



INVESTING FOR GOOD

# The Good Investor

A BOOK OF BEST IMPACT PRACTICE

Adrian Hornsby  
Gabi Blumberg

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Authors: Adrian Hornsby, Gabi Blumberg

Investing for Good CIC  
1 Regent's Place, London SE3 0LX, UK

[www.goodinvestor.co.uk](http://www.goodinvestor.co.uk)  
[www.investingforgood.co.uk](http://www.investingforgood.co.uk)

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# Introduction

## What is a Good Investor?

All investments, besides making — and possibly losing — money, create change. The things an investment facilitates are an important part of what it really is, and how its performance can best be understood. Harnessing this force for change, and aligning it with the investor's greater sense of value, can be a powerful means to do good, and thereby, in the fullest sense of the words, to make good investments.

This guide is aimed primarily at impact investors — i.e. investors who make investments into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return (or preservation of the principal). This necessitates paying attention to both financial and social outcomes, as the investor's ability to make rational and well-informed decisions rests upon their knowledge across these two fronts. However, while a considerable history of financial investing has established the key financial measures and accounting methods, as well as a panoply of analytical tools, on the social side, detailed measurement is comparatively much younger. Impact investors may therefore find themselves equipped with well-developed financial procedures, but less by way of concrete structure on the impact side.

The use of thorough and robust processes to assess, manage, and report upon impact offers investors three key advantages:

### **better investment and fund management**

A rigorous address of impact is critical to understanding what an investor is achieving, and ensuring that investment strategies are leading to an impact-aligned and impact-efficient use of capital. Impact measures provide investors with the signals that tell them what they did and how well, and enable the use of real data to assess performance — influencing the management of existing investments, and informing future investment decisions.

### **better relationships with investee organisations**

A structured understanding of impact can help investors engage meaningfully with the mission and impact of their investee organisations (i.e. those working on the front-line to generate the impact), and to ensure that objectives on both sides are aligned. Investors often take a close position to their investees, and can use their sense of the impact being achieved to help identify organisational issues, provide support and advice, assist with impact measurement and reporting, and improve impact discipline (as often happens on the financial side). A firm investor sense of impact can also be used in the management of the investment to incentivise the investee's impact performance.

### **better communication**

Having a clear sense of the impact being generated allows investors to report meaningfully upon their own impact, and to be accountable to, and to communicate with: stakeholders, investors (if a fund), commissioners and relevant business partners, and with each other. Communication should be two-way, enabling investors not only to report on what they are achieving, but also to gather feedback, and improve.

The obvious benefits of a more developed treatment of impact, coupled with the recent surge — in particular over the last ten years — of interest in impact investing, has led to significant advances on this front, with areas of firmness and agreement becoming increasingly established. Building on these, this guide sets out current best practice for impact investors **specifically in relation to impact**. It incorporates a wide range of existing impact research, with the aim of drawing together the best, best known, and most compatible strategies. It is also firmly rooted in active practice. Our own research included a detailed consultation of nine

of the UK's leading impact investors,<sup>1</sup> and we have focused very much on: what investors do; what kinds of questions and problems they face; where they demonstrate best impact practice; and where there are realistic and tangible improvements to be made.

## How does **The Good Investor** work?

In accordance with a practical approach, this guide is structured as an investment process — progressing from the investor's initial exposure to investment opportunities, through the screening and analysis, and on to making investment decisions and deals, monitoring and evaluating them, and reporting upon the impact achieved. The essential stages of this process, common to all impact investors, are set out and defined, with the key points relevant to each stage worked through one by one. There is also a preliminary stage about impact investment planning. These make up the main sections of the guide:

- 0. Planning**
- 1. Screening and Mapping**
- 2. Analysis**
- 3. Investment Decision and Deal-Making**
- 4. Monitoring and Evaluation**
- 5. Reporting**

A Book of Best Impact Practice offers value across five main fronts:

### **for investors' own use**

*The Good Investor* offers individual investors a means to check their existing impact processes for thoroughness and consistency (or to develop an explicit process if one isn't already in place). By sharing and making available the best knowledge, it enables investors to ensure the principles, techniques and methodologies they use, with regard to the impact of their investees, and to their own impact as investors, can draw on and accord to wider best practice. This will help produce consistent and meaningful results for their own use.

### **for communication among investors**

*The Good Investor* provides a common framework for understanding impact, through which investors can talk to each other in the same language, and with reference to a common set of key terms and principles. This can in turn lead to a greater compatibility of results, with the opportunity to share data and assessments, and to contribute to industry standards, knowledge building, and improving the sector. It also enhances the potential for collaboration and co-investing with a shared set of needs and interests, and potentially joint evaluation methods when investing in the same investee for the same outcomes.

### **for investee organisations**

For social purpose organisations seeking investment capital, *The Good Investor* sets out the essential impact investor perspective, allowing investees to gain insight into what investors are likely to need to see from them. This can help organisations when preparing for investment, and for developing a more reciprocal understanding with investors. The promise also of improved consistency and coherence among investors, in terms of language and requirements, as well as a move toward the use of more standardised forms, offers to investees the potential for a greatly simplified process, and a correspondingly reduced burden when approaching and reporting to different investors and funders.

### **for sector credibility and attracting investment**

The establishment of best impact practice serves to enhance sector credibility, and provides the basis for more investors, and more investment capital, to engage with impact, and to incorporate social and environmental outcomes into investment practices in a structured and meaningful way.

### **for beneficiaries**

Ultimately the advantages of best impact practice — through improving impact efficiency and

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<sup>1</sup> The consultation group consisted of: Big Issue Invest, Bridges Ventures, Big Society Capital, CAF Venturesome, Deutsche Bank, Esmée Fairbairn Foundation, Nesta, Social Investment Business, Triodos Bank as well as discussions with the Cabinet Office.

communication among investors and social purpose organisations, and through attracting more, and more impact-aligned, capital into the sector — will fall to beneficiaries: those people, communities and environments that experience real positive change as a result of good investments being made.

An important aspect of establishing best impact practice involves establishing standards, including common terms, concepts, frameworks, and where appropriate, indicators and metrics. At the same time, it is crucial to be aware of the limits of standardisation and compatibility, and where quantities and qualities — while being treated consistently — need to be allowed to remain different. When dealing with social and environmental values and benefits, while much can be quantified, often some of the most vital outcomes are best evidenced and accounted for using a degree of description. These outcomes need to be able to retain their place within the investor's understanding of impact, and within the investment decision-making process. Equally, with outcomes and outputs that can be expressed in numbers, it is important to ensure these numbers are treated in a manner that is consistent with the true meaning and strength of the raw data (i.e. numbers are only aggregated when genuinely like-for-like quantities are involved, and margins of error, accuracy, and certainty are respected). Impact measurement is not a pure science, and there is no perfect unit of impact, nor absolute constant, to define how positive social change occurs. In efforts to be more rigorous around impact, there is a considerable danger of “false rigour” or “misplaced concreteness”, by which numbers are extracted and manipulated almost as much to present the appearance of a more quantitative discipline, as to gain a truer understanding of the impact itself. This can lead to conclusions that look more real than they are, while obscuring the holes over which they are built.

However, to acknowledge that impact processes do not all home in on a single standard measure or number does not imply a regression to wholly subjective judgements, or that the analysis need be unsophisticated or lacking in rigour. Social and environmental problems are complex, and are unlikely to be fully captured by purely quantitative, algorithm-driven processes or solutions. But this does not legitimise approaches based on statements like: “We know what the impact is when we see it”, “We get a good feeling for the people”, “What this organisation is doing seems really worthwhile”, and so on. Recent studies, in particular in the fields of behavioural economics and psychology, have demonstrated the alarming extent to which qualitative assessments made without ground rules (i.e. in the absence of well-defined processes and anchor points), and performed essentially “on feel” or by “gut instinct” — even by experts — are subject to massive biases and distortions. But studies also show the extent to which such biases can be corrected by — and therefore the deep value of — explicit structures that engage rational thought processes, and ensure a systematic appraisal of the problem is entered into.

In practice, such structures often look like checklists of things to think about: *Has this aspect of the problem been considered? Is this element in place? Is there a scale to which to relate this to?* And so on. A checklist may include simple “checkbox-style” questions (e.g. “Does the board meet regularly?”), but also must encompass more probing and nuanced questions (e.g. “Does the board share the vision of the organisation and the executive team?”).

The key to an effective and balanced treatment of impact throughout an investor's activities is to formulate checklists that incorporate process mechanisms, quantitative data, and systematic and carefully defined qualitative assessments. These help ensure that the salient questions have at each stage been asked, and that the answers are treated with an importance — relative to each other — that is true to the investor's original mission, and the explicit aims for the investment. While the result may not be a standard number or percentage, it will be a meaningful, and meaningfully complete, response to the impact aspect of impact investing. Furthermore, through the adoption of common practices, it will approach an impressive level of both internal and cross-investor consistency.

## A Good Investor Compendium

This guide is in effect a compendium, or stage-by-stage library, of such checklist items. Each section is headed by an overview of the key points and questions relevant to that stage in the investment process. The material within then explores these issues in greater detail, setting out how they can best be understood, and how they relate to other parts of the process.

Different investors will have different areas of focus and, according to their own mission and priorities, different things they care more or less about. This naturally will be reflected in their treatment of impact, which consequently will vary from investor to investor in terms of the weight attributed to the various

questions, and the level of detail entered into upon each of them. The purpose of the guide therefore is not to lay out a idealised version of “ultimate best practice” for all impact investors to subscribe to. Rather, it aims to provide a reasonably comprehensive treatment of the different elements at play, and of the major issues attendant upon them. In making impact investments, it remains for the investor to consider each question in turn, and to determine, given their own position, which questions they wish to draw on and develop for themselves, and which they needn’t treat directly (while remaining aware of what they are, and how they may be approached by others).

The principles and practice elements contained within the guide relate primarily to investors investing in front-line impact-generating organisations. For investments into funds, where the capital will be on-invested, the relationship with the actual impact is that much harder to assess directly. However, it is possible to look instead to the fund’s own processes, and the extent to which these accord with best impact practice as set out within the guide. This can form the basis for assessing the fund’s ability to give assurance of impact generation, and the extent to which a strategic approach to impact is really at the core of the fund’s activities.

Throughout the guide, to avoid excessive repetition of the words “social and environmental”, “social” (e.g. in “social outcomes”, “social impact”) is used to include both. Where “target beneficiaries” are referred to, meaning those people who stand to benefit directly from an intervention and its outcomes, these relate in the case of environmental interventions to the equivalent environments or aspects of the global environment that stand to benefit, with “beneficiary outcomes” and “environmental outcomes” equating to each other accordingly. Further help regarding terms is available via the [glossary](#).

## Where does **The Good Investor** come from?

*The Good Investor* is published by Investing for Good in partnership with NPC and The SROI Network. It was commissioned by Big Society Capital, in partnership with Deutsche Bank, as part of an initiative to draw together impact investors and social purpose organisations around best impact practice, and the potential for common measurement. It plugs into the wikiVOIS database and the programme Inspiring Impact.

Research for *The Good Investor* included direct consultation with the following UK social investors: Big Issue Invest, Big Society Capital, Bridges Ventures, CAF Venturesome, Deutsche Bank, Esmee Fairbairn Foundation, Nesta, Social Investment Business, Triodos Bank; as well as discussions with nef, SIAA, and the UK Cabinet Office. Information on further research and resources can be found in the [further resources](#) section.

*The Good Investor* is by Adrian Hornsby and Gabi Blumberg





# 0 Planning

## About Planning

This guide is structured around the five key stages in the process of impact investing — from the initial screening, to in-depth analysis, and on to making investment decisions and deals, monitoring and evaluating investments, and reporting upon the impact generated. Prior to entering into this process however, investors in the early stages of setting up a fund will need to spend a little time thinking about what they want to achieve through their investments, and about their mission, focus and approach. Establishing these will guide the investor when it comes to making decisions around:

- what sectors, outcome areas, and geographic locations to be active in
- what beneficiary groups to reach out to
- the balance of interest among **direct impact** upon beneficiaries, **wider impact** upon communities, sectors and society at large, and **investor impact** upon social purpose organisations
- the objectives of individual investments
- the balance of interest among newer approaches to impact, and more established methods, and the overall appetite for **impact risk**

Finding the answers to these questions will serve to hammer out the essentials of impact investment planning.

A useful way to get started is to work through the five stages of best impact practice, asking yourself the questions implied by the concepts, terms and processes involved in each stage. Familiarising yourself with the mechanics of what making impact investments entails will lend much richer definition to your approach. It will also make apparent some of the structures and resources you will need to put in place to go about your impact investing activities. For funds, this typically includes:

- an investment team that understands the essentials of impact measurement
- some in-house expertise regarding impact analysis (either within the investment team, or active in supporting it)
- a person with a Head of Impact role (if not a full time position, this responsibility is nevertheless clearly assigned to someone, and included in their job description)
- an investment committee with diverse membership, including social and investment expertise, with members who are able to read impact reports, understand the key parameters at play, and integrate impact into the making of reasoned investment decisions

For funds and investors that are already active, it is important to revisit the impact investment plan regularly in response to results, and review how effective operations are proving. This includes asking:

- does the plan provide clear guidance in making decisions?
- is it proving too restrictive, and thereby limiting efficacy?
- have there been advances in the sector (regarding e.g. specific techniques, best practice, new technologies) that the plan should respond to and incorporate?

An effective treatment of impact provides investors with valuable information that can inform and influence planning for the future. If your plan doesn't respond to the performance indicated by your results, then unless the original plan was perfect, it is likely your processes are failing to capture some things that it would be useful for you to know. Again, working through the best impact practice guidance laid out here can be a powerful way to investigate if there is something missing.

The [impact plan](#) section of this guide sets out the essential structure by which a social purpose organisation generates and measures its impact. The primary purpose of the impact plan section is for investors to familiarise themselves with this structure, and to use it in working through the impact plans of investee organisations for analysis purposes, and for ongoing monitoring and evaluation. But it can also be useful to investors to think through the impact plan self-reflexively, and compare it with their own mission, activities, and the ultimate impact they are generating.

# 1 Screening and Mapping

## Overview

### 1 Screening and Mapping: Guidelines for Best Practice

#### About Screening and Mapping

Use screening and mapping processes to refine the pipeline of investments, and to be clear internally about the focus and purpose of investing.

Communicate this focus and purpose externally, allowing potential applicants to gauge their own eligibility and suitability in making their application.

#### 1.1 Screening

Devise a screen to test the **eligibility** of potential investments and organisations, taking care to consider:

**Mission:** *Is there an effective and well-designed mission in place?*

**Use of Investment Capital:** *Does the investment support the organisation and its generation of impact?*

**Governance:** *Does the organisation have a governance structure that supports its mission and its generation of impact?*

**Profits and Assets:** *Is there assurance that the use of profits and assets will be in line with the mission?*

**Impact Evidence and Transparency:** *Is the mission being demonstrably achieved, and is there regular and transparent reporting on impact performance?*

#### 1.2 Mapping

Draw up a mapping template or classification tool that can be used to check organisations for **suitability**, and organise them subsequently into consistent peer groups. Ensure that categorisation is complete and distinct.

# About Screening and Mapping

Impact investors are presented with a multitude of potential investee organisations and investment opportunities. As the market continues to expand, and the concept is applied at greater scales, and to an increasingly broad range of social and environmental purposes, the number and diversity of calls upon impact-seeking investment capital will grow significantly. In order to manage this flow, it is useful for investors to have a preliminary screen.

All impact investors will have a sense of what they do and do not feel is appropriate for them. **A formal screen ensures there is a quick, clear and consistent means to check the fit of any potential investee prior to entering into the much more lengthy analysis and due diligence processes required to make an investment decision.** There are likely to be two aspects to this check:

## **eligibility**

Impact investors will need some form of assurance that the prospective investment really does support impact, and that the underlying organisation is committed to its social or environmental aims.

## **suitability**

Impact investors may have particular preferences as to the impact areas in which they are active (e.g. targeting a particular problem or region), the kinds of organisation they invest in (e.g. start ups, or organisations with a track record), and the sort of investment terms they are seeking (e.g. a minimum financial return, degree of liquidity, and so on).

The first aspect asks essentially if the proposed investment is valid as an *impact* investment; the second looks more to the contours and features of the investment, and asks how well these match up with the investor's preferences or strategy. Addressing these questions suggests a two part response:

**screening** potential investments and investee organisations for their legitimacy as impact investments

**mapping** investments for how well they match up with what an investor is looking for

Aside from the operational advantages of screening and mapping, the process of devising a screen, and mapping out the conditions for suitability, can be helpful to investors with regard to clarifying for themselves the core values and areas of focus that will define the kinds of impact investments they make. It can further be of use for communicating these values and areas to others. While an investor may not wish to make the full details of their processes public, they can nevertheless be clear to potential investees as to the essential ways in which they are screening and mapping, and thereby determining what is eligible, and what is suitable, for their investment capital.

# 1.1 Screening

Understanding of what constitutes a social purpose organisation or social business varies, and different investors will emphasise — and screen for — different things. In addition to this, investors may have specific constraints regarding their use of investment capital (for example, a particular tax status, or legal or governance obligations), with further implications as to what can and cannot be regarded as “sufficiently social”. In devising their screens, investors will determine for themselves where to place stress, and how strict to be on different points. What remain consistent however are the kinds of concerns investors have around eligibility:

- mission
- use of investment capital
- governance
- profits and assets
- impact evidence and transparency

A screen needn't be prescriptive on all fronts, or operate merely as a series of walls to clear. Instead there may be a balance within the application of the screen among different areas. For example, attention to the use of profits may become more important if there is an identified risk of mission drift; transparency may balance concerns around governance, and so on. If so, it is important the balancing mechanisms be defined, as the key purpose of having a screen is to move from a judgement call to a clear procedure.

## 1.1.1 Mission

*Is there an effective and well-designed mission in place?*

An impact investment is one where investment capital is used to drive social or environmental good. To do this, the underlying investee organisation must have impact — rather than an unadulterated profit motive — built into its core values. These values are most often expressed in a mission statement.

With regard to mission, investee organisations may be screened for:

### **primacy**

Is the organisation driven primarily by a social or environmental mission? Does the mission guide what it does, and in such a way as to distinguish it from a pure profit-maximising company?

### **investor alignment**

The mission is expected to be both clear and concrete as to the problem the organisation is tackling, the people it will reach, and the anticipated outcomes and impact (see [mission](#)). Do the values expressed in the mission, and the focus and approach, align with the investor's interests and aims?

### **mission lock**

Is the mission embedded in the organisation's governance structures and governing documents?

### **congruence and risk of mission drift**

Is the organisation's business model, including its operations and activities, congruent with its mission? Is revenue generation in step with the creation of social value? Is its cost base concerned primarily with the achievement of its mission? Are there potential tensions between profit interests and social benefits, with a risk that the latter may become compromised by the former?

### **mission-aligned exit**

Is there a route toward the repayment of the investment capital (and financial return) while ensuring that the mission is sustained and carried into the future?

## 1.1.2 Use of Investment Capital

*Does the investment support the organisation and its generation of impact?*

The investor may want to screen for the proposed use of the capital. Of greatest importance is that the organisation is clear, and can present a detailed business plan as to how the investment capital will be used, and how this will ultimately support the organisation's impact. The purpose of the investment may be to capitalise impact-generating activities directly, and to expand them. Alternatively the focus may be on strengthening the financial position and resilience of the organisation. If so, it nevertheless remains important to consider the organisation's outcomes, and how these will be affected by the proposed strengthening (strengthening an organisation that is not achieving any impact is of little use to the impact investor, or to the problems under address).

## 1.1.3 Governance

*Does the organisation show good governance?*

As assurance of good governance, the investor may wish to screen the organisation's governance structure and key personnel, as well as aspects of the internal processes.

### **structure**

Are relevant and well-formed governance structures in place (for example, a board with genuine powers that meets regularly)? Is the governance structure consistent with and supportive of the organisation's mission and activities? Is the organisation compliant with the necessary and relevant regulations? An investor may further look for the use of specific structures, such as the organisation being a registered charity, CIC or cooperative (industrial and provident society).

### **key personnel**

Are the leading staff and board members appropriately experienced, with a shared vision, and without obvious conflicts of interest? N.B. Getting to know the organisation's key personnel *well* is a crucial part of the in-depth analysis and due diligence stage (see [analysis](#)). What is implied here at the screening level is more a brief check.

### **internal processes**

Are the organisation's internal operations consistent with the principles of social and environmental sustainability? This may include screening of the organisation's policies with regard to its employees (covering e.g. wages, benefits, leave, safety, democratic processes, non-discrimination) and its environmental management (covering e.g. recycling, energy saving, and taking care where possible to reduce environmental impact).

## 1.1.4 Profits and Assets

*Is there assurance that the use of profits and assets will be in line with the mission?*

An investor may wish to pay particular attention to the organisation's use of profits (especially if there are constraints upon the investable capital, for example, that it must be used for specifically social as opposed to private benefit).

### **use of profits**

What is the anticipated use of profits? Does the organisation have an explicit policy around the use of profits — for example, that 50% of profits or more must be used for socially-beneficial purposes (this may include reinvestment in impact-generating activities, or donation to a suitable charity, such as a partner-foundation)? Is there a limit to the proportion of profits that can be distributed to shareholders, or in bonuses or salary packages to executives?

**asset lock**

Are the organisation's assets protected such that, if sold, the money will remain within the organisation? In the event of a wind-down, will the assets be distributed for social purposes, or can they be sold to pay shareholders or executives?

## 1.1.5 Impact Evidence and Transparency

*Is there evidence of and regular and transparent reporting on impact performance?*

To deliver tangibly on its mission, the investee organisation must be able to demonstrate the impact it is generating, and how this relates to its finances and the impact investment itself.

**impact evidence**

Is the organisation demonstrably achieving its mission? Is it generating real positive change for its beneficiaries and/or the environment? Is this being evidenced in some form?

**transparent impact reporting**

Does the organisation show its commitment to evidencing the achievement of its social or environmental aims through its impact measurement and reporting? If the organisation has no track record of impact reporting, is it ready to measure and report on its impact in the future, and with respect to the impact investment?

## 1.2 Mapping

Mapping relates to general investment criteria, and the need to match these up with the investor's interests and aims. Mapping can be used in conjunction with screening to refine the pipeline of potential investments down to those that meet whatever conditions or requirements the investor may have, and therefore be deemed suitable.

Mapping can also be used to create a basic organisation profile, which can in turn be used for classification purposes. Mapping organisations against a simple set of defined criteria offers two key benefits:

- It facilitates the sorting of organisations into different groups of peers according to various criteria (e.g. on one front, organisations of similar size; on another, organisations working with similar outcomes or beneficiaries; on another, organisations at a similar stage of development, and so on). These peer groups can be used for performing comparisons when carrying out subsequent analysis, and can form the basis for suggesting standard measures, pertinent questions, and performance benchmarks.
- When building and managing a portfolio of impact investments (e.g. for a fund), information from mapping can be used to understand the contents of the portfolio, and to maintain the desired balance (e.g. the proportion of the fund invested in various geographic or outcome areas, the proportion in debt or equity, and so on). The sourcing of potential new investees, and mapping them for suitability, may respond to the balancing needs of the portfolio.

Typical criteria used when mapping may include (though are not restricted to):

- key outcome areas or sector
- target beneficiaries
- products or services
- location and geographic focus
- years of operating history
- stage of development (e.g. start up, early stage, growth, established)
- ownership and legal and governance structures
- organisation size (taking into account, e.g., turnover, total assets, number of employees)
- investment size
- investment type (e.g. equity, quasi-equity, long-term debt, short-term debt)
- financial return (prospective)
- term (liquidity / fixed term and number of years)
- proportion of project / investee organisation represented by the investment and by the investor's potential stake
- partnerships, subsidiaries or affiliated companies

Often these will relate to the key outcome areas and objectives of the investor, as determined at the [planning](#) stage.

The classifying power of the map, or profile, created is greatly enhanced by using standardised categories, which define peer groups for subsequent comparisons and portfolio analysis. Categories may be bands (e.g. 0-1 years, 1-3 years, 3-5 years; £0-£50k, £50-£100k etc.) or predefined lists (e.g. regions of the UK, global regions etc.). Where pre-defined lists are used, it is important to ensure that the list is complete (covers all the potential answers) and the categories it creates are distinct (there is as little overlap as possible between categories, with different items falling clearly into one or another).

For understanding outcome areas and beneficiary types, the [outcomes matrix](#) can be a helpful tool — either to construct a list, or to check a list for coverage.



# 2 Analysis

## Overview

### 2 Analysis: Guidelines for Best Practice

#### About Analysis

Impact analysis is critical to being able to make good investment decisions. The analysis is considerably enhanced when backed up by an explicit methodology that adopts standard, objective processes where possible, and produces evaluative results.

The details of any particular methodology, including its scope and emphasis, will be determined by the individual investor, and will reflect that investor's aims and strategy. However the key areas for attention when devising and working with a methodology, and performing analysis, are a systematic attention to the **impact plan**, an assessment of **impact risk** and **impact generation**, and due attention to **process**.

#### 2.1 Impact Plan

Work through the organisation's impact plan. It is an integral part of the business plan, and must be conceived and articulated by the organisation as fully as any financial projections.

#### 2.2 Impact Risk

Impact risk is a measure of the certainty that an organisation will deliver on its proposed impact (as detailed in the impact plan). The question implied is: How sure is the impact plan to work, and what is the risk that the impact won't be generated? Assessment focuses on:

**Explicit:** *Is the impact plan explicit in all particulars?*

**Reasoned:** *Does the impact plan present a compelling and well-reasoned theory of change?*

**Integral:** *Is the generation of impact integral to the organisation's business and operations?*

**Feasible:** *Is the impact plan feasible?*

**Evidenced:** *Is there evidence to support the impact plan's approach to impact generation?*

**Evidenceable:** *Will the impact be evidenced by carrying out the impact plan?*

#### 2.3 Impact Generation

Impact generation addresses the potential for real change that the organisation and the investment opportunity together present. Essentially: if the investment is made and the impact plan proves to be successful, how much impact stands to be generated as a result?

##### Direct Impact on Beneficiaries

Assessment balances consideration of:

- **Vulnerability of Beneficiaries:** *How vulnerable or excluded are the beneficiaries, and how great is their need?*
- **Change Achieved for Beneficiaries:** *What does the impact mean for beneficiaries, and how great is the change effected thereby?*
- **Scale and Capital Intensiveness:** *How widely are the organisation's activities, outputs and outcomes being rolled out, and what is the unit cost?*

##### Wider Impact on the Community, the Sector and Society at Large

Assessment balances consideration of:

- **Wider Economic Impacts:** *What is the contribution to the local and national economy?*
- **Wider Knowledge Impacts:** *What is the contribution to the wider understanding and awareness of the problem, and of how to solve it?*
- **Internal Impact of Operations:** *What is the incidental internal impact of the operations of the*

*organisation?*

### **Investor Impact on the Social Purpose Organisation**

Assessment balances consideration of:

- **Scale of Investment:** *What is the scale of the investment (relative to the project or organisation)?*
- **Growth and Strength of the Organisation:** *Does the investment grow the organisation and its impact, and strengthen its financial position?*
- **Access to Other and Further Capital:** *Is capital available to the organisation from other sources? Is investment capital new to the organisation? Is the investment leveraging in further capital?*
- **Expertise and Networks:** *Does the investor offer valuable expertise on financial and impact issues, and access to relevant networks?*

## **2.4 Managing the Analysis Process**

Ensure analysis is well-managed, and that a designated “Head of Impact” is responsible for overseeing the process and results. Management includes attention to:

**Transparency:** *Is there transparency toward investees regarding the analysis? Do investees know: what to expect; how and on what grounds they will be analysed; and how the process can be of use to them?*

**Quality Control:** *Are there procedures in place to review and improve the consistency of results? Is the system itself subject to regular review?*

# About Analysis

The screening process yields a refined pipeline of investment opportunities that fall within the investor's field of interest. The next step toward actual investing is to embark upon the in-depth analysis and due diligence that will determine if the investment is both financially sound and truly impact generating.

**Impact-driven investing implies paying an equal amount of attention to analysis of the impact aspects of the investment as to the financial analysis and due diligence.** Rigorous impact analysis provides investors with tangible knowledge as to what impact an investment can be expected to generate, and the risk that this impact will not be achieved. This knowledge forms the basis for integrating impact into investment decision-making, and ensures that impact concerns, alongside financial ones, are informing and guiding the use of capital in an effective manner.

It is important to perform impact analysis alongside the financial due diligence (and if not done by the same team or individual, the two should be in close communication). This is due to the inevitable extent to which the two are bound together. Most obviously, if an organisation falters financially, this will have a negative effect on impact-generating activities. Conversely, if the business model and impacts are well-aligned, then financial sustainability and impact generation will go hand in hand.

Financial analysis and due diligence is outside the scope of this guide, and it is assumed investors will have developed their own processes on this front (addressing in detail the organisation's finances, management and key personnel, operations, business plan and so on). Yet while a potential investee organisation may be financially extremely sound, this does not in itself provide assurance that it will deliver the impact it proposes to.

Any investment poses both a financial return, and a risk around whether or not that return (and potentially the investment capital), will indeed come back to the investor. An impact investment in addition presents both a potential impact to be generated, and the risk that the strategy may not work, and the impact fail. And so, as an investor's financial interests focus on risk and return, in parallel, the two main parameters regarding impact are:

**impact risk:** what is the risk that the impact will not be achieved?

**impact generation:** what is the volume of impact the investment or investee organisation proposes to generate?

In order to address these questions, it is essential for investors to “get inside” the investee organisation — including getting to know the management or entrepreneur in question, and the vision that is driving operations. Equally, as any outcomes-based analysis will need to relate to the problem being addressed, and how beneficiaries are responding, it is equally essential for the investor to ensure they have a good understanding of how the impact processes will work in context, and, where possible, to get to know the beneficiaries and their lives too.

First-hand exposure to the organisation, its activities and its beneficiaries, gives excellent depth to the impact research, as well as providing assurance that the organisation is doing what it says it is, and that this is having the reported effect. Ultimately investors will rely upon such reports from the organisation, and so verifying that what is being reported is meaningful for beneficiaries, and validating the organisation's measurement and reporting systems, is a crucial part of building confidence in the proposed impact.

The effectiveness of the personal approach however is greatly increased through the simultaneous use of a systematic process. An explicit framework for analysis, with a defined checklist of points or questions, ensures that the research done is not only deep, but also thorough and complete. It further supports a common procedure for analysing different organisations (and for use by different analysts, e.g. loan officers operating in different regions), thus establishing a plane of consistency among results, allowing for meaningful comparison, and for this to feed into the investment decision.

The analytical process may take the form of a scorecard, with points awarded on various lines to produce an

aggregated result. Alternatively a more qualitative approach may be preferred, with evaluations of e.g. “high”, “medium” and “low” on different sections of the analysis. For the process to be effective, it must meet four key conditions:

**i. the presence of an explicit methodology**

The process must be laid out in a clear form, breaking the analysis into modular parts, with a methodical means to work through these parts, and guidance as to how to understand the terms and processes involved. The methodology must be distributed internally, with both analysts and investment committee members being aware of its structure and main points, and be in active use.

**ii. the use of standard forms**

The methodology itself must be standardised and suitable for consistent application across different potential (and existing) investee organisations. The adoption of external standards where available will further increase consistency, compatibility, and the extent to which results can draw on and contribute to common best practice.

**iii. evaluation and performance levels**

In addition to being investigative, the methodology must also be evaluative, yielding not only a descriptive understanding of the impact, but an assessment. Performance levels must therefore be built into the modular parts of the methodology, allowing analysis to determine if the performance (or prospective performance) of the organisation on any particular part is comparatively higher, lower or similar to that of other organisations.

**iv. objectivity and independence**

The methodology’s design must ensure objectivity such that evaluative results are not conditional upon the individual who is conducting the analysis. Multiple individuals, given the same information, should produce the same analytical results, regardless of their own views or preferences. The analysts must also be independent of the organisations they analyse, and able to perform analysis free of any conflicts of interest.

The purpose of this section on analysis is not to provide a pan-methodology for use by all investors. Differing areas of focus among investors will necessarily place differing needs upon their methodologies. Moreover the strategy and balance of interests of a particular investor will play into the weighting of the various parts within the analysis, with more or less depth and importance placed on one area or another accordingly.

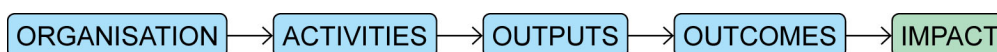
However, while emphasis may shift, the key questions and issues at stake when performing impact analysis are common. This section presents an essential framework for organising these questions, and accommodating the sets of considerations they each imply. For investors, it may be used as something like a library of parts. Investors may wish to compare their own approaches and methodologies to ensure they are covering the things they need to cover, and are doing so using the structure, order and balance that is right for them.

The framework is built around the two key parameters of [impact risk](#) and [impact generation](#). However, before analysis proper can start, it is necessary to draw out in full what the proposed impact is, and what the investee organisation is doing to generate it. This involves a close working through of the organisation’s [impact plan](#). In addition, as the impact analysis inevitably requires an input of time and resources from both the investor and investee organisation, it is necessary to ensure adequate attention is paid to [managing the analysis process](#).

## 2.1 Impact Plan

The impact plan sets out what the social purpose organisation is about, what it is doing, and what it is hoping to achieve. By making these things clear, it becomes possible to address what the potential impacts are. The impact plan also provides a critical future reference point from which to assess subsequent performance, and determine whether or not what the organisation is doing is really working: i.e. are strategies proving effective, and are results in line with the initial aims?

The central line that runs through the impact plan is the well-known impact chain, which connects an organisation, via its activities, to its outputs, outcomes and impact:



However, far from operating a closed, linear system, social purpose organisations respond to and work within a context. As with any social context, complex networks of relationships and interdependencies predominate, serving to knit the impact chain into its surrounding fabric. The actual impact is the real change to this context, and so to gain a more complete picture of what the organisation is achieving requires also a sense of the context — both before and after the intervention — and of the further processes and conditions through which the change is really taking place.

Filling these in around the impact chain establishes the essential components of an impact plan. Prominent among them are the **conditions for change** — i.e. those surrounding factors that need to be present for the organisation's outputs (typically the delivery of services or products) to transition successfully into beneficiary outcomes (change in people's lives). The movement from outcomes into impact then takes into account the **context of change** — i.e. the adjustments that need to be made to the observed change to correct for issues of deadweight, displacement, attribution, drop off and unintended consequences. The impact plan also sets out the **measurement system** that will be used to track and evidence the impact.

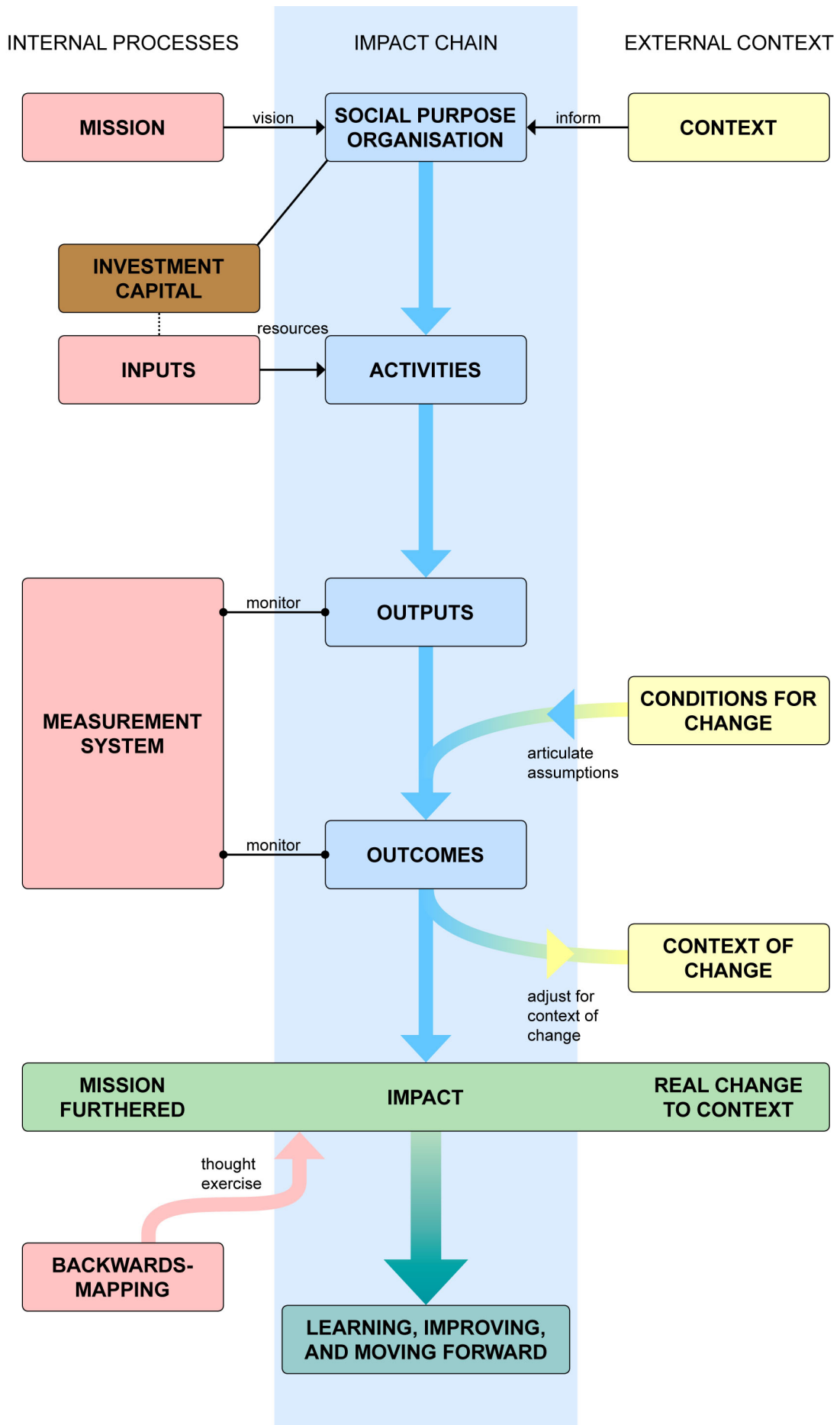
The plan sets out a vision for the future — of what the organisation will do, and the effects and impact this will have. As such, it is in essence proposing a theory. It is a theory of change.

An organisation's impact plan is to a significant extent also its business plan, as it essentially describes what the organisation is proposing to do with itself. However, while business plans (and their analysis) focus on financial projections, the impact plan addresses the organisation's social projections. As much as with the business plan, the investor will want to inspect the impact plan in some detail. This involves working through the various components within the plan, and ensuring there is appropriate and satisfactory information regarding the key points presented by each one.

The subsequent assessment of **impact risk** is based on an assessment of the validity of the impact plan, while assessment of **impact generation** is based on the proposed results of the impact plan (assuming that it works out).

An investee organisation may not have a fully conceived, developed and complete impact plan ready to present to an investor upon request, and an important part of getting to know the organisation, and of the impact analysis procedure, may be to go through the impact plan with the organisation, and work on those areas in need of greater definition. This can be of significant value not only to the investor, but also to the organisation. The essential impact plan structure is widely used throughout the social purpose sector, making it a highly compatible tool for use by the organisation when communicating its impact (e.g. to funders, other investors, and when bidding for contracts). It also represents recognised best practice for the organisation's own internal clarity, and for carrying out effective impact-driven management.

The figure overleaf shows the essential components of the impact plan, and the structure by which they fit together. A detailed description of these components is given in the **impact plan** section.



## 2.2 Impact Risk

The **impact plan** sets out what the prospective impact is, and how the organisation proposes to generate it. The assessment of impact risk appraises the plan for its validity, and for the confidence it inspires that the organisation, through carrying out its activities and delivering its outputs, will achieve the intended outcomes, and generate real positive change.

### impact risk

impact risk is a measure of the certainty that an organisation will deliver on its proposed impact, as detailed in the impact plan. The question implied is: How sure is the impact plan to work, and what is the risk that the impact won't be generated?

An assessment of impact risk looks to the plan for six key qualities — that it is:

- explicit
- reasoned
- integral
- feasible
- evidenced
- evidenceable

### 2.2.1 Explicit

*Is the impact plan explicit in all particulars?*

The starting point for any structured and rational treatment of impact is being explicit. This involves ensuring that the impact plan displays:

#### clarity

The impact plan articulates clearly each of its components and the linkages between them. This includes setting out what will be done, what processes will be used, and how the activities — within the defined context, and in combination with other conditions — will bring about the desired change.

#### concreteness

The impact plan is specific and concrete about what is to be used (resources, budget), who will be effected (target beneficiaries and their context), what is to be achieved (how much, how many), and the timelines involved (when will the activities be carried out, and the change happen). The impact plan is concrete also regarding the **measurement system** that will be used to track what is taking place.

#### completeness

The impact plan gives a fair, true and complete picture of the processes and changes it presents, including implicit claims and assumptions, and appropriate consideration of how the change relates to other factors and the surrounding environment (including impacts upon other stakeholders). These are covered in the **conditions for change** and **context of change** sections of the impact plan. An impact plan that covers only the organisation's own processes, with no address of the context, is deemed to be incomplete.

A full address of the context, and all the ramifications of change (including deadweight, displacement, attribution, drop off, and unintended consequences), is likely to be beyond the scope of most impact plans, and the organisation must therefore make an assessment of materiality — i.e. a determination of the bounds of what is relevant and material to include in a true account of the impact. The impact plan is explicit as to where these bounds of materiality lie. The information that is deemed material is therefore provided, and gaps or holes in the information, or links that are unproven, are acknowledged and justified.

## 2.2.2 Reasoned

*Does the impact plan present a compelling and well-reasoned theory of change?*

Once the impact plan and its various components have been laid out explicitly, attention turns to how well reasoned an overall narrative or theory of change it presents. Pertinent questions include:

- Do the mission and activities express a coherent response to the **context** (i.e. the problem and the target beneficiaries)?
- Is the link between the proposed outputs and the anticipated outcomes thought-through and convincing? Do the outputs really drive the outcomes? Have the **conditions for change** been addressed, and their role in the change soundly reasoned?
- Is the address of the **context of change** credible and fair, with the bounds of materiality set at a sensible level?

A full address of the context of change can most likely only be achieved through conducting a control experiment (typically a randomised control trial, or RCT). However this is often impractical given the resources and the scale of operations. Under such circumstances, investors and organisations are often reliant upon a reasoned treatment of the counterfactual (a hypothetical scenario of “what would have happened anyway, what is happening elsewhere, and the role of other factors” that can be used to deal with questions of deadweight, displacement, and attribution).

There may be uncertainties, and therefore impact risk, around how the outcomes are really brought about, and how reliably they are a result of the organisation’s work. Most important to the impact is that the organisation can make a compelling case for how it plays a *critical* role in the desired change (i.e. without it the change wouldn’t have happened). **Backwards-mapping** can be a powerful tool for testing the reasoning involved throughout the impact plan.

## 2.2.3 Integral

*Is the generation of impact integral to the organisation’s business and operations?*

A form of impact risk may arise if there is a potential tension within the organisation between its impact-generating and revenue-generating activities. Where there is a clear financial motive for the organisation to pursue less impactful strategies, and the business and impact interests are in this sense not well-aligned, there is a risk that the operational needs of the business will threaten the impact.

This risk however is greatly reduced if the impact plan is integral to the organisation’s business strategy, operations, and revenue model. In this case, the business plan clearly supports the impact plan, with impact and operational sustainability going hand in hand.

Where there is tension and potential risk regarding the integration of impact into the business model, the investor may look to some form of mission lock or protection via the governance or legal structure of the organisation (e.g. governance obligations, incorporation as a registered charity or CIC).

## 2.2.4 Feasible

*Is the impact plan feasible?*

The question of feasibility focuses mainly on the links in the impact plan between the organisation, its activities and its outputs. For the impact plan to be feasible, it must show:



- the organisation has the resources, capacity, skills and relevant experience to execute the plan
- the operational risks inherent in the plan are identified and addressed, with measures in place to mitigate them where appropriate

A significant aspect of the overall feasibility of the plan will relate to the financial and operational strength of the organisation. This however will generally fall within financial due diligence considerations, and typically go into a credit rating, and be given separate consideration. The question of feasibility, for impact risk therefore, focuses on those aspects not covered in the financial analysis — i.e. assuming credit-related issues are secure, is the impact plan feasible in other respects?

This may include attention to:

- **key personnel** — does the organisation have the right people to carry out the plan with respect to impact, with the necessary skills and relevant experience, as well as the vision, leadership and drive?
- **operational processes** — does the organisation have processes in place to manage activities, and ensure they are reaching the right beneficiaries, and having the desired effect? Are the activities an effective means to deliver the desired outputs?
- **capacity** — does the organisation have the staff, time, technology and facilities required to carry out activities?
- **projections around other factors** — where the impact is reliant upon factors beyond the organisation's direct control (e.g. conditions in the local economy, support or services to be delivered by other organisations, among the [conditions for change](#)), and assumptions are therefore made about them, are these assumptions feasible?

## 2.2.5 Evidenced

*Is there evidence to support the impact plan's approach to impact generation?*

Evidence may include:

### track record

The organisation has carried out similar activities in the past, with robust impact measurement of past performance demonstrating the validity and effectiveness of the approach. For evaluating the track record, see [quality of information](#) and [verification of results](#) (in [4.2 Impact Reporting](#)). To be considered as convincing evidence, a track record must demonstrate a change in the measured outcome (typically involving pre- and post-intervention measurements), and that, where used, samples are representative, and survey questions are neutral and non-leading. An independent evaluation of the activities and outputs of the organisation, where available, provides the best evidence on this front (and thereby lowest impact risk).

### precedents

The track records of other organisations, working with similar methods and assumptions, and again appropriately evidenced by measurement, may be used to demonstrate the validity of the approach.

### research

Studies or relevant expert knowledge may be used to back up the claims involved. Research can situate the organisation's approach in the context of the problem and other relevant interventions, which it may align with or differ from according to the position taken. Research may in particular be used to support the assumptions implicit in the [conditions for change](#), and the treatment of the counterfactual in the [context of change](#). Where available, research on benchmarks can provide an anchor for the organisation's past results and proposed future performance.

### control groups

The most conclusive evidence of the effectiveness of an intervention is to demonstrate through the use of a control group the difference between the outcomes achieved when the organisation is active, and when it is not. This, properly speaking, is the demonstrable impact: the real change brought about as a clear result of the organisation's work. However, while randomised control trials (RCTs) represent the gold standard in evidence, they are expensive to carry out, and require specialised skills. It is also important to note that RCTs are significantly more practicable, and therefore favour, interventions of a very specific nature, with easily isolated, testable, and relatively short-term outcomes. Furthermore, RCTs are meaningful only when the sample sizes are large enough for other factors to cancel each other out, and therefore are often applicable only when the intervention is taking place at a relatively large scale. While all this means that it is unlikely there will be a widespread adoption of RCTs throughout the social-purpose sector anytime soon (and especially not at the early-stage end of the spectrum), the lesson is nevertheless a powerful one: that for an intervention to be truly valid, it must be able to outperform a control group. If a specific control group is not set up and monitored, then some evidence as to what such a control group might look like, typically based on research with comparable situations elsewhere, can serve to lower impact risk significantly on this front.

The availability of a track record, precedents, extensive research, and control groups, will depend on a combination of the organisation's stage of development, and the originality of its approach. Rarely will an organisation be able to provide an exhaustively evidenced treatment of the change, and its interplay with other factors, though it is important to look at what evidence there is, and to consider the impact risk it leaves. Evidence, in so far as it is available, should serve to promote confidence in the impact plan, and in particular in the relationship between the organisation's proposed activities and outputs, and the outcomes and impact that it is hoped will follow.

For an organisation proposing a completely new idea, and therefore with little or no direct evidence of how well it works, there may still be relevant research it is responding to, and that has informed the development of the approach (i.e. less proving the approach than showing how different approaches have failed in the past, and how this one learns from them). However an organisation working with well-established methods will inevitably have more to draw upon regarding evidence.

As a result, excessive investor demand for high levels of evidence would lead to an inevitable bias toward mature organisations working with tried and tested methods, at the expense of investing in innovative, and in some cases possibly more effective, forms of intervention. The balance between conflicting desires for the impact plans to be, on the one hand evidenced, and on the other, to deliver something new, will depend upon an investor's mission, strategy and appetite for impact risk. A less well-evidenced, and therefore riskier, approach may ultimately prove to be game-changing, and thereby high impact. These considerations will play into the [investment decision](#) when weighing impact risk against other criteria.

Where there is less evidence available, it becomes increasingly important, with regard to impact risk, for the impact plan to be convincingly [reasoned](#), and [evidenceable](#).

## 2.2.6 Evidenceable

*Will the impact be evidenced by carrying out the impact plan?*

An evidenceable impact plan is one that incorporates processes to ensure that carrying out the plan will produce sufficient evidence to demonstrate the outcomes and impact, and prove the approach. This requires that:

- a robust impact [measurement system](#) is in place to track outputs and outcomes
- where a link, relationship, assumption or claim is unproven, it is identified, and checks are in place to validate it in the future
- measures will be taken to assess the other factors involved and the true role of the organisation's outputs in the change (i.e. there is an anticipated address of the [conditions for change](#) and [context of change](#) — e.g. a reference is identified, or a control group set up, to establish a sense of what happens without the intervention, and to provide a degree of evidence in support of the

hypothetical scenario of what would have happened anyway, what is happening elsewhere, and the role of other factors)

- the anticipated evidence is inclusive of the beneficiary perspective (evidence features feedback from beneficiaries, and is communicated to beneficiaries)

The impact plans of potential investee organisations are likely to present theories, links and impacts that are under-evidenced, and in some cases altogether untested. However these may still be testable, and the subject of planned tests. For the confidence of the investor to be gained, it is crucial that the organisation can show effective measures are in place to evidence its impact going into the future, especially when there is a lack of evidence currently.

The impact plan must be clear as to which parts are **evidenced**, which are **unevidenced but will be evidenced** by the activities and measurement system proposed, and which will **remain essentially reasoned**. The timeline for the evidence is also important: if an impact plan is full of unproven elements, the investor will want to know, if the investment is made, what evidence there will be to show whether or not the plan is working by year one, three, five etc..

As the organisation carries out its plan, over the course of operations, and the period of the investment, it is expected that more and more elements will become evidenced. Also, as the organisation matures and scales, its measurement system may be expected to grow in scope proportionally, thus expanding the range of evidenceable and subsequently evidenced aspects of the plan. This will correspond naturally with diminishing impact risk, as operations successfully manifest the impact.

Alternatively, if the approach is failing, the presence of evidence systems will be able to show this, giving the organisation and the investor the opportunity to change course.

## 2.3 Impact Generation

Impact generation addresses the potential for real change that the organisation and the investment opportunity together present. Essentially: if the investment is made and the impact plan proves to be successful, how much impact stands to be generated as a result? This is, in a sense, the impact equivalent of the prospective financial return of an investment, only while a return is bound up with the return of the investor's capital plus interest, the impact generated is less returned than created anew.

Financial returns have an easy common yardstick in the form of money. With impact generation, there is no fungible currency, and different kinds of impact will be favoured by different investors. What however remains common is the need for investors and investees alike to be clear about what the prospective impact is. Analysis serves in effect to shine a light on the impact, and to provide a thorough and methodical process for working over it, and establishing its shape.

The impact of the organisation detailed in the plan can mostly be understood in terms of the **direct impact** on beneficiaries and their immediate circle (relating to the first two columns of the [outcomes matrix](#)), and **wider impact** on the community, the sector and society at large (relating to the third column of the [outcomes matrix](#)). There is also the **investor impact** — the impact of the investor and the investment capital on the organisation itself.

- **direct impact** on beneficiaries and their immediate circle
- **wider impact** on the community, the sector and society at large
- **investor impact** on the social purpose organisation (as a result of the investment)

### 2.3.1 Direct Impact on Beneficiaries

The impact plan defines:

- who the beneficiaries are
- what change they are anticipated to experience
- what products or services will be delivered to achieve this change, and in what volumes

These relate to the key considerations for understanding the direct impact:

- the **vulnerability of beneficiaries**
- the **change achieved for beneficiaries**
- the **scale** of the organisation's activities and intervention, and its **capital intensiveness**

#### Vulnerability of Beneficiaries

*How vulnerable or excluded are the beneficiaries, and how great is their need?*

The [context](#) component of the impact plan defines who the intended beneficiaries are, and includes an assessment of their needs. Implicit in this will be a sense of the vulnerability of the beneficiaries, and while there is no absolute scale, generally a more extensive and urgent set of needs will suggest higher levels of vulnerability. The [outcomes matrix](#) can be used to compare particular needs or forms of vulnerability to a comprehensive set of human needs.

An important question for investors, irrespective of the particular needs involved, is whether or not the organisation's approach is inclusive with respect to the beneficiary group. The way beneficiaries are defined will present a population of potential beneficiaries, within which some may be harder to reach than others. There may be a risk of the organisation "cherry-picking" beneficiaries (e.g. selecting only those most likely to achieve positive outcomes in order to enhance results), or excluding beneficiaries through presenting

barriers of one kind or another. Ensuring that the organisation and the benefits it offers are truly open to its target beneficiary group covers:

#### **awareness**

Are beneficiaries aware of the organisation and the support it provides? Is the organisation communicating effectively its services and outcomes across the beneficiary group?

#### **access**

Can beneficiaries access the organisation's support? Barriers to access may include:

- **affordability** (do the products or services present costs that may be exclusionary, or does the intervention rely on beneficiaries having access to expensive equipment, e.g. technology items?)
- **comprehensibility** (are there language barriers, or barriers relating to complexity or the difficulty of forms to be filled out?)
- **transport** (is there adequate access by public transport, and provision for disabled access requirements?)
- **distribution** (is support only available through e.g. online distribution, membership of a particular group etc., in a way that may prove exclusionary?)

#### **diversity**

Given the population of potential beneficiaries, are those actually being reached appropriately diverse (e.g. is there a fair representation of women, ethnic minorities)?

#### **hardest to reach**

Given the context within which the organisation is working, and the relative challenges and needs involved, is it able to reach the hardest to reach beneficiaries — i.e. those most vulnerable, excluded and disadvantaged? Are there measures in place to ensure that it does reach the hardest to reach within its target population?

## **Change Achieved for Beneficiaries**

*What does the impact mean for beneficiaries, and how great is the change effected thereby?*

When seeking to make a change to a beneficiary's life, it is of obvious importance that the beneficiary has a say too. The voice of beneficiaries is crucial not only in terms of basic democratic rights, but also as a means to ensure that the intervention is indeed wanted by beneficiaries, and that the proposed life changes are being experienced and valued. Measurement systems must therefore, wherever possible, take into account the beneficiary perspective, as this is the most powerful evidence of direct impact generation there can be. It is the basis for understanding what the change means for beneficiaries, and how much it means.

The question of the profundity or depth of the change achieved is at once the most challenging and the most vital for an investor. Again the role of analysis is primarily to map the change: to identify what the key outcomes are, and what these mean for beneficiaries as they pass from their lives before the intervention to their lives after it.

To help with this, the **outcomes matrix** can be a useful resource (in particular, the first two columns relating to individual beneficiaries and families). It presents a list of outcome areas that together describe the key ways in which a person can, on the one hand, suffer disadvantage and exclusion, and on the other, enjoy benefits and positive change. Derived from an understanding of fundamental human rights and values, the outcome areas set out the essential human infrastructure for experiencing life in a full, free and positive fashion.

When considering the change for beneficiaries, mapping the organisation's outcomes to the outcomes matrix is potentially useful on three fronts:

#### **beneficiary perspective**

The matrix is organised as a set of outcomes within the life of the beneficiary. As such, it adopts a beneficiary perspective, and so helps ensure that activities and outputs are always referred on from the perspective of the organisation, and its delivery of products and services, to what these will mean

for beneficiaries, and what the experience of beneficiaries as a result will be.

### exploring change

While an organisation may be targeting a specific direct outcome, the holistic nature of people's lives and experience means it is likely they will be effected in multiple other ways. The matrix gathers outcomes from across a wide range of fields, and organises and groups them systematically. The process of working through the matrix, and mapping onto it what the organisation is doing, can suggest further related outcomes that the organisation may also want to consider, or already be touching upon. It can also suggest connections to different outcome areas, and elicit other ways in which the change is playing out across the lives of beneficiaries. Thus the matrix can act as a tool to help explore the full implications of the change.

### relative change

Mapping the organisation's outcomes onto the matrix sets them within a context of experience across the beneficiary's life. This can help give a sense of the relative profundity of the change — relative to the beneficiary's own needs (as disadvantage or exclusion may be apparent in a number of areas throughout the matrix, which the intervention may or may not be tackling); and relative to the overall potential for change.

In addition to the immediate beneficiaries, the impact of the organisation may also touch directly the lives of those closest to the beneficiaries (e.g. by providing respite for family members and carers, rebuilding family relationships, providing support and advice). These may similarly be mapped onto the matrix and understood as part of the direct impact.

In considering the change for beneficiaries, it is critical to ensure that the mechanism by which the change takes place is understood, including the **conditions for change**, with the impact plan being clear about the assumptions; and the **context of change**, with appropriate adjustments being made for the role of the organisation in its interactions with the context. This ensures that impact analysis is able to focus on the real change that stands to be generated.

## Scale and Capital Intensiveness

*How widely are the organisation's activities, outputs and outcomes being rolled out, and what is the unit cost?*

The scale of the intervention, in its most obvious sense, relates to the number of products or services delivered, and the number of beneficiaries reached. Typically this is shown by output indicators tracking the primary activities.

In considering beneficiary numbers, it is important for investors to check for the number of unique beneficiaries, and that data issues regarding double-counting are addressed. It is equally important to include drop off where appropriate, counting both the number of beneficiaries the organisation starts working with, and the number that complete the programme.

Ultimately interventions and impact are about outcomes, not delivery numbers, and the scale of the outcomes achieved is the true measure. However, more diffuse or personal outcomes, such as improved community cohesion, or enhanced beneficiary confidence, may be hard to quantify, and numbers that relate more to outputs may often be used as proxies for estimations of scale (with well-reasoned and, where possible, well-evidenced links to outcomes, and with clarity regarding the implied assumptions). Where there are explicit direct outcomes (for example, the number of beneficiaries finding employment following employment training), it is appropriate to consider the scale of the direct intervention relative to the scale of its success — i.e. the proportion of delivered outputs that are resulting in the desired direct outcomes.

A sense of the scale of the organisation's intervention may also be relative to the scale of the problem it is addressing. If the organisation's defined beneficiaries comprise a very select group (e.g. people with a specific need in a particular area), and it is able to reach all or a high proportion of this group, then the scale of the intervention may be considered effective even if the raw number is low.

From an investment perspective, the scale is ultimately proportionate to the capital involved: i.e. how much capital is required to achieve this much impact? What is the capital intensiveness of the organisation's activities and intervention? For an investor looking to maximise the cost effectiveness of their use of funds,

investee organisations that are able to generate impact at greater scales with less capital offer clear advantages.

The most basic calculation of relative scale in this regard is a figure for unit cost — for example:

$$\frac{\text{total finance required for activities}^*}{\text{the number of unique beneficiaries receiving products or services from activities}^\dagger}$$

\* Note the capital intensiveness of the organisation's approach is defined by the capital required to finance activities. This includes direct inputs as well as the capital needed for the organisation's operating expenses and the financing of its assets (i.e. capital drawn upon for the running of activities). Often this figure will be different from the size of the investment that an investor is considering.

† Or the most appropriate scale-related number (e.g. number of desired outcomes achieved). Ideally this figure is adjusted for the context of change, and represents the real change, rather than just the total number of observed outputs or outcomes.

However the unit cost figure cannot be treated as a pure ratio, in itself indicative of higher or lower performance across different organisations. This is due to the fact that the quantities used will rarely be the same. However consistency can be applied wherever possible to both the beneficiary denominator (through organisations using the same standard indicators), and to the financial numerator (through using consistent accounting techniques for calculating the financial inputs and capital requirements). This can support a degree of comparability, and be used as a guide for investors when considering the relative capital intensiveness of the impact plan.

Addressing the scale of intervention and its capital intensiveness will not automatically yield an irreducible number. Rather analysis will be a balance between:

- the number of unique beneficiaries being reached (guarding for double-counting and drop off)
- the proportion of outputs leading to the desired outcomes, and the extent to which these represent real change
- the proportion of the target beneficiary group being reached
- the capital intensiveness of activities and operations

## 2.3.2 Wider Impact on the Community, the Sector and Society at Large

In addition to the direct impact upon the immediate beneficiaries and those around them, there will also be a wider impact upon the context in which the organisation is active, the community, and on the sector and society at large. Organisations operate within local, national, and sometimes international economies, as well as within networks and communities of knowledge and understanding. Certain aspects of an organisation's activities, and in some cases its core activities, may focus on these (e.g. providing community or sector support, engaging in campaigning and advocacy, participation in policy formation), rather than directly on individual beneficiaries and their families.

Organisations also, through their own operations, have an internal impact on both people (e.g. their own staff) and the environment.

These form three common forms of wider impact:

- wider economic impacts
- wider knowledge impacts
- internal impact of operations

### Wider Economic Impacts

*What is the contribution to the local and national economy?*

Wider economic impacts come about as the organisation's activities and direct impacts play out in the wider economic context (beyond any direct economic impacts upon beneficiaries, such as providing direct financial assistance). These may occur on three main fronts:

#### **cost benefits**

Positive change in the lives of disadvantaged people can often lead to significant costs benefits to society. Cost benefits typically come in the form of:

- savings in direct expenditure — e.g. if beneficiaries are able to come off benefits
- avoidance of potential costs — e.g. if the intervention is able to avert costly negative outcomes, such as reoffending or health problems
- increased revenues — e.g. through tax income generated by beneficiaries moving into work

For an organisation to claim it is having significant cost benefits, and for this to be counted amongst its wider impact, some degree of evidence and methodical cost benefit analysis is necessary, including a robust treatment of any deadweight or displacement effects. However costs benefit analysis, even in the best of circumstances, is notoriously mercurial, and attempts to provide explicit ratios are often best treated with caution. Cost benefits that are assumed rhetorically, but not accounted for, may be considered less substantial still.

Less often accounted for are cost losses to the public purse that come about through an organisation's activities — for example, through providing support for beneficiaries to claim benefits and entitlements, and accessing government-funded programmes. These needn't be counted as negative impact, but there is a tendency in cost benefit accounting among social purpose organisations to claim the benefits, and skip the losses. Both should be included for a balanced picture.

#### **direct spending**

The organisation's direct spending will have an economic impact through its choice and use of suppliers. Organisations may focus their spending on local suppliers, or mission-aligned suppliers, as a means to contribute to those economies.

#### **recirculation, new spending and local value**

Money injected into a local economy through the organisation's activities may be recirculated, as well as potentially attracting in new spending and investment, and providing a boost to local value.

## **Wider Knowledge Impacts**

*What is the contribution to the wider understanding and awareness of the problem, and of how to solve it?*

In addition to tackling the problem directly, the organisation may have significant impacts in relation to how the problem is understood, what can be done about it, and in communicating the need for change more widely. This can be a powerful way for the organisation to spread the benefits of its mission and results, as well as a means to keep informed itself.

Wider knowledge impacts may be apparent on four main fronts:

#### **sharing information with other organisations**

The organisation may engage in:

- publishing and communicating results and sharing evidence
- contributing to standards and best practice
- participating in sector learning, e.g. through conferences and networks
- partnerships with other organisations

#### **representing the issues to government and business**

The organisation may engage in:

- advocacy and campaigning
- participating in policy discussion and policy development
- partnerships with government or business



**raising public awareness**

The organisation may engage in:

- communicating the need for change more widely and promoting public awareness of the issues and solutions
- participating in public events
- being active and present in the media

**pioneering innovation**

By developing, doing or promoting something new, the organisation may inspire other organisations to follow, and create a game change in the dynamics of the problem. The organisation may present:

- the development of an innovative new approach, which has the potential for replication by other organisations, and the means and planning to find evidence for how well it works
- the championing of a new approach, through: applying it to new fields; promoting the model and evidence for how it works; and fostering its uptake and replication elsewhere (e.g. through finding partners, franchising, and seeking to influence the mainstream)

**Internal Impact of Operations**

*What is the incidental internal impact of the operations of the organisation?*

Operational considerations are those that apply to the organisation's running of itself, and the impact this has on people and the environment. This relates chiefly to the question of responsible management of staff and environmental processes, and typically covers:

**impact on staff and volunteers**

Including a review of the organisation's:

- terms of employment (including wages, wage equity, training, leave, safety, discrimination)
- volunteer policy
- the presence of fair and democratic processes

**impact on the environment**

Including a review of the organisation's:

- environmental policy
- adoption of environmental measures and monitoring (e.g. energy use, recycling, building management, transport)

Extensive treatment of internal aspects of the organisation's operations, and the impacts they may have, is available to investors through numerous sources. These are often thought of and labelled as ESG (Environmental, Social and Governance) concerns.

**2.3.3 Investor Impact**

Alongside what the investee organisation is doing through its activities, the investor will have an impact on the organisation itself through the process of investing. Being at a remove from the front-line, this is the most direct form of impact the investor will see, and through it, may touch upon many aspects of what the organisation is able to achieve, in particular with respect to its capacity, resilience, and its ability to sustain and grow its impact into the future.

Investor impact is apparent chiefly across four fronts:

- scale of investment
- growth and strength of the organisation
- access to other and further capital
- expertise and networks

## Scale of Investment

*What is the scale of the investment (relative to the project or organisation)?*

The most immediate impact of the investment, and aspect of its significance, is its relative scale. The point of comparison may be:

- for project-specific investments, the capital required for the project
- for investments in the organisation more generally, the financial size of the organisation

The percentage contribution of the investment (to either the project or the organisation) forms a baseline for the extent to which the investor can link impacts achieved by the organisation back to the investment. For example, if an investor has capitalised 25% of a project, it may choose to think of itself as having facilitated 25% of the impact generated. The claiming of the impact of social purpose organisations by their investors is a challenging area (see [reporting](#)), and it is rarely appropriate to attribute the impact to the provision of capital. However, the significance in terms of scale of the investment is useful for gaining a sense of the role it is playing in relation to the organisation, and its generation of impact.

In relation to scale, it is important to ask if the investment is of sufficient scale to fulfil the organisation's capital requirements, and for it to be able to achieve what it is setting out to achieve (typically this is what is detailed in the impact and business plans, and is used as the basis for analysis elsewhere).

## Growth and Strength of the Organisation

*Does the investment grow the organisation and its impact, and strengthen its financial position?*

A second measure of the significance of the investment is its contribution to the growth of the organisation (as projected in the impact and business plans). The growth can be viewed in relation to:

- growth in financial turnover
- increase in strength or resilience of the organisation
- growth in impact-generating activities and delivery of services
- growth in outcomes and impact

For the investment to be truly an investment in impact, these all need to move in step. Even if the investment does not directly capitalise activities, its relationship to organisational performance, financially and ultimately in terms of impact, must be made clear.

Increasing the strength or resilience of the organisation may not be immediately apparent in terms of financial growth, but may be observed through the enhanced stability of the financial position (demonstrated e.g. through adequate reserves, positive cash flows, better management of credit), and this may in fact be the primary objective of investments that have a strong focus on investor impact.

In such cases, and with clearly defined measures in place regarding the strengthened financial position that is anticipated, the effective impact may be high. For example, helping an organisation manage its cash flow, or providing a bridge between other pieces of capital or funding, may prove vital to an organisation's or a project's continuing existence. In cases where there is a risk the organisation would otherwise fold, — in effect presenting a counterfactual of -100% growth — the impact of simply stabilising and strengthening the organisation, with no new growth, but safeguarding the impacts that are being achieved, is high — in effect +100%. For this to work however, the investor must be assured that the organisation is an effective generator of impact, and the impact plan must still be worked through with care to ensure that investing in the organisation's strength and resilience is indeed investing in impact.

## Access to Other and Further Capital

*Is capital available to the organisation from other sources? Is investment capital new to the organisation? Is the investment leveraging in further capital?*

The level of investor impact is sensitive to the organisation's access to capital on other fronts:

### other sources of finance

Here the key question is: in the absence of the investor, does the organisation have access to other sources of finance? This is effectively a question of investor deadweight, by which the investor's impact is naturally greatest when there is no other capital available to the organisation (in which case, in a "what would have happened ..." scenario, the investment opportunity would otherwise close empty). Alternatively, other sources of finance may be available to the organisation, but on less attractive terms or rates, or without the same level of support, understanding, and shared values (e.g. a mainstream investor with no explicit interest in impact may be harder for the organisation to negotiate with than an impact investor). The real investor impact (i.e. the impact adjusted for what would have happened otherwise) in this regard is clearly at its least when the organisation could easily access other sources of finance on equal or better terms. This consideration may play a significant role in the **investment decision**, as some investors may be especially motivated to invest in a "ground-breaking" fashion — extending access to credit to organisations that are typically excluded from mainstream finance. They may therefore choose not to invest in an opportunity when they know there is another willing investor ready.

### experience of investment capital

Impact investing remains a relatively new approach, and often the application of investment capital to social purposes presents organisations with new ways to finance their operations. This implies an investor impact in the form of expanding the range of financing options available to organisations, and potentially developing the financial infrastructure of the sector. Key questions relating to the extent of investor impact on this front include:

- is this the organisation's first experience of investment capital? Had it considered using credit previously?
- is the financial structure or vehicle being used new to the organisation? Does it represent a new idea for the sector? Is the investor integral to the development or structuring of the investment?
- will the organisation as a result be able to plan for the future more effectively with credit in mind?

### leverage

The investment may have a further investor impact by leveraging in additional investment through an explicit financial structure, or securing further investment through the use of joint agreements that bring other investors into the deal.

## Expertise and Networks

*Does the investor offer valuable expertise on financial and impact issues, and access to relevant networks?*

Impact investors and their investee organisations often have a close relationship, involving support and advice in addition to the actual capital. Experienced impact investors may have valuable expertise to offer, and useful networks to share:

### financial expertise

The experience of taking on investment capital, and the relationship with the investor, may have a significant positive effect on the organisation's financial accounting, planning, management and discipline. This may in part happen simply through the need to comply with the investor's requirements, but also through the investor spending time with the organisation, and offering business and financial support and advice.

### impact measurement expertise

Similarly, the investor's input and requirements around impact can help the organisation develop its impact accounting. Through working through the impact plan and the measurement system with the organisation, and ensuring appropriate indicators and reporting mechanisms are in place, the investor can play an important role in the sometimes challenging task of ensuring the organisation has a thorough, systematic, rational and transparent approach to its impact. It may also be able to support the organisation in resolving to commit the necessary resources to impact measurement (for example,

through building an impact measurement budget into the business plan for the investment).

### **networks**

The investor may have a further impact through its knowledge of relevant communities and networks, and forging links where appropriate. These may include:

- knowledge of the social business community, and potential partnerships or sharing of information with like-minded organisations
- knowledge of investor networks and sources of credit, helping the organisation gain access to further credit, with potentially enhanced credibility and capacity to attract new investment by virtue of its connection with the investor
- contact with commissioners and other potential clients and revenue streams, leading to enhanced market access

## 2.4 Managing the Analysis Process

Performing systematic and comprehensive impact analysis can be a significant task, requiring input from both investor and investee sides. It can also, through the findings it makes, play a significant role in how investment decisions are made, and capital allocated. For both reasons, it is essential investors are transparent about their impact analysis processes, and takes steps to ensure their quality. This implies attention to:

- transparency
- quality control

Within an impact investment fund, it is likely there will be a number of people who need to be familiar with the impact analysis process. Among them will be the loan officers or investment team, who are involved at the primary level in sourcing deals, and the financial and impact teams (if different) who will perform the analysis and produce reports for the investment committee. Within these teams there should be a degree of impact expertise, including knowledge of the common challenges and concerns involved, as well as of key sector issues and obvious pitfalls, including ways in which data or measurements can be manipulated, and impact plans be either unrealistic or incomplete.

Likewise the members of the investment committee, who will need to read the impact reports and consider the analysis in making their investment decisions, will need to be versed in how the analysis works, and have a firm understanding of the terms and concepts involved. Also, the ongoing monitoring and evaluation of existing investments will require an ongoing attention to impact, and a knowledge of impact analysis on the part of those performing this task.

Given the reach of impact analysis throughout the operations of an impact fund, it is important to have a person who is responsible for overseeing the process as a whole, ensuring the consistency of results, and attending to the ongoing management. This person may be given the title of “Head of Impact”. The responsibility for managing impact across the fund may or may not be a full time position in itself — what is however crucial is that there is a clearly identified person with such a role, and that the duties implied are acknowledged to be a significant part of that person’s overall job (i.e. the title “Head of Impact” is not simply appended to an already full-time position).

### 2.4.1 Transparency

*Is there transparency toward investees regarding the analysis?*

*Do investees know: what to expect; how and on what grounds they will be analysed; and how the process can be of use to them?*

Being clear with potential investee organisations — when they are first seeking capital, and then at the more involved impact analysis and financial due diligence stage — is crucial. Investees need to understand what the process will be, firstly to make a realistic assessment if they can and want to go through with it, and secondly to ensure buy-in throughout the process. Impact analysis, as well as the subsequent reporting it implies, can be demanding upon investee organisations, and it is important they do not feel they are being subjected to a series of unexpected or arbitrary-seeming requirements.

Maintaining transparency relates to four main points:

#### **timeline**

Investors must be clear as to what the timeline of the process will be: How long will the whole process take? How long will the in-depth analysis take? When will the capital become available?

#### **content**

Investors must be clear as to what will be involved: What will investee organisations be expected to produce — in terms of financial information, information about the activities and impact plan, and

supporting research and so on?

#### **use**

Investors must be clear as to how the information will be used. The full details of any analysis system an investor is using, either for credit checks or impact purposes, may well be confidential. Transparency however need not mean absolute disclosure, or full publication on a website. It is important investees know the use to which the information they supply will be put, in part to be able to believe in the process, and in part to ensure they are indeed supplying the right information. Also if an investor has a particular emphasis or interest that will weight the analysis in a certain direction (for example, preferring specific outcomes, strategies or approaches over others), making this clear to applicants is only fair.

#### **usefulness**

The purpose of impact analysis, and subsequent reporting demands, is not to create a burden, but to ensure that capital is being used effectively to generate the desired outcomes and impact. This is of interest to the investee organisation as much as to the investor. The organisation potentially has a great deal to gain from working through the impact plan and measurement system collaboratively with the investor, and ensuring appropriate indicators and reporting mechanisms are in place. Many social purpose organisations are only now starting to develop robust impact systems, and investors can play a useful and supportive role in this regard (as they often do with helping organisations develop their financial accounting and management — see [investor impact](#)). The process of undergoing impact analysis can contribute to the organisation being able to manage its own impact better, as well as being in a stronger position to bid for contracts and funding in the future.

## 2.4.2 Quality Control

*Are there procedures in place to review and improve the consistency of results?  
Is the system itself subject to regular review?*

The power of analysis is the extent to which it facilitates an informed understanding and decision-making process — and for this very reason, it is essential to ensure that the information it provides, and the understanding it engenders, is actually meaningful. Having a systematic approach to impact is the first step, but in addition to creating a system, it is necessary to have a degree of quality control over that system's implementation and use.

Quality control implies attention to consistency and system-review:

#### **consistency**

As with all aspects of impact, the most important part is clarity. Consistent analysis relies firstly upon having a clear structure, but also a clear process as to how to use it. The process covers:

- how to go about doing analysis
- what information is needed for the different parts of the analysis
- what to do when information is lacking

The aim of the structure and accompanying process guidance is that the analysis can be applied to different organisations by different analysts, and produce consistent and comparable results.

Even with a clear and well laid out system, the analysis will inevitably involve a mixture of quantitative accounts and qualitative values, which will imply a degree of qualitative judgement. The consistency and merit of these judgements can be greatly improved by a peer-review process. It may be useful to have more than one person working on the analysis, to allow for internal reviewing of judgements, or for the analysis to be reviewed once completed (e.g. by the Head of Impact). It is generally advisable to ensure at least two people have been through a piece of impact analysis before it is presented to the investment committee. When there are multiple officers performing impact analysis separately, it is advisable for these officers to meet regularly to discuss how they are using the system, what results they are getting, and to ensure there is reasonable consistency on these two points.

**system-review**

Once a system is in active use, it is important to review it regularly. There are two key questions for a review:

- is the system providing information that we can use in investment-decision making — i.e. are the results of analysis meaningful to what we do as investors?
- is the system proving to be accurate? Are there any identifiable sources of bias or inconsistency? Is the analysis being borne out by what happens: i.e. is the volume of impact being generated what we expected from our initial analysis? Do the levels of impact risk we initially associated with investments correlate with their subsequent success in generating impact? If there are discrepancies, can these be explained?

It may also be appropriate at reviews to consider any recent developments in the field of impact analysis, and advances in the understanding of best impact practice.

# 3 Investment Decision and Deal-Making

## Overview

### 3 Investment Decision and Deal-Making: Guidelines for Best Practice

#### 3.1 Investment Decision

Integrate the results of impact analysis into the investment decision-making process. This involves weighing the four parameters of **impact risk**, **impact generation**, **financial risk** and **financial return**. The trade-offs being made should be articulated and discussed (e.g. at an investment committee meeting), and assessed for alignment with the investor's mission and strategy.

#### 3.2 Investment Deal

Incorporate impact generation and impact risk considerations into the investment deal. This involves attention to:

**Objectives:** *What are the impact objectives for the organisation and the investment, and how will these be measured?*

**Oversight:** *How will performance against the set objectives be monitored? What are the reporting requirements, and how will the reporting be used?*

**Protection Measures:** *What are the ways in which the organisation may underperform or fail with respect to impact, and what measures can be built into the investment deal to enable an address of such problems?*



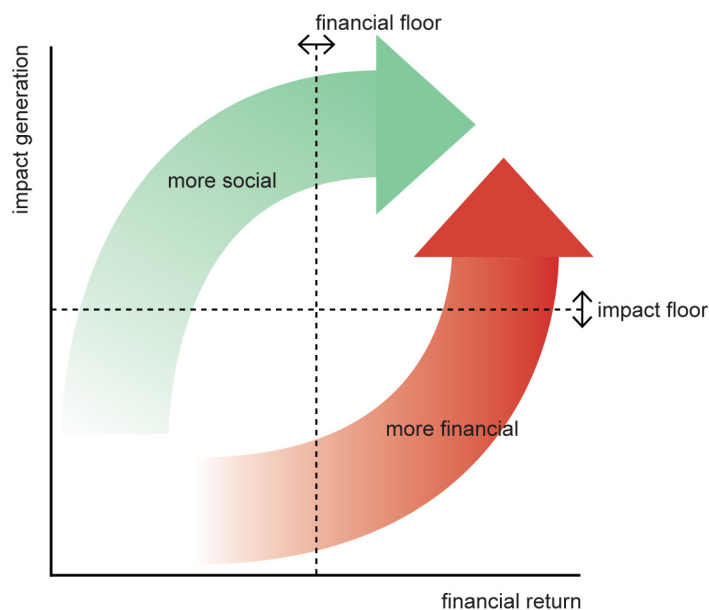
## 3.1 Investment Decision

The two key parameters for traditional investing are **financial risk** and **financial return**. Impact investing adds a further two: **impact generation** — the impact that stands to be generated — and **impact risk** — the risk that the impact will in fact not materialise.

- **financial risk**
- **financial return**
- **impact risk**
- **impact generation**

Impact analysis and financial due diligence furnish investors with a sense of what an investment has to offer with respect to all four. The question of investment decision-making, and of potentially preferring one investment over another, is therefore one of looking at performance across these four parameters, and finding the right balance among them. Priorities will change from one investor to another, but the essential concerns and trade-offs are the same.

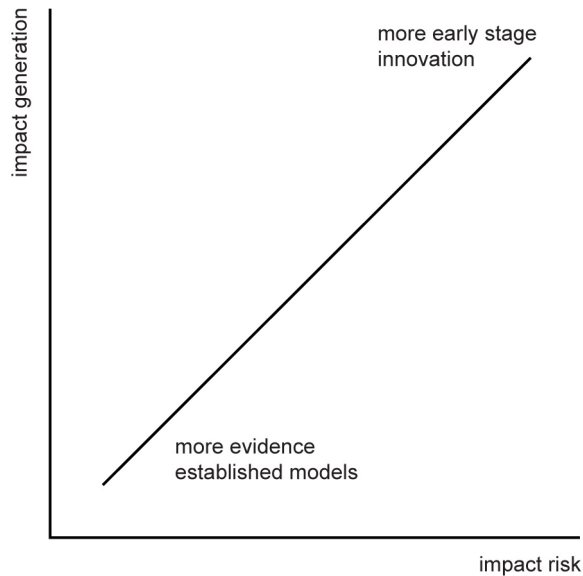
The most well-known and discussed relationship is between impact generation and financial return. This is often represented as a field of values between the two.



The mix of impact and financial return that an impact investment offers positions it somewhere within this field. Impact investors, according to their social and financial appetites, will focus on investments falling within certain areas. An investor may have a “financial floor”, and look specifically for investments meeting a minimum return (this may be the case for example for a fund with a target return to achieve itself). There may equally be an “impact floor”, stipulating a minimum level of acceptable impact generation. Investors will look to optimise among investments to the right of and above their respective floors.

The upper left area is generally characterised by more socially-motivated investments and investors; the lower right by more financially-motivated (profit-maximising) investments and investors. The upper right area of the field promises a “sweet spot” of high impact high return investments.

The four parameters however suggest further relationships, including that between impact generation and impact risk:



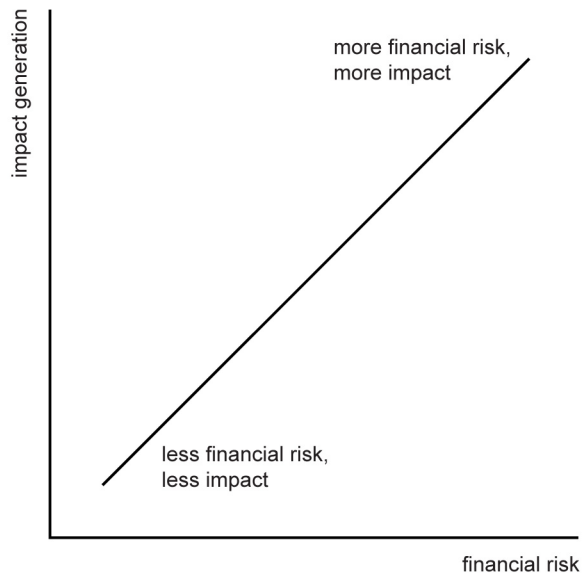
The potential trade-off between impact generation and impact risk suggests an upward sloping “indifference curve”,<sup>2</sup> whereby investors seek compensation for higher levels of impact risk with higher levels of impact generation, and vice versa. Investments that lie on the higher sections of the curve are likely to be increasingly characterised by less well tested, less evidenced approaches, but which are innovative, and present the potential for high levels of impact generation (e.g. through effecting a game-change in the prevailing dynamics). Investments that lie on the lower sections of the curve are more likely to be in established approaches and fields of operation, where investors know more what they are going to get, but the impact that stands to be generated is comparatively modest. Investments that sit above the curve, thus offering more impact generation for the same level of impact risk, will be preferable (and will in effect fall on a higher indifference curve), while investments that sit below the curve, thus presenting more risk for the same level of impact generation, will be less attractive (and fall on a lower indifference curve). Investments falling on the same curve will have an equivalence of appeal. An investor’s approach to this trade-off (and the gradient of their particular indifference curves) will depend on their appetite for impact risk.

Impact risk can be expected to decrease over the life of the investment, as the results being generated serve to evidence the approach. This can shift an organisation onto a higher indifference curve. Conversely, if performance shows poor results and increasing impact risk, the investment will shift to a lower indifference curve. Portfolio management can be conducted on this basis.

Equally there will be a relationship between impact generation and financial risk:

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<sup>2</sup> An “indifference curve” is a useful economics concept used to illustrate an individual’s preferences between various baskets of different goods. For example, an individual may be “indifferent” between a basket that is made up of 2 cookies + 3 donuts, and a basket that is made up of 2 donuts + 3 cookies. These two baskets would be on the same “indifference curve”. However, the individual will always prefer more of both, so a basket made up of 4 cookies + 5 donuts will lie on a higher curve, signifying that the individual **prefers** this bundle and is **not indifferent** to it.



The potential trade-off between impact generation and financial risk suggests an upward sloping “indifference curve”, whereby investors seek compensation for higher levels of financial risk with higher levels of impact generation, and vice versa. Investment propositions positioned on curves above this one will always be preferred (more impact for less financial risk), while those positioned below will be less preferable (less impact for the same financial risk).

N.B. While a financially risky investment is by implication risky with respect to impact (as a financial wind down implies an end to impact-generating activities), an organisation may be sound financially, but present a weak mission, an uncertainly reasoned theory of change, low levels of evidence etc., leading to an assessment of high impact risk (see [impact risk](#)). Alternatively an organisation may have an excellent impact plan, inspiring relatively low levels of impact risk, but exhibit financial weaknesses. Thus impact risk and financial risk remain separate parameters, with potential trade-offs between them.

These graphs show concept sketches for some of the kinds of trade-offs that impact investing can present. Although the relationships above are all with impact generation, trade-offs may occur between any of the parameters: for example, an investor may feel that a low level of impact risk compensates for a low financial return, or that a high financial return compensates a high financial risk. A low impact risk may compensate a high financial risk, and so on.

When dealing with impact investments across a portfolio, it may be desirable to maintain a certain balance among the investments, and ensure that, for example, a certain proportion of the portfolio is low financial risk, or meets a specified return (thus freeing up other parts of the portfolio to be higher risk or lower return). Targets or limits may apply, for example:

- financial targets: the portfolio targets a stated return (e.g. for investors in a fund). Lenders may have a standard lending rate, defining the financial return, but look for a balance of performance across the other three variables.
- impact targets: the portfolio targets certain volumes of outputs or outcomes (e.g. a certain number of beneficiaries reached, homes built, tonnes of carbon emissions saved)
- evidence targets: the portfolio is committed to investing in new approaches and proving them (high impact risk), or alternatively to investing in proven approaches (low impact risk)
- portfolio diversification: to maintain diversification, limits are set as to the proportion of investments of various levels or kinds of financial or impact risk

To be able to think about portfolio management in this way, the profile of each investment must include information regarding its levels of impact risk, impact generation, financial risk and financial return. This enables managers to take an overall position on the fund in relation to all four, and consider new potential investees in relation to the desired fund balance.

Also potentially relevant to the question of trade-offs is the anticipated development of the investment. As the organisation grows and strengthens through its use of investment capital, it may come to present a lower financial risk. Equally, while the impact risk of an investment with an untested approach may initially be high, there is a natural expectation that over the course of the term, the measurement system will start to produce results, and serve to demonstrate what the outcomes of the impact plan really are. As the evidenceable elements within the plan increasingly become evidenced, and the theory of change proved, there is a corresponding decrease in impact risk, and a shift in the balance of parameters. Conversely if the investee organisation is not able to start demonstrating impact (either because measurements are not being taken or because the plan is in fact not working), then impact risk will naturally rise. Observing this, the investor may choose to exert pressure on the organisation to rethink its strategy, and consider what changes it could make to improve its performance.

Therefore the parameters are best understood as potentially dynamic, and accordingly investors will want to continue monitoring and updating assessments beyond the initial analysis. At the point of investment decision-making, anticipated shifts in the levels of impact risk can be considered and taken into account. To help ensure these expectations are met, conditions and understandings may be built into the investment deal.

Typically investment decisions will be made by an investment committee, with the results from the impact analysis stage, and the financial due diligence that is conducted in parallel, being passed up to the committee for consideration. It is essential that all members of the investment committee are familiar with the essential concepts of impact risk and impact generation, and with the impact analysis process (much as it is expected that investment committee members understand the financial aspects of investing, and are capable readers of financial analysis). This allows the committee to integrate the four parameters into their thinking and conclusions.

Following the investment committee's decision, an investment memorandum can be drawn together, including the results of the impact analysis and financial due diligence, minutes from the committee meeting, the final assessments of impact and financial risk, and the anticipated impact generation and financial return. This can provide a useful consolidated document of the impact investment process to this point, and can be used as a reference tool in the construction of the investment deal.

## 3.2 Investment Deal-Making

The purpose of an impact investment is to generate positive benefits alongside a financial return (or return of the principal). It follows then that alongside financial constraints and attention to how the investment will be repaid, the investment deal considers also how the organisation will deliver on its proposed impact.

There are three key questions:

- What is the investee organisation expected to achieve in terms of impact — i.e. what are the set **objectives**?
- How are these expectations to be overseen, and delivery against them confirmed — i.e. what is the **oversight**?
- What happens if the impact expectations are not being met — i.e. what are the **protection measures**?

### 3.2.1 Objectives

*What are the impact objectives for the organisation and the investment, and how will these be measured?*

High-level impact aims are, almost by definition, at the heart of mission-driven organisations, and it is important that the investor and the investment itself is well-aligned to these (see alignment between the investor's mission, developed through impact investment **planning**, and the organisation's mission, detailed in the **impact plan**). However for the making and ongoing monitoring of an investment deal, it is essential also to have concrete objectives.

The objectives are typically crystallised in the form of a set of key performance indicators (KPIs). It is agreed the organisation will report on the KPIs, and appropriate targets are put in place.

The KPIs themselves naturally draw on the indicators used within the impact **measurement system** of the organisation. The KPIs should likewise accord to the same standards, and therefore seek to be specific, measurable, attainable, relevant, time-bound, standard, and stakeholder-inclusive, including in particular the perspective of target beneficiaries. Ideally KPIs gather information on outputs and outcomes. When the latter are longer-term or more difficult to follow, investor attention may focus on the outputs that can best be used as proxies for subsequent outcomes. In such cases, the need for the link between them to be strong, and the surrounding **conditions for change** properly detailed in the impact plan, is that much greater. Where it is anticipated that the organisation will develop its measurement system over the term of the investment, the initial KPIs may focus on outputs, but with defined expectations as to when outcome indicators will come into use, and start to produce results.

With an investment where the immediate aim is to secure the growth and strength of the organisation (an aspect of **investor impact**), the primary KPIs may relate less to outcomes than to business measures (for example, indicators tracking progress toward operating financial sustainability, or the achievement of defined balance sheet ratios). These quantitative measures should be supported by strong communicative feedback, and it is important that investors ask their investee organisations about their experience of the investment (what investees feel the effect has been, what has been useful, what they have found difficult, what could be helpful etc.), potentially using formal surveys. This ensures the organisation's perspective is incorporated into the investor's understanding. While communicating with the organisation, awareness of the ultimate beneficiaries must be retained. Though the main objectives may be around investor impact, with measurements focusing on demonstrating the increasing resilience of the organisation, to be meaningful in terms of social impact, investors will still need to satisfy themselves that this increased resilience is of a genuinely impact-generating organisation, and will ultimately lead to positive real change.

In the interests of compatibility — and comparability — across the portfolio, and for portfolio management, the investor may have a prepared list of KPIs that it prefers organisations to use and report against. At the same time, as noted elsewhere (see **use of indicators** in **measurement system**), it is often the

organisation itself, with its unique knowledge of its activities and beneficiaries, that is best placed to select meaningful and appropriate indicators. Investing with a prescriptive list may feel constrictive to investee organisations, and may also serve to limit the investor to activities that fit its list, rather than allowing for flexibility as to where the outcomes and impact may in fact be forthcoming.

It is often best to approach the setting of KPIs, and corresponding impact objectives for the investment, as a dialogue between the investor and the organisation. The question is: given the outcomes the investor is interested in, and the activities that the investee organisation is proposing in its impact plan, what are the best indicators that relate materially to both?

The use of standard indicator sets wherever possible greatly facilitates the selection of KPIs, as they provide both the investor and the organisation with indicators of commonly-acknowledged quality and compatibility. It also improves the potential for alignment among different investors and funders, reducing the burden on investee organisations (who can thus measure and report against the same KPIs to different sources of capital), and facilitating the sharing of results among investors.

The **outcomes matrix** makes available a bank of recommended indicators for use by investors and social purpose organisations.

### 3.2.2 Oversight

*How will performance against the set objectives be monitored? What are the reporting requirements, and how will the reporting be used?*

The setting of KPIs and targets and objectives naturally requires the organisation to report against them, and it follows that reporting requirements be integrated into the investment deal. Typically these include specifics as to when and how frequently the organisation reports on its impact, and possibly details as to the format (e.g. for software requirements) and any relevant additional information.

In tandem with setting requirements, it is important the investor ensure the organisation is capable of fulfilling its reporting obligations — i.e. that it has the processes, human resources and necessary funds in place. The investment may include a special provision to cover the costs of impact reporting, or specify additional grant funding (either packaged with the investment or to be sought from elsewhere). Alternatively the investor may regard impact measurement and reporting as an integral part of operations for a social purpose organisation (much as financial accounting is for any business that deals with money), and therefore expect related costs to be part of normal operating expenses. Either way, it should be anticipated and verified that impact measurement and reporting is an acknowledged expense within the organisation's business plan.

Reporting requirements and oversight are inevitably laid down by the investor side. However, as much as the investor expects transparency from the investee organisation, it is fitting to exhibit reciprocal transparency regarding how the reporting is going to be used. It is important the organisation does not feel that reporting demands are arbitrary or obscure, or that reports, once delivered, will disappear meaninglessly into a drawer in the investor's offices. Investor transparency on this front means that the organisation is made aware of:

- why the reported information is important to the investor
- how the investor will assess the reported information, and use it in managing the investment and the ongoing relationship
- how the investor will use the information in understanding its own impact, and for its own impact reporting

### 3.2.3 Protection Measures

*What are the ways in which the organisation may underperform or fail with respect to impact, and what measures can be built into the investment deal to enable an address to such problems?*

Protection processes commence in the event of the investment failing with respect to its impact.

Types of potential failure include:

- the organisation is failing to report on or evidence its impact
- reporting is forthcoming, but the organisation has not achieved the scale outlined in the impact plan, and results do not meet the set objectives
- reporting is forthcoming, but the results suggest the impact plan is not working (i.e. activities are not producing the anticipated outcomes and impact)
- the organisation is not carrying out the plan (either the investment capital has not been drawn down, or has been used for something else)
- the organisation has lost a form of accreditation that is deemed to be critical to its impact (e.g. organic or fairtrade status, charitable status)
- the investment is being bought out, and the organisation is discontinuing its social mission

At the point of making the investment, it is sensible for the investor to consider the various types of failure that may occur, and to ask what it would be able to do about them, and if it is necessary to build any protection measures into the investment deal.

For the investor, it can be useful to have explicit processes in place if a failure does occur. For example, if an investee organisation falls behind on submitting its reports, the situation is easier to manage for a loan officer, and clearer and more transparent for the investee organisation, if there are guidelines setting out what the next steps are (e.g. how follow-up is managed, how pressure may be applied, what penalties may be incurred). Depending on the nature of the relationship, and the type of potential failure, the investor may seek explicit contractual provisions, or something closer to an assurance of intentions, and a means to apply pressure if the investor becomes concerned. A degree of flexibility, as opposed to clauses that kick in automatically, may be useful. In the event of a failure, the first resort is naturally for the investor to ask for an explanation, and it may be that external factors beyond the organisation's control (e.g. weakness in the economy, changes in policy) have negatively effected impact performance. If so, the failure may be understandable, but the investor will still want to know what the organisation is planning to do about it, and how it will respond and, if need be, change.

Measures relating to potential failures should ensure there is clarity as to what would constitute a failure, what this would mean for the investor, and what it would mean for the investment and the organisation. Protection measures that can be built-in at the time of making the investment include:

- covenants within the investment agreement relating to reporting requirements, social targets, maintaining accreditation etc., with the investor reserving the right to call the investment or loan in the event of an "impact default"
- variable credit rates, or the application of credit penalties and credit holidays according to impact performance (i.e. high levels of reported impact are rewarded with favourable credit treatment, low levels of reported impact incur higher credit rates or other forms of financial penalty)
- the investor takes a position on the board or on an advisory board through which it is able to apply pressure on management if it becomes concerned regarding the impact being reported (or not reported), or the use of capital
- exit restrictions which stipulate a mission-aligned exit, obliging follow-on investors to continue the social mission

# 4 Monitoring and Evaluation

## Overview

### 4 Monitoring and Evaluation: Guidelines for Best Practice

#### About Monitoring and Evaluation

As much as the investor will want to track the financial performance of the organisation, they will want to monitor and evaluate the impact being generated. Monitoring and evaluation enables the investor to determine if the investment is having the intended effect, and thus proving to be an impact-effective way to use capital.

#### 4.1 Use of Capital

Ensure the capital is being used appropriately, asking:

*Has the investment been drawn down?*

*Is the use of capital properly accounted for and in line with the impact plan (and agreed use)?*

*Are other inputs forthcoming as planned?*

#### 4.2 Impact Reporting

Check the impact reporting, paying attention to:

##### Reporting Forthcoming

- *Is the reporting being delivered on time?*
- *Is it complete?*
- *Is the measurement system being used and developed as anticipated?*
- *If reporting is not forthcoming, is there a process to deal with it?*

##### Quality of Information

- *Are the indicators tracking impact effectively, and telling us what we need to know?*
- *Is the data strong — i.e. properly collected, and treated appropriately?*
- *Is the perspective of beneficiaries and others being included?*
- *Are questions relating to the context of change being addressed?*

##### Verification of Results

- *Is there any independent verification of results or processes?*
- *Do the results and information provided by the organisation leave an audit trail such that they could be verified?*

#### 4.3 Impact Delivery

Assess the impact delivery, including:

##### Evaluation of Impact Risk

- *Do the results boost confidence in the initial impact plan, and the implied theory of change?*
- *Is the impact risk clearly either falling or rising (rather than just remaining hazy)?*
- *Is there evidence to show outputs, outcomes and impact are all forthcoming, and to support the links made between these three?*

##### Evaluation of Impact Generation

- *Is the organisation meeting the set objectives, and generating the anticipated impact?*
- *Are the results being explained? Do we understand why they are as they are?*



#### 4.4 Future Outlook

Ensure the organisation is learning, improving and moving forward, asking:

- *What are the practical lessons learned from the results, and what are the changes they suggest?*
- *What are the upcoming changes in the context?*
- *What, in response, is the impact plan — and accompanying measurement system and set objectives — going into the future?*

# About Monitoring and Evaluation

The most important part of an impact investment is actually seeing the impact. For the investment to be meaningful in financial terms, the money needs to be followed up and paid back. **And as much as the investor tracks the financial side, there must be an equal monitoring of impact over the term of the investment, with success only coming when there is tangible generation of positive social and environmental change.**

The purpose of monitoring and evaluating impact is to determine if the investment is having the intended effect, and if it is thus proving to be an impact-effective use of investment capital. The process supports a factual appraisal of past and current performance, and makes this information available for future decisions.

Monitoring and evaluation takes place over the course of an investment, potentially quarterly or biannually, and is most commonly performed in tandem with oversight of the financial side. In some cases (especially when the investment term is short), it may be necessary to continue monitoring the organisation and its beneficiaries beyond the investment term to establish: if a real impact is indeed being generated; if it is sustainable; and if the organisation is continuing to work in alignment with the mission and purpose of the original investment.

The key points when following up an impact investment are:

- **use of capital**
- **impact reporting**
- **impact delivery**
- **future outlook**

## 4.1 Use of Capital

Monitoring the use of capital focuses on the operational side of the organisation's activities over the period, and seeks to establish if:

- the investment capital has been drawn down
- the use of the investment capital is in accordance with the impact plan (and the planned use of capital if different), and is properly accounted for
- other inputs have been forthcoming as planned, and are being used and accounted for

Evaluation looks to the quality of operations, and seeks to verify that the activities are well-managed, and the organisation is proving it has the capacity, in terms of skills and resources, to carry out its impact plan effectively.

## 4.2 Impact Reporting

Monitoring and evaluation of reporting looks first to ensure that the reporting is:

- forthcoming
- of high informational quality
- verified as appropriate

### 4.2.1 Reporting Forthcoming

*Is the reporting being delivered on time?*

*Is it complete?*

*Is the measurement system being used and developed as anticipated?*

*If reporting is not forthcoming, is there a process to deal with it?*

During the analysis stage, and in making the initial investment deal, the investor considered the organisation's [measurement system](#), and agreed on specific points for it to report against (typically a set of KPIs), as well as the reporting frequency. This naturally defines the frame for subsequent monitoring.

Over the course of the investment, it is important to ensure that the organisation's initial commitment to evidencing its impact is borne out in practice, and that it is devoting the appropriate human and financial resources to the task (if additional funds within the investment or grant funds have been provided for measurement, the investor may seek some assurance that this is in fact how the funds are being used). The measurement system as defined in the impact plan, and agreed with the investor, should set out the scope of the system, and define the bounds of materiality — i.e. what information needs to be included to give a fair picture of the organisation's performance. Reporting can be compared to these standards, and checked for its completeness, and whether or not it is sufficient to support reasoned conclusions about results.

If at the time of investment the organisation had comparatively little by way of impact measurement, but envisaged putting the necessary systems and processes in place, it must be able to show that these have been devised and implemented. The principle of [proportionality](#) (see [measurement system](#)) suggests that as organisations grow, mature and scale, so does the sophistication and comprehensiveness of their impact measurement and reporting. Any agreements or expectations around the organisation's development of its impact measurement should likewise be followed up.

These set three clear points to look for regarding the delivery of reporting:

- reporting is delivered on time (according to schedule)
- reporting is complete (according to the previously determined scope and bounds of materiality)
- reporting is developing as envisaged (the anticipated time and funds are being spent on measurement and reporting, and the system is developing proportionally with the organisation)

If impact reporting is not forthcoming or satisfactory on any of these points, the investor may call an "impact default" and [protection measures](#) may be brought to bear.

Beyond the direct reporting requirements of the investor, the organisation's results may be of wider interest. Sharing results can play a valuable role in contributing to industry standards, learning and best practice, as well as providing a basis for comparability. In addition to monitoring results for their own purposes, investors may look to see if their investee organisations are working to communicate results more widely.

### 4.2.2 Quality of Information

*Are the indicators tracking impact effectively, and telling us what we need to know?*

*Is the data strong — i.e. properly collected, and treated appropriately?  
Is the perspective of beneficiaries and others being included?  
Are questions relating to the context of change being addressed?*

Separate from what the results suggest in terms of performance (considered under [impact delivery](#) below), it is important to check the results for their informational quality, and to ensure they are sufficiently sound to support reasoned conclusions about the impact. It is unlikely investors will want to go too far toward auditing the results themselves (though they may wish to see independent auditing — see [verification of results](#) below). However it can be useful to think through the kinds of problems or weaknesses results may have, and consider if any apply.

Monitoring the quality of information of the results involves:

#### **reviewing indicators**

The indicators, and in particular the designated KPIs (where these are being used), are the primary source of data the investor has about the impact the organisation is generating. It is therefore crucial to review these indicators periodically, and ensure they are both fit for purpose and up to date. In particular it is important to ensure that, in application, the indicators are able to pick up both positive and negative aspects of performance, and thereby give a balanced picture.

A useful process may be to return to the standards set out in the impact plan for the **use of indicators**, (see [measurement system](#)), and see if, once in use, the indicators live up to these (i.e. indicators are specific, measurable, attainable, relevant, time-bound, standard, stakeholder-inclusive). An implicit aspect of this is monitoring developments in the field, and being aware of any shifts in the standard indicators being used.

#### **reviewing data collection**

The methods for data collection are laid out in the impact plan, and again these can be reviewed for whether or not they have been followed, and are proving effective. Data collection can be checked for:

- protection against double-counting
- the counting of drop off or failure rates
- where samples are used, sample sizes are adequate, and sample selection is transparent and appropriate (i.e. there is not a selection bias, with favourite stories being collected, told and used as data). N.B. If the role of the organisation is to make a small contribution toward a large change, rather than being the major driving factor of the change, then to make a strong case for the organisation's outputs to be related to the observed effect requires a correspondingly larger sample size.
- the treatment of data is appropriate for the consistency and strength of the data itself (e.g. numbers are aggregated only when the quantities are genuinely like-for-like; calculations are sensible and acknowledge realistic margins of error)
- where consultation processes are used, it may be appropriate to review the questions being asked (e.g. are the questions neutral? are they able to capture positive and negative information? are the answers always the same? are the answers completely different every the time?), and that the people being asked the questions really know what they think, and are in a position to give a meaningful and lasting response (i.e. one which is not based wholly on how they happen to be feeling at the moment when the consultation is conducted)

#### **reviewing for multiperspective information**

The overall quality of the results, and the extent to which they can support a confident assessment of performance, is considerably increased if they are able to incorporate more than one perspective. Data collected from different sources on different measures, and showing agreement regarding the outcomes, greatly strengthens the evidence base. Perspectives may include:

- the beneficiary perspective is the most vital, and incorporation of feedback from beneficiaries is likely to be the most important validation of the approach, and the impact

- feedback from those around beneficiaries (e.g. family members, social workers, carers, employers, other organisations) can offer a valuable perspective on beneficiary progress and behaviour
- changes in the context coming about through impacts upon beneficiaries, and captured by third party information sources, offers a valuable form of secondary data (as opposed to primary data collected directly by the organisation itself). This may include e.g. figures for local crime, the local economy, exam results

### adjusting for the context of change

The impact an organisation is generating represents a real change only in so far as this change is truly the result of its interventions, and exceeds or is additional to what would have happened anyway, what is happening elsewhere, and the role of other factors. Therefore, before results can with confidence be chalked up to the organisation, some review of the [context of change](#) is required.

Factors such as deadweight, displacement and attribution are hard to estimate, and impossible to know for sure. Randomised Control Trials (RCTs), or the monitoring of control groups, provide the best evidence, but these are costly to conduct and require specialist skills. Sometimes there are pre-existing studies to draw on, but often not. However the fundamental lesson of control experiments still stands: that a degree of change may be expected to take place irrespective of the organisation's activities, and therefore, the observed change must be adjusted for this in order to arrive at the true impact.

An organisation's address of the context of change is likely to be incomplete, but it is important that the key issues are thought-through, and that there is clarity as to what is left assumed. A plausible minimum is often to review the typical outcomes that target beneficiaries can be expected to experience without the organisation's support, and to compare this with the recorded results, and make the necessary adjustments. In addition a check should be performed for displacement, attribution and unintended consequences, which can be used to indicate whether or not further research and adjustments need to be made for these.

Organisations may not be keen to make these adjustments, especially when it involves subtracting from their recorded results. However it is an essential step if the investor is to be sure not to be exposed to a situations where all the carefully measured change has nothing to do with what they have invested in, is in no way dependent upon the investee organisation's existence, or the organisation is in fact doing more harm than good, while reporting only the good.

## 4.2.3 Verification of Results

*Is there any independent verification of results or processes?*

*Do the results and information provided by the organisation leave an audit trail such that they could be verified?*

As the investor is primarily reliant on the organisation for information about impact, and especially if there are clear expectations — and possibly incentives and penalties — around impact performance, the investor may wish to consider if there are any ways to verify the results being submitted.

The most obvious and complete form of verification is through an independent audit, which investors may expect, and possibly include among the terms of the investment. This implies a further expense however, and at present is not standard practice. Less intensive forms of accreditation of the organisation's practices may be available through industry groups or labels (e.g. fairtrade, certified organic), which are independently monitored. On a different front, the organisation may adopt an independent standard for its reporting, and while the contents of the report may remain unverified, the use of the methodology may still lend a degree of external validity to the presentation of results.

Results may also enjoy a degree of implied verification through the incorporation of multiple information streams, including secondary data gathered and published by others that corroborates the organisation's own results (see [reviewing for multiperspective information](#) under [quality of information](#) above).

While reported results may remain without independent verification, a complete and transparent presentation of results includes sufficient information to provide an audit trail. An audit trail allows readers of the results to follow how they have been arrived at, to review the processes involved, and to check any calculations that have been performed (using either the major primary data, or figures drawn from elsewhere among supporting evidence and assumptions).

## 4.3 Impact Delivery

Monitoring processes seek first to ensure: that the capital is being used appropriately; that the reporting is forthcoming; and that the results are of sufficient informational quality to support evaluation. With these three conditions met, evaluation itself can take place.

Evaluation essentially revisits the questions first asked in the initial impact analysis, and looks to see if evidence from the reality of operations bears out the theory and projections of the impact plan. Evaluation thus turns on two main points:

### **evaluation of impact risk**

Is the approach working? Are problems being solved, and impact generated?

### **evaluation of impact generation**

How much impact is being generated? Are objectives being met?

### 4.3.1 Evaluation of Impact Risk

*Do the results boost confidence in the initial impact plan, and the implied theory of change?*

*Is the impact risk clearly either falling or rising (rather than just remaining hazy)?*

*Is there evidence to show outputs, outcomes and impact are all forthcoming, and to support the links made between these three?*

At the time of investment, the impact was yet to be seen, and expectations were based on the **impact plan** — in essence a proposed theory of change, supported by a combination of research, reasoning, and prior evidence. With the investment capital now drawn down and the organisation carrying out its activities, the expectation shifts to become one of results and new evidence that serve to substantiate the theory, demonstrate the impact (in so far as is possible at this stage), and ultimately boost the investor's confidence in the plan, and thereby lower the risk.

The initial assessment of **impact risk** considers the extent to which the impact plan is explicit, reasoned, feasible, integral, evidenced, and evidenceable. It is important to revisit these points over the course of monitoring and evaluation, and update the estimation of the impact risk. As part of this, there may be “evidence targets” to review performance against — targets setting out which parts of the impact plan initially identified as evidenceable are expected to become evidenced, and when. Also, as the organisation responds to changing circumstances and its own results, there may be changes to the plan. The modified plan is then liable to being reassessed for impact risk.

An investor should expect impact risk to decrease over the term of the investment. Ultimately, if an investor exits an impact investment no more sure as to whether or not, as a means to generate social and environmental benefits, it has worked, then they are in a poor position to know whether or not to continue investing in a similar fashion. If impact risk is not falling, it should be rising — i.e. results should be showing that the approach is not proving to be an effective means to generate the desired outcomes, in which case there are lessons to be learned, and changes and improvements to be made. This need be no bad thing. Failure is a considerably better result than continuing ignorance, and a prolonged and hazy sense of maybe generating some impact, but with little sense of how, or how much of it is really the organisation's doing.

In revisiting the evaluation of impact risk, the immediate focus is on the central impact chain:



Assuming the capital has been used appropriately, and activities resourced (i.e. the “organisation to activities” link within the chain is confirmed), following each of the subsequent links, the key questions are:



- are the activities delivering the outputs?
- do the outputs give rise to the desired outcomes?
- is a contribution to the overall impact being achieved?

## Activities to Outputs

Evaluation looks to whether the results indicate there is effective service delivery, including consideration of:

- evidence of the delivery of outputs (typically output numbers)
- evidence that the outputs are reaching the right beneficiaries — i.e. those identified in the impact plan as the target group. It may be relevant to consider if the organisation can show that the beneficiary group is: aware of the organisation; able to access the activities (with respect to affordability, transport, etc.); and further, that the beneficiaries the organisation is reaching are diverse, representative, and include those who are hardest to reach (see [vulnerability of beneficiaries](#)).
- evidence that the activities are the right activities — i.e. they are an effective way to deliver the outputs to the target beneficiaries (as suggested by e.g. beneficiary uptake and utilisation of the services, low drop off rates).

## Outputs to Outcomes

Evaluation of outcomes looks to the organisation's ability to demonstrate both the presence of outcomes, and the relationship with outputs:

- outcomes are often most effectively demonstrated by feedback from beneficiaries, confirming that beneficiaries' experience is in line with their own and the organisation's expectations. While including the beneficiary perspective can be a powerful aspect, according to the outcomes involved, other sources can also be valuable (e.g. feedback from others working with beneficiaries, indicators following changes in the context as a result of beneficiary outcomes). When long-term outcomes are involved, attention moves to signs that show progress is being made within the agreed reporting, monitoring and evaluation period. Organisations' measurements may be limited more to outputs, in which case, the link to outcomes need be that much stronger, and accordingly be reviewed closely.
- considering the relationship between outputs and outcomes requires returning to the [conditions for change](#), and the assumptions involved. A review encompasses the other factors initially identified as being needed for the outcomes to take place — i.e. the assumptions regarding the context — and asks if these have been stable and forthcoming. There are also the assumptions around how beneficiaries are expected to respond to the outputs, and thereby change. This implies the question of whether or not, in practice, these assumptions are proving to be correct (i.e. are the beneficiaries responding as anticipated?). If the organisation is not itself proving the link between outputs and outcomes, then attention may turn to any further evidence from elsewhere that has been brought out in support of it.

## Outcomes to Impact

Impact, properly understood, is the sum of the organisation's outcomes adjusted for the context of change — i.e. the change that would have occurred anyway (deadweight), as well as any displacement effects, issues of attribution, drop off, and unintended consequences (see [context of change](#)). The extent to which the organisation has addressed these is considered in the [adjusting for the context of change](#) section of [4.2.2 Quality of Information](#). The implications for a re-evaluation of impact risk are to consider the extent to which new information about the context of change serves to boost confidence that the organisation's activities are ultimately leading to a significant positive impact. The key questions are:

- Do you have a good sense of what the context of change implications are for the organisation's impact?
- If yes, does the assessment of the context of change suggest that the organisation's outcomes do produce a significant impact, thereby lowering impact risk?

- If no, given the uncertainty, is there a risk that aspects of the context of change would significantly diminish the organisation's impact if appropriate adjustments were made (e.g. if the most of the recorded outcomes would quite possibly have happened anyway), thereby increasing impact risk?

The relationship between the organisation's outcomes and the understanding of its impact, and the extent to which adjustments have to be made, will have been considered in the initial assessment of impact risk. In revisiting this at the monitoring and evaluation stage, the focus is on whether or not, over the course of its operations, the organisation has been able to produce further data or evidence on this front.

As more information about the impact becomes apparent, it is appropriate to return to the original problem, and ask if the intervention is proving useful and effective. This involves reviewing the context and the mission to ensure they both still relate meaningfully to each other, and considering any other developments that have taken place, to ensure this approach is still the right thing to be doing. The high level aim is to be able to witness a change taking place in the context in line with the original mission.

Equally, and again as the impact is increasingly established in practice, it is important to ensure that the changes the organisation is achieving are sustainable and sustaining — i.e. that changes last beyond the immediate intervention, and the initial measurement, and are upheld and truly absorbed into beneficiaries' lives. If the intervention is relatively short (relative to the desired change), it may be necessary to track beneficiaries beyond the period of direct contact with the organisation to ensure there hasn't been a swift regression. Tracking adds an additional task and cost, and to manage this, organisations may track a sample of beneficiaries. Appropriate periods for validating the sustainability of the impact vary, but a typical figure is two years.

### 4.3.2 Evaluation of Impact Generation

*Is the organisation meeting the set objectives, and generating the anticipated impact?  
Are the results being explained? Do we understand why they are as they are?*

The evaluation of impact generation turns to the results themselves to assess performance. The obvious reference point is the impact identified in the initial investment analysis (on the basis of which the investment was made), and the specific **objectives** that were set. This will involve reviewing the three major aspects of the impact (though to varying degrees depending on what kinds of impact the investment set out to achieve, and what indicators are being used):

**direct impact** on beneficiaries, using data on outputs, and relating to outcomes

**wider impact**, for example on the community, on public cost, on other organisations and the sector at large, and on the government

**investor impact**, for example on the organisation's growth and strength, its financial and impact management, and its access to capital. In evaluating the investor impact, it is relevant in particular to consider if the initial investment is proving sufficient, and the organisation has the capital it needs to carry out its impact plan effectively. If an anticipated part of the investor impact was to leverage in more capital, or to make the organisation more creditworthy, again these are obvious points to follow up in the monitoring and evaluation. In addition to business-orientated KPIs, the organisation's perspective is important in relation to investor impact, and investors need to ensure there are clear feedback channels from investee organisations regarding their experience of the investment (what they feel the effect has been, what has been useful, what they have found difficult, what could be helpful etc.), potentially using formal surveys.

The initial objectives set a useful benchmark with which to compare results, and evaluate the organisation's performance. Comparisons with further reference points can, where possible, strengthen the evaluation, including comparisons with: performance in previous years; with other organisations working in comparable fields (and possibly within the investor's portfolio); and with sector-wide benchmarks and standards. The use of standard indicators greatly facilitates this process, and thereby enhances both the investor's and the organisation's understanding of success.

It is important the evaluation of results is not merely a target-meeting exercise. Changes in the context, and

things learned over the course of implementing the approach, may make the initial targets less realistic or appropriate, and these may therefore prove to be bad anchors off which to make judgements (indeed a significant advantage of having a wider field of comparisons is precisely to have more than one anchor point). In view of this, potentially as important as the results themselves is the explanation of the results. Evaluation looks to why the results are as they are, and to answer the narrative questions implied by comparisons with targets and objectives, with benchmarks, and with the results of other organisations.

A useful exercise in this regard can be to draw out explicitly, at regular reviewing intervals (e.g. biannually or annually), not only the results, but also the findings — i.e.:

- what do the results say about performance?
- what are the conclusions, and the lessons that can be learned?

## 4.4 Future Outlook

*What are the practical lessons learned from the results, and what are the changes they suggest?*

*What are the upcoming changes in the context?*

*What, in response, is the impact plan — and accompanying measurement system and set objectives — going into the future?*

An impact plan and a theory of change are best understood as a living dynamic set of ideas. The purpose of impact measurement is to be able to understand with confidence how these ideas perform in practice, and consequently, to be able to use real information in making a plan for the future. This implies responsiveness and flexibility, and that both the organisation and the investor are able to learn, change and improve throughout the monitoring and evaluation process, and over the term of the investment.

At the high level, the future outlook aspect of monitoring and evaluation is to ask if things are generally moving in the right direction, and if the mission is still relevant, and the approach valid to pursue. This is mostly dealt with in the evaluation of impact risk, though looking forward, the frame needs to expand to include any upcoming changes in the context, and the risks and opportunities they may present. These typically relate to:

- changes in policy or funding
- social or environmental change — in particular, changes relating to beneficiaries or habitats and their changing needs
- new developments in the sector — e.g. new findings or approaches from other organisations, new research, new technologies

The challenge is then to integrate the assessment of these risks and opportunities with the findings from the results, and to produce a specific response.

An investor will look to see that the organisation is able to demonstrate it is fulfilling the **learning, improving and moving forward** aspect of the impact plan — ensuring that knowledge of results and changes in the context are feeding into planning, and that any changes being made to activities and working processes in response are clearly stated, and justified. Responsiveness applies also to the measurement system, which must likewise change with changes in activities (and the different data that may need to be collected), as well as to the question of whether or not it has been effective in producing the necessary evidence (i.e. are the results of the measurement system meeting the required **quality of information**, and if not, how can the system be improved?)

The findings, changes and future outlook set the bounds for defining new objectives for the upcoming reporting period, and for the next round of monitoring and evaluation.

# 5 Reporting

## Overview

### 5 Reporting: Guidelines for Best Practice

#### About Impact Investor Reporting

Apply to yourself as an investor the same standards of transparency and accountability that you expect of your investee organisations. This implies:

- asking yourself the same questions as those asked of investees in [monitoring and evaluation](#)
- responding with regular transparent high quality reporting

#### 5.1 Impact Investor Reporting

Prepare the impact report in accordance with the principles of:

**Clarity:** including a clear account of the portfolio make-up and the role of the different investments

**Accessibility:** including easy web-access to the report in readily comprehensible formats

**Transparency:** including a true picture of results and a robust and honest use of data

**Accountability:** including accountability to investee organisations, other investors, and relevant further stakeholders

**Verifiability:** including assurance of the informational quality of the results

**Proportionality:** including a proportional treatment of the organisations and investments within the portfolio

# About Impact Investor Reporting

In as much monitoring and evaluation holds investee organisations to account, it is fitting for impact investors themselves to be transparent and accountable. Impact funds will have their own investors to report to, but for funds and independent investors alike, reporting and accountability extends also to their investees, their stakeholders more generally, and to the sector and the public at large.

Holding investors to the same standards as their investees implies asking them the same questions — in particular, those involved in **monitoring and evaluation** (see above). In preparing their impact reports, investors may wish to work through the monitoring and evaluation section self-reflexively, paying similar attention to:

- the investor's use of capital
- the quality of information that the investor is able to provide
- the impact risk that the investor's portfolio is exposed to (how sure can you be that you are effecting real change?)
- the impact generation that the investor's investments have facilitated (as demonstrated by the results of your investee organisations)
- the future outlook for the investor

As the investors' impact results are necessarily based on those reported to them by their investees, investor accountability only underlines the need for effective monitoring and evaluation, and of the importance of the chain of information leading all the way down to the beneficiary, and the tangible benefits they experience.

## 5.1 Reporting

Much guidance exists on creating impact reports, and investors will want to draw on this, as well as referring to their own particular needs, in finding the format right for them. Irrespective of particulars however, the high level principles of impact reporting are widely applicable: clarity, accessibility, transparency, accountability, verifiability, proportionality. Points of special potential relevance to investors include:

### **clarity**

For funds or investors with portfolios, it is important reporting sets out clearly the make-up of the portfolio, and its distribution among different activities and areas of focus. These relate to the investor's method for portfolio classification.

Equally important is the role of the investment in the capital make-up of investee organisations. This relates back to the question of **investor impact** — i.e. the effect the investor is having upon the organisation and its ability to generate impact. In their reporting, investors must be clear in setting out the role, scale, and significance of their investments to investee organisations. In a similar way, there must be clarity regarding the use and attribution of results, or “claiming” of impact. When on-reporting the impact results of investees, investors must be clear in their own reports as to how these results are being treated, and how and to what extent they relate back to the investment itself.

In detailing specific investments (e.g. in case studies), the relationship between the investment, the aims of the investment, the organisation and the organisation's aims, and the plans, activities and results, must all be made clear.

### **accessibility**

The report is useful only in so far as the report itself, and its contents, are readily accessible. Typically this suggests making the report easy to find and download from the investor's website, and presenting it in a way that will be widely comprehensible. If long, the report must include representative summaries, such that the important information is not buried in hard-to-read appendices. Investors whose stakeholders include people with special needs may need to make their reports accessible in an appropriate range of formats.

### **transparency**

Transparency covers the balanced and honest use of information, and the point of reporting negative as well as positive results. Given the non-quantitative nature of many of the aspects of social impact, it is especially important when dealing with numbers to be transparent about how they are being used, and on what basis calculations are being made.

Where results are being aggregated, it is essential to include a transparent account of what is being aggregated, and to ensure that only meaningfully like-for-like numbers are being added. Where aggregation is not feasible or meaningful (as is most often the case), a true description of separate quantities is more useful than a fisted sum. Aggregation must also guard against double-counting of beneficiaries, outcomes and impact. This may be of particular relevance to funds with multiple investments in similar areas, or with investments in multiple intermediaries that have co-invested in the same organisations.

### **accountability**

Reports of impact funds are naturally distributed to their investors, but accountability to investee organisations is equally important. Investor reports can help organisations understand the approach and needs of their investors better, and to feel there is transparency in both directions. This also acts as a natural check that organisations whose results are used in the report can agree with its contents.

Accountability may extend also to other investors and the sector at large. Communication among investors can play an important role in developing standards and benchmarks, improving evaluation processes for investors, as well as making reporting easier for investees. Where government or public sector bodies are involved, accountability in this direction can play an important role in shaping future policy.

**verifiability**

Impact results within an investor report are likely to be based on the results of investee organisations, and so the primary layer of verification rests with the **quality of information** aspects of monitoring and evaluation. Where there is independent auditing or substantiation of results, this level of verification can pass up to the investor; elsewhere the investor's processes must provide assurance that the results are valid and representative.

Investor reports may themselves be audited where appropriate, and make efforts to include information from independent sources that supports findings. As with investee reports, it is important to provide sufficient information within the report to leave an audit trail for readers to be able to review the processes involved, and to check any calculations.

**proportionality**

Proportionality puts forward the principle that the level and detail of reporting reflects the size and complexity of the organisation. This applies equally to investors and their treatment of investee organisations — in terms of the reporting they expect from investees, but also in the use and representation of investee results in their own reporting. For funds, it is important to ensure the report is dominated neither by a single large organisation with very detailed results, nor by favourite case studies of a few smaller organisations. Instead it is appropriate to give proportionate attention across the portfolio according to the size of organisations in themselves, and to the proportion of the portfolio that the investments in them represent.



# Impact Plan

## Overview

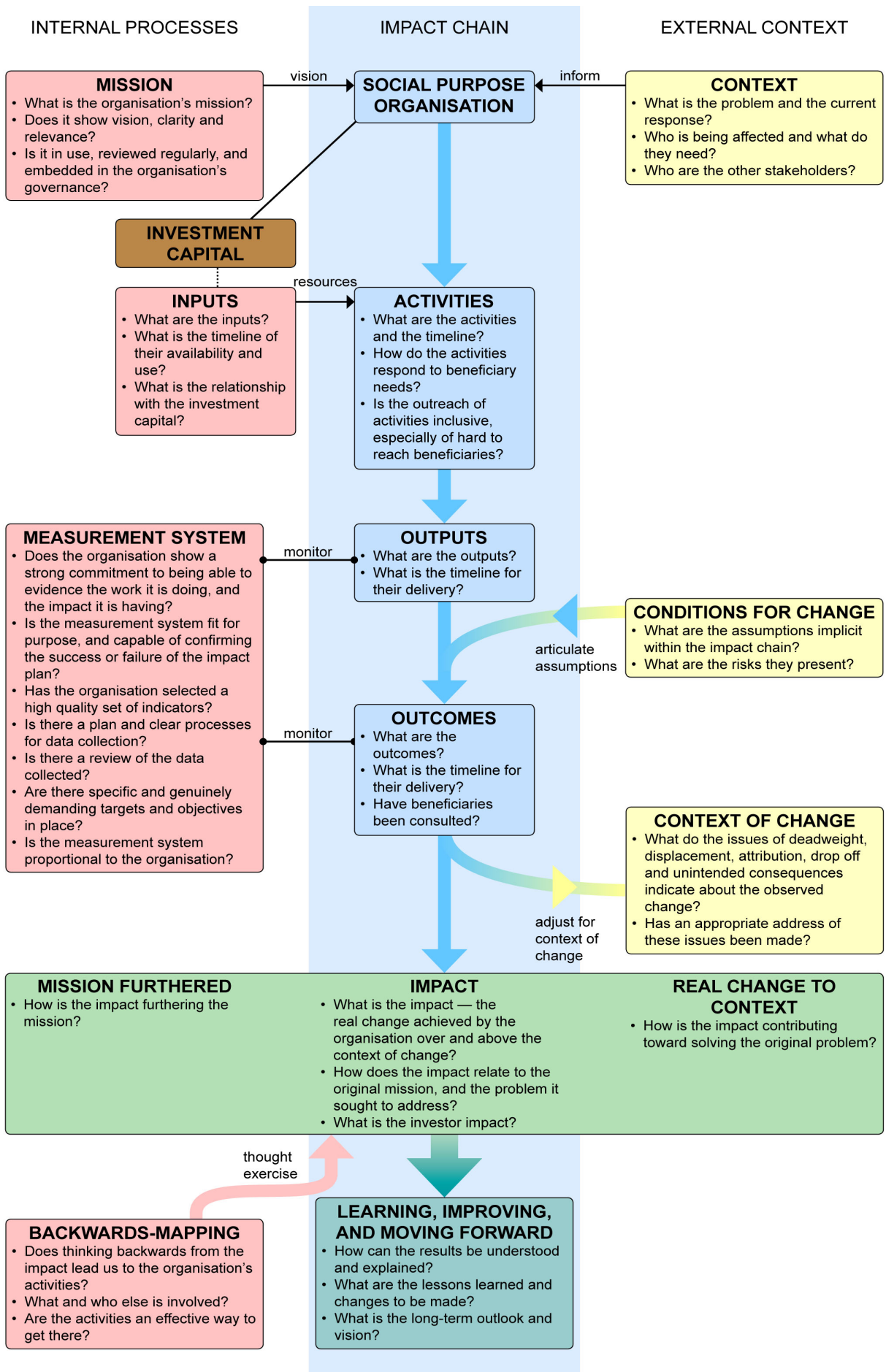
The impact plan sets out what the social purpose organisation is about, what it is doing, and what it is hoping to achieve.

The central line running through the impact plan is the impact chain, connecting the organisation, via its activities, to its outputs, outcomes and impact. Running in parallel on either side are the organisation's internal processes, and the external context in which operations are being carried out. Change can only take place through dynamic interaction with this context, and so it is an essential part of the understanding of the impact.

As with the business plan, the investor will want to inspect the impact plan in some detail. This involves working through the various components of the plan (the boxes on the diagram) with the organisation, and ensuring there is appropriate and satisfactory information regarding the key points presented by each one. This process forms the basis for assessments of [impact risk](#) and [impact generation](#), and informs the [monitoring and evaluation](#).

An investee organisation may not have a fully conceived, developed and complete impact plan ready to present to an investor upon request, and an important part of getting to know an organisation can be to go through the impact plan together, and work on those areas in need of greater definition. This can be of significant value not only to the investor, but also to the organisation. The essential impact plan structure is widely used throughout the social purpose sector, making it a highly compatible tool for use by the organisation in communicating its impact to funders, other investors, and when bidding for contracts. It also represents recognised best practice for the organisation's own internal clarity, and for carrying out effective impact-driven management.

For investors, it can be useful to think through the impact plan self-reflexively, and compare it with their own mission, activities, and the ultimate impact they are generating.



## Mission

*What is the organisation's mission?*

*Does it show vision, clarity and relevance?*

*Is it in use, reviewed regularly, and embedded in the organisation's governance?*

The mission statement defines the organisation's core aims, and what it hopes to change and achieve. A good mission statement demonstrates vision, clarity and relevance, as well as being tangibly in use and subject to review. There may be also measures in place to protect the organisation from mission drift.

A review of the mission looks for:

### **vision**

The mission statement encapsulates the organisation's vision. It is not simply a summary of its activities, nor (in the case of a charity) its legal objects. Instead it looks to the difference the organisation seeks to make, and the purpose of its activities (beyond making a profit in the case of a for-profit company).

### **clarity**

The mission clearly establishes the organisation's area of focus, the people it seeks to help, and its approach to the problem. It is explicit and specific, giving concrete direction to the organisation as to what it does and does not do.

### **relevance**

The mission is valid and meaningful in relation to the problem, and to the activities, outputs and outcomes the organisation pursues.

### **in use**

Staff, volunteers, and trustees are aware of the mission and are guided by it. It runs throughout the impact plan and gives direction to medium and long-term strategy. The mission is articulated to funders, investors and the public.

### **reviewed regularly**

The mission statement is reviewed regularly (e.g. annually) to ensure it remains relevant and representative as the organisation develops. (If the mission statement is fixed, e.g. in the organisation's constitution, it may be less open to review, though its meaning and application will continue to be.)

### **protection from mission drift**

The mission and its primacy is embedded within the organisation — for example within its governance structures or governing documents. This may be particularly relevant for organisations formed as for-profit companies, and with a potential tension between revenue maximisation and the generation of social benefit.

## Context

*What is the problem and the current response?*

*Who is being affected and what do they need?*

*Who are the other stakeholders?*

For the organisation to be effective, it must demonstrate an understanding of the problem, and of the people concerned.

A review of the organisation's understanding of its context looks for:

**identifying the problem**

The organisation identifies the essential problem it seeks to address, and the specific aspects of the problem it focuses on, and hopes to change

**researching the context and causes**

The organisation is aware of the scale of the problem, its consequences, and potentially its costs. It looks to understand the root causes of the problem, and the ways in which these may be interdependent. If there are multiple problems and causes, there is a sense of priority. The organisation situates its own work within this context, including its scope (scale, area covered), and the magnitude of the impact sought.

**response from government and other organisations**

The organisation is aware of the government response to the problem, including relevant policy, regulations, initiatives, interventions etc.. The organisation's activities acknowledge and, where appropriate, engage with local authorities and government. The organisation is also informed of other organisations working with the same problem or similar problems elsewhere, or with the same beneficiaries, with a view to communicating and sharing information, approaches, techniques and results. Where appropriate, partnerships and collaboration are considered, and areas of competition are identified. The organisation can say how its approach is different from that of others, or, if it is scaling up an existing approach, how it is building on proven success.

**broader trends**

The organisation is aware of developments within the sector and in relation to the problem, including the possible influence of new technologies and shifts in public interest, demand, funding, and government policy. These inform the organisation's assessment of upcoming risks and opportunities.

**identifying beneficiaries**

The organisation identifies and defines its primary beneficiaries (e.g. by a particular local area; people with particular needs; a conservation area, species or the global climate; other social purpose organisations or industries), and the number of potential beneficiaries within the scope of its activities. This sets out the target population of beneficiaries, and can be used as a future reference point for assessments of scale.

**researching and assessing the needs of beneficiaries**

Beneficiary needs are identified, understood, and influence the organisation's response. A needs assessment may be appropriate (e.g. through surveys, questionnaires, discussions with beneficiary groups), highlighting priority needs, as well as giving voice to the aims and expectations of beneficiaries. In combination, these form a baseline for measuring progress. The appraisal of needs is kept up to date, picking up changes in needs as they occur.

**understanding the context of beneficiaries**

In addition to beneficiary needs, the contexts of beneficiaries are understood, with particular attention paid to conditions or circumstances that may influence how services affect beneficiaries, as well as any other services and service providers beneficiaries may be accessing.

**identifying other stakeholders**

Stakeholders beyond the primary beneficiaries — i.e. all those who are materially affected by the organisation and its activities (including e.g. staff, the local community, suppliers, shareholders) — are identified and considered for the impact the organisation has upon them (e.g. wider positive impacts and unintended or negative consequences).

## Inputs

*What are the inputs?*

*What is the timeline of their availability and use?*

*What is the relationship with the investment capital?*

Inputs cover what resources the organisation anticipates drawing on in carrying out its activities. These include financial resources (investment, funding, revenues), human resources (the organisation's staff and their mix of skills), time, material assets, equipment, technology, space, pro bono services, and inputs from beneficiaries.

The timeline for inputs must be made apparent, indicating when inputs will become available and be used, which inputs are yet to be secured, and where there are inputs not being used. The timeline also matches the inputs to the activities

For an investor, it is important to review specifically the proposed use of the investment capital, and how this relates to the organisation's impact plan. Investment may be used directly for capitalising activities, or may play a facilitating or capacity building role in relation to other aspects of the organisation's operations, finances or financial planning. In either case, the impact plan makes clear how the investment supports the organisation and its generation of impact.

## Activities

*What are the activities and the timeline?*

*How do the activities respond to beneficiary needs?*

*Is the outreach of activities inclusive, especially of hard to reach beneficiaries?*

The organisation's activities are the actual things it does in the day to day running of its operations — typically the preparation and delivery of its products and services.

A review of activities looks for:

### **activities and timeline are defined**

The impact plan defines:

- what the activities and products or services are
- the scale of operations: how much, how many, over what area
- who will be reached: the number and type of beneficiary
- the timeline, setting out when the activities and the delivery of products or services (including any relevant stages along the way) will take place
- the operational processes that the organisation has in place and uses for carrying out its activities
- any partnerships, collaborations or key relationships involved in the delivery of the products or services

### **activities respond to beneficiaries**

The impact plan shows how activities respond to the beneficiary needs identified in the organisation's research of the **context**. Beneficiary engagement and involvement in activities, and potentially how they are planned and delivered, can provide a powerful indication that the activities incorporate the beneficiary perspective.

### **activities are inclusive**

The impact plan demonstrates that activities will be inclusive with regard to:

- **awareness:** beneficiaries are aware of the organisation and the support it provides
- **access:** products and services are available to all beneficiaries without barriers such as affordability (products or services are affordable and do not rely on ownership of expensive equipment), comprehensibility (e.g. language barriers, complexity, difficulty of forms to be filled out etc.), transport (access by public transport and disabled access requirements), distribution (products or services are not restricted by distribution through specialised networks or groups)
- **outreach:** beneficiaries accessing the services will be appropriately representative of the

target beneficiary group (with regard to issues such as gender and ethnicity), as well as ensuring **outreach covers the most excluded and hardest to reach beneficiaries**

## Outputs

*What are the outputs?*

*What is the timeline for their delivery?*

Outputs are the direct results of the organisation's activities. The impact plan must define what the organisation's outputs will be, and the units by which they will be measured.

The impact plan defines when and in what quantities these outputs will be delivered, typically expressed in terms of numbers of products produced or services delivered.

## Outcomes

*What are the outcomes?*

*What is the timeline for their delivery?*

*Have beneficiaries been consulted?*

Outcomes are the changes beneficiaries experience in their lives following on from the outputs of the organisation's activities.

A review of outcomes looks for:

### **outcomes and timeline are defined**

The impact plan defines what the outcomes are, setting out the changes that are expected to come about in beneficiaries' lives. The organisation is able to relate these outcomes to its **mission**, as well as to the **context** of its beneficiaries. The outcomes timeline is made clear, establishing when or over what period the outcomes are expected to take place (this corresponds to the **measurement system**). A number of the outcomes may be significantly long-term. In such cases, it is helpful to identify intermediate outcomes that can demonstrate how progress toward the long-term goal is being achieved. The timeline also indicates how long the outcomes are expected to last and the change remain observable. This sets the parameters by which drop off is understood (where the outcome is not sustained, e.g. through beneficiary relapse).

### **support from beneficiary consultation**

As the outcomes represent changes to beneficiaries' lives, it is important to ensure that these changes are indeed experienced and valued by beneficiaries. Consultation can serve to affirm that the outcomes are real and desired, and relate meaningfully to the needs, aims and expectations of beneficiaries identified in the organisation's research of the **context**. Beneficiaries may be further integrated into the understanding of outcomes through contributing to the definition of what the outcomes are, and what the goals should be.

## Measurements System

## About Measurement Systems

However thorough an investor's initial impact analysis, the ongoing monitoring of the investment and oversight of the actual impact achieved will rely upon data collected and reported by the investee organisation. The measurement system the organisation uses therefore is crucial, as it will largely define what the investor will subsequently be able to know and report about the impact.

While a multitude of impact measurement and reporting systems currently exist, there is no universal standard. And while an increasing number of common tools are available for different sectors or outcome areas to draw upon, innovation among social purpose organisations is likely to make rigid definitions about what impact is, and how it must be measured, constrictive and misplaced. The organisations themselves, with their unique understanding of their own mission, and the beneficiaries they work with, are often in the best position to identify and select the things that are most important for being able to track and evidence their own impact. And as the systems' primary users are the organisations, it is essential they feel their systems are able to produce results that are valuable and instructive to them.

Most investors prefer not to take a prescriptive approach to the measurement systems used by their investees, and rather let the organisations set out what they propose to measure and how, and how subsequently to report upon these things. However for the investor to ensure that the system in use will provide meaningful and reliable information, and information that can be used to support their own impact investment strategies, reviewing the measurement system is an essential part of working-through the organisation's impact plan. Often this may involve collaborative development of the system with the organisation, both to strengthen it in itself, and to find ways for it to key into the investor's own framework for measuring impact across their investment portfolio.

Although any individual measurement system may be unique to an organisation in its detail, certain principles and structures are consistently indicative of quality, and can be referred to for reviewing purposes.

A review of the organisation's measurement system looks for:

- commitment to evidence
- use of indicators
- data collection methods
- targets and objectives
- proportionality

## Commitment to Evidence

*Does the organisation show a strong commitment to being able to evidence the work it is doing, and the impact it is having?*

*Is the measurement system fit for purpose, and capable of confirming the success or failure of the impact plan?*

The first consideration is if the organisation is committed to finding out if its approach to impact generation is actually working, and to being able to evidence this. The maxim that can be applied is that if an organisation wishes to claim an impact, it has to prove it. To be able to do so, the organisation's measurement system must be fit for purpose, and capable of producing results that will confirm the success or failure of the impact plan. This implies not only taking measurements of individual elements within the plan (outputs, outcomes), but also testing the validity of the links between these elements. A complete measurement system will provide evidence both of the impact being achieved, and of the connections within the impact chain, thus proving the essential theory of change.

A review looks for:

### **evidence is defined**

For the evidence collected to prove the initial theory, it is necessary to specify in advance what the anticipated results look like (i.e. "if the plan is working, we expect the measurements to show x")

### **scope or materiality is defined**

The measurement system will most likely not capture everything, and so it is important to set out the

scope of the system, specifying what aspects of the impact are and are not covered, and providing adequate reasons for omissions (e.g. issues judged to be of low relevance, the existence of barriers to measurement). The scope is set in relation to the **conditions for change** and the **context of change**, and is designed to take account of those factors beyond the organisation's operations that play a role in the observed outcomes. Factors that are deemed material to the changes taking place — and therefore needing to be accounted for in a calculation of the impact — are said to be within the bounds of materiality.

#### **timeline is defined**

The measurement system anticipates when the various outputs and outcomes will be observable (and corresponds with their timelines). Where the anticipated outcomes are expected to occur after the intervention has finished (and possibly beyond the term of the investment), in accordance with the maxim that to claim it, you have to prove it, it is necessary for the measurement system to continue tracking beneficiaries (or a representative sample of beneficiaries) after the intervention or investment has finished.

#### **reporting is defined**

Beyond the gathering of evidence, the evidence must be made available through regular, transparent reporting, including verifiable results, and auditing where appropriate.

## **Use of Indicators**

*Has the organisation selected a high quality set of indicators?*

Indicators are the linchpin of any measurement system. They are the specific variables that are tracked to demonstrate the delivery of outputs and the positive change that follows.

An effective impact measurement system will incorporate a number of indicators, or an "indicator set", which taken as a whole tracks information about both outputs and outcomes, and includes both quantitative and qualitative data. The precise indicator set used by any organisation will depend upon its mission and focus, as well as its scale and resourcing capacity. As with the choice of the measurement system itself, often the organisation is best placed to select its own indicators, rather than being dealt a prescriptive list by an investor. However investors have an important role in reviewing the proposed indicator set, and working with the organisation to ensure its quality.

The concept of SMART indicators (Specific, Measurable, Attainable, Relevant, Time-bound) is often borrowed from business, and can be helpful. The components of the SMART acronym can be given a little extra definition in relation to impact, and the qualities of Standard and Stakeholder-Inclusive can be added, to yield SMARTSSI.

A review looks for indicators that are:

#### **specific**

The indicators are specific as to what is being measured, and how it is measured, such that repeat measurements are made of the same thing in the same way

#### **measurable**

The indicators track values that are meaningfully measurable. To produce useful data, indicators must be:

- **responsive** to change, and so do not always produce the same result
- **consistent** i.e. the measurement is taken in a consistent fashion and there is consistency as to what the measurement means, thus forming the basis for comparison from one set of measurements to the next
- **relative**, such that results relate to a scale which can distinguish higher and lower

#### **attainable**

The indicators set goals that are ambitious but attainable. Equally, the process of taking measurements using the indicators is practical and attainable. It is crucial that indicators are reasonably simple, quick and cheap to use, and therefore suitable for taking regular measurements (at least once a year).



**relevant**

The indicators address the things that are most important to the organisation (in terms of its mission and goals) and to beneficiaries (as expressed through consultation — see [outcomes](#), and understanding beneficiary needs in [context](#)): i.e. they serve to demonstrate the outcomes and impacts that really matter.

**time-bound**

Indicator measurements relate to the reporting period (providing readings at least from one year to the next), and serve to demonstrate change that has taken place over that time. Organisations working with long-term outcomes, and not able to provide results on these within a reporting year, may look to intermediate outcomes that can be used to show progress (while maintaining planned measures to monitor the long-term outcomes). For organisations working with shorter-term outcomes, it may still be appropriate to track beneficiaries over a longer period to ensure outcomes are having a sustained impact.

**standard**

Indicators within specific fields or outcome areas align to established standards, and wherever possible, common indicators are used, and in a way that supports comparison. Standard indicators offer the benefits of being available, up-to-date and of assured quality, as well as compatibility and the potential for benchmarking. The [outcomes matrix](#) provides a useful resource for standard indicators.

**stakeholder-inclusive**

The indicator set as a whole will provide more convincing evidence if it incorporates the perspective of stakeholders. Foremost is the beneficiary perspective, typically represented through surveys or beneficiary feedback. If surveys are used, basic principles of good data collection must apply (neutral questioning, representative samples etc.). Feedback from those around beneficiaries (e.g. family members, social workers, carers, employers of beneficiaries) may also be valuable, including reported or observed changes in attitude, feelings or behaviour of beneficiaries.

**Data Collection**

*Is there a plan and clear processes for data collection?*

*Is there a review of the data collected?*

A measurement system implies not only the selection of a set of indicators, but also processes for the actual taking of measurements. The reliability, simplicity and cost of data collection is significantly improved by planning and embedding processes.

**planned data collection**

The measurement system sets out a plan that anticipates ongoing data collection, and specifies both the processes for taking measurements, and when measurements will be taken. Ad hoc or post hoc collection of data is invariably less consistent and more difficult to do. People's memories (including beneficiaries' own memories) of how beneficiaries were progressing at various stages over a reporting period are conspicuously prone to error, and far more reliable are reports and measurements taken at the time, and according to a planned schedule. An appropriate minimum requirement is often that measurements are made both before and after an intervention (ensuring that what is being measured is the change between the two).

**embedded processes**

The processes for data collection are embedded into operating processes, and form an essential part of how activities are run. Staff are aware of and follow processes, as well as being aware of how results feed into the greater measurement system, and of the organisation's overall commitment to evidence.

It is important to review the data periodically as it is being collected for any identifiable errors, or consistent differences in the quality of data collection (e.g. among different beneficiaries or by different operators). The review must also encompass the data collection processes to ensure these are operating well, and not producing biases in the results. In particular, attention should be paid to the beneficiary sample, asking if it is representative of the population as a whole (e.g. is data being collected only from the most engaged beneficiaries?), and if not, how might it differ for a different sample of beneficiaries?

## Targets and Objectives

*Are there specific and genuinely demanding targets and objectives in place?*

Targets and objectives relate to measurements taken using the selected indicators. Their role is to provide clear markers by which to assess subsequent results, and to help determine if the organisation has carried out its plan as intended, and if that plan has been successful.

A review of targets and objectives looks for:

- **timeline:** the targets and objectives sit on the timeline with the outputs and outcomes, making it apparent when it is expected these will be reached
- **defined success:** the targets and objectives set explicit goals (e.g. how many, how much, who for, how good, what is the aimed-for quality), linking back to the mission and beneficiary needs and expectations
- **genuinely demanding:** the targets and objectives set an ambitious level for the organisation to aim for

## Proportionality

*Is the measurement system proportional to the organisation?*

The above sections cover the various aspects of impact measurement systems, and the points they pose for review, in some detail. However when working through an organisation's measurement system, it is important to retain a sense of proportionality — in relation to the organisation's size and stage of development, and to the relative maturity, with respect to measurement, of the sector or outcome area in which it is active. A primary point for a measurement system is that it is *useful* to the organisation — for understanding, monitoring and responding to its impact — and is not crippling it.

Generally, smaller organisations, with less by way of resources to devote to impact measurement, will have less sophisticated measurement systems, and potentially less coverage of every point. Younger organisations will naturally have less by way of track record and, if pursuing a new approach, less research to draw on when assembling their measurement systems. Conversely, while larger, more mature organisations may have more capacity for producing attractive-looking reports, they are potentially faced with a more complicated task when reporting across multiple activities and operations than a smaller organisation with a single tangible project that it runs directly.

The review of an organisation's measurement system must therefore be sensitive to the characteristics of organisation itself, comparing it to a sense of what would be proportional and appropriate (for this, the investor may look to other organisations of similar size, stage of development and sector or outcome area).

In working collaboratively through the impact plan and measurement system, the investor and the organisation may identify a number of ways to strengthen the system, and select some points for immediate implementation, and some for gradual introduction. As the organisation draws down the investment capital and scales, and gains in experience, it may be expected to build up its measurement system proportionally.

## Conditions for Change

*What are the assumptions implicit within the impact chain?*

*What are the risks they present?*

As explored in the research into the **context**, the organisation's activities, and the impact that follows, take place within a complex set of relationships and circumstances outside of the organisation's direct control. The intervention may touch one part or aspect of a beneficiary's life, but for the impact chain to work, and for the links between activities, outputs, and outcomes all to hold, it will inevitably rely upon certain conditions for

change: things that need to be in place for the change to occur, and things that contribute to the change alongside or outside of whatever the organisation is doing. These things are implicitly assumed within the impact chain, but must be made explicit within the greater impact plan. They are often referred to as **assumptions**.

A review of the assumptions looks at:

#### **identification of assumptions**

Assumptions are the other factors that go into the progression from outputs to outcomes, and need to be included to give a genuine picture of how change happens in the lives and environments of beneficiaries. For each proposed outcome, it is useful to ask what else needs to be true for that outcome to happen. Other factors may include conditions that were pre-existing, or triggers for change that get activated as part of the process.

Assumptions may relate to:

- **the surrounding context:** the outcome may rely on external factors. For example, an organisation running an employment training programme that targets the outcome “beneficiaries find jobs” may assume that there will be jobs available in the local area.
- **relationships:** the outcome may rely on additional support from the beneficiary’s relationships with others (e.g. family members, social-workers, other professionals). For example, an organisation providing housing for people with disabilities, that targets the outcome “people with disabilities enjoy freer lives through moving into independent accommodation”, may assume that beneficiaries have access to a certain level of additional home help and support. Consideration of such assumptions may indicate how beneficiaries could be excluded if they don’t have access to the assumed relationships, and where the organisation might be able to work with others.
- **the beneficiary:** the outcome may assume certain things about the beneficiary, and how they will respond to the intervention. For example, an organisation running a sports programme for disadvantaged young people, that targets the outcome “young people achieve better attendance and behaviour at school”, may assume that through an engagement with sport, young people will be able to learn teamwork skills, come to value leadership and discipline, gain positive role models, etc., and thereby be inspired to change their goals and behaviour (if the sports programme is not expected to do this alone then, naturally, what are the other factors the programme assumes will be in place to supplement it?). Often assumptions about how a beneficiary will respond to the intervention are at the absolute core of the organisation’s approach, and for this reason, it is essential such assumptions are laid out clearly, and checked for validity and potential holes.

Once identified, assumptions may present various risks:

#### **risk of other factors fluctuating or failing**

If the links within the impact chain assume the presence of other factors, it follows that their absence could threaten the chain, and thereby the generation of impact. It is important therefore to review these factors for the risk of them fluctuating or failing (especially when the factors are well beyond the organisation’s control); and the effect this would have upon the organisation and the results of its activities were it to happen.

#### **risk of assumptions being wrong**

The assumptions present a further risk of simply being wrong — that the beneficiaries will not respond in the anticipated way, or that other factors, though present, will not have the anticipated effect. Once the assumptions have been identified and set down, it is possible to review them for credibility.

#### **risk of the intervention being non-significant**

In relation to the other factors that contribute to the change, it is useful to review how significant the intervention of the organisation (typically the delivery of a product or service, as tracked by the outputs) really is. The understanding of this significance contributes to the assessment of the **context of change** (see below), and subsequent adjustments.

Assumptions may be substantiated by evidence — for example the organisation's own experience and track record, or the track records of other organisations producing similar outputs. Alternatively there may be research in the field from third parties investigating how this kind of change occurs, and how the surrounding conditions play into each other.

The availability of evidence will depend somewhat upon the organisation's own stage of development (and so whether or not it has a track record), and the originality of its approach. The more innovative its activities, impact chain, and theory of change, the more untested and less well-evidenced the implicit assumptions will necessarily be. However in the absence of direct precedents for what the organisation is proposing to do, there may still be related evidence and arguments that can be used to make the case that the assumptions are reasonable.

The desired balance between evidence and theory, and between established practice and new ideas, will depend on the organisation and the investor's mission and strategy. The question feeds into the assessment of **impact risk**, and the role it plays in the **investment decision**.

## Context of Change

*What do the issues of deadweight, displacement, attribution, drop off and unintended consequences indicate about the observed change?*

*Has an appropriate address of these issues been made?*

The change observed by the organisation takes place within a context that is itself likely to be changing, and playing a part in any change. In order to understand the real change that has come about as a consequence of the organisation's work, it is important to understand the context of change around it.

The first and most fundamental issue is one of causation. This asks if the organisation's activities and outputs are really driving the change, or if they are just taking place alongside it. If the organisation were to stop operating, for example, would the same change, and associated benefits, occur anyway? And while it is operating, what other changes are taking place in the context that need to be brought into the account?

Being able to answer these questions credibly allows the organisation not only to communicate its impact better, but also to develop its activities through being able to identify what is important and effective, and what is not.

The impact sector has identified five major points regarding how a changing context may affect the understanding of the observed outcomes:

### **deadweight**

Deadweight considers what would have happened anyway — i.e. what outcomes beneficiaries would be expected to experience in the absence of the organisation's activities. (This relates to "the counterfactual" or "the baseline", and may include positive as well as negative outcomes.)

A treatment of deadweight covers:

- **beneficiary progress without intervention**  
Without intervention, beneficiaries may nevertheless make progress in relation to the desired outcomes. For example, with an employment training programme, the question would be, what proportion of the trainees would have found work on their own initiative; with an alcohol abuse programme, how many would have lowered their alcohol intake independently, etc. (If the success rate with the intervention is not significantly higher than that without, the real impact is clearly low.)
- **negative consequences of no intervention**  
Conversely, without intervention, beneficiaries may suffer from deteriorating conditions, and fare significantly worse. For example, without particular forms of support, a proportion of

beneficiaries may face more severe health problems, involvement with crime or substance abuse, etc. Here the impact is enhanced, as the real change is that over and above the averted negative scenario. (Under such circumstances, no change may be regarded as a significant positive impact.)

- **other service providers**

In the absence of the organisation, beneficiaries may typically access services from other providers — either ones currently existing, or those who would otherwise step in. These may include: the default government response; the default commercial or mainstream response; other social-purpose organisations. The outcomes beneficiaries achieve through use of these services are again compared with those being achieved with the organisation's support to check for real positive change.

### **displacement**

Displacement occurs when the positive outcomes experienced by the beneficiaries of a service are offset by negative outcomes experienced by another group elsewhere. For example, a new business that aims to create jobs in a deprived area may bring about the closure of another business nearby, with a consequent loss of jobs, thereby in effect displacing jobs from one part of the area to another; an initiative to reduce crime may in fact be displacing crime from one area to another, or from one form to another, and so on.

### **attribution**

Attribution considers how much of the change that has been observed is the result of the organisation's activities and outputs, and how much is the result of actions taken simultaneously by others (e.g. other organisations, government). This relates back to the other factors identified among the [conditions for change](#), and the risk of the organisation's intervention being non-significant. An assessment of attribution weighs these other factors for their contribution (how much of the change are they responsible for?) and for their criticality (would the change have been possible without them?).

It is important also to consider the measurement system for attribution, and whether there are omitted variables that are having an effect on the outcome indicators. The question is, to what extent can shifts in the measured results be attributed to the desired change, and are there other possible forces influencing the measurements? If there are, and they are measurable, they should be factored into the account.

### **drop off**

Drop off occurs when, over time, the effect of the output and the observed outcome decreases. There may be drop off from the use of the service or product (this should be recorded within the primary set of results, and properly is an issue for the data collection processes of the measurement system), and similarly there may be drop off of the observed outcomes, as beneficiaries potentially relapse, lose the job or accommodation they attained, revert to previous behaviours, etc. The organisation's mission, and its definition of intended outcomes, set the scope for how long the outcomes may be expected to last. Drop off occurring within this period should be acknowledged. The organisation should further be aware of which beneficiaries are dropping off, and whether there are common factors among them (if so, they may suggest improvements or additions to the services).

### **unintended consequences**

In addition to the outcomes defined and measured by the organisation, there may be unintended consequences, which can be negative or positive. Some may be foreseen (for example, an intervention may impact on the environment or local community in ways that are not exactly "intended" but are a clear result of activities), and should be included in the prospective impact plan. Some may only become apparent once the plan is being carried out (for example, beneficiaries responding in an unexpected way, with further implications and outcomes), which should be picked up during the monitoring and evaluation stage, and incorporated into the impact plan. Of particular relevance may be those identified as the **other stakeholders** in the assessment of the [context](#), and the question of how they are being affected by operations. Projects with a strong mission tend to encourage tunnel-thinking, and it is important to review the organisation's activities periodically for unintended consequences, and what these may mean for the overall impact.

Analysis of the context of change indicates adjustments to the measured outcomes that need to be made in order to arrive at an assessment of the actual impact. Accurate analysis serves to reduce impact risk, and

provides useful information as to how the organisation can enhance efficiency and maximise impact. Poor analysis, or an outright lack of it, can lead to organisations misattributing, and over- or under-valuing their impact. This presents investors with the risk of investing in impacts that are measured, but aren't real.

However, a complete and accurate treatment of the context of change is difficult. Many factors, many of which are not easy to measure, and some of which the organisation may not be aware of, are likely to be involved. And, problematically, the counterfactual “what would have happened ...” presents a case that specifically has *not* happened, and therefore cannot be measured directly.

The best and most scientific treatment of these issues is often to be arrived at through close observation of a control group, with the gold standard in most cases being a Randomised Control Trial (RCT). However conducting an RCT can be expensive and require manpower, expertise and time. It is also worth noting that RCTs are significantly easier to conduct for certain kinds of interventions than others (those where the intervention is relatively narrow and specific, the outcome easy to isolate, the timeframe reasonably short, and the scale large enough to support meaningful sample sizes, are much more amenable to RCTs<sup>3</sup>). An excessive demand on the part of investors for RCTs could restrict the flow of capital to “RCT-friendly” approaches and sectors, even though these are not necessarily the most impactful. Furthermore, even with experimental assessments, there is still potential for bias and inconsistency.

In the absence of a proper control, a less scientific analysis of the context of change involves working through the above five points, including making an estimate of the deadweight (with at least a research-based assessment of the typical beneficiary progress without intervention), and an address of the other four points, with additional estimates where circumstances suggest one or another could indicate significant adjustments to the impact calculation.

A more complete address involves working through the technical points of data analysis attendant upon the distinction between causation and correlation, and bringing evidence to bear wherever possible. These are:

#### **reverse causality**

Reverse causality occurs if there is a positive relationship between output and outcome indicators, but we cannot be sure which way causality runs. For example, an organisation providing support to microbusinesses conducts an impact assessment of its services and finds that access to finance is associated with better business outcomes. However, they cannot be sure whether access to finance causes better business outcomes, or whether being a more successful business causes an increase in access to finance.

#### **omitted variable bias**

Omitted variable bias occurs if an impact assessment results in a positive estimate of the relationship between outputs and outcomes, but in reality there are either observable or unobservable (or non-quantifiable) variables that affect the relationship. To continue with the previous example, suppose the organisation offers business support and mentoring services alongside loans to micro businesses. The organisation does not know whether the access to the loan caused the improvement in business success or whether it was some combination of these services. This would cause an overestimation of the effect of loans (alone) on business success.

#### **selection bias**

Selection bias occurs when the sample used to evaluate the impact is not random. This can happen in two ways. Continuing with the same example, sampling bias occurs if the organisation attracts micro-businesses that are run by individuals that are more motivated or have higher educational attainment. It is likely that even without accessing the organisation's services, this sample of micro-businesses would perform better than the general population of micro-businesses. This causes an overestimation

<sup>3</sup> For example, a drug trial, conducted on a statistically large group, where either the drug or a placebo is given, and after three months a blood test for antibody levels that clearly indicates the drug's effect can be performed, provides an excellent case for an RCT. Conversely, with an after school football programme, in which twenty kids in North London are participating, and where the active factor may be the football (the activity), or a particular inspirational coach, and the key outcomes include a better future outlook and a reduced likelihood of being drawn into crime over the medium-term (e.g. the next 3-5 years), then trying to conduct an RCT is unlikely to be useful. The sample size is far too small in comparison with the magnitude of the change, and the active ingredient in the intervention is unclear. In this case, a much lighter research-based estimate of the deadweight, and an acknowledgement of other factors in the discussion of attribution, is more appropriate (alongside monitoring of the actual beneficiary group).

of the impact of the organisation's services. Attrition includes changes in the sample due to dropout, non- or lower- response rates, withdrawal and protocol deviators. If those that are lost are less successful than those that remain, the impact of the organisation's services will be overestimated as well.

#### measurement error

Measurement error occurs when the data used is not accurate itself. All data measurement is likely to have some form of measurement error. Random error will bias the estimation towards zero. Non-random, or systematic measurement error, can result in over- or under-estimated effects. For example, the organisation may be able to collect better and more accurate data only for more successful businesses, because they may have better systems to provide the data. This will cause an overestimate of the organisation's impact.

## Impact

*What is the impact — the real change achieved by the organisation over and above the context of change?*

*How does the impact relate to the original mission, and the problem it sought to address?*

*What is the investor impact?*

The measurement of outcomes tracks the change experienced by beneficiaries. The measurement of impact, properly understood, counts these outcomes, and then makes the necessary adjustments for the **context of change**. These adjustments take account of **deadweight** (what would have happened anyway), **displacement** (negative effects taking place elsewhere as a result of the outcomes, and which offset them), **attribution** (the contribution of other factors to the outcomes), **drop off** (outcomes that are initially observed but do not sustain), and **unintended consequences** (other effects of the organisation's activities). The organisation can only claim to have made a positive impact and created real change in so far as it exceeds the ongoing changes taking place within a dynamic context.

In making these adjustments, the organisation needs to decide how deep it wants to go into the analysis of the **context of change**. As discussed in the relevant section, the issues involved can be complex and lengthy, and it is up to the organisation, with oversight from the investor, to determine what is and what isn't ultimately material to the adjustment. This sets the bounds of materiality. Effects that lie beyond are deemed not significant; effects that lie within are either calculated or estimated, and factored into the account. Once these have been adjusted for, the result is the impact that the organisation is claiming — the **real change** it can confidently say has come about as a result of its activities, and represents the net positive effect.

Social purpose organisations can find measuring their outcomes hard, and be reluctant to make adjustments that decrease the impact they are then able to claim. It can feel a little like adjusting for inflation and deducting tax when calculating real income growth. It is nevertheless necessary to confront these issues. Measuring change without ensuring: that the change is real; that it's your change that you're measuring; and that it's not being offset by something else — can make the whole measurement exercise rather futile.

Once the necessary adjustments have been made, and an understanding of the impact arrived at, it is useful to relate the impact back to the original mission, and the problem the organisation sought to address. This serves as a check that there is "mission furtherment", or meaningful progress being made. Impact is chiefly apparent as the **direct impact** on beneficiaries, and the **wider impact** on the community, the sector and society at large. There is also the **investor impact**, generated by the investor's relationship with the organisation, and by the capital itself. This can be related back to the initial investment objectives, and the investor's own mission.

## Learning, Improving and Moving Forward

*How can the results be understood and explained?*

*What are the lessons learned and changes to be made?  
What is the long-term outlook and vision?*

The true power of a well-formed impact plan is that it provides the organisation with essential information for learning and improving going into the future.

This involves three steps:

#### **gathering together results**

The measurement system produces the raw results. Collected in accordance with the principles for quality measurement systems, and adjusted for the context of change, the results are objective and robust.

#### **understanding and explaining results**

Results are linked back to the components laid out in the impact plan, and compared to expectations:

- were the inputs forthcoming as expected?
- were the activities carried out as planned?
- were the outputs delivered and the outcomes forthcoming, meeting the targets and objectives set?

Equally relevant are the conditions for and the context of change:

- did the assumptions prove to be valid?
- did changes in the surrounding environment, potentially beyond the organisation's control, affect results?
- were the outcomes truly driven by the outputs, and did they exceed what would have happened anyway, what is happening elsewhere, and the role of other factors?

Addressing these questions, drawing on the knowledge and clarity supplied by the original impact plan, allows results to be understood and explained.

#### **lessons learned and future strategy**

Once understood, the results support an assessment of performance, identifying what worked well and what did not. Failures are often more instructive than successes, and bad results as well as good are a crucial part of the learning process.

Lessons are drawn from the results, indicating what changes the organisation can make to improve, and informing future strategy. Changes to the context are also reviewed, as well as any upcoming changes (e.g. in policy, funding or new technologies), including any risks and opportunities, to ensure that, moving forward, the organisation is able to focus its energies and resources on the things that will work best. The impact plan anticipates this process of reviewing results and learning from them.

Beyond the well-defined aspects of the impact plan, relating directly to operational processes and their intended outcomes, the plan also covers the long-term outlook and vision.

#### **long-term outlook and vision**

This involves treatment of:

- the long-term future of the problem, and whether the need is likely to grow
- the long-term growth of the organisation, considered in relation to the scalability of the approach, the potential availability of capital, and the organisation's long-term vision for itself

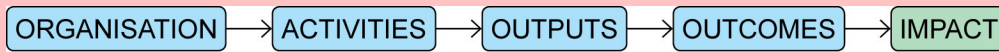
## Backwards-Mapping

*Does thinking backwards from the impact lead us to the organisation's activities?  
What and who else is involved?*

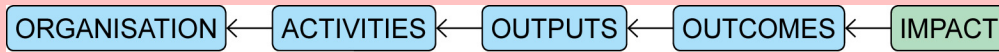


*Are the activities an effective way to get there?*

Backwards-mapping is less a part of the impact plan than a technique to apply to it, and use as a means to build, develop and review the components within the plan. Typically the impact chain is set out as moving forwards through time:



Backwards-mapping starts instead with the high-level impact and long-term aims, and moves backwards in time through the plan, asking at each stage, “What is needed before this? To arrive at this step, what would have to happen first? Given the change described here, what would the causes and contributing factors be?”



The process of working forward through an impact plan can lend itself to tunnel-thinking. Backwards-mapping works as an exercise to open up awareness to things that may be missing. It can shed light on questions relating to other factors and the assumptions implicit within the impact chain. It also checks the chain’s direct links, asking from the point of view of outputs, what services or products these relate to, and from the point of view of activities, what inputs and operations are required.

The key questions for backwards-mapping are:

- does thinking backwards from the impact lead us to the organisation’s activities?
- what and who else is involved?
- are the activities an effective way to get there?

Tackling these questions helps verify the essential logic of the plan, as well as drawing out potentially unseen factors, and the risks and opportunities for engagement they present.

**Performing backwards-mapping**

When considering change in a beneficiary’s life, it can be useful to think of the beneficiary in an expanding network of relationships that may be required for, or be a part of, this change. The expansion runs from the individual beneficiary, to family and close relationships, to the interventions and activities of service-providers and other organisations, to the local community, to larger societal conditions and the policy environment. These can be used to draw up a table of questions for performing backwards-mapping.

	beneficiary	family and close relationships	service-providers and social purpose organisations	local community	societal conditions and policy environment
to arrive at the impact, what is involved in relation to:					
to achieve the outcomes, what is needed in relation to:					
to deliver the outputs, what is needed in relation to:					
to have access to and participate in the activities, what is needed in relation to:					
given the problem, the context and the mission, what impact is needed in relation to:					

The aim is not to complete every cell in the table with a different set of conditions, but rather to use the questions each cell implies to see if there is something important that the impact plan has not addressed.

## Impact Plan: Summary of Key Questions

<p><b>Mission</b></p> <p><i>What is the organisation's mission?</i></p> <p><i>Does it show vision, clarity and relevance?</i></p> <p><i>Is it in use, reviewed regularly, and embedded in the organisation's governance?</i></p>
<p><b>Context</b></p> <p><i>What is the problem and the current response?</i></p> <p><i>Who is being affected and what do they need?</i></p> <p><i>Who are the other stakeholders?</i></p>
<p><b>Inputs</b></p> <p><i>What are the inputs?</i></p> <p><i>What is the timeline of their availability and use?</i></p> <p><i>What is the relationship with the investment capital?</i></p>
<p><b>Activities</b></p> <p><i>What are the activities and the timeline?</i></p> <p><i>How do the activities respond to beneficiary needs?</i></p> <p><i>Is the outreach of activities inclusive, especially of hard to reach beneficiaries?</i></p>
<p><b>Outputs</b></p> <p><i>What are the outputs?</i></p> <p><i>What is the timeline for their delivery?</i></p>
<p><b>Outcomes</b></p> <p><i>What are the outcomes?</i></p> <p><i>What is the timeline for their delivery?</i></p> <p><i>Have beneficiaries been consulted?</i></p>
<p><b>Measurements System</b></p> <p><b>Commitment to Evidence:</b> <i>Does the organisation show a strong commitment to being able to evidence the work it is doing, and the impact it is having?</i></p> <p><i>Is the measurement system fit for purpose, and capable of confirming the success or failure of the impact plan?</i></p> <p><b>Use of Indicators:</b> <i>Has the organisation selected a high quality set of indicators?</i></p> <p><b>Data Collection:</b> <i>Is there a plan and clear processes for data collection?</i></p> <p><i>Is there a review of the data collected?</i></p> <p><b>Targets and Objectives:</b> <i>Are there specific and genuinely demanding targets and objectives in place?</i></p> <p><b>Proportionality:</b> <i>Is the measurement system proportional to the organisation?</i></p>
<p><b>Conditions for Change</b></p> <p><i>What are the assumptions implicit within the impact chain?</i></p> <p><i>What are the risks they present?</i></p>
<p><b>Context of Change</b></p> <p><i>What do the issues of deadweight, displacement, attribution, drop off and unintended consequences indicate about the observed change?</i></p> <p><i>Has an appropriate address of these issues been made?</i></p>
<p><b>Impact</b></p> <p><i>What is the impact — the real change achieved by the organisation over and above the context of change?</i></p> <p><i>How does the impact relate to the original mission, and the problem it sought to address?</i></p> <p><i>What is the investor impact?</i></p>
<p><b>Learning, Improving and Moving Forward</b></p> <p><i>How can the results be understood and explained?</i></p> <p><i>What are the lessons learned and changes to be made?</i></p> <p><i>What is the long-term outlook and vision?</i></p>
<p><b>Backwards-Mapping</b></p> <p><i>Does thinking backwards from the impact lead us to the organisation's activities?</i></p> <p><i>What and who else is involved?</i></p> <p><i>Are the activities an effective way to get there?</i></p>

# Outcomes Matrix

The Outcomes Matrix is a classification tool for use by investors and social purpose organisations to map the areas in which, and beneficiaries for whom, their impacts are being achieved. It is organised by outcome areas and beneficiary types, and incorporates a tagging system to distinguish needs related to beneficiaries with specific characteristics. Each cell of the matrix is populated with outcomes and their associated indicators, providing a sector-wide tool for collating and comparing impact across organisations and investment portfolios. An organisation's outcomes may spread across a number of cells in the matrix, and investors can use this spread to develop profiles of their individual investments, as well as a landscape of their portfolio from an outcomes perspective.

## Vertical Axis – Outcome Areas

The vertical axis presents a series of outcome areas that together express the full complement of human experience, or, put another way, the essential human and environmental infrastructure that people need to be able to live full and free lives. The axis includes personal needs like education, housing and finance, as well as more communal needs, like life in a safe neighbourhood, and within a sustainable environment. An intervention may touch upon one or any number of these areas within a community or beneficiary's life.

## Horizontal Axis – Beneficiary Groups

The horizontal axis is used to indicate the people and groups of people experiencing change with respect to the outcome areas on the vertical axis. It presents three categories of beneficiary scale: Individuals; Families & Children; and Community, Sector and Society.

The basic unit is an individual beneficiary — a person separate or distinguished from other people. Families and children make up the second group. Individuals and families grouped together in a larger context form communities and society at large. Also relevant are communities of organisations working in similar outcome areas, forming outcome area-related sectors. (These divisions of scale correspond to the spheres of **direct impact** on individual beneficiaries and families, and **wider impact** on the community and surrounding context.)

## Tags – Specific Characteristics

In addition to the two axes, a third dimension is added to the matrix by use of a metadata or tagging system. This allows users to capture, sort, and search for information relating to beneficiaries with specific characteristics. This is useful as, while all beneficiaries will have need of the same essential human and environmental values expressed throughout the matrix, beneficiaries with specific characteristics may present a particular set of needs in relation to one or more outcome areas. For example, while everyone has need of secure and stable housing, an individual with a physical disability may have particular housing requirements and related outcomes and indicators. Alternatively, an individual who is an ex-offender may have particular needs in relation to employment and training. Tags may equally relate to families with specific characteristics, as well as communities and sectors.

The use of tags allows outcomes for different beneficiaries to overlap, while allowing users to perform nuanced searches to find those indicators that may have particular relevance to the beneficiaries they work with. A search can include multiple tags (e.g. for an organisation working with beneficiaries who may be suffering from homelessness, alcoholism issues and mental health issues). Conversely, outcomes and indicators may have multiple tags attached to them, or a universal tag if thought to be common to any beneficiary. The tags effectively create multiple versions of the matrix, that can be honed according to the

characteristics of the beneficiaries in question.

The tagging system is not active on this version of the matrix, but is under development.

## The Matrix and its Uses

The matrix provides an overall framework for outcomes in relation to beneficiaries. Each cell within the matrix houses a list of the high level outcomes that can be achieved within that outcome area for the defined beneficiary group. These high level outcomes break down further into detail outcomes, and the indicators that can be used to measure them.

The matrix thus provides:

### **an outcomes mapping tool**

The activities of a single social purpose organisation will likely spread across multiple cells within the matrix. The shape of this spread is in effect an outcomes map or description of the outcomes the organisation is achieving. This can be helpful for definition and classification purposes, as well as for sorting data. At the investor level, as these maps are based on a common framework, they can be collated to give investors a sense of where they are active, and what they are facilitating across their portfolio. (N.B. This does not support the aggregation of outcomes, which cannot meaningfully be added unless truly like-for-like numbers *and* contexts are involved, and issues of attribution and double-counting have been robustly dealt with.)

### **an outcomes exploration tool**

By situating the organisation's outcomes within a complete field of human and environmental outcome areas, the outcomes matrix encourages organisations to think through what they are doing holistically. This can help organisations identify areas where they are perhaps achieving significant outcomes, but not thinking to capture them with their measurement system. It can also serve to reveal other areas that are important for their beneficiaries, but are not being addressed, and thereby suggest opportunities for expanding services, or partnering with other organisations to tackle the root problem.

### **assurance of the beneficiary perspective**

The use of outcomes as the essential structuring principle means that the outcomes matrix is rooted firmly in the beneficiary perspective. Use of the matrix thereby ensures that while, in operational terms, an organisation may be primarily occupied with pursuing activities and delivering services, these are always referred back to the outcomes being generated for people, and the change they are experiencing.

### **an indicator database**

The high-level outcomes break down into more granular detail outcomes and indicators. These have been selected as being meaningful, effective and representative of emerging standards within their outcome areas. As organisations and investors use the matrix to identify the outcomes they mean to achieve, and for whom, they will be able to home in on a selection of the best relevant indicators in common use.

## Development of the Outcomes Matrix

The structure of the Outcomes Matrix was developed through the partnership of Investing for Good, NPC and SROI Network. The detailed contents of the matrix are currently under development. In its present form here it shows only the high level outcomes, and without the tagging functionality. More in-depth documents relating to each of the outcome areas, and listing the indicators within, will be available for download as they are completed. The full outcomes matrix will be integrated into the wikiVOIS platform, and will sync with IRIS. Please visit <http://www.wikivois.org/> for further developments.

	INDIVIDUALS	FAMILIES & CHILDREN	COMMUNITY, SECTOR & SOCIETY
EDUCATION, LEARNING AND SKILLS	<p>Improved attainment and academic success</p> <p>Improved civic awareness and participation</p> <p>Improved social and emotional skills</p> <p>Improved vocational preparation</p>	<p>Improved parenting skills</p> <p>Increased parental involvement and support in children's learning</p> <p>Strengthened family communication and relationships</p>	<p>Increased community participation by schools and further education institutions</p> <p>Public cost benefit, advocacy and policy influence</p>
EMPLOYMENT AND TRAINING	<p>Better occupation-specific (hard) skills and work experience</p> <p>Improved (soft) skills and attitudes (job readiness) for employment</p> <p>Increased number of people that enter work are satisfied with their employment</p> <p>Increased numbers of jobseekers enter and sustain (quality) employment</p>	<p>Improved parenting skills</p> <p>Increased financial stability and quality of life for families</p>	<p>Fair employment practices</p> <p>Improved availability of and incentives for long-term sustained employment</p> <p>Increased employer engagement and employment networks</p> <p>Public cost benefit, advocacy and policy influence</p> <p>Safer and more stable communities</p>
HOUSING, PROPERTY AND ESSENTIAL NEEDS	<p>Fewer people homeless or living in poor quality homes</p> <p>Improved access to affordable basic needs</p> <p>More vulnerable people or those with specialist needs able to live with greater independence</p>	<p>Fewer families homeless or living in poor quality homes</p> <p>Improved access to affordable basic needs</p> <p>Reduced number of children going into care</p> <p>Safe, good quality housing or residential care for children</p>	<p>An increase in affordable housing</p> <p>An increase in community housing</p> <p>Fair tenant management and behaviour</p> <p>Public cost benefit, advocacy and policy influence</p> <p>Safe, good quality residential care for vulnerable people or those with specialist needs</p>
FINANCE AND LEGAL MATTERS	<p>Improved access to support, advice and appropriate financial and legal products and services</p> <p>Improved financial management and stability</p> <p>Increased financial literacy/capability</p>	<p>Improved access for families and children to support, advice and appropriate financial and legal products and services</p> <p>Improved family financial management and stability</p> <p>Increased family financial literacy/capability</p>	<p>Appropriate and responsible finance</p> <p>Improved access for community businesses to financial and legal services</p> <p>Improved local economic conditions and reduced dependence on financial support and reduced levels of poverty</p> <p>Improved market infrastructure and levels of social investment public cost benefit, advocacy, and policy influence</p>
PHYSICAL HEALTH	<p>Access to good quality rehabilitation services</p> <p>Improved health awareness and education</p> <p>Increase in number of people feeling active and able</p> <p>Increased shared decision making</p> <p>More people recover from physical ill health</p>	<p>Access to good quality rehabilitation services</p> <p>Delivery of early intervention services to improve physical health outcomes</p> <p>Improve maternal health</p> <p>Improved health awareness and education</p> <p>Increased number of families feeling active and able</p>	<p>Increased access to affordable and accessible health, sport and fitness facilities</p> <p>Increased community participation in sport and fitness activities</p> <p>Public cost benefit, advocacy and policy influence</p>
MENTAL HEALTH	<p>An increase in shared decision making</p> <p>More people able to manage their mental health and live a full, self-reliant life</p> <p>More people recover from mental health</p> <p>More people with good mental health</p>	<p>An increase in shared decision making</p> <p>Delivery of early intervention services to improve mental health outcomes</p> <p>Increase in secure parent/child relationships</p>	<p>Improved awareness and education</p> <p>Public cost benefit, advocacy and policy influence</p> <p>Reduction in stigma and discrimination associated with mental health</p>
HEALTHY LIVING AND LIFESTYLE	<p>Access to services and facilities that promote and increase</p>	<p>Improved healthy eating and nutrition</p>	<p>Increased access to affordable and accessible health, sport and fitness</p>

	INDIVIDUALS	FAMILIES & CHILDREN	COMMUNITY, SECTOR & SOCIETY
	<p>awareness of maternal health and early life health choices</p> <p>Improved health awareness and education</p> <p>Improved healthy eating and nutrition</p> <p>Increase in number of people feeling active and able</p> <p>Reduction in substance abuse and addiction (including smoking)</p>	<p>Improvement in maternal health and early life health choices</p> <p>Increased shared decision making</p> <p>Reduction in substance abuse and addiction (including smoking)</p>	<p>facilities</p> <p>Public cost benefit, advocacy and policy influence</p> <p>Reduced differences in life expectancy between communities</p>
PERSONAL AND SOCIAL WELL-BEING	<p>Fewer people feeling isolated, excluded or lonely</p> <p>Improved feelings of independence, control and life satisfaction</p> <p>More people have aspiration, motivation, purpose, sense of meaning</p>	<p>Improved family relations child well-being (tantrums, child happiness)</p> <p>Increased confidence and self esteem for families and children</p>	<p>Improved community cohesion and community relations, neighbourliness</p> <p>Increased access to social infrastructure for social networking</p>
CRIMINAL JUSTICE AND PUBLIC SAFETY	<p>Reduced contact with the criminal justice system</p> <p>Reduction in offending and reoffending rates</p> <p>Reduction in risk taking behaviour</p>	<p>Reduced rate of harassment and bullying</p> <p>Reduction in child abuse</p> <p>Reduction in risk taking behaviour</p> <p>Reduction in those suffering from domestic abuse</p> <p>Reduction in youth offending and reoffending rates</p>	<p>Improved community safety and accessibility</p> <p>Increased community cohesion</p> <p>Public cost benefit, advocacy and policy influence</p> <p>Reduced levels of crime</p>
LOCAL AREA AND GETTING AROUND	<p>Improved access to and use of local facilities</p> <p>Improved access to and use of public and community transport</p> <p>Improved specialist transportation services and mobility devices</p>	<p>Improved access to quality local childcare and support</p> <p>Improved access to and use of public and community transport</p> <p>Improved community facilities for children and families, nurseries</p>	<p>Availability of Integrated public and community transport</p> <p>Increase in community assets, community facilities and centres</p> <p>Increase in quality public spaces, parks, recreation grounds</p> <p>Increased community cohesion</p>
ARTS, CULTURE, SPORTS AND RECREATION	<p>Increased accessibility of arts and cultural facilities</p> <p>Increased accessibility of sports facilities</p> <p>Increased participation in arts, culture and sports</p>	<p>Increased accessibility of family arts and cultural facilities</p> <p>Increased accessibility of family sports facilities</p> <p>Increased participation by families in arts, culture and sports</p>	<p>Community access to arts and sports facilities</p> <p>Local culture and heritage</p> <p>Public awareness of arts, culture and sport</p>
POLITICS, INFLUENCE AND PARTICIPATION	<p>Changes to public attitudes and behaviour</p> <p>Greater participation by individuals</p> <p>Greater personal influence and control</p> <p>People have access to human rights and entitlements</p>	<p>Children's rights</p>	<p>Changes to public attitudes and behaviour</p> <p>Increased advocacy, politics, rights and justice</p> <p>Public and community awareness and participation in decision-making</p>
CLIMATE CHANGE AND CONSERVATION OF THE NATURAL ENVIRONMENT	<p>Access to low cost renewable energy sources</p> <p>Energy efficient homes</p> <p>Improved efficiency of energy use</p> <p>Improved efficiency of water use</p> <p>Increased use of public transport</p>	<p>Access to low cost renewable energy sources</p> <p>Improved efficiency of energy use</p> <p>Improved efficiency of water use</p> <p>Increased use of public transport</p>	<p>Changing human behaviour and understanding (educational programmes)</p> <p>Conservation / consumption of resources (including water)</p> <p>Conservation of natural spaces, land or wildlife (biodiversity)</p> <p>Public cost benefit, advocacy and policy</p> <p>Reduced greenhouse gas emissions (related to: energy, low carbon agriculture, green building, sustainable transport)</p> <p>Sustainable agriculture</p>

# GLOSSARY

<b>activities</b>	<p>Activities are the things the social-purpose organisation does in the day to day running of its operations in order to further or fulfil its mission (typically the preparation and delivery of its products and services).</p> <p>see <a href="#">activities</a> in the <a href="#">impact plan</a> section</p>
<b>assumptions</b>	<p>Implicit within any social purpose organisation’s approach to generating impact will be a number of assumptions — about the surrounding context, about relationships and processes ongoing within it, and about the beneficiaries themselves, and how they will respond to the intervention. In particular, assumptions apply to the circumstances and contributing factors required for an organisation’s outputs to lead successfully to the desired outcomes.</p> <p>see <a href="#">conditions for change</a> in the <a href="#">impact plan</a> section</p>
<b>attribution</b>	<p>Attribution takes account of how much of the change that has been observed is the result of the organisation’s activities, and how much is the result of actions taken simultaneously by others (e.g. other organisations, government).</p> <p>see <a href="#">context of change</a> in the <a href="#">impact plan</a> section</p>
<b>backwards-mapping</b>	<p>Backwards-mapping is a thought exercise applied to the impact plan to test for validity. It involves starting with the impact, and working backwards through the plan, asking at each step, “What is needed before this?” Always working forwards through an impact can lend itself to tunnel-thinking. Backwards-mapping can help open up awareness of elements that might be missing, or gaps in the logic.</p> <p>see <a href="#">backwards-mapping</a> in the <a href="#">impact plan</a> section</p>
<b>beneficiaries</b>	<p>The people, communities, areas and aspects of the environment and natural world that a social-purpose organisation seeks to reach through its activities, and who stand to benefit as a result.</p>
<b>conditions for change</b>	<p>Social and environmental interventions take place within complex networks of relationships and interdependencies. For an organisation’s outputs to lead to the desired outcomes, and the change to be achieved, there will be circumstances that need to be in place, and other active contributing factors. These make up the conditions for change. Many lie beyond the direct control of the organisation, and so the approach “assumes” their presence.</p> <p>see <a href="#">conditions for change</a> in the <a href="#">impact plan</a> section</p>
<b>context</b>	<p>The context refers to the environment surrounding the organisation, its operations and its beneficiaries, covering the problem under address, its causes, the current response and trends, other stakeholders, and a rich understanding of the lives and needs of beneficiaries themselves.</p> <p>see <a href="#">context</a> in the <a href="#">impact plan</a> section</p>
<b>context of change</b>	<p>Any change observed by the organisation will take place within a dynamic context that is itself likely to be changing, and playing a part in the change. The term “context of change” covers the bag of issues outside the organisation’s direct involvement that need to be addressed to arrive at a true account of the organisation’s impact (including deadweight, displacement, attribution, drop off, unintended consequences).</p> <p>see <a href="#">context of change</a> in the <a href="#">impact plan</a> section</p>
<b>deadweight</b>	<p>Deadweight is the change that would have would have happened anyway — i.e. the outcomes beneficiaries would be expected to experience if the organisation were not active. (This relates to idea of “the counterfactual” or “the baseline”.) Deadweight includes the progress or regress beneficiaries typically make without the organisation’s intervention, and the effects of any services they would typically have accessed.</p> <p>see <a href="#">context of change</a> in the <a href="#">impact plan</a> section</p>

<b>displacement</b>	<p>Displacement occurs when the positive outcomes experienced by beneficiaries accessing the organisation's services are offset by negative outcomes experienced by another group elsewhere (also as a result of the organisation's activities).</p> <p>see <a href="#">context of change</a> in the <a href="#">impact plan</a> section</p>
<b>drop off</b>	<p>Drop off occurs when, over time, the effects of the output and the observed outcome decreases (e.g. beneficiaries relapse, lose the job or accommodation they attained, revert to previous behaviours). The organisation's definition of its outcomes sets the scope for how long they may be expected to last. Drop off occurring within this period is accounted for in assessing the organisation's true impact.</p> <p>see <a href="#">context of change</a> in the <a href="#">impact plan</a> section</p>
<b>evidenceable</b>	<p>Those aspects of an organisation's approach and impact plan that are not currently evidenced, but that are measurable, and that the organisation plans to collect data upon, and thereby evidence, in the future, are evidenceable.</p> <p>see <a href="#">2.2.6 Evidenceable</a></p>
<b>impact</b>	<p>A social purpose organisation's impact, properly understood, is the <b>outcomes</b> it has generated adjusted for the <b>context of change</b> (i.e. taking account of what would have happened anyway, what is happening elsewhere, and the role of other factors). As such it represents the real change that has been brought about. This calculation however is difficult to make, and accounts of impact do not always cover all the points. The term impact is also used in a less technical sense throughout the sector to mean, more generally, the positive social or environmental change achieved by a social-purpose organisation.</p> <p>see <a href="#">impact</a> in the <a href="#">impact plan</a> section</p>
<b>impact chain</b>	<p>The impact chain represents how a social purpose organisation achieves its impact by linking the organisation to its activities, and the activities to outputs, outcomes and impact. The impact chain forms the central line running through the impact plan.</p>
<b>impact generation</b>	<p>The impact that will be generated if the investment is made and the impact plan proves successful. This includes the direct impact, wider impact, and investor impact, and represents the potential for real change that an investment opportunity offers. Impact generation is the impact equivalent of a financial return.</p> <p>see <a href="#">2.3 Impact Generation</a></p>
<b>impact investment</b>	<p>An investment made into a company, organisation or fund with the intention to generate measurable social and environmental impact alongside a financial return (or preservation of the principal).</p>
<b>impact investor</b>	<p>An investor ("the investor" throughout this guide) who makes investments into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return (or preservation of the principal). The term is used to include social investment finance intermediaries (SIFIs) and social purpose funds.</p>
<b>impact plan</b>	<p>The impact plan sets out what the social purpose organisation is about, what it is doing, and what it is hoping to achieve. The central line running through it is the impact chain, connecting the organisation, via its activities, to its outputs, outcomes and impact. Running in parallel on either side are the organisation's internal processes, and the external context in which these operations are carried out.</p> <p>see the <a href="#">impact plan</a> section</p>
<b>impact risk</b>	<p>Impact risk is a measure of the certainty that an organisation will deliver on its proposed impact (as detailed in the impact plan). The question implied is: How sure is the impact plan to work, and what is the risk that the impact won't be generated? Impact risk focuses in particular on the risk that the organisation's outputs will not lead to the desired outcomes (see <b>conditions for change</b>), and the risk that the outcomes will be negated once adjustments have been made for the context of change (see <b>context of change</b>).</p> <p>see <a href="#">2.2 Impact Risk</a></p>
<b>indicators</b>	<p>Indicators are the specific variables that are tracked to demonstrate the delivery of</p>



outputs and outcomes. Indicators may relate to direct quantities (e.g. number of hours of training provided) or to qualitative aspects of the change (e.g. levels of beneficiary confidence). An effective impact measurement system will incorporate a number of indicators, or an “indicator set”.

see [measurement system](#) in the [impact plan](#) section

<b>inputs</b>	<p>Inputs are the resources the organisation draws on in carrying out its activities, including financial resources (investment, funding, revenues), human resources (the organisation’s staff and their mix of skills), time, material assets, equipment, technology, space, pro bono services, and inputs from beneficiaries.</p> <p>see <a href="#">inputs</a> in the <a href="#">impact plan</a> section</p>
<b>investor impact</b>	<p>Investor impact is the impact an investor has upon the investee social purpose organisation. This includes the impact of the investment capital itself, as well as other forms of support and benefit the relationship provides (e.g. advice, help accessing further capital). Investor impact is typically observed through the growth and increased resilience of the organisation.</p> <p>see <a href="#">2.3.3 Investor Impact</a></p>
<b>mapping</b>	<p>Mapping is a process used to create a profile of the investment, and the underlying organisation and its outcomes and impact. The resultant “map” can be used to check for suitability against the investor’s interests and needs, and for classification and comparison purposes.</p> <p>see <a href="#">1.2 Mapping</a></p>
<b>materiality</b>	<p>Materiality refers to an assessment made to determine the factors that are relevant and material to include in a true account of the organisation’s impact. Calculating in full the outcomes and adjustments for the context of change can be a complex and lengthy process. Setting the bounds of materiality establishes those effects that are deemed to be significant (and therefore need to be factored in), and those that are to be left out.</p>
<b>measurement system</b>	<p>The system used by the social purpose organisation to measure its outputs and outcomes, and to calculate its impact. The measurement system will comprise: a set of indicators, the processes necessary for data collection, and a set of targets and objectives. These may be refined in collaboration with the investor.</p> <p>see <a href="#">measurement system</a> in the <a href="#">impact plan</a> section</p>
<b>mission</b>	<p>The mission statement defines the organisation’s core aims, and what it hopes to change and achieve. A good mission statement demonstrates vision, clarity and relevance, as well as being tangibly in use and subject to review. There may be also measures in place to protect the organisation from mission drift.</p> <p>see <a href="#">mission</a> see in the <a href="#">impact plan</a> section</p>
<b>organisation</b>	<p>Term used throughout this guide to refer to a <b>social purpose organisation</b> (“the organisation”)</p>
<b>outcomes</b>	<p>Outcomes are the changes experienced in the lives of beneficiaries or to the environment following on from the organisation’s activities and outputs.</p> <p>see <a href="#">outcomes</a> in the <a href="#">impact plan</a> section</p>
<b>outcomes matrix</b>	<p>The outcomes matrix is a classification tool for use by investors and social purpose organisations to map the areas in which, and beneficiaries for whom, their impacts are being achieved.</p> <p>see the <a href="#">outcomes matrix</a> section</p>
<b>outputs</b>	<p>Outputs are the products or services the social-purpose organisation is immediately involved in the delivery of, and which issue directly from its activities</p> <p>see <a href="#">outputs</a> in the <a href="#">impact plan</a> section</p>
<b>proportionality</b>	<p>The principle of proportionality suggests that an organisation’s impact measurement and reporting should be proportional to its size, history, and the complexity of the sector and the outcomes it is working with. Impact measurement is not a laboratory science, and no report will include everything. The purpose of measurement is to be useful to</p>

organisations, not to cripple them. A sense of scale is required in relation to the fullness and level of evidence expected from the organisation's impact reporting, as well as the budget devoted to it.

see [measurement system](#) in the [impact plan](#) section

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<b>real change</b>	The real change achieved by a social purpose organisation is the observed change adjusted for what would have happened anyway, what is happening elsewhere, and the role of other factors. This adjusted value expresses change over and above the context of change, and represents the true <b>impact</b> .
<b>social purpose organisation</b>	An organisation (“the organisation” throughout this guide) that operates with the primary aim of achieving measurable social and environmental impact. Social purpose organisations include charities, non-profit organisations, and social enterprises (registered as e.g. Community Interest Companies, cooperatives or Industrial and Provident Societies, limited companies). Throughout this guide, “social purpose organisation” (“the organisation”) is used to refer to organisations that are themselves generating impact directly, while social purpose funds or social investment finance intermediaries (SIFIs) are included in the term impact investor (“the investor”).
<b>stakeholder</b>	A stakeholder is defined as any party that is materially affected by the organisation's activities. Most prominent among stakeholders are the direct or target beneficiaries, though stakeholders as a group also includes the organisation's staff and volunteers, its shareholders and investees, its suppliers and purchasers, and most likely the families of beneficiaries and those close to them, and the communities in which they live.
<b>unintended consequences</b>	Unintended consequences are those that come about as a result of the organisation's activities, but are not part of the desired effect. They may be foreseen (e.g. a degree of displacement that is anticipated but not “intended”), or unexpected (and may be positive or negative). Unintended consequences often relate to effects upon stakeholders other than the organisation's target beneficiaries. see <a href="#">context of change</a> in the <a href="#">impact plan</a> section

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# FURTHER RESOURCES

Research for *The Good Investor* was conducted by [Investing for Good](#) in a partnership with [NPC](#) and [The SROI Network](#), and was commissioned by [Big Society Capital](#), in partnership with [Deutsche Bank](#). The [outcome matrix](#) plugs into [wikiVOIS](#) and allies with [Inspiring Impact](#).

Research included consultation with the following UK social investors: [Big Issue Invest](#), [Big Society Capital](#), [Bridges Ventures](#), [CAF Venturesome](#), [Deutsche Bank](#), [Esmée Fairbairn Foundation](#), [Nesta](#), [Social Investment Business](#), [Triodos Bank](#); as well as discussions with [nef](#), [SIAA](#), and the [UK Cabinet Office](#).

*The Good Investor* draws on the rich field of existing impact literature. Below are some pointers in relation to specific sections, as well as a list of some of the resources that informed the thinking more generally.

## 2 Analysis

The section on impact analysis drew on *The Good Analyst* (also published by Investing for Good), and Theory of Change frameworks.

The Good Analyst  
<http://www.goodanalyst.com>

Theory of Change  
<https://www.theoryofchange.org/>

Further ideas about evidence can be found in the Nesta's *Standards of Evidence for Impact Investing*, and through the Nesta Alliance for Useful Evidence.

Standards of Evidence for Impact Investing  
[http://www.nesta.org.uk/investment/impact\\_investments/assets/features/standards\\_of\\_evidence\\_for\\_impact\\_investing](http://www.nesta.org.uk/investment/impact_investments/assets/features/standards_of_evidence_for_impact_investing)

Alliance for Useful Evidence  
[http://www.nesta.org.uk/areas\\_of\\_work/alliance\\_for\\_useful\\_evidence/assets/features/alliance\\_for\\_useful\\_evidence\\_faqs](http://www.nesta.org.uk/areas_of_work/alliance_for_useful_evidence/assets/features/alliance_for_useful_evidence_faqs)

As noted in the chapter, there is no definitively established methodology for impact measurement and analysis. The Tools and Resources for Assessing Social Impact (TRASI) website offers a large database of different systems. Among the better known are SROI (Social Return on Investment) and GIIRS (Global Impact Investing Ratings System), though some using SROI have found it hard to arrive at reliable valuations, and that while GIIRS offers good definition on the ESG side, there is less treatment of impact generation. The European Venture Philanthropy Association (EVPA) published a first draft of an impact measurement manual late in 2012.

Tools and Resources for Assessing Social Impact (TRASI)  
<http://trasi.foundationcenter.org/>

SROI  
<http://www.thesroinetwork.org/>

Global Impact Investing Ratings System (GIIRS)  
<http://giirs.org/>

EVPA  
<http://evpa.eu.com/knowledge-centre/how-to-practice-vp/imi-impact-measurement-initiative/>

The Global Reporting Initiative (GRI) is a good resource for general ESG considerations. For cost benefit accounting, HM Treasury's Green Book sets out the UK government guidance and framework for evaluation.

Global Reporting Initiative (GRI)

<http://www.globalreporting.org>

HM Treasury's Green Book

[http://www.hm-treasury.gov.uk/data\\_greenbook\\_index.htm](http://www.hm-treasury.gov.uk/data_greenbook_index.htm)

### 3 Investment Decision and Deal-Making

Investment deal-making involves the setting of objectives and the selection of indicators to use as investment KPIs. For this, the [outcomes matrix](#) can be a useful resource. The outcomes matrix will plug into wikiVOIS, and sync with IRIS (these stages are currently under development).

wikiVOIS

<http://www.wikivois.org/>

Impact Reporting & Investment Standards (IRIS)

<http://iris.thegiin.org/>

### 5 Reporting

The reporting section draws on the Principles of Good Impact Reporting, produced by ACEVO, Charity Finance Group, Institute of Fundraising, NCVO, New Philanthropy Capital, Small Charities Coalition, Social Enterprise UK, SROI Network

Principles of Good Impact Reporting

<http://www.siaassociation.org/wp-content/uploads/2012/05/Principles-of-good-impact-reporting-final.pdf>

### Impact Plan

There is a large volume of information on how organisations can approach defining and measuring their own impact, and establishing their impact plans. The following three — Charities Evaluation Services, Social Audit Network and nef's Proving and Improving toolkit — offer useful entry points.

Charities Evaluation Services

<http://www.ces-vol.org.uk/>

Social Audit Network

<http://www.socialauditnetwork.org.uk/>

Proving and Improving

<http://www.proveandimprove.org/>

### General Resources

Clearly So

<http://www.clearlyso.com>

UK Department For International Development (DFID)

<http://www.dfid.gov.uk/>

Global Impact Investing Network (GIIN)

<http://www.thegiin.org>

London Benchmarking Group (LBG)

<http://www.lbg-online.net/>

National Council for Voluntary Organisations (NCVO)

<http://www.ncvo-vol.org.uk/>

Rockefeller Foundation

<http://www.rockefellerfoundation.org/>

Shujog

<http://www.shujog.org>

Social Finance

<http://www.socialfinance.org.uk/>

Social Reporting Standard

<http://www.social-reporting-standard.de/en>

The Charity Commission

<http://www.charity-commission.gov.uk>

The Urban Institute

<http://www.urban.org>

Triangle Consulting and the Outcomes Star

<http://www.triangleconsulting.co.uk>, <http://www.outcomesstar.org.uk>



All investments, besides making — and possibly losing — money, create change. The things an investment facilitates are an important part of what it really is, and how its performance can best be understood. Harnessing this force for change, and aligning it with an investor's greater sense of value, can be a powerful means to do good, and thereby, in the fullest sense of the words, to make good investments.

Investing for Good was founded in 2004, inspired by the insight that the positive use of money can change the world. It's now 2013, and impact investing is firmly on the rise. It has become an increasingly important approach for governments and international bodies, while breaking new asset classes and gathering momentum among private investors. It has also kick-started a finance revolution across civil society, unleashing a wave of new energy, talent and creativity.

However, while mobilising finance for investor returns *and* social and environmental benefit has become familiar, the tools and processes for how to do it *well* are still emerging. A considerable history of investing has carved out the key financial measures and practices, but, as a society, we have devoted far fewer resources to understanding impact. Investing for Good's response has been to develop the knowledge infrastructure required to invest with a strategic approach to impact. This means the capacity to measure and analyse impact, as well as how to implement it into the way investments are made.

*The Good Investor* is a best practice guide. It provides the sector with a standard framework to support rational and effective decision-making throughout the investment process. It also lays out the essential terms and concepts in use across the sector, and a comprehensive map as to how these fit into impact investment management. It was developed in consultation with the UK's leading social investors and experts, and was commissioned by Big Society Capital.

*The Good Investor* is supported by *The Good Analyst*, which presents Investing for Good's Methodology for Impact Analysis and Assessment (MIAA).

Geoff Burnand  
Chief Executive, Investing for Good

[www.goodinvestor.co.uk](http://www.goodinvestor.co.uk)  
[www.investingforgood.co.uk](http://www.investingforgood.co.uk)

