INVESTING *FOR* IMPACT

NAVIGATING IMPACT MEASUREMENT AND MANAGEMENT

EXECUTIVE SUMMARY

IMPACT AT THE CORE

A staggering USD 2,5 trillion annual financing gap looms over the ambitions to meet the Sustainable Development Goals (SDGs) by 2030. This makes the question of effectiveness of the capital already deployed even more important – and calls for an increased scrutiny of the performance gaps, impact needs, and the additionality of the impact created.

Investors *for* impact[1] make impact measurement and management (IMM) a priority to make the most of the available resources and maximise their positive impact:

1. IMM helps **identify what works and what doesn't work for solving a societal issue**. It is a key practice within the impact ecosystem.
2. IMM is deeply embedded in the DNA of investing *for* impact. It **drives decision-making throughout the whole investment journey**, from the definition of the investment strategy to the exit.
3. Investors *for* impact are pioneers in developing IMM practices. They play a central role in **safeguarding impact integrity** from impact washing, as more actors self-identify as impact investors.

1 **Investors *for* impact** can be highly-engaged grant-makers or social investors (e.g. foundations, impact funds). They support innovative solutions to pressing societal issues, providing in-depth non-financial support and taking on risks that most of other actors in the market cannot – or are not willing to – take. For more information, please consult: https://evpa.eu.com/about-us/what-is-venture-philanthropy

This report highlights key questions and considerations to measure, but most importantly manage impact at each stage of the investment journey, including investment strategy, deal screening, due diligence and deal structuring, investment management and exit. Each phase is linked to the EVPA five-step framework, developed in our "Practical Guide to Measuring and Managing Impact"[2].

It shows **how the EVPA framework and other relevant IMM initiatives** (the SDG Impact Standards, the Operating Principles for Impact Management, the Principles of Social Value and the IMP five dimensions of impact) complement each other and can work together.

THE EVPA FIVE-STEP FRAMEWORK

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

EVPA five-step process.

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

QUESTIONS THROUGHOUT THE INVESTMENT JOURNEY

INVESTMENT STRATEGY

- What problem(s) are you addressing? What are your impact objectives?
- What factors influence the way your 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?

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?

INVESTMENT PROCESS

INVESTMENT DECISION

DUE DILIGENCE AND DEAL STRUCTURING

- 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?
- 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?

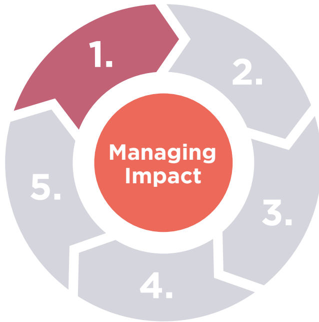
INVESTMENT MANAGEMENT

- How do you systematise your data collection and monitoring?
- How often do you collect data from your investees?
- How do you engage with stakeholders?
- 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?

EXIT

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

INVESTMENT STRATEGY



What factors influence the way your measure and manage impact?

Start with an in-depth analysis of **the factors that will have an influence on your IMM practices**. The five main elements to consider are (i) financial support provided, (ii) non-financial support provided, (iii) role played towards the investee, (iv) governance and resources, and (v) ecosystem.

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?

Decide how you will manage the two levels of impact: the (direct) impact on investees but also the (indirect) impact on society. There are five key outcomes to measure impact at the investor level: (i) financial solidity, (ii) impact management practice, (iii) organisational resilience, (iv) strengthening underserved SPOs, and (v) catalytic role.

Investing *for* impact also encompasses a third level of impact, which includes three dimensions: (i) “raising the bar” attitude (i.e. sharing knowledge and best practices to educate relevant stakeholders about the benefits of investing *for* impact), (ii) developing a thriving local impact ecosystem, and (iii) integrating a system change lens.

Further reading on how to embed the third level in Theories of Change: see full report page 20 for the cases of **Laudes Foundation**, **Rethink Ireland** and **Raise impact**.

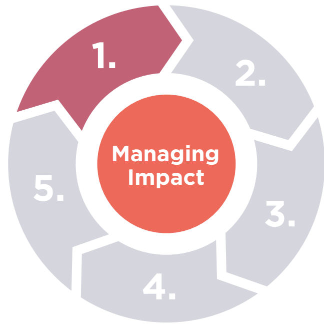
What problem(s) are you addressing? What are your impact objectives?

Do you have your own Theory of Change? How do you use it in practice?

Set **impact objectives and integrate them into a Theory of Change**. The Theory of Change helps investors articulate how and why they expect to achieve change through their activities. It is not to be set in stone but adapted as the underlying assumptions are constantly monitored and refined.

Further reading: see full report pages 22-23 for the Theory of Change of **Ferd SE**.

DEAL SCREENING



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

The impact objectives set when defining the investment strategy will guide the screening of social purpose organisations (SPOs) of interest. **During the deal screening phase, assess the societal impact of potential investees**, and their alignment with your own objectives.

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

Analyse current impact and performance, but also – and sometimes more importantly – **the potential of the solution, the additionality of the impact, the market potential and the scalability of the SPO.** Some organisations integrate these features into a scoring system that enables better decision-making.

Further reading: see full report page 27 for the cases of **Tilia Impact Ventures**, **Bayer Foundation**, **Bridges Fund Management** and **SI2 Fund**.

DUE DILIGENCE AND DEAL STRUCTURING

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

Before starting the investment, **support your investees in developing their Theory of Change** and work together to define the outputs, outcomes and impact targeted.

How do you identify and segment stakeholders and integrate their voice in the development of the solution?	During the due diligence phase, help investees **identify and assess subsegments of their beneficiaries so they can better tailor products and services, which leads to higher impact (and in some cases even financial) performance.** This analysis then also informs the outcomes defined in the Theory of Change. Further reading: see full report page 32 for the case of **SI2 Fund** and the SPO **Justice42**.
Do you consider any risk associated with not achieving the impact you expect / achieving a negative and/ or unintended impact?	**Identify the main impact risks** emerging from the SPO's activities. **The risk analysis considers the investor's own risk appetite and the stakeholders' risk tolerance and relevance given to outcomes.** It is also important to work together with the investee to set up a risk mitigation strategy**.**
Do you also assess the impact risk at the investor level?	**Consider not only the risks of the investees' activities, but also risk at the investor level.** For example, investors can balance IMM requirements with the investees' capacities and resources to avoid overburdening them.
How do you identify the main outcomes to measure? And how do you develop indicators that will enable well-informed decision-making?	Once the relevant outcomes for stakeholders are identified and the impact risks have been assessed, **select, together with investee, what indicators will capture progress towards the targeted impact**, **prioritising those that will drive future decision-making.** Consider **four elements when developing indicators at the investee level:** (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.

INVESTMENT MANAGEMENT

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

How often do you collect data from your investees?

During the investment management phase, the impact is regularly measured and monitored. Investors usually undertake a comprehensive data collection once a year and measure two or three key indicators more frequently, e.g. on a quarterly basis. **Tailor the frequency of measurement to the needs of the SPO and to the nature of the indicator.**

Put in place a process to verify, value and learn from the impact data generated, together with your investee. **Impact verification should aim to optimise positive impact and manage risks**, as well as understand whether risk mitigation strategies are effective. Investors and investees can also value the impact, i.e. weigh the benefits versus the costs for the stakeholders.

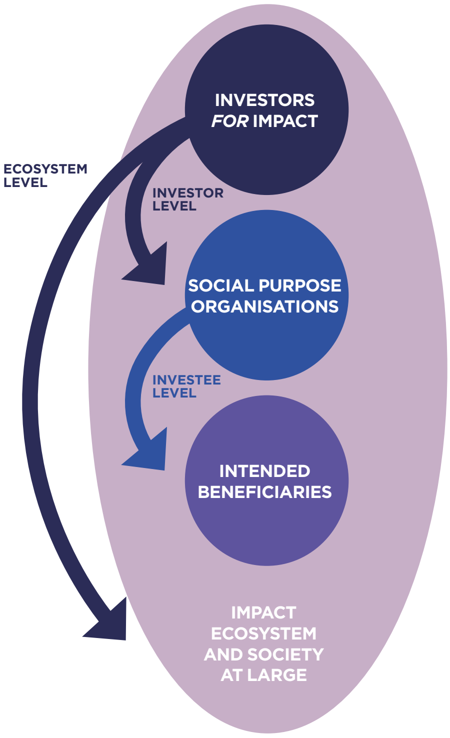
How do you engage with stakeholders?

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

The **regular involvement of stakeholders and final beneficiaries** in valuing and verifying the results is essential to understand the relevance of the intended and unintended outcomes achieved, identify impact gaps and areas for improvement, but also to be accountable to relevant stakeholders.

Further reading: see full report page 49 for the cases of **Open Value Foundation**, **LGT Venture Philanthropy** and **Investisseurs et Partenaires**.

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



Stakeholders to whom to be accountable can be divided in **four main groups**:

(i) funders,
(ii) investees,
(iii) intended beneficiaries and
(iv) impact ecosystem and society at large.

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

Sharing successes, failures, practices, and proper IMM helps an organisation be more transparent about its activities and its impact on people and the planet. Sharing data with other stakeholders is valuable as **the learnings can be relevant for those addressing the same societal issue**.

To increase transparency, **impact reports should also include decisions made, trade-offs identified and areas for improvement.**

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?

At this stage, the SDGs may be a comprehensive framework for investors to show stakeholders what they are doing. However, **if your organisation has not rigorously assessed its contribution to the SDGs, it's good to clearly state that the reporting on SDGs comes from an alignment exercise, rather than a thorough analysis**.

EXIT

After conducting an exit, take an **evaluation of the investment**, and potentially a **post-investment follow-up** to ensure the impact is preserved.

To preserve impact after exit, investors and investees may face **two different challenges**: (i) mitigating the risk of mission-drift and (ii) ensuring financial sustainability.

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

The most common way of mitigating the mission-drift risk is by only **selecting investees that have social impact embedded in their business model** (lockstep model), even if some trade-offs between financial and impact performance will always persist. **Actions to further preserve impact** in this case include (i) embedding impact in the DNA of the investee, and (ii) selecting like-minded follow-on investors.

To ensure financial sustainability in the long term where there is a limited or no market, **the key stakeholder is the public sector**, which can act as follow-on investor.

Further reading: see full report page 62 the case of **IKARE Ltd** and **Shifo Foundation**.

Download the full report "*Navigating Impact Measurement and Management – How to Integrate Impact throughout the Investment Journey*" (2022) at:
https://evpa.eu.com/knowledge-centre/publications/navigating-impact-measurement-and-management

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http://ec.europa.eu/social/easi