



December 9, 2010

Open letter from the Global Impact Investing Network

To: The impact investing community
Re: Building a solid foundation for the impact investing industry

Dear Colleagues:

The microfinance situation in Andhra Pradesh, India, has provided a wake-up call for those of us who care about the future of impact investing. We are not best positioned to weigh in on the specific developments in Andhra Pradesh. However, we do think the situation should inform impact investors and industry advocates about the collective actions we must take now to build a more solid foundation on which the impact investing industry can grow to realize its potential:

1. *Measure social impact:*

Around the world, impact investors are generating exciting examples of for-profit investment complementing government and traditional philanthropy as an appropriate and financially sustainable way to address social and environmental challenges. But the aggregate contribution of these investments, as well as the specific mechanisms through which impact investments address poverty and other social ills, is not yet broadly understood. To fill this knowledge gap, impact investors must measure and report their social impact using rigorous standards that facilitate comparison and benchmarking. Social impact measurement must also draw attention to potential unintended consequences and assess the full range of impact an investment can have—on investee businesses, customers, supply chains and the broader community.

2. *Communicate to make the case more effectively:*

Irresponsible investment undermines the promise of impact investing and it should be exposed and condemned. Just as damaging to the future of impact investing is the underlying tone in much of the conversation about microfinance in Andhra Pradesh, which underscores how many people continue to assume that the presence of profit is *always* evidence of exploitation and that *any* commercial mentality undermines social conviction. Impact investment proponents need to counter this misperception by explaining persuasively how impact investments are different from avaricious business practices. This is especially important for impact investments in businesses that provide essential goods and services to poor customers. Without these mission-driven businesses, poor people often pay high prices for low-quality products and services because they are not adequately served by existing markets or government services. Many observers do not understand this context and judge the prices charged by some mission-driven businesses as exorbitant. Failure to effectively communicate the social impact of businesses supported by impact investors will leave them exposed to these inappropriate

comparisons and subject to further criticism that can constrain their ability to operate effectively.

3. *Collaborate to foster supportive policy and regulation:*

Governments are responsible for regulating industry to maximize long-term social benefit. However, many governments do not understand the approach that impact investors take and are ill-prepared to regulate investments that operate at the intersection of profit and public good. The impact investing industry should work proactively to build government relationships that can initially foster understanding and eventually lead to regulation that prevents exploitation while encouraging entrepreneurial zeal. Impact investors must interact with government not only on behalf of individual interests, but also for the industry and their customers, who often lack the political power to assert their interests directly. Beyond helping to set minimum standards, regulators can increasingly look to examples of government actions that support impact investments through loan guarantees, seeding innovation, market coordination, and smart subsidies.

4. *Develop effective self-governance:*

Beyond fostering supportive formal regulation, impact investors need to self-regulate more effectively. While preserving the conditions for entrepreneurial creativity, impact investing needs industry-wide standards that separate impact imposters from impact investors. This is increasingly important as impact investing is gaining prominence and becoming an attractive label for many entrepreneurs and investors, including some who are not committed to social impact. We must work together to ensure the label “impact investor” connotes at least the intention to create and measure social impact, and adherence to basic principles and practices of consumer and labor protection, environmental sustainability, and transparency.

5. *Recognize the complex operating context:*

In an era of constrained resources, impact investments are necessary to capitalize solutions to major social and environmental challenges. No society can afford to rely on resources from government and charity alone. At the same time, impact investment alone will not suffice; it is not a silver-bullet solution to poverty, environmental degradation, or other global challenges. Impact investors must recognize that they operate within a complex context in which government, nonprofit organizations, and mainstream investors play a crucial role. Impact investments can deliver goods and services to low-income populations, and often lighten the government’s service delivery burden. Impact investments also at times unavoidably compete with government (especially over limited human resources such as teachers and nurses). Building business models that ameliorate unintended consequences will reduce the risk of destructive regulatory action. Creating the conditions that entice mainstream investors without compromising social impact will amplify the positive value of impact investment.

6. *Cultivate industry leadership:*

To lay these cornerstones for the impact investing industry requires coordinated leadership. We are not calling for false unity or suppressed debate. We believe leading impact investors must continue to engage in rigorous and open dialogue about the complex issues they face. In an industry as new and potentially prominent as ours, we need leaders to come together to advance a clearer understanding of the industry comprised of our collective activities and develop systemic ways to improve performance. By collaborating, impact investors have more to gain through industry growth than they stand to lose by ceding market share.

The current threat to the viability of a socially-beneficial microfinance industry in India, and the front-page coverage it has precipitated in the world's leading newspapers, is a powerful indication of how high the stakes have become. Microfinance now plays a role in the lives of tens of millions of people. The broader impact investing industry has the potential to be even more important and powerful by financing additional sectors such as healthcare, education, and sustainable agriculture. But we cannot take for granted that our industry will reach its potential without concerted attention from all of us. Given these stakes, we must take actions now to nurture the development of a more effective and well-understood impact investing industry.

Sincerely,

The Global Impact Investing Network

Disclaimer note: The views expressed in this letter belong solely to the GIIN. This document does not necessarily represent the opinions of the GIIN Investors' Council, our funders, or other partners.

About the Global Impact Investing Network (GIIN)

The [Global Impact Investing Network](#) (GIIN) is a non-profit organization dedicated to building a more effective impact investing industry. We coordinate a range of programs that promote innovation, transparency, and collaboration among industry leaders and other stakeholders:

- The [Impact Reporting and Investment Standards \(IRIS\)](#) creates a common framework for measuring the social impact of investment.
- The [Investors' Council](#) brings together leading impact investors committed to collaboration to support industry development
- We develop and disseminate [research](#) that increases awareness and transparency in the impact investing industry.
- The [ImpactBase](#) data resource, to be fully operational soon, will provide a simple mechanism for impact investors to identify impact-oriented fund managers active in the geographies and sectors they target.

The success of these and other initiatives, and our ability to deliver on our mission more generally, will require active participation and commitment from all those who care about the impact investing industry. To share additional ideas or to learn more about our work, please contact us at info@thegiin.org.