



An Overview of Approaches to Impact Measurement

INTRODUCTION

The social and environmental investing sector has grown in recent years to more than \$50 billion in total assets. In the next 10 years, this “impact investing” has the potential to grow to about 1 percent of total managed assets, which would result in \$500 billion in capital directed at social and environmental impact.¹ But, unlike standard venture capital, where the measure of return is financial and comparable across industries and geographies, finding standard metrics to measure the success of impact investing has been challenging.

Yet, perhaps because of the interest in the field, a growing number of researchers, investors, practitioners, entrepreneurs and donors have contributed to an impressive body of knowledge on how to create impact and how to measure it. Some of these studies, approaches and tools have been conducted in collaboration across the public and private sectors. Others have been devised and developed within one organization. Their focus ranges from identifying the most effective business models and understanding the best conditions under which to launch those businesses, to surveys of beneficiaries and attempts to quantify the social return.

No single model can capture everything. We believe, however, that they are all directly or indirectly connected, either feeding into or off of each other. The humble attempt here is to suggest how they might be connected in the

context of a “small and growing business” and to illustrate how they measure the impact of that business. The framework presented on the next page is merely a suggestion of how we might consider the interrelatedness of our work, and is by no means a complete or even consensus picture. We have tried to pull from the documentation that has been sent to us, yet we consider the list to be incomplete. At any rate, we hope this document will stimulate discussion about these connections and motivate collaboration between us.

ABOUT THE DIAGRAM

The diagram in this document begins with the small and growing business itself — the focus of our efforts. From there, consideration was given to the outputs and to how they might be measured. The social return on investment and other cost methods that fall below that are often derived by taking those outputs and combining them in some way with the inputs — the financing, technical assistance, and general knowledge. The approaches and tools placed inside these fields are a best guess, and we recognize that many tools do not fit neatly into a single “box.” In addition, the top-to-bottom orientation of this diagram does not necessarily suggest sequence or importance; the result of measuring impact is not necessarily social return on investment. This is, however, one way to organize a complex field. We hope you see the value in its attempt to stimulate conversation and fuel interest in work on the bigger picture together.

¹ “Impact Reporting and Investment Standards (IRIS) Overview,” Monitor Institute information.

² This document was prepared by Sean Killian, a summer associate with the William Davidson Institute, and by Rafi Menachem, GBF’s M&E officer. It is a rough attempt to consider the connections of metrics approaches and to stimulate discussion about their connectedness.

An Overview of Impact Measurement Approaches and Tools

Thought Pieces

Gates Foundation: “Profiles of Eight Integrated Cost Approaches to Measuring Social Value Creation” (10)

GBF: “Impact Planning, Assessment and Learning” (11)

Monitor: “Investing for Social and Environmental Impact” (7)

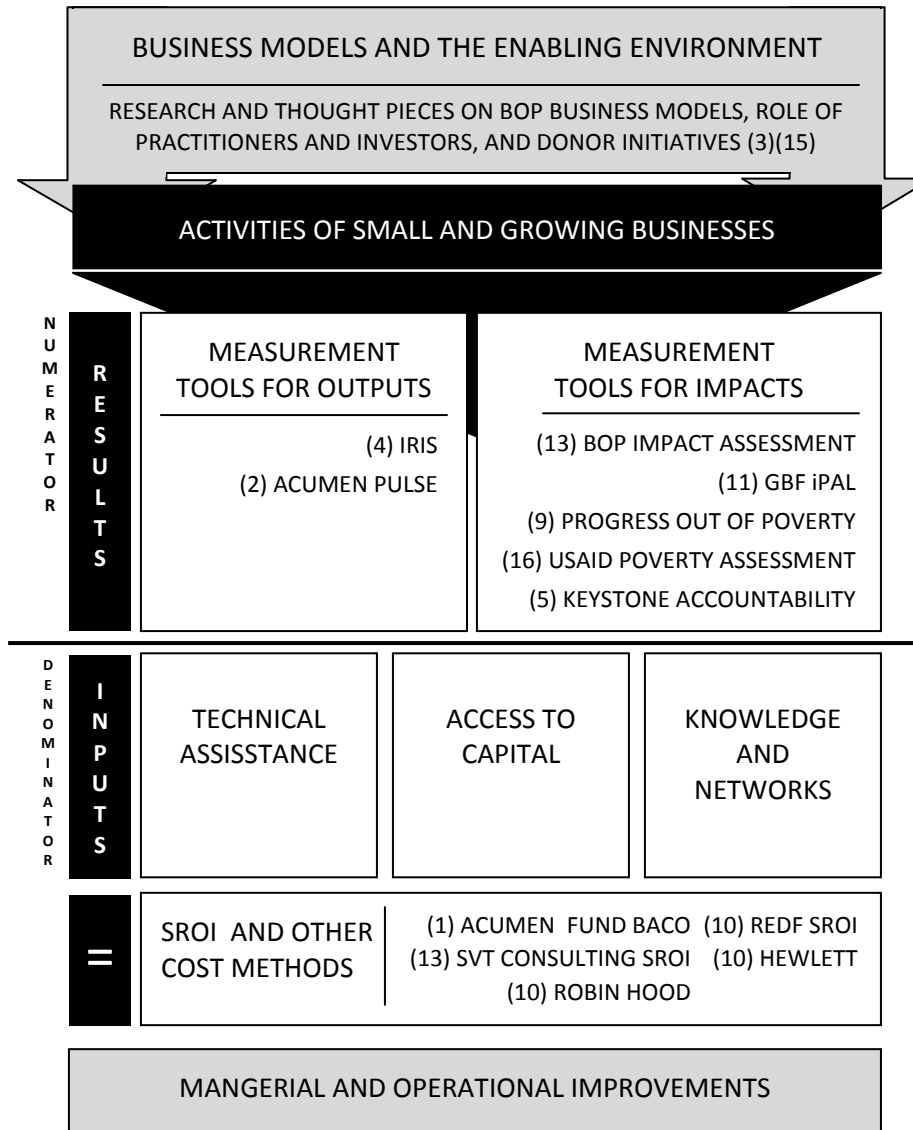
Monitor: “Market-Based Solutions to the Challenges of Global Poverty” (6)

Overseas Development Institute: “Harnessing Core Business for Development Impact” (8)

Skoll Centre: “Landscape of Social Investment” (12)

Ted London: “Making Better Investments at the Base of the Pyramid” (14)

World Business Council to Sustainable Devel. and IFC: “Understanding the Business Contribution to Society” (17)



Metrics Workshop Discussions

Strategic Assessment

What are the current approaches and what kind of data is useful to the entire cycle?

Indicators

Which indicators and systems can we use to compare across projects and portfolios?

Data Collection

How can progress out of poverty and client feedback surveys be used to better manage organizations?

Quantifying Social Impact

What are the various approaches to calculating social impact?

Communications

How do we effectively communicate impact to the appropriate audiences?

Data Requirements

How do we bridge the gap on a cumulative level between private and public sector reporting needs?

About this diagram: The number next to each model, abbreviation, or thought piece title corresponds to the matching number on the next few pages, all of which are associated with brief summaries of those models or thought pieces. The methodologies and tools found within the boxes in the diagram do not, in practice, fit that neatly into a particular phase. They are used a different times within the cycle. But, in the interest in stimulating discussion, we made an effort to loosely place them.

SUMMARIES OF APPROACHES

The following excerpts from research papers and methodology overviews are not intended to be exhaustive. We believe they are, however, representative of some of the best knowledge documents in the field of metrics and impact measurement. Many of them were sent to us and posted by you to the metrics workshop group site. The numbers correspond to those on the previous graph.

Acumen Fund | BACO (1)

Rather than seek an absolute standard for social return across an extremely diverse portfolio, Acumen Fund looks to quantify an investment's social impact and compare it to the universe of existing charitable options for that explicit social issue. Specifically, this tool helps inform philanthropists where their capital will be most effective: For each dollar invested, how much social output will this generate over the life of the investment relative to the best available charitable option? This methodology, called the BACO ratio, is a starting point for assessing the social impact and cost-effectiveness of investments.

Acumen Fund | Pulse Initiative (2)

Pulse is Acumen's portfolio data management system for donors and philanthropic investors. Developed initially in collaboration with Google and then later with Salesforce.com, Pulse standardizes social and financial metrics, allowing donors to compare the impact of projects they support — say, the \$1 million for mosquito nets versus the \$1 million for a clean-water project. The second phase will pool data across institutions, allowing an unprecedented level of comparison.

ANDE (3)

ANDE, the Aspen Network of Development Entrepreneurs, is a member organization housed within the Aspen Institute with the overall mission of dramatically increasing the amount and effectiveness of capital and

technical assistance for entrepreneurs in developing countries. Members are leading intermediaries, funders, and experts who share a common desire to unleash the potential of SGBs, which can generate employment, and in the process, address critical social and environmental problems in the developing world. ANDE will identify common strategic challenges and opportunities facing SGBs, and based on these findings, provide services for intermediaries as well as public goods that can benefit everyone in the sector. ANDE seeks to become a global network through which members can address system-wide challenges that can only be addressed through collective action.

The IRIS Initiative (4)

Impact Reporting and Investment Standards (IRIS) is led by Rockefeller Foundation, Acumen Fund and B Lab, with help from Deloitte and PwC, to create a common framework for defining, tracking and reporting the performance of impact capital. The IRIS initiative will help create a common language, allowing comparison and communication across the breadth of organizations that have social or environmental impact. A common language for measuring and reporting performance forms a basis for enabling infrastructure and leads to transparency and credibility. The IRIS taxonomy and data repository exist in parallel and would be housed within the same organization, such as the Global Impact Investing Network, to provide governance, reliability and security.

Keystone | Accountability for Social Change (5)

Keystone is leading an effort to incorporate client feedback loops into the social enterprise field. Keystone has developed a suite of free tools based on its core method of planning, learning and reporting with constituents, in an ecology of actors, for significant and lasting social change: a framework for accountability; a guide to mapping the activity ecosystem and planning and managing collaborations; a guide to stakeholder dialogue; a public reporting

framework; and a framework that enables assessment in terms of strategic clarity, accountability and operational integrity.

Monitor Group | Market-Based Solutions to the Challenges of Global Poverty (6)

Monitor offers a range of recommendations for hastening the growth and success of market-based solutions. Specifically, seven business models were identified as those believed to have the best chances of success: *A pay-per-use* approach in which consumers pay lower costs for each use of a group-owned product or service; a *no frills service* that meets the basic needs of the poor at ultra-low prices and still generates profits; *paraskilling*, which combines no-frills services with tasks that do not require specialization; piggybacking products and services in remote areas through existing customer supply chains called *shared channels*; a system of *contract production* that directly involves small-scale farmers or producers in rural supply chains; a variety of *deep procurement* that bypasses middlemen; and *demand-led training* using a “temp agency” model to down-market opportunities.

Monitor Group | Investing for Social and Environmental Impact (7)

This report reflects more than 50 original interviews conducted with a range of investors — including private individuals, family offices, investment banks, institutional investors, foundations, and pension funds — about their experience with investing for impact, how they think it may evolve, and what will best accelerate its evolution. While no one can predict with certainty how the global economic markets will evolve, Monitor has also sought through these dialogues to understand the potential implications of the financial crisis of 2008 on investing for impact. The findings are organized into four sections: a description of the emerging industry, hypotheses about how impact investing might evolve, an approach for accelerating the growth and impact of this style of investing, and a call to action for building the industry.

Overseas Development Institute | Harnessing Core Business for Development Impact (8)

Today, it is widely understood that businesses can have a greater impact on development by adapting their core business practices than through philanthropy alone, and that this adaptation can not only reduce costs to poor people but expand their opportunities. There are at least four different situations in which this “inclusive business” can be applied: one, commercial businesses selling mobile phones, banking services, health services or other products needed by the poor and have high development impact; two, large companies that have a considerable footprint on poverty in the normal course of their business, and take deliberate action to expand development impacts through supply and distribution chains, or research and development; three, small and medium domestic enterprises that are fully commercial businesses but have local economic development as an explicit driver, because they are embedded in the local economy; and four, social enterprises whose core product is of high social value, and have chosen to replace the traditional non-profit model of delivery with market mechanisms and a commercial model of delivery. Delivering greater development benefits or higher social value can go hand in hand with building shareholder value.

Progress out of Poverty (9)

The Progress out of Poverty Index (PPI) estimates the likelihood that clients fall below the national poverty line. For each country, the process starts with a nationally representative survey. Staff gather data for the survey by visiting the homes of clients to collect key information. Using a list of 10 indicators such as family size, number of children attending school, type of housing and others, staff members interview clients while observing their households. Each indicator receives a score that reflects client response, and all 10 indicators receive a total score. Field staff match the total points from a client’s PPI to a poverty level estimate using a simple chart. In

this way, individuals are ranked according to the applicable poverty line. Using this analysis, institutions can assess the poverty likelihood of clients by branch, by rural or urban setting and by client history. By tracking poverty levels against other client demographic information, business can make key decisions about its mission and how to carry it out.

Gates Foundation | Eight Cost Approaches to Measuring Social Value Creation (10)

As referenced in the graphic, this study includes approaches by REDF, Robin Hood Foundation, Hewlett Foundation, and others. The approaches cover a variety of social-value creation measurement methods such as cost-effectiveness analysis, cost-benefit analysis, and social return-on-investment, as well as unique approaches such as Acumen's BACO, the Foundation Investment's Bubble Chart, and the Center for High Impact Philanthropy's Cost per Impact. The Gates overview uses a structured analysis to compare purpose, methodology, benefits, utilization and limitations of each. It is a useful and thoughtful overview of an important and growing field.

GBF | Impact Planning, Assessment and Learning (11)

GBF integrates its Impact Planning, Assessment and Learning (iPAL) framework throughout the investment process and ensures that iPAL is seamlessly integrated into the business processes of its clients. The iPAL framework consists of a definition of success metrics and their measurement, and then describes the importance and use of basic reporting, survey-based review of beneficiary impact, a social return-on-investment calculation, and client feedback. Over time, the aim is to build a more sophisticated approach using techniques like control groups, higher sampling percentages, more rigorous survey design, and data verification. But given the challenges and costs involved, the initial focus is getting to "good enough" metrics that allow for credible performance measurement, well-grounded project comparisons, good-faith

reporting to donors and other stakeholders, and helping our clients set and manage objectives, improve their impacts, and strengthen their management systems.

Skoll | Landscape of Social Investment (12)

This report provides a holistic account of the state of play in the emerging field of social investment, defined as the flow of resources — either market or non-market generated — that fulfils the funding needs of organizations that primarily create social or environmental value. It also looks forward to some of the future opportunities in this space. The conclusion is that the development of social investment is currently at a crossroads: there is enormous potential for growth, but there are also formidable institutional barriers.

SVT Consulting | A Framework for Approaches to SROI Analysis (13)

The number of people that have been working with SROI analysis continues to grow. As people have tested the methodology in different contexts, they have moved in different directions with different points of emphasis. A framework is required so that practitioners understand the bases for different calculations. That is what this piece does: one, it establishes a shared understanding of the various methods used for the monetization exercise within social return on investment analysis by collecting, including and explaining the different options for calculating monetized SROI; two, it ensures that SROI analyses are presented in a way that facilitates accurate interpretation of results, avoids misinterpretation and assist in comparing organizations approaches to understanding their impacts; and three, it lays the groundwork for standardization so that SROI become more comparable over time.

Ted London | Making Better Investments at the Base of the Pyramid (14)

Base of the Pyramid Impact Assessment Framework helps "base of the pyramid"

ventures assess the impact their initiatives are having locally, in the short term and over time. This framework helps managers identify and enhance the positive effects of a venture's products and services, understand and mitigate the negative effects, more clearly articulate current performance and prospects for improvement, and amplify for a venture's management team the voices of those living in poverty. It measures how a venture affects the well-being of its critical constituencies in three important dimensions: their economic situation, their capabilities, and their relationships. These critical constituencies are sellers (the local distributors or producers), buyers (local consumers or agents), and communities. Together, the dimensions and constituencies form an easy-to-implement three-by-three matrix. Implementing the impact assessment tool is a two-stage process. Established ventures, or those still in the design phase, can initially use it to conduct a strategic analysis of how their activities can directly alleviate poverty. Then, the venture can use that analysis to develop a set of performance indicators to track the results of initiatives over time, thereby establishing a process for evaluating what kinds of business models and activities work best.

UNDP | Growing Inclusive Markets (15)

The initiative seeks to contribute to a greater inclusion of poor people into markets of goods and services as consumers, producers and employees. The programme's main contribution lies in improving the enabling environment for those initiatives that support the entrepreneurs on the ground through knowledge creation and coordination. In one of three work streams, the programme will continue its work in documenting and showcasing existing successful inclusive business models through firm-level case studies. Case studies will be conducted based on a common research protocol. The protocol will contain as an essential part a simple, yet effective methodology to provide quantitative data on the social, environmental and business impact of cases.

USAID | Poverty Assessment Tools (16)

Microenterprise development programs have been among the most promising donor-sponsored programs for improving the lives of poor people. In 2000, the U.S. Congress mandated that half of all USAID microenterprise funds benefit the very poor. To verify that USAID meets this target, USAID will develop low-cost tools for assessing the poverty status of microenterprise clients, and require its microenterprise implementing partners to use those tools to measure and report the results. Each USAID-developed Poverty Assessment Tool consists of a short, country-specific survey and a data entry template. Using such a tool, an implementing partner can gain an accurate estimate of the share of its clients who are very poor.

WBCSD and IFC | Measuring Impact Framework Methodology (17)

Together with the IFC, the World Business Council for Sustainable Development designed a framework to help companies understand their contribution to development, allowing them to inform their operational. Unlike environmental impact assessments (EIAs) or environmental, social and health impact assessments (ESHIA) that are normally part of due diligence to determine future potential impacts arising from business investment, WBCSD and IFC wanted to measure actual impacts at any stage in the life cycle. The framework features four steps: one, determine the scope and depth of the overall assessment; two, identify and measure direct and indirect impacts, mapping out what is within its control and what it can influence through its business activities; three, assess how the company's direct and indirect impacts contribute to development issues; and four, extract the key risks and opportunities relative to the company's societal impact and based on this, develop the management response.

These documents can be found on the workshop website at <http://metricsworkshop09.collectivex.com>. We encourage you to join the site and contribute documents of your own. Please send comments to workshop@GBFund.org.