Impact Investing: What Role Can Evaluation Play?

Learning and Results from ADB’s Strategies and Operations

2019 Asian Evaluation Week
Kunming, People’s Republic of China

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September 2019
Quality Evaluation can play an important role in:

the design of effective monitoring and evaluation frameworks

and

strengthening the alignment of shareholder interests and management objectives
Impact Investing Definition

“Investments made in companies or organizations with the intent to contribute measurable positive social or environmental impact, alongside financial returns.”

**Intent:** The investor articulates an intent to achieve a social or environmental goal by identifying outcomes that will be pursued through the investment and specifying who will benefit from these outcomes.

**Contribution:** The investor follows a credible narrative, or thesis, which describes how the investment contributes to achievement of the intended goal – that is how the impacts of the impact investor will help achieve the goal. In this case, contribution is considered at the level of the impact investor, and can take financial or non-financial forms.

**Measurement:** The investor has a system of measurement in place linking intent and contribution to the improvement in social and environmental outcomes delivered by the enterprise in which the investment has been made. The measurement system enables the investor to assess the level of expected impact *ex ante*, in order to continuously monitor progress and take corrective actions when appropriate, and then finally to evaluate the achievement of impact, *ex post*. 
Impact Investing Definition

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Multiple Asset Classes Impact investments can employ a variety of financial instruments, with a full spectrum of risk-return profiles, from large scale green or blue bonds appealing to institutional investors to crowdsourced microfinance initiatives to private equity.

Not a new phenomena but significantly different to value-aligned or ethical investing.

Responsive to changing demands from investors

Size of Impact investing market: IFC estimates that demand for impact investing products could be as large as US$26 billion.

Impact Investment: Financial Returns and Impact go hand in hand. Not a balancing act but the two should be self reinforcing.
"Companies must realign incentives and define targets beyond profits".

Financial Times Editorial Board: August 20th 2019
What Managers Aim to Deliver to Shareholders Is More Focused on the Long Term

“I don’t think our fiduciary duty is to put shareholders first. I say the opposite.

What we firmly believe is that if we focus our company on improving the lives of the world's citizens and come up with genuine sustainable solutions, we are more in synch with consumers and society and ultimately this will result in good shareholder returns.”

Paul Poleman

Chair of the International Chamber of Commerce, The B Team, Vice-Chair of the U.N. Global Compact.

Ex-Chairman of Unilever
What Asset Managers Want Is Changing

“GPIF requires all asset managers to **integrate ESG into their investment analysis and decision-making**. We regard purchase of Green, Social and Sustainability Bonds as one of the direct methods of ESG integration in the fixed income investment. **GPIF is committed to promote ESG integration through our investment chain in order to ensure the sustainable performance of the pension reserve fund for all the generations**.”

**GPIF and ADB launch initiative to promote Green Bonds**

August 6, 2019

Government Pension Investment Fund (GPIF) and Asian Development Bank (ADB) have started a partnership that aims to strengthen capital market cooperation to promote ESG integration into fixed income investment.

Asian Development Bank (ADB) issues green bonds that align with the International Capital Market Association (ICMA), which helps its developing member countries mitigate greenhouse gas emissions and adapt to the consequences of climate change. Investment opportunities into these bonds will be provided to GPIF’s asset managers.
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First Principles - Why Do We Evaluate?

**ADB’s Perspective:**

**Development effectiveness**
Maximizing development effectiveness of ADB operations through evaluation feedback

**Accountability**
Is ADB doing the right things? Is ADB doing things right? Are resources are properly allocated and used, and intended outcomes realized?

**Learning**
What lessons are critical for improving development impact of future policies, strategies, programs and projects?

**Resource Allocation**
How can ADB better improve resource allocation based on evaluation knowledge on what works and what doesn’t?
Evaluation’s role in the design of effective monitoring and evaluation frameworks

When investment proposals are presented to management for approval evaluators need to be front and center in demanding monitoring and evaluation frameworks that align with operational objectives.

Resources for the Design of Impact Investing Monitoring and Evaluation Frameworks:
Evaluation’s role in the design of effective monitoring and evaluation frameworks

IFC’s Operating Principles for Impact Management

Launched in April 2019 – 60 Signatories with an aggregate US$ 350 billion in impact assets under management.

Signatories include Credit Suisse, EBRD, EIB, JICA, KKR, Leapfrog Investments and Prudential.

“A commitment to design, measure and independently verify agreed impact objectives.”
Theories of Change promote the better communication of impact, identification of indicators to be measured and critical discussion of development goals. Wider use of Theories of Change could assist in strategy articulation and fund due diligence, helping impact funds attract investors and focus on well defined impact objectives.

Evaluation’s role in the Articulation of Strategic Impact

Theory of Change - ADB’s Support for Public-Private Partnerships

Context Assumptions: Relevance to DMC Policy Agenda | Political Stability | Investment Climate | Constrained Government Budgets | Relative Maturity of DMCs and Market Liquidity

Inputs to Outputs Assumptions: ADB Capacity to Integrate with both the Public and Private Sector | Coordination between RD, OMF & PSOD | ADB Positioning within a DMC to Support PPP

Outputs to Outcomes Assumptions: Private Sector as a Driver of Positive Change | Private Sector / Market Appetite for PPP Projects

Anticipated Long Term Development Impacts

- Economic Growth
- Poverty
- Access to Services
- Infrastructure Gap

Scope of IED Evaluation

Independent Evaluation ADB
Evaluation’s role in strengthening the alignment of shareholder interests and management objectives

Evaluation is a critical mechanism to monitor the alignment of shareholder interests and management objectives.

ADB Strategy 2030 Operational Priorities:

- Addressing remaining poverty and reducing inequalities
  human development and social inclusion, quality jobs, education and training, better health, social protection

- Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability
  low greenhouse gas emissions development, approach to building climate and disaster resilience, environmental sustainability, water–food–energy security nexus

- Promoting rural development and food security
  market connectivity and agricultural value chain linkages, agricultural productivity and food security, food safety

- Fostering regional cooperation and integration
  connectivity and competitiveness, regional public goods, cooperation in finance sector, subregional initiatives

- Accelerating progress in gender equality
  scaled-up support for gender equality; women’s economic empowerment; gender equality in human development, decision-making, and leadership; reducing time poverty for women; strengthening women’s resilience to shocks

- Making cities more livable
  integrated solutions, funding for cities, inclusive and participatory urban planning, climate resilience and disaster management

- Strengthening governance and institutional capacity
  public management reforms and financial sustainability, service delivery, capacity and standards