



The ImpactLab **Mission**



Context

The global community is facing a compounding onslaught of crises, from vast inequality to the climate emergency. Over the past two years, the COVID-19 pandemic has exacerbated many of the world's most pressing challenges and has forced a renewed recognition that government aid and philanthropy alone will be insufficient to meet the challenges of our time. If we are to achieve the Sustainable Development Goals or reach the targets set out in the Paris Climate Agreement, private investment capital must be a much greater part of the solution.

Simultaneously, other potent forces across society are also influencing global capital allocations. Investment professionals are encountering a greater need to mitigate environmental, social and governance (ESG) risks in their work, and emergent government regulations are establishing baseline disclosure requirements for investments that claim to reduce such risks. In fact, disclosure of financially material ESG issues is becoming a floor for how investors can and should consider the relationship and impact of the businesses they finance vis a vis different stakeholders (e.g., employees, suppliers, local communities, etc.) and the planet. Meanwhile, societal trust in many big institutions and powerful governments is declining.¹ The public is demanding accountability and transparency as never before, including in their financial investments. Investors are under increasing pressure to move beyond the short-term materiality “floor” of considering the effect of ESG factors on each investment. Rather, investors' competitive advantage lies in considering both material risks as well as how each investment can change the trajectory of the societal and the planetary condition for the benefit of all stakeholders over the long term.

In this context, impact investing has gained strong momentum worldwide. More and more asset owners are demanding that their capital be allocated with an eye toward generating verifiable social and environmental benefit; and increasingly, asset managers are expected to provide data-driven impact performance accounting for their investments. As these demands have grown, so too have the analytical tools intended to help investors measure their own impact performance. However, while measuring impact is necessary, it is not sufficient. What investors also need, but what is notably missing in the market, are impact intelligence tools that can help them make sense of the level and nature of progress they are contributing on specific issues – in other words, to interpret impact performance.

Such insights are crucial for impact investing to achieve its full potential, so that investment capital is being directed to the most effective solutions. Without the needed tools, investors have only limited understanding of the relevant intersections of impact performance, financial performance, and risk. As such, fundamental questions remain unanswered:

How should investors adapt and adjust their own inputs (financial and non-financial) to ensure that their contribution most efficiently address the problem the investment seeks to resolve?



How can the industry benchmark and compare impact performance among peers or against targets and thresholds?

How can investors compete on different dimensions of performance – impact performance in addition to financial performance?

How does impact performance relate to financial performance?

At present, there are no widely available impact performance tools and resources that incorporate a holistic understanding of the relationship between impact results, investor contribution, and financial performance.

While crucial exploratory work has been done by the academic community, peer-learning and collaboration facilitators, and market builders such as the GIIN and others, application knowledge gaps still persist. What the industry needs now is scalable impact performance infrastructure that augments these initial efforts.² Additionally, within the investment management industry, practitioners' skills and experience with incorporating impact dimensions into the investment process lag behind their competency in financial management.³ The resulting knowledge gaps and the lack of impact performance analytical tools at scale, make it difficult for impact investors to efficiently allocate capital toward the most effective investments. Without impact performance tools – and the means to contextualize the tools' findings – impact investors' work will be aspirational and well intentioned at best; at worst, their efforts to allocate capital where it can have the greatest impact will be suboptimal.⁴

What asset owners need is robust impact intelligence that allows them to recognize both good performance when they see it and the factors that influenced that performance. Asset managers need similar intelligence to generate superior performance for competitive advantage. This intelligence is key to generating the most impact for each dollar invested and to remaining competitive in a market that demands performance transparency and accountability.

Analytics from which the industry derives that intelligence, such as benchmarks, are

essential for driving an impact performance “race to the top.” The market-wide standards underpinning such analytics cannot be achieved by any one entity in isolation. It will require a collaborative, multi-year research and development (R&D) effort to establish robust, trustworthy analytical resources that are useful across the market.

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The Initiative



The GIIN is launching the **Impact Lab**, a first-of-its-kind industry initiative that will conduct trailblazing research and development on behalf of the entire market with a focus on driving a deeper understanding of impact performance and the relationship between impact, risk, and financial return. The lab will facilitate collaboration among leading investors and stakeholders to propel the market to a new level of sophistication while generating smart impact insights to inform decision-making. Operating as a cross-sector consortium with field-testing by partner organizations, the lab will incubate the science, method, and computations needed for the creation of impact performance analytic tools that enable impact optimization and form a basis for more robust impact intelligence. This groundbreaking initiative will complement the GIIN's other leading market-building efforts, including investor engagement and education, product development, and the development of IMM resources.

The GIIN expects the lab to produce cutting-edge resources that will drive market-wide progress and pave the way for significant scale toward effective, impactful solutions. In active collaboration with its leading practitioner partners, the lab will build prototype analytical tools, such as benchmarks, to support impact performance comparisons among peers and across the market.

Standardized analytics such as these have potential to ignite substantial new inflows of capital to the impact investing industry. For example, impact performance comparisons lay the foundation for indices that would enable credible ways to passively invest in impact themes – opening the door for many new market players to allocate capital toward impact. Such Lab outputs would be difficult, costly and time-consuming to create by any single organization acting on its own. **The collective wisdom, pooled resources and credibility of a highly respected collaboration of impact investing leaders is essential to**

driving progress on these critical needs.

Building on the deeply established base of financial performance analysis and the evolving approaches for impact performance analysis, the GIIN envisions a set of time-bound activities for the lab, focused on the collaborative R&D needed for **prototyping and testing crucial intelligence infrastructure such as impact performance benchmark, indices, and other analytical tools.**

Specifically, the Impact Lab will conduct R&D to:



Develop market standards for benchmarking impact performance. The lab will build on efforts underway to stress-test the methodology for comparing and analyzing impact performance towards a market-wide standard to ensure its universal utility.



Determine the associated drivers of impact performance so that investors can more effectively and efficiently shape their course of action to achieve optimal impact performance results. The lab will test relationships between inputs (types of capital, timing, terms, and investor engagement) and normalized impact results.



Test the relationship between risk, return, impact, liquidity, and other factors so that investors can optimize the variables that are key to their mandate, as they make investment choices in the context of a given benchmark.



Assess the feasibility of the outcomes efficiency frontier to maximize impact for every dollar invested and enable techniques that offer simple modeling and/or scenario analysis against a benchmark, rating, or index.⁵



Evaluate the interplay between a growing collection of benchmarks to enable a portfolio view of investments across themes so that investors can comprehensively optimize their impact.

The lab structure would allow for the creation of benchmarks that help meet an urgent market need for investors who are driving impact across more than one impact theme. Further, such a structure would support a more holistic integration of impact filters – for themes like **gender, quality jobs, racial equity, and climate** – that will need to be embedded across all other benchmarks.

Building Prototype Impact Performance Benchmarks

The development of prototype impact performance benchmarks forms the backbone of the Impact Lab against which other iterative analytic tools and insights will be made possible. To ensure that investment capital is being directed to effective solutions and delivering strong results, impact investors need not only tools to measure and manage their own impact, but also data that provides smart insights to make informed choices and interpret the level and nature of progress they are contributing on specific issues. In other words, how does the impact performance of an investment in, say, clean energy access, compare to that of others? Is providing clean energy access to 1,500 households or a reduction of 10,000 metric tons in GHG emissions sufficient, exceptional, or sub-par when compared to other investors or an accepted threshold of performance required to achieve global progress? Or how does such clean energy access and GHG emission reduction compare on a per dollar invested basis with other

investors or the pace of impact required? Such insights require access to broad market intelligence that can serve as a yardstick for impact investors to make and manage investments – something that is currently missing in the industry.

Similar to financial performance benchmarks that are widely available, impact performance benchmarks are crucial for informing and strengthening investment screening and selection; enabling investors to more efficiently identify investment opportunities with high impact potential; knowing which inputs or levers are most effective; and allowing investors to gauge the relative performance of their investments to those of their peers, thereby identifying areas of underperformance and shaping engagement strategies accordingly. Indeed, 92% of impact investors have cited impact performance benchmarks as important to advancing their IMM efforts.⁶

Over the past two years, using IRIS+ standardized metrics data, the GIIN has been testing, developing, and refining the industry's first universally applicable methodology for comparing impact performance that takes context and the nature, scope, and scale of the problem an investment is addressing into consideration. As part of this effort, the GIIN conducted pilot impact performance studies in four sectors – Clean Energy Access and Housing published in October 2019, and [Agriculture and Financial Inclusion](#) published in October 2020 – in consultation with participating impact investors and expert advisors. Based on the process and learnings from these pilot studies, the GIIN published its discussion paper titled [Methodology for Standardizing and Comparing Impact Performance](#) in November 2020 to lay out the foundations of a four-step methodology to standardize impact performance comparisons and analyze results along three crucial factors: Scale of, Pace of, and Efficiency of impact. Following a public comment period that garnered feedback from over 350 individuals representing 150+ organizations, the GIIN

published [COMPASS: The Methodology for Comparing and Assessing Impact](#) in May 2021 as the industry's first widely tested and accepted methodology to assess and compare impact results.

The GIIN's effort to build the industry's first prototype impact performance benchmarks will focus on common areas in impact investing that have the potential to yield high impact and improve the social and economic wellbeing of underserved communities – such as financial inclusion, sustainable agriculture, and clean energy access.

Investors can make more informed decisions and capital allocation when they know how well investments perform relative to another investment, to those of another peer, to the rest of their portfolio, and to the scale of the problem being addressed. Insights provided by the GIIN's impact performance benchmarks will serve to mobilize capital in critical issue areas and enable investors to improve and optimize the impact of their investments or portfolio.



Why the GIIN?

The GIIN has been leading the development of the global impact investing industry for over a decade, with a proven track record in catalyzing and scaling industry infrastructure, spotlighting market-shifting trends, and developing practical tools and resources to support impact investors in addressing their needs in the fast-evolving market. The GIIN will bring its unique combination of assets and capabilities in carrying out the Impact Lab:

→ **Unparalleled global network of investors and industry stakeholders.** As the leading global champion for impact investing, the GIIN convenes a community of

institutional investors, asset managers, and asset owners, as well as standards setters, industry bodies, service providers, and academics working together to achieve a shared vision of impactful investments that benefit people and the planet. This diverse global network, which comprises more than 37,000 individuals across six continents and includes a formal membership of 400+ impact investing organizations from over 55 countries, gives the GIIN a bird's eye view of the impact investing market and allows it to source ideas / feedback and drive influential collaboration in market-building initiatives.

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- **IRIS+ Impact Measurement and Management System:** As the creator and champion of IRIS+, the generally accepted system for measuring, managing, and optimizing impact, the GIIN has built the data standard and impact measurement and management (IMM) system that make comparable impact performance benchmarks possible. Developed in collaboration with 1,600+ stakeholders (asset owners, asset managers, IMM experts, and service providers), IRIS+ is accessed by 26,000+ users from nearly 14,000 organizations around the world and used by 80% of the top 50+ leading asset managers, pensions, and institutional investors by AUM.
- **Research and analytics capability:** GIIN's research and analytics capability is well established and often pushes boundaries and feasibility. For example, in 2021, we developed the industry's first-ever universally applicable methodology to contextualize and standardize comparisons of impact performance, incorporating inputs from over 300 impact investors and industry stakeholders. Our work is widely cited as an authoritative source by investors and decision-makers; examples include ten editions of the state-of-the-market Annual Impact investor Survey, State of Impact Measurement and Management Practice surveys, series of impact performance studies, and the seminal Roadmap for the Future of Impact Investing.
- **Global convening power and thought leadership.** Over the years, the GIIN has established itself as a trusted convener of impact investors and a platform for field-building dialogue and activity. From thematic member working groups to large industry convenings like the GIIN Investor Forum, which brings together 1,300+ diverse impact investors and finance professionals from 60+ countries, we have demonstrated our ability to bring together the right players to shape industry dialogue and practice.
- **Trusted relationships with mainstream and financial press.** The GIIN has established relationships with a network of top-tier mainstream and financial media outlets – including Bloomberg, Financial Times, Wall Street Journal, Institutional Investor, Pension and Investments, Responsible Investor, Barron's, Bloomberg, and New York Times, among others – to raise awareness of impact investing within the broader financial markets. The GIIN is a recognized authoritative voice on industry trends that journalists turn to for stories and research and has received coverage in media around the world for its market-building work. We will leverage our media network to promote the Impact Lab's work and raise awareness of the use of smart impact performance data to inform decision-making.

1 [Edelman Trust Barometer 2021](#)

2 The GIIN recognizes the work of the likes of the initial Impact Management Project, [Impact Frontiers](#), [The Total Portfolio Project](#), as well as academics and our peer market builders around the world

3 As part of our broader field-building work, GIIN is looking to build out professional training and capacity building for the impact investing industry.

4 Others in the field have noted a similar challenge, but driving scale with integrity is the unique approach of the Impact Lab.

5 The GIIN's publication: [Impact Investing Decision-making: Insights on Financial Performance](#) laid out a decision making model for efficient impact investments. The Impact Lab hopes to explore this model as an extension of its work on Fund/Portfolio level impact performance methodologies.

6 Rachel Bass, Hannah Dithrich, Sophia Sunderji, and Noshin Nova, [The State of Impact Measurement and Management Practice](#), 2nd ed. (New York: The GIIN, January 2020).

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by GIIN 