Results Measurement in Impact Investing:

A Preliminary Review

Results Measurement Working Group

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DCED

The Donor Committee for Enterprise Development

This Review has been produced by the Results Measurement Working Group (RMWG) of the DCED. Donna Loveridge, Deputy Coordinator of the DCED, is the principal author. Jim Tanburn and RMWG members provided feedback on drafts. Feedback is welcome and should be sent to: Admin@Enterprise-Development.org.

The DCED is the long-standing forum for donors, foundations and UN agencies working in private sector development, who share their practical experience and identify innovations and formulate guidance on effective practice.

The RMWG aims to achieve greater effectiveness among Private Sector Development programmes, with greater developmental impacts, as a result of improved monitoring and the adoption of harmonised indicators. For more information on the DCED RMWG, please visit the DCED website at: http://www.enterprise-development.org/organisational-structure/working-groups/overview-of-the-results-measurement-working-group/

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Executive summary

Donors are now engaging directly with the private sector, as partners in development. This represents a major shift in mode of operation, relative to the more traditional, bilateral model. DCED members are looking to the DCED to support them in making that shift, not least by convening a group of donors around the topic of private sector engagement. In addition to the review outlined in this paper, current research is also covering business environment reforms that support inclusive business, how organisations are adapting to private sector engagement, and multi-stakeholder business platforms.

This paper examines current practices in measuring social and environmental impact generated through impact investments; it was requested by the DCED Results Measurement Working Group. It gives an overview of the topic, as important insight for future thinking in related areas, such as public private development partnerships and blended finance. It is a preliminary analysis, based on a desk review; in particular, it relates current practice in Impact Investing to good practice in results measurement, as codified in the DCED Standard for Results Measurement.

1. What is impact investing?

'Impact investing' (II) is an emerging field which has grown rapidly in the last few years, outside international development. Defined as 'investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return,'[1] the field has attracted interest from donors looking for new ways promote sustainable results for poor people. 'Impact' is still a fluid term, and as implied by this definition, impact investing covers a wide variety of possible activities and approaches. Investment can be configured in many ways, for example in relation to timing or conditions. It can be made in any sector, from agriculture, energy and education through to health. It takes place domestically and across borders, in developed and emerging markets.

Investors may be large institutional funds, foundations, governments or high net worth individuals; each type has different motives for investing, and expectations about financial and social and environmental returns - meaning that there are widely varying appetites for measuring impacts. Recipients of investment may be small start-ups, profit-making social enterprises looking to scale up, mature companies or funds. A core characteristic of impact investing is the measurement of social and environmental impact alongside financial returns.

2. What is the status of results measurement in impact investing?

The literature suggests that results measurement in impact investing has focused mainly on:

- Assessing potential social and environmental impacts, risks and financial returns at the pre-investment stage.
- Measuring financial returns and outputs after investment decisions have been made.
- Standardising results measurement infrastructure, including developing:
  - Rating or scoring systems, that largely focus on internal business management and operations, and
  - Catalogues of indicators such as IRIS, which investors can use to self-report and publish their achievements.

Several organisations have also published guidelines on developing results measurement systems for impact investing to encourage better and increased measurement of social and environmental impacts. There are notable similarities with the DCED Standard for Results Measurement,

[1] GIIN website at https://thegiin.org/impact-investing

particularly in developing an impact chain (similar to, though more simplified than, the DCED Standard's results chain) and using indicators. Although, not covered in the guidance, results measurement is also often part of investment manager's responsibilities rather than of a separate measurement team. There are also differences. In the impact investing guidance, there is less emphasis on clearly articulating assumptions underpinning the impact chain. The integration of results measurement into management processes is the stated ideal but not mandatory. There are more explicit references to developing results measurement systems that are proportional to the size of the investment and its stage of development, and the maturity of the investee.

As yet, impact investing measurement has not substantially focused on:

- Embedding results measurement into management practices at all levels from investors down to recipient organisations.
- Incorporating rigorous measurement of social and environmental impact into the costs of investments, as distinct from third party sponsors undertaking and/or funding measurement activities.
- Assessing investment criteria other than impact (i.e. efficiency, relevance, sustainability, learning).
- Measuring the effectiveness of intermediaries, who work with investors, to identify investment opportunities and structure financial instruments, and investees to identify opportunities for capital and to become ready for impact.
- Measuring systemic change, beyond the impact to targeted beneficiaries and to the wider market.
- Analysing relationships between different types of returns – social, financial and environmental.

There are many results measurement approaches on offer. These can be grouped into four broad categories:

1. Rating systems as a predictor of impact – these focus on the internal operations of an organization, covering for example the policies and processes in place to safeguard the environment, the quality of engagement with stakeholders, or treatment of employees. Many have their roots in CSR; in impact investing, they are used for due diligence processes.
2. Output measurement as a proxy for social impact – these systems measure only or mostly outputs, that is the products and services that are produced as a result of the organisations activities, using standardised or customised indicators of success. Tracking 'lead indicators' are seen to signify the realisation of social impact.
3. Directly assessing social impact – systems that use a range of quantitative and/or qualitative information to very varying levels of depth. Some approaches are driven by investors, and favour standardisation and quantitative measures; others are more participatory and involve investees and beneficiaries.
4. The assessment of social impact as part of doing businesses – these approaches encourage the integration of results measurement into the management decision-making of the recipient of the investment, to improve the effectiveness in relation to social impact.

In order to consider the relative maturity of the results measurement field in II, we can refer to the work of the G8 Social Impact Investing Task Force (Working Group on Impact Measurement) that has outlined four stages in the development of results measurement. These are:

1. Emergence – individual organisations are developing their own practices
2. Consensus – best practices emerge and there is increasing alignment across organisations
3. Standardisation – standards for performance measurement and transparency increase traction
4. Integration – standards become part of impact investing market's formal infrastructure.

Based on this review it would seem that current practice is transitioning from Level 1 – emergence moving to Level 2 (as defined by the SIITF, 2014). In comparison, the implementation of the DCED Standard is at Level 3.

3. Where are the opportunities and entry-points for DCED/donor engagement with impact investing and results measurement?

Interest in impact investing has been rapidly growing, but the field is still young and emerging. Most energy has so far been focussed on identifying and building up a pipeline of investments. While results measurement is instrumental for tracking the impact of these investments as they mature—the value—to date most of the work has been at the pre-investment phase and hence the focus has been on measuring the potential for impact. Impact investors are looking to learn from the experience of international development in measuring social impact. Wilton Park (2015) goes further proposing that both communities work together to develop a new set of practices to meet the specific needs of the impacting investing community, which will draw from, but be different to, current practice in international development. This presents opportunities for DCED Results Measurement Work Group to engage with and shape how impact investing approaches results. Based on the findings of this review there are some important implications for development organisations wanting to partner with the private sector on impact investments.

Overall, learning is vital for the growth of this field but needs to be more purposeful and better shared. Given the impact investing field is so new, no organisations have experience that is both broad and deep and all are learning on the job. It is therefore important that DCED continue to network with others, support practical research and share experiences and lessons.

In the short term, there are a number of very practical issues worthy of further attention. These are:

3.1 Better understand donors' value proposition in impact investing. International development donors have a lot of power and influence in the industry. Some impact investing actors say there is more demand for donors' networks and experience working in emerging markets over capital. If donors do not have 'skin in the game', their influence changes. Better understanding donors' value-add of no-capital and low-capital options is useful.
   a. Document short case studies illustrating how donors have added value to impact investments 1) without providing capital; 2) low capital amounts; and 2) different types of capital.

3.2 Assess the benefits and risks of subsidising results measurement for impact investing. There are examples of charity, research and philanthropic organisations subsidising the cost of robust impact measurement. This goes against the fundamental concept of impact investing since results measurement is not being added to the cost of the investment and therefore financial returns are overstated. A useful activity would be:
   a. Prepare a short note on the benefits and risks of subsidising results measurement, along with practical strategies to mitigate risks.

3.3 Identify measurement that directly adds value to businesses. While it is recognised that results measurement for impact investing works best when it has a business value, few reports focus on what investees need to know in order to add value to the business. This is an important area for further investigation to garner efforts for results measurement. To fill a gap in the literature:
   a. Conduct research to better understand the results information (social, financial and environmental) that is most useful for businesses (beyond reporting to investors), and compare to information required by investors.

In the medium term it would also be useful to:

3.4 Develop mechanisms for **assessing risk-return and results-measurement appetites of impact investing.** Traditionally, fund managers consolidate capital from investors with similar financial

risk-return expectations. For impact investing, fund managers need to also consider the social risk-return expectations and results measurement expectations of investors. Possible activities include:

a. Develop a framework for assessing financial, social and environmental risks-returns along with results measurement risks-returns, linking it to different types of investments.

The following point links into current international development debates about complexity, adaptive management and may be useful to consider. However, it is more exploratory and has a less tangible action at this stage.

3.5 Better understand the implications of complex change processes on impact investing and results measurement. In impact investing, the value placed on standardisation, comparability and universality has an implicit message of control and predictability. This differs from current international development evaluation debates that have focused on how to measure results in complex change processes so that learning and decision-making can be data driven. At this point, it would be most useful to further:

a. Convene a small group of donor-funded impact investing initiatives to better understand the extent to which complex social change processes are viewed as a conundrum for impact investing and if so how and why. From these discussions, further more specific lines of enquiry may materialise.

Lastly, this preliminary review covers several of the DCED RMWG's area of interest as articulated in the TOR on 'impact investing and methods for measuring it in practice' (May 2016). Based on these findings, the following suggestions are made with regard to the TOR components not covered in this review:

3.6 It would be interesting to determine **the current level of sophistication in attributing results (financial and social) to various investors,** e.g. if a first-loss investment takes less of a financial return but more of a development return from the fund. Interviews with a small number of fund managers could be pursued.

3.7 Given the state of results measurement, it seems unlikely that further investigation will garner many insights into **the relationship between fund structures and developmental results.**

3.8 Further general case studies are unlikely to add significant new information at this stage: Existing case studies are not sufficiently detailed to gain an in-depth understanding of what is happening on the ground and the quality of evidence and judgements about impact. In-depth understanding would require considerable access to organisation's results measurement systems, staff and evidence. Few fund managers are likely to provide this access if their systems are not strong or they are concerned about the findings. Further case studies are likely to portray good practices, rather than provide an understanding of the range of practices, and feature organisations already documented.

1. Introduction

Donors are now engaging directly with the private sector, as partners in development. This represents a major shift in mode of operation, relative to the more traditional, bilateral model. DCED members are looking to the DCED to support them in making that shift, not least by convening a group of donors around the topic of private sector engagement. In addition to the review outlined in this paper, current research is also covering business environment reforms that support inclusive business, how organisations are adapting to private sector engagement, and multi-stakeholder business platforms is being undertaken.

One of the key characteristics of impact investing is that the investor takes the responsibility to measure and report social and environmental impact in addition to financial impact, and the impact investment community has been developing infrastructure to meet this ambition. However, well-known approaches such as those developed by Acumen, ANDE, GIIN, IRIS, GRI are not generally tailored to the needs of donor agencies and development organisations, who require credible assessments of the achievement of social impacts brought about by the development interventions they support.

This paper examines current practices in measuring social and environmental impact[2] generated through impact investments to provide the DCED Results Measurement Working Group with an overview of the topic which can provide important insight for future thinking in related areas, such as public private development partnerships and blended finance. It is a preliminary analysis, based on a desk review, on which in-depth case studies may be undertaken to ascertain the extent to which results measurement systems in use by impact investors conform to good practice, as articulated in the DCED Standard for Results Measurement.

Impacting investing brings together concepts and language from different disciplines such as finance, business, social services and evaluation. Consequently, different organisations are introducing new terms or using the same terms in different ways. To situate the analysis of current practices, **Section 2** summarises the context for impact investing measurement. It examines the results measurement within private sector development and social and environmental impact measurement within impact investing. The historical and current influences on the practices of each are reviewed.

Reports and studies on impact investing and results measurement have been regularly published over the last five years. **Section 3** presents the findings from the current literature on the state of the impact investing measurement. Specifically, this section examines different approaches to results measurement and what is happening in practice.

The **final section** draws the conclusions including the implications for donors, and highlights some areas of potential future exploration.

[2] Social impact measurement is more commonly used than social and environmental impact measurement. Reference to social impact in this paper includes environmental impact unless explicitly stated.

2. The context for impact investing measurement

Impact investing and results measurement are crowded with words and terms that are often used differently by different organisations. This can create confusion and be a barrier to understanding key issues, particularly when two historically disparate sectors are coming together. This section outlines the pathway of international development results measurement and measurement in impact investing. It provides important context information for the following section that focuses on key approaches and current practices.

2.1 Private sector development and results measurement

The DCED is founded on a principle that successful businesses contribute to healthy societies. In short, successful businesses need a healthy society as it creates a demand for products and services which help businesses meet society's needs, and in reverse successful businesses create jobs and wealth that will lead to improved living standards and social conditions (Greico, 2015). This belief underpins the DCED Standard for Results Measurement that includes common indicators on job creation and increased income.

'Monitoring and evaluation' is used widely by international development practitioners when referring to the assessment of social and environmental impact. Monitoring is the systemic ongoing collection of data to assess implementation progress. It has normally been concerned with answering questions related to what was done, and when, while evaluation focused on answering how and why questions and ultimately valuing the work of a programme. Evaluation is the structured systematic process of assessing a programme, organisation, policy, project or investment with the aim of determining the extent its achievements against particular criteria such as efficiency, effectiveness, sustainability, relevance, impact and lessons learned (OECD-DAC, 2015). Good evaluation requires good monitoring and vice versa. The DCED Standard, developed in 2008, refers to results measurement, a term that aimed to cross the divide between monitoring and evaluation. It also addressed some perceptions that implementers were not interested in, and responsible for, understanding the extent to which outcomes were being achieved (or their contribution to influencing outcomes).

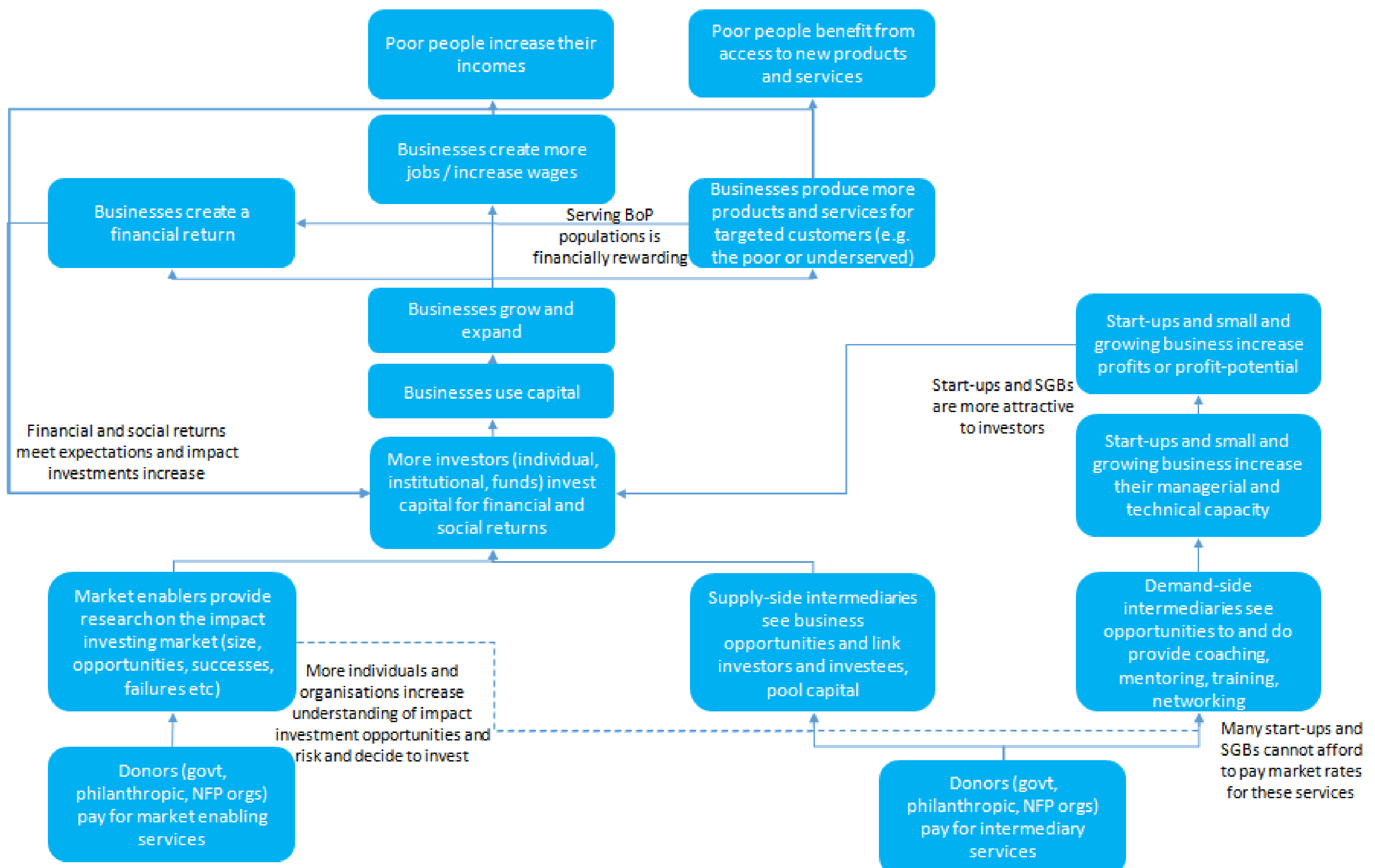
Current trends in international development evaluation are strongly influenced by ongoing interest in data-driven decision making whereby more timely and relevant data and analysis is fed into management processes. This move is blurring the lines between monitoring and evaluation so monitoring becomes more than for accountability and with a stronger shift towards learning (Reisman and Orian et al, 2015). Therefore, questions related to asking 'how' and 'why' that are traditionally the remit of evaluation are being incorporated into more regular monitoring processes (Rist and Stame, 2006). These trends are also testing traditional perceptions about what constitutes quality evaluation. This particularly in relation to which methods may be best but also to the idea that quality evaluations are undertaken by external 'objective' evaluators. There is some move towards seeing that evaluators can play a greater role in being part of the strategic-learning-data-driven decision making processes and new participatory approaches such as developmental evaluation (Patton, 2010) are gaining some traction, particularly in philanthropic organisations.

2.2 Impact investing and social impact measurement

Impact investing, builds on the notions of corporate social responsibility and ethical investing, and moves beyond traditional investing that sees financial and social returns as separate elements. Impact investing seeks to allocate capital that will return both a financial and social benefit and

investees intentionally construct business models to deliver a financial and social benefit.[3] A basic theory of change for impact investing is outlined in **Diagram 1**.

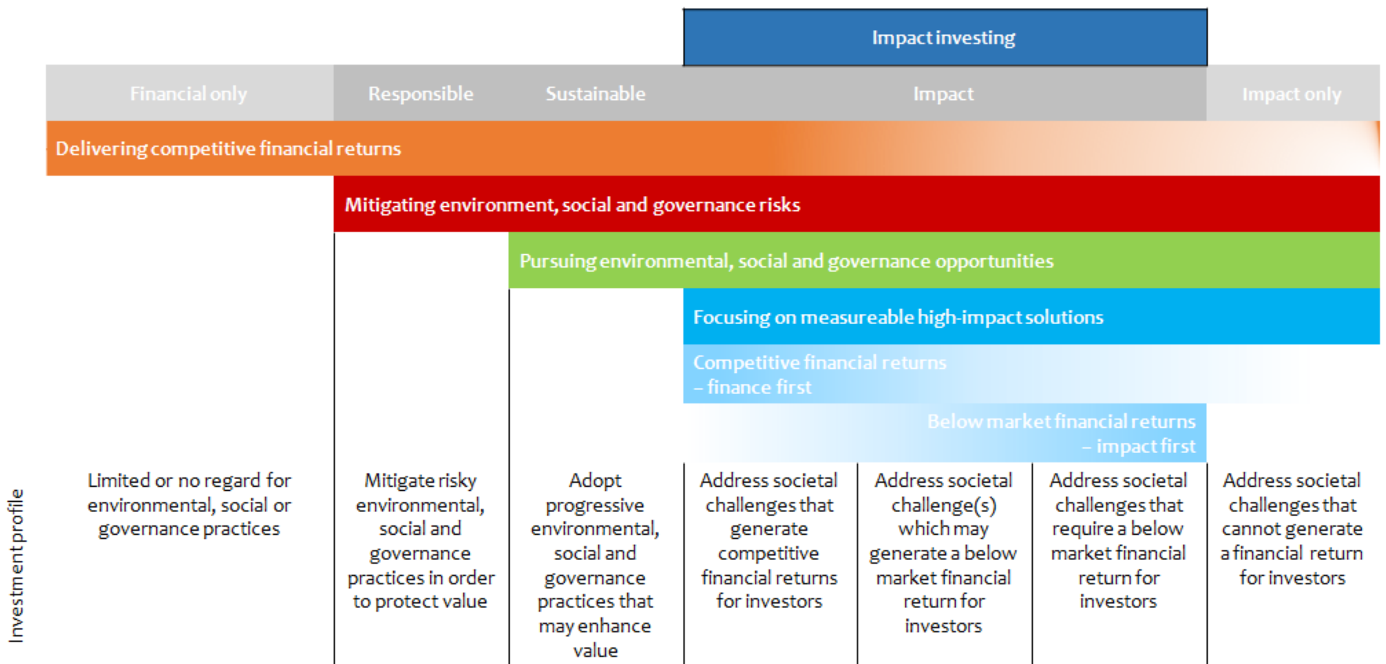
Diagram 1: Theory of change for impact investing



Greico (2015: 51) clearly argues 'The action of an impact investor is based on the concept of additionality: beneficial social outcomes that would otherwise not occur but for investment. As impact investors are socially motivated, they intend to achieve social goals. Thus the main issue is to understand whether or not an investment actually has a social impact'. **Diagram 2** illustrates a spectrum of investment intentions, ranging from financial return only investments through to social return only investments.

[3] Impact investing differs from blended finance where 'the strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging and frontier markets' through mitigating risk or guaranteeing commercial risk adjusted returns (OECD, 2015).

Diagram 2: Spectrum of investment opportunities



Source: Adapted from SITTF WGGA (2014) cited in OECD (2015: 13)

With the focus on social impact, evaluation that has traditionally been related to the work of public agencies and non-government organisations and more recently philanthropic organisations is moving into the private sector. Of course, monitoring and evaluation are not foreign concepts to the private sector but there have been some different influences. For instance, social impact measurement has grown through the management consulting and accounting fields, and in many cases has referred to ex-ante assessments rather than ex-post (Reisman and Orian et al, 2015). Impact investors have generally been able to report on the outputs and financial returns produced but less so on the social impacts. In part, this has been because impact investors have felt that outcomes and impact was too far removed from investments and too expensive compared to the size of the investment (Dichter, 2016). Reisman (2016) argues that the 'state of measurement has not been keeping pace with the number of innovative solutions that have been happening' in the impact investing space. Like evaluation, data driven-decision making is also influencing the social impact assessment field. But this builds on the influences of the 1990s that saw the development of standards, rating and scorecard systems, several of which were connected with the development of corporate social responsibility and the microfinance sector. Through the 2010s there has been a continuing development of standards, such as GIIRS, and guidelines for social impact assessment (Reisman and Orian et al, 2015). The development of standardised indicators by IRIS are part of the trend and this development is also seen in international development, including with the DCED's synthesised list of 25 indicators for private sector development outcomes.

For this paper, the terms 'results measurement' is used as this is consistent with the language of the DCED Standard, and it covers all evaluative activities conducted by internal and external actors at the various stages of a programme or investment cycle.

2.3 Impact investing actors’ reported interests in results measurement

There are many different actors in impact investing and numerous perceptions about what a good results management system looks like. This section summarises the actors along with their interests and roles in impact investing measurement.

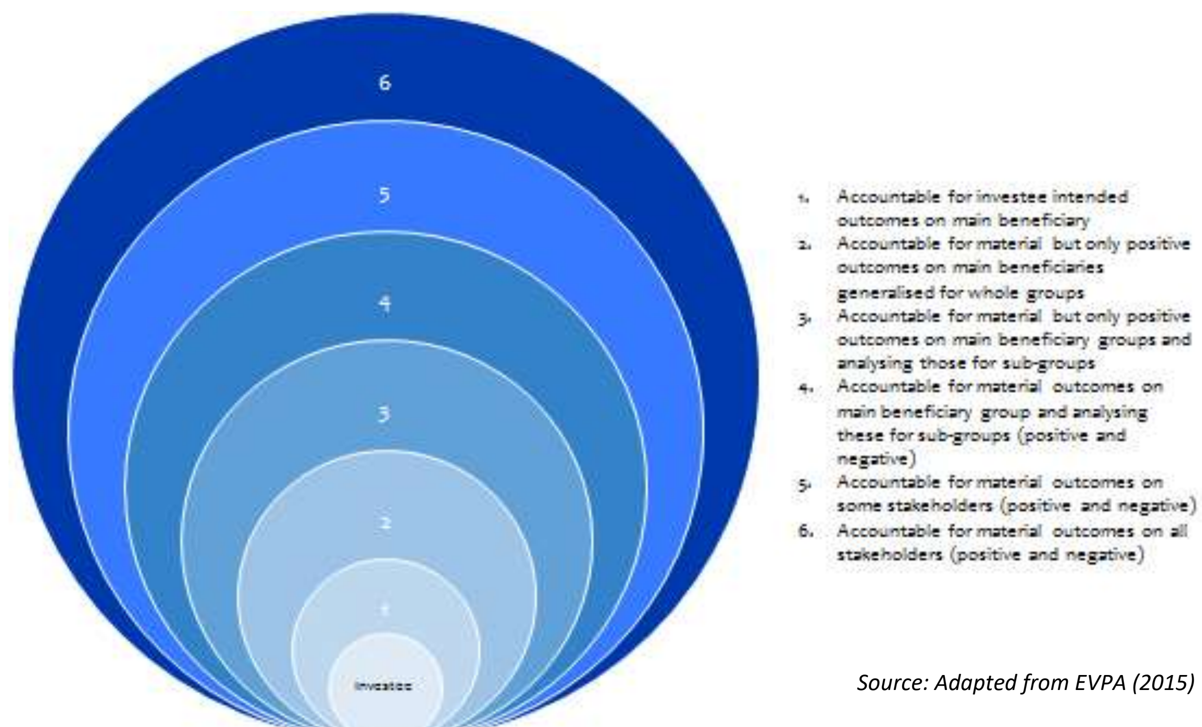
Suppliers of capital: any organisation or individual (in the public, private and non-profit spheres) who supply capital in the form of grants, loans, loan guarantees, or equity. The motivations for results measurement among these organisations will vary according to; a) whether they are driven by ‘finance first or ‘impact first’ goals; b) the type and scale of the investment; and c) the organisations’ roles in the impact investing process (RBC, 2014; OECD, 2015; NAB 2014). For example:

- **Government agencies** invest for public benefits and tend to have higher results measurement expectations, with a greater preference for quantitative information, and require more complex evidence than other types of investors (EVPA, 2015). Governments also prefer that measurement is consistent over the period of the investment in support of clearly-defined policy objectives (RBC, 2014; EVPA, 2015).
- **Individual investors** are generally motivated by personal interest in a social issue and are more likely to only require output measurement.

Institutional investors’ expectations fall between government agencies and individual investors.

EVPA (2015) argues that what is measured depends on what the investee is being held accountable for by its investors and presents a graduated picture of accountability. See **Diagram 3**. If an investee wished to increase jobs for unemployed youth and was only responsible for the intended outcomes on the primary beneficiaries, then the results measurement would be limited in its scope to this. If an investee was accountable for significant positive and negative outcomes on the targeted beneficiaries (and sub-groups such as unemployed male and female youth) and their families, then the results measurement system would need to capture changes for targeted unemployed youth, disaggregated by sex, as well as their families. Focusing only on the intended outcome of the targeted beneficiaries will give a limited and incorrect sense of social or environmental impact.

Diagram 3: Levels of accountability in results measurement



Source: Adapted from EVPA (2015)

Demanders of capital

On the other side of the equation are those organisations and individuals, or investees that need capital to establish or grow their activities. These 'demanders' may be companies, non-profit organisations, charities, cooperatives or programmes who need to provide credible estimations of future impact, along with time-bound milestones, in order to attract investment from the suppliers of capital. These estimations need to be backed up by a reasonable argument or theory of how what the investee does will lead to the impact proposed. Once capital is secured investees need to present information to plan their product and service development, manage resources and clients, and manage performance as well as providing their investors with performance information.

Few reports say what investees want to measure. However, impact measurement is most effective when investors and investees interests coincide, but this is likely to happen more when social or environmental impacts are a core part of the business model (Schiff, Bass, and Cohen, 2016). While investors' interests in results measurement may be driven by risk management and investment decisions, data on operational effectiveness and efficiency and the market and reputation building is of interest to investors and investees (Schiff, Bass, and Cohen, 2016)

Intermediaries

Suppliers and demanders of capital may not have a direct relationship with each other or at least not through all points of the impact investing cycle. Hence, there has been a notable increase in the role of 'intermediary organisations', who may act as supply-side intermediaries, demand-side intermediaries and market enablers. These types can be explained as:

- **Supply-side intermediaries**: are financial advisors and financial planners and impact investing funds. They function to connect investors with investees; educate both about the availability of capital or investment opportunities; and tailor investment products, including combining capital from different sources, in line with the risk, return and impact expectation of investors and investees. Financial intermediaries, such as credit unions or crowd-sourcing platforms, may play a similar role of linking investors and investees and developing products. Fund managers manage portfolios of investments on behalf of their clients with the aim of securing the desired return across the portfolio. Fund managers aim to balance risks and returns across a portfolio of investments and need information to monitor individual investee performance to achieve a balance of performance across the fund. The degree to which fund managers monitor social or environmental outcomes may differ.
- **Demand-side intermediaries**: include entities known as "incubators" and "accelerators". These are entities where a range of services are provided to grow "start-up" and "early-stage businesses who will become demanders of capital. Services include management/business coaching, mentoring, networking, training, and some funding. Investees are often not able to cover the cost of these services and they may be paid for by non-profit organisations who want to increase the impact investment pipeline or market. However, accelerators may take an equity interest in a business in lieu of payment for services (RBC, 2014). These actors may be interested in understanding what impact they have on the organisations they are working with.
- **Market enablers:** are research organisations and educational institutes which seek to raise public awareness of impact investing including generating information and analysis about the impact investing market. This paper has drawn on many reports that are products of 'market enabling' activities, and therefore increased awareness of and debate of key issues may be an impact that market enablers are interested in measuring. The DCED might be considered a market enabler.

3 Impact investing results measurement: in practice

A notable amount of work has been and is being undertaken to develop the practice of results measurement in the impact investing field. The G8 Social Impact Investing Task Force (Working Group on Impact Measurement) has suggested there four stages in the development of results measurement. These are:

5. Emergence – individual organisations are developing their own practices
6. Consensus – best practices emerge and there is increasing alignment across organisations
7. Standardisation – standards for performance measurement and transparency increase traction
8. Integration – standards become part of impact investing market's formal infrastructure.

Over the last five years, a number of organisations have published guidelines for establishing results measurement systems, developed new approaches to measurement and disseminated research on attitudes and practices. Development practitioners and evaluators and impact investing actors are also increasingly engaging to share lessons and develop the field of social impact measurement for impact investing.[4]

3.1 Guidelines on impact investing measurement systems

The G8 Social Impact Investing Task Force Working Group on Impact Measurement (SIITF) and European Venture Philanthropy Association are just two of the organisations that have produced guidelines and case studies of existing systems recently. The rationale for the guidelines is to address perceived gaps in the quality and quantity of results measurement of impact investments. Each of the guidelines outline a step-by-step process to guide investors and/or investees in how to capture results. While there are differences between the guidelines, these relate to points of emphasis rather than substantively different messages. The guidelines also have many of similarities, as well as some differences such as the focus on monetarisation, with the DCED Standard. A comparison between the guidelines and DCED Standard is contained in **Annex 1**.

3.2 Approaches to results measurement in impact investing

A wide range of different approaches to measuring impact investing results have been developed. Some, such as Fairtrade certification and cost-benefit analysis, originated several years ago in other fields and have made their way into impact investing processes. New approaches are constantly being added.[5] A number of recent reviews[6] categorise these approaches using different criteria. These can be condensed to four broad categories, illustrated in **Diagram 4** below. Key features of these approaches are the degree to which they focus on internal or external processes whether they are aiming to measure changes or manage for change. The two approaches on the left hand side are

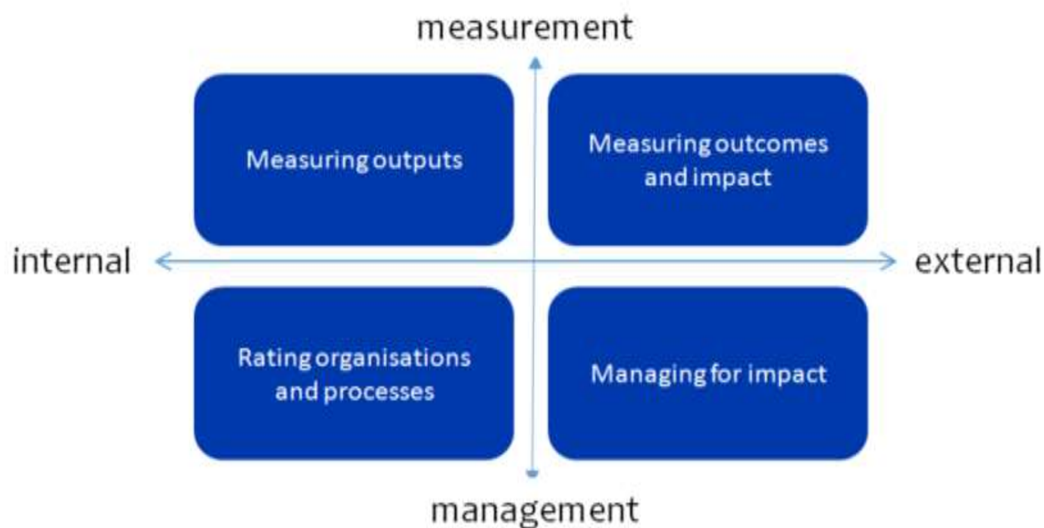
[4] Wilton Park, with the Centre of Development Impact, hosted a meeting in UK in mid-2015 bringing evaluators, development professional and investors together. The American Evaluation Association (AEA) and Social Value International are hosting a conference in October 2016. It aims to bring together different actors to work together in a series of events, culminating in an action agenda for the development of impact measurement. The AEA is also establishing a new topic interest group on impact investing measurement.

[5] Olsen and Galimidi (2015) provide the most comprehensive list of approaches. For an example of a new approaches, see the qualitative impact assessment protocol developed by Bath University.

[6] Some reviews categorise different approaches according to their key characteristics (Olsen and Galimidi, 2015; Clark and Rosenzweig et al, 2004; and Reeder et al, 2014). Other reviews focus on the credibility of the data produced by different systems (Olsen and Galimidi, 2015). There are also other reviews currently underway by the Centre of Development Impact at the Institute of Development Studies in the UK and by the Rockefeller Foundation in the US.

focussed only on measuring things that are within an organisation's direct control, and assume that i) achieving outputs will achieve outcomes and ii) good internal management will deliver impact. In contrast, the two approaches on the right do not make any such assumptions and are concerned to actually measure what results higher-level are achieved.[7]

Diagram 4: Categories of results measurement approaches used in impact investing



Approaches are not totally exclusive since rating systems could be used by organisations who are also using one of the approaches. Monetarisation can be added to various approaches across the spectrum apart from the rating scale approaches. The emphasis on results monetisation is one the key difference between impact investing results measurement and the DCED Standard.

1. **Rating management processes as predictors of impact:** The focus is on internal business process processes such as employee policies, governance arrangements and community engagement (including charitable giving) which are seen as central to business model execution. Rating organisations ask businesses to provide information on their processes, which are assessed and rated. An explanation for the ratings may be provided. Rating also enable benchmarking against other organisations. The information provided may be assured by the rating organisation (Olsen and Galimidi, 2008) to provide further confidence to external parties, including investors (Saltuk, 2014; Purpose Capital, 2013). Rating systems do not directly measure social impact but are based on the assumption that if there is confidence that the risk of business execution will be managed, then positive social impact can be taken as likely (Olsen and Galimidi, 2015).
2. **Output indicators as proxies of impact**: The focus is on measuring only or mostly outputs, that is the products and services that are produced as a result of the organisations activities, using standardised or customised indicators of success. As with development work some time ago, the production of outputs, measured through 'lead indicators', are taken as proxies for outcome measurement and assumed to lead to outcomes (Olsen and Galimidi, 2008). Some investors using this approach, who Reeder et al (2014) calls 'evidence followers', believe that when an intervention is based on sufficient evidence of what works then there is no need to measure outcomes/impact, as these can be assumed to be likely[8].

[7] This framework could also be used to assess the implications for types of funding, accountability and the importance of learning.

[8] Both 'evidence followers' and 'leading indicators' approaches seem premised on a belief that the investors and investees already know what works and it is just a matter of sticking with the plan so that social impact is realised. This may be true. If there are well-evidenced change paths from specific outputs to outcomes under

3. **Directly assessing social impact**. Approaches to trying to measure actual social and environmental impact vary widely in relation to their focus on: qualitative and/or quantitative data; extent of attribution assessment; the breadth of measurement activities across a portfolio of investments; and the use of standardised indicators (Reeder et al, 2014). The emphasis on these different aspects of a results measurement system may highlight their different philosophical foundations as highlighted in Section 3 (Reisman and Orian et al, 2015). Reeder et al (2014) distinguish between two types of approaches to actually measuring social impact. There are investors that use a case-by-case approach, adapting results measurement to the context and intervention, and seeking experts' opinions to measure social impact. And then there are 'systems builders' that develop systems, predominantly using quantitative information, incorporating techniques such as cost-benefit analysis, regression analysis and random control trials. Users of case-by-case approaches see themselves as being more pragmatic and flexible than system builders while system builders see those using case-by-case approaches as less serious and liken their attempts to 'throwing mud at a wall to see what sticks' (Reeder et al, 2014).
4. **Embedding the assessment of social impact as part of doing business**. The premise of this approach is that it is not enough to only measure impact, which by definition, can only happen once the intervention is well advanced (Olsen and Galimidi, 2008). Rather emerging changes need to be measured over the course of the intervention and fed back into decision-making regarding individual investments and portfolio management. This is the approach advocated in the EVPA (2015) guidelines and is similar to the DCED Standard. Some system builders may also fit into this category depending how much they seek to understand how and why change is happening. Morgan (2015) suggest there is trend towards management rather than only measurement as investors realise that to achieve additionality then more data-driven management is required, which will also necessitate more analysis of the relationship between different types of return – social, financial and environmental (Koenig and Jackson, 2016).

Monetisation approaches

The SIITF (2014) see monetisation as a core function of results measurement because it enables comparison of return across different investments. Monetisation[9] normally entails a simplification of impacts since it cannot take into account all the benefits and costs that may arise so that value created and costs that cannot easily be translated to a dollar amount is normally left out. Predominantly, the focus is on financial and social and environmental benefits and costs but there is a much larger array that are often not taken into account and are difficult to monetarise. For instance, the EVPA (2015) outlines other benefits of strategic and personal benefits; goods and services quality; added service functions, and costs such as: opportunity, learning, time, effort, relationships and psychological.

certain circumstances, then the time and effort to establish an extensive results measurement system may add little substantive value, apart from to reassure funders that investees are being held accountable. It also highlights that there is not a one-size fits all to results measurement systems.

[99] Two techniques are used. The first perceived value technique deduces a dollar value or price from related market traded goods. Another version of this, often used by SROI proponents to price outcomes that do not have a market value, is the value game whereby beneficiaries are asked to rank relevant traded products or services with the untraded service, product or activity produced by the investee. The value of the untraded service, product or activity is then priced based on where it comes in the ranking of traded products and services. The other technique, often associated with the infrastructure sector, is to assess cost-savings e.g. time saved when travelling from A to B via a new bypass road, costs saved due to patients staying less time in hospital etc. (EVPA, 2015).

In international development, there has been a drive to demonstrate 'value for money', particularly cost-effectiveness (the relationship between costs and outcomes achieved) and in some instances programmes have calculated the return on an aid-dollar invested, using such approaches as cost-benefit analysis. However, like impact investors, development organisations and programmes have struggled to monetise social and environmental impacts in a meaningful way and often these calculations are based on a long list of assumptions and imperfect data. Like impact investing, only a narrow range of benefits and costs are considered.

3.3 The practice of results measurement in impact investing

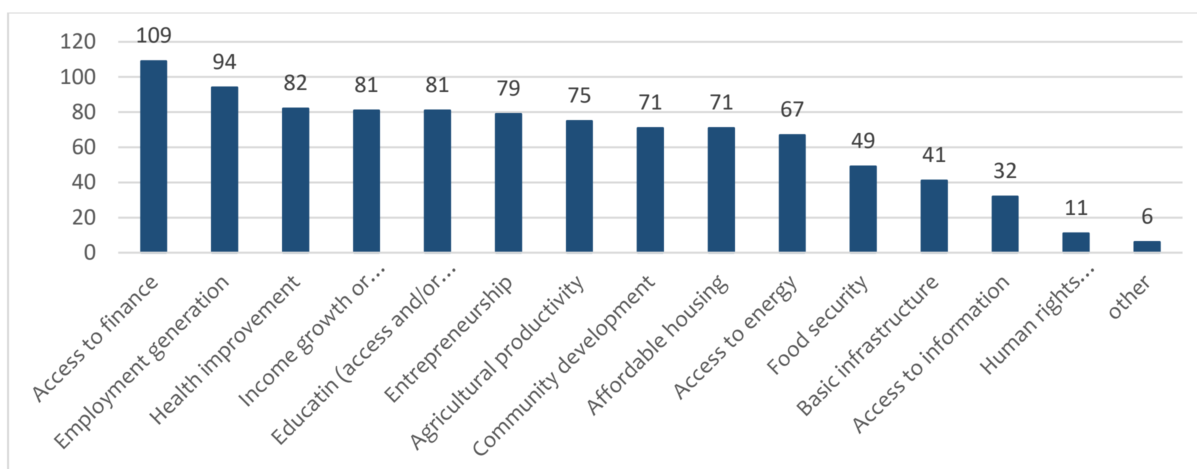
A number of studies over the last five years examine the broader market for impact investing while covering aspects of results measurement. Some studies (Reeder et al, 2014; DFID, 2015) specifically noted that while there were challenges in results measurement, many organisations were making a conscious effort to improve what they were doing.

The Global Impact Investing Network (GIIN) has produced annual surveys of the impact investing market, including collecting views and practices on impact measurement. Other studies have been undertaken by the likes of the Aspen Network of Development Entrepreneurs (ANDE), UK Department for International Development (DFID) Impact Programme and London School of Economics (LSE). The studies interviewed fund managers, foundations, DFIs, banks and other organisations, including not-for-profits. Over 150 people responded to the GIIN 2016 annual impact investors survey while other studies sought the views of only a few actors, such as the LSE study which interviewed 15 fund managers based in Europe. Most studies included investors working in developed and emerging economies while a study by the DFID Impact Programme only focused on emerging markets.[10] Given the still developing state of the impact investing field and the number of studies conducted within a relatively short space of time, it is not surprising that some organisations have contributed often. Alterfin, Big Society Capital, Calvert Foundation, JP Morgan Chase & Co, responsAbility, TIAA-CREF and Voxtra were interviewed three or four times.

The focus of investments directs the focus of results measurement activities. The 2016 GIIN (Mudaliar, Schiff and Bass, 2016) survey (see Diagram 5) found that the most common investment areas were: access to finance (69%); employment generation (60%) and health improvements (52%); education access or improvement (51%); and income growth / livelihoods support (51%). Of these top five themes, three (first, second and last) align with the core interest of the DCED. The thematic focus was generally consistent across different segments of the respondents although there are some variations. For instance, unsurprisingly, agricultural productivity was the third most common response for organisations operating in emerging markets.

[10] While some studies reported the percentage of respondents with certain views or using particular practices (such as ANDE, 2014 and Mudaliar, Schiff and Bass, 2016), others did not (Reeder et al, 2014). Data was rarely disaggregated by the type of respondent or whether respondents worked in developed and emerging markets. Therefore, it is not easy to ascertain if different practices are operating in different geographical locations or types of organisations. Since some studies include 30 or fewer interviewees, it may be that there were insufficient responses that allowed for disaggregation while keeping responses anonymised. These factors limit the comparability of findings or to develop more than a general overview of current practices and issues. There are also inconsistent findings across the studies.

Diagram 5: 2016 GIIN 2016: social impact themes targeted by number of respondents



Source: Mudaliar, Schiff, and Bass (2016)

These focus areas are similar to those reported by IRIS (2015), based on an analysis of organisations who register their use of IRIS metrics. For social mission-only organisations, agriculture, health, and financial services were the most common sectors and for environmental mission-only organisations, the majority (60%) operate in the agriculture and energy sectors.

Within each sector there are different types of social impacts being sought. The GIIN survey (Mudaliar, Schiff and Bass, 2016) found that 66% of respondents aim to provide employment to target populations while 82% of respondents were hoping to achieve their social impact by investing in businesses that sell products or services to a target population. Respondents could select both options and therefore the total is more than 100%.

3.3.1 Measurement approaches in use

The GIIN 2016 survey (Mudaliar, Schiff and Bass, 2016) found that while it was clear that basically all respondents were trying to measure social and environmental impacts, what they were actually measuring was unclear[11]. This is unsurprising since definitions of impact range from general compliance with economic, social, environmental and governance standards by non-DFI investors, through to development impacts on ultimate beneficiaries, e.g. increase incomes by DFI investors (Koenig and Jackson, 2016).

A number of reports (CDI, 2015; EVPA, 2015; LSE, 2016, NAB, 2014; Olsen and Galimidi, 2015; Purpose Capital, 2012; RBC, 2015) provide brief overviews of different approaches to results measurement. The most frequently mentioned approaches were theories of change or logic models; B- ratings system; the global impact investing reporting system (GIIRS); and social return on investment. The frequency of mentions could signify their popularity, although it this is impossible to ascertain.

IRIS is frequently mentioned as an approach even though it is not one. Rather, as defined on their website, IRIS is a ‘catalog of generally-accepted performance metrics’ developed to provide standard indicators to measure social, environmental and financial returns. Other indicator-lists have been developed by the likes of Big Society Capital. Neither IRIS or Big Society Capital provide guidance on how each indicator should be measured since this will be influenced by the programme design and implementation context.

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[11] The survey found that only 1% of respondents were making no effort to measure social or environmental impacts.

Several studies (ANDE, 2014; DFID, 2015; EVPA, 2015, Reeder et al, 2014) note there is a greater focus on results measurement, or an assessment of potential impact, at the pre-investment stage. The focus on results measurement decreases during implementation or at the end of the investment period. For instance, 61% of investors responding to the ANDE study said they only measured outputs, and not outcomes, at the post-investment stage. The focus on the pre-investment stage also translates to what competencies are valued in fund managers. In evaluating fund managers, 72% of the 2016 GIIN survey respondents rated 'impact potential' important even though only 15% of respondents felt 'developing a compelling impact thesis and strategy' was strong in most or all fund managers (Mudaliar, Schiff and Bass, 2016). This suggests that approaches to assist in due diligence processes (e.g. rating systems) or that calculate projected benefits may be favoured over other approaches. The importance of fund managers' sectoral expertise and track record were also rated notably higher in importance than results measurement capacity[12] even though respondents also noted that 'demonstrating track record (of financial performance or impact)' was a significant challenge. (Mudaliar, Schiff and Bass, 2016). These mixed messages permeate some of the reports.

A 2014 study[13] by the Social Impact Analysts Association (SIAA) (since incorporated with the SROI Network to form Social Value International) provided information on the approaches used. Ninety-three respondents provided information on the frameworks or methods used by their organisations, of which nearly half of the organisations cited SROI. Of the 46 SIAA survey respondents who used SROI, academic institutions most frequently cited using this approach. This was followed by consultancy organisations then social enterprises and charities. Organisations identifying as public or private sector were low users of this approach.[14] As a comparison, the ANDE (2014) study found that 17% of investors used SROI, or a modified SROI-like approach. While SROI has gained notable traction in the UK, Australia and Canada with some government departments demanding SROI, a 2013 meta-analysis of more than 100 SROI studies found they contained little information on the methodologies used making it difficult to determine the soundness of the results presented and they were often based on indicators using indirect statistical data rather than measuring direct social impacts (Onyx, 2014). The reliance on statistical data differs from most results measurement undertaken by programmes using the DCED Standard since many developing countries do not have sufficient quality and reliable statistics available. As such, DCED Standard users invariably undertake their own data collection to assess social impact (or contract it out). While developed for use in developed countries, SROI has been used on international development programmes.[15]

In contrast to SROI, only 5% of SIAA study respondents cited logic models / theory of change approaches[16], while other approaches mentioned included the London Benchmarking Group (LBG) and the outcomes star. The use of TOC reported by SIAA is significantly lower than the ANDE study investor respondents where 51% noted they used theory of change approaches. Koenig and Jackson (2016) however note that TOC as used by impact investing actors is more simplified and rigid than in international development. This conclusion is also reflective of the impact investing guidelines reviewed, whereby theories of change were normally presented as simple linear logics. Some SIAA

[12] 76% of respondents rated the importance of sectoral expertise as high, 65% for track record compared to only 19% of respondents rating the importance of result measurement capacity as high

[13] This was the only study to provide their data set.

[14] Six academic organisations said they used SROI, which represented 67% of the academic institutional respondents who answered this question. Consultancy organisations: 24 respondents, which represented 54% of all consultancies who responded to this question; Social enterprises: 10 or 50% of social enterprise respondents; and charities: 16 respondents or 44% of charity respondents.

[15] For instance, see reports for programmes in Indonesia, Kenya, Zimbabwe and other developing countries on the SROI network website. http://www.socialvalueuk.org

[16] The SROI approach has initial steps to outline the theory of change, as do other approaches mentioned such as the outcome star (noted by five respondents).

survey respondents cited data collection methods such as surveys, interviews, focus group discussions which suggests they do not use any particular 'brand' approach but rather develop a systems tailored to specific interventions. This also reflects the findings of the DFID Impact Programme (2015) study whereby interviewees described results measurement systems, other than quarterly or annual monitoring of indicators, according to 'measurement tracking tools' such as a set of indicators to allow for comparison across investments (five out of 17 interviewees), 'deep-dives'[17] (six interviewees), and business or field visits (two interviewees).

Lastly, LSE's study by Reeder et al (2014) categorised a number of organisations according the their approach to results measurement.

Table 1: Approaches in use

Category	Users
Evidence followers – interested in fidelity to the 'model', based on a belief that the model has already been tried and tested	No organisations were referenced for this category but authors noted they tended to be involved in investments in particular sectors such as clean fuel and microfinance
Case by case – indicators chosen depending on the context and need interpretation, advocate a pragmatic approach	DOB, Social Venture Fund, Alterfin, Big Issue Invest, Phi Trust Partenaire and Ashoka
System builders – most rigorous approach with the aim to build knowledge of what works in order to scale-up	Bridges Ventures, Impetus – PEF, NESTA, and Triple Jump

The authors (Reeder et al, 2014: 14) noted that 'system builders' are 'very interested both understanding exactly how and where the intervention works, and developing the best evidence for it' with the view to being able to scale their interventions. As such they are more likely to be using approaches that include an assessment of the investees' impact on beneficiaries.

Some reports also presented a small number of case studies from a range of organisations including investors, fund managers, intermediaries, social enterprises and development organisations in developed and emerging economies to illustrate current practices. However, none are sufficiently detailed to gain a sense of the depth of social impact measurement, that is methods used, their appropriateness and quality of evaluative activities. Cases from organisations working in emerging economies[18] reveals a range of results measurement systems that use a range of quantitative and qualitative indicators and which are shaped by the internal and external context. This includes resource availability and when working in emerging economies the difficulty of collecting data and lack of publicly available data. In all cases partners or investees provided some or all of the data with aggregation being conducted at the country and/or portfolio level. A few organisations reported developing the results measurement capability of investees. Each of these cases would seem to be either output or outcome and impact measurement systems although only one organisation noted that conducted an in-depth impact evaluation of one investee annually. Koenig and Jackson's (2016)

[17] The term 'deep dives' is appearing in management speak but what it actually means is vague. In terms of results measurement, it could be evaluative activities based on qualitative case studies, broader assessments using quantitative data or an evaluation that uses mixed methods. The focus could be on impact or other criteria. In the case of the DFID Impact Programme study, deep dives were carried out by external or independent organisation.

[18] This included: Investisseurs and Partenaires, France (impact investment group that invests in SMEs), Oiko Credit, Netherlands (cooperative); Ashoka, US (a global platform for social entrepreneurship); Alianca Empreendedora; NESsT, UK; and Ashoka, US (a global platform for social entrepreneurship).

study for DANIDA provided snapshots of 23 funds. Of the 16 that had publicly available information on their results measurement approach, three used the IFC environmental and social performance standards and another three referenced IRIS while others referred to in-house or customised approaches.

Indicators being used

Indicators form the basis of many results measurement systems. Despite the focus on standardisation, including indicators, few reports analysed the types of data or indicators that were being measured by investors. The majority of the funds covered in Koenig and Jackson's study reported the number of business or interventions they supported as well as the number of direct and indirect jobs created. The DFID Impact Programme (2014: 35) provides high-level description of the indicators used by five organisations (see **Table 2**).[19]

Table 2: Core indicators reported by impact investors

Respondent organisation type	Core indicators reported across the portfolio
DFI	Consistent metrics are number of beneficiaries, number of low-income beneficiaries, number of females, rural/urban breakdown and net employment creation. Plus sectoral metrics as appropriate.
DFI	Sixteen indicators covering issues like taxes, employment, and also whether (our organisation) has had a catalytic impact as an investor (if it's a first close, if we are an anchor investor etc).)
Foundation	Job creation measurement and tax paid, top line revenue, access to products in supply chain are the key social impact indicators
Fund manager, Africa focus	Primarily job creation in low-income economies; moving towards measuring job sustainability, female empowerment (both employment and female entrepreneurs); company turnover growth, company 'value-add' (purchases from local suppliers, tax contributions), business sustainability and formalisation
Fund Manager, global	Quantitative indicators are reported regularly – some monthly, some quarterly, some annually. Qualitative indicators around child labour, GMOs (genetically modified organisms) are included

Source: DFID, 2014

Reeder et al (2014) examined whether value or returns could be condensed to a single indicator. Generally, respondents treated social and financial impacts as requiring separate metrics and some felt that social impacts could not be adequately covered by only one metric. One respondent said they monitored the relationship between financial and social impacts to track for the possibility that financial targets could be met or exceeded at the expense of the social dimension, e.g. the price of a product may be increased and subsequently lead to increased revenue but the product becomes less affordable to beneficiaries. This suggests that this investor was more likely to be using an approach of 'managing for impact'.

The DFID (2015) study also asked interviewees how they defined their beneficiaries. Seven out of 17 respondents used broad definitions such as 'underserved' or 'base of the pyramid' while another seven defined beneficiaries much more specifically, such as according to particularly income levels e.g. $2 per person per day. This highlights again the varying practices across investors.

As in international development programmes, a commonly criticised indicator relates to the number of beneficiaries 'reached' or 'touched', with some organisations using very broad definitions about

[19] The DFID Impact Programme (2014: 35) provided examples of indicators from five organisations but these are difficult to compare because of the generic nature of the descriptions and the lack of detail to ascertain if organisations were defining employment or job creation in the same way.

what this means. Therefore, while breadth is captured, depth is not. This issue was raised by some interviewees in the DFID (2015) study and one respondent noted:

> *We used to, and still can, track numbers of people but are also trying to be more conscious of quality of outcomes. For example, if 600 million users visit a website – is that the same kind of impact as those who are pupils in a school every day, or users of a life-saving drug, or those who have obtained a loan to start a business? We realise that we also need to look beyond reach to actual sector-level outcome.*

Attributing changes

Investing for an intentional social impact implies that understanding how desired social change is expected to be caused by the intervention is important (Greico, 2015). So and Staskevicius (2015) distinguish between "investor-additionality", the additional impact that the investor creates in relation to the investee; and the "investee-impact", which is the additional impact that the investee has on society. They suggest that additionality should be examined in all of the measurement approaches used. However, there is little attention within the industry so far to measuring the impact of investors (or intermediaries) on the investee[20].

The ANDE (2014) study found 17% of investors reported measuring attribution and the limited focus is confirmed by Koenig and Jackson (2016) who concluded there is little evidence of additionality despite it being a fundamental principle of impact investing.[21] There are mixed views across the studies as to how much results measurement systems should or do demonstrate the attribution of investments (Reeder, et al, 2014, ANDE, 2015). For instance, Reeder et al (2014) found that views spanned from those who felt an inferred relationship was sufficient through to establishing a 'proven' link. Some ANDE study respondents identified the need for greater transparency to avoid fund managers double-counting. This is in contrast to some of the EVPA (2015) guidance that suggests that impact should not be recalculated to account for other contributors but rather other contributors should just be mentioned.

References in reports to 'rigorous' approaches nearly always equate to experimental or quasi-experimental approaches (Reeder et al, 2014; OECD, 2015; Dear et al, 2016). The emphasis contrasts with reports by DCED members that advocate a mix of quantitative and qualitative methods[22]. The ANDE (2015) study highlighted the cost of these approaches with the OCED (2015) nothing that since they are expensive and require specialist skills most investors, intermediaries and investees do not use them.

Using information

Eighty percent 0f GIIN investors surveyed in 2016 noted they used information from results measurement systems to make business decisions, while another 8% did not and 12% were not sure (Mudaliar, Schiff and Bass, 2016). However, the most common use was for pre-screening and due diligence (which aligns with findings that most results measurement occurs at the pre-investment stage). Informing investment decisions and portfolio allocation decisions was the next most frequent use. See **Diagram 6.**

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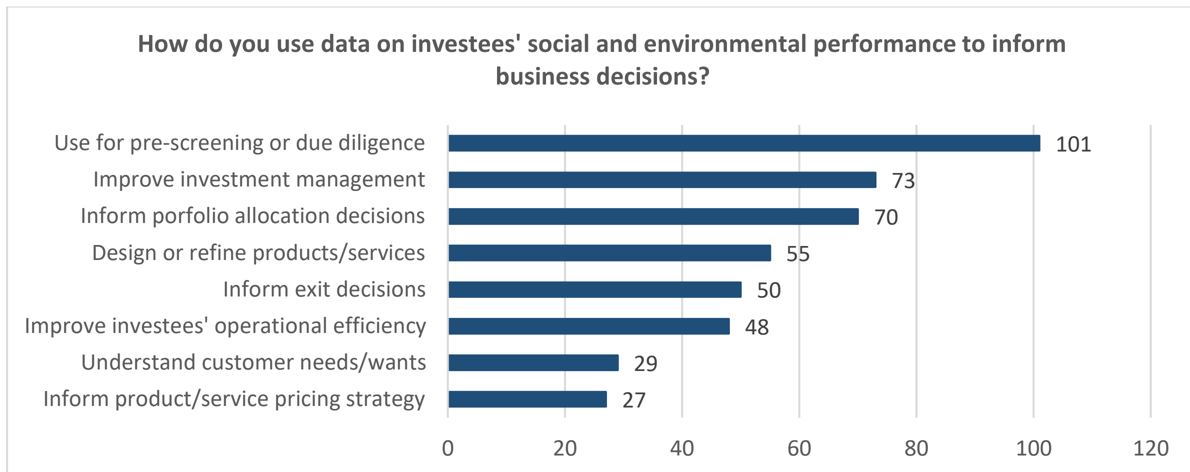
[20] Some intermediaries responding to the ANDE study (2014) noted thought sought feedback from investee's on their performance.

[21] Koenig and Jackson (2016) suggest this is because: assessments of baselines are not a necessary requirement for investments to be made and assessments of additionality during or after investments are not yet common; the methodologies being used to assess additionally are not adequately rigorous; and there is insufficient guidance on how to assess additionality.

[22] Such as DFID's 2012 study on broadening the range of designs and methods for impact evaluations

Diagram 6: 2016 GIIN survey: Use of social and environment performance data to inform business decisions



Source: Mudaliar, Schiff and Bass, 2016

Interestingly, about 30% of GIIN investor respondents used the information to improve investee's efficiency compared to 50% of the investors in the ANDE study who said that it helped them improve small and growing businesses performance to better meet investors' expectations. This may be influenced by a number of reasons. Fund managers may only have resources to support a small number of organisations, and not all organisations may need support. Using information for improving operations may also be considered the purview of investees rather than investors, as indicated by 50% of investors from the ANDE study also noting that results measurement might be a useful learning experience for investees (50% of respondents). However, most ANDE study respondents (80%) noted that results measurement was helpful because for reporting back to current limited partners and attracting new funders. These findings correspond to findings presented in other reports. For example, a 2013 UK charity sector survey of 1000 social purpose organisations found that funders' requirements were the main driver for results measurement. Other factors, such as improving services, was of far less importance even though respondents noted that improving services was more likely to be an outcome realised from results measurement than increased funds (EVPA, 2015).

The ANDE study was the only study that referred directly to what intermediaries may measure. More than 50% of 'capacity builder' respondents said they survey social enterprises to obtain performance metrics while 44% also sought to understand enterprises satisfaction with their services. Many respondents used this information to report to their existing funders and attract new funders while 60% said they used the information for operational decision making and about half used it for longer term strategic decision making.

Resources for measurement

The types of use may be linked to who is responsible for social and environmental impact measurement. In the GIIN 2016 report, 56% of respondents noted their investment teams were responsible for measurement whereas 23% of respondents noted there was joint responsibility across investment management and impact measurement teams, and in 15% of cases it was the responsibility of a standalone impact measurement team. The ANDE report (2014) found that investors were more likely (88% of respondents) to integrate measurement into other departments and have fewer full time measurement staff (44% reported they had at least one full time person) than capacity development providers, where 50% reported they had a separate department and 70% reported they had at least one full time measurement person. The EVPA (2015) however noted that investment teams were normally quite small so their ability to do much results measurement would normally be constrained.

The ANDE (2014) study found that the median number of staff engaged in results measurement per organisation was 1.5 full-time equivalent, which is equivalent to 5% of all staff, while 48% of organisation had at least one full time person focused on results measurement.

The impact investing measurement guidelines reviewed were silent on how much money or resources should be allocated and most studies provided little insight into the cost of results measurement. However, ANDE (2014) found that study respondents spent an equivalent to 2.2% of their total budget[23]. A comparison of results measurement expenditure across larger and smaller investors and capacity development providers (see **Table 3)** shows that smaller investors spent a larger proportion of their budget compared to larger investors, while larger capacity development providers spent a larger proportion than smaller capacity development providers. This pattern was also mirrored in the percentage of staff allocated to results measurement activities.

Table 3: Measurement resource allocation by organisation size and type

Organisation size	**Larger***	**Smaller**
Capacity development providers		
Median spending	$71,980	$12,980
Median percentage of budget	2.91%	1.02%
Min-Max percentage of budget	0.7%-4%	0%-2.3%
N	6	6
Median FTE	3.9	0.2
Median percentage of staff	5.60%	1.00%
Min-Max percentage of staff	0.4%-12%	0%-4%
N	8	6
Investors		
Median spending	$125,000	$20,000
Median percentage of budget	2.20%	8.10%
Min-Max percentage of budget	0.6%-10%	0.7%-25%
N	7	6
Median FTE	1.8	0.3
Median percentage of staff	5.40%	6.00%
Min-Max percentage of staff	0.1%-14%	3%-30%
N	8	11
The sample was split at the median sample size. All organisations with more than 24 staff as 'larger' and those with 24 and fewer staff as 'smaller'.		

Source: ANDE, 2014

In comparison, Reeder et al (2014) 'system builders' tended to allocate greater resources to results measurement (along with aim for higher quality measurement and use standardised indicators). Interestingly, Reeder et al (2014) saw systems builders also had capacity for greater measurement efforts because they were either 'highly socially minded' or had the capacity to pay for more / better results measurements, often through alternative funding sources such as trusts and foundations.

ANDE, usefully, presents a comparison to other like-situations, finding that a higher proportion of spending on results measurement is likely in international development programmes when compared to ANDE members. Forty-nine per cent of development programmes are likely to spend

[23] This is significantly less than the nominal recommendation in order to implement the DCED Standard, which is 10% of total budget.

2.5% or greater on measurement activities compared to 40% of ANDE members. Willingness to pay for results measurement may also be another signal of its importance to investors. Reeder et al (2014) found that no impact investors they interviewed (15 organisations) were actually undertaking impact measurement studies themselves as part of their investment process. Rather they were working with other organisations, such as researchers and charities, to conduct and fund impact studies. Subsidising investment deals by paying for results measurement is seen as an option for supporting to fledging industry (Wilton Park, 2015). This study also suggested that philanthropic organisations were also more likely to have investors who were willing to pay for results measurement.

Challenges

As highlighted earlier, demonstrating a track record in financial and social impact is recognised as a significant challenge but still a fund managers' results management expertise is not value as highly as other experience, such as sectoral/technical expertise. Several reports found that many impact investing actors are frustrated in their ability to measure results. The common challenges raised were:

- **Limited resources for impact measurement** (Reeder, 2014; Mudaliar, Schiff and Bass, 2016; ANDE, 2014)[24]. Some respondents in the Reeder et al (2014) study argued that results measurement was resource intensive and few resources were available after an initial investment was made or greater levels of results measurement were not part of the investor's approach. In the DFID study (2015) one respondent, an asset owner, argued that DFID could most usefully pay for results measurement rather than bringing capital to impact investing since the impact investing market needed more examples of impact investments and the social and financial returns they generated, which in turn can be used to educate others
- Impact measurement that is **proportionate** to the investment and business (OECD, 2015; Dear, 2016) so that measurement does not undermine the effectiveness of the investment (DFID Impact Programme) and overburden the investee by requiring a level of data they cannot provide (Mudaliar, Schiff and Bass, 2016)
- Measurement information is not used to inform decision making (OECD, 2015)
- Defining impact (DFID, 2015)
- Aggregating data from diverse investees and for diverse investors (Mudaliar, Schiff and Bass, 2016)
- Collecting accurate and timely data (Mudaliar, Schiff and Bass, 2016)
- Moving beyond measuring outputs to outcomes and including assessment of additionality (Mudaliar, Schiff and Bass, 2016)
- Selecting relevant metrics to track progress against investment goals (relevant to investor and investee) (Mudaliar, Schiff and Bass, 2016)
- Capturing intangible results that are not easily quantifiable (Mudaliar, Schiff and Bass, 2016)
- Lack of standard practice (SIITF, 2014; DFID, 2015).

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[24] The ANDE study examined the cost of results measurement according to different data collection methods whereby the cheapest were qualitative case studies (estimated to cost between USD5-10,000 requiring 1 researcher a week of field time) and the most expensive were experimental or quasi-experimental studies (estimated cost of USD100,000 or more and take a team of researchers and enumerators a period of between six months and three years to complete). Stakeholder surveys were positioned as a middle-ground costing between USD25-50,000 and taking one week. However, the OECD noted that since experimental and quasi-experimental designs are so expensive and require specialist skills most investors, intermediaries and investees do not use them. Instead, a mix of quantitative indicators and qualitative information is preferred.

Box 1: Quotes about challenges cited in reports

The DFID Impact Programme report (2015)

Lack of impact measurement is a challenge – we want to but don't know how. We need clear agreement on what is impact – for DFIs, banks, Impact Investors… We would like a harmonisation tool.

We look to microfinance as a cautionary tale… Getting measurement and management of impact in place is vital.

No best practice in impact measurement at the moment, a few pioneers and a lot doing the basics.

GIIN impact investors report (Mudaliar, Schiff and Bass, 2016)

Navigating the balance between measuring impact as we, from a bottom-up perspective, understand it, for each company and conforming that to industry standards/benchmarks which tend to provide a more surface-level view of impact (Fund manager).

It can be difficult to get good data from investees, they sometimes don't have the resources to track, analyse, and report on the range of measures we would like to see (Bank/diversified financial institution).

Truly understanding the impact on an intervention (product or service). Measuring the outcome of an intervention (Fund manager).

Challenging to integrate common indicators across diverse sectors (Fund manager).

Making relevant judgments on impact performance, which is challenging both due to lack of track record [and of] benchmarks for impact achievement in the market (Bank/diversified financial institution).

4. Conclusions

Interest in impact investing has been rapidly growing, but the field is still young and emerging. Most energy has so far been focussed on identifying and building up a pipeline of investments. While results measurement is instrumental for tracking the impact of these investments as they mature—the value—to date most of the work has been at the pre-investment phase and hence the focus has been on measuring the potential for impact. Impact investors are looking to learn from the experience of international development in measuring social impact. Wilton Park (2015) goes further proposing that both communities work together to develop a new set of practices to meet the specific needs of the impacting investing community, which will draw from, but be different to, current practice in international development. This presents an opportunity for DCED to engage with and shape how impact investing approaches results. Based on the findings of this review there are some important implications for development organisations wanting to partner with the private sector on impact investments.

Overall, **learning is vital for the growth of this field but needs to be more purposeful and better shared.** Given the impact investing field is so new, no organisations have experience that is both broad and deep and all are learning on the job. It is therefore important that DCED continue to network with others, support practical research and share experiences and lessons.

In the short term, there are a number of very practical issues worthy of further attention. These are:

4.1 Better understand donors' value proposition in impact investing. International development donors have a lot of power and influence in the industry. Some impact investing actors say there is more demand for donors' networks and experience working in emerging markets over capital. If donors do not have 'skin in the game', their influence changes. Better understanding donors' value-add of no-capital and low-capital options is useful.

   a. Document short case studies illustrating how donors have added value to impact investments 1) without providing capital; 2) low capital amounts; and 2) different types of capital.

4.2 Assess the benefits and risks of subsidising results measurement for impact investing. There are examples of charity, research and philanthropic organisations subsidising the cost of robust impact measurement. This goes against the fundamental concept of impact investing since results measurement is not being added to the cost of the investment and therefore financial returns are overstated. A useful activity would be:

   a. Prepare a short note on the benefits and risks of subsidising results measurement, along with practical strategies to mitigate risks.

4.3 Identify measurement that directly adds value to businesses. While it is recognised that results measurement for impact investing works best when it has a business value, few reports focus on what investees need to know in order to add value to the business. This is an important area for further investigation to garner efforts for results measurement. To fill a gap in the literature:

   a. Conduct research to better understand the results information (social, financial and environmental) that is most useful for businesses (beyond reporting to investors), and compare to information required by investors.

In the medium term it would also be useful to:

4.4 Develop mechanisms for **assessing risk-return and results-measurement appetites of impact investing.** Traditionally, fund managers consolidate capital from investors with similar financial risk-return expectations. For impact investing, fund managers need to also consider the social risk-return expectations and results measurement expectations of investors. Possible activities include:

   a. Develop a framework for assessing financial and social risks-returns along with results measurement risks-returns, linking it to different types of investments.

The following point links into current international development debates about complexity, adaptive management and may be useful to consider. However, it is more exploratory and less tangible at this state.

4.5 Better understand the implications of complex change processes on impact investing and results measurement. In impact investing, the value placed on standardisation, comparability and universality has an implicit message of control and predictability. This differs from current international development evaluation debates that have focused on how to measure results in complex change processes so that learning and decision-making can be data driven. At this point, it would be most useful to further:

   a. Convene a small group of donor-funded impact investing initiatives to better understand the extent to which complex social change processes are viewed as a conundrum for impact investing and if so how and why. From these discussions, further more specific lines of enquiry may materialise.

Lastly, this preliminary review covers several of the DCED RMWG's area of interest as articulated in the TOR on 'impact investing and methods for measuring it in practice' (May 2016). Based on these findings, the following suggestions are made with regard to the TOR components not covered in this review:

4.6 It would be interesting to determine **the current level of sophistication in attributing results (financial and social) to various investors,** e.g. if a first-loss investment takes less of a financial return but more of a development return from the fund. Interviews with a small number of fund managers could be pursued.

4.7 Given the state of results measurement, it seems unlikely that further investigation will garner many insights into **the relationship between fund structures and developmental results.**

4.8 Further general case studies are unlikely to add significant new information at this stage: Existing case studies are not sufficiently detailed to gain an in-depth understanding of what is happening on the ground and the quality of evidence and judgements about impact. In-depth understanding would require considerable access to organisation's results measurement systems, staff and evidence. Few fund managers are likely to provide this access if their systems are not strong or they are concerned about the findings. Further case studies are likely to portray good practices, rather than provide an understanding of the range of practices, and feature organisations already documented.

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Annex 1: Comparison of DCED Standard for Results Measurement and impact investing measurement guidelines

Results measurement systems need to meet the needs of different stakeholders. Within impact investing, this includes different types of investors. A review of three results measurement guidelines developed for investors and investees (referred to hereafter as 'the II guidelines') provides some insights into the needs, expectations and divergent approaches within this young but rapidly growing field.[25]

The II guidelines reviewed here are produced by three leading organisations: The rationale of all three sets of II guidelines is that they aim to address perceived gaps in the quality and quantity of results measurement of impact investments. Each of the II guidelines outline a step-by-step process to guide investors and/or investees in how to capture results. While there are differences between the II guidelines, these relate to points of emphasis rather than substantively different approaches. The II guidelines also have many of similarities as well as differences with the DCED Standard, which we summarise below:

The DCED Standard and the II guidelines are founded on similar principles, including:

- drawing from the same or similar theoretical/conceptual sources in evaluation (such as theories of change)
- following an approach of first articulating the theory of change or impact pathway behind the investment and how the investee's actions are going to contribute to social and financial outcomes or returns. Although, in the II guidelines these often portrayed as a simple linear logic rather than the tree-like structure of a results chain
- collecting and analysing data to measure performance against pre-determined indicators and targets
- focussing on the measuring of social impacts, with the implicit assumption that improving the measurement of financial returns is not needed.

Unlike the DCED Standard, the II guidelines place greater priority on assessing the monetary value of social impacts: all three II guidelines emphasise monetisation to varying degrees in contrast with the DCED Standard. Examples include:

- SIITF Guidelines argues that while quantifying social and environmental outcomes is not easy, it is necessary if impact investing is to attract investment from capital markets. The rational is that: with a dollar value, a result can be traded like goods and services.
- Good Analyst Guidelines, by comparison, do not directly propose actual monetarisation of social results. However, they do mention capturing savings to government using methods such as social return on investment. The Good Analyst also emphasizes involving beneficiaries in results measurement to define success indicators, interpret results and use the information.
- EVPA Guidelines provide a middle-ground on monetarisation, emphasising the importance of establishing the value created for stakeholders using techniques such as value preference and assessing cost-savings. But not placing as much focus on beneficiary involvement as the Good Analyst.

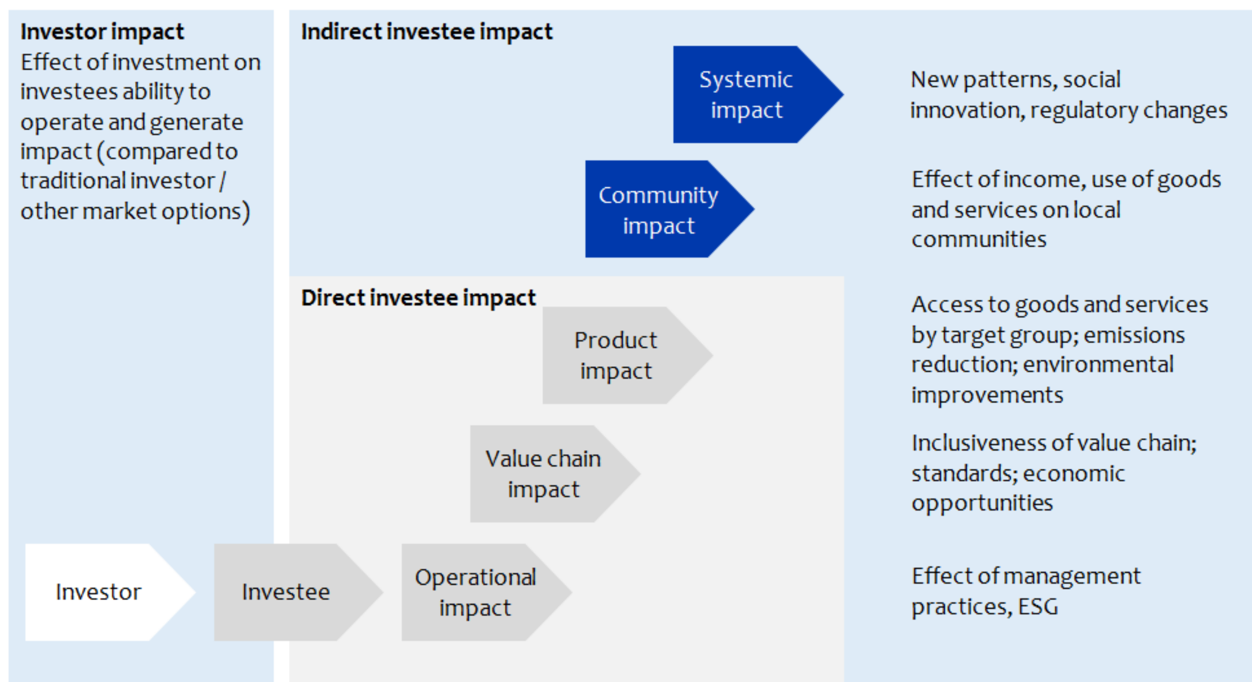
The II guidelines place less importance on measuring the performance of 'intermediaries'. None of the three guidelines give priority to measuring the performance of 'intermediaries' and how they contribute to outcomes (or the additionality) - in contrast with the DCED Standard, where this is important. Intermediaries include supply-side (e.g. financial planners), demand-side (e.g. incubators)

[25] See Annex X and Y for a more detailed comparison of steps to develop a results measurement system as well as how each guidelines suggests handling key issues like attribution. Still to be written? Really needed?

or market enabler (e.g. researchers) organisations, which have rapidly grown with the growth of the impact investing sector. The limited focus on these organisations could be a 'missing middle' in testing theories of change of impact investing. The DCED has similar experience, in that there are far fewer business environment reform programmes using the DCED Standard than there are users that apply the 'making markets work for the poor' or value chain development approaches. The work of intermediaries and business environment reform programmes are one step removed from the ultimate beneficiary and the outcomes generated from their work are sometimes perceived as less important or more intangible and therefore more difficult to measure, meaning they are often measured less often or well. They may also be enabling rather than causative; creating an enabling environment does not mean that changes will happen (or even that the constraints in the environment were the binding ones). Similarly, Koenig and Jackson (2016) highlight growing interest in the impact of impact investors and the degree to which they contribute to positive changes over 'socially neutral investors'.

Results ambitions are generally lower in the II guidelines compared with the DCED Standard. The II guidelines make little mention of systemic change while this is a notable component of the DCED Standard. The EVPA (2015) advises that outcomes and impacts should not be too far removed from what an investee does, as this may result in impact analysis that is meaningless to investees. Some donors like to see log-frames that directly reflect key development policy imperatives. As such, poverty reduction may, therefore, be placed at the goal or impact level of log-frames for M4P programmes - or increased income placed at the goal level for business environment reform programmes. For impact investing actors, these may be beyond what is considered meaningful. The lack of mention in the II guidelines differs from the position of Koenig and Jackson (2016) who suggest there is an increasing interest in measuring systemic impact. However, their conclusions could be because their study included programmes (such as the DFID Impact Programme and Africa Enterprise Challenge Fund) funded by development organisations. The authors (2016: 36) present the following interpretation of systemic change in impact investing.

Diagram 7: Systemic change in impact investing



II guidelines argue for the need for tailoring results systems to the differing maturities or capacities of organisations, but all approaches struggle with how to support this. The DCED Standard is silent on this issue. For instance:

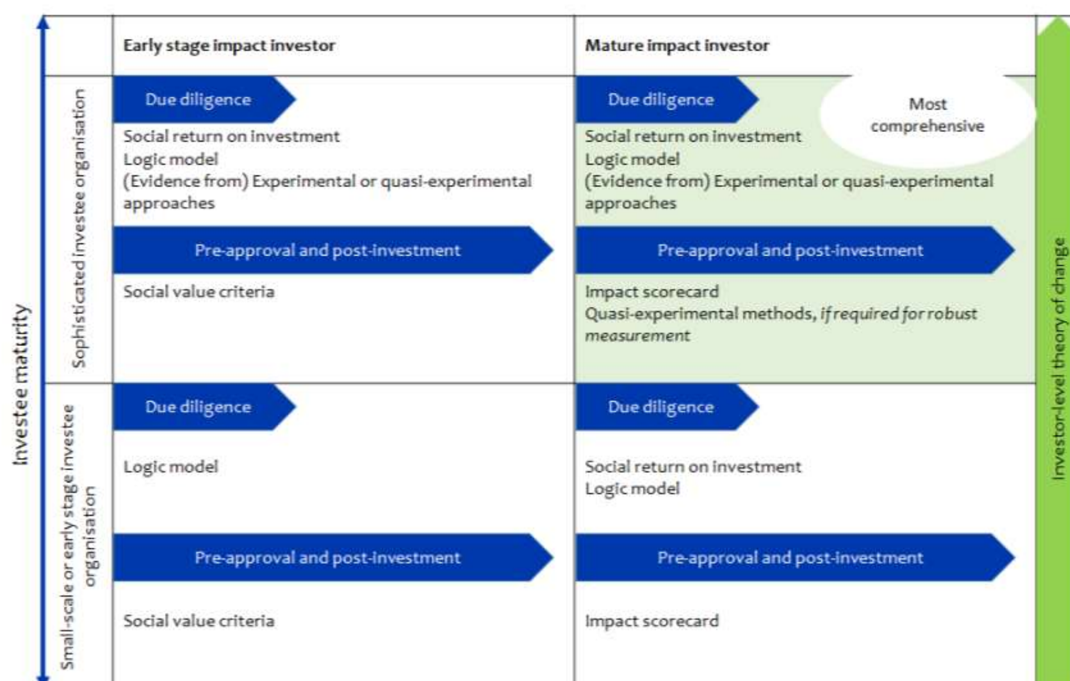
- While recognising this need, neither SIITF or EVPA go so far as specifying what the different measurement systems would like.
- The Good Analyst aims to accommodate flexibility by making some steps 'core', similar to the DCED Standard.
- The DCED Standard does not distinguish between different levels of organisational maturity or what different results measurement systems should look like for organisations at different levels of maturity as donors' have a universal level of quality. However, in practice many programmes using the DCED Standard probably do this by undertaking more of the social impact measurement activities themselves or through contractors, while financial measurements are the responsibility of the organisations being supported.

However, other organisations have been looking at this issue and it is useful to summarise two perspectives.

Firstly, NESTA, a UK organisation that supports social enterprises, has produced a five-level 'evidence framework'. NESTA use the framework to set results measurement expectations with investees. At Level 1, NESTA expects investees to be able to clearly explain how and why their activities will produce a positive impact and how this is better than the current situation. Data collection is not required. At Level 3, investees are expected to demonstrate their impact, using a counterfactual while at Level 5 investees are expected to demonstrate the investment is ready for scale-up while maintaining positive social and financial returns in the current location.

Secondly, So and Staskevicius (2015) suggest that different approaches are appropriate depending on the maturity of the investor and investee. As illustrated in **Diagram 8**, an early stage impact investor investing in a small-scale or early stage investee organisation might consider using the social value criteria approach for post-investment results measurement. Approaches such as social return on investment and quasi-experimental approaches are better suited to more sophisticated investee organisations.

Diagram 8: Approaches appropriate to different types of investees and investors



So and Staskevicius (2015: 6) also argue that particular approaches are appropriate for different stages of the investment, and it is appropriate to combine approaches (see **Diagram 9** illustrate). This perspective is useful for reflecting on the categories of approaches. If, for example, an impact management approach was seen as the goal, it would not be sufficient to rely on experimental or quasi-experimental approaches since, as So and Staskevicius propose, they are not useful in monitoring impact.

Diagram 9: Different approaches appropriate for different investment stages

Both the II guidelines and the DCED Standard place few expectations on businesses to measure social impacts: The EVPA guidelines advise that investors should require investees to measure only those things that are central to their operations and if investors require information beyond this then they are responsible for collecting and analysing this. For the DCED Standard, the general assumption is that development programmes will need to take responsibility for measuring social impacts as businesses are not sufficiently interested or do not have the resources or capacity to do so.

Both the II guidelines and DCED Standard emphasize quantitative data over qualitative. Guidance for both the DCED Standard and impact investing results measurement tend to give greater importance to quantitative information over qualitative, although the DCED Standard underscores that qualitative information is necessary in order to gain greater understanding of how and why change occurred, or did not. Even though the stated purpose for results measurement in impact investing is for learning and improving, the II guidelines generally provide little direction on what might be needed beyond measuring indicators and valuing outcomes to embed learning as part of the culture of a business. There is more explicit emphasis on learning in development programmes than there is in the II guidelines reviewed.

The II guidelines view 'rigorous impact assessment' more narrowly than the DCED Standard, tending to equate it to experimental methods, such as randomised control trials, or quasi-

experimental methods. The advice of the EVPA is that ‘access to independent statistics and establishment of control groups is outside of the capability of many investees and investors’. The DCED Standard provides guidance on a greater variety of impact assessment approaches.

The DCED Standard emphasises aggregation more so than in II guidelines. The DCED Standard requires that a small number of impacts are aggregated. This may be easier to achieve on a development programmes, where there is a narrower focus compared with a diverse portfolio of social impact investments. The need for aggregation is not emphasised in the II guidelines. The EVPA, for example, suggests that the ability to meaningfully aggregate like-for-like numbers across an entire portfolio or fund may be impossible (EVPA, 2015). The EU Groupe d'experts de la Commission sur l'entrepreneuriat social (GECES) Sub-group (2014) found that practitioners, fund managers and social enterprises saw complying with a narrow set of top-down driven pre-determined quantitative indicators as ‘counterproductive’, which could add costs without helping social enterprises better achieve impacts.

The II guidelines are yet to be tested in practice, unlike the DCED Standard, but suggest potential points for donor engagement. Within international development, numerous guidelines on results measurement already exist and more are regularly developed at all levels – sectoral, organisational, programme and project. Their existence does not signify use and the same challenge applies to the II guidelines. The II guidelines have only been recently developed (the oldest is just over three years old) and we do not have any information on how widely they are used and what the user experience has been. The DCED Standard has been in place for more than eight years and only really gained traction on a large scale after about five years. Nonetheless the value of the II guidelines at this stage is that they tell us the messages that are being communicated to impact investors and investees; how this is different or similar to development field (including the DCED Standard); and potential points for future donor engagement.

Annex 2: NESTA expectations – evidence standards

Level	Our expectation	How the evidence can be generated	Criteria to be met (Quality – how certain are we that it works?)
At Level 1	You can give an account of impact. By this we mean providing a logical reason, or set of reasons, for why your products/service could have impact on one of our outcomes, and why that would be an improvement on the current situation.	You should be able to do this yourself, and draw upon existing data and research from other sources.	There is a clear rationale to show why the product/service could have an impact on an outcome. - A description of the product/service. - An explanation for how it could positively impact on one (or more) of our specified outcomes. - An explanation of how the outcome could be measured. The description will include the context in which the product/service operates, specific target populations, and recruitment and referral processes of these target populations, and clear documentation about what participants receive (at Level 4 this becomes an understanding of how it is delivered). At this stage we wouldn't necessarily expect impact data about the product/service; however, we would expect to see the product/service situated in any available benchmark information and data, for instance data about the problem to be tackled, information about similar initiatives being developed etc.
At Level 2	You are gathering data that shows some change amongst those using your product/service.	At this stage, data can begin to show effect but it will not evidence direct causality. You could consider such methods as: pre and post survey evaluation; cohort/panel study, regular interval surveying.	At Level 2 we would expect to see data showing that there is a change in the measure of the outcome among the recipients of the product or service. At this stage, data can begin to show effect but it will not evidence direct causality. You could consider such methods as: pre and post–survey evaluation; quasi experiment; cohort/panel study, regular interval surveying.
At Level 3	You can demonstrate that your product/service is causing the impact, by showing less impact amongst those who don't receive the product/service.	We will consider robust methods using a control group (or another well justified method) that begin to isolate the impact of the product/ service. Random selection of participants strengthens your evidence at this level; you need to have a sufficiently large sample a hand (scale is important in this case).	Ideally at Level 3 a randomised control trial (RCT) would be used with at least one long–term follow up of outcomes (however, we appreciate that in some instances an RCT is not appropriate so would discuss this in greater depth with potential investees). All products/services at Level 3 will be well documented, with necessary skills, training – and other delivery requirements – outlined clearly, to enable effective replication in alternative places, situation, contexts etc.
At Level 4	You are able to explain why and how your product/service is having the impact you have observed and evidenced so far. An independent evaluation validates the impact you observe/generate. The product/ service delivers impact at a reasonable cost,	At this stage, we are looking for a robust independent evaluation that investigates and validates the nature of the impact. This might include endorsement via commercial standards, industry kitemarks etc. You will need documented standardisation	You will have a standardised product/service and process, with documentation to show what is delivered, how it is delivered/produced, and what that costs, so that if needed, the product/service could be produced by a third party successfully and get the same impacts. A high quality, independent evaluation/validation exercise will clearly show that the product/service is having impact. You will have a strong understanding of the market and be able to show that the cost of delivery matches what potential purchasers would be

	suggesting that it could be replicated and purchased in multiple locations.	of delivery and processes. You will need data on costs of production and acceptable price point for your customers.	willing to pay for your product/service.
At Level 5	You can show that your product/ service could be operated up by someone else, somewhere else and scaled–up, whilst continuing to have positive and direct impact on the outcome and remaining a financially viable proposition.	We expect to see use of methods like multiple replication evaluations; future scenario analysis; fidelity evaluation.	You will have multiple evaluations of your product/service in different settings (at least two evaluations; one of which won't have been undertaken by you) to demonstrate that the product/service can be used in different settings (which could be in different settings geographically and/or with different types of product/service users). For a service, it will also be proven that it can be delivered by different staff. You will have findings about 'dosage', for instance, does giving more of the product or service create a greater impact. In addition, you will have an understanding about the generalisability of the product/ service. For instance, are the same results found when the product/service is used in different areas or communities i.e. male/female, with different ethnic groups, etc?