Impact Measurement: Exploring its Role in Impact Investing

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Impact Measurement:

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Our Approach to the Research

This report was commissioned by a partnership between National Australia Bank (NAB), The Difference Incubator (TDi) and Benefit Capital, to explore measurement of impact investment from a practitioner perspective. Having worked together over the last four years this report consolidates the work across the partnership in the areas of impact measurement and impact investment.

This report was produced in stages over a period of three months in 2014. TDi established a working group that performed a literature review and market scan of measurement frameworks. To inform the report findings a limited consultation with active impact investors and social enterprises that have taken on investment was also conducted.

Contributors

Bessi Graham, CEO of TDi and Co-Founder of both TDi and Benefit Capital and Elliot Anderson, Senior Consultant Community Finance & Development, NAB, authored and developed the architecture of the report.

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Con-tents

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Executive Summary

The need for philanthropic funds and government support to address social and environmental challenges continues to grow, at a time when both funding sources are strained. It is a global problem that requires new approaches to sourcing finance in innovative, sustainable ways.

Impact investment is one such approach.

Impact investments are investments made with the intention of having a social and/or environmental impact, as well as generating a financial return. They have the potential to transform the social marketplace in Australia.

In this report, we explore impact measurement in relation to impact investments, from an investor and investee perspective, with the aim of stimulating discussion about the development of shared measurement frameworks.

Developing the same level of rigour and robustness into impact measurement as you would see in financial reporting will encourage more capital, assist to identify opportunities to increase impact and help to understand the concerns of stakeholders.

Impact measurement has broad application and is rising in prominence in the social sector. While there is a focus on investors and government requirements, service providers in the not-for-profit sector have also called for their needs and those of their beneficiaries to be reflected in measurement models.

Building measurement into the investment process ensures the clarification of not just financial returns but also the social impact expectations. By identifying expected returns and impact early in the process, measurement and reporting post investment are more straight forward.

Intention and measurability are two key aspects that differentiate impact investment from traditional investments. It follows then that effective measurement is critical to the success of impact investment.

Investors tend to be the primary audience for impact measurement, however there is significant value for investees to have well developed, practical measurement systems. This helps to drive business improvement opportunities and supports attraction of future investment.

Several well-recognised measurement frameworks, approaches and tools exist and are used by investors and investees to measure social and financial return, and provide useful, valuable reporting. For this report, nine of these approaches have been identified and analysed using a set of characteristics that we believe an effective framework must have.

Leveraging the eight characteristics the Group of Experts of the Commission on Social Enterprise (GECES) identified we have proposed six key characteristics that we believe impact investors and investees require from an effective social impact measurement framework.

These are that it must be:

- Cost effective; it should be relatively inexpensive to implement and maintain.
- Well recognised; users need to be certain that they can trust the results of a measurement system, being well recognised, it provides evidence that a social measurement system is relevant.
- Clear and concise; it should endeavour to be as user friendly as possible. Includes the elimination of jargon, excellent documentation of frameworks and standardised output format.
- Relevant; refers to the ability of the measurement system to meet both external and internal user's needs.
- Comparable; between time periods and similar organisations or impact areas.
- Easily implemented; includes the time spent on training and infrastructure (relating to data collection and information systems required).

As part of this report we explore nine well recognised approaches that are relevant to measurement for impact investing. What is clear is there is a need to explore how we can bring together elements of standardised operational measurement with an understanding of the industry or sector specific social or environmental impact an investment may have.

Opening up private capital for public good unleashes the creativity and productivity of the marketplace and the passion and insight of the not-for-profit sector, allowing for social change to occur at a faster pace and greater scale.

The opportunity for investors to realise financial and social returns will only be further enhanced by underpinning the sector with robust measurement frameworks and targeted, useful reporting.

Introduction

In this report, we introduce the discussion on impact measurement in relation to impact investment, from an investor and an investee perspective. It leverages the ongoing work of the partnership between TDi, NAB and Benefit Capital as practitioners and is aimed to be a discussion starter for those interested in the sector.

Measurement is fundamental to understanding the social or environmental impact that an investment may have. Without measuring the impact, the investment has little to differentiate it from a traditional, profit-focussed investment. Our belief is that impact investment, as an intentional lens on all investment opportunities, combined with appropriate measurement and reporting of social outcomes is key to unlocking private capital for public good.

As the number of impact investments increase so does the need to ensure a consistent and effective approach to measuring the impact. A consistent measurement approach has the potential to enable investors to understand what, and how much of an impact an investment is having when compared to other investments. When looking to address a particular social issue, it has the potential to identify which interventions have the greatest impact on that social issue.

There is a growing demand for measurement frameworks and agreed approaches. If impact investment is to become a significant force for social change then the social and environmental performance needs to be measured with the same level of robustness as financial performance. This requires an approach that supports consistency, comparability and the ability to learn by experience. It must also be flexible in order to allow for investments that will sit along a spectrum of sizes and investment types.

The report briefly introduces impact investment and impact measurement with a discussion on what is important to the different stakeholders involved in investment. It then proceeds to take a look at a nine existing measurement frameworks, approaches and tools to better understand how they could be applied to developing a consistent approach.

While this is by no means the most comprehensive listing of approaches, TDi, NAB and Benefit Capital see this as the beginning of an ongoing discussion. It is about sharing what we have learnt so far along our impact investment journey and inviting the broader community to join us in exploring this important subject.

The International and Local Context

This report has been written in the context of current international and local developments to measuring social impact and outcomes of impact investments. There has been a significant amount of activity relating to the development of impact measurement, this first section of the report takes a brief snapshot of current activities.

International

In June 2013, the Social Impact Investment Taskforce was established at the G8 Summit in London. The aim of the taskforce is to catalyse the development of the social impact investing market.[1]

The Taskforce recognises the critical role of measurement in demonstrating the social and environmental impact of these investments and has "established the Impact Measurement Group (Working Group) to facilitate the development of this practice across the impact investing marketplace."[2] The Working Group released Measuring Impact: Guidelines for Good Impact Practice in September 2014 which provided an articulation of best practice for measurement in relation to impact investment.

The Rockefeller Foundation and other early adopters have funded many of the building blocks in the market that seek to address the issue of measurability. These include Global Impact Investing Network (GIIN) and the development of Impact Reporting and Investment Standards (IRIS) performance metrics, B Labs and the development of Global Impact Investing Ratings System (GIIRS) and B Analytics.

The growing acceptance of these approaches can be seen in examples, such as the announcement by the U.S. Small Business Administration (SBA) in September 2014 that fund managers applying to the SBA's newly expanded Impact Investment Fund "must commit to measure their social, environmental or economic impact using an assessment system based on The Global Impact Investing Network's Impact Reporting and Investment Standards."[3]

The above approaches have been complemented by the release of the Social Progress Index, an aggregate index of social and environmental indicators that captures three dimensions of social progress: Basic Human Needs, Foundations of Wellbeing and Opportunity. The Social Progress Index states that to "… truly advance social progress, we must learn to measure it, comprehensively and rigorously. The Social Progress Index offers a rich framework for measuring the multiple dimensions of social progress, benchmarking success, and catalysing greater human wellbeing."[4]

The increasing focus internationally on Social Impact Bonds (SIBs), given the payment by outcome component, demonstrates the importance of non financial measurement being a critical feature of the financial structure of particular investments.

[1] https://www.gov.uk/government/groups/social-impact-investment-taskforce
[2] Measuring Impact: Guidelines for Good Impact Practice, Impact Measurement Working Group of the Social Impact Investment Taskforce, Sept 2014. p.2
[3] https://iris.thegiin.org/us-sba-endorses-impact-measurement
[4] http://www.socialprogressimperative.org/data/spi

Local

In Australia, the growing interest in measurement is seen through the significant demand for conferences and networks focused on impact measurement. Five conferences focused on social outcomes measurement have been held in Australia over the last two years, attended by close to 800 participants seeking to better engage with impact measurement.

The Social Impact Measurement Network Australia (SIMNA) has 800 members in state chapters across Australia.[5] There are also local conferences and events exploring overlapping topics such as impact investment and collective impact.

These platforms provide a great opportunity for shared learning and building of knowledge, and we have also seen the introduction of awards that specifically encourage organisations that have begun their measurement journey.[6] The inaugural Impact Measurement Awards (IMAs) in February 2014 had 130 applications.

Simple guidance that provides step-by-step instructions on how organisations should approach impact measurement has been needed in the marketplace. The Centre for Social Impact released The Compass[7] in 2014 to help unpack the complexity and range of alternative pathways organisations can take if they want to measure their social impact.

These events have placed a strong focus on the role of funders (both government and philanthropic) and the competing wishes between these groups and the organisations delivering services to beneficiary groups. The social sector in Australia is in the early stages of embracing the potential of both impact measurement and impact investment.

[5] Criterion have held five conferences and two masterclass series focused on the area of social outcomes measurement in Australia over the last two years.
[6] Criterion Conferences in partnership with SIMNA ran the inaugural Impact Measurement Awards in February 2014 with over 130 applications. The Awards will be held again in 2015 by Criterion with SIMNA running a separate awards ceremony in November 2014.
[7] The Compass: http://csi.edu.au/compass-your-guide-social-impact-measurement/[7] The Compass: http://csi.edu.au/compass-your-guide-social-impact-measurement/

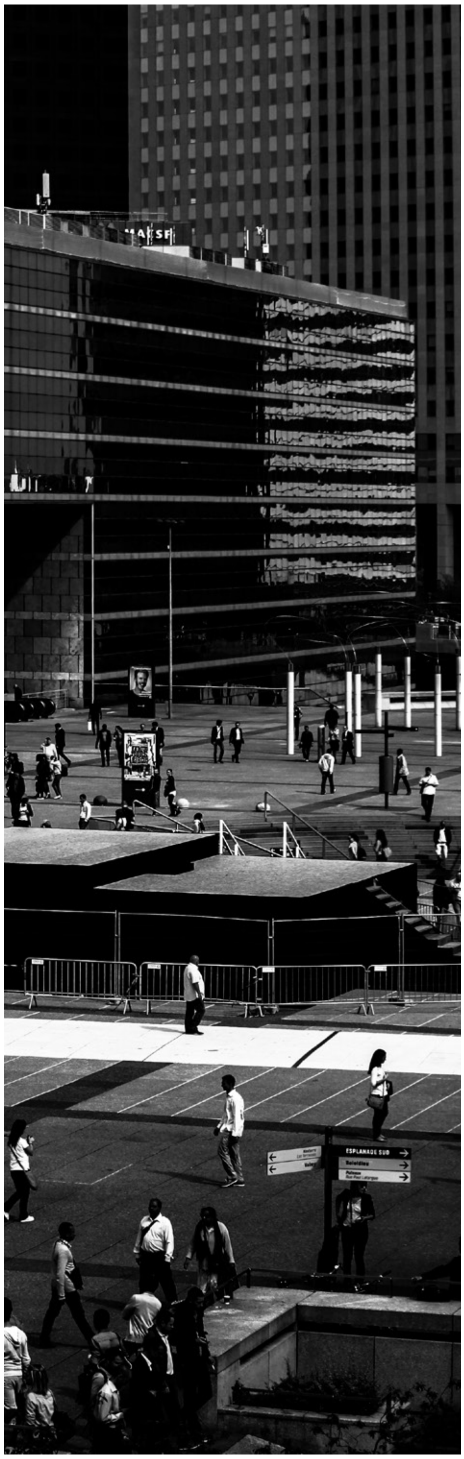
Impact Investment

Impact investment has the potential to inject new resources into social disadvantage that would otherwise be unavailable, and transform the social marketplace in Australia.

The Social Impact Investing Taskforce report released in September 2014 stated:

The world is on the brink of a revolution in how we solve society's toughest problems. The force capable of driving this revolution is 'social impact investing', which harnesses entrepreneurship, innovation and capital to power social improvement.[8]

This section provides a brief introduction to impact investment. Much has been written on the subject yet given the multitude of different understandings we felt it was important to step through this before delving into impact measurement and the different frameworks.



[8] Impact Investment: The Invisible Heart of Markets, Harnessing the power of entrepreneurship, innovation and capital for public good. Social Impact Investment Taskforce, 15 September 2014. p.1

What is Impact Investment?

Impact investment has been described as investments "that intentionally target specific social objectives along with financial return and measure the achievement of both."[9] The Global Impact Investing Network (GIIN) defined it as "investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return."[10]

Antony Bugg-Levine and Jed Emerson captured the underlying drive for impact investment in their statement that "...the heart of the movement is the reorientation around blended value as the organizing principle of our work: using capital to maximize total, combined value with multiple aspects of performance."[11]

There are many ways we can describe the impact investment approach to business. One key aspect is that it is not Corporate Responsibility, nor is it about compromising on either the social and environmental goals or on the financial return required. Instead, it combines these goals to create the desired outcome of blended value.

Blended value has an important role in taking an effective approach to impact investment:

"If impact investing is what we do, blended value is what we produce. Value is what gets created when investors invest and organizations act to pursue their mission. All organizations, for-profit and non-profit alike, create value that consists of economic, social and environmental components. All investors, whether market rate, charitable, or some mix of the two, generate all three forms of value. But somehow this fundamental truth has been lost to a world that sees value as only being economic (created by for-profit companies) or social (created by non-profit organizations or government). And most business managers, as well as investors, miss out on the opportunity to capture their total value potential by not managing for blended value on an intentional strategic basis." [12]

To better understand what impact investment is, it is useful to understand what it is not. Impact investment is not a:

- **Grant -**
  A grant is usually provided without the expectation or requirement of a financial return, however impact investment refers to placing capital in an organisation with the expectation of a financial return.
- **Specific Asset Class -**
  Rather than view impact investment as a specific asset class, it is more accurate to view impact investment as a lens through which we can see all asset classes. The lens approach also prevents a narrow understanding of grouping all impact investments in one category and expecting there to be common risk return profiles for these investments. When investing in different asset classes with an impact investment lens, the risk return profile is that of the particular investment.
- **Negative Screen -**
  Choosing investments by ruling out those doing societal or environmental harm, was an entry-level activity for ethical investors in the early days of the movement, and for some it is still the main approach in ethical investment. However it doesn't take a proactive, or intentional, approach to choosing what to invest in.

[9] Impact Investment: The Invisible Heart of Markets, Harnessing the power of entrepreneurship, innovation and capital for public good. Social Impact Investment Taskforce, 15 September 2014. p.1
[10] Global Impact Investing Network website, http://www.thegiin.org/cgi-bin/iowa/resources/about/index.html
[11] Impact Investing: Transforming How We Make Money While Making a Difference, Antony Bugg-Levine and Jed Emerson, 2011.
[12] Impact Investing: Transforming How We Make Money While Making a Difference, Antony Bugg-Levine and Jed Emerson, 2011.

At the heart of impact investment is that positive social impact must be the intention and not something that happens ‘after the fact’. Danny Almagor, a prominent Australian impact investor, uses an apt story to illustrate this: “If you’re walking down the street and you drop one hundred dollars and a homeless person picks it up… I’m not going to call you a philanthropist!”

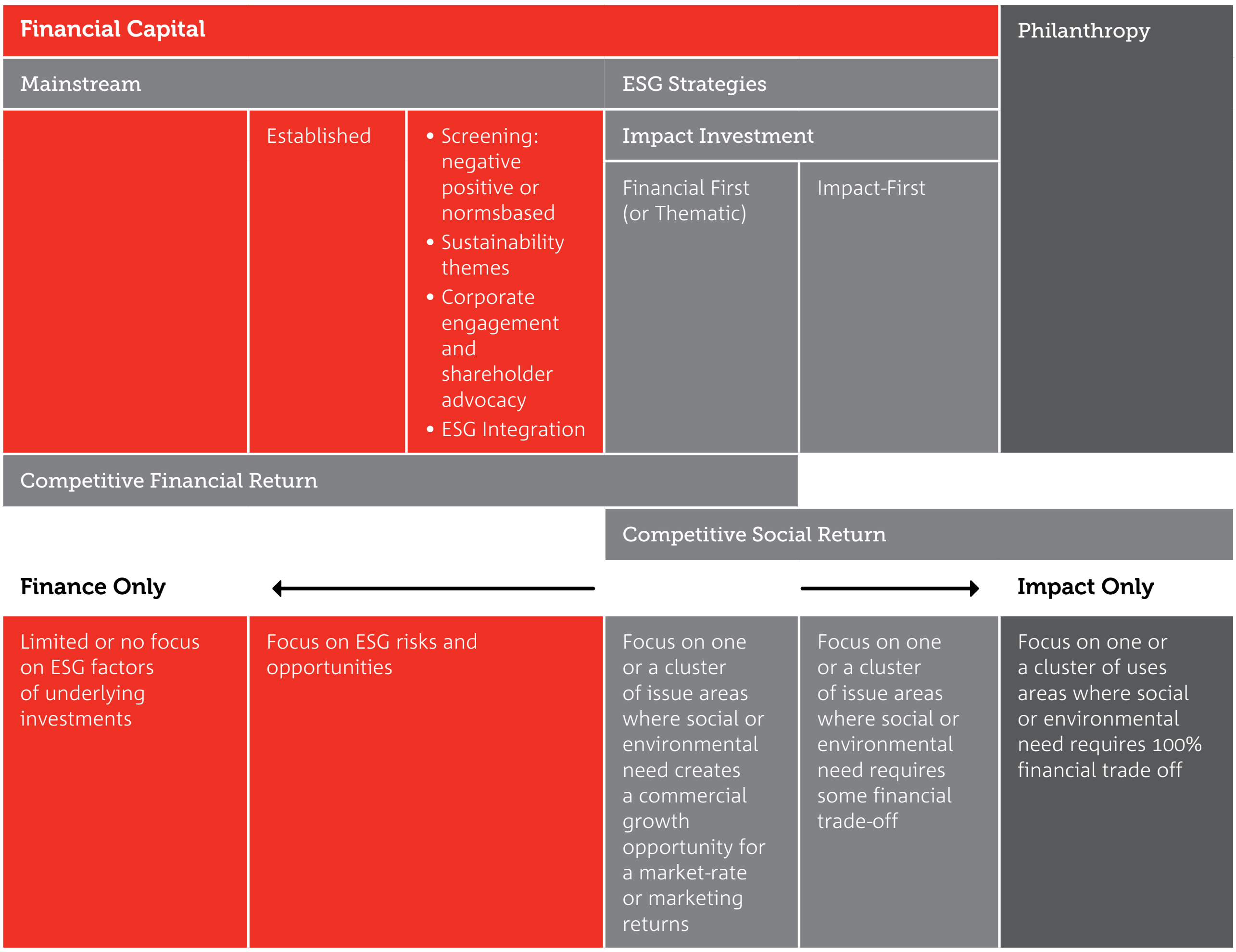
Impact investment is gaining ground internationally. Research undertaken by J.P.Morgan and GIIN demonstrates that 125 leading impact investors, who together manage a total of USD$46bn in impact investments today, are forecasting 20% growth in the number of deals this year.[13]

International banks like Triodos have had impact investment as a core part of their business and demonstrate that blended value can be generated with this approach.

Bringing impact investment to the mainstream requires a paradigm shift in capital market thinking, from two-dimensions to three. By bringing a third dimension, impact, to the 20th century capital market dimensions of risk and return, impact investing has the potential to transform our ability to build a better society for all.[14]

An important aspect of impact investment is that it can happen across a spectrum of investment opportunities and is placed in a range of organisations and funds. Some of the more common are detailed below.

Figure 1: An Emerging Impact Investment Spectrum[15]



[13] Spotlight on the Market: The Impact Investor Survey, J.P.Morgan and GIIN02 May 2014.
[14] Impact Investment: The Invisible Heart of Markets, Harnessing the power of entrepreneurship, innovation and capital for public good. Social Impact Investment Taskforce, 15 September 2014.
[15] Charlton, K., Donald, S., Orminston, J. & Seymour, R. (2014). Impact Investments: Perspectives for Australian Charitable Trusts and Foundations. p15

There is a Need for Catalytic Funds in the Impact Investment Sector

Currently the pipeline of opportunities for impact investment, particularly in the Australian context, is limited for a number of reasons. This includes the fact that many social service providers have traditionally sourced funding through grants and thus have little experience developing and managing revenue generating entities. Governance structures are also an issue that is compounded by the lack of strong business and financial skills where they are needed the most. This has resulted in there being a significant lack of readily scalable enterprises able to take on investment capital.

The Australian Advisory Board on Impact Investing has called for $10-$20 million to be used 'for advice to equip social organisations to attract finance and secure contracts'.[16] With the availability of funds through vehicles such as the NAB Impact Investment Readiness Fund and the capacity building work of groups like The Difference Incubator (TDi) it is hoped that this will begin to stimulate further investment opportunities.

Figure 2: The Five Features of an Investable Social Enterprise ISE[17]

Ultimately this work aims to develop investable social enterprises to bridge the gap for investors between social and financial returns. Investable social enterprises are characterised by having a social or environmental mission, a commercially viable business model, sound track record, a passionate and capable management team, and a willingness to be held accountable for social and financial returns.

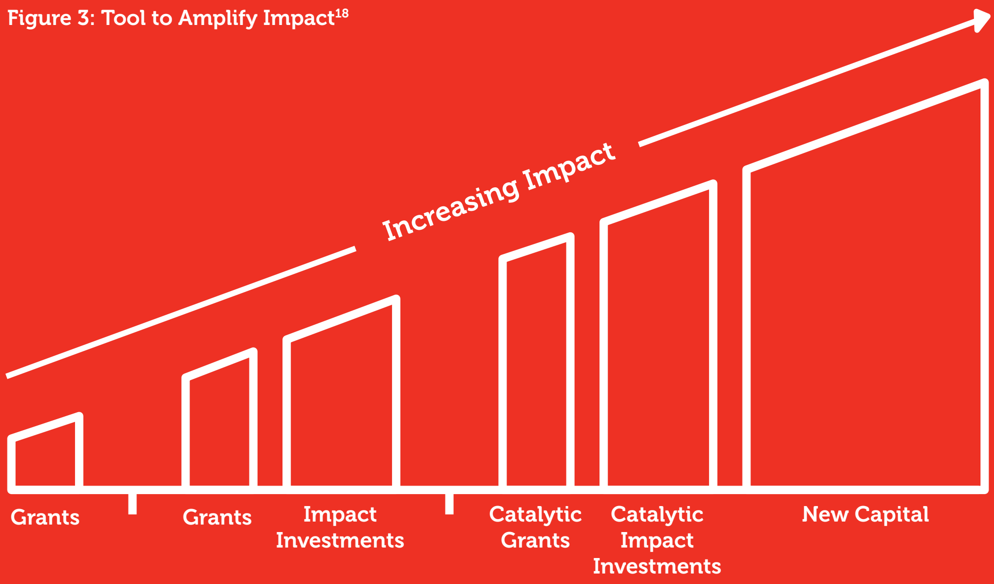
[16] Delivering on impact: the Australian Advisory Board breakthrough strategy to catalyse impact investment, Addis R, Bowden A, Simpson D. Australia: Impact Investing Australia, 2014.
[17] The Five Features of an Investable Social Enterprise, Bessi Graham, The Difference Incubator, 2014

Impact Investment is an Opportunity to Leverage Philanthropic Funds

Traditional philanthropy (ie grants), typically come from the earnings on investments in capital markets that may not apply a negative screen when allocating investments, there can be some dissonance between the source of the funds and the social or environmental cause they are allocated to.

This dissonance is reduced by shifting the investment strategy and leveraging funds for capacity building in the impact investment sector whilst also reducing the risk. This has the potential to dramatically increase the positive social impact they have in society. Impact investing provides the opportunity for the effect of an investment to be amplified by generating a financial return whilst also providing a social return.

Figure 3: Tool to Amplify Impact[18]



An approach that uses catalytic grants focused on capacity building and de-risking future impact investments not only opens up opportunities for philanthropy to increase the potential impact but it also helps to strengthen the future pipeline of investment opportunities. This would help to open up impact investment to new capital in mainstream markets.

[18] Impact Investments: Perspectives for Australian Charitable Trusts and Foundations, Kylie Charlton, Scott Donald, Jarrod Ormiston and Richard Seymour (March 2014), p.11.

Payment by Outcomes and Social Impact Bonds

Whilst impact investment can take many forms, social impact bonds (SIBs) or social benefit bonds have gathered a significant amount of interest. In particular it is relevant to understand their relationship to payment by outcomes.

Payment by outcomes is an innovative rethinking of the way that social services are contracted, moving the emphasis from only paying for inputs or outputs, to payment for articulating and achieving a desired outcome. Many organisations cannot finance the work required to produce an outcome before receiving payment so a social bond acts as a permissible finance mechanism to facilitate the work, spreading the risk of non-delivery with investors.

Social Impact Bonds (SIBs), or social benefit bonds are made up of two components:

- A payment by outcome, and
- A financing mechanism that enables an organisation to produce the outcome, and thus receive payment.

Bonds in most instances can be thought of as a loan to the organisation, often with an interest rate that is proportional to how well they perform. So while the finance component is relatively uncomplicated, the measurement, monitoring and evaluation of the outcomes can be complex and difficult. Measuring the outcome and results attributable to service delivery requires rigorous design and innovation.

The Impact Measurement Group that formed out of the Social Impact Investment Taskforce identified that measurement needs to be proportional to the available resources, scale and stage of maturity of both the investors and investees:

“...payment-for-success structure or social impact bonds often require third-party assurance and a valuation of social outcomes. In contrast, many earlier-stage investees don’t require or don’t have the resources for third part assurance; thus, impact measurement goals for these investees should simply focus on establishing enough metrics to meet the reporting bar and only move to third-party assurance when capacity is available.’[19]

Recent work by Social Outcomes suggests many state governments are focusing on building capability through payment by outcomes approaches, rather than issuing bonds.[20] This approach requires defining ‘meta outcomes’ and ‘sub outcomes’ and understanding the complexity in the relationship between these outcomes when designing a contract for outcome.

Further effort is required to develop an evaluation framework that moves away from output measurement and has the flexibility for redesign as service providers deliver. This framework development involves a cluster of providers and recognises the relationships between them. Developments such as this will help to strengthen and broaden the reach of payment by outcomes approaches.

[19] Measuring Impact: Subject paper of the Impact Measurement Working Group, Social Impact Investment Taskforce, Sept 2014. p.9.
[20] http://socialoutcomes.com.au/collaborating-for-better-outcomes/

The relationship between payment by outcomes and SIBs is illustrated in the Commissioning Outcomes Continuum developed by Social Outcomes.

Figure 4: Commissioning Outcomes Continuum[21]

Commissioning Outcomes Continuum

Contracting for Outcomes	Payment for Outcomes with Working Capital	Payment for Outcomes Without Working Capital	Social Impact Bonds
• Upfront Payment • Suitable for Small Providers • Risk Retained by Government • Option for Small Performance Incentive Only	• Staggered Payment Option • Working Capital Loan Taken by Provider After Debt Repaid • Suitable for Medium and Large Providers	• Staggered Payment Option • No Capital Needed by Provider • Risk Shared with Provider • Return and Incentives Retained by Provider • Suitable for Large Providers	• Payment on Achievement of Outcomes • Suitable for Large Providers • Risk Carried Primarily by Provider • Risk Adjusted Return and Performance Incentive Shared Between Provider and Investors

Risk, return and measurement complexity increase with movement along the spectrum from left to right. Measurement of investment impact at the outcome end of the spectrum is relatively straightforward however complex social impact bonds require more sophisticated, time-consuming measurement.

[21] Commissioning Outcomes Continuum, Sandy Blackburn-Wright, Social Outcomes, 2014. http://socialoutcomes.com.au/change-is-hard-what-will-a-shift-to-outcomes-mean/

The Impact Investment Process

Clarifying the financial return and social impact expectations upfront and ensuring the prospective investment aligns with these expectations is critical for an impact investment. By identifying expected returns and impact early in the process, measurement and reporting post investment are more straightforward. We see there being a four stage process that supports effective impact investment, this is illustrated in the diagram below.

Figure 5: Steps to an Impact Investment

Step 1
Determine whether it is a financially viable investment

Step 2
Identify the Desired Social Intent and Measurement Framework

Step 3
Make the Investment

Step 4
Measure the Financial and the Social performance

Step one:
In determining the viability of an investment, the investor needs to go through a process of due diligence to assess the potential of the opportunity to deliver blended value through social and financial returns. By identifying the potential for a financial return, it is clear that the opportunity is truly an investment and not a grant with no expectation of a return.

The criteria and thresholds for viability will differ from investor to investor, depending on their risk profile and areas of impact interest. Accordingly, step one calls for assessment and alignment of financial expectations.

Step two:
Understanding the social or environmental intent of the investment, the investee will need to demonstrate how it delivers impact. Clear articulation of desired social and environmental outcomes will assist the measurement step.

These first two steps require time and resources and often result in expectations and terms to arrive at a point of agreement between parties. If an investment has very strong social and environmental returns apparent, but the financial returns are not present, the investor should not proceed.

Steps Three and Four:
Once the investment occurs there is a need for measurement of the financial and social outcomes. This last step should be straight forward if the rationale and expectations established in the first two steps are clearly documented. If this is not the case, the investor will have more difficulty assessing the social impact of their investments.

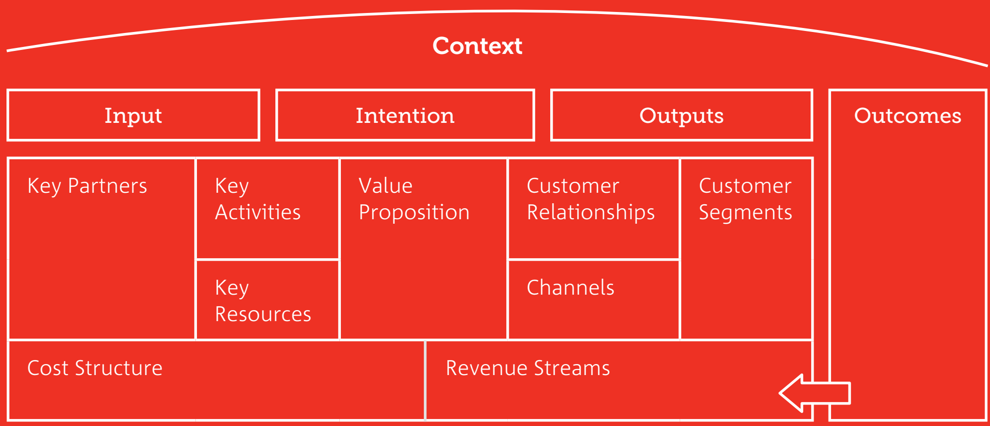
Building Measurement Into the Business Model for Social Enterprises

TDi have developed a measurement framework, building on the Investable Social Enterprises (ISEs) model. The framework seeks to remind organisations that even without the presence of a formal financial tool, such as a Social Impact Bond, organisations in the social sector are being paid for outcomes in all of the work they do.

Whether engaging primarily with philanthropic or government funding or moving into the impact investment space, an organisation delivering products or services in the social sector is being engaged because of the social outcomes it achieves through its activities.

The framework is based on a foundation of the business model canvas[22] and positions the intention as a central influencing feature for all aspects of the business. The framework captures basic inputs and outputs as well as the outcomes that drive revenue in a payment by outcomes approach. TDi's framework incorporates a mix of narrative and data to communicate results and the human elements of transformation that occur through the organisation's involvement.

Figure 6: TDi's Overarching Measurement Framework[23]



[22] Business Model Generation, Alexander Osterwalder and Yves Pigneur, 2010. http://www.businessmodelgeneration.com/canvas/bmc
[23] TDi's Overarching Measurement Framework, Paul Steele and Bessi Graham, The Difference Incubator (TDi), 2013.

Impact Measurement

As identified, intention and measurability are two crucial elements of impact investment. While intention is the key to both ethical investing and impact investment, it is measurability that sets impact investment apart and creates opportunity for leverage. The importance placed on measurement by impact investors and the level of detail required varies across the sector and many are still exploring their measurement needs in this emerging area. There is a strong reliance on the organisation being invested in and its ability to provide basic information on the social or environmental outcomes.

What is Impact Measurement?

Impact measurement has broad application and is rising in prominence across the social services sector. While there is a focus on investors and government requirements, service providers have also called for their needs and those of their beneficiaries to be reflected in measurement models.

If impact investment is to become a significant force for social change then the social and environmental performance needs to be measured with the same level of robustness as financial performance. To do so, would encourage more capital, but also assist to identify opportunities and understand the concerns of stakeholders.

The Impact Measurement Working Group of the Social Impact Investment Taskforce identified three outcomes of good impact measurement:

1. The ability to generate value for all stakeholders in the impact investing ecosystem. This outcome goes beyond a simplistic focus on the needs of the investor and instead drives at ensuring value creation for investors, investees and beneficiaries.
2. The potential mobilisation of greater capital into areas of positive social impact creation.
3. Increased transparency and accountability for delivering on the intended area of impact.[24]

The Group produced a measurement guideline below that mirrors the impact investment process discussed earlier, to help investors understand the processes required to incorporate impact measurement into the impact investment process.

[24] Based on Measuring Impact: Subject paper of the Impact Measurement Working Group, Social Impact Investment Taskforce, Sept 2014. p.2.

Figure 7: The Seven Guidelines[25]

	Guideline	Description
Plan	Set Goals	**Articulate the desired impact of the investments.** Establish a clear investment thesis/Theory of Value Creation (ToVC) to form the basis of strategic planning and ongoing decision making and to serve as a reference point for investment performance.
	Develop Framework & Select Metrics	**Determine metrics** Establish a clear investment thesis/Theory of Value Creation (ToVC) to form the basis of strategic planning and ongoing decision making and to serve as a reference point for investment performance.
Do	Collect & Store Data	**Capture and store data in a timely and organized fashion** Ensure that the information technology, tools, resources, human capital and methods used to obtain and track data from investees function properly.
	Validate Data	**Validate data to ensure a sufficient quality** Verify that impact data is complete and transparent by cross-checking calculations and assumptions against known data sources, where applicable.
Assess	Analyse Data	**Distill insights from the data collected** Review and analyse data to understand how investments are progressing against impact goals.
Review	Report Data	**Share progress with key stakeholders** Distribute impact data coherently, credibly and reliably to effectively inform decisions by all stake holders.
	Make Data-Investment Management Decisions	**Identify and implement mechanisms to strengthen the rigor of investment process and outcomes** Assess stakeholder feedback on reported data and address recommendations to make changes to the investment thesis or ToVC.

[25] Measuring Impact: Subject paper of the Impact Measurement Working Group, Social Impact Investment Taskforce, Sept 2014. p.8.

The process of measurement can be viewed as cyclical, once at the review stage this can then inform future investment decisions and help management improve performance and increase the potential impact of future investments.

The Group of Experts of the Commission on Social Entrepreneurship (GECES) Sub-group on Impact Measurement identified five stages in the process of measuring and managing impact, as shown in Figure 8.[26] The five stages, similar in process to that outlined above by the Impact Measurement Working Group of the Social Impact Investment Taskforce highlight a continuous cycle of objective setting, measuring and learning to improve the quality of impact measurement and ultimately impact investment.

Figure 8: Adapted Five-Stage Process of Managing Impact with Investment[27]

An important part of the measurement process is identifying what will be measured. Both investors and investees need to be aware of how impact is measured and the variety of indicators that can be used to do this. The difference between measuring outputs, outcomes and impact needs to be clear for any given investment. To go beyond reporting on outputs investors and investees will need to explore the development of a theory of change for the particular investment and how it will address/have its social or environmental impact measured.[28]

[26] Proposed approaches to social impact measurement in European Commission Legislation and in practice relating to: EuSEFs and the EaSI. 2014.
[27] Adapted from GECES Sub-group on Impact Measurement.
[28] Muir, K. & Bennett, S. (2014). The Compass: Your Guide to Social Impact Measurement. Sydney, Australia: The Centre for Social Impact.

A model developed by the Impact Measurement Working Group helps identify qualitative, quantitative and financial measures across the impact value chain. This model is useful for investors and investees to guide what types of measurement data should be sought across the value chain.

Figure 9: Financial Quantification Across the Impact Value Chain[29]

	Input	Activity	Output	Outcome	Impact
	Illustrative Examples				
Qualitative	Description of inputs	Description of activity	Description of outputs	Case studies describing outcomes	Qualitative evaluation of impact
Quantitative	Volume of non-financial inputs	Volume of activity delivered	Numbers of outputs delivered	Outcomes measured using quantitative indicators	Impact measured using robust measurement framework
Financial	Financial value of incoming resources	Cost of activity	Cost per output	Cost per outcome; societal financial value of outcome	Societal financial value of impact

[29] Measuring Impact: Subject paper of the Impact Measurement Working Group, Social Impact Investment Taskforce, Sept 2014. p.16.

Knowing Your Audience

There are several audience groups for impact measurement and reporting that need to be considered. These include investors, the social enterprise or investee and funders that will all have different needs. Within the investor group itself, there are different types of investors who will have varying needs in terms of data and reporting.

Measurement should address expectations that have been established initially for both the investor and investee. It is natural that there will be varying frequencies and content included in reports provided to the investor as opposed to that used by management and internal stakeholders.

Reporting can be enhanced by providing details about the positive impact of the work delivered by the social enterprise and the lessons learnt from their experience to continuously improve their social impact. Some of this information may need to be translated or modified to align with the needs of the investor, such as providing summary details only, while internal use may require more depth.

When developing measurement models, it is useful to keep in mind the role the key stakeholders play in the impact investment process, when an outcome focus is applied:

- Capital Providers (both funders and investors) are paying for an outcome.
- Enterprises/investees as service providers are delivering outcomes.
- Beneficiaries are benefitting from the outcomes.

Impact measurement 'should help impact organizations manage performance, learn, improve outcomes, and hold themselves accountable to those they aim to serve.'[30]

Ultimately, the rationale for impact measurement includes accountability to investors and internal stakeholders, learning from performance and generating ongoing investment opportunities. These need to be kept at the forefront of any measurement system development.

The following section explores in more detail impact measurement in relation to the needs of investors and investees or social enterprises.

[30] Measuring Impact: Subject paper of the Impact Measurement Working Group, p.1.

What are Impact Investors Looking for in Impact Measurement?

Impact investors make an intentional decision to invest in organisations that create a social or environmental good, as well as a financial return. While the financial return they make may be easily quantified, they also need metrics and qualitative information that provides feedback on the social impact their investment is having.

The aims of most impact investors are similar; however there is no single consensus regarding the most effective methods of impact measurement.[31] The following table illustrates the three typical investor types and their needs from impact measurement. What can be understood from this is that the measurement requirements relate directly to the need for the investor to be held accountable to their own stakeholder groups.

What this results in is a spectrum of outcome measurements that will need to be used, from basic outputs measurement to more complex, time consuming and costly outcomes measurements.

Figure 10: Measurement Requirements for Different Investors

Investor	Private Investment	Fund or PAF Investor	Government Investment
Measurement Requirement	• Niche area of particular interest • Individual investee • Value driven investment	• Need to demonstrate the impact to investors to help determine resource allocation • DGR status may allow some degree of flexibility	• Objective demonstration and evidence to support resource allocation
Outcome Measurement	Basic Outputs Measurement ⟷ (Outcome measurement method will vary along the scale depending on the investors preference requirements.) ⟷ Complex Outcomes Measurements		

[31] A Short Guide to Impact Investing, Case Foundation, 2014.

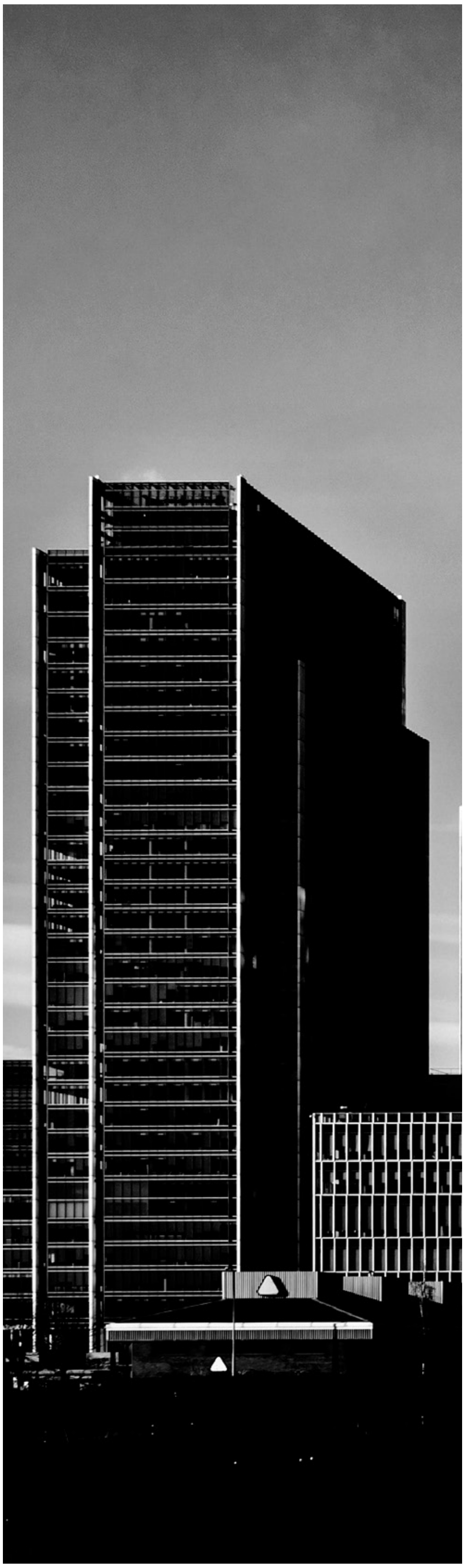
Before investing, an impact investor will conduct due diligence. In the event of an investment performing poorly, the impact investor may not receive any of the initial investment back.[32] Thus, like any other investor, the appropriate due diligence into the viability of any potential investment is critical.

In 2014, J.P.Morgan and GIIN found that 80% of respondents indicated that generating financial returns is essential and 71% indicated that determining impact objectives at the time of investment is essential.[33]

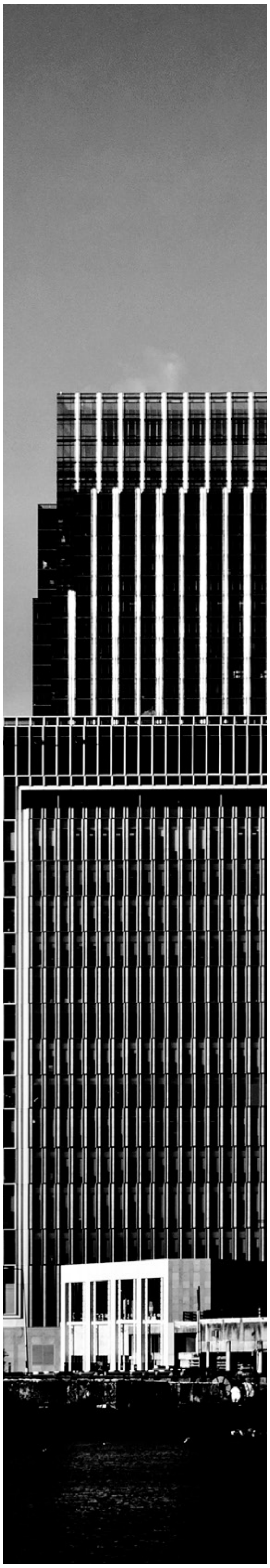
Evaluation of actual and potential social impact differentiates the impact investor. This involves understanding the mission, how their business model achieves its social objectives and what metrics are in place to track progress.

Experienced impact investors may request specific social impact measurement reporting as a requirement for investment, or they may invest only in organisations with established impact measurement systems. Impact measurement data provides critical feedback to impact investors and it may be used by an active investor to recommend improvements.

Measurement data provides feedback on the impact investor's own investment process. Negative social impact can suggest their investment strategy is failing and requires review, which may lead to making better investments and potentially fewer errors in the future.



[32] In search of gamma an unconventional perspective on impact investing, Grabenwarter U, Liechtenstein H. 2010
[33] Spotlight on the Market: The Impact Investor Survey, J.P.Morgan and GIIN 02 May 2014.



"Investors want to know what the objectives are and how they're being tracked. There's not a demand for a large number of metrics around a range of different variables. There is a desire to define what your impact is going to be and report on that in a way that's appropriate. Some of those things will be measurable and some of those things will only be reported in terms of stories and I think people are still feeling their way. People want to talk about the intent of the project, how it will work, how do we measure that, what impact is desired and what's being done to capture that."

Trevor Thomas, Managing Director – Ethinvest, Sydney Australia. Australia.

What are Investees or Social Enterprises Looking for in Impact Measurement?

Existing and potential impact investors tend to be the primary audience for impact measurement, however there is significant value for investees and social enterprises to have well developed, practical measurement systems that ensure effective management of the enterprise.

An investee benefits from impact measurement because it helps to articulate their area of impact, it supports effective, useful due diligence, it aligns accountability with the measures set, and drives improvement through learning from results.

Impact measurement plays a critical role in the due diligence process.[34] As with financial projections in a prospectus, the social impact projections support the presentation of a stronger case to impact investors.[35]

Impact measurement also provides accountability and feedback after the investment event. The final two stages identified in the measurement process; 'measure, validate and value' and 'report, learn and improve', are critical in fulfilling the accountability function of the investment event and with these in place there is greater likelihood of their being a greater impact made by the investment.

Measurement and validation helps to quantify the value created by the enterprise. It can also be used by the organisation to measure achievement of objectives, highlight areas of strength and identify opportunities for improvement in operational processes.

[34] In search of gamma an unconventional perspective on impact investing, Grabenwarter U, Liechtenstein H. 2010
[35] Spotlight on the Market: The Impact Investor Survey, J.P.Morgan and GIIN02 May 2014.

"Simple and clear metrics that illustrate the impact of the business while simultaneously being effective indicators for management to drive increased effectiveness of the business both from a financial and impact viewpoint. The metrics chosen should be effective management tools not burdensome reporting requirements."

Kylie Charlton,
Chief Investment Officer,
Australian Impact Investments, and
Co-Founder of
Unitus Capital.

Exploring Impact Measurement Frameworks

Up to this point we have focussed on setting the background to underscore the importance of impact measurement to impact investment. We have also highlighted the diverse measurement needs of stakeholders involved in impact investing and the lack of a common consensus on the best measurement approaches. This next section identifies some of the relevant existing frameworks, approaches and tools that could be used to assist with measuring impact for impact investments. We have started quite broad with our exploration as we believe that each approach included has characteristics that may provide insights or value to the potential development of a comprehensive framework.

A spectrum of approaches exist that have been evolving as interest and expertise grows in understanding what and how to approach measurement for impact investing. The Impact Measurement Working Group published the Market Evolution Spectrum which illustrates the placement of some of these measurement systems developed in relation to each other and for the purpose of impact investment. It also proposes that these approaches will move from an emergence phase through to standardisation and integration as the market develops.

What is evident is that the emergence approaches are mostly organisationally focused while convergence and standardisation approaches focus on global or shared measures. Integration is the longer term aim, where measurement is integrated into other well-recognised standards such as the International Financial Reporting Standards (IFRS).

Figure 11: Market Evolution Spectrum[36]

Emergence → Convergence → Standardisation → Integration

Near-term Focus → Longer-term Focus

<table>
<tr><th>Spectrum of Measurement Approaches</th><th>Organi-sational Guidelines

(Private)</th><th>Organi-sational Guidelines

(Shared)</th><th>Issue & Regional Guide-lines

(Optional)</th><th>Global Guidelines

(Optional)</th><th>Standards

(Optional)</th><th>Standards

(Required)</th><th>Formalised Reporting & Disclosure Regimes</th></tr>
<tr><td rowspan="2">Illustrative Measurement Approaches</td><td rowspan="2">Endeavor Impact Assessment Dashboard

Sonen Capital's Impact Measurement Approach</td><td rowspan="2">Acumen's BACO Methodology

Gates, Hewlett & Rockefellar Fdn Impact Measurement Principles

IFC's DOTS Framework</td><td rowspan="2">EU Standard (GECES)

EVPA Guidelines

NPC's Guidelines</td><td rowspan="2">Social Return on invest-ment (SROI) Methodol-ogy

UNGC Reporting Guidelines

International Integrated Reporting Framework</td><td rowspan="2">IRIS Metrics

Global Impact Investing Ratings System (GIIRS)

Sustainability Accounting Standards Board (SASB)</td><td colspan="2">Illustrations from analog markets (no impact examples available):</td></tr>
<tr><td>Interna-tional Financial Reporting Standard (IFRS)

U.S Generally Accepted Accouting Principles (GAAP)</td><td>Security Regulation (SEC, others)

Disclosure regimes (incl. Evolving non-financial reporting require-ments, the EU Directive)</td></tr>
</table>

To begin the process of understanding how different approaches could be useful, we conducted a market scan to identify a selection to explore. We limited the scope to include only the more well-recognised approaches – those that are already currently being used by organisations in Australia and internationally.

Our market exploration concentrated on the following nine approaches:

- Environmental, Social, Governance (ESG)
- Global Impact Investment Report System (GIIRS)
- Global Reporting Initiative (GRI)
- Impact Reporting and Investment Standards (IRIS)
- London Benchmarking Group Model (LBG)
- Results Based Accountability (RBA)
- Social Enterprise Balanced Scorecard (SEBS)
- Shujog Impact Framework and Impact Mark (SIF)
- Social Return on Investment (SROI)

All are globally recognised and are being implemented by organisations of various sizes.

[36] Measuring Impact: Subject paper of the Impact Measurement Working Group, Social Impact Investment Taskforce, Sept 2014. p.19.

Characteristics of Effective Impact Measurement Frameworks

Once having completed the market scan we then analysed each approach to identify its relevance to impact investment. Taking the GECES model[37] as a guide we have established the following criteria we see as being required for effective impact measurement frameworks. They should be:

1. **Cost Effective –**
   The framework should be relatively inexpensive to implement and maintain.

2. **Well Recognised –**
   The framework should be approved by impact investors, social enterprises and other stakeholders.[38] Users need to be certain that they can trust the results; being well recognised and widely used assists to ensure it is familiar to stakeholders. This incorporates the GECES 'understood and accepted' characteristics.

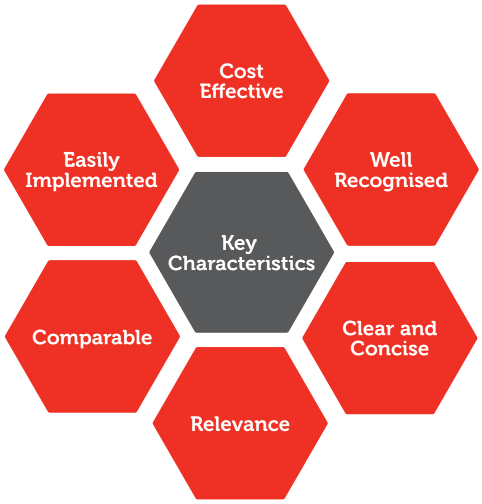
3. **Clear and Concise –**
   An framework should endeavour to be as user-friendly as possible. This includes the elimination of jargon, documentation of the framework and standardised outputs. Ideally an output should be concise – a user should immediately be able to understand the output. This incorporates the 'simple', 'certain' and 'transparent and well-explained' characteristics.

4. **Relevant –**
   Refers to the frameworks ability to meet both external and internal user's needs. This incorporates the 'relevant', 'helpful', 'natural' and 'founded on evidence' characteristics.

5. **Comparable –**
   This is the ability of the framework to facilitate comparisons between similar organisations and across time periods.

6. **Easily Implemented –**
   This addresses non-monetary costs of implementing a framework. This includes time spent on training, infrastructure in terms of data collection and information systems required.

Figure 12: Key Characteristics of Effective Impact Measurement Frameworks



[37] Proposed approaches to social impact measurement in European Commission Legislation and in practice relating to: EuSEFs and the EaSI. 2014.
[38] Social Return on Investment: lessons learned in Australia, Social Ventures Australia Consulting. Australia: 2012.

The aim was to ensure we explored the approaches through the lens of whether they best meet the needs of the different audience groups involved in impact investing, specifically impact investors and impact investees or social enterprises.

They needed to be practical and applicable in a real world setting. As such there is the challenge of balancing resources spent on generating the greatest social impact versus understanding the size of the impact. Cost effectiveness will differ depending on the size of the investment and the resources available,[39] however in some instances it will be necessary to trade off some of the criteria listed above for a more cost effective model.

A critical characteristic sought by impact investors and investees is that it needs to be comparable.[40] This comparability means:

- For the impact investor – the ability to assess the social return of an investment against other similar investments in their portfolio and inform future investment decisions.
- For portfolio managers - the performance of a fund in terms of social return can be measured against other funds,[41] and potentially highlight any reasons for poor performance.
- For the investee or social enterprise - performance can be tracked over time and potentially across different parts of the organisation, against a benchmark so that improvements or issues can be acted on.

Summarised, the framework must facilitate comparison between similar organisations or impact areas and comparison between time periods. Ultimately a framework that provides for benchmarking of measures is highly desirable.[42]

Some caution in the interpretation of any framework should be applied to account for organisational or sector differences that are inherent to the investee. Impact measurement should not be seen as a way to take judgement out of investment decisions by looking solely at a numerical based representation of a financial or social return.

It is important to note that we do not expect to find a one size fits all perfect impact measurement approach. As the Case Foundation has noted – a basic framework, as opposed to a singular, perfect framework, will help more people manage impact measurement and will naturally encourage the framework to evolve and improve over time.[43]

[39] How to evaluate a social enterprise? Smit A. Netherlands: NTI University; 2012.
[40] Impact Investing's Three Measurement Tools, Brandenburg M. Stanford Social Innovation Review; 2012.
[41] From the margins to the mainstream: assessment of the impact investment sector and opportunities to engage mainstream investors, Drexler M, Noble A. World Economic Forum, 2013.
[42] IImpact Investing's Three Measurement Tools, Brandenburg M. Stanford Social Innovation Review; 2012.
[43] A short guide to impact investing, Case Foundation; 2014, http://casefoundation.org/impact-investing/short-guide

Exploration of the Existing Approaches

Our exploration of the nine existing approaches uses the criteria described above to understand the relevant elements useful to impact measurement for impact investing. The discussion is the opinion of the authors and does not state that any approach is necessarily better or worse than each other, but instead we want to focus on assessing the relevance in the context of impact investment. It is hoped that this will provide the basis for further discussion.

An introduction to each of the nine approaches is provided on the following pages with key insights from our analysis. This brief summary is aimed solely as a starter for further investigation. More work is needed to understand how the most relevant characteristics of these approaches can be adapted for use in an impact measurement framework.

The approaches are listed in the following order:

- Environmental, Social, Governance (ESG)
- Global Impact Investment Report System (GIIRS)
- Global Reporting Initiative (GRI)
- Impact Reporting and Investment Standards (IRIS)
- London Benchmarking Group Model (LBG)
- Results Based Accountability (RBA)
- Social Enterprise Balanced Scorecard (SEBS)
- Shujog Impact Framework and Impact Mark (SIF)
- Social Return on Investment (SROI)

Environmental, Social, Governance (ESG)

Creator

John Elkington - Co-founder of the business consultancy Sustainability

Year Created

1998

Overview

Provides overarching guidance to evaluate an organisation's operations in terms of three main areas: Environmental, Social and Governance. The environmental criteria look at how a company performs as a steward of the natural environment. The social criteria examine how a company manages relationships with its employees, suppliers, customers and the communities where it operates. Governance deals with a company's leadership, executive pay, audits and internal controls, and shareholder rights.

A report card using letter grades (A – F) is constructed to illustrate how well an organisation performs in each category. Alternatively, textual analysis of performance in each category can be produced.[44]

Target Market

Institutional investors, portfolio investments

Measurement/Process Summary

1. Companies determine applicable metrics in each main area
2. Scoring system is determined
3. Relevant data is collected
4. Report card is produced

Official Website

N/A

Key Insights

Ease of implementation

ESG focuses on environmental, social and governance aspects of an enterprise. Organisations that implement this measurement system are required to report performance on all three aspects. If an organisation does not have metrics already in place for a particular aspect, operational changes may be required. Training may be required, information systems improved and data collection infrastructure developed. Excellent implementation would ideally reflect industry benchmarks across a number of metrics, which would serve as the foundation for the development of grading systems.

Relevance

ESG is similar to SEBC and RBA as management has the ability to choose their performance indicators. More indicators can be chosen in areas of concern, reducing the emphasis on areas that are not within the organisation's strategic objectives.

[44] http://thomsonreuters.com/about-us/corporate-responsibility/esg-performance/

Global Impact Investment Report System (GIIRS)

Creator

B Lab

Year Created

2010

Overview

A comprehensive reporting framework that provides ratings in 4 areas: Community, Environment, Workers and Governance. Ratings are percentile rankings (and not absolute) rankings against other organisations. GIIRS is externally assessed by B Lab and can be used by both social enterprises and impact investors.[45]

Target Market

Corporate businesses, public agencies, small to medium enterprises, non-governmental organisations, industry groups.

Measurement/Process Summary

1. Fill out online questionnaire on GIIRS website.

2. Complete assessment review – documentation and on-site

3. Receive ratings report

Official Website

http://giirs.org/

Key Insights

Cost Effective

GIIRS is an externally assessed measurement system, with the cost based on the revenue of the social enterprise being assessed. The cost of using GIIRS can be as low as $500 for social enterprises that receive less than $1 million revenue, and as high as $25,000 for those enterprises with more than $100 million in revenue.

Ease of Implementation

GIIRS ratings are conducted online and can be completed within several hours.

Clear and Concise

GIIRS's follows a standardised format with easily understandable labels and scoring system.[46]

[45] http://www.giirs.org/about-giirs/how-giirs-works
[46] Get started - company ratings process, Global Impact Investing Reporting Framework. http://giirs.org/companies/get-rated-companies. How GIIRS flavors impact investing's alphabet soup of measurement tools, Busenhart B. CSRWire; 2012. http://www.csrwire.com/blog/posts/430-how-giirs-flavors-impact-investings-alphabet-soup-of-measurement-tools

Sustainability Reporting Guideline (GRI)

Creator

Global Reporting Initiative (GRI)

Year Created

1997

Overview

GRI have developed the Sustainability Reporting Guideline which is a reporting system that provides metrics and methods for measuring and reporting an organisations sustainability-related impacts and performance. The report provides a table that references places where the relevant information can be found, and can be submitted to the Global Reporting Initiative for verification and assurance.[47]

Target Market

Corporate businesses, public agencies, small to medium enterprises, non-governmental organisations, industry groups.

Measurement/Process Summary

Organisation discloses where readers can find the required metric in the relevant documentation. It is up to the organisation to collect and aggregate the information on the report.

Official Website

https://www.globalreporting.org/

Key Insights

Ease of Implementation

The Sustainability Reporting Guidelines require a significant amount of disclosure across several organisational areas. To implement effectively, significant time, effort, and training is required to properly understand the framework and reporting requirements. The disclosure requirements can be complicated, increasing the cost and time associated with implementation.

Clear and Concise

The outputs generated are not necessarily clear and have the potential to be confusing to the user. The report produced does not contain all the relevant information required by the user, rather it directs the reader to other sources where they can find the necessary data. Despite these directions, readers may be directed to error pages or may not be able to find the relevant information (often due to pages being deleted).

[47] Sustainability Reporting Guidelines, Global Reporting Initiative. 2006.

Impact Reporting & Investment Standards (IRIS)

Creator

The Global Impact Investing Network (GIIN)

Year Created

2008

Overview

A catalogue of standardised metrics for describing social, environmental, financial impact freely available to anyone. Can be used to complement existing measurement systems or used to design a customised system. Detailed case studies and metric sets are available for different industries.[48]

Target Market

IRIS is targeted at both impact investors and enterprises.

Measurement/Process Summary

1. Identify goals and objectives
2. Pick and choose relevant metrics
3. Convert own framework to fit chosen metrics
4. Collect relevant data
5. Report

Official Website

http://iris.thegiin.org/

Key Insights

Cost Effective

IRIS is a freely available catalogue of metrics that can be drawn from without charge, making it very cost effective as the only costs are those associated with maintenance and management of the data.

Comparability

IRIS metrics that are quantitative offer comparability between time periods. IRIS metrics are standardised and therefore facilitate comparability between organisations.

Clear and Concise

The IRIS catalogue gives guidance on how each metric should be measured and how this relates to an organisation's impact. The measures are considered transparent and well-explained.

Relevance

The IRIS framework is recognised for its customisability. This means that investees and social enterprises are able to choose specific metrics from the framework that align with their strategic objective. This greatly increases the relevance of the framework.[49]

[48] http://iris.thegiin.org/about/faq
[49] IRIS frequently asked questions, USA: Impact Reporting and Investment Standards. 2014. http://iris.thegiin.org/about/faq. Why IRIS? Stanford Social Innovation Review. 2012.

London Benchmarking Group (LBG)

Creator

London Benchmarking Group –
Managed by Haystac in Australia & New Zealand

Year Created

1994

Overview

The LBG Model is a measurement of a company's overall contribution to the community, taking into account cash, in-kind donations and management costs. The model also looks at outputs and long-term community and business impacts of corporate community investments. The framework combines quantitative measures with a narrative aspect to demonstrate social objective progress.[50]

Target Market

Targeted at community and commercial initiatives.

Measurement/Process Summary

1. Carefully cost the main inputs to the community
2. Map and measure their consequent outputs
3. Assess the impact of individual components and, where possible, the whole community program, over various time periods

Official Website

http://www.lbg-online.net/

Key Insights

Comparability

For LBG to be comparable across different time frames consistent methodology and reporting must be used. If changes are made to either reporting or methodology, then LBG cannot be used to compare data from year to year.

Comparisons with other organisations are limited as most organisations will have their own reporting methodologies. The narrative aspect of LBG further compounds this challenge.[51]

[50] http://www.lbg-online.net/about-lbg/the-lbg-model.aspx
[51] CR report 2012 basis of reporting, Freshfields Bruckhaus Deringer. 2012.

Results Based Accountability (RBA)

Creator

Mark Friedman

Year Created

1996

Overview

RBA focuses on accountability in programs with public aspects, but can also be used by social enterprises. Users clearly set goals and objectives, identify metrics that illustrate progress and gather the relevant data. Data collected is often reported in visual formats, with accompanying management remarks and analysis.[52]

Target Market

RBA is predominantly used by public institutions or programs e.g. at the community level.

Measurement/Process Summary

1. Outcomes that clearly articulate what programs are to achieve
2. Indicators to measure whether or not outcomes have been achieved
3. Performance standards or benchmarks to assess how programs are progressing
4. Data collection instruments to regularly obtain indicator data
5. Periodic collection and analysis of data for internal decision-making and public reporting.

Official Website

http://resultsaccountability.com/

Key Insights

Clear and concise

RBA focuses on reporting of performance levels that are measureable and within a specified timeframe. This allows comparison against previous periods to determine whether the organisation has achieved their strategic objective. However, public reports of RBA data also include a large amount of qualitative data. This includes stating the audience, reporting criteria, indicators, goals and objectives. Additional contextual information may be required to help readers correctly interpret the reports.

RBA reports are often lengthy which may result in readers missing useful qualitative data which in turn may lead to incorrect interpretation of report results.

Relevance

RBA allows organisations the freedom to choose their performance indicators. This gives management the ability to choose specific indicators that align with their strategic objectives.[53]

[52] Overview of Results-Based Accountability: components of RBA, Schilder D. Massachusetts, USA: Harvard Family Research Project - Harvard Graduate School of Education; 1997 [22/10/2014]. Available from: http://www.hfrp.org/publications-resources/browse-our-publications/overview-of-results-based-accountability-components-of-rba.

[53] Overview of Results-Based Accountability: components of RBA, Schilder D. Massachusetts, USA: Harvard Family Research Project - Harvard Graduate School of Education; 1997. Available from: http://www.hfrp.org/publications-resources/browse-our-publications/overview-of-results-based-accountability-components-of-rba

Social Enterprise Balanced Scorecard (SEBC)

Creator

Social Enterprise London (SEL)

Year Created

2004

Overview

A framework developed to help social enterprises to clarify and articulate their strategic objectives, and decide upon methods to deliver those objectives. Critical elements of strategy are linked to social and financial objectives.[54]

Target Market

Non-profit driven organisations

Measurement/Process Summary

Requires creation of a strategy map by understanding the following concerns:

1. Financial objectives of organisation
2. Values Proposition – the needs of organisation's key stakeholders
3. Internal processes and activities required to meet stakeholder needs
4. Skills and resources required to complete internal processes

The strategy map is a single page visual representing linking critical elements of strategy to social and financial objectives.

Objectives in strategy map are linked to metrics. A relevant timeframe with target objectives is established and is used to determine whether targets have been achieved at the end of each specified timeframe.

Official Website

http://www.sel.org.uk/

Key Insights

Ease of Implementation

SEBC requires staff members to learn some basic terms and concepts, and explore case studies and examples to gain a better understanding of the system and its implementation process. Furthermore, the creation of the strategy map requires additional staff training and time, which may not be achievable in all organisations. Additional data collection and the application of new information systems will further increase the difficulty of implementation.

Relevance

Similarly to RBA, SEBC allows management to determine which metrics and indicators should be used to measure social impact. Carefully chosen metrics that align with the company's strategic objective will significantly increase relevance.[55]

[54] http://www.proveandimprove.org/tools/socialenterprise.php
[55] Proving and Improving, Social enterprise balanced scorecard. 2014. http://www.proveandimprove.org/tools/socialenterprise.php

Shujog Impact Framework & Impact Mark (SIF)

Creator

Shujog

Year Created

1996

Overview

The Shujog Impact Framework (SIF) quantifies the total benefits of a social enterprise, and gives them practical terminology and numbers to report to funders, e.g. the "social return" on investment made. The Impact Mark is an endorsement that signifies that an enterprise has achieved a high level of impact across the board.[56]

Target Market

Social enterprises and community organisations, funders looking to verify impact.

Measurement/Process Summary

1. Choose relevant metrics for the Impact Framework
2. Set targets and KPIs to monitor (based on the Shujog Sustainability Pyramid)
3. Collect data and assess performance
4. Compare performance to benchmarks (Assign Impact Mark if relevant)
5. Continued monitoring and gap analysis
6. Ongoing accountability and verification of impact against KPIs

Official Website

http://shujog.org/magnify-impact/impact-assessment/

Key Insights

Relevance

As with several other measurement approaches, the Shujog Impact Framework ensures that results remain relevant and useful for each organisation. Assessments are tailored to each organisation from the outset, designing it in such a way that the outcomes measured will be useful for those reading the final report, particularly those who will make decisions about future investments. The assessment is also repeated annually, and the fresh data collected ensures that decisions are made with up-to-date information.[57]

[56] http://shujog.org/magnify-impact/impact-assessment/
[57] http://shujog.org/magnify-impact/impact-assessment/

Social Return on Investment (SROI)

Creator

Roberts Enterprise Development Fund

Year Created

2001

Overview

SROI is a framework used to understand and manage the social, economic and environmental outcomes created by an activity or company. It involves assigning monetary values to social impact generated.[58]

Target Market

Targeted at social sector organisations.

Measurement/Process Summary

1. Establish scope
2. Identify stakeholders
3. Map outcomes
4. Assign outcomes
5. Establish impact
6. Calculate SROI

Official Website

http://redf.org/learn-category/sroi/; and
http://www.thesroinetwork.org/

Key Insights

Comparability

SROI is a useful measure for organisations to make internal comparisons. The organisation must use consistent metrics between time periods, allowing easy analysis and comparison of results.

SROI encourages active engagement between stakeholders and management in determining performance indicators. This results in a unique set of metrics used by organisations that are tailored to their specific objectives. This may present difficulties if comparisons are made cross organisations with different social impact activities.[59]

[58] Social Return on Investment: exploring aspects of value creation in the nonprofit sector, Emerson J, Wachowicz J, Chun S. United Kingdom: 2000. A guide to Social Return on Investment, Nicholls J, Lawlor E, Neitzert E, Goodspeed T. Cabinet Office, Office of the Third Sector, 2009.

[59] Report on impact measurement highlights importance of the story, Mair V. Civil Society Finance; 2013. http://www.civilsociety.co.uk/finance/news/content/14659/report_on_impact_measurement_highlights_importance_of_the_story. The ambitions and challenges of SROI, Arvidson M, Lyon F, McKay S, Moro D. 2010.

Conclusion

Based on our brief analysis, there are characteristics within each of the nine approaches that are relevant to a potential framework for impact measurement. Many of these elements are complimentary in that they play a different but useful role. What is clear is there is a need to explore how we can bring together elements of standardised operational measurement with an understanding of the industry or sector specific social or environmental impact an investment may have. At a framework level there is still a significant focus on measurement of outputs of the social or environmental change that has occurred rather than measuring the actual impact.

To illustrate this, approaches such as the SROI methodology allow for a granular understanding of the social impact of a particular investment, employing theories of change and detailed measurement of outcomes. Whilst undoubtedly valuable for the enterprise or organisation, with little ability to use this measure to compare against other programs or interventions there is little value for an investor who might want to compare impact across a portfolio of investments or who needs to understand the organisational performance of an investment.

On the other end of the spectrum, GIIRS and IRIS provide a strong framework for rating the operational elements of an investment or enterprise. They also allow for the inclusion of standardised metrics across a range of social and environmental impacts. Through these frameworks it is possible for investors and investees to determine their ranking among their peer group and track absolute performance over time. The gap that currently exists is how to ensure the social and environmental impacts are measuring impact rather than just outputs.

This is just one aspect of our current understanding of where the opportunity for greater collaboration on impact measurement lies. TDi, NAB and Benefit Capital intend to continue exploring these approaches and putting them into practice to learn more about which frameworks, approaches and tools may be useful to develop further. We want to engage with a broad cross section of the sector as we believe that shared measurement frameworks and approaches have greater value in making a long lasting social impact. Ultimately we believe that it will enable greater flows of capital into impact investment.

Opening up private capital for public good unleashes the creativity and productivity of the marketplace, allowing for social change to occur at a faster pace and greater scale. By underpinning the sector with robust measurement systems and targeted, useful reporting, the opportunity for investors to realise financial and social returns is further enhanced.

Appendices

Brief Literature Review

The following articles were used to help inform our thinking and are a great basis for anyone looking to delve deeper into impact measurement for impact investment.

Metrics to Evaluate Your Impact Investments

Devex Impact

Judith Rodin, Margot Brandenburg

06/05/14

www.devex.com/news/metrics-to-evaluate-your-impact-investments-83410

This article does a fantastic job of highlighting the key challenges attached to measuring social performance, using the real life case of Agua Natural en Red.

The company clearly has positive social and environmental benefits, but struggles to definitively measure them. The authors put forward a number of practical next-steps for readers in a similar position, such as B-Corp assessment and Impact performance analysis.

> "While it's one thing to count the dollars, another is to put hard numbers on the returns to society of improved health care or the value of a healthy tropical forest.

> "Take water provision — when investing in this essential human and natural resource, would you want to see your returns measured by the number of people served, the volume of water delivered, the lower disease rates resulting from access to clean water, or the improved viability of local rivers and watersheds?"

> "The ability to measure impact investments is among several pieces of scaffolding needed to support the growth of the impact investment sector. In fact, assessment and rating systems are among the most important tools for impact investors."

Measurement for Small and Growing Businesses

Stanford Social Innovation Review

Genevieve Edens & Saurabh Lall [sic]

08/07/14

http://www.ssireview.org/blog/entry/measurement_for_small_and_growing_businesses

In this article, the authors ask for a shift in attitudes and practices for investors looking to assess social performance.

Currently, most impact assessments are used to keep people accountable, when in the future they should be used to make decisions and manage performance. One solution put forward is the idea of a "Social performance-based success fee", designed to ensure that proper social returns are achieved.

> "Most investors pursued measurement so that they were accountable to funders, accountable to themselves, and attractive to potential funders—mainly retrospective in nature. Very few investors spoke about integrating their social metrics with financial and operational measures to actually manage performance and drive decision-making."

> "In traditional private equity, fund managers earn success fees (also called carried interest) by hitting a certain level of return (the hurdle rate). Vox Capital, an early-stage impact investing fund in Brazil, gets the full success fee only when it also reaches a certain level of social impact, measured using B Lab's Global Impact Investing Rating System (GIIRS). If the portfolio does not achieve its minimum social targets, the fund receives only half the success fee; it does not receive any success fee if it does not reach its financial targets."

What's next for impact investing: Definitions, measurement and rising expectations

DevEx Impact

Adva Saldinger

09/07/14

https://www.devex.com/news/what-s-next-for-impact-investing-definitions-measurement-and-rising-expectations-83781

This article looks at the challenges facing impact investing as a whole, identifying that despite growing as a whole, the investor base remains fractured and not well understood.

The authors point out that since there is such a diversity of motives and risk profiles amongst investors, definitions and reporting should change accordingly. The article then discusses the ratings systems created by GIIN, and how they can provide objective, useful metrics that appeal to a broad spectrum of investors.

One problem identified in this report is the lack of credibility attached to impact investing firms, purely because this is such a new, unproven field. The two solutions outlined are track record (comfort in how past investments have performed) and pipeline development (the security in knowing that there will be a diversity of future investments to choose from)

"There is more clarity now about what impact investing is, but one of the greatest challenges remains around how to define and talk about those investments.

"Impact investing is not easily defined, in large part because there are a spectrum of different returns that are acceptable to the variety of investors involved. Some investors, mostly philanthropists, will look to impact investing to provide a sustainable, re-investable flow of capital and be willing to receive no return. On the other hand, other investors may be willing to accept low rates of return in exchange for significant social or environmental benefits and there are also those who expect competitive returns."

Social Good = Scale x Impact (who knew?)

Stanford Social Innovation Review

Matthew Forti & Andrew Youn

http://www.ssireview.org/blog/entry/social_good_scale_x_impact_who_knew

This article highlights the need to focus our assessment of social performance on two different dimensions: Scale (how large the idea/project is and will become) and impact (How transformative and life-changing it can be).

The authors challenge funders to demand to see evidence of both, as either scale or impact alone won't be sufficient to solve the magnitude of problems society faces. This distinction in terminology is very useful for those new to the social impact world.

"We are troubled by the widening gap between how those delivering services (particularly nonprofits) and those evaluating interventions (particularly academics) approach this challenge. Nonprofits often focus on scale while evaluators focus on net impact. We need both, and we need nonprofits and evaluators to adapt their approaches in pursuit of maximum social good."

Impact Investing's Three Measurement Tools

Margot Brandenburg

October 3, 2012

http://www.ssireview.org/blog/entry/impact_investings_three_measurement_tools

This article provides us with some more context on what led to the creation of three prominent measurement tools: IRIS, PULSE and GIIRS. Each of the tools are complimentary to each other, playing a different but pivotal role in deriving meaning from social measurement. A great starting point for understanding the connections and distinctions between the three, and why Rockefeller saw the need to create universally comparable metrics.

"Impact metrics—a catch-all phrase that means many things to many people—will be more important than ever as impact investing continues to grow and mature.

Metrics play a critical role in distinguishing good companies from good marketing, and thus enable management, investors, and other stakeholders to judge performance and inform decisions on the basis of social and environmental impact in addition to profitability.

This is particularly critical for impact investments (as opposed to, say, negatively screened investments) as they are, by definition, designed to generate impact beyond financial return."

"A triumvirate of distinct, but related, needs was identified in relation to metrics in order to build an industry that is defined not only by risk and financial return, but also by social and environmental impact:

- Management information systems for fund managers and other data aggregators, who otherwise often rely on a patchwork of Excel spreadsheets to track impact data on their portfolios;
- Impact ratings (performance standards) for asset managers and owners, who reported lacking the tools needed to assess their pipeline and active portfolios on the basis of non-financial performance;
- Standardized definitions of impact performance measures that serve as building blocks for the above as well as enable benchmarking."

Report on Impact Measurement Highlights Importance of the Story

Vibeke Mair

March 11, 2013

http://www.civilsociety.co.uk/finance/news/content/14659/report_on_impact_measurement_highlights_importance_of_the_story

This article is a good synopsis of the broader report "Measuring social impact in social enterprises", and serves as a good distillation of the key findings. It discusses the changing perception of social impact measurement, and the learnings that are changing how measurement is utilised.

In particular, it focuses on the shift away from SROI types of measurement, citing a decreased demand for "pound value" (or dollar value) for social impact. While this can be useful internally, there is a trend towards measurement systems that can be compared within the same industry.

"The overall conclusion is that much of existing measurement fits within a range of alternatives, many of which are useful, but the choice of which will depend on the needs of the user, rather than driven by funder or commissioner need."

"The report also says there was wide consensus within the groups that the developing social investment market was influencing the impact measurement agenda, as funders needed to prove the impact of their portfolio to their own investors."

A Short Guide to Impact Investing

Case Foundation

Updated September 2014

http://casefoundation.org/impact-investing/short-guide#1286579

Arguably the most useful, comprehensive starter guide to impact investing published to date. This report covers the ideas behind impact investing, the global need, and some critical differences between II, CSR and Venture Philanthropy. It also features a very practical glossary that is useful for cutting through jargon. It gives context around the global push towards impact investing as a concept, not just an asset class, and nicely frames the upcoming challenges facing the industry, such as the need to measure social impact in a way that is genuinely useful.

"Let's make money more effective at creating value, for every shareholder and every stakeholder. Let's make money more fearless in delivering on its disruptive potential. Let's make money more willing to take real risks for real returns.

In our giving, let's give money more purpose, more power, more impact. It's charitable to donate; it's transformative to invest in the future you want for our children's children's children.

If the head has been making investments and the heart giving it away, it's time to unite the head and the heart and make money more."

Measuring Impact: Subject paper of the Impact Measurement Working Group

Social Impact Investment Taskforce

September 2014

http://www.socialimpactinvestment.org/reports/Measuring%20Impact%20WG%20paper%20FINAL.pdf

This report serves as a "State of the Union" for the impact investment/impact measurement community, highlighting the trends, best practices, risks and opportunities that are emerging worldwide. It also features a number of useful tools for the impact community, such as the Impact Value Chain, The Four Phases of Impact Measurement, and Seven Guidelines For Building A Strong Impact Measurement Framework.

"Though these guidelines are for investors, they are equally valuable for investees. They are based on the fundamental principle that impact measurement should help impact organizations manage performance, learn, improve outcomes, and hold themselves accountable to those they aim to serve."

"Those who wish to implement impact measurement today face a variety of challenges. In light of this, the Working Group has identified seven best practice guidelines which impact investors can integrate into investment management at the portfolio level as well as into specific deals, and together with their impact enterprises."

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