INVESTING FOR IMPACT

NAVIGATING IMPACT MEASUREMENT AND MANAGEMENT

HOW TO INTEGRATE IMPACT THROUGHOUT THE INVESTMENT JOURNEY

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Figure 1. EVPA five-step process.

INTRODUCTION

The amount of capital currently available in the impact ecosystem to address global challenges is scarce, as acknowledged by the financing gap to meet the Sustainable Development Goals (SDGs) by 2030. Therefore, investors *for* impact continuously work to capitalise on the resources available for leveraging and changing systems. Understanding performance gaps, impact needs, and the additionality of the impact created is essential to improving the effectiveness of the capital deployed. Investors *for* impact and social purpose organisations (SPOs) need to collect meaningful data and feedback that enable them to enhance such effectiveness.

Impact measurement and management (IMM) helps all the stakeholders involved solve a societal problem to identify what works and what does not, and hence it emerged as a key practice within the impact ecosystem.

Investors *for* impact are pioneers in setting up impact measurement and management processes to constantly maximise their positive impacts and mitigate their negative ones. As part of their extensive non-financial support offer and their highly engaged approach, they also actively support their investees in building and refining their own IMM systems.

As the impact ecosystem grows and other actors join the space, it is important to recognise the central role that impact should play in investors' approaches and strategies. This awareness is fundamental to also address the issues related to impact integrity and impact washing, which risk to become huge given the increasing multitude of players self-identifying as impact investors. Investors *for* impact are instrumental in this process as they led to the development of IMM practices.

As such, EVPA has always considered impact measurement and management as a pivotal practice of investing *for* impact. IMM is included in the Principle 5 of the **EVPA Charter of investors *for* impact**[1], which is a set of principles that define investing *for* impact vis-à-vis other strategies.

Back in 2013, EVPA launched a five-step process for measuring and managing impact (Figure 1) which is presented in the EVPA *"Practical Guide to Measuring and Managing Impact"*. This framework has informed the European Standard for impact measurement and management developed by the European Commission's group of experts on social entrepreneurship *"Groupe d'experts de la Comission sur l'entrepreneuriat social – GECES"*.

This publication focuses on two levels: how to measure and manage the impact of specific investments (level of the SPO) and how the investor *for* impact itself contributes to that impact (level of investor).

Impact measurement and management (IMM) helps all the stakeholders involved solve a societal problem to identify what works and what does not, and hence it emerged as a key practice within the impact ecosystem.

1 For more information, please consult: https://evpa.eu.com/knowledge-centre/publications/charter-of-investors-for-impact

The five-step framework is a circular process that a practitioners should reiterate to constantly improve and refine their IMM system.

Step 1 consists in setting objectives. When defining the investment strategy, investors *for* impact should define their own impact objectives. Then, during the deal screening and, more in-depth during the due diligence and deal structuring phases, investors should set long-term impact objectives together with the SPOs under scrutiny.

Step 2 entails the stakeholder segmentation and analysis, which start during the due diligence and deal structuring phases. The continuous engagement with stakeholders takes place during the investment management phase.

Step 3 is about defining outputs, outcomes, impact, and selecting indicators during the due diligence and deal structuring phases, and monitoring whether the progresses are in line with the objectives during the investment management phase.

Step 4 consists in verifying and valuing the impact that has been generated. This is analysed in-depth during the investment management phase and, in some cases, repeated after the investment has exited, i.e. during the exit follow-up phase.

Step 5 consists in reporting back to the relevant stakeholders and the broader community. During the investment management phase, the reporting takes time at a pre-agreed frequency.

In the following pages we summarise the main elements to be taken into account to measure and manage impact throughout the investment strategy and the investment process, linking each phase to the relevant steps of the EVPA framework. If you want a more in-depth analysis of the five steps of the EVPA framework, please consult the *"Practical Guide to Measuring and Managing Impact"* [2].

Given the relevance of the topic, in the recent years, there has been a proliferation of IMM initiatives, such as principles, standards, frameworks, methodologies, or sets of indicators. Despite the diversity of these initiatives, some common elements are increasingly being accepted as essential practices for measuring and managing impact, such as the use of causal models to assess what outcomes to measure or the need to engage with stakeholders[3].

To clarify how the EVPA five-step process and other IMM initiatives are linked and complement each other, this publication refers to different principles or standards throughout the investment journey. In Figure 2 we list these initiatives and how they are referenced in this publication.

NAME OF INITIATIVE	REFERRED AS
Dimensions of impact of the Impact Management Project[4]	Dimension of impact
Operating Principles for Impact Management[5]	Impact Principle
Principles of Social Value[6]	SVI Principle
SDG Impact Standards[7]	SDG Impact Standards

Figure 2. IMM initiatives referenced

2 **Hehenberger, L., Harling, A-M.,** and **Scholten, P.,** (2015), "*A Practical Guide to Measuring and Managing Impact – Second Edition*", EVPA.

3 **OECD,** (2021), *"Social impact measurement for the Social and Solidarity Economy: OECD Global Action Promoting Social & Solidarity Economy Ecosystems"*, OECD Local Economic and Employment Development (LEED) Papers, No. 2021/05, OECD Publishing, Paris,

4 For more information, please consult: https://impactmanagementproject.com/

5 For more information, please consult: https://www.impactprinciples.org/9-principles and https://www.impactprinciples.org/signatories-reporting.

6 For more information, please consult: https://www.socialvalueint.org/principles and https://www.socialvalueint.org/standards-and-guidance . For better understanding how the principles of social value relate to the EVPA five-step process, please consult: https://evpa.eu.com/knowledge-centre/publications/impact-management-principles

7 Depending on their nature, investors *for* impact can use the SDG Impact Standards for Private Equity, for Bonds or for Sustainable Development (i.e. for donors and DFIs). In order to strengthen the IMM systems of their investees, they can also share with them the SDG Impact Standards for Enterprises. For more information, please consult: https://sdgimpact.undp.org/practice-standards.html

This report aims to harmonise the work done by several leading organisations in the field of IMM by clarifying how these initiatives are connected and complement each other from a practitioner's perspective.

It is important to highlight that this report does not suggest a new approach for measuring and managing impact, nor does it present a detailed mapping of all the different principles, standards and dimensions of the IMM initiatives introduced above. On the contrary, it aims to harmonise the work done by several leading organisations in the field of IMM by clarifying how these initiatives are connected and complement each other from a practitioner's perspective. Each principle, dimension or standard is mentioned where it is most relevant for practitioners throughout the investment journey, but this does not mean they are not applicable during other stages as well. This approach demonstrates that investors should not choose which initiative to follow but rather know which initiative is relevant for each phase of the investment journey.

This report is part of the research project *"Navigating Impact Measurement and Management[8]"*, which encompasses different publications that are complementary with each other. In this report, we go through the main considerations related to IMM that investors *for* impact have to take into account while defining their investment strategy and throughout the investment process. Parallel to this report, we have produced the short publication *"Navigating impact measurement and management – mapping of IMM initiatives"*, which overviews a series of frameworks, principles, standards and methodologies, as well as the mapping exercises available in the ecosystem.

The *"Navigating impact measurement and management"* research project also includes the series of articles *"Navigating impact measurement and management – Reflecting on burning topics"*. The series will include reflections and the positioning of investing *for* impact on issues that require an in-depth discussion to set up IMM strategies – which are therefore less developed in this publication. The burning topics identified are[9]:

- Dealing with subjectivity for measuring and managing impact
- Using standardised versus customised indicators
- Assessing attribution, investor contribution and additionality
- Monetising impact
- Guaranteeing transparency
- Assuring impact
- Engaging with stakeholders for being accountable
- Embedding the SDGs in IMM practices

Finally, we will also publish a series of practical cases that will showcase how investors for impact implement their IMM strategies in practice, throughout the different phases of the investment journey[10].

8 To access the different materials that are part of this research project, please consult: https://evpa.eu.com/knowledge-centre/publications/navigating-impact-measurement-and-management

9 More information about the series on burning topics can be found here: https://evpa.eu.com/knowledge-centre/publications/navigating-impact-measurement-and-management

10 More information about the series of practical cases can be found here: https://evpa.eu.com/knowledge-centre/publications/navigating-impact-measurement-and-management

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List of practitioners

ORGANISATION	NAME
Amundi	Mathieu Azzouz and Anne-Charlotte Ducos
Bayer Foundation	Stefan Wilhelm
BNP Paribas Group CSR	Maha Keramane and Maria Ruiz Megarejo
Bridges Fund Management	Cristina Spiller and Violet Nicholson
Creas	Lara Viada
Erste Group Bank AG – Social Banking Development	Johann Heep
Ferd Social Entrepreneurs	Henriette Skretteberg
Fondazione Generali - The Human Safety Net ONLUS	Fracesca Vezzini (former)
IKARE Ltd.	Anne Holm Rannaleet
Impact Ventures	Gergely Iváncsics
Inuit Foundation	Angelica Rodriguez-Lopez Domingo
Investisseurs & Partenaires	Samuel Monteiro
Karuna Foundation	Annet van den Hoek
Laudes Foundation	Savi Mull
LGT Venture Philanthropy	Tom Kagerer
Open Value Foundation	Maria Angeles León López and María Cruz-Conde
Raise Impact	Benoit Escher
Rethink Ireland	Martina von Richter
Shaping Impact Group	Pieter Oostlander
Swiss Agency for Development and Cooperation (SDC)	Peter Beez
Tilia Impact Ventures	Magdalena Radová
Trafigura Foundation	Céline Yvon
UniCredit	Neve Mazzoleni and Daniela Grassi

11 For more information, please consult: https://www.esade.edu/en/faculty-and-research/research/knowledge-units/center-social-impact/research/community-practice

List of experts

ORGANISATION	NAME
Bluemark – Tideline	Christina Leijonhufvud and Charley Clarke
Center for the Advancement of Social Entrepreneurship (CASE)	Cathy Clark
Engaged Investment (engagedX)	Karl H. Richter
ESADE Business School	Leonora Buckland, Lisa Hehenberger, and Patricia Saez (former)
European Investment Fund (EIF)	Cyril Gouiffes, Silvia Manca, and Paola Baldomero de Zazo
Global Impact Investing Network (GIIN)	Rachel Bass, Lissa Glasgo, Grace Earle and Leticia Emme (former)
IMP+ACT Alliance	Claudia Coppenolle
Impact Management Project (IMP)	Jo Fackler
Latimpacto	Alan Wagenberg
OECD	Antonella Noya, Irene Basile, Karen Wilson and Priscilla Boiardi
Operating Principles for Impact Management	Diane Carol Damskey
Phineo gAG	Stephanie Petrick
Skoll Centre for Social Entrepreneurship	Jess Daggers
Social Value International (SVI)	Adam Richards, Jeremy Nicholls and Ben Carpenter
SoPact	Unmesh Sheth
UNDP SDG Impact	Belissa Rojas

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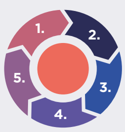
LEGEND

STEP EVPA steps covered in the chapter



What problem(s) are you addressing?

What are your impact objectives?

1 INVESTMENT STRATEGY

What factors influence the way you measure and manage impact?

How do you manage the two levels of impact, i.e. the direct impact on investees supported and the indirect impact on people and the planet?

Do you have your own Theory of Change?

How do you use it in practice?

1. INVESTMENT STRATEGY

Step 1 of the EVPA framework is about setting objectives. Investors define their impact objectives while designing the investment strategy. Along with the strategy for measuring and managing the impact, the investor's objectives are displayed in its Theory of Change[12] – or a similar document with the same function[13].

The **Impact Principle 1** *"Define strategic impact objective(s) consistent with the investment strategy"* overlaps with this step and emphasises the importance of linking the impact objectives with the investment strategy. In line with the Impact Principles, **the SDG Impact Standards on strategy** provide a set of actions and practice indicators as guidance for practitioners who seek to ensure their strategy embeds impact considerations. This includes the definition of impact objectives and the development of an impact thesis.

At this stage, investors *for* impact decide how to use the SDGs. In some cases, they align their impact objectives with the SDGs or even assess how they will contribute to each SDG. In other cases, the SDGs can also serve as a starting point to define the sectors to target.

Prior to setting the impact objectives and defining the Theory of Change, investors *for* impact should carry out an in-depth analysis of the factors that will have an influence on their IMM practices. Investors should also decide how they will manage the two levels of impact, i.e. their (direct) impact on investees but also their (indirect) impact on society.

12 A theory of change defines all building blocks required to bring about a given long-term goal. This set of connected building blocks is depicted on a map known as a pathway of change or change framework, which is a graphic representation of the change process.

13 For more information on the EVPA framework, please consult: https://evpa.eu.com/knowledge-centre/publications/measuring-and-managing-impact-a-practical-guide
For more information on the investment strategy, please consult: https://evpa.eu.com/knowledge-centre/publications/investing-for-impact-toolkit

1.1. Elements that influence IMM practices

Some of the elements of the investment strategy of an organisation investing *for* impact[14] have an important influence on how impact is measured and managed. The list below includes the most relevant elements to be considered:

- **Financial support provided.** The type of financial instruments deployed, as well as the time horizon of the investment and the ticket sizes have an influence on the IMM strategy. The thoroughness required and the resources deployed for measuring and managing impact should be balanced against the type of financial support provided.

- **Non-financial support provided.** IMM is one of the three areas of development of a social purpose organisation (SPO)[15] that investors can strengthen through non-financial support[16].

  An increasing percentage of investors provide non-financial support to strengthen the IMM framework and practices of the SPOs, as shown in the EVPA Industry Survey in the past decade – see Figure 3.

Understanding the role and the IMM expectations of the other investors is a crucial preliminary step.

- **Role played towards the investee.** When there is more than one investor supporting the same social enterprise, additional elements must be considered according to each investor's role. Understanding the role and the IMM expectations of the other investors is a crucial preliminary step.

  Impact funds acting as majority stakeholders are in a better position to influence data-driven decision-making. However, some impact funds operate as minority stakeholders. In this case, they may focus on guaranteeing the priority of impact in the investees' business model, and on helping investees work out their IMM strategies.

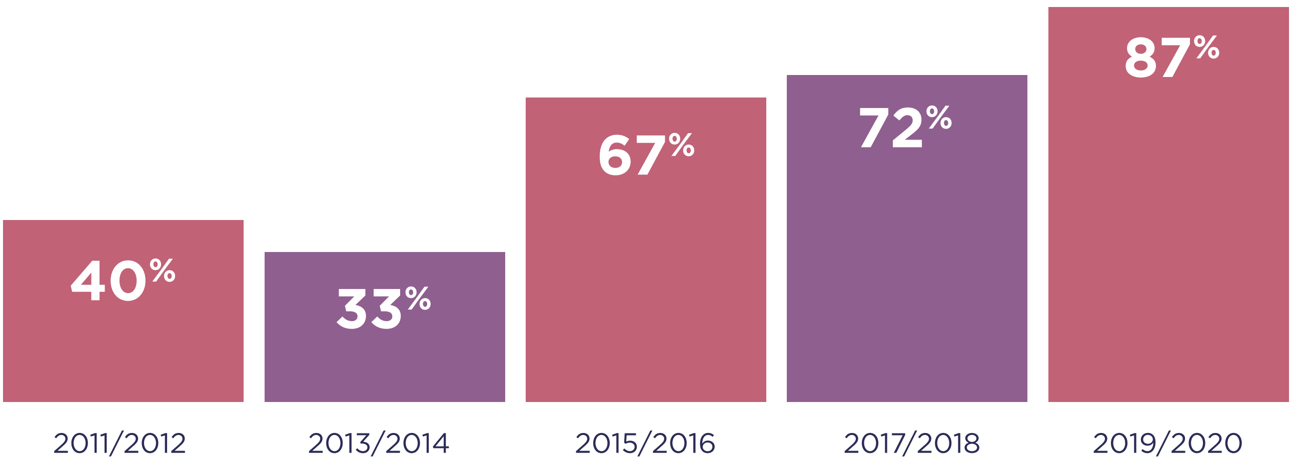


Figure 3. Percentage of investors that provide non-financial support on impact measurement and management. Source: EVPA Industry Survey.

14 Although the same organisation may adopt different investment approaches (e.g. investing *with* impact, SRI), for sake of simplicity in this report we use the term "investors *for* impact", and sometimes just "investors", to refer to all organisations that adopt an investing *for* impact strategy.

15 Social purpose organisations (SPOs) are organisations that operate with the primary aim of achieving measurable social and environmental impact, and can be revenue generating or not. SPOs can include charities, non-profit organisations and social enterprises. Throughout this publication, we use the terms social enterprise, investee and grantee as synonyms of SPO to avoid repetitions.

16 **Boiardi, P.,** and **Hehenberger, L.,** (2015), "A Practical Guide to Adding Value Through Non-Financial Support". EVPA.

Similarly, some engaged grant-makers may support organisations that are also financed by large donors, such as Development Finance Institutions (DFIs) that provide a larger amount of financial support. In these cases, the main added value of such engaged grant-makers lies in their support to structure the IMM system of the grantees.

Investors *for* impact also take a proactive role in aligning the IMM requests coming from the pool of investors, to avoid overburdening the investee with excessive demands, as it is further discussed in the chapter 3 on due diligence and deal structuring.

- **Governance and resources.** The governance structure and the resulting resources allocated to measure and manage impact influence the intensity of IMM that can be expected.

  Following the practice indicators of the **SDG Impact Standards on governance** can help investors set up a proper governance structure to ensure impact management practices are embedded in organisational decision-making. The standards suggest integrating key elements of the IMM strategy into the governance framework, and ensuring that the governing body is involved and has the right competences on IMM.

  Some organisations have a team specifically focused on IMM, which is regularly aligning with the investment team to assess, for example, potential investments or the performance of ongoing investments. For others, the investment managers are also in charge of measuring and monitoring the impact. Collaborative initiatives such as **Impact Frontiers**[17]**,** which features different investors along the spectrum of capital, are fostering integration of impact alongside financial risk and return considerations. This shows how investment and impact teams can collaborate in practice.

  In some cases, investors *for* impact outsource a part of the IMM process or do it in collaboration with academic partners. For example, **Karuna Foundation** has outsourced a part of its IMM process, partnering with the **UBS Optimus Foundation** to conduct an impact study that will compare the baseline with the outputs and outcomes measured.[18]

  The resources available for investors *for* impact are determined by the nature of their funders, which might also drive the demand for impact measurement and management. Organisations investing *for* impact solely funded by private investors might have different reporting requirements than those funded, for example, by the public sector, a corporation or other investors *for* impact. For instance, European impact funds that are financially supported by the **European Investment Fund (EIF)** implement their **Impact Performance methodology**[19]**.** Through this methodology, fund managers and investee companies identify impact indicators, assign an impact target value for each indicator and, during the investment, calculate the impact multiple, which compares the impact target value with the realised value.

  Implementing such methodology ultimately leads to tying the carried interest distribution not only to the financial performance but also to the achievement of impact targets. The EIF methodology is not a mere reporting tool, but rather a management tool, which ensures alignment of interest between the fund managers (general partners - GPs) and the funders (limited partners - LPs).

  The **Impact Principle 2** *"Manage strategic impact on a portfolio basis"* also refers to setting up proper governance, and suggests "aligning staff incentive systems with the achievement of impact, as well as with financial performance". Impact incentives are a way to incentivise the organisation to achieve the targeted outcomes. They help align impact objectives and focus the performance towards achieving measurable outcomes[20]. In some cases, a carried interest might be paid to fund managers if certain impact (and financial) objectives are met. Other types of incentive schemes linked to impact performance are pay-for-performance and stock options.

- **Ecosystem.** Understanding the development of the market where the investor *for* impact operates is essential for defining its role and its IMM strategy. The local impact ecosystem influences not only the legal context but also the relationship with other investors, or the needs of the investees in terms of non-financial support related to IMM.

17 For more information, please consult: https://impactfrontiers.org/

18 For more information, please consult: https://www.karunafoundation.nl/en/

19 For more information, please consult: https://www.eif.org/what_we_do/equity/sia/index.htm

20 **Patton, A.,** "Incentives for driving impact in deal and fund structures", *in ImpactAlpha,* June 2020.

The other elements of the investment strategy that also influence the IMM strategy of investors *for* impact are the investment focus (sectors and geographies of interest), the type(s) of SPOs supported and their stage of development, the co-investment policy or the exit strategy.

1.2. The two levels of impact

The EVPA five-step process is focused on how investors measure and manage impact on two levels: the investee level, which is about the impact of specific investments on people and the planet, and the investor level which is about how the investor *for* impact contributes to that impact by strengthening the SPO. This publication refers to how investors manage these two levels across the different steps of the EVPA framework.

A report from the Center for Sustainable Finance & Private Wealth (CSP) of the University of Zurich defines these two levels as *"company impact"* (i.e. the change in the world caused by company activities) and *"investor impact"* (i.e. the change in company impact caused by investment activities). This report clarifies that *investor impact* is about the change the investor generates, which positively affects the investee[21].

Defining the IMM strategy implies understanding, ex-ante, how the two levels of impact will be managed and what resources should be used.

The relevance of tackling the investor level is also emphasised by the **Impact Principle 3** *"Establish the Manager's contribution to the achievement of impact"*. Measuring impact at the investor level, thus understanding its contribution, is crucial for investors *for* impact as they aspire to finance social entrepreneurs but also to create additional impact and to leave stronger organisations after they exit the investment.

> *We consider two levels: We allocate part of our time to work with SPOs on maximising their impact, and we also manage the impact of the resources that we, as investors in the grant-making space, are making by investing our resources.*
>
> **Francesca Vezzini,**
> The Human Safety Network
> (Fondazione Generali)

21 **Heeb., F.** and **Kölbel, J.,** (2020), *"The Investor's Guide to Impact. Evidence-based advice for investors who want to change the world".* University of Zurich Center for Sustainable Finance & Private Wealth, EIT Climate-KIC, FC4S.

While setting up an investment strategy, investors *for* impact seek to generate additional impact towards social purpose organisations, helping them achieve an impact that would not have been achieved without the investor's contribution. Some key outcomes for measuring the impact at the investor level are:

- **The financial solidity.** This includes whether the financial support and the non-financial support have enabled investees to strengthen their business model and financial soundness. It also comprises whether the investees are better off in terms of budget and diversification of income streams. For example, foundations providing grants to organisations striving for sustainable business model once the grant is over, can assess whether the grantee is ready for repayable funding sources.

- **The impact management practice.** Fostering a better IMM system is part of the capacity building activities investors *for* impact carry out to support their investees in evaluating their impact. After years of experience in the field, it is widely acknowledged that a thorough IMM system drives higher impact performances by the investees.

- **Organisational resilience.** The improvement of the governance systems of the investee and the staff expertise and resources are also part of the non-financial support offered by the investor for impact; and **SDG Impact Standards for Enterprises on governance** could help in this respect. Investees adopting the standards would signal commitment to embedding impact considerations and the SDGs into decision-making.

- **Strengthening underserved SPOs.** Understanding the investors' additionality also entails understanding if the investees would have been funded by other investors anyway. Investors *for* impact are willing to support risky SPOs in their early stages of development, sometimes helping them build evidence or even the proof of concept, and growing SPOs that would be otherwise underfunded.

- **Catalytic role.** Checking how many investors the investees are able to attract during the investment management phase and/or when they exit an investment can help investors *for* impact understand the catalytic role they played in mobilising additional capital for impact.

The process of measuring and managing impact at the investee level is explained across the chapters on deal screening, due diligence and deal structuring, and investment management.

Investing for impact encompasses a third level, which relates to the investor's contribution to the development of the impact ecosystem at large, as well as to systemic change.

1.2.1. A third level of impact

It is important to go a step further: in addition to the two levels of impact, investing *for* impact encompasses a third level, which relates to the investor's contribution to the development of the impact ecosystem at large, as well as to systemic change. Since this third level does not have a direct impact on the final beneficiaries or on the organisations in the portfolio, its measurement and management is more complex. Although there are some outputs to capture this third level, there are no tangible methodologies to measure and manage it. However, it is particularly relevant for investors *for* impact: in some cases it is included in their Theory of Change and they might even deploy resources (e.g. personnel) to pursue and track this third level of impact.

Three main dimensions constitute this third level:

1) **"Raising the bar" attitude.** Investors *for* impact are very well positioned to demonstrate the enormous potential of their investment approach aimed at maximising impact, by sharing methodologies, knowledge and best practices. Educating relevant stakeholders about the benefits of the investing *for* impact strategy is one of the reasons for improving investors' transparency (see part 4.3).

2) **Developing a thriving local impact ecosystem.** In countries where the impact market is less mature, investors *for* impact give importance to building an ecosystem to strengthen both the supply and the demand side. This is especially important for organisations pioneering investing *for* impact in their country or region.

   Some examples of fostering the local ecosystem include (i) engaging with more traditional investors and educating them on embedding impact considerations e.g. through co-investments; (ii) raising awareness about investing *for* impact within mainstream impact investing e.g. by organising webinars or appearing in media; (iii) positioning the impact sector e.g. by forming alliances with peers and/or advocating for it with policy makers; and (iv) engaging with the public sector, e.g. by developing hybrid financial mechanisms.

3) **Integrating a system change lens.** Investors *for* impact that incorporate a system change lens go beyond measuring the impact of concrete investments and strive for an understanding of what the changes and challenges happening in the systems where they operate are. Incorporating a system change lens entails understanding the root causes of a societal problem, embracing complexity, non-linear thinking and interconnections. This approach requires bringing together relevant partners to challenge the way the societal issue is tackled and defining where to intervene.

   The Theory of Change of **Laudes Foundation** integrates such a systemic view, and helps the organisation to not only have a framework for measuring and managing impact but also in deciding where to intervene with its grantees[22]. **Rethink Ireland** also incorporates a system change lens in its Theory of Change, by including the activities of the foundation as well as the actions of other stakeholders that will drive long-term system change[23].

   RAISE Impact also integrates a systemic view during the screening and selection process of investees. The impact fund looks whether the companies are "UIS", i.e. addressing an Urgent and Important issue with a Systemic approach. This entails, for example, being able to deeply and widely change a consumption or a production habit.

22 For more information, please consult: https://www.laudesfoundation.org/how-we-work

23 For more information, please consult: https://rethinkireland.ie/

1.3. Theory of change of the investor *for* impact

A Theory of Change (ToC) helps investors articulate how and why they expect to achieve change through their activities to solve a particular social problem. A clearly articulated ToC also helps choose investments in SPOs that can contribute to solving the social issue that the investor *for* impact is addressing. The Theory of Change of investors *for* impact can include their (direct) impact on investees but also their (indirect) impact on society. In some cases, investors *for* impact even integrate the systemic lens into their ToC, as explained in the previous chapter.

To define the ToC, an investor *for* impact needs to determine (i) the overarching social problem or issue that it aims to alleviate, (ii) the specific objective it wants to achieve; and (iii) the expected outcomes. These elements should emerge from stakeholder analysis, sectorial knowledge, and materiality assessment, as explained further in the following pages.

Setting up a ToC for an investor is very complex, as linking its activities to the impact achieved through the investees requires more hypothesis and assumptions. If the investor wants to include its (indirect) impact on society in the ToC, it needs to acquire more evidence and build more knowledge to refine the hypothesis and challenge the assumptions made.

To deal with such complexity, investors *for* impact take time to engage with stakeholders, such as universities or experts from the field, like potential investees, civil society organisations, and intended beneficiaries. This process is crucial to build knowledge about the societal problem in order to prioritise the main areas of action and identify expected and unintended outcomes.

A challenge related to the Theory of Change is making it operative and embedded in the activities of the investor. Operationalising the ToC takes time, as it needs to be well communicated and validated with the stakeholders. A recommendation is to start from a **simple ToC for structuring the impact value chain**[24], and then change it over time.

For example, **Ferd Social Entrepreneurs'** expected impact is having "a more inclusive society", and their ToC is structured following the impact value chain, showing the outputs and (short-term and long-term) outcomes of the activities that will drive such impact[25].

Some investors *for* impact do not have a formalised ToC but a document that has the same function, such as an impact thesis or a *raison d'être*.

For bigger organisations investing *for* impact that manage different programmes or streams of activities in diverse sectors, an additional challenge is to decide the degree of specificity at which the ToC is defined. For instance, some foundations have Theories of Change for each programme, which can include the technical knowledge about a societal problem the programme is addressing. However, it is essential to have some high-level principles that integrate the vision of the whole investor *for* impact to coordinate actions and not to lose the focus on the ultimate goal of the organisation.

Elaborating the Theory of Change should not be a linear process. After working on a societal issue, investors (and investees) should have a better understanding of the problem and modify their contribution accordingly, which might imply refining their own Theories of Change. Monitoring and challenging the initial assumptions is a crucial part of the iteration process. Similarly, with time – and thanks to the engagement with stakeholders – a Theory of Change should evolve towards being an actual picture of the effects and activities carried out, including positive and negative, intended and unintended outcomes.

> *The ToC is what we would like to achieve, but there is also clarity on the causal chain and how we want to achieve this with our partners.*
>
> **Savi Mull,**
> Laudes Foundation

24 The impact value chain represents how an organisation achieves its impact by linking the organisation to its activities and inputs, and then the activities to outputs, outcomes and impacts.

25 For more information, please consult: https://ferd.no/en/sosiale-entreprenorer/hvem-er-vi/

ACTIVITY	OUTPUT	OUTCON
We have a large base of companies to choose from and invest in the companies with the greatest potential	We get access to the right companies	Optimal po with c
We give tailored financing adapted to the company's needs	The companies get access to the right capital	The compa organisatio compa
We add expertise in impact management and ensure the establishment of a measurement system	The companies get access to resources, "hours" and tools	The compan and maximi
We add expertise and assist companies in business-critical areas	The companies get access to resources, "hours" and tools	The compan system
We connect with a relevant and business-critical network	Connects and establishes collaboration	Insight, ir opportuniti corpor
We build the market and strengthen the ecosystem for social entrepreneurs	More people understand social entrepreneurship and social investment	More peopl and colla ent

Figure 4. Theory of Change of Ferd Social Entrepreneurs

ME SHORT TERM

rtfolio composition
ross-synergies

anies invest in their
on and prepare their
any for growth

ies manage, increase
ze their social effect

ies establish routines,
ns and methods

ncreased business
es and strengthened
ate governance

e invest in, buy from
borate with social
trepreneurs

OUTCOME LONG TERM

Many financially and organisationally sustainable social entrepreneurs who scale social impact in Norway

IMPACT

A more inclusive society

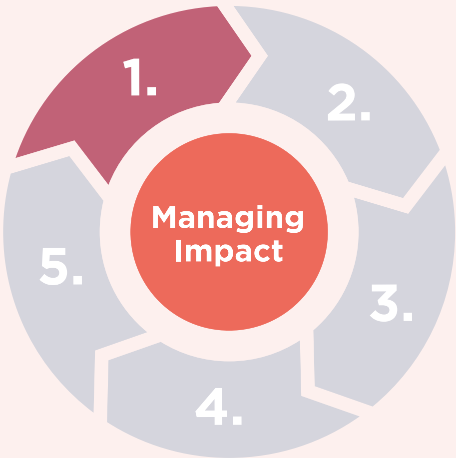
2 INVESTMENT PROCESS:

DEAL SCREENING

How do you embed your impact objectives in your selection criteria?

How do you assess not only the current impact of the screened SPOs, but also their impact potential, additionality and likelihood of scalability?

2. INVESTMENT PROCESS: **DEAL SCREENING**



The SDG Impact Standards on management approach include key actions and practice indicators to guarantee that the investor's practices throughout the whole investment process, from pre-screening phase to exit, are aligned with its impact objectives and Theory of Change.

Such alignment starts taking place during the deal screening phase. The impact objectives set when defining the investment strategy will guide the investor *for* impact, narrowing down the type of investees that will be of interest.

The elements that should be assessed at this stage are (i) the social problem the SPO is trying to solve, (ii) the activities the SPO is undertaking to solve the social problem or issue, (iii) the resources or inputs needed to undertake these activities, and (iv) the expected outcomes[26].

26 For more information on the EVPA framework, please consult: https://evpa.eu.com/knowledge-centre/publications/measuring-and-managing-impact-a-practical-guide
For more information on the deal screening phase, please consult: https://evpa.eu.com/knowledge-centre/publications/investing-for-impact-toolkit

2.1. Embedding impact objectives in the deal screening

In the deal screening phase, an important element of the strategy to consider is whether the investor *for* impact has a sector-specific or sector-agnostic approach. Investors with a sector-agnostic approach will look primarily at the overall impact potential of the SPO; whereas, if the areas of focus are determined, investors *for* impact need to align on both, impact potential and focus of operations. Investors with a sector-specific approach can use the **IRIS+ Impact Frameworks**, which include a section with answers to key questions about the impact objective, along with core metrics sets that can be helpful when assessing potential investments[27]. The broader the impact objectives are in terms of investment focus, the more likely they are to be aligned with those of potential investees. At the same time, the more specific the sector of interest, the easier it is to leverage pre-existing knowledge and experience when screening potential deals.

“

We are often surprised how few potential investees are planning and communicating their potential future impact, not to mention the lack of assessment of their current impact.

Johann Heep,
ERSTE Social Banking

It is important that investors *for* impact analyse not only the current impact and performance, but also – and, sometimes, more importantly – the potential of the solution (and, if applicable, its contribution to the SDGs), the additionality of the impact[28], the market potential and the scalability of the SPO. Some organisations balance these features into a scoring system that enables better decision-making.

Investors *for* impact analyse not only the current impact, but also the potential of the solution and its additionality.

For example, **Tilia Impact Ventures** developed a deal scoring table that assesses investment score and level of risk across five features: (i) level of impact, (ii) team credibility, (iii) market potential, (iv) project stage, and (v) additionality of the funding[29]. **Bayer Foundation** has a scoring system with 6 to 8 principles that encompass the selection criteria, and scores each organisation on each principle with a score from 1 to 5. If the organisation is above a pre-determined threshold, they bring it to the next stage[30]. **Bridges Fund Management** scores the five dimensions of impact suggested by the IMP on a 1 to 5 scale and combines them in a unique impact score. Based on performance data across the five dimensions, Bridges can ultimately classify an investment's impact into one of four broad categories: Causes or may cause harm, Avoids harm, Benefits stakeholders and Contributes to solutions[31]. Finally, **SI2 Fund** sets a target based on SROI[32], assessing whether the organisation could reach an SROI score of 2 or above[33].

27 For more information, please consult: https://iris.thegiin.org/

28 Additionality means that an intervention will lead, or has led, to effects which would not have occurred without it. Source: **Winckler Andersen, O., Hansen, H.** and **Rand, J.** (2021) *"Evaluating financial and development additionality in blended finance operations"*, OECD Development Co-operation Working Papers.

29 For more information, please consult: https://tiliaimpactventures.cz/en/

30 For more information, please consult: https://www.bayer-foundation.com/

31 For more information, please consult: https://www.bridgesfundmanagement.com/

32 For more information on SROI, please consult: https://www.socialvalueint.org/guide-to-sroi

33 For more information, please consult: https://www.si2fund.com/

Do you help your investees set up their own Theory of Change?

How do you identify and segment stakeholders and integrate their voice in the development of the solution?

3 INVESTMENT PROCESS:

DUE DILIGENCE AND DEAL STRUCTURING

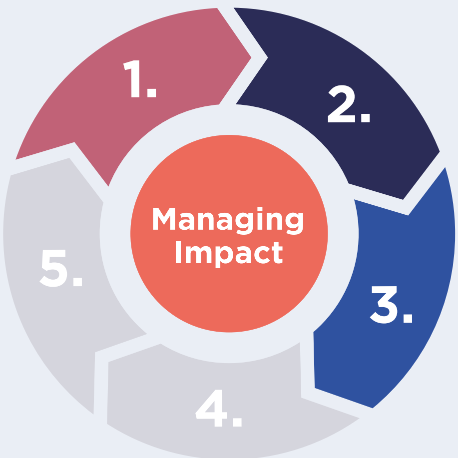
How do you identify the main outcomes to measure? And how do you develop indicators that will enable well-informed decision-making?

Do you consider any risk associated with: not achieving the impact you expect / achieving a negative and / or unintended impact?

Do you also assess the impact risk at the investor level?

3. INVESTMENT PROCESS: **DUE DILIGENCE AND DEAL STRUCTURING**

The due diligence and deal structuring phases are not linear, and they can vary according to the needs of the investees. For example, some investees may need to develop the impact thesis, others have a clear impact objective but need to articulate the impact value chain, and others may need to start from scratch to develop a Theory of Change (Step 1 of the EVPA framework).



Before starting the investment, investors *for* impact support their investees in developing their Theory of Change and work together to define the outputs, outcomes and impact targeted. The outcomes defined emerge from the stakeholder analysis (i.e. **Step 2** of the EVPA framework), through which investors and investees identify, assess, segment and select the most relevant stakeholders and the outcomes most significant to them.

During the due diligence phase, investors for impact should identify, together with the SPOs, what are the main impact risks emerging from their activities. At a later stage, they should assess what are the risk mitigation strategies they should put in place. Investors should also assess risk at the investor level, i.e. the risk of having a negative impact towards the SPO.

Once the relevant outcomes for stakeholders are identified and the impact risks have been assessed, investors and investees should select what indicators will capture the progress towards the impact targeted. The identification of indicators is included in **Step 3** of the EVPA framework[34].

These elements are embedded within the **Impact Principle 4** *"Assess the expected impact of each investment, based on a systematic approach".*

34 For more information on the EVPA framework, please consult: https://evpa.eu.com/knowledge-centre/publications/measuring-and-managing-impact-a-practical-guide
For more information on the due diligence and deal structuring phases, please consult: https://evpa.eu.com/knowledge-centre/publications/investing-for-impact-toolkit

3.1. Theory of change of the investee

The Theory of Change of the investee should clearly identify the impact objectives, the actions required to achieve the impact and the main key performance indicators (KPIs) to capture the progress towards the intended outcomes. The **SVI Principle 2 *"Understand what changes"*** helps establish a link between activities, outputs and outcomes to be measured.

Investors *for* impact take a proactive role in helping SPOs elaborate their Theory of Change, which represents the starting point to set up a thorough IMM system. However, especially if targeting organisations in their early stage of development, investors *for* impact try not to overburden the investees requiring an excessively elaborated Theory of Change. Instead, they may start defining clear objectives, selecting the main outcomes to focus on and developing two or three impact indicators to measure. As mentioned in part 1.3, developing the Theory of Change is not a linear process and over time it should better grasp the actual (intended and unintended) outcomes of the activities.

Even a simple Theory of Change should clarify what are the links between the activities, the outcomes and the objectives targeted, and should be able to answer (i) if-so-because, (ii) in the presence of, and (iii) why it might not succeed to each hypothesis included in the impact value chain.

At this stage investors can share some resources with investees to help them structure and operationalise their Theory of Change. The guide developed by **Social Value UK** and others, *"Maximise your impact – a guide for social entrepreneurs"*, for example, helps social entrepreneurs develop a problem tree, turn it into an objective tree and develop the Theory of Change. This guide can also be used during other phases of the investment process, as it also helps plan the operations and collect and analyse data[35].

3.2. Stakeholders' segmentation and assessment

Analysing stakeholders already in the investment decision process is a crucial practice, as stated in **Step 2 of the EVPA framework** and in **SVI Principle 1, *"Involve stakeholders"*.** For this reason, during the due diligence phase, investors *for* impact and investees work together to identify the most relevant segments of stakeholders and intended beneficiaries, and to understand what the most relevant outcomes for each segment are.

To assess the impact at the investor level, the obvious stakeholder is the SPO itself. During the due diligence and deal structuring phases, investors engage with SPOs to understand their main needs and characteristics. This allows investors *for* impact to tailor their financial and non-financial support to investees' needs. Investors *for* impact also make sure they communicate in a comprehensive way their approach to potential investees, managing their expectations and agreeing on the duties of each party from the beginning.

Stakeholder segmentation and assessment at the investee level might be developed through insights gained from engagement with stakeholders, desk research, workshops or questionnaires. This process should be embedded within the development of the SPO's Theory of Change, impact thesis, or impact value chain and, as such, it should be repeated over time. The types of stakeholders identified might include the public sector, relevant organisations with expertise in the sector of intervention, potential competitors, or delivering stakeholders (i.e. those implementing or supplying the products or services delivered by the SPO, such as social workers, doctors, or teachers). However, the most relevant stakeholders to be analysed are the people experiencing the impact, i.e. the final beneficiaries.

The **'*Who*' dimension of the five dimensions of impact** helps investors and investees to work on such analysis, as it allows practitioners to understand the types of stakeholders experiencing the impact, their characteristics and geographical location, and how underserved they are in relation to the outcome experienced.

35 **Social Value UK**, (2017), *"Maximise your impact: a guide for social entrepreneurs"*. Estonian Social Enterprise Network, Koç University Social Impact Forum, Mikado Sustainable Development Consulting.

The two most frequent types of end beneficiaries are employees and clients[36]. If they are workers of the SPO, they should be empowered to unlock their full potential and capacities, as well as to influence decision-making. If intended beneficiaries are the buyers of a product, it is advisable that the SPO builds a market-oriented client relationship rather than a paternalistic beneficiary relationship. This implies ensuring they are able and willing to pay for the product offered.

Investors *for* impact help identify and assess subsegments of beneficiaries because it can help investees refine the business model and better tailor products and services. This is the case of **SI2 Fund** and **Justice42[37],** a social enterprise active in dispute resolution, which started with divorces. While analysing intended beneficiaries, i.e. divorcing couples, SI2 Fund and Justice42 realised differences that allowed them to create subsegments based on the value they placed on different outcomes and tailor their services. This allowed Justice42 to diversify its offer, thus growing both impact and revenues. This example helped SI2 Fund demonstrate that better IMM practices lead to better impact and financial results.

As described in **Nesta**'s article *"What do we mean when we say we are looking for investments with impact?"[38],* some business models have a direct link with the intended beneficiaries (e.g. the clients or receptors of the product or service delivered), whereas others need to rely on delivering stakeholders to implement their products or services. These organisations need to establish a set of assumptions as the intended beneficiaries indirectly benefit from the product or service developed. The longer the chain of assumptions is, the harder it will be to provide evidence of the impact of the solution.

Finally, in the process of analysing stakeholders, investors *for* impact with a sector-specific focus have an advantage as they have built the technical knowledge on the sector, whereas for sector-agnostic investors this process might be more challenging and time-consuming. Another key factor is the existing knowledge of the SPO about the stakeholders and the communities they are engaging with. Community-based initiatives might have a long-standing expertise in engaging with the beneficiaries and with other key stakeholders.

3.2.1. Determining relevant outcomes

The analysis of what to measure, which precedes the selection of indicators, comes hand in hand with the stakeholder analysis as it consists of understanding what are the most relevant outcomes for the stakeholders.

In line with **principle 2** of the **EVPA Charter of investors *for* impact**[39], end beneficiaries should be placed at the centre of the solution and should be considered as true agents of change. Intended beneficiaries should be involved in the creation of the solution, so that the outcomes measured will also result from their perspective. The **'*What'* dimension of impact** is used to assess the outcome occurring in the investment process, whether the outcome is positive or negative, and how important it is to the stakeholders experiencing that outcome. It also looks at the SDG or global goal that the outcome may relate to.

The assessment of outcomes should be based on the factors that are relevant, significant and material to include in a true account of the organisation's impact (i.e. a materiality assessment). The **SVI Principle 4 *"Only include what is material"*** refers to such analysis and states to "determine what information and evidence must be included in the accounts to give a true and fair picture, such that stakeholders can draw reasonable conclusions about impact"[40].

In general, knowledge about the sector and main stakeholders is crucial to ensure the activities of the SPO are not duplicating any effort and have a clear added value in terms of contribution to a certain challenge. Investors *for* impact help their investees identify and develop such a value proposition.

36 **Hehenberger, L.,** "The agents of change in social entrepreneurship", in *Do Better, Esade*, November 2019.

37 For more information, please consult: https://justice42.com/?lang=en

38 **Daggers, J.,** "What do we mean when we say we are looking for investments with impact?". In *Nesta.* September 2019.

39 For more information, please consult: https://evpa.eu.com/knowledge-centre/publications/charter-of-investors-for-impact

40 For more information, please consult: https://socialvalueuk.org/wp-content/uploads/2016/03/Standard-for-applying-Principle-4.pdf

Investors for impact help identify and assess subsegments of beneficiaries because it can help investees refine the business model and better tailor products and services.

3.3. Impact risk assessment

Impact management is a process that maximises positive impacts but also mitigates the risk of not achieving the desired impact and the risk of having unintended negative impacts. Hence, the assessment of impact risks and their possible mitigation is a key component of impact management.

The ***"Risk"*** **dimension,** as part of the five dimensions of impact, defines nine types of impact risk. These can be used to balance the likelihood of each risk with the severity of its consequences. The types of risk identified are illustrated in Figure 5.

Investors *for* impact analyse the impact risks of the potential investees during the due diligence and deal structuring phases, and analyse them considering their own risk appetite and the stakeholders analysis. The impact risk of an activity cannot be assessed without engaging with stakeholders to understand their risk tolerance and the relevance given to different outcomes[41].

However, it is important to identify the impact risks and work together with the SPOs to set up a risk mitigation strategy.

One of the types of risk identified by the IMP is the unexpected impact risk, which is used to assess the probability that significant unexpected positive

> *Assessing risk pushes our understanding and pressures us not only to develop better the IMM towards the company by means of engaging with stakeholders, but also KPIs that better grasp the impact that we have and we had not thought about.*
>
> **Gergely Iváncsics,**
> Impact Ventures

Enterprises and investors face n

Impact Risk

1	**Evidence risk**
2	**External risk**
3	**Stakeholder participation risk**
4	**Drop-off risk**
5	**Efficiency risk**
6	**Execution risk**
7	**Alignment risk**
8	**Endurance risk**
9	**Unexpected impact risk**

Source: Impact Management Project

41 **Global Steering Group,** (2021), *"Impact Measurement & Management (IMM): Impact Investing's Evolving Ecosystem"*, Said Business School, University of Oxford

ine types of impact risks

Risk

Definition

Definition
The probability that insufficient high-quality data exists to know what impact is occurring.
The probability that external factors disrupt our ability to deliver the impact.
The probability that the expectations and/or experience of stakeholders are misunderstood or not taken into account.
The probability that positive impact does not endure and/or that negative impact is no longer mitigated.
The probability that the impact could have been achieved with fewer resources or at a lower cost.
The probability that the activities are not delivered as planned and do not result in the desired outcomes.
The probability that impact is not locked into the enterprise model.
The probability that the required activities are not delivered for a long enough period.
The probability that significant unexpected positive and/ or negative impact is experienced by people and the planet.

Figure 5: The nine types of impact risks. Source: Impact Management Project[42]

and/or negative impact may be experienced by people and the planet. The conversation around negative impact has become more and more relevant within the impact ecosystem in the last years. Some investors may tackle it from an ESG perspective to ensure that the SPO not only has a positive impact, but also meets ESG criteria to avoid negative externalities. In fact, the **Impact Principle 5** *"Assess, address, monitor and manage potential negative impacts of each investment"* refers to the management of ESG-related risks.

42 For more information, please consult: https://impactmanagementproject.com/impact-management/impact-management-norms/risk/#anchor2

The EVPA 2020 investing *for* impact survey shows that assessing the risk of not achieving the expected impact is not a common practice yet, and more than half of investors *for* impact do not measure it, as displayed in Figure 6.

32% Yes, this dimension is embedded in our IMM assessment

12% Yes, it is measured independently from our IMM assessment

57% No, we do not measure it

Measurement of the risk of not achieving expected impact, multiple choice (n = 113)

Figure 6. Measurement of the risk of not achieving expected impact. Source: The 2020 Investing for Impact Survey[43]

Playing a catalytic role, investors *for* impact give special relevance to the risk of mission-drift after exit, in case for example other investors take over and prioritise commercial benefit over social impact. In case the SPO has a lockstep model, in which the achievement of impact is directly linked to the business model, then the risk of mission-drift after exit is downsized. Investors *for* impact could insert mission-drift clauses in the deal to directly influence the selection of follow-on investors, which might guarantee the preservation of impact after exit, as explained in part 5.2.

Playing a catalytic role, investors *for* impact give special relevance to the risk of mission-drift after exit.

Investors *for* impact should consider the risks of the (potential) investees' activities, but also assess the risk at the investor level. For example, the impact fund **Creas** has mitigated the negative effects from external factors by consistently assessing their social and environmental performance, transparency and accountability at the company level, which allowed them to obtain the **B-Corp certification**. To obtain such certification, an organisation needs to provide evidence of good performance across the areas of Governance, Workers, Community, Environment and Customers[44].

Investors *for* impact should consider the risks of the (potential) investees' activities, but also assess the risk at the investor level.

As an investor, understanding the potential negative impact also leads to reflecting on the relationship with the investees, mitigating the power imbalance between funders and SPOs, which entails guaranteeing the SPOs feel confident to talk to the investor as equals and to provide them with honest feedback.

While building the relationship with the investee, investors *for* impact balance their IMM requirements with their investees' capacities and resources. Even if investors might be very focused on getting impact data, SPOs' main concerns might relate to their day-to-day operations, and excessive IMM demands might be burdensome for SPOs with low resources.

Investors *for* impact often go through an intensive process to know the type of data they want, and agree with the investees on the feasibility of its measurement. It is important to manage expectations beforehand to ensure clarity on what investors and investees can expect from each other.

43 **Gaggiotti, G., Gianoncelli, A.,** and **Piergiovanni, L.,** (2020), "*Venturing Societal Solutions – The 2020 Investing for Impact Survey*". EVPA

44 For more information, please consult: https://creas.es/en/creas-impacto-the-first-b-corp-fund-in-spain/

“

Investors for impact often tailor the level of rigour required according to the SPO’s capacity and its stage of development.

Martina von Richter,
Rethink Ireland

For instance, in case the SPO has a profitable business model, linking indicators to the market success will help it value the relevance of measuring them. For example, by finding areas of improvement through IMM, the SPO might refine its business model or the products it offers, which may eventually lead to having greater commercial success. This is especially helpful for investees that have a lockstep model, where commercial success and impact achieved are strictly related[45].

The balancing should also consider the pool of investors that are providing financial support to the investee (see part 1.1). In this case, investors *for* impact should (i) act as guarantors of the impact strategy and (ii) proactively align with other investors to reduce the burden of excessive data requests.

The IMM system should not be burdensome and, at the same time, should integrate the complexity of the impact targeted. If both investor and investee see a clear added value, they might develop a more detailed IMM system over time – e.g. by including new indicators or the voice of new groups of stakeholders.

The alignment between investor and investee relates to what can be measured and also to the cost of IMM and who can afford it, as well as the IMM-related non-financial support that investors *for* impact should provide.

It is a task of the investor *for* impact not only to help the investees setting up their IMM system, but also to convince them of the value IMM has for their own activities. SPOs should see IMM as a means to improve their impact and to strengthen their mission, rather than as a set of requirements from the funder.

“

The more impact is embedded in the DNA of the company, the less likely it will deviate from its impact objectives. We only invest in companies where financial returns and impact are aligned.

Lara Viada,
Creas

45 For more information on the lockstep model, please consult page 47 of the report: **Gianoncelli, A,.** and **Boiardi, P.,** (2018), *“Impact Strategies – How Investors Drive Social Impact”*, EVPA.

3.4. Identification of indicators

At the investor level, practitioners define indicators to measure the development of the SPOs, which are focused on the financial solidity, the impact management practice, the organisational resilience of the investee, strengthening of underserved SPOs and the catalytic role of the investment, as explained in part 1.2.

For example, **Erste Social Finance** has developed a survey to measure whether investees were improving their services and accomplishing their mission, thanks to the support provided. Erste Social Finance developed a set of indicators to measure outcomes such as job creation, reach increase (e.g. number of beneficiaries, new services offered), social network growth (e.g. new relevant partnerships) and social inclusion of marginalised people. The survey also measures the impact of Erste Social Finance's work on the economic performance of SPOs supported, including outcomes like funding improvement, financial sustainability (e.g. assets growth and economic situation assessment) and know-how/skills improvement (e.g. participation in educational activities and knowledge applicability)[46].

At the SPO level, investors *for* impact play a key role to identify and select impact indicators. Taking a bottom-up approach, and starting from the impact objectives, the insights from stakeholders, the materiality assessment and the risks identified, investors and investees work together to understand the best indicators to measure the SPO's performance. Investors *for* impact strive to measure outcome indicators that go beyond output measures. Outputs are the quantified summary of activities (e.g. tangible products and services) that result from the organisation's activities. Simple output indicators may say very little about the outcomes, which are the changes, benefits (or dis-benefits), learnings, or other effects (both long and short term) that result from the organisation's activities. Investors *for* impact also help establish thresholds (i.e. the minimum effects expected from an activity) and targets (i.e. the outcomes aimed at) whose achievement should be at the same time ambitious and realistic.

> *Targets and thresholds are usually a translation of the business plan, meaning that the business model and revenue of the company should be aligned with the deliverability of its impact. To fit to a global reporting approach, the impact KPIs chosen must be simple to report, consistent, transparent, well-defined and unbiased.*
>
> **Benoit Escher,**
> Raise Impact

46 For more information, please consult: https://www.erstegroup.com/en/about-us/social-banking

Some investors may be tempted to use a large set of indicators but it is important to identify the most relevant ones and prioritise the indicators that will drive future decision-making.

Some investors may be tempted to use a large set of indicators but it is important to identify the most relevant ones and prioritise the indicators that will drive future decision-making. As investors *for* impact may start supporting early-stage organisations with low resources, they might start measuring two or three KPIs and include more at a later stage to better manage the risks and have more complete evidence. For example, **Impact Ventures** foresees potential KPIs that would improve the IMM system but that cannot be measured for a lack of resources. After a certain period of time, they reassess if they have the resources to start measuring such KPIs[47].

Measuring indicators will be easier if they are SMART and SPICED. SMART stands for specific, measurable, attainable, relevant and time-bound and SPICED means subjective, participatory, interpreted, communicable, empowering and disaggregated. SMART describes the characteristics of the indicators, while SPICED the use these indicators have[48].

Investors *for* impact consider different elements when developing indicators at the SPO level, which are elaborated in the following sub-chapters: (i) the baseline analysis, (ii) the scale, depth and duration of the outcomes, (iii) the use of objective and subjective indicators and (iv) the use of customised and standardised indicators.

> *Impact indicators need to measure what matters and should drive better decision-making. When set correctly, indicators should ultimately help companies and investors to improve and increase positive impacts, while reducing the negative ones.*
>
> **Cristina Spiller,**
> Bridges Fund Management

3.4.1. Identifying the baseline

The baseline is the initial collection of data that describes the state of development of the social purpose organisation when the investor *for* impact starts investing in it; and serves as a basis for comparison with the subsequently acquired data on the development of the SPO[49].

Since the baseline refers to the situation of the stakeholders before the investment takes place, it is linked with the stakeholder analysis and thus embedded within the ***'Who'* dimension of impact.**

The baseline might be included in the Theory of Change as it helps set the targets and thresholds of each outcome indicator.

In case the data prior to the investment is not available, the baseline might be the first data collection, or a preliminary survey to the relevant stakeholders. When the SPO aims at achieving environmental impact, the baseline might be based on current research from specialised institutions or the academia.

47 For more information, please consult: https://en.impactventures.hu/

48 For more information, please consult: https://www.betterevaluation.org/sites/default/files/EA_PM%26E_toolkit_module_2_objectives%26indicators_for_publication.pdf

49 For more information, please consult: https://evpa.eu.com/glossary

3.4.2. Capturing scale, depth and duration

When setting up indicators, it is important to look not only at the scale of the solution but also at the depth and duration components of the outcome. Investors ignoring these elements might prioritise supporting solutions that target a large number of beneficiaries but have a lighter level of impact.

The ***'How Much'* dimension** of the five dimensions of impact assesses outcomes by their scale, depth and duration, which helps understand the relevance of those outcomes to stakeholders. Scale refers to "the number of people experiencing the outcome", depth to "the degree of change experienced by the stakeholder" and duration to "the time period for which the stakeholder experiences the outcome", as defined by the IMP[50].

Investors and investees face trade-offs between the different components of an outcome and must prioritise one component over others. In order to make an informed decision, they need to collect data on each component. If, for example, they focus only on the scale component, looking at the number of beneficiaries, they will be biased and risk making decisions that do not maximise impact.

Investors ignoring the depth and duration components of the outcome might prioritise supporting solutions that target a large number of beneficiaries but have a lighter level of impact.

3.4.3. Using objective and subjective indicators

Investors *for* impact rely on both objective and subjective indicators to capture the outcomes. When measuring environmental impact, scientific analysis can measure the contribution of an activity towards for example CO_2 emissions saved or tons of plastic saved. However, when looking at social impact, objective indicators might not be enough to capture the impact of the SPO and therefore some subjective indicators are needed to complement the analysis[51]. Subjective indicators enable to include stakeholders' voice to understand the progress towards the outcomes identified. Even if using subjective indicators, rigorous methodologies should be followed to take relevant stakeholders' voice into consideration.

Occasionally, the impact analysis is complemented by case studies based on qualitative information, to help relevant stakeholders and decision-makers better understand the impact achieved. Qualitative methodologies can be very useful to go beyond impact valuation and describe how the IMM process has been developed and delivered in practice.

50 For more information, please consult: https://impactmanagementproject.com/impact-management/impact-management-norms/how-much/

51 Objective indicators are based on objective measures, and subjective indicators are those based on individual perceptions, e.g. responses to interview questions. It is important to highlight that even if indicators are subjective, they can be quantified with a numerical value.

3.4.4. Using customised and standardised indicators

The reflection on the trade-off between customised and standardised metrics materialises during the identification of indicators.

Investors *for* impact can, at this stage, look into initiatives that provide indicator databases – such as **IRIS+**[52], **HIPSO**[53], the **Joint Impact Indicators (JII)**[54] – or SDG-related indicators[55] in case they are applicable. Alongside the catalogue of metrics, IRIS+ includes the **Impact Frameworks**, which help access indicators based on chosen impact objectives. Standardised indicators from such databases might complement the core metrics, which tend to be customised as they emerge from the business model and the Theory of Change of the investee.

These databases can be of inspiration for an investor *for* impact that wants to gain knowledge on a new sector. This is the case of **Amundi,** which has developed its own IMM methodology, but when enters a new sector, might consult the IRIS+ database or the SDG targets to define impact objectives and indicators[56].

No matter the source of metrics, aggregation of data across a portfolio can create limitations for investors, as aggregated figures might not enable to capture the complexity around a specific activity and/or outcome. This is especially risky when supporting SPOs that operate in different sectors and geographies. However, in some cases investors *for* impact aggregate some output indicators at portfolio level to inform stakeholders about the scale of their interventions.

In case the investor *for* impact has a sector-specific approach, it is easier to use a similar set of indicators across all the portfolio companies. For instance, as **Investisseurs et Partenaires** supports SMEs in creating employment across Sub-Saharan Africa, they track topics such as the quality of employment, number of partner companies, share of women employed, level of wages, share of young people employed, access to health insurance provided, training provided, etc. across the portfolio[57]. Also, **BNP Paribas** combines standardised indicators from its social and environmental impact measurement methodology MESIS *(Mesure et Suivi de l'impact social)*, with customised ones selected in cooperation with SPOs. The MESIS methodology structures SPOs around seven Social Impact Fields *(Domaines d'Action Sociale – DAS)*, allowing data aggregation and comparability across SPOs[58]. It is composed by more than 400 indicators that grant flexibility and serves as indicators database for social entrepreneurs, social impact contracts, microfinance institutions and impact funds.

On the other hand, **Ferd Social Entrepreneurs** is an example of a sector-agnostic practitioner following a bottom-up approach to define its impact goals, starting from the objectives of the SPO. For this reason, Ferd SE prioritises customised indicators that are useful for their investees to capture and manage their impact.

52 For more information, please consult: https://iris.thegiin.org/

53 For more information, please consult: https://indicators.ifipartnership.org/

54 For more information, please consult: https://s3.amazonaws.com/giin-web-assets/iris/assets/2021-01-26-IRIS_JII.pdf

55 For more information, please consult: https://unstats.un.org/sdgs/indicators/database/

56 For more information, please consult: https://www.amundi.com/

57 For more information, please consult: https://www.ietp.com/fr

58 For more information, please consult: https://group.bnpparibas/en/news/bnp-paribas-helps-clients-measure-social-impact and http://www.novess.fr/l-impact-social/

How do you systematise your data collection and monitoring?

How often do you collect data from your investees?

How do you engage with stakeholders?

4 INVESTMENT PROCESS:

THE INVESTMENT MANAGEMENT

How do you make sure you are being accountable to the intended beneficiaries?

How do you leverage your impact data – i.e. how do you learn and improve from the data collected?

Alongside reporting on impact, do you also report on how / why decisions have been made, what are the recognised trade-offs, and whether there are future plans for improving performance?

4. INVESTMENT PROCESS: **THE INVESTMENT MANAGEMENT**

The EVPA five-step IMM framework is displayed as a circular process because the investor *for* impact and the investee should go through the five steps more than once during the investment management phase. Investors *for* impact should constantly use the impact management process to identify and define corrective actions if the overall results deviate from expectations.

Impact monitoring is embedded in **Step 3** and should consider: the time needed for generating data, the SPO's resources and the speed needed for decision-making. Some existing tools in the market can support monitoring the impact. In parallel, investors and investees should put in place a process for verifying, valuing and learning from the data generated (**Step 2** and **Step 4**), which includes (i) engaging with stakeholders to verify whether their expectations have been met; (ii) assuring the process through third parties; and (iii) putting in place mechanisms to embed the learnings into the organisational culture and future decision-making. On a regular basis, investors also communicate their impact to relevant stakeholders and to the community (**Step 5**). Lastly, the learnings produced throughout the process may lead to refinements of the objectives initially set (**Step 1**)[59].

Some of these elements are comprised within the **Impact Principle 6** *"Monitor the progress of each investment in achieving impact against expectations and respond appropriately"*. This principle relates to developing the monitoring process, which should include "how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported."

59 For more information on the EVPA framework, please consult: https://evpa.eu.com/knowledge-centre/publications/measuring-and-managing-impact-a-practical-guide
For more information on the investment management phase, please consult: https://evpa.eu.com/knowledge-centre/publications/investing-for-impact-toolkit

4.1. Impact monitoring

A key issue included in IMM agreements is the frequency that each indicator will be measured and shared with the investor.

In general terms, a good practice consists of performing a comprehensive data collection once a year and measuring two or three key indicators more frequently, e.g. on a quarterly basis, although this may vary across investors and SPOs. The frequency of measurement should be tailored to the needs of the SPO and the nature of the indicator. For example, data related to some indicators may need time in order to be generated, so it may not be possible to monitor them frequently (e.g. monthly or quarterly), whereas other indicators need more frequent measurement to make sure the solution is working as planned.

The frequency of measurement should be tailored to the needs of the SPO and the nature of the indicator.

If an SPO has an advanced IT system, impact data can be monitored on a continuous basis, providing real-time insights that lead to a more efficient and systematic way of tackling impact-related issues. Even if data is automatically updated, it is important to check the quality of the data and the reliability of the sources at regular intervals. If data is manually uploaded, then the investor needs to make sure it is up to date. An extensive annual (or bi-annual) monitoring is still relevant, and can serve to inform the processes of verifying, valuing, and learning from impact.

At the investor level, the indicators defined during the due diligence and deal structuring phases should also be monitored to assess that the SPO evolves as expected.

During the investment management phase, investors and investees can use a series of tools to monitor and manage the progress towards the desired outcomes. Spreadsheets to monitor the data generated are still the most commonly used tool by practitioners. Some other investors started developing in-house online dashboards using software applications, such as PowerBi and Tableau, which allow them to monitor and visualise the data of their investees. Finally, other practitioners in turn use ad-hoc platforms that have emerged in the impact ecosystem, such as:

- Aeris Cloud (US)
- Cuantix (CL)
- Impact Wizard (BL)
- ImpactTableX (US)
- Masimpact (ES)
- Proof of Impact (NL)
- Resilia (US)
- Sametrica (CA)
- Social Suite (AU)
- Sopact (US)
- UpMetrics (US)
- Verasolutions (Several Location)
- WeSustain (DE)

4.2. Verifying, valuing and learning

A key process to verify the importance and the magnitude of the intended and unintended outcomes generated is listening to the voices of the relevant stakeholders. Impact verification should be aimed at optimising positive impact and also at managing risks and understanding whether the risk mitigation strategies are being effective.

At the investor level, the key stakeholders are the investees, therefore practitioners check regularly how satisfied the SPOs are with the ongoing partnership. The aim is to understand what can be improved and to receive feedback on the non-financial support provided. For example, **Trafigura Foundation** commissioned an expert organisation to conduct a standardised, anonymous survey of its grantees. Their feedback showed how important it is for grantees to have flexibility in funding and reporting requirements, especially in times of crisis, or how useful non-monetary support and unrestricted funding can be.

For the Trafigura Foundation, unfiltered and candid comments from SPOs are critical inputs on an ongoing journey to improve practices and nurture a conscious approach of philanthropy[60].

Some investors *for* impact assess the perceived value of the non-financial support provided and ask investees to compare it to the financial support. According to the EVPA 2020 investing *for* impact survey, almost three out of four investors reported that their investees value non-financial as much as financial support, as shown by the figure below,

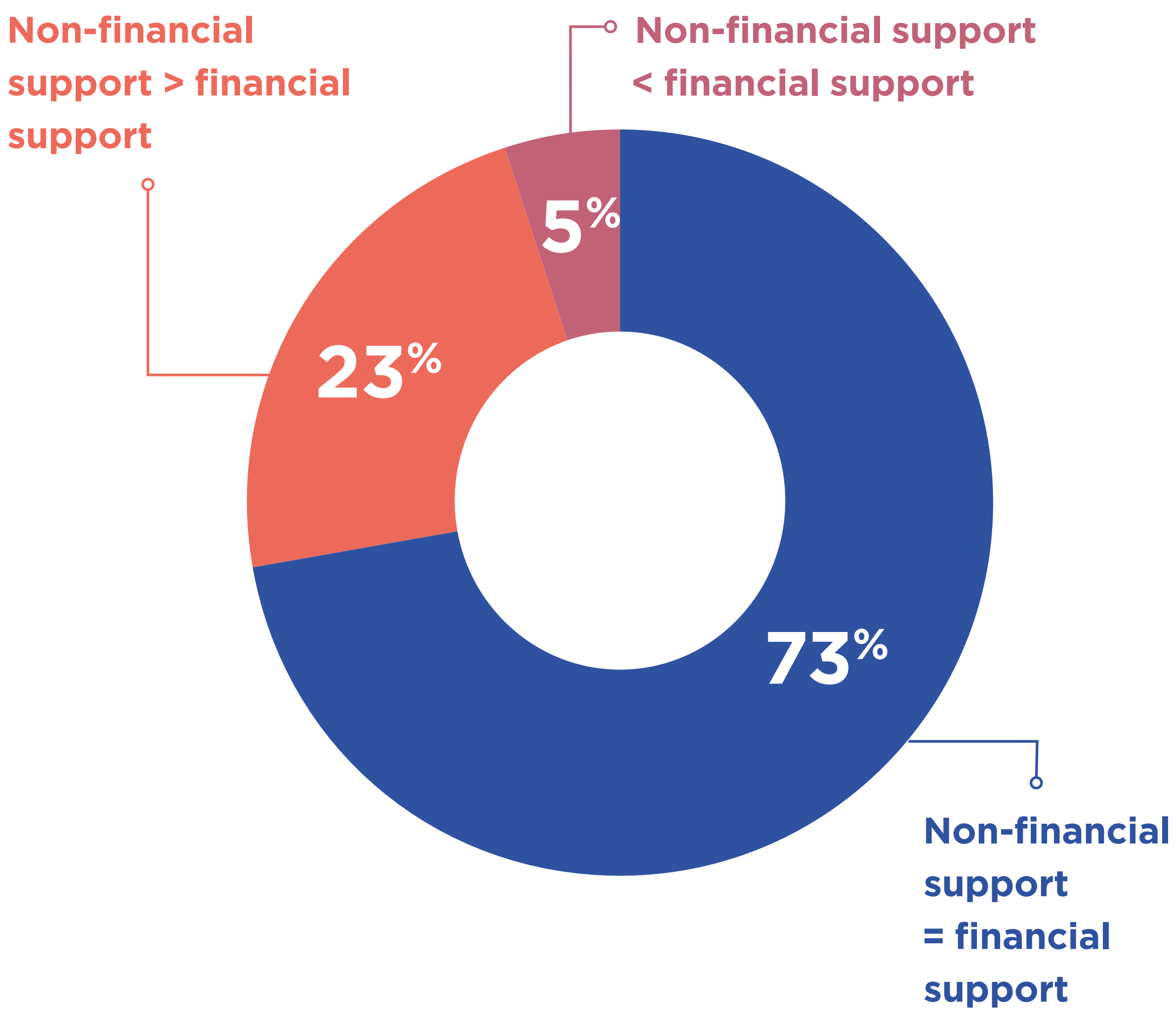


Figure 7. Perceived value of non-financial support (n=40). Source: EVPA 2020 Investing for Impact Survey[61].

60 For more information, please consult: https://www.trafigurafoundation.org/

61 **Gaggiotti, G., Gianoncelli, A.**, and **Piergiovanni, L.,** (2020), *"Venturing Societal Solutions – The 2020 Investing for Impact Survey"*. EVPA.

In most cases, final beneficiaries represent the key category of stakeholders with whom to verify the impact.

At the investee level, the stakeholders include people directly affected by the activities, like the end beneficiaries and other actors involved in the SPO's activities, as well as knowledgeable entities that can enhance the learning process, such as experts from the sector, universities and organisations collecting and analysing data.

In most cases, final beneficiaries represent the key category of stakeholders with whom to verify the impact. Investors *for* impact may engage directly with the final beneficiaries through surveys (e.g. to clients of the SPO), and by including beneficiary stories or by planning field trips. Other investors, such as **Open Value Foundation[62], LGT Venture Philanthropy[63]** or **Investisseurs et Partenaires,** use the lean data approach, which relies on phone surveys to quickly collect comparable impact data, either independently or through external organisations such as 60Decibels. 60Decibels is an "end-to-end impact measurement company" which was spun out by Acumen in 2019. They collect customer-level impact data by having short phone calls with customers, speaking their local language, and going through a standardised set of questions to understand how they experienced the outcomes of an activity[64].

Other investors rely on their investees to engage with the end beneficiaries, who may not even be aware of the investor's existence. The SPOs tend to be familiar with the community, market or environment where they operate. For example, **SI2 Fund** engages with stakeholders during the due diligence phase, but during the investment management phase prefers this task to be taken over by the investee.

When supporting vulnerable communities, collecting data that captures their feedback and concerns is a process that needs to follow certain ethical considerations and needs specific skills. If the investors or the investees do not have the required skills, they might rely on external organisations.

Verifying impact might be accompanied by valuing it, i.e. weighting the benefits versus the costs/sacrifices for the stakeholder. **SVI Principle 3 *"Value things that matter"*** stresses the importance of valuation to estimate the importance stakeholders give to social changes.

Outcomes should be valued even if they are captured through subjective indicators (see section 3.4.3) as they can be quantified even if coming from individual perceptions.

Valuation can be monetary or non-monetary, and the choice to monetise the impact or not should be made according to factors such as what learnings will monetisation bring, and to whom the valuation will be communicated.

> *Theoretical impact assessment is not enough if not validated through stakeholders' verification.*
>
> **Pieter Oostlander,**
> SI2 Fund

62 For more information, please consult: https://www.openvaluefoundation.org/es/

63 For more information, please consult: https://www.lgtvp.com/en/

64 For more information, please consult: https://60decibels.com/ and https://www.youtube.com/watch?v=nLAI5O8226k.and https://acumen.org/lean-data/ For guidance on conducting remote surveys, please visit: https://60decibels.com/user/pages/03.Work/_remote_survey_toolkit/60_Decibels_Remote_Survey_Toolkit_March_2020.pdf

Another example of valuing is integrated into the **EIF Impact Performance methodology**[65], which requires the fund managers and portfolio companies to weigh the value of the indicators selected already during the investment decision phase. This exercise allows the impact fund and the investee to align their interests and their strategy.

The regular involvement of stakeholders and final beneficiaries to value and verify the results is key to understanding the relevance of the outcomes achieved, identifying impact gaps and learning in which areas impact could be maximised, but it is also a way of being accountable to the relevant stakeholders.

4.2.1. Accountability

As displayed in Figure 8, there are four main groups of actors towards whom investors *for* impact are accountable: the funders (including the taxpayers if the investor *for* impact is or is funded by a state-owned institution), the investees, the intended beneficiaries and the impact ecosystem and the society at large.

Investors ensure accountability to the funders by regularly reporting their impact and financial results. Investors' accountability towards investees relies on a highly engaged relationship, assessing the value of non-financial support offered and improving their investor's contribution based on the feedback from the SPOs.

As stated in **Principle 2 of the EVPA Charter**, investors *for* impact are also accountable to intended beneficiaries. However, since the link with the intended beneficiaries is not direct, accountability towards them tends to be overlooked. Investors and investees lack incentives to ensure such accountability given the little power beneficiaries have throughout the investment journey[66].

For an investor, being accountable to intended beneficiaries means creating mechanisms to guarantee that their experiences and feedback inform and influence decision-making. In this regard, the **SVI Principle 8 *"Be Responsive"*** relates to maximising impact "supported by appropriate accounting and reporting".

> *During the due diligence phase, we assess how SPOs engage with communities to gain an in-depth understanding of the needs of their members.*
>
> *If that is strong that already increases our own accountability towards these beneficiaries.*
>
> **Tom Kagerer,**
> LGT Venture Philanthropy

65 For more information, please consult: https://www.eif.org/what_we_do/equity/sia/index.htm

66 **Global Steering Group,** (2021), *"Impact Measurement & Management (IMM): Impact Investing's Evolving Ecosystem"*, Said Business School, University of Oxford

Figure 8. The four levels of accountability.

Finally, being transparent and publicly sharing results and methodologies ensures being accountable to the impact ecosystem. Being true impact pioneers, investors *for* impact should pro-actively support the developments of the impact ecosystem, ensuring that their knowledge and expertise are disseminated among peers and newcomers, and can influence policymakers.

Across the four levels, an essential process to ensure accountability is validating the impact through external assurance. Demand for impact assurance is on the rise, partially thanks to the adherence of investors *for* impact to high-level principles or standards that require it.

Across the four levels, an essential process to ensure accountability is validating the impact through external assurance.

Investors for impact never stop learning and stakeholders' feedback is an essential source to feed the continuous improvement of their activities.

In some cases, an investor *for* impact might also set up internal assurance processes to make sure each assessment has been reviewed and validated by peers.

The **SDG Impact standards** will be complemented with assurance standards against which compliance with the SDG Impact standards will be assured[67]. Assurance is also embodied in the **Impact Principle 9** *"Publicly disclose alignment with the Principles and provide regular independent verification of the alignment"* and in the **SVI Principle 7 *"Verify the result"*.** SVI also provides assurance services which ensure that stakeholders have been appropriately involved in the impact measurement process[68].

Assurance must be proportionate to the size of investment and must represent a learning opportunity for both investor and investee to mitigate impact risks and identify gaps on their performance.

> ***If you do a proper management of your project, you should have a proper idea where your results are created and should reallocate resources accordingly.***
>
> **Peter Beez,**
> Swiss Agency for Development and Cooperation

4.2.2. Learning and improving

Investors *for* impact never stop learning and stakeholders' feedback is an essential source to feed the continuous improvement of their activities.

The **Impact Principle 8** *"Review, document, and improve decisions and processes based on the achievement of impact and lessons learned"* incorporates the learning process inherent to impact management.

The ESADE report *"From Measurement of Impact to Learning for Impact: European Charitable Foundations' Learning Journeys"*[69] presents an approach for foundations to regard impact management as a learning opportunity for themselves and for the SPOs they support. The report highlights the importance of spreading the learning culture across all the levels of the organisation investing *for* impact, including the management team and the board.

Learning can be formal and informal. Formal learning relates to embedding data in management and decision-making, and informal learning arises from conversations and trust-based relationships with investees and stakeholders.

Significant formal learnings will materialise only if the data collected is relevant and timely. Investors *for* impact and investees should constantly review the IMM process to guarantee that it brings significant knowledge and supports decision-making that optimises impact. The data acquired against each indicator should test the initial hypothesis posed in the ToC and pave the way for future IMM – and hence, performance – improvement.

67 For more information, please consult: https://sdgimpact.undp.org/practice-standards.html and https://sdgimpact.undp.org/impact-assurance.html

68 For more information, please consult: https://www.socialvalueint.org/report-assurance

69 **Hehenberger, L., Buckland, L.,** and **Gold, D.**, (2020) *"From Measurement of Impact to Learning for Impact: European Charitable Foundations' Learning Journeys"*. ESADE, BBK.

Impact data collected can help investors learn and improve under several aspects. As displayed in Figure 9, the main way in which impact data are leveraged by investors *for* impact is to assess investee's progresses on impact. Almost half of the investors *for* impact also use it to support investees refining their Theory of Change (including their service/product offer), unlocking additional capital, refining their own ToC and/or improving communication with stakeholders.

When an investment lasts for several years, the amount of historical data is richer and enables better decision-making. Alongside the quantity of historical data, benchmarking and comparing the performance and the results with other organisations, if possible, is a relevant source of learning.

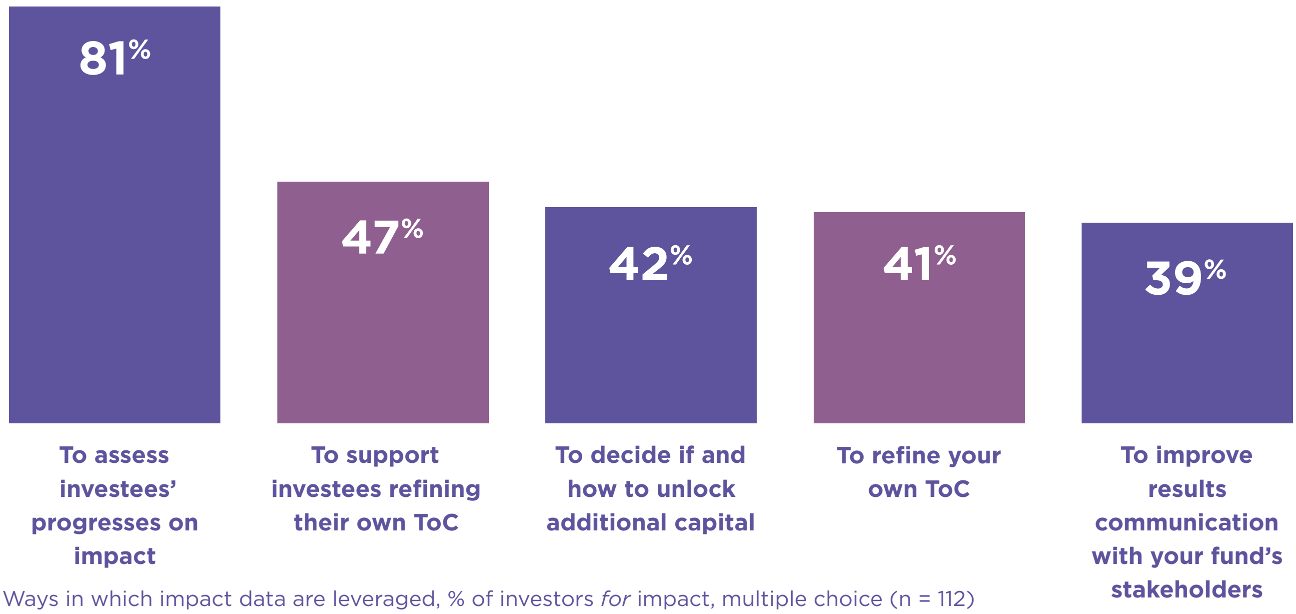


Figure 9. Ways in which impact data are leveraged. Source: EVPA 2020 Investing for Impact Survey[70]

> *It is important to see those that are more efficient but also those that complement you. We are typically working in silos and duplicating costs.*
>
> **Anne Holm Rannalet,**
> IKARE

70 **Gaggiotti, G., Gianoncelli, A.,** and Piergiovanni, L., (2020), *"Venturing Societal Solutions – The 2020 Investing for Impact Survey"*. EVPA.

At the investor level, the comparison between sectors of intervention or programmes can bring relevant learnings. Especially for larger investors *for* impact, embedding data into decision-making may also lead to reallocating resources where projects have greater additionality and the investors' contribution has more added value.

It is also helpful to engage with additional stakeholders, to initiate conversations with actors operating in the same sectors, and use successes, failures, and IMM practices shared by others for own reflection.

The assessment of attribution and additionality can also generate significant learnings. Looking beyond the concrete investment and having a holistic view of the societal problem might help practitioners understand not only what the added value of the intervention actually is, but also who the other actors involved are, and what partnerships can be strategic for future developments. The ***'Contribution'* dimension of impact** assesses these factors by looking at what would have happened if an activity had not taken place. **SVI Principle 5 *"Do not overclaim"*** includes understanding what would have happened if the activity had not taken place, and what is the contribution of other actors.

Finally, some investors *for* impact deploy time and resources to build a learning culture within the organisation. Some organisations deploy a part of their budget for each employee to be spent in internal education, or for the whole staff to gain expertise in a concrete topic. Internal learning can also be informal, thanks to group meetings, exchanges or gatherings.

> ***The most important thing about impact data is when you find surprises within the data. Investors for impact are not so keen on data that follows the expected pattern, but much more on data that contradicts their hypothesis.***
>
> **Angélica Rodríguez-López,**
> Fundación Inuit

4.3. Impact reporting

Once the data has been collected and analysed, an organisation needs to consider how to present and report this information. Depending on the stakeholders to whom an investor *for* impact is reporting, different formats will be required. Investors *for* impact report to funders on ad-hoc basis and usually make an extensive review yearly, which may be included in an impact report to be shared widely.

The **UNDP SDG Impact Standards on transparency** relate to publicly disclosing not only results but also how decision-making is aligned with the impact objectives and the investment strategy. **SVI Principle 6 *"Be Transparent"*** entails demonstrating the accuracy of the analysis and discussing the findings with the relevant stakeholders.

Investors *for* impact have seen how the demand for transparency has grown over time. Transparency is seen as a key element for growing the ecosystem: sharing successes, failures, practices, and proper IMM helps an organisation to be more transparent about its activities and its effects on people and the planet. Sharing data with other stakeholders can have a great value as the learnings generated might be relevant for internal improvements as well as for other actors addressing the same societal solution.

UniCredit recently published a position paper that showcases the methodologies used to measure and manage impact. UniCredit, by designing a feasible and rigorous model of impact measurement, contributes to ensuring impact integrity in its financial products, which is a key factor for the transparency and competitiveness of the social finance industry. Such a case study demonstrates that rigour can go hand in hand with practical impact management for a wide range of business activities. Through this positioning paper, UniCredit aims at fostering transparency and culture of impact in the financial sector, as well as gaining credibility and being accountable to the wider public[71].

Impact reports tend to include the key figures for each portfolio organisation and some aggregated statistics (i.e. reporting on impact at the investee level) and, sometimes, describe the investor's contribution (i.e. reporting on impact at the investor level).

However, to increase transparency, impact reports should also include what decisions have been taken, what trade-offs have been identified and what the areas of improvement are at both levels.

Some investors *for* impact structure their reporting on the IMM initiatives embedded in their IMM system. For example, they may evaluate each investee across the five dimensions of impact or publish the SROI result.

At this stage, the SDGs are also a comprehensive framework that enables investors to show stakeholders what they are doing. However, if an organisation has not rigorously assessed its contribution to the SDGs, it should be cautious when reporting on them, clearly stating that the reporting on SDGs comes from an alignment exercise, rather than a thorough analysis. For example, as **RAISE Impact** has developed an IMM methodology based on assessing the contribution of each company to the SDGs (based on their turnover, both in value and volume), it is very careful to avoid double or over-accounting[72]. As such, any link between a company's activity and its contribution to the SDGs is discussed and approved in an impact committee, where independent members take place.

> *We use our foundation as a teaching tool, and thus it is important to be transparent and make people understand how much money has been deployed, how much impact has been created, and what are the successes and the points of improvement of our activity.*
>
> **Maria Ángeles León,,**
> Open Value Foundation

There are some IMM initiatives that are focused on helping organisations report their impact. For example, **the Social Reporting Standard (SRS)**[73], developed by leader organisations in the German impact ecosystem, provides a template for structuring the communication on impact across different elements, such as social problem and solution, organisation structure and accounting practices.

71 For more information, please consult: https://www.unicreditgroup.eu/content/dam/unicreditgroup-eu/images/one-unicredit/commitments/2021/may/SIBpositionpaper/2021_0504_PositionPaper.pdf

72 To know more about the RAISE Impact methodology, please consult: https://www.youtube.com/watch?v=BQ4TIM_8oiQ&t=35s and https://www.raise.co/raise-impact/

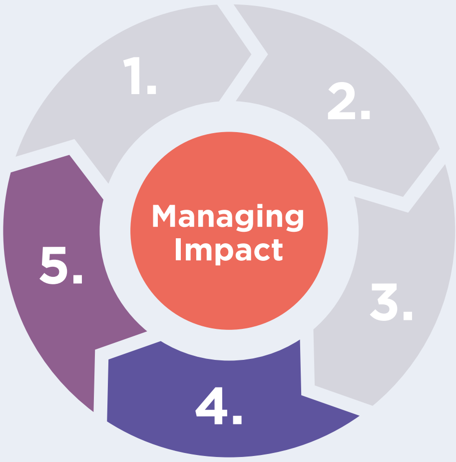
73 For more information, please consult: https://www.social-reporting-standard.de/en/

Impact reports should include what decisions have been taken, what trade-offs have been identified and what the areas of improvement are at both levels.

5 EXIT

Do you ensure that impact will be preserved after exit, event if it is embedded in the business model?

5. EXIT



After conducting an exit, investors *for* impact usually undertake an evaluation of the investment, and potentially a post-investment follow-up. A key issue to be considered at this stage is whether the impact is likely to be preserved after exit[74].

The **Impact Principle 7** *"Conduct exits considering the effect on sustained impact"* suggests considering *"the effect which the timing, structure and process of its exit will have on the sustainability of the impact".* The exit process can include a final verification of the investor's contribution **(step 4)** and a final reporting **(step 5)** that will inform future investments.

74 For more information on the EVPA framework, please consult: https://evpa.eu.com/knowledge-centre/publications/measuring-and-managing-impact-a-practical-guide
For more information on exit, please consult: https://evpa.eu.com/knowledge-centre/publications/investing-for-impact-toolkit and https://evpa.eu.com/knowledge-centre/publications/planning-and-executing-an-impactful-exit-a-practical-guide

5.1. Understanding investor's contribution

Although the investor's contribution should be measured and managed across the investment management process, when exiting, investors have enough information to understand what their added value during the investment has been and what the investees valued most about their contribution. They might also acquire further knowledge and data on the sector in which the SPO operates and expand their network. The findings from this analysis will inform the value proposition of the investor for future investments.

5.2. Preserving impact after exit

As shown in Figure 10, the most common way for investors *for* impact to secure impact after exiting is to only select investees that have social impact embedded in their business model, i.e. SPOs that have a lockstep model (see chapter 3.4). However, some investors *for* impact acknowledge that even in the lockstep model there are trade-offs between financial and impact performance, and hence the risk of a new investor pushing the SPO towards prioritising financial return should be considered and mitigated.

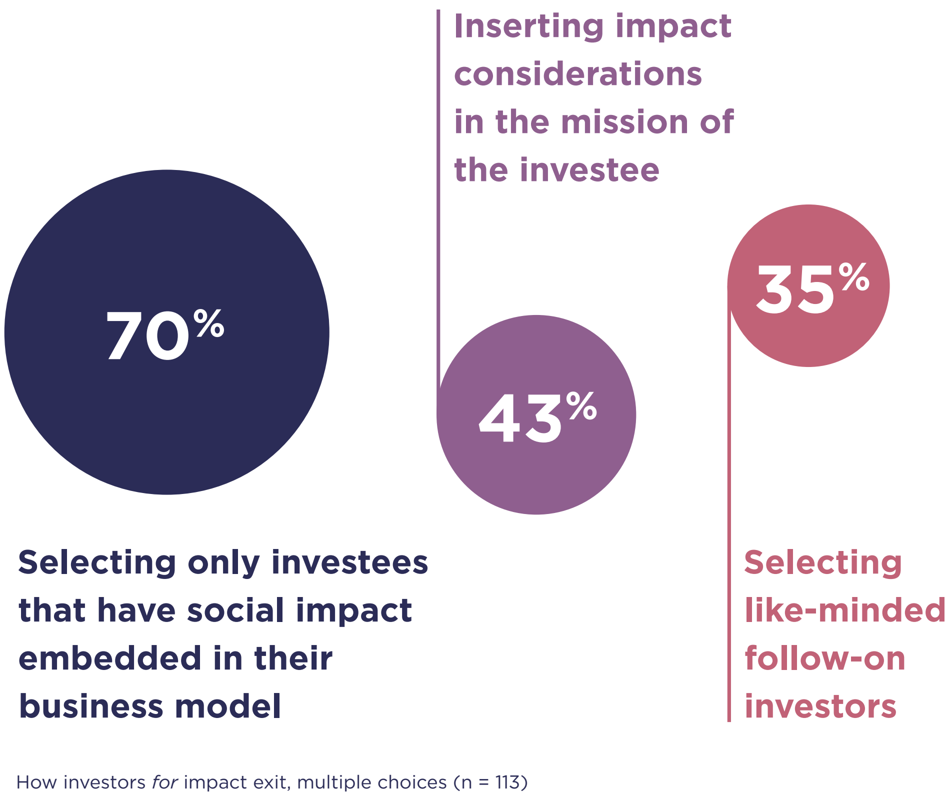


Figure 10. How investors for impact exit. Source: EVPA 2020 Investing for Impact Survey[75].

75 **Gaggiotti, G., Gianoncelli, A., and Piergiovanni, L.,** (2020), *"Venturing Societal Solutions – The 2020 Investing for Impact Survey"*. EVPA.

Some techniques whereby an investor can further guarantee that impact will be preserved after exit include:

- **Embedding impact in the DNA of the investee,** helping to measure the impact and include it in the mission, management decisions, dashboards, and/or incentive schemes. The deeper the impact is integrated into the SPO's operations, the more difficult it is for a follow-on investor to prioritise financial returns.

- **Selecting like-minded follow-on investors,** by including mission-drift clauses in the deal which allow the investor to have reasonable comfort or even assurance that the investee will continue working on the defined impact strategies and objectives. This procedure might be especially relevant if the SPO does not have a full lockstep model and the investor foresees a higher risk of mission-drift after exiting (see chapter 3.4. on risk).

Grant-making organisations supporting SPOs that do not have a profitable business model do not focus much on the mission-drift risk, as the organisations supported are unlikely to be taken over by commercial investors. Instead, to guarantee long-lasting impact, they need to enhance the financial sustainability of these SPOs. Some investors *for* impact start supporting SPOs during due diligence and deal structuring phase, helping them develop their fundraising strategy.

To ensure financial sustainability in the long term where there is no, or limited, commercial market, the key stakeholder is the public sector, which should act as follow-on investor. In that case, the investor *for* impact and the SPO need to work together to adapt the initiative to the government's strategy, understanding how the solution fits within the government's long-term plan and building on the evidence generated to communicate the impact.

A good example to illustrate how investors *for* impact and SPOs can work with the public sector is the case of **IKARE Ltd** and **Shifo Foundation.** Shifo Foundation, in a first step and after a few iterations, developed a hybrid system for the Mother & Child primary health care services called Smart Paper Technology (SPT) Solution. SPT allows much better health data collection, storage and reporting, on individual patient, health centre, district and national level when compared to the paper-based systems used in developing countries for 60 years. After successfully piloting the first SPT version of the Mother & Child solution in the district of Dokolo in Uganda, IKARE and Shifo, with additional funding from Gavi, the Johnick Foundation and the Swedish Postcode Foundation, and in collaboration with the Ministry of Health and Action Aid International, rolled out the revised version of the solution including immunisation services at the national level in The Gambia**.** As supported by IKARE's additional non-financial support, Shifo have throughout their journey actively engaged with the public as well as NGO sectors to implement such a scaling strategy, demonstrating how the SPT solutions are more efficient and affordable than the existing Health Management Information Systems and delivering much bigger impact[76].

Even when investees adopt a lockstep model there are trade-offs between financial and impact performance.

76 For more information, please consult: https://stories.evpa.eu.com/shifo-foundation-ikare/ and https://shifo.org/en/

CONCLUSION

Impact measurement and management (IMM) should not be perceived as a requirement, a helpful add-on or an additional practice in the impact sector. IMM enables an understanding of performance gaps and impact needs, and therefore drives decision-making throughout all stages of the investment journey. As such, IMM is embedded in the DNA of the investing *for* impact strategy.

This publication outlines the most important considerations to measure and manage impact during each step of the investment strategy and the investment process. The report also displays how different principles, standards and methodologies, such as the EVPA five-step framework, SDG Impact Standards, SVI Principles among others, complement each other in practice.

This new approach demonstrates that different IMM initiatives can help investors *for* impact enhance different elements of their IMM systems. Rather than deciding which initiative to embrace, investors should have in-depth discussions to understand which initiative could best support them to learn, improve and maximise their impact.

Particular emphasis is placed on measuring the two levels of impact. Each topic covered in this publication should be assessed at both levels for investors to optimise their resources to maximise impact. In addition to the two levels of impact, investing *for* impact encompasses a third level, which relates to the investor contribution to the development of the impact ecosystem at large, as well as to enhancing systemic change. The third level of impact entails additional complexity to the IMM system, and it is yet to be further developed in the impact sector. EVPA will continue gathering evidence and best practices related to the third level of impact to better assess how to measure and manage it in practice.

This publication also demonstrates the importance of understanding and engaging with end beneficiaries and other key stakeholders when measuring and managing impact. Assessing sub-segments of beneficiaries can help investees better tailor their products and services, leading to higher impact (and in some cases even financial) performance. The analysis of key stakeholders also drives the identification of what to measure, and the impact risk assessment. Furthermore, continuously engaging with stakeholders could drive the verification and valuation processes and generate learnings that lead to the constant improvement and impact maximisation.

This report is helpful to analyse the main elements that should be integrated into the IMM system of any investor interested in embedding impact in their strategies, from philanthropic institutions to mainstream investors. The findings embedded in this report will be complemented by the other materials of the *"Navigating impact measurement and management"* research project. These include a mapping of IMM initiatives, a series of articles on burning topics related to IMM and a series of practical cases that showcase how investors *for* impact implement their IMM strategies in practice. With this set of resources, EVPA aims to improve IMM practices in the broader impact ecosystem, and at the same time demonstrate the unique role investors *for* impact play in raising the bar of IMM practices.

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ABOUT EVPA

EVPA is a strong community of around 300 member organisations from 30+ countries sharing the same vision and a common goal: creating positive societal impact through the practice of investing for impact.

Established in 2004, EVPA is proud to have initiated this movement in Europe. Over the years, we have been contributing to a thriving impact ecosystem and a growing market engaging social investors, foundations, corporations and policy makers in supporting social innovators and maximising their impact.

We enable our members to connect and learn from each other to achieve deeper societal impact through investments. We build the impact ecosystem at international, European, national and local levels. As a strategic partner of the European Commission in advancing this sector, we share insights, develop knowledge and training, and shape public policies to make the investing for impact movement in Europe stronger.

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