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Assessing impact investing
Five doorways for evaluators

EDWARD T. JACKSON AND KARIM HARJI

Demand for evaluation services is growing in the impact investing industry. Yet, much of the evaluation community remains unaware of the industry and its performance assessment requirements. This paper proposes five channels, or doorways, through which professional evaluators can learn about and engage with the field of impact investing.

Impact investing involves the unlocking and placement of capital to achieve social or environmental impacts as well as financial returns. For example, outcome-based financing approaches are receiving increased attention and experimentation as a means of mobilizing private capital to finance public services.[1] More broadly, the field of impact investing is part of a larger international effort to develop and scale-up innovative financial products and services aimed at addressing the complex global problems of poverty, unemployment, climate change and disease.[2]

The imperative of evaluation

As new instruments for impact investing are tested and then, if merited, replicated and scaled-up, it is essential that the stakeholders involved – banks, investment funds, foundations, development finance institutions, governments, corporations and civil society organizations – commission evaluations that not only examine the technical design and appropriateness of the instruments used, but that also especially examine the downstream social, economic and environmental results achieved for individuals, households, communities and enterprises. Beyond evaluating impact investment instruments and results, there is also a need to examine how the field as a whole is evolving. Such evaluations must be well-informed, professionally designed and independently conducted. They also should emphasize accountability and learning at the same time.[3]

For professional evaluators, this can open up a world of opportunities – but also of challenges. One challenge relates to the unique culture and practices of the field of finance and investment. An array of specialized technical terms, complex regulatory environments, complicated deal structuring, and agile and aggressive marketing are only a few of the characteristics of this industry that

This paper was produced as part of the Strategic Assessment of the Rockefeller Foundation's Impact Investing Initiative.
July 2014

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evaluators need to understand. Moreover, there are few traditions in mainstream investment and finance that are concerned with and accomplished in achieving social and environmental objectives. This means evaluators must systematically "tool-up" in many ways in order to participate in the impact investing industry.

Engaging with impact investing: five doorways

Impact investing is a dynamic, generative new field.[4] For more than half a decade, this nascent industry has had real "boots on the ground", not only experimenting with, but also scaling up, innovative financial products and services in local settings in both the Global North and the Global South. At the same time, impact investing leaders have built the beginning of an identifiable, connected ecosystem of asset owners, asset managers, demand-side actors (enterprises, projects) and service providers. Moreover, it is an industry that values metrics and measurement, utilizing both qualitative information, such as stories and cases, and quantitative data. Indeed, at both the industry-wide and institutional levels, its discourse and practice on results measurement are purposeful and sophisticated – and increasingly data driven.

So, where should evaluators start? Here we briefly discuss the five "doorways" which evaluators can enter in order to learn more about impact investing and about participating in the conduct of evaluations in this industry. These doorways are: industry-wide systems, theory of change, policy influence, sector interventions and outcomes-based financing instruments'.

1
Industry-wide systems

Much of the energy and creativity in performance assessment in the impact investing industry has been animated by two industry-wide initiatives. The first is the Impact Reporting and Investment Standards (IRIS) system, a project of the non-profit Global Impact Investing Network (GIIN). IRIS provides industry participants with a common lexicon and set of detailed indicator definitions which can be tailored to the needs of individual investment funds and institutions.[5] The second, the Global Impact Investing Rating System (GIIRS) developed by the non-profit B Lab, assesses the social and environmental performance of impact investing funds and of companies seeking impact capital. As of mid-2013, GIIRS, an analogue to the Morningstar ratings agency in mainstream finance, was rating some 50 funds worth more than $2 billion, operating in over 30 countries.[6]

The development and refinement of these systems will take more time. In addition, many institutions in the field maintain their own customized and decentralized measurement systems. Nonetheless, together, IRIS and GIIRS along with the GIIN itself, have already provided the impact investing industry with technical coherence and common practices framed by a broad, shared vision. Any evaluation work undertaken in the field of impact investing should be informed by and linked to these industry-wide systems. Evaluators should study IRIS and GIIRS in detail.

2
Theory of change

Theory of change offers another doorway into impact investing for evaluators. A concept and tool originating in the field of program evaluation, theory of change, also known as program theory, refers to the construction of an explanatory model that depicts, usually in visual form, the inter-relationships among the logic, resources, assumptions, activities and expected results of an intervention. Evaluators then interrogate the actual performance of the intervention against the theory of change set out in the model, asking questions such as: To what extent is the validity of the theory of change confirmed by experience? And to what extent is the model shown to be relevant, appropriate, efficient and effective?[7]

Theory of change has been applied to assess the design and performance of impact investing at multiple levels, including: the industry as a whole; industry platforms such as networks and social stock exchanges; investment funds; companies; individual investments; investee enterprises; employees in those enterprises; and their households and communities. Both qualitative and quantitative data have been collected in these assessments.[8] Evaluators seeking to work in impact investing should prioritize learning how to use theory of change.

3
Policy assessment

In recent years, the pace of work on developing policies that enable impact investing has picked up momentum. At the center of this effort has been the Impact Investing Policy Collaborative (IIPC), an international network of scholars, practitioners and policymakers from a dozen countries. IIPC carries out research and organizes conferences to examine policies that: expand the supply of impact investments through clear rules and co-financing by governments; use taxes, subsidies and required reporting to direct capital to social and environmental projects; and institute enabling corporate structures and fund capacity building to promote the success of investee firms.[9]

Measuring policy influence and effectiveness is a specialized area of evaluation.[10] Assessing the performance of policy initiatives aimed at enabling a larger volume of more effective impact investments requires a thoughtful mix and utilization of evaluation frames and methods. For example, policies designed to increase the quantum and effectiveness of impact investing on the part of institutional investors deserve special attention. A recent IIPC study found that nearly half of all American states mandate or encourage state pension systems to invest in geographically targeted economic development and energy-efficient real estate.[11] In this instance, a full evaluation would be required to examine the "upstream" components of this experience, including the relevant laws, regulations, investment practices and deals. At the same time, such an assessment would need to study the "downstream" effects of these impact investments, particularly for local enterprises and projects, employees and their households, as well as the communities in which they live. Evaluators should familiarize themselves with the design and implementation of "upstream" and "downstream" components in evaluations of institutional impact investments.

4
Sector-based interventions

The impact-investing strategy of interventions in entire business sectors within a country or region has seen increasing visibility. Such sectors may include, for example, medical technologies, mobile payment systems, solar lighting and affordable private education. Investee enterprises in such sectors not only generate employment and increase income for local workers, they also can provide products and services that are affordable by the poor and low-income groups. The Omidyar Network, informed by its efforts to scale-up microfinance in Asia and elsewhere, distinguishes among three types of actors within sectors: "market scalers" that rapidly scale-up proven business models; "market innovators" that create and test new technologies and businesses; and enterprises and organizations that provide sector infrastructure, such as credit ratings and research. Their contributions and effectiveness should be evaluated differentially. Moreover, the social impact of these actors should be measured not only at the firm level, but also as part of the aggregate social impact of the sector as a whole – which, in successful cases, should be greater than the simple sum of its parts.[12]

This is useful guidance for evaluators. Sector-based approaches are likely to be adopted by more key actors in impact investing, and evaluators must be well-prepared to carry out assessments of these interventions.

5
Outcome-based financing instruments

In North America and Europe, outcome-based approaches - such as social impact bonds (SIBs) or "pay for success" (PFS) bonds - have emerged as a focus of considerable government interest and experimentation. In the context of rising social inequality and declining government spending capacity, this mechanism is viewed by governments across the political spectrum as a means of levering private capital for public purposes. They are actually contractual obligations, usually held by governments. SIBs are contractual obligations between government and private investors - such as a foundation, fund, or intermediary - to finance a social program. If the non-profit delivery agent achieves the agreed upon social outcome targets of the program, the government agrees to pay the investor not only for the cost of the program but also a return on the investor's capital.[13]

Using the example of SIBs, evaluators must assess both the "upstream" and "downstream" components of SIB performance. In the current context, there is a risk that the high expectations held by governments for SIBs will not be achieved. There is also the question of how the social outcomes will be sustained over time, particularly in cases where the shorter-term contracted targets have been realized. Furthermore, comparing SIB performance with a counterfactual case would strengthen the analysis.[14] While outcome-based financing approaches of this kind are still at an early stage of design and implementation, the need for their careful and professional evaluation is already clear. In particular, “upstream” and “downstream” components, sustainability of outcomes and counterfactual evidence will all be important in the evaluation of outcome-based financing approaches.

Conclusion

These five doorways are apertures through which the evaluation community can not only access and learn more about impact investing; it can also add significant new value to this young industry. As the field of impact investing proceeds on its path to greater maturation and scale, it will require more evaluation capacity at every level. Evaluators will be important not only to assess the intended and actual outcomes from individual transactions, but also to critically analyze how the field as a whole is contributing to efforts to tackle global social issues. It is the responsibility – and the opportunity – of professional evaluators to prepare themselves thoroughly, in order to make this contribution with optimum skill and effectiveness. If they succeed, both the impact investing industry and the broader field of evaluation will be enriched. More importantly, there will be clearer and more substantial evidence of how individuals, households and communities struggling with poverty and injustice can benefit from business models that integrate, and achieve, social outcomes.

Endnotes

1 On social impact bonds, see Godeke, S. (2013). Community reinvestment act banks as pioneer investors in pay for success financing. Community Development Investment Review, 9(1), 69-74; and Godeke, S. & Resner, L. (2012). The investor landscape: Building a healthy and sustainable social impact bond market. New York: The Rockefeller Foundation.

2 Gates, B. (2011). Innovation with impact: Financing 21st century development. Presented to the G-20 Summit, Cannes, 2011. In this presentation, he argued that annual development-finance flows could be increased to $165 billion worldwide by adding the following new instruments to basic aid commitments (of $80 billion): an infrastructure fund for sovereign wealth funds ($8 billion), a financial transaction (Tobin) tax by some European countries ($9 billion), savings in remittance transfers ($16 billion), diaspora bonds ($4 billion), and the global component of a fuel tax ($37 billion).

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4 For overviews of the development of the impact investing industry over the past five years, as well as its earlier antecedents, see Bugg-Levine, A. & Emerson, J. (2011). Impact investing: Transforming how we make money while making a difference. Hoboken: Jossey-Bass; and Harji, K. & Jackson, E.T. (2012). Accelerating impact: Achievements, challenges and what’s next in building the impact investing industry. New York: The Rockefeller Foundation. Another good overview of the industry is found in the special edition on impact investing of the Journal of Sustainable Finance and Investment, 3(2), 2013, http://www.tandfonline.com/toc/tsfi20/2/3-4

5 IRIS website: http://iris.thegiin.org/. For the main GIIN website, see www.thegiin.org

6 GIIRS website: http://giirs.org/

7 For an overview on the nature and application of theory of change, see Funnell, S.C & Rogers, P.J. (2011). Purposeful Program Theory. San Francisco: Jossey-Bass; and Rogers, P. (2008). Using programme theory to evaluate complicated and complex aspects of interventions. Evaluation, 14(1), 29-48.

8 Jackson, E.T. (2013). Interrogating the theory of change: Evaluating impact investing where it matters most. Journal of Sustainable Finance& Investment, 3(2), 95-110. The journal article can be accessed at http://www.tandfonline.com/doi/full/10.1080/20430795.2013.776257#.UbCEA9gpldg

9 See Thornley, B., Wood, D., Grace, K. & Sullivant, S. (2011). Impact investing: A framework for policy design and analysis. San Francisco and Cambridge: Pacific Community Ventures and the Initiative for Responsible Investment at Harvard University.

10 A useful overview of the evaluation of policy influence, and a helpful set of tools, are found in Jones, H. (2011). A guide to monitoring and evaluating policy influence: Background note. London: Overseas Development Institute.

11 Wood, D, Thornley, B. & Grace, K. (2013). Institutional impact investing: Practice and policy. Journal of Sustainable Finance and Investment, (3)2, 75-94.

12. Bannick, M. & Goldman. P. (2012). Priming the pump: The case for a sector-based approach to impact investing. Redwood City: Omidyar Network.

13 Godeke, S. & Resner, L. (2012). The investor landscape: Building a healthy and sustainable social impact bond market. New York: The Rockefeller Foundation.

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Field-building that lasts

Ten tactics for the impact investing industry

EDWARD T. JACKSON AND KARIM HARJI

Successful fields of practice must be capable of transforming themselves over time in response to the forces of change, while at the same time maintaining the integrity of their core mission and enhancing their impacts on the ground. This capacity must now be embedded in the genetic code of the impact investing industry. If the leaders and funders of this dynamic new industry can make this happen, then the new field will flourish and sustain itself across the globe. More importantly, impact investing will be much better able to fulfill its promise of improving the lives of poor and vulnerable people by generating large-scale, durable solutions to some of the world's most complex problems.

So, how do you build an adaptive, enduring field? The good news is that much is known about how to do this. Foundations, non-profits, governments and companies all have rich experience in this regard. One especially relevant source of guidance is the field-building work of the Rockefeller Foundation in launching the impact investing industry itself in 2008–2012. This briefing note draws extensively on lessons from this effort, and highlights ten tactics that industry champions can use to create a field that will last. These tactics can be used by leaders and funders in the Global North and Global South alike, at the levels of regions, countries, and localities.[1]

Building an Enduring Field

In order to build a field that will adapt and endure, impact investing leaders and funders should consider the following.

1
Support network coordinators who are pluralistic and non-proprietary

The hosts of impact investing networks at the regional or country levels must be entrepreneurial and results driven, and deploy viable business models. Plus,

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July 2014

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above all, they should view the field in a pluralistic and non-proprietary way. They must be committed to welcoming impact investing actors with a variety of stances and methods into the network, and to facilitating the learning, exchange and success of a wide range of asset owners, asset managers, demand-side actors and service providers. Such an approach will help these coordinators achieve critical mass in network membership faster. It is also likely that coordinators with this orientation will themselves be open to learning and adapting the network to changing conditions and needs as their efforts move forward.

2
Commit to the long term and stay the course

Field-building is a long-haul exercise. It takes 20–25 years – about the length of one generation – to build a permanent, self-sustaining field of practice or industry. Understanding this is essential for industry leaders as well as for funders. For leaders, this means staying healthy and always building the skills of younger colleagues, because multiple generations are required in this long-term work. To be sure, foundations and development agencies often feel pressure to take a short-term approach to their grant-making. But funders should provide support to networks, infrastructure and innovators for no less than five years and, ideally, for ten up to 20 years. Foundations and development agencies in the microfinance industry have provided grants to the Consultative Group to Assist the Poor, a network, standards and research platform, for two decades. This kind of long-term accompaniment enables a field of practice to adjust, adapt and reinvent itself over time, while staying true to its original mission.

3
Engage and support a core group of allies to advance the field-building process

Through a combination of convening, networking, knowledge-production, grant-making and investing, industry leaders and funders should work together over time at the regional and country levels to engage and support a core group of allies in order to drive the field-building process. In most cases, it will make sense for this core group to include representatives of each of the main actor categories in the impact investing industry: asset owners, asset managers, demand-side actors and service providers. All of the representatives selected for membership in this core group should be united under the umbrella concept of impact investing and should be committed to building a pluralistic and mutually respectful, as well as financially viable, national or regional impact investing movement. Such a core group of allies can be a powerful tool for learning and adaptation, as well as growth, in the field-building process.

4
Catalyze a blend of grants and investments from diverse sources

Resilient fields are supported by diversified revenue streams. Impact investing leaders and funders must work hard to mobilize a mix of grants and investments from a wide range of sources: high net worth individuals and family offices, foundations, trusts, non-profits, pension funds, investment banks, credit unions, corporations, development finance institutions, development agencies and government departments. Leaders and funders must ensure that this capital is distributed in a balanced way across the major functions and actors of a given national or regional network. Moreover, they must ensure that, when a lead grantmaker or investor winds down its support of the network, or exits altogether, this responsibility is systematically handed off to a new grantmaker or investor that has agreed to assume the lead role. National and regional champions and funders must then also be aware of the differences between the earlier and newer lead players in terms of their priorities and ways of working, and make arrangements to fill any gaps that may become evident. These steps require presence of mind and ongoing dialogue among leaders and funders as the field-building process proceeds forward.

5
Co-create and co-brand new knowledge products

Impact investing leaders of national or regional networks should consider working with foundations, investment banks and other institutional players to co-create and co-brand new knowledge products to promote awareness and a better understanding of impact investing. The best example of this tactic was a series of reports on the nature and performance of the industry involving the Rockefeller Foundation and J.P. Morgan, and later the Global Impact Investing Network and J. P. Morgan. Using the knowledge and talent of each of the partners, innovative and credible research was carried out, written up and disseminated in the form of well-edited and formatted technical reports. The combination of the brands attracted a diverse array of readers who used these reports extensively. This knowledge co-creation not only accompanied, but also informed, the learning and adaptation and further growth of the field as it advanced forward, reinforcing the durability of the field they were building.

6
Energetically engage both the mainstream and social media

In the Rockefeller Foundation's early work to help launch the impact investing industry, it also featured sustained engagement with both mainstream media (mainly via print and electronic newspapers and magazines) and social media (blogs, Twitter, YouTube, Linked-In, etc), particularly in the areas of business, finance, philanthropy and development. Releases of research reports, the remarks of prominent conference speakers, and announcements of new grants and investments all provided the "hooks" for the mainstream media to do stories, which in turn were shared via social media. However, any group of impact investing leaders must have people on its team who are comfortable with giving interviews and also those who are effective writers of opinion pieces and blogs. In addition, all national and regional networks for impact investing must now be active on Twitter, YouTube and other social media, to get their messages out rapidly and efficiently.

7
Use evaluation to advance learning, accountability and performance

Resilient fields make use of independent evaluations on a continuous and rigorous basis for the purposes of learning, accountability and performance. Leaders and funders alike must be open to learning from (and talking frankly about) failure and mixed results as well as successful interventions. In the case of impact investing, evaluations can be undertaken of individual investments, portfolios of investments, multiple investments in sectors, and individual institutions and organizations, as well as industry-wide systems (e.g. standards, ratings) and networks. Moreover, as the field of development evaluation shows, a wide range of qualitative and quantitative data collection and analysis methods can be used, from small-scale qualitative studies to large-scale randomized control trials. Stakeholder engagement, gender-sensitive framing and new ways of measuring social value creation can be integrated into performance assessments of all kinds, as well. The products of evaluations – reports, presentations, videos – also should be shared widely across the field.

8
Put theory of change at the center, and interrogate it relentlessly

In planning and implementing, as well as evaluating interventions in a field, it is crucial to develop, assess and adapt the theory of change of each significant action. This is as true for a grant to a national impact investing network as it is for an individual investment in a local women's business fund. Theories of change are really models (usually depicted visually) of how expected results are to be achieved, what obstacles could impede these results, as well as what levers could propel the realization of the intended outcomes. Stakeholders from all constituencies can and should be engaged in designing and assessing the theory of change of an intervention. The key to using these tools effectively is to interrogate theories of change, relentlessly and continuously, in order to improve the actions of the industry at all levels.[2]

9
Nurture new talent, and create viable career pathways for younger professionals

What kind of a world will impact investing leaders face in 2050? This may sound somewhat speculative, but thinking of the future focuses the mind on three things. First, the world of 2050 will be dominated by the new economic powers of China, India, Brazil, Indonesia and others. Second, in 30–40 years, the impact investing industry will be led by a very different cohort than today. Third, those future leaders, now in their early and mid-20s, should be trained not only for the world that exists now, but also, over time, for the world that will be. In all these ways, programs for training, education and mentoring of younger professionals can be designed, tested, refined and adapted over time, as the impact investing industry and the world economy evolve. At the same time, employers in the industry must work to create viable career pathways that provide a progression of more responsible roles and improved compensation packages that will enable young professionals to stay in the field while building their families and assets.

10
Expect real life, and be prepared to deal with it

No matter how many achievements a field of practice realizes, bad things can still happen. Again, the case of the microfinance industry is instructive. In recent years, when that field was beset with the tragedy of borrower suicides and the challenges of political conflicts with governments, it seemed singularly unprepared to deal with the ensuing negative publicity. Instead, the leaders and funders of the impact investing field must expect that there will also be problems among their many victories, some of them very public. Anticipating the risks of bad things happening, and acquiring the skills and systems to address them, will both signify and strengthen the fortitude of the impact investing field.

Conclusion

Ultimately, building resilient fields is about focus and choice. The leaders and funders of impact investing must keep their eyes on the real prize. That prize is a robust and self-sustaining industry that can manage and create change and transform itself over time – all in the service of its original mission to deliver both financial returns and social and environmental benefits. Amid the array of actors and needs across the world, and the many possible responses to them, some actions will embed the capacities to learn continuously and persevere tenaciously in the industry more than others. Every hour of every day, with discipline and strategy, the champions of impact investing must intentionally choose to deploy tactics that build a field that can adapt and endure. In this sense, focus and choice will shape the future of impact investing.

Endnotes

1 This paper is drawn from the findings and lessons of our evaluation of the Rockefeller Foundation's Impact Investing Initiative. The evaluation was undertaken from 2011 to 2013 and benefited from interviews with some 100 leaders in 11 countries working to build the impact investing field. The main outputs of this study are Edward T. Jackson and Karim Harji, *Unlocking Capital, Building a Movement: Final Report of the Strategic Assessment of the Rockefeller Foundation's Impact Investing Initiative*, the Rockefeller Foundation, New York, 2012 [Karim-add link]; and Karim Harji and Edward T. Jackson, *Accelerating Impact: Achievements, Challenges and What's Next in Building the Impact Investment Industry*, the Rockefeller Foundation, New York, 2012 (http://www.rockefellerfoundation.org/blog/accelerating-impact-achievements)"

2. See Edward T. Jackson, Interrogating the Theory of Change: Evaluating Impact Investing Where It Matters Most, *Journal of Sustainable Finance and Investment*, 3(2), 2013, 95-110. (http://www.tandfonline.com/doi/pdf/10.1080/20430795.2013.776257)"

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Measurement that matters
Ten steps for assessing social impact

KARIM HARJI AND EDWARD T. JACKSON

Measuring social impact remains an important consideration for both investors and investees, and for the legitimacy of the field of impact investing.[1] While there has been important progress in recent years, the theory and practice of social impact measurement continues to surface new opportunities and challenges.[2] Taking the measurement of social impact to the next level of maturity remains an important task in building the impact investing field worldwide. In this paper, we recommend that impact investing leaders take ten steps to make this happen.

1
Clarify the purpose of measurement

The motivations and objectives for measuring social impact are not always consistent among the stakeholders involved. Stakeholders must identify the role that social impact measurement plays for them, whether that be for valuation of potential investees, for accountability reporting, as a management tool, a risk management approach, or for monetization of outcomes. To date, discussions on measurement have generally been initiated or driven by investors, particularly "impact-first" investors. For these investors, emphasis is usually placed on proving that the investments are, in fact, realizing the social performance objectives that they have targeted. This is particularly true if there is a perceived trade-off between financial and social returns, where it is important to demonstrate the nature of the social impact that has been created relative to the financial return sacrificed.[3] Ensuring that both investors and investees clearly articulate why measurement matters, even if they don't always align, is an important first step.

2
Test and refine a theory of change

Developing a theory of change is key for both the investor and investee. All parties stand to benefit from a coherent and logical framework that shows how their

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July 2014

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investment and advice (inputs) can result in products or services (outputs) that, in turn, lead to the realization of specific social objectives (outcomes). Social ventures have a particular interest in this model, which allows them not only to prove they are able to deliver on outputs and outcomes, but also to build processes that utilize this information to inform their operational and strategic decisions. The theory of change must be constantly revised in response to changes in market conditions, to inform the venture as it navigates these dynamics, and to judge its success in doing so. The key questions used to develop a theory of change remain central to measurement efforts: What change are you seeking to make? What is your contribution to this vision? How will you know when your objectives have been achieved? And to what extent are the results due to your efforts and not other factors or actors?

3
Make measurement matter to investees

As noted above, measurement can and should go beyond the needs of the investor. Investees often report on their social outcomes specifically to meet investor requirements. This often involves selecting a series of metrics that focus on outputs (and increasingly, outcomes) to prove they are meeting their social mission. The best investees go beyond this, by embedding the output and outcome-based measures into all aspects of their business models, so that they can use this data for better product or service design, development and implementation. In this manner, enterprises can use social impact data as market intelligence for improving their operations and impact, beyond solely demonstrating accountability. Sometimes, achieving this level of measurement requires technical assistance for an investee. This can be accomplished through investment readiness grants or monitoring and evaluation support provided by investors or by other capacity development programs.

4
Enhance utility and relevance

While the number of approaches and tools continues to grow, their proliferation and adoption is not occurring in a coherent manner. Indeed, this increased activity has led to more fragmentation in the social measurement arena, and created confusion among investors and investees. Generally speaking, the focus of measurement too often tends to be on the approach/tool as an end in itself, rather than as a means to an end. In the vein of the phrase "if you have a hammer, everything looks like a nail", both investors and investees must adopt a more pragmatic approach to selecting and using specific tools and approaches. Additionally, methodological challenges still exist as, for example, the validity and feasibility of many well-known approaches have not been fully demonstrated yet.[4] The existing approaches and tools are often time- and resource-intensive, and often do not meet the direct needs of the investees that implement them. For example, there is an over-reliance on measurement systems which use quantitative data such as randomized control trials (RCTs). By focusing on the ultimate ends of stakeholders and being open to the form that measurement systems may take, investors and investees can improve their chances of selecting and implementing the most appropriate approach for their measurement activities.

5
Coordinate standardized and customized approaches

The past few years have seen an upswing in efforts to develop standardized approaches to measurement in the field of impact investing. Most prominent are the efforts to develop a common lexicon and classification of outputs through the Impact Reporting and Investment Standards (IRIS) framework, as well as a system for rating the social performance of funds and companies through the Global Impact Investment Rating System (GIIRS) ratings and analytics tools. Other relevant global initiatives include the use of social performance indicators in the microfinance field, and environmental, social and governance (ESG) ratings in responsible investing. In addition to these efforts, there are many other customized approaches and tools being applied towards social impact measurement.[5] While some of these approaches have recently come into favor – such as RCTs and social return on investment (SROI) – others are less well-known, but nonetheless, the most appropriate choice for specific contexts. Many organizations have spent the necessary time and effort to develop and implement systems that are customized to their specific needs, and some of these initiatives have been coordinated (such as those that use IRIS-compliant outputs).

It doesn't need to be a choice between customized or standardized approaches; investors can and should use both.

6
Manage what you measure

The focus on greater data collection has not yet led to a proportionate effort in the analysis of such data, how the data are used to inform decision-making, and how they are shared. Not surprisingly, there are often significant time lags between data collection, analysis and the resulting action to improve product or service design and delivery. These challenges reduce the effectiveness of organizations using metrics to improve internal operations. Some investees have dealt with this challenge by embedding these practices into existing systems and workflows and incentivizing good measurement practices among staff. At the same time, many investees are focused on "getting implementation right" with measurement relegated to a lower rung on the list of priorities. At the risk of stating the obvious, impact investments are labelled as such because of their stated commitment to their social mission, and they risk "mission creep" if they choose not to prioritize the collection of key performance indicators that track both social and financial metrics. The importance of metrics as strategic indicators must be emphasized to investees.

7
Share experiences with peers

While there is evidence of progress on the development of global standards, there has been less enthusiasm among investors and investees to have honest (and often difficult) conversations about how to address the challenges of measurement, as opposed to discussion of the challenges themselves. There is a dearth of information on how organizations have adapted their internal cultures, approaches and incentives in order to measure better. Externally, this extends to the lack of shared and comparable data available for benchmarking, even among like-minded organizations operating in similar sectors. There are exceptions, such as the Acumen Fund's pioneering efforts around Best Available Charitable Option (BACO), and the Reporting Commitment recently instituted by leading US foundations.[6] As the industry evolves, there is a good chance that self-reporting efforts prevalent today may be superseded by independent certification and auditing of social impact standards. As such, it is important that industry leaders build spaces to allow them to share experiences with each other, and to be honest and collaborative around how to address these challenges.

8
Broaden stakeholder engagement

As discussed earlier, existing measurement efforts are largely driven by investors, and investees are accountable primarily to investors for demonstrating social impact. However, this relationship is only half of the equation – both forward and backward accountability among these partners are critical. Accountability should also extend to other stakeholders including customers, staff and local communities, among others. Building these groups into a theory of change, and capturing outcomes relevant to them, should be an important consideration as measurement systems advance. For example, web and mobile platforms - such as Ushahidi and Jana (formerly txteagle) - allow citizens to engage in real-time participatory data collection and analysis for a range of social issues, and could supplement market research efforts. While customers and citizens may ultimately "vote with their wallets" by purchasing (or not) goods and services, they can be more intentionally included in impact measurement approaches.

9
Making it happen

The field needs to demonstrate that impact measurement is a worthwhile and necessary endeavour, by showing that it is valuable and relevant. Setting and managing expectations around social impact measurement will remain an important responsibility for all stakeholders involved. Important questions to consider include: How much time and effort should go into measurement? Who pays for it? And what are the opportunity costs of doing (or not doing) so? The costs - direct and indirect - of impact measurement can be substantial, and there is still much debate around how to fund them in the short-term and over time. Much time and effort has been allocated towards reducing these costs via public good initiatives, but adapting emerging or existing approaches to specific investments is still relatively resource-intensive. While investors and investees may not always agree on specific indicators, approaches or processes, there should be a shared commitment to design and implement impact measurement that can balance their respective needs.

10
Balancing measurement priorities

Ideally, social metrics can be embedded within promising business models in a manner that allows them to demonstrate over time that they are sustainable and resilient businesses. Our view is that in the case of early-stage ventures, the demands and expectations of social impact reporting are currently too high. The hard work of validating business models and building solid management teams can (and should) take priority over measurement in the short-term. Moreover, ventures and investors should be enabled to use this information to refine their business models and management teams. However, we stress at the same time that this is not a reason to lower the bar. There is also a risk that social impact measurement could become too easy if, for example, social motivations or intentions were to be a proxy for social outcomes. "Impact washing" has the potential to damage the legitimacy of the field, as we've seen in the case of "green washing" in the sustainability sector. Striking the balance between robust methodologies and realistic time and resource expectations is critical.

Conclusion

Measuring social impact remains a challenge for investors and investees, despite some recent progress on global initiatives as well as the topic's increasing profile. The measurement landscape remains fragmented, with a mix of standardized and customized solutions, but without a consensus around a preferred set of tools or approaches. We have described ten important steps to consider as the practice of impact measurement evolves, and believe that addressing these steps can make important contributions towards advancing the legitimacy of impact investing. Moreover, taking these steps will ultimately show how durable, long-term social impact can be created for poor and disadvantaged individuals, households and communities across the globe.

Endnotes

1. We use the term "investees" broadly, to describe any investment opportunity that impact investors consider. This will typically include social businesses, social enterprises, cooperatives, non-profits and other social mission organizations.
2. We draw on our work from prior reports, in particular K. Harji and E. Jackson, "Accelerating Impact: Achievements, Challenges and What's Next in Building the Impact Investing Industry", Rockefeller Foundation, New York, 2012: http://www.rockefellerfoundation.org//uploads/images/fda23ba9-ab7e-4c83-9218-24fdd79289cc.pdf
3. The distinction between impact-first and financial-first investors was first described in the Monitor Institute 2009 report "Investing for Social and Environmental Impact". However, in practice, this is not always a straightforward trade-off.
4. For more information on the opportunities and issues associated with common measurement approaches, see: M. Tuan, "Measuring and/or Estimating Social Value Creation", Gates Foundation, 2012: http://www.gatesfoundation.org/learning/Pages/december-2008-measuring-estimating-social-value-creation-report-summary.aspx
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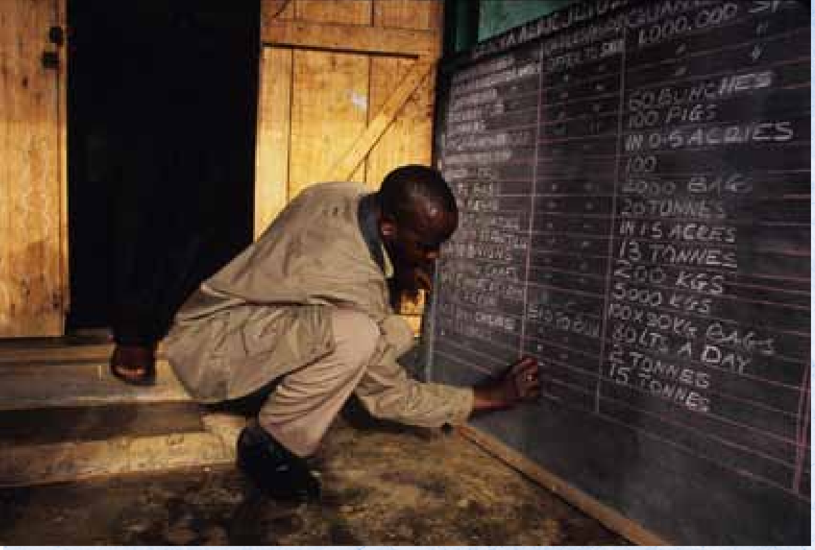
6. The Reporting Commitment is an initiative aimed at developing more timely, accurate and precise reporting on the flow of philanthropic dollars. More information is available at glasspockets.org.



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Purpose-built networks

Ten crucial choices in designing effective, resilient impact investing networks

EDWARD T. JACKSON AND KARIM HARJI

Networks do not appear magically out of thin air. They must be intentionally designed to fit their specific purpose, but then continuously learn and adapt. This briefing paper highlights ten crucial choices that must be made in designing impact investing networks that can accompany and animate the industry for the long haul. As the impact investing industry evolves and grows worldwide, it is important that the field's leaders think clearly about the key features of the collective organizations they aim to create and sustain.

Impact investments are aimed at generating positive social or environmental impacts as well as financial returns. Over the past five years, a growing number of investors in the United States and Europe have been increasingly active in mobilizing and placing capital for impact in both the Global North and the South. Now, with the assistance of the Rockefeller Foundation, Omidyar Network and other funding partners, champions across the world are preparing to build new platforms to spread and deepen impact investing in their jurisdictions and geographies. Impact investing is here to stay. Now the task is to ensure that the organizations that form the industry's infrastructure at national and regional levels are purposefully designed to be strong and resilient, and capable of undertaking both immediate and long-term field-building. That means intentionally creating effective, appropriate networks that will accompany, adjust and learn with the industry over time, while also delivering value-added products and services to their members.

Crucial choices in network design

Designing an effective network requires a collectivity of actors with complementary skills and perspectives working toward a common vision. However, it also demands that the proponents make thoughtful choices in three major areas: mandate, structure and financing. The following ten choice-points are particularly important. This advice is directed to leaders proposing

This paper was produced as part of the Strategic Assessment of the Rockefeller Foundation's Impact Investing Initiative.
July 2014

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new platforms to grow the impact investing industry in their country, jurisdiction or region.

Mandate

1
Clarifying the purpose and objectives of the network

First and foremost, be clear about the purpose of the network you wish to create. What is its overall, long-term purpose, and what are its more specific objectives? How will you define whether it is successful? Should your purpose and objectives be broad, or should they be narrow and focused? To answer these questions, consult systematically and frankly with the core alliance of leaders and organizations that have expressed interest in forming the network. And think long-term – 25 to 30 years out. Field-building is a long-haul process and your network must be resilient enough to accompany this process and add value to it over several decades.

2
Defining the membership of the network

First, determine which actors in the impact investing industry your network aims to serve. Should it be "investor-facing" and focus on organizing and advancing the interests of asset owners and asset managers who are active or interested in becoming active in the field? In terms of investment capital, this would be a primarily supply-side constituency. Or, should its membership be broader, including intermediaries but also demand-side organizations, such as associations representing small businesses or social enterprises? If there are existing networks that already serve some of these constituencies, what value-added contribution could your network make that would be different, and ideally complementary? Once you have decided what your priority membership groups are, you may decide to focus on serving, at least at first, a small number of hand-picked, influential organizations rather than trying to build the broadest possible membership base immediately. Furthermore, you must also price membership fees and institute application procedures in ways that make belonging to your network possible for the fullest range of actors you seek to serve.

3
Specifying the services and products to be provided

Flowing from your decisions regarding purpose and membership, the next step is to determine what services and products the new network will provide to its members. These services and products must respond to the field-building needs of your particular country, jurisdiction or region, as well as your prospective members' expressed needs for organization, knowledge and action to advance impact investing. Achieving a reasonable and appropriate balance between meeting your members' needs, on the one hand, and broader field-building work, on the other, is essential. Networks typically focus on knowledge production and dissemination, particularly through: organizing conferences and workshops, carrying out research and publishing reports, supporting more specific communities of practice for members interested in particular themes (e.g. agriculture, mobile finance, renewable energy), offering education and training events and even courses, maintaining accessible databases of funds and investee firms, providing members with impact assessment tools, promoting impact investing through the mainstream and social media, pressing for policy changes, and generally connecting investors with their peers and with prospective investees. You might explore the possibility of your network becoming a grant-maker, though you would need to raise the funds to make that happen. Non-profit networks generally are not investors themselves, or even deal makers or brokers per se. Indeed, in many jurisdictions, they are legally prohibited from playing these particular roles. In general, it is not necessary or even desirable that new networks offer their members a full menu of services. Starting with a few key activities and phasing in more over time is usually the most manageable approach.

It's important to be clear about not only what value your network will provide to its members, but also what value and contributions the network will require of its members. Whether it is providing data for, commenting on or drafting research reports and case studies, testing tools, organizing and speaking at conferences, or doing interviews for the media, members must step forward and do real work for the network. Accordingly, you need to gauge not only members' interest in your mission, but also, especially, the quantity and quality of the time, ideas, money and other resources they can really commit to your organization over time. And then you will need to hold them to these commitments.

4
Calibrating the level and type of advocacy of the network

An important decision associated with the choice of services and products is calibrating the level and type of advocacy to be undertaken by the network. In some jurisdictions, there are strict limits on what kind of advocacy activities a non-profit network can undertake, though in other jurisdictions this is less problematic. Regardless, by its nature, advocacy can become very political and may trigger negative consequences, such as your network being viewed as an instrument of one particular political party or movement, or being viewed as too advocacy-oriented for some donors and even for some members. In the end, you may decide to carry out policy-related research through your network but more direct, political advocacy through a different and legally separate organizational vehicle.

Structure

5
Choosing an appropriate legal form

In many countries or jurisdictions, the most appropriate legal form for your network will be that of a non-profit association or charity. In the United States, for example, a network must register as a non-profit and apply for charitable status (which enables it to confer a tax benefit on donors) in separate processes. In fact, the US has several variations of tax-exempt non-profit structures, including a special one for business associations such as chambers of commerce and real estate associations. However, countries and jurisdictions differ greatly in terms of the legal and regulatory frameworks within which networks can operate. In some jurisdictions, it may be worth considering other legal forms, such as a federation of associations or a foundation, while in other jurisdictions the legal form of a non-profit or charity may not even exist. Furthermore, in some cases, we have seen networks, such as the Global Impact Investing Network (GIIN), incubated as projects – that is, as non-legal entities under the auspices of host organizations – until the time is right for them to seek their own legal status and then exit the host body to set up their own physical, legal and financial operations elsewhere. As the GIIN (which was incubated and funded by the Rockefeller Foundation) has shown, such a process should and can be handled carefully and productively by all parties and can take several years.

6
Structuring appropriate governance arrangements

Generally speaking, the governance of your network should be aligned with the purposes, membership, legal form and growth path of the platform you are building to advance impact investing in your country, jurisdiction or region. But there are more specific issues in making governance choices, as well. In particular, should governance be concentrated in the hands of a few key individuals or organizations, or should it be distributed more widely across the full range of members? Should the board of directors of the network be small and closely held, or should it be large and diverse? Should the board reserve seats for representatives of various types of asset owners and asset managers, such as high net worth individuals, banks, pension funds or foundations? Should the members and donors funding the organization receive an allocation of board seats? What will the term of directors be and how will they be elected to their positions? The options suggested here are not mutually exclusive. A network might start with a small, closely held board and then, as the organization grows, gradually expand the board and its representation and enlarge its democratic character. To answer these questions thoroughly and appropriately, the proponents of the new network must consult extensively and frankly with their peers in prospective member organizations as well as with potential funders.

7
Achieving the best mix of professional staff and volunteers

If your network is small, you may not have the capacity or the need to hire professional staff to run it, so you would naturally rely on volunteers. However, as the network grows, you are likely to require paid, skilled employees to provide the services and goods your membership needs. The good news is that most countries, jurisdictions and regions have plenty of both: well-trained professionals and dedicated volunteers. Your network should be very intentional and systematic about moving from a mostly volunteer model to a mix of professional staff and volunteers (as board members and program assistants) and testing the optimum combination of the two components as the network evolves. It is important that both groups include a range of backgrounds, knowledge and skills. A long list could include, in particular, finance, investment, business, statistics, the environment, economics, science, computer software, social justice, social media, social work, public policy and other social science fields. It is not helpful for a network to be "captured" by one or two disciplines, for example, by recruiting only MBA graduates. Moreover, it makes good sense from the outset to engage multiple age cohorts in both tracks. That is, your network can benefit from a multi-generational team of program staff (from younger, recent graduates all the way to executives with more than 30 years of experience) and volunteer pool. As we have said, building the impact investing field is a long game, and nurturing and retaining the talent of younger generations is in the interest of your network and, more generally, of the industry.

Financing

8

Building a long-term, big-picture business model

It is true that raising funds for a network is a daily, operational and tactical priority, especially if the network grows to significant size and scope. However, the real secret to good fundraising is to be "ahead of the curve" in the long-term, in order to anticipate the actors and factors that will shape the environment in which your network will operate, say, 25 years from now. In global terms, the trend toward a greater concentration of economic leverage and momentum in the hands of the new economic powers, such as China, India, Brazil, Russia, Indonesia and South Korea, is widely expected to continue. How will your network navigate in the world of 2040? In particular, how will it sustain itself financially? What will its partnerships with these new powers, with the west and with other blocs look like? And, within this context, what is the expected evolution of the balance between member services and the other activities of the network organization? The time to begin laying the groundwork for that future era – and for long-term financial sustainability – is now.

9

Diversifying revenue streams

From the beginning, networks should diversify their revenues as much as possible. While most formally organized networks may begin with modest grants from one or two funders, and initially modest membership fees, their proponents should move quickly to increase the size and duration of the grants received (multi-year funding is always preferable to one-off annual contributions). They should intentionally seek a wider range of funders and donors, increasing their major funding partnerships from one or two to four or five, or more. Moreover, once networks are solidly established, they can also pursue other sources of funds, including grants and contracts from research councils, governments and firms. Engaging foundation and development agency support to cover core costs frees the network to mobilize project funding for more specific activities. Furthermore, levering in-kind contributions (notably, staff time, research facilities and communications capacity) from private sector partners such as banks and corporations should also be seen as a valuable source of revenue. Finally, networks can generate income through conference fees, advertising at conferences and online, publication sales, interest earned on investments and other channels. There is a risk, however, that such earned-revenue activities could divert a network from its core strategy, so leaders should think carefully about this option. Overall, the precise proportion and mix of these various revenue streams will change over time and must be monitored and adjusted by network leadership.

10

Mobilizing the instruments for long-term financial sustainability

While fundraising and financing are permanent functions for any network, there are two instruments geared more to advancing the long-term financial sustainability of the organization. The first involves endowments. Large-scale, long-term institutional and individual gifts can be used to form an endowment for the network. Such an endowment must be grown to substantial scale for its interest to be capable of funding the ongoing core operating costs of the network – but that is the ultimate goal. Sometimes donors seek legacy opportunities in an area in which they wish to make a permanent contribution. Although realizing such substantial gifts is likely to take years, even decades, such donors should be cultivated as early as possible by the leadership of the network. The second instrument is real property. Raising sufficient funds for the network to purchase an office building, or to buy land and construct a building on it, will provide the network with a hard asset against which to secure its financial future. Clearly, sufficient funds would be needed on a monthly basis to cover any necessary mortgage payments. More importantly, the politics around a network investing in real property might be complex; some member institutions may be seeking such an asset base for themselves. Networks must avoid outright and protracted conflicts with their own members and, consequently, the real estate option might have to be deferred. Nonetheless, understanding the long-term potential of these two instruments for financial sustainability is important.

The bottom line: let purpose drive design, and learn and strategize continuously

In the final analysis, network design is as much an art as it is a science. The most fundamental principle is that purpose must drive design. Always keep your eyes on that prize. But there are other important general guidelines that leaders should heed: Start small, even modestly. Build steadily. Be clear about your intentions, and learn and adjust along the way. Be aware of and manage the politics of rivalries. As much as possible, incentivize cooperation among members, and institute disincentives for competition and conflict. Place the delivery of value to your members at the center of your efforts. Continuously and honestly interrogate your theory of change and the results you are achieving. Don't punish staff or members for making mistakes; rather, reward adaptation and creative solutions. Finally, build a permanent ethos of continuous strategic planning into the genetic make-up of your network. Networking and field-building are almost always less about the past and more about the future.

Conclusion

Now is the time to create purpose-built impact investing networks in every jurisdiction and region of the world. It only makes sense to build strong, resilient and effective networks – not weak and inappropriate ones that will fail. It takes too much effort and too much is at stake for failure to be an option. Instead, thoughtful, careful consideration of the core choices that matter most in network design is the responsibility of the leaders who are the proponents of new networks. Ultimately, the success of the industry depends on impact investing leaders making the best possible choices for the constituencies they intend to serve and strengthen.

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Acknowledgements

This paper has benefited from comments and advice from Nancy MacPherson, Margot Brandenburg, Brinda Ganguly, Justina Lai, Kelly Teevan, Laura Fishler, and the assistance of Melanie Hientz, Jennifer De Bien and Sonja Vanek.

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Growing supply and demand together:
Ten priorities for the impact investing industry

KARIM HARJI AND EDWARD T. JACKSON

Impact investing has made significant progress unlocking and mobilizing capital that promises both compelling financial returns and tangible social impact.[1] This should not be surprising, as the supply side has been the primary focus of the impact investing field-building activity over the last half decade. Now, impact investors see a more pressing issue, which they refer to as the "pipeline problem" – meaning they perceive that the supply of impact capital is greater than the investment-ready opportunities for deploying it.

Impact investing now faces a very interesting "chicken or egg" question: will evidence of more impact-oriented capital be the catalyst for the emergence of a larger number of investment-ready opportunities, or will demonstrating that this pipeline exists open up the gates for even more capital? The answer, we argue, is both. If impact investing is to reach its potential in the coming years, there will be a need for growth in tandem on both the demand and supply sides. In this paper, we highlight some compelling ways to make this happen.

Growing supply

The growth of capital directed towards impact investing continues to be one of the most impressive markers of the evolution of this still nascent industry. Even as both the amount of capital and number of transactions continue to trend upward, new players are seeking to deploy different types of capital towards impact. How can the field translate this interest into increased supply of capital? We propose five priority actions.

1
Attract new investors

Impact investing has already attracted new investors to the table, including mainstream financial institutions, recently established family foundations, and the foundations of younger high net worth individuals. However, in addition to this growing activity, there are other prospective investors that can be more engaged in impact investing. Beyond New York and London, a next set of financial hubs is emerging in Hong Kong, Sao Paulo, Nairobi, Mumbai and Johannesburg. Unlocking capital

This paper was produced as part of the Strategic Assessment of the Rockefeller Foundation's Impact Investing Initiative.
July 2014

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from the Global South for impact investment opportunities in these regions is a promising prospect. Many of these countries already have active movements around philanthropy as well as traditional investments, but only very early-stage intersections of the two. Diaspora bonds, designed to attract investment from emigrants who have settled in richer countries, present an interesting vehicle that stems from a desire for people to connect back to places and issues that matter to them.[2] Democratizing impact investing by making investments accessible to a large number of people – even when made in relatively small amounts – is another growing trend. For example, crowd-funding platforms are already harnessing the power of the crowd for social causes. Variations of these platforms that provide blended returns to retail investors, such as Calvert Community Investment Notes, also have emerged in response to market needs. These platforms narrow the traditional geographical divides between investors and investees, and can easily operate across several regions. In addition, there seems to be a steady stream of new options to unlock community capital, with local movements harnessing their constituencies through financial structures such as community bonds, and through technologies such as mobile payments.

2
Demonstrate investment performance

Perhaps one of the greatest challenges facing the impact investing market is the dearth of data on investment performance that could help inform future investment behavior. Even established impact investing funds produce little data on realized returns across sectors and regions. Aggregate data from industry surveys have helped clarify broad trends and benchmarks, but these studies are starting points rather than the granular, real-time market intelligence that investors are seeking.[3] Most impact investors appreciate the complexity of market and macroeconomic conditions, especially in new markets, but these conditions can have the effect of increasing the perceived (and actual) risk of investments.

There have been some forward strides in this regard, as a result of efforts by several key industry enablers. ImpactBase, hosted at the Global Impact Investing Network (GIIN), provides a comprehensive listing of impact investment funds that includes comparable information on return expectations. While a significant step forward for the impact industry, this database and others like it have a long way to go to reach the level of detail and robustness that financial investors currently expect.

Social stock exchanges provide an opportunity to enhance the transparency of information around impact investments. Despite their varied structures, they all act as credible and transparent brokers, attempting to reduce the transaction costs of deals and minimize the information asymmetries between buyers and sellers. Given that many of these exchanges are not yet fully operational, it remains to be seen to what extent they can achieve these objectives.

3
Design products for scale

An encouraging trend for impact investing is the interest from large institutional investors that manage assets in the hundreds of millions or higher. These investors still tend to be situated in developed economies, though new players are emerging from other G20 nations, including sovereign wealth funds. Many of these investors are signatories to the UN Principles of Responsible Investing, and a significant percentage have already deployed capital to clean tech, microfinance and affordable housing. One of their biggest challenges is the ability to deploy capital at a scale that dwarfs the size of most individual transactions occuring in the impact investing space today. As a result, these institutions seek investment opportunities of sufficient size, so that the costs of due diligence and completing a deal are commensurate to the size of the deal.

At the present time, apart from perhaps the aforementioned sectors, there is a lack of products that operate at this scale. However, there are some encouraging signs. Institutional investors have invested in many of the largest microfinance funds raised in the last few years. Green bonds have directed a substantial amount of capital towards environmentally focused initiatives and count some of the largest institutional investors as bondholders. Other important investors, such as California Public Employees Retirement System (CalPERS) continue to increase the scope of their assets and activity towards impact investing. These developments have provided more tangible incentives for financial intermediaries to construct investment opportunities to match this scale of capital deployment.

4
Refine the rules

Policy and regulation are seldom an investor's favorite topic. The rules of the game in finance are changing rapidly in response to financial market turmoil that has played out in both developed and developing economies. In many jurisdictions governments and regulators have not yet clarified their engagement in the impact investment market, even if it is not labeled as such. As with other financial risks, these challenges are compounded in the Global South by fundamental country risk, due to economic and social instability. All these factors represent red flags to investors and often discourage additional capital allocation in undeveloped regions that are, in fact, potentially ripe (and have a great need) for impact investment.

Fortunately, there have been some recent advances in the study and practice of policy to stimulate impact investment. The Impact Investment Policy Collaborative (IIPC) provides a global network through which policymakers, researchers and investors have access to and can share knowledge in order to optimize the policy environment for more effective impact investing in Africa, Latin America and Asia. Lessons and resources – such as US experience in community finance and UK experience in social finance – are being shared across regions to demonstrate the potential of policy to embed and incentivize activity that generates impact. Policymakers are also learning how to mitigate risks or unintended consequences when things go wrong.[4]

5
Clarify return expectations

Investors are comfortable with optimizing the dimensions of risk and return, but adding impact as a third dimension invites complexity. However, it is possible for impact investors to consider these dimensions (and others) in a coherent manner for both individual transactions and across portfolios.[5] There is still a perception that there is a tradeoff between financial returns and social returns, even among seasoned impact investors.[6] Building on an earlier point, in the absence of performance data on investments (as well as the other risks associated with impact investing), investors may compensate by having high (and possibly unrealistic) expectations of financial and social performance.

Recent research has also shown that many successful impact investors tend to assert their influence by being active limited partners (LPs) in funds they invest in.[7] While double-digit returns are a particularly appealing prospect in the current economic climate, investors must appreciate that those opportunities are usually as difficult to come by in impact investing as they are in conventional markets where information is more readily available. Additionally, the high search and transaction costs must be factored into impact investments. Providing clarity on the absolute returns that are being sought may be one logical way to manage expectations. This also provides an opening for co-investment opportunities with other investors that may share similar values but perhaps have different return expectations. This may help shift the conversation from IRRs to a more pragmatic discussion on the range of capital available to investors to achieve their stated financial and social return expectations.

Growing demand

In tandem with the growth of impact-oriented capital, there must be a pipeline of investment-ready opportunities that align with the expectations of the range of investors deploying this capital. The apparent dearth of investment-ready opportunities can be addressed through a number of strategies. We believe that five actions are particularly important.

1
Move beyond silos

The demand side tends to be equated with startups or early-stage ventures that are often self-described as social enterprises or social businesses. Not surprisingly, these tend to be the riskiest ventures to get right, not only because they are usually still validating their business models, but also because of their stated goals of optimizing both financial and social outcomes. Moreover, many of these businesses are often social first and market themselves as such. Indeed, the impact investing movement risks missing a plethora of other business models that do not label themselves as social enterprises/businesses but tightly integrate social considerations across and within their business models. For example, Etsy (now a certified B Corp) and Skillshare, which have defined and integrated social mandates, have both emerged as "disruptors" to traditional business models. Equally important, these promising businesses risk ignoring a segment of commitment and values-aligned impact investors.

Though social impact measurement has proven challenging for many social ventures, it represents an attempt to strengthen accountability to key stakeholders, including (but beyond) investors, as well as to use social performance data for improving operations and to prove impact.[8] Of course, not every business should be labeled as a social enterprise, even if it is creating jobs, because both the intentionality and the outcomes need to be considered, as well the theory of change. Improving governance and accountability are key in demonstrating that intentions are translated into outcomes through a credible process, and that stakeholders are considered. This is especially true as more corporations and multinationals sponsor and support new businesses or units under the banner of "shared value" or corporate social responsibility.

2
Widen the funnel

Innovative ideas emerge from a variety of places, including purpose-built institutions such as universities and incubators. There are new opportunities in these institutions for seeding and developing ideas that can address social issues in ways that have not previously been harnessed. For example, most leading universities have now embedded variations of social entrepreneurship into their business schools, and sometimes across other faculties and disciplines. These course offerings are often supplemented by business plan competitions, internships and service learning. The net effect is that students are often inspired by social entrepreneurship principles to start their own ventures, and are provided with a "sandbox" to experiment with their peers.

However, there is often a notable gap in converting promising ideas into feasible business models, and in validating the assumptions that underlie them. Incubators and accelerators have sprung up that partly fill this gap, often combining physical space, mentorship and seed funding. Traditional accelerators modeled on technology-focus models have shown some promise, and newer initiatives such as Village Capital are finding innovative ways for entrepreneurs to strengthen their models through peer mentoring and support. Finding the best combination of supports for early-stage businesses remains an art rather than a science, and these enabling organizations continue to evolve in each region. Widening the crop of potentially scalable and sustainable social enterprises, even if many of these ideas may not turn into validated business models, is an important step in harnessing the enthusiasm for social entrepreneurship.

3
Harness sectoral synergy

Having a critical mass of human, financial and social capital is key when creating ecosystems for entrepreneurship. With critical mass comes the ability to partner with a wider range of like-minded individuals and organizations, as well as a greater chance of sparking innovation through intentional and unanticipated connections. The network effects present in entrepreneurial ecosystems such as Silicon Valley provide an excellent case study of how sectors can develop through shared networks, understanding and infrastructure.[9] To date, however, impact investing has not yet harnessed potential synergy within sectors to achieve significant scale of mobilization and placement of capital, perhaps apart from affordable housing and microfinance. Moving from "market building" to "capturing the value of the marketplace" requires a concentrated effort to realize the benefits and opportunities of specialization and focus within sectors.

The Omidyar Network recently described how a sectoral approach to impact investing could help to accelerate the growth and effectiveness of the industry.[11] A focused approach to addressing the demand question at a sector level provides a more robust understanding of the key regulatory levers and market trends, as well as a cadre of service providers that are attuned to the needs of these entrepreneurs. Together, they also provide incentives for an increasingly sophisticated and connected set of industry intermediaries that can reduce the search and transactions costs of deals. These factors all help entrepreneurs become more efficient and effective in strengthening their business models, validating market assumptions and building teams. Some of the sectors that have this kind of potential in developing markets include: agriculture, mobile finance, transportation infrastructure, sustainable energy and affordable housing.

4
Address key finance gaps

Even in countries with less-developed venture capital or private equity landscapes, seed capital is often accessible to entrepreneurs with good ideas and a degree of perseverance (and, occasionally, luck). However, for social ventures, the challenge of the "missing middle" – the financing gap associated with growing small and medium-sized enterprises (SMEs) – is amplified.[12] There are many prominent initiatives directed at SMEs across many regions in the Global South, though with varying levels of success. These financing gaps continue to be perceived as the greatest barrier by social entrepreneurs seeking to establish or grow businesses.[13]

Creating financial structures that are "friendly" to entrepreneurs and map to their needs remains a key requirement for growth on the demand side. Blended finance such as quasi-equity structures – which can take a variety of forms – has been useful in encouraging growth while allowing entrepreneurs to retain control of their ventures.[14] These structures are usually customized to the needs of the specific venture, and can take time and effort to get right. This may also indicate the need for new models and for funding early-stage ventures, not just those based on traditional venture capital and private equity.[15] For example, the Acumen Fund and Monitor coined the term "enterprise philanthropy" to describe how philanthropy can contribute to building the investment readiness of organizations that are tackling important social challenges.[16]

5
Create markets for good

Finding and securing customers should be at the top of the list for fledgling entrepreneurs. In cases where entrepreneurs recognize this, the focus on meeting customer needs trumps everything else, and rightly so. At the same time, social entrepreneurs face structural challenges that hinder their ability to compete successfully in some markets. There are several ways to spur the growth of social enterprises through the creation of new market incentives that allow them to acquire more customers without distorting the markets within which they operate. This latter point is key since "social enterprise" carries differing interpretations across regions, including some countries where it is equated with nonprofit and charity activity.

Two immediate (but not new) opportunities stand out: incorporating social enterprises in corporate value chains and encouraging social enterprise bids in large-scale procurement efforts. In the case of the former, there is a burgeoning array of examples where social enterprises have become key suppliers and allies to large multinationals and mid-sized corporations.[17] For the latter, governments have been interested in procurement from social enterprises across a variety of sectors, not only to obtain comparable quality and cost considerations, but to generate social and community benefits. These have been evident, for example, at major sporting events, such as the Vancouver Olympics in 2010, and are part of the planning for the forthcoming World Cup and Olympics in Brazil.

Conclusion

In our view, all ten of these actions are critical field-building priorities. They must be undertaken in a parallel and robust fashion for impact investing to realize major gains. Networks and fora that span demand and supply, as well as countries and sectors, will be crucial for the coordinating efforts of leaders around the world. Funding agencies aiming to enable the further growth of the impact investing field should also coordinate their efforts to provide strategic and tandem support to both the supply and demand sides in the years ahead.

Endnotes

[1] *Accelerating Impact: Achievements, Challenges and What's Next in Building the Impact Investing Industry,* describes these trends in more detail, and can be accessed here: http://www.rockefellerfoundation.org/what-we-do/current-work/harnessing-power-impact-investing/publications

[2] See, for example, this article by McKinsey: http://voices.mckinseyonsociety.com/diaspora-bonds-a-new-source-of-capital-for-emerging-markets/

[3] *Insight into the Impact Investment Market* (2011) J.P. Morgan and the Global Impact Investing Network (GIIN), accessible at http://www.thegiin.org/cgi-bin/iowa/resources/research/334.html

[4] *Impact Investing: A Framework for Policy Design and Analysis* (2011) Ben Thornley, David Wood, Katie Grace, and Sarah Sullivant, accessible at: http://iipcollaborative.org/report/impact-invest-a-framework-for-policy-design-and-analysis/

[5] *A Portfolio Approach to Impact Investment: A Practical Guide to Building, Analyzing and Managing a Portfolio of Impact Investments* (2012) J.P. Morgan Social Finance, accessible at: http://www.jpmorganchase.com/corporate/socialfinance/document/121001_A_Portfolio_Approach_to_Impact_Investment.pdf

[6] *Insight into the Impact Investment Market* (2011) J.P. Morgan and the Global Impact Investing Network (GIIN)

[7] *A Market Emerges: The Six Dynamics of Impact Investing* (2012) Pacific Community Ventures, Inc. (PCV), Impact Assets, and Duke University's Fuqua School of Business, accessible at: http://www.pacificcommunityventures.org/reports-and-publications/the-impact-investor-a-market-emerges-the-six-dynamics-of-impact-investing/

[8] See the issue of social impact measurement discussed in another paper in this series: "Measuring What Matters".

[9] For example, see Feld, B. (2012) *Startup Communities: Building an Entrepreneurial Ecosystem in Your City*

[10] The Monitor Institute (2009) "Investing for Social and Environmental Impact" describes the phases of evolution for building an impact investing marketplace.

[11] Access the full series of posts: "Priming the Pump for Impact Investing" at: http://www.ssireview.org/blog/entry/sectors_not_just_firms

[12] *Two Trillion and Counting: Assessing the credit gap for micro, small, and medium-size enterprises in developing countries.* (2010) by the IFC and McKinsey, accessible at: http://mckinseyonsociety.com/two-trillion-and-counting/

[13] See the work of the Aspen Network of Development Entrepreneurs (ANDE)

[14] Quasi-equity financing refers to investments that combine the qualities of debt and equity, such as convertible debt and subordinated loans. They are attractive as they often allow entrepreneurs to retain a higher level of control than conventional equity or debt financing.

[15] *A Market Emerges: The Six Dynamics of Impact Investing* (2012) Pacific Community Ventures, Inc. (PCV), ImpactAssets, and Duke University's Fuqua School of Business, accessible at: http://www.pacificcommunityventures.org/reports-and-publications/the-impact-investor-a-market-emerges-the-six-dynamics-of-impact-investing/

[16] *From Blueprint to Scale: The Case for Philanthropy in Impact Investing* (2012) by Monitor Inclusive Markets and the Acumen Fund, accessible at: http://www.mim.monitor.com/blueprinttoscale.html

[17] For example, see *How Multinational Corporations Are Redefining Business Strategies to Reach Poor or Vulnerable Populations* (2012) by FSG, accessible at: http://www.fsg.org/Portals/0/Uploads/Documents/PDF/Shared_Value_in_Emerging_Markets.pdf