investments: An Emerging Asset Class*, J.P. Morgan, Rockefeller Foundation, and the GIIN, November 2010
  - *Insight Into the Impact Investment Market,* J.P. Morgan, GIIN, December 2011
  - *Perspectives on Progress,* J.P. Morgan and the GIIN, January 2013
  - *Spotlight on the Market,* J.P. Morgan and the GIIN, May 2014
- *From Blueprint to Scale,* Acumen Fund and Monitor Group, April 2012
- *Gateways to Impact,* Calvert Foundation and Hope Consulting, June 2012
- *From the Margins to the Mainstream,* World Economic Forum and Deloitte Touche Tomahatsu, September 2013
- *Evolution of an Impact Portfolio,* Sonen Capital and KL Felicitas Foundation, October 2013
- *Impact Investing 2.0,* Insight at Pacific Community Ventures, CASE at Duke, and ImpactAssets, November 2013
- *ImpactAssets Issue Briefs*

GAPS IN IMPACT INVESTING RESEARCH

The number of impact investors, social enterprises, and investable deals is growing rapidly. Today, the field has reached a size that makes a research conversation timely. Previous research has been aspirational, or offered only a ten thousand foot view. Now the experience and opportunity exist to focus on specific asset classes and issue areas. This focus will enable researchers to provide insight from a level that is more grounded in actual practice, and to document the actions of both entrepreneurs and investors. At this time in the field's development, a significant number of practitioners hold meaningful track records. This experience can give rise to a new generation of research. The topic at hand is, now that we have a robust body of practice and broad landscape of early research, which questions are most critical to answer?

> ***Research efforts need to bridge three key gaps in the path forward for impact investing: the Perception Gap, the Knowledge/Expertise gap, and the Action Gap.***
> ***— Abigail Noble***
> ***World Economic Forum***

This issue has gained international attention. In February, 2015, the Organisation for Economic Co-operation and Development (OECD) released a detailed report focused on the need to build the evidence base for social impact investment[5]. The report highlights the importance of further international collaborations in developing global standards for definitions, data collection, impact measurement, and evaluation of policies.

From our interviews with leading actors within the impact investing field, we believe there are three areas of inquiry to be developed: academic research; practitioner research; and enterprise research. These areas mutually reinforce each other, and are all important to creating a full understanding of the practice of impact investing. Though there have been notable efforts in all three of these areas, those efforts have served to highlight the gap in our collective knowledge and the need for additional inquiry.

Academic Research

The academic research community has not engaged with impact investing in any meaningful way. However, there is qualified agreement that academic research will benefit the field as a whole. And, there are a number of promising academic initiatives now underway. The prominent caveat in our interviews was that data-driven, academic research and analysis are unlikely to directly attract new assets, or to serve as a key to unlocking pending investment. But many of the stakeholders interviewed believe, sometimes enthusiastically and sometimes begrudgingly, that academic research establishes the credibility of a field. They concur that impact investing would benefit from being the focus of such academic inquiry.

> ***In addition to research funded by current stakeholders, impact investing needs a more robust stream of predictable support for objective, long-term investigations.***
> ***— Ben Thornley***
> ***ICAP Partners***

The academic community is increasingly interested in becoming more engaged in both documenting and learning from the work of impact investors. The CASE Impact Investing Initiative (I3) at Duke has been producing impact investing research for years. Led by Cathy Clark, this research takes more of a

5 See Appendix

practitioner approach, than academic. In 2013, the University of Utah launched the Sorenson Global Impact Investing Center, which focuses specifically on impact investing through a variety of hands-on student research, investing, and consulting programs. Wharton has launched a robust data collection effort out of their Wharton Social Impact Initiative. And Booth, at the University of Chicago, convened academics in Fall 2014 to discuss the future of impact investing research. These various efforts are taking a quantitative and academic approach, which will hopefully seed much larger academic efforts. In addition, Harvard, UC Berkeley, Georgetown, Kellogg, and INSEAD were all mentioned in the course of our discussions. This impressive cohort may be indicative of growing momentum within academic communities to directly address impact investing research.

UNIVERSITIES WITH IMPACT INVESTING RESEARCH CENTERS*

CENTER/INITIATIVE	UNIVERSITY	KEY LEADERS
CASE I3 - Initiative on Impact Investing	Fuqua School of Business, Duke University	Cathy Clark
Wharton Social Impact Initiative (WSII)	Wharton, University of Pennsylvania	Katherine Klein, Jacob Gray
Institute for Business and Social Impact	Haas School of Business, University of California, Berkeley	Laura D'Andrea Tyson
Beeck Center for Social Impact and Innovation	Georgetown University	Sonal Shah
James Lee Sorenson Center for Global Impact Investing (SGII)	David Eccles School of Business, University of Utah	Patrick Mullen
Social Enterprise Initiative (SEI) at Booth	Booth School of Business, University of Chicago	Christina Hachikian
Social Enterprise Initiative (SEI) at Harvard	Harvard Business School, Harvard University	Dutch Leonard, Michael Chu, Kash Rangan
Impact Finance Center	Daniels College of Business, University of Denver	Dr. Stephanie Gripne

* This list is an initial example of university-based impact investing research centers that we were able to identify in the course of our research but it may not be comprehensive, and may be quickly out of date.

Practitioner Research

Stronger than the call for academic research is a widely felt need for research that is based on the experience of practitioners and meets the needs of active impact investors. The majority of existing reports have focused on attracting new assets and investors to impact investing. However, those who are already convinced of its worth are seeking information and guidance for deploying their capital effectively. At this point, the field can access an established pool of experienced practitioners to understand their evaluation processes and investment criteria, as well as their portfolio monitoring and performance practices. But that effort requires that those practices first be documented and published, then compared and contrasted across multiple approaches by outside researchers.

Privacy concerns and proprietary interests have hindered the collection of practitioner data from individual investors and fund managers. Slim resources to collect and organize that data have provided an additional obstacle. However, with proper assurances that shared information will be anonymized and aggregated, these impediments have been overcome by current and recent researchers. Some research will surely continue to be proprietary. But investors recognize the benefit — both to the field and to themselves — of pulling back the curtain to analyze common challenges, best practices, and success across investment strategies.

In 2013, Sonen Capital collaborated with the KL Felicitas Foundation to publish *Evolution of an Impact Portfolio*. The publication increased transparency and understanding by sharing the investment process and outcomes of leading impact investors. There is very little published information that shares learnings, tools, and performance across practitioners. And, there is literally no research on how to develop and execute an impact strategy for portfolios with assets of less than $1 million. Many family offices are now sharing this information among themselves. But the impact could be much larger if these insights were gathered together and published as practitioner-based research.

The Impact Investor: Lessons in Leadership and Strategy for Collaborative Capitalism was published in 2014. The work by Cathy Clark, Jed Emerson, and Ben Thornley presents findings from a three-year study of highly effective impact investment managers. It serves as an example of practitioner-based research that provides actionable insights for the field. It is focused at a firm level on fund managers, and there is opportunity to take a similar approach with family offices, foundations, institutional investors, and other practitioners. An effort such as this may enable us to better understand the similarities and differences among effective impact investors faced with varying constraints and objectives.

Social Enterprise Research

Building the case for impact investing among asset owners and financial advisors has been the primary thrust of research and reports in this field. But much more information about the enterprises that are creating impact is needed. Without a solid understanding of the landscape of social enterprises and the factors that make them successful and sustainable, the effort to attract impact investors may run up against very limited investment options and uncertain results.

Understanding the business models, leadership attributes, and customer dynamics of successful social enterprises is vital to funding businesses with the highest impact potential, and to preparing early stage ventures for long-term sustainability.

What we need to be talking about are the entities creating value — what are the actual business activities that occur to create sustainable impact? What's the pattern for how different vehicles and enterprises create impact so we can set risk/return/impact expectations over time?
— Kate Starr
Starria, and formerly at Heron Foundation

In contrast to enterprise research that supports ESG and SRI investing, impact investing does not have an existing base of business research to which we can add new environmental, social, and governance criteria. Many of the social enterprises that receive impact investments do not operate within the same frameworks as traditional business; they are often serving emerging markets, without access to capital or market infrastructure. These enterprises frequently serve customers at the base of the pyramid[6], and offer products and services that are entirely foreign to their client population. Even enterprises not facing the challenges of an emerging market are generally addressing a market gap, or catering to a marginalized population which creates unique growth rates and capital needs.

Economic development organizations and other entities have invested in research on social enterprise for development. But generally, the target audiences for these efforts have been government aid or philanthropy groups.

The concept of leveraging existing work and experience to create recommendations and best practices for impact investors is still underexplored.

The Aspen Network of Development Entrepreneurs (ANDE) and Monitor Inclusive Markets have conducted extensive research focused on businesses operating at the base of the pyramid, and produced a corresponding series of reports. The most direct guidance for impact investors came from a collaboration between Monitor and Acumen on the 2012 report, *Blueprint to Scale*. The report was based on substantive research done at an enterprise level, with the goal of helping investors better understand the timelines and challenges for businesses operating in uncharted territory. Finding ways to translate the insights from enterprise research into a format that is targeted to and actionable for impact investors will increase the flow of capital into impact investments and the ability to sustain meaningful change through enterprise.

FUTURE OF RESEARCH

As both interest and experience in impact investing reaches new levels, now is the time to set a roadmap for future research that will strengthen and shape the field. Within academic, practitioner, and enterprise research, there are limitless lines of inquiry. In conversations with various stakeholders in the field, recurring themes surfaced regarding what types of research should be prioritized to support the future of impact investing.

Academic Research

A variety of stakeholders mentioned that rigorous academic research on impact investing might help put the performance question to rest, and firmly establish that it is possible to achieve social and environmental impacts without compromising financial returns. There are more nuanced inquiries into risk, return, and impact, however, that go beyond this simplistic trade-off question, and could

[6] "Base of the pyramid" is a term which refers to the 4 billion people that live below $2 per day in emerging economies.

actually help investors and enterprises enter their relationships with shared expectations. Academic research has clear value to add in deepening understanding and knowledge of impact investing, particularly in understanding risk, demystifying investor behavior, and assessing the total value created by impact investments.

Understanding Risk: One of the most critical factors in evaluating impact investments is a more accurate understanding of the risk profile of any given investment. Mainstream investors may draw upon elaborate research regarding risk in traditional markets. This information helps investors to evaluate, discuss, and price risk appropriately. When investing for impact, the landscape of risk can be complex and difficult to understand in both U.S. domestic and foreign emerging markets. Developing a body of impact investing-specific research which could guide an intelligent and appropriate pricing of risk would be a game-changer.

There needs to be better pricing of risk and nonfinancial benefit to inform economic models. We need research to develop better language to talk about risk, measure risk, price risk – then you can debate if the risk was priced right, and then move on to how we are pricing benefit.

— David Chen
Equilibrium Capital

Behavioral Finance: Mainstream economics is built upon the premise of "objective" market actors. But in reality, both investors and the capital markets of which they are a part often operate in subjective, non-rational ways. Investors often buy and sell on the basis of emotion and ego, rather than on rational, objective criteria. Delving into the underlying reasoning and biases that either attract individuals to impact investing, or cause them to remain skeptical, could unlock new sources of capital to fuel greater impact. Investors may pass up impact investments that are objectively rational, or commit to investments based on emotional or psychological factors. Understanding why this happens will enable more effective funding conversations. Beyond investor practices, behavioral finance can also be applied at the enterprise level to better understand how consumers at the base of the pyramid make economic choices in a highly constrained environment.

Assessing Total Blended Value: A lack of research into the total value of impact investments has handicapped confidence in the promise of impact investing. One of the most attractive attributes of impact investing is its potential for multiple benefits. For example, an enterprise that is producing an environmental product may also be providing jobs and improving health outcomes. All of this can result in greater household productivity and contribute to a range of development objectives. Because impact investments are not discreet charitable interventions, but rather are integrated into the economic cycle and livelihoods of their customers, they create secondary and tertiary value beyond a superficial number of units sold or profits generated.

Academic research that enables the impact investing community to better understand the total value created, or costs avoided, from each dollar invested would provide a more accurate picture of the investment proposition. Intuition and anecdotal evidence have given existing impact investors confidence in the multiplier effects of their investments. But the field deserves academic confirmation that extra-financial value is created. Additionally, the field requires better tools to monitor that value and inform catalytic investment strategies.

Practitioner Research

Research that gathers and organizes best practices from practitioners of impact investing will activate new assets and guide existing impact capital to more effective uses. While practitioner research may often have a more qualitative methodology, it enables smart action and moves the field forward toward ever more tested practices and relevant guidance for investors. Active practitioners show strong interest in better research and resources encompassing market intelligence and deal structuring, as well as measurement and evaluation.

> ***More than persuasive reports, investors need a road map and an understanding of their options, illustrative case studies of how people have done this and met their objectives.***
> ***— Taylor Jordan***
> ***Imprint Capital***

Market Research: Because impact investors are often motivated by a particular issue or geographic area, there is practitioner demand for information specific to a given sector, domain, or region. Fundamental market research (e.g. how much do households in Kenya spend on fuel per month) is important for understanding the potential growth and impact of a social venture but can be hard to obtain in emerging markets. Organizations such as EKO Asset Management, Imprint Capital, and Equilibrium Capital conduct sector-focused research. The goal of these efforts is to understand where there are investment opportunities within a sector, and which strategies may offer the greatest potential for impact. However, much of this sector-focused research is either proprietary and not publicly available, or has been conducted specifically to support a particular investment thesis.

Some philanthropic advisors conduct sector- or geographically-focused research to inform grantmaking. Additionally, nonprofit organizations may do so as part of their charitable missions. The deep market knowledge held by program officers at leading foundations and nonprofits would be hugely valuable to impact investors, but philanthropy and international development are still largely siloed from impact investing. In developing practitioner research, it is important to create connections with philanthropic and development entities, and translate their resources to an impact investing context. This will enable the research to leverage existing knowledge, while avoiding the duplication of efforts.

> ***Ideally there would be more sophisticated market and sector research to guide effective impact interventions. Many funders are making investments or grants without questioning if they are using the right form of capital or truly solving critical gaps. More collective research could be funded and shared to help drive to targeted outcomes in specific areas.***
> ***— Greg Neichin***
> ***Vince Knowles***
> ***Ceniarth LLC***

Deal Structuring: Many individual investors are willing and able to be creative participants in financing social enterprises. However, they typically do not have knowledge of the structures available or how best to structure multiple types of capital together in a complex deal. An initial glimpse of what's possible, and inspiration to think "out of the box" on deal structuring has come from a handful of published examples on capital stacking or other innovative structures. But concrete information on what structures and terms are being successfully used by impact investors would provide comfort and confidence for investors. For example, *From Grants to Groundbreaking: Unlocking Impact Investing* explores ways of utilizing a range of capital sources, from philanthropic to market rate, together on a single deal to catalyze unique, high impact investment opportunities. Bridges Ventures and Bank of America published *Shifting the Lens: A De-Risking Toolkit for Impact Investment* which outlines a very practitioner-based approach to mitigating different types of risk through deal features. The additional collection and organization of research involving common deal terms, liquidity options, syndication guidance, and experienced insight will empower more impact investors — especially family offices and individuals — to pull the trigger on new impact investment opportunities.

Measurement and Evaluation: Despite serving as a session topic at every industry conference and as the subject of countless articles and blog posts[7], measurement and evaluation of impact continues to confound practitioners. Standardization efforts such as IRIS metrics[8] have been critical for the field. But there are still significant challenges in understanding how outputs (e.g. customers served, products sold) may be translated into outcomes (e.g. health, safety, economic opportunity). It's nearly impossible to find a fund manager or family office that is fully confident their measurement practices accurately reflect impact outcomes, and are helpful in evaluating future investments. Practitioner-based research is needed to shed light on this topic and present both guidelines and effective approaches to measurement and evaluation.

Enterprise Research

The rapidly expanding field of impact investing will need a robust pipeline of enterprises to absorb and effectively utilize capital. To fill

7 For a recent review of the metrics challenge, please see *The Metrics Myth: Why Quantitative Presentation of Qualitative Value Matters*.
8 IRIS is the catalog of generally accepted performance metrics used to measure social, environmental, and financial success, evaluate deals, and grow the credibility of the impact investing industry.

that need, further inquiry is required into the unique set of challenges faced by social entrepreneurs — beyond access to capital. The business environment is significantly different from traditional markets for social ventures focused on the base of the pyramid, or for those that operate in sectors with unique market dynamics where consumers are not necessarily the source of revenue, such as health. Further inquiry, at both an academic and practitioner level, that creates an understanding of the dynamics of social enterprise is essential to ensuring impact investing is thoughtful and effective as the field grows.[9]

> ***If we look back and we've "succeeded" in moving money to impact investing but we haven't transformed the economy or improved people's lives...we will have failed. We need research that will help investors be more thoughtful and effective.***
> ***— Morgan Simon***
> ***Pi Investments***

Financing and Operations: Information about the operating margins and financial performance of social enterprises is confidentially held by entrepreneurs and investors. But this data would be tremendously useful if collected, aggregated, and analyzed in an anonymized manner. There are efforts underway to build such datasets, which will allow for a fascinating set of research inquiries into enterprise-level data. Understanding the average growth rate and capital flows within specific sectors and geographies will create a more nuanced understanding of what type of capital, at what stage, is most beneficial to growing high impact enterprises. This is just one area of exploration among many where applicable insight can be gained from analyzing the financing and operations of social enterprises operating across various sectors and geographies.

Sustainable Impact: The true value of impact investing is realized when a social enterprise is able to have a measurable impact that improves the future of our planet and the people on it. It is essential to prioritize ongoing research into how social ventures are affecting their beneficiaries, and to explore both long-term intended and unintended effects. If there is not a measurable positive impact on sustainable livelihoods and the environment, impact investment risks the ineffectual fate of many other well-intentioned efforts. Along with research to evaluate which business models have the deepest impact or are able to scale and reach a meaningful number of people, there must also be a close scrutiny of inflection points, where pressure to grow or produce financial return may influence impact.

[9] One recently published book exploring the challenge of metrics, social innovation and market-based approaches that offers an interesting perspective is *New Strategies for Social Innovation: Market-based approaches for Assisting the Poor*, Steven Anderson, Columbia University Press, 2014.

RESEARCH CONSIDERATIONS

As we embark on the next generation of research, there are a number of overarching considerations to be aware of if we are to lay the groundwork for continued growth in impact investing. We believe anyone interested in funding or leading research must take into account the following key topics.

Partners

A primary consideration is who should lead the research and which potential partners should be strategically engaged. Working with established research organizations and well-known brands, such as the Brookings Institute, McKinsey, or major banks, attracts a broad audience and creates additional credibility for the field. Impact investing research from these types of sources is more likely to be taken seriously, and to be more easily understood by a mainstream audience. The approach, frame-works, and language of these esteemed, widely recognized research brands hold great value. And, their experience in communicating with broad, mainstream business and related audiences can be exceptionally beneficial.

> ***Embrace what people know about investing. Future research should employ traditional investment vocabulary (risk, return, alpha) and team up with established institutions so impact doesn't get siloed. Don't restrict yourself to the purest version of impact, but be open to a spectrum of impacts that can reach the mainstream.***
> ***— R. Paul Herman***
> ***HIP Investor***

Of course, the motivation of such firms for participating in impact investing research may stem more from long-term commercial interests than from academic, objective theory regarding a given area of practice. It is in part for this reason that academic actors should increase their participation and leadership in setting the research agenda for impact investing.

As mentioned before, there are robust re-search efforts in the adjacent fields of ESG and SRI research, as well as in philanthropy and international development, which may be applied to impact investing. Seeking partners from aligned and complementary sectors is a way to extend the reach of impact investing and leverage existing knowledge. As much as possible, identifying cross-sector partnerships for research should be a starting place, rather than an afterthought.

> ***Much of the landscaping work that we've done for grantmakers in specific issue areas can be repurposed for investments, but those connections aren't being made frequently enough between investors and existing philanthropic research.***
> ***— Cynthia Muller***
> ***Arabella Advisors***

Audience

Each of the various types of research outlined in this Brief may have different audiences. Careful thought regarding the intended audience for research is an obvious — but often overlooked — step in the research process. Analyzing the information and format that are most likely to engage a specific audience helps ensure key insights are effectively communicated. Robust research efforts may eventually be repackaged for various audiences. For example, some findings may be topical for mainstream media, other approaches may offer important insights for current practitioners, and yet another angle might reveal industry dynamics that would be of use to organizations providing technical support to a growing field. Researchers don't need to make all information relevant to a broad audience. In fact, the field would actually benefit from more targeted research, as well as more targeted communication of research findings to those who will find them most applicable or enlightening.

Transparency

Organizations and individuals committed to the advancement of the field have conducted much of the initial research on impact investing. Not surprisingly, many of the profiles and case studies to date have focused upon what have been thought to be the successes of the field. In the years to come, it will be important for us to learn from strategies that have not been successful, as much as from those that have. It is critical that experienced investors share and participate in future research to accelerate the knowledge of the field, even when that requires disclosure of mistakes and failures. For example, in conducting the research that forms the base for the book The Impact Investor, the principals signed non-disclosure agreements that allowed them access to both the "good" and the "bad" as they conducted their work. This arrangement produced more holistic insights on the best practices of high performing funds.

Some believe impact investing may be presenting an overly optimistic image of itself because such a nascent field does not have the luxury of highlighting its failures as openly as its successes. However, an abundance of promotional research will not serve the field as well as a realistic look at where the promise of impact investing is playing out, and where it is falling short. A rigorous evaluation of practices and performance will likely expose some uncomfortable missteps across the existing landscape. But if we don't take a critical look at these experiences, we risk those missteps being repeated to the overall detriment of impact investing as a field. A strong commitment to transparency and ongoing evaluation is essential to maintaining the integrity of impact investing and its potential to be truly transformative in addressing global challenges.

Expectations

A final consideration as we rally behind the future of impact investing research is the need to set realistic expectations with regard to what future research will actually accomplish. The reality is that, just as with traditional investing, there is often a gap between what the numbers say and what investors actually do or believe. The evolution of SRI and ESG provides a useful example. That area of investment practice continues to be viewed by many traditional investors as requiring some kind of "trade off" between doing well and doing good—despite what the research tells us. Impact investors would be deceiving ourselves to think that unassailable findings regarding performance or the most effective impact investing practices will significantly shift the investment behavior of active funders. Although research is unlikely to bring about massive market change, a long-term investment in building a solid foundation for impact investing makes such market research incredibly valuable and worthwhile.

BEYOND RESEARCH

Our goal in outlining issues related to research in impact investing does not presume research to be the only tool that can spur asset owners to further and smarter action. There are other resources that can be built alongside a research agenda that will support both the expansion of impact investing and improvement of impact investing practices. Many suggestions for resources came up in conversations with industry stakeholders. Some of these focused on connecting communities of practice, and others emphasized highlighting centralized information that would streamline investor education and action.

A Body of Knowledge

The learning curve is steep, especially for asset owners learning the fundamentals of investing while simultaneously navigating their participation in impact investing. This is often true of foundations and high net worth individuals whose interest in investing has been sparked by the opportunity to align their investments with their personal mission or passions. Investing in primers that speak the language of specific stakeholders, such as institutional investors, foundations, or family offices, may be effective. And employing familiar language to navigate risk, return, and impact is critical to both bringing in new categories of investors and maintaining cohesion within the field.

The World Economic Forum has made multiple contributions to this effort, with action-oriented primers for institutions and family offices . Keeping these primers current and easily accessible is a key tool for efficiently onboarding a growing number of impact investors.

The Value of Centralized Information

Following years of a veritable dearth of centralized information on funders, intermediaries, enterprises, and deals within impact investing, there are now multiple platforms that aim to connect and inform the field. Each of these is working to attract users and establish their identity within a crowded arena. Given the necessary time to evolve and mature, these platforms will provide tremendous value by streamlining the process investors and entrepreneurs use to identify each other, their peers, and other intermediaries. And, by extending our definition of research to include

[10] See Appendix

such information tools, we could see a more dynamic interplay between research and practice as users move between the two modes of information access.

CENTRALIZED INFORMATION RESOURCES

PLATFORM	DESCRIPTION	SERVICE TYPE
Enable Impact	Social impact network where social entrepreneurs, impact investors and impact programs can easily connect and support one another in using business and technology to solve the most challenging problems of our day.	Directory
ImpactBase	Searchable, online database of impact investment funds and products designed for investors. On ImpactBase, accredited impact investors can search for funds that may fit with their impact investment interests and objectives.	Directory
ImpactAssets 50	Annually updated list which offers an easy way to identify experienced impact investment firms and explore the landscape of potential private debt and equity investment options. The IA50 is intended to illustrate the breadth of impact investment fund managers and selected to demonstrate a wide range of impact investing activities across geographies, sectors and asset classes.	Directory
ImpactSpace	Open data and resources platform making information about the impact market available to everyone and maintainable by anyone. On ImpactSpace you can learn everything about impact investing and track the companies, investors, deals, and people maximizing social, environmental, and financial returns.	Directory
Invest With Values	Free educational resource that connects the dots between related investment areas including local banking, community investing, impact investing, and socially responsible investing. It provides a curated directory of over 300 organizations and resources that share the common thread of using money and investing to create positive change, as well as an online discussion forum.	Directory
MIX Market	Data hub where microfinance institutions (MFIs) and supporting organizations share institutional data to broaden transparency and market insight. This exchange enables users to establish reporting standards, alleviate reporting burden, and promote responsible investment.	Market Insight
ImpactAlpha	ImpactAlpha is chronicling the emergence of impact investing from the margins into the mainstream through reporting and analysis, interviews and profiles, examples and proof points, data and trends.	News, Discussion
Markets For Good	A forum for discussion for all those in the social sector looking to create tangible impact. Features profiles, interviews, best practices, innovative ideas, news from other websites, real life examples and the opinions of readers in a joint effort to help the sector make better decisions.	News, Discussion

As the field centralizes information, it's also important to engage service providers, such as lawyers, finance professionals, and consultants. These functional and topical professionals hold expertise specific to impact investing. Making it easier to find and engage technical expertise will facilitate greater sharing of knowledge and decrease the transaction costs of each participant scrambling up the learning curve on their own.

Communities of Practice

Many stakeholders find person-to-person interaction to be the most effective catalyst for action and the most valuable form of information, beyond any data-rich, quantitative research. As the number of impact investors has grown, networks have organically formed among like-minded investors. These networks have also been convened by organizations with an interest in sharing experiences among practitioners. Organizations such as Toniic, Investors' Circle and 100% Impact Network are constantly evolving the function and format of investor communities of practice. But there are at least two other areas that will benefit from more intentional development of a community:

creating a global research community and supporting "deep dive" regional research.

> ***Our approach to this database is very collaborative. We would love to be developing this resource with a consortium, and with more support from the field, so it will be a robust and widely used source of data for future research.***
> ***— Jacob Gray***
> ***Wharton Social Impact Initiative***

Creating a global research community focused upon impact investing is an integral part of developing the field. Taking a cue from the Moskowitz prize in SRI research, awards for impact investing research could activate academics from around the world who have an interest in impact investing, and bring them together for a bit of healthy competition. Similarly, fellowship programs could add tremendous research power and academic exploration of the field with a relatively small amount of money. Building up this community is a leveraged investment because, once established, the network will have its own momentum through an exchange of ideas and academic debate.

Another community angle that surfaced many times in our assessment of impact investing research was the strong, voiced interest in the development of local or regional impact investing research. Both individual and institutional investors have strong interest in developing place-based investment approaches to addressing regional challenges. Once that landscape is mapped and a theory of change is validated, many other investors within that region will show interest in participating. Building communities of practice specific to a geographic region will help investors to find each other and share experiences relevant to the local context. This type of community building is focused geographically, but is potentially more holistic with regard to creating sustainable impact across sectors. As a result, it may also yield deeper understanding about systemic change and community-based solutions.

While geographic regions have unique dynamics, aggregating effective approaches across diverse applications would be incredibly valuable information for the field as a whole.

CONCLUSION

This is an exciting time for the field of impact investing. But, it's also a critical time for evaluating what is most needed to simultaneously fuel increased adoption and deepen the expertise of those engaged in structuring impact investments. Research plays a critical role in both of these efforts. It is an area deserving additional investment and consideration by those committed to building the field.

To achieve the potential of impact investing, the prestige and rigor of academic research must be balanced with actionable information for practitioners. In the pursuit of compelling performance data, a deep commitment to finding and supporting enterprises that positively impact lives and the planet in a measurable way cannot be compromised. By layering regional and sectoral foci, and continuing the development of tools that integrate live data sets into more conventional research formats, the field can further enrich its research offerings. That enrichment will spur practical adoption and flows between investors and enterprises.

The field has come this far thanks to the faith and courage of investors who made a commitment in the absence of a track record, and entrepreneurs with inexhaustible determination and grit. These exceptional trailblazers have demonstrated the power of markets to accelerate sustainable impact. Along the way, they have attracted the attention of governments, corporations, and the wealthiest people in the world. Research that wasn't possible ten years ago now has substantial, practical experience and information to build upon.

At this new stage in the evolution of impact investing, a thoughtful approach to the future of research will confirm the field's potential, and strengthen the foundation for continued transformation of the global economy.

Lindsay Smalling is Strategic Initiatives Officer at ImpactAssets. Jed Emerson is Chief Impact Strategist for ImpactAssets and an internationally recognized leader in impact investing. *As part of ImpactAssets' role as a nonprofit financial services firm, Issue Briefs are produced to provide investors, asset owners and advisors with concise, engaging overviews of critical concepts and topics within the field of impact investing. These Briefs are produced by various ImpactAssets staff as well as collaborators and should be considered working papers — your feedback on the ideas presented and topics addressed in IA Issue Briefs are critical to our development of effective information resources for the field. Please feel free to offer your thoughts on this Issue Brief, as well as suggestions for future topics, to Jed Emerson at* ***JEmerson@impactassets.org****. Additional information resources from the field of impact investing may be found at the IA website:* ***www.ImpactAssets.org****.*

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APPENDIX

Reports mentioned in this Issue Brief, as well as several related resources, are listed in chronological order by publication date:

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