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# raising the bar

## Aligning on the Key Elements of Impact Performance Reporting

EXECUTIVE SUMMARY

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# Executive Summary

Experts across the impact investing industry agree that higher-quality impact performance reporting is critical to ensuring the industry's integrity.

However, despite the industry's continued growth, the limited availability of decision-useful impact performance data remains a persistent challenge. According to the GIIN's '2020 Annual Impact Investor Survey,' investors cited a lack of transparency into impact performance as a key challenge facing the market (89% called it 'significantly' or 'moderately' challenging).<sup>1</sup> This challenge fuels skepticism as to the legitimacy of impact investing as a means to generate positive change and limits the industry's ability to optimize impact results.

At the same time, impact reporting by impact investors is commonplace. Almost all fund managers view impact reporting as a reputational imperative and dedicate significant time and resources to produce regular reports to communicate impact results to different stakeholders, especially their Limited Partners (or LPs). However, the lack of widely-accepted guidelines for reporting on impact performance has resulted in heterogeneous approaches and a perception by end readers that the reports are incomplete and insufficient to meaningfully gauge impact results.

**"It's like we've settled into a negative equilibrium, where everybody agrees that the status quo is suboptimal."**

MIKE MCCRELESS  
Executive Director, Impact Frontiers

**"The approach of our field has been to let a thousand flowers bloom around metrics and methodologies...And those thousand flowers blooming has led to market and investor confusion."**

FRAN SEEGULL  
President, U.S. Impact Investing Alliance

## Research Approach & Methodology

Given the market imperative to improve the quality and usefulness of impact performance reports, we began a grant-funded research project in the fall of 2021 to gain a deeper understanding of best practices in impact reporting and opportunities to accelerate their adoption. This report is the first in a series, and focuses on diagnosing the current state of the market and establishing an initial set of core elements of quality impact reporting. The second publication, planned for later this year, will focus on development of a framework for verifying quality impact reporting.

Our research focused specifically on reporting by private markets impact investors and explored three overarching questions:

1. **What is the current state of impact performance reporting?**
2. **What is the market's current view on best practices for impact reporting?**
3. **What are the potential pathways to improving the quality and usability of impact reports?**

We evaluated these questions through two core mechanisms:

- Analysis of a sample of 31 recent impact reports prepared by private market general partners (GPs) to identify trends, challenges and common practices. These GPs varied by strategy (e.g., multi-asset, private debt, private equity, and real assets), target geography (e.g., developed markets, emerging markets, or both) and AUM.
- Consultation with 57 diverse industry stakeholders (via both one-on-one interviews and focus groups) to gain insights into the needs and challenges related to producing and consuming impact reports.

While this research approach was not designed to be exhaustive, we believe our findings reflect the views and practices of a significant portion of the market and, as such, represent an important starting point for improving the quality and usefulness of impact performance reporting.

## Current State of Impact Performance Reporting

Our research reinforced many previous findings about the limitations of impact performance reports and further surfaced some of the underlying reasons for these issues. While we hypothesized that the lack of impact performance reporting standards was one of the primary barriers to improving reporting, our conversations surfaced a more nuanced set of dynamics that the market will need to contend with as it works to raise the bar.

In our analysis of 31 GP impact reports, we found that:

- **Impact reports include impact objectives, but they vary considerably in specificity.** Most impact reports (87%) included a description of the fund's impact objectives and 76% align these objectives to industry frameworks like the SDGs, but only 36% included specific quantified targets.



- **Reported impact results are often cherry-picked.** Only about a third of reports (35%) included information about all the investments in the portfolio, suggesting that “cherry picking” of results is common.



- Impact reports are rarely forthcoming about risks or failures. Reports focused primarily on successes, with just 39% of reports offering commentary on impact risks, only 25% commenting on impact underperformance, and 0% including quantified negative impacts.

**25%** OF REPORTS COMMENT ON UNDERPERFORMANCE

- Reports often miss the stakeholder perspective. Less than half of reports (45%) included data or case studies that represent the perspective of stakeholders directly affected by the investments, such as portfolio company workers and community members.
- Reports often fail to use standardized metrics. Fewer than half of reports (44%) used standardized indicators or cited the sources/ definitions for those metrics included in the report, making it difficult to compare or benchmark performance.

**44%** OF REPORTS USE STANDARDIZED METRICS

In discussing these findings with industry stakeholders, we identified four key dynamics that drive these reporting patterns:

1. **Given the variety of impact measurement frameworks and inconsistent LP demands, GPs are hard-pressed to find a common approach to reporting.**
2. **Impact performance reports are primarily used to support fundraising and marketing efforts, rather than for decision making.**

3. **Many impact investing frameworks emphasize standardized metrics over qualitative information, despite both being central to understanding impact performance.**
4. **GPs currently have little incentive to be a 'first-mover' in producing more balanced, decision-useful reporting.**

We also explored the potential for independent verification to drive higher-quality impact reporting. Although most research participants agreed that third-party assurance is a natural outgrowth of a maturing field, aligning on reporting best practices is considered a prerequisite to achieving greater market adoption of verification.

## Key Elements of Quality Impact Reports

Encouragingly, our research revealed that stakeholders (both LPs and GPs) broadly agree about the information an impact report should cover. When asked what a good impact report should include, the stakeholders we interviewed aligned around a core set of concepts that they consider to be a “north star” for impact performance reporting. This suggests that, as a field, we are closer than we think to establishing shared guidelines to “step up” the quality of reporting.

We have organized these points of consensus into overarching and specific elements for impact performance reporting. The **overarching elements** describe the characteristics that should apply across an impact report and the **specific elements** describe the types or categories of information that should be included within a quality impact report.

Overarching elements:

**Completeness:** A quality impact report provides information about all portfolio holdings and addresses impact performance at the fund and holding level.

**Clarity:** A quality impact report presents impact information in a manner that is accessible and that facilitates interpretation, with clear definitions, assumptions and supporting calculations.

FIGURE A  
The Key Elements of Quality Impact Reports

Clarity	Defined objectives and expectations	Articulated objectives Investor contribution Transparent expectations
	Relevant metrics	Clear link to objectives Standardized indicators Breadth and depth
	Relative performance results	Performance relative to targets Performance over time Performance relative to external benchmarks
	Integrated stakeholder perspectives	Description of stakeholders Stakeholder relevance Stakeholder feedback and outcomes
	Transparency into risk and lessons learned	Impact risk Lessons learned
Completeness		

## Specific elements:

**Defined objectives and expectations:** A quality impact report is explicit about the fund's intent and impact objectives, including clarity on investor contribution and expected results.

**Relevant metrics:** A quality impact report includes quantitative metrics that are drawn from industry standards wherever possible and that link to the articulated impact objectives.

**Relative performance results:** A quality impact report provides information that allows the reader to effectively interpret and compare measures of progress and performance.

**Integrated stakeholder perspectives:** A quality impact report identifies affected stakeholders and incorporates their experiences and voices.

**Transparency into risks and lessons learned:** A quality impact report is forthcoming about potential impact risks and past lessons learned.

We acknowledge that there is a degree of tension among these points of consensus, noting the challenge in developing a report that both thoroughly addresses the key elements and is accessible to readers. Additionally, we note that these points of consensus reflect and are closely aligned with many impact management best practices (e.g., Impact Management Project, Operating Principles for Impact Management) as well as key tenets of financial reporting, as outlined in the IFRS Foundation's Conceptual Framework for Financial Reporting. While these proposed elements reflect the views of numerous and diverse

industry stakeholders, more consultation and research are needed to drive broader alignment of these components of a quality impact report.

## Pathways to Improve the Quality of Impact Reports

As part of the research, we also asked stakeholders how the field might move toward better reporting and what stones need to be laid to pave the path. Recognizing that multiple actors have a role to play, we explored potential strategies for different actors at varying stages of maturity—(1) laying the groundwork (Preparing), (2) implementing best practices (Promoting), and (3) leading the market forward (Pioneering). While market actors will move at different speeds, it is important that these pathways are pursued simultaneously to ensure the field is moving in a unified direction.

BlueMark intends to work with clients and other industry actors across each of these pathways, with an initial focus on the 'Prepare' stage given the current state of impact performance reporting. Additionally, to help inform future research on this topic, BlueMark is currently collaborating with Impact Frontiers to pilot an approach to verifying impact reports with a select group of firms from the Impact Frontiers' community. The verification methodology will build on the research findings in this report and will be used to (1) assess the quality of the participating firms' impact reports and (2) gather feedback on the key elements as well as the verification approach. Key learnings from this pilot will be published in a second report in late 2022.

FIGURE B

## Pathways to Improving the Quality of Impact Reports

	Prepare	Promote	Pioneer
<b>Report Framers</b> (e.g. standard-setters) Consult, then codify	Develop and harmonize guidance and best practices for impact reporting, in close consultation with investors	Drive adoption of best practices by creating practical resources and tools, developing evidence of the value, and advocating with stakeholders	Develop reporting templates to drive greater consistency and develop assurance standards to improve reporting rigor and quality
<b>Report Consumers</b> (e.g. LPs) Align, signal demand, and contribute to solutions	Coordinate with peer LPs to align on priority reporting needs and increase consistency in reporting requests	Request reporting that adheres to best practices and that is aligned with other LPs	Participate in industry efforts to build shared infrastructure that supports high quality reporting, analysis, benchmarking, and assurance
<b>Report Producers</b> (e.g. GPs) Build capacity and experiment together	Adopt and implement impact management best practices to lay the foundation for producing quality impact reports	Develop impact reports that align with best practices, ideally in communities of practice	Obtain assurance of impact reports to validate performance and increase investor confidence



