THE BUSINESS VALUE OF IMPACT MEASUREMENT

GIIN ISSUE BRIEF

ABOUT THE GLOBAL IMPACT INVESTING NETWORK

The Global Impact Investing Network (GIIN) is a nonprofit organization dedicated to increasing the scale and effectiveness of impact investing. The GIIN builds critical infrastructure and supports activities, education, and research that help accelerate the development of a coherent impact investing industry. For more information, see www.thegiin.org.

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SPONSORS

This project was funded in part by generous support from the DOEN Foundation and JPMorgan Chase & Co.

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August 2016

Dear Reader,

Impact measurement is one of the defining characteristics of impact investing, as it demonstrates the commitment of investors to the social and environmental progress of their investments. It also allows them to feed the knowledge gained back into the business to fuel data-driven decision-making. Because of its significance to the industry, advancing the practice of impact measurement and management is a core component of our work at the Global Impact Investing Network. We collaborate with investors and other leaders in impact measurement to develop and streamline processes for collecting impact data and also to provide guidance on how to effectively use this data to manage a portfolio toward greater impact.

We learn a lot by looking to investors who are pioneering and applying leading practice in impact measurement and management approaches. This report, *The Business Value of Impact Measurement*, profiles several of these market leaders. The organizations that are profiled demonstrate increasing sophistication in how they use the data they generate to manage their impact performance, and they also apply the insights they glean to inform their business decisions and investment approaches in a way that can create tangible business benefits, such as better understanding customers, streamlining deal sourcing, or improving interactions with important stakeholders in the communities in which they invest. This shows impressive recognition of the interplay between impact and financial aspects of a business, but we hope this is just the beginning of an ongoing evolution, and that investors will continue to push the frontier of impact measurement and management practice.

The report helps progress thinking on two significant challenges that the GIIN seeks to help the industry address in order to achieve more widespread and sophisticated impact measurement practice. First, we are working to help investors build approaches that move beyond impact measurement solely for counting outputs. An impact measurement strategy will be most useful for an investor and his or her portfolio companies if the data is analyzed and applied to business practices to manage toward greater impact, such as using the knowledge to manage investees or assess new investment opportunities. The second challenge is overcoming the perception that an impact measurement and management strategy needs to be complicated and costly in order to be effective. If designed thoughtfully, an impact measurement approach can be both lean and potent, delivering the knowledge an investor needs to inform and improve his or her practice.

The examples in *The Business Value of Impact Measurement* present tangible approaches to how investors—and a selection of investees—are leveraging both the financial and impact aspects of their business to complement and enhance each other. It also establishes that impact measurement and management should not be viewed as a necessary cost, rather as a practice that can inform or improve many aspects of business performance.

We hope this research might help facilitate collective learning about how impact investors can be more effective in their collection and use of social and environmental data. Further, this report serves as a reminder of the incredible progress that is being made to blend the impact and financial considerations in the investment process. It represents yet another step toward a world in which investors are equipped with the information they need to channel resources to the most effective solutions.

Amit Bouri
CEO, Global Impact Investing Network

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ACRONYMS USED

BoP	Base of the Pyramid
ESG	Environmental, Social, and Governance
GIIN	Global Impact Investing Network
KPI	Key Performance Indicator
PRI	Program-Related Investment
SPI4	Social Performance Indicators
SPTF	Social Performance Task Force

Impact Investments

Impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. The practice of impact investing is defined by four core characteristics:

1. Intention to have a positive social or environmental impact
2. Expectation of generating a financial return
3. Range of return expectations and asset classes targeted
4. Commitment to measure and report the social and environmental performance of investments

Impact Measurement

A hallmark of impact investing is the commitment of the investor to measure and report the social and environmental performance and progress of underlying investments, ensuring transparency and accountability while informing the practice of impact investing and building the field.

Investors' approaches to impact measurement will vary based on their objectives and capacities, and the choice of what to measure usually reflects investor goals and, consequently, investor intention. In general, components of impact measurement best practices for impact investing include the following:

- Establishing and stating social and environmental objectives to relevant stakeholders
- Setting performance metrics and targets related to these objectives, using standardized metrics wherever possible
- Monitoring and managing the performance of investees against these targets
- Reporting on social and environmental performance to relevant stakeholders

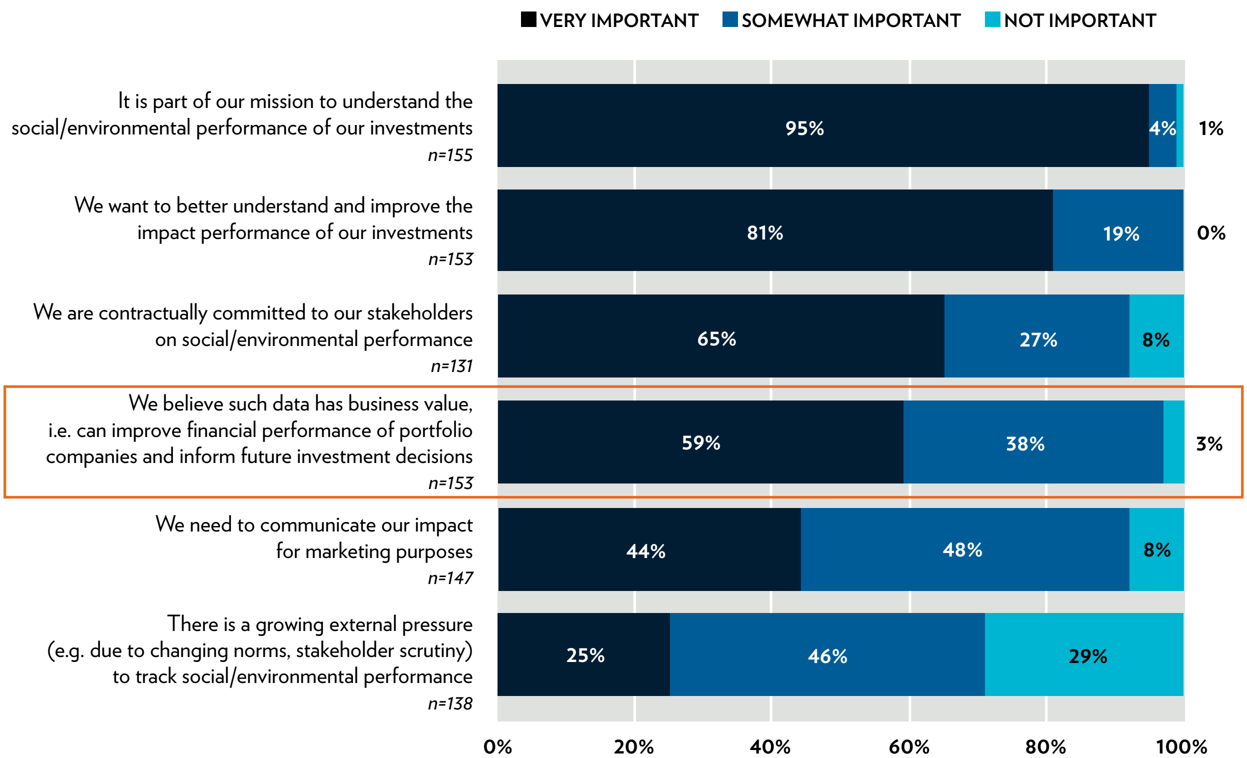
See more at **iris.thegiin.org/guidance**.

Introduction

Impact measurement has always been a core component of impact investing. Indeed, more than 99% of respondents to the GIIN's most recent Annual Impact Investor Survey measure the social and environmental performance of their investments.[1] Most impact investors surveyed are driven to measure impact by their missions and the goal of better understanding and improving impact performance of their investments (Figure 1). Perhaps more surprising, 97% of respondents noted that measuring social and environmental performance is 'very important' or 'somewhat important' because doing so can have business value—that is, it can improve the financial performance of investments and inform investment decisions. Further, 80% of the survey's respondents reported that they use data on investees' social and environmental performance to inform business decisions.

FIGURE 1. REASONS FOR MEASURING SOCIAL AND ENVIRONMENTAL IMPACT

Number of respondents is shown below each answer choice. Listed in order of percentage of respondents selecting 'very important'. Some respondents chose 'N/A,' and their responses are not shown here.



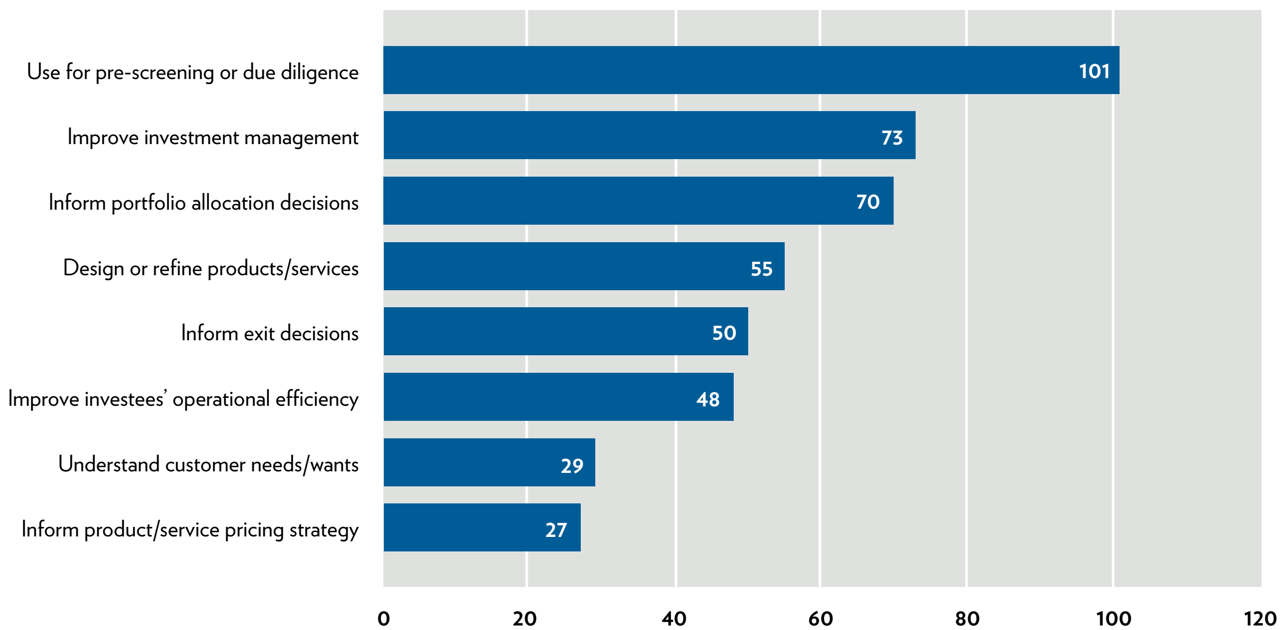
Source: The GIIN, 2016 Annual Impact Investor Survey.

1 The Global Impact Investing Network, 2016 Annual Impact Investor Survey, https://thegiin.org/knowledge/publication/annualsurvey2016. The one respondent who did not answer affirmatively indicated that their investees measure impact.

Despite these encouraging numbers indicating widespread belief in the business value of impact data, research has been limited concerning how impact investors use impact measurement to drive business value. The survey found that social and environmental performance data are commonly applied to drive business value in pre-screening and due diligence, by improving investment management, and by informing portfolio allocation decisions, among other uses (Figure 2).[2] This brief expands on these findings from the survey, explaining how investors and investees use their impact measurement practices to inform investment and management decisions.

FIGURE 2. HOW DO YOU USE DATA ON INVESTEES' SOCIAL AND ENVIRONMENTAL PERFORMANCE TO INFORM BUSINESS DECISIONS?

Number of respondents that selected each option shown.



Source: The GIIN, 2016 Annual Impact Investor Survey.

Improving impact performance is the first purpose that comes to mind when considering the uses of data related to impact. For this, a central purpose of impact investing, a growing volume of literature supports impact investors in measuring and managing impact. Building on that body of work, this brief focuses on the application of social and environmental data to business decisions. While still other work has focused on the business value of corporate social responsibility or corporate sustainability,[3] limited research to date has concerned the link between measurement of the social and environmental performance of impact investments and the

2 In total, 116 respondents answered this optional question.

3 See Appendix 3 for a list of relevant studies on these topics. This brief was also informed by the work of PricewaterhouseCoopers on Total Impact Measurement and Management, which provides a framework for making company-level management decisions based on assessments of both positive and negative impacts of a set of options.

application of these data to generate business value for investors and investees (see box at right for a working definition of '**business value**'). Understanding this connection between measurement and application is vitally important to the practice of impact investing, since by definition the industry aims to integrate traditional business considerations with social and environmental factors to achieve both financial returns and impact.

This brief highlights ways in which impact investors derive value from their impact measurement practices, specifically describing five drivers of business value impact investors can gain from various stages of the impact measurement and management process.[4] Many of these drivers of value relate to uses investors described in the Annual Impact Investor Survey, as shown in Figure 2 above. Some link directly to the financial bottom line of the investee and/or investor, while others, although they may lack an immediate and direct financial effect, nonetheless affect the investee's and/or investor's long-term financial health and viability. The following are the five drivers of value derived from impact measurement that are analyzed in this brief:

1. Revenue growth:

Some impact investors find that by **better understanding their investees' customers—their contexts, socioeconomic status, access to services, and preferences related to products and services—they can drive revenue growth** in a variety of ways. This information helps businesses to segment customers more precisely, to develop effective marketing, to access new market segments, and to develop and refine product and service offerings.

2. Operational effectiveness and efficiency:

Some impact investors and their investees use social and environmental performance data to **inform and improve operational effectiveness and efficiency** at the level of the investee company or project. A wide range of operational issues can be affected—from human resources management to accounting and finance procedures and others.

3. Investment decisions:

Impact investors find that they can improve functions related to investment decisions—**including deal targeting, selection, and sourcing**—by engaging actively in impact measurement. Many find that data related to potential or actual social and environmental impact helps them to determine which sectors and particular deals are likely to provide the type of impact and financial performance they seek. Measuring and communicating impact can also help expedite deal sourcing.

Business Value

For the purpose of this brief, '**business value**' is defined as factors that are advantageous to the overall strength of an investor's or investee's organization, including both direct economic value (whether from improved sales or operations) and strategic benefits that indirectly influence an organization's long-term viability.

4 According to the Social Impact Investment Taskforce established under the UK Presidency of the G8, this process comprises four interconnected stages: (1) 'plan,' which includes establishing goals and selecting indicators; (2) 'do,' which refers to data collection, storage, and validation; (3) 'assess,' or analyze the data; and finally (4) 'review,' which includes reporting and using impact data in decision-making. For more, see Appendix 4 to this brief, along with Impact Measurement Working Group, Measuring Impact (Social Impact Investment Taskforce, September 2014), http://www.socialimpactinvestment.org/reports/Measuring%20Impact%20WG%20paper%20FINAL.pdf.

4. Marketing and reputation building:

Data on social and environmental impact prove vital to investors and investees for **marketing and earning trust with important stakeholders**, helping them raise capital, smooth entry into new markets, and speed processes involving local authorities.

5. Strategic alignment and risk mitigation:

Impact measurement plays a critical role in **ensuring investors' and companies' activities are aligned with their mission and strategy, as well as in mitigating risks that relate to both impact and financial concerns.** Monitoring social and environmental performance can provide early insight into overall business performance, offering an opportunity to correct course and prevent losses (i.e., failure to achieve impact and/or financial returns).

The brief presents specific examples of various impact investors who use social and environmental data to drive business value in the five ways described above. These examples are not exhaustive, nor is it expected that all types of investors will collect all types of data described. Indeed, given the diversity of goals and strategies impact investors employ, their approaches and processes will naturally vary. These examples instead illustrate a range of possible linkages between data on social and environmental performance and business value. This brief does not include in its scope detailed information regarding either the specific methods used to measure impact or those methods' associated costs, which do present interesting potential areas of future inquiry.

It is important to note that the distinction between social and environmental metrics and more traditional business metrics is often unclear. **In fact, impact-related metrics tend to be most useful when they are directly relevant to the investee's core business activities.**[5] **Overlap between impact and core business metrics is especially common when the investee has a social or environmental mission that is deeply embedded in their business model.** In such cases, impact investors often look at seemingly typical business metrics through an impact lens. For example, most businesses measure how many customers they have and attempt to capture some feedback on product quality. Impact investors also use customer information to understand the reach of services to target populations and how well products and services are serving their intended beneficiaries. Thus, impact investors may gather further information about demographics and customer satisfaction, and/or utilize the same information differently that other investors.

> Impact-related metrics tend to be most useful when they are directly relevant to the investee's core business activities. Overlap between impact and core business metrics is especially common when the investee has a social mission that is deeply embedded in their business model.

The next section of this brief explains its methodology, and the subsequent five sections respectively describe the five drivers of business value. Each section presents an illustrative example of how a limited number of core metrics can be

5 As noted in the Social Investment Taskforce's Impact Measurement whitepaper, investors and investees should work together to set objectives and select metrics. See Impact Measurement Working Group, *Measuring Impact* (Social Impact Investment Taskforce, September 2014), 7–9,

used to answer questions that inform decisions and provide business value.[6] The concluding section summarizes the five types of value and highlights a few principles of practice to derive business value from impact measurement. A supplement to the report provides further details on how eight of the investors interviewed use impact data to drive business value throughout different stages of the investment process.

Methodology and Terminology

The findings in this brief are predominantly drawn from interviews with 30 practitioners: 23 impact investors, 6 investees, and 1 service provider (see Appendix 2 for a list of interviewees by name). These interviewees were selected to reflect the range of organization types, investment geographies, and asset classes in the impact investing space. The 23 investors comprised 17 fund managers, 3 institutional investors, and 3 foundations. Target geographies included Africa, Asia, Europe, Latin America and the Caribbean, and North America, as well as global strategies.

The 30 semi-structured interviews concerned each interviewee's business strategy, measurement practices, and use of collected social and environmental data. The semi-structured approach enabled interviewees to emphasize those aspects of their practice that are most important to them, and to surface new ideas and information that the Research Team had not necessarily considered prior to their interviews. The Research Team supplemented these interviews with background research on the interviewees and a review of relevant literature (see Appendix 3).

TERMS USED

In the field of monitoring and evaluation, the term 'impact' typically refers only to relatively long-term effects that can be *attributed* to a specific intervention.[7] However, in the wider impact investment and social business domains, 'impact' often refers to a broader concept of the positive and negative social and environmental results accruing to target beneficiaries (including people and the environment) associated with investments or business activities. Throughout this report, for the ease of the reader and to avoid the introduction of new terms, the term 'impact' is used in the latter way. In addition, the brief focuses primarily on the positive and intended results rather than any possible negative impacts. Therefore, terms such as 'impact data' and 'impact measurement' should be taken to refer to the social and environmental benefits and performance associated with the projects and businesses receiving impact investments.

30 Interviews

Findings in this brief are primarily drawn from interviews with 30 practitioners experienced in the impact investing space:

Acumen
AMK Microfinance
Beartooth Capital
Bridge International Academies
Bridges Ventures
Core Innovation Capital
Deutsche Bank
Ecotrust
Goldman Sachs
Grassroots Business Fund
GroFin
Incofin
LeapFrog
LGT Venture Philanthropy
Lyme Timber Company
MicroClinic Technologies
M-KOPA
NatureVest
Novastar
Oikocredit
Omidyar Network
One Acre Fund
Phatisa
Quona Capital
responsAbility
Root Capital
Sanergy
Shell Foundation
TIAA Global Asset Management
Trucost

6 Though inspired by real investors and companies, these examples combine information from various interviews and data sources to illustrate possible uses of impact measurement to drive value.

7 See, for example, the Development Assistance Committee (DAC) Working Party on Aid Evaluation, *Glossary of Key Terms in Evaluation and Results Based Management* (Paris, France: Organization for Economic Co-operation and Development, 2002), 4, http://www.oecd.org/dac/evaluation/2754804.pdf.

A Note on ESG and Impact Investing

Many investors (including impact investors) select and monitor investments based on their environmental, social, and governance (ESG) performance. Investors value these factors as indicators of corporate responsibility, industry leadership, and robust risk management. ESG factors pertain primarily to the functioning of a business—for example, efficient use of natural resources, hiring policies, and board composition. While ESG and external social/environmental *impact* are distinct concepts with different metrics, in practice there is naturally some overlap between the two. Indeed, many impact investors consider both relevant to the measurement of their total impact. This brief emphasizes the measurement of positive, external social and environmental performance, as substantial literature has already examined the value of measuring ESG factors. Select examples relating to ESG factors are included in this brief where appropriate.

Value Derived from Impact Measurement

Overview

As noted in the Introduction, this brief considers ways in which impact investors derive business value—defined as economic or strategic benefit for investors and investees—from measuring social and environmental performance. The research found five common ways that this type of data can be used to drive value:

1. **Revenue growth**
2. **Operational effectiveness and efficiency**
3. **Investment decisions**
4. **Marketing and reputation building**
5. **Strategic alignment and risk mitigation**

The following sections explore each of these types of business value in turn, considering what may drive each type and examples of how data may be used to realize them. For many investment strategies or contexts, some types of business value will be more relevant than others; investors must evaluate which approaches are most useful and feasible for their portfolios. The following narrative provides specific examples in which impact measurement and management have advanced strategic and operational goals, but it does not exhaustively capture all possible instances of the utility of impact measurement for driving each of the five types of business value.

> "There's been more and more recognition that all of these things that were considered social metrics are all actually extremely valuable market data points that tell a company important information about their clients."
>
> **Caroline Vance, Deutsche Bank**

1. Revenue Growth

Measuring social and environmental performance can help investors drive growth in the revenue of companies and projects in which they invest—primarily by enhancing their understanding of customers, which enables serving them better. Most businesses (regardless of impact intent) track some information about their customers and seek their feedback on product and service offerings. Impact investors, however, often seek to understand customers' needs and usage of products and services through the lens of the impact on customers' lives and on broader community wellbeing. Such data can lead to more effective marketing, identification of new customer segments, product development, and optimal product pricing—all of which ultimately result in revenue growth.

Examples of data used to drive revenue growth include customer income levels and degree of access to services such as energy, finance, and healthcare. These data can be gathered prior to investment—through either existing census-type data or original surveys—to serve as a measure of potential for impact. They can also be used during investment management to inform business strategy by segmenting and better understanding customers. Impact investors and their investees can then track the reach and evolution of product/service usage to prompt adjustments to investees' strategy and operations.

EFFECTIVE MARKETING TO CLIENTS

Acumen is an investor that makes equity and debt investments in early-stage companies that provide low-income consumers in emerging markets with access to basic services. Acumen anchors its data collection practices at the investee level by first trying to understand each investee's definition of success. Then, through its Lean Data initiative, Acumen uncovers customer-level insights regarding whether a product or service is valued by customers, and, if so, why. The Lean Data approach uses low-cost mobile technology to gather information directly from end customers.[8] By understanding which product or service features are meaningful to customers, Acumen and its investees are able to inform both investees' product development and their marketing approaches in order to emphasize and articulate these key features and ultimately increase total sales. For example, if customers report experiencing significant improvements in their agricultural yields as a result of an investees' product and indicate that those changes are highly valuable to them, Acumen and its investee can frame their marketing efforts to emphasize this benefit of the product.

Quona Capital also uses data to help its investees better understand their customers and more effectively market to them. Quona provides equity and quasi-equity financing to companies that provide digital financial services for customers in emerging markets who lack access to traditional financial services. Quona invested in a company offering a mobile-based remittance service to customers around

8 Lean Data Addresses the Unique Measurement Needs of Social Enterprises," Acumen, http://acumen.org/ideas/lean-data/.

the world, geared especially toward migrant workers in Europe who send money back to their homes in Africa, Latin America, Eastern Europe, and parts of Asia. To understand its impact on remittance recipients, Quona examined the usage of the remitted funds. They found that, in Nigeria, a high proportion of customers used the funds to pay their children's school fees. This insight inspired the investee to launch a successful promotional campaign for Nigerian immigrants to send money home for education. (Please see the Supplement to this report, page 41, for more details about Quona's approach.)

> **"The primary motivation for measuring impact should not be to prove whether or not you're impactful for donors—though that's important too—rather, it's about using data to continually learn about your customers and work to improve your impact."**
>
> **Tom Adams, Acumen**

Grassroots Business Fund (GBF) invests in small and medium-sized businesses that have the potential to generate earnings or savings for low-income communities in Africa, Asia, and Latin America. Given the large role played by agriculture in livelihoods in these regions, many of its investees are agribusiness companies that aggregate smallholder farmers' produce and process and wholesale it to international buyers such as supermarkets and importers in developed markets. GBF's investees have found that many of these buyers, particularly in specialty markets, see the social impact as an added value to the product. By helping their companies measure and communicate the social impact in terms of increased market access, income, and cost-savings for rural communities, Grassroots Business Fund can in some cases enable their investees to better market to their target customers.

CUSTOMER SEGMENTATION, PRODUCT DEVELOPMENT, AND PRICING

Data on income levels and purchasing power can also help investors and social enterprises identify opportunities to serve new market segments with new products or services. For example, in late 2013, the Gates Foundation provided a senior secured loan to M-KOPA, a provider of home solar power units on a pay-as-you-go basis in East Africa.[9] In 2014, the Gates Foundation requested that M-KOPA conduct a survey to determine the percentage of its customers living on less than USD 2 per day per capita, and M-KOPA decided to make the survey more specific in order to understand the affordability of their product in different segments of the market. Finding that, at their current price point, the product was unaffordable to millions of households in Kenya, the company introduced a cheaper version of the product with basic functionality that can be expanded over time. M-KOPA believes

Photo Credit: M-KOPA

9 "M-KOPA Kenya, Ltd," Bill & Melinda Gates Foundation, http://www.gatesfoundation.org/How-We-Work/Quick-Links/Program-Related-Investments/M-KOPA-Kenya-Ltd.

this will open up an important new market segment, enabling them to increase customers and sales. Indeed, as of this writing, the company is already seeing good early uptake of the "M-KOPA Starter" product.

Customer feedback M-KOPA solicited indicated that customers would value a portable light for moving between rooms or outside. In a second version of its system, M-KOPA introduced a portable lamp that can be charged from the main unit—a feature which also allows the customer the option to delay the regular daily payments required to keep the system running by relying on the charged portable lamp for a couple of days. According to a report the company released last year, "M-KOPA believes the inclusion of the portable light in the product box has driven higher sales and this outweighs the cost of building in this feature for those customers who use it to repay more slowly."[10]

Turning to an example from the UK, Bridges Ventures has invested in various enterprises providing care to disabled, elderly, and vulnerable populations, addressing a growing need for quality services to support these populations' health and well-being. Bridges Ventures tracks patient feedback on the quality of care they receive, information that is critical both to commercial success and for tracking the achievement of the intended changes in quality of life. Beyond this fairly standard business metric, Bridges has begun tracking how patients' *relatives* perceive the care their family member receives, which gives them a more complete picture of how quality of life for patients and families is improving. While there was not previously a commercial imperative to gather these data, Bridges and their investees have found that doing so drives long-term competitiveness by building trust with patients' family members, who often make decisions about care. One of Bridges' investees has introduced "Your Care Rating,"[11] a survey that is now used across the entire care home industry to reveal changes in the quality of life experienced by both patients and their family members. (See the Supplement to this report, page 37, for more details on Bridges' approach.)

"[Looking at social impact] forces a discussion about scale for the target company. Because we take early stage risk, we're bound to have some failures in our portfolio, so the winners need to succeed at a big scale. Portfolio companies are going to get large by addressing the biggest markets—which are low-income markets here [in Kenya]. So, our focus on scale drives a discussion on strategy with the company very early on about whether there is an opportunity to profitably address the larger, lower-income market segments. We will only invest in businesses where benefits to low-income households naturally arise from the commercial growth and success of the business, so a shared understanding of the target customer is fundamental for Novastar and the company alike."

Steve Beck, Novastar Ventures

10 M-KOPA, *Affordable, clean energy : a pathway to new consumer choices* (October 2015), 15, http://www.m-kopa.com/wp-content/uploads/2015/10/Lightbulb-series_Paper-1-2.pdf.

11 Your Care Rating, http://www.yourcarerating.org/.

Example 1. Use of Impact Measurement for Revenue Growth

EARLY-STAGE EQUITY FUND MANAGER

Invests in digital financial services companies in emerging markets

IMPACT OBJECTIVES

Access to financial services | Livelihood improvement

METRICS DRIVING VALUE	QUESTIONS INFORMED	VALUE
Number of unbanked customers served Socioeconomic indicators Access to similar services Use of remittance funds	To what extent does the investee reach target customers/ beneficiaries? What is the appropriate price point, and is there a market opportunity in an adjacent segment? What market gaps is the investee filling, and what is its competition? How are the investees' services being used, and how might they be changing lives?	Effective regional targeting Selection of appropriate marketing channels Development of compelling marketing campaigns and messaging Product pricing and ability to refine product features according to customer segmentation and preferences

This example is inspired by Quona Capital.

2. Operational Effectiveness and Efficiency

Since social and environmental performance is often linked to other aspects of business performance, measuring such performance can be quite useful for identifying areas in which to strengthen investee business operations. This helps impact investors determine the most effective forms of non-monetary support to benefit their portfolio companies. Operational business value is particularly relevant for those investors who are able to influence investee operations, whether because the structure of their investment permits it (i.e., a majority stake or loan terms) and/or because hands-on engagement with investees to improve their operations is part of their impact investing strategy.

LeapFrog provides an instructive example of using social and environmental performance data to improve investee operations. LeapFrog makes equity investments in high-growth, purpose-driven financial services businesses in emerging markets, using a proprietary measurement framework called FIIRM across the life of its investments.[12] This framework aggregates financial and operational key performance indicators (KPIs) on a quarterly basis and is embedded across the organization so that staff can review the data to identify both positive and negative trends. Key metrics in the "impact" section of the tool pertain to Scale and Reach, Client Protection, Product Profitability, and Good Governance. LeapFrog has used gap analysis to identify opportunities for improvement, target management interventions, and drive the performance of its portfolio. For example, the Client Protection (Product Quality) category includes an indicator concerning the promptness of payment of insurance claims. Efficient claims payment is essential to reducing vulnerability among low-income and underbanked individuals who might not have cash savings available for emergencies. For companies that initially score low on this indicator, LeapFrog targets its support to help boost the score over time, leading such companies to operate more efficiently and better serve their customers. By noting and reacting to performance gaps in key indicators, LeapFrog has improved both the FIIRM scores and the business strength of its portfolio companies.

All of Grassroots Business Fund's investees submit quarterly reports that include financial and operational data, as well as data on social metrics, such as number of small-scale suppliers and employees reached and the amount of payments or savings generated for these groups. Using the investees' financial reports and key assumptions, GBF also calculates the Economic Rate of Return (ERR) generated for the overall economy, along with the proportion of payments or savings to the poor.[13] Furthermore, GBF conducts in-depth studies every 2-3 years to help verify key assumptions underlying GBF's theory of change and to examine whether monetary impact for beneficiaries translates into a higher quality of life, as well as to help its

Photo Credit: Grassroots Business Fund

12 FIIRM: Financial performance, impact, innovation, and risk management. See "Measurement," LeapFrog Investments, http://www.LeapFroginvest.com/impact-measurement.

13 "Our Approach to Measurement," Grassroots Business Fund, accessed June 1, 2016, http://www.gbfund.org/our-approach.

investees better understand their employees and suppliers. In an example in Bolivia, GBF examined the relationship between an agribusiness investee and its supply chain, which included more than 900 smallholder farmers. Through the study, the GBF team and the investee learned how the frequency with which the investees' agronomists visited the farmers in the supply chain affected their crop yields and their satisfaction with the services provided. Additionally, the study uncovered farmers' perceptions of the fairness of pay, their suggestions for improving the agronomy service offerings, their perceptions of the value of the agronomy services, and the forms of training that work best for farmers. By understanding these data, the investee organization was able to adjust its supplier development program and improve its relationships with suppliers—ultimately leading to a more stable and efficient supply chain.

"Asking those questions that go beyond just the numbers feeds in knowledge and helps you make more informed management decisions."

Natasha Barantseva, Grassroots Business Fund

Another example comes from the education sector. Bridge International Academies, an education provider operating nursery and primary schools, seeks to provide high-quality education at a low cost to students in emerging markets. Every school in each operating country uses the same national syllabus-aligned teaching and learning-resource materials.[14] Teachers are equipped with WiFi-enabled tablets onto which they enter their students' test scores throughout the academic year, using an interactive software program to capture baseline, midterm, and end-term performance. Because the academic material is uniform across each country, Bridge can effectively use these data to assess which subjects are most challenging for students, thereby understanding the effectiveness of the curriculum. In addition to using the aggregated data from all teachers, schools, and regions of operation to adjust the curriculum itself, Bridge analyzes student performance data by teacher. This segmented analysis helps Bridge identify opportunities for teacher training. The most frequent areas for improvement relate to involving students more in the learning process through more teacher circulation, fewer lectures, increased student participation and discussion, and more independent study problem-solving and reading. Data review also allows Bridge to identify high-performing teachers, who then work with the training team to share insights about classroom management and pupil engagement. In addition to increasing the overall impact of its teaching curriculum, Bridge's approach enables it to strengthen its staff capacity and therefore improve operational effectiveness across the organization.

Photo Credit: Bridge International Academies

14 Operating countries include Kenya, Uganda, Nigeria, India, and soon Liberia.

Example 2. Use of Impact Measurement for Operational Effectiveness and Efficiency

FOUNDATION INVESTOR

Provides debt and equity to health technology companies providing software to maternal and child care clinics in underserved areas

IMPACT OBJECTIVES

Health improvement

METRICS DRIVING VALUE	QUESTIONS INFORMED	VALUE
Number of new clinics using healthcare management software per quarter	How quickly is software uptake taking place in target markets, and is the pace of growth sustainable and responsible?	Growth projection and management
Utilization and consumption of vaccines and other essential drugs	Does each clinic effectively manage and track its inventory to ensure consistent supply for patients?	Inventory forecasting and management; effective supply-chain management
Diagnostic accuracy rate	Are the health clinics diagnosing women and children correctly and treating common diseases appropriately?	Standardization of the delivery and quality of maternal and child care

This example is inspired by MicroClinic Technologies.

3. Investment Decisions

Data concerning the social and environmental aspects of investments past and future can inform key investment decisions. Specifically, this information helps investors to better target, select, and source deals, thereby operating more efficiently and effectively. For some investors, data related to impact criteria—such as customer savings, job creation, and ecosystem quality—support decision-making about where to allocate capital by providing additional insights into market gaps that represent attractive opportunities. Post-investment analysis then reveals the cost-effectiveness of the investment in terms of generating the desired impact (see quote). Investors also find that demonstrating impact can make deal sourcing more efficient by attracting mission-aligned investees. Looking at social and environmental performance can also accelerate deal sourcing by shedding light on less obvious sources of business strength—such as strong relationships with suppliers in cases where those suppliers are the impact beneficiaries.

"[One way we use the data] is to understand the effectiveness of our investment. If we look at a business and see we've invested a certain amount and it's only created a few jobs and stored a small amount of carbon—next time around…we might look elsewhere and see if we can get more bang for our buck."

Nathan Kadish, Ecotrust

INVESTMENT TARGETING AND SELECTION

Investors find value in using data to determine which investment opportunities have high potential for impact and returns. Core Innovation Capital invests in businesses in the United States "that deliver more efficient, well-designed financial products that save people time and money, create upward mobility, and scale broadly."[15] For Core, impact and business value are inextricably linked, and Core views each in terms of scale, customer income levels, short-term value, and long-term value. The firm defines short-term value as saving customers money compared to current alternatives. For Core, long-term value relates to changes in customers' lives as a result of the products—such as better credit, building assets (e.g., savings), or accessing a job. Core has found that when a company underperforms on impact targets, it tends to underperform on financial targets, as well—yet another way in which impact metrics are useful for filtering deals.

"What we look for is: 'Is this going to be a great business *because* it is highly impactful as opposed to *despite* being impactful?'"

Arjan Schutte, Core Innovation Capital

NatureVest—the impact investing unit of the Nature Conservancy that sources and structures investable deals to deliver conservation results and financial returns—uses environmental data to locate need for social and conservation investment, as well as to inform the management of their investments. The organization conducts baseline studies and ongoing monitoring of social and conservation impacts, building on the reporting track record of the Nature Conservancy's history of conservation work. In one example, NatureVest has structured a fund to invest in water rights in Australia with the dual purpose of allocating water to stressed wetlands and delivering financial

15 Core Innovation Capital, http://corevc.com/.

returns to investors by trading yearly water allocations.[16] This model provides an investment framework that shows how water markets can help communities and governments move toward increased sustainability while balancing agricultural, environmental, and financial interests. In the fund, called the Australian Balanced Water Fund, NatureVest monitors the health of wetlands to identify where next to deploy environmental watering in order to achieve the greatest conservation outcomes.

Beartooth Capital, a real assets fund manager focused on environmental conservation in the United States, analyzes and reviews outcomes from past projects when considering new potential land acquisitions. Historical data on impact performance enable Beartooth to better understand the potential scale and types of environmental impact projects that could be successful on individual properties. Experience and professional partners also help Beartooth determine the optimal ways to invest in restoration. For example, an investment to restore a spring creek that is unlikely to be inhabited by fish and other wildlife may be less valuable than an investment to improve a wetland that would provide habitat to waterfowl. Further, future acquisitions are influenced by past projects and their success or lack thereof—both environmentally and financially. (Please see the Supplement to this report, page 36, for more details about Beartooth's approach.)

DEAL SOURCING

Root Capital has found that impact-related data can be helpful in generating new business. Root Capital is a nonprofit social investment fund that lends to small businesses in the agricultural sector to stimulate economic development in rural communities. An issue brief documenting their approach explains, "A number of clients first approached us because we share their attention to long-term social and environmental considerations."[17] The brief then details examples of loan clients who have cited this focus as a key factor in their decision to borrow from Root Capital. This positions the firm well to capture market share and may also reduce the costs of client acquisition and retention.

Root Capital also finds that social and environmental performance data are useful in identifying businesses with strong and sometimes 'hidden' growth potential. Sometimes, this information uncovers risks to avoid, while it other times "reveals unexpected strength in a business' supplier base, or its potential to serve new markets."[18] For example, one agricultural cooperative union they evaluated had recently started operations and therefore had weak financial statements, but its 10 member cooperatives were Fair Trade Certified and had received training in organic farming practices, two factors which would ensure premiums on the sale of

16 "Australian Balanced Water Fund," NatureVest, http://www.naturevesttnc.org/business-lines/water-markets/australian-balanced-water-fund.

17 Michael McCreless, *From the Impact Case to the Business Case*, Issue Brief No. 1 (Cambridge, MA: Root Capital, 2014), 3, https://www.rockefellerfoundation.org/app/uploads/Social-and-Environmental-Due-Diligence-From-the-Impact-Case-to-the-Business-Case.pdf.

18 Ibid., 8.

produce from these cooperatives. Discovering this led Root Capital to make several successful loans to the cooperative union, which also accessed additional financing based on its repayment history with Root Capital. (Please see the Supplement to this report, page 42, for more details about Root Capital's approach.)

Example 3. Use of Impact Measurement for Investment Decisions

VENTURE CAPITAL FUND MANAGER

Invests in innovative companies providing basic goods and services to low-income populations

IMPACT OBJECTIVES

Energy efficiency | Sustainable energy | Access to financial services | Access to information | Affordable housing
Income/productivity growth | Employment generation | Access to clean water

METRICS DRIVING VALUE

- Number of low-income people potentially benefitting as consumers, employees, or suppliers
- Product/service quality outcomes (e.g., test score improvements for education businesses)

QUESTIONS INFORMED

- Will the growth of this business lead to benefits for large numbers of low-income individuals?
- Are the company's services of high quality and do they lead to improved outcomes (and strong customer retention and growth)?

VALUE

- Analysis of company's potential scale and capital needs
- Use of this analysis to make better decisions about whether to invest in a sector/company, how much to invest, and for what purpose (e.g., testing and refining business model, building senior team, improving operations, marketing, etc.)

This example is inspired by Novastar Ventures.

4. Marketing and Reputation Building

As described earlier, better understanding of customers can contribute to more effective marketing campaigns and promote ongoing positive interactions between investees and their customers. Turning from customers to other stakeholders, it may seem obvious that data showing good social and environmental performance can help build a positive brand. But the value of this information for impact investors and their investees extends beyond simply telling a positive story about the impact they have had. It also helps investors and companies earn trust with key stakeholders, which provides them with loyalty, license to operate, and goodwill that can speed and smooth operations.[19]

MARKETING TO INVESTORS

Demonstrating benefits for people and the environment can be an important differentiator to attract investment in a fund or follow-on investors to provide exit opportunities.

The Lyme Timber Company is a timberland investment management organization that focuses on sustainable land management and conservation. The company has found that while a number of established forestry companies practice sustainable forestry, Lyme Timber's impact measurement has enabled them to distinguish themselves from their peers when marketing to investors and other stakeholders. For example, Lyme Timber measures and reports on the number of acres of land that are permanently conserved through an easement (a legal agreement in which the landowner cedes certain rights to another entity, such as a trust). In addition, much of the conserved land shares a boundary with existing conserved lands, such as national parks. This strategic approach provides a buffer that improves habitat quality for wildlife and extends the total contiguous land under conservation, another metric they measure and report. According to Director of External Relations Liz Adams, "During our recent capital raise we worked with several impact investment management firms that told us that Lyme's ability to demonstrate durable conservation outcomes was a critical component of their decision to invest in our fund. One manager [that invested in Lyme] required annual reporting on selected metrics from the IRIS catalog as a condition of their investment."

Photo Credit: Lyme Timber

"Impact measurement allows us to distinguish ourselves from our peers."

Liz Adams, The Lyme Timber Company

Ecotrust makes a range of investments aimed at fostering resilience in communities and their natural environments, for example through conservation work that

19 Of course, negative externalities are an important part of the equation, and these also require management and reporting. As noted earlier, however, this brief focuses on positive, external impact and the measurement and management thereof.

supports food systems and livelihoods. Ecotrust finds that reporting on social and environmental performance is extremely important to their investors, especially those making program-related investments (PRI) and those utilizing the New Markets Tax Credit.[20] For PRI investors, Ecotrust needs to demonstrate that without the investors' low-cost debt, they would not be able to achieve the same type and level of impact. For all types of investors, Ecotrust finds the accountability and trust engendered by impact reporting critical to their success. As Director of Investment Strategy Nathan Kadish remarked, "One of the reasons we've been successful raising money is that we have a 25-year history of doing what we say we're going to do." (Please see the Supplement to this report, page 39, for more details about Ecotrust's approach.)

The Shell Foundation provides early-stage funding to businesses with social impact potential, primarily focused on Africa and Asia. The Foundation's focus themes are access to energy, sustainable mobility, sustainable job creation, sustainable supply chains, and incubation of new technologies and business models. The Shell Foundation has found that tracking social and environmental performance has helped to demonstrate to potential investors that a company in which they have invested is achieving impact. The Foundation focuses on capturing results directly arising from the services a company is designed to deliver, as well as measuring broader impact achieved through the supply chain of an organization. For example, for the solar lighting companies Shell supports, the Foundation tracks increased access to energy via the number of solar lamps being sold and the number of homes into which they are sold. In addition, Shell looks at other supply chain and distribution chain impacts, such as job creation or wealth generated for the local economy. According to Shell, the Foundation is generally involved for 5-7 years and then looks to exit to other investors, many of whom are interested in the potential for impact such as increased access to energy and its second-order effects. (Please see the Supplement to this report, page 43, for more details about the Shell Foundation's approach.)

REPUTATION BUILDING

Impact data and stories can be a powerful way to earn trust with many different types of stakeholders, including local authorities and communities affected by the investment. This trust often translates into an ability to transact easily and more quickly, with fewer conflicts or tensions.

20 Program-related investments are defined by the Internal Revenue Service (IRS) as those in which the primary purpose is to accomplish one or more of the foundation's exempt purposes, while having neither the production of income nor the influence of legislation as significant purposes. They must also be "investments that would not have been made except for their relationship to the exempt purposes." See IRS, "Program-related Investments," last modified April 21, 2016, https://www.irs.gov/charities-non-profits/private-foundations/program-related-investments. The New Markets Tax Credit is a program of the U.S. government "designed to increase the flow of capital to businesses and low income communities by providing a modest tax incentive to private investors." See "New Markets Tax Credit Fact Sheet," New Markets Tax Credit Coalition, http://nmtccoalition.org/fact-sheet/.

Bridges Ventures invested in Qbic Hotels, a chain that converts vacant office buildings in deprived neighborhoods into affordable, boutique 'green' hotels.[21] The approach avoids the waste of materials and carbon generated by knocking down a building, and the hotels themselves utilize recycled materials and energy-efficient technologies. Bridges worked with an architect to model the amount of carbon offset by the project—a figure they presented to local authorities, which greatly expedited their permitting process. This speed, in turn, significantly improved the commercial performance of the deal.

Photo Credit: Bridges Ventures

The Lyme Timber Company finds that emphasizing community development outcomes from their conservation work can be an effective way to mitigate potential political tensions. For example, the company invests in coastal areas in Florida, a U.S. state where the case for prioritizing land for conservation rather than for purely commercial use might be difficult to make—indeed, officials in the state have expressed doubts about the relationship between human activity and climate change.[22] One way Lyme Timber demonstrate the importance of their conservation work in Florida is to show that the trees from their lands are an important raw material for local mills, which employ significant numbers of people. Measuring the direct and indirect community development benefits thus provides the Lyme Timber Company with important messaging for rural communities and their appointed or elected officials.

Beartooth Capital engages with a variety of community partners, whom they consider central to their land conservation work. These partners include local non-profits, land trusts, and national organizations with local operating hubs. Beartooth's relationships with these partners help them conduct efficient due diligence, access complementary funding, and generally provide them with the 'license to operate' Beartooth needs to be successful. As Investment Strategist Cody Sauer put it, "We're operating in markets where everyone knows everyone, so reputation is crucial to completing our work." Their ability to demonstrate positive outcomes for both the environment and the affected communities plays a significant role in developing and sustaining these relationships. For example, in the case of one creek restoration, the owner of a neighboring property initially worried that the project would reduce the amount of water available for irrigation. However, using the environmental impact data they were already collecting, Beartooth was able to demonstrate that the amount of water on the property would increase as a result of their work.

"As soon as you build up a level of goodwill, it makes everything easier."

Cody Sauer, Beartooth Capital

21 "Qbic Hotels," Bridges Ventures, http://bridgesventures.com/portfoliolist/qbic-hotel-london-city/.

22 Katie Valentine, "California and Florida Governors Duel on Climate Denial," *ThinkProgress*, May 3, 2016, http://thinkprogress.org/climate/2016/05/03/3774748/jerry-brown-hits-rick-scott-climate-change/.

Grassroots Business Fund finds that data on benefits to farmers, artisans, and other small-scale suppliers in their investees' supply chains can help those investee companies tell a more compelling story to potential new suppliers. Their investees track the number of small-scale suppliers in their supply chains and measure increases in payments to those suppliers as part of their regular operations. GBF helps its investees analyze this data, estimate income or savings generation over time, and document impact stories that they can use with potential suppliers in persuading them to join their supply chains. They also find that demonstration of positive impact may drive supplier loyalty, which is very valuable in the context of agricultural sourcing, especially in light of the frequent side-selling common to the markets in which GBF operates. Though somewhat analogous to marketing to customers, this example involves building relationships with *suppliers* instead of customers.

Several investors interviewed also described how clear tracking and communication of social and environmental benefits helps signal to peers that an organization is serious about their impact investing practice. This helps some investors demonstrate leadership in the field. As in conventional business, reputation and brand credibility are sources of business value, and are, indeed, recorded as "goodwill" on the balance sheets of conventional companies.

Example 4. Use of Impact Measurement for Marketing and Reputation Building

PRIVATE EQUITY FUND MANAGER

IInvests in high-growth companies that support community revitalization in Europe

IMPACT OBJECTIVES

Energy efficiency | Green building

METRICS DRIVING VALUE	QUESTIONS INFORMED	VALUE
Percent of staff recruited from the local area	Is the investment creating jobs in a deprived neighborhood?	Goodwill through relationships with communities
Percent of building using recycled materials	Is this investment minimizing materials wastage relative to traditional buildings?	Reputation as an industry leader in green building
Carbon emissions avoided through green construction methods and energy-efficient technologies	What is the contribution of the investment to climate change mitigation?	Expedited permitting process(es) with local authorities

This example is inspired by Bridges Ventures.

5. Strategic Alignment and Risk Mitigation

Impact investors by definition pursue strategies that can achieve financial returns as well as social and/or environmental impact. Since the pursuit of impact is core to the investment strategy, measuring progress toward these goals helps ensure that investments are aligned with that strategy. Likewise, for enterprises with a social or environmental goal, measuring impact can aid in adherence to their own strategies. Investors find these data useful for understanding whether targeted impact is being achieved and, if not, helping course correct. The information gleaned from impact measurement can assist investors in spotting early warning signs of deals going off track, thereby avoiding risks to both financial and impact performance. Often, these benefits of risk mitigation are interwoven with ensuring strategic alignment.

A good example of the interconnectedness of strategic alignment and risk mitigation comes from Incofin and their investee, AMK Microfinance. Incofin, an asset manager specialized in microfinance investing since 2001, requires that their investees conform to norms in the microfinance industry around social performance management, such as reporting to the MIXMarket and endorsement of the Smart Campaign and Client Protection Principles.[23] While some investees may find these requirements cumbersome at first, according to Incofin, most come to see the value of transparency and of holding themselves accountable to both financial and social performance standards. One of Incofin's investees, AMK (also interviewed for this study), is a Cambodian microfinance institution that operates four key business lines: credit, savings, microinsurance, and branchless banking. AMK conducts annual research regarding the depth of outreach and client satisfaction in order to understand its clients' wellbeing; their awareness of product features, pricing, and payments due; and reasons for clients to cease borrowing. Other KPIs collected are tailored to each business line to reflect the social mission AMK seeks to achieve from that product or service offering and to provide guidance to AMK's operations, product development, and marketing teams. Social performance management for AMK and other microfinance institutions ultimately leads to a more informed strategy that drives product development, customer retention, and high repayment rates (by avoiding client overindebtedness). Incofin's East Asia Regional Director & Social Performance Manager Dina Pons commented, "It truly goes hand-in-hand. If you put social performance management systems in place, you are increasing your institution's likelihood of being sustainable in the long run." (Please see the Supplement to this report, page 40, for more details about Incofin's approach.)

Photo Credit: AMK Microfinance

23 MIXMarket, http://www.mixmarket.org/; "About the Campaign," The Smart Campaign, http://www.smartcampaign.org/about. The Smart Campaign is a set of principles aimed at proper treatment and protection of microfinance clients.

In its investments in microfinance institutions and other social enterprises, Deutsche Bank uses a **social scorecard** during due diligence to make sure that the investee's business strategy and practices are sufficiently developed to deliver against their specific social mission—whether it be, for example, a microfinance institution focused on 'green' lending or a social enterprise focused on health. The scorecard comprises a total of 43 simple, multiple-choice questions covering six topics, which include indicators of, for example, whether the company's strategic plan clearly defines social goals and target clients, whether the company integrates these targets into various businesses processes, client protection practices, employee treatment, outreach, responsible financial performance, and environmental protection policies. Deutsche Bank has drawn on its years of experience investing in the microfinance sector to inform this approach. That experience has shown that data on end-borrower preferences and satisfaction have been valuable for financial service providers to adjust product and service offerings to mitigate risk, in order to avoid, for example, client overindebtedness (see further information in box, Lessons Learned from Microfinance). Deutsche Bank is currently examining how these learnings could be applied to its investments in the energy sector. In addition to social scorecard data, Deutsche Bank collects a small amount of more tailored data on social goals from each financial service provider or social enterprise as relevant to that organization's mission and useful for its business aims. (Please see the Supplement to this report, page 38, for more details about Deutsche Bank's approach.)

Deutsche Bank's Social Scorecard Topics:

1. Defining social goals and commitment to mission
2. Consumer protection
3. Monitoring and reporting social goals
4. Responsible treatment of employees
5. Responsible financial performance
6. Environment

Mitigating Risk through ESG Management

In addition to mitigating risks related to failure to achieve the desired impact, interviewees mentioned various risk mitigation benefits arising from the proper management of environmental, social, and governance (ESG) factors. Managing ESG helps demonstrate that the business minimizes harm to the environment and follows best practices with regard to employees and governance. For example, responsAbility invests in agricultural cooperatives and companies to stimulate economic growth and improve incomes for farmers. The firm ensures investees follow good ESG management practices, including sustainable production methods and fair employment practices—which are particularly important in the context of an industry that frequently employs vulnerable seasonal and migrant workers. responsAbility finds that such practices add value to the overall business fundamentals of portfolio companies, while also helping mitigate reputational and enterprise risk.

Lessons Learned from Microfinance

The microfinance industry emerged in the 1970s as a business model to increase access to finance, particularly among poor populations. Its several decades of history offer lessons about and insights into effective impact measurement practice for impact investors targeting microfinance, as well as for those targeting other sectors. The collective experience of microfinance practitioners and investors has produced a series of guidelines and frameworks that map key social and environmental performance indicators onto components of the microfinance business model. In doing so, these tools draw a clear relationship between impact and business value and establish industry-wide expectations for data reporting and the management of social and environmental performance.

The following microfinance principles and the frameworks in which they are embedded highlight the relationship between social performance and business value:

- **Social performance data should directly influence management decisions,** particularly as management seeks to achieve sustainability and profitability; reach, retain, and provide value to target clients; ensure client protection; and achieve employee satisfaction and retention.[24] The Universal Standards for Social Performance Management present guidance on reporting and integrating these data into strategic and operating decisions.
- **Ethical client protection and good business practice are intertwined.** Key factors that contribute to both client protection and good business practice include appropriate product design and delivery, prevention of overindebtedness, transparency, responsible pricing, fair and respectful treatment of clients, privacy of client data, and mechanisms for resolving complaints.[25] The Smart Campaign Client Protection Principles detail expectations of quality client care matching each of these standards.
- **Strong social performance management can improve staff and client retention.** The MIX developed 11 indicators of strong social performance that support benchmarking and performance analysis against issues of human resource management, client outreach and lending methodology, client retention, governance, and more.[26] These indicators offer insights for the monitoring and management of both staff and client satisfaction, as well as other aspects of operations.
- **Appropriate indicators of performance differ according to each organization's mission focus, but standardized reporting can facilitate comparison.** The SPI4 tool, developed by the Social Performance Task Force, the Smart Campaign, MIX, and CERISE,[27] evaluates microfinance institutions' adherence to multiple social performance frameworks, as well as to their individual social missions, through a streamlined reporting template. By integrating multiple frameworks into a single tool, SPI4 seeks to standardize reporting across organizations with differing missions, and thus facilitate better investment decision-making.

24 Leah Wardle, *The Universal Standards for Social Performance Management: Implementation Guide* (Social Performance Task Force, 2014), http://sptf.info/images/usspm%20impl%20guide_english_20141217.pdf.

25 "The Client Protection Principles," The Smart Campaign, http://www.smartcampaign.org/about/smart-microfinance-and-the-client-protection-principles.

26 "MIX SP Indicators," Social Performance Task Force, http://sptf.info/component/content/article?id=120:mix-sp-indicators.

27 MIXMarket is an online data-sharing platform for financial service providers; see http://www.themix.org/.
CERISE promotes ethical and responsible financial services for economic development; see http://www.cerise-microfinance.org/.

Example 5. Use of Impact Measurement for Strategic Alignment and Risk Mitigation

PRIVATE DEBT FUND MANAGER

Invests in microfinance institutions in emerging markets

IMPACT OBJECTIVES

Access to financial services | Livelihood improvement | Income/productivity growth | Employment generation

METRICS DRIVING VALUE	QUESTIONS INFORMED	VALUE
Depth of outreach, including number and income levels of customers	Does the investee reach target customers?	Adjustments to geographic targeting and outreach methods
Client satisfaction	Do customers appreciate the products and services?	Product development and refinement
Client protection metrics, including other repayment obligations, income sources, and awareness of product features	What is the likelihood that an investee's clients will default on their loans?	Mitigate the risk of default

This example is inspired by Incofin.

Conclusion

As mentioned earlier, impact investors use a diverse array of impact measurement tools and systems, depending on their organizational goals and structures. Of course, measuring social and environmental performance simply to better understand one's impact is a widespread and important motivation. In addition to understanding and maximizing impact, many investors use data on social and environmental performance to generate strategic and operational value for their investees and themselves, in ways that differ along with their varying investment strategies and approaches to measurement.

As this brief has illustrated, there are at least five major drivers of value impact investors derive from impact measurement and management:

- First, some impact investors find that **better understanding customers—their contexts, socioeconomic status, access to services, and preferences related to products and services—helps to drive revenue growth** in a variety of ways.
- Second, certain impact investors and their investees use social and environmental performance data to **inform and improve operational effectiveness and efficiency** at the level of the investee company or project.
- Third, many types of impact investors find that they can **improve functions related to investment decisions—including deal targeting, selection, and sourcing**—when they engage actively in impact measurement.
- Fourth, data on social and environmental impact prove vital to investors for **marketing to and earning trust with important stakeholders**.
- Fifth, impact measurement plays a critical role in **ensuring investors' and companies' activities are aligned with their missions and strategies, as well as in mitigating risks related to both impact and financial concerns**.

The examples included, as well as other interviews conducted for this brief, suggest that investors are most successful at deriving business value from impact measurement when the metrics and processes are defined in collaboration with investees and are directly relevant to investees' core businesses. Approaches to impact measurement that are integrated with the underlying asset (whether a company, project, or real asset) tend to be less complicated and resource-intensive than those that are not. For some investors, conducting periodic, in-depth impact assessments or examining the results of third-party studies have been effective in targeting and monitoring impact investments. Such studies can also help demonstrate the effectiveness of particular models—bearing well in mind their contexts, since such findings may not necessarily generalize.

Several interviewees noted that another effective practice is to incorporate social and environmental performance data (historic or anticipated) into their investment management processes, including the structures, terms, and conditions of their deals. Investors find that this adds value by creating efficient, built-in monitoring mechanisms and by increasing the likelihood of meeting impact goals. For example, some lenders use impact-related data to determine the conditions under which follow-on tranches of capital will be released according to impact targets met. Some equity investors embed social or environmental performance indicators alongside financial performance indicators in term sheets and shareholder agreements in order to ensure that impact measurement remain part of ongoing portfolio management.

There is value both to knowing more about underlying portfolio assets from an impact perspective and to describing investments' benefits in compelling depth. The end-to-end process of impact measurement can help investors and their investees make better investment decisions, increase investees' revenue, improve their operations, earn trust, and ensure strategic alignment. Ultimately, these drivers enhance both the financial performance of and the social and environment benefits associated with impact investments.

This brief has highlighted just one motivation—business value—among several for measuring impact, as well as describing some of the ways investors are acting on that particular motivation. The impact investing market has reached an exciting inflection point in its trajectory, with nearly all impact investors recognizing the importance and value of measuring impact and most seeing progress in the sophistication of impact measurement practice.[28] The GIIN expects to see practice in this area continue to evolve in a way that supports impact investors in their quest to meet varied impact and financial goals. The GIIN looks forward to further research and initiatives, and welcomes the contributions of others in the field to this ongoing evolution of practice. For a list of other GIIN publications on the topic, see Appendix 1 to this brief.

28 According to the GIIN's *2016 Annual Impact Investor Survey*, 99% of respondents measure the social and environmental performance of their investments, and 86% saw 'some' or 'significant' progress in 2015 on the sophistication of impact measurement practice.

Appendix 1: Other Impact Measurement and Management Publications by the GIIN

The GIIN is committed to research and programming on the topic of impact measurement and management. Below are other GIIN publications that examine various aspects of impact measurement for impact investing. The GIIN plans to continue to contribute to the body of literature on this topic.

Why measure and manage impact

"GIIN Webinar Series on the Social Impact Investment Taskforce and Working Groups." December 17, 2014. https://thegiin.org/knowledge/publication/giin-webinar-series-on-the-social-impact-investment-taskforce-and-working-groups.

Mudaliar, Abhilash, Hannah Schiff, and Rachel Bass. "Targeting and Measuring Social and Environmental Impact." In 2016 *Annual Survey*, 32–39. GIIN, 2016. https://thegiin.org/knowledge/publication/annualsurvey2016.

Saltuk, Yasemin, Ali El Idrissi, Amit Bouri, Abhilash Mudaliar, and Hannah Schiff. "Impact performance management." In *Eyes on the Horizon: The Impact Investor Survey*, 37–43. J.P. Morgan and the GIIN, 2015. https://thegiin.org/knowledge/publication/eyes-on-the-horizon.

How to measure and manage impact

Collecting and Reporting Poverty Data: Using the Progress out of Poverty Index Toolkit with IRIS. IRIS, 2012. https://iris.thegiin.org/documents/whitepapers/iris-and-ppi-overview.pdf.

Collecting Impact Data Using Mobile Technology. GIIN, 2013. https://thegiin.org/knowledge/publication/collecting-impact-data-using-mobile-technology.

Getting Started with IRIS. GIIN, 2013. https://thegiin.org/knowledge/publication/getting-started-with-iris.

GRI, IRIS, and Triodos. "GRI, IRIS, and the Investor Perspective" (webinar). November 20, 2015. https://thegiin.org/knowledge/publication/gri,-iris,-and-the-investor-perspective.

Impact-Based Incentive Structures: Aligning Fund Manager Compensation with Social and Environmental Performance. GIIN, 2011. https://thegiin.org/knowledge/publication/impact-based-incentive-structures-aligning-fund-manager-compensation-with-soci.

IRIS DATA BRIEFS:

Data Driven: A Performance Analysis for the Impact Investing Industry. IRIS, 2011. https://iris.thegiin.org/research/data-driven-a-performance-analysis-for-the-impact-investing-industry/summary.

Focus on Employment. IRIS, 2013. https://thegiin.org/knowledge/publication/iris-data-brief-focus-on-employment.

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Appendix 2: Interviewees

Tom Adams
Acumen

Sophy Pum
AMK Microfinance Institution Plc.

Cody Sauer
Beartooth Capital Partners

Lisa Chen
Bridge International Academies

Clara Barby
Bridges Ventures

Arjan Schütte
Core Innovation Capital

Sarah Howe
Deutsche Bank Global Social Finance Group

Caroline Norton Vance
Deutsche Bank Global Social Finance Group

Amy Wang
Deutsche Bank Global Social Finance Group

Nathan Kadish
Ecotrust

Maggie Moore
Goldman Sachs Urban Investment Group

Andrew Bell
Goldman Sachs Urban Investment Group

Natalia Barantseva
Grassroots Business Fund

Lynton Burger
GroFin

Dina Pons
Incofin Investment Management

Sam Duncan
LeapFrog Investments

Tom Kagerer
LGT Venture Philanthropy

Peter R. Stein
The Lyme Timber Company

Liz Adams
The Lyme Timber Company

Moka Lantum
MicroClinic Technologies Limited

Alice Kasubutare
MicroClinic Technologies Limited

Chad Larson
M-KOPA Solar

Taryn Goodman
NatureVest

Melissa Weigel
NatureVest

Steve Beck
Novastar Ventures

Tom Keleher
Oikocredit

Masha Lisak
Omidyar Network

Kim Siegel
One Acre Fund

Robert Kruger
Phatisa

Monica Brand Engel
Quona Capital

Henry González
responsAbility

Danielle Brassel
responsAbility

Michael McCreless
Root Capital

Medora Brown
Sanergy

David Auerbach
Sanergy

Judith Pollock
Shell Foundation

Stephen Lee
TIAA Global Asset Management

Rekha Unnithan
TIAA Global Asset Management

Lauren Smart
Trucost

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Appendix 4: Social Investment Task Force Impact Measurement Framework

In September 2014, with input from over 30 leading impact practitioners, the Impact Measurement Working Group of the Social Impact Investment Task Force, established under the UK's Presidency of the G8, published a subject paper that provides guidance on good practices for impact measurement for impact investors and the investees with which they work. The Task Force's seven guidelines, outlined in this paper, were developed to be practical in nature, broadly applicable, adaptable to the unique goals and internal/external context in which an investor operates, and applicable at portfolio, deal, and enterprise levels. The guidelines are based on the fundamental principle that impact measurement should provide value by helping impact organizations manage performance, learn, improve outcomes, and hold themselves accountable to those they aim to serve.

The seven guidelines fit into four interconnected stages of impact measurement. In the "Plan" phase, investors are encouraged to (1) set goals and (2) develop a framework and select metrics; in the "Do" phasse, investors should (3) collect, store, and (4) validate data; in the "Assess" phase, investors (5) analyze these data; and, finally, in the "Review" phase, investors are encouraged to (6) report data and to (7) make data-driven investment management decisions. The subject paper also directs readers to additional resources for help with implementing each of these seven guidelines.

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GIIN
GLOBAL IMPACT INVESTING NETWORK

AUGUST 2016

Supplement to *The Business Value of Impact Measurement*:

DEEP DIVES ON THE USE OF IMPACT DATA THROUGHOUT THE INVESTMENT PROCESS

ABOUT THIS SUPPLEMENT

This supplement to the full report includes details on the impact measurement practices of eight of the investors interviewed for *The Business Value of Impact Measurement*. Interviewees provided information on data they use to inform their decisions and drive value. Many of these examples of data align with IRIS metrics, which are included here when relevant.

IRIS is the catalog of generally accepted performance metrics that leading impact investors use to measure the social, environmental, and financial results of their investments. Managed by the GIIN, IRIS is offered as a free public good to support transparency, credibility, and accountability in impact measurement practices across the impact investing industry. For more information, see iris.thegiin.org.

BEARTOOTH CAPITAL

Beartooth Capital is a U.S.-based real assets fund manager that targets market-rate land restoration projects in North America.

PRE-INVESTMENT

Historical data from previous investments are used to identify distressed properties with high potential for impact resulting from acquisition and restoration and to determine appropriate impact objectives for each investment. For example, the potential impact and financial return of a property are evaluated alongside information about water rights, land improvements targeted, and existing environmental hazards.

INVESTMENT MANAGEMENT & EXIT

Beartooth measures both quantitative and qualitative indicators on an ongoing basis, focusing on metrics that can be applied across its portfolio of investments. Ongoing monitoring also informs adjustments to the impact targets of a specific investment. For example, land originally purchased to increase the fish population may be better suited as a waterfowl property in which ponds and wetlands are restored to improve bird habitats.

Most measurement takes place after the investment is complete in order to determine the impact of Beartooth's intervention. Data are then used to demonstrate to existing and potential investors the social and environmental performance of investments. Beartooth also targets buyers who will continue to preserve and conserve the restored land.

EXAMPLES OF DATA USED

- Acres that need converting from non-organic to organic
- Acres sustainably managed
- Acres managed as organic
- Acres of wetlands and ponds restored
- Acres and properties put under permanent protection

RELEVANT IRIS METRICS

- Land Directly Controlled: Sustainably Managed (OI6912)
- Length of Streams Restored (PI6885)
- Protected Land Area: Permanent (PI3924)

DEEP DIVES ON THE USE OF IMPACT DATA THROUGHOUT THE INVESTMENT PROCESS

BRIDGES VENTURES

Bridges Ventures is a specialist fund manager that invests in companies, properties, and social sector organizations seeking to improve health and wellbeing, increase access to education, and serve otherwise underserved markets in the UK and U.S.

PRE-INVESTMENT

Impact data from previous transactions attract new investors who are interested in Bridges' impact lens, many of whom express interest in specific KPIs. These data have also proven compelling to investors who do not explicitly require impact data during the pre-investment phase but are impressed by Bridges' commitment to its social and environmental performance.

INVESTMENT MANAGEMENT & EXIT

Bridges Ventures regularly tracks customer feedback and satisfaction, which contributes to commercial success and enables proactive management in response to any negative trends. For example, for its healthcare delivery investments, Bridges tracks patient and family feedback on the quality of care received. For investees, these data engender trust among patients' family members and improve patient retention; if consistently negative data are collected, Bridges can work with its investee to identify opportunities for improvements to patient care. Impact data also contribute to reputational goodwill among other stakeholders in an investment, such as government actors. For example, clear communication of energy efficiency and carbon reductions from an investment in a hotel streamlined the permit and planning processes.

Bridges' social sector funds evaluate the impact results of an investment, measured by comparing social and environmental performance against initial targets. This analysis influences the timing of exit in order to maximize the investment's impact.

EXAMPLES OF DATA USED

- Quality of jobs
- Client and beneficiary satisfaction
- Patient quality of life
- Carbon dioxide emissions avoided
- Metric tons of waste diverted from landfills
- Number of students enrolled in skills training courses
- Number of people moved off unemployment
- Number of individuals receiving care
- Number of care homes built

RELEVANT IRIS METRICS

- Client Feedback System (OI5049)
- Greenhouse Gas Reductions due to Products Sold (PI5376)
- Greenhouse Gas Emissions: Total (OI1479)
- Waste Disposed: Total (OI6192)
- Waste Disposed: Landfill (OI4483)
- Waste Reduced (OI7920)
- Waste Reductions from Products Sold (PI5926)
- Waste Reductions from Services Sold (PI5678)
- School Enrollment: Total (PI2389)
- Client Individuals: Total (PI4060)

DEUTSCHE BANK

Deutsche Bank is a diversified financial institution that manages a series of microfinance and social enterprise debt funds and U.S. community development loans. Together, these funds target market-rate investments in both developed and emerging markets.

PRE-INVESTMENT

Deutsche Bank sets social performance goals with each borrower at the onset of its investments. During the due diligence phase, Deutsche Bank reviews the business strategy and operations of each potential investee to evaluate their capacity to deliver against their stated social mission.

INVESTMENT MANAGEMENT & EXIT

Impact data are reviewed during ongoing portfolio management to understand strengths and weaknesses of both individual investees and the portfolio as a whole. For example, ongoing monitoring of end-clients' preferences and perceptions of product offerings informs investee microfinance institutions' product or service decisions, as well as the underlying business models themselves.

EXAMPLES OF DATA USED

- Number of clients by product
- Segmented client data
- Jobs created
- Smart Campaign certification
- Adoption of conflict of interest policy

RELEVANT IRIS METRICS

- Client Individuals: Total (PI4060)
- Client Individuals: Poor (PI3193)
- Jobs Created at Directly Supported/Financed Enterprises: Total (PI3687)
- Operational Certifications (OI1120)
- Conflict of Interest Policy (OI2596)

ECOTRUST

Ecotrust is a hybrid organization, wherein the non-profit arm invests through its endowment and the for-profit arm manages impact investing funds. Ecotrust targets sectors including forestry, foods and farms, oceans and fisheries, water and watersheds, climate and energy, and the built environment.

PRE-INVESTMENT

Data from previous investments help inform future portfolio allocations in an effort to maximize the impact per dollar invested. Data are used for fundraising purposes, reporting to regulatory bodies who require the data and to investors for whom impact data are important. Fundraising success is predicated on Ecotrust's track record of demonstrating real impact achieved through the data it collects.

INVESTMENT MANAGEMENT & EXIT

Ecotrust ensures mission alignment of investees by monitoring their impact performance during the investment management stage. For example, Ecotrust used data on the carbon avoided from an investment in a building project to select certain building materials to improve the investment's environmental performance.

Impact data indicate the investment's overall performance at exit. Exit analysis helps Ecotrust ensure accountability to and alignment with its purported mission.

EXAMPLES OF DATA USED

- Carbon dioxide emissions avoided
- Net metric tons of carbon dioxide-equivalent emissions stored
- Renewable energy use
- Number of jobs created
- Number of jobs maintained
- Job wages

RELEVANT IRIS METRICS

- Greenhouse Gas Reductions due to Products Sold (PI5376)
- Greenhouse Gas Emissions: Total (OI1479)
- Energy Generated for Use: Renewable (OI2496)
- Permanent Employees: Total (OI8869)
- Full-time Employees: Total (OI3160)
- Part-time Employees: Total (OI8864)
- Temporary Employees (OI9028)
- Permanent Employee Wages: Total (OI9677)
- Full-time Wages: Total (OI5887)
- Part-time Wages: Total (OI9948)
- Temporary Employee Wages (OI4202)

INCOFIN INVESTMENT MANAGEMENT

Incofin Investment Management is a fund manager that invests debt and equity into microfinance institutions in developing countries, with a focus on rural and agricultural communities.

PRE-INVESTMENT

Social performance data inform decisions regarding whether to make debt or equity investments, to roll over a loan, or to refrain from follow-on investing.

INVESTMENT MANAGEMENT & EXIT

Incofin integrates social performance data into its investment management processes to encourage investees to pursue a double bottom line mandate (financial and social performance) and to maintain investees' reputations by showcasing their commitment to and implementation of social performance and to build sustainable systems that protect investees against difficult economic cycles while ensuring responsible financial behavior. Incofin's social performance assessment includes several dimensions on social mission institutionalization, client protection principles, fair treatment of staff, and minimum do-no-harm environmental standards. For example, client protection principles data help Incofin's investees mitigate the risks of overindebtedness among their own clients, develop and refine product offerings according to client characteristics, and capture and respond to customer feedback.

EXAMPLES OF DATA USED

- Defining and monitoring social goals
- Board management and employee commitment to social goals
- Appropriateness of products and services
- Responsible client treatment
- Responsible employee treatment
- Balance of financial and social performance

RELEVANT IRIS METRICS

- Many IRIS metrics from the financial inclusion sector apply to these examples of data used. Further, IRIS and the SPTF have partnered to align IRIS metrics and the SPI4 social audit tool. Readers can refer to the IRIS-aligned metric set for financial inclusion for further information, available on the IRIS website.

QUONA CAPITAL

Quona Capital is a market-rate-seeking fund manager that invests equity and quasi-equity into growth-stage, technology-enabled financial services companies serving underbanked populations in sub-Saharan Africa, Latin America, and South Asia.

PRE-INVESTMENT

Impact data, when linked to proven commercial success in previous transactions, help convince key data-driven stakeholders, such as investors and board members, of the attractiveness of potential investments proposed by the deal team. When negotiating with potential investees for whom proven impact is important, impact data also enable Quona to differentiate itself among investors.

INVESTMENT MANAGEMENT & EXIT

Customer data help uncover new product-development and market-growth opportunities for investees. For example, by collecting data about customers' appetite for and ability to afford new products, Quona can help its portfolio companies cross-sell different types of financial services products to existing clients. Impact data also build the reputational strength of Quona's portfolio companies among the communities in which they operate. In one instance, impact data showed that a high percentage of remitted funds was used for educational purposes, which led the investee to launch a successful marketing campaign featuring the use of remittances to pay school fees.

Additionally, impact data help Quona communicate the impact and financial value of its portfolio companies to potential acquirers, thus facilitating exits.

EXAMPLES OF DATA USED

- Access, Quality, and Market indicators:
- Number of individuals/households served
- Number of accounts opened
- Number of loans issued
- Transaction volume
- Product affordability
- Processing times
- Customer retention
- Influx of new capital and new competitors
- New product offerings
- Jobs created

RELEVANT IRIS METRICS

- Client Individuals: Total (PI4060)
- Client Households: Total (PI7954)
- Client Savings Premium (PI1748)
- Client Retention Rate (PI9319)
- New Investment Capital (FP8293)
- Jobs Created at Directly Supported/Financed Enterprises: Total (PI3687)

ROOT CAPITAL

Root Capital is a private debt fund manager which invests in small and growing agricultural businesses in Latin America and Africa.

PRE-INVESTMENT

Root Capital uses a scorecard to conduct social and environmental due diligence, as well as to assess credit risk during the loan evaluation process. For example, the scorecard tracks information regarding the strength of borrowers' relationships with their suppliers, which is used to assess the stability of their supply chains. Also, historical impact data have enabled Root to identify and target businesses with strong growth potential based on the quality of their supplier relationships and financial systems.

INVESTMENT MANAGEMENT & EXIT

The scorecard is also used for ongoing portfolio management and business strengthening. Findings during this stage help strengthen investees' businesses by informing product development and growing their customer base. For example, data about farmers' use of fertilizer and harvest yields can identify needs for additional financing that Root may be able to provide.

Social and environmental performance data are reviewed when deciding whether to renew a loan. Further, by indicating Root Capital's commitment to social and environmental performance, reporting has raised additional funding, particularly from corporations.

EXAMPLES OF DATA USED

- Income levels of farmers
- Wage productivity
- Land use

RELEVANT IRIS METRICS

- Supplier Individuals: Poor (PI2242)
- Supplier Individuals: Very Poor (PI8337)
- Supplier Individuals: Low Income (PI8819)

DEEP DIVES ON THE USE OF IMPACT DATA THROUGHOUT THE INVESTMENT PROCESS

SHELL FOUNDATION

The Shell Foundation makes grants and equity investments into early-stage enterprises in Africa, Asia, and Latin America, with a focus on access to energy, job creation, and sustainable supply-chain development.

PRE-INVESTMENT

Shell primarily targets seed-stage investments for which impact projections are difficult to accurately develop. However, as investees mature, Shell works with them to think through their impact objectives and appropriate targets.

INVESTMENT MANAGEMENT & EXIT

Shell encourages its investees to track impact-related data that are directly tied to the strength of their businesses, alongside other business-development milestones, such as key hires and the establishment of internal systems. For example, a solar lighting portfolio company tracks the number of lighting units sold and installed in customers' homes. These data also uncover the effectiveness of sales and marketing strategies.

Shell seeks buyers that will maintain the mission of the investee; as such, buyers typically require a review of impact data from the duration of the investment in order to understand historical and potential impact. At this stage, many impact-oriented buyers prefer to review broad metrics, such as lives touched, to gain a holistic view of the investee organization's scale.

EXAMPLES OF DATA USED

- Jobs created
- Lives impacted
- Carbon reductions

RELEVANT IRIS METRICS

- Permanent Employees: Total (OI8869)
- Full-time Employees: Total (OI3160)
- Part-time Employees: Total (OI8864)
- Temporary Employees (OI9028)
- Greenhouse Gas Emissions: Total (OI1479)
- Greenhouse Gas Reductions due to Products Sold (PI5376)

More information about the Global Impact Investing Network

This brief is a publication of the Global Impact Investing Network (GIIN), the leading nonprofit organization dedicated to increasing the scale and effectiveness of impact investing. The GIIN builds critical market infrastructure and supports activities, education, and research that help accelerate the development of the impact investing field.

IRIS

IRIS is the catalog of generally-accepted performance metrics that leading impact investors use to measure social, environmental, and financial success, evaluate deals, and grow the credibility of the impact investing industry.

iris.thegiin.org

ImpactBase

ImpactBase is the searchable, online database of impact investment funds and products designed for investors. Fund or product profiles on ImpactBase gain exposure to the global impact investing community.

impactbase.org

Fund Manager Training Program

The GIIN training program offers practical coursework to help fund managers build applied skills to successfully attract, deploy, and manage capital.

thegiin.org/fund-manager-training

Career Center

The GIIN Career Center is a source for job openings from members of the GIIN Investors' Council and other impact investing leaders.

jobs.thegiin.org

If your organization is interested in deepening its engagement with the impact investing market by joining a global community of like-minded peers, consider GIIN membership. To learn more about membership and to access interviews with leading impact investors, research from the field, and more examples of impact investments, visit www.thegiin.org.

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