

PRESENT RISKS, FUTURE REWARDS

Shared Reflections on Building the Market
for Impact Investing

An **ImpactAssets** issue brief exploring
critical concepts in impact investing

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INVEST WITH MEANING

PRÉCIS

In recent years, the topic of impact investing has taken center stage as a major trend. We have seen literally dozens of documents produced and blog posts written critiquing the emergence of this concept and its related practices, and promoting a variety of ideas of what is required for it to attain its potential. This Issue Brief reviews points raised by critics of impact investing while offering an overview of the work and initiatives being proposed in order for the field of impact investing to advance in a responsible and sustainable manner over the decades to come. While building upon the shared reflections of many in the field, the narrative, framing and highlights are the sole responsibility of the Authors.

INTRODUCTION

Since 2009 there has been a notable change of pace in the attention given to and growth of the set of investment practices now referred to as “impact investing.” In January of 2009, Monitor Institute released “*Investing for Social and Environmental Impact*,” a report assessing what was then the state of impact investing and offering comprehensive recommendations for how the field needed to develop in order to reach its potential. In the years since, at least 25 follow-up reports and one book have been published offering analyses of the emerging field of impact investing, its issues and challenges.¹ Many of these documents focus, at least in part, on “field building” issues (i.e. discussions regarding what is needed for

impact investing to attain its potential) while a host of other, related documents have raised critical questions regarding how we should be thinking about and executing strategies within the impact investing marketplace. Our intent with this Issue Brief is to offer a meta-analysis of this debate regarding the future of impact investing while acknowledging the critical issues raised by some observers of the field’s growth.

Looking back on the initial Monitor report more than three years later, it is remarkable how quickly and closely the field has followed the potential trajectory presented in that report: Investment products have been

developed to unlock additional sources of impact capital, infrastructure is being created which offers the potential for more efficient intermediation of investment capital and new organizations are now executing a variety of approaches to cultivating social entrepreneurs in order to increase the pipeline and potential deal flow available to impact investors. It is important to understand that while progress is being made, it is a dynamic and evolving set of actors who are advancing this work—and that the work is far from finished. While building upon good work of the past, these practices and this discussion are both very much in their earliest stages. We should not rush to claim success just as we should not prematurely

dismiss these initial efforts as we all work to explore how best to maximize the impact we seek, not only simply from our portfolios and organizations, but for our communities and world.

Impact investing is still a maturing industry that at this stage could well benefit from self-reflection and thoughtful planning with regard to how best to advance our shared interests and work. This Issue Brief is an effort to step back and reflect on where we stand, compile insights from the field, and weigh the implications of a variety of recommendations for allowing impact investing to continue its steep growth trajectory toward deep impact.

PART ONE: HOLDING UP THE MIRROR

The language and emerging practices of impact investing have taken off faster than a crown fire raging across the American West. In a matter of a few years, the word “impact” seems to be everywhere and owned by everyone; and the notion of impact investing has resonated with many—both those new to the idea and those engaged in the practice for

years under related names who rightly claim there is nothing new about the term at all. Before turning our attention to the primary focus of this Brief, namely, what is needed to build the field of impact investing in the years to come, we first hold a mirror up to our discussions and assess where we are.

VOICE OF THE LOYAL OPPOSITION

In looking in the mirror, we will not focus our eyes upon how good looking and intelligent we all are—which is to say, upon the many conferences and reports heralding the arrival of impact investing and its great promise. Rather, our time might be better served by reflecting a bit upon our shortcomings and areas of shared concern—the “pimples and warts” that detract from our overall potential for positive reception, advancement toward our shared goals and impact upon others.

In reviewing various blogs and interviews where supposed “critics” of impact investing have raised their concerns, it is interesting to note that most of the concerns being raised are not coming from those outside the fold who seek to bring down that which they do not understand. Rather, the concerns are being raised by those who in their work and words have demonstrated, often over a decade or more, a deep commitment not only to social justice and sustainability, but also to the effective application of capital in support and pursuit of the highest degree of impact possible.

These critics might be counted among the “loyal opposition” since these colleagues often believe deeply in the process being pursued by those gathering under the banner of impact investing. However, they seek to hold those promoting impact investing accountable, in an effort to ensure that, first and foremost, these investors follow the edict of “do no harm” in their use of financial innovations which promise to support the creation of a more just and sustainable world. Perhaps the best example of this comes from Kevin Starr who, having written an eloquent blog regarding the shortcomings of impact investing, authored a follow-up blog citing the various ways philanthropists—including himself—might “blow it” and miss out on the potential positive benefits of an impact investing approach.²

In addition to the commentary of this loyal opposition, in many ways, impact investors may themselves be their own worst critics. Indeed, one could go so far as to observe that many of those who might be identified as leading the perceived over-promotion of

impact investing—organizations such as the Global Impact Investing Network (GIIN) or individuals such as Antony Bugg-Levine and this Brief’s co-author, Jed Emerson—have actually gone to some lengths to temper the potential for rhetoric to outstrip reality or distort our understanding of what impact investing actually “is.” For example, in their book, *Impact Investing*, Bugg-Levine and Emerson spend the entire second half of the tome exploring many of the various factors at play which would inhibit impact investing from achieving its potential and which should place brakes upon enthusiasm for its future.³

With all this in mind, a representative review of the concerns voiced in various blogs and articles regarding impact investing cite a variety of points of caution. These may be broadly summarized as falling into the following categories:

- Existence of “Hype”
- Inappropriateness of This Tool for That Task
- Fear of Resources Being Directed Away from Related Areas of Concern/Strategy
- Lack of Recognition of the Important Role of Philanthropy in the Capital Mix
- Fear of Mission Drift

We will avoid the inclination to respond to each of these in turn—tit for tat—and instead simply make two observations.

First, these are all valid and true concerns. Point taken! All those engaged in impact investing should make every effort to avoid

“pre-selling” the effectiveness of these strategies, work to ensure we are making use of the right tool for the proper task, approach our work with a total portfolio perspective that allocates resources effectively, and build upon the important role of philanthropy while ensuring those we are partnering with are not pressured into engaging in any level of mission drift. These are *all* valid points, and considerations all of us should keep in mind, whether social investor, entrepreneur, philanthropist or asset owner. No one could possibly object to these concerns and those who identify as impact investors should guard against allowing them to seep into and destroy the potential promise of their practice.

Second, what is interesting to observe is that some number of “criticisms” really amount to an observer taking one sub-set of the impact investing arena and objecting to it, primarily as a jumping off point to then advance their own particular perspective or idea. This type of observation is fine, but should not be mistaken as a valid critique of impact investing itself.

For example, in one interview, a series of charges are leveled “against” impact investing (again, criticisms which are sound and any investor should bear in mind...) and yet, when offering thoughts of how impact investors might move beyond such shortcomings, the surprising example of a variation on social impact bonds arises. With only one deal closed as yet, social impact bonds are perhaps an example of exactly the type of over-enthusiasm impact investors should work

to restrain and may not be the best advice one might offer for a “new” direction.⁴ This is to say that while social impact bonds are a great potential innovation in the impact investing sector, they are still at an early stage and, as yet, an unproven one. The authors are hopeful for the continued development and scale of social impact bonds, but provide this example to highlight that, even in offering critiques of impact investing, some critics cite innovations within impact investing itself as just what the doctor ordered.

The bottom line in our discussions regarding the risks, shortcomings and liabilities of impact investing is really quite simple:

- Be Thoughtful.
- Consider how best to leverage **all** the resources one might apply toward our shared goal.
- Be aware of how power dynamics between investor and investee may distort any relationship.
- Acknowledge that impact investing is not a silver bullet, but rather, a silver buckshot: most challenges require a diverse range of solutions.

In the fun and banter of public discourse and conference panel give and take, it is sometimes easy to forget that any investor worth her salt is thoughtful, intentional and mindful of the complexity of the task at hand. If

any enter the impact investing arena with the mindset of a quantitative trader, looking for quick margins of opportunity and impact, they will be sorely disappointed. Good, effective impact investing (as is true of truly effective, traditional investing!) is a function of deep strategy, competent understanding of both risk and opportunity and operating within a long-term perspective with regard to the value creation process. Be Thoughtful.

Understanding the need to have the right tool to apply to the right task is also critical to future potential success. Impact investing is not a uniform, singular approach to capital allocation—a single asset to be applied to all investment opportunities—but rather a lens through which we view the world and a perspective which allows us to draw upon the proper set of tools required to build capacity, sustainability and, ultimately, impact over the long run. It means we must view our resources as a set of tools to be drawn upon, a total portfolio to be managed in pursuit of overall impact. This notion of either total portfolio management or, in its institutional form, total foundation asset management, was introduced at least as early as a decade ago⁵ and was no doubt explored elsewhere even earlier than that. Today these ideas have spread—being referred to as total portfolio activation⁶ or capital stacking⁷—and that is great; the core premise remains the same while being expanded upon with new insights emerging

from practice. Impact investors should seek (and the better ones consistently *do* seek) to leverage a breadth of capital forms and complementary strategies in support of the goal to work with social entrepreneurs to expand the capacity of organizations (whether for-profit, nonprofit or hybrid) to create deep impact in communities and markets.

In the course of connecting capital with community, it is also important we remember how easily capital may distort relationships. While it should be obvious that the good impact investor requires meaningful partnership with the great social entrepreneur, it is too easy to ignore how the drive to secure capital and the soft seduction of holding that capital may distort relationships, creating what has been called “the dance of deceit,” (i.e., “What are you interested in funding?” “Well, now, just what is the venture you’re developing?”and the dance begins...).⁸ As impact investors enter the market, great care must be taken to build honest, transparent relationships. And this obligation is shared on both sides of the check-book, by both investor and entrepreneur.

And, finally, in the midst of our enthusiasm for the pursuit of impact, we must also remember impact investing is not a panacea. It is simply a mindset or approach to capital investing which must be complemented with effective efforts to create a positive enabling environment with the right aspects of public policy and regula-

tion; with the development of meaningful networks offering stakeholders various opportunities to connect and learn from each other; and with an appreciation of the various roles other allocators of capital (whether social or financial, public or private) play in the operations of an efficient and diverse market place. Impact investing is a powerful framework and way to open up a host of investment options behind those of philanthropy with which fund managers and asset owners may maximize value—but it is simply one part of a constellation of strategies, tactics and tools we may draw upon in our efforts to build sustainable enterprises with deep impact.

And in conclusion, what much of what is presented as “criticism” is actually asking is that we simply remember: *Pride Goeth Before the Fall*.

While enthusiasm and passion are great, we should all seek to ensure our passion does not transform into the hubris that led to so many learning experiences of the past in traditional philanthropy, social investing and mainstream business. The term “impact investing” has galvanized a new set of actors and brought new innovators into the tent; we need to be as rigorous about maintaining a focus on impact as we should be cautious with regard to the claimed performance of the many strategies falling under this broad approach to capital management.

PART TWO: HOLDING UP THE PERISCOPE

FROM HERE TO ETERNITY AND BEYOND

With these cautions and criticisms in mind, let us now turn to an assessment of what we need to put in place to attain our collective potential. In our review of various papers,⁹ it should not be surprising to find that the overarching themes which emerge from our literature review on the state of impact investing have a good deal in common with the broad list of critical issue areas initially offered by Monitor Institute in 2009:

- Increase Deal Flow
- Increase Capital Sources
- Improve Intermediation and Coordination
- Develop Industry Infrastructure

What *is* different three years later is that, in each of these areas, organizations have set out to address these issues and are now reporting back to our field with a more detailed set of recommendations for the evolution and development of impact investing. We have sought to compile and synthesize these recommendations in this Brief. The Reader will find each summary paragraph followed by links to the original research and papers which addressed the particular topic; we encourage you to click through and read the original research upon which our summary is based. The organizations cited have proposed some solutions while ruling out others and, most helpfully, they have identified specific, actionable steps to be taken to move the field forward.

Each participant in this field—whether funds, asset owners, or intermediaries of one type or another—will be better equipped to tackle some of these issues more effectively than others; regardless, the recommendations included in this research offer a new framework (one informed by the actual experience of recent years) for how individual effort may contribute to advancement of the whole.

Increase Deal Flow

- ***Capacity-building for social enterprises is a critical need*** — Creating more deal flow relies upon ensuring social enterprises are being developed holistically, creating sustainable, scalable businesses that will continue to be a leverage point for social and environmental change. If attention is not given to organizational development, technology infrastructure, and streamlined operations, then these potent vehicles for change will become clunky and inefficient and never reach the optimal state for investment. For early stage social ventures, accelerators have taken up the charge to prepare organizations for funding on a faster timeline than they would organically follow. By providing mentors, services, and networks, and pushing entrepreneurs to rapidly prototype and iterate on their ideas, accelerators are serving a critical function in increasing deal flow. As another approach, wrap-around services to accompany funding for early-stage ven-

tures or consulting organizations specializing in growing social enterprises offer important infrastructure and services to social ventures that allow the entrepreneur to maintain passion and focus on delivering impact. As highlighted in the “Beyond the Margin” report by Avantage Ventures, “Incubation of social enterprises by investors or intermediaries will ensure targets reach a level of professionalism that will instill confidence and attract new impact investors.”

(Understanding the Demand for and Supply of Social Investment - NESTA, Beyond the Margin - Avantage Ventures, Making Good on Social Impact Investment - Social Investment Business)

Increase Capital Sources

- **Close the “Pioneer Gap” with enterprise philanthropy** — While not a new observation,¹⁰ perhaps one of the most critical insights to reflect on as impact investing surges ahead is the fundamental role of philanthropy in impact investing. There are opportunities for social investments with a financial return, but that return is generally not immediately available and requires a significant preliminary investment of time, expertise, and philanthropic capital to reach the scale and efficiency that make it attractive to an impact investor. This type of enterprise philanthropy requires a unique skill set to identify, assess, and develop small and growing businesses that have the potential for dramatic impact. Any efforts impact investors may make to share information and influence the deployment of philanthropic capital to scale these businesses have the

potential to bear fruit in creating future investable opportunities.

(From Blueprint to Scale - Monitor/Acumen, Understanding the Demand for and Supply of Social Investment - NESTA, Insight into the Impact Investment Market - J.P. Morgan)

- **Seed stage funding (less than \$100,000) is essential** — A growing pain of the rapid growth of impact investing is that many social entrepreneurs need less than \$100,000 to prototype and test their emerging solutions, whereas most impact investors are looking to make investments of at least \$500,000 to maintain the efficiency of their models. Social entrepreneurs are frustrated by the limited number of available seed investments and investors are frustrated by the lack of organizations mature enough to effectively utilize a sizable investment. In order for impact investing to have capacity to receive capital flows from mainstream investors, some players will need to become specialists in seed funding the most promising social businesses.

(Seed Stage Investment and Support - Ross Baird, Insights and Innovations - Georgette Wong)

- **Unlock foundation capital (PRIs and other) by increasing information and support, reducing distance between program and investment staff, building capacity** — There has already been some progress in raising awareness about the latent potential for program-related investments to bring new sources of capital to impact investing. However, most foundations are still cautious, which is reflected in PRIs being less than half of one percent of U.S. Foundation giving.

Foundations are also traditionally split into program staff and investment staff that work independently of each other, whereas impact investments need to leverage the expertise of both groups. In order to access the massive pools of capital held by foundations, the field of impact investing will need to provide information and support to facilitate the transition of traditional investments to impact investments. Recent rule clarifications by the IRS with regard to the purpose and uses of PRIs will help to advance this work.¹¹

(360 Degrees for Mission – Mistra, From Blueprint to Scale – Monitor/Acumen, Solutions for Impact Investors – Rockefeller Philanthropy Advisors)

- **Attract institutional assets through policy reform** — InSight at Pacific Community

Ventures has taken the lead in understanding the role that policy has to play in growing the field of impact investing. One recurring theme in their detailed reports is that the regulation, incentives, and transparency that could be implemented through policy reform are necessary steps to attracting institutional assets. Because of the fiduciary duty of large institutions, they are particularly sensitive to the way that policy leans for a given industry. If innovative policy provided some momentum or validation to impact investing, it would make these investments significantly more attractive for institutional investors.

(Impact at Scale – InSight, Impact Investing: A Framework for Policy Design and Analysis – InSight)

- **Increase role of government funding to seed intermediaries and catalyze private investment** — In addition to the positive influence that policy could have on growing the social investment markets,

government can also have significant social impact through relatively small financial contributions to impact investing. Innovations such as social impact bonds and infrastructure around reporting and regulation are entry points that are appropriate for the skills and resources of government. The role of the Social Innovation Fund (U.S.) and Social Investment Bank (U.K.) in creating public policy and allocating public funds in support of intermediaries in each country are good examples of how government can support the development of effective intermediaries.

(Insight into the Impact Investment Market – J.P. Morgan, Understanding the Demand for and Supply of Social Investment – NESTA, From Blueprint to Scale – Monitor/Acumen)

- **Create products for mainstream**

investors — High net worth investors have been the pioneers of impact investing, but if the field is to reach the potential that led these early investors to commit so wholeheartedly to impact investing, more standardized and risk-calibrated products will need to be developed for mainstream investors. There are already some intermediaries creating products that effectively lower minimums, increase liquidity, or diversify risk to provide a more reliable return, however there is still a need for creative solutions and innovative products to attract new investors. There will always be some individuals who focus more on an issue area, geographic area, or a particular asset class, and developing products that fit for all of these interests will provide more entry points to expand the field.

(Investing for Impact – Credit Suisse, Money for Good – Hope Consulting)

Improve Intermediation and Coordination

- **Educate Financial Advisors to reduce bottlenecks** — For impact investing to reach mainstream investors, there will need to be an extensive effort put into educating financial advisors and moving them away from a bifurcated way of thinking about investments and philanthropy. In “Money for Good”, released in 2010 by Hope Consulting, three of the top five barriers identified which act to inhibit the expansion of impact investing were related to a lack of financial advisor awareness and education about impact investing opportunities. This same report found that individual investors prefer to receive advice from and transact through their financial advisor. A concentrated effort on educating financial advisors has strong potential to remove a widely recognized bottleneck. In fact, the introduction of the *Issue Brief* series by ImpactAssets is directed at just this audience as well as their high net worth clients.

(Investing for Social and Environmental Impact - Monitor Institute, Solutions for Impact Investors - Rockefeller Philanthropy Advisors, Money for Good - Hope Consulting, 360 Degrees for Mission - Mistra)

- **Utilize creative and “complete” capital, more sophisticated deal-structuring, and “stacked” capital** — The success of impact investing so far has come from creative approaches to providing capital, whether through a patient capital approach as introduced by Slow Money’s Woody Tash and expanded upon by Acumen Fund, a hybrid of grant-funding and investments housed under one roof at the Omidyar Network, or

the many other ways impact investors have organized their thinking “around the challenge and not the tool,” as Antony Bugg-Levine puts it. As the field matures, there are investors utilizing various investment vehicles, looking for a wide range of impact and financial return. In addition, a growing number of investors are adopting an “all in” approach wherein their total net worth is being managed for impact.¹² These approaches will be an asset as investors continue to innovate in deal structuring to create more investment opportunities.

(The Future of Impact Investing - Antony Bugg-Levine, Insight into the Impact Investment Market - J.P. Morgan)

- **Increase the number of capital providers** — This will necessarily be a result of many of the recommendations already cited as necessary to increase the flow of capital, but it is worth noting that continuing to work to increase the number of capital providers is a recommendation in and of itself. Because different institutions and individuals will bring their own approach to investment, *all* types of capital providers should be encouraged to identify myriad ways they can support social and environmental impact and enter on terms that work for their own particular model. More sources of capital with a variety of terms, resources, and performance expectations will help provide the range of funding to match the variety of social enterprise business models ranging from non-profit to for-profit to hybrid.

(Making Good on Social Impact Investment - Social Investment Business)

- **Build out deal-brokering capabilities** —

Effectively connecting the right type of capital with the right investment opportunity is still one of the great challenges within impact investing. This challenge also translates into a significant cost that leads to a variety of related growing pains, from the aforementioned lack of seed funding to the dearth of financial advisors willing to recommend impact investments to clients. In fact, many of the “criticisms” of impact investing are rooted in this area: criticisms of “where’s the money?” or that impact investors have misplaced expectations of investees are often simply a function of the “wrong” money talking to the “wrong” entrepreneurs. There has been notable progress in growing both the pool of impact capital and the pool of social entrepreneurs, however the infrastructure is still lacking to consistently and effectively connect these two forces for change. By creating networks for co-investment, new crowd funding platforms or social/impact stock exchanges, the costs associated with identification and due diligence of deals will be reduced, which will in turn open up new investment possibilities and markets.

(From Blueprint to Scale - Monitor/Acumen, Understanding the Demand for and Supply of Social Investment - NESTA, Insights and Innovations - Georgette Wong, How Standards Emerge - Amit Bouri)

- **Create landscape map and share information** —

Illumination of the field, through shared information and common understanding, could have a dramatic effect on how various investors and enterprises navigate their way to new frontiers of impact investing. As explained in “The Impact

Investor: The Need for Evidence and Engagement”, released by InSight at Pacific Community Ventures, ImpactAssets, and CASE, “a shared understanding of the spectrum of performance goals and practices in impact investing [would allow] each new player to locate themselves accordingly.” This has ripple effects of enabling existing players to interact more efficiently and thereby allowing new entrants to understand where there may be most effective networks for co-investment, as well as bringing greater clarity to the field for prospective investors, entrepreneurs, and the general public.

(Understanding the Demand for and Supply of Social Investment - NESTA, Insights and Innovations - Georgette Wong, 360 Degrees for Mission - Mistra, Solutions for Impact Investors - Rockefeller Philanthropy Advisors, The Impact Investor - InSight/ImpactAssets/CASE, Investing for Impact - Bridges Ventures/The Parthenon Group, ImpactAssets 50 - ImpactAssets)

Infrastructure Development

- **Devote attention to human resources:**

talent development and incentives — While there are some actors in the impact investing space who now have been “raised for impact,” most of us come primarily from either the nonprofit or for-profit sectors. Therefore, skills to assess financial and social returns on an integrated basis are a unique skill set usually augmented by the hiring organization. Although there are extremely talented people in this industry, talent development has been largely organic up to this point. A more robust and intentional development of impact investing talent would accelerate growth of the field as a whole. There are collaborative work spaces, such as The HUB¹³, that serve as bottom-up talent

developers by bringing together investors, entrepreneurs, consultants and non-profits, increasing shared information, and creating stronger networks across the social capital markets as a whole. The HUB has had great success attracting over 5,000 members to 25 locations on 5 continents, and serves as both a global and a local resource for human capital. Some business schools have begun to offer coursework on impact investing, however these are generally “add-on” courses rather than an integrated approach within the core curriculum. As such, they offer an introduction to the impact investing industry and its various players rather than applicable training in how to evaluate an investment for blended value or conduct due diligence on such an investment. New century educational institutions, such as the Presidio Graduate School, offer MBAs and MPAs with an emphasis on sustainable management and finance and are introducing a new vision of graduate education with the promise of training leaders on a blended value basis from the start. In acquiring and developing new talent, it is also important to be thoughtful in the way that incentives for fund managers are designed to promote the pursuit of both financial and social return. The GIIN has done some work to propose impact-based incentive structures, but these incentives will undoubtedly need to be refined as impact measurement improves and lessons are learned from implementing impact-based incentive structures at the firm level.

(Current Situation of Human Capital and Organization Development In the Impact Investment Industry – K.C. Soares, Insights and Innovations – Georgette Wong, Impact-based Incentive Structures – GIIN)

- ***Pursue tax incentives for impact oriented investments*** — Although it is important to maintain the integrity of impact investing as an investment strategy distinct from a charitable act, there are opportunities for tax incentives to strategically catalyze the flow of capital into impact investments. In a layered investment scheme, for example, investors who sign on to take first loss would not be taxed on the investment return, should a higher risk investment outperform on financial terms. There are a host of ways that tax and other incentives could be structured to encourage additional capital flows into social enterprises and impact funds. These new approaches should learn from and build upon the success of impact investors active in the Community Development Finance field who pioneered the use of the Affordable Housing Tax Credit and other instruments over 25 years ago.

(Investing for the Good of Society – NESTA, Understanding the Demand for and Supply of Social Investment – NESTA, Making Good on Social Impact Investment – Social Investment Business)

- ***Continued development and adoption of Impact Reporting & Investment Standards (IRIS), along with further development of impact assessment and measurement professionals*** — One of the most impressive strides impact investing has made in the last three years from a field building perspective is the launch and adoption of IRIS and the Global Impact Investing Ratings System (GIIRS), along with other impact measurement tools and organizations. Creating a shared lexicon for impact investing and a common reporting standard is foundational to the professionalization and mainstream

reception of impact investing. However, “inadequate impact measurement practice” is still cited in J.P. Morgan’s recent “Insight into the Impact Investment Market” as one of the top three challenges to industry growth. Organizations must continue to integrate and improve impact measurement in all of their investments, as well as in their own practices. As stated in “Insights and Innovations”, current investors “advise not waiting for perfect metrics on social and environmental impacts to invest, but to support the advancement of standards where possible.” In addition to the adoption of metrics by investors, the development of associations and networks to support professionals focusing on the “metrics challenge” is critically important. In recent years, the field has seen the international Social Return on Investment (SROI) Network offer certification for professionals receiving training in SROI analysis and we have also seen the creation of the International Association for Impact Assessment.¹⁴ Over time, as these and other associations raise the bar on impact assessment, independent verification and auditing of impact statements will be possible, further improving the practices of both impact investors and social enterprises.

(Insights and Innovations - Georgette Wong, Insight into the Impact Investment Market - J.P. Morgan)

- **Additional work is needed to determine appropriate fees, benchmarks, risk/reward pricing** — In the midst of all the field building efforts that organizations have undertaken to advance impact investing, the discussion of appropriate fees and benchmarks has been pushed off. This is an important topic to tackle for the long-term health of the industry. Part of the effort involves related infrastructure developments in areas such as metrics and information sharing, but there will also need to be bold assertions that effectively price social outcomes to spark the debate and refine these components of the market. Without an established range of risk and return, investors will be challenged to understand where to enter the field, while without establishing appropriate benchmarks, the performance of impact investments will lack a solid foundation for evaluation. Pioneers who believe in the power of investment capital to fuel social impact have tolerated this lack of clarity thus far, but these market components need to be more firmly established to attract new investors and fortify the industry as it grows into the future.

(The Impact Investor - InSight/ImpactAssets/CASE, Insight into the Impact Investment Market - J.P. Morgan, Twenty Catalytic Investments to Grow the Social Finance Market - NESTA)

SUMMARY

There are current efforts to address all of these recommendations, but which of them will be successful remains to be seen. The field of impact investing has a diverse set of stakeholders, including government, investors, philanthropy, non-profits, intermediaries, entrepreneurs and more, which are attempting the ambitious effort of building a new market and vision of investing. This is a marathon, although the last three years have resembled a

sprint; taking stock of progress made and work ahead will enable the industry to continue its focus on sustainable impact through investment. The collective wisdom of the organizations represented in this literature review is a tremendous asset for the field of impact investing, and those looking to make a lasting impact should remember to periodically pause to reap the insights of the field.

Jed Emerson is Chief Impact Strategist for ImpactAssets and an internationally recognized leader in impact investing. Lindsay Norcott is a consultant at ImpactAssets and a recent graduate of Columbia Business School. As part of ImpactAssets' role as a nonprofit financial services group, 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 will be 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. We encourage you to make use of them.

FOOTNOTES

- ¹ An appendix of these documents is offered at the end of this Issue Brief
- ² Please see: The Trouble with Impact Investing, Part 3; <http://bit.ly/MiLyzp>.
- ³ *Impact Investing: Transforming How We Make Money While Changing the World*, Bugg-Levine and Emerson, Wiley, 2011.
- ⁴ Please see, The Dangerous Promise of Impact Investing, <http://bit.ly/xmcXIs>.
- ⁵ Please see, *A Capital Idea: Total Foundation Asset Management and a Unified Investment Strategy*, Emerson, Stanford Research Paper #1786, 2002 or *Foundation Overdrive*, Foundation News and Commentary, September/October, 2004.
- ⁶ For an excellent presentation of this idea, please see the work of RSF Finance and Play Big.
- ⁷ Please see the upcoming Issue Brief by this name, co-authored with Living Cities.
- ⁸ First referenced in *Mutual Accountability and the Wisdom of Frank Capra*, Foundation News and Commentary, Jed Emerson, March/April, 2001.
- ⁹ Cited in the appendix to this Brief.
- ¹⁰ As early as 1996, the role of grant funding in supporting enterprise development was highlighted as part of an overall discussion of the “nonprofit capital market.” New Social Entrepreneurs: The Success, Challenge and Lessons of Nonprofit Enterprise Creation,” in the chapter, *Grants, Debt and Equity: The Nonprofit Capital Market and its Malcontents.*”
- ¹¹ See Greenblatt, <http://bit.ly/IJZWKW>.
- ¹² See Blue Haven Initiative, RS-Group (Hong Kong) and Eleos Foundation as examples, as well as work being advanced by RSF Finance and “Play Big,” and various writings by Jed Emerson.
- ¹³ Please see: <http://www.the-hub.net/>.
- ¹⁴ Please see: <http://www.iaia.org/>.

APPENDIX

Articles reviewed offering critiques of impact investing include:

Achwal, Nilima. "The Dangerous Promise of Impact Investing: From Ashoka Europe." NextBillion, May 26, 2011

Domini, Amy. "Want to Make a Difference? Invest Responsibly!" Huffington Post, March 14, 2011

Starr, Kevin. "The Trouble with Impact Investing: Part 1." Stanford Social Innovation Review, January 24, 2012

And a quick Google search for "impact investing criticism" will surface a number of additional references, either direct or indirect, offering critiques of impact investing.

Reports consulted in writing this Issue Brief include:

360-degrees for Mission, Mistra, May 2011 (http://www.dreilinden.org/pdf/360_degrees_for_Mission.pdf)

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And, as mentioned, the first book on Impact Investing, titled “Impact Investing: Transforming How We Make Money and Change the World,” includes lengthy discussion regarding the challenges of building the field.