With input from:

Impact Measurement & Management (IMM): Impact Investing's Evolving Ecosystem

OCTOBER 2021

With input from:

Contents

With input from:

Glossary

AUM	Assets Under Management
AVPN	Asian Venture Philanthropy Network
CDP	Carbon Disclosure Project
CDSB	Climate Disclosure Standards Board
CFA	Chartered Financial Analyst
CRD	Corporate Reporting Dialogue
DFI	Development Finance Institutions
EU SFDR	European Union Sustainable Finance Disclosure Regulation
EC	European Commission
ESG	Environment, Social, and Governance
FASB	Financial Accounting Standards Board
FRC	Financial Reporting Council
G8	Group of Eight
GIIN	Global Impact Investing Network
GRI	Global Reporting Initiative
GSG	Global Steering Group for Impact Investment
HBS	Harvard Business School
HIPSO	Harmonized Indicators for Private Sector Operations
IBC	International Business Council
ICAEW	Institute of Chartered Accountants of England and Wales
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IMP	Impact Management Project
IMM	Impact Measurement & Management
IOSCO	International Organization of Securities Commissions
IRIS	Impact Reporting and Investing Standards
ISO	International Organization for Standardization
IWA	Impact Weighted Accounts
OECD	Organisation for Economic Co-operation and Development
PRI	Principles for Responsible Investment
SASB	Sustainability Accounting Standards Board
SBS	Saïd Business School
SDG	Sustainable Development Goals
SSB	Sustainability Standards Board
SVI	Social Value International
TCFD	Task Force on Climate-related Financial Disclosures
UN	United Nations
UNDP	United Nations Development Programme
UNEP FI	United Nations Environment Programme Finance Initiative
UNGC	United Nations Global Compact
WBA	World Benchmarking Alliance
WEF	World Economic Forum

With input from:

1. Introduction

To achieve the SDGs by 2030, we face a $2.5 trillion annual financing gap (Gornitzka, Charlotte Petri; Wilson, Gavin E.R., 2020). While tremendous amounts of capital are moving into impact financing to close this gap, doubts remain around their impact. This report examines this flow of capital, with a specific focus on **impact investing** due to its rapid emergence and challenging, subjective definition for which funds should "count." For our purposes, we will take the definition of impact investments as "(investments) made intending to generate positive, measurable social and environmental impact alongside a financial return" (GIIN, 2021). Because it is differentiated from "traditional" finance-only investing, as well as responsible and sustainable investing, impact investing sits at the far end of the investment continuum seen in *Figure 1*.

The GIIN estimates 1,720 organizations currently manage $715 billion in impact investing AUM worldwide (GIIN, 2020).

1.1. Method

With support from the Skoll Centre for Social Entrepreneurship, we conducted a systems mapping (Meadows, 1999) exercise to better understand the interlocking entities within the impact investing ecosystem and how they relate to each other. This visual methodology allows for clarified communication and rapidly showcases the most pressing issues affecting current and aspiring practitioners and investors. Here, our mapping of the impact investment landscape is also meant to provide a jumping-off point for articulating key leverage points to develop interventions, innovations, and policies that prevent impact-washing, improve impact assurance, and increase investments into impact.

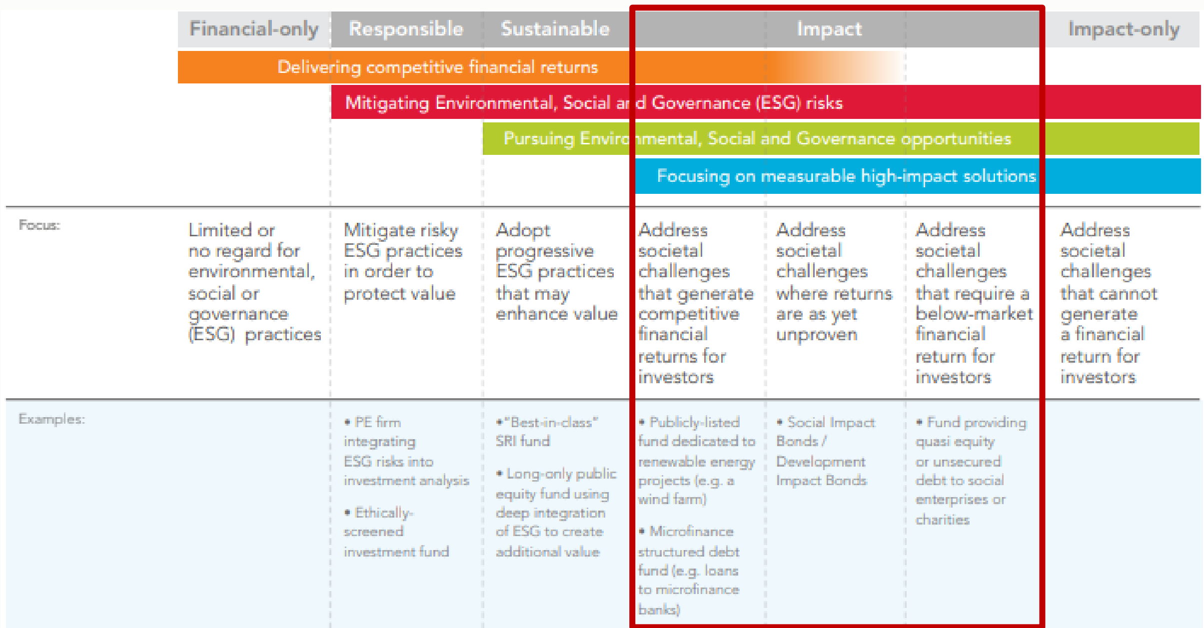


FIGURE 1 Spectrum of Capital (Bridges Fund Management, 2015)

With input from:

In addition to systems mapping, various other systems change techniques were used to inform our research, such as the iceberg model in *Appendix A*. We used both primary and secondary sources and interviewed key stakeholders; some of their insights shared are displayed in *Appendix B*. Relevant interview quotes are also scattered in appropriate areas throughout this report.The ground our research, we used both primary and secondary sources, interviewing key stakeholders with some of their key insights displayed in *Appendix B*. Relevant interview quotes are also scattered in appropriate areas throughout this report.

1.2. Problem Statement

With impact investing rapidly gaining cache, a growing number of companies and funds are self-identifying as "impact-driven" – often without any concerted effort to address societal challenges or demonstrate additionality in their investments through robust risk-return-impact evaluations. For our purposes, these types of appropriations of impact for public accolades is referred to as "impact-washing." While some provocateur investors consider impact-washing a "necessary evil," we argue that current impact measurement and management (IMM) systems are insufficient for effective, accountable impact investing practices. Most asset managers are accustomed to managing portfolio performance through traditional tools and frameworks (financial accounting and modelling). Current IMM standards, conversely, often prove too complex, confusing, and costly for institutional investors and other aspiring impact investors to implement at scale, let alone be useful for decision making.

> "(We) must draw a line on what accounting can and cannot do. Accounting is historical and reports what has happened. Impact valuation and management approaches is prospective and does not fall within the purview of accounting. Accounting has a critical role to play in reporting beyond finance."
>
> Richard Barker (2021)
> Interviewee & Professor
> Said Business School, Oxford

In today's climate, impact integrity, transparency, and accountability seem to be, at best, inconsistent. At worst, they can be entirely lacking in some purported models of impact investing. If impact-washing continues to spread, this runs the risk that the impact investing asset class will be diluted and not reach its full potential. Without accountable and effective IMM systems in place, the entire impact investment industry risks disrepute (O'Flynn & Higdon, 2019) that could sabotage the fruits borne by impact investing, as well as its ability to help us scale and achieve the SDGs by 2030. This has direct ramifications on our ability to solve the most challenging problems of our time, from climate change to rising income inequality.

1.3. Guiding star

As a feature of the systems mapping methodology, our initial research attempted to work back from a "desired future state" where widespread adoption of disciplined, transparent, and compatible IMM approaches by impact investors worldwide – and broad socialisation of outcomes – incentivizes institutional investors to re-allocate AUM towards impact.

> "Almost 10 years from the start of impact investing, we're still living in output land despite the proliferation of tools out there... we concluded that impact investing was heading down an impact washing path focusing on outputs not outcome and impact."
>
> Veronica Olazabal (2021)
> Interviewee, Senior Advisor & Director
> The Rockefeller Foundation

With input from:

2. Solution landscape

REGULATORY	o EU SFDR o Biden Administration's Sustainability Agenda o China's Sustainability regulations
HARMONISATION	o CRD Better Alignment Project o WEF's IBC white paper o IMP o IFRS (SSB) o Joint Statement of Intent
PRINCIPLES & GUIDELINES	o IFC's Operating Principles for Impact Management o UN PRI o SVI's Social Value Principles o UNDP o UNEP FI's Principles for Positive Impact Finance) o UNGC
FRAMEWORKS, METRICS, & REPORTING	o CDP o CDSB o CFA ESG Standards o GIIN (IRIS+) o GRI standards o IIRC framework o SASB standards o SVI standards o TCFD
RATINGS & VALUATION	o WBA o B Lab o HBS's Impact Weighted Accounts Initiative (IWAI)

FIGURE 2 Existing Solution Landscape

In addition to interviewing stakeholders, we mapped the solution landscapes (seen in *Figure 2*) to understand existing efforts attempting to improve the state of IMM.

In subsection 3.4, we discuss harmonisation efforts that attempt to resolve this "alphabet soup" and strengthen our understanding of the roles various actors across the impact investment landscape play, and the broader linkages between them.

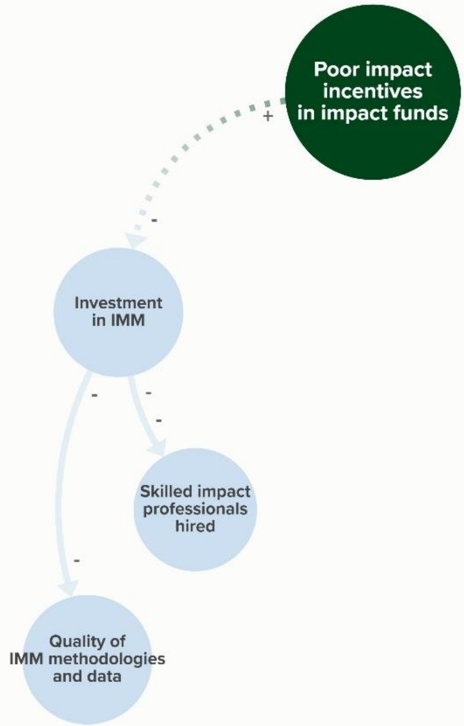
With input from:

3. Systems map

An approach commonly used within systems change (Heather Madden, 2020), systems mapping help users understand the relationships between different elements of a complex, interconnected system (Acaroglu, 2017). Analysing these relationships help users draw insights, identify leverage points, and design interventions to shift systems effectively. While numerous case studies use this approach, ours is the first conducting a systems mapping of the IMM system within impact investing. Through our analysis, we take a systematic, novel approach to analysing IMM within impact investing, and identify leverage points where sustainable systems change can occur.

While there are numerous literature and guidebooks on systems change available (Alford, 2017), the remainder of this subsection will be dedicated to outlining how to understand a systems map.

<u>Causal Relationships:</u> These are relationships indicated by arrows leading from one circle to another.



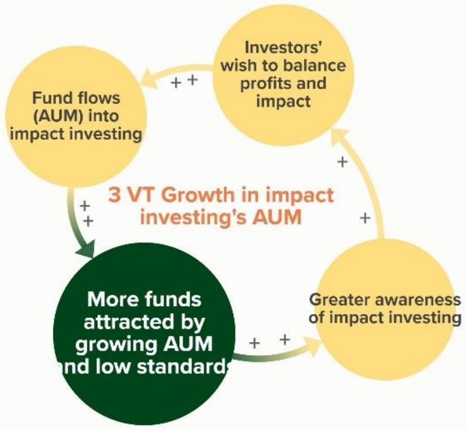
The figure above shows an example where poor impact incentives in impact funds reduce the amount of investment into IMM.

In systems maps, solid arrows indicate a direct relationship. Dotted arrows indicate an inverse relationship. This is seen above, where a decrease in IMM investment results in fewer resources to hire skilled impact professionals.

Finally, the “+” and “-“ signs indicate the polarity of each relationship at the system’s current state. Above, decreasing investment in IMM results in poorer quality IMM methodologies and data as indicated by the two “-“ polarities at both ends of the arrow.

<u>Feedback loops:</u> The interconnected nature of systems means there are constant feedback loops and causal relationships between different

system elements. There are two types of feedback loops: 1) reinforcing (vicious or virtuous cycles) and 2) balancing (stagnating or stabilising cycles).



The example above shows a reinforcing (virtuous) loop. Each element within the loop reinforces each other (indicated by the two "+" signs). These come together to result in an ever stronger cycle of elements. A balancing loop would instead have relationships that balance each other out. These loops could either be good (virtuous or stabilising) or bad (vicious or stagnating) and are usually indicated in the systems map as seen by "VT" above.

While the basics are easy, systems mapping can very quickly become complicated. Systems maps usually have to be broken down into clusters for more effective analysis. Most of this section would be analysing the different clusters within our systems map of the IMM system within impact investing.

For more information on systems mapping, we recommend Omidyar's Systems Practice Workbook which has been widely used as a resource for systems mappers (Network, 2017).

With input from:

3.1. IMM Systems Map

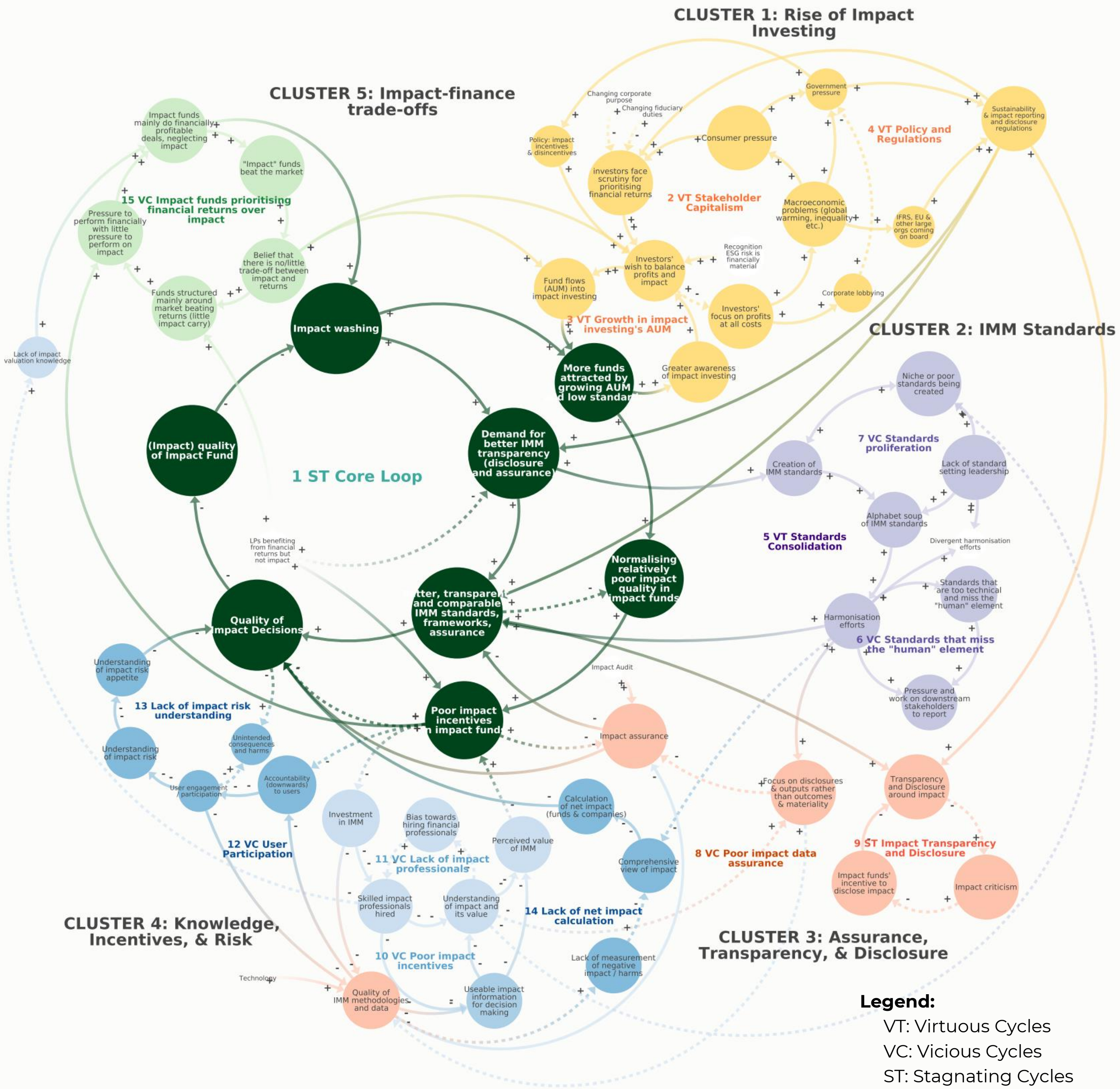


FIGURE 3 Overall Systems Map of the IMM System in Impact Investing

Using findings from our research, the IMM system in impact investing is synthesised into the systems map in *Figure 3*.

This map can be analysed through various lenses, from individual pathways and feedback loops to broader clusters. Altogether, 15 named loops vary from virtuous ("VT") and vicious cycles ("VC") to stagnating cycles ("ST") and regions of significance. We grouped these into five coloured clusters. In the following subsections, the core loop is first examined before each of the clusters and finally, the overall map.

One key point to note: the causal pathways in each cluster and the overall system are not the only ones contributing to each element; the map has been simplified to focus on what surfaced as most relevant for our research.

3.2. Core loop

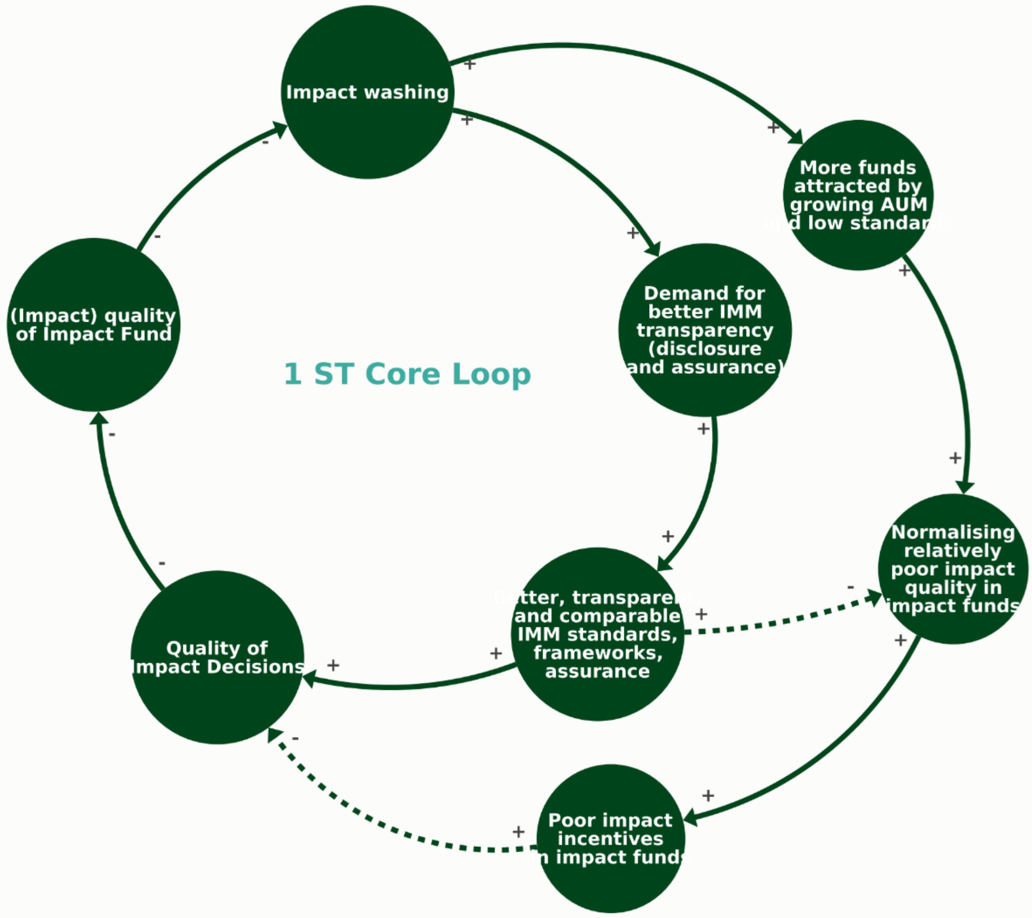


FIGURE 4 Stagnating Core Loop

The stagnating double loop in *Figure 4*, Core Loop (1ST) sits at the core of the IMM system. The inner loop consists of a virtuous cycle that starts from the increasing demand for better IMM standards, frameworks, and disclosure.

This demand has led to various ongoing initiatives, such as harmonisation efforts to consolidate the "alphabet soup" of IMM approaches (Schwartzkopff, 2021) and better impact assurance. Impact assurance is to certify the correctness and validity of the impact by independent professionals. In turn, this results in better decision making by funds around impact and hence, higher impact quality of funds as evidenced by the increasing impact quality of the leading funds within the industry (BlueMark, 2021). Overall, this results in a virtuous cycle that leads to a reduction in impact washing.

However, the recent impact investing boom has also created the outer loop, a vicious cycle that balances the inner loop. The increased fund flows into impact investing has attracted many mainstream investors and funds to the sector, many of whom are set up without good IMM standards or incentives (OECD, 2019). The influx of these funds normalises poor IMM standards. Coupled with the lack of alignment in incentives, these funds then make poor impact decisions (FT Adviser, 2020). Overall, this results in impact funds with poor impact quality, a phenomenon that has propelled impact washing to becoming the greatest concern of impact investors in 2020 (GIIN, 2020).

With the effect of these two loops cancelling each other out, this results in the overall quality of impact decisions in impact funds stagnating and impact washing remaining rampant. The 5 clusters connect to these core loops in a myriad of ways, both reinforcing and weakening each aspect. Their effects will be covered in the subsections below.

3.3. Cluster 1: Rise of Impact Investing

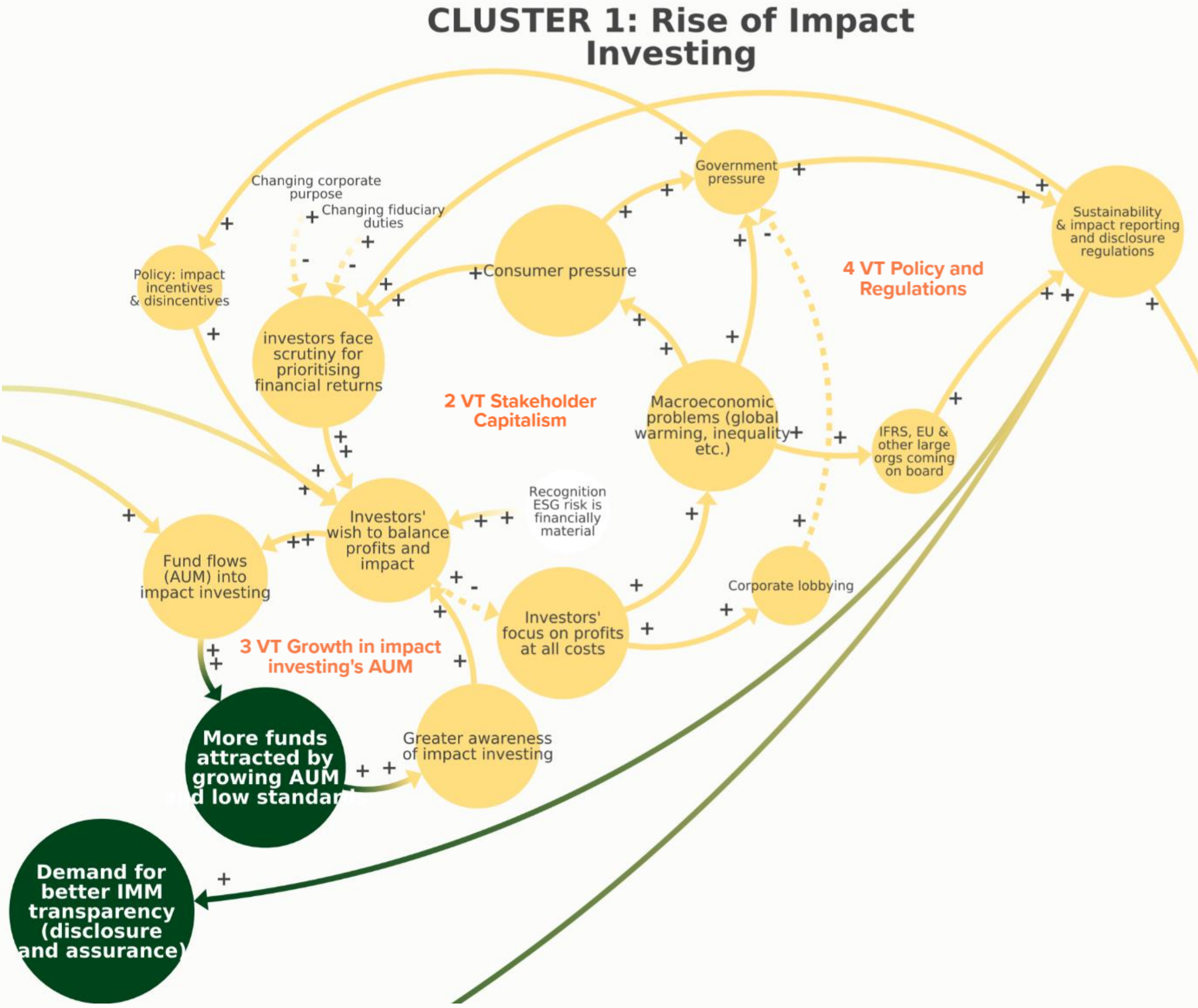


FIGURE 5 Cluster 1 – Rise of Impact Investing

The rise of impact investing stems from the unprecedented social and environmental challenges the world is facing. COVID-19 has only exacerbated this need to redirect capital, shedding greater light on the debate around capitalism and the role of business in society.

We observed the resulting virtuous cycle of stakeholder capitalism (2VT) in *Figure 5*. Various existential macro and socioeconomic problems that could be laid at the feet of capitalism have put increasing pressure on citizens and government. This has led to greater scrutiny on businesses' and investors' sole prioritisation of financial return while ignoring stakeholders. With such pressure, investors are increasingly forced to integrate social and environmental purpose into their strategy, balancing profits and impact. This, in turn, reduces pure profit-seeking behaviours, alleviating the problems facing society, and improving wider public benefit, forming a virtuous cycle.

We observed a virtuous cycle of growth in impact investing's AUM (3VT) resulting from such pressures on investors. With a balanced investment strategy, more capital is flowing into impact investing. Its AUM increased from $502 billion in 2019 to $715 billion in 2020. This growth in turn leads to more funds attracted by the growing AUM and low IMM rigour. With low standards and funds pouring in, it is no surprise that there is a proliferation of claimed impact investing activities. In turn, this fuels greater awareness of impact investing that motivates more investors into the field.

Investors' motivations are also affected by policy incentives, which brings us to the virtuous cycle of policy and regulation (4VT). Governments are recognising that solving the problems of today requires trillions of dollars, far beyond the capacity of government coffers. Recognising this gap, some have stepped up initiatives to drive impact investment. Take the UK's leadership, for example, in establishing the Social Impact Taskforce and National Advisory Board in 2013 during the presidency of G8, and in 2015 expanding the task force into the GSG which now covers 33 countries with a mission to drive real impact (GSG, 2021). Alongside governments, other large international organisations have joined the force for change. The IFRS Foundation recently started a global consultation on the development of sustainable reporting standards (IFRS, 2020). The EU taxonomy, a classification system for sustainable activities, is another effort by the European Commission to scale up sustainable investment (EU, 2021). In turn, with mandated sustainability and impact disclosure regulations, 4VT reinforces the progress in 2VT and 3VT.

In summary, the shift towards stakeholder capitalism, continuous growth in impact investing's AUM, and the development of policy and regulations, all give rise to the attention we see today in impact investing and the complex landscape analysed in this report.

With input from:

34. Cluster 2: IMM Standards

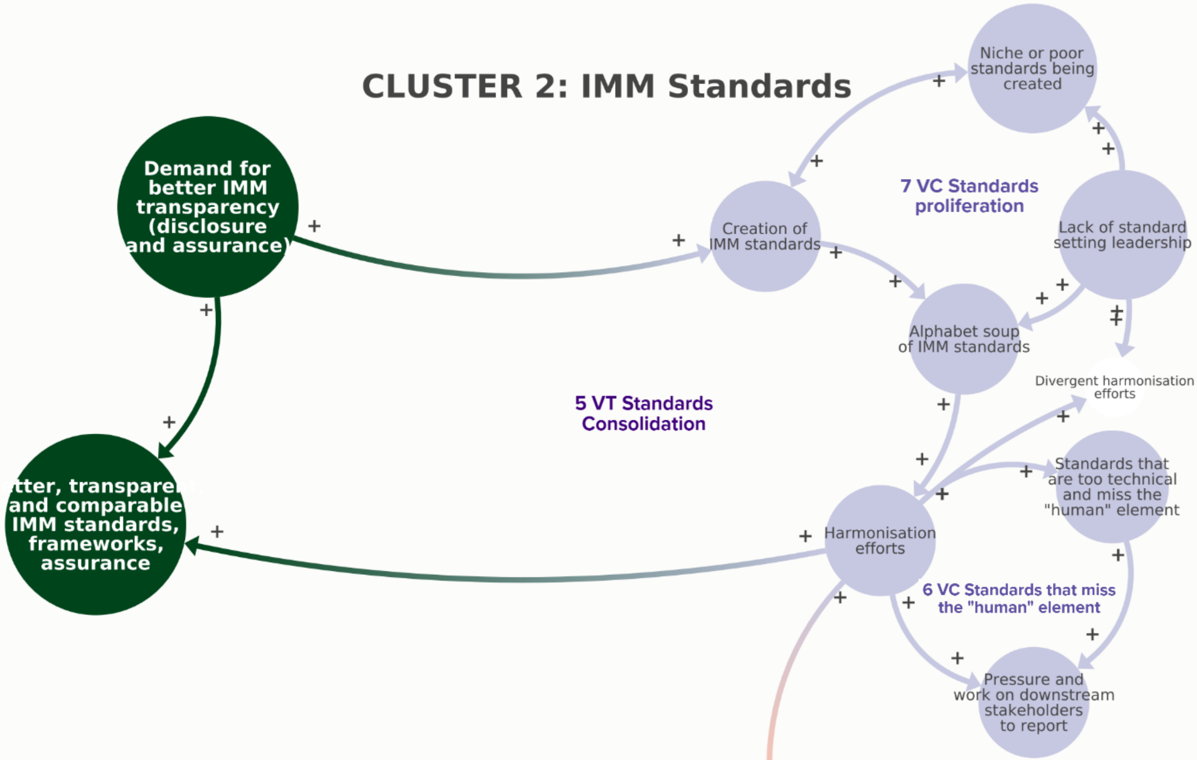


FIGURE 6 Cluster 2 – IMM Standards and Harmonisation Efforts

Cluster 2 in *Figure 6* describes the current state of IMM Standards. Recognition and demand for IMM standards and disclosure have led to numerous entities and standards being created to report on impact. This, coupled with the lack of standard-setting leadership, has created an alphabet soup of standards as seen in the vicious cycle of IMM standards proliferation (7VC).

The proliferation of such divergent standards has led to calls within the industry to make major standards compatible with each other. Urmi Sengupta, from the MacArthur Foundation, mentioned that "I think that harmonisation is really important. There should be principles to guide how every IMM system is set up, you don't need every IMM service provider to adopt a single approach." Such calls have resulted in the recent virtuous cycle of IMM standards consolidation and harmonisation movements (5VT). This in turn leads to better, transparent, and comparable IMM standards.

Given the recent hype within this area, this subsection digs deeper into the progress that is happening within IMM harmonisation efforts and standards.

With input from:

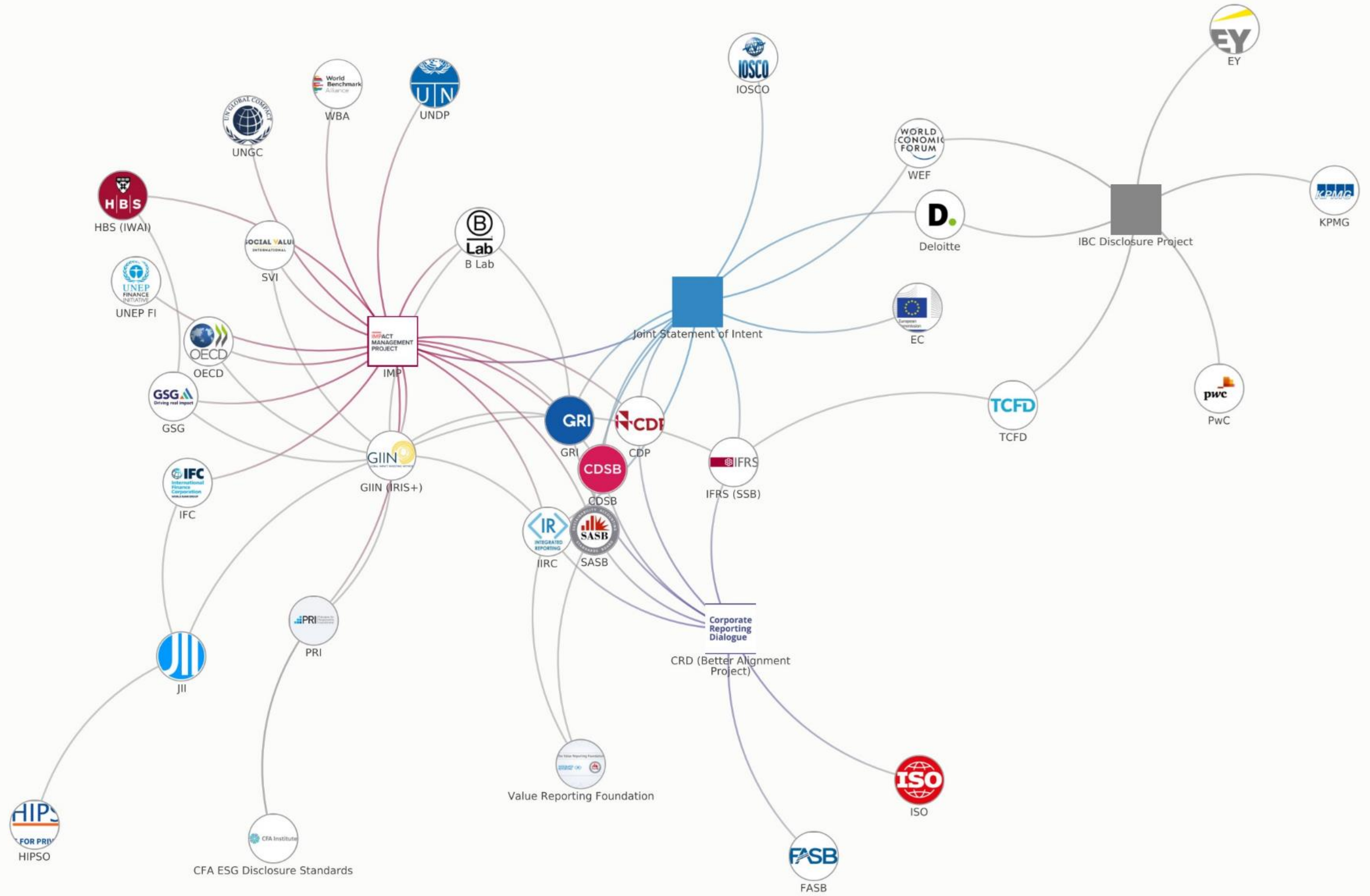


FIGURE 7 Stakeholder Map of Impact Measurement and Management

Figure 7 shows a map of the IMM standard-setters (in circles) and the harmonisation efforts (in squares) that link them together.

> "Now, the biggest problem is the fragmentation of the industry of "alphabet soup" between the IFC, UN PRI, IMP, GRI, SASB, CDF, IRIS+, IWAI, etc. ... No one knows what is appropriate to follow."
>
> Richard Barker (2021)
> Interviewee & Professor
> Said Business School

Within IMM, the adage that "you cannot manage what you cannot measure" holds. Measuring impact is essential to making good impact decisions and, with many recognising this, numerous standards have proliferated. While these efforts remain worthy of respect, this alphabet soup has resulted in no internationally accepted standards and little communication between setters. These standards differ in scope and audience and are often inconsistent. Impact investors who rely on such standards to make decisions when comparing impact results between companies are unable to do so.

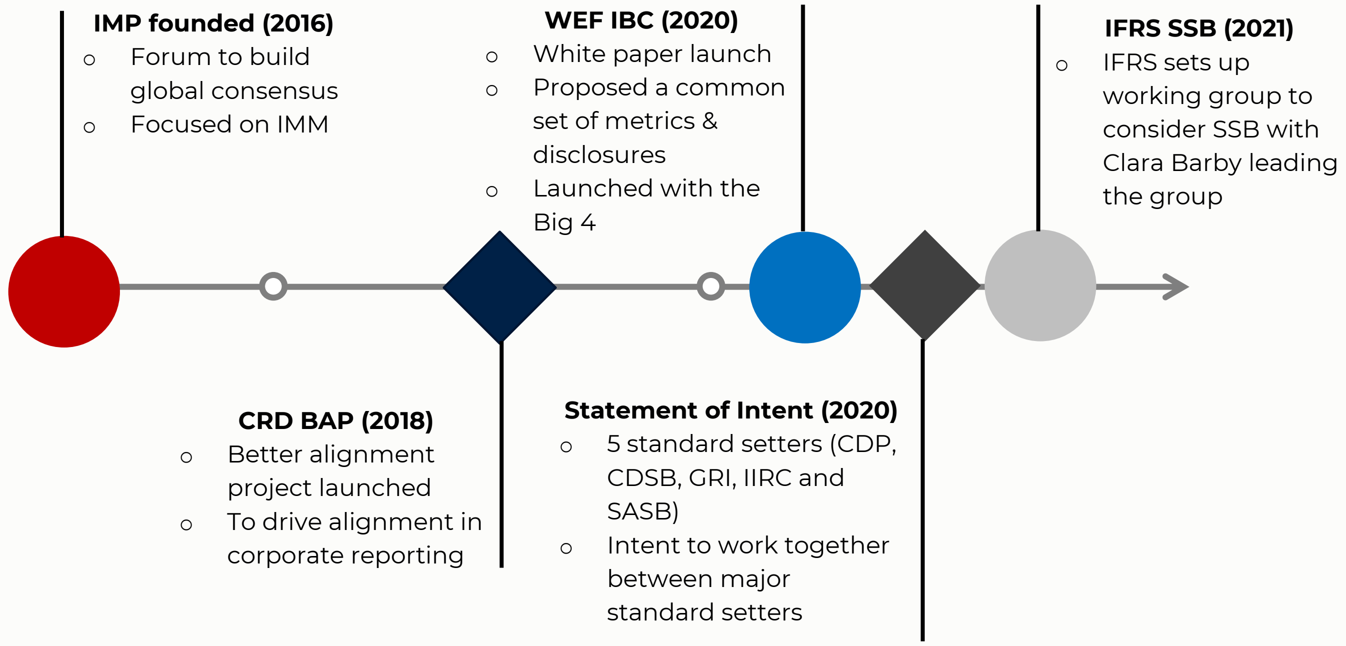


FIGURE 8 Timeline of major harmonisation efforts (non-exhaustive)

To solve this problem, harmonization efforts have sprung up in recent times. Through harmonisation, these efforts attempt to both unify different standards into one or create compatibility between different standards. *Figure 8* shows a timeline of these initiatives, with further details in *Appendix E*.

> "There is currently a lot of confusion amongst stakeholders in Asia such as philanthropy, investors etc. as they are confronted with various frameworks (the alphabet soup). It is counterproductive."
>
> Kevin Teo (2021)
> Interviewee & COO
> AVPN

While industry consensus around each subsequent harmonisation effort seems to be growing, both by the number of players and their significance, it is still too early to tell if any effort would be successful in fully harmonising the alphabet soup.

Despite the benefits of such harmonisation efforts, our interviews caution against the mechanical pursuit of harmonisation as these efforts threaten to focus on outputs and technical details while ignoring on-ground realities and their implications on those collecting the impact data. There is a real chance such efforts might result in a vicious cycle of standards that miss the "human" element (6VC) in *Figure 6*, focusing solely on measurement and not the materiality of impact data. Instead, the harmonisation of such approaches should strive to marry what practitioners on the ground are doing with actual outcomes and what is material to impact decision making for impact investors.

With input from:

3.5. Cluster 3: Assurance, Transparency, and Disclosure

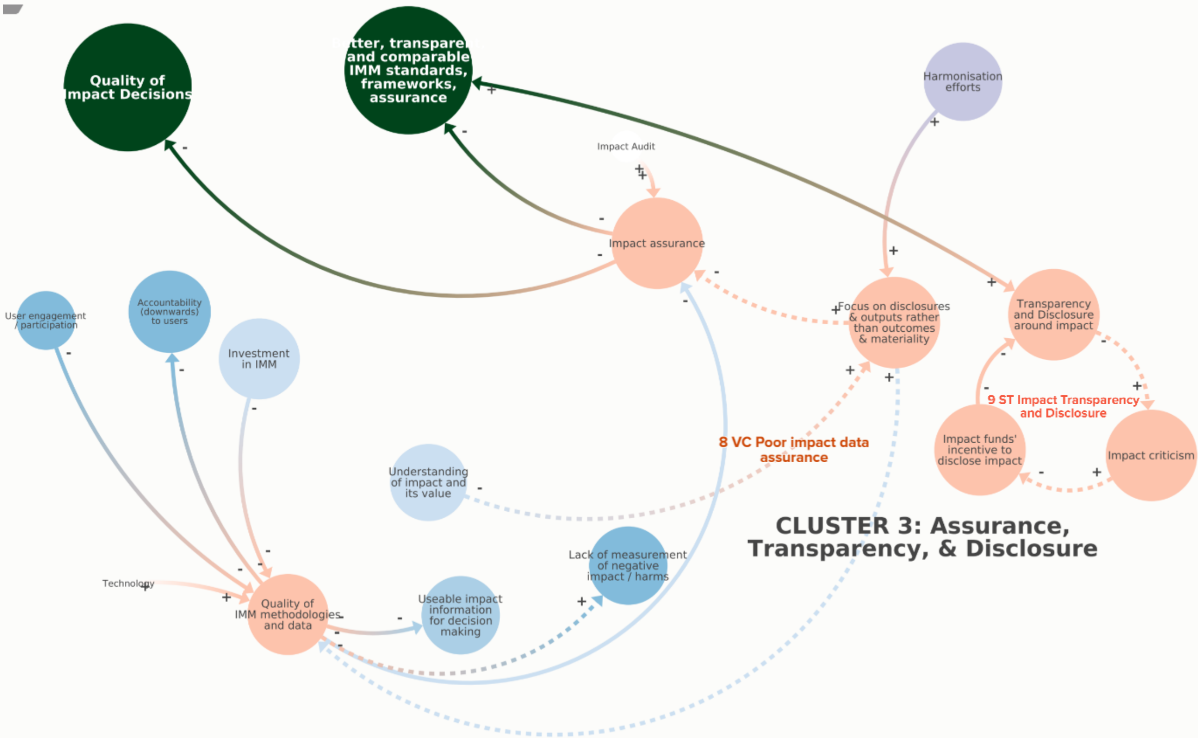


FIGURE 9 Cluster 3 – Assurance, Transparency and Disclosure

Cluster 3, in *Figure 9*, is centred around impact assurance, transparency, and disclosure. As our interviewee, Veronica Olazabal, pointed out, “Transparency is a central issue because many see impact investing as just impact washing. If there’s a better understanding of transparency and third-party verification, it would help create a starting point.” (2021)

There are two loops to note here. First is a vicious cycle of poor impact data and assurance (8VC). While the harmonisation efforts are an improvement over the previous alphabet soup status quo, the centring of reporting as the principal purpose of the IMM system, as argued by our interviewees, has resulted in a strong focus on disclosures and outputs. This has led to poorer quality of IMM methodologies being used to gather data and establish causal pathways. In turn, this results in data that is less material to impact decision making as impact investors are unable to use this data to inform their decisions around expected outcomes. Today, RCTs and other non-experimental designs are commonly perceived by the industry as too academic, expensive, and impractical. While some merit might lie in these critiques, no alternative methods that generate quality impact data have arisen. Overall, this leads to poor impact assurance within the sector.

Instead, our interviewees have argued that the principal purpose of IMM should centre around decision making – to help decision-makers make better impact decisions. By doing so and focusing on measuring and managing the outcomes that are most important to end-users, the IMM system would serve its purpose in informing impact decision making. This way, the purpose of the impact assurance process would be to help close the principle-agent gap between end-users and impact investors. By publicly disclosing and assuring the impact of a particular investment on end-users, all stakeholders would know if impact fund managers are acting in the interests of end-users and stakeholders.

The second loop in Cluster 3 is the stagnating cycle of impact transparency and disclosure (9ST). As Cluster 1 and 2 illustrated, regulations and better IMM standards have contributed to greater impact transparency and comparability between IMM standards. Despite such improvements, practitioners we interviewed commented that the current level of disclosure from impact funds remains inadequate. Such low transparency and disclosure have been critiqued extensively by industry commenters (Dominy, 2020).

While this is intended to get impact funds to disclose their impact, those we interviewed have argued that it has the result of achieving the opposite effect – pushing funds away from further disclosure. After all, with their incentives not tied to impact rewards or incentives, the disclosure of their actual impact (which is likely limited) only opens room for further critique. This closes and feeds the loop, reducing transparency and disclosure further.

Compared to the previous two clusters that are more beneficial to the overall IMM system, cluster 3 seems to be regressive. However, our interviewees seem to be optimistic that this would be the next frontier for change within IMM.

> "People aren't going to be transparent because it is the right thing to do. The question is how do you motivate them to be more transparent."
>
> Veronica Olazabal (2021)
> Interviewee, Senior Advisor, & Director
> The Rockefeller Foundation

With input from:

3.6. Cluster 4: Impact Knowledge, Incentives, and Risk

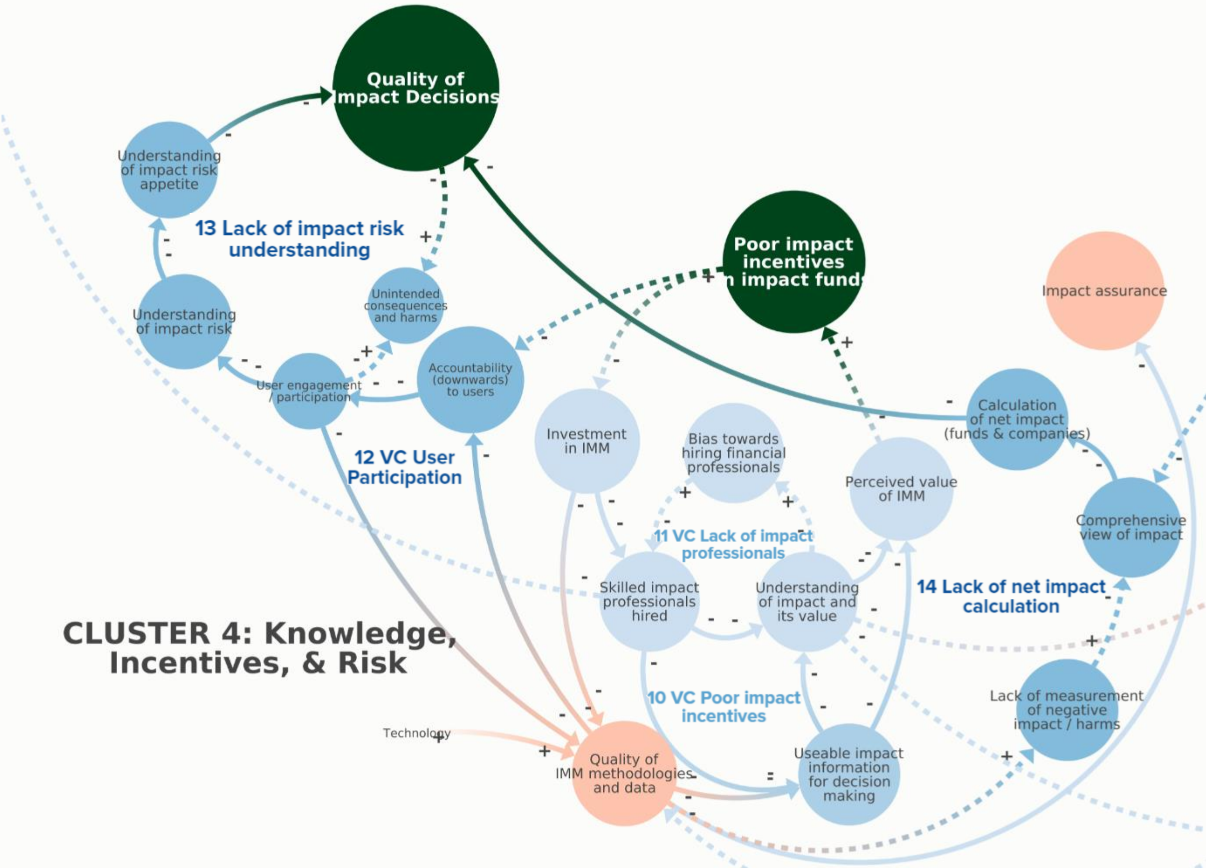


FIGURE 10 Cluster 4 – Impact Knowledge, Incentives, and Risk

Cluster 4 examines the implications of poor impact knowledge, incentives, and risk understanding within impact funds in *Figure 10*.

The <u>vicious cycle of poor impact incentives (10VC)</u> begins from the lack of financial incentives that make impact investors reluctant to put resources into IMM. This translates to a shortage of skilled impact professionals being hired (GIIN, 2019) and poor quality IMM methods being used. Together, this results in poor quality impact information being fed to impact investors that are of little use for decision making (So & Capanyola, 2016). In the words of David Carlin (2021), "you cannot have a part-time sustainability department of three who also serve marketing". This leads to poor impact data, with David quipping that "companies don't collect these (impact) data internally, let alone external (data)". Such poor impact data is of little use for decision making and investors, further lowering its perceived value and impact investors' incentive to allocate more resources to IMM.

With input from:

> "It is hard to tell the impact investing story unless you invest more resources. And the unfortunate fact of the space is that they don't. The reality on the ground is that impact investors should be budgeting for impact needs... The question is who funds and takes the responsibility is kind of the fundamental question in the space."
>
> Urmi Sengupta (2021)
> Senior Program Officer
> MacArthur Foundation

Loop 10's vicious cycle is reinforced by the vicious cycle that leads to fewer impact professionals being hired (11VC). Unfortunately, it is all too common for impact investors to have a bias towards hiring those with finance backgrounds, but not impact, espoused by Laura Cochrane (How to Get a Job in Impact Investing, 2018) from Blue Haven. With fewer skilled impact professionals, coupled with low investments in IMM, impact funds and the ecosystem are less likely to understand impact and the value it provides. In turn, this reinforces the bias towards hiring investment rather than impact professionals.

These vicious loops reinforce each other and have severe implications for the delivery of impact. Not only does it produce impact information with limited use for impact investors, but it also results in the lack of impact assurance, impact washing, and possible harm to end-users.

3 more loops are present in this cluster. In 12VC is the vicious cycle of decreasing user participation (12VC). The poor impact incentives of funds mean that they are not accountable for impact and to the end-users their decisions impact. The simple fact is that end-users, those that are supposedly experiencing the impact of impact investing, has very little power throughout the investment process. This lack of power means that impact funds and their investees have no need or incentive to engage with end-users while they do their work. Coupled with the fact that such participatory methods are usually more expensive, troublesome, and time-consuming (Guijt, 2014) than other forms of impact measurement, this results in decision-makers unwilling to adopt such approaches that might yield better impact data, information, and overall impact.

The lack of understanding around impact risk (13) is another significant region within Cluster 4. Impact risk here refers to "the likelihood that impact will be different than expected, and that the difference will be material from the perspective of people or the planet who experience impact" (Project, 2018). The lack of end-user engagement and power throughout the investment process from loop 12VC leads to, as argued by our interviewees, an increased risk of harm on stakeholders and a lack of understanding of impact risk. Without engaging benefiting stakeholders, it is impossible to understand the impact risk of an intervention, let alone understand the impact risk tolerance of these stakeholders. Such tolerance refers to benefiting stakeholders' appetite for the riskiness of interventions being placed upon them. Just as the financial risk tolerance of investors (the financial benefactors of investments) are considered throughout any investment process, the impact risk tolerance of benefitting stakeholders (the impact benefactors of investments) should also be considered throughout the investment process. Unfortunately, this is not being done today. This lack of understanding of impact risk and risk tolerance nor their consideration during the impact investment process, in turn, leads to poor quality impact decisions being made.

The final significant region within Cluster 4 is <u>investor's lack of calculation around the net impact of their investment (14)</u>. Net impact here refers to the accumulated positive and negative impacts of a particular investment, weighed against each other to reach a final impact value. This is important as each investment has numerous outcomes and impacts, both positive and negative. Without a comprehensive understanding of the total impact of each investment and its net effect on stakeholders, impact investors would not have a true picture of the outcomes and impact of an investment. Currently, impact investors, even the leading ones, do not consider the overall impact of their investments, often focusing on one or two significant outcomes (Ronald Cohen, 2020). This problematic behaviour means that investors do not have a good picture of the impact of their decision making, resulting in poor impact decision making.

On the whole, cluster 4 follows cluster 3 as one that points towards a worrying future for the overall system. The various vicious cycles reinforce each other to result in poor impact decisions being made by impact investors. Going forward, we argue that these clusters are where more effort and attention should be placed by stakeholders to move the system. Our analysis and recommendations will follow in subsequent sections.

3.7. Cluster 5: Impact-finance trade-offs

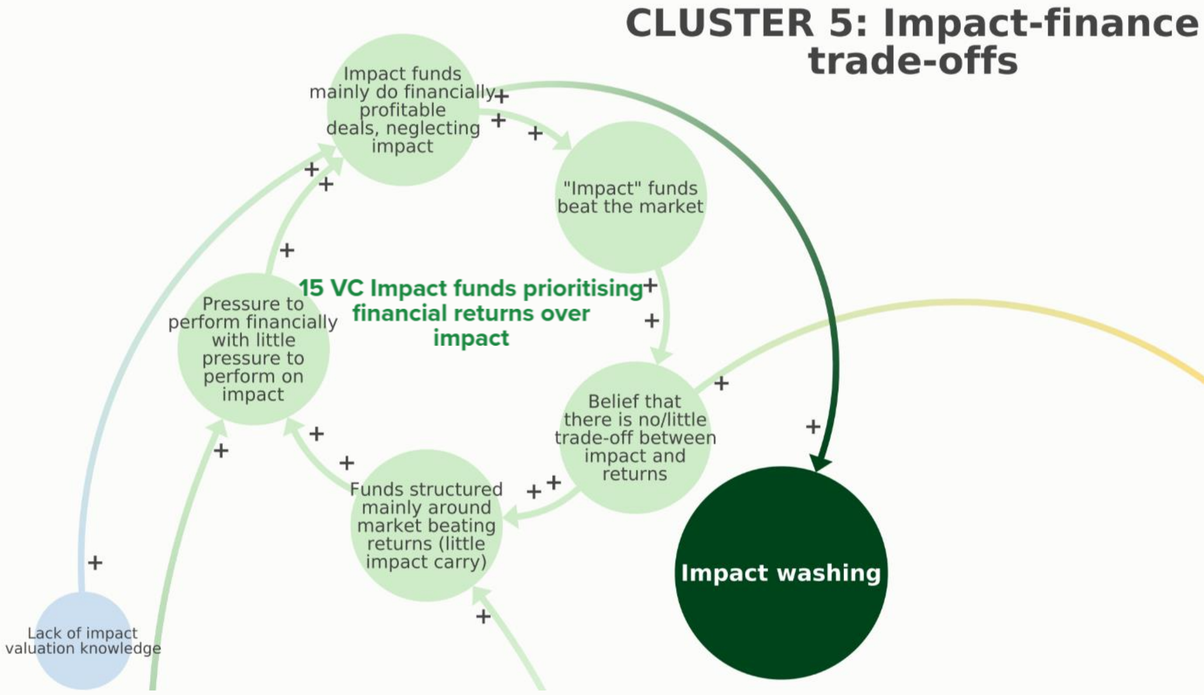


FIGURE 11 Cluster 5 – Impact-finance trade-offs

Finally, Cluster 5 deconstructs the vicious cycle that pressures impact funds to prioritise financial returns over impact (12VC). Since the dawn of impact investing, there has been the debate whether there are trade-offs between impact and returns. This appears to be a myth, with evidence mounting as more impact funds deliver market-beating returns (Tridos Investment Management, 2020). Indeed, a meta-analysis of over 2,000 studies has shown a non-negative ESG and financial return relation. Altogether, this has led to an increasing perception in the market that there is little to no trade-offs between impact and returns, resulting in many new funds with market matching or beating mandates.

On the other side of the debate is the case that the financial results of impact funds that many proponents point to have had dubious claims to impact (Warwick, DiLeo, & Polak, 2015). In a recent scathing article, the former CIO for sustainable investing of BlackRock lambasted the sustainable investing movement as a "deadly distraction" that has no effect – especially when investment managers remain legally obligated and financially incentivised to focus on returns rather than impact (Fancy, 2021).

Regardless of which side of the debate one might land, it is difficult to question the facts – most impact funds have market matching or beating mandates, but scant few have their incentives tied to impact metrics or "impact carry" (GIIN, 2011), (Asok, 2018). Instead, the vast majority follow conventional venture capital or private equity fund structures of 2/20 compensation, closed-end funds, and an equity focus.

It could be argued then that, with their compensation tied to financial performance, most funds and managers are pressured to prioritise financial performance over impact when push comes to shove. With numerous funds coming into the market and good deals becoming evermore competitive to get into, managers are likely to focus on deals that can hit their financial return expectations, even if they might fall short on impact. This creates the vicious cycle seen in *Figure 11* where impact funds can report market-beating performance but not create significantly better outcomes than other types of funds.

With input from:

3.8. Our Focal Point: Quality of Impact Decisions

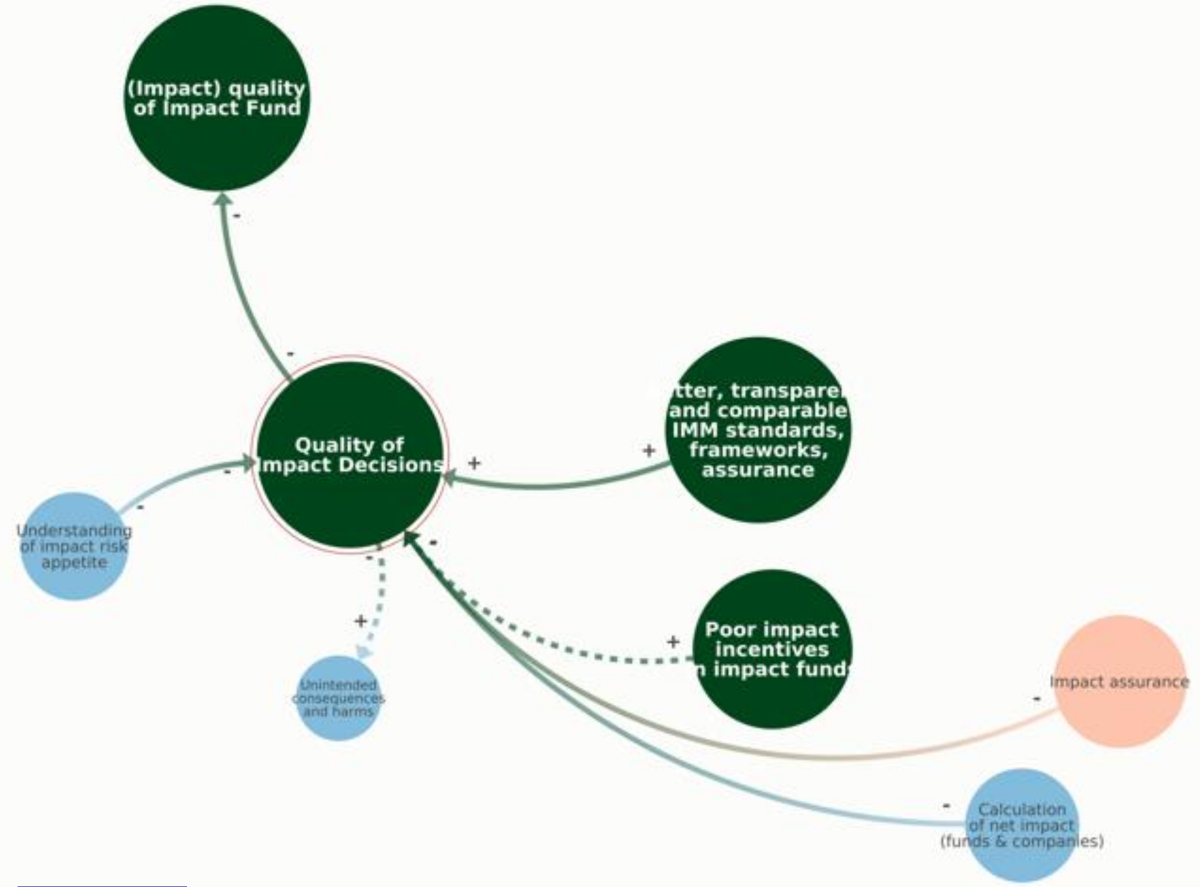


FIGURE 12 Critical points for converting cycles from vicious to virtuous

As convenors in impact investing, our leverage comes from our ability to promote the improved quality of impact decisions by market participants. Decision making is highly influenced by incentives at the fund level which are, in turn, supported by funds' investment in their IMM systems and the ability of decision-makers to gain assurance over these decisions. Harmonization efforts, while important to the effectiveness and understandability of these systems, are just one piece of the puzzle.

Ultimately, these impact decisions have to include users' voices through their engagement and participation. Their participation would help answer questions from impact risk to harms. Unless there is actual accountability to them within the investment process, good quality impact decisions would not be made.

Regulatory interventions to promote the disclosure and reporting of impact offer an effective and feasible way to mandate user engagement. The full set of leverage points identified is shown in Figure 13.

With input from:

4. Leverage Points

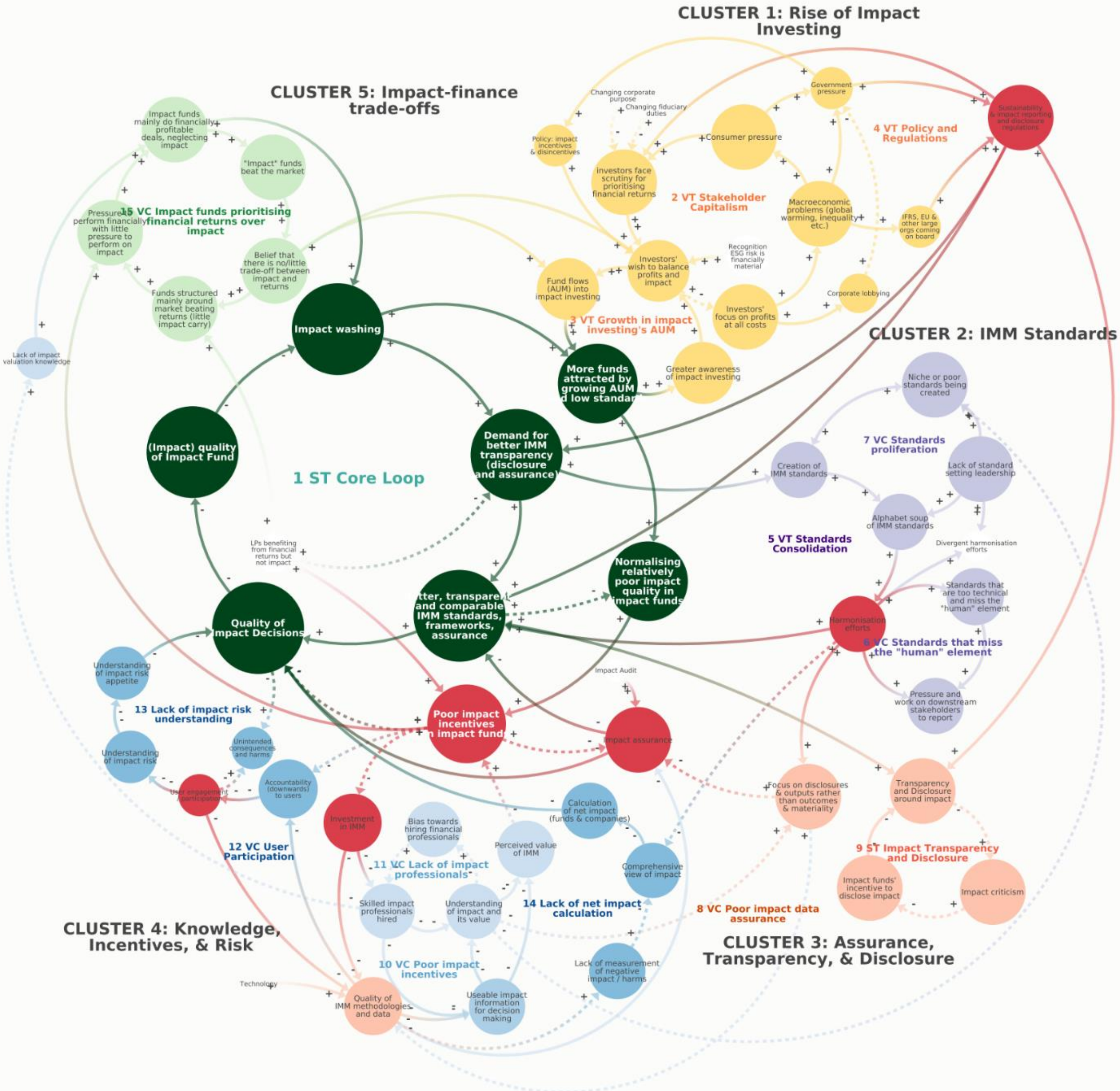


FIGURE 13 Leverage points identified

One of the purposes of systems mapping is to identify leverage points within complex systems. These are areas of intervention that would have an outsized impact on changing the system.

To flip the core loop, we identified key leverage points that affect impact decision making, highlighted in red in *Figure 13*, whose changes would ripple across the whole system.

> "One of the biggest levers is policy around disclosure and reporting in order to incentivise and drive behaviours towards disclosure – they would help a lot"
>
> Veronica Olazabal (2021)
> Interviewee, Senior Advisor, & Director
> The Rockefeller Foundation

With input from:

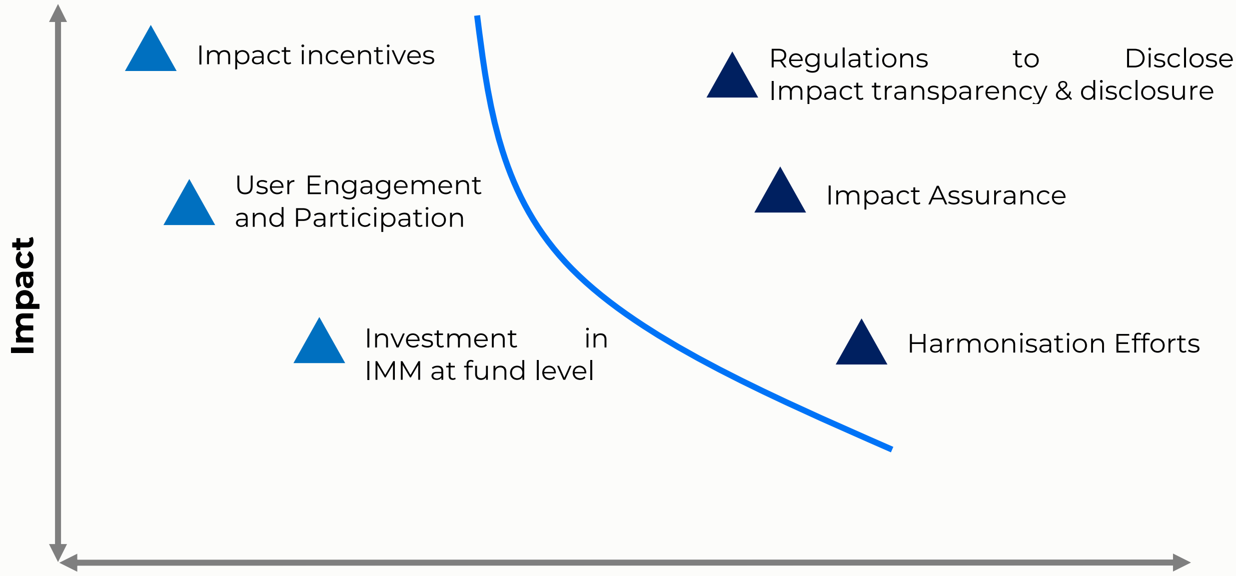


FIGURE 14 Leverage points: Impact-Feasibility Matrix

Each leverage point is mapped onto the impact-feasibility matrix shown above in *Figure 14*. Whilst we have discussed issues of incentives, skills, quality, and harmonization of IMM, the highest-impact leverage point referenced by IMM professionals and subject matter experts we interviewed was **codifying legal mandates or regulatory frameworks that can promote the disclosure of impact reporting.**

However, with an appreciation for the myriad challenges inherent to transnational cooperation, the large and growing number of self-regulatory organisations responsible for corporate reporting, we focused on recommendations and use cases that might ensure more immediate solutions than advocating for wholesale overhauls of global reporting standards. To avoid exacerbating the "alphabet soup," we uplift governance models across sovereign jurisdictions that can consistently enforce impact disclosure and reporting.

"All roads seem to lead straight back to government and policy...whether at the local or global level"

Alasdair Maclay (2021)
Interviewee & CFO
GSG

These examples provide pathways to improved impact assurance that, we think, both supports and is well-supported by the growing international movement to form National Advisory Boards for impact investing. If nation-states and federated bodies can draw on effective frameworks and structures from other geographies, their internal efforts to align incentives toward increased integrity and transparency can be accelerated significantly.

6. Case Studies

Because the authors represent and have familiarity with various impact regulations across their respective countries of origin and work, we provided a selection of exemplars from multiple geographies: the European Union, Japan, the United Kingdom, and the United States.

Case Study A: United States: B Corps

In the United States, certifying body B Lab launched a now-global movement focused on incentivizing companies to voluntarily submit to ongoing analysis the social and environmental affects of their operations. For applicant and recertifying companies, B Lab provides routine assessments that take multiple social and environmental factors into consideration – from treatment of workers and investments in local communities to quality of products. The process of qualifying for and maintaining the voluntary B Corps status involves submitting to third-party audits and recertification every three years.

Following the meteoric rise of the B Corps movement, a new corporate governance model evolved across the U.S. as a legal mechanism to codify the B Corps mission into a company's DNA: the Benefit Corporation. While mandates and sanctions vary across the 37 states that have adopted a PBC structure since their inauguration in 2013, the baseline requirements are meant to ensure that for-profit companies enshrine social missions in their charters, thus protecting their abilities to make decisions privileging the interests of stakeholders over or alongside shareholders. Across their varying inculcations in each of these localities, all PBCs are publicly committed to 1) assessing their overall social and environmental performance on a yearly basis using an independent third-party standard (and one that has been developed by an entity that has no material financial relationship with the PBC), and 2) reporting this performance to shareholders and the public in an annual benefit report. Functionally, then, PBC governance provides a provisional template for accountability and impact assurance. Still, there is room for further augmentation in the prescriptive frameworks and reporting requirements PBCs use advance impact integrity.

Going forward, participating states can improve the efficacy of public reporting in PBCs by strengthening the enforcement of reporting requirements. Mandatory filing and publication of performance reports within tighter timelines, coupled with sanctions that affect a corporation's eligibility for PBC status, can both limit the costs and enhance the quality of reporting. This will eliminate the risk of impact-washing and improve public understanding of and expectations for both private and publicly-traded PBCs. Ultimately, with "purpose" more stringently defined amongst other corporate requirements, PBC status can help investors verify and accelerate discovery of companies that meet basic standards of impact assurance.

Case Study B: EU Taxonomy

The EU Action Plan on Financing Sustainable Growth in 2018 set out a strategy to integrate ESG factors into the investment process and steer private capital towards a low-carbon economy. The EU Taxonomy is part of this plan, providing a common language and uniform criteria to identify which economic activities may be considered environmentally sustainable through a set of technical screening criteria. Financial market participants will be required to complete their first set of disclosures against the Taxonomy by 31st Dec, 2021.

Under the EU Taxonomy, environmentally sustainable activities must

1) make a substantive contribution to one of six environmental objectives (climate change mitigation, adaptation, protection of water and marine resources, circular economy transition, pollution prevention and control, protection and restoration of biodiversity and ecosystems)
2) Do no significant harm to the other five
3) Meet minimum safeguards.

All companies with more than 500 employees are required to provide a non-financial statement under the Non-Financial Reporting Directive and are subject to the Taxonomy Regulation. This basically covers all large public-interest companies, including listed companies, banks and insurance companies. They are required to include a description of how, and to what extent, their activities are Taxonomy-aligned. The proportion of turnover aligned with the Taxonomy and Capex or Opex aligned with the Taxonomy are two key metrics required to be disclosed as part of the non-financial statement.

EU Taxonomy provides an explicit framework and guidance to investment funds and companies seeking clarity in whether a certain technology, product or service can be identified as 'environmentally sustainable' and reduce 'greenwashing' risks.

It also provides a new metric for financial market participants to benchmark their sustainability performance against their peers, for example through the proportion of their underlying investments that are EU Taxonomy-aligned, expressed as a percentage of the investment, fund or portfolio.

Serving as a tool for evaluating the sustainability-related merits of an investment, EU Taxonomy is likely to create ripple effects, influencing international reporting frameworks beyond 'green' activities over time.

Case Study C: Japan Dormant Deposit

In 2018, Act on Utilization of Funds Related to Dormant Deposits to Promote Public Interest Activities by the Private Sector was enacted in Japan. Dormant deposits would be utilized to promote social purpose activities [Cabinet Office, Outline of the Act on Utilization of Funds Related to Dormant Deposits to Promote Social Purpose Activities, 2018]. These funds can be provided as grants, loans, and investment. In the basic policy, it is required for these funds to measure their impacts so as to be accountable to the public and improve outcomes. It is required that the Designated Utilization Organization (Japan's impact wholesaler) must conduct self-evaluation of its own activities in addition to the formulation of "evaluation guidelines" that serves as the evaluation policy of the Scheme as a whole.

Although there was some opposition to making impact measurement mandatory because of its cost, it was decided that for the time being the cost of impact measurement would also be funded from dormant deposits. In order to foster a culture of impact measurement, the cost of impact measurement needs to be subsidised and the benefits of impact evaluation need to be understood.

Case Study D: UK Regulatory Landscape

In the UK, the ICAEW and other independent financial reporting regulators are already taking steps towards overseeing that the recommendations of the TCFD are implemented by members and should work with the likes of IMP to provide more substantive guidance on impact reporting. Similar to B Corps, Community Interest Companies also represent an existing framework which could be expanded to increase impact reporting among public companies. For public companies, the SEC in the US and the FRC in the UK should mandate the use of specific IMM frameworks to add weight to them and encourage their further development and harmonization. For example, the oversight of B Corps by certification body B Lab provides a blueprint for the integration of the SDGs into business processes and reporting, whilst monitoring and auditing could be provided by the assurance firms.

With input from:

7. Insights and Lessons Learned

From the outset, our "guiding star" led us to an array of unexpected recommendations, and takeaway conversations. Our hypotheses initially had a heavy bent toward solving the "alphabet soup" of IMM standards. We were under the collective impression that, by accelerating and advancing a global harmonisation effort, standard-setters would organically get behind this movement for its import and urgency – both to continue increasing investments into impact worldwide and to legitimize impact investing in the eyes of institutional investors, governments, and other powerful decision-makers.

> "The current harmonization efforts is very important and forms a virtuous cycle. They are not interfering with each other and are all leading in the right direction with the right players speaking with each other."
>
> Kevin Teo (2021)
> Interviewee & COO
> AVPN

Instead, most of our conversations with IMM subject matter experts and impact investment champions unveiled that, rather than standardisation, their more urgent priority is enforceable impact reporting and disclosure. Many considered the proliferation of IMM standards unproblematic so long as coherent communication and transparency around outcomes and methods provide the necessary learnings to advance real net-positive change in investment practice. In their views, most institutional investors looking to increase their exposure to impact assets cannot lead on standards. Further, funds are known for their unique lenses, motivations, and theses – the latter is often a point of pride and well-publicized differentiator. Conversely, by improving disclosures and reporting practices, funds can empower GPs, LPs, portfolio companies and the public to truly and better understand the impact of investments.

From the selection of use cases shared above, we aimed to provide just a sample of ways in which a diversity of nation-states or federated bodies, and their respective regulators, can create locally grounded and enforceable systems for impact disclosure, reporting and transparency. Additionally, we think the potential for utility and adaptation of learnings from these exemplars is enhanced when considered in concert with the robust, growing movement around and international interest in convening champions for and practitioners of impact investment through GSG-supported national and regional advisory boards. When coupled with active cross-sectoral initiatives spearheaded by committed and knowledgeable leaders, we believe widespread adoption of efficient enforcement frameworks can be rapidly accelerated. In turn, increased impact assurance will both minimize impact-washing and increase global recognizability of impact investing through the lens of its best practices, legitimate leadership, and truest success stories.

> "We're spending too much time on the committing and organising, but we need to shift from commitment to action – where impact measurement comes up and where the rubber meets the road."
>
> David Carlin (2021)
> Interviewee & TCFD Lead
> UNEP FI

These findings fundamentally changed the course of our learning journey and our systems map's shape. Through our partnership with the GSG, we will continue soliciting feedback from practitioners to further refine and synthesize findings from and for our systems map. Finally, working alongside the GSG, we intend to publicize our findings and present our research to an international audience of impact investment leaders at the 2021 GSG annual Global Impact Summit this fall.

With input from:

Bibliography

Acaroglu, L. (2017). *Tools for Systems Thinkers: The 6 Fundamental Concepts of Systems Thinking*. Retrieved from Medium: https://medium.com/disruptive-design/tools-for-systems-thinkers-the-6-fundamental-concepts-of-systems-thinking-379cdac3dc6a

Alford, C. (2017). *How systems mapping can help you build a better theory of change*. Retrieved from Kumu: https://blog.kumu.io/how-systems-mapping-can-help-you-build-a-better-theory-of-change-4c85ae4301a8

Asok, A. (2018, June 18). *Impact Carry: A carrot-based approach to boosting the impact of impact investments*. Retrieved April 1, 2021, from https://impactalpha.com/impact-carry-a-carrot-based-approach-to-boosting-the-impact-of-impact-investments/

Barker, R., Eccles, R. G., & Serafeim, G. (2020, December). The Future of ESG Is... Accounting? *Harvard Business Review*.

BlueMark. (2021). *BlueMark launches benchmark for best practices in impact management*. Retrieved from Institutional Asset Manager: https://www.institutionalassetmanager.co.uk/2021/05/10/299973/bluemark-launches-benchmark-best-practices-impact-management

Bridges Fund Management. (2015, November). *The Bridges Spectrum of Capital: How we define the sustainable and impact investment market*. Retrieved from https://www.bridgesfundmanagement.com/wp-content/uploads/2017/08/Bridges-Spectrum-of-Capital-screen.pdf

Cabinet Office, J. G. (2018). *Basic Policy on Utilization of Funds Related to Grants Funded by Dormant Deposits.*

Cabinet Office, J. G. (2018). *Outline of the Act on Utilization of Funds Related to Dormant Deposits to Promote Social Purpose Activities.*

Certified B Corporation. (2021). *GRI and B Lab team up on impact management*. Retrieved March 27, 2021, from https://bcorporation.net/news/gri-and-b-lab-team-impact-management-0

Cochrane, L. S. (2018, February 6). *How to Get a Job in Impact Investing*. Retrieved April 1, 2021, from medium.com: https://medium.com/blue-haven-initiative/how-to-get-a-job-in-impact-investing-c4fcc9be9e5

Corporate Reporting Dialogue. (2021). *Corporate Reporting Dialogue*. Retrieved Apri 1, 2021, from https://corporatereportingdialogue.com/

Dinh, T., & Lee, A. (2021, March 16). *Leading Impact Investors Make Progress Toward Harmonized Impact Measurement with Release of Joint Indicators.* Retrieved from IFC: https://pressroom.ifc.org/all/pages/PressDetail.aspx?ID=26260

Dominy, J. (2020). *Focus on transparency to make an impact through investing*. Retrieved from Research Finance: https://researchinfinance.co.uk/focus-on-transparency-to-make-an-impact-through-investing/

Fancy, T. (2021, March 25). *BlackRock hired me to make sustainable investing mainstream. Now I realize it's a deadly distraction from the climate-change threat*. Retrieved April 1, 2021, from The Global and Mail: https://www-theglobeandmail-com.cdn.ampproject.org/c/s/www.theglobeandmail.com/amp/business/commentary/article-sustainable-investing-is-a-deadly-distraction-from-actually-averting/

FT Adviser. (2020, November 6). *Impact investing: What is your money really funding?* Retrieved April 1, 2021, from FT Adviser: https://www.ftadviser.com/investments/2020/11/06/impact-investing-what-is-your-money-really-funding/

GIIN. (2011). *Impact-Based Incentive Structures*. Global Impact Investing Network. Retrieved April 1, 2021, from https://thegiin.org/assets/documents/pub/impact-based-incentive-structures-aligning-fund-manager-comp.pdf

GIIN. (2019). *Annual Impact Investor Survey*. Global Impact Investing Network.

GIIN. (2020). *Annual Impact Investor Survey*. Global Impact Investing Network. Retrieved April 1, 2021, from https://thegiin.org/assets/GIIN%20Annual%20Impact%20Investor%20Survey%202020.pdf

GIIN. (2021). *IRIS+*. Retrieved March 27, 2021, from https://iris.thegiin.org/

GIIN. (2021). *What is impact investing?* Retrieved April 1, 2021, from https://thegiin.org/impact-investing/need-to-know/

Global Sustainable Investment Alliance. (2019). *Global Sustainable Investment Review*. Global Sustainable Investment Alliance. Global Sustainable Investment Alliance.

Gornitzka, Charlotte Petri; Wilson, Gavin E.R. (2020, January 1). *Charting the course for SDG financing in the decade of delivery*. Retrieved April 21, 2021, from World Economic Forum: https://www.weforum.org/agenda/2020/01/unlocking-sdg-financing-decade-delivery/

Guijt, I. (2014). *Participatory Approaches*. Retrieved from UNICEF: https://www.unicef-irc.org/publications/pdf/brief_5_participatoryapproaches_eng.pdf

Hand, D., Dithrich, H., Sunderji, S., & Nova, N. (2020). *Annual Impact Investor Survey*. Global Impact Investing Network.

Heather Madden, I. O. (2020). *Systems Mapping - a brief overview of what, why and how (Part 1)*. Retrieved from UK Ministry of Justice: https://mojdigital.blog.gov.uk/2020/06/02/systems-mapping-a-brief-overview-of-what-why-and-how-part-1/

IFRS. (2021). *IFRS Foundation Trustees announce working group to accelerate convergence in global sustainability reporting standards focused on enterprise value*. Retrieved April 1, 2021, from https://www.ifrs.org/news-and-events/2021/03/trustees-announce-working-group/

IMP. (2021). *Impact Management Project*. Retrieved April 1, 2021, from https://impactmanagementproject.com/

Impact Management Project. (2020, September 11). *Statement of intent to work together towards comprehensive corporate reporting*. Retrieved March 27, 2021, from https://impactmanagementproject.com/

Meadows, D. (1999). *Leverage Points: Places to Intervene in a System*. The Sustainability Institute, Hartland, VT.

Mudaliar, A., & Dithrich, H. (2019). *Sizing the Impact Investing Market*. Global Impact Investing Network. Global Impact Investing Network.

Network, O. (2017). *Systems Practice*. Retrieved from Kumu: https://docs.kumu.io/content/Workbook-012617.pdf

OECD. (2019). *Impact Investment needs global standards and better measurement*. Retrieved from OECD: https://www.oecd.org/newsroom/impact-investment-needs-global-standards-and-better-measurement.htm

O'Flynn, P., & Higdon, G. L. (2019, September 19). *Is participatory impact investing the antidote to "impact washing"?* Retrieved April 2, 2021, from https://www.ids.ac.uk/opinions/is-participatory-impact-investing-the-antidote-to-impact-washing/#:~:text=billion%20US%20dollars.-,As%20impact%20investing%20becomes%20more%20prominent%20and%20the%20market%20matures,positive%20social%20or%20environmental%20

Project, I. M. (2018). *Risk*. Retrieved from Impact Management Project: https://impactmanagementproject.com/impact-management/impact-management-norms/risk/#:~:text=Impact%20risk%20is%20the%20likelihood,the%20planet%20who%20experience%20impact.

Ronald Cohen, G. S. (2020). *How to measure a company's real impact*. Retrieved from HBR: https://hbr.org/2020/09/how-to-measure-a-companys-real-impact

Schwartzkopff, F. (2021, March 9). *Global Securities Watchdog Targets Greenwashing.* Retrieved April 1, 2021, from Bloomberg: https://www.bloomberg.com/news/articles/2021-03-09/climate-fakes-are-target-in-new-global-plan-for-data-disclosure

So, I., & Capanyola, A. S. (2016, May 16). How Impact Investors Actually Measure Impact. *Stanford Social Innovation Review*. Retrieved April 1, 2021, from Stanford Social Innovation Review: https://ssir.org/articles/entry/how_impact_investors_actually_measure_impact

TCFD. (2017). *Recommendations of the Task Force on Cliate-related Financial Disclosures.* Retrieved April 1, 2021, from https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf

The Corporate Reporting Dialogue. (2021). Retrieved March 27, 2021, from https://corporatereportingdialogue.com/

Tridos Investment Management. (2020). *Impact investing: choosing between impact and financial return?* Retrieved April 1, 2021, from https://www.triodos-im.com/knowledge-centre/choosing-between-impact-and-financial-return

Warwick, M., DiLeo, P., & Polak, P. (2015, January 7). *Do Impact Investors Expect Too Much?* Retrieved April 1, 2021, from https://ssir.org/articles/entry/do_impact_investors_expect_too_much#https://ssir.org/up_for_debate/article/impact_investing

World Economic Forum. (2020, September 22). *Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation*. Retrieved March 27, 2021, from https://www.weforum.org/reports/measuring-stakeholder-capitalism-towards-common-metrics-and-consistent-reporting-of-sustainable-value-creation

World Economic Forum. (2020, September 2). *Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation*. Retrieved April 1, 2021, from https://www.weforum.org/reports/measuring-stakeholder-capitalism-towards-common-metrics-and-consistent-reporting-of-sustainable-value-creation

Yee, E., Xiao, Z., Levinson, H., & Igarashi, T. L. (2021). Map the System Interviews: Impact Measurement & Management (IMM): An Evolving Ecosystem. *Map the System*. Saïd Business School, University of Oxford.

Acaroglu, L. (2017). *Tools for Systems Thinkers: The 6 Fundamental Concepts of Systems Thinking*. Retrieved from Medium: https://medium.com/disruptive-design/tools-for-systems-thinkers-the-6-fundamental-concepts-of-systems-thinking-379cdac3dc6a

Alford, C. (2017). *How systems mapping can help you build a better theory of change*. Retrieved from Kumu: https://blog.kumu.io/how-systems-mapping-can-help-you-build-a-better-theory-of-change-4c85ae4301a8

Asok, A. (2018, June 18). *Impact Carry: A carrot-based approach to boosting the impact of impact investments*. Retrieved April 1, 2021, from https://impactalpha.com/impact-carry-a-carrot-based-approach-to-boosting-the-impact-of-impact-investments/

Barker, R., Eccles, R. G., & Serafeim, G. (2020, December). The Future of ESG Is... Accounting? *Harvard Business Review*.

BlueMark. (2021). *BlueMark launches benchmark for best practices in impact management*. Retrieved from Institutional Asset Manager: https://www.institutionalassetmanager.co.uk/2021/05/10/299973/bluemark-launches-benchmark-best-practices-impact-management

Bridges Fund Management. (2015, November). *The Bridges Spectrum of Capital: How we define the sustainable and impact investment market*. Retrieved from https://www.bridgesfundmanagement.com/wp-content/uploads/2017/08/Bridges-Spectrum-of-Capital-screen.pdf

Cabinet Office, J. G. (2018). *Basic Policy on Utilization of Funds Related to Grants Funded by Dormant Deposits.*

Cabinet Office, J. G. (2018). *Outline of the Act on Utilization of Funds Related to Dormant Deposits to Promote Social Purpose Activities.*

Certified B Corporation. (2021). *GRI and B Lab team up on impact management*. Retrieved March 27, 2021, from https://bcorporation.net/news/gri-and-b-lab-team-impact-management-0

Cochrane, L. S. (2018, February 6). *How to Get a Job in Impact Investing*. Retrieved April 1, 2021, from medium.com: https://medium.com/blue-haven-initiative/how-to-get-a-job-in-impact-investing-c4fcc9be9e5

Corporate Reporting Dialogue. (2021). *Corporate Reporting Dialogue*. Retrieved Apri 1, 2021, from https://corporatereportingdialogue.com/

Dinh, T., & Lee, A. (2021, March 16). *Leading Impact Investors Make Progress Toward Harmonized Impact Measurement with Release of Joint Indicators.* Retrieved from IFC: https://pressroom.ifc.org/all/pages/PressDetail.aspx?ID=26260

Dominy, J. (2020). *Focus on transparency to make an impact through investing*. Retrieved from Research Finance: https://researchinfinance.co.uk/focus-on-transparency-to-make-an-impact-through-investing/

Fancy, T. (2021, March 25). *BlackRock hired me to make sustainable investing mainstream. Now I realize it's a deadly distraction from the climate-change threat*. Retrieved April 1, 2021, from The Global and Mail: https://www-theglobeandmail-com.cdn.ampproject.org/c/s/www.theglobeandmail.com/amp/business/commentary/article-sustainable-investing-is-a-deadly-distraction-from-actually-averting/

FT Adviser. (2020, November 6). *Impact investing: What is your money really funding?* Retrieved April 1, 2021, from FT Adviser: https://www.ftadviser.com/investments/2020/11/06/impact-investing-what-is-your-money-really-funding/

GIIN. (2011). *Impact-Based Incentive Structures*. Global Impact Investing Network. Retrieved April 1, 2021, from https://thegiin.org/assets/documents/pub/impact-based-incentive-structures-aligning-fund-manager-comp.pdf

GIIN. (2019). *Annual Impact Investor Survey*. Global Impact Investing Network.

GIIN. (2020). *Annual Impact Investor Survey*. Global Impact Investing Network. Retrieved April 1, 2021, from https://thegiin.org/assets/GIIN%20Annual%20Impact%20Investor%20Survey%202020.pdf

GIIN. (2021). *IRIS+*. Retrieved March 27, 2021, from https://iris.thegiin.org/

GIIN. (2021). *What is impact investing?* Retrieved April 1, 2021, from https://thegiin.org/impact-investing/need-to-know/

Global Sustainable Investment Alliance. (2019). *Global Sustainable Investment Review*. Global Sustainable Investment Alliance. Global Sustainable Investment Alliance.

Gornitzka, Charlotte Petri; Wilson, Gavin E.R. (2020, January 1). *Charting the course for SDG financing in the decade of delivery*. Retrieved April 21, 2021, from World Economic Forum: https://www.weforum.org/agenda/2020/01/unlocking-sdg-financing-decade-delivery/

Guijt, I. (2014). *Participatory Approaches*. Retrieved from UNICEF: https://www.unicef-irc.org/publications/pdf/brief_5_participatoryapproaches_eng.pdf

Hand, D., Dithrich, H., Sunderji, S., & Nova, N. (2020). *Annual Impact Investor Survey*. Global Impact Investing Network.

Heather Madden, I. O. (2020). *Systems Mapping - a brief overview of what, why and how (Part 1)*. Retrieved from UK Ministry of Justice: https://mojdigital.blog.gov.uk/2020/06/02/systems-mapping-a-brief-overview-of-what-why-and-how-part-1/

IFRS. (2021). *IFRS Foundation Trustees announce working group to accelerate convergence in global sustainability reporting standards focused on enterprise value*. Retrieved April 1, 2021, from https://www.ifrs.org/news-and-events/2021/03/trustees-announce-working-group/

IMP. (2021). *Impact Management Project*. Retrieved April 1, 2021, from https://impactmanagementproject.com/

Impact Management Project. (2020, September 11). *Statement of intent to work together towards comprehensive corporate reporting*. Retrieved March 27, 2021, from https://impactmanagementproject.com/

Meadows, D. (1999). *Leverage Points: Places to Intervene in a System*. The Sustainability Institute, Hartland, VT.

Mudaliar, A., & Dithrich, H. (2019). *Sizing the Impact Investing Market*. Global Impact Investing Network. Global Impact Investing Network.

Network, O. (2017). *Systems Practice*. Retrieved from Kumu: https://docs.kumu.io/content/Workbook-012617.pdf

OECD. (2019). *Impact Investment needs global standards and better measurement*. Retrieved from OECD: https://www.oecd.org/newsroom/impact-investment-needs-global-standards-and-better-measurement.htm

O'Flynn, P., & Higdon, G. L. (2019, September 19). *Is participatory impact investing the antidote to "impact washing"?* Retrieved April 2, 2021, from https://www.ids.ac.uk/opinions/is-participatory-impact-investing-the-antidote-to-impact-washing/#:~:text=billion%20US%20dollars.-,As%20impact%20investing%20becomes%20more%20prominent%20and%20the%20market%20matures,positive%20social%20or%20environmental%20

Project, I. M. (2018). *Risk*. Retrieved from Impact Management Project: https://impactmanagementproject.com/impact-management/impact-management-norms/risk/#:~:text=Impact%20risk%20is%20the%20likelihood,the%20planet%20who%20experience%20impact.

Ronald Cohen, G. S. (2020). *How to measure a company's real impact*. Retrieved from HBR: https://hbr.org/2020/09/how-to-measure-a-companys-real-impact

Schwartzkopff, F. (2021, March 9). *Global Securities Watchdog Targets Greenwashing.* Retrieved April 1, 2021, from Bloomberg: https://www.bloomberg.com/news/articles/2021-03-09/climate-fakes-are-target-in-new-global-plan-for-data-disclosure

So, I., & Capanyola, A. S. (2016, May 16). How Impact Investors Actually Measure Impact. *Stanford Social Innovation Review*. Retrieved April 1, 2021, from Stanford Social Innovation Review: https://ssir.org/articles/entry/how_impact_investors_actually_measure_impact

TCFD. (2017). *Recommendations of the Task Force on Cliate-related Financial Disclosures.* Retrieved April 1, 2021, from https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf

The Corporate Reporting Dialogue. (2021). Retrieved March 27, 2021, from https://corporatereportingdialogue.com/

Tridos Investment Management. (2020). *Impact investing: choosing between impact and financial return?* Retrieved April 1, 2021, from https://www.triodos-im.com/knowledge-centre/choosing-between-impact-and-financial-return

Warwick, M., DiLeo, P., & Polak, P. (2015, January 7). *Do Impact Investors Expect Too Much?* Retrieved April 1, 2021, from https://ssir.org/articles/entry/do_impact_investors_expect_too_much#https://ssir.org/up_for_debate/article/impact_investing

World Economic Forum. (2020, September 22). *Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation.* Retrieved March 27, 2021, from https://www.weforum.org/reports/measuring-stakeholder-capitalism-towards-common-metrics-and-consistent-reporting-of-sustainable-value-creation

World Economic Forum. (2020, September 2). *Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation.* Retrieved April 1, 2021, from https://www.weforum.org/reports/measuring-stakeholder-capitalism-towards-common-metrics-and-consistent-reporting-of-sustainable-value-creation

Yee, E., Xiao, Z., Levinson, H., & Igarashi, T. L. (2021). Map the System Interviews: Impact Measurement & Management (IMM): An Evolving Ecosystem. *Map the System*. Saïd Business School, University of Oxford.

Appendices:

Appendix A: Iceberg Model

Events

- Alphabet soup of IMM frameworks
- Statements of intent by high-profile stakeholders (IMP, GRI, SASB)
- IFRS Foundation starting a sustainability standards board
- Mainstream investors starting impact funds with poor foundation

Trends

- Increased capital flows into impact as an "asset class"
- Investors developing own sets of "impact criteria" and impact washing
- Harmonisation efforts being started on back of concerns over impact integrity/accountability

Underlying Structures

- Incentive misalignment (standard carry and compensation models); impatient capital
- Financial measures-only, "shareholder-centric" accounting systems
- Ambiguity in impact identification, measurement, and assessment

Mental Models

- Belief that impact measurement can/should be standardised and monetised like accounting
- Disagreement on trade-offs and ability to achieve both finance and impact

FIGURE A Iceberg Model

Figure A shows the iceberg model of the system, digging from the top layer of events to trends, underlying structures, and mental models. Events in which the problem of impact measurement incoherence is manifested are the product of a set of confused attempts at alignment, exacerbated by increasing investor interest without consistency and transparency.

Underlying structures of incentive misalignment and a focus on financial metrics are intrinsic products of the existing capitalist financial system but also result from ambiguity around the meaning of impact and deeper, clashing mental models of whether impact must be traded off with returns and if it can be financialised.

Appendix B: Some Interview Insights

"All organisations need to speak the same (impact) language and have some substance (policy, regulations, and incentives) behind this movement" Alasdair Maclay Chief Funds Officer Global Steering Group for Impact Investment	"There is a massive gap between what retail investors want their money to be invested in and what they're being invested in – most people don't know the difference." Richard Barker Professor Said Business School	"Comparability between methodology and metrics are incredibly important before we can have a conversation." David Carlin TCFD Lead UNEP FI
"We don't want to decide which standard or framework is best, instead the idea is (for impact investors) to choose which framework works for you and to have a good process to track and monitor against it. Then let a third party come and solve it… Verification of this disclosure is what we're excited about, in order to prove against impact washing without being prescriptive." Veronica Olazabal Senior Advisor & Director The Rockefeller Foundation	"Speaking about specific market development activity …what's happening in Korea. A few years ago, there was a big government push to put monies in impact investing…Impact investing is now "passe" in Korea. Generic and normalized. It's like saying you're an investor. Now it's are you a clean energy investor, a food tech investor." Kevin Teo Chief Operating Officer Asian Venture Philanthropy Network (AVPN)	"I would say the most fundamental aspect of impact investment is that it's impact first, investment second. The key is to understand directly from constituents their need. From monitoring perspective, it's equally important to report intended progress and unintended consequences. One person's problem is another person's entrepreneurial idea." Allen Xiao Board Member CFA ESG Disclosure Standards

FIGURE B Interviewees and key quotes

With input from:

Appendix C: System Maps

- IMM Systems Map
- Stakeholder Map of IMM
- IMM Systems Map - Critical Points
- IMM Systems Map - Leverage Points
- IMM Systems Map - System Changed

Appendix D: Authors

We are a group associated with the University of Oxford and Said Business School. Each of us have worked at the intersection of impact and finance at the systems level. Our diverse backgrounds range from developing policy leading to the creation of an impact wholesaler and implementing global responsible banking regulations, to investing through DFIs and systems change through a leading impact investing market builder. The common thread that brings us together is our experiences working at and passion for solving problems at the systems-level of impact finance. Having worked in leading impact investment funds and market-building organisations, we recognize the impact better coordination will catalyze. Together with the Global Steering Group for Impact Investment (GSG), we aim to unwind the root causes for and identify tangible interventions to solve for systemic barriers to impact integrity and accountability, and in doing so encourage and support greater investment into impact worldwide.

Profiles:

EDWARD YEE

Edward Yee works at the intersection of finance and social impact to drive social change. He has played leadership roles in various non-profits, founded start-ups, and is running his current venture, Givfunds. Inspired by his visits to over three hundred social enterprises globally, Edward co-founded Givfunds to help neglected social enterprises gain access to catalytic capital at scale. He has since worked at various levels of the global impact investing sector, from systems change at the Global Steering Group for Impact Investment to consulting for global impact funds and performing academic research on the sector in Oxford. Edward is a Rhodes Scholar, Forbes 30 Under 30 Awardee, Prestige 40 Under 40 Awardee, World Economic Forum Global Shaper, and a Diana Award Recipient. In his free time, Edward enjoys sticking his nose in a book and collecting stories from around the world. He has stood on Bangladeshi train tops, hacked in Silicon Valley, and travelled 16 days in a third-class Indian train.

ZHILIN XIAO

Zhilin Xiao has a cross-disciplinary education background in business finance and public policy, and has experience executing global projects in international organisations. She is dedicated to bridging the public and private sector through partnerships and impact finance. She has worked at the United Nations Environment Finance Initiative to launch and implement the sustainable banking principles and at the Economic

Adviser's office of International Committee of the Red Cross, on business and human rights engagements in conflict zones. Additionally, she has founded of various social entrepreneurship and humanitarian initiatives, connecting and empowering 300 change-makers and incubating 10 social impact initiatives in Asia. Zhilin has served as the country representative to G20-Girls Summit, representing young women's voices and drafted the gender equality policy recommendations for G20 leaders. Zhilin is a Forte Fellow, Wanakaset Scholar, and a Song Ching Ling Foundation Scholar. She has travelled in five continents, studied in five countries, and is currently an Oxford MBA candidate, working for an impact fund in her free time.

HANNAH LEVINSON

Hannah is widely known for energy, enthusiasm, and unparalleled relationship-building capabilities complemented by stand-out strategy and results. Prior to founding Lahayim, Hannah worked in philanthropy, technology, education and NGOs to shape the future of impact investing and corporate social responsibility, strengthen industry partnerships and build cultures of innovation across colleges and universities, and improve program design and delivery within international human service organizations.

Hannah regularly lectures and teaches on entrepreneurship, innovation, and next-generation leadership. She has produced award-winning documentary film and theatre across the southeastern U.S., and enjoys leveraging her artistic experience to design pathways to success for creative organizations and professionals.

TAKESHI IGARASHI

Takeshi Igarashi is an investment professional of KIBOW Impact Investment Fund. He is a co-founder of Accountability for Change. He served as a chief researcher of the Cabinet Office, the Government of Japan, and led research on impact investing policies and practices in the UK and the US and designed a basic policy of utilization of dormant assets for social issues. He worked for PwC, and he introduced and promoted impact measurement in Japan. He is a former Chief Financial Officer of Teach For Japan. He holds a Certificate of Public Accountant (Japan), BA in Economics of Keio University, and MBA candidate of Oxford University. He is also the vice-president of the Oxford Impact Investing Society.

NOAH LAW

Noah is a senior investment analyst with five years of corporate finance experience across debt advisory, leveraged finance, industrials investment banking and impact investment. He has an MPhil in Economic and Social History from University of Cambridge and successfully completed his CFA Level I. Currently, he is an Oxford MBA Candidate and the finance co-chair of the Oxford Business Network.

Appendix E: Harmonisation Detailed Timeline

The IMP was formed in 2016 to provide a forum for building global consensus on measuring, managing, and reporting impacts on sustainability. IMP facilitates standard-setting organisations that are coordinating efforts to provide comprehensive standards for measurement, management and reporting of impacts on sustainability. This includes 16 standard-setting organisations that have formed a structured network to work together (IMP, 2021).

Figure 17. IMP Structured Network

In 2018, the Corporate Reporting Dialogue (CRD) launched the Better Alignment Project, a ground-breaking two-year project focused on promoting better alignment in the corporate reporting environment to make it easier for companies to prepare effective and coherent disclosures that meet the information needs of capital markets and society (Corporate Reporting Dialogue, 2021).

Figure 18. Corporate Reporting Dialogue participants

In September 2020, the International Business Council (IBC) of the World Economic Forum (WEF), in collaboration with Deloitte, EY, KPMG, and PwC, published a white paper, "Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation" (World Economic Forum, 2020), to develop a core set of common metrics and disclosures on non-financial factors for their investors and other stakeholders. The metrics are deliberately based on existing standards, with the near-term objectives of accelerating convergence among the leading private standard-setters and bringing greater comparability and consistency to the reporting of ESG disclosures.

In November 2020, five global organisations – CDP, CDSB, GRI, IIRC and SASB – whose frameworks, standards and platforms guide the majority of sustainability and integrated reporting, have announced a shared vision of what is needed for progress towards comprehensive corporate reporting – and the intent to work together to achieve it (Impact Management Project, 2020).

With input from:

Figure 19. Joint Statement of Intent to work together towards comprehensive corporate reporting

And most recently, in March 2021, the Trustees of the IFRS Foundation announced the formation of a working group to accelerate convergence in global sustainability reporting standards focused on enterprise value and to undertake technical preparation for a potential international sustainability reporting standards board under the governance of the IFRS Foundation, with IMP's CEO Clara Barby as its project leader (IFRS, 2021).

With input from:

Acknowledgements:

Our team is deeply grateful to the following organisations for their help and partnership throughout this report:

- The Global Steering Group for Impact Investment;
- The Skoll Centre for Social Entrepreneurship;
- The University of Oxford; and
- Saïd Business School.

We would also like to thank Alasdair Maclay (CFO, GSG) as our partner and mentor throughout this process, and Jean-Pierre Noel who mentored us throughout the systems mapping process. Finally, we would also like to thank our interviewees for sharing their expertise and kindly giving their time. They include:

- Allen Xiao, Board Member, CFA ESG Disclosure Standards
- Carli Roth, Associate Principal, The Rockefeller Foundation
- Danielle Cohen, Consultant, South Pole
- David Carlin, TCFD Lead, UNEP FI
- Isabella Martin, Associate, Impact Management Project (IMP)
- James Hicks, Impact Data Lead, Impact Management Project (IMP)
- Kevin Teo, Chief Operating Officer, Asian Venture Philanthropy Network (AVPN)
- Richard Barker, Professor, Saïd Business School
- Veronica Olazabal, Senior Advisor & Director, The Rockefeller Foundation
- Urmi Sengupta, Senior Program Officer, MacArthur Foundation
- Jeremy Nicholls, Non Executive Director, Social Value International

We welcome feedback and questions about this work. Please get in touch here.