Strengthening Impact Measurement and Management Approaches

In an increasingly sophisticated and maturing landscape

March 2020
Thank you for joining us today!

Please note:

• All participants are already muted.
• Use the “chat” function to submit questions or concerns during the broadcast.
• We’ll share a recording after the webinar.
Agenda

1. Opening remarks
2. Key research findings
   • Impact and business value of measurement & management
   • Strengthening integration of approaches
   • Investor demand for impact performance insights
3. Practitioners’ perspectives
   • Jéssica Rios, Vox Capital
   • Casey Cline, Shared Interest
   • Anjani Bansal, The Bill & Melinda Gates Foundation
4. Questions
5. Closing remarks
Impact measurement and management is a core characteristic of impact investors.
Research key findings

Impact investors measure and manage impact for both impact and business value.
Impact investors perceive **business value** from impact measurement and management practice

**Reasons for measuring and managing impact**

<table>
<thead>
<tr>
<th>Reason</th>
<th>Very important</th>
<th>Somewhat important</th>
<th>Not important</th>
</tr>
</thead>
<tbody>
<tr>
<td>To better understand whether our impact demonstrates progress toward our goals</td>
<td>86%</td>
<td>21%</td>
<td>2%</td>
</tr>
<tr>
<td>To proactively report our impact to key stakeholders</td>
<td>77%</td>
<td>27%</td>
<td>6%</td>
</tr>
<tr>
<td>To improve our impact performance</td>
<td>72%</td>
<td>36%</td>
<td>14%</td>
</tr>
<tr>
<td>To capture business value from that impact data</td>
<td>57%</td>
<td>35%</td>
<td>2%</td>
</tr>
<tr>
<td>To communicate our impact for marketing and/or fundraising purposes</td>
<td>55%</td>
<td>37%</td>
<td>7%</td>
</tr>
<tr>
<td>To address client demand for this information</td>
<td>43%</td>
<td>37%</td>
<td>10%</td>
</tr>
<tr>
<td>To adhere to government regulations to measure and report our impact</td>
<td>32%</td>
<td>25%</td>
<td>14%</td>
</tr>
<tr>
<td>Other</td>
<td>79%</td>
<td>7%</td>
<td>4%</td>
</tr>
</tbody>
</table>

n = 220 – 276 (excluding ‘Other’). Respondents who selected ‘not sure/not applicable’ have not been included.

Nearly two-thirds of impact investors targets environmental impact

Primary impact objectives

- Both: 58%
- Social: 35%
- Environmental: 7%

Target ecoregions

- Terrestrial: 91%
- Air: 64%
- Freshwater: 61%
- Marine: 47%
- Other: 9%

n = 278; n = 117; optional question

The majority of investors target financially vulnerable groups, as well as women & girls.

Target stakeholder groups:
- Individuals of a certain socioeconomic status: 81%
- Women and girls: 64%
- Unemployed individuals: 46%
- Youth and children: 39%
- Racial, ethnic, or religious minorities: 28%
- Elderly/aging individuals: 26%
- Disabled individuals: 26%
- Refugees or displaced individuals: 21%
- LGBTQ individuals: 11%
- Other: 19%

n = 234; optional question

Investors have shifted from building consensus to strengthening integration of impact measurement and management.
Investors consider impact data throughout the investment process

<table>
<thead>
<tr>
<th>Stage of Investment Process</th>
<th>Significant Consideration</th>
<th>Some Consideration</th>
<th>No Consideration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identifying the social or environmental need(s) to address through investment</td>
<td>75%</td>
<td>20%</td>
<td>4%</td>
</tr>
<tr>
<td>Designing an investment or portfolio strategy</td>
<td>66%</td>
<td>29%</td>
<td>4%</td>
</tr>
<tr>
<td>Investment screening</td>
<td>77%</td>
<td>21%</td>
<td>2%</td>
</tr>
<tr>
<td>Due diligence</td>
<td>81%</td>
<td>17%</td>
<td>2%</td>
</tr>
<tr>
<td>Investment management</td>
<td>62%</td>
<td>35%</td>
<td>3%</td>
</tr>
<tr>
<td>Exit</td>
<td>36%</td>
<td>48%</td>
<td>16%</td>
</tr>
<tr>
<td>Post-exit</td>
<td>21%</td>
<td>40%</td>
<td>39%</td>
</tr>
</tbody>
</table>

n = 190 – 275; those who chose ‘not sure/not applicable’ have not been included.
Impact measurement and management capacity is most often **integrated** into the responsibilities of the investment team.

**Human resources allocated to impact measurement and management**

- **68%** IMM is a responsibility of our investment team.
- **50%** IMM is a responsibility of one or more staff dedicated exclusively to that purpose.
- **39%** IMM is a responsibility of our organization’s senior leadership.
- **9%** We contract out our IMM work to external consultant(s).
- **12%** Other

\[ n = 278 \]

Investors perceive progress in understanding of IMM and availability of various resources

**Significant progress in impact measurement & management practice over the last three years**

- **37%**: Investor and/or donor understanding of IMM practice and reporting
- **33%**: Availability of guidance for IMM
- **29%**: Sophistication of IMM tools and frameworks
- **23%**: Availability of research and data on IMM practice
- **18%**: Availability of professionals with IMM-relevant skill sets
- **15%**: Integration of impact management and financial management decisions
- **12%**: Fragmentation in approaches to IMM
- **11%**: Transparency on impact performance, including targets and results

*n = 236-263; those respondents who chose ‘not sure/not applicable’ have not been included.*

Investors are increasingly demanding insight into impact performance
Investors are not yet able to compare impact results with market performance, but...

<table>
<thead>
<tr>
<th>Significant organizational challenges in impact measurement &amp; management practice</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comparing our impact results with market performance</td>
<td>45%</td>
</tr>
<tr>
<td>Collecting quality data</td>
<td>35%</td>
</tr>
<tr>
<td>Aggregating, analyzing, and/or interpreting data</td>
<td>19%</td>
</tr>
<tr>
<td>Identifying/selecting appropriate impact targets</td>
<td>17%</td>
</tr>
<tr>
<td>Using impact data for decision-making</td>
<td>16%</td>
</tr>
<tr>
<td>Identifying/selecting appropriate impact metrics</td>
<td>14%</td>
</tr>
<tr>
<td>Ensuring buy-in for IMM among key decision-makers at our organization</td>
<td>11%</td>
</tr>
<tr>
<td>Understanding and/or defining our impact strategy and/or impact thesis</td>
<td>9%</td>
</tr>
</tbody>
</table>

n = 255-275; those respondents who chose ‘not sure/not applicable’ have not been included.

Investors identified **impact benchmarks** as the top resource to advance impact measurement & management

**Very important resources to advancing the practice of IMM**

- Impact benchmarks: 51%
- Tools to strengthen impact screening: 37%
- Pooled impact data: 36%
- Case studies on IMM best practices: 33%
- Impact measurement certifications and credentials for impact funds and/or analysts: 27%
- Standard term sheets that include impact targets or incentives: 24%
- IMM educational opportunities, such as webinars or in-person workshops: 20%
- Translation of common tools and frameworks into other language(s): 15%
- Other: 36%

\[ n = 235-265, \] excluding ‘other’; optional question. Those respondents who chose ‘not sure/not applicable’ have not been included.

Advancing the industry’s understanding of impact performance

Standardizing impact data

Interpreting impact data

In pursuit of a world in which all investors integrate impact into investment decisions, simply by default.
Practitioners’ Perspective:

Jéssica Rios

Partner at Vox Capital
TURNING SMARTPHONES INTO UTILITY PAYMENT TERMINALS
Paying bills in Brazil is painful

5 banks have 90% of the branches
Only these banks can provide utilities payments

⚠️ For unbanked
Unbanked depends on bank branches to pay their bills

⚠️ For digital users
The big Brazilian banks create entry barriers for fintechs

(45MM People, +2k cities without bank branches)
INVESTMENT PROCESS

SCREENING
- Deal sourcing and initial identification of investment opportunities
- First contact with entrepreneurs/team to evaluate business model and growth plan

BUSINESS DUE DILIGENCE
- In depth analysis of business plan and financial projections
- Market analysis
- Team evaluation

FINAL APPROVAL
- In depth analysis of business plan and financial projections
- Market analysis
- Evaluation with sectorial advisors

INVESTMENT PERIOD
- Business plan execution
- Capital structure
- Monitoring

EXIT
- Mapping and contact with potential buyers
- Negotiation
- Lessons Learned

FINANCIAL
- In depth analysis of business plan and financial projections
- Market analysis
- Team evaluation

OUTPUTS
INVESTMENT TEASER
(for our internal team only)

INVESTMENT MEMO
- Theory of change
- Impact Management Project 5 dimensions
- Team evaluation (on impact intentionality)

INVESTMENT CONTRACTS
- Theory of change
- Impact Management Project 5 dimensions
- Team evaluation (on impact intentionality)

QUARTERLY REPORTS
- Implementation of impact plan
- KPIs + voice of the beneficiary
- Monitoring

CASE STUDY
- Post investment impact revision
- Evaluation of mission lock
- Lessons learned

IMPACT
1 UNDERSTANDING OF CONTEXT
- Develop impact hypothesis
- Identify SDG’s goals addressed by solution
- Evaluation with users

2 SOLUTION VALIDATION
- Theory of change
- Impact Management Project 5 dimensions
- Team evaluation (on impact intentionality)

3 MEASURING & MANAGING THE SOLUTION EFFICIENCY
- Implementation of impact plan
- KPIs + voice of the beneficiary
- Monitoring

INVESTMENT PROCESS
UNDERSTANDING OF CONTEXT
SOLUTION VALIDATION
MEASURING & MANAGING THE SOLUTION EFFICIENCY

GIIN GLOBAL INVESTMENT NETWORK VOX CAPITAL
THE DEFINITION OF INDICATORS IS THE RESULT OF A 4-HAND WORK WITH ENTREPRENEURS, ALWAYS IN THE MOVEMENT TO IMPROVE THE IMPACT & POTENTIALIZE BUSINESS GROWTH

OUTCOME LEVEL
- Additionality / Degree of transformation (socioeconomic change & quality of life ...)
  - Performance improvement
  - Performance improvement (↑income, ↑ efficiency, ↑ grade, ↑ attendance, ↓ dropout...)

OUTPUTS LEVEL
- Consumption metrics
  - # Clients individuals active
  - R$ amount transacted
  - User profile
  - Client satisfaction ratio
  - User testimonials
- Coverage metrics
  - # Total number of clients
  - Geographical coverage
  - # units sold

IMPACT HYPOTHESES
- Theory of Change

BUSINESS MODEL MATURITY STAGE
- STARTUP
- GROWTH
- SCALEUP

ACCUACY LEVEL OF IMPACT MEASUREMENT
- IMPACTOMETER
- OWN PROCESS
- 3RD PARTY REVIEW
- IMPACT LEVEL
Practitioners’ Perspective:

Casey Cline

Managing Director at Shared Interest
Introduction to Shared Interest

A consistent performance record of sustainable impact through investment returns, strengthened institutions and poverty reduction for individuals.

Shared Interest guarantees commercial loans to low-income communities and their own financial institutions to create businesses, jobs, affordable homes and services.

Impact to date:

- $30 million in guarantees issued...
- Unlocking $125 million in loans for low-income beneficiaries...
- Benefitting 2.3 million people
For 25 years, Shared Interest has supported financial inclusion in Southern Africa

**Impact Investment Focus:**

- Small & Growing Businesses (SGBs)
- Smallholder Farmers & Co-ops
- Microfinance Institutions
- Low-Cost Housing & Infrastructure Providers

**Current portfolio:**

14 guarantees with 5 financial institutions ranging in size from $45,000 to $700,000, backing loans worth $60,000 to $1,750,000
**Shared Interest has a strong track record of sustainable impact and responsible stewardship of investor capital**

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individuals benefitted</td>
<td>2,284,382</td>
</tr>
<tr>
<td>Percent receiving technical support</td>
<td>100%</td>
</tr>
<tr>
<td>Grassroots lenders and businesses</td>
<td>62</td>
</tr>
<tr>
<td>Major financial institutions</td>
<td>18</td>
</tr>
<tr>
<td>Capital leverage ratio*</td>
<td>1:4.2</td>
</tr>
<tr>
<td>Guarantee funds called</td>
<td>8.1%</td>
</tr>
<tr>
<td>Investor funds lost</td>
<td>0.0%</td>
</tr>
<tr>
<td>Interest payments made</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Shown as a ratio of the total value of loans made to borrowers vs. total value of guarantees issued by Shared Interest*
Practitioners’ Perspective:

Anjani Bansal

*Deputy Director at Bill & Melinda Gates Foundation*
Learnings

• Point solution → systemic impact OR deal → portfolio

• Blind spots – customized / contextualized metrics AND side-effects

• Volume first – pricing later

• Disaggregated customer data
## Income and expenditure of agricultural households

<table>
<thead>
<tr>
<th>Rank</th>
<th>Income</th>
<th>Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>Rs 22,269</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Rs 15,134</td>
<td>Rs 13,702</td>
</tr>
<tr>
<td>8</td>
<td>Rs 12,012</td>
<td>Rs 8,847</td>
</tr>
<tr>
<td>7</td>
<td>Rs 9,781</td>
<td>Rs 7,584</td>
</tr>
<tr>
<td>6</td>
<td>Rs 9,856</td>
<td>Rs 7,118</td>
</tr>
<tr>
<td>5</td>
<td>Rs 7,475</td>
<td>Rs 6,596</td>
</tr>
<tr>
<td>4</td>
<td>Rs 5,970</td>
<td>Rs 5,711</td>
</tr>
<tr>
<td>3</td>
<td>Rs 4,963</td>
<td>Rs 4,793</td>
</tr>
<tr>
<td>2</td>
<td>Rs 3,033</td>
<td>Rs 3,591</td>
</tr>
<tr>
<td>1</td>
<td>Rs 1,293</td>
<td>Rs 2,465</td>
</tr>
</tbody>
</table>

## Access to formal sources of finance for MSMEs

- **Micro**
  - % of MSMEs: 80
  - Access to formal finance: 60
- **Small**
  - % of MSMEs: 50
  - Access to formal finance: 80
- **Medium**
  - % of MSMEs: 30
  - Access to formal finance: 100
Difficult to identify right metrics and set benchmarks:

- Hype vs. Reality
- Biases
- Relevance

Profile of entrepreneurs: women, tier 3 and 4 cities, maturity

Policy preparedness
Learn more about the GIIN’s resources and reach out to us!

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Visit us at: www.thegiin.org/research and www.iris.thegiin.org