Newsbrief — June 2010: When is an investment an impact investment?

As the language of impact investing gains resonance, a question asked with increasing frequency and relevance is "When is an investment an impact investment?" This query sparked a fascinating conversation at the first **Global Impact Investing Network Investors' Council** meeting in late April, in Glen Cove, New York. Fifty leading investors from a range of geographies and perspectives debated how high a social impact hurdle we should expect impact investments to exceed.

On one hand, too narrow a definition will limit viable deal flow and make it harder for all but the most socially-focused capital to be deployed. On the other hand, too wide a definition runs the risk of diluting the credibility of impact investing as a force for addressing social and environmental problems rather than just letting investors feel good about themselves. Some even wondered whether narrowing the definition is misguided and whether, at this early stage in the industry's development, an open definition is best to attract the widest range of participants.

We agree that being overly prescriptive is both dangerous and impractical in a field that flourishes from entrepreneurial innovation. However, as we seek to work with many of you to weave together a powerful industry from the threads of these new concepts, we need to push this definition debate forward. Practical decisions—about asset allocation, product development, network formation, etc.—are being made more and more often by industry participants based on implicit or explicit definitions of impact. We look forward to continuing to engage with you to develop an industry-wide framework for understanding and defining impact investment.

Recent developments will help inform this conversation

Even as we develop a framework for the definition, moving any definition from an intellectual framework to a practical tool that can inform resource allocation will not be easy. The formal launch in late April of the Global Impact Investing Ratings System (**GIIRS**) is an important milestone in developing tools for defining impact investing. GIIRS will provide an **"impact rating"** for funds and companies raising investment capital. It will also force the many people involved in its development to reach agreement on the thorny issues of impact measurement, such as weighting among various externalities to determine the *net* social good an investment generates.

Ultimately, however we define it, the real power of impact investing will be made manifest in investments that lead to improved well-being and environmental sustainability. We are pleased to have finalized a $1 million **Program Related Investment** in the Mexico-based **IGNIA Fund**. IGNIA is testing the investment thesis that providing expansion capital to **businesses focused on serving poor customers** can generate substantial social impact. The management team is also convinced this will provide generous financial returns to investors. These twin assertions have confused more than one investment committee with their challenge to the assumptions many people still have about the necessary trade-off between social and financial return. With IGNIA agreeing to be one of 12 "pioneer funds" that will receive a GIIRS social impact rating, we will begin to gather comparable data to test this assumption.

We are also excited by the milestone reached in April in the development of a "social impact bond," when the UK Ministry of Justice signed a contract with **Social Finance** for a bond focused on **reducing re-offending rates by former prisoners.** Under the first contract, Social Finance aims to raise about $8 million from private investors, which will be channeled to nonprofit organizations working with former prisoners. The Ministry of Justice will pay social impact bond holders if fewer of these former prisoners return to jail. If the interventions succeed, the government will save enough by keeping people out of prison to pay good returns to investors and still benefit financially (in addition to the substantial social good this creates for the former prisoners, their families and communities).

This new investment vehicle internalizes social good creation into financial returns for investors and could become a conduit for scaling up funding of successful preventive services programs. It could be applied to raise capital to address a range of social and environmental challenges in which prevention costs less than treatment, results are measurable, and risk-taking capital is needed to back solutions and organize the intervention.

Together these innovations, alongside the work that many of you undertake, will create the proving grounds on which we can better understand how for-profit investments can address social and environmental problems. Ultimately, it is this experimentation, rather than rumination, that will underpin a compelling understanding of what constitutes an impact investment.

--*Rockefeller Foundation Impact Investing Team*

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Program Related Investments

Social Finance: This London-based social impact investment bank launches a bond to fund organizations that help reduce prisoner recidivism rates.

Global Impact Investing Rating System (GIIRS): Using a special international rating system, this new project assesses the social and environmental impact of companies and funds.

GIIN Investors Council: Diverse active investors learn from each other to increase the scale and effectiveness of their work.

IGNIA: This bottom-of-the-pyramid-focused Mexican investment fund supports the founding and expansion of high-growth social enterprises in Latin America.