How to do

Im-pact Measure-ment & Manage-ment

Impact Europe

Foreword

It's age-old image – the tailor, sitting on his stool, needles perched between his teeth, carefully measuring someone's arms, legs, inseam, waist. Taking these measurements, if done correctly, will result in a perfectly tailored suit, or perhaps a beautiful dress. By collecting various data points, the doors of possibility swing wide open.

It can be worthwhile keeping our fictional tailor in mind when thinking about impact measurement and management. His workshop will likely be stocked with a limited supply of textiles and fabrics – the starting investment. Part of his success will rely on his ability to maximize the number of garments he can make with the resources at hand. Our tailor will have to balance this consideration with his other objective – to produce high-quality pieces that bring some additionality to the lives of those wearing them.

Measurement and management are at constant interplay here, informing each other throughout. Customers who come back needing their seams sown in, may provide the tailor an argument to change his production process, eliminating that inefficiency all together. Knowing how much fabric he needs to produce a dress, he can buy exactly that quantity – no more, no less. External investors, too, appreciate that kind of transparency. It's what sets apart the promising from the uncertain, the brilliant potential from the risky investment.

Perhaps the most important thing to keep in mind, though, is that our fictional tailor is in fact anything but imaginary. Countless social entrepreneurs navigate the same numerical concerns of measurement, be it through providing ecological recycling solutions, selling traditional handcrafted art pieces or by setting up social inclusion projects. Hovering around them are ecosystem players like impact funds and accelerators who are on a similar never-ending quest for data, and through data, optimization of their portfolio and their real-world impact.

At Impact Europe, we are directly involved in this balancing exercise through our market building work. Our EU-funded on-the-ground projects in Eastern Europe and the MENA-region have seen us working closely with local partners in identifying, mentoring and supporting investees in twelve different countries.

Finetuning any IMM system is a continuous exercise. Our tailor will confirm that no two suits are the same, since they must fit the ones who wear them. Some of our local market building partners, like Alfanar in Jordan and Lebanon, already had extensive IMM systems in place, based largely on their own valuable experiences. Others were still taking their first steps in the domain. Geographical considerations play their role, too. What is considered of major impact in Ukraine is not necessarily equally impactful in Morocco, nor is the route to achieving it the same. Numbers that are impressive in Azerbaijan, might be less so in Tunisia. As a result, we are not enforcing one particular IMM-system on our local partners, neither are we ushering them to enact the exact same numerical straitjacket on all the social entrepreneurs they work with.

What we can -and do- offer to our local partners and the social enterprises they work with, is a framework that can help inspire their journey and offer some common elements that form the core of any worthwhile IMM system. In all respects that matter, it is the same five-step process that is the guiding light of this guide – a circular, repeating process of setting objectives, engaging with stakeholders, measuring, verifying and reporting. And it's not just theory. Whether we consider the AXEL' program in Armenia, the Impact Business program in Ukraine or the SEED Impact program in Jordan, they all share a similar cyclical approach to IMM in the field. They integrate the feedback from stakeholders, provide IMM training and modeling during the early stages of the deal-making and due diligence process and continue to improve the measurement of progress towards with each new round of investments.

As such, this document is not a fixed blueprint, but an aid in navigation. The route is not the same for all of us, but by adhering to the main principles outlined here will keep you on course to move forward. After all, each tailor has their own way of working, but they will all recognize a fine suit.

Updates & Revised Language

This report comes as an updated version of the original Impact Europe's *Navigating Impact Measurement and Management* report, launched in 2021, which complemented the Impact Europe's *Impact Measurement and Management Practical Guide*, launched in 2015. In this new report, we have updated the language to reflect our community's current narrative. We included additional knowledge outputs produced between 2021 and 2024 (i.e., practical cases, burning topics articles and a focus on impact measurement and management in the corporate sector), while keeping the original version of the cases and quotes included in the edition of 2021.

In the past, the phrases "investing *for* impact" and "investing *with* impact"[1] illuminated some distinctions in impact investing, but they also created a dichotomy, sometimes perceived as judgemental, which was not the original intention. The Triad of Impact better describes the nuances of impact investing:[2]

- **Intentionality** is a conscious and deliberate search for a social and/or environmental impact, with the aim of pursuing a positive result for a defined community. Intentionality must be systemic and integral to the decision-making process at the time of each investment (*ex-ante*).
- **Measurability** concerns the quantifiable part of impact investing. Practitioners must identify measurable social or environmental impact objectives, which are intended to be generated with capital. Without a system of measurement in place, which may include some qualitative measures, impact cannot be defined. Furthermore, practitioners should establish processes not only to measure impact but also to actively manage it, to ensure ongoing improvement cycles and more informed decision-making, which ultimately leads to better outcomes.
- **Investor Additionality** is the quality of an investment to add. An investment characterised by additionality will lead, or has led, to effects which would not have occurred without it. In the case of impact outcomes, they are better than what would likely have occurred without the investment.

While intentionality and measurability are requisite characteristics of impact investing, investor additionality can come on top, ensuring investors are truly transformational by generating an impact that would have not happened otherwise.

[1] Gianoncelli, A. and Boiardi, P., (2018), *"Impact Strategies – How Investors Drive Social Impact"*. Impact Europe.
[2] Gaggiotti, G., and Gianoncelli, A., (2022) *"Accelerating Impact - Main takeaways from the first harmonised European impact investment market sizing exercise"*. Impact Europe.

Impact Europe's work primarily focuses on catalytic grant-making and on additional impact investing, but most of the insights included in this report are also applicable to the broader segment of impact investing and grant-making. The above-mentioned strategies are defined below, and are located along the spectrum of capital in the figure below:

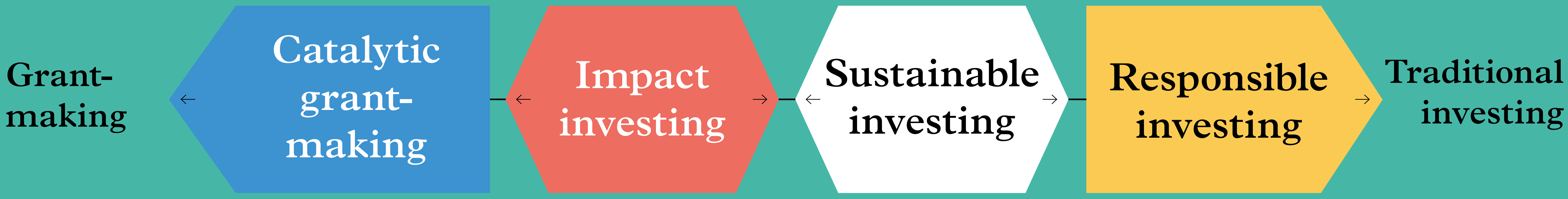


Figure 0.1: Impact Europe's Spectrum of Capital

While intentionality and measurability are requisite characteristics of impact investing, additionality is optional. Nonetheless, additionality is desirable due to its transformative potential.

CATALYTIC GRANT-MAKING
Strategic approach adopted by philanthropic organisations to support impact ventures addressing solutions to social and environmental challenges, which are not yet ready for repayable financial instruments or lack a viable business model. Catalytic grants can change the trajectory of early-stage ventures, thanks to their versatility and flexibility. They complement early-stage income and offer valuable assistance in research, capacity building and scalability testing, transforming early-stage ventures into self-sustaining or financially viable organisations with scalability potential. This support de-risks social and environmental solutions and attracts follow-on funding that might not have been mobilised otherwise.

IMPACT INVESTING
Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. Impact investing primarily focuses on organisations that actively contribute to addressing social and/or environmental challenges with specific and relevant solutions.

ADDITIONAL IMPACT INVESTING
Investments directed to impact enterprises that provide solutions to address social or environmental challenges and/or benefit otherwise neglected/underserved target groups and, within the ABC framework of impact investing[3], are classified as C – contributing to solutions. Investors adopting this strategy create a positive impact that would not have occurred without their financial and/or non-financial contribution.

For simplicity's sake, throughout this publication we will use the term "impact investors" to refer to impact investors with and without investor additionality, and to catalytic grant-makers.

This report has also revised the term for organisations that operate with the primary aim of achieving measurable social and environmental impact, and that receive financial and non-financial support from impact funders. Traditionally named "social purpose organisations," which include charities, non-profit organisations and social enterprises, they are now referred to as **impact organisations**. The revision in language clarifies that "impact" includes both social and environmental change. Throughout the text, when we mention impact organisations supported by impact funders, we also call them "investees." The term "investees" encompasses grantees as well.

[3] The ABC framework has been developed by the Impact Management Project, and it is now hosted by Impact Frontiers. More information is available at: https://impactfrontiers.org/norms/abc-of-enterprise-impact/enterprise-level/

Intro-duction

Impact Measurement and Management (IMM) is the gold standard for transparency and accountability. It helps all stakeholders involved identify what works and what doesn't to drive social and environmental change. It is therefore a key practice within the impact ecosystem.

The amount of capital currently available in the impact ecosystem to address global challenges is insufficient, as acknowledged by the widening financing gap to meet the Sustainable Development Goals (SDGs) by 2030. Therefore, impact investors continuously work to capitalise on the resources available for leveraging and changing systems. Understanding performance gaps, impact needs and the additionality of the impact created is essential to improve the effectiveness of the capital deployed. Impact investors and impact organisations need to collect meaningful data and feedback that enable them to enhance such effectiveness.

For impact investors, IMM is key in maximising their positive impacts and mitigating their negative ones. When impact investors offer extensive non-financial support and a highly engaged approach, they actively support impact organisations in building and refining their own IMM systems.

As the impact ecosystem grows and other actors join the space, we have observed how important it is to put impact at the centre of investors' approaches and strategies. Diverse IMM initiatives are converging to standardise impact management practices and set up a threshold of key elements that investors need to manage to stand up to the "impact investing" label. Impact investors are also actively engaging with other types of capital providers, service providers and regulators to bring awareness of the importance of managing positive and negative impacts to contribute to the SDGs. This awareness is fundamental to also address the issues related to impact integrity and impact washing.

As such, Impact Europe has always considered IMM a pivotal practice of impact investing. Back in 2013, Impact Europe launched a five-step process for measuring and managing impact (Figure 1) which is presented in Impact Europe's *Practical Guide to Measuring and Managing Impact*. This framework has informed the European Standard for impact measurement and management developed by the European Commission's group of experts on social entrepreneurship *"Groupe d'experts de la Comission sur l'entrepreneuriat social – GECES."*

This publication focuses on two levels: how to measure and manage the impact of specific investments (level of the impact organisation) and how the investor itself contributes to that impact (level of investor).

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

Figure 1. Impact Europe's five-step process

STEP 1 consists of setting objectives. When defining an investment strategy, impact investors should define their own impact objectives. Then, during the deal screening and, in more depth, during the due diligence and deal structuring phases, investors should set long-term impact objectives together with the impact organisations under scrutiny.

STEP 2 entails the stakeholder segmentation and analysis, which starts during the due diligence and deal structuring phases. The continuous engagement with stakeholders takes place during the investment management phase.

STEP 3 is about defining outputs, outcomes, impact and indicators during the due diligence and deal structuring phases. It includes measuring these indicators during the investment management phase to assess whether progress is in line with the objectives set.

STEP 4 consists of verifying and valuing the impact that has been generated. This is analysed in depth during the investment management phase and, in some cases, repeated after the investment has exited, i.e., during the exit follow-up phase.

STEP 5 consists in reporting back to the relevant stakeholders and the broader community. During the investment management phase, the reporting takes time at a pre-agreed frequency.

In the following pages we summarise the main elements to be considered to measure and manage impact throughout an investment strategy and investment process, linking each phase to the relevant steps of Impact Europe's framework. To learn more on the five steps of the framework, please consult the *Practical Guide to Measuring and Managing Impact*.[4]

Given the relevance of this topic in recent years, there has been a proliferation of IMM initiatives, such as principles, standards, frameworks, methodologies or sets of indicators. Despite the diversity of these initiatives, some common elements are increasingly being accepted as essential practices for measuring and managing impact, such as stating impact objectives, engaging with stakeholders and assessing the contribution or attribution of an organisation to the social and/or environmental issue it addresses.

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

Navigating Impact Measurement & Management

This updated report integrates knowledge from the different publications launched under the **research project Navigating Impact Measurement and Management,**[5] including:

- the elements that impact investors must consider to manage their impact across the investment process;
- different frameworks or standards (IMM initiatives) that include considerations to such elements;
- publications from the "IMM burning topics series"; and
- relevant learnings from IMM case studies developed by Impact Europe. →

[5] To access the different materials that are part of this research project, please consult: https://www.impacteurope.net/insights/navigating-impact-measurement-and-management.

IMM INITIATIVES

To clarify how Impact Europe's five-step process and other IMM initiatives are linked and complement each other, this publication refers to different principles or standards throughout the investment journey. Figure 2 lists these initiatives and how they are referenced in this publication.

It is important to highlight that this report does not suggest a new approach for measuring and managing impact, nor does it present a detailed mapping of all the different principles, standards, and dimensions of the IMM initiatives introduced above. On the contrary, **it aims to harmonise the work done by several leading organisations in the field of IMM by clarifying how these initiatives are connected and complement each other across the investment process, from a practitioner's perspective.**

Each principle, dimension or standard is mentioned where it is most relevant for practitioners throughout the investment process, but this does not mean they are not applicable during other stages as well. This approach demonstrates that investors should not choose which initiative to follow, but rather know which one is relevant for each phase of their investment journey.

NAME OF INITIATIVE	REFERRED AS
Dimensions of impact of the Impact Management Project[6]	Dimensions of impact
Operating Principles for Impact Management[7]	Impact Principles
Principles of Social Value[8]	SVI Principles
SDG Impact Standards[9]	SDG Impact Standards

Figure 2. IMM initiatives referenced.

IMM BURNING TOPICS SERIES

The Navigating Impact Measurement and Management research project included the **Impact Measurement and Management Burning Topics Series.**[10] The series gathered reflections and the positioning of impact investors aiming to tackle crucial questions and spark discussion on IMM strategies, which will be shared in further chapters. The burning topics identified were:

- Embedding the SDGs in IMM practices
- How investors for impact assess contribution and attribution
- Dealing with subjectivity when measuring social impact
- Assessing comparability: the indicators dilemma
- Monetising impact
- Ensuring accountability through stakeholder engagement
- Assuring impact
- Fostering transparency
- IMM in the Corporate Setting ⟶

[6] For more information, please consult: https://impactmanagementproject.com/.
[7] For more information, please consult: https://www.impactprinciples.org/9-principles and https://www.impactprinciples.org/signatories-reporting.
[8] For more information, please consult: https://www.socialvalueint.org/principles and https://www.socialvalueint.org/standards-and-guidance. For better understanding how the principles of social value relate to Impact Europe's five-step process, please consult: https://www.impacteurope.net/insights/impact-management-principles.
[9] Depending on their nature, impact investors can use the SDG Impact Standards for Private Equity, for Bonds or for Sustainable Development (i.e., for donors and DFIs). To strengthen the IMM systems of their investees, they can also share with them the SDG Impact Standards for Enterprises. For more information, please consult: https://sdgimpact.undp.org/practice-standards.html.

[10] More information on the Burning Topics series can be found here: https://www.impacteurope.net/stream/impact-measurement-and-management-burning-topics.

IMM CASE STUDIES

Finally, we also launched the **Navigating Impact Measurement and Management Case Studies Series**, wherein **9 case studies** covered how impact investors implement their IMM strategies in practice throughout the different phases of the investment journey[11]:

- **Navigating IMM with Rethink Ireland** – this case study looks at Rethink Ireland, a foundation supporting impact organisations with (or striving for) sustainable business models through its investment funds focused on education, health, social enterprises, equality and green transition. Through its IMM framework, Rethink Ireland supports its grantees by systematically monitoring and managing their impact performance.

- **Navigating IMM with Bridges Fund Management** – this case study dives into Bridges Fund Management's investment fund Bridges Evergreen, an impact-focused equity fund investing in impactful businesses looking to accelerate their growth and scale impact. Its investments focus around four impact objectives: physical and mental health, development of future skills, transition to a more sustainable economy and better access to opportunities and services.

- **Navigating IMM with Tilia Impact Ventures** – this case study looks at the IMM framework and associated impact objectives of Tilia Impact Ventures, one of the first impact funds in Central and Eastern Europe aimed at investing in impact organisations across all sectors, with projects targeting social and/or environmental challenges and ambitioning systemic change in the ecosystem.

- **Navigating IMM with Open Value Foundation** – this case study looks at the impact strategy of Open Value Foundation, a family foundation aimed at improving the living conditions of the most vulnerable people and communities in Spain and Sub-Saharan Africa. It analyses Open Value Foundation's journey as an investor on Apadrina un Olivo, an organisation targeting olive trees' degradation and land abandonment in rural Spain.

- **Navigating IMM with The Human Safety Net** – this case study takes a deep dive at The Human Safety Net's IMM framework. The Human Safety Net is Generali Group's foundation targeting populations in vulnerable circumstances to improve their livelihood and that of the community where they are inserted. It specifically touches upon The Human Safety Net's investment in Croce Rossa Italiana's Employability and Social Integration of Refugees Project, aimed at training refugees for inclusion in the labour market and prospects at meaningful jobs.

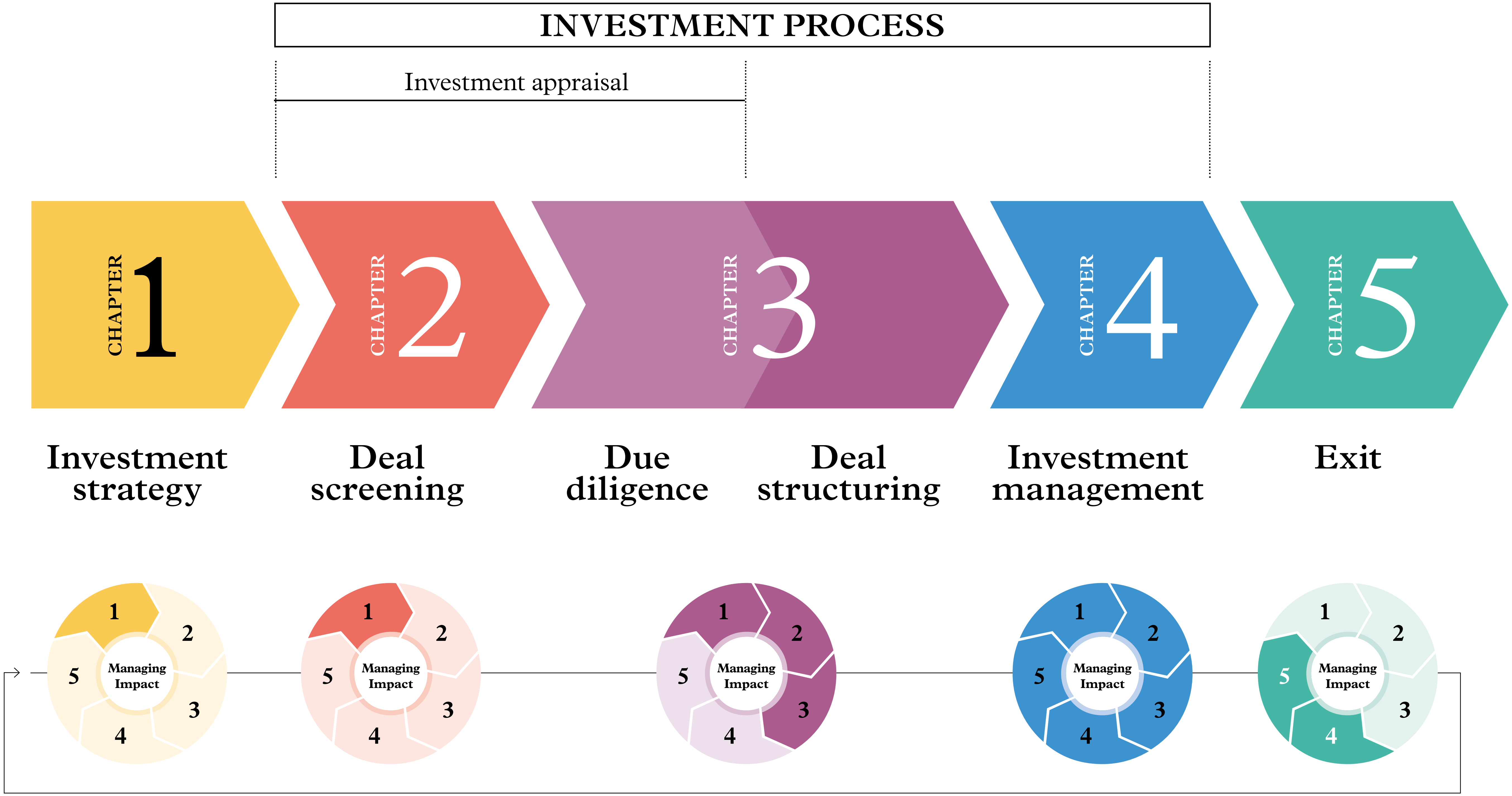
- **IMM for Climate Adaptation** – this case study examines the IMM framework of Landscape Resilience Fund, a Swiss foundation aiming to support impactful climate adaptation solutions through private and public climate finance. It specifically touches upon Landscape Resilience Fund's investment on Koa Impact, an SME directed towards improving worker's income, food waste and climate resilience in the cocoa supply chain.

- **IMM Adapts** – this case study examines Phitrust's investment in the early-stage start-up Lemon Tri, committed to improving waste collection in France, and how Phitrust's impact thesis contributed to Lemon Tri's impact growth.

- **IMM Hits a Bullseye** – this case study takes a deep dive on Snowball, a fund of funds, and their unique bullseye framework to evaluate impact across their portfolio, specifically touching upon Snowball's investment on the Women in Safe Homes Fund, a property investment fund in the UK with an explicit gender focus.

[11] More information on the IMM case studies series can be found here: https://www.impacteurope.net/insight-series/navigating-imm-case-studies.

CONTENTS



CONTENTS

CONTENTS

CONTENTS

1_ INVESTMENT STRATEGY

FUNDAMENTAL IMM QUESTIONS

— What **problem(s)** are you addressing?

— What are your impact **objectives**?

— What **factors** influence the way you measure and manage impact?

— How do you manage the two levels of impact, i.e., the **direct impact** on the investees supported and the **indirect impact** on people and the planet?

— Do you have your own **theory of change**? How do you use it in practice?

Step 1 of Impact Europe's framework is about **setting objectives**. Investors define their impact objectives while designing the investment strategy. Along with the strategy for measuring and managing the impact, the investor's objectives are displayed in its theory of change[12] – or a similar document with the same function.

The **Impact Principle 1** *"Define strategic impact objective(s) consistent with the investment strategy"* overlaps with this step and emphasises the importance of linking the impact objectives with the investment strategy. In line with the Impact Principles, **the SDG Impact Standards on strategy** provide a set of actions and practice indicators as guidance for practitioners who seek to ensure their strategy embeds impact considerations. This includes the definition of impact objectives and the development of an impact thesis.

Prior to setting the impact objectives and defining their theory of change, impact investors should carry out an in-depth analysis of the factors that will have an influence on their IMM practices. Investors should also decide how they will manage the two levels of impact, i.e., their (direct) impact on investees but also their (indirect) impact on society.

[12] A theory of change defines all building blocks required to bring about a given long-term goal. This set of connected building blocks is depicted on a map known as a pathway of change or change framework, which is a graphic representation of the change process.

Elements that influence IMM practices

Some of the elements of the investment strategy of an impact investor have an important influence on how impact is measured and managed.[13] The list below includes the most relevant elements to be considered:

Financial support provided. The type of financial instruments deployed, as well as the time horizon of the investment and the ticket sizes have an influence on the IMM strategy. The thoroughness required and the resources deployed for measuring and managing impact should be balanced against the type of financial support provided.

Non-financial support provided. IMM is one of the three areas of development of an impact organisation that investors can strengthen through non-financial support[14]. An increasing percentage of investors provide non-financial support to strengthen the IMM framework and practices of impact organisations, as shown in Impact Europe's Industry Survey throughout the past decade (Figure 3).

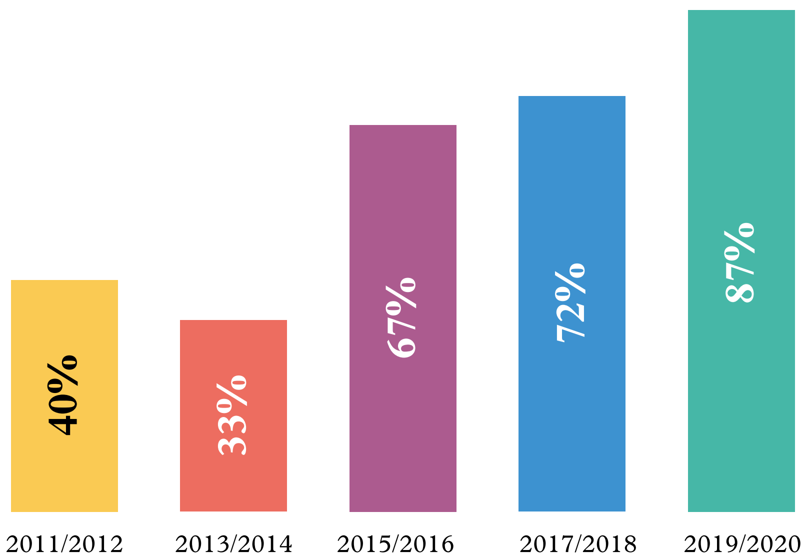


Figure 3. Percentage of investors that provide non-financial support on impact measurement and management. Source: Impact Europe Industry Survey.

Role played towards the investee. When there is more than one investor supporting the same impact organisation, additional elements must be considered according to each investor's role. **Understanding the role and the IMM expectations of the other investors (if any) is a crucial preliminary step.**

Impact funds acting as majority stakeholders are in a better position to influence data-driven decision-making. However, some impact funds operate as minority stakeholders. In this case, they may focus on guaranteeing the priority of impact in the investees' business model, and on helping investees work out their IMM strategies.

Similarly, some catalytic grant-makers may support organisations that are also financed by large donors that provide a larger amount of financial support. In these cases, the main added value of such catalytic grant-makers lies in their support to structure the IMM system of the grantees.

Impact investors also take a proactive role in aligning the IMM requests coming from the pool of investors, to avoid overburdening the investee with excessive demands, further discussed in chapter 3 on due diligence and deal structuring.

Governance and resources. The governance structure and the resulting resources allocated to measure and manage impact influence the intensity of IMM that can be expected.

Following the practice indicators of the **SDG Impact Standards on governance** can help investors set up a proper governance structure to ensure impact management practices are embedded in organisational decision-making. The standards suggest integrating key elements of the IMM strategy into the governance framework and ensuring that the governing body is involved and has the right competences on IMM.

Some organisations have a team specifically focused on IMM, which regularly aligns with the investment team to assess, for example, potential investments or the performance of ongoing investments. For others, the investment managers are also in charge of measuring and monitoring the impact. Collaborative initiatives such as **Impact Frontiers**,[15] which features different investors along the spectrum of capital, are fostering integration of impact alongside financial risk and return considerations. This shows how investment and impact teams can collaborate in practice.

In some cases, impact investors outsource a part of the IMM process or do it in collaboration with academic partners. For example, **Karuna Foundation** has outsourced a part of its IMM process, partnering with the **UBS Optimus Foundation** to conduct an impact study that will compare the baseline with the outputs and outcomes measured.[16]

[13] Although the same organisation may adopt different investment approaches (e.g., investing *with* impact, SRI), for sake of simplicity in this report we use the term "investors *for* impact", and sometimes just "investors", to refer to all organisations that adopt an investing *for* impact strategy.

[14] Boiardi, P., and Hehenberger, L., (2015), *"A Practical Guide to Adding Value Through Non-Financial Support"*. Impact Europe.

[15] For more information, please consult: https://impactfrontiers.org/.

[16] For more information, please consult: https://www.karunafoundation.nl/en/.

The resources available for impact investors are determined by the nature of their funders, which might also drive the demand for impact measurement and management. Impact investors solely funded by private investors might have different reporting requirements than those funded, for example, by the public sector, a corporation or other investors.

For instance, European impact funds that are financially supported by the **European Investment Fund (EIF)** implement their **Impact Performance methodology**. Through this methodology, fund managers and investee organisations identify impact indicators, assign an impact target value for each indicator and, during the investment, calculate the impact multiple, which compares the impact target value with the realised value.[17]

Implementing such methodology ultimately leads to tying the carried interest distribution not only to the financial performance but also to the achievement of impact targets. The EIF methodology is not a mere reporting tool, but rather a management tool which ensures alignment of interests between the fund managers (general partners - GPs) and the funders (limited partners - LPs).

The **Impact Principle 2** *"Manage strategic impact on a portfolio basis"* also refers to setting up proper governance and suggests "aligning staff incentive systems with the achievement of impact, as well as with financial performance." Impact incentives are a way to incentivise an organisation to achieve the targeted outcomes. They help align impact objectives and focus the performance towards achieving measurable outcomes.[18] In some cases, a carried interest might be paid to fund managers if certain impact (and financial) objectives are met. Other types of incentive schemes linked to impact performance are pay-for-performance and stock options.

Ecosystem. Understanding the development of the market where the impact investor operates is essential for defining its role and its IMM strategy. The local impact ecosystem influences not only the legal context but also the relationship with other investors, or the needs of the investees in terms of non-financial support related to IMM.

The other elements of the investment strategy that also influence the IMM strategy of impact investors are the investment focus (sectors and geographies of interest), the type(s) of impact organisations supported and their stage of development, the co-investment policy and the exit strategy.

[17] For more information, please consult: https://www.eif.org/what_we_do/equity/impact-investing/index.htm.
[18] Patton, A., "Incentives for driving impact in deal and fund structures", *in ImpactAlpha*, June 2020.

BURNING TOPIC 1

Embedding the SDGs in IMM

Impact investors can decide how to use the SDGs for measuring and managing impact. While the SDGs have played a pivotal role in harmonising language, providing a common framework and mobilising capital to drive positive change, investors have faced challenges in demonstrating alignment with the SDGs without robust IMM strategies. This has raised concerns about the credibility of the SDG framework.

To address this, Impact Europe has defined three strategies to embed the SDGs in impact management: **SDG alignment**, **SDG action** and **SDG optimisation.** SDG alignment lets the investor use the SDGs as a communication and reporting tool. SDG action refers to using the SDGs to identify impact gaps in a determined geography. SDG optimisation is the strategy that integrates the SDG framework with impact management, using the goals to assess how to better capitalise on the capital deployed.

SDGs integration into IMM framework

Impact measurement	SDG alignment	→ SDGs as a **reporting tool** (used after mapping investments) → SDGs to **target sectors** (before investing) → SDGs to **identify secondary indicators** within the framework
	SDG action	→ SDGs to **identify impact gaps** in geographical areas
Impact management	SDG optimisation	→ SDGs to reach **thresholds and targets** (using the SDG Impact Standards to understand performance gaps) → **Full integration** of SDGs and IMM strategy

SDGs deeply integrated into IMM framework

In conversation with Belissa Rojas, Impact Measurement and Management Advisor at UNDP, she emphasised how embedding SDG priorities into organisational IMM frameworks can reduce impact washing and improve both practice and performance. This integration not only ensures credibility but also contributes to meaningful progress towards achieving the SDGs. Dive deeper here.

"We consider two levels: We allocate part of our time to work with impact organisations on maximising their impact, and we also manage the impact of the resources that we, as investors in the grant-making space, are making by investing our resources."

– Francesca Vezzini, The Human Safety Net

The two levels of impact

Impact Europe's five-step process is focused on how investors measure and manage impact on two levels: the investee level, which is about the impact of specific investments on people and the planet, and the investor level, which is about how the impact investor contributes to impact by strengthening the impact organisation. This publication refers to how investors manage these two levels across the different steps of Impact Europe's framework.

A report from the Center for Sustainable Finance & Private Wealth (CSP) of the University of Zurich defines these two levels as *"company impact"* (i.e., the change in the world caused by company activities) and *"investor impact"* (i.e., the change in company impact caused by investment activities). This report clarifies that investor impact is about the change the investor generates, which positively affects the investee.[19]

[19] Heeb., F. and Kölbel, J., (2020), *"The Investor's Guide to Impact. Evidence-based advice for investors who want to change the world"*. University of Zurich Center for Sustainable Finance & Private Wealth, EIT Climate-KIC, FC4S.

Defining the IMM strategy implies understanding, *ex-ante*, how the two levels of impact will be managed and what resources should be used.

The relevance of tackling the investor level is also emphasised by the **Impact Principle 3** *"Establish the Manager's contribution to the achievement of impact."* Measuring impact at the investor level, thus understanding its contribution, is crucial for impact investors as they aspire to finance social entrepreneurs but also to create additional impact and leave stronger organisations after they exit the investment.

While setting up an investment strategy, impact investors seek to generate additional impact towards investees, helping them achieve an impact that would not have been achieved otherwise without the investor's contribution. Some key outcomes for measuring the impact at the investor level are:

- **The financial solidity.** This includes whether the financial and non-financial support have enabled investees to strengthen their business model and financial soundness. It also comprises whether the investees are better off in terms of budget and diversification of income streams. For example, foundations providing catalytic grants to organisations striving for sustainable business model once the grant is over, can assess whether the grantee is ready for repayable funding sources.
- **The impact management practice.** Fostering a better IMM system is part of the capacity-building activities impact investors carry out to support their investees in evaluating their impact. It is widely acknowledged that a thorough IMM system drives higher impact performances by the investees.
- **Organisational resilience.** The improvement of the governance systems of the investee and the staff expertise and resources are also part of the non-financial support offered by the impact investor; SDG Impact Standards for Enterprises on governance could help in this respect. Investees adopting the standards would signal commitment to embedding impact considerations and the SDGs into decision-making.
- **Strengthening underserved impact organisations.** Assessing the investors'

additionality also entails understanding if the investees would have been funded by other investors anyway. Impact investors are willing to support high-risk impact organisations in their early stages of development, sometimes helping them build evidence or even the proof of concept, and growing impact organisations that would be otherwise underfunded.

- **Catalytic role.** Checking how much capital the investees can attract during the investment management phase and/or when they exit an investment can help impact investors understand the catalytic role they played in mobilising additional capital for impact.

The process of measuring and managing impact at the investee level is explained across the chapters on deal screening, due diligence and deal structuring, and investment management.

A third level of impact III

In addition to the two levels of impact, **additional impact investing encompasses a third level**, which relates to the **investor's contribution to the development of the impact ecosystem at large, as well as to systemic change**.

Since this third level does not have a direct impact on the beneficiaries or on the organisations in the portfolio, its measurement and management is more complex. Although there are some outputs to capture this third level, there are no tangible methodologies to measure and manage it. However, it is particularly relevant for impact investors: in some cases, it is included in their theory of change, and they might even deploy resources (e.g., personnel) to pursue and track this third level of impact.

Three main dimensions constitute this third level:

- **"Raising the bar"** attitude. Impact investors are very well positioned to demonstrate the potential of their investment approach, aimed at maximising impact, by sharing methodologies, knowledge and best practices. Educating relevant stakeholders about the benefits of additional impact investing and catalytic grant-making is one of the reasons for improving investors' transparency (see part 4.3).

- **Developing a thriving local impact ecosystem.** In countries where the impact market is less mature, impact investors give importance to building an ecosystem to strengthen both the supply and demand sides. This is especially important for organisations pioneering impact investing in their country or region.

Some examples of fostering the local ecosystem include (i) engaging with other investors and educating them on embedding impact considerations, e.g., through co-investments; (ii) raising awareness about additionality within mainstream impact investing e.g., by organising webinars, events or capacity building efforts; (iii) positioning the impact sector e.g., by forming alliances with peers and/or advocating for it with policy makers; and (iv) engaging with the public sector, e.g., by developing hybrid financial mechanisms.

- **Integrating a systems-change lens.** Impact investors that incorporate a systems-change lens go beyond measuring the impact of concrete investments, striving for an understanding of the changes and challenges in the systems where they operate. Incorporating a systems-change lens entails understanding the root causes of a social and/or environmental problem, embracing complexity, non-linear thinking and interconnections. This approach requires bringing together relevant partners to challenge the way the social and/or environmental issue is tackled and defining where to intervene.

The theory of change of **Laudes Foundation** integrates such a systemic view. It helps the organisation to not only have a framework for measuring and managing impact, but also decide where to intervene with its grantees.[20]

Rethink Ireland also incorporates a systems-change lens in its theory of change, by including the activities of the foundation, as well as the actions of other stakeholders, that will drive long-term system change.[21]

RAISE Impact also integrates a systemic view during the screening and selection process of investees. The impact fund looks whether the companies are "UIS", i.e., addressing an Urgent and Important issue with a Systemic approach. This entails, for example, being able to change a consumption or a production habit in depth and at scale.

[20] For more information, please consult: https://www.laudesfoundation.org/how-we-work.
[21] For more information, please consult: https://rethinkireland.ie/.

BURNING TOPIC 2

How impact investors assess contribution and attribution

Discovering how impact investors measure their contribution, assess the impact of their support and address root causes of social and/or environmental issues is crucial. In this burning topic, we engaged with experts Nicole Feliciani from *Erste Social Banking*, Lara Viada from *Creas*, and Anne Holm Rannaleet from *IKARE* to delve into these essential aspects. Each organisation addresses how they are supporting their investees and contributing to improving their impact, offering valuable insights into how they assess investor contribution, the added value an investor brings to the investee, and attribution, the determination of how much change observed can be attributed to investor activities.

Dive deeper into the *how* and *to what extent* impact investors contribute for positive change here.

Theory of CHANGE *of the* IMPACT INVESTOR

A theory of change helps investors articulate how and why they expect to achieve change through their activities to solve a particular social and/or environmental problem. A clearly articulated theory of change also helps choose investments in impact organisations that can contribute to solving the social and/or environmental issue the impact investor addresses. The theory of change of impact investors can include their (direct) impact on investees, but also their (indirect) impact on society. In some cases, impact investors even integrate the systemic lens in their theory of change, as explained in the previous chapter. In creating a theory of change, an impact investor needs to determine (i) the overarching social and/or environmental problem or issue that it aims to alleviate, (ii) the specific objective it wants to achieve; and (iii) the expected outcomes. These elements should emerge from stakeholder analysis, sectorial knowledge and materiality assessment (explained in section 3.2.1).

"The theory of change is what we would like to achieve, but there is also clarity on the causal chain and how we want to achieve this with our partners."

– Savi Mull, Laudes Foundation

For an investor, setting up a theory of change entails linking their activities to the impact achieved through the investees, which requires more hypothesis and assumptions. If the investor wants to include their (indirect) impact on society in the theory of change, they need to acquire more evidence and build more knowledge to refine the hypothesis and challenge the assumptions made.

To deal with such complexity, impact investors take time to engage with stakeholders, such as universities, or experts from the field, like potential investees, civil society organisations and intended beneficiaries. This process is crucial to build knowledge about the social and/or environmental problem, define the main areas of action and identify expected and unintended outcomes.

A challenge related to the theory of change is making it operative and embedded in the activities of the investor. Operationalising the theory of change takes time, as it needs to be well communicated and validated with the stakeholders. A recommendation is to start from a simple theory of change for structuring the impact value chain,[22] and then refine it over time.

[22] The impact value chain represents how an organisation achieves its impact by linking the organisation to its activities and inputs, and then the activities to outputs, outcomes and impacts.

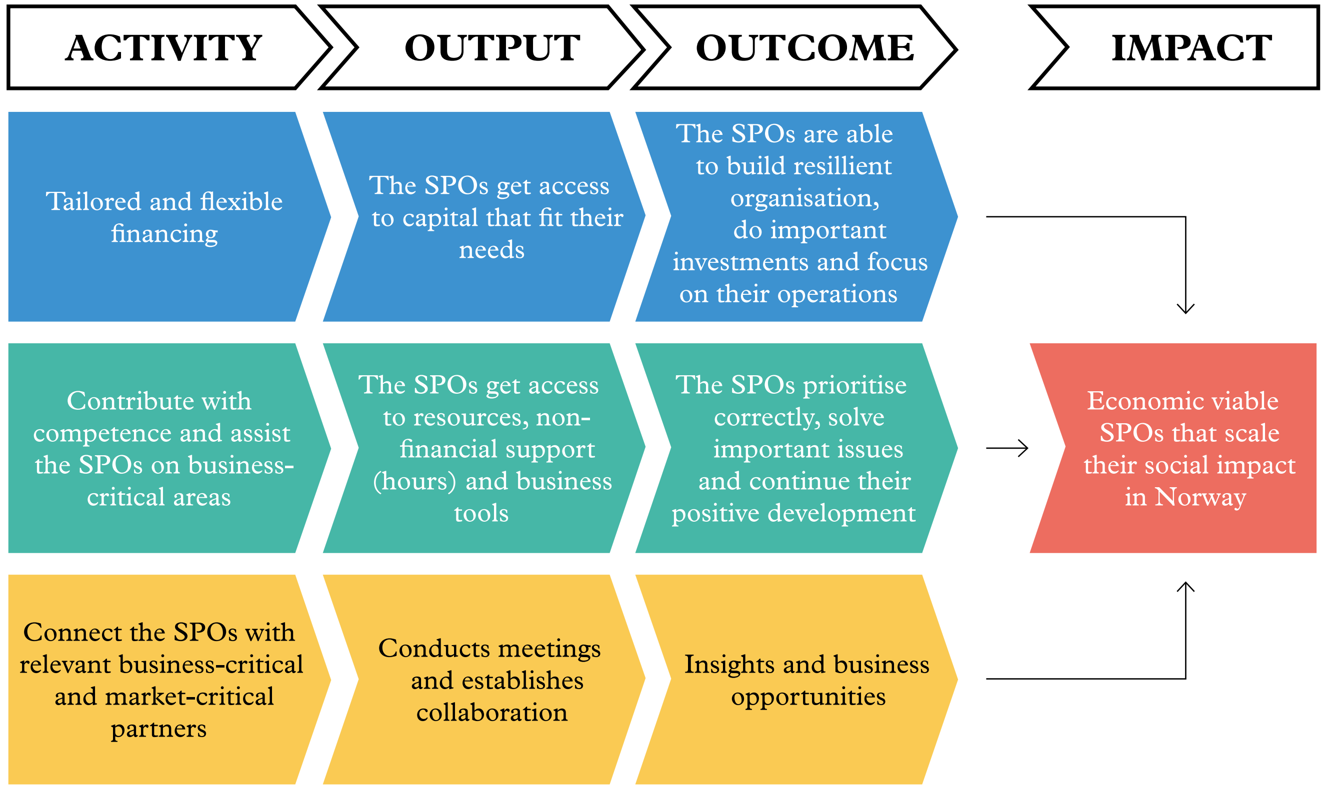


Figure 4. Theory of change of Ferd Social Entrepreneurs

For example, **Ferd Social Entrepreneurs'** expected impact is having "economic, viable impact organisations that scale their social impact in Norway," and their theory of change is structured following the impact value chain, showing the outputs and outcomes of the activities that will drive such impact.[23] Some impact investors do not have a formalised theory of change, but a document that has the same function, such as an impact thesis or a *raison d'être*.

[23] For more information, please consult: https://ferd.no/en/sosiale-entreprenorer/hvem-er-vi/.

For bigger organisations that manage different programs or streams of activities in diverse sectors, an additional challenge is to decide the degree of specificity at which the theory of change is defined. For instance, some foundations have theories of change for each program, which can include the technical knowledge about a social and/or environmental problem the program addresses. However, it is essential to have some high-level principles that integrate the vision of the whole organisation, to coordinate actions and not lose the focus on their ultimate high-level goals.

Elaborating the theory of change should not be a linear process. After working on a social and/or environmental issue, investors (and investees) should have a better understanding of the problem and modify their approach accordingly, which might imply refining their own theories of change. Monitoring and challenging initial assumptions is a crucial part of the iteration process. Similarly, with time – and thanks to engagement with stakeholders – a theory of change should evolve towards being an actual picture of the effects and activities carried out, including positive and negative intended and unintended outcomes.

2_ DEAL screening

FUNDAMENTAL IMM QUESTIONS

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

— How do you assess not only the current impact of the screened impact organisations, but also their **impact potential, additionality and likelihood of scalability**?

The **SDG Impact Standards on management approach** include key actions and practice indicators to guarantee that the investor's practices throughout the whole investment process – from pre-screening phase to exit – are aligned with its impact objectives and theory of change.

Such alignment starts already when screening potential investees. The impact objectives set when defining the investment strategy will guide the impact investor, narrowing down the type of impact organisations that will be of interest.

The investee's elements that should be assessed at this stage are (i) the social and/ or environmental problem it is trying to solve, (ii) the activities being undertaken to solve this specific problem or issue, (iii) the resources or inputs needed to undertake these activities, and (iv) the expected outcomes.

Embedding IMPACT OBJECTIVES *in the* DEAL SCREENING

In the deal screening phase, an important element of the strategy to consider is whether the impact investor has a sector-specific or sector-agnostic approach. Investors with a sector-agnostic approach will look primarily at the overall impact potential of the impact organisation, whereas, if the areas of focus are determined, impact investors need to align on both impact potential and focus of operations. Investors with a sector-specific approach can use the **IRIS+ Impact Frameworks**, which include a section with answers to key questions about the impact objective, along with core metrics sets that can be helpful when assessing potential investments.[24]

[24] For more information, please consult: https://iris.thegiin.org/.

The broader the impact objectives are, in terms of investment focus, the more likely they are to be aligned with those of potential investees. At the same time, the more specific the sector of interest, the easier it is to leverage pre-existing knowledge and experience when screening potential deals.

It is important that impact investors analyse not only the current impact and performance, but also – at times more important – the potential of the solution (and, if applicable, its contribution to the SDGs), the additionality of the impact[25], the market potential and the scalability of the impact organisation. Some organisations balance these features into a scoring system that enables better decision-making.

> *"We are often surprised how few potential investees are planning and communicating their potential future impact, not to mention the lack of assessment of their current impact."*
>
> – Johann Heep, ERSTE Social Banking

For example, **Tilia Impact Ventures** developed a deal scoring table that assesses investment score and level of risk across five features: (i) level of impact, (ii) team credibility, (iii) market potential, (iv) project stage, and (v) additionality of the funding.[26]

Bayer Foundation has a scoring system with 6 to 8 principles that encompass the selection criteria and scores each organisation on each principle with a score from 1 to 5. If the organisation is above a pre-determined threshold, they bring it to the next stage.[27]

Bridges Fund Management scores the five dimensions of impact suggested by the IMP on a 1 to 5 scale and combines them in a unique impact score. Based on performance data across the five dimensions, Bridges can ultimately classify an investment's impact into one of four broad categories: (i) Causes or may cause harm, (ii) Avoids harm, (iii) Benefits stakeholders or (iv) Contributes to solutions.[28]

Finally, **SI2 Fund** sets a target based on social return on investment (SRO)[29], assessing whether the organisation could reach an SROI score of 2 or above whereas SI3, the new impact fund managed by Shaping Impact Group, assesses whether the organisation could reach an SROI score of 3.[30]

[25] Additionality means that an intervention will lead, or has led, to effects which would not have occurred without it. Source: Winckler Andersen, O., Hansen, H. and Rand, J. (2021) "Evaluating financial and development additionality in blended finance operations", OECD Development Co-operation Working Papers.
[26] For more information, please consult: https://tiliaimpactventures.cz/en/.
[27] For more information, please consult: https://www.bayer-foundation.com/.
[28] For more information, please consult: https://www.bridgesfundmanagement.com/.
[29] For more information on SROI, please consult: https://www.socialvalueint.org/guide-to-sroi
[30] For more information, please consult: https://shapingimpact.group/en/funds/si2-fund, https://shapingimpact.group/en/funds/si3-equal-opportunities and https://www.impacteurope.net/insights/investing-equal-opportunities-si3-fund-shaping-impact-group.

3_ DUE DILIGENCE & DEAL STRUCTURING

FUNDAMENTAL IMM QUESTIONS

— Do you help your investees set up their **own theory of change**?

— How do you identify and segment stakeholders and **integrate their voice** in the development of the solution?

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

— Do you consider any **risk** associated with: not achieving the impact you expect/achieving a negative and/or unintended impact?

— Do you also assess the **impact risk** at the investor level?

The due diligence and deal structuring phases can vary according to the nature of the investors and the needs of the investees. For example, some investees may need to develop the impact thesis, others have a clear impact objective but need to articulate the impact value chain and others may need to start from scratch to develop a theory of change (**Step 1** of Impact Europe's framework).

Before starting the investment, impact investors support their investees in developing their theory of change, defining the outputs, outcomes and impact targeted. The outcomes defined emerge from the stakeholder analysis (i.e., **Step 2** of Impact Europe's framework), through which investors and investees identify, assess, segment and select the most relevant stakeholders and the most significant outcomes to them.

During the due diligence phase, impact investors, together with the impact organisation, should identify the main impact risks emerging from their activities. At a later stage, they should put in place and assess risk mitigation strategies. Investors should also evaluate risk at the investor level, i.e., the risk of having a negative impact towards the impact organisation.

Once the relevant outcomes for stakeholders are identified and the impact risks have been assessed, investors and investees should select which indicators will capture the progress towards the impact targeted. The identification of indicators is included in **Step 3** of Impact Europe's framework.

These elements are embedded within the **Impact Principle 4** *"Assess the expected impact of each investment, based on a systemic approach."*

Theory of CHANGE **of the investee**

The theory of change of the investee should clearly identify the impact objectives, the actions required to achieve the impact and the main key performance indicators (KPIs) to capture progress towards the intended outcomes. The **SVI Principle 2 *"Understand what changes"*** helps establish a link between activities, outputs and outcomes to be measured.

Impact investors take a proactive role in helping impact organisations elaborate their theory of change, which represents the starting point to set up a thorough IMM system. However, especially when targeting organisations in their early stage of development, investors try not to overburden investees by requiring an excessively elaborated theory of change. Instead, they may start defining clear objectives, selecting the main outcomes to focus on and developing two or three impact indicators to measure. As mentioned in part 1.3, developing the theory of change is an iterative process, and over time it should better grasp the actual (intended and unintended) outcomes of the activities.

Even a simple theory of change should clarify the links between the activities, the outcomes and the objectives targeted, and should be able to answer (i) if-so-because, (ii) in the presence of, and (iii) why it might not succeed to each hypothesis included in the impact value chain.

Proactive investors can share some resources with investees to help them structure and operationalise their theory of change. Amongst others, **Social Value UK**'s *Maximise your impact – a guide for social entrepreneur* serves as an example of how social entrepreneurs can develop a problem tree, turn it into an objective tree and develop the theory of change. The guide can also be used during other phases of the investment process, as it also helps plan the operations, and collect and analyse data.[31]

[31] **Social Value UK**, (2017), *"Maximise your impact: a guide for social entrepreneurs"*. Estonian Social Enterprise Network, Koç University Social Impact Forum, Mikado Sustainable Development Consulting.

Stakeholders' Segmentation & Assessment

Analysing stakeholders already in the investment decision process is a crucial practice, as stated in **Step 2 of Impact Europe's framework** and in **SVI Principle 1, *"Involve stakeholders."*** For this reason, during the due diligence phase, impact investors and investees work together to identify the most relevant segments of stakeholders and intended beneficiaries, to understand the most relevant outcomes for each segment.

To assess the impact at the investor level, the obvious stakeholder is the impact organisation itself. During the due diligence and deal structuring phases, investors engage with impact organisations to understand their main needs and characteristics (and, subsequently, the potential financial and non-financial investor additionality). This allows impact investors to tailor their financial and non-financial support to the investees' needs, whilst making sure they communicate in a comprehensive way their approach to potential investees, managing their expectations and agreeing on the duties of each party from the beginning.

Stakeholder segmentation and assessment at the investee level might be developed through insights gained from engagement with stakeholders, desk research, workshops or questionnaires. This process should be embedded within the development of the impact organisation's theory of change or impact thesis and, as such, it should be repeated over time. The types of stakeholders identified might include the public sector, relevant organisations with expertise in the sector of intervention, potential competitors or delivering stakeholders (i.e., those implementing or supplying the products or services delivered by the impact organisation, such as social workers, doctors or teachers). However, the most relevant stakeholders to be analysed are those experiencing the impact, i.e., the beneficiaries.

The ***'Who'*** **dimension of the five dimensions of impact** helps investors and investees work on such analysis, allowing practitioners to understand the types of stakeholders experiencing the impact, their characteristics and geographical location, and how underserved they are in relation to the outcome experienced.

For impact organisations that deal directly with end-users, the two most frequent types of beneficiaries are employees and clients.[32] If they are workers of the impact organisation, they should be empowered to unlock their full potential and capacities, as well as to influence decision-making. If intended beneficiaries are the buyers

[32] **Hehenberger, L.,** "The agents of change in social entrepreneurship", in *Do Better, Esade*, November 2019.

of a product, it is advisable that the impact organisation builds a market-oriented client relationship rather than a paternalistic beneficiary relationship. This implies ensuring they are able and willing to pay for the product offered.

However, as described in **Nesta**'s article, "*What do we mean when we say we are looking for investments with impact?*" some business models need to rely on delivering stakeholders to implement their products or services. These organisations need to establish a set of assumptions as the intended beneficiaries indirectly benefit from the product or service developed. The longer the chain of assumptions is, the harder it will be to provide evidence of the impact of the solution.[33]

Impact investors help identify and assess subsegments of beneficiaries because it can help investees refine their business model and better tailor products and services.

This was the case of **SI2 Fund** and **Justice42**, a social enterprise active in dispute resolution, which started with divorces. While analysing intended beneficiaries (i.e., divorcing couples), SI2 Fund and Justice42 identified differences that allowed them to create subsegments based on the value they placed on different outcomes, and tailor their services. This allowed Justice42 to diversify its offer, thus growing both impact and revenues. This example helped SI2 Fund demonstrate that better IMM practices lead to better impact and financial results.[34]

Finally, in the process of analysing stakeholders, impact investors with a sector-specific focus have an advantage, as they have built the technical knowledge on the sector, whereas for sector-agnostic investors, this process might be more challenging and time-consuming. Another key factor is the existing knowledge of the impact organisation on the stakeholders and the communities with which they engage. Community-based initiatives might have a long-standing expertise in engaging with the beneficiaries and with other key stakeholders.

[33] **Daggers, J.,** "What do we mean when we say we are looking for investments with impact? In *Nesta*. September 2019.
[34] For more information, please consult: https://justice42.com/?lang=en.

Determining relevant outcomes

The analysis of what to measure, which precedes the selection of indicators, comes hand in hand with the stakeholder analysis, as it consists of understanding what the most relevant outcomes for the stakeholders are.

Beneficiaries should be placed at the centre of the solution and considered as true agents of change. Intended beneficiaries should be involved in the creation of the solution, so that the outcomes measured will also result from their perspective.

The ***'What'* dimension of impact** is used to assess the outcome occurring in the investment process, whether the outcome is positive or negative, and how important it is to the stakeholders experiencing that outcome. It also looks at the SDG or global goal that the outcome may relate to.

The assessment of outcomes should be based on the factors that are relevant, significant and material to include in a true account of the organisation's impact (i.e., a materiality assessment).

The **SVI Principle 4 *"Only include what is material"*** refers to such analysis and states to *"'Determine what information and evidence must be included in the accounts to give a true and fair picture, such that stakeholders can draw reasonable conclusions about impact."*[35]

In general, knowledge about the sector and main stakeholders is crucial to ensure the activities of the impact organisation are not duplicating efforts and have a clear added value to solving a certain challenge. Impact investors help their investees identify and develop such a value proposition.

[35] For more information, please consult: https://socialvalueuk.org/wp-content/uploads/2016/03/Standard-for-applying-Principle-4.pdf.

"Assessing risk pushes our understanding and pressures us not only to develop better the IMM towards the company by means of engaging with stakeholders, but also KPIs that better grasp the impact that we have and we have not thought about."

– Gergely Iváncsics, Impact Ventures

Impact management aims at maximising positive impacts, whilst simultaneously mitigating the risk of not achieving the desired impact and of having unintended negative impacts.

The "***Risk*" dimension in the five dimensions** of impact defines nine types of impact risk that can be used to balance the likelihood of each risk with the severity of its consequences. The types of risk identified are illustrated in Figure 5.

Impact investors analyse the impact risks of the potential investees' activities during the due diligence and deal structuring phases, whilst considering the stakeholders analysis. The impact risk of an activity cannot be assessed without understanding stakeholders' risk tolerance and the relevance given to different outcomes.[36]

Identifying impact risks is important not only for making decisions when allocating capital, but to work together with the impact organisations to set up subsequent risk mitigation strategies.

Enterprises and investors face nine types of impact risks

1 Evidence risk
The probability that insufficient high-quality data exist to know what impact is occuring

2 External risk
The probability that external factors disrupt our ability to deliver the impact

3 Stakeholder participation risk
The probability that the expectations and/or experience of stakeholders are misunderstood or not taken into account

4 Drop-off risk
The probability that positive impact does not endure and/or that negative impact is no longer mitigated

5 Efficiency risk
The probability that the impact could have been achieved with fewer resources or at a lower cost

6 Execution risk
The probability that the activities are not delivered as planned and do not result in the desired outcomes

7 Alignment risk
The probability that impact is not locked into the enterprise model

8 Endurance risk
The probability that the required activities are not delivered for a long enough period

9 Unexpected impact risk
The probability that significant unexpected positive and/or negative impact is experienced by people and the planet

Figure 5: The nine types of impact risks. Source: Impact Management Project.[37]

One of the types of risk identified by the IMP is the unexpected impact risk, which is used to assess the probability that significant unexpected positive and/or negative impact may be experienced by people and planet. The conversation around negative impact has become more and more relevant within the impact ecosystem in the last years. Some investors may tackle it from an ESG perspective, to ensure that the impact organisation not only has a positive impact, but also meets ESG criteria to avoid negative externalities. In fact, the **Impact Principle 5** *"Assess, address, monitor and manage potential negative impacts of each investment"* refers to the management of ESG-related risks.

As displayed in Figure 6, Impact Europe's 2020 impact survey shows that assessing the risk of not achieving the expected impact has yet to become a common practice, with more than half of impact investors not measuring it.

[36] **Global Steering Group** (2021), *"Impact Measurement & Management (IMM): Impact Investing's Evolving Ecosystem"*, Said Business School, University of Oxford.

[37] For more information, please consult: https://impactfrontiers.org/norms/five-dimensions-of-impact/impact-risk/

Measurement of the risk of not achieving expected impact, multiple choice (n = 113)

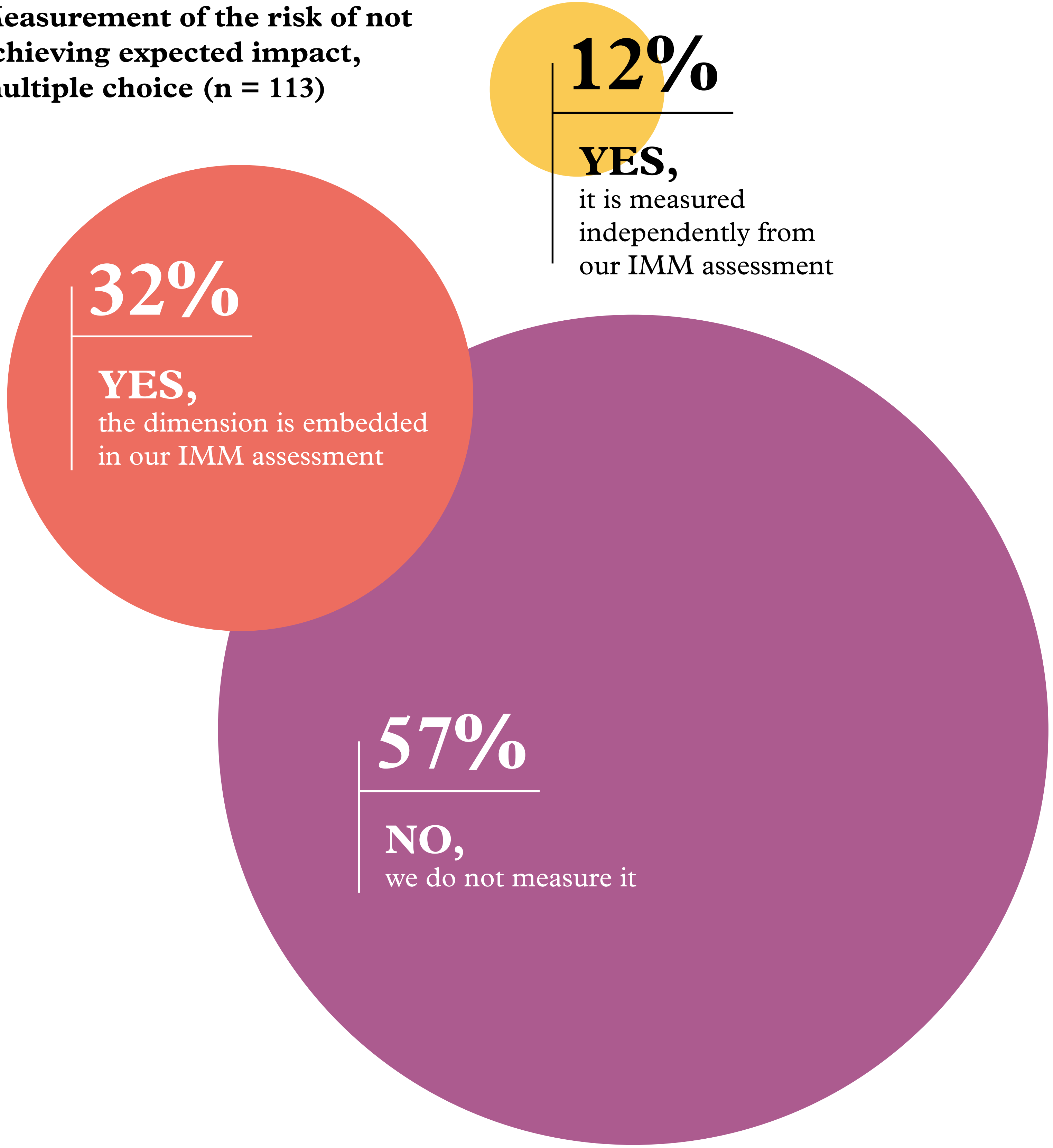


Figure 6. Measurement of the risk of not achieving expected impact. Source: The 2020 Investing for Impact Survey.[38]

Impact investors give special relevance to the risk of mission-drift after exit in case, for example, other investors take over and prioritise commercial benefit over positive impact. If the impact organisation has a lockstep model, in which the achievement of impact is directly linked to the business model, then the risk of mission-drift after exit is diminished. Impact investors could insert mission-drift clauses in the deal to directly influence the selection of follow-on investors, which might guarantee the preservation of impact after exit, as explained in part 5.2.

Impact investors should consider the risks of the (potential) investees' activities, but also assess the risk at the investor level.

For example, the impact fund **Creas** has mitigated the negative effects from external factors by consistently assessing their social and environmental performance, transparency and accountability at the company level, which allowed them to obtain the **B-Corp certification**. To obtain such certification, an organisation needs to provide evidence of good performance across the areas of Governance, Workers, Community, Environment and Customers.[39]

[38] **Gaggiotti, G., Gianoncelli, A., and Piergiovanni, L.**, (2020), "*Venturing Societal Solutions – The 2020 Investing for Impact Survey*". Impact Europe.

"Impact investors often tailor the level of rigour required according to the impact organisation's capacity and its stage of development."

– Martina von Richter, Rethink Ireland

As an investor, understanding the potential negative impact also leads to reflecting on the relationship with the investees, mitigating the power imbalance between funders and impact organisations, which entails guaranteeing the latter feel confident to talk to the investor as equals and to provide them with honest feedback.

While building the relationship with the investee, impact investors balance their reporting requirements with their investees' capacities and resources.

Even if investors might be very focused on getting impact data, impact organisations' main concerns might relate to their day-to-day operations, and excessive reporting demands might prove burdensome for those with low resources. Another risk associated with excessive demands is to drive the investees' resources to compliance and reporting, hindering their appetite for innovation.

[39] For more information, please consult: https://creas.es/en/creas-impacto-the-first-b-corp-fund-in-spain/.

Impact investors often go through an intensive process to know the type of data they want and agree with the investees on the feasibility of its measurement. It is important to manage expectations beforehand, to ensure clarity on what investors and investees can expect from each other. The IMM system should not be burdensome and, at the same time, should integrate the complexity of the impact targeted. If both investor and investee see a clear added value, they might develop a more detailed IMM system over time – e.g., by including new indicators or the voice of new groups of stakeholders.

The alignment between impact investor and investee relates to what can be measured, the cost of IMM and who can afford it, as well as the non-financial support that impact investors should provide. It is a task of the investor not only to help the investees setting up their IMM system, but also to convince them of the value IMM brings to their activities. Impact organisations should see IMM as a means to improve their impact and to strengthen their mission, rather than as a set of requirements from the funder.

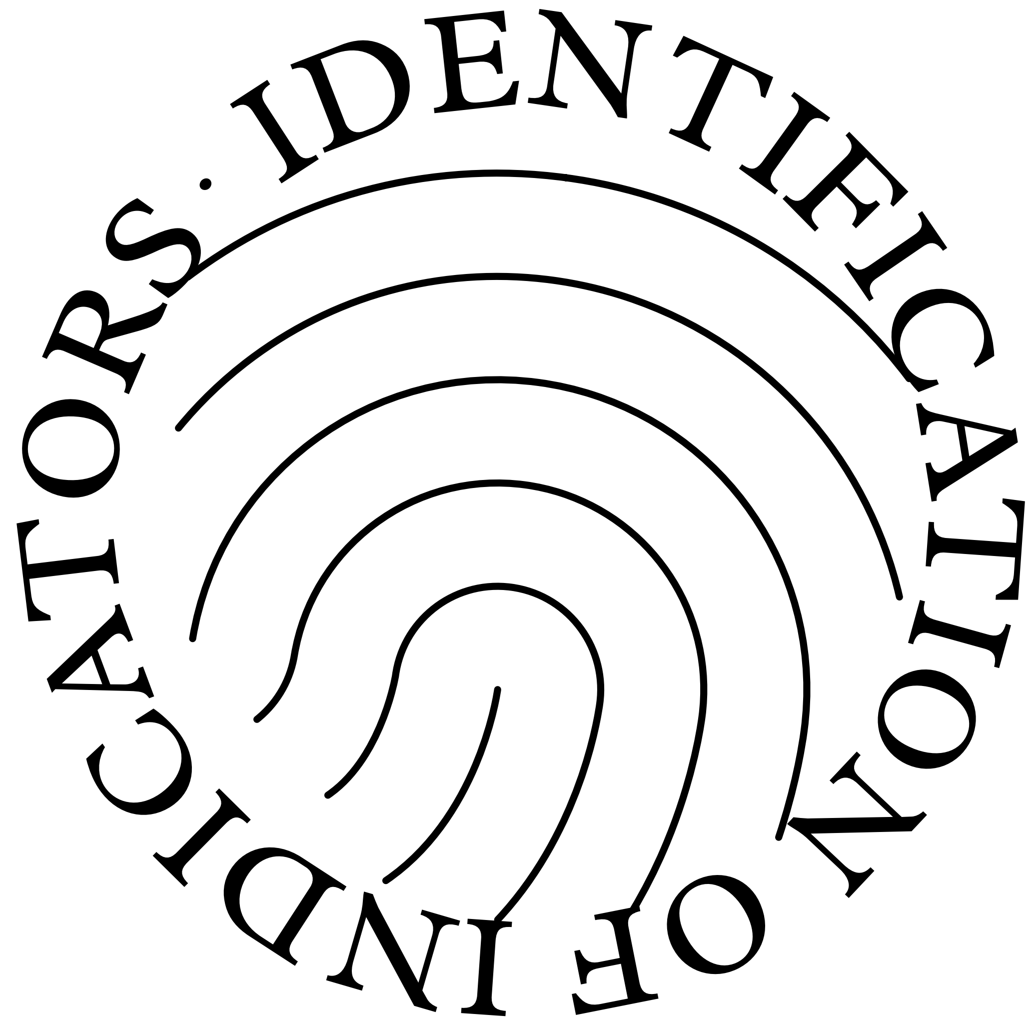
For instance, in case the impact organisation has a profitable business model, linking indicators to the market success will help it value the relevance of measuring them. By finding areas of improvement through IMM, the impact organisation might refine its business model or the products it offers, which may eventually lead to having greater commercial success. This is especially helpful for investees that have a lockstep model, where commercial success and impact achieved are strictly related.[40]

The balancing should also consider the pool of investors that provide financial support to the investee (see part 1.1). In this case, impact investors should (i) act as guarantors of the impact strategy and (ii) proactively align with other investors to reduce the burden of excessive data requests.

"The more impact is embedded in the DNA of the company, the less likely it will deviate from its impact objectives. We only invest in companies where financial returns and impact are aligned."

– Lara Viada, Creas

[40] For more information on the lockstep model, please consult page 47 of the report: **Gianoncelli, A., and Boiardi, P.,** (2018), *"Impact Strategies – How Investors Drive Social Impact",* Impact Europe.



At the investor level, practitioners define indicators to measure the development of impact organisations. Indicators are focused on the financial solidity, impact management practice and organisational resilience of the investee, strengthening underserved impact organisations and the catalytic role of the investment, as explained in part 1.2.

For example, **Erste Social Finance** has developed a survey to measure whether investees were improving their services and accomplishing their mission, thanks to the support provided. Erste Social Finance developed a set of indicators to measure outcomes such as job creation, reach increase (e.g., number of beneficiaries, new services offered), social network growth (e.g., new relevant partnerships) and social inclusion of marginalised people. The survey also measures the impact of Erste Social Finance's work on the economic performance of impact organisations supported, including outcomes like funding improvement, financial sustainability (e.g., assets growth and economic situation assessment) and know-how/ skills improvement (e.g., participation in educational activities and knowledge applicability).[41]

At the impact organisation's level, impact investors play a key role in identifying and selecting impact indicators. Taking a bottom-up approach and starting from the impact objectives, the insights from stakeholders, the materiality assessment and the risks identified, investors and investees work together to understand the best indicators to measure performance. Impact investors strive to measure outcome indicators that go beyond output measures. Outputs are the quantified summary of activities (e.g., tangible products and services) that result from the organisation's activities. Simple output indicators may say very little about the outcomes, which are the changes, benefits (or dis-benefits), learnings or other effects (both long and short term) that result from the organisation's activities.

Impact investors also help establish thresholds (i.e., the minimum effects expected from an activity) and targets (i.e., the outcomes aimed at) whose achievement should be at the same time ambitious and realistic. →

[40] For more information, please consult: https://www.erstegroup.com/en/about-us/social-banking.

"Targets and thresholds are usually a translation of the business plan, meaning that the business model and revenue of the company should be aligned with the deliverability of its impact. To fit to a global reporting approach, the impact KPIs chosen must be simple to report, consistent, transparent, well-defined and unbiased."

– Benoit Escher, Raise Impact

Some investors may be tempted to use a large set of indicators, but it is important to identify the most relevant ones and prioritise those that will drive future decision-making. As impact investors may start supporting early-stage organisations with low resources, they might start measuring two or three KPIs and include more at a later stage to better manage the risks and have more complete evidence. For example, **Impact Ventures** foresees potential KPIs that would improve the IMM system but that cannot be measured due to lack of resources. After a certain period, they reassess if they have the resources to start measuring such KPIs.[42]

[42] For more information, please consult: https://en.impactventures.hu/.

Measuring indicators will be easier if they are SMART and SPICED. SMART stands for specific, measurable, attainable, relevant and time-bound; SPICED means subjective, participatory, interpreted, communicable, empowering and disaggregated. SMART describes the characteristics of the indicators, SPICED the use these indicators have.[43]

Impact investors consider different elements when developing indicators at the impact organisation's level, which are elaborated in the following sub-chapters: (i) the baseline analysis, (ii) the scale, depth and duration of the outcomes, (iii) the use of objective and subjective indicators and (iv) the use of customised and standardised indicators.

"Impact indicators need to measure what matters and should drive better decision-making. When set correctly, indicators should ultimately help companies and investors improve and increase positive impacts, while reducing the negative ones."

– Cristina Spiller, Bridges Fund Management

[42] For more information, please consult: https://www.betterevaluation.org/sites/default/files/EA_PM%2526E_toolkit_module_2_objectives%2526indicators_for_publication.pdf

Identifying the baseline

The baseline is the initial collection of data that describes the state of development of the impact organisation when the impact investor starts investing in it; the baseline serves as a basis for comparison with the subsequently acquired data on its development. Since the baseline refers to the situation of the stakeholders before the investment takes place, it is linked with the stakeholder analysis and thus embedded within the ***'Who'* dimension of impact.**[44]

The baseline might be included in the theory of change, as it helps set the targets and thresholds of each outcome indicator. In case the data prior to the investment is not available, the baseline might be the first data collection, or a preliminary survey to the relevant stakeholders. When the impact organisation aims at achieving environmental impact, the baseline might feed off current research from specialised institutions or academia.

[44] For more information, please consult: https://www.impacteurope.net/impact-glossary.

Capturing scale, depth and duration

When setting up indicators, it is important to look not only at the scale of the solution but also at the depth and duration components of the outcome. **Investors ignoring these elements might prioritise supporting solutions that target a larger number of beneficiaries but have a lighter level of impact.**

The ***'How Much'* dimension of the five dimensions of impact** assesses outcomes by their scale, depth and duration, which helps understand the relevance of those outcomes to stakeholders. Scale refers to *"the number of people experiencing the outcome"*, depth to "the degree of change experienced by the stakeholder" and duration to "the time period for which the stakeholder experiences the outcome", as defined by the IMP.[45]

Investors and investees face trade-offs between the different components of an outcome and must prioritise one component over others. To make an informed decision, they need to collect data on each component. If, for example, they focus only on the scale component, looking at the number of beneficiaries, they will be biased and risk making decisions that do not maximise impact. →

[45] For more information, please consult: https://impactfrontiers.org/norms/five-dimensions-of-impact/how-much/.

Using objective & subjective indicators

Impact investors rely on both objective and subjective indicators to capture the outcomes. When measuring environmental impact, scientific analysis can measure the contribution of an activity towards, for example, CO_2 emissions avoided or tons of plastic saved. However, when looking at social and/or environmental impact, objective indicators might not be enough to capture the impact of the impact organisation. Therefore, some subjective indicators are needed to complement the analysis.[46]

Subjective indicators enable the inclusion of stakeholders' voices to understand the progress towards the outcomes identified. Even when using subjective indicators, rigorous methodologies should be followed to take relevant stakeholders' voices into consideration.

Occasionally, the impact analysis is complemented by case studies based on qualitative information, to help relevant stakeholders and decision-makers better understand the impact achieved. Qualitative methodologies can be very useful to go beyond impact valuation and describe how the IMM process has been developed and delivered in practice.

[46] Objective indicators are based on objective measures, and subjective indicators are those based on individual perceptions, e.g., responses to interview questions. It is important to highlight that even if indicators are subjective, they can be quantified with a numerical value.

BURNING TOPIC 3

Dealing with subjectivity when measuring social impact

Navigating subjectivity is a challenge for impact investors, as those involved in shaping IMM processes bring their personal experiences and biases to their assessments. As subjectivity influences decision-making processes and impact valuation, employing different risk-mitigation strategies should be a must. **Transparency** is key to addressing associated risks, requiring the disclosure of metrics, assumptions, trade-offs and decision-making processes, beyond mere results.

Together with Octavie Baculard from Kimso, we delved into the nuances of identifying *what* a social project changes and *for whom*, acknowledging the importance of qualitative understanding of impact before quantifying it. Subjective indicators play a relevant role in both quantitative and qualitative assessments, helping refine outcome hypotheses and nuanced impact in the former, and enriching investor's understanding by capturing stakeholders' perspectives and experiences in the latter. Read further here.

The reflection on the trade-off between customised and standardised metrics materialises during the identification of indicators. At this stage, impact investors can look into initiatives that provide indicator databases – such as **IRIS+**[47], **HIPSO**[48], **the Joint Impact Indicators (JII)**[49] – or, if applicable, SDG-related indicators.[50] Alongside the catalogue of metrics, IRIS+ includes the **Impact Frameworks**, which help access indicators based on chosen impact objectives.

Using customised & standardised indicators

Standardised indicators from such databases might complement the core metrics, which tend to be customised, as they emerge from the business model and theory of change of the investee. These databases can be of inspiration for an impact investor that wants to gain knowledge on a new sector.

This is the case of **Amundi**, which developed its own IMM methodology but, when entering a new sector, might consult the IRIS+ database or the SDG targets to define impact objectives and indicators.[51]

No matter the source of metrics, aggregation of data across a portfolio can create limitations for investors, as aggregated figures might not enable them to capture the complexity around a specific activity and/or outcome. This is especially risky when supporting impact organisations that operate in different sectors and geographies. However, in some cases impact investors aggregate some output indicators at portfolio level to inform stakeholders about the scale of their interventions.

In case the impact investor has a sector-specific approach, it is easier to use a similar set of indicators across all the portfolio companies. For instance, as **Investisseurs et Partenaires** supports SMEs in creating employment across Sub-Saharan Africa, they track topics such as the quality of employment, number of partner companies, share of women and young people employed, level of wages, access to health insurance provided, training provided, etc. across the portfolio.[52]

Also, **BNP Paribas** combines standardised indicators from its social and environmental impact measurement methodology MESIS *(Mesure et Suivi de l'impact social)*, with customised ones selected in cooperation with the impact organisation. The MESIS methodology holds its structure around seven Social Impact Fields *(Domaines d'Action Sociale – DAS)*, allowing data aggregation and comparability across impact organisations. It is composed by more than 400 indicators that grant flexibility and serves as indicators database for social entrepreneurs, social impact contracts, microfinance institutions and impact funds.[53]

On the other hand, **Ferd Social Entrepreneurs** is an example of a sector-agnostic practitioner following a bottom-up approach to define its impact goals, starting from the objectives of the impact organisation. For this reason, Ferd prioritises customised indicators that are useful for their investees to capture and manage their impact.

[47] For more information, please consult: https://iris.thegiin.org/.
[48] For more information, please consult: https://indicators.ifipartnership.org/.
[49] For more information, please consult: https://s3.amazonaws.com/giin-web-assets/iris/assets/2021-01-26-IRIS_JII.pdf.
[50] For more information, please consult: https://unstats.un.org/sdgs/indicators/database/.
[51] For more information, please consult: https://www.amundi.com/.
[52] For more information, please consult: https://www.ietp.com/fr.
[53] For more information, please consult: https://group.bnpparibas/en/news/bnp-paribas-helps-clients-measure-social-impact and http://www.novess.fr/l-impact-social/.

BURNING TOPIC 4

Assessing comparability – the indicators dilemma

Lack of comparability in the impact sector is an obstacle for decision-makers, as it is often seen as the key to quality decisions when allocating capital. However, social impact is substantially context-specific, therefore making comparisons without contextualising interventions might lead to flawed decision. In practice, what allows investors to compare data are standardised indicators.

In this burning topic, Lisa Glasgo, GIIN's IRIS IMM Director; Tom Adams, Co-founder and Chief Strategy Officer of 60 Decibels; and Samuel Monteiro, Senior Manager of ESG and Impact at I&P, look into the importance of standardisation and customisation in IMM, discuss the need for a nuanced approach tailored to specific contexts, and highlight the challenges in harmonising indicators across diverse sectors. Learn more about it here.

4_ INVESTMENT PROCESS: THE INVESTMENT *MANAGEMENT*

FUNDAMENTAL IMM QUESTIONS

- How do you **systematise** your data collection and monitoring?
- **How often** do you collect data from your investees?
- How do you **engage** with stakeholders?
- How do you make sure you are being **accountable** to the intended beneficiaries?
- How do you **leverage** your impact data – i.e., how do you learn and improve from the data collected?
- Alongside **reporting** on impact, do you also report on how/why decisions have been made, what are the recognised trade-offs, and whether there are future plans for improving performance?

Impact Europe's five-step IMM framework is displayed as a circular process because the investor and the investee should regularly repeat the steps during the investment management phase. Impact investors should constantly use the impact management process to identify and define corrective actions if the overall results deviate from expectations.

Impact monitoring is embedded in **Step 3** and should consider: the time needed for generating data, the impact organisation's resources and the speed needed for decision-making. Some existing tools in the market can support monitoring the impact. In parallel, investors and investees should put in place a process for verifying and valuing impact, as well as learning from the data generated (**Step 2** and **Step 4**), which includes (i) engaging with stakeholders to verify whether their expectations have been met; (ii) assuring the process through third parties; and (iii) putting in place mechanisms to embed the learnings into the organisational culture and future decision-making. On a regular basis, investors also communicate their impact to relevant stakeholders and to the community (**Step 5**). Lastly, the learnings produced throughout the process may lead to refinements of the objectives initially set (**Step 1**).

Some of these elements are comprised within the **Impact Principle 6** *"Monitor the progress of each investment in achieving impact against expectations and respond appropriately." This principle relates to developing the monitoring process, which should include "how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported."* →

Impact MONITORING

A key issue included in IMM agreements is the frequency with which each indicator will be measured and shared with the investor.

In general terms, a good practice consists of performing a comprehensive data collection once a year and measuring two or three key indicators more frequently, e.g., on a quarterly basis, although this may vary across investors and impact organisations. **The frequency of measurement should be tailored to the needs of the impact organisation and the nature of the indicator.** For example, data related to some indicators may need more time to be generated, making it challenging to monitor them frequently (e.g., monthly or quarterly), whereas other indicators need more frequent measurement to make sure the solution is working as planned.

If an impact organisation has an advanced IT system, impact data can be monitored on a continuous basis, providing real-time insights that lead to a more efficient and systematic way of tackling impact-related issues. Even if data is automatically updated, it is important to check the quality of the data and the reliability of the sources at regular intervals. If data is manually uploaded, then the investor needs to make sure it is up to date. An extensive annual (or bi-annual) monitoring is still relevant, and can serve to inform the processes of verifying, valuing, and learning from impact.

At the investor level, the indicators defined during the due diligence and deal structuring phases should also be monitored to assess that the impact organisation evolves as expected.

During the investment management phase, investors and investees can use a series of tools to monitor and manage the progress towards the desired outcomes. Spreadsheets to monitor the data generated are still the tool most used by practitioners. Some other investors started developing in-house online dashboards, using software applications such as PowerBi and Tableau, which allow them to monitor and visualise the data of their investees.

Finally, other practitioners in turn use ad-hoc platforms that have emerged in the impact ecosystem, such as:

- Aeris Cloud (US)
- Cuantix (CL)
- Impact Wizard (BL)
- ImpactTableX (US)
- Masimpact (ES)
- Proof of Impact (NL)
- Resilia (US)
- Sametrica (CA)
- Social Suite (AU)
- Sopact (US)
- UpMetrics (US)
- Verasolutions (Several Location)
- WeSustain (DE)

Verifying valuing & learning

A key process to verify the importance and the magnitude of the intended and unintended outcomes generated is listening to the voices of the relevant stakeholders. Impact verification should be aimed at optimising positive impact, as well as managing risks and understanding whether the risk mitigation strategies are effective.

At the investor level, the key stakeholders are the investees, therefore practitioners check regularly how satisfied the impact organisations are with the ongoing partnership. The aim is to understand what can be improved and to receive feedback on the financial and non-financial support provided. For example, **Trafigura Foundation** commissioned an expert organisation to conduct a standardised, anonymous survey of its grantees. Their feedback showed how important it is for grantees to have flexibility in funding and reporting requirements, especially in times of crisis, or how useful non-monetary support and unrestricted funding can be. For the Trafigura Foundation, unfiltered and candid comments from impact organisations are critical inputs on an ongoing journey to improve practices and nurture a conscious approach to philanthropy.[54]

Some impact investors assess the perceived value of the non-financial support provided and ask investees to compare it to the financial support. According to the Impact Europe's 2020 impact survey, almost three out of four investors reported that their investees value non-financial as much as financial support, as shown by the figure 7. →

[54] For more information, please consult: https://www.trafigurafoundation.org/.

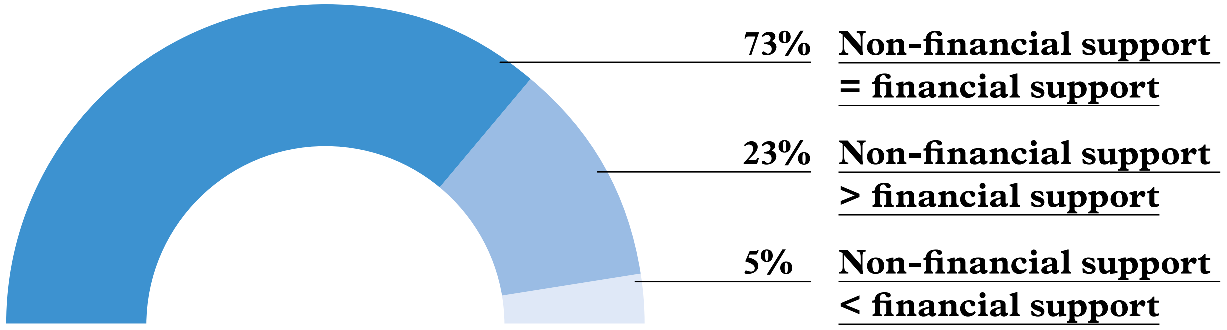


Figure 7. Perceived value of non-financial support (n=40). Source: Impact Europe's 2020 Investing for Impact Survey.[55]

At the investee level, the stakeholders include people directly affected by the activities, like the beneficiaries and other actors involved in the impact organisation's activities, as well as knowledgeable entities that can enhance the learning process, such as experts from the sector, universities and organisations collecting and analysing data.

In most cases, beneficiaries represent the key category of stakeholders with whom to verify the impact. Impact investors may engage directly with the beneficiaries through surveys (e.g., to clients of the impact organisation), and by including beneficiary stories or planning field trips.

Other investors, such as **Open Value Foundation**[56], **LGT Venture Philanthropy**[57] or **Investisseurs et Partenaires**, use the lean data approach, which relies on phone surveys to quickly collect comparable impact data, either independently or through external organisations such as 60Decibels. 60Decibels is an "end-to-end impact measurement company" which was spun out by Acumen in 2019. They collect customer-level impact data by having short phone calls with customers, speaking their local language, and going through a standardised set of questions to understand how they experienced the outcomes of an activity.[58]

[55] **Gaggiotti, G., Gianoncelli, A.,** and **Piergiovanni, L.**, (2020), *"Venturing Societal Solutions – The 2020 Investing for Impact Survey"*. Impact Europe.
[56] For more information, please consult: https://www.openvaluefoundation.org/es/.
[57] For more information, please consult: https://www.lgtvp.com/en/.
[58] For more information, please consult: https://60decibels.com/ and https://www.youtube.com/watch?v=nLAI5O8226k and https://acumen.org/lean-data/. For guidance on conducting remote surveys, please visit: https://60decibels.com/user/pages/03.Work/_remote_survey_toolkit/60_Decibels_Remote_Survey_Toolkit_March_2020.pdf.

Other investors rely on their investees to engage with the beneficiaries, who may not even be aware of the investor's existence. Impact organisations tend to be familiar with the communities, markets or environments where they operate. For example, **SI2 Fund** engages with stakeholders during the due diligence phase, but during the investment management phase prefers this task to be taken over by the investee.

"Theoretical impact assessment is not enough if not validated through stakeholders' verification."

– Pieter Oostlander, SI2 Fund

When supporting vulnerable communities, collecting data that captures their feedback and concerns is a process that needs to follow certain ethical considerations and needs specific skills. If the investors or the investees do not have the required skills, they might rely on external organisations.

Verifying impact might be accompanied by valuing it, i.e., weighing the benefits versus the costs for the stakeholder. **SVI Principle 3 *"Value things that matter"*** stresses the importance of valuation to estimate the importance stakeholders give to social changes.

Outcomes should be valued even if they are captured through subjective indicators (see section 3.3.3) as they can be quantified even if coming from individual perceptions. Valuation can be monetary or non-monetary, and the choice to monetise the impact should be made according to factors such as which learnings will monetisation bring, and to whom the valuation will be communicated.

Another example of valuing is integrated into the **EIF Impact Performance methodology**, which requires the fund managers and portfolio companies to weigh the value of the indicators selected already during the investment decision phase. This exercise allows the impact fund and the investee to align their interests and their strategy.[59]

[59] For more information, please consult: https://www.eif.org/what_we_do/equity/impact-investing/index.htm.

BURNING TOPIC 5

Monetising impact

Valuing impact is a key step in the process of impact measuring and management, but should impact investors try to put a monetary value on it? **We believe this is the wrong question.**

While monetisation allows capital providers to speak the same language as mainstream financial actors and the public sector, they should approach this debate with a nuanced perspective. Rather than focusing solely on asking whether to monetise or not, the emphasis should be on understanding why, when and how it can be a useful practice.

Through the contributions of Pieter Oostlander from Shaping Impact Group, and Maha Keramane & María Ruiz-Melgarejo from BNP Paribas, this burning topic highlights the benefits and challenges of monetary valuation techniques of investees by investors. Dive deeper into their perspectives on valuation and monetisation here.

Accountability

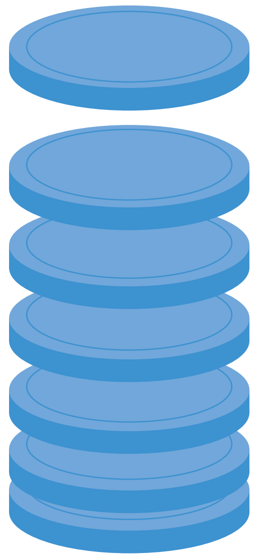
As displayed in Figure 8, there are four main groups of actors towards whom impact investors are accountable: (i) the funders (including the taxpayers if the impact investor is funded by a state-owned institution), (ii) the investees, (iii) the intended beneficiaries and (iv) the impact ecosystem and society at large.

Investors ensure accountability to the funders by regularly reporting their impact and financial results. Investors' accountability towards investees relies on a highly engaged relationship, assessing the value of non-financial support offered and improving their investor's contribution based on the feedback from the impact organisations.

Since the link with the intended beneficiaries is not direct, accountability towards them tends to be overlooked. Investors and investees lack incentives to ensure such accountability given the little power beneficiaries have throughout the investment journey.[60]

For an investor, being accountable to intended beneficiaries means creating mechanisms to guarantee their experiences and feedback inform and influence decision-making. In this regard, the **SVI Principle 8 *"Be Responsive"*** relates to maximising impact *"supported by appropriate accounting and reporting."*

The regular involvement of stakeholders and beneficiaries to value and verify the results is key to understanding the relevance of the outcomes achieved, identifying impact gaps and learning in which areas impact could be maximised; it is also a way of being accountable to the relevant stakeholders.



[60] **Global Steering Group** (2021), *"Impact Measurement & Management (IMM): Impact Investing's Evolving Ecosystem"*, Said Business School, University of Oxford.

"During the due diligence phase, we assess how impact organisations engage with communities to gain an in-depth understanding of the needs of their members. If that is strong, it already increases our own accountability towards these beneficiaries."

– Tom Kagerer, LGT Venture Philanthropy

Finally, being transparent and publicly sharing results and methodologies ensures accountability to the impact ecosystem. Impact investors should proactively support the developments of the impact ecosystem, ensuring that their knowledge and expertise are disseminated among peers and newcomers, and can influence policymakers.

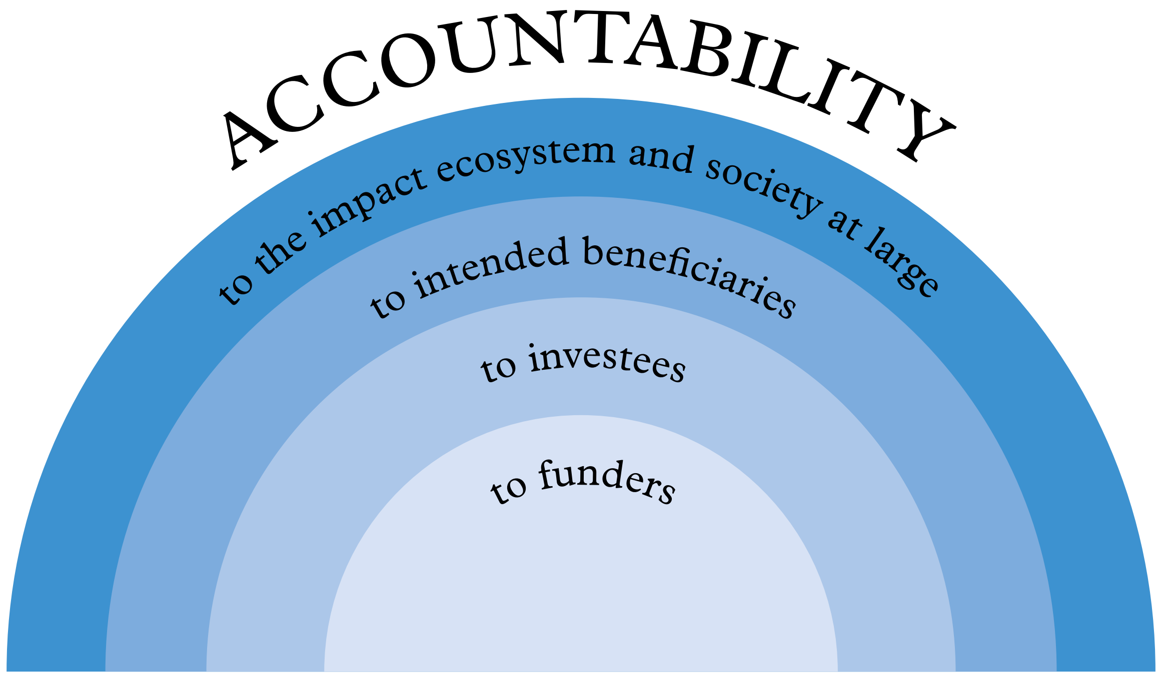


Figure 8. The four levels of accountability.

BURNING TOPIC 6

Ensuring accountability through stakeholder engagement

Ensuring accountability to stakeholders is paramount for impact investors, as it reshapes investment narratives that have perpetuated negative social and environmental impact for decades.

Drawing insights from Jeremy Nicholls of Social Value International, Peter Beez of the Swiss Agency for Development and Cooperation, Céline Yvon of the Trafigura Foundation, and Tom Kagerer and Smiti Sahoo of LGT Venture Philanthropy, this burning topic explores the reasons why investors must be held accountable for their impact, the complexities embedded to it, and the significance of fostering strong relationships with investees and encouraging it between investees and beneficiaries.

Through our discussion, we uncover the importance of accountability in driving meaningful change and the strategies investors employ to uphold their responsibilities to their stakeholders. Read the full burning topic here.

Across the four levels outlined in Figure 8, **an essential process to ensure accountability is validating the impact through external assurance.** Demand for impact assurance is on the rise, partially thanks to the adherence of impact investors to IMM initiatives that require it. In some cases, an impact investor might also set up internal assurance processes to ensure each assessment has been reviewed and validated by peers.

The SDG Impact standards will be complemented with an assurance framework, which certifies compliance with the SDG Impact standards.[61] Assurance is also embodied in the **Impact Principle 9** *"Publicly disclose alignment with the Principles and provide regular independent verification of the alignment"* and in the **SVI Principle 7** ***"Verify the result."*** SVI also provides assurance services which ensure that stakeholders have been appropriately involved in the impact measurement process. Assurance must be proportionate to the size of investment and must represent a learning opportunity for both investor and investee to mitigate impact risks and identify gaps in performance.[62]

[61] For more information, please consult: https://sdgimpact.undp.org/practice-standards.html and https://sdgimpact.undp.org/impact-assurance.html.
[62] For more information, please consult: https://www.socialvalueint.org/report-assurance.

BURNING TOPIC 7

Assuring impact

Impact assurance is becoming increasingly important for investors and companies seeking to drive accountability and optimise their impact. Encompassing both practice assurance, which evaluates an organisation's impact management processes, and performance assurance, which assesses the actual impact achieved against certain standards, mitigates impact washing and increases accountability by providing independent verification of impact claims. Still, some barriers in the impact ecosystem prevent further establishing impact assurance as a driver of impact accountability.

Through the insights of Ben Carpenter from Social Value International, Diane Carol Damsky from the Operating Principles for Impact Management, Sarah Hessel from Finance in Motion and Gaelle Guignard from Incofin Investment Management, this burning topic touches upon the advantages of impact assurance, its influence in driving accountability and the challenges to its implementation. Read further on *how* impact assurance drives consistency and transparency across the impact ecosystem here.

"If you do a proper management of your project, you should have a proper idea where your results are created and should reallocate resources accordingly."

– Peter Beez, Swiss Agency for Development and Cooperation

Learning & improving

Impact investors never stop learning, and **stakeholders' feedback** is an essential source to feed the continuous improvement of their activities. The **Impact Principle 8 *"Review, document, and improve decisions and processes based on the achievement of impact and lessons learned"*** incorporates the learning process inherent to impact management.

The ESADE report *From Measurement of Impact to Learning for Impact: European Charitable Foundations' Learning Journeys* presents an approach for foundations to regard impact management as a learning opportunity for themselves and for the impact organisations they support. The report highlights the importance of spreading the learning culture across all levels of the foundation, including the management team and the board.[63]

Learning can be formal and informal. Formal learning relates to embedding data in management and decision-making, and informal learning arises from conversations and trust-based relationships with investees and stakeholders. Significant formal learnings can only materialise if the data collected is relevant and timely.

Impact investors and investees should constantly review the IMM process to guarantee that it brings significant knowledge and supports decision-making that optimises impact. The data acquired through each indicator should test the initial hypothesis posed in the theory of change and pave the way for future IMM – and impact performance – improvement.

Impact data collected can help investors learn and improve in several aspects. As displayed in Figure 9, the main way in which impact data is leveraged by impact investors is to assess investee's progresses on impact. Almost half of the impact investors also use it to support investees refining their theory of change (including their service/ product offer), unlocking additional capital and/or improving communication with stakeholders.

When an investment lasts for several years, the amount of historical data is richer and enables better decision-making. Alongside the quantity of historical data, benchmarking and comparing the performance and the results with other organisations, if possible, is a relevant source of learning.

"The most important thing about impact data is when you find surprises within the data. Impact investors are not so keen on data that follows the expected pattern, but much more on data that contradicts their hypothesis."

– Angélica Rodríguez-López, Fundación Inuit

[63] **Hehenberger, L., Buckland, L., and Gold, D.,** (2020) *"From Measurement of Impact to Learning for Impact: European Charitable Foundations' Learning Journeys"*. ESADE, BBK.

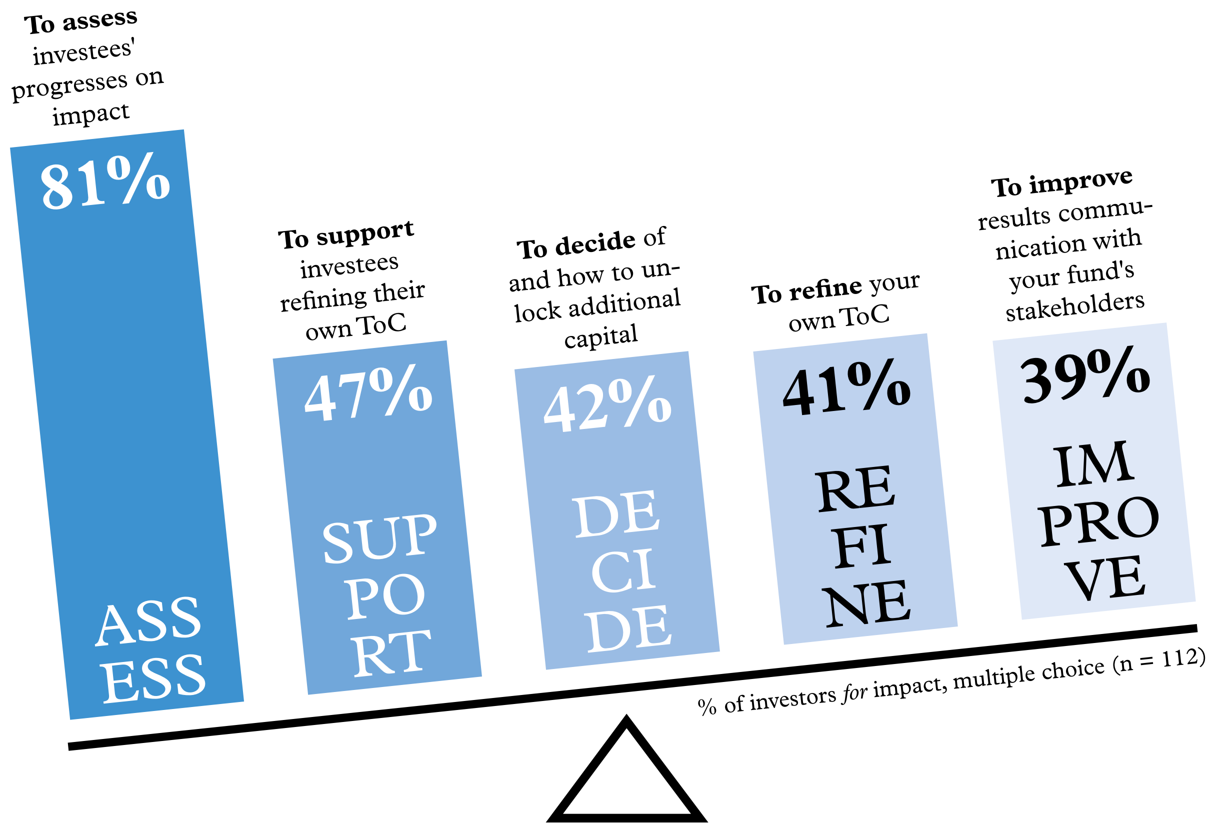


Figure 9. Ways in which impact data are leveraged. Source: Impact Europe's 2020 Investing for Impact Survey.[64]

At the investor level, the comparison between sectors of intervention or programs can bring relevant learnings. Especially for larger impact investors, embedding data into decision-making may also lead to reallocating resources where projects have greater additionality and the investors' contribution has more added value.

[64] **Gaggiotti, G., Gianoncelli, A.,** and **Piergiovanni, L.,** (2020), *"Venturing Societal Solutions – The 2020 Investing for Impact Survey"*. Impact Europe.

It is also helpful to engage with additional stakeholders, to initiate conversations with actors operating in the same sectors and use successes, failures, and IMM practices shared by others for reflection.

"It is important to see those that are more efficient but also those that complement you. We are typically working in silos and duplicating costs."

– Anne Holm Rannaleet, IKARE

The assessment of attribution and additionality can also generate significant learnings. Looking beyond the concrete investment and having a holistic view of the social and/or environmental problem might help practitioners understand not only the actual added value of the intervention, but also the other actors involved and what partnerships can be strategic for future developments.

The ***'Contribution'* dimension of impact** assesses these factors by looking at what would have happened if an activity had not taken place. **SVI Principle 5 *"Do not overclaim"*** includes understanding what would have happened if the activity had not taken place, and what is the contribution of other actors.

Finally, some impact investors deploy time and resources to build a learning culture within the organisation. Some organisations deploy a part of their budget for each employee to be spent in internal education, or for the whole staff to gain expertise in a concrete topic. Internal learning can also be informal, thanks to group meetings, exchanges or gatherings.

Impact

REPORTING

Once the data has been collected and analysed, an organisation needs to consider how to present and report this information. Depending on the stakeholders to whom an impact investor reports, different formats are required. Impact investors report to funders on an *ad-hoc* basis, and usually make an extensive yearly review, which may be included in an impact report to be shared publicly.

The **UNDP SDG Impact Standards on transparency** relate to publicly disclosing not only results but also how decision-making is aligned with the impact objectives and the investment strategy. **SVI Principle 6 *"Be Transparent"*** entails demonstrating the accuracy of the analysis and discussing the findings with the relevant stakeholders.

Impact investors have seen how the demand for transparency has grown over time. Transparency is seen as a key element for growing the ecosystem: sharing successes, failures, practices and proper IMM helps an organisation to be more transparent about its activities and its effects on people and the planet. Sharing data with other stakeholders can have a great value, as the learnings generated might be relevant for internal improvements as well as for other actors addressing the same social and/or environmental solution.

"We use our foundation as a teaching tool, and thus it is important to be transparent and make people understand how much money has been deployed, how much impact has been created, and what are the successes and the points of improvement of our activity."

– Maria Ángeles León, Open Value Foundation

UniCredit published a position paper that showcases the methodologies used to measure and manage impact. UniCredit, by designing a feasible and rigorous model of impact measurement, contributes to ensuring impact integrity in its financial products, which is a key factor for the transparency and competitiveness of the social finance industry. Such a case study demonstrates that rigour can go hand in hand with practical impact management for a wide range of business activities. Through this position paper, UniCredit aims at fostering transparency and culture of impact in the financial sector, as well as gaining credibility and being accountable to the wider public.[65] →

[65] For more information, please consult: https://www.unicreditgroup.eu/content/dam/unicreditgroup-eu/images/one-unicredit/commitments/2021/may/SIBpositionpaper/2021_0504_PositionPaper.pdf

Impact reports tend to include the key figures for each portfolio organisation and some aggregated statistics (i.e., reporting on impact at the investee level) and, sometimes, describe the investor's contribution (i.e., reporting on impact at the investor level). However, **to increase transparency, impact reports should also include what decisions have been made, what trade-offs have been identified and what the areas of improvement are at both levels.**

Some impact investors structure their reporting on the IMM initiatives embedded in their IMM system. For example, they may evaluate each investee across the five dimensions of impact or publish the SROI ratio.

At this stage, the SDGs are also a comprehensive framework that enables investors to show stakeholders what they are doing. However, if an organisation has not rigorously assessed its contribution to the SDGs, it should be cautious when reporting on them, clearly stating that the reporting on SDGs comes from an alignment exercise, rather than a thorough analysis. For example, as **RAISE Impact** has developed an IMM methodology based on assessing the contribution of each company to the SDGs (based on their turnover, both in value and volume), it is very careful to avoid double- or over-accounting.[66] As such, any link between a company's activity and its contribution to the SDGs is discussed and approved in an impact committee, where independent members are present.

There are some IMM initiatives that are focused on helping organisations report their impact. For example, **the Social Reporting Standard**, developed by leader organisations in the German impact ecosystem, provides a template for structuring the communication on impact across different elements, such as social problem and solution, organisational structure and accounting practices.[67]

[66] To know more about the RAISE Impact methodology, please consult: https://www.youtube.com/watch?v=BQ4TIM_8oiQ&t=35s and https://www.raise.co/raise-impact/.
[67] For more information, please consult: https://www.social-reporting-standard.de/en/.

BURNING TOPIC 8

Fostering transparency

Impact transparency, displaying how decisions are made and what the trade-offs are, is critical to the future of the entire impact investing industry, especially as the sector receives more and more mainstream attention. The demand for transparency is now spreading, but key questions remain: what data is relevant to be shared? How can impact performances be compared? How does transparency contribute to concrete improvements?

With the insights of practitioners Paige Nicol from *BlueMark*, Dr. Leonora Buckland & Dr. Lisa Hehenberger from *ESADE Business School*, and Antoni Ballabriga & Lidia del Pozo from *BBVA*, this burning topic aims to answer these questions and discuss how transparency can be integrated into the IMM context. Read more in depth here.

5_

EXIT

FUNDAMENTAL IMM QUESTION

How do you ensure that **positive impact will be preserved** after exit, even if the social and/or environmental impact is embedded in the business model?

After conducting an exit, impact investors usually undertake an evaluation of the investment, and potentially a post-investment follow-up. A key issue to be considered, at this stage, is whether the impact is likely to be preserved after exit.

The **Impact Principle 7** ***"Conduct exits considering the effect on sustained impact"*** suggests considering *"the effect which the timing, structure and process of its exit will have on the sustainability of the impact."*

The exit process can include a final verification of the investor's contribution **(step 4)** and a final reporting **(step 5)** that will inform future investments.

UNDERSTANDING *the* INVESTOR'S CONTRIBUTION

Although the investor's contribution should be measured and managed across the investment management process, when exiting, investors have enough information to understand what their added value during the investment has been and what the investees valued most about their contribution.

They might also acquire further knowledge and data on the sector in which the impact organisation operates and expand their network. The findings from this analysis will inform the value proposition of the investor for future investments.

As shown in Figure 10, the most common way for impact investors to secure impact after exiting is to only select investees that have social and/or environmental impact embedded in their business model, i.e., impact organisations that have a lockstep model (see chapter 3.4).

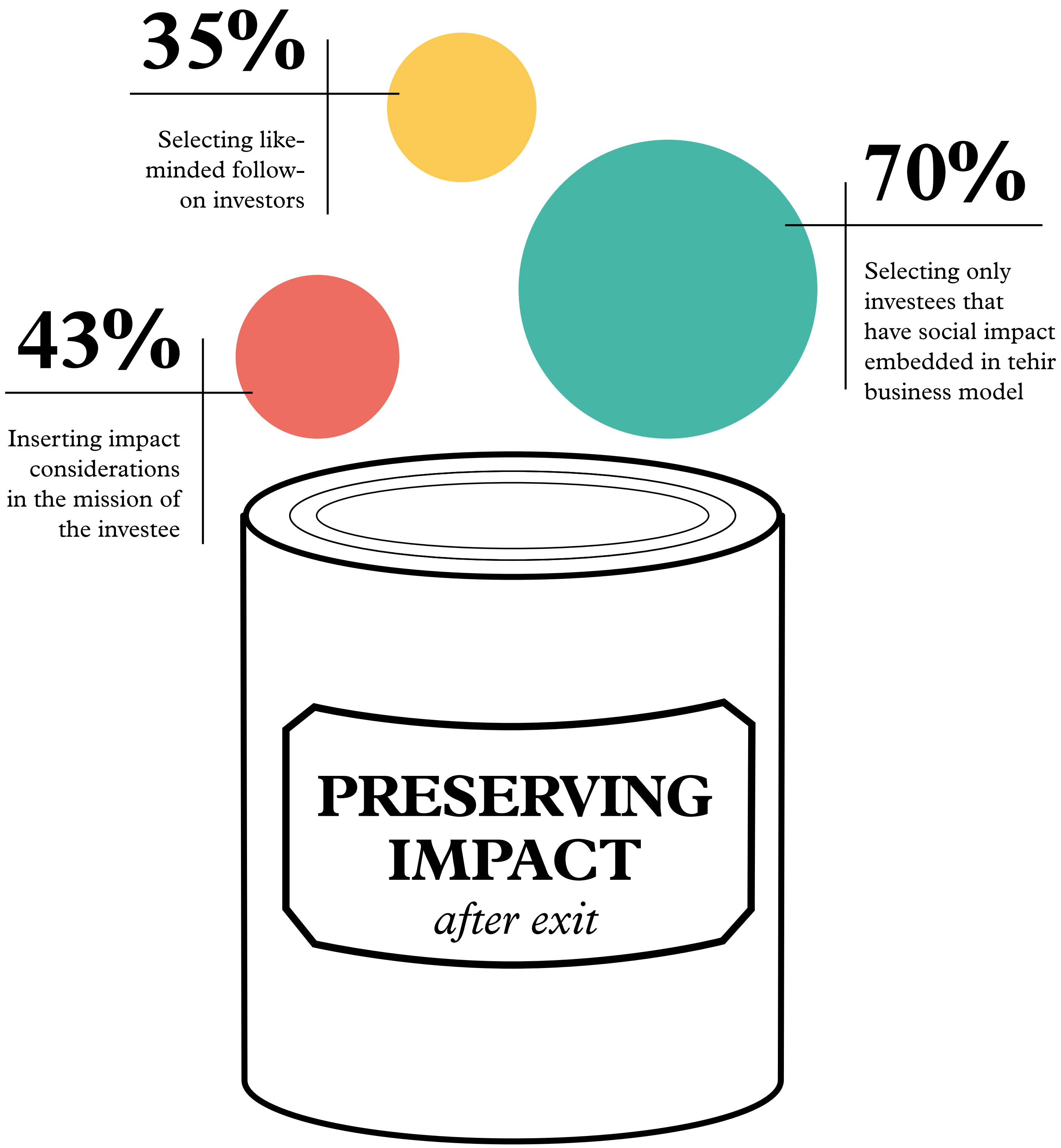


Figure 10. How impact investors exit. Source: Impact Europe's 2020 Investing for Impact Survey.[68]

[68] **Gaggiotti, G., Gianoncelli, A.,** and **Piergiovanni, L.,** (2020), *"Venturing Societal Solutions – The 2020 Investing for Impact Survey"*. Impact Europe.

However, some impact investors acknowledge that **even in the lockstep model there are trade-offs between financial and impact performance,** hence the risk of a new investor pushing the impact organisation towards prioritising financial return should be considered and mitigated. Some techniques whereby an investor can further guarantee that impact will be preserved after exit include:

- **Embedding impact in the DNA of the investee,** helping to measure the impact and include it in the mission, management decisions, dashboards and/or incentive schemes. The deeper the impact is integrated into the impact organisation's operations, the more difficult it is for a follow-on investor to prioritise financial returns.
- **Selecting likeminded follow-on investors,** by including mission-drift clauses in the deal which allow the investor to have reasonable comfort or even assurance that the investee will continue working on the defined impact strategies and objectives. This procedure might be especially relevant if the impact organisation does not have a full lockstep model and the investor foresees a higher risk of mission-drift after exiting (see chapter 3.4. on risk). →

Grant-making organisations supporting impact organisations that do not have a profitable business model do not focus much on the mission-drift risk, as the organisations supported are unlikely to be taken over by commercial investors. Instead, to guarantee long-lasting impact, they need to enhance the financial sustainability of these organisations. Some impact investors start supporting impact organisations during due diligence and deal structuring phases, helping them develop their fundraising strategy.

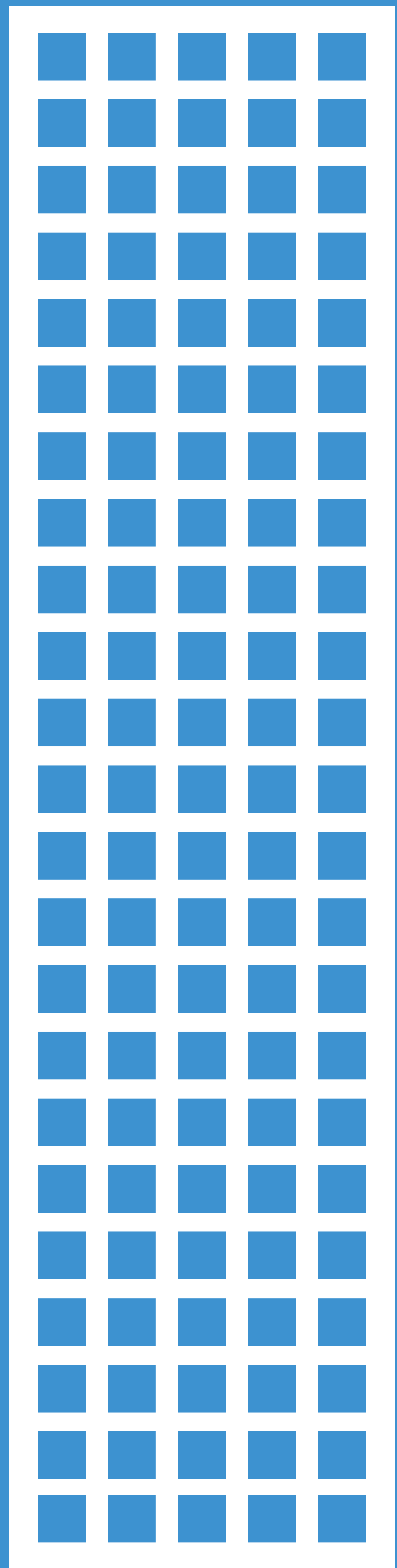
To ensure financial sustainability in the long term, where there is no or limited commercial market, the key stakeholder is the public sector, which should act as follow-on investor. In this case, the grant-maker and the impact organisation need to work together to adapt the initiative to the government's strategy, understanding how the solution fits within the government's long-term plan and building on the evidence generated to communicate the impact.

A good example to illustrate how impact investors and impact organisations can work with the public sector is the case of **IKARE Ltd** and **Shifo Foundation**. Shifo Foundation, in a first step and after a few iterations, developed a hybrid system for the Mother & Child primary health care services called Smart Paper Technology (SPT) Solution. SPT allows much better health data collection, storage and reporting on individual patients, health centre, district and national level when compared to paper-based systems used in developing countries.

After successfully piloting the first SPT version of the Mother & Child solution in Uganda, IKARE and Shifo, with additional funding from Gavi, the Johnick Foundation and the Swedish Postcode Foundation, and in collaboration with the Ministry of Health and Action Aid International, rolled out the revised version of the solution including immunisation services at the national level in The Gambia. As supported by IKARE's additional non-financial support, Shifo has throughout its journey actively engaged with the public, as well as NGO sectors to implement a scaling strategy, demonstrating how the SPT solution is more efficient and affordable than the existing Health Management Information Systems and delivering much greater impact.[69]

[69] For more information, please consult: https://www.impacteurope.net/stories/head-start and https://www.shifo.org/.

6_ IMM



IN THE CORPORATE SECTOR

Impact measurement and management practices have been ever present among foundations, impact investors and corporate impact actors (i.e., corporate social investors, corporate foundations, impact funds, Corporate Social Responsibility and Corporate Citizenship teams) to drive social and environmental change. However, the corporate context introduces an additional layer to IMM, influencing how corporate social investors (CSIs) position themselves within their parent companies and leverage their resources. CSIs leverage both financial and non-financial resources (e.g., expertise, products, networks) from the related company, therefore, one of the key stakeholder relationships to manage is the one with the parent company.

This additional layer specific to the corporate setting has yet to be explored by the broader corporate and financial ecosystem. However, Impact Europe has identified two main opportunities for CSIs to leverage impact data in the corporate context: (i) enhancing the mobilisation of additional resources towards the CSI and (ii) shaping the corporate impact journey.

MOBILISING additional RESOURCES towards the CSI

Measuring and managing impact can help CSIs demonstrate the value of their activities to senior management and corporate stakeholders, proving their relevance within the company and potentially leading to greater allocation of financial and/or non-financial resources by the parent company towards the CSI.

To effectively inform senior management, considering corporate management's capacity to absorb extensive impact data, CSIs need to balance the management of short- and long-term outcomes. This keeps corporate colleagues engaged while maintaining a focus on meaningful, long-term change. In addition, measuring both social and environmental impacts alongside the business value for the company helps establish credibility with corporate stakeholders.

Aligning IMM with the company's ESG objectives or/and other KPI frameworks can also help ensure that what is measured informs and impacts the company, making the value of a CSI clearer to the company.

The Human Safety Net (THSN), the corporate foundation of the insurance company Generali, recognises that meaningful impact often requires time to manifest, as is the case for early-childhood development, a key programmatic area of THSN. Through regular reporting, including quantitative, qualitative and anecdotal data, THSN proved short-term progress towards long-term impactful results. Decision makers took notice, and the foundation's budget tripled in size over five years.

Shaping the corporate impact journey

Through an IMM framework managing the three levels of impact, CSIs can gain insights into how to influence the related companies' impact journey, as companies face growing pressure from investors and regulators to embrace responsibility and sustainability towards the environment and society.

Insights at the investee level can help the parent company understand the needs and circumstances of beneficiaries, whose challenges are not being directly targeted by the core business. Insights at the investor level can provide knowledge on making inclusive business successful, which can ultimately help a company transform its own business model. Therefore, shared commitment to social responsibility and inclusive business practices between the CSI and core business can lead to mutual influence.

This mutual influence can be seen between **Generali** and **The Human Safety Net**. THSN used Generali's sustainability framework as an entry point to influence the core business, as both corporate and CSI share a commitment to social responsibility and inclusive business practices. Through Generali's four pillars – responsible 1) insurer, 2) investor, 3) employer and 4) citizen – THSN is in a unique position to advance the company's sustainability commitments by contributing with inclusive insurance products, impact investing tools and inclusive hiring practices. This way, THSN scales Generali's impact solutions.

Read further on IMM in the Corporate Setting:

Dive deeper into how IMM has become increasingly relevant for both CSIs and other impact investors in driving positive social and environmental change by reading Impact Europe's **burning topic "IMM means Business."** With the contribution of Jens Andersson from IKEA Social Entrepreneurship, Maximilian Heermann from SAP and Clodagh Connolly from Business for Societal Impact, this burning topic highlights the insights of these practitioners on leveraging IMM in a corporate setting, strengthening their credibility among corporate stakeholders and driving positive change within their organisations.

Read also the key insights piece on the latest Impact Europe e-talk on **"Corporate Impact Measurement and Management,"** where guest speakers Clodagh Connolly (Business for Societal Impact), Alan Barbieri (The Human Safety Net), Daniela Pereira (MC Sonae) and Lucinda Webber (Sanofi) shared their practical insights on how IMM helped mobilise additional resources and influence the corporate impact journey.

Impact measurement and management enables an understanding of performance gaps and impact needs, and therefore drives decision-making throughout all stages of the investment journey. As such, IMM is embedded in the DNA of impact investing. It should not be perceived as a compliance exercise, a helpful add-on or an additional practice in the impact sector.

CONCLUSION

This publication outlines the most important considerations to measure and manage impact during each step of the investment strategy and the investment process. The report also displays how different principles, standards and methodologies, such as Impact Europe's five-step framework, SDG Impact Standards, SVI Principles and others, complement each other in practice.

This approach demonstrates that different IMM initiatives can help impact investors enhance different elements of their IMM systems. Rather than deciding which initiative to adopt, investors should have in-depth discussions to understand which initiatives could best support them to learn, improve and maximise their impact.

Particular emphasis is placed on measuring the two levels of impact (i.e., the direct impact on the investees supported and the indirect impact on people and the planet). Each topic covered in this publication should be assessed at both levels for investors to optimise their resources to maximise impact. In addition to the two levels of impact, impact investing encompasses a third level, which relates to how investors contribute to the development of the impact ecosystem at large and enhance systemic change. The third level of impact entails additional complexity to the IMM system, and it is yet to be further developed in the impact sector. Impact Europe will continue gathering evidence and best practices related to the third level of impact to better assess how to measure and manage it in practice.

This publication also demonstrates the importance of understanding and engaging with beneficiaries and other key stakeholders when measuring and managing impact. Assessing sub-segments of beneficiaries can help investees better tailor their products and services, leading to higher impact (and in some cases financial) performance. The analysis of key stakeholders also drives the identification of what to measure and the impact risk assessment.

Furthermore, continuously engaging with stakeholders could drive the verification and valuation processes and generate learnings that lead to the constant improvement and impact maximisation.

This report intends to aid the analysis of the main elements that should be integrated into the IMM system of any investor interested in embedding impact in their strategies, from philanthropic institutions to mainstream investors. The findings in this report are complemented by other materials of the Navigating impact Measurement and Management research project. These include a mapping of IMM initiatives, a series of articles on IMM burning topics and a series of practical cases on how impact investors implement their IMM strategies.

With this set of resources, Impact Europe aims to improve IMM practices in the broader impact ecosystem, and at the same time demonstrate the unique role impact investors play in raising the bar of IMM practices.

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About

EVPA becomes Impact Europe

Impact Europe (formerly EVPA) is *the* investing for impact network. We unite 350 capital providers along the continuum of capital (foundations, impact funds, banks and financial institutions, corporate impact actors, public funders) and social innovators of all sorts, sharing a common vision and goal: to increase prosperity and social progress for all, fix inequalities and injustices and preserve the planet.

Impact Europe has been contributing to a thriving impact ecosystem and a growing market, rallying people, capital and knowledge to catalyse, innovate, scale and safeguard impact.

All capital providers have a crucial role to play in driving transformative change. We enable our members to connect and learn from each other to achieve deeper social and environmental impact through their investments, while offering strategies, insights and practical wisdom for any stage of the capital continuum or impact journey.
To mobilise more capital and stakeholders, we transitioned to a new name that reflects the expanding diversity of our membership and scope of work. Introduced on our 20th anniversary, the new name stays true to our mission of mobilising capital for positive change and recognises the influx of new approaches and impact vehicles.

Impact Europe

As we bring new stakeholders to the impact space, while staying true to the investing for impact principles, we seek to raise the profile of our community in policy discussions and spark fresh debates on what impact means for our community and how environmental and social impact go hand in hand.

We are ***the*** investing for impact network.

Impact Europe