



BLUE / MARK

*Making the Mark*

# Spotlighting Leadership in Impact Management

*June 2022*

## About BlueMark

BlueMark is a leading provider of impact verification services for investors and companies. Founded in 2020, BlueMark's mission is to strengthen trust in impact investing.

BlueMark's verification services are structured around two key pillars of accountability for impact:

- **Impact Management Practice** (the extent to which an investor or company has the systems, processes, and capabilities to contribute to achieving the intended impact); and
- **Impact Performance Reporting** (the extent to which an investor or company has achieved the intended impact results).

BlueMark's verification methodologies draw on a range of industry standards, frameworks, and regulations, including the Impact Management Project (IMP), the Operating Principles for Impact Management (Impact Principles), the Principles for Responsible Investment (PRI), SDG Impact, and the Sustainable Finance Disclosure Regulation (SFDR).

At the time of the publication of this report, BlueMark has completed more than 75 verifications for impact investors managing a combined \$164 billion in impact-oriented assets.

Learn more about BlueMark and impact verification at [www.bluemarktideline.com](http://www.bluemarktideline.com).

## Acknowledgements

Thank you to everyone on the BlueMark team for their continued excellence and diligence in verifying the impact management practices of our clients. The lead authors for this report are **Christina Leijonhufvud**, CEO & Co-Founder, **Sarah Gelfand**, Managing Director, and **Tristan Hackett**, Director. We would like to especially acknowledge the team involved in the research and production of this report, including **Shivam Desai**, **Mya Stanislas**, **George Collier** and **Sahana Bhagat**. We would also like to thank **Dmitriy Ioselevich** and **Sule Dedekarginoglu** (17 Communications) and **Dustin O'Neal** (Great Jones Studio) for their expert guidance in writing and designing this report, respectively.

Finally, a special thank you to each of BlueMark's verification clients, without whom this report would not have been possible.

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*BlueMark's assessment is based on its analyses of publicly available information and information in reports and other material provided by clients. BlueMark has relied on the accuracy and completeness of any such information provided by clients. The assessment results represent BlueMark's professional judgment based on the procedures performed and information obtained.*

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## BlueMark's Practice Verification Clients<sup>1</sup>

ABC Impact	Franklin Templeton Social Infrastructure Fund
AgDevCo	FullCycle Management, LLC
Albright Capital Management	Healthquad
Astanor	Insitor Partners
Bain Capital Double Impact	Investment Fund for Developing Countries (IFU)
Big Society Capital Limited	Jonathan Rose Companies
Blue Earth Capital (EU) GmbH	Kohlberg Kravis Roberts & Co. L.P.
BlueOrchard Finance Ltd.	LeapFrog Investments
British International Investment	LGT Venture Philanthropy Foundation
Calvert Impact Capital	Lightrock
Closed Loop Partners	MedAccess
Community Investment Management LLC	MUFG
DEG - Deutsche Investitions und Entwicklungsgesellschaft mbH	Nuveen, a TIAA company
DFC   U.S. International Development Finance Corporation	- Nuveen Global Fixed Income
Development Partners International	- Nuveen Private Equity Impact Strategy
Dream Unlimited Corp	- Nuveen Real Estate – Impact Investing
DWS Country-Specific Clean Energy Fund	Partners Group AG
DWS Country-Specific Environment Fund	Prudential Financial, Inc. - Impact & Responsible Investing
DWS Sustainable Agriculture Strategy	Quona Capital Management Ltd.
DWS Sustainable Energy Strategy	Radicle Impact Partners
EDFI Management Company (EDFI-MC)	The Rockefeller Foundation's Zero Gap Fund
European Bank for Reconstruction and Development (EBRD)	Summit Africa
Finance in Motion	The Osiris Group
FinDev Canada	Trill Impact
Finnish Fund for Industrial Cooperation (Finnfund)	Two Sigma Impact
FMO	UBS Group AG
	Women's World Banking Asset Management

1.

BlueMark has completed 60 practice verifications for 48 firms as of April 2022. These figures include two unnamed firms, firms that received multiple verifications for their different impact investing strategies or funds, and firms that have been re-verified. Certain verifications were commissioned by an asset allocator rather than directly by the firm being verified itself. Not all BlueMark clients are or intend to become signatories of the Operating Principles for Impact Management.

# Foreword

IN A TIME OF INCREASING SCRUTINY AND SKEPTICISM over whether ESG- and impact-oriented investments are making a difference in addressing the world's social and environmental challenges, the urgency to effectively channel capital towards companies and projects capable of delivering tangible, measurable, and manageable impact is more acute than ever.

Some investment professionals point to the increasingly large flow of capital to impact-labeled companies, projects, and funds as a sign of progress and evidence that financial markets are moving in the right direction. However, as many practitioners reading this report already know, not everything with an “impact” label is truly impactful. The market is rife with false promises and exaggerated claims.

While we welcome the entry of regulators who are beginning to take impact-washing more seriously—highlighted by SFDR in the EU and the SEC’s proposed rules to avoid misleading fund names in the U.S.—we continue to see the need for voluntary market standards to complement regulatory requirements. Regulatory compliance sets a critical “baseline” or minimum threshold for market participants but, on its own, risks driving a “race to the bottom” with compliance supplanting best practice performance as the goal. The market needs expert quality assessments and benchmarks in order to ensure that doesn’t happen.

Only by continuously raising the bar for what constitutes best practice impact performance will we drive a “race to the top” that enables impact investors to deliver on their promise of making the global economy more sustainable. An investor’s impact merits can be evaluated relative to two core pillars — their impact management *practice*, on one hand, and their *reported results*, on the other. BlueMark is providing verifications of both, based on in-depth assessments and benchmarking of the comparative quality of investors’ practices and reporting.

This *Making the Mark* report series seeks to share with the field the aggregated results of our practice verifications, creating transparency into what it takes to truly earn the “impact” label, the difference between high and low quality impact management, and the path forward for those who wish to continue to learn and adapt their approach.

The desire to encourage continued advancement in market practice is why, for the first time, we are publicly naming those verified investors that most exemplify industry best practices in our new ‘Practice Leaderboard’, featuring Bain Capital Double Impact, Finance in Motion, LeapFrog Investments, Nuveen Private Equity Global Impact, and Trill Impact. We hope that by spotlighting these leaders in impact

management, we will inspire more impact investors to continuously reshape, refine, and improve their own practices.

In the process of developing this report, we at BlueMark are also humbly respectful of the hard work and dedication of our clients, who continue to teach us along the way what it means to be an impact investor.

At BlueMark, we believe that:

- the best way to address our shared sustainability challenges is through a “race to the top” of impact performance, encouraging ever-more transparency and innovation around impact management practices and results across the market
- impact management practices and impact reporting should be verified by an expert third-party in a way that goes beyond a compliance exercise, providing insight into the quality of performance
- the field should continue to publicly share data and research so that we can collectively understand the state of the market’s practice and set goal-posts for continued improvement and optimization

This set of beliefs is precisely why, when we launched BlueMark in January 2020, we made a commitment to continuously share our findings with the market to help inform the speed and direction of travel across a range of impact investing practices. The annual *Making the Mark* series is a reflection of that commitment to building the impact investing field together with our verification clients and partners across the industry.

This third report in the series takes that commitment a step further, providing more information than ever about what it means to show leadership in impact management practice.

On your marks. Get set. Let’s go!



A handwritten signature in black ink that reads "Leijonhufvud".

*Christina Leijonhufvud*

CEO & CO-FOUNDER, BLUEMARK  
MANAGING PARTNER & CO-FOUNDER, TIDELINE

# Executive Summary



In this third edition of *Making the Mark*, we revisit how impact management practices are evolving based on a sample of **60 verifications**, which includes 35 (or 41%) of all completed third-party verifications against the Operating Principles for Impact Management<sup>2</sup> (“Impact Principles” or “Principles”). This sample of impact investors, managing a combined *\$160 billion* in impact assets, is equivalent to about **22% of the total \$715 billion impact investing market**, as measured by the Global Impact Investing Network<sup>3</sup> (GIIN).

<sup>2</sup> IFC (2019): Investing for Impact: Operating Principles for Impact Management.

<sup>3</sup> GIIN (2020): Annual Impact Investor Survey

# Key Findings

While the number of verifications in our sample has doubled since our last report, the aggregated ratings reinforce key trends and themes introduced in our previous two *Making the Mark* reports. Indeed, the median ratings representing BlueMark's 2022 Practice Benchmark remain the same across all principles when compared to the 2021 Benchmark – underscoring the persistent theme that impact investors tend to integrate impact management practices more effectively at the earlier stages of the investment process and struggle more to do so at the later stages.

However, our 2022 verification findings also introduce interesting shifts, including an overall improvement in the ratings related to both assessing investor contribution and considering the sustainability of impact at exit compared with the previous year's analysis. At the same time, other practice ratings shifted downwards, such as the ratings related to processes for managing impact at the portfolio-level where the percentage of Advanced ratings is lower in this year's sample. In this report, we analyze the various changes to the Practice Benchmark and reflect on implications for the state of impact management.

In addition, we took a closer look at specific impact management practices underlying the Practice Benchmark to provide deeper insights into their levels of adoption. As part of that analysis, three key themes emerged:

- **Despite growing discussion about impact-linked compensation structures, the practice remains limited.** Only 38% of impact management systems explicitly integrate impact considerations into staff performance management systems, a decrease from 47% in last year's sample. Moreover, only 20% of verified investors have explicit financial incentive mechanisms – such as annual bonus or carry – linked to impact performance. This suggests the impact investing industry still has a way to go to truly embed impact management as a business practice.
- **Investors vary significantly in their establishment of ex-ante impact targets, compromising the market's ability to gauge success.** While 63% of impact investors monitor impact performance against an expectation, such as a baseline KPI or qualitative impact rating, the quality of target-setting practices varies widely across different impact investing contexts. This inconsistency around target-setting acts as a bottleneck for other key impact management practices – such as engaging in instances of impact underperformance (only 22% of verified investors) – due to the lack of clarity on what over- or under-achievement looks like from an impact perspective.
- **An increasing number of impact investors are engaging with key stakeholders and actively solicit their input.** With growing emphasis from the impact management field and standard-

setters, there has been heightened focus on engaging key affected stakeholders within the impact management process. BlueMark's practice data set demonstrated this heightened emphasis, with a notable 17 percentage point increase in clients adopting stakeholder engagement practices from last year's sample, suggesting that 28% of verified investors are now embedding this practice within their impact management systems.

## Overview

We introduced several new features in this year's *Making the Mark* report to further promote market transparency and accountability. Here is a preview of what's new in this year's report:

- Introduction of the **BlueMark Practice Leaderboard**, which highlights those BlueMark clients that scored in the top quartile for impact management practice against the core eight Impact Principles.<sup>4</sup> Of the 60 impact investing funds and investors verified, just five (or 8%) earned a place on the Leaderboard, including Bain Capital Double Impact, Finance in Motion, LeapFrog Investments, Nuveen Private Markets, and Trill Impact.
- **Case studies** highlighting unique or innovative impact management practices, featuring Trill Impact, MedAccess, Lightrock, Finance in Motion, and British International Investment (BII, formerly known as the CDC Group).
- Overview of **the current state of the impact verification market** based on analysis of the 100 Impact Principles signatories that have completed an independent verification as of May 2022. According to our analysis, BlueMark was responsible for 41% of all third-party verifications (excluding internal verifications), more than four times as many as the next closest verification provider.

These new features shed light on those impact investors that are leading the market with exemplary impact management practices, and the role that impact verifiers can play in holding investors accountable and encouraging them to continually improve and raise the bar for others. As pressure grows on impact investing organizations to prove their bonafides, these two interrelated sets of 'Leaders' are setting a path for the rest of the industry to follow. The impact investors on the BlueMark Practice Leaderboard are showing other impact investors what it means to truly integrate impact into each stage of the investment lifecycle. Likewise, verification specialists like BlueMark are showing other verification providers what it means to go beyond a 'check-the-box' exercise by providing a mechanism for impact investors to understand how they stack up against their peers and where they have room for improvement.

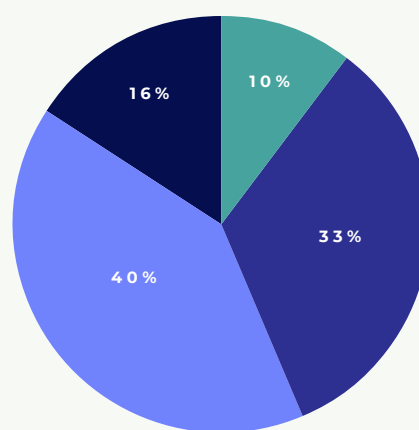
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Principle 9 of the Impact Principles requires independent verification of the alignment of an impact management system with the Impact Principles and does not result in an alignment rating.

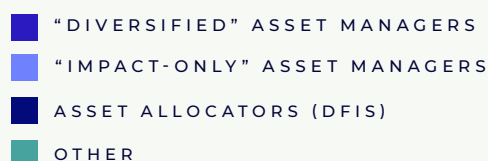
# Sample Characteristics

BlueMark's 60 Practice verifications represented in this report span a range of institutional asset managers and asset owners investing across diverse asset classes, geographies, and impact themes. These investors manage a total of more than USD 160 billion in impact assets under management (AUM)—equivalent to approximately 22% of the total \$715 billion impact investing market, as measured by the GIIN.<sup>5</sup> The sample is also an accurate reflection of the current asset class composition of the impact investing market, according to the most recent market analysis report(s),<sup>6</sup> with asset managers in private markets representing the majority.

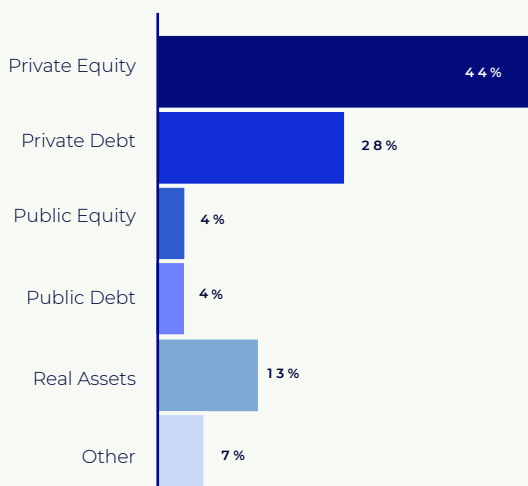
That being said, our sample is not random: Impact Principles signatories and BlueMark clients are more likely to be pioneers in impact management given their commitment to both aligning with best practices and improving and learning through the verification process. Despite a broad spectrum of investor sizes and types represented—including asset managers with less than \$15 million in impact AUM to asset owners managing over \$50 billion in total impact assets – larger investors, such as DFIs,



Investors by Type<sup>7</sup>



Investors by Asset Class<sup>7</sup>



may be overrepresented in our sample relative to the broader market. In addition, our verifications this year had a noticeable increase in exposure to public markets as impact management practices in those asset classes become more established. In this way, we believe our sample offers valuable learnings applicable to the broader impact investing market, given the pioneering nature of our client-base. For more information and a breakdown of the sample, please see page 49 in the Appendix.

5. GIIN (2020): Annual Impact Investor Survey

6. IFC (2020): Investing for Impact; GIIN (2020): Annual Impact Investor Survey

7. n = 60. For more information on the verification sample see page 49 in the Appendix.

# Practice Verification Findings

BlueMark's annual *Making the Mark* series is intended to increase awareness and understanding of the prevailing state of impact management practice based on BlueMark's aggregated findings from verifying clients against the Impact Principles. Last year's report introduced the BlueMark Practice Benchmark, the industry's first ratings-based tool to gauge the state of impact management practice and clarify the degree to which market participants are achieving leading practice.

In this third installment, we draw on the results of 60 independent verifications of impact management practices against the Principles to provide an updated view of the state of the market. The doubling in our verification sample size from 2021 to 2022 allows for a more representative Practice Benchmark and enriched Dashboard of key practices in addition to new tailored insights, such as accounting for investor strategy and size. Finally, we have gone a step further to name those investors who made it to our "Practice Leaderboard" – based on their achievement of top quartile ratings across all the Principles in our benchmark—in an effort to spotlight industry leaders.

## Introducing the 2022 Practice Benchmark

Figure A presents the aggregated results from BlueMark's first 60 verifications. BlueMark's proprietary rating system evaluates the degree of investor alignment with the Impact Principles on a four-part scale (Low, Moderate, High, Advanced)<sup>8</sup>, providing a shorthand for investors to understand where their impact management system excels and where they have room for improvement.

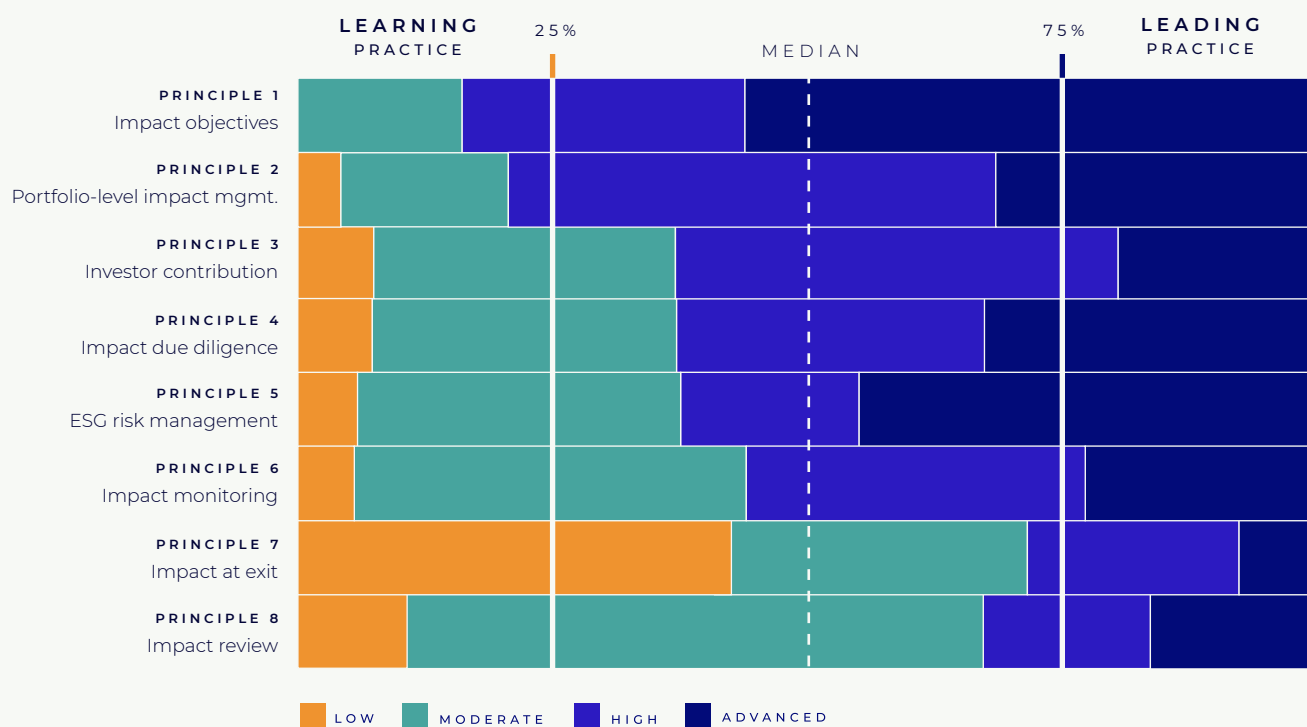
As part of BlueMark's commitment to continual improvement, we undertook an internal assessment of our own rating methodology in 2021 based on the learnings from our first 30 verifications. As a result, we refined certain aspects of the rating methodology to improve the consistency and rigor of our analysis. In cases where we observed more rigorous practices emerging than previously considered "Advanced," we tightened our criteria. For example, for Principle 1, we added criteria for what qualifies as an evidence-based, high-quality theory of change or impact thesis based on our observations of best practice. In this way, our rating system will stay relevant to a dynamic and evolving market – and continue to raise the bar for what constitutes leading practice.

8. For more information on BlueMark's verification methodology please see page 50 in the Appendix

FIGURE A

## The Benchmark for Impact Investing Practice 2022

*BlueMark ratings of investor alignment with the Impact Principles*



The benchmark categorizes practice trends by quartile, providing a mechanism for investors to compare themselves to their peers and to learn from others in the market:

**LEADING PRACTICE** represents the top quartile of our sample (75th percentile and above). Leading practice incorporates all of the core elements of impact management, as well as several leading-edge practices that may go above and beyond the requirements of the Impact Principles.

**MEDIAN PRACTICE** reflects the impact management practices of the median impact investor in our sample (50th percentile). The Practice Median represents the current standard and incorporates many of the core elements of impact management.

**LEARNING PRACTICE** represents the bottom quartile of our sample (25th percentile and below). These investors may have good intentions, but lack many core practices necessary to effectively manage positive impact. Many are early in their impact investing journeys, while others have yet to embed impact considerations at key stages of the investment process.

## The Inaugural Practice Leaderboard

Learning from others is a key feature of the impact investing community, with continuous interest in the best ways to optimize impact performance. In this spirit of learning, we saw an opportunity to take our Practice Benchmark data a step further by compiling a list of “Practice Leaders,” representing the verified investors that fall into the top quartile for all of the eight principles in our benchmark. To earn a place on the Practice Leaderboard, verified investors must have received an Advanced score on Principles 1, 2, 4, and 5, and a score of High or above on Principles 3, 6, 7, and 8. See Figure B for an inaugural edition of the Practice Leaderboard.

FIGURE B

### The 2022 Practice Leaderboard

NAME, <i>ASSET CLASS</i>	GEOGRAPHY	IMPACT THEMES
<b><u>Bain Capital Double Impact</u></b> <sup>9</sup> <i>Private Equity</i>	North America	<ul style="list-style-type: none"> <li>• Health &amp; Wellness</li> <li>• Education &amp; Workforce Development</li> <li>• Sustainability</li> </ul>
<b><u>Finance in Motion</u></b> <i>Private and Public Debt, Private Equity</i>	Global Emerging Markets	<ul style="list-style-type: none"> <li>• Entrepreneurship &amp; Livelihoods</li> <li>• Green Economy</li> <li>• Climate Finance</li> <li>• Financial Inclusion</li> </ul>
<b><u>LeapFrog</u></b> <i>Private Equity</i>	Sub-Saharan Africa South and Southeast Asia	<ul style="list-style-type: none"> <li>• Financial Inclusion</li> <li>• Healthcare</li> </ul>
<b><u>Nuveen Private Equity Global Impact</u></b> <sup>10</sup> <i>Private Equity</i>	Global	<ul style="list-style-type: none"> <li>• Resource Efficiency</li> <li>• Inclusive Growth</li> </ul>
<b><u>Trill Impact</u></b> <i>Private Equity</i>	Europe	<ul style="list-style-type: none"> <li>• Multi-theme (SDG-aligned impact)</li> </ul>

The Leaderboard is intended to be updated annually, meaning that BlueMark will refresh the list of “Practice Leaders” based on those that meet the criteria against the updated Benchmark each year. While all previous verifications were eligible for inclusion in this first iteration of the Practice Leaderboard, our intention going forward is to only include verifications from the previous two years in order to ensure the Leaders are continually reassessed against the state of the market and evolving peer practices. Our hope is that, by naming the Practice Leaders each year, we will both reward and spotlight industry leaders in impact management, while incentivizing the rest of the industry to continue to innovate and advance their practice.

9. Bain Capital Double Impact is not a signatory to the Impact Principles.

10. The verifier statement for Nuveen Private Equity Global Impact has not yet been published.

Out of the 60 impact management systems that BlueMark verified, only five earned scores high enough to qualify for the Practice Leaderboard. Just like in the credit ratings market, where only a few companies qualify for a AAA rating, our Leaderboard suggests that a minority of impact investors are aligned with industry best practices.

While this year's Leaderboard features predominantly large asset managers, we did not observe a statistically significant relationship between an investor's size (\$-assets under management) and the unweighted average rating they received - suggesting that high-quality impact management can be achieved regardless of size.<sup>11</sup>

11. The results of a regression analysis looking at the relationship between AUM and composite score across all 8 principles were not statistically significant ( $R^2 = .04$ ). The sample size for this regression was 56 and excluded 4 outliers.



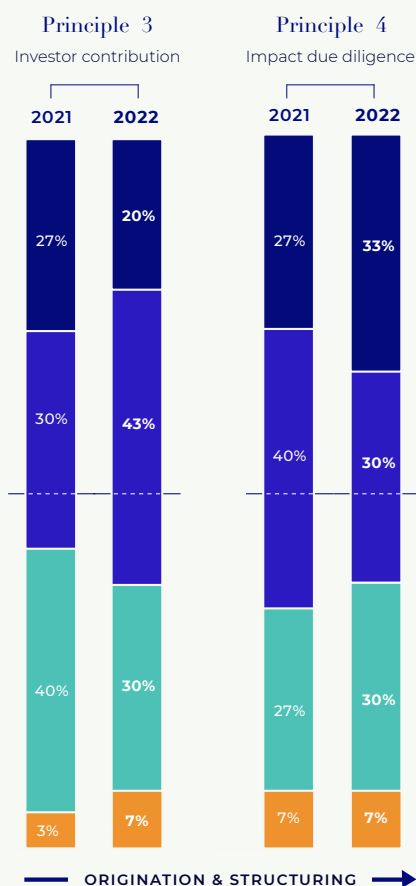
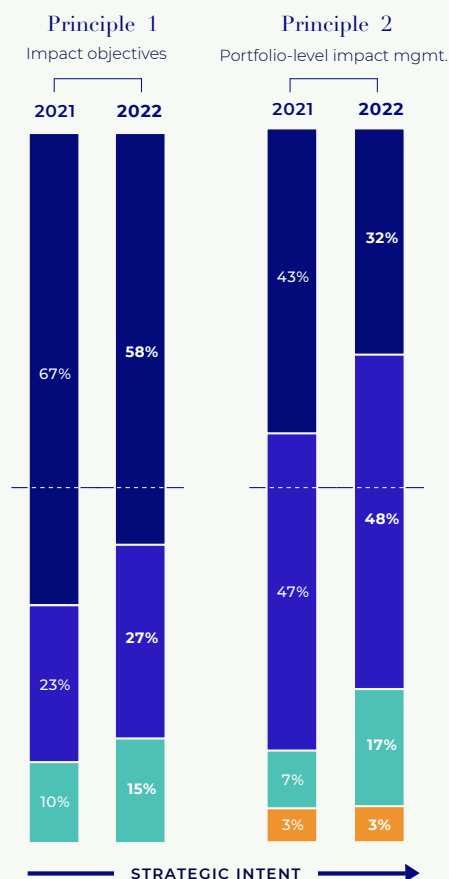
# Practice Benchmark Findings by Principle

While our benchmark sample size has doubled in the past year, the updated Benchmark Findings reinforce the overall conclusions represented in our previous two *Making the Mark* reports. Namely, that investors generally perform better on 'ex ante' practices at the earlier stages of the investment process and face challenges when it comes to impact management during the later stages. Investors continue to struggle most with how to ensure impact endures at and beyond exit (Principle 7) and with how to ensure consistent adaptation of their processes based on lessons learned (Principle 8).

LOW MODERATE HIGH ADVANCED

## Strategic Intent

The 2022 Benchmark shows that investors fell short against the high precedent set for Strategic Intent in previous years. For example, 67% of verified investors scored “Advanced” on their practice to define strategic impact objectives (Principle 1) in 2021, falling 9 percentage points to 58% this year. Similarly, while 47% of verified investors scored “Advanced” in 2021 on managing portfolio-level impact (Principle 2), only 32% did so in the updated Benchmark, while the number of investors scoring “Moderate” also increased by 10 percentage points. This trend is likely indicative of the number of new entrants to the impact investing market who are establishing their impact strategy de novo, without significant evidence accumulated, in addition to BlueMark’s tightening its criteria for what constitutes a complete, evidence-based theory of change.



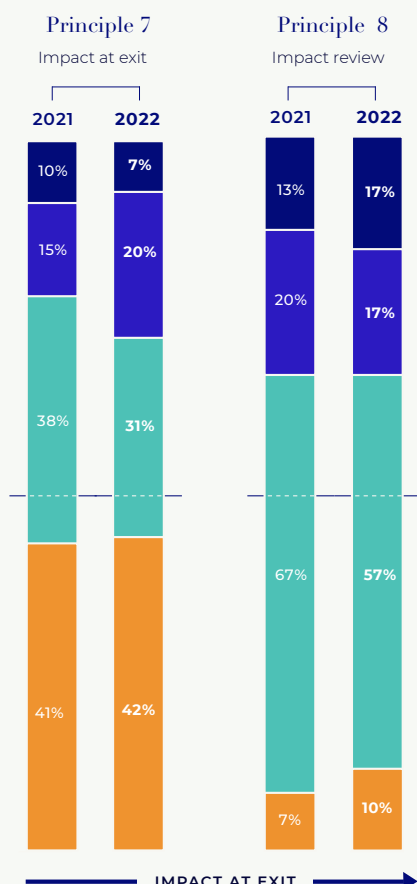
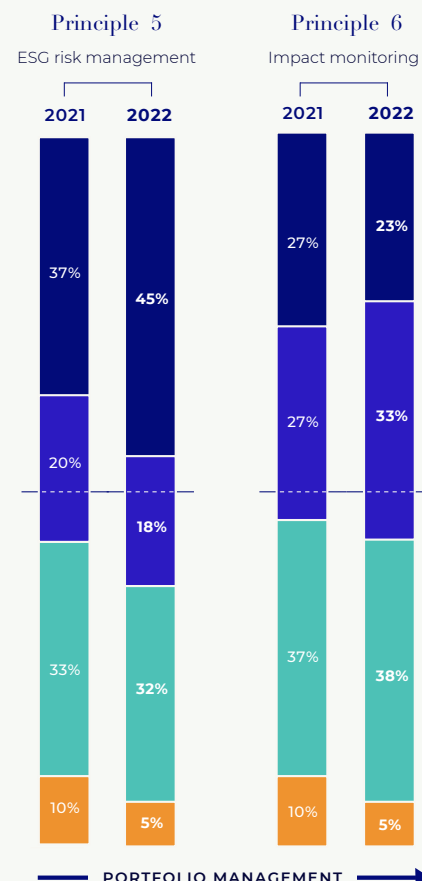
## Origination & Structuring

The 2022 Benchmark also showed overall improvement for verified investors’ approach to assessing investor contribution (Principle 3), with “Moderate” ratings dropping from 40% to 30% and “High” ratings increasing from 30% to 43%. At the same time, “Advanced” ratings decreased by 9 percentage points, suggesting that, while there is increased overall consistency in assessing investor contribution, investors still struggle to consistently back up their contribution narrative with robust supporting evidence and monitoring data. In impact due diligence (Principle 4), the 2022 sample shows both an increasing share of “Advanced” scores and “Moderate” scores—reflecting greater variability of approaches in the market, with an increasing gap between those “leading” investors with comprehensive impact due diligence systems and “learning” investors who are still establishing their processes and tools.

LOW MODERATE HIGH ADVANCED

## Portfolio Management

The Portfolio Management principles demonstrated signs of noteworthy improvement relative to the scores from the 2021 sample. An 8 percentage-point increase in the share of “Advanced” scores and a 5 percentage-point decrease in “Low” scores for ESG Management practices (Principle 5) signal increasing recognition of the fact that ESG risk and performance management is an integral part of a comprehensive impact management practice. A slight increase in the share of “Advanced” and “High” scores, and a decrease in the share of “Low” scores, for impact monitoring (Principle 6) also paints a slightly improved picture of ex-post impact monitoring against expectations.



## Impact at Exit

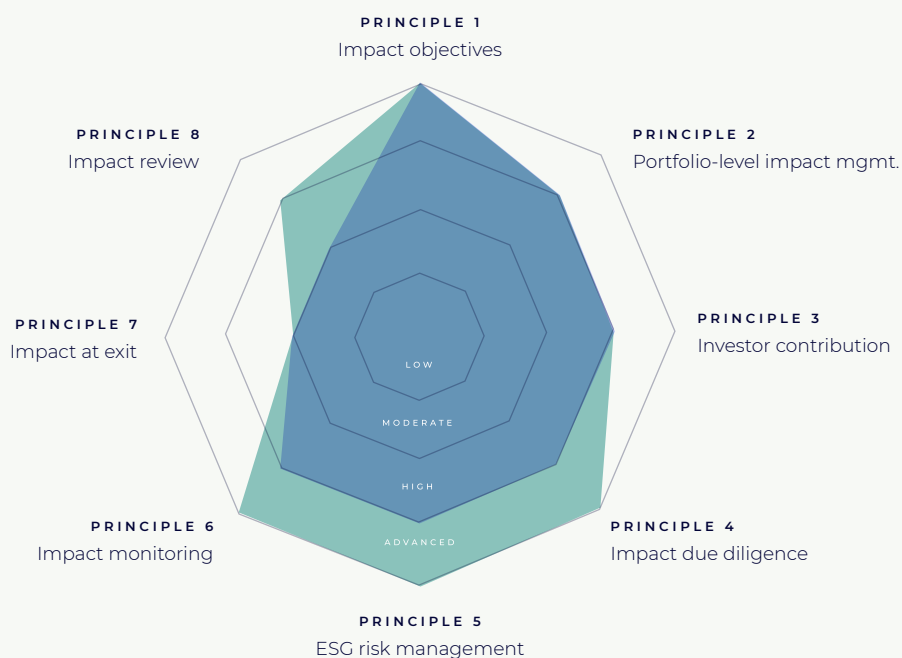
Despite the low overall ratings for the Exit Principles, we see some signs of improvement - in particular for Principle 7, with clients scoring “High” climbing from 10% in 2021 to 20% of our sample in 2022. Basic practices to ensure sustainability-of-impact at and beyond exit are slowly entering mainstream adoption within the industry. Finally, impact review (Principle 8) processes remained relatively constant in this year’s sample, re-emphasizing the need for increased attention to impact management at the end of the investment lifecycle.

# Practice Benchmark Findings by Investor Type

The 2022 Practice Benchmark data also reveals several key insights by investor type and strategy.

FIGURE C

## Market Rate versus Below-Market Rate Investors



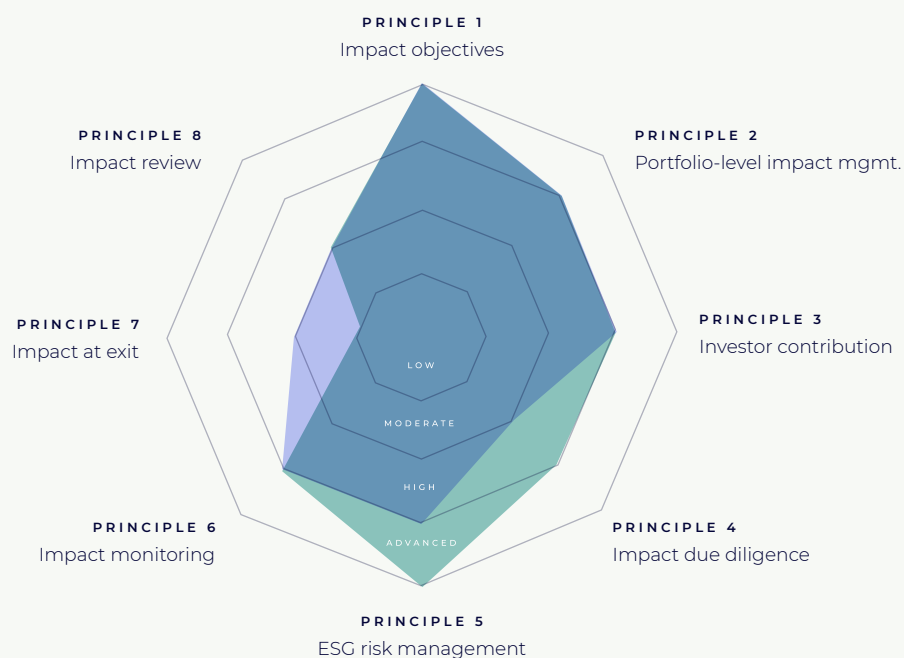
MARKET RATE INVESTORS (N=46)

BELOW-MARKET RATE INVESTORS (N=14)

Our aggregated ratings by investor type suggest that “impact-first” investors continue to lead the way in impact management. These investors that self-identified as prioritizing impact over financial return – primarily non-profits and publicly funded vehicles – had noticeably better practices when it comes to impact due diligence, ESG management, impact monitoring, and impact review when compared to traditional market-rate of return seeking investors. While this may not seem surprising given their prioritization of impact, it is still noteworthy given many of these investors tend to be smaller and more resource constrained than their market-rate peers.

FIGURE D

## Diversified Asset Managers versus Specialist Impact-only Asset Managers



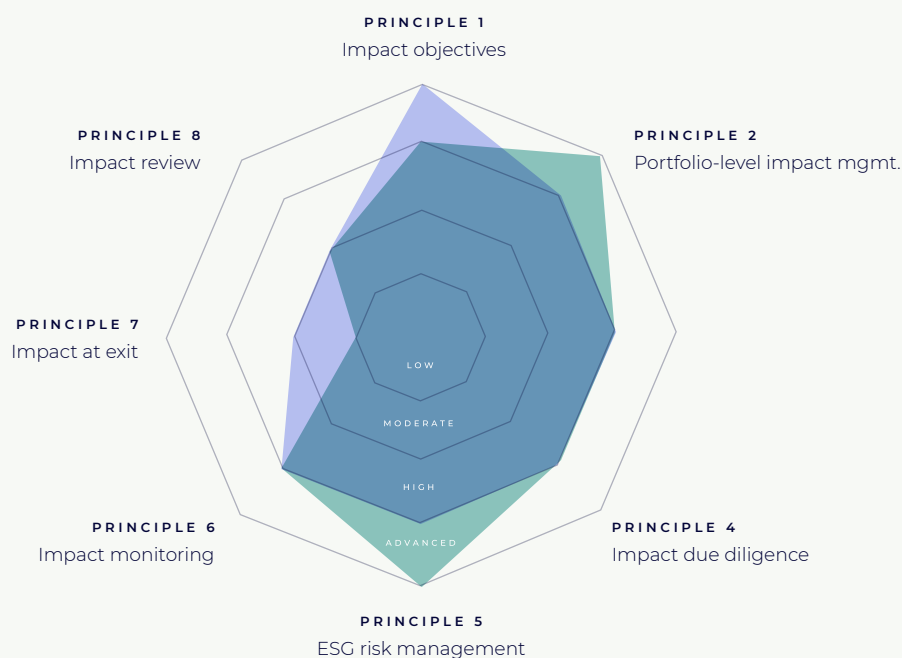
IMPACT-ONLY ASSET MANAGERS (N=22)

DIVERSIFIED ASSET MANAGERS (N=20)

Specialist impact-only asset managers (those only managing impact-products) outperform their diversified counterparts (those managing both impact and traditional funds) when it comes to practices to ensure impact beyond exit. However, specialist impact-only managers tend to lag traditional managers when it comes to ESG risk management (Principle 5), which is likely reflective of long-standing institutional commitments to ESG management for diversified asset managers. While there is significant variability across both investor groups in impact due diligence (Principle 4), our aggregated ratings suggest that, on average, traditional managers launching impact products may have more formalized due diligence policies and procedures in place to assess impact when compared to impact-native managers – who may have aspects of their impact management embedded more informally into their firm culture and investment approach.

FIGURE E

## Development Finance Institutions versus Median Practice Benchmark



**MEDIAN BENCHMARK (N=60)**

**DEVELOPMENT FINANCE INSTITUTIONS (N=9)**

Development Finance Institutions (DFIs) score lower overall on defining their strategic impact objectives consistent with their investment strategy (Principle 1), which may be indicative of the challenge of creating detailed, evidence-based impact theses for large portfolios diversified across multiple asset classes, geographies, and impact themes. On the other hand, DFIs score “Advanced” on portfolio-management of impact, underscoring the heightened importance of having a robust system in place to compare impact across investments and incentivize impact performance for staff when managing a complex impact portfolio. As publicly-funded institutions, DFIs are also leaders in ESG management, with consistently robust policies that align to industry standards.

# Practice Dashboard Findings

Our updated 2022 Practice Dashboard demonstrates a richer, more nuanced view of impact management practices underlying the Principles, with four of the spotlighted practices showing material increases in overall utilization in comparison to the previous year's sample, and three practices showing a material decrease. In addition to the 18 practices tracked in last year's dashboard, we added two indicators reflecting the use of impact scoring methodologies and assessments related to sizing market challenges across various geographies. To supplement the dashboard, we also included insights into other core underlying practices, such as types of staff incentive systems linked to impact, assessment of each Impact Management Project (IMP) dimension, and the use of various ESG standards, which are highlighted in the key findings below.

FIGURE F

## The 2022 Practice Dashboard

STAGE OF THE INVESTMENT PROCESS	IMPACT PRACTICE	% OF VERIFIED INVESTORS	LEARNING PRACTICE	PRACTICE MEDIAN	LEADING PRACTICE
PRINCIPLE 1 Impact objectives and the SDGs	Align with the Sustainable Development Goals (SDGs)	92 %	✓	✓	✓
	Create a logic model or theory of change	85 %		✓	✓
	Align with the 169 Targets underlying the SDGs	45 %			✓
PRINCIPLE 2 Portfolio-level impact management and staff incentives	Have a consistent approach to compare and aggregate impact performance across investments	95 %	✓	✓	✓
	Use of composite scoring methodology	28 %		✓	✓
	Align staff incentive systems with impact performance	38 %			✓
PRINCIPLE 3 Investor contribution to impact	Assess investor contributions to the impact of each investment	67 %		✓	✓
	Collect and use systematic evidence to improve understanding of investor contributions to impact	25 %			✓
PRINCIPLE 4 Impact screening and due diligence	Assess expected (ex ante) impact performance	93 %	✓	✓	✓
	Assess the relative size of the challenge addressed in targeted geographies	58 %		✓	✓
	Assess each investment using all five dimensions of impact: Who, What, How Much, Contribution and Risk	17 %			✓
PRINCIPLE 5 ESG risk management	Have a standardized process to identify select Environmental, Social, and Governance (ESG) risks	93 %	✓	✓	✓
	Systematically follow up with investees to address ESG gaps and risks	48 %			✓
PRINCIPLE 6 Impact performance monitoring	Compare actual impact performance with expectations	63 %		✓	✓
	Solicit input from stakeholders to assess impact performance	28 %			✓
PRINCIPLE 7 Sustaining impact at and beyond exit	Have an approach to consider the sustainability of impact at and beyond exit	57 %		✓	✓
	Identify potential actions to ensure impact is sustained at and beyond exit	20 %			✓
PRINCIPLE 8 Impact review and learning	Consistently review each investment's impact performance	92 %		✓	✓
	Monitor and review any unexpected positive or negative impacts	25 %			✓
	Use findings to improve operational and strategic investment decisions, as well as management processes	33 %			✓

MATERIAL INCREASE IN PERCENTAGE  
CHANGE FROM 2021 SAMPLE

MATERIAL DECREASE IN PERCENTAGE  
CHANGE FROM 2021 SAMPLE



## 85% of impact investors have developed an impact thesis, however only 15% have a strong evidence base to support their thesis

Principle 1 remained the strongest performing area by investors across verifications, with a slight increase in the share of investors developing impact logic models to define their strategy. With 85% of verified investors creating an impact thesis, this practice has become commonplace for impact investors. However, the quality and depth of logic models still vary widely with only 15% of verified investors clearly backing up the link between their investment strategy and impact outcomes with a robust supporting evidence-base. Similarly, just 8% of verified investors utilize the IMP's "ABC" Framework ("Avoid, Benefit, Contribute") to help classify their impact strategy and goals.

## Just 13% of impact investors assess the proportionality of their expected impact, with limited uptake of methodologies for impact valuation and monetization

Other practices related to setting impact objectives also remain limited in adoption, with only 13% of verified investors assessing the proportionality of their expected impact against the size of their portfolio. Despite numerous developments in the broader impact management field—such as GIIN's Compass Methodology<sup>13</sup> and Harvard Business School's Impact Weighted Accounts (IWA)<sup>14</sup>—our evidence shows that methodologies to clearly attribute impact relative to investment size or to normalize impact in monetary terms continue to have limited uptake by practitioners due to the complexity and nuance of each investor's impact strategy.

13. GIIN (2021): COMPASS: The Methodology for Comparing and Assessing Impact

14. HBS (2019): Impact Weighted Financial Accounts: The Missing Piece for an Impact Economy

## While 95% of impact investors have a process for comparing impact across the portfolio, approaches vary widely

The vast majority (95%) of impact investors verified have some kind of structured method to compare impact across the portfolio, with the majority relying on common KPIs across investments and/or an assessment based on strategic impact dimensions. Another emerging practice is the use of proprietary impact scoring tools, adopted by 28% of our sample, and particularly popular among investors with diverse portfolios (e.g., DFIs). BlueMark observed that leading investors often employ multiple frameworks (i.e., impact rating systems and common KPI targets) in both an ex-ante and ex-post context to be able to effectively compare impact.

## Only 38% of impact management systems explicitly embed impact in staff performance management

Another key practice that remains limited in adoption is the link between staff incentive systems and impact performance, with just 38% of our sample linking impact achievement to staff performance management and/or incentive systems – a decrease from 47% of last year's sample. While many investors may seek to embed impact considerations into staff reviews and development conversations, direct financial accountability measures remain even more limited. As shown in Figure G below, the most common method for integrating impact into staff incentives is through staff performance development and review processes at 25%, while direct financial accountability mechanisms, including annual bonus links to impact achievement and impact-linked carry, remain limited with 17% and 3% utilization in the sample, respectively. For an example of an incentive system linked to impact achievement, see the case study on Trill Impact on page 33.

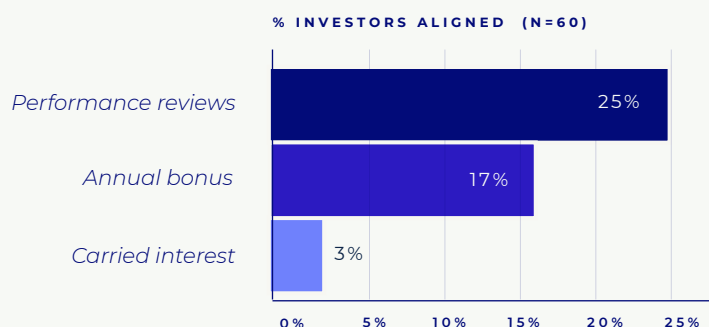


FIGURE G

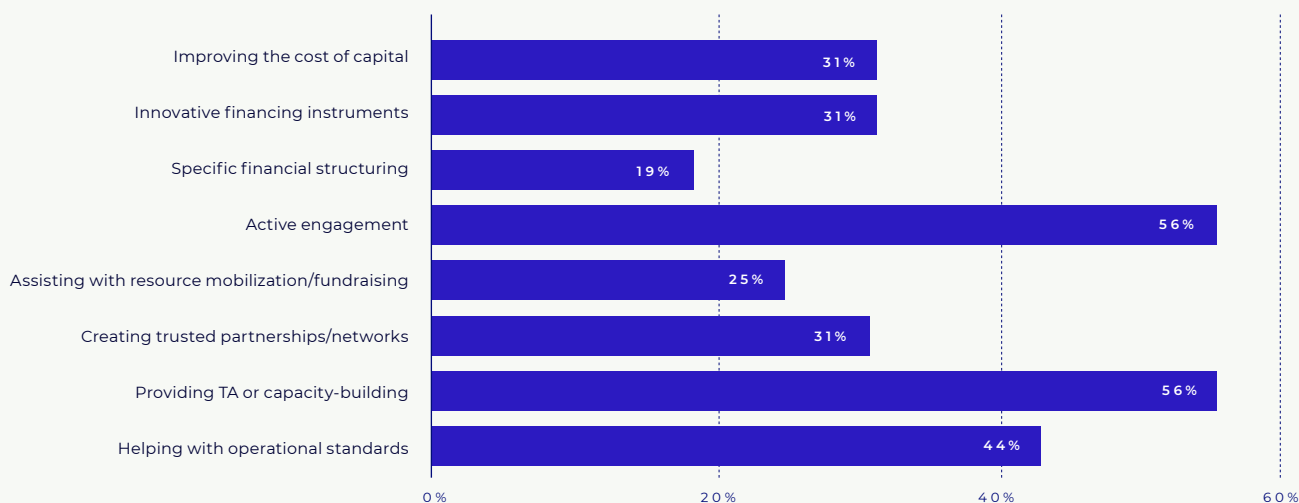
Approaches to  
Impact-Aligned  
Staff Incentives

## 67% of investors assess their contribution to impact for each investment, with non-financial types of contribution more commonly analyzed

The practice of assessing investor contribution is slowly becoming a standard part of impact due diligence. In our more recent set of verifications, BlueMark evaluated the types of investor contribution that were most commonly claimed by impact investors: Figure H shows that “non-financial” types of investor contribution are the most common to assess, particularly active engagement and technical assistance activities. Assessing financial contributions is a less common practice, with only 31% of the recent sample<sup>15</sup> tracking how they improve the cost of capital or offer innovative financing instruments to underlying investees.

FIGURE H

### Types of investor contribution assessed



15.

N=16

# Only 17% of impact investors conduct impact due diligence with analysis of all 5 IMP dimensions of impact

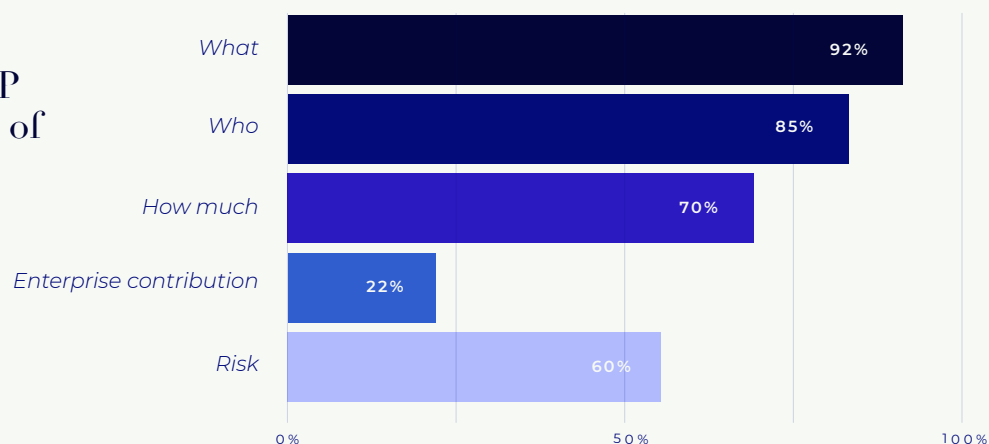
Despite the ubiquity of IMP within the impact management field, Figure I shows that the five dimensions (Who, What, How Much, Contribution, and Risk) have still not been universally and comprehensively adopted by practitioners. Indeed, the ratio of 17% remains the same as last year's despite the large increase in sample size.

On a positive note, it is clear that assessments around the "What" and the "Who" are starting to become fundamental to impact due diligence, with over 85% of investors analyzing both dimensions. Assessment of impact risk is also becoming increasingly standard practice, with 60% of investors analyzing at least one dimension of impact risk. For a leading example of how to assess impact risks, see the case study on [Lightrock](#) on page 37.

Complete adoption of IMP is most stymied by "Enterprise Contribution," or the degree to which the investee's impact is better than what would have occurred otherwise, with only 22% of the updated sample conducting this type of analysis, as shown in Figure I below.

FIGURE I

## Use of the IMP 5 Dimensions of Impact



In addition to the five IMP Dimensions, 58% of verified investors also assess the size of the challenge addressed within a targeted geography to be able to better understand the relative need for potential impact across various market contexts. Another leading practice in due diligence is to analyze broader potential indirect and systemic impacts that an investment may influence, which was done by 35% of investors in the sample.

## 77% of impact investors have adopted industry frameworks and/or standardized metric-sets, with IRIS+ emerging as the most common framework

77% of verified impact investors relied on an industry standard framework or taxonomies for selecting their metrics, with IRIS+ the most commonly adopted set followed by HIPSO and an array of ESG reporting standards.

Similarly, when it comes to ESG management, 78% of verified investors have adopted an industry standard or framework to inform their approach, with Figure J showing the standards that are most commonly adopted.

FIGURE J

### Use of ESG Industry Standards

IFC Performance Standards	43%
SASB	25%
UN Guiding Principles for Business and Human Rights	17%
OECD Guidelines for Multinational Enterprises	12%

## 63% of impact investors assess performance against a baseline or target, with room for improvement in monitoring impact performance ex-post

When it comes to monitoring impact ex-post, 63% of verified impact investors continually assess performance against a baseline or target. While this demonstrates a marginal increase from last year's verification sample, it is still notable that 37% of verified investors are not actively monitoring their impact performance against expectations. This was a key issue identified as part of BlueMark's *'Raising the Bar'*<sup>16</sup> research on best practices in impact performance reporting. Many of the market actors interviewed as part of the research commented on the difficulty of analyzing impact performance in the absence of clear and measurable targets.

This inconsistency in setting targets is indicative of the mixed results across other key impact management practices, such as quality performance reporting and active engagement. Indeed, only 22% of verified investors have a clear protocol in place for engaging investees in the event of impact underperformance – suggesting that impact monitoring may either be a performative exercise or that expectations for what “good” impact performance looks like may not be clear for many investors.

## An increasing number of impact investors (28%) engage with key stakeholders and actively solicit their input

With the support of new market standards, such as SDG Impact<sup>17</sup> and OECD Impact Standards,<sup>18</sup> there has been increased pressure and emphasis on the importance of engaging key affected stakeholders within the impact management process. BlueMark's verification data set demonstrates this growing emphasis, with a notable 17 percentage point increase in clients adopting such practices from last year's

16. BlueMark (2022): “Raising the Bar: Aligning on the Key Elements of Impact Performance Reporting.”

17. SDG Impact: “About the SDG Impact Standards.”

18. OECD (2021): “OECD-UNDP Impact Standards for Financing Sustainable Development.”

sample, suggesting that 28% of verified investors are now embedding this practice within their impact management systems. While still a minority practice, the commitment to solicit input from target stakeholders experiencing the impact outcomes is a key part of impact management and monitoring. Our clients engaged stakeholder voices in a variety of ways depending on strategy, including rapid appraisals, focus group sessions, external evaluations with stakeholder groups, and through specialized partners (i.e., 60 Decibels).

For a leading example of how to incorporate stakeholder perspectives, see the case study on **Finance in Motion** on page 39.

## CASE STUDIES

# Spotlight on *Advanced* Impact Management Practices

The following case studies were developed in collaboration with our clients, with the intention of sharing and showcasing examples of specific impact management practices. Our hope with these spotlights is to provide both tangible and actionable information about leading impact practices to the broader market.



## Trill Impact's Integrated Approach to Aligning Incentive Systems for Impact *(Principle 2)*

### CONTEXT

Trill Impact, a pioneering impact investment firm focused on addressing the UN SDGs, engaged BlueMark to verify their alignment to the Impact Principles. Trill Impact is based in Stockholm, Sweden, and manages more than €1 billion AUM across its private equity and microfinance strategies.

### THE PRACTICE

Prior to a transaction closing, Trill Impact hosts impact and ESG sessions with company management to collaboratively establish a set of indicative impact and ESG KPIs aligned to the company's impact ambitions. After closing, the agreed-upon actions, baseline, and KPI targets are finalized and integrated into each company's Value Creation Impact Plan, which provides the basis for aligning multiple incentive structures.

Typically, around 25% of the management team's annual variable pay is linked to the achievement of the established impact targets for the year. Moreover, the Trill Impact team has its own incentive programs, which are based on evaluations of team member contributions to the company's impacts and performance relative to the targets.

Additionally, a set of the portfolio company's core impact targets are tied to the cost of its financing such that they receive a discount on the financing margin upon achievement of these impact targets. This tiered approach helps to strengthen the alignment between commercial and impact performance at the company and, in turn, incentivizes Trill's staff to ensure impact achievement. An example of impact targets linked to incentive systems is shown in Figure K.

### WHY THIS MATTERS

Aligning incentives to the achievement of impact is an advanced IM practice that ensures a direct link between financial and impact success. Trill Impact's integrated approach incentivizes investor and investee staff to both set high-quality impact targets and ensures that they are realized – effectively driving and rewarding impact achievement. Other investors can incorporate a similar approach to Principle 2 by considering how to link their own impact KPI targets to various staff incentive structures and the cost of capital.

FIGURE K

Sample Investee Targets Linked to Incentives<sup>19</sup>

			2020	2021	Target 2025	
Open Innovation within Smart Buildings	• Reduce energy consumption for property owners	CO <sub>2</sub> emissions avoided by customers	70k	83k	150k	Quarterly impact targets defined and measured. Providing a rebate on the financing interest rate
	• Innovate Smart buildings	Smart connected assets	314k	402k	530k	
Practicing responsibility throughout the value chain	• Reduce own CO <sub>2</sub> emissions	CO <sub>2</sub> reduction	611	523	535	Annual CO <sub>2</sub> reduction targets aligned with Paris agreement. Providing rebate on Trill Impact's fund credit facility
	• Business Ethics	Code Of Conducts	NA	100%	100%	
Be the most attractive employer	• Development and training of our employees	eNPS becoming a "Green impact leader"	NA	tbd	tbd	All six KPI targets part of Nordomatic's incentive program.
	• Diversity & Inclusion	SHE Index score	10	32	60	

“Trill Impact decided to sign the Operating Principles for Impact Management and used BlueMark to conduct a verification to ensure Trill Impact’s processes and daily practices are executed to optimize impact outcomes. As impact investing is a relatively new investment strategy, standard definitions need to be further strengthened and aligned. Verification is an effective way to accelerate each investor’s processes and facilitate industry alignment. We hope that Trill Impact’s transparency and standards inspire others to follow an ambitious impact path.”

PIA IRELL

IMPACT PARTNER | TRILL IMPACT

TRILL IMPACT

19.

Excerpt adapted from Trill Impact's Approach to Value Creation with Impact pre-reading materials (2022)

## MedAccess's Innovative Assessment of Investor Contribution to Impact *(Principle 3)*

### CONTEXT

MedAccess, a social finance company that uses innovative finance tools to increase access to healthcare products, engaged BlueMark to verify their alignment to the Impact Principles. The verification required an understanding of impact management best practices within the context of guarantee financing structures, intended to make medical products more affordable and accessible in low- and middle-income countries.

### THE PRACTICE

An important aspect to managing impact for MedAccess's guarantee instruments is to assess and validate their contribution to the impact for each investment (i.e., Principle 3). To this end, the firm developed a bespoke counterfactual framework that seeks to estimate what would occur in the absence of MedAccess's intervention. In due diligence, the firm uses this framework to establish a counterfactual scenario. The scenario is created using research inputs pertaining to supply, demand, and sector dynamics and generates estimates for relevant health impact outcomes (e.g. indicators related to lives changed, money saved, and markets shaped). In this way, MedAccess is able to assess the *baseline impact* associated with an intervention and compare it to the *predicted impact* differential that would occur with MedAccess's guarantee (as described in Figure L below).

FIGURE L

### Counterfactual Framework Categories<sup>20</sup>

Counterfactual (No Guarantee)	With a Guarantee	Impact of Guarantee (vs. Counterfactual)
<i>Product available at prohibitive price point, limiting access and not meeting demand</i>	<i>Product available at lower price and greater volumes, meeting a greater proportion of demand</i>	<i>Increase in people with access to product, savings from price differential and wider market shifts</i>

20. Figure adapted from MedAccess's proprietary Development Impact Framework materials

## WHY THIS MATTERS

Assessing expected investor contributions to impact and subsequently validating those assumptions is a core tenet of quality impact management. MedAccess's unique counterfactual framework enables this analysis and allows the firm to consider the degree to which their financing will contribute to the achievement of key health outcomes - ultimately informing MedAccess as to where financial guarantees will have the greatest impact. Other investors can incorporate a similar approach to Principle 3 by developing their own assessment models for evaluating how target impact outcomes may be affected by their financing.

“Evidence demonstrating the impact of financial guarantees in global health is limited, so MedAccess applies a bespoke, rigorous approach to establish contribution. BlueMark's assessment provides useful guidance on how our approach aligns with the Impact Principles. The insights were relevant and actionable, helping us to improve as we expand our portfolio.”

TRISTANA PEREZ

IMPACT EXECUTIVE | MEDACCESS



## Lightrock's Approach to Assessing Potential Impact Risks and Negative Impact *(Principle 4)*

### CONTEXT

Lightrock, a private equity impact investing platform, engaged BlueMark to verify their alignment with the Impact Principles. The firm is based in London and has \$3 billion in AUM, with a global strategy to invest in three impact themes related to people, planet, and productivity. Lightrock has been initiated by Prince Max von und zu Liechtenstein and is backed by the Princely House of Liechtenstein and LGT, the international private banking and asset management group.

### THE PRACTICE

Lightrock conducts a thorough analysis to evaluate each prospective investment's current impact alignment and future impact potential as part of its due diligence process (i.e., Principle 4). To facilitate this assessment, Lightrock has developed a proprietary Impact Scorecard, which includes a comprehensive qualitative impact assessment with an underlying rating methodology based on a wide range of relevant factors.

Notably, the impact risk section of Lightrock's Impact Scorecard is structured across five categories adapted from the IMP's 9 types of impact risk,<sup>21</sup> as seen in Figure M below:

FIGURE M

### Lightrock's Impact Risk Assessment<sup>22</sup>

<b>CAUSALITY</b>	Assesses the clarity and certainty of the link between a company's outputs and target impact outcomes
<b>EVIDENCE</b>	Assesses the probability that high-quality data exists to validate the existence of target impact outcomes
<b>EXECUTION</b>	Assesses the probability that key activities may not be delivered as planned due to potential externalities and management capabilities
<b>OUTCOME</b>	Assesses whether the positive change would have happened without the investee contribution or if there is adoption risk to key investee services or products
<b>NEGATIVE IMPACT</b>	Assesses potential direct and indirect negative impacts from company services or operations, such as supply chain issues, product misuse, or negative environmental externalities

21. IMP: Nine Types of Impact Risk

22. Figure adapted from Lightrock's proprietary Impact Scorecard

Each risk category is assessed based on a set of sub-criteria, which results in a weighted score and is supported by narrative context. The results of this risk assessment then act as an input into Lightrock's overall Impact Scorecard and Net Impact Score.

## W H Y T H I S M A T T E R S

A comprehensive impact risk assessment process is crucial for understanding the likelihood that the expected impact will be achieved and for developing action plans or mitigation strategies to address key risks. Lightrock's multi-dimensional impact risk assessment helps the firm to better understand the potential a company has for achieving its targeted positive outcomes and helps to inform key decision-making questions, such as "What is the risk that impact doesn't occur as expected or is diminished by negative effects?"

Other investors can create a similar approach to Principle 4 by identifying the key risk dimensions that are relevant for their impact strategy and ensuring a structured assessment of those risks is embedded into their due diligence process.

“Working together with the BlueMark team on the verification project has been an incredible learning opportunity for us. Their impact expertise and market intel helped us to receive a targeted and concrete understanding of the state of our IM approach; where do we do well and where can we do better.”

M A R C M O S E R

H E A D O F I M P A C T | L I G H T R O C K



## How Finance in Motion Incorporates Stakeholder Voice to Assess Impact Outcomes *(Principle 6)*

### CONTEXT:

Finance in Motion (FiM) is an impact asset manager focused on development finance. The firm seeks risk-adjusted market returns in emerging markets and advises/manages approximately \$3 billion across six funds. As a signatory to the Impact Principles, FiM engaged BlueMark to verify their alignment and to understand where their IM system fits within the context of the broader market.

### THE IMPRACTICE

As part of FiM's approach to monitoring impact outcomes (i.e., Principle 6), the firm – through the development facilities of the respective funds under advisory – periodically commissions impact studies to review and understand the effects of its financing on target stakeholders. The studies rely on external, specialized research institutions to assess and survey key impacts related to changes in employment, income, and livelihoods for target groups. Results of the research include detailed case studies, direct quotes, and feedback from target stakeholders, demonstrating how investee financing and contribution(s) have affected their lives. These studies are then leveraged to further validate impact performance data collected and to inform ongoing impact strategy decisions.

### FIGURE N

#### Sample Stakeholder Quotes from FiM Impact Studies<sup>23</sup>

*"Two weeks ago, I opened a second shop in another city. The loan enabled this business development, as the money was used for renovations and furniture. The shop will generate additional sales and provide employment for two persons."*

HAIRDRESSER | KOSOVO

*"Because the loan helped to develop our family business, I was able to quit a side job. While the total income for the household is a bit lower without the side job, I can spend more time with my kids now. This is more valuable to me than the higher income."*

BAKER | BOSNIA AND HERZEGOVINA

*"Because of the loan I could send my grown son to a training in graphic design. He can use the knowledge and skills from the training in my business and thereby generate additional sales."*

ENTREPRENEUR IN BILLBOARD MARKETING  
BOSNIA AND HERZEGOVINA

*"Without the loans, my business would not have existed at all. The availability of working capital helps to sustain turnover. Before, the business was just surviving; I could only dream of growth."*

BUTCHER | KOSOVO

**W H Y T H I S M A T T E R S**

Incorporating stakeholders' voices into impact monitoring processes to understand the perspectives of those likely to experience the targeted outcomes is an emerging and leading practice in IM. Through these periodic studies, FiM and its funds under advisory can better understand the effects that its financing and other fund-level contributions are having on key stakeholders and how, if at all, the experienced outcomes differ from what was expected. Peer investors can incorporate similar periodic evaluations and stakeholder surveying into their impact monitoring systems and gain a richer understanding of impact outcomes at the stakeholder-level.

“The verification of our own practices against the Impact Principles not only assured us that we are on the right track and provided valuable insights and actionable opportunities to further deepen our practices. BlueMark’s structured benchmarking approach also supports transparency and accountability which ultimately helps build the credibility of the impact investing market.”

**SYLVIA WISNIWSKI**

M A N A G I N G D I R E C T O R | F I N A N C E I N M O T I O N





## British International Investment's New Responsible Exit Process *(Principle 7)*

### CONTEXT

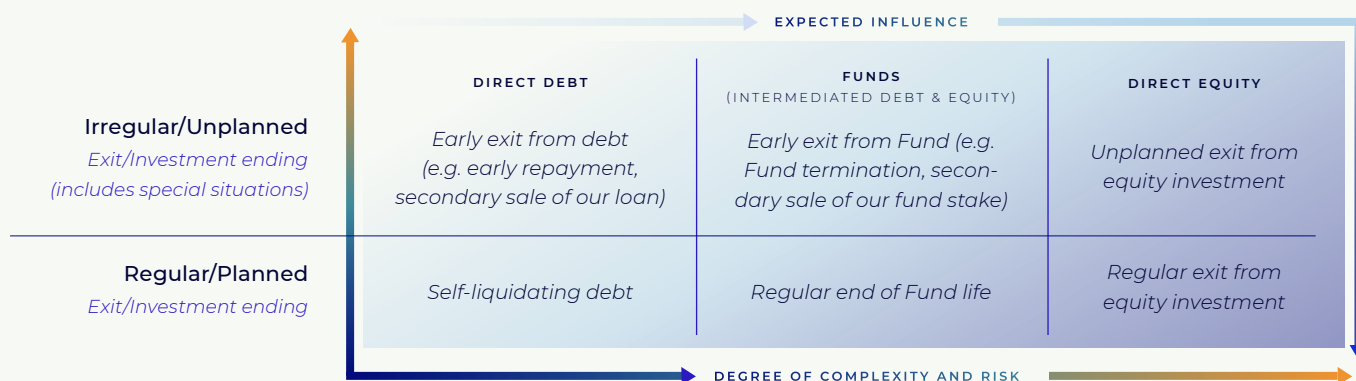
British International Investment (BII), the UK's development finance institution previously known as the CDC Group, first engaged BlueMark in 2020 to verify their IM system's alignment with the Impact Principles. BlueMark assessed BII to have "Advanced" alignment with the majority of the Principles, however, the firm received a "Moderate" rating as it relates to Principle 7 ('Conducting exits considering the effect on sustained impact'). While this rating is broadly representative of the current standard of practice, BlueMark's verification report offered several recommendations to further align with the Practice. BII drew on BlueMark's recommendations, including guidance on market best practices and published resources by the GIIN,<sup>24</sup> EVPA,<sup>25</sup> and IFC,<sup>26</sup> as well as lessons learned from exits in its own portfolio to further develop a responsible exit policy and process into its IM system.

### THE PRACTICE

BII's new responsible exit policy and process went live in January 2022. The Responsible Exits Guidance is comprised of multiple principles for ensuring sustainability of impact and with applicability to different asset classes, making explicit BII's influence over the exit outcome in different investment contexts (see Figure O). The Guidance helps BII consider its ability to help ensure the sustainability of impact during both

FIGURE O

BII's Mapping of its Influence over Exits by Asset Class and Type of Exit<sup>27</sup>



24. GIIN (2018) Lasting Impact: The need for responsible exits

25. EVPA (2014) A practical guide to planning and executing an impactful exit

26. IFC (2011) Smart Lessons: To Exit or Not to Exit? And Where's the Exit, Anyway?

27. Figure adapted from BII's proprietary Responsible Exit Guidance (2022)

portfolio management and at the point of exit by assessing key considerations, such as deal timing, exit readiness, exit structuring, and buyer-alignment considerations. The policy is accompanied by a detailed Exit IC Paper Template, which is used to practically operationalize the Guidance through a checklist and supporting framework.

## WHY THIS MATTERS

A responsible exit strategy is an essential part of an IM system and a core element of the Impact Principles. Impact at exit practices broadly constitute an action plan to determine how to end the financing relationship in such a way that impact is either maintained or amplified, and that the potential loss of impact is minimized in the long-term. Best practice for managing impact at exit includes thinking about the effects of exit on impact early in the investment process (i.e., in due diligence and portfolio management), integrating processes with commercial exit planning, and adapting an assessment framework for all applicable asset classes and strategies.

“The verification provided a valuable outside-in look at our IM processes and provided a clear view of where we could improve. We hope our new guidance will provide an example to others of how aspects beyond commercial return optimisation can be embedded into exit decision-making processes to achieve better impact outcomes.”

CLAUDIA SIMLER

EXECUTIVE, DEVELOPMENT IMPACT-INVESTMENTS | BII



# State of the Impact Verification Market

Verification of impact management practices was still an emerging practice in April 2019 when the Operating Principles for Impact Management became the first industry standard to explicitly require signatories to independently verify their alignment. In the three years since, impact verification has emerged as an increasingly important practice for impact investors seeking to align with various standards and secure greater credibility with current and potential investors.

# Analysis of Verification Statements

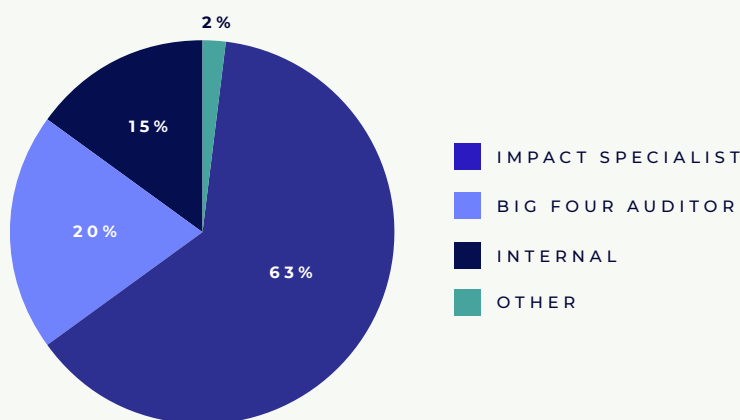
To better understand the current state of the impact verification market,<sup>28</sup> we analyzed the completed verifications across all signatories to the Impact Principles. Of the 160+ signatories, 100 had completed an independent verification as of May 2022. The breakdown of these verifications by provider reveals several important differences among the various approaches to independent verification with implications for the future of the verification market.

BlueMark is the current market leader, having completed 41% of all third-party verifications to date, more than four times the number of verifications conducted by the next biggest peer (EY). BlueMark is responsible for 35% of all verifications when internal verifications are included (internal audit committees conducted 15% of all Impact Principles verifications completed to date).<sup>29</sup> BlueMark's share of the signatory market does not account for the 25 practice verifications that BlueMark conducted for non-signatories, although the verification methodology used is largely the same in both cases.

In total, 29 distinct firms have provided verification statements against the Impact Principles, with only BlueMark (35), EY (8) and KPMG (6) having completed 5 or more verifications as of May 1st, 2022. Specialized service providers like BlueMark, Steward Redqueen, and Luminis Advisors were responsible for 63% of all verifications, compared to 20% for traditional audit firms like the Big Four (EY, KPMG, Deloitte, PwC).

FIGURE P

## Verification Statements by Verifier Type



28. This analysis specifically focuses on the market for verification of impact management practices. This is a distinct – though complementary – type of impact verification, not to be confused with verifications of impact labels or mandates and verifications of impact performance.

29. The supporting language for Principle 9 states: "The independent verification may be conducted in different ways, i.e., as part of a financial audit, by an independent internal impact assessment committee, or through a portfolio/fund performance evaluation. The frequency and complexity of the verification process should consider its cost, relative to the size of the fund or institution concerned, and appropriate confidentiality."

FIGURE Q

### Top 10 Verification Service Providers<sup>30</sup>

VERIFIER NAME	COVERED ASSETS \$(MM)	VERIFICATIONS COMPLETED
<b>BlueMark</b>	<b>153,428</b>	<b>35</b>
Internal	47,598	15
EY	123,156	8
KPMG	70,853	6
Steward Redqueen	3,349	4
PwC	7,885	2
CAFIID	1,125	2
Deloitte	5,685	1
Tameo Impact Fund Solutions	2,400	1
PKC Advisory	1,798	1

Given the specialized nature of impact management, it may not be surprising that boutique firms have captured the majority of the market to date. On the other hand, the Big Four firms may have an inherent advantage when it comes to their global reach and preexisting financial audit relationships.

## Compliance-Oriented vs. Performance-Oriented Assurance

Given the early stage of development of the impact verification market, there are not yet clear guidelines for how such verifications should be carried out. However, we have observed distinct client motivations for seeking one approach over another, which helps us to organize the market into two distinct categories.

In one camp are those impact investors that see independent verification largely as a compliance exercise—essentially a cost of doing business to remain in good standing in the eyes of both standard-setters and asset allocators. Impact assurance is treated in much the same way as financial assurance, with service providers mainly checking for accuracy or freedom from material misstatements. This kind of **compliance-oriented assurance** serves an important function in the market, providing a baseline for the minimum expectations required to be an impact investor.

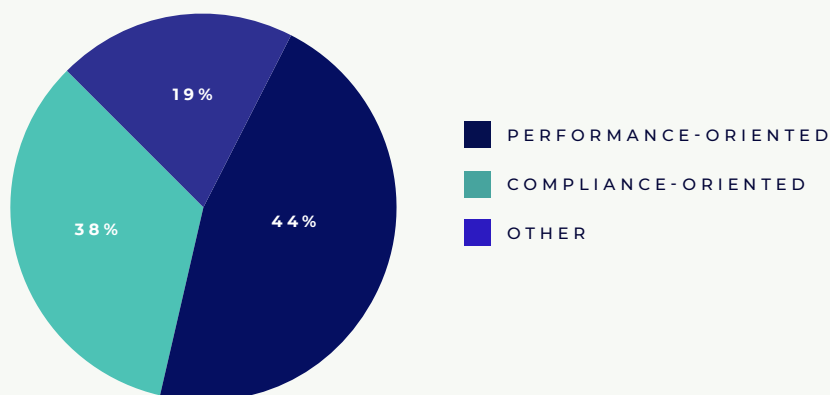
In the other camp are those impact investors who view independent verification as an opportunity to gain insight from an expert third-party into market best practices and to advance their own practices. This type of **performance-oriented assurance** involves the kind of rigorous internal evaluation that would also be conducted in a compliance-based exercise, but is supplemented with insights into peer practices and recommendations for further improvement. These impact investors aren't satisfied with meeting baseline expectations—they want to be seen as industry leaders and are committed to doing the hard work necessary to keep up with their peers.

30. Ranked by total number of verifications completed as of May 2022, with a tie-break based on the covered assets verified

We see room in the market for both types of verification, depending on an investor's specific needs. Our analysis shows that signatories to the Impact Principles are split on this point, with 38% opting for a compliance-oriented approach (34% limited assurance and 4% reasonable assurance)<sup>31</sup> versus 44% opting for a more performance-oriented approach to assurance. BlueMark was responsible for the vast majority of the performance-oriented assurance engagements known to date (35 of 37), while the Big Four firms accounted for about half (17 of 32) of the compliance-oriented verifications. The remaining 19% were "other" verifications, which is a catch-all category for assurance engagements that blend together different types of verification approaches.

FIGURE R

### Third-Party Verifications by Service Type



We specifically designed our performance-oriented verification methodology<sup>32</sup> to go beyond limited assurance or reasonable assurance because we saw a need in the market for an approach that provided an interpretation of the quality of an investor's impact practice, including a perspective about its quality relative to both peers and market best practice. The Principle-specific ratings we provide to each client allow for this comparability and guidance on areas for improvement.

In fact, this is why we introduced the BlueMark Practice Benchmark in the 2021 edition of *Making the Mark*, providing a way for impact investors to clearly see how their practices compare to both Leading Practice (the top quartile) and Learning Practice (the bottom quartile). Given that best practices in impact investing are constantly evolving, this benchmark allows impact investors to see where the industry is heading and what they need to do to keep pace with expectations.

31. Under ISAE3000 - the leading international standard for assurance engagements - there are two types of compliance-oriented assurance. The first, Limited Assurance, results in a conclusion framed as a negative statement, for example: "Based on the procedures performed, nothing came to our attention to indicate that the management assertion on XYZ is materially misstated." The second, Reasonable Assurance, offers a higher level of confidence and results in a conclusion framed in a positive statement, for example: "Based on the procedures performed, in our opinion, the management assertion on XYZ is reasonably stated." (ICAEW: Limited assurance vs reasonable assurance).

32. For more information on BlueMark's verification methodology please see page 50 in the Appendix

# Concluding Reflections

The global impact investing industry is in the spotlight like never before. While the increased flow of impact capital has predictably coincided with increased scrutiny and criticism, we see this as a positive signal for the industry's maturation and scale. To continue the momentum, impact investors around the world will need to learn how to convert their impact claims into impact results.

Most impact investors today recognize the importance of robust impact management throughout the investment lifecycle, and, increasingly, the market is aligned as to what constitutes a quality impact management system. At BlueMark, we are working to bring more transparency, efficiency, and comparability to the evaluation of impact management systems. We are also working to drive learning and improvement for the market and hope the benchmarking and case studies included in this report provide practical insights to help readers strengthen their efforts.

As we look ahead, questions remain about how best practices in impact management will evolve and, how, as a field, we will move towards more effective and efficient evaluations of an investor's impact results. It also remains to be seen what shape the impact verification market will take as new market standards and regulations come into the fold.

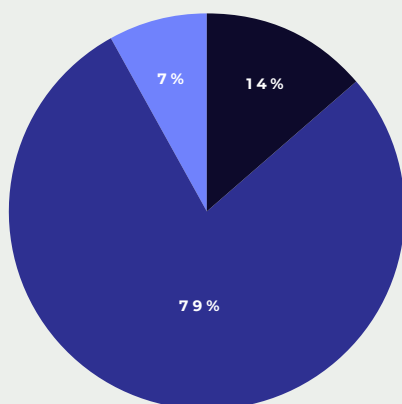
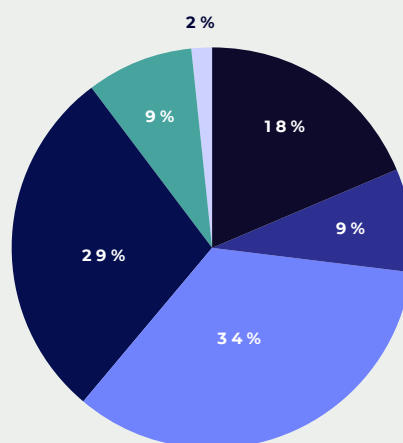
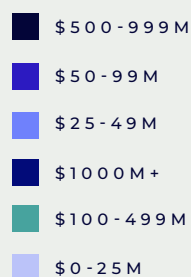
We look forward to playing our part in helping answer these questions through sharing learnings from our verifications and, together with other leading practitioners and verification providers, helping to steward the market towards achieving our shared goals of a sustainable, equitable world.

# Appendix



## Verification Sample Characteristics

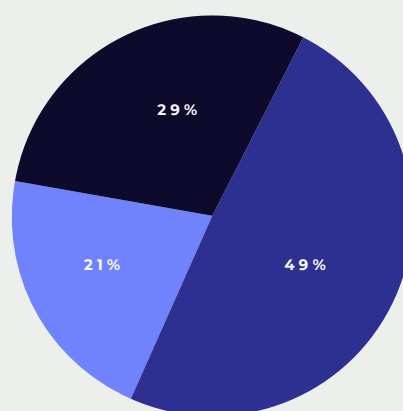
### Covered Asset Ranges



### Target Financial Returns



### Target Geography

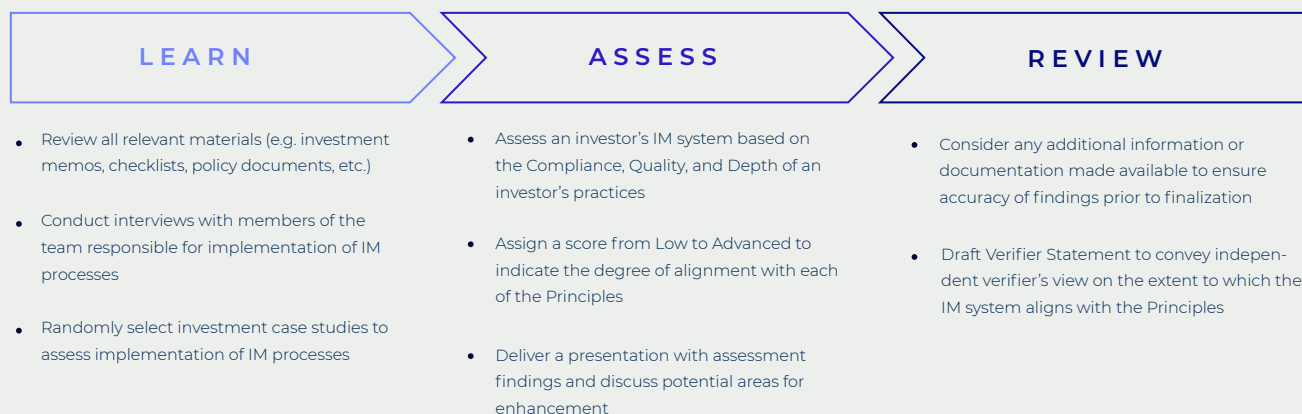


## BlueMark Verification Methodology

Realizing that verification requirements may present a substantial hurdle for both new and long-time impact investors, BlueMark's parent company Tideline began developing a methodology in early 2019 that sought to be both efficient and rigorous. Building on Tideline's experience working with a range of asset managers and asset owners as an impact investing consultant, BlueMark developed a customized approach that has been honed over three years and 60+ practice verifications spanning a wide range of impact investment strategies and investor types.

BlueMark provides verification clients with actionable guidance on each of the Impact Principles, through a proprietary approach designed to help impact investors understand and implement best practices. Our practice verification methodology follows a three-step process: Learn, Assess, and Review.

### BlueMark's Approach to Practice Verification



Our process involves collecting and analyzing a wide range of materials (e.g., investment memos, checklists, policy documents, etc.) as well as documents from a set of randomly selected transactions. We supplement this information with interviews with investment and impact team members. We then use our proprietary rubric to assess the degree to which an investor's practices align with each Principle and assign a rating.

BlueMark has also introduced AccessPoint, a new service for boutique and emerging managers - generally defined as those having less than \$100 million in assets under

### BlueMark Rating Scale

#### ADVANCED

Limited need for enhancement

#### HIGH

A few opportunities for enhancement

#### MODERATE

Several opportunities for enhancement

#### LOW

Substantial enhancement required

management for private equity firms and less than \$250 million for private debt firms - seeking to attain alignment with the Impact Principles. The goal of this specialty service is to encourage and enable greater industry-wide adoption of best practices by making impact verification more affordable and accessible to a broader range of impact investors.

More information about our practice verification and our AccessPoint service can be found on BlueMark's website.

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The background of the entire page is an abstract composition of light rays. A bright yellow light source in the top right corner emits a wide, diagonal beam of light that transitions through green and cyan to a deep blue as it moves towards the bottom left. This beam is set against a dark, almost black, background, creating a high-contrast, ethereal effect.

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