EUROPEAN VENTURE PHILANTHROPY ASSOCIATION

Gianoncelli, A. and **Boiardi, P.,** (2018), *"Impact Strategies – How Investors Drive Social Impact"*. EVPA.

OVERVIEW IMPACT STRATEGIES

INVESTING *FOR* IMPACT	INVESTING *WITH* IMPACT
SOCIAL IMPACT – OBJECTIVES, MEASURES AND LEVELS OF EVIDENCE	
Investors *for* impact: • consider primarily the achievement of a **positive social impact,** with a range of intentions for or without a financial return; • have the social challenge, social solution and beneficiaries as the starting point (**"solution focus"**); • articulate a **Theory of Change**; • evaluate **their own impact** on the social purpose organisation (SPO) supported; • give particular attention to the potential of the SPO to generate the desired impact, resulting in the **centrality of the SPO's impact model** in the deal screening and due diligence phases; • adopt a **positive screening approach** when selecting investees; • adopt a **more rigorous** and **management-oriented, bottom-up approach to impact measurement**, including the use of **customised indicators** – often co-designed with SPOs, while trying not to burden investees with excessively demanding requests for evidence during the investment itself; • focus on **additionality** instead of just intentionality; • put particular **emphasis on preserving the impact** of the SPO when **they exit**.	**Investors *with* impact**: • have **impact as a secondary objective**, subject to the achievement of a financial return; • use **social impact to mitigate the risks** associated with the achievement of a financial return; • screen investments **primarily based on the potential financial return** they can generate – and then on the potential impact; • select investments mostly using **standardised criteria** (e.g. ESG, PRI, etc.) or a **negative screening approach**, requiring a **high detail of evidence** that a specific model has achieved impact in the past; • measure investees' social impact performance based on **standardised indicators** (e.g. IRIS, GRI, etc.)
FINANCIAL RETURNS	
Investors *for* impact: • are **very dispersed** in terms of the financial return they target (from -100% to 0% and +); • consider **potential financial returns** as **a means to an end** (i.e. the achievement of a social impact); • are **willing to give up part of their financial return** for the achievement of a higher social impact.	**Investors *with* impact**: • generally expect **positive returns** in line with those of traditional investors; • target primarily **financial returns** – with the achievement of a social impact as a secondary goal; • are **not willing to give up part of their financial return** for the achievement of a higher social impact.
RISK COMPONENT	
Investors *for* impact: • are willing to take **higher operational risks** if it means achieving a **major social impact**; • perform an **explicit social and financial risk assessment** (e.g. also consider the risks associated with not achieving the desired social impact); • take also into account the potential (and collateral) **negative impact**. • develop **ways to mitigate the risks**; • use **impact evidence to reduce the risk** associated with impact.	**Investors *with* impact**: • start looking at risk **from the financial perspective** and focus on **de-risking the financial component**; • do **not always develop ways to assess and mitigate risks** associated with **social impact**; • look at the risk of generating a **negative social impact** only as a **screening criterion** (i.e. in the "do no harm" sense).

THE LOCKSTEP MODEL

Some practitioners use an "investing *for* impact" strategy that works under specific conditions in certain markets and adopt a lock-step model. These investors, thanks to the evolution of the social investment market, are able to identify a **"sweet spot"** in which the achievement of a **social impact** and the **generation of financial returns go hand in hand** and **reinforce each other**.

Investors who move in this space support SPOs whose **social impact component is so embedded in their business model** that **by scaling the SPO the impact is also scaled**.

Capital providers adopting a lockstep model have all the characteristics of investors *for* impact, but also:

- invest their resources in **highly risky new ventures**, testing the solutions that will then be scaled by investors who adopt an "investing *with* impact" strategy, and in certain cases by the government;
- use **financial instruments** through which they can generate **financial returns** (often investing through equity);
- consider (high) positive **financial returns more as a "bet" rather than a selection criterion** for investments;
- have to **meet their own funders' expectations in terms of financial returns**[1];
- are **willing to take high risks** if they believe in the SPO's business model;
- couple their financial offer with **intensive non-financial support**;
- take a **portfolio approach** to find a good balance between social impact, financial return and risk;
- look at impact measurement and management with a **bottom-up approach**, not imposing pre-defined indicators (which do not work in markets or sectors without track record);
- are mostly **sector-agnostic**, as they look for the most innovative way to solve a social issue, without focussing on specific sectors or geographies.

Investors *for* impact following the lockstep model logic have been active in the VP/SI space for over a decade, working to build the market and to strengthen social innovation models, by also **accepting low financial returns.** Investors *for* impact following the lockstep model logic are a fundamental actor in the VP/SI space as they test new solutions to social problems, making them ready to be mainstreamed by investors *with* impact and traditional capital providers.