# Executive summary

# EXECUTIVE SUMMARY

This manual is targeted specifically at venture philanthropy organisations and social investors ("VPO/SI"), and more generally at impact investors, foundations and any other funders interested in generating a positive impact on society. Throughout the document, we use the term "VPO/SI" to refer to such social sector funders. The first objective of the manual is to create a roadmap or guidebook to help VPO/SIs navigate through the current maze of existing methodologies, databases, tools and metrics on social impact measurement. Therefore, we do not take a stand to recommend a particular tool, but rather have attempted to distil best practice from the various ways of measuring and managing social impact. The second objective is to trigger a movement towards best practice when it comes to measuring and managing impact. We would like the manual to become a working document that evolves with new versions over time as our industry knowledge develops.

The manual should be useful both for beginners in impact measurement, who are considering how to get started, and for more advanced investors who are struggling with how to better integrate an impact focus into everyday investment management decisions. Within the VPO/SI, the person (or team) assigned to measure impact will be the natural reader/user of the manual, but we also recommend executive directors, boards of directors and investment managers to use the manual as a reference for key decisions on topics such as resource allocation, deal selection and investment management. The manual uses plenty of real-life examples from VPO/SIs as well as five longer case studies that were developed by the impact measurement initiative (IMI) Expert Group members. The manual does not consider how to measure financial impact but focuses solely on social impact (using a broad definition of social that may also include environmental or cultural).

Our starting point has been to devise a process of Impact measurement for a VPO/SI wanting to measure the impact of their investment[8] in a Social Purpose Organisation ("SPO"). The guide focuses on two levels: how to measure and manage the impact of specific investments (level of SPO) and how the VPO/SI itself contributes to that impact (level of VPO/SI). This process is the "how to" of impact measurement and is often what is most needed by venture philanthropy organisations and social investors in general to get started. Analysis of existing methodologies for impact measurement and the experience of working together with VPO/SIs showed that most methods and tools to measure impact share a general framework.

8. We use investment throughout as including the range of financing instruments from grants, loans and equity.

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We represent the framework as having five steps as shown in the following diagram:


The 5 steps of social impact measurement

Source: EVPA

The steps are presented in sequential order and we recommend that VPO/SIs go through the steps in this order. However within the process it is possible to go back to steps and revise them as you gain more information and more familiarity with the process. Some VPO/SIs may find it useful to go through each of the steps at a theoretical level before implementing them in practice.

The goal of impact measurement is to manage and control the process of creating social impact in order to maximise or optimise it (relative to costs). Managing impact occurs continuously and is facilitated by integrating impact measurement in the investment management process. It is important to identify what may need to change within the investment management process so that you are able to maximise social impact. That is why Managing Impact is the core of the impact measurement process. For each step in the process, one should consider how this relates to the everyday work of funding and building stronger social purpose organisations.

The impact value chain was the starting point for the definitions used in this manual as it clearly sets out the differences between inputs, outputs, outcome and impacts.

The Impact Value Chain

| SPO's Planned Work | | SPO's Intended Results | | |
|---|---|---|---|---|
| 1. Inputs | 2. Activities | 3. Outputs | 4. Outcomes | 5. Impact |
| Resources (capital, human) invested in the activity | Concrete actions of the SPO | Tangible products from the activity | Changes resulting from the activity | Outcomes adjusted for what would have happened anyway, actions of others & for unintended consequences |
| €, number of people etc. | Development & implementation of programs, building new infrastructure etc. | Number of people reached, items sold, etc. | Effects on target population e.g. increased access to education | Attribution to changes in outcome. Take account of alternative programs e.g. open air classes |
| €50k invested, 5 people working on project | Land bought, school designed & built | New school built with 32 places | Students with increased access to education: 8 | Students with access to education not including those with alternatives: 2 |

Source: Elaborated by EVPA from Rockefeller Foundation Double Bottom Line Project

In this manual, the following definitions are used:

| | |
|---|---|
| **Inputs:** | all resources, whether capital or human, invested in the activities of the organisation. |
| **Activities:** | the concrete actions, tasks and work carried out by the organisation to create its outputs and outcomes and achieve its objectives. |
| **Outputs:** | the tangible products and services that result from the organisation's activities. |
| **Outcomes:** | the changes, benefits, learnings or other effects (both long and short term) that result from the organisation's activities. |
| **Social Impact:** | the attribution of an organisation's activities to broader and longer-term outcomes. |

To accurately (in academic terms) calculate social impact, you need to adjust outcomes for:

(i) what would have happened anyway ("deadweight"); (ii) the action of others ("attribution"); (iii) how far the outcome of the initial intervention is likely to be reduced over time ("drop off"); (iv) the extent to which the original situation was displaced elsewhere or outcomes displaced other potential positive outcomes ("displacement"); and for unintended consequences (which could be negative or positive).

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EVPA's recommendation for measuring social impact is to calculate outcomes while acknowledging (and if possible adjusting for) those factors that contribute to increasing or decreasing the impact of the organisation; rather than aiming to calculate very specific impact numbers.

In what follows, we provide a quick glance at the recommended impact measurement process as detailed in the manual.

**Step 1: Setting Objectives**

This step includes defining the scope of the VPO/SI's impact measurement and setting objectives. Setting objectives is a vital step in any impact measurement process and needs to be considered at both the level of the VPO/SI and the investee SPO. Often VPO/SIs do not spend enough time upfront considering their own impact objectives and why they want to measure impact, which later makes it difficult to take decisions regarding what is relevant and what is not when faced with scarce resources.

The more specific the objectives the better the impact measurement that can be prepared For a VPO/SI, objectives should be set at two levels:

**(i) Level of the VPO/SI.**

On the rationale and scope of impact measurement, the VPO/SI should aim to answer five questions upfront:

a. What is your motivation for measuring social impact?
   There are many different purposes for using impact measurement and these could each imply different target audiences and outlook.

b. What resources can you dedicate to impact measurement?
   Resources to be considered include financial, human, technological and time.

c. What type of SPOs are you working with?
   The maturity i.e. the stage of development of the SPO will potentially limit the type of information that the SPO can provide to you.

d. What level of rigour do you require in your impact analysis?
   Depending on how accountable you expect your investees to be, you can increase the rigour of your analysis and thereby reduce the risk of any impact claims made.

e. What is your time frame for measuring impact?
   The time period over which you measure impact should be determined by the most important outcomes and estimated length of time required to achieve them. But in practice there may be internal or external pressures to invest for a certain period of time. Depending on your timeframe, you will be able to draw either very specific or more general conclusions about the impact of the SPO.

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On its impact objectives, the VPO/SI should aim to answer these questions:

a. What is the overarching social problem or issue that the VPO/SI is trying to solve?

This can be more or less difficult depending on how broad or focused your approach but a clearly articulated response is necessary to be able to choose investments that can contribute to solving the social issue that the VPO/SI is addressing.

b. What objective does the VPO/SI want to achieve?

Looking at your overall objectives and the relationship to be built with investees.

c. What are the expected outcomes?

The VPO/SI should evaluate the expected outcome of its investment in the SPO, i.e. the expected outcome of the SPO and how the VPO/SI expects to contribute to achieving that outcome. It is important to consider potential unintended consequences of the VPO/SI's activities.

**(ii) Level of the SPO.**

At a minimum you should answer these questions about the SPO:

a. What is the social problem or issue that the SPO is trying to solve?

The response should include information about the nature and magnitude of the problem or opportunity; which populations are affected; whether the matter is changing or evolving as well as in what way it is changing or evolving.

b. What activities are the SPO undertaking to solve the social problem or issue?

This should include a description of exactly what the SPO is doing to try to effect a change.

c. What resources or inputs (as per the impact value chain) does the SPO have and need to undertake its activities?

This should include the time, talent, technology, equipment, information and other assets available to conduct the activities, as well as the VPO/SI's contribution to helping the SPO to solve the issue.

d. What are the expected outcomes?

This should include what the SPO must achieve to be considered successful and will form the basis of the milestones against which the SPO will be measured. It is also important to consider the unintended consequences of the SPO's activities.

**Recommendations for managing impact:**

- A VPO/SI must formulate its overarching social problem or issue so as to choose investments in SPOs that can contribute to solving that social issue.
- Understanding the current and expected social impact of an SPO early in the decision-making process is extremely valuable: it creates a common understanding of the impact of an organisation; allows the VPO/SI and SPO to "speak the same language"; and facilitates assessment of achievement of impact at later stages. A VPO/SI should convince the SPO of the value of impact measurement, provide assistance where possible and define with them the responses to the essential questions to help them express their objectives.
- Decisions have to be made about the amount of time and resources that a SPO should dedicate to impact measurement.

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### Step 2: Analysing Stakeholders

VPO/SI investments generate value for a variety of stakeholders. A stakeholder is defined as, *"Any party effecting and/or affected by the activities of the organisation."*
This is an important step because the VPO/SI needs:

- *To understand the expectations* of the stakeholders, their contribution to and the potential impact the SPO's work will have on them.
- The *co-operation* of the main stakeholders in the impact measurement process.

Applying to both the VPO/SI and SPO level, there are two aspects to stakeholder analysis:
(i) *Stakeholder identification*; which includes stakeholder mapping (direct and indirect contributors and beneficiaries), stakeholder selection (using concepts such as materiality, accountability and relevancy) and analysis of stakeholder expectations.
(ii) *Stakeholder engagement;* which includes communicating with the selected stakeholders and is vital to be able to understand their expectations and, later in the process, verify if their expectations have been met. This is described in more detail in Step 4.

**Recommendations for managing impact:**

- A VPO/SI must get the buy-in of key stakeholders (donors/investors, staff/human resources, SPOs) to the impact objectives of the VPO so that their expectations are managed and their contributions are aligned.
- Engagement with a VPO/SI's key stakeholders should happen upfront and any major changes in the impact objectives should be properly communicated.
- When a VPO/SI makes an investment in a SPO, stakeholder analysis should be included during the due diligence phase. As the investment period proceeds, it is advisable to regularly get back to these stakeholders to verify that their expectations are being met (more details on how to do this in Step 4).
- Consider upfront when would be the appropriate time to revisit stakeholder analysis together with the SPO (e.g. change to outcomes being achieved, major new funding streams, new business lines, policy changes).

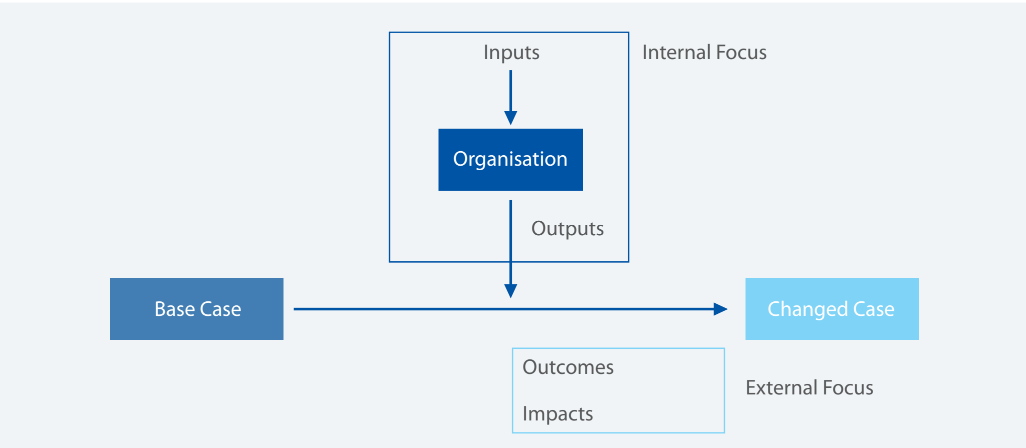
### Step 3: Measuring Results: Outcomes, Impact and Indicators

This step again occurs at two levels:

- VPO/SI level: its own outputs, outcomes, impact and indicators as per its own objectives (theory of change etc); impact measurement at a portfolio level; impact of the VPO/SI's work on the SPO.
- SPO level: transforming its objectives into measurable results via outputs, outcomes, impact and indicators.

To transform the objectives set in Step 1 into measureable results a VPO/SI and SPO must consider outputs, outcomes, impact and indicators. For a VPO/SI, it is not sufficient to just consider the impact achieved by the SPO, it is also important to assess the impact of the work of the VPO/SI on the SPO. Outputs are directly related to the activities of the organisation i.e. what is done to try and make a change in the base case, hence these are generally easier to measure. Outcomes and impacts are related to the expected and unexpected effects of the activities of the organisation, hence they are outside the scope of the organisation's activities (but within their scope in terms of accountability) and generally more difficult to measure.

Internal vs external focus: the use of outputs, outcomes or impacts




Source: EVPA

Indicators are used to show progress towards or away from outputs or outcomes. If output indicators are required these should be sourced as much as possible from public databases such as IRIS, Global Value Exchange or other databases. If these output indicators point in the same direction as the outcome you are targeting or if there exists independent research showing that specific outputs do result in specific outcomes then some may also be used as outcome indicators. If not we recommend the following **process to select outcome indicators**:

(i) **Define outcomes** as change statements, target statements or benchmark statements.
(ii) **Select outcomes:** you may have a list of outcome statements but you must select those outcomes that are most important, material, useful and feasible (in achievement not in measurement).
(iii) **Select indicators** i.e. identify two to three factors that provide measurable evidence for a sub-optimal situation. There are four aspects to a good indicator:
   a. Indicators should generally be aligned with the purpose of the organisation, although if a potential unintended outcome has been identified, relevant indicators for this out-come may by definition not be aligned with the purpose of the organisation.
   b. Indicators should be "SMART".
   c. Indicators should be clearly defined so they can be reliably measured and ideally comparable with those used by others.
   d. More than one indicator should be used, with preference for two or three.

Impact itself is a technical and often academic discussion including concepts such as drop off, displacement, deadweight and attribution. The rationale for this guide is to remove the complexity around the issue and provide practical guidance.

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The ability of an organisation to measure impact will depend on the sector and geography in which it is operating. The propensity of European governments to move towards pay for performance contracts means the measurement of impact is becoming more important for those organisations active in these areas. However, for many organisations, access to independent statistics and the creation of control groups in order to assess displacement, deadweight, drop off and attribution is not possible due to the expense and specialist skill-set to carry them out. In these cases we encourage organisations to measure impact by calculating outcomes and acknowledging those factors that may mean that the outcomes are not equal to the impact i.e. can increase or decrease impact. In some cases it may be possible to think about some evidence as to what a control group may look like and could be used for comparison purposes, for example based on research of comparable situations elsewhere.

***Recommendations for managing impact:***

- For a VPO it is not enough to just consider the impact achieved by the SPO, it is also important to assess the impact of the work of the VPO/SI on the SPO.
- The definition of portfolio level indicators may be required to measure how well a VPO/SI has achieved its objectives as an organisation.
- The VPO/SI should ask the SPO to focus on those indicators that are directly related to the SPO's theory of change and hence in line with their operational process. Any additional indicators required for the VPO/SI to satisfy its impact measurement needs should be collected by the VPO/SI.
- The expected outputs, outcome and impact, and the corresponding indicators should be defined before the investment is made and agreed upon by the VPO/SI and the SPO.
- Clarify at the beginning of the relationship (i.e. during due diligence and within deal structuring) who is responsible for measuring what. This can evolve over time and should be reviewed on an annual basis.

### Step 4: Verifying & Valuing Impact

In this step, we need to verify whether the claim we make on having positive social impact is true, and if so, to what extent (i.e. to what value). The responses to these questions will allow us to refine the target outcomes and associated indicators, creating a positive feedback loop in the impact measurement process. This step also helps identify the impacts with the highest social value, which can help an organisation focus their resources towards those initiatives that create most impact on society.

Again, this step needs to occur at two levels: both at the level of the VPO/SI as well as at the level of the SPO.

The VPO/SI must verify (or at least record) the non-financial assistance provided to their investees. They should then confirm with the investees that this assistance was in fact valued. It may also be necessary for VPO/SIs to verify at regular intervals that the expectations of other stakeholders (donors/investors and human resources) are met so that corrective actions can be undertaken if necessary.

At the level of the SPO, it is important to verify whether the outcomes make sense for the stakeholder i.e. if the outcomes were realised during the timeframe and in the quantities expected.

**Verifying impact** can be done via:

- **Desk research:** confirming whether the trends detected and interpreted by the SPO can be triangulated with other data (external research reports, databases, government statistics etc.);
- **Competitive analysis:** comparing the results of the SPO with other comparable organisations in terms of similar issues, geographies and populations targeted;
- **Interviews / focus groups:** asking neutral questions to a representative sample of your key stakeholders. This format can be particularly useful when the VPO/SI is assessing the value of its non-financial assistance to the SPO. However it is recommended that a neutral party conduct these interviews so as to ensure SPOs are comfortable providing the most truthful responses).

The next step is to understand if the outcome was important i.e. of value to the stakeholder.

Numerous techniques and methodologies exist for **measuring value** created. We have chosen not to list all the possible techniques preferring instead to cite certain useful references. Two general categories can be identified: qualitative and quantitative (monetisation).

- **Qualitative:** storytelling, client satisfaction surveys, participatory impact assessment groups, progress out of poverty index.
- **Quantitative (monetisation):** techniques for valuing e.g. perceived value / revealed preference and Value Game or techniques for cost / benefit analysis e.g. cost-saving methods and quality adjusted life years calculations.

Whether you select a quantitative or qualitative technique or a combination of both for valuing impact will depend on your rationale for measuring impact in the first place. For example, often governments tend to prefer quantitative approaches whereas the general public may prefer qualitative methods.

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**Recommendations for managing impact:**
- Perform this step at the beginning of an investment (as part of the due diligence), at least once during the investment period (to check that the impact is achieved and valued) and again at the time of exit (as a way to check that the desired impact has been achieved and makes sense).
- Make clear assignments between the SPO and VPO/SI about who is responsible for which parts of the verifying and valuing process.
- Unless you verify whether you have created value through your support of the SPO, you cannot credibly make that statement.
- VPO/SIs should use independent studies to assess the value they provide to the SPOs as directly questioning investees may be a delicate matter, resulting in them not always providing truthful answers.
- VPO/SIs should verify at regular intervals that the expectations of other stakeholders (donors/investors and human resources) are met so that corrective action can be undertaken if necessary.

### Step 5: Monitoring & Reporting

The final step in the impact measurement process involves monitoring – tracking progress against (or deviation from) the objectives defined in the first step and made concrete through the indicators set in the third step; and reporting – transforming data into presentable formats that are relevant for key stakeholders. Monitoring and reporting are iterative processes that go hand in hand because what is monitoring to one stakeholder is reporting to another e.g. when a VPO/SI is monitoring the progress of an investee SPO, that SPO is reporting relevant data to the VPO/SI. As in the other steps we must consider the process at two levels: the VPO/SI and SPO.

#### (i) Monitoring

Once an organisation has decided on the indicators to be measured and verified that they make sense to the key stakeholders, they need to start collecting data in a systematic way. In practice, the type of system may be considered upfront but we urge organisations to go through the impact measurement process at least theoretically prior to setting up the system to understand the type of information that needs collection.

The VPO/SI should be collecting and analysing data on:
- Specific indicators that measure its progress towards reaching its overarching social objectives.
- Time invested and/or € provided in non-financial support to its investees.
- The investee SPOs, according to the objectives and indicators previously defined.

There is also a need to evaluate if the SPO is effectively monitoring its activities and outcomes e.g. are the selected indicators appropriate (providing a balanced picture of the situation and picking up potentially positive and negative aspects) and if the VPO/SI has a role to play in improving the impact measurement practices of the investee

The SPO needs to evaluate the outcomes or impacts that are being achieved through the activities of its organisation and the practical lessons that can be learned from the results. With this information it is then possible to decide what actions are needed to increase impact.

### (ii) Reporting

Once the data has been collected and analysed, an organisation needs to consider how to present this information. The purpose of reporting affects the information that should be included. Depending whether the focus is on an internal or an external audience, the various stakeholders may require different types of reports. The stakeholder analysis conducted in Step 2 should guide the development of reporting, considering the stakeholders' multiple objectives.

One of the challenges of the social sector is that each SPO needs to report in different ways to each funder. Some initiatives (e.g. Social Reporting Standard) are trying to overcome this problem, but there is still a problem of lack of standardisation that leads to inefficiencies.

**Recommendations for managing impact:**

- To remove a reliance on and/or culture of "gut feeling", VPO/SIs should work with the SPO to develop an impact monitoring system that can be integrated into the management processes of the organisation.
- Check whether the system the SPO already works with is sufficient to meet your requirements – if not, a VPO/SI should be prepared to contribute to improving it through pro-bono partners or other resources (although generally this support doesn't extend to the actual data collection). The objective should be a system that is of value to the SPO as a management tool.
- The cost to support and maintain a SPO's impact monitoring system (including personnel time and costs) should be part of the SPO's budget and hence part of the negotiation with the investor in order to decide how costs should and/or could be split.
- When working with very early stage SPOs and helping them develop business plans, integrate requirements on impact measurement at this stage.
- Agree on reporting requirements upfront with SPO and co-investors to eliminate the burden of multiple reporting on the SPO.
- Manage expectations about frequency and level of detail for reporting, and the way SPOs report; will they just report on numbers or also on verification (and if so, with what frequency).

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### Managing Impact

The impact measurement process outlined in the five steps should allow the VPO/SI to better manage the impact generated by its investments. To manage impact, the VPO/SI should continuously use the impact measurement process to identify and define corrective actions if the overall results deviate from expectations. It will also have become clear that impact measurement is very closely aligned to your investment management process. Given most VPO/SIs are aiming to maximise impact, the corrective actions taken may apply as much to the investment management process as to impact measurement itself.

Managing impact in the investment process

| Investment strategy | Investment process | | | | |
|---|---|---|---|---|---|
| | Deal screening | Due diligence (detailed screening) | Deal structuring | Investment management | Exit |
| *Decide on the overarching social impact objectives of the VPO/SI – these will guide the investment process.* | Assess whether investment opportunity fits with VPO/SI strategy by asking questions detailed in setting objectives. | Dig deeper into questions asked in setting objectives.<br><br>Perform stakeholder analysis.<br><br>Verify and value expected results. | Map outputs, outcomes and impacts and decide on key indicators against which progress will be measured.<br><br>Decide on monitoring and reporting content and frequency and assign responsibilities. | Regularly assess impact results against key indicators.<br><br>Verify and value reported results at regular intervals.<br><br>Revise indicators if significant changes are made in the business and impact model. | Perform thorough analysis of impact results against objectives – verifying and valuing reported results. |