The project is funded by:

STIFTUNG MERCATOR

Policy Brief M01

Advancing Impact Measurement Practices

Mercator Project “Sustainable Finance for Climate”

July 2025

Timo Busch[1], Lara Schröder[1], Hendrik Brosche[1]

[1] *University of Hamburg, Chair of Sustainability and Management*

UNIKASSEL VERSITÄT

Universität Hamburg
DER FORSCHUNG | DER LEHRE | DER BILDUNG

Management Summary

Impact investments have gained tremendous recognition among investors as well as in academic debates in the last years. However, when it comes to the effectiveness of impact investments, many questions still remain. Regulatory frameworks, such as the SFDR in the EU, do not address the notion of investor contribution in a sufficient manner. Practical tools in the impact investing field leave questions currently unspecified – this pertains specifically to the transferability of impact between investors as well as the handling of trade-offs between impacts. We, therefore, argue that – as a first important step – it is important to differentiate between investor and company impact. While the latter can be transferred between investors, investor impact is bound to the specific investor. Moreover, we highlight the importance of measuring negative impacts, while simultaneously seeking to transform them into positive impacts and avoiding the aggregation of impacts across different impact categories.

Definitions

- *Impacts* are changes (i.e., effects) in outcomes caused by the actions of organizations
- *Impact measurement* is defined as the process of choosing relevant metrics and collecting quantitative and qualitative data, whereas impact assessment is defined as the process of contextualizing this data
- *Company impact* describes changes that a company's activities achieve in a social or environmental parameter
- *Investor impact/Investor contribution* refers to the change that investor activity achieves in company impact
- *Impact-aligned investments* focus on company impact and do not require that this company impact is causally influenced by the activities of an investor
- I*mpact-generating investments* are those in which investors seek to contribute to solutions for social and/or environmental real-world challenges by inducing real-world change at the company level, i.e., investor contribution

This policy brief is part of the 5th working package of the Mercator project "Sustainable Finance for Climate". The focus of this package is impact investments and the advancement of impact measurement practices. The objective of this policy brief is to provide key recommendations on important questions in impact measurement.

Can impacts be transferred between investors?

We argue that company impact – i.e., the real-world changes at the company or the investee level – can generally be transferred or passed on from one investor to another, because, until proven otherwise, the impact exists independently from the investor's activities. In other words, when an investor increases its investor share of company impact, this share of company impact can be transferred to another investor. It is important to note that transferring company impact leads to an alignment with this company impact (i.e., impact-aligned investments). This is conceptually different from contributing to company impact as an investor (i.e., impact-generating investments).

To calculate the investor share of company impact, investors should multiply the impact of a specific investee with the investment amount outstanding in relation to the enterprise value of that investee, as proposed, for example, by the GIIN's COMPASS methodology[1]. The larger the investment amount outstanding from a specific investor, the larger the investor share of the company impact. For example, when an investor buys bonds or shares from another investor, its outstanding investment amount increases, which also increases its investor share of the investee's company impact. At the same time, the seller's investor share of the investee's company impact decreases, which prevents double counting of company impact on the investor level.

Guidance 1: Company impact is generally transferable between investors.

In contrast, investor contributions are *not* transferable since they depend on the actions of a specific investor. Investor contribution can only be claimed if the investor provides evidence for how its individual activities contributed to company impact. Consequently, only these types of investments qualify as impact-generating investments. In other words, if a new investor buys shares of a company that already generates positive impacts, this new investment cannot claim to be an impact-generating investment. Instead, it is most likely an impact-aligned investment, unless the new investor further contributes to (additional) company impact.

Guidance 2: Investor contribution is generally not transferable between investors.

[1] Global Impact Investing Network (2021) COMPASS: The Methodology for Comparing and Assessing Impact: Investor Guide. https://s3.amazonaws.com/giin-web-assets/giin/assets/publication/research/compass-methodology-for-investors.pdf

How should trade-offs between impact categories be handled?

There is little guidance for how to deal with trade-offs between company impacts in cases where activities with positive social or environmental impacts simultaneously have negative impacts. For example, electric vehicles are more environmentally sound in their usage phase (assuming a sufficient share of renewable electricity is used) than cars that use fossil fuels. Yet, the construction of the necessary batteries is energy intensive and requires resources such as rare earth materials that are partially extracted under unethical conditions. We argue that investors should measure both the positive and negative impacts of their investees and make according trade-offs transparent. If an investment positively contributes to one issue/topic but also creates significant harm[2] in other areas, we argue that the investment should be avoided.

> **Guidance 3**: Investors should conduct a thorough analysis of the potential negative impacts that stem from trade-offs between different impact categories. Such negative impacts should be measured, monitored, reported, and mitigated over time.

How should investors aggregate their impacts?

If impacts across different categories, e.g., greenhouse gas (GHG) emissions and human rights, are aggregated in one indicator, trade-offs will not be transparent. This is why we argue that impacts should only be aggregated within the same impact category, e.g., CO_2 and methane emissions when measuring GHG emissions. Impact categories can be defined using existing standards like in the literature on life cycle assessments (LCA), where concrete definitions exist[3]. Consequently, positive impacts in one category (e.g., production of electric vehicles) cannot outweigh or hide negative impacts in another category (e.g., unethical working conditions).

> **Guidance 4**: Impact-aligned and impact-generating investments should only aggregate company impacts within established impact categories (e.g., as defined in life cycle assessments) and should not aggregate impacts across different impact categories.

[2] See the "Do No Significant Harm" definitions and criteria of the EU: ESMA30-379-2281 'Do No Significant Harm' definitions and criteria across the EU Sustainable Finance framework.

[3] European Commission's Joint Research Centre (2010) International Reference Life Cycle Data System (ILCD) Handbook: General guide for Life Cycle Assessment - Detailed guidance. https://eplca.jrc.ec.europa.eu/uploads/ILCD-Handbook-General-guide-for-LCA-DETAILED-GUIDANCE-12March2010-ISBN-fin-v1.0-EN.pdf