Swiss Sustainable Finance

Swiss Sustainable Finance consultation response to IFC's draft - Investing for Impact: Operating Principles for Impact Management

1. Introduction

Impact investing has emerged as a significant opportunity to mobilize both public and private capital into investments that target measurable positive social, economic or environmental impact alongside financial returns. A growing number of investors are incorporating impact investments into portfolios.

Despite the increased interest in and number of product launches claiming to be impact investments, there is no consensus for how to manage investments for impact and the systems needed to support this. This has created complexity and confusion for investors, as well as a lack of clear distinction between impact investing and other forms of responsible investing.

To address this challenge, IFC, in consultation with a core group of external stakeholders—impact asset managers, asset owners and industry associations—has been developing Investing for Impact: Operating Principles for Impact Management. The objective is to establish a market consensus around the management of investments for impact and help shape and develop this nascent market.

The draft version of this document is currently open for consultation. Swiss Sustainable Finance is therefore, taking this opportunity to supply IFC input from the perspective of our organisation and members.

Please visit IFC's website for more information.

2. SSF feedback to the consultation draft

SSF welcomes the principles as an important framework to help bring transparency and accountability to the industry of impact investing. The principles fundamentally define the basic standards for the field, setting criteria for what can be classified as impact investing, a welcome development in a field that is often characterized as having ambiguous definitions attached to it.

We think the principles can help to bring a new focus to the field, and help to bring additional funding/facilitate the movement of capital from the private sector to impact investing.

SSF comments on the scope of operating principles:

- On the issue of definitions and standard setting, we find it imperative to make sure leading organisations already working on the topic are aligned. As the GIIN, OECD, the UN PRI (especially referring to the PIIF [Principles for Investors in Inclusive Finance] and their principles on transparency and fair treatment of investees) and the European Commission (all organisations doing extensive work in the area) are not mentioned within the documentation as consultation partners, we feel the IFC should consult with these organisations before completing the principles. The goal should be to avoid multi-standards that co-exist.

- The principles do not differentiate between different types of portfolios (i.e. large private debt portfolios vs. small private equity portfolios). Yet the demands and limits of what can be measured for these portfolios vary substantially. We think the principles should include a statement addressing the varying capacities for data provision according to asset class (e.g. data collection easier for concentrated private equity stake than for private debt provided to intermediaries such as microfinance institutions) and investee companies' own information-gathering capacity.
- In the impact space we have seen increasing activities develop in the "blended finance" area where partnerships are formed to overcome various barriers involved in launching impact investment products. IFC could encourage signatories to specifically report on effects of blended finance as a tool to achieve impact.

<u>SSF comments on content of the operating principles:</u>

- On Principle 4:
    - We think it could be helpful to highlight the work by the Impact Management Project as it provides practical guidance on how to effectively report on impact and involved a broad group of practitioners.
- On Principle 7:
    - This principle is seen by practitioners to be specifically linked to Equity investments which should be clearly stated within the principle.
    - In addition, more guidance is needed to indicate that there should be processes in place to monitor effects also after exit (i.e. 1-5 year progress report).
- On Principle 9:
    - The requirements for independent verification may act as a deterrent for many smaller funds in the impact investment space. The industry is fragmented and often very small players are active, who will not have the resources to go through an elaborate process of verification and/or this could have a negative effect on their performance/financials. In addition, many start-ups are active in this field which will have limited resources for complex verification processes, but we do not want to deter such players from entering the space.
    - We would welcome a more extensive definition of what is meant by "independent internal impact assessment committee", versus an external body. In general, we believe that this option should be stated in the text of the principles themselves, and not in a footnote.
    - We feel that within the document, it should be clearer that principle 9 is referring to audits of methodologies and not underlying figures.

<u>SSF comments on implementation of the principles:</u>

- SSF would welcome the development of a knowledge-sharing platform for signatories of the principles to share their experiences, while also providing those looking to become signatories more insights on how to structure their processes.

Swiss Sustainable Finance

- As we saw from UN PRI, a process was needed to deal with non-compliant signatories. It would be helpful to have this defined early on in the process.
- As this is an evolving industry, perhaps an advisory council should be put in place that is mandated to, on a regular basis, re-evaluate the principles based on current market developments. For this, we would recommend expanding the list of current partnerships (page 8 of consultation draft), to also include a larger number of organisations deeply rooted in the notion of impact (i.e. foundations, pure players in impact investing – for instance those among the advisors to the Impact Management Project). Furthermore, we think it's important that changes to a final version are subject to a unanimous (or near-unanimous) agreement of all signatories, to guarantee continuity of the reporting.
- Clarity around the long-term home and ownership of the principles, secretariat responsibilities, signatory costs and activities and expenditures should be provided to signatories.

3. Further information

Links to important documents

Consultation draft: Investing for Impact: Operating Principles for Impact Management

Zürich, 20.12.2018