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Impact Management Discipline: The Key to Effective Impact Investing and Grantmaking

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Introduction

The field of impact investing — commonly defined as investing "made with the intention to generate positive, measurable social and environmental impact alongside a financial return," (Global Impact Investing Network, 2020, p. 42) — owes much to the philanthropic sector. "Social investing" can be traced back centuries to Benjamin Franklin, who in his will left 2,000 pounds sterling to young artisans, structured as a revolving loan fund (Ford Foundation, 1991). In the following century, several housing associations and societies in Europe pursued reform projects with dividends capped at 5%, termed "five percent philanthropy" (Tarn, 1973). In the early 1900s in the United States, private foundations and wealthy individuals, including the Russell Sage Foundation and John D. Rockefeller Jr., took a similar approach to financing housing projects (Ford Foundation, 1991).

Indeed, the origins of the modern impact investing movement can be traced to the pioneering work of several philanthropic foundations that envisioned the opportunity and need for investment capital to play a larger role, alongside grants, in supporting positive societal change.[1] A crucial innovation for private foundations was their use of program-related investments to advance their charitable mission while also seeking a financial return. A PRI, codified by the IRS in 1969, is a

[1] See Brandenburg and Iqbal (2023) for a more in-depth historical account.

Key Points

- Foundations have a long history of putting impact at the center of their decision-making when allocating resources for grantmaking. Effective grantmaking follows clear processes that have similarities to the best practices employed by the impact investing community for effectively deploying and managing an impact investing portfolio. This is exemplified by the Operating Principles for Impact Management, a leading market standard for how to integrate impact considerations throughout the investment life cycle.
- As a growing number of foundations embrace impact investing, understanding and comparing the impact management approach for grants (where it is enabled through monitoring, evaluation, and learning) versus that for investments (where the equivalent practice is typically referred to as impact measurement and management) can help practitioners harmonize and enhance their practices for assessing whether their interventions are achieving their desired objectives.
- This article uses a case study of The Rockefeller Foundation's Zero Gap Fund, an impact investment platform established in partnership with the John D. and Catherine T. MacArthur Foundation, to elucidate the IMM practices used by impact investors, as well as to show how and why the impact investment field is using independent verification and benchmarking to strengthen practices.

(continued on next page)

loan, equity investment, or guaranty, made by a foundation in pursuit of its charitable mission rather than to generate income. The recipient can be a nonprofit organization or a for-profit business enterprise. (Brest, 2016, p. 19)[2]

Foundations' use of PRIs falls under the field of impact investing, a field that, despite its history, was only coined as a term in 2007 at a Bellagio convening on philanthropy and developmental finance (Agrawal & Hockerts, 2021).

Although a more nascent field than grantmaking, impact investing has grown quickly and at a scale well beyond expectations. Whereas in 2012 the market was forecasted to reach $500 billion by 2022 (Battilana et al., 2012), it is topping $1 trillion at last estimate (Hand et al., 2022). Even considering that 27% of that estimate is made up of development finance institution flows, which some choose to consider separately, the growth has been steep and the current reported totals are equivalent to the total assets of U.S. foundations, also estimated at over $1 trillion, though growing less precipitously than impact investing and declining in 2022 (Di Mento, 2019; Foundation Mark, 2023).

Amid this rapid growth, and to ensure understanding of and accountability to the pursuit of impact, impact investing practitioners have developed a range of impact measurement and management tools, many of which have been informed by the disciplines of financial reporting and accounting, with an emphasis on reporting and disclosures of impact information and third-party assurance or verification of those disclosures. These IMM tools have also been shaped by the discipline of monitoring, evaluation, and learning practiced by governments and development institutions at least since the 1970s (Zall Kusek & Rist, 2004) and still evolving (Picciotto, 2015).

Recognizing that IMM and MEL practitioners have a shared motivation to understand and improve the impact that their activities are generating, and that both experience common challenges related to meaningful use of impact data (Center for Evaluation Innovation, 2022; KPMG International, 2014; Bass et al., 2020), there is much to be gained by more knowledge sharing across these fields. While "collaboration across these two schools has been limited" to date (Reisman et al., 2018, p. 392), there have been recent attempts to bring the two schools together — notably, the American Evaluation Association's annual conference in November 2022, which focused on "new actors" in evaluation and highlighted impact investors (Hoffman & Bolinson, 2022).

This article is an attempt to further bridge building between the impact investing and grantmaking communities by elucidating the IMM practices used by impact investors through a case study which further showcases the role of independent verification to promote continued learning and improvement. It is a focused contribution within a broad area that has been described by Reisman et al. (2018) and Reisman & Olazabal (2021).

Key Points (continued)

- BlueMark, a provider of impact verification services, conducted an independent verification of the fund's IMM systems in 2021 as a means for the ZGF team to improve its approach to IMM. Expanding on the themes in the case study, this article also discusses trends among impact investors more broadly, drawing on BlueMark's 60-plus verifications (as of March 2022) across a diverse group of impact investors, as well as the parallels and opportunities for learning between impact measurement and management and monitoring, evaluation, and learning professionals.

Impact Investing's Evolution Toward IMM

Others have written in more depth about the evolution of impact measurement and

[2] PRIs are distinct from mission-related investments and socially responsible investments (Brest, 2016), terms the discussion of which goes beyond the scope of this article.

FIGURE 1 The 9 Principles Across the Investment Life Cycle

management systems and instruments (Reisman & Olazabal, 2021). In summary, in the initial years of building IMM practices participants worked hard to develop methodologies and metrics taxonomies to support impact measurement. At the time, measurement of impact results seemed the key challenge holding back the market's growth and legitimacy.

Over time, participants have realized that monitoring progress indicators, while important, has been insufficient to hold investment managers accountable effectively and fully. Along this path, the field has called for accountability and standardization (GIIN & Impact Reporting and Investment Standards Initiative, 2011) and moved toward the development of research-based core metrics for various sectors and standardized measures through the efforts of the GIIN, which catalogs and updates a set of standard metrics referred to as IRIS+. A set of shared norms — labeled the Five Dimensions of Impact — was developed through convening a practitioner community of over 3,000 enterprises and investors (Impact Frontiers, n.d.) and moved the field toward the concept of impact management, or the practices that an investor should implement to embed impact considerations into the full life cycle of an investment (Reisman & Olazabal, 2021).

In the last few years, the impact investing field has worked to increase the accountability of IMM practices by embracing disclosures of such practices and third-party verification of those disclosures. Introduced in April 2019, the Operating Principles for Impact Management (n.d.) were the first market standard to articulate — in accessible, investor-friendly terms — the broad value chain of IMM practices expected of impact investors. (See Figure 1.) For accountability purposes, Impact Principle No. 9 contains an explicit requirement for signatories to obtain "regular independent verification" (OPIM, n.d.a, para. 12) of their alignment with the principles. As of February 15, 2024, the Impact Principles had 184 signatories representing $516.7 billion in combined impact assets under management (OPIM, n.d.b).

In this article, The Rockefeller Foundation[3] and BlueMark, one of the first firms to provide impact verification against the Impact Principles, present a case study of the foundation's impact verification of its Zero Gap Fund. The foundation provided grant support to BlueMark in 2020 and 2021. The ZGF's subsequent engagement of

[3] As of June 2022, the foundation had provided 41% of all third-party verifications against the Impact Principles, more than four times the number of the next most frequent provider.

BlueMark and its assessment of the fund were comissioned and completed independently of such grant support to ensure the objectivity of the analysis.

The case study demonstrates the critical role that can be played by third-party verification providers in holding impact investors accountable to robust IMM, including by providing insights and recommendations that can help investors improve their practices and ultimately their ability to contribute to achieving impact.

Zero Gap Fund Case Study

In 2015, The Rockefeller Foundation launched the Zero Gap program to create the next generation of financing solutions to scale investment toward solving the world's most entrenched challenges as framed by the United Nations' Sustainable Development Goals. This set of 17 targets was committed to by all 191 U.N. member states in 2015 as a call to action to end poverty, protect the planet, and advance peace and prosperity by 2030.[4] Building off the foundation's existing relationships within the traditional grantmaking and the impact investing ecosystems, Zero Gap was developed to help address the magnitude of the SDG financing challenge — $4 trillion annually, a sum far larger than the combined funding power of global governments, aid groups, and philanthropic organizations (Organisation for Economic Co-operation and Development, 2020; 2022).

Recognizing the critical importance of private investment strategies, the Zero Gap portfolio was established as a grantmaking program to incubate innovative financial products that have the potential for replication and scale. (See Figure 2.) Grant funding was generally used to support the research and design work required to develop a new financial product. In response to the successful early results of the grant portfolio, The Rockefeller Foundation in 2019 partnered with the John D. and Catherine T. MacArthur Foundation via the Catalytic Capital Consortium to expand its ability to support and help scale its grantees through the creation of a $30 million impact investment fund.

The ZGF deploys program-related investments to provide long-term, risk-tolerant, flexible capital to companies or innovative investment vehicles with the goal of demonstrating the viability of these products and attracting more private capital in the future. Overall, the ZGF is an investment fund intended to catalyze new innovative financial solutions to increase flows of capital toward reaching the SDGs. The fund's portfolio is global and touches nearly all SDGs; among its investments are

- a concessional loan through an innovative bond structure to finance crucial forest restoration in the western United States to reduce wildfire risk and improve watershed resilience,
- junior equity in a first-of-its-kind private equity fund investing in climate adaptation, and
- direct equity to a minority-led financial services company providing revenue-based financing to small and midsize businesses led by women, racial and ethnic minorities, military veterans, and LGBTQIA+ persons.

The ZGF's Impact Measurement and Management Process

The Zero Gap Fund's approach to IMM reflects The Rockefeller Foundation's key principles for monitoring, evaluation, and learning, which emphasize equity, transparency, and strategic learning. Concretely, for the fund this has meant developing cost-effective measurement and reporting approaches for investees that are practical to implement and that reflect the learning goals and needs of the foundation, its investees, and external stakeholders. Based on the foundation's institutional principles and conventions of the IMM field, its innovative finance team, which manages the Zero Gap program, developed a comprehensive IMM approach that

[4] See https://sdgs.un.org/goals and https://www.undp.org/sustainable-development-goals

FIGURE 2 Zero Gap Strategy

GOAL

Create new billion-dollar financing solutions mobilizing private sector capital towards the SDGs.

STRATEGY

1) Creation of new financing vehicles (new instruments to mobilize capital)
2) Unlocking of new investment opportunities (applying existing instruments to new issue areas)

IMPACT

Intent and ability to produce and measure social, environmental, and economic benefits in support of the SDGs

INNOVATION

Focus on pioneer innovation risk (e.g., building a track record to mitigate perceived investment risk) with a view towards innovation effectively addressing a key market failure preventing investors from directing capital to the SDGs (e.g., liquidity, duration, systemic risk, early stage), and/or on-the-ground projects, enterprises and initiatives from attracting capital.

SCALE & REPLICABILITY

Scalable investment structures and products with potential to catalyze greater than $1 billion in investments, across diverse geographic, regulatory, and capital markets environments

ADDITIONALITY

Ability to bring in new investors and additional capital at scale, including institutional (e.g., pensions funds, insurance companies, endowments) and individual (mass retail) investment where it wasn't previously flowing

is employed across all ZGF investments. (See Figure 3.)

The investments are selected through an initial screen that emphasizes four primary impact principles. (See Figure 2.) Intention and potential to achieve impact is considered at the outset of a transaction, and explored during the due diligence process using a consistent set of criteria. At the portfolio management stage of the investment life cycle, the ZGF team works in partnership with its investees to track indicators aligned with the SDG targets and transparently report their results in annual reports, which are published on the foundation's website.[5]

Summary of Assessment

The ZGF team believes subjecting impact practices and performance to improved transparency and accountability standards is imperative to mobilize greater capital for impact. To model such practices, ZGF engaged BlueMark in mid-2021 to conduct an independent assessment of the degree to which its IMM practices were aligned with impact investing industry standards and best practices, specifically the Impact Principles.

The inputs to BlueMark's assessment included a review of ZGF's systems and policies, interviews with members of the team, and an analysis of a representative sample of transactions. The outputs included ratings[6] (based on a proprietary assessment methodology) of ZGF's degree of alignment to each of the core eight Impact Principles[7] and market benchmarks, and detailed recommendations for how the fund could strengthen its IMM practices.

As of December 2023, ZGF was the only PRI portfolio that BlueMark has verified. This is important context within which to interpret the fund's assessment results: As there is no obvious peer group against which to compare ZGF,

[5] https://www.rockefellerfoundation.org

[6] BlueMark's rating system employs a four-step scale: Low, Moderate, High, and Advanced. Ratings are determined for each of the Impact Principles based on the investment program's level of compliance.

[7] Principle 9, which requires independent verification of alignment with the Impact Principles, is not included in the assessment.

FIGURE 3 Zero Gap's IMM Approach

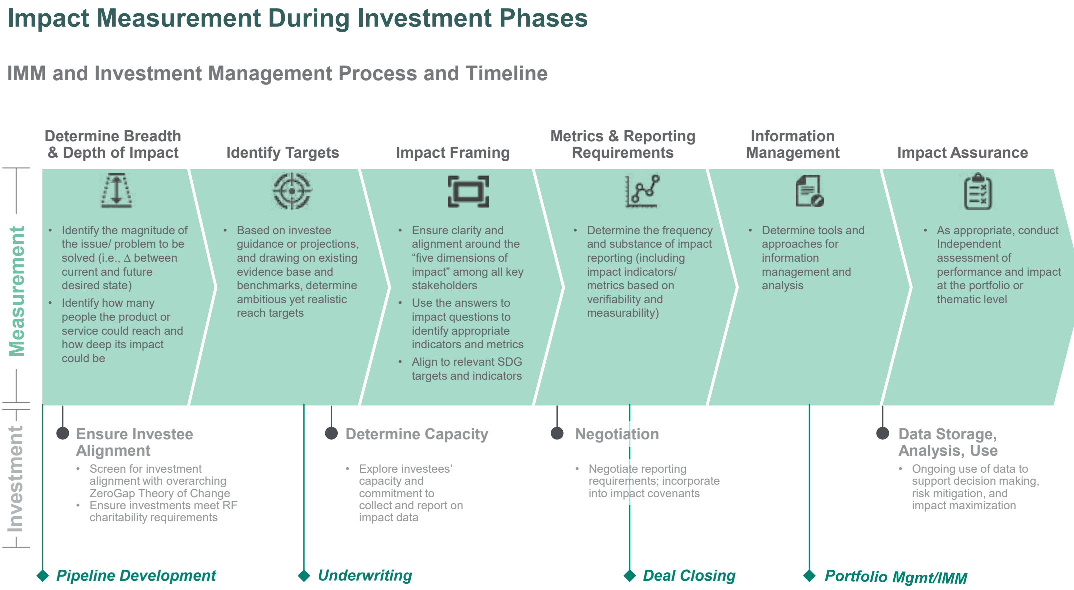
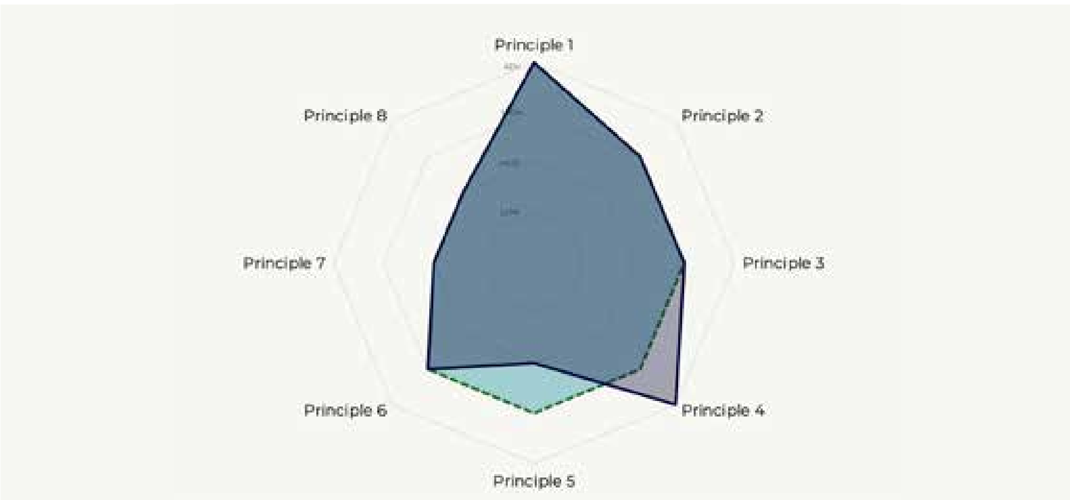


FIGURE 4 Zero Gap Fund's Ratings Relative to BlueMark's Overall Median Ratings as of August 2021



comparisons were made against all verifications performed to date. This raises the question of how other philanthropic actors are pursing verification as a mechanism for transparency and accountability of their PRI portfolios. The following discussion seeks to discuss how impact practice verification can be viewed as an additional learning opportunity for all those striving for impact integrity.

Overall, BlueMark's assessment revealed that ZGF was well-aligned with the first four Impact Principles, which are related to strategic intent, origination, and structuring. There were gaps, however, in practices regarding the principles relating to ongoing portfolio monitoring, management of impact, and the related extraction of lessons learned for future decision-making. (See Figure 4.)

As areas of strength, BlueMark found that the fund had a clear impact strategy linked to positive and measurable impact metrics (with a rating of "Advanced" alignment with Principle 1) and a thorough process for assessing the expected impact of prospective investments ("Advanced" alignment with Principle 4). In particular, ZGF leveraged the Impact Management Project's Five Dimensions of Impact framework[8] as part of its pre-investment analyses. This is a best practice that only 17% of investors verified by BlueMark (2022b) employ in their due diligence. Additionally, ZGF had consistent processes for collecting and monitoring impact performance from its investees ("High" alignment with Principle 6) and used an information management system to facilitate and streamline its data collection and analysis.

At the same time, BlueMark found several areas where ZGF had room to strengthen its approach to IMM. Many of those were specific to an investment, rather than a grantmaking, environment. In particular, the fund could look at ways to more directly link the compensation of the ZGF team to the realization of certain impact goals or results (boosting its alignment from "High" to "Advanced" for Principle 2). This practice, while growing in the impact investment industry, still pertains to a minority of impact investors — with only 38% of verified investors having adopted this practice — a minority that is likely even smaller among the industry writ large because BlueMark's clients have voluntarily committed to best practices in impact investing.

Additionally, the fund could establish a process to better identify and monitor the environmental, social, and governance risks associated with its investments ("Moderate" alignment to Principle 5). These factors involve

> a set of criteria used by investors to assess a company's operations in terms of its environmental performance (E); management and quality of its relationships with its employees, suppliers, customers, and the communities where it operates (S); and its internal governance, including company leadership, executive pay, audits and internal controls, and shareholder rights: governance (G). (Sherman & Olazabal, 2022, p. 7)

These ESG practices and policies are assessed in relation to financial risk and/or opportunities, such as carbon emissions, gender diversity and compensation ratios, and executive oversight (RiskConnect, n.d.). Ninety-three percent of investors verified by BlueMark have a standard process to identify ESG risks, but identifying, monitoring, and reporting on ESG factors is not commonplace in foundations (McClimon, 2021).[9]

Other suggestions for improvement from BlueMark were relevant across both grants and investments; for example, BlueMark noted that ZGF should design a practice for assessing the potential negative impacts associated with its investments (Principle 5). And while the fund has outlined provisions in its investment agreements and side letters that stipulate processes for ensuring impact post-exit or with an early exit, it could build on these existing processes to create more thorough exit plans that take into account the investment's exit readiness, how to exit, whom to exit to, and the exit process ("Moderate" alignment with Principle 7).

Learnings From the Assessment

Undergoing the BlueMark assessment was a valuable experience for the ZGF team, but it was not easy: The team had to adopt a learning mindset of "how can we improve" based on this information instead of seeing it as merely a list of issues where it is underperforming. Being able to see its results benchmarked against other organizations helped the team appreciate the progression across other impact investors. The assessment highlighted areas where ZGF is following best practice and provided concrete

[8] https://impactfrontiers.org/norms/

[9] ESG is a topic the discussion of which falls outside of the scope of this article, but it is entering discussions in traditional evaluation fora. For example, one of the Presidential Strand sessions at the American Evaluation Association's annual conference in 2023 featured a discussion around the links between ESG and traditional evaluation. See https://www.pathlms.com/aea/courses/49126.

recommendations as to how the team can improve IMM practices. Because the fund was assessed early in its life, BlueMark's insights will help position ZGF to better monitor impact over the remaining 10 years of the life of the fund.

The ZGF team took away three overarching learnings from this assessment.

Document Institutional Policies

BlueMark found that The Rockefeller Foundation's PRI fund utilizes similar practices as the broader investment community, but uses different vocabulary because it is a part of a foundation rather than a for-profit entity.

The assessment illustrated the importance of documenting institutional policies and behaviors, noting that the fund did not have an explicit ESG policy on paper or a dedicated section in investment templates to directly address those factors. For the ZGF team, it was very clear that ESG considerations were incorporated throughout the due diligence process as well as internalized by the foundation's team and in its way of working: Each investment considered ESG factors by nature of the fund's impact due diligence as well as the foundation's PRI guidelines. But the fact that this did not translate in the verification suggests that philanthropic organizations may be using different terminology to describe the practice while pursuing a similar set of activities.

While the fund's investment team considers ESG factors during due diligence and implements safeguards to protect against impact underperformance post-investment (i.e., side letters that explicitly mandate funds are used for the defined charitable purposes and provide for withdrawal of capital if an investment does not adhere to the side letters' requirements), there is room for the fund to enhance its post-investment approach to detecting, monitoring, and addressing ESG risks that may arise.

BlueMark's recommendation that ZGF can address this gap by utilizing a standardized ESG assessment is simple to implement and would allow the fund to conform to practices embraced

The Rockefeller Foundation's PRI fund utilizes similar practices as the broader investment community, but uses different vocabulary because it is a part of a foundation rather than a for-profit entity.

by the broader investment community and better align with the Impact Principles. The guidance on impact due diligence developed by Pacific Community Ventures (2019) is a valuable resource that can inform a more standardized approach.

Desired Impact Requires Resources, Planning, and Reflection

The ZGF is a young portfolio, with the fund just recently fully invested. At the time of the assessment, it had not exited any investments yet. But because it is a closed-end, 15-year fund, the ZGF team assesses the likelihood of exit within the life of the fund and methods for a potential exit during due diligence. Still, specific exit processes and explicit plans to ensure impact at exit are not always captured during earlier stages in the investment process. Although the method for exit and the process to ensure impact may vary across investments, BlueMark's recommendation was to create standardized and documented exit-assessment plans on a portfolio-wide level.

BlueMark also called attention to the importance of considering the potential negative impact of the fund's investments — thus taking a systems-thinking approach to evaluating impact, and to using portfolio reviews not just to summarize the state of the portfolio, but also to dig deeper and extract lessons from investments and apply those learnings in a systematic way to future ZGF and broader innovative finance activities. This practice of adaptive management is relevant to grantmakers and impact investors

A key value of voluntary standards like the Operating Principles for Impact Management is that by requiring disclosure and verification, the market benefits from greater transparency and understanding of what practitioners are actually doing and making it easier for individual institutions (and their investors) to gauge how their approach compares to their peers.

alike. We can all benefit from a reminder that the depth of decision and analysis put into the selection of grants and investments is only the beginning of the story. Management of portfolios — of both grants and investments — is equally as important if we hope to achieve our desired impact. In the grantmaking sphere, it is widely accepted (at least in theory) that monitoring and evaluation require dedicated resources, whereas many investors struggle to determine what constitutes an appropriate level of investment in impact measurement and management.

A key value of voluntary standards like the Operating Principles for Impact Management is that by requiring disclosure and verification, the market benefits from greater transparency and understanding of what practitioners are actually doing and making it easier for individual institutions (and their investors) to gauge how their approach compares to their peers.

Transparency Begets Transparency

The ZGF team believes that more transparent practices will increase the investment dollars flowing to impact managers with advanced practices and high impact integrity by providing investors with increased knowledge and confidence to pursue impact investing strategies. This is necessary in a time when "impact washing," or making impact claims without appropriate evidence, has been a persistent concern. Two examples:

- GIIN's 2020 impact investor survey shows that impact washing is seen as a leading threat to the industry, with 66% of investors noting it as a top challenge.
- Researchers are finding that increased money flows to socially responsible investments are not necessarily deliberately driving higher impact (Heeb et al., 2023).

Although potentially demanding, the benefits of verification become readily apparent when one undergoes such a process. For example, this process for the ZGF prompted The Rockefeller Foundation to consider where else it can be more transparent and how it can be accountable to all stakeholders in a consistent manner, contributing to the foundation's commitment to further live its value of transparency through the publication of a foundationwide impact report in June 2023.[10]

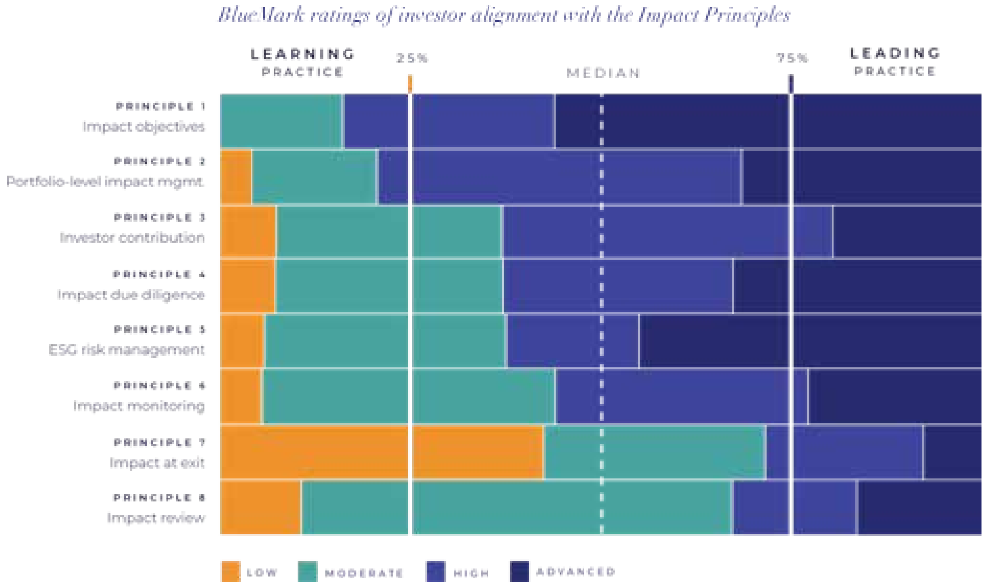
Broader Trends in IMM Among Impact Investors

As BlueMark's volume of impact measurement and management practice verifications has grown, so has its broader insights into the state of the practice in the impact investing field. BlueMark (2022b) shared trends and findings from its recent verifications and representing a diverse mix of impact investors. Notably:

1. The vast majority (77%) of verified impact investors have adopted common industry frameworks and/or standardized metric

[10] https://www.rockefellerfoundation.org/reports/impact-report-2023/

FIGURE 4 BlueMark's 2022 Practice Benchmark



sets, highlighting the commitment of impact investing practicioners to use shared industry conventions for managing and measuring their impact performance.

2. A majority (63%) of impact investors assess impact performance against a baseline or target, although only 22% have a clear protocol for engaging investees in the event of underperformance. This reflects the industry's maturing practices related to goal-setting while highlighting room for improvement when it comes to making adjustments to ensure that goals are being achieved.

3. Less than a third of impact investors (28%) actively solicit input from and engage with key affected stakeholders, demonstrating that despite lip service, concrete action on stakeholder engagment is "maddeningly sparse" (Sherman & Olazabal, 2022, p. 12). Still, there is movement in the field to assimilate lessons from more traditional evaluation practice and make stakeholder engagement a more central part of IMM, including OECD's efforts (Sherman et al., 2022) and IRIS+ guidance (McCarthy et al., 2019).

BlueMark's 2022 Practice Benchmark shows the distribution of ratings of investor alignment with the Impact Principles. (See Figure 5.) The benchmark reveals that the majority of investors have high or advanced IMM practices relevant to the earlier stages of the investment life cycle. But investors struggle to align to best practices during the later stages in the life cycle. Among the latter Impact Principles are monitoring impact results against targets, considering impact at and beyond exit, and reviewing and incorporating lessons learned into the optimization of IMM processes. Readers working in monitoring, evaluation, and learning practices of foundations perhaps recognize these challenges as ones they too grapple with, highlighting the opportunity for mutual learning. For impact investing, the challenges are exacerbated by the longer life cycles of impact investments, which are almost always multiyear, as compared to grants, where, as Orensten (2018) finds, about 50% of grants are single-year, with the trend consistent over time.

Continuing the Learning Journey Between Grantmakers and Impact Investors

Foundations have a long history of putting impact at the center of their decision-making when allocating resources for grantmaking. Effective grantmaking decisions follow a clear process:

1. Understand evidence and context.
2. Define a strategy and goals.
3. Implement consistent practices to account for impact.
4. Monitor results to identify opportunities for learning and improvement.

This approach, as exemplified by the Impact Principles, is also widely accepted by the impact investing community as best practice for effectively deploying and managing an impact investing portfolio. (See Figure 1.)

Monitoring, evaluation, and learning is a dynamic field and impact measurement in grantmaking encompasses a broad set of activities, some of which line up with the spirit of the Impact Principles. Reisman et al. (2015) provide a useful comparison of the methods used to evaluate programs in the philanthropic sector and the approaches, such as impact investing, used by market-oriented actors.

Some of the Impact Principles map directly to best practices in grantmaking, while others are less relevant for foundations. The Zero Gap Fund case study illustrates the strong parallels across grantmaking and impact investing and the areas for learning for both fields.

- *Strategic Intent (Principles 1 & 2):* Intentionality is key to any credible impact investing or grantmaking strategy and requires a clear, comprehensive, and evidence-backed description of the problem the funder is hoping to address, the approach and focus for their funding activities, and their expected results (in terms of social and/or environmental outcomes). Increasingly, impact investors are leveraging widely adopted practices among grantmakers; they are regularly utilizing logic models and/or theories of change to describe their impact theses, and are even exploring systems mapping, though this is still at a nascent stage for impact investors (Impact Frontiers, 2023). Greater alignment and knowledge sharing between grantmakers and impact investors when it comes to the techniques and sources of evidence utilized in the development of an impact thesis has the potential to create efficiencies and surface points of connectivity across strategies, promoting more coordinated and aligned interventions where appropriate.

- *Origination & Structuring (Principles 3 & 4):* Both grantmakers and impact investors spend considerable time on due diligence and evaluating the potential of prospective funding opportunities. A best practice for impact investors is to assess the expected impact of an investment using a results framework that considers multiple dimensions of impact, including the contributions the investor can make to strengthen the likelihood of impact being realized. Notably, most impact investors leverage shared tools (e.g., Impact Management Project's 5 Dimensions of Impact,[11] IRIS+[12]) in developing results frameworks. It may be useful for grantmakers to consider using a high-level framework such as the IMP to allow for greater comparability of expected impacts across both grants and impact investments as well as to ensure consistent consideration of all dimensions of potential impact, including their potential contributions.

- *Portfolio Management (Principles 5 & 6):* A best practice for both grantmakers and impact investors is monitoring the results of their investment activities, including both positive and negative impacts. Processes for identifying and monitoring potential ESG risks may be more critical for impact investors than grantmakers. However, establishing

[11] See https://impactfrontiers.org/norms/ and https://impactmanagementplatform.org

[12] See IRIS+ Thematic Taxonomy. https://iris.thegiin.org/document/iris-thematic-taxonomy/

consistent and structured processes for evaluating potential negative impacts has relevance to grantmakers and impact investors alike. On the other hand, grantmakers have a track record of including key affected stakeholders in their measurement processes and ensuring that data collection is participatory. Impact investors could learn from and look to adapt these tools and techniques in their own work to ensure they are capturing the perspectives of those whom they intend to serve.

- *Exits (Principles 7 & 8):* It is in the interest of both grantmakers and impact investors to plan for the long-term sustainability of the impact-generating activities of the organizations they fund. The impact investing community has begun to codify best practices to plan for and manage exits in ways that increase the likelihood of sustaining impact. Grantmakers may benefit from leveraging some of these practices, as relevant, when thinking about how to set their grantees up for success over the long term and once their funding ends; while the impact investment community can benefit from the work done around understanding sustainability of interventions through ex post evaluations (U.S. Agency for International Development, 2021). Separate, but relatedly, it is incumbent on both impact investors and grantmakers to develop a regular practice of reviewing what's working or not across their portfolio and adapting their strategies accordingly. Grantmaking practitioners have much to offer the impact investing community in this regard, especially through the practice of strategic learning (Coffman & Beer, 2011).

There are many features of investments, notably their accountability to investors seeking a return, that have driven the impact investing sector to adapt quickly to standards and frameworks that aim to instill transparency, efficiency, and accountability while grantmakers are freer to develop bespoke, organization-specific approaches that focus on learning. While learning and accountability are interrelated, and both are needed to lead to improvements, the verification efforts in impact investing have focused on practice rather than social or environmental outcomes on the ground.

The impact investing community has begun to codify best practices to plan for and manage exits in ways that increase the likelihood of sustaining impact. Grantmakers may benefit from leveraging some of these practices[.]

Evaluating practice is important, especially in such a fast-growing field where there is less history and experience focusing on impact measurement and management. However, this should not come at a cost of not focusing on the ultimate outcomes of the investments — this is where IMM can learn from MEL, where there is a long history of practice of data quality assessments and fit-for-purpose evaluations to ensure impact is experienced and valued by those most affected by the problems our grants and investments are trying to solve.

Conclusion

Both impact investors and grantmakers recognize that best practices in their respective fields are constantly evolving and, as such, prioritize learning and adaptation. Among impact investors, independent verification has become an increasingly valued tool to facilitate regular reviews and learning of impact measurement and management practices. These third-party assessments are not just valuable for understanding specific areas of strength and weakness, but also for shining a light on how an organization stacks up relative to its peers and with the field as a whole.

However, while the impact investing market has developed discipline with respect to assurance of its practices, it has room to improve with respect to assurance surrounding its impact performance results. Research as to how best to report on impact performance is well underway, with a study by BlueMark (2022a) showing that there is a high degree of alignment around the key elements of impact performance reporting. However, there is still significant work required to get the larger impact investing field to adopt an approach to reporting on and assuring impact results that will provide the level of confidence and interpretability required for investors to effectively use this information for decision-making purposes. Foundations, given their experience measuring, evaluating, and learning from grantee results, could play an important role in shaping industry practices for data collection, interpretation, and reporting, and in encouraging their adoption.

How more traditional development actors, whether evaluators or grantmakers, can work with and add value to impact investing and vice versa is a "live and dynamic global conversation" (Hoffman & Olazabal, 2018, p. 3). Acknowledging how many actors need to align and how much we still need to learn about driving impactful programs and investments, one of the pivotal contributions investors and grantmakers can make is to hold themselves and their partners accountable to a higher standard of discipline in impact management practice and impact achievement to make progress in addressing our most urgent sustainability challenges.

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