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GIINSIGHT

IMPACT MEASUREMENT
& MANAGEMENT
PRACTICE

ACKNOWLEDGMENTS

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ABOUT THE GLOBAL IMPACT INVESTING NETWORK

The Global Impact Investing Network (GIIN) is the global champion of impact investing, dedicated to increasing the scale and effectiveness of impact investing around the world. Impact investments are investments made into companies, organizations and funds with the intention to generate positive, measurable, social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets and target a range of returns from below-market to market-rate, depending upon investors' objectives. The GIIN builds critical infrastructure and supports activities, education and research that help accelerate the development of a coherent impact investing industry. For more information, please visit www.thegiin.org.

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INTRODUCTION

The impact investing industry has evolved significantly, and continues to mature in a world that is slowly emerging from the COVID-19 pandemic and is fraught with economic inequities, social tensions and the climate crisis. As stakeholders globally grapple with ever-growing social and environmental challenges, impact investors are rising to meet them – by measuring and managing impact performance, engaging with investees and end stakeholders, exploring mechanisms for impact accountability and using impact data to inform investment decision-making.

The 2023 *GIINSight* series offers actionable insights on impact investing activity, financial performance and impact measurement and management practices based on data captured from 308 impact investors across the world. This brief, *2023 GIINSight: Impact Measurement & Management Practice*, focuses on how impact investors are integrating impact throughout the investment process and using impact practice and data to set priorities, assess impact performance, hold themselves accountable and inform decisions. The brief also provides an analysis of investor subgroups, offering insight into how impact measurement and management (IMM) practice varies based on investor characteristics and presents meaningful implications for investors.

To sustain responsible industry growth, enhance market transparency and strengthen investor decision-making, investors are encouraged to explore these actionable insights and consider implications for their own IMM practice.

KEY MARKET INSIGHTS

- 1** Impact investors rely on an assessment of the scale of the problem and global development agendas to define impact priorities, while investee objectives and impact data play a greater role when investors set specific impact targets.
- 2** Investors most commonly use the United Nations Sustainable Development Goals (SDGs) to guide their impact strategy and use IRIS+ for measurement and management, with increasing integration of IMM into their organizational budgets.
- 3** Investors are starting to use impact data to inform decisions but still face headwinds.
- 4** Half of impact investors do not engage directly with their end stakeholders, but investors commonly discuss impact performance with their investees.
- 5** Impact investors use a variety of impact accountability mechanisms, with half of investors undergoing audits on impact practice or performance.

For details on the methodological approach, caveats & limitations and list of participants, see Volume 1 of the series, [2023 GIINSight: Impact Investor Demographics](#).



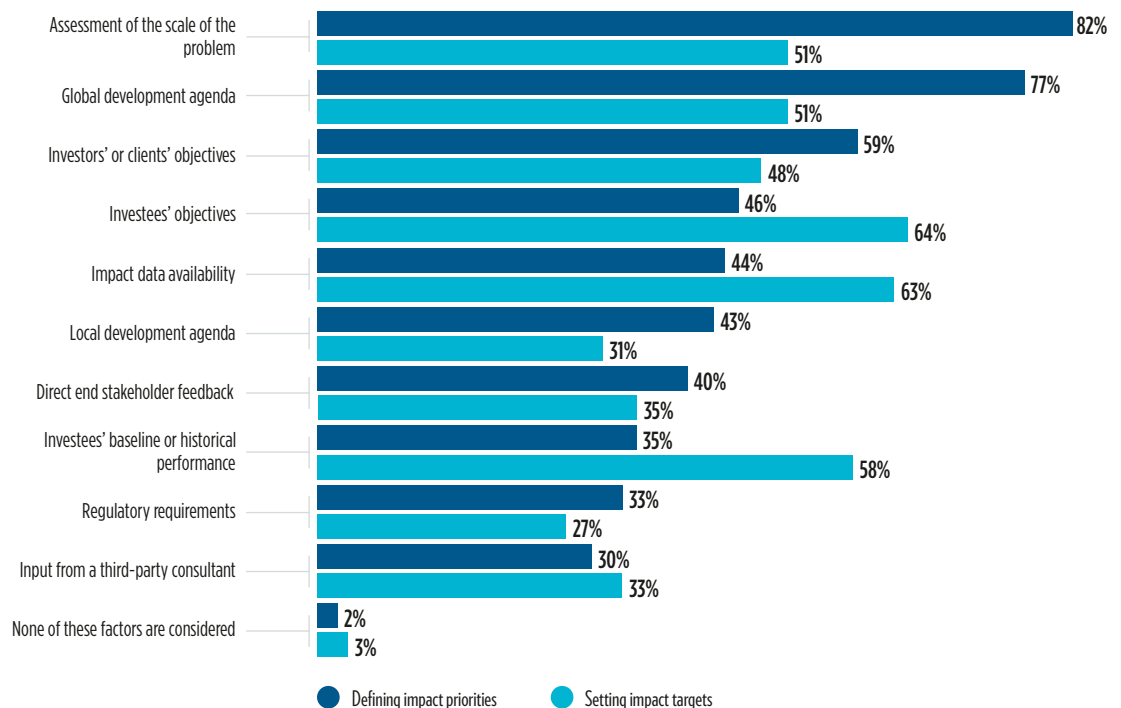
Impact investors rely on an assessment of the scale of the problem and global development agendas to define impact priorities, while investee objectives and impact data play a greater role when investors set specific impact targets

Goal-setting – defining impact priorities and setting impact targets – is a foundational component of building an impact strategy and understanding how an impact portfolio is performing. When defining impact priorities, investors across the sample most commonly consider an assessment of the scale of the problem they are seeking to address (82%), global development agendas (77%) and their investors’ or clients’ objectives (59%; Figure 1). As the climate crisis unfolds and global inequities continue to grow, impact investors are increasingly relying not only on global frameworks such as the Paris Climate Accord and the United Nations SDGs but also on impact data from investees to define impact priorities and goals.

When setting impact targets, nearly two-thirds of impact investors (64%) rely on investees’ objectives and 63% assess impact data availability. Stakeholders in the impact investing industry recognize the importance of making data-driven decisions to inform capital allocations and investment management. By assessing impact data and understanding the needs of their key stakeholders, investors can gain insight into how to identify rigorous and effective priorities, which in turn can help investors manage their investments toward greater impact.

FIGURE 1: Factors investors consider when defining impact priorities and setting targets

n = 304 (Defining impact priorities); n = 273 (Setting impact targets)



Note: Respondents could select multiple factors for defining impact priorities and setting targets.

Source: Global Impact Investing Network (GIIN), 2023 GIINights: Impact Measurement & Management Practice

Approaches to defining impact priorities vary by investor type. About 81% of direct investors consider global development agendas when defining impact priorities compared to just 56% of indirect investors. While 61% of direct investors consider their investors' or clients' objectives when defining impact priorities, only 42% of indirect investors do the same.

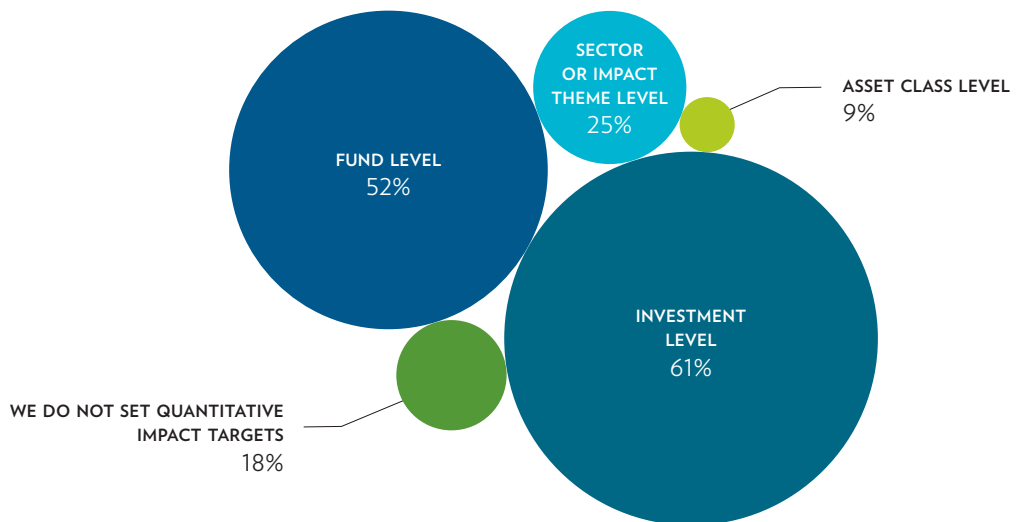
Investors also approach impact target-setting in diverse ways depending on their investment strategies and priorities. Over half of direct investors (55%) assess the scale of the problem to be addressed compared to 37% of indirect investors. Additionally, 80% of below-market-rate players rely on their investees' objectives compared to just 59% of market-rate investors. Interestingly, when setting impact targets, market-rate investors more commonly consider global development agendas than their below-market-rate counterparts (56% versus 39%).

Impact targets can inform how investors set strategy, manage portfolios, consider exits and re-visit targets to adjust as needed. Impact investors can set targets for their funds, for individual sectors and even at the investment level (Figure 2). Establishing quantitative impact targets can better enable investors to assess their performance and make discerning portfolio decisions. Among those who set quantitative targets, 61% do so at the investment level and 52% of investors at the fund level. Among investors targeting below-market-rate returns, 91% set quantitative impact targets compared to 78% of market-rate ones, perhaps reflecting how priorities vary across investment mandates. Similarly, private debt-focused investors set quantitative impact targets less commonly than private equity-focused investors (78% versus 88%).

Less than a fifth of all impact investors (18%) do not set any quantitative impact targets whatsoever, with variation by investor type.¹ Interestingly, 33% of investors focused on venture-stage companies do not set quantitative targets, as opposed to 8% of those focused on growth-stage investments. Perhaps surprisingly, this does not vary significantly by public versus private market type; 20% of public market-focused investors and 16% of private market-focused investors do not set quantitative impact targets.

FIGURE 2: Levels at which quantitative impact targets are set

n = 307



Note: Respondents could select multiple levels.

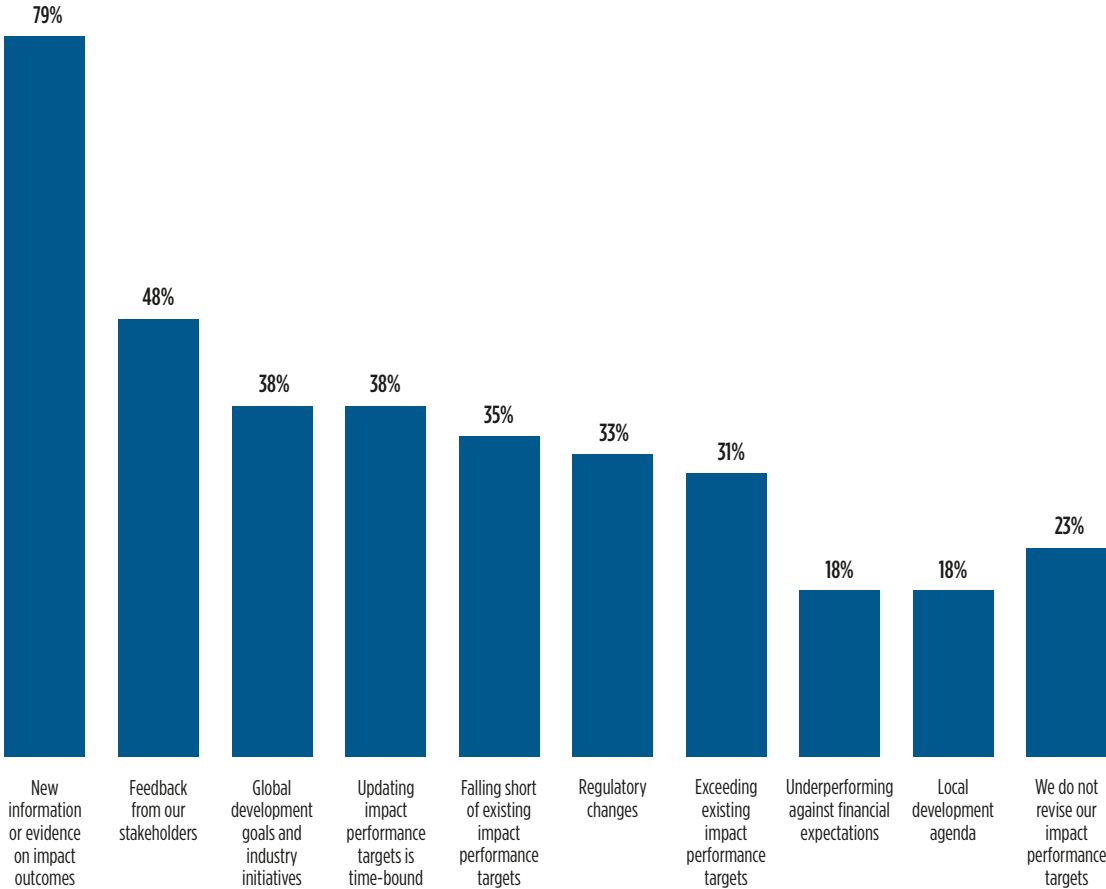
Source: Global Impact Investing Network (GIIN), 2023 GIINSights: Impact Measurement & Management Practice

¹ While this section focuses on quantitative impact targets, impact investors may set qualitative impact targets or both quantitative and qualitative targets.

When it comes to setting impact priorities and targets, eight in ten investors indicated that the primary factor driving revisions to their impact targets is the emergence of new information or evidence on impact outcomes (79%; Figure 3). Just under half (48%) rely on feedback from stakeholders to revise impact performance targets, indicating the critical role that stakeholder collaboration plays in setting informed targets. Interestingly, nearly a quarter of impact investors (23%) do not revise their impact performance targets.

FIGURE 3: Factors that compel revisions to impact performance targets

n = 255



Note: Respondents could select multiple factors that compel revisions to impact targets.

Source: Global Impact Investing Network (GIIN), 2023 GIINSights: Impact Measurement & Management Practice

IMPLICATIONS FOR INVESTORS

Impact investors continue to use global development agendas, such as the internationally recognized SDGs, to guide their impact priorities and set impact targets. By using globally accepted standards, investors can align on a common language and understanding of global challenges to define a robust logic model and identify a set of impact targets in advance (known as ex-ante targets).

By adopting a systematic approach to tackling global challenges, investors can more effectively incorporate global development agendas into their target-setting approaches. In doing so, they are able to focus on key areas where investments can make a significant difference. Additionally, this strategy fosters collaboration among different stakeholders and enables measurement and reporting on impact outcomes.

Defining impact priorities based on investee objectives and available impact data indicates that investors are establishing measurable goals related to the social or environmental impact of their investments in alignment with their investees' needs. However, as regulations and science-based targets gain ground in various geographies, these may inform additional, universally recognized frameworks that investors further use to define impact priorities and inform target-setting.² Beyond well-developed regulatory environments, evidence-based impact priorities are critical in building toward a more sustainable and equitable planet for all because they drive investors' contribution – their capital, engagement and terms of their investments – toward solutions that address our most pressing challenges. Setting quantitative, evidence-driven impact targets can enable a rigorous IMM practice.

While investors have shared that impact targets are not always driven by data, they have expressed an interest in better defining evidence-driven impact goals. Investors may consider leveraging publicly available third-party data regarding the scale of the identified challenge to develop data-driven targets and assess their impact performance relative to the change that is needed. The availability and quality of impact data may influence the feasibility of setting specific impact targets, and investors would benefit from participating in industry efforts to share impact performance data at scale.

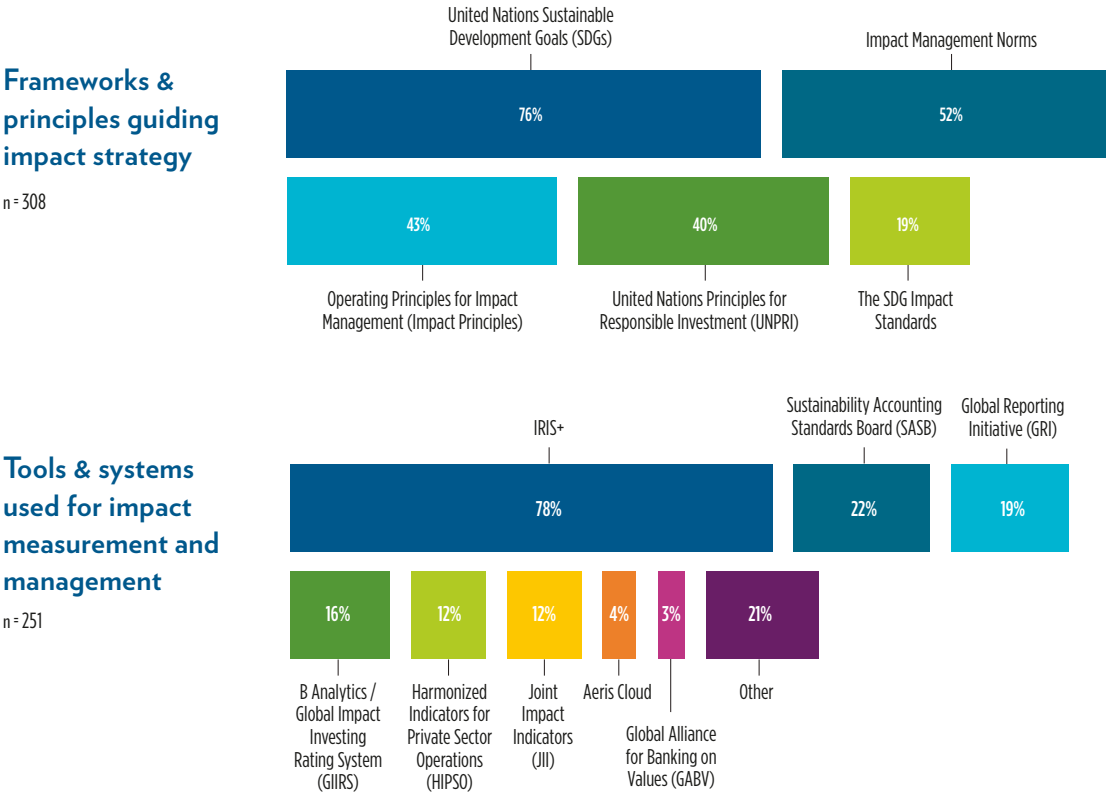
2. See [here](#) to learn more about the adoption of science-based targets and their growing influence over policy. While evolving regulatory environments are a vital part of market maturity, regulations may be seen as tools for governments to preserve economic dynamics and as the minimum compliance bar required for impact investors to operate in a jurisdiction.

2

Investors most commonly use the SDGs to guide their impact strategy and use IRIS+ for measurement and management, with increasing integration of IMM into their organizational budgets

Impact investors continue to rely on diverse frameworks to guide their impact strategies and use a separate set of tools to measure and manage impact. On average, impact investors use two frameworks to guide their approaches and two tools to measure and manage the impact itself. Over three-quarters (76%) of investors rely on the SDGs – which include a comprehensive set of targets to address global challenges – to guide their impact strategy, followed by 52% of investors who use the Impact Management Norms (Figure 4).³ By leveraging these impact frameworks, impact investors can enhance their decision-making processes, align their strategies with global sustainability goals and ultimately drive positive change as well as financial returns. Interestingly, among a subset of 88 repeat respondents to the *2018 Annual Impact Investor Survey* and the *2023 GIINsights*, 64% of investors tracked their investments using the SDGs in 2017 compared to 75% in 2022, indicating growing traction around the SDGs.

FIGURE 4: Use of standardized impact frameworks & principles and tools & systems



Note: Respondents could select multiple answer options. 'Other' tools and systems include proprietary frameworks, Social Return on Investment, B-Impact Assessment, GHG Protocol and the Sustainable Finance Disclosure Regulation.

Source: Global Impact Investing Network (GIIN), 2023 GIINsights: Impact Measurement & Management Practice

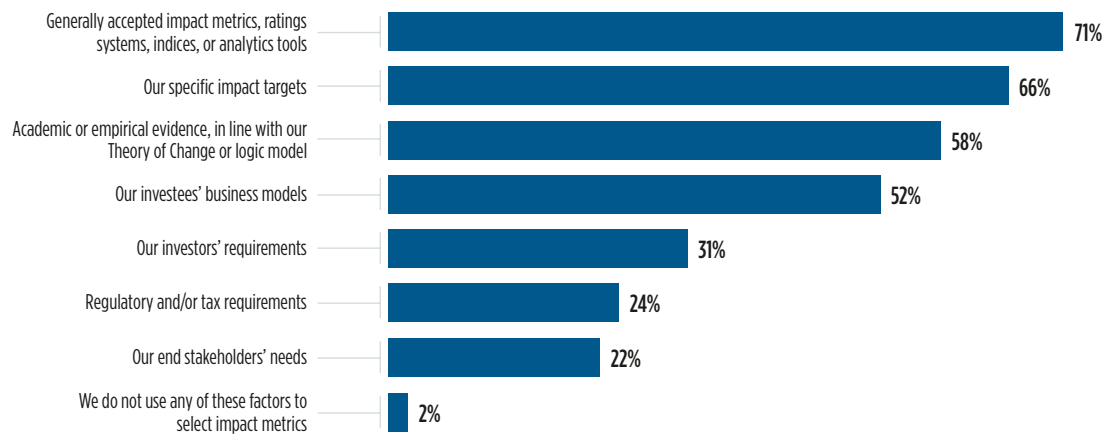
³ Formerly known as the Impact Management Project (IMP)'s Five Dimensions.

Once investors have determined an approach for their impact strategy, they rely on a variety of tools and systems to measure and manage impact, most commonly IRIS+ managed by the GIIN (78% of investors), followed by the Sustainability Accounting Standards Board (SASB; 22%), Global Reporting Initiative (GRI; 19%), B Analytics/Global Impact Investing Rating System (GIIRS; 16%), Harmonized Indicators for Private Sector Operations (HIPSO; 12%), Joint Impact Indicators (JII; 12%), Aeris Cloud (4%) and the Global Alliance for Banking on Values (GABV; 3%).

Identifying appropriate metrics to measure impact has historically been a challenge in the impact investing industry, especially amidst fragmentation across IMM frameworks and systems. The industry has coalesced around a handful of frameworks, with investors increasingly using multiple frameworks for different purposes. Nonetheless, investors rely on a variety of factors to inform their impact metric selection (Figure 5). Most commonly, 71% of investors use generally accepted impact metrics, rating systems, indices or analytics tools, followed by investors' own specific impact targets (66%) and academic or empirical evidence in line with their theory of change or logic model (58%).

FIGURE 5: Factors informing the selection of impact metrics

n = 308



Note: Respondents could select multiple factors.

Source: Global Impact Investing Network (GIIN), 2023 GIINSights: Impact Measurement & Management Practice

As regulatory environments evolve to take on a more prominent role in the impact investing industry, investors are cognizant of assessing and labeling in line with those requirements. In the U.S. & Canada, 13% of investors consider regulatory and/or tax requirements when selecting impact metrics compared to 42% in Western, Northern & Southern Europe. This discrepancy may reflect the varied stages of regulatory evolution. The Sustainable Finance Disclosure Regulation (SFDR) in Europe, which came into effect in March 2021, introduced new disclosure requirements for financial market participants to provide transparency on the integration of sustainability factors in their investment processes.⁴ Meanwhile, the U.S. is in the earlier stages of regulatory and disclosure development related to impact considerations, with shifts in fund disclosure requirements and interpretations of fiduciary obligations.⁵

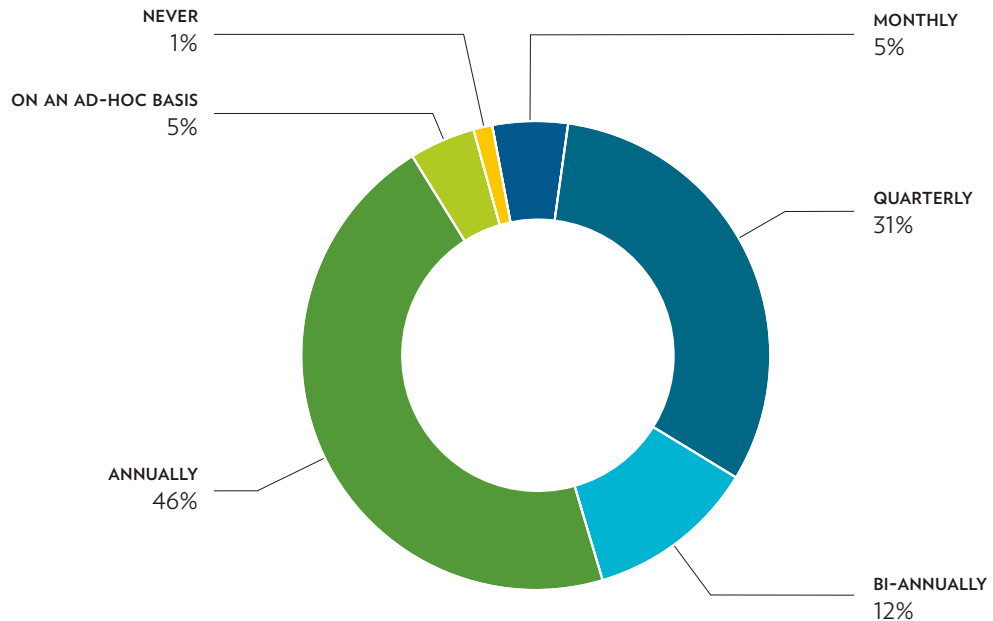
⁴ For more information on SFDR regulations, please see the European Commission's Regulation (EU) 2019/2088 on sustainability-related disclosures [here](#).

⁵ Learn more about the U.S. Department of Labor's "2022 Final Rule" on considerations related to climate and ESG factors [here](#).

A hallmark of impact investing is measuring, managing and reporting on impact performance, and almost every investor (94%) assesses their impact at least once a year. Forty-six percent of impact investors assess impact on an annual basis, followed by 31% that do so on a quarterly basis (Figure 6). Just 1% of impact investors do not conduct impact assessments; they may rely on their investment managers to share impact reports instead. While nearly all direct investors (96%) assess their impact at least once a year, a smaller proportion (88%) of indirect investors do, perhaps reflecting the nature of investments made through investment managers or intermediaries.

FIGURE 6: Frequency of impact performance assessments

n = 308



Source: Global Impact Investing Network (GIIN), 2023 GIINsights: Impact Measurement & Management Practice

Impact reports are made available to a variety of key stakeholders, such as donors or investors (62%), the general public (57%), management and staff (34%) and investees (20%). Additionally, 43% of investors produce impact reports as part of their financial or annual reports. Interestingly, a greater proportion of indirect investors produce impact reports on an ad-hoc basis as compared to direct investors (10% versus 3%).

Investors commonly dedicate staff and resources to conduct IMM and allocate budget to support their measurement and management activities. Investors most commonly integrate IMM into various workstreams within their budgets (68% of investors), which may reflect a natural integration of IMM practice across investment activities. While 15% include a unique line item for some IMM activities in their budgets, only 9% include a line item in the budget for each IMM activity. To fund the cost of measuring and managing their impact, investors most commonly rely on management fees (72% of investors), followed by grant support (13%) and technical assistance (13%). Investors anecdotally shared in some cases that they have accounted for the cost of IMM as part of their overhead costs, much like any other operating expenses, without a distinct funding source.



IMPLICATIONS FOR INVESTORS

Using standardized frameworks to guide impact strategies, adopting tools for measurement and management and integrating IMM into organizational budgets are critical components of a rigorous IMM practice. Standardized measurement tools, such as IRIS+, provide a harmonized system for measuring, managing and reporting on impact. By using these IMM tools, investors can enhance the transparency, comparability and credibility of their impact data. This enables better decision-making, allows for benchmarking and fosters accountability – all of which are crucial building blocks for a sophisticated impact investing market that can drive positive change.

Allocating resources to IMM in organizational budgets helps investors better commit to understanding the impact performance, risks and opportunities associated with their impact investments. By including IMM into workstreams within various budget lines, investors are naturally integrating IMM across investment activities and recognizing that it is part of a rigorous impact investment process. By systematically allocating resources to assess impact performance, investors may be more likely to identify areas for improvement, track progress over time and make informed adjustments to their investment strategies.



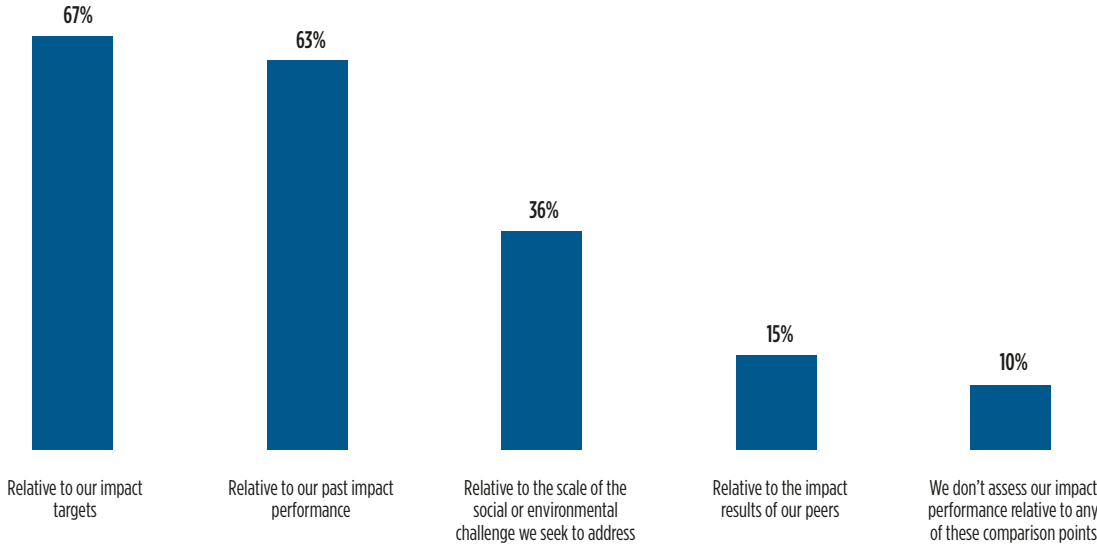
Investors are starting to use impact data to inform decisions but still face headwinds

The impact investing industry is expanding from a focus on measuring impact to also using impact data to make effective portfolio decisions. Impact data plays a critical role in enabling investors to integrate impact considerations into each stage of the investment process: strategy-setting, portfolio construction, due diligence, investment management and impact reporting. However, to do so effectively, contextualizing impact results is key.

While over two-thirds of investors (67%) compare their impact data to their own impact targets when assessing impact performance, only 15% of investors compare their impact results to their peers (Figure 7). A common refrain amongst investors is the inability to compare impact results to peer groups; in fact, 76% of investors consider the inability to compare impact to peers a significant or moderate challenge in the industry, which may reflect a gap in industry impact infrastructure. This presents a meaningful opportunity for impact investors to continue to aggregate and share impact data at scale and for field-builders to use that data to develop decision-useful analytic tools.

FIGURE 7: Comparison points that investors use to assess their impact performance

n = 307



Note: Respondents could select multiple comparison points.

Source: Global Impact Investing Network (GIIN), 2023 GIINights: Impact Measurement & Management Practice

Approaches to impact performance comparison differ among private and public market-focused investors. A greater proportion of investors focused on private markets compare their impact results to peers versus those focused on public markets (13% versus 7%). Among private market-focused investors, 38% of private equity-focused investors compare their impact results relative to the scale of the social or environmental challenge they seek to address while 29% of private debt-focused investors do.

Despite this challenge in comparing impact performance to their peers, it is evident that investors are actively using impact data during the investment process. About eight in ten investors (78%) across the sample use impact performance information to inform pre-screening and investment selection, while 75% use it to report to stakeholders, and 59% to improve investment management.

Use of impact data varies by investor type. While 63% of direct investors use impact data to improve investment management, only 44% of indirect investors do the same; 72% of large investors use impact performance information to improve investment management compared to 49% of small investors. Additionally, a slightly greater proportion of private debt-focused investors use impact data to inform investment terms compared to their private equity-focused peers (53% versus 39%).

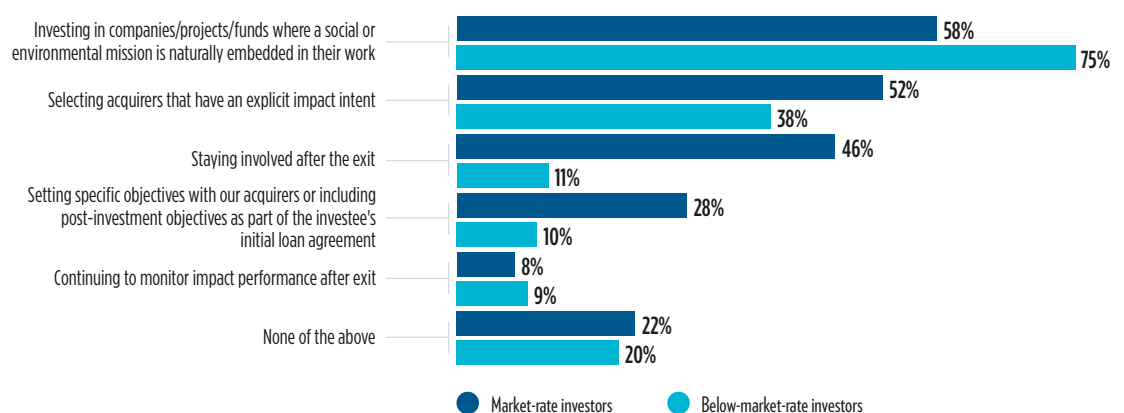
Impact data is critical not only for investors but also for their investees. Investors and investees most commonly use impact data for investee business decisions to understand end stakeholder needs and wants (58%), design or refine products and services (52%) and guide marketing and/or reputation-building efforts (50%). While 59% of emerging market-focused investors use investee data to design or refine products and services, only 43% of developed market-focused investors do the same. Across the board, a greater proportion of impact-only investors use impact data to inform investee business decisions than do investors focused on both impact and conventional investments.

Although impact investing primarily focuses on measuring and managing positive outcomes, understanding and accounting for any negative impacts that may arise from these investments is essential. Accounting for negative impacts in impact investing involves an ongoing commitment to learning, adaptation and transparency. Eighty-six percent of impact investors account for negative impacts during investment screening and due diligence, and half actively manage and mitigate against negative impacts.

Once investors have exited an investment, about 72% seek to ensure the continuity of impact after exit by investing in companies, projects and/or funds where a social or environmental mission is naturally embedded in their work. Private equity-focused investors ensure mission alignment to a greater extent than private debt-focused investors (83% versus 69%). While a majority of investors seek to ensure the impact continues, only 8% of investors stay actively involved in some capacity after exit, be it through an advisory role, obtaining a seat on the board or continuing to monitor impact performance. The extent to which investors stay involved after exit varies by investor type; 11% of below-market-rate-seeking investors stay involved after exit, but only 6% of market-rate investors do so, which may reflect varying levels of legal mechanisms to stay involved post-exit (Figure 8). Investors report that continuity after exit remains a challenge, with 45% of investors indicating that finding suitable exit options is a significant or moderate challenge.

FIGURE 8: Investors' approaches to ensuring impact continuity after exit, by target financial returns

n = 226 (Market-rate investors); n = 81 (Below-market-rate investors)



Note: Respondents could select multiple approaches.

Source: Global Impact Investing Network (GIIN), 2023 GIINSights: Impact Measurement & Management Practice

IMPLICATIONS FOR INVESTORS

Investors are increasingly using impact data to inform their decisions, reflecting the growing sophistication of impact investing strategies. Naturally, robust impact data can inform those strategies in several ways: the nature and structure of capital to be raised, where best to deploy capital and on what terms, how to effectively manage investees and predicting likely patterns of future impact results. However, none of this is possible if investors are unable to compare their performance to a meaningful yardstick – historical performance, impact targets, peers’ performance and the scale of the challenge the investor seeks to address – which can offer context as to what good performance might look like.

Investors indicated that comparability, especially to peers, is a challenge in making informed investment decisions. Yet very few investors have the analytical tools or data infrastructure to make those comparisons. While industry ecosystem builders, such as the GIIN and others, have developed pilot benchmarks and other analytical tools to enable informed decision-making in the industry, these initiatives require significant practical leadership from impact investors themselves.⁶ A strong leadership opportunity exists for impact investors to share impact data at scale and for field-builders to use that data to build decision-useful analytic tools.

Overcoming challenges related to consistencies in data standards, data collected, investor and investee education, market incentives to share impact performance data, and potential regulation will be key to further mainstreaming the use of impact data in impact investment strategies.

⁶ Visit the GIIN’s impact performance benchmarks available in IRIS+ [here](#).

4

Half of impact investors do not engage directly with their end stakeholders, but investors commonly discuss impact performance with their investees

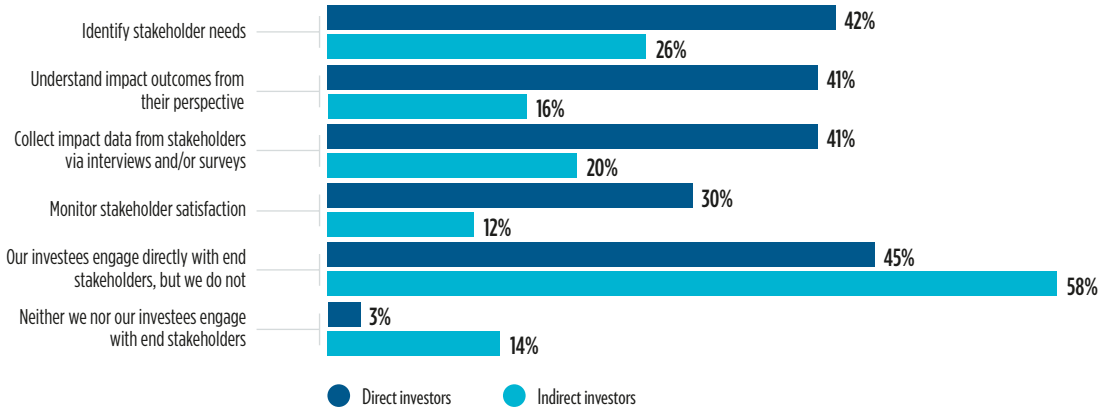
As the focus on social and environmental impact intensifies, investors are recognizing the importance of actively including stakeholder perspectives – both end stakeholders’ and investees’ views – in their decision-making processes. By engaging with and listening to end stakeholders, investors can gain valuable insights into the real impact of their investments through the lived experience of the ultimate stakeholders as they keep investments on track. The asset class of investment, the extent of the direct relationship possible with the investee or the end stakeholder and the return strategy of the impact investment will naturally affect engagement practices.

Forty-nine percent of investors do not engage directly with end stakeholders, although their investees do. Only 5% of investors in the sample reported that neither they nor their investees engage with end stakeholders. Among those investors who do not engage directly with end stakeholders, nearly three-quarters (72%) are indirect investors, reflecting the nature of investors who invest through investment managers and often do not have the same proximity to end stakeholders.

Among impact investors who do engage with end stakeholders, most commonly, they do so to identify stakeholder needs (39%), collect impact data (37%) and understand impact outcomes from the end stakeholders’ perspectives (36%). Across public market-focused investors who engage directly with end stakeholders, 36% engage to understand impact outcomes from the end stakeholder perspective, just under a third (29%) engage by collecting impact data and 25% monitor stakeholder satisfaction. Interestingly, 21% of public market-focused investors engage directly with end stakeholders to identify stakeholder needs versus 39% of private market-focused investors, also reflecting the role of market and investor type. Perhaps unsurprisingly, mechanisms used to engage with end stakeholders also vary based on whether an organization invests capital directly or indirectly via managers (Figure 9).

FIGURE 9: Mechanisms investors use to engage with end stakeholders, by investor type

n = 222 (Direct investors); n = 50 (Indirect investors)



Note: Respondents could select multiple stakeholder engagement mechanisms. “End stakeholders” refer to investees’ employees and clients. “Investees” refer to the recipient of investment capital, either a company, project, or real asset or the investment manager in the case of indirect investors.

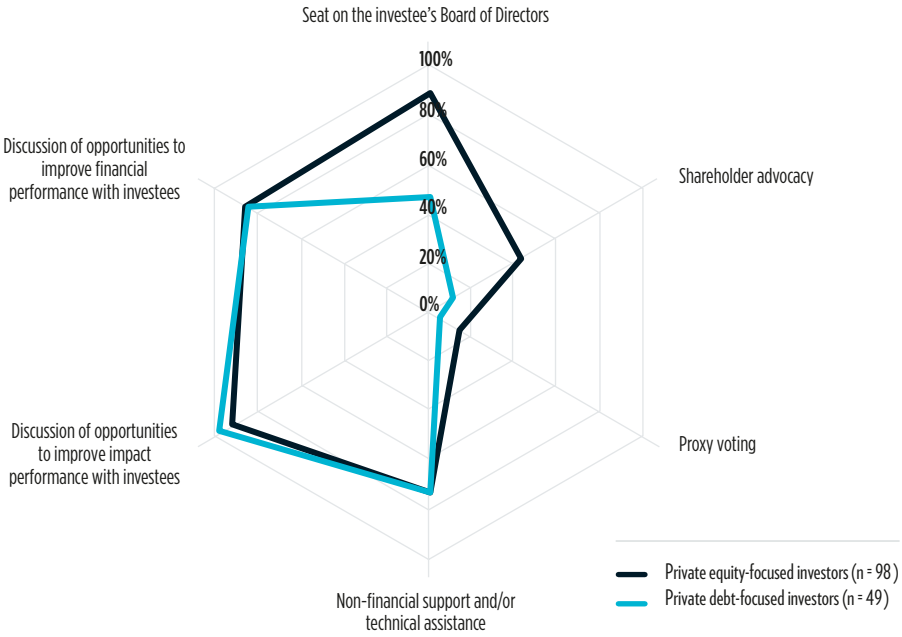
Source: Global Impact Investing Network (GIIN), 2023 GIINSights: Impact Measurement & Management Practice

Over half of large investors (51%) engage directly with end stakeholders to collect impact data via interviews and/or surveys. By contrast, only a third of small investors (32%) do so, which may reflect a lack of resource capacity as an underlying challenge given the often-costly nature of end-stakeholder impact assessments.

Naturally, investors also engage with their investees (i.e., portfolio companies), most commonly to discuss opportunities to improve their impact performance (85%) and financial performance (77%). Investors have shared their ability, through these discussions, to strengthen alignment on impact goals, establish more effective impact reporting systems and enhance their approaches to managing impact.

Mechanisms investors use to engage with investees include a seat on the investee’s Board of Directors, shareholder advocacy, proxy voting and the provision of non-financial support and/or technical assistance (Figure 10). As expected, 88% of investors with a focus on private equity hold a seat on the investee’s Board of Directors, reflecting the nature of ownership in equity investments, whereas only 43% of private debt-focused investors have board representation. Furthermore, while 55% of developed market-focused investors provide non-financial support and/or technical assistance to their investees, over three-quarters of emerging-market investors (76%) do. This may suggest that technical assistance may serve a dual purpose for investors – to support the development of the investee and as a tool to manage the perceived and real risks of investing in emerging markets. Only 5% of investors do not engage with investees through any of these mechanisms.

FIGURE 10: Mechanisms investors use to engage with investees, by private market focus



Note: Respondents could select multiple engagement mechanisms.
 Source: Global Impact Investing Network (GIIN), 2023 GIINsights: Impact Measurement & Management Practice

IMPLICATIONS FOR INVESTORS

Discussions about impact performance between investors and investees provide a vital opportunity to shape an investor's theory of change – the logical links between goals, strategies and activities that can lead to impact outcomes. Investors can influence and align investees' practices to maximize positive impact for end stakeholders. Investors frequently discuss impact performance with their investees or investment managers, indicating a level of trust and reliance on these entities to provide accurate information about their impact results. This places significant responsibility on investees and managers to measure and report their impact transparently. Meanwhile, asset owners carry the responsibility of asking the right questions to ensure end stakeholders' needs and voices are consulted, tracked in quantifiable ways, and integrated into investment allocations and management decisions in alignment with the investment's theory of change.

While investors commonly discuss impact and financial performance with their investees, the reality for over half of investors is one of limited direct engagement with end stakeholders. This reinforces the need for robust impact assessment practices, transparency, trust, accountability and ongoing dialogue with investees to ensure that investments align with the intended end stakeholder outcomes. In particular, public market-focused investors may have to forge new engagement approaches to explore their contribution to impact results either at the investee or the end-stakeholder level.

Naturally, replicating private market-focused impact practices in public asset classes may not be possible or desirable in all instances.⁷ Indeed, public market-focused investors can be limited in their ability to engage with investees or the end stakeholder. Interestingly, 21% of public market-focused investors in this sample are engaging with end stakeholders to identify needs, presenting an opportunity to better understand the techniques they are using to do so. Organizations investing through public asset classes may have a strong opportunity to learn from their peers who are engaging with end stakeholders and consider alternative ways to include diverse stakeholder voices or collaborate on sharing insights.

Private market-focused investors do not face the same practice constraints that public market-focused investors do when it comes to engaging with end stakeholders. Anecdotally, investors have shared that cost may be a prohibiting factor to deep stakeholder engagement. By learning from investors that have overcome these challenges and embracing stakeholder engagement as fundamental to IMM practice, impact investors can drive positive change that is equitable and responsive to stakeholder needs.

Deep engagement between investors, investees and stakeholders provides an opportunity for mutual learning, as all parties can share knowledge, best practices and guidance to enhance impact investing strategies. Inclusive mechanisms can help shape investment strategies that align with the priorities and aspirations of the communities they aim to serve. Even in cases where direct input from end stakeholders is not possible, investee companies can offer insight into the effect of an investment on the end stakeholder – both positive and negative, intended and unintended – to inform investment adjustments over time.

⁷ See [here](#) to learn more about pursuing impact in listed equities.

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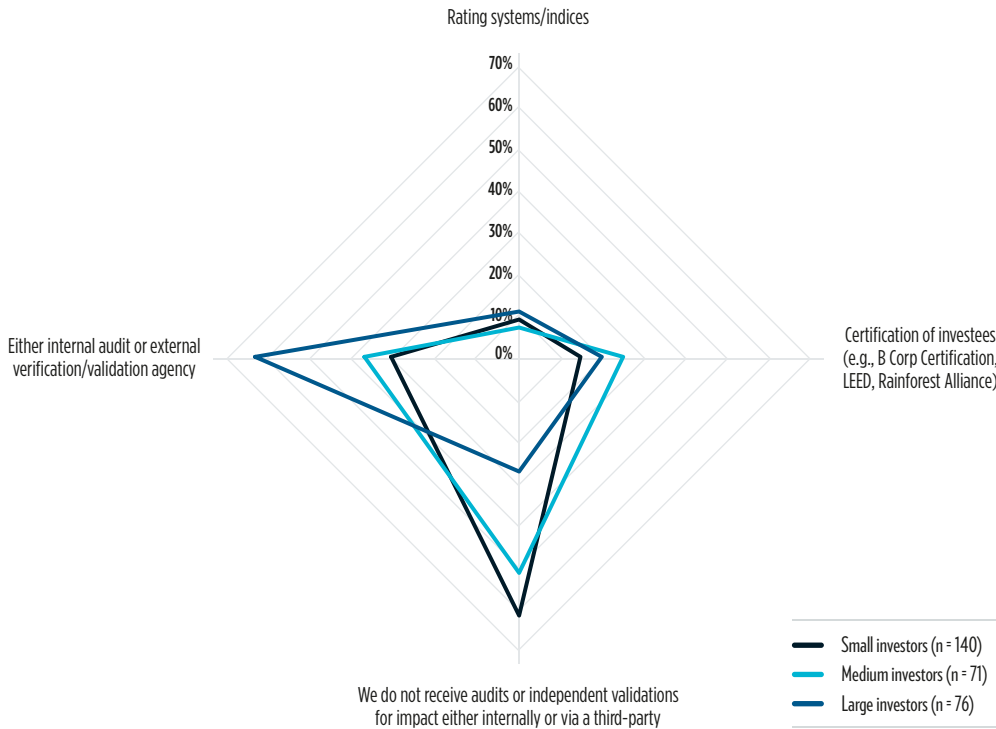
Impact investors use a variety of impact accountability mechanisms, with half of investors undergoing audits on impact practice or performance

Accountability mechanisms can help drive investors toward greater transparency and rigor as they assess and report on impact. Holding investors accountable can enhance credibility in the industry and ultimately can improve both impact practice and performance.

Just under half of investors (49%) are audited either internally or externally for impact management practices. A lower proportion of small investors audit their impact process through a third-party or internally compared to large investors (31% versus 63%; Figure 11). This may speak to the accessibility and affordability of external audits, especially given the lack of diversity and availability of validation and audit services for impact.

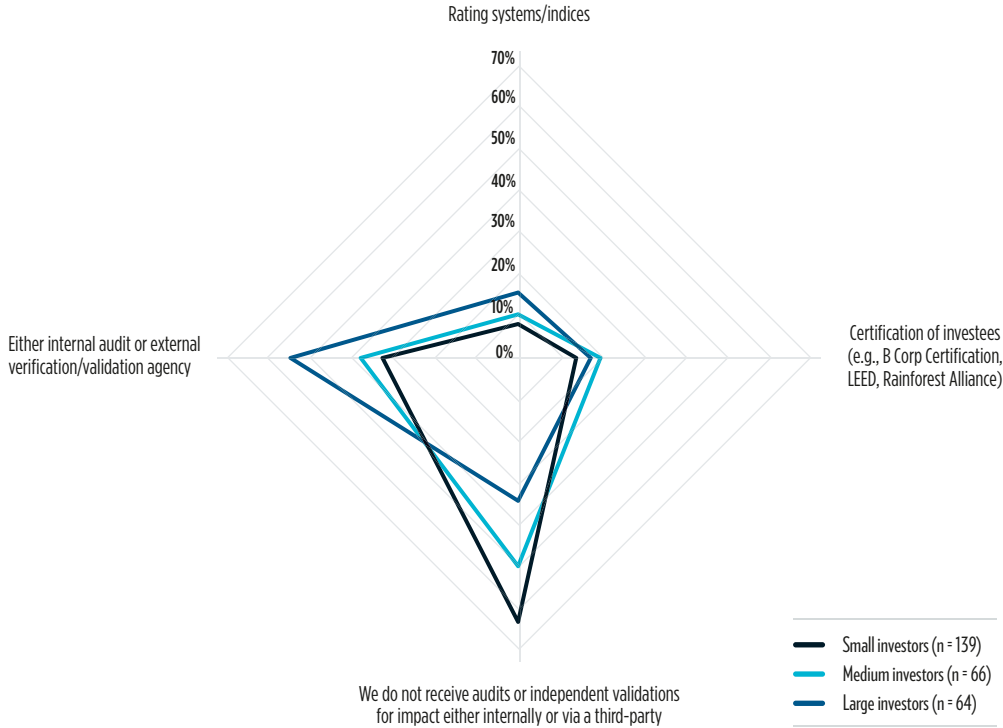
While audits on impact practice are important, so too are audits on actual impact results, with 46% of investors engaging in audits specifically on their impact results or performance. Just under a third of small investors (32%) engage in third-party specialist verifications or internal audits, compared to 38% of medium investors and 55% of large investors (Figure 12). Interestingly, a greater proportion of private debt-focused investors audit their impact results or performance than do private equity-focused investors (64% versus 44%), despite more active engagement with stakeholders from private equity-focused investors.

FIGURE 11: Third-party accountability mechanisms on impact practice, by investor size



Note: Respondents could select multiple approaches.
 Source: Global Impact Investing Network (GIIN), 2023 GIINights: Impact Measurement & Management Practice

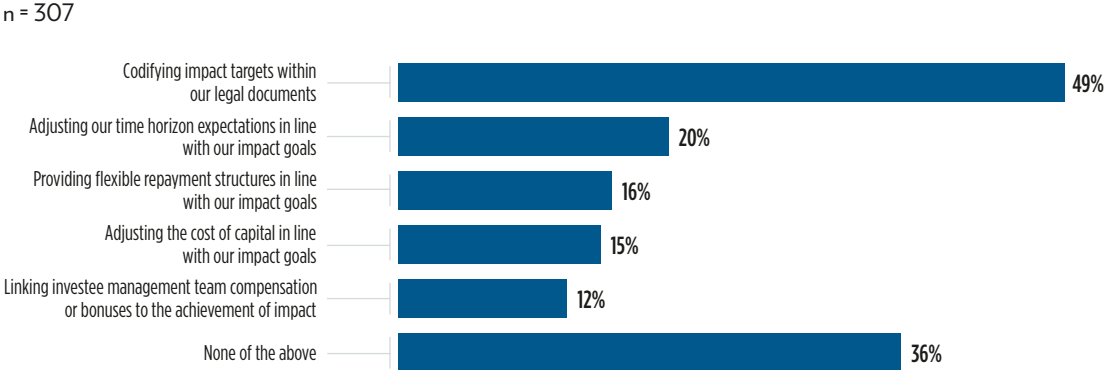
FIGURE 12: **Third-party accountability mechanisms on impact results or performance, by investor size**



Note: Respondents could select multiple approaches.
 Source: Global Impact Investing Network (GIIN), 2023 GIINSights: Impact Measurement & Management Practice

Impact investors rely on a variety of mechanisms to incorporate their impact goals into investment terms to manage their investments toward greater impact. About half of investors (49%) codify impact targets in legal documents such as procurement policy memorandums, investor or shareholder agreements, loan covenants or term sheets (Figure 13). A fifth of investors adjust their time horizon expectations in line with their impact goals. Perhaps unsurprisingly, a greater proportion of below-market-rate investors provide flexible repayment options (35%) compared to market-rate investors (8%). Among those investors focused on public markets, roughly a third (32%) incorporate impact goals into investment terms, possibly reflecting the nature of public market assets.

FIGURE 13: **Incorporating impact goals into investment terms**

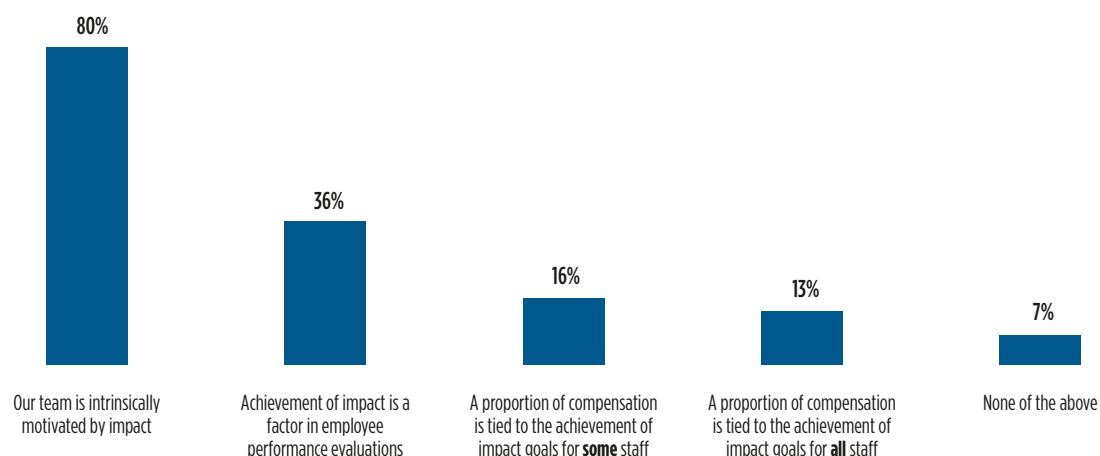


Note: Respondents could select multiple mechanisms.
 Source: Global Impact Investing Network (GIIN), 2023 GIINSights: Impact Measurement & Management Practice

In addition to incorporating impact into contracts, investors also have an opportunity to incentivize their staff and investees to achieve impact (Figure 14). Eight in ten investors indicate that their staff is intrinsically motivated by impact. Yet, a far lower proportion of investors link staff incentive systems to impact performance: among the full sample, 36% factor impact into employee performance evaluations and 16% tie a proportion of compensation to the achievement of impact goals for some staff.

FIGURE 14: **Staff incentives to achieve impact**

n = 307



Note: Respondents could select multiple incentives.

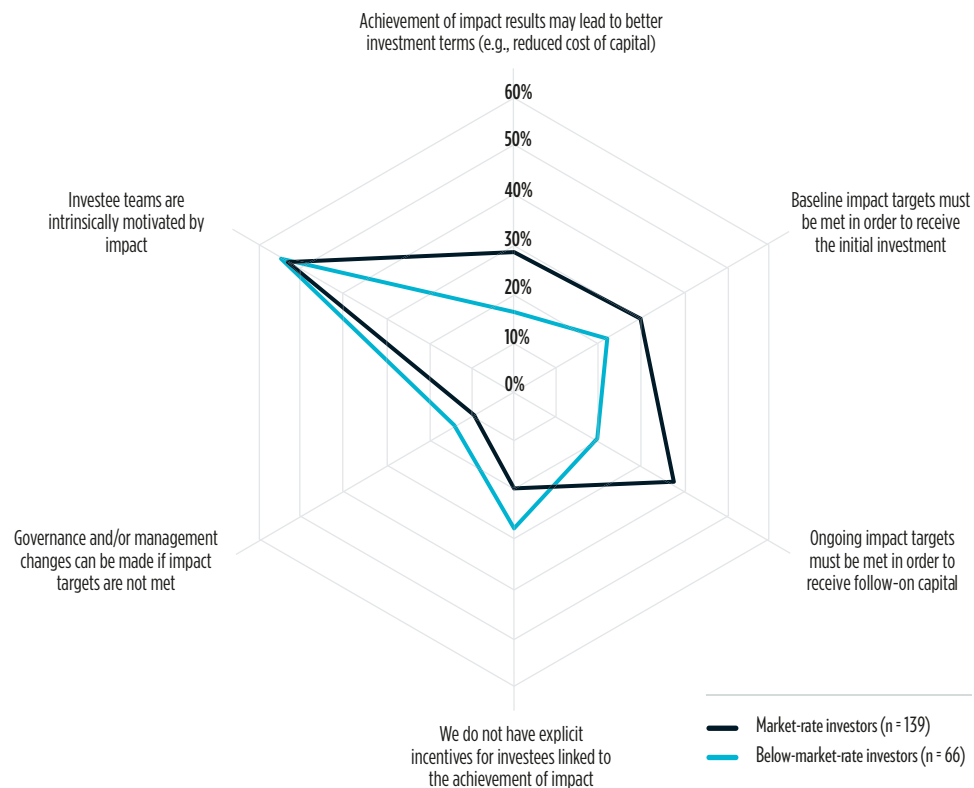
Source: Global Impact Investing Network (GIIN), 2023 GIINSights: Impact Measurement & Management Practice

Just under a third (30%) of pension funds and insurance companies do not use any mechanisms to incentivize staff to achieve impact. However, among those who do, 60% link impact to employee performance evaluations and 30% indicated that a portion of compensation is tied to the achievement of impact goals for some staff.

When incentivizing investees, 70% of private equity-focused investors report that their investee teams are intrinsically motivated by impact; only 43% of private debt-focused investors report the same. Furthermore, 45% of private debt-focused investors indicated ongoing impact targets must be met in order to receive follow-on capital, as opposed to 16% of their private equity-focused peers.

Additionally, 37% of below-market-rate investors ensure ongoing impact targets must be met in order to receive follow-on capital, as opposed to 19% of market-rate investors when incentivizing investees (Figure 15). Three in ten below-market-rate investors ensure baseline impact targets are met in order to receive the initial investment compared to 22% of market-rate investors. Achievement of impact results leads to better investment terms (such as reduced cost of capital) for 28% of below-market-rate investors compared to 16% of market-rate ones, perhaps reflecting the role of below-market rate investors to offer more patient, catalytic and flexible terms.

FIGURE 15: Investee incentives to achieve impact, by target financial returns



Note: Respondents could select multiple incentives.

Source: Global Impact Investing Network (GIIN), 2023 GIINSights: Impact Measurement & Management Practice

IMPLICATIONS FOR INVESTORS

While good impact management practices are not necessarily a proxy for strong impact performance, independent audits or verification of both practice and performance are crucial for several reasons. Third-party entities can hold investors accountable against standards of impact practice and performance that are widely adopted, as evidenced by the growing collection of data. Verifications can help to combat impact-washing and reduce impact dilution – without audits, impact carry incentives, or even codification within investment mandates, impact performance is not given the same credence as financial performance.^{8,9}

To address these challenges – and to distinguish themselves as credible leaders – some impact investors voluntarily undergo third-party audits or certifications to validate their impact claims as well as their IMM practices. Indeed, providing regular independent verifications of alignment on practice is a requirement to be a signatory of the Operating Principles for Impact Management (“Impact Principles”).¹⁰ These audits can lead to greater credibility, transparency and accountability in the impact investing industry.

8 For example, the practice principles laid out in the [Impact Principles](#) and emerging [benchmarks of good practice](#).

9 For example, thresholds of impact performance emerging from the impact benchmarks in [IRIS+](#).

10 Learn more about the Impact Principles [here](#).

APPENDIX 1: DEFINITIONS

GENERAL

Impact investments: Investments with the intention to generate positive, measurable social and environmental impact alongside a financial return, and specifically use that investment capital along with engagement or investment terms to positively influence targeted impact results.

Investee: The recipient of investment capital, often though not always a company, project, or real asset.

ASSET CLASSES

Deposits & cash equivalents: Cash management strategies that incorporate intent toward positive impact.

Private debt: Bonds or loans placed with a select group of investors rather than being syndicated broadly.

Publicly traded debt: Publicly traded bonds or loans.

Equity-like debt: An instrument between debt and equity, such as mezzanine capital or deeply subordinated debt. Often a debt instrument with potential profit participation, such as convertible debt, warrant, royalty or debt with an equity kicker.

Private equity: A private investment into a company or fund in the form of an equity stake (not publicly traded stock).

Public equity: Publicly traded stocks or shares, also described as listed equities.

Real assets: An investment of physical or tangible assets as opposed to financial capital, such as real estate or commodities.

STAGES OF BUSINESS

Seed/Start-up: Business idea exists, but little has been established operationally; pre-revenues.

Venture: Operations are established, and company may or may not be generating revenues, but does not yet have positive EBITDA.

Growth: Company has positive EBITDA and is growing.

Mature: Company has stabilized at scale and is operating profitably

INVESTOR SUBGROUPS

Developed market-focused investors: Respondents that allocate $\geq 75\%$ of their impact assets under management (AUM) to developed markets.

Emerging market-focused investors: Respondents that allocate $\geq 75\%$ of their impact AUM to emerging markets.

Private equity-focused investors: Respondents that allocate $\geq 75\%$ of their impact AUM to private equity.

Private debt-focused investors: Respondents that allocate $\geq 75\%$ of their impact AUM to private debt.

Private market-focused investors: Respondents that allocate $\geq 75\%$ of their impact AUM to private equity and/or private debt.

Public market-focused investors: Respondents that allocate $\geq 75\%$ of their impact AUM to public equity and/or public debt.

Direct investors: Respondents that allocate $\geq 75\%$ of their impact AUM directly to companies and/or projects.

Indirect investors: Respondents that allocate $\geq 75\%$ of their impact AUM indirectly via investment managers or intermediaries.

Market-rate investors: Respondents that principally target risk-adjusted, market-rate returns.

Below-market-rate investors: Respondents that principally target below-market-rate returns, some closer to market-rate and some closer to capital preservation.

Small investors: Respondents with total impact investment AUM \leq USD 100 million.

Medium investors: Respondents with total impact investment AUM $>$ USD 100 million and \leq USD 500 million.

Large investors: Respondents with total impact investment AUM $>$ USD 500 million.

Impact-only investors: Respondents that allocate 100% of their AUM to impact investing.

Impact and impact-agnostic investors: Respondents that allocate at least some of their AUM to conventional investments.

APPENDIX 2:

REFERENCES

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About The GIIN

The Global Impact Investing Network (“GIIN”) is a nonprofit 501c(3) organization dedicated to increasing the scale and effectiveness of impact investing through research, education and other activities. Readers should be aware that the GIIN has and will continue to have relationships with many organizations identified in this report, through some of which the GIIN has received and will continue to receive financial and other support.

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