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Proposal for an Impact Investing Definition Tailored to the Luxembourg Financial Ecosystem by the LSFI Impact Investing Advisory Board (IIAB)

Open for Feedback

Deadline to provide feedback: 1st June 2025

This concept note presents the IIAB's proposed definition of impact investing and seeks feedback from the financial sector, impact investing and sustainable finance experts. It includes an introduction to the IIAB, the rationale behind developing a definition, the proposed wording, and a thorough explanation of the selected definition.

1. About the IIAB

The IIAB is an advisory board to the LSFI launched in 2024. Its mission is to guide the LSFI in formulating and executing a roadmap to further boost impact investing in Luxembourg.

It brings together experts and committed professionals in impact investing to strengthen the LSFI's efforts and support Luxembourg's leadership position in this space.

The IIAB acts as a platform for thematic knowledge sharing tailored to the requirements of Luxembourg's ecosystem members. It is also pivotal for further developing the LSFI Luxembourg Sustainable Finance Strategy 2030 by helping the LSFI better integrate impact investing.

By building on the Luxembourg ecosystem for impact investment, the IIAB helps remove barriers associated with a lack of information and data sharing on market activities, performance, and practices. Smaller players, traditional investors, and financial institutions can benefit from efforts to build capacity and create synergies that could increase capital allocated to funds that deliver impact.

Among the IIAB's first activities was developing a workstream plan to define objectives and activities that would structure and guide its work, one of these workstreams being the Narrative & Definition one.

1.1. IIAB's members

- Gunter Fischer, Principal Advisor – European Investment Bank (EIB) *CHAIR*
- Hedda Pahlson-Moller, CEO – TIIME *VICECHAIR*
- Arnaud Gillin, Partner – INNPACT
- François Passant, Global Head of Products & Solutions – Nordea A.M.
- Guillaume Bonnel, CEO – SDG Impact Finance Initiative (SIFI)
- Kaspar Wansleben, Director Asset Servicing – Investing for Development SICAV (I4D)
- Laura Foschi, Executive Director – Appui au Développement Autonome (ADA)
- Stephan Peters, CEO – Accelerating Impact

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2. Impact Investing Definition by the IIAB

The IIAB's Narrative & Definition workstream has proposed a definition for impact investing and discussed it with the IIAB. This section presents the objective of defining impact investing, along with the definition proposed by the IIAB. It also provides an explanation of the rationale behind each term and concept used in the definition, aiming to guide the reader in better understanding what led the IIAB to its proposal.

2.1. About the Narrative & Definition Workstream

The Narrative & Definition Workstream has focused on defining the IIAB's concept of impact investing within the Luxembourg context. It has considered the specificities of the Luxembourg financial sector while also taking into account the approaches of other actors in the European and global impact investing ecosystem. More information regarding the process followed to draft the definition and the sources consulted can be found in the annexe (section 4).

2.2. Purpose of Defining Impact Investing

The objective of drafting a definition for impact investing was to build a comprehensive, concise, and easily communicable impact investing definition for Luxembourg by building consensus among stakeholders while ensuring it aligns closely with global and European experts in the fields such as those of the Global Impact Investing Network (GIIN) and the European Impact Investing Consortium (EIIC). This included identifying and addressing points of divergence while highlighting the Luxembourg ecosystem's unique characteristics that position it as an enabler in the field.

2.3. Proposed Definition

The definition proposed by the IIAB, which is currently open for feedback, can be found below. Impact Investing involves:

- investments made with an intention to contribute to solving social and/or environmental problems alongside a financial return,
- measuring and managing positive and negative impact,
- leveraging financial markets infrastructure,
- to finance companies or projects that aim to provide solutions to address social or environmental challenges.

2.4. Definition's Key Concepts Explained

Why 'Investments made with an intention to contribute to solving social and/or environmental'?

- The IIAB emphasizes the importance of intentionality in generating solutions, specifically highlighting the need for a "clear ex-ante" intention, as it reinforces the concept of intentionality.
- While the IIAB expresses a preference for referring to "solutions" and "impact" rather than "problems", it has chosen to align with the EIIC's wording while acknowledging that the underlying spirit remains the same.

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Why ‘alongside a financial return’?

- The IIAB prefers the phrase “alongside a financial return” as it places financial and impact objectives on equal footing, whereas “in addition to” may imply that impact takes precedence. This choice aligns with the GIIN’s phrasing.
- The IIAB acknowledges the complexity of referencing an “appropriate” or “responsible” financial return. While it values concepts like responsible growth and client protection, it does not see their inclusion as a defining feature. These critical concepts are nevertheless considered integral to the broader process of measuring and managing impact.
- The IIAB advises against specifying the level of financial return (e.g., “capital recuperation”, “adapted”, or “market rate”), as investors are expected to set their own return of capital in line with their mandates.

Why ‘measuring and managing’?

- The IIAB proposes to deviate from GIIN’s “measurable impact” as it considers it important to differentiate between “measurable” (ability) and “measuring” (act). This aligns with EIIC definition.
- The IIAB adjusts the EIIC’s phrasing “using impact measurement and management […]” by stressing the active approach by stating “measuring and managing impact”.
- The IIAB deems the term “impact measurement and management” to already encompass the use of impact data to improve decision-making. The IIAB, therefore, removes the explicit inclusion by the EIIC in our definition.

Why ‘positive and negative impact’?

- The IIAB stresses that impact investors must consider both positive and negative impacts of their activities. In this regard, investors should actively mitigate negative impacts and maximize positive outcomes.
- The IIAB invites impact investors to demonstrate a clear intention to avoid harm and address unintended negative effects. These responsibilities are seen as integral to the broader concept of "managing" impact.

Why ‘leveraging financial markets infrastructure’?

- Other definitions focus on asset owners and asset managers, and do not explicitly refer to the broader ecosystem that supports them when doing impact investing.
- The IIAB proposes to include a reference to the legal, administrative, and auditing infrastructure and processes provided by financial centres as a key enabling factor of impact investing.

Why ‘to finance companies or projects that aim to provide solutions to address social or environmental challenge’?

- The IIAB endorses the idea to include the asset-level perspective “financing companies or projects”,and does not wish to exclude parties that contribute to solutions but might not have it as their primary mission (e.g., publicly listed equity). The IIAB deviates from the EIIC’s language “whose primary mission is to provide solutions”.
- The IIAB considered whether specifying asset-level solutions would be redundant given their inclusion in the “intentionality” concept. This remains an ongoing area of debate: should impact investing focus on the sole intent of the investor vs. the combined intent of the investor and investee? Some stakeholders argue that this debate should not undervalue the role of listed instruments in financing the transition. Other stakeholders take a broader system change approach, which might involve investments into non-impact companies or projects to affect system change, and how

to take this approach into account. The IIAB chooses to align with the EIIC on its inclusion.
- The IIAB considers target groups, be it neglected, underserved, or unserved populations, to be covered under the "social challenges". The IIAB chooses to remove the explicit inclusion by the EIIC in their definition.

Why not include 'Additionality'?
- Additionality remains challenging as a concept and market practitioners are still debating how best to define, measure, and prove it.
- The IIAB does not explicitly include additionality in the Luxembourg definition.

3. Open for Feedback Period

To ensure the definition reflects the needs of the industry, the IIAB is currently seeking feedback from the financial sector, impact investing and sustainable finance experts.

Contributions can be submitted by responding to this questionnaire until 1st June 2025.

4. Annexe - Methodology & Resources Consulted

The IIAB leveraged the extensive work already done at the international and European levels, especially by the Global Impact Investing Network (GIIN) and the European Impact Investing Consortium (EIIC) (led by Impact Europe), which are considered well-known sources in the field.

The GIIN defines impact investing as investments that are made with the intention to generate positive, measurable social and environmental impact alongside a financial return.

Impact investments can be made in both emerging and developed markets and target a range of returns from below market to market rate, depending on investors' strategic goals.

The growing impact investing market provides capital to address the world's most pressing challenges in sectors such as sustainable agriculture, renewable energy, conservation, microfinance, and affordable and accessible basic services including housing, healthcare, and education.

The EIIC considers that Impact Investing involves:
- *a clear ex ante intention to contribute to solving social and/or environmental problems in addition to earning an appropriate financial return, starting from capital recuperation.*
- *impact measurement and management, using the impact data collected to understand what works and what to improve, ultimately taking better informed decisions.*
- *financing companies or projects whose primary mission is to provide solutions to address social or environmental challenges and/or benefit otherwise neglected/underserved target groups.*

Starting from these existing definitions and additional consulted resources[1], the working group focused on how these would be relevant and applicable given the specificities of the Luxembourg financial ecosystem and assessed whether adaptation was necessary to reflect these specificities.

The IIAB held an extensive open dialogue to consider how each term could be interpreted differently depending on the type of institution, sector, and historical background of each stakeholder involved.

The present concept note summarises (see section "Proposed Definition") the discussions and reasoning behind the proposed definition, acknowledging that impact investing is multifaceted.

[1] Accelerating Impact & LuxFLAG, "Social Investment Framework", 2025, https://acceleratingimpact.org/launch-of-the-social-investment-framework/
European Impact Investing Consortium, "The 5 Ws of Impact Investing", 2024, https://www.impacteurope.net/insights/5-ws-impact-investing
Global Impact Investing Network (GIIN), "Guidance for Pursuing Impact in Listed Equities", 2024, https://thegiin.org/publication/research/listed-equities-working-group/
GSG Impact, "Impact Investment", 2024, https://www.gsgimpact.org/impact/impact-investment/