Morgan Lewis

IMPACT INVESTING
DESKBOOK SERIES

Defining "Impact Investing"

Impact investing continues to gain traction among a broad range of investors seeking to align financial objectives with social and environmental outcomes. While the term lacks a single authoritative definition, a number of well-regarded institutions have articulated similar but distinct formulations.

This article analyzes the various definitions of impact investing promulgated by prominent organizations representing investors and sponsors across the financial spectrum, including non-profits, major for-profit financial institutions, and philanthropies, and examines the recurring themes in such definitions, as well as the subtle variations therein.

Representative Definitions of Impact Investing

Global Impact Investing Network (GIIN)

GIIN defines impact investing as "investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return." The definition emphasizes the presence of three elements: (1) intentionality, (2) measurement, and (3) financial return. Notably, GIIN has played a formative role in developing the field and establishing baseline standards for terminology and metrics.

Fidelity Charitable

Fidelity Charitable describes impact investing as "the act of purposefully making investments that help achieve certain social and environmental benefits while generating financial returns." This definition aligns closely with that of GIIN on both the intentionality of the investor and dual objectives of impact and financial return. Although this definition does not explicitly reference measurability, the inclusion of achieving "certain" benefits in the definition implies an expectation that outcomes be defined and demonstrable.

International Finance Corporation (IFC)

IFC, a member of the World Bank Group, defines impact investing as "an approach that aims to contribute to the achievement of measured positive social or environmental impacts … alongside financial returns." The IFC definition makes central to the definition the term "measured," which appears before the expected social and environmental impact and suggests an expectation of quantifiable results of any impact. This emphasis is in line with IFC's role as a development finance institution with expertise in well-established systems for evaluating impact at scale.

U.S. Bank

U.S. Bank follows the GIIN definition of impact investments and defines them as "investments made with the intention to generate positive, measurable social and environmental impact alongside a financial

return." U.S. Bank, like GIIN, underscores the importance of intentionality and measurability alongside a financial return.

Mission Investors Exchange (MIE)

MIE defines impact investing as "a strategy that involves investing in companies, organizations, or funds with the intention of generating a financial return while also creating a positive social or environmental impact." By explicitly referencing the types of entities that may receive investment, MIE speaks to the breadth and flexibility of impact investing across asset classes and investor strategies.

Common Themes

Across the definitions surveyed, four common themes emerge.

First is intentionality. Impact investing requires that capital be deployed with the express aim of generating positive social or environmental outcomes. This emphasis on purpose distinguishes impact investing from more traditional approaches that may consider environmental, social, and governance ("ESG") factors incidentally or with a mitigation-focused orientation. Impact investing, by contrast, requires explicit intentionality and measurable contribution to positive social or environmental outcomes. While both approaches, impact investing and ESG investing, respond to evolving stakeholder expectations, impact investing positions real-world impact as a core investment objective rather than a risk-management consideration. For more on this topic, see our article, "Differences Between Impact Investing and ESG Investing."

Second is the expectation that the desired impact be positive and measurable. By requiring positive outcomes that can be tracked, verified, and reported, these definitions underscore the field's commitment to accountability and transparency. Measurability also encourages comparability across investments and assessment at both the project and portfolio levels. It also ensures the alignment of interests between investors and the management of the companies and funds in which they invest by requiring an upfront agreement on the proposed impact objectives and how such objectives will be achieved.

Third, the focus is on social and environmental matters. In practice, impact investors often refer to the United Nations Sustainable Development Goals (SDGs) when defining their own investment theses and their intended impact. The SDGs set forth 17 goals and 169 specific subtargets intended to guide and measure global progress on social and environmental issues ranging from poverty and health to climate action and biodiversity. Common impact investing themes can be mapped against the SDGs. For instance, an investment in agroforestry aligns with SDG target 2.4 to "implement resilient agricultural practices," and an investment in affordable housing aligns with SDG target 11.1 to "ensure access for all to adequate, safe and affordable housing." For a detailed map, see "Sustainable Development Goals & Impact Investment Themes" prepared by Phenix Capital Group.

Fourth, the definitions do not impose a binary choice between financial returns and impact. They exist alongside each other. Impact investors are given the flexibility to determine the trade-offs inherent in pursuing measurable social or environmental outcomes while also achieving financial objectives. This reflects the reality that the optimal balance will vary depending on fiduciary constraints, investor priorities and obligations, and the characteristics of the investment opportunity. Tax-exempt impact investors, for example, are subject to regulatory, fiduciary and prudence considerations that do not affect other impact investors, and these considerations will often drive how they think about and approach impact investing (e.g., program-related investments made by 501(c)(3) private foundations).

Conclusion

All investments will have social and environmental impacts, both positive and negative. As the various definitions and common themes discussed above suggest, impact investors recognize this reality and have developed a rigorous and principled framework for selecting, analyzing, and structuring their investments. They make the choice to tip the scales toward the positive, and they have the discipline to measure it.

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For more information on the issues discussed here, please contact your Morgan Lewis Impact Investing attorney.

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