

To: The International Development Committee of the UK House of Commons, chaired by Sarah Champion, MP

From: BlueMark UK Ltd.

Re: Evidence for the IDC Inquiry on Investment for Development: the UK's strategy towards development finance institutions

Date: January 26, 2023

Dear Chair Champion and honourable members of the IDC,

I am submitting this evidence in support of your inquiry on the UK's strategy towards development finance institutions (DFIs) on behalf of BlueMark, a specialist independent provider of impact verification and intelligence for the impact and sustainable investing market. BlueMark, founded in January 2020 as a spin-off from the established impact investment consultancy Tideline, works with investors and other organisations around the world, and has its European headquarters in London.

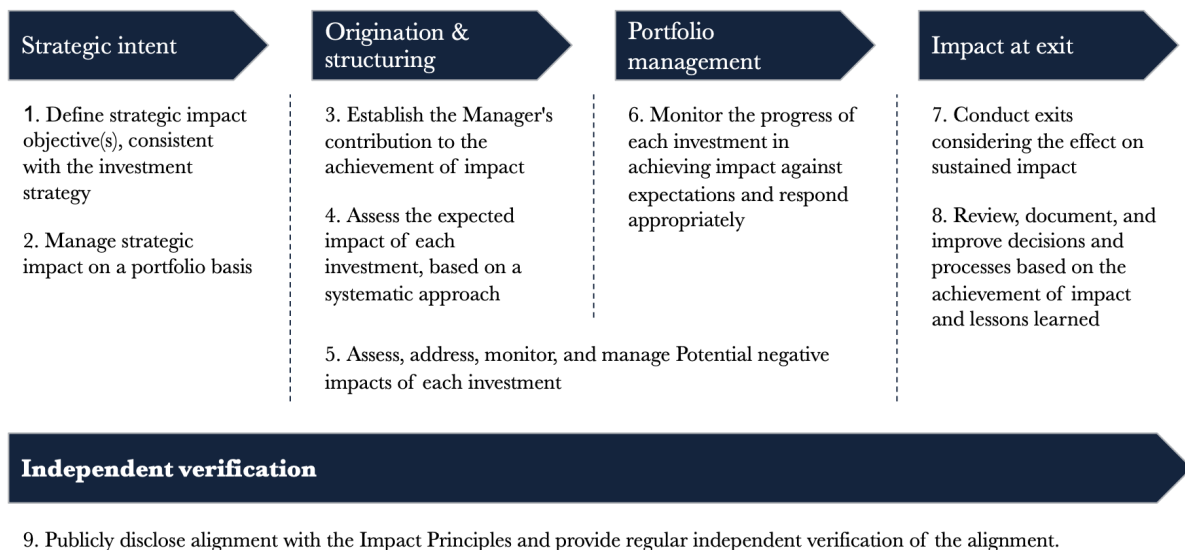
As a founding signatory to the Operating Principles for Impact Management (Impact Principles), British International Investment (BII) has twice engaged BlueMark to undertake an independent verification of its impact management (IM) system, most recently in May of 2022.

BlueMark's verification was designed to provide assurance that BII satisfies the requirements of the Impact Principles, to compare the institution's practices with peer DFIs and other impact investors, and to provide recommendations for BII to further develop its approach to impact management and measurement across the investment lifecycle.

This document provides a summary of the assessment's findings, including areas where the BII has strong practices and opportunities for continued refinement of its current approach. The intended audience is the International Development Committee (IDC); the following sections cover a subset of its terms of reference, with a particular focus on how BII's investment decision-making, monitoring, management, and reporting processes compare with industry best practice and peer benchmarks.

1. Background: OPIM and the Assessment Methodology

1.1 - The [Impact Principles](#), launched in 2019, were developed in consultation with a wide range of industry stakeholders and are intended to establish a common discipline and market consensus around key components of managing investments for impact. The IFC served as the host of the initial secretariat. There are currently 160 signatories, including asset managers, asset owners, multilateral development banks, and development finance institutions.



1.2 - BlueMark is the leading provider of independent verifications against the Impact Principles. The assessment undertaken for BII included an evaluation of relevant documentation, including both institutional and transaction-level documents, alongside interviews with staff responsible for defining and implementing BII's IM system. Ratings of BII's extent of alignment with each of the eight Principles were determined using BlueMark's proprietary rubric. In addition to these ratings, BII has received a summary of BlueMark's detailed findings, outlining both areas of strong alignment with the Impact Principles and opportunities for continued advancement, alongside guidance on areas for advancement beyond the Impact Principles for Principles where BII has achieved an 'Advanced' rating. These recommendations are in line with industry best practice informed by peer benchmark data and key resources outlined within the detailed findings.

2. Verification Overview

2.1 - Since BlueMark's first verification of BII's IM system in 2020, BII has continued to refine its IM system, notably its portfolio-level impact management practices, and process for ensuring that the impact achieved during an investment's holding period is maintained post-exit. The opportunities for refinement outlined in this report are limited, reflecting BII's advanced level of impact management practice and strong performance relative to many of its peers, as evidenced in the benchmark data. Areas of strength and opportunities for BII to continue refining its approach are documented below.

3. Areas of Strength

BII's approach to impact management is particularly strong in the following areas:

Strategic intent:

- BII has organised its 2022-2026 strategy around a clear set of impact objectives - Productivity, Sustainability, and Inclusivity - and has developed an Impact Score aligned to the objectives to enable the aggregation and comparison of impact performance across the portfolio.
- The impact objectives are supported by specific and measurable portfolio-level goals related to gender and climate finance, and by research and evidence of the challenges BII seeks to address, conducted, and compiled at the sector, sub-sector, and investment level.
- A formal staff remuneration policy directly tied to the Impact Score links impact performance at the portfolio level to long-term incentive compensation for eligible staff.

Origination and structuring:

- BII's investment process enables the assessment of the expected impact of each investment through the Impact Score and leverages the industry-leading "Five Dimensions" framework set by the Impact Management Project (IMP). The assessment involves pre-investment consideration of five dimensions of impact - what, who, how much, contribution and risk - and captures ex-ante intentions of BII's expected contribution to each investee's achievement of impact.
- BII also develops an investment thesis for each investment during due diligence to provide a rationale for its fit within the institution's strategy.

Portfolio management:

- The impact of each investment is monitored on a regular basis through an investment-specific monitoring plan which covers a wide range of material development impact indicators and metrics, drawn from relevant industry standards; risks to the achievement of impact are monitored and addressed by BII's Special Situations Team.
- BII assesses and monitors potential Environmental, Social and Business Integrity risks to each investment using a red-amber-green (RAG) rating and Early Warning System; the firm's Responsible Investing Policy is aligned to internationally accepted industry standards.
- Investment outcomes are captured via external evaluations, case studies and investee surveys.

Impact at exit:

- BII has a standardised process to review each investment’s impact performance and captures and integrates learnings using a range of levers as part of its Evaluation and Learning Programme in partnership with the Foreign and Commonwealth Development Office (FCDO).
- Evaluative activities are internally audited and overseen by a joint steering committee comprised of BII, the FCDO, and independent members.
- BII has developed guidance and a structured tool to facilitate exits in a way that maximises the likelihood that impact is maintained once BII’s involvement ceases.

4. Opportunities for Refinement

Whilst BII has an advanced IM system in many areas, there are areas where the firm could seek to refine its current approach:

Portfolio management:

- BII should ensure that monitoring data is collected and documented completely and consistently across all transactions.

Impact at exit:

- BII should ensure that its exit guidance includes all the levers it has available for ensuring that sustainability of impact beyond exit is maintained and ensure that all deal teams explicitly incorporate sustainability of impact into the exit planning process.

5. Alignment Ratings

The chart below summarises findings from BlueMark’s verification of BII’s extent of alignment to the Impact Principles, using the following four ratings:ⁱ

- Advanced (limited need for enhancement);
- High (a few opportunities for enhancement);
- Moderate (several opportunities for enhancement); and
- Low (substantial enhancement required).ⁱⁱ

Principle	Rating
1. Define strategic impact objective(s), consistent with the investment strategy	ADVANCED
2. Manage strategic impact on a portfolio basis	ADVANCED
3. Establish the Manager's contribution to the achievement of impact	ADVANCED
4. Assess the expected impact of each investment, based on a systematic approach	ADVANCED
5. Assess, address, monitor, and manage potential negative impacts of each investment	ADVANCED
6. Monitor the progress of each investment in achieving impact against expectations and respond appropriately	HIGH
7. Conduct exits considering the effect on sustained impact	ADVANCED
8. Review, document, and improve decisions and processes based on the achievement of impact and lessons learned	ADVANCED

BII's ratings reflect the strength of its IM system across the investment lifecycle; the institution's innovative approach to conducting responsible exits across asset classes is further highlighted in a case study featured in BlueMark's 2022 'Making the Mark' report.ⁱⁱⁱ Given its advanced ratings, BII is featured on BlueMark's 2022 Practice Leaderboard as one of only six verified investors that fall into the top quartile for all of the eight principles in our Benchmark.^{iv}

6. Benchmarking

As of the time of BII's last verification, BlueMark had completed more than 60 impact verifications across a range of asset classes and investor types. In an impact management context, this is a meaningful sample. We believe these verifications offer valuable insights into the practices of a diverse group of impact investors, allowing us to offer our findings to the market as a benchmark of prevailing and best practices in impact management. BII's summary alignment to the Impact Principles is shown below, relative to the median ratings of BlueMark's 60 verifications completed as of May 2022, and BII's peer group of DFIs.

Principle	BII's ratings	Median ratings (n=60)	Peer group ratings (DFIs n=9)
Principle 1	ADVANCED	ADVANCED	HIGH
Principle 2	ADVANCED	HIGH	ADVANCED
Principle 3	ADVANCED	HIGH	HIGH
Principle 4	ADVANCED	HIGH	HIGH
Principle 5	ADVANCED	HIGH	ADVANCED
Principle 6	HIGH	HIGH	HIGH
Principle 7	ADVANCED	MODERATE	LOW
Principle 8	ADVANCED	MODERATE	MODERATE

7. Permissions

7.1 - Impact management is an evolving practice with emerging standards. It is expected that standards will evolve, new research will be published, and new implementation tools will be created as the field converges toward a consistent approach that balances rigour with practicality. As such, opportunities to enhance impact-related processes will consistently present themselves at each stage of the investment process, regardless of the assessments summarised in this document.

7.2 - The contents of this document have been prepared for the use of the IDC's Inquiry on Investment for Development. Our verification conclusions were initially developed solely for BII in accordance with an agreement between our firms, to assist BII in fulfilling Principle 9 of the Operating Principles for Impact Management. We permitted BII to use our findings internally or to furnish our verification statement to other interested parties to demonstrate BII's alignment with the Operating Principles for Impact Management. To the fullest extent permitted by law, we do not accept or assume responsibility to any party other than BII for our work or this statement except where terms are expressly agreed in writing between such party and ourselves.

7.3 The scope of BlueMark's assessment procedures does not include the verification of the resulting impacts achieved. BlueMark's assessment is based on its analyses of publicly available information and information in reports and other material provided by BII. BlueMark has relied on the accuracy and completeness of any such information provided by BII. The assessment results represent BlueMark's professional judgment based on the procedures performed and information obtained from BII.

8. About BlueMark

8.1 - BlueMark, a Tideline company, is a leading provider of impact verification services in the impact investing market. BlueMark was founded with a mission to “strengthen trust in impact investing” and to help bring more accountability to the impact investment process. BlueMark is a wholly owned subsidiary of Tideline Advisors, LLC, a certified women-owned advisory firm in impact investing. Since its founding in 2014, Tideline has become a recognised leader in impact measurement and management, working with leading asset owners and managers to design and implement impact management systems.

8.2 - BlueMark has conducted this verification with an independent and unconflicted team experienced in relevant impact measurement and management issues. BlueMark has implemented a Standard of Conduct requiring our employees to adhere to the highest standards of professional integrity, ethics, and objectivity in their conduct of business activities.

8.3 - BlueMark has office locations in London, UK; New York, NY; Portland, OR; and San Francisco, CA and is headquartered at 915 Battery St, San Francisco, CA 94111, USA. For more information, please visit www.bluemarktideline.com.

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ⁱⁱ The decision to publicly disclose the results of BlueMark’s detailed assessment, and the specific ratings assigned to each Principle, is left to the sole discretion of the BII.

ⁱⁱⁱ BlueMark’s ‘Making the Mark’ 2022 report on impact verification can be downloaded at <https://bluemarktideline.com/making-the-mark-2022/>

^{iv} BlueMark’s 2022 Practice Leaderboard can be found at <https://bluemarktideline.com/making-the-mark-2022/>