



IMPACT MEASUREMENT APPROACHES: RECOMMENDATIONS TO IMPACT INVESTORS

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Context

In October 2007, the Rockefeller Foundation convened a group of investors actively deploying capital into private equity, debt and real estate investments that generate financial as well as social or environmental returns. These investors, representing diverse backgrounds, institutional affiliations and investment philosophies, met to discuss how significantly greater amounts of capital could be placed more effectively into what they called “impact investments.” The group, which named itself the Rockefeller Impact Investing Collaborative (RIIC), specifically identified the lack of clear, consistent, credible impact information as an impediment to achieving greater scale in this sector.

The group made it a priority to understand what methods exist for identifying and measuring impact, and to examine whether and how they might build on existing work to implement a common system of measurement. Following the meeting, the Rockefeller Foundation commissioned us, the Social Venture Technology Group (SVT), to conduct a survey of existing impact measurement methods suited to the private equity and debt context, and to advise RIIC members on how they might proceed. The results of this work are presented in two documents: **Catalog of Approaches to Impact Measurement**, a summary of the range of methods that exist, and this report, **Impact Measurement Approaches: Recommendations to Impact Investors**, which succinctly captures our analysis and recommendations to the RIIC. It is our hope that this information and analysis will contribute to a more coordinated and effective approach to impact measurement.

The prospect of factoring environmental and social impact into returns analysis is at the same time fundamental and extremely complex. It begs several questions, such as:

- How can investors know whether they are in fact helping or hindering progress toward the goal of an environmentally sustainable, healthy, dignified economy?
- How does a portfolio company's pursuit of this goal affect risk and financial returns?
- If there is an added cost associated with pursuing this goal, what approach can be used to assess whether it is “worth it”?

Furthermore, like any emerging industry, impact investing is beset by inefficiencies arising from poor coordination, duplicative activity, and confusion over language. Standardized approaches to impact measurement are one important way to lessen the friction that hinders capital formation and scale for impact investments.

It is natural to hope to find a single, turnkey solution that can address all measurement needs. We conducted a survey of impact investors and complemented it with our empirical experience since 2000 in the field of impact investing to discover what these investors want from impact measurement, and conducted in-depth interviews with approximately twenty entities that have developed and implemented approaches² to measuring impact. This survey of existing approaches was thorough but surely is not comprehensive, however the approaches are a good representation of the current state of play. What we found is that there is not one single measurement answer. Instead the answer depends on what solution is most appropriate for a particular investor’s “impact profile” defined as the investor’s level of risk tolerance and desired financial return, the particular sector in which the investor operates, geography, and credibility level of information about impact that the investor requires.

For ease of analysis, our framework divides the universe of impact profiles into three core perspectives: that of the limited investor, that of the direct investor, and that of the portfolio company itself. We include

² By approach we mean a named, documented process that is used to assess either the actual social and/or environmental impact of a private organization's activities or leading indicators of that impact. We use approach and method interchangeably in this report.

the portfolio company perspective because the portfolio company is the ultimate source of value and impact, and of information about them. We also describe four investor mindsets or personas that can occur within any of the investor types. Finally, our framework considers three types of measurement approaches: impact ratings, impact assessments, and impact management systems.

Within each type of approach there are sector-specific approaches, and more general, cross-cutting approaches. There are solutions that prove impact to a social science standard of credibility, and there are solutions that rely entirely on company self-report of leading indicators of impact but are much more feasibly implemented. This analysis examines how each is applicable to the various perspectives from which impact investors approach investment.

Recommendations

Our analysis yields the following recommendations that apply to both the Rockefeller Impact Investors' Collaborative and others engaged in impact investment.

Recommendation #1. ADD VALUE TO COMPANIES. If the information is not valuable to the portfolio company in that it advances its core strategy, increases its profitability, or both, it will be a waste of the company's time to track, and the credibility of the information obtained will in most cases be low.

Recommendation #2. ASK FOR MEASUREMENT OF NET RESULTS. Impact investors should ask investees to measure and communicate the significant impacts—positive and negative—of their operations. It is worth noting that this can be requested whether the investee considers itself an “impact investment” or not.

Recommendation #3. SCREEN UP FRONT FOR ALIGNMENT WITH IMPACT GOALS. At due diligence, both investors and portfolio companies should do a litmus test of their prospective investor's or investee's potential impact to ensure alignment with basic standards, specific goals, or both. This can be simple and cost little or nothing...once one has defined what one's goals are.

Recommendation #4. ADOPT AN INDUSTRY-WIDE RATING OF BASIC STANDARDS. This rating system should be simple and use a transparent approach to defining the criteria by which companies are assessed. It should focus on achievement of full potential rather than minimum standards, and utilize mass customization techniques and/or semi-dynamic versioning of the criteria.

Recommendation #5. ADOPT A COMMON DOCUMENTATION PROTOCOL. Regardless of measurement approach, investors should be consistent in the way in which they document the scope, units of measurement, time period, source and key assumptions that correspond to the result being measured. A public online database should house these essentials to facilitate coordination extracted from results or other content where privacy is a concern.

Recommendation #6. PRESENT RESULTS IN A CONSISTENT FORMAT. Regardless of approach, some basic, common information design guidelines would significantly reduce the time investment required by readers to understand impact reports.

Recommendation #7. ADOPT A PPI-LIKE APPROACH TO THE IMPACTS OF BROADEST CONCERN. The Progress out of Poverty Index (PPI), which gauges poverty alleviation, offers a productized solution

to high quality outcome assessment using a short list of easily verified leading indicators, whose correlation with the outcome has been scientifically proven. The potential of PPI-like indices for other kinds of cardinal impacts should be assessed.

Recommendation #8. BE ACCOUNTABLE FOR IMPACT. To ensure that results follow intentions, impact goals should be integrated into how investors are hired, compensated, and promoted.

Recommendation #9. SUPPORT R&D FOR ASSESSMENT OF THE RELATIONSHIP BETWEEN IMPACT AND FINANCIAL RETURN. The ability to measure and manage added financial return is the primary shared interest of impact investors, but existing approaches remain weak in this area and development is needed. Methods moving in this direction should be supported in their efforts.

Recommendation #10. COMMIT PUBLICLY. When impact information is collected simply and efficiently, it becomes a resource with the potential to improve risk management and financial returns. Allocate a percentage of assets for which information about impact will be assessed.

The reasoning that supports all recommendations is laid out in the report sections that follow.

Key Concepts

Impact investment is private equity, debt and/or real estate investment that generates measurable financial as well as social or environmental returns beyond comparable industry standard investments. Impact investors and their investees explicitly seek to generate both financial and these extra-financial returns.

In business the concept of an addressable market means the total potential market for a product or service, measured in dollars of revenue per year. Analogously, the *addressable impact* describes the quantifiable size and scope of the specific problem or issue that a given impact investment has the potential to realize within a given period of time (for example, to eradicate 5% of all carbon emissions produced in a given industry, or to slow by half the current 20% per year rate of increase in new cases of a given disease among a certain population). Defining the addressable impact facilitates impact measurement by investors and companies alike.

INVESTOR PERSPECTIVES

The relationship of the investor to the investment affects the nature of the information the investor needs about impact.

Limited partners (LPs) are investors who invest in portfolio companies via direct investors, called general partners (GPs). Generally, LPs seek to evaluate their fund managers by the sum of the underlying portfolio impacts and return on investment, and may track other metrics that are specific to the fund manager.

Direct investors deploy capital directly into portfolio companies. Generally they seek to understand the significant impacts of each portfolio company, as well as the relative efficiency of impact creation from one company to another when comparisons are appropriate.

Portfolio companies include companies that seek and receive capital from direct investors, and investment funds that seek and receive capital from limited partners. In the impact investing arena, both seek tools to determine whether those investors' goals are aligned with their financial and impact value propositions, and to manage their own growth in a way that maintains and reinforces its positive impact rather than undermines it.

It is worth noting that *investment advisors*, professionals who advise and/or manage the assets of investors, also play a very important role in impact investing. Advisors seek tools by which to construct portfolios that not only balance financial risk and return over time but also take into account social risk and return. They may at different times view impact from the perspectives of both limited partners and direct investors. This report is addressed to them as well.

DEFINING THE FUNCTIONS OF IMPACT MEASUREMENT APPROACHES

From the point of view of investors, the primary applications of an impact measurement approach are in the up-front *screening* of investments during due diligence, and then once the investment has been made, in periodically *summarizing results* and/or *managing ongoing performance*, depending on the degree of engagement. Within either of these two fundamental functions it is possible to look at *specific* impacts, such as carbon reduction or poverty alleviation, or to gauge *general* indicators of whether an investee has all the key bases covered (e.g. environment, health, economic, etc.) to a minimum standard. If impact investors adopted a screen test for every investment, a general approach would be appropriate.

FUNCTION:	SCREENING "Rating System"	SUMMARIZING RESULTS "Assessment System"	ONGOING TRACKING "Management System"
GENERAL			
SPECIFIC			

A key dichotomy within ongoing tracking is whether the methodology actually measures the real *outcomes* or *impacts* that result from the portfolio company’s work, or tracks *leading indicators*, or proxies of that impact.

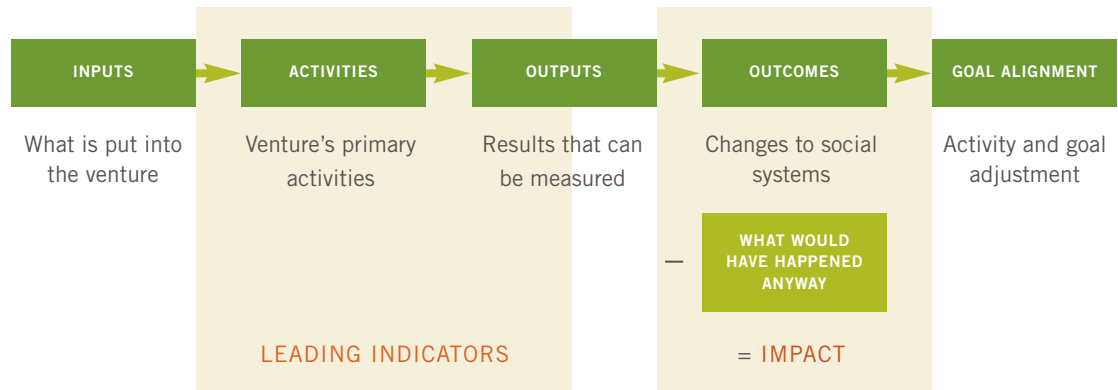
Leading indicators are practices and products and byproducts (*outputs*) that a company itself can measure or assess directly. These are generally intended to serve as proxies for impact. For example, leading indicators for a foam company that uses technology to incorporate recycled foam instead of using new chemicals could be the number of tons of foam recycled, and the kilowatt hours of energy used.

Outcomes are the ultimate changes one is trying to make in the world, as well as the intended and unintended side effects of the business. For the foam company, outcomes could include the emissions avoided and water not consumed as a result of the reduced amount of chemicals used to produce foam, the related cost savings to the company, and the carbon emitted as a result of additional energy consumed in recycling.

Impact refers to the portion of the total outcome that happened as a result of the activity of the venture, above and beyond what would have happened anyway. In social science, one needs what is called a “counterfactual” to compare to the experimental state in order to discern the effect of the dependent variable from among all other factors that could be causing a change. In the context of impact investing, net impact may be determined by the outcomes of a company relative to an industry standard comparison.

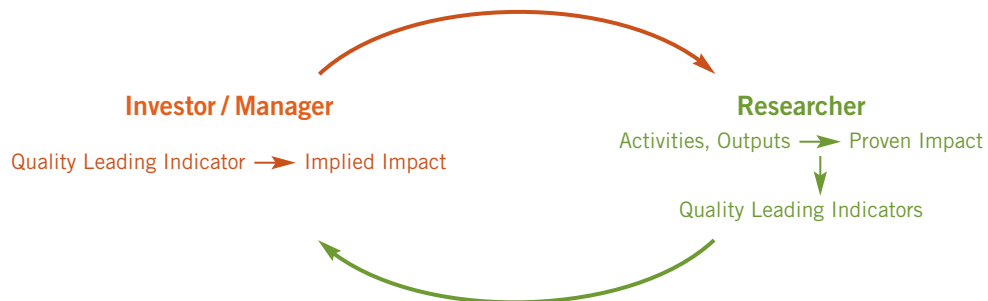
The relationship between leading indicators (generally activities and outputs), and outcomes and impact is summarized in this simplified illustration of impact creation, called the *impact value chain*.

Impact Value Chain



Based on the Impact Value Chain in *The Double Bottom Line Methods Catalog*, Clark, Rosenzweig, Long and Olsen and The Rockefeller Foundation, 2003.

A critical concept is the *quality leading indicator*. A quality leading indicator marks the difference between something that's easy to count but unrelated to actual impact, and something that's countable but it is in fact a valid proxy for impact. A new relationship is emerging between researchers and investor/managers, wherein researchers prove through experimental studies what actions cause impact, and investor/managers grow enterprises that perform these actions on a large scale. The critical question is whether the actions in practice are being done in a manner that in fact delivers the desired results. It is possible to gauge this to a reasonable degree of credibility via a proxy of actions and/or outputs that have been determined by researchers to be leading indicators of impact, and which can be easily measured by management during the course of regular operations.



PROCESS VERSUS IMPACT

While sometimes the fact that a process exists can be a proxy for an outcome or impact, it is not synonymous with the impact itself. It is critical to articulate the difference when designing a measurement system, lest activities done with the intent of creating results be confused with the results themselves, and one loses sight of whether the intent is realized.

Finally, it is important to note that companies create impact both internally and externally. *Internal impact* includes the impact on employees' health and economic security, the environmental effects of the company's supply chain and operations, and impact on issues of access, fairness and trust in company policy and management practices. *External impact* includes the health, economic, environmental, and other effects on parties outside the company such as customers and communities. While it is easy to overlook internal impact in early stage ventures, this is the time to bake practices into the company's DNA that will shape the larger internal impacts as the company matures.

Impact Investor Perspectives

Why is impact information needed now when it was not needed previously? The answer varies by investor perspective, with some overlap, as shown here.

Overlap in Primary Motives for Measuring Impact

MOTIVE	CORE VALUE	ACCOUNTABILITY	PERSUASIVE INFLUENCE
Limited Partners	Positive impact is recognized as a fiduciary duty and in some cases, an integral part of the mission.	...to board, beneficiaries, media and the public.	Credibility to peers as "impact investor"
Direct Investors	Positive impact is recognized as a source of opportunity or risk mitigation, and the right thing to do.	...to limited partners and peer investors.	Influence to attract other investors
Portfolio Companies	Positive impact is a primary reason for the company's existence.	...to investors, customers and employees.	Influence to attract investment

COMMONALITIES: WHAT MAKES AN APPROACH VALUABLE TO IMPACT INVESTORS?

Almost all of the RIIC and other investors consulted in this research said impact information would be most valuable if it helped them understand how to increase their financial return or lower their risk. While this may seem obvious, our analysis suggests that approaches serving this need are currently nascent at best.

The next most valuable use for this information is as a way to attract more investment capital into impact investing. On a related point, several investors articulated a desire to prove to their own investors and peers that a social investment is not merely a bad investment. They voiced a need for different metrics, rather than IRR alone, to measure potential and current success. Said one RIIC member, we need "a more uniform approach to this arena rather than going on a case-by-case basis."

In terms of utility, investors said they would use an impact measurement approach most often as a prescreening tool and as a post-investment tool to assist them in meeting their social mission and financial objectives. Actually calculating potential impact (scenario modeling) was a secondary use for some, while facilitating partnerships or informing exit decisions was generally not seen as an application to which an impact assessment approach would be put.

Investors also expressed a need to be able to evaluate and manage the difficulty of and overhead required for impact assessment, especially when dealing with overseas investments and investments in emerging markets, although the tolerance for effort and expense varied. Many said a standardized, universally accepted approach to quantifying social impact was critical, even as the nature of the particular impacts measured by such an approach might be diverse.

Seeking impact information is still at the vanguard of investment practice overall, and one RIIC member noted that "for some target markets some of this is premature, however once awareness and mainstream processes are in place, this will help facilitate the flow of capital."

DIFFERENCES: WHAT MAKES AN APPROACH VALUABLE TO SOME AND NOT TO OTHERS?

Despite these commonalities, RIIC investors differ not only in the IRR they seek for a given asset and risk level, but also in the specific sectors, regions and environmental or social issues they wish to understand or

address. For example, some are satisfied to know that an investment meets certain consistent, minimum standards of environmental and social performance that are applied to all companies, without needing to quantify actual results, while others are specifically interested in understanding the nature of the impact created within their industry (such as finance or energy), issue area (such as poverty or climate change), or geographic region (such as Mozambique or Montana).

Investors also differ in how proactively they want to make use of this information. Direct investors, who generally take a more proactive approach than limited partners, may regularly use impact information to help their investees refine their business models and inform strategy, while “limiteds” may want to verify during due diligence the capability of a portfolio investment to generate impact but want to receive only annual summary information thereafter.

Also, the audiences to whom an investor’s impact information must be credible should be reflected in the design of that investor’s impact measurement approach. Finally, while impact investors share a desire to influence the flow of capital into impact investments, they vary in their desire to play a role in leading this change.

A few comments on what RIIC investors said was not particularly important: they were generally not concerned with determining how much impact was specifically attributable to their investment dollars as opposed to the portfolio company’s efforts. Instead, for investors the key criterion is contribution, meaning visibility into the extent to which a contribution to the issue in question has been made by the portfolio company.

Impact Measurement Approaches Summary

THE CAPITAL SUPPLY CHAIN: INVESTOR PERSPECTIVES

Approaches can be categorized into three subtypes: Ratings, Assessments and Management Systems. Within this broad categorization, individual approaches vary in terms of comprehensiveness (whether the approach focus on a small subset of the company’s impact or captures all significant impacts in all impact areas), stage of impact (meaning the degree to which they actually go the end of *proving* impact in a verifiable way as opposed to implying impact), and in their “modularity,” meaning the degree to which they allow the user the option of applying the approach in a more limited versus a more comprehensive way.

We chart these three types in **Appendix A: Approach Summaries by Type**. *Note that some of the approaches fall into more than one category, depending how they are used.*

1. IMPACT RATING SYSTEMS

Ratings provide a quick signal to audiences about whether an investment is or is not of a certain quality, and in some cases speak to the likelihood that a given outcome will be achieved. They are represented by a summative mark (such as the USDA organic seal), star rating (such as Michelin for restaurants) or quantitative point score (such as a consumer’s FICO score), sometimes backed up by a discussion of the basis for the rating. The underlying basis for the rating is predetermined and applied the same way to all companies or categories of companies. Ratings are found in every market where investors must assess the likelihood of getting their money back. In impact measurement, we use *rating systems* to mean approaches that effectively rate the likelihood of achieving intended social or environmental returns.

Ratings tell only part of the story: a star does not automatically provide a frame of reference the way a

dollar value or a descriptive narrative can. In capital markets, ratings help large amounts of money move quickly, but do not allow analysis of a company's strengths unless one goes under the hood to see what the rating is based on.

Furthermore, the same rating scheme may be applied differently to different organizations, so the greater the variability among rated entities, the less credible the rating. Even in conventional financial analysis of mature asset classes it can be difficult to ensure consistent and fair application of ratings, as demonstrated by the fact that municipal bonds in the US have been held to higher standards than corporate issuers (and therefore pay more for their capital) despite offering equal risk to investors. Ratings systems must be based on criteria that are fair to all entities to which they are applied: this is a particularly difficult bar to meet, especially when investments are in both new markets and new industries.

No minimum standard for what constitutes an impact investment yet exist that is applicable to all sectors in all world regions. In the United States, B Corporation certification is the emerging standard for small- and medium-sized enterprises (SMEs) generally. The B Ratings System on which it is based integrates components of many other impact measurement approaches, but where it has left out specifics for the sake of wide applicability, additional standards could supplement, such as LEED certification for issues specific to green building or Fair Trade certification for issues specific to (an increasing number of) agricultural and handcraft products.

A rating system that accurately gauged underlying social and environmental value in context could motivate transparency and improvements in impact, and would be especially appropriate for use by investors in a less proactive asset management mode. However, it would not on its own solve the problem of impact measurement.

2. IMPACT ASSESSMENT SYSTEMS

The second type of approach allows investors to periodically evaluate characteristics, practices, and/or results of portfolio investments. We refer to these as *impact assessment systems*. Most offer a fixed approach and a set of metrics that can in some cases be partially customized or modified to meet an investor's particular preferences. They yield both quantitative and qualitative information. Some allow 100% customization of the metrics, but adhere to consistent set-up and data collection processes and reporting protocols.

Impact assessment systems allow the investor to evaluate a company's strengths and weaknesses according to a consistent set of categories or impacts, as well as in terms of the company's particular target impact. Impact assessment systems may be based on leading indicators or proxies for actual impact, or on actual impact results physically tracked over time. In some cases, but not all, approaches include comparison of company results to a benchmark to further elucidate the actual impact of the company's work compared to what would likely have happened in its absence or compared to peers.

If utilized periodically, these tools could inform the management practices of the portfolio organization, but they are not primarily designed for the portfolio organization's use and need not be integrated by the portfolio company into its decision-making processes. That is where the final category of impact approach comes in: Impact Management Systems.

3. IMPACT MANAGEMENT SYSTEMS

Impact management systems allow organizations to more effectively and efficiently "manage to impact" in real time. They provide granular operational detail, and therefore exceed investors' needs but can be used by investors and investees to proactively manage risk or add financial value, as well as increase impact. Some systems offer a predefined set of metrics to which organizations can add; others allow complete customization of metrics.

At this time it goes beyond the needs of the RIIC members as a whole to recommend an impact management system, so none in the Appendix table are highlighted; however, we consider it a best practice for portfolio companies to maintain such a system in some form.

UTILITY OF APPROACHES RELATIVE TO INVESTOR PERSPECTIVE

Impact investors say their top priority functions for an approach are: an up-front litmus test that covers basic across-the-board standards for social and environmental qualities; measurement of specific impacts; and ongoing tracking of performance either in terms of basic standards or specific impacts. Rating and/or Assessment Systems that can be applied generally would be an appropriate starting point for the majority of impact investors. The chart below shows roughly which approaches are most useful to which investor perspectives.

Utility of Approaches to Different Investor Perspectives

FUNCTION:	SCREENING "Rating System"	SUMMARIZING RESULTS "Assessment System"	ONGOING TRACKING "Management System"
GENERAL	Limited Partners	Limited Partners	Limited Partners Direct Investors
	Direct Investors	Direct Investors	Portfolio Companies
	Portfolio Companies	Portfolio Companies	Portfolio Companies
SPECIFIC	Limited Partners	Limited Partners	Limited Partners Direct Investors
	Direct Investors	Direct Investors	Portfolio Companies
	Portfolio Companies	Portfolio Companies	Portfolio Companies

Additional summary analysis of the state of impact measurement approaches around the world can be found in the *Catalog of Approaches to Impact Measurement*.

Discussion of Impact Measurement Approaches

CORRELATING IMPACT AND FINANCIAL RETURN

All the Rockefeller impact investors and other investors we consulted said that impact information would be most valuable if it illuminated the relationship of financial return to impact. However, our analysis identified only one approach that explicitly intends to address this need: the HIP (Human Impact + Profit) Framework. While a focus on the relationship of financial return to impact is the explicit design intent of the HIP Framework, the model is less than two years old and the component of the model that addresses this, "financial alignment," is still in development. However, if the vision is an indication of how the approach will develop, this is the best hope for serving this need.

UNIVERSAL IMPACT METRICS

Impact investors have said they need a standard for impact information: information derived in a consistent manner that is verifiable and feasible for portfolio companies and investors to maintain. There are two basic techniques to tackle the need for standardized information. One is to use a pre-defined list of metrics. The other is to select metrics on a company-specific basis, but using a consistent methodology.

The approaches documented here that are designed to apply the same set of metrics to companies across the board, and to touch on a comprehensive set of environmental and social considerations for companies in all industries, are the **B Ratings System** and the **HIP Framework** and **Trucost**. The B Ratings System considers five stakeholder perspectives (consumers, employees, suppliers, community and environment); while HIP considers five categories of impact (health, wealth, earth, equality and trust) for three stakeholder groups (customers, employees and suppliers) and plots them relative to five management practices, and Trucost focuses on the comprehensive environmental impacts of business operations across industries. In terms of accessibility the B Ratings System is furthest along, having launched a web-based interface in 2007 by which companies can assess themselves. (B Lab is also recruiting investors for whom it will customize its online interface so they may access and manage portfolio company information).

The **SROI Analysis Framework** is designed to arrive at impact metrics that focus on outcomes per dollar and that are appropriate to any given company or portfolio through a consistent process. The SROI Framework is essentially a procedural standard for how companies should properly measure their impact, rather than a content standard like the approaches described above that dictate what qualifies as impact investment. As such the SROI approach works as a complement to content standards. It is the basis for several other methods in our study including CalPERS's Environmental Performance Monitoring System, Pacific Community Ventures's SROI Analysis, the "PROI mutual fund" concept of the New Progressive Coalition, and the Global Social Benefit Incubator's SROI Lite.³

SECTOR-SPECIFIC METRICS

In terms of sector-specific metrics, the impact areas with the most widely accepted metrics are fair trade for certain foods, carbon footprinting, and green building. The sector that has the clearest standards is green building. Two sub-sectors of the financial services industry are also coming close to standards with wide adoption: microfinance and community development venture capital. Many players in these fields have devoted significant time and resources over many years to arrive at a simple set of indicators that can be linked to desired outcomes.

More disparate efforts are to be found in other areas — human services, workforce development, youth development, some aspects of health, sustainable forestry, organic agriculture, ecotourism and green chemistry to name a few. Some of these efforts are very new, others more developed.

Among sector-specific approaches, one that stands out is the **Progress out of Poverty Index (PPI)**. An exciting development illustrating how sector-specific outcome measurement can both meet a high credibility standard and be packaged in a form that makes it quite feasible for companies to apply, the PPI quantifies poverty outcomes by tracking 5-10 client indicators (using questions such as "what material is your roof made of?", "do you have a radio or television in the home" etc.), which are collectively highly correlated with poverty levels. These standardized indicators are linked through peer-reviewable statistical analysis to a specific outcome, such as poverty alleviation. These questions are asked of microfinance lendees prior to investment and periodically thereafter. In the aggregate, the responses show what a group's poverty status is and establish the group's movement relative to the poverty line over time. The PPI offers the best credibility

³ The concept of assessing financial return on investment driven by non-financial outcomes is visible particularly in the healthcare industry (e.g. Robert Wood Johnson's "Return on Investment Forecasting Calculator for Quality Initiatives").

to feasibility ratio of any approach. While it would not allow an entity to prove attribution (e.g., that the reason a group is moving out of poverty is because of its intervention and not because of the weather), it would help an investor understand the profile of an investee in terms of a particular addressable impact, how it might compare to other investees, and whether improvement was happening over time. This level of insight would be sufficient for the purposes of most impact investors.

If the needed dataset is available, constructing a PPI-like set of leading indicator items to track regularly is very affordable. However, the feasibility of creating PPI-like indices for other kinds of social or environmental outcomes, such as aspects of health, biodiversity, or educational attainment, would vary widely in complexity based on the nature of the outcome to be assessed and the availability of data.

NOTES ON IMPLEMENTATION

If investees report results out of context, not relative to either the industry standard or the addressable impact, it is impossible to tell whether progress is ultimately being made. Experienced impact investors find that the commitment to report impact must be written into investment agreements up front or it will not happen. Verification by expert review of both the choice of indicators and the reported results is the ideal standard, but at a minimum, reporting should ensure that portfolio organizations are aware of what their significant environmental and social impacts are, and can identify potential risks associated with them. A third party with specialized expertise can aggregate and report data from funds and/or portfolio companies for the sake of efficiency and to reduce the burden on them.

Once the paperwork is done, if it is left to investees to decide how they measure, investors should ensure that they follow the documentation protocol noted in Recommendation #5. To realize the shared goal of increasing the flow of investment to impact investing, it is critical that results be credible and able to be aggregated. We are not yet at a point where it is predetermined what any given portfolio company in any given industry should measure. Therefore, the next best thing is for each investor, regardless of *what* it measures, to lay the groundwork for greater standardization by clearly documenting the *reasoning* behind its measurements, and to make this reasoning — separate from results, which may be confidential — available in a public database. Specifically, investors should document the scope, sources, units of measurement, and time periods they have applied to a given portfolio company's impact assessment. Over time, the measures most valuable for given sectors and geographies will rise to the top. In the meantime, the existence of transparent logic and sources will mean that all data collection efforts can reduce the friction around obtaining information about what actually works.

Related, there is a need for standardization of the order and layout of impact reports. Imagine an annual report in which a company's CFO got to decide in what order she/he would put the line items in the financial statements: readers would waste a lot of time simply trying to make heads or tails of the information. This is the situation faced by the impact investment world today, because sufficient attention has not yet been paid to the most user-friendly information design and formatting.

Finally, management best practices suggest that the best outcomes will be had if investors and managers incentives are aligned with the creation of impact. When GE created Ecoimagination, it tied bonuses and promotions to the attainment of carbon reduction goals. This approach should be a model for impact investors to align the motives of those within their own organizations with those in their portfolio companies.

Conclusion

The capital markets would benefit from systematic, credible information about the environmental and social impact of every company. Not only would this information allow certain risks to be better managed and potential additional return to be captured, but it is now a generally accepted moral imperative to align economic return with a halting of contribution to climate change and biodiversity loss, and arguably with access to the means to a sustainable livelihood for all. As some of these challenges become more urgent in the global public's mind, bringing market incentives and entrepreneurial innovation to bear on solving them seems right.

There is therefore a need for the development and application of new methods by which companies and investors can better measure, manage and communicate information about their impact. This is particularly true in the case of companies operating privately and/or in regions where regulatory enforcement of minimum environmental, health, safety and governance standards is weak — exactly where most standards rooted in the corporate social responsibility movement leave off.

A combination of factors is causing private companies to produce information they are not pressured by their shareholders to produce. The proof of concept exists for a number of steps investors can take today to understand the impact of their entire portfolios, manage risk, and proactively grow specific “core competency” impacts that deliver added business value. If these steps bear the fruit at scale that they have demonstrated in practice to date, we predict that some version of the methods described above will become the de facto standards for all investors. Impact investors can catalyze this evolution by taking these steps in concert.

Appendix A: Approach Summaries by Type

Back to Impact Measurement Approaches: Recommendations to Impact Investors

The methods summarized here are roughly arrayed from left to right with those at left being less comprehensive, lower in terms of stage of impact, and less modular, and those at right being more so. Note that some of the approaches fall into more than one category, depending how they are used and which facets of them are being described. Those considered to have aspects particularly useful for the RIIC are highlighted in yellow, as discussed in the report.

Rating Systems

	MOVEMENT ABOVE \$1 A DAY THRESHOLD, MICROCREDIT SUMMIT CAMPAIGN	B RATINGS SYSTEM, B LAB	HIP FRAMEWORK, HIP INVESTOR AND SVT GROUP	PPI (PROGRESS OUT OF POVERTY INDEX), GRAMEEN FOUNDATION AND DR. MARK SCHREINER	SOCIAL RATING, M-CRIL	FAIR TRADE CERTIFICATION	COMPASS INDEX OF SUSTAINABILITY, ATKISSON, INC.	LEED (LEADERSHIP IN ENERGY AND ENVIRONMENTAL DESIGN), US GREEN BUILDING COUNCIL
CUSTOMIZABILITY TO INDIVIDUAL INVESTOR PREFERENCES:	None	Low	Moderate	None	None	None	Low	Low
SPECIFICITY TO SECTOR OR ISSUE:	High; limited to poverty and nation	Moderate where already defined, limited to mfg., service and X but additional versioning underway	High, customized by application	High; limited to poverty and nation	High; limited to poverty	High; limited to certain agricultural products	Low	High; Building construction. Project-specific requirements exist for 15 or so types.
MODULARITY:		Moderate	Moderate	Low	Low	Low	Low	Low
IMPACT STAGE OF DATA:	Actual	Implied to Actual	Implied to Optimized	Actual	Implied to Actual	Actual	Implied to Actual	Implied
TIME COST TO INVESTOR:	None to Moderate	None to Moderate	None	None to Moderate	None	None	Moderate	None
TIME COST TO INVESTEE:	Low to Moderate	Low	Low	Moderate	Very Low	Low	Moderate	High
FREQUENCY OF UNDERLYING DATA UPDATE:	Fixed framework, ongoing for investee data	Biennial for both framework and investee data	Yet to be defined for framework, annual for investee data	Every few years for framework itself, ongoing for investee data	Fixed framework, ongoing for investee data	As needed for framework, annual for investee	Fixed framework, annual for investee data	Initial verification only
FREQUENCY OF USAGE BY TYPICAL INVESTOR:	Prior to investment; then periodic, as needed	Prior to investment; then periodic, as needed	Annual	Annual	Prior to investment; then periodic, as needed	Prior to investment; then periodic, as needed	Prior to investment; then annual	Prior to investment

Assessment Systems

APPROACH NAME AND LEAD DEVELOPER/IMPLEMENTER	SROI CALCULATOR, CALVERT FOUNDATION	SIA (SOCIAL IMPACT ASSESSMENT), GLOBAL SOCIAL VENTURE COMPETITION	PROI (POLITICAL RETURN ON INVESTMENT, NEW PROGRESSIVE COALITION	PDMS (PORTFOLIO DATA MANAGEMENT SYSTEM), ACUMEN FUND	B RATINGS SYSTEM, B LAB	HIP FRAMEWORK, HIP INVESTOR AND SVT GROUP	SROI ANALYSIS, PACIFIC COMMUNITY VENTURES	RISE (REAL INDICATORS OF SUCCESS IN EMPLOMENT), REDF	EPRS (ENVIRONMENTAL PERFORMANCE REPORTING SYSTEM), ENVIRONMENTAL CAPITAL GROUP	SROI FRAMEWORK, NEF, SCHOLTEN & FRANSSEN, SVT GROUP	DALBERG APPROACH, DALBERG GLOBAL ADVISORS	DOTS (DEVELOPMENT OUTCOME TRACKING SYSTEM), INTERNATIONAL FINANCE CORP.	TRUCOST FOOTPRINT, TRUCOST PLC	ECOLOGICAL FOOTPRINT ANALYSIS, GLOBAL FOOTPRINT NETWORK	CHAT (CHARITY ASSESSMENT TOOL), NEW PHILANTHROPY CAPITAL
CUSTOMIZABILITY TO INDIVIDUAL INVESTOR PREFERENCES:	Low to Moderate	N/A; designed for company users	Moderate to High	Moderate	Low to Moderate	Moderate to High	Low to Moderate	N/A; designed for one investor	Low to Moderate	Moderate to High	Moderate to High	Moderate to High	Moderate	Moderate	High
SPECIFICITY TO SECTOR OR ISSUE:	Moderate; specific to job and housing creation and small business lending	High; applicable to any	Moderate; specific to nonprofits in range of policy-related areas	High; applicable to any	Low to moderate; specific to manufacturing, services and consumer goods, others planned	Moderate to High	High; specific to job creation and quality	High, specific to workforce development enterprises	High; specific to environmental technology	High; applicable to any	Moderate; specific to international development-related projects	Moderate to High; specific to international development-related projects	Moderate; modules exist for SIC coded industries. Commissioned analyses are possible.	Low in general, moderate in case of commissioned analyses.	High
MODULARITY:	None	Moderate	Low to Moderate	Low to Moderate	Moderate	Low to Moderate	Low	Low	Low	Moderate to High	Moderate to High	Moderate to High	Low	Low	Low
IMPACT STAGE OF DATA:	Implied to Actual	Implied to Actual	Implied to Actual	Implied	Implied to Actual	Implied to Actual	Actual	Actual	Actual	Implied to Actual	Implied	Implied to Actual	Implied	Implied to Actual	Implied to Actual
TIME COST TO INVESTOR:	None	None	Moderate to high to set up, then low to moderate to maintain	Low to Moderate	None to Moderate	Low to Moderate	None to Moderate	Low	Low	Moderate to High to customize, None to Low to maintain	Moderate	Data Not Available	Low	Moderate to High	Moderate
TIME COST TO INVESTEE/ PORTFOLIO COMPANY:	Low	Low	LoModerate to high to set up, then low to moderate to maintainw	Low to Moderate	Low to moderate to set up, low to maintain	Low to Moderate	Low to Moderate	Low to Moderate	Low	Low to high to set up, low to moderate to maintain	Moderate to High	Data Not Available	Low	Moderate to High	Moderate
FREQUENCY OF UNDERLYING DATA UPDATE:	Annual	One-time	Ongoing, annual minimum	Fixed for approach; quarterly for company data	Biennial for both framework and investee data	As needed, but at least annual	Quarterly to Annual	Ongoing	Fixed for approach; annual for company	Fixed for approach; varies for company data	Fixed for approach; varies for company	Fixed for approach; varies for company but at least annually	Annual	As needed	As needed
FREQUENCY OF USAGE BY INVESTOR:	Periodic, as needed	Prior to investment	Periodic, as needed	Quarterly or annual	As needed	As needed, but at least annual	Annual	Annual	Annual	As needed	Varies, but primarily prior to investment	Fixed for approach; varies for company but at least annually	Periodic, as needed	Periodic, as needed	As needed, but primarily prior to investment

Management Systems

Note: Those in light green are considering developing impact management tools but have not yet built this capability.

	SROI LITE, GLOBAL SOCIAL BENEFIT INCUBATOR AT SANTA CLARA UNIVERSITY	SOCIAL PERFORMANCE MANAGEMENT (SPM), IMP-ACT	BALANCED SCORECARD AS APPLIED BY NEW PROFIT, INC.	DEMONSTRATING VALUE, VANCITY	SROI TOOLKIT, SVT GROUP	OASIS (ORGANIZATIONAL ASSESSMENT OF SOCIAL IMPACTS), REDF PORTFOLIO	HIP FRAMEWORK, HIP INVESTOR AND SVT GROUP	PDMS (PORTFOLIO DATA MANAGEMENT SYSTEM), ACUMEN FUND	B RATINGS SYSTEM, B LAB
CUSTOMIZABILITY TO INDIVIDUAL INVESTOR PREFERENCES:	Moderate	N/A; at present tools are intended for company users	Moderate to High	N/A; at present tools are intended for company users	Moderate to High	N/A; designed for one investor	TBD	TBD	TBD
SPECIFICITY TO SECTOR OR ISSUE:	High; applicable to any	High, specific to microfinance	High; specific to education	High; applicable to any	High; applicable to any	High, specific to workforce development enterprises	TBD	TBD	TBD
MODULARITY:	None	Moderate to High	Moderate	High	Moderate to High	Moderate to High	TBD	TBD	TBD
IMPACT STAGE OF DATA:	Implied to Actual	Implied to Actual	Implied	Implied to Actual	Implied to Actual	Implied to Actual	TBD	TBD	TBD
TIME COST TO INVESTOR:	None	None	Moderate to customize, then low	None	Low to Moderate	NoneLow	TBD	TBD	TBD
TIME COST TO INVESTEE:	Low	Low to Moderate	Moderate to high to customize, then moderate	Moderate to high to customize, then low to moderate	Low to High	Moderate to High	TBD	TBD	TBD
FREQUENCY OF UNDERLYING DATA UPDATE:	Ongoing	Ongoing	Ongoing	Varies	Ongoing	Ongoing	TBD	TBD	TBD
FREQUENCY OF USAGE BY TYPICAL INVESTOR:	Periodic as needed	N/A; at present tools are intended for company users	Quarterly	N/A; at present tools are intended for company users	Periodic, as needed	Annual	TBD	TBD	TBD