Purpose-washing of impact investing funds: motivations, occurrence and prevention

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Abstract
Purpose – As an emerging field of financing, impact investing is under-institutionalised and is in a legitimacy building phase. In an attempt to unpack how impact investing is deployed in global markets, the key elements of its definition (intentionality, returns and measurement) are examined through a review of academic and practitioner literature. A refined definition is developed which emphasises the key elements of intentionality and measurement as separating impact investment from the established field of socially responsible investment (SRI).

Design/methodology/approach – Funds and products from a publicly available database are systematically analysed against the refined definition to determine the rigour with which intentionality and measurement are applied by self-identified market participants. These elements are used as a proxy to determine “purpose-washing” – a process where funds are presented as impact investments but do not satisfy a tightly applied definition. Purpose-washing enables the possibility of “retrofitting”, where funds originally defined as other products (e.g. SRI) retrospectively claim to be impact investments.

Findings – Having found evidence of purpose-washing but not retrofitting, actions are identified to enhance impact investment’s integrity, focussing on intentionality, measurement and transparency. Clarity of definition and purpose are important for a field in the market-building phase, as a lack of clarity could have negative implications for integrity and growth. The authors postulate that purpose-washing may be attributed to twin but distinctive motivations by market participants: interest in fee-generation among fund managers and attempts to bolster field legitimacy by demonstrating sector growth among impact investing proponents.

Originality value – This paper represents a unique analysis of impact investments against a robust and refined definition. By doing so, it offers a systematic appraisal of impact investments and an overall assessment of market integrity in its field-building phase.

Keywords Legitimacy, Socially responsible investment, Investors, Transparency, Impact investment, Purpose-washing

Paper type Research paper

Introduction
The term impact investment was coined in 2007 at a Rockefeller Foundation hosted meeting to describe a range of activities that participants perceived as distinctive from established practices of socially responsible and ethical investment (Rockefeller Foundation, 2016). Subsequent reports defined impact investing as having three components: intentionality, returns and measurement (GIIN, 2016a, 2016b; SIIT, 2014a, 2014b). While it is widely accepted these features define impact investing as a distinctive field, they are interpreted or prioritised distinctively by market participants (Hochstadter and Scheck, 2015).

This has the potential to have adverse implications for the nascent fields’ legitimacy. It also has implications for estimates of market size and potential growth (Daggers and Nicholls, 2016), an ambition shared by participants but with varying motivations: from creating...
greater impact (SIIT, 2014a) to mainstream adoption (Mudaliar et al., 2016) to fee generation (Freireich and Fulton, 2009). Meanwhile, capital deployment is proving tougher than expected (Oleksiak et al., 2015).

These motivations may result in the definition being applied with less rigour to facilitate growth by bolstering perceptions of scale for those with an interest growing the field or by market actors using the label for purposes of product differentiation and fee generation. As interest in impact investing increases, it is important to recognise the range of interpretations and to identify where funds are marketed as impact investments, but lack genuine intentionality. To describe this phenomenon, we develop a variation of the term green-washing, that we label “purpose-washing”.

Intentionality has recently become a recognised component of the definition but has received less attention than the emphasis on the other key elements, returns and impact measurement. While the threats to growth from a loss of integrity (SIIT, 2014b) through scepticism are known (Freireich and Fulton, 2009), this paper develops a methodology to test funds’ intentionality and deploys this as a marker for an impact investment products’ integrity. We in turn suggest this test can act as an overall proxy for market legitimacy. For a field in the market-building phase (Freireich and Fulton, 2009), integrity and legitimacy are critical (Suchman, 1995). Should impact investing be appropriated by interests seeking to use the term purely to expand market share, this may have adverse implications for the field’s development as actors judge impact investment as a field that lacks integrity. In this way, we argue that there is a risk that impact investing will be subject to charges that echo “green-washing” – in which a product is deceptively marketed as environmentally friendly – that occurred during the mainstreaming of environmentalism.

The article begins by reviewing the dominant definitions of impact investment to clarify interpretation of its components. The literature review concludes by considering the drivers of green-washing (Delmas and Cuerel Burbano, 2011) as they apply to impact investing (SIIT, 2014b) through purpose-washing. In addition, we develop a definition for retrofitting, a process where funds experiencing slow fundraising may opportunistically and retrospectively claim to be impact investments to attract new investors.

Having refined the definition with emphasis on intentionality, a method is developed to analyse impact investment funds and products self-identifying as impact investments. A total of 411 funds on ImpactBase, an online database maintained by Global Impact Investing Network (GIIN)[1], are analysed and rated for intentionality, returns and measurement. Intentionality prioritises manager mission, additionality, objective setting during due diligence and action plans to achieve impact over general themes. Although intentionality can be difficult to measure objectively, impact measurement and reporting are indications as they attach meaning to and provide evidence of, commitment to social purpose. Strong impact measurement includes the range and depth of measures, relative rather than absolute measures and use to improve assets. Returns are compared to traditional funds, with adjustments for below-market targets. Although some investors apply a similar approach to individual investments (Bridges, 2015a), a systematic review of funds against the components has not previously been performed. The funds’ ratings are compared to managers and investments of two market-builders, ImpactAssets and Big Society Capital (BSC), to test the refined definition.

The analysis is used to determine the extents of purpose-washing and retrofitting and is reliant on the fund information provided. Some established funds were less transparent on returns information, to the detriment of market-building. With the refined definition placing greater emphasis on intentionality and measurement than is evident in some fund information, ImpactBase appears to be prioritising growth over rigour in listing funds and waiving data requirements. From the analysis, we infer that ImpactBase has allowed a minority of purpose-washing managers, with the vast majority of funds and products
meeting the definition. While purpose-washing declines over the period, 2016 saw some reversion, particularly for intentionality, despite intentionality becoming a recognised component and potentially reflecting the growth in fund numbers. However, retrofitting is not revealed by the analysis.

Impact investing brings additional finance to create social impact and attracts significant interest. The intention to create both social and financial returns leads to different interpretations of how to achieve them. While there is no single approach, for on-going integrity, participation and market growth, it is important to understand the range of motivations, ensure social and financial balance and emphasise intentionality. The analysis illustrates the range of interpretations and identifies a degree of purpose-washing and lack of transparency, which threaten impact investing’s integrity. If ImpactBase continues to focus on growth and accepts a broader range of funds than meet the refined definition, then it needs to be clear some funds practise lower intentionality and measurement, against a trend of overall improving practices and expectations. However, if the market tends towards the refined definition and the overall improvements in measurement and intentionality become the new standard, then opportunities are identified for ImpactBase to enhance impact investing’s integrity, including enhanced information requirements.

Unpacking the components of impact investing

Social impact investments are those that intentionally target specific social objectives along with a financial return and measure the achievement of both (SIIT[2] 2014a, p. 1).

Daggers and Nicholls’ (2016) comprehensive review of literature since 2010 describes impact investing as several overlapping but distinct markets with blurred boundaries as its purpose and represented differently by various interest groups. This results in enormous variations in estimates of market-size. Following Freireich and Fulton (2009), Oleksiak et al. (2015) place impact investment in the market-building phase. Sector observers have argued that having organised and established initial infrastructure, actors engaged in impact investing are focussed on implementation. These observers argue further that in the ensuing value capturing phase, the functioning market attracts mainstream participants, infrastructure is leveraged and specialisation increases (Freireich and Fulton, 2009).

However, impact investing is at risk from a lack of proper classification (Goldman and Booker, 2015) and requires common understanding and clarity (Thornley and Clark, 2016). It is challenging for a field to gain legitimacy when definitions and terminology are unclear (Hochstadter and Scheck, 2015). Moreover, loose application of definitions can adversely affect legitimacy should actors apply a term inappropriately to serve either self-interested reasons, for example expanded market access or more altruistic ends, for instance field growth.

Financial and social returns

The relationship between social and financial returns – and if a trade-off between them is necessary – is an on-going discussion in practitioner (Goldman and Booker, 2015) and academic literature (Nicholls and Emerson, 2015). Investor preferences are generally described using the terms impact-first – seeking to optimise social impact with a financial return floor – and finance-first – seeking to optimise the financial return with a social impact floor (Freireich and Fulton, 2009). Some assets have both in different parts of the capital structure including layered investments (Freireich and Fulton, 2009). Other commonly used terms are concessionary (impact-first) and non-concessionary (finance-first) (Brest and Born, 2013).

Some are sceptical about the ability of impact investing to deliver dual returns including Brest and Born (2013) (although they do not reject the possibility). Others including
practitioners such as Matthews et al. (2015) of Cambridge Associates and Gray et al. (2015) have argued that dual returns are possible as evidenced by private equity impact investment funds that have delivered financial returns in line with mainstream funds. However, their “benchmarks” have been criticised for focusing on financial returns to the detriment of social impact (Struwever and Tews, 2015). In a series of responses to a leader contributed by Bouri (2015), the Cambridge Associates report was criticised for not discussing impact achieved (Littlefield, 2015; Kaur, 2015) and praised for setting a precise bar for impact and requiring evidence of its incorporation in fund strategy (Berkley et al., 2015). This illustrates a dilemma. Impact-first investors want greater focus on impact measurement and its relationship with returns for different investment types. Finance-first investors want less focus on impact measurement and more on building credibility to invest at scale and achieve (near) market returns (Foote et al., 2015).

**Intentionality**

Although it is unlikely one interpretation will ever be settled upon, understanding the degree of intentionality in investment decisions is important to distinguish impact investment from mainstream investments. Intentionality was not always a defining component of the definition. In a review of academic and practitioner works to 2013, Hochstadter and Scheck (2015) found the definition’s fundamentals to be confined to financial returns and non-financial impact. Since the article’s publication, definitions have emphasised intentionality. For instance, the GIIN, definition used in Hochstadter and Scheck (2015) has been superseded and now incorporates intentionality. Further, government interest in impact investing has grown and the G8’s SIIT placed intentionality at the core of its definition (SIIT, 2014a).

Intrinsically, intentionality should be considered when impact investments are being made. SIIT (2014a, p. 18, italics added) describes impact investing’s defining characteristic as “the goal of generating financial returns is unequivocally pursued within the context of setting impact objectives and measuring their achievement”, whereas investments with impact may have impact, but it is marginal to the business’ main activity. Oleksiak et al. (2015, p. 207) refer to the deliberate structuring of investments to deliver both social and financial returns, where social externalities are not a by-product of financial returns.

Another consideration is the question: Whose intentionality? BSC defines social investment as “the use of repayable finance to achieve a social as well as a financial return” (BSC, 2016, p. 3) and additionally requires explicit intention for positive impact creation from both the investor and investee. BSC notes SIIT’s impact investments definition also requires measurement.[3] Under these BSC definitions, social investment is a subset of impact investment, because impact investment only needs the investor or the investee to have intentionality[4] (BSC, 2016). Figure 1 combines the SIIT and BSC definitions and demonstrates in black the segment specified by our refined definition.

An example of investee intent in the refined definition is portions of renewable energy listed funds. Bridges (2015b) considers them impact investments, but BSC does not. If outcomes are measured and investors have intent, then the portion held by investors with intent is included in the refined definition, even though not all investors have intent, and their investments are excluded. The fund must have intent, even if not all investors have intent.

An aspect of intentionality is additionality.[5] Brest and Born (2013) assess impact through impact investment’s contribution to the achievement of social objectives. They argue an investment only has impact if the social outcomes exceed what would have happened otherwise. The concept is used to define impact investment as “actively placing capital in enterprises that generate social or environmental goods, services, or ancillary benefits such as creating good jobs, with expected financial returns ranging from the highly concessionary to above market” (Brest and Born, 2013, p. 23).
Responses to their paper range from support for the definitional contribution to rejection of trade-offs. O’Donohoe (2013) agrees additionality is required for impact investment to have genuine impact and describes how investors can demonstrate and support impact. Concessionary investors should set clear and measurable metrics. Non-concessionary investors must be able to describe impact, including why mainstream investors are missing an opportunity. Speirn (2013) commends the attempt to bring rigour to the field and notes learning as an additional impact, to increase long-term mission efficacy. Pfund (2013) identifies difficulties in establishing what impact is and connections to the investment process and suggests using measurement to demonstrate the difference (if any) made by the investment approach.

Others dispute the concept of a trade-off between social and financial returns. For example, Rodriguez and Chu (2013) argue that in emerging markets, intentionality is considered a given, measurement time-consuming and costly and unnecessary as impact is apparent. They further argue to achieve as much impact as possible, the definition should be as broad as possible. The scale of the impact is less important if more investors are attracted, as long as they are aware of their goals (Choi, 2013). As an observation, those adopting this line of reasoning were fund managers and had lower expectations of what constituted an impact investment than other commentators.

Brest (2014) raises the lack of attention paid to additionality by SIIT (2014a) in its main report and passing reference from its Working Group (SIIT, 2014b). Acknowledging SIIT’s desire for impact investing growth, he warns insufficient focus on impact and intentionality increases the risk of growth without increasing social impact. It is not enough for investments to do good, they should increase quality and quantity. Investors must assist by providing capital or business support, which would not have otherwise been received. Brest asserts some authors of the SIIT reports did not want to include additionality because potential investors could be confused or discouraged, and the degree of additionality is for investors to determine. In recognition of the challenges, established impact investors from Root Capital, Foote et al. (2015) described intentionality as a base threshold, as measuring impact is challenging, and assert intentionality should be raised to additionality over time.

Intentionality can be difficult to demonstrate, particularly for fundraising managers who have not yet made investments. It can be demonstrated as an investment is being made through...
the due diligence process and by setting objectives. Once investments are made, impact measurement can demonstrate intentionality.

**Impact measurement**

Traditional investing considers risk and return; impact investment considers risk, return and impact (SIIT, 2014a; Goldman and Booker, 2015). All need to be measured. Impact measurement needs to progress towards being as comprehensive and reliable as the measures for risk and return (SIIT, 2014a), with methods being refined and benchmarks defined (Thornley and Clark, 2016). Measurement is important for attracting investors, particularly if risk, return and impact can be linked (SIIT, 2014a; Thornley and Clark, 2016). With the practicalities of impact measurement extensively covered elsewhere (Best and Harji, 2013; Graham and Anderson, 2015; Loveridge, 2016), we focus on measurement as a means to demonstrate intentionality.

Intentionality can be demonstrated by impact measures being established during the investment making process. SIIT (2014a) describes impact-driven organisations as those that set outcome objectives, measure their achievement and maintain them for the long term. SIIT (2014b) argues impact measurement is central to impact investments because it demonstrates the investor’s true intent for positive change. To measure impact, SIIT (2014a) identifies the key data needs as outcome objectives for beneficiaries, performance in meeting objectives, social and financial returns on investment, performance metrics and benchmarks and outcome payments.

The approaches taken to impact measurement (management/measurement, internal/external) results in four practices with increasing levels of measurement and application to assets: ratings as impact predictors; outputs as impact proxies; direct assessment of social impact; and embedding social impact assessment in doing business (Loveridge, 2016). Where impact measurement is used to improve business value, it is more successful when investors and investees jointly agree metrics relevant to the core business and include them in deal documentation. When integrated with the underlying asset, they tend to be less resource intensive and complicated (GIIN, 2016b).

**Why definitions matter: Integrity and rigour in field-building**

There is significant support for impact investment’s growth, but threats to its integrity and legitimacy if it grows too fast or too broad. The SIIT (2014a) describes impact investment as making an important difference: to meet complex global challenges, it needs to grow fast. Investor interest is growing and it is being mainstreamed (Bridges, 2015a). However, the two most identified challenges in the GIIN (2016a, 2016b) investor survey are lack of appropriate capital and lack of quality investment opportunities (Mudaliar *et al.*, 2016). There appears to be a mismatch between investors and investees (Nicholls and Emerson, 2015; Oleksiak *et al.*, 2015).

Against expectations, as the number of funds has increased, it has proven tougher to invest the capital raised. There has not been the same increase in investment-ready opportunities. The demand is said to be vast, but opportunities do not meet investor requirements. Issues include transaction costs and social enterprises’ need for finance to scale-up to an investible size (Oleksiak *et al.*, 2015). This increases the risk of investments being made without intentionality for funds to be fully invested, which may be acceptable to some investors, but not others.

Impact investment’s integrity will be compromised if impact investors do not hold each other and themselves accountable to their commitment and intent to invest for impact (SIIT, 2014b). Investors may disengage if social and financial expectations are not met or are misaligned, which is more likely without appropriate objectives, particularly...
impact, being universally understood and framed. Elements requiring clarity include defining impact earlier in the investment process different impacts achieved by different market-rate investments and clear statements from managers on motivation and expectations (Thornley and Clark, 2016). The evidence to demonstrate impact required by investors varies and influences investment decisions (Thornley and Clark, 2016).

Freireich and Fulton (2009) identified these dangers in 2009; if social impact was too loose or impact investment too easy, then it could turn from “doing good” into “feeling good”. Scepticism can arise from capital calling itself impact investment if positive social change is not produced. Not all managers seeking to meet increasing client demand for impact investments may devote the effort required to produce positive impact. Standards could be diluted and green-washing occur as financial markets and financial incentives influence behaviour. Related examples of negative impacts have occurred in biofuel (higher food prices) and microfinance (predatory lending).

Each investor and investee needs to understand their own requirements of intentionality, additionality, social impact, financial returns and measurement. Looser requirements could result in managers offering impact investment funds that do not add to social benefit or solve social problems. A further risk from inconsistent use of terminology is for research, where incompatible data and unclear research design lead to difficulties in building core theory (Daggers and Nicholls, 2016).

**Purpose-washing** and retrofitting

The similarity of the potential mislabelling of impact investments to green-washing underscores the importance of measurement, as it provides clarity on what impact investment is, therefore protecting market integrity. This is a particular issue as mainstream investors consider impact investment (SIIT, 2014b).

Delmas and Cuerel Burbano (2011) describe green-washing as misleading consumers about a company’s environmental practices or a product/service’s environmental benefits, through poor environmental performance and positive communication. Possible implications are negative consumer confidence and a reduction in the market for green products/services. Drivers include external (consumer and investor demand), organisational (incentive structures, ethical climate) and individual (optimistic bias). Recommendations to decrease its occurrence include increasing green performance transparency, increasing knowledge about green-washing (share incidents, clarify regulatory requirements) and aligning organisational structures, incentives and processes.

We postulate that a similar process may be occurring in the impact investment market as it develops and gradually mainstreams. We label this “purpose-washing”. Purpose-washing occurs when investors are misled about a manager’s impact intentions (including measurement) or an investment’s potential impact. It could have negative effects on investor confidence, with flow-on effects to market integrity. The threat of purpose-washing reinforces the need for the impact investment definitional discussion to continue and for impact measurement and reporting to be required by investors. By increasing knowledge and transparency, investors and investees can act with greater certainty about what is and is not impact investment. Moreover, it can make it more difficult for organisations to inappropriately claim to be legitimate market participants. As definitions are refined and practices evolve, databases such as ImpactBase may need to revise inclusion requirements. “Retrofitting” is a form of purpose-washing where an existing fund, established without intentionality, is promoted as an impact investment fund to gain exposure to a new market.
Refined definition

The literature review has considered the definition of impact investing, clarity of which is required for advancement from market-building to capturing value of the market. The range of component interpretations creates the potential for funds to improperly claim to be impact investments, threatening integrity and legitimacy.

From the review, we have generated a refined (and tighter) definition:

Impact investments are those that intentionally target specific social objectives along with a financial return and measure the achievement of both (SIIT, 2014a). Intentionality encompasses both investor and investee intent (but only the portion of an investee investment owned by investors with intent) and additionality, and needs to be demonstrated at the time of the investment, ideally through due diligence and setting objectives, and throughout the investment, through impact measurement and reporting. The potential trade-off between social and financial returns is accepted, and meaningful impact measurement is required.

While less attention has historically been paid to intentionality than returns or measurement, it is a key component for establishing market integrity and legitimacy, the principal reason being that a lack of attention to intentionality could result in funds being misrepresented as impact investments. Given most participants are aware of the evolving definition, misrepresentation should not be widespread. Importantly however, the extent to which this occurs has not been examined in prior research. In an attempt to test these assumptions empirically, we develop a unique framework to analyse application of the definition. To understand the extent of purpose-washing and retrofitting, ImpactBase funds are rated against the refined definition. Each fund is rated for each component against ratings criteria informed by the literature review. Highly rated funds demonstrate:

- **Intentionality** – intentional impact (not simply investments with impact), evidence of additionality, commentary on how the impact is expected to be achieved (not generic social or environmental themes), objectives set during due diligence, mission ingrained in manager;

- **Returns** – return objectives and fees comparable to traditional investments (adjusted for concessionary investments), appropriate balance between social and financial returns; and

- **Measurement** – extensive impact measuring and reporting, metrics (depth, breadth, meaningfulness, degree of impact), use of impact measurement to improve assets.

Data and methodology

There is no single source of data on all impact investing funds. ImpactBase, the largest source, is crosschecked against managers profiled on ImpactAssets 50 and the 48 BSC investments to the end of 2016.

In early January 2017, ImpactBase had 411 funds with target assets under management (AUM) of US$36.2bn and committed capital of US$31.5bn (January 2017 Update email from ImpactBase, January 6, 2017). In all, 403 funds were analysed in mid-September 2016 using the data on ImpactBase, supplemented with the eight funds added in the remainder of 2016. Managers choose to participate and ImpactBase reviews submissions. All mandatory fields must be completed and an investment memo provided. ImpactBase may clarify and verify profile information against investment documentation (ImpactBase, 2016b). Funds must disclose impact objectives, measurement and targets. Listing is not appropriate if impact is not central to the manager’s investment approach (ImpactBase, 2016a). Funds must provide evidence of impact measurement and reporting intentions.
However, many funds on ImpactBase respond “n/a” for their intention to provide impact reports to investors, raising questions about the importance of measurement reporting in ImpactBase’s review of funds and highlighting that ImpactBase may have chosen growth over rigour in accepting funds.

ImpactAssets 50 is a showcase of impact investment managers, demonstrating a range of asset classes, sectors and geographies but is not a comprehensive list. Managers demonstrate significant social impact commitment and measure impact using established ratings frameworks (GIIRS rating, IRIS metrics) (ImpactAssets, 2016). The representation of managers demonstrates best practice and how managers are progressing towards it, while recognising not all meet it. Intent is measured though mission and values and demonstrated through certification, membership, participation and impact measurement. Components include the social measurement information system, how performance is tracked, transparency and IRIS compliance (Emerson and Williams, 2011). ImpactAssets 50 commenced in 2011. In all, 102 managers have been included with 15 appearing in all six years. Of the 2016 managers, 42 were on ImpactBase at the end of 2016, with 91 funds. Of the 102 managers, 75 were on ImpactBase, with 149 funds (ImpactAssets, 2017).

BSC had £311.6mn of impact investments to the end of 2016 (BSC, 2017). Eight of BSC’s managers have 17 funds on ImpactBase, with five in common. Many are UK focussed and may have chosen not to list on US-based ImpactBase.

Using ImpactBase data, funds are rated high/medium/low for each component with the framework in Table I. Ratings are based on the quality of the profiles and consider:

- **Intentionality** – fund description, investor type, impact description and theme(s), sample asset;
- **Returns** – financial description, asset class, stage, target return, return objective, fees; and
- **Measurement** – social and environmental metrics and ratings, core impact metrics tracked, number of non-financial IRIS indicators tracked, current or intended production of impact reports, sample report.

Assigning three for high, two for medium and one for low (and zero for none in measurement) yields total ratings ranging from nine to two. Funds rating at least 6 satisfy the refined definition. Funds potentially purpose-washing do not satisfy the refined definition and/or have low/medium intentionality.

Information on fundraising history (year listed/updated, inception year, target AUM, committed capital) is used to explore potential retrofitting. Figure 2 is used to determine if fundraising is slow, providing a possible incentive to list on ImpactBase.

**Results and discussion**

The ratings of ImpactBase funds are summarised in Table II which segments the funds by:

- **Year** – funds appear in the year in which data were last provided, either initial listing or updated data. With the exception of the first year (2012), the number of funds listed/updated has increased each year to 2016. Growth from 2013 to 2016 is 20 per cent pa, with 27 per cent growth to 2015 and 2016.
- **Asset class** – fixed income comprises fixed income and public debt and fund of funds assigned to the underlying asset class.
In geography, developed markets comprises Europe, North America and Oceania and emerging markets comprises Africa, Asia, Global (Emerging Markets only) and Latin America.

Theme – it reflects common groupings within funds: green comprises sustainable consumer products, green technology/cleantech and environmental markets and sustainable real assets; access to finance includes employment generation.

FXM – these are funds without a track record but whose manager has track record.

<table>
<thead>
<tr>
<th>Table I</th>
<th>Ratings framework</th>
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<tr>
<td><strong>Returns</strong></td>
<td>If targeting market return, standard asset class fees and return objective</td>
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<tr>
<td></td>
<td>If targeting below-market return, standard asset class fees</td>
</tr>
<tr>
<td><strong>Measurement</strong></td>
<td>Use IRIS or other metrics, Provide impact reports to investors</td>
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<td></td>
<td>Attached copy of measurement report or detailed description of how measurement is used to assist assets</td>
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<tr>
<td><strong>Intentionality</strong></td>
<td>Intentional impact, Impact described</td>
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<td></td>
<td>Additionality</td>
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<td></td>
<td>ImpactBase and fund material consistent, Mission ingrained within manager</td>
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<tr>
<td><strong>Sustainable forestry</strong></td>
<td>Additional land conserved</td>
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<tr>
<td><strong>Environmental</strong></td>
<td>Intentionally reduce CO₂, Develop new technologies</td>
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<tr>
<td><strong>Private equity in emerging markets</strong></td>
<td>Focus on themes (health, education, minorities, environment)</td>
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<td></td>
<td>Demonstrate impact</td>
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<tr>
<td><strong>Microfinance loans to local lenders</strong></td>
<td>Evaluation of social/environmental focus of microfinance lenders</td>
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Figure 2 Slow fundraising by year and capital raised as per cent of target
For intentionality, 76 per cent of funds rated high. High intentionality was higher for:

- fixed income (87 per cent) and real assets (83 per cent) than private equity (69 per cent);
- global (86 per cent) and developed markets (85 per cent) than emerging markets (68 per cent);
- access to basic services (86 per cent) than multi (79 per cent) and green (78 per cent) and then access to finance (66 per cent); and

- by asset class, geography and theme, a greater proportion of emerging markets private equity and microfinance funds demonstrated insufficient intentionality to be rated high.

While medium intentionality decreased to 2015 (from 31 to 11 per cent), it increased in 2016 (29 per cent). With more funds added to ImpactBase (2016a) than in the previous three
years, this may reflect a fall in standards or purpose-washing. Of the features sought for a high rating, minimal evidence was provided of managers setting impact objectives during due diligence. Evidence of intentional impact, additionality and commentary on how impact is to be achieved were more common. Not all managers demonstrated ingrained mission or provided an example asset. Few managers provided all features sought.

For returns, 46 per cent of funds rated high. High returns ratings were higher for:

- real assets (64 per cent) than fixed income (49 per cent) and private equity (39 per cent);
- developed markets (54 per cent) and global (52 per cent) than emerging markets (39 per cent); and
- green (51 per cent) and multi (50 per cent) than access to basic services (46 per cent) and access to finance (39 per cent).

The proportions of funds by returns ratings are relatively constant over the years, with high increasing from low to high 40s. 31 per cent did not provide full returns information: 7 per cent of funds did not provide fees, 13 per cent did not provide return objectives and 11 per cent provided neither. Of the 34 per cent of funds rated medium, 20 per cent were because of high/unclear fees for the asset class/return objective. Of the 19 per cent of funds rated low, 8 per cent were because of high/unclear fees for the asset class. 35 funds charge no fee (often for notes), 66 charge a base fee only (average 2.0 per cent pa) and 234 charge base and performance fees. While return objectives were generally in line with traditional investments, some private equity emerging market funds had low return objectives without below-market target returns. The range of microfinance return objectives was wide.

Measurement is the only component where high (19 per cent) is the least common rating. High measurement was higher for:

- fixed income (34 per cent) than real assets (17 per cent) and private equity (12 per cent);
- multi (31 per cent) than access to basic services (20 per cent) and access to finance (18 per cent) and green (11 per cent). Most green assets are real assets; and
- high measurement is similar across geographies (19-21 per cent).

Measurement has improved over the years. While proportionately 2016 has less highs (28 per cent from 29 per cent) and lows (15 per cent from 26 per cent) and more mediums (56 per cent from 45 per cent) than 2015, 83 per cent of 2016 funds (intend to) provide investors with impact reporting, up from 74 per cent in 2015. However, most managers did not attach the reports. With improving standards, this could become a mandatory field. As measurement has improved with time, funds which listed in 2012 may have since improved their measurement practices, but without managers updating ImpactBase, this cannot be included. The ratings reflect 81 per cent of funds not providing sample impact reports or not describing how impact measurement is used to assist assets. 3 per cent none is strange given ImpactBase reviews funds before listing. The lack of depth of measurement was surprising when it is a listing requirement. The attached reports were more likely to be manager-wide or predict how impact was expected to be achieved, than actual impact achieved, as ImpactBase listing often occurs before acquiring and measuring asset impacts. There was minimal evidence of measurement being used to improve assets.

Table III provides total ratings by search terms. 32 per cent of total ratings achieve 8 or 9, and 83 per cent satisfy the refined definition (≥6). The average total rating is 6.78. Average total ratings increased from 6.23 in 2012 to 7.26 in 2015 before decreasing to 7.12 in 2016, driven by the increasing number of total ratings of 8&9, and following the intentionality and
measurement trends. Compared to 2015, 2016 has more funds not satisfying the refined definition (≤5) (5 per cent to 11 per cent) and more funds achieving 8&9 (42 per cent to 47 per cent).

Total ratings were higher for:

- fixed income (7.13) and real assets (7.13) than private equity (6.48);
- global (7.00) and developed markets (6.96) than emerging markets (6.59); and
- multi (7.12) than access to basic services (6.94) then green (6.65) and access to finance (6.53).

65 per cent of funds attached documents, demonstrating transparency [and despite listing requiring provision of an investment memo (ImpactBase, 2016bc)]. There is a positive relationship between document provision and higher total ratings.

The results point to purpose-washing by ImpactBase and some managers:

Table III  
Total ratings by search terms

<table>
<thead>
<tr>
<th>No. of funds</th>
<th>Year</th>
<th>Total Rating</th>
<th>Average provided</th>
<th>Satisfy Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>2012</td>
<td></td>
<td>0</td>
<td>0</td>
<td>9</td>
</tr>
<tr>
<td>2013</td>
<td></td>
<td>0</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td>1</td>
<td>0</td>
<td>4</td>
</tr>
</tbody>
</table>

Asset
- Private equity: 6.48, 58, 78
- Fixed interest: 7.13, 78, 87
- Real assets: 7.13, 65, 94
- Equities: 5.50, 100, 50

Geography
- Developed markets: 6.96, 70, 87
- Emerging markets: 6.59, 60, 80
- Global: 7.00, 76, 88

Theme
- Access basic services: 6.94, 57, 85
- Access to finance: 6.65, 68, 82
- Green: 6.65, 68, 82
- Multi: 7.12, 71, 94

Target
- Market: 6.72, 64, 82

Return
- Below-market: 6.95, 71, 88
- Both: 7.43, 86, 86

Track
- New: 6.70, 74, 93

Record
- FxM/ available at: 3 years: 6.86, 62, 91
- 3 years: 7.02, 62, 91

Total: 6.78, 65, 83
17 per cent of funds did not satisfy the refined definition. The increase from 5 per cent in 2015 to 11 per cent in 2016 and 2016 growth in funds could indicate a lessening of standards, driven by increased medium intentionality.

23 per cent of funds rated medium intentionality. Although the overall trend is decreasing medium ratings, medium internationality increased from 11 per cent in 2015 to 29 per cent in 2016.

10 per cent of funds are both unsatisfactory and medium intentionality. The proportion of funds declined from 2012 (20 per cent) to 2015 (0 per cent) before increasing in 2016 (9 per cent).

Of the 314 high intentionality funds, 8 per cent were unsatisfactory, because of low transparency (6 per cent) (return objectives, fees, impact reports) or high fees (2 per cent). Of the 95 medium intentionality funds, 43 per cent were unsatisfactory. Both low intentionality funds were unsatisfactory.

While ratings for measurement and intentionality have increased overall, there is scope for improvement through information provision. Funds could update their profiles and attach impact reports, reflecting the increase in funds reporting to investors. High intentionality funds could include intentionality in the manager’s mission and demonstrate it in objective setting during due diligence.

By target return, the number of funds targeting below-market returns is relatively constant. The average total rating of below-market funds (6.95) is higher than all ImpactBase funds (6.78) and market funds (6.72). Seven funds target both (7.43), with the higher total ratings because of returns and measurement. While market return funds rate slightly lower than ImpactBase and below-market return funds rate slightly higher, it is marginal. By definition component:

- below-market (93 per cent) has higher intentionality than market (73 per cent) and both (71 per cent);
- both (71 per cent) has higher returns ratings than below (47 per cent) and market (45 per cent); and
- both (43 per cent) has higher measurement than below (21 per cent) and market (19 per cent).

61 per cent of funds have track records under three years (available at: three years, FXM✓, new) when listed/updated. More funds with longer track records (three years) on listing/updating either rate well (88.9, 34 per cent) or poorly (≤5, 29 per cent), than funds with track records under three years (8 and 30 per cent). The average total rating of available at: three-year funds (7.02) is higher than FXM✓ (6.66), new (6.70) and three year (6.60). Three-year funds have the lowest total rating because of lower returns ratings and slightly lower intentionality. However, some of these funds are highly rated. These more established funds demonstrate greater proportions of best practice or poor practice, reflecting the levels of information provided. By definition component:

- available at: three years (86 per cent) has higher intentionality than FXM✓ (77 per cent), three year (73 per cent) and new (67 per cent);
- three years (36 per cent) has lower return ratings than funds with track records under three years (52-54 per cent), because of many not providing returns objectives or fee information. This may reflect they are less likely to be fundraising and see less value in providing the information; and
- three years (30 per cent) are most likely to attach impact reports (they are available as asset impacts can be measured) followed by available at: three years (16 per cent). Available at: three-year funds are most likely to (intend to) provide reports to investors (66 per cent).
Comparison to ImpactAssets 50 and BSC

Table IV compares overall ImpactBase ratings to ratings for the common funds managed by all ImpactAssets 50 managers (AI50), 2016 managers (AI50-16) and BSC managers.

BSC’s average total rating (7.18) is higher than ImpactAssets 50 (6.91, 6.97) and ImpactBase (6.78), driven by its higher intentionality rating (94 per cent). ImpactAssets 50 (80 per cent, 78 per cent) also rates higher for intentionality than ImpactBase (76 per cent). The IA50-16 funds with medium intentionality are in emerging markets and did not provide sufficient evidence of social/environmental focus; this may be known to ImpactAssets but not included on ImpactBase. The high returns rating for BSC (47 per cent) is comparable to ImpactBase (46 per cent) and higher than ImpactAssets 50 (38 per cent, 41 per cent). BSC’s higher total rating is also driven by its higher measurement rating (24 per cent). ImpactAssets 50 (27 per cent, 27 per cent) also rate higher for measurement than ImpactBase (19 per cent). ImpactAssets 50 and BSC were more likely to report on measurement to investors, but most did not attach reports. BSC’s tighter definition of intentionality is borne out by 88 per cent satisfying the refined definition. ImpactAssets 50 notes its managers demonstrate good but not necessarily best practice, with 87 per cent satisfying the refined definition, compared to ImpactBase (83 per cent). The higher ratings than ImpactBase support the application of the refined definition to examine market integrity.

Retrofitting

61 per cent of ImpactBase funds have track records under three years when listed/updated. Table V shows the terms have not been applied consistently when considering the number of years between inception year and year of listing/updating. Although zero years is

| Table IV | Ratings for ImpactBase, ImpactAssets 50 and BSC |
|-------------------|-------------------|-------------------|-------------------|-------------------|
| **Total Rating**  | ImpactBase | IA50 | IA50-16 | BSC |
| **Average**       | 6.78 | 6.91 | 6.97 | 7.18 |
| **9**              | 34 | 15 | 11 | 3 |
| **8**              | 96 | 35 | 21 | 5 |
| **7**              | 115 | 46 | 30 | 3 |
| **6**              | 98 | 34 | 17 | 4 |
| **5**              | 49 | 12 | 7 | 2 |
| **4**              | 17 | 7 | 5 | 0 |
| **3**              | 1 | 0 | 0 | 0 |
| **2**              | 1 | 0 | 0 | 0 |
| **Intentionality**|            |      |      |     |
| **High**           | 314 | 119 | 71 | 16 |
| **Medium**         | 95 | 30 | 20 | 1 |
| **Low**            | 2 | 0 | 0 | 0 |
| **Returns**        |            |      |      |     |
| **High**           | 190 | 57 | 37 | 8 |
| **Medium**         | 141 | 63 | 37 | 6 |
| **Low**            | 80 | 29 | 17 | 3 |
| **Measurement**    |            |      |      |     |
| **High**           | 80 | 40 | 25 | 4 |
| **Medium**         | 160 | 60 | 41 | 9 |
| **Low**            | 159 | 46 | 22 | 3 |
| **None**           | 12 | 3 | 3 | 1 |
| **Total**          | 411 | 149 | 91 | 17 |
the most common for new, the maximum is six years, which should be three years. Misclassified differences are bold.

For the retrofitting analysis, Table VI considers high and medium intentionality funds with one to five years between inception year and listing/updating, being a standard fundraising period for a closed-ended fund. Slow fundraisers are as per Figure 2.

Slow fundraising funds (53 per cent) have a lower proportion of funds with one or two years between inception and listing/updating than all funds (61 per cent), particularly medium intentionality funds (43 per cent compared to 59 per cent). This perhaps indicates listing on ImpactBase was an afterthought or reaction to slow fundraising.

Slow funds are rated higher (6.21, 7.24) than all funds (5.59, 7.10). 76 per cent of all funds and 78 per cent of slow funds had high intentionality. Despite slow fundraising, retrofitting is not revealed. Similar results occur when controlled for other data (status, shorter fundraising periods). This ties back to the track record analysis. The average total ratings for available at: three year (7.02), FXMV (6.86) and new (6.70) are broadly in line with ImpactBase (6.78). However, more satisfy the refined definition than ImpactBase (83 per cent): available at: three years (91 per cent), FXMV (91 per cent) and new (93 per cent). Three-year funds (71 per cent) is significantly lower because of more of these more established funds not

<table>
<thead>
<tr>
<th>Table V</th>
<th>Inception year less year of listing/updating</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>New</td>
</tr>
<tr>
<td>0</td>
<td>21</td>
</tr>
<tr>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>2</td>
<td>8</td>
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<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>46</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Table VI</th>
<th>Ratings for ImpactBase and slow fundraisers over five-year period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All (n = 222)</td>
</tr>
<tr>
<td>Intentionality</td>
<td>Medium</td>
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<tr>
<td>Total rating</td>
<td></td>
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<tr>
<td>Average</td>
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</tr>
<tr>
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<td>1</td>
<td>22</td>
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<tr>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>Less inception year</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>54</td>
</tr>
</tbody>
</table>
providing returns information. Based on ImpactBase funds, impact investing’s integrity appears to be limited by some older funds not being transparent and some newer funds purpose-washing (but not retrofitting).

**Limitations and further research**

Funds are grouped by year of listing/updating. This demonstrates how fund practices have improved (measurement, intentionality) or not (returns) over time. However, the ratings for the five-year period do not reflect current measurement practices. This is not an issue for returns as fees and return objectives are constant for the fund term. Nor for intentionality which is established before inception and does not change (although it did for subsequent funds with the same manager).

Although a framework was established, the ratings are subjective, particularly intentionality. More information could have been sought from manager websites. Although this could be considered in further research, it may provide significantly different amounts of information between funds and could be argued to make comparison less valid. This is already the case with some funds attaching documents and others not, but this was the managers’ choice.

While some fields are mandatory, many are not. In addition to the effect on returns and measurement ratings, this resulted in a smaller data set for the retrofitting analysis as only 62 per cent of funds provided both committed capital and target AUM. Fields where more funds provided data were used where there were alternatives (inception year not vintage year).

Mandatory fields were used where possible. The data are not always internally consistent (track record, inception year and year listed/updated).

Retrofitting was not supported by the analysis. A different approach could be developed. The analysis used inception year and year listed/updated (provided by all). Alternative approaches could use target close date (provided by 46 per cent) or consider differences by asset class.

ImpactBase does not seek information on actual returns or assets acquired. As many funds list before acquiring assets, impact reports (if attached) are not on fund impact performance. It has, therefore, not been possible to examine if the funds have delivered according to their intentions. In particular, with the capital deployment issues, it is not possible to check if funds have strayed from their mandate and if social or financial returns have been sacrificed to be fully invested.

For intentionality and measurement, standards have improved. If this continues and the analysis were to be repeated in several years’ time, then it may be necessary to include a very high rating to reflect the improved practices.

**Observations and conclusions**

Impact investing is a relatively new field which is growing rapidly and needs to maintain integrity as it does. Market understanding and agreement on the definition, and its components of intentionality, returns and measurement, is central to building legitimacy. Intentionality, a more recent addition to the definition, provides clarity of purpose and has additional emphasis placed on it in the refined definition developed from the literature review.

Possible threats to intentionality come from various participants seeking to grow the field too fast or too broad. Some motivations (mainstreaming, fee generation) could result in the definition being applied with less rigour. Similarly, difficulties in deploying capital raised could result in investments with lower intentionality. A range of definitional interpretations
can facilitate funds misrepresenting themselves as impact investing funds, through *purpose-washing*. Those who consider size as the driver of legitimacy may accept these funds; those focussed on intentionally creating additional impact would not.

GIIN is identified as needing to achieve a balance between the desires of *impact-first* investors (on impact measurement) and *finance-first* investors (on credibility for scale and market returns). As the largest impact investing fund database, ImpactBase needs to manage the same balance and has an important role in maintaining impact investing’s integrity, particularly in the market-building phase. This includes reflecting current and improving practices and expectations of participants. Intentionality and measurement are receiving greater attention, as reflected in the refined definition, and warrant greater attention from ImpactBase.

The methodology developed to rate funds against the refined definition enables systematic analysis of funds’ intentionality and ImpactBase’s rigour in listing funds and detection of *purpose-washing*. The examination and rating of 411 funds as at the end of 2016 against the components found 17 per cent of funds not satisfying the refined definition. Some of these funds were listed in earlier years, when expectations were not as high, but 11 per cent of funds listed in 2016 did not satisfy the refined definition, up from 5 per cent in 2015.

This decline reflects the number of funds with medium intentionality increasing from 11 per cent in 2015 to 29 per cent in 2016. At the same time, there has been growth in the number of funds. It appears this growth may have come at a cost for integrity, and *purpose-washing* has increased for ImpactBase and some managers in the past year.

ImpactBase has missed an opportunity to raise the standard for listing funds. The analysis found an overall and significant improvement in funds’ total ratings. The proportion of funds satisfying the refined definition increased from 73 per cent in 2012 to 95 per cent in 2015. Measurement was the main driver of the increase with a smaller contribution from intentionality. The improvement in measurement is because of more funds providing impact reports to investors. However, the increase has not been matched by an increase in impact reports being attached to ImpactBase. As measurement standards have improved, ImpactBase could consider making the provision of impact reports a requirement for listing. This would provide more information for prospective investors and contribute to overall knowledge in the field.

Another factor in the 2016 decline was a decrease in the proportion of funds attaching documents. Beyond impact reports, other documents provide information to assist in determining intentionality. *Transparency* is imperative for impact investing’s integrity. This includes the provision of return objectives and fees. The ratings of 35 per cent of funds were reduced because this information was not provided, often by more established funds.

The results have identified several ways for ImpactBase to contribute to strengthening impact investing’s integrity. It could be more rigorous in reviewing funds for listing and prevent *purpose-washing* by rejecting funds that: do not provide:

- documents which demonstrate intentionality;
- return objectives and fees; and
- impact measurement reports.

ImpactBase could introduce checks to ensure consistency of data provided and make more fields mandatory. With the improvement to 2015, ImpactBase had an opportunity to set new standards, reflecting the greater attention in the field to measurement and intentionality. Although reflecting improving standards would result in slowing the growth of funds on ImpactBase, with over 400 funds, a trade-off for quality would demonstrate credibility. ImpactBase could also improve integrity by encouraging funds, and especially
established funds, to update their information, including impact reports, and ideally actual information on assets and social and financial returns. Updating ImpactBase would demonstrate a fund’s commitment to the field.

Impact investing brings additional finance to create social impact and attracts significant interest. For on-going integrity, participation and market growth, it is important to understand the range of interpretations of intentionality, returns and measurement, ensure balance between social and financial outcomes, emphasise intentionality, work together to build the market and if need be, sacrifice short-term growth for long-term growth and legitimacy.

Notes
1. The non-profit GIIN is dedicated to increasing impact investing’s effectiveness and scale (GIIN, 2016a).
2. The Social Impact Investment Taskforce (SIIT) operated under the UK G8 presidency in 2013/2014 to catalyse a global II market (SIIT, 2014a).
3. This implies impact investing is a subset of social investing. Daggers and Nicholls (2016, p. 6) alternatively suggest II is focused on behaviour and motivations of investors while the focus of social investing is the investee.
4. Under these BSC definitions, social investment in the UK at the end of 2015 was estimated to be £1.5bn, investor-led impact investment (e.g. credit union loans) £3.2bn and investee-led impact investment (e.g. commercial bank loans to charities) £68bn (BSC, 2016).
5. A term used in carbon and international development markets.
6. “Impact-washing” was used by Harji and Jackson (2012, p. 41) in the context of managing expectations, acknowledging not all investments will have the desired results and the importance of addressing the causes of results that are below expectations.
7. Purpose-washing has been used in a few blogs as part of corporate social responsibility, where an organisation portrays itself as doing the right thing but acts completely differently (Reiman 2013). Important aspects of purposeful companies include being authentic about purpose and mission (Power, 2016), the whole organisation living the purpose (Boehning, 2016) and matching the experience to the promise (Tate, 2016).

References
Bridges—see bridges ventures.
Bridges (2015b), The Bridges Spectrum of Capital; How we Define the Sustainable and Impact Investment Market, Bridges, London.
BSC—see big society Capital.


SIIT–see social impact investment taskforce.


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