“Opportunities in impact investing: Key considerations for impact investors in inclusive finance” by Laura Foose and Leticia Emme of the Social Performance Task Force.

The impact investment field continues to grow, attracting increasing and new capital while offering broader opportunities for investment. Achieving extraordinary returns in impact investment is possible. Impact investors do not have to sacrifice financial returns to do good.

However, when setting financial return expectations investors must take into account where in the process the impact is being created. This idea is at the core of a larger, ongoing conversation many within the sector are having about the crucial need to assess social impact and not just financial performance in impact investment. Roots of Impact recently discussed that “financial returns are only half the story”. In similar lines, Grassroots Capital recently warned that when failing to put “values and stakeholders in the forefront of all discussions of impact investing we risk losing its potential for good.”

Various impact investments attain their impact in different ways:

For some impact investments the principal impact is on **HOW** goods are produced or services are provided – ensuring that workers are well paid and treated respectfully, using renewable energy sources, organic farming techniques, respecting animal rights etc. Some examples of this include investments in companies producing consumer goods targeted at the general public or higher income groups.

In other areas, the impact is determined by **WHAT** is being produced or provided. These are goods or services that they themselves have fundamental added social or environmental value. Some examples of this include: solar panels, electric cars, water purification systems, anti-malarial mosquito nets.

In other areas, the impact emphasis is on **WHO** the goods or services are intended for. Here the impact is by providing affordable and appropriate products and services to disadvantaged groups in society who otherwise have limited access to such opportunities, such as education, health care services, electricity, and of course, inclusive financial services.

Many impact investments cut across two or even all three of these categories. The impact investment field offers opportunities in different sectors, with various levels of potential financial return, different levels of risk, and various degrees of social and/or environmental impact. Responsible capitalism means selecting the investment that best aligns with an investor’s impact objectives, appetitive for risk and with appropriate return expectations.

In this context, investors in inclusive finance should be aware of the impact that higher return expectations may have on financial service providers’ prices, and hence on end-clients (poor people). Premium return expectations can be reasonable for investments in a company that provides products or services for customers with higher disposable income. But for investors whose objective is, for example, to provide greater opportunities to improve the lives of the world’s poor, it is key that they adjust their financial return expectations to make sure that the target client is able to benefit from using the products or services on offer.
Impact investors distinguish themselves from traditional commercial investors in that their investments create value for someone other than their shareholders/funder – clients,

employees, and the community at large. As such, the definition of "returns" in the impact investment field is fundamentally different than a traditional, strictly financial return calculation, and incorporates the fact that returns are being generated for all stakeholders involved.

This approach requires a supporting framework that offers information on social returns, incorporating standards, common metrics, and outcomes measurements that allow measuring impact in a simple, clear, and comparable way. The inclusive finance sector has been working on this infrastructure for several years and can in many ways be used as example to other impact investment sectors. In inclusive finance, the following key elements of this framework are in place to measure how well the intent to have impact is translated into concrete practices:

- **Social Performance Management Standards** to help institutions align their policies and procedures with responsible business practices as well as products and services that create value for clients - The Universal Standards for Social Performance Management
- **A common social audit tool** -aligned with the Universal Standards- for financial institutions to develop their social statements and for investors to use during their social due diligence and monitoring – The SPI4 (for financial service providers) and the SPI4 ALINUS (for investors)
- **Social ratings** – developed and conducted by third parties and also aligned with the Universal Standards
- **Guidelines for investors and financial service providers in outcomes measurement and a core set of outcome indicators** – being developed by the SPTF outcomes working group

This framework and the tools included within it allow investment managers to assess the extent to which their investments can generate a positive impact and guide them in choosing their investments. It also provides end-investors with the ability to select investment funds that best match their own impact objectives as they answer the following questions: What type of impact do I want to have? Do I want to invest in "access to financial services" – where financial services are the "end" investment or do I want to invest in "Improvement in client outcomes as a result of access to financial services" where financial services are a "means" to an end? These are very different investments.

Merely having good intentions does not result in strong impact, and access alone does not guarantee positive outcomes. Ultimately, having a concrete framework to assess non-financial returns is a critical element to impactful investing in inclusive finance as well as other areas of the impact investing field.

The Social Performance Task Force (SPTF) is a global membership non-profit organization working in the inclusive finance sector. Its +2,600 members from all over the world represent every stakeholder group in inclusive finance (financial service providers, investors, donors, network/associations, support organizations, rating agencies, technical assistance providers, researchers, regulators, and others). SPTF engages with stakeholders to develop, disseminate, and promote standards and good practices for social performance management and reporting. For more information please contact leticiaemme@sptf.info