# *Operating Principles for Impact Management*



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**Operating Principles for Impact Management**

# PURPOSE

The *Operating Principles for Impact Management* (the Impact Principles or OPIM) have been developed by a group of asset owners, managers, and allocators to describe essential features of **managing investments into companies or organizations with the intent to contribute to measurable positive social[1,2] or environmental impact,[2] alongside financial returns.**

Impact investments have the potential to make a significant contribution to important outcomes by addressing challenges related to, for example, economic inequality, access to clean water and sanitation, agriculture productivit y, and natural resource conservation. The Impact Principles provide a reference point against which the impact management systems of funds and institutions may be assessed. They draw on emerging best practices from a range of impact asset managers, asset owners, asset allocators, and development finance institutions, and may be updated periodically. Asset owners may use the Impact Principles to screen impact investment opportunities and/or ensure that their impact funds are managed in a robust fashion.

The Impact Principles may be adopted at the corporate, line of business, or fund level. Managers that offer a range of investment strategies may adopt the Impact Principles for assets which they choose to identify as impact investments. Institutions and fund managers that only invest for impact may adopt the Impact Principles at the corporate or fund manager level.

The Impact Principles may be implemented through different impact management systems and are designed to be fit for purpose for a range of institutions and funds. A variety of tools, approaches, and measurement frameworks may be used to implement the Impact Principles.

1 Social impact may include economic impact on specific social groups such as low income, women, etc.

2 The positive or negative primary and secondary effects produced by an investment, either directly or indirectly, and intended or unintended. This definition is adapted from the definition of the Organization for Economic Co-operation and Development's Development Assistance Committee (OECD-DAC).

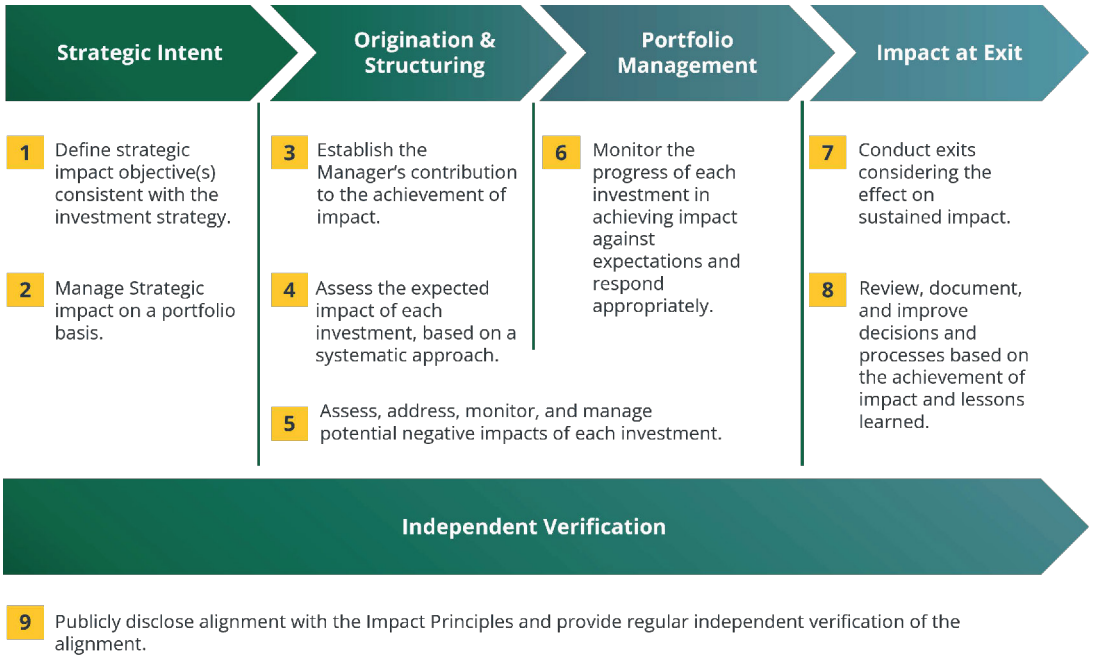
# OVERVIEW

The *Operating Principles for Impact Management* define an end-to-end process. The elements of the process are: strategy, origination and structuring, portfolio management, exit, and independent verification. Within each of these five main elements, the Impact Principles have been defined by a heading, supplemented by a short descriptive text. In total, the 9 Principles (see Figure 1 below) that fall under these five main elements are considered the key building blocks for a robust impact management system.

The Impact Principles have been formulated based on two fundamental concepts: (1) core elements of a robust impact management system; and (2) transparency of signatories' alignment with the Impact Principles.

In the text below, the term 'investment' includes, but is not limited to, equity, debt, credit enhancements, and guarantees. The general term 'Manager' is used to refer to the asset manager, fund general partner, or institution responsible for managing investments for impact. The term 'each investment' may also refer to a program of investments. 'Investee' refers to the recipient of the funds from the Manager. For example, the recipient may be a company or organization, fund, or other financial intermediary.

FIGURE 1
**OPERATING PRINCIPLES FOR IMPACT MANAGEMENT**



# THE PRINCIPLES

## PRINCIPLE 1:

### *Define strategic impact objective(s), consistent with the investment strategy.*

The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.

## PRINCIPLE 2:

### *Manage strategic impact on a portfolio basis.*

The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

## PRINCIPLE 3:

### *Establish the Manager's contribution to the achievement of impact.*

The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels.[3] The narrative should be stated in clear terms and supported, as much as possible, by evidence.

3 For example, this may include: improving the cost of capital, active shareholder engagement, specific financial structuring, offering innovative financing instruments, assisting with further resource mobilization, creating long-term trusted partnerships, providing technical/market advice or capacity building to the investee, and/or helping the investee to meet higher operational standards.

## PRINCIPLE 4:

### *Assess the expected impact of each investment, based on a systematic approach.*

For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact[4] potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact?[5] The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations.

In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards[6] and follow best practice.[7]

## PRINCIPLE 5:

### *Assess, address, monitor, and manage potential negative impacts of each investment.*

For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage negative impact risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice.[9] As part of portfolio management, the Manager shall monitor investees' negative impact risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

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4 Focus shall be on the material social and environmental impacts resulting from the investment. Impacts assessed under Principle 4 may also include positive sustainability effects derived from the investment.

5 Adapted from the Impact Management Project ( *www.impactmanagementproject.com*).

6 Industry indicator standards include HIPSO ( *https://indicators.ifipartnership.org/about/*); IRIS (*iris.thegiin.org*); GRI ( *https://www.globalreporting.org/* ); and SASB (*www.sasb.org*), among others.

7 International best practice indicators include SMART (Specific, Measurable, Attainable, Relevant, and Timely), and SPICED (Subjective, Participatory, Interpreted & communicable, Cross-checked, Empowering, and Diverse & disaggregated), among others.

8 The application of good sustainability risk management will potentially have positive impacts that may or may not be the principal targeted impacts of the Manager. Positive impacts resulting from sustainability risk management shall be measured and managed alongside with, or directly embedded in, the impact management system referenced in Principles 4 and 6.

9 Examples of good international industry practice include: IFC's Performance Standards (*www.ifc.org/performancestandards* ); IFC's Corporate Governance Methodology ( *www.ifc.org/cgmethodology* ), the United Nations Guiding Principles for Business and Human Rights (*www.unglobalcompact.org/library/2* ); and the OECD Guidelines for Multinational Enterprises ( *https://www.oecd.org/content/dam/oecd/en/publications/reports/2023/06/oecd-guidelines-for-multinational-enterprises-on-responsible-business-conduct_a0b49990/81f92357-en.pdf* ).

## PRINCIPLE 6:

### *Monitor the progress of each investment in achieving impact against expectations and respond appropriately.*

The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action.[10] The Manager shall also seek to use the results framework to capture investment outcomes.[11]

## PRINCIPLE 7:

### *Conduct exits considering the effect on sustained impact.*

When conducting an exit,[12] the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.

## PRINCIPLE 8:

### *Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.*

The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

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10 Actions could include active engagement with the investee; early divestment; adjusting indicators/expectations due to significant, unfore seen, and changing circumstances; or other appropriate measures to improve the portfolio's expected impact performance.

11 Outcomes are the short-term and medium-term effects of an investment's outputs, while the outputs are the products, capital goods, and services resulting from the investment. Adopted from OECD-DAC (*www.oecd.org/dac/*).

12 This may include debt, equity, or bond sales, and excludes self-liquidating or maturing instruments.

## PRINCIPLE 9:

***Publicly disclose alignment with the Impact Principles and provide regular independent verification[13] of the alignment.***

The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Impact Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.

13 The independent verification may be conducted in different ways, i.e., as part of a financial audit, by an independent internal impact assessment committee, or through a portfolio/fund performance evaluation. The frequency and complexity of the verification process should consider its cost, relative to the size of the fund or institution concerned, and appropriate confidentiality

# GLOSSARY

## *Impact Investments*

Impact investments are investments made into companies or organizations with the intent to contribute to measurable positive social or environmental impact, alongside a financial return.

*Source:*
*Adapted from the Global Impact Investing Network (GIIN) https://thegiin.org/*

## *Sustainable Development Goals (SDGs)*

The Sustainable Development Goals (SDGs) are a collection of 17 global goals set by the United Nations in 2015. They represent a universal call to action to end poverty, protect the planet, and ensure that all people enjoy peace and prosperity.

*Source:*
*United Nations*
*https://sustainabledevelopment.un.org/sdgs*

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**DISCLAIMER:**

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