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IMPACT MEASUREMENT IN PRACTICE

In-depth case studies

Published by the European Venture Philanthropy Association

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IMPACT MEASUREMENT IN PRACTICE

In-depth case studies

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Disclaimer

The two case studies presented in this report feature organisations that are continuously working on impact measurement. As a result, both cases are evolving organisations and thus the IM systems are continuously improving.

1 **Hehenberger, L., Harling, A.-M. and Scholten, P.**, (2015). "A Practical Guide to Measuring and Managing Impact – Second Edition". EVPA.

2 http://ec.europa.eu/growth/sectors/social-economy/enterprises/expert-groups/index_en.htm

3 **Clifford, J., Hehenberger, L., Fletcher, L. and Harling, A.-M.**, (2015). "European Impact Investing Luxembourg: Social Impact Measurement in the framework of a Société d'Impact Sociétal". BWB Impact.

4 <http://www.impact-investing.eu/who-we-are>

Executive Summary

EXECUTIVE SUMMARY

Impact measurement has been recognised as one of the three key practices of Venture Philanthropy (VP), together with tailored financing and organisational support. EVPA recommends that venture philanthropy organisations (VPOs) measure impact using the five-step model proposed in the report “A Practical Guide to Measuring and Managing Impact”, and EVPA’s work on impact measurement is a key building block for the European Commission’s Standard on impact measurement.^{5,6}

Despite the centrality of impact measurement in the VP approach and of the large uptake of the five steps, many VPOs still consider it difficult to implement impact measurement in their daily practice, and ask for more guidance as of the DOs and DON'Ts of impact measurement.

The two case studies presented in this report aim to fill this knowledge gap, by providing examples of how two leading organisations – Investisseurs et Partenaires (I&P) and Reach for Change – have developed their own impact measurement system and how they have dealt with issues such as proportionality, attribution and additionality.

Starting from the five-step IM process proposed by EVPA, we have underlined the main recommended methodology to be used to complete each step and the main criticalities to be considered at each step of the impact measurement process.

Step 1 – Setting Objectives

Step 1 is the first step in the impact measurement process. It is the step in which the objectives that will guide all future actions are set – thus it shapes the future course of action of both the VPO and the social purpose organisation (SPO) it supports. From the case studies, five main recommendations for this step emerge:

1. *The Theory of Change is at the centre of all you do, so take the time to develop it* – and this is valid for all your investees too. Impact Measurement (IM) is only a means to an end, not the end in itself. Having an IM system should support the VPO achieving its goals but this can happen only if the goals are first made clear. Our recommendation is to develop a clear Theory of Change, possibly through a workshop with the help of an external consultant, and involving the team, as I&P did. The Theory of Change is the starting point of any IM system (and should be the cornerstone of the investment strategy). It will facilitate all subsequent IM work. It is also important to understand why you introduce an IM system, whether to report to investors, better prioritise resources, and investments, or in general to manage towards better and greater impact.

5 GECES Sub-group on Impact Measurement (2015). “Proposed Approaches to Social Impact Measurement in European Commission legislation and in practice relating to EuSEFs and the EaSI”. European Commission Directorate-General for Employment, Social Affairs and Inclusion Unit C2.

6 Press release: http://europa.eu/rapid/press-release_IP-14-696_en.htm?locale=EN

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2. *There is No “One-Size-Fits All”* – The Impact Measurement System you choose to build derives from your goals – and they are unique! So get inspired by others, seek guidance and examples, but remember that ultimately the IM system you choose shall serve your organisation and your investees.
3. *Be conscious of the needs of your investees* – Depending on your investment strategy you will have a portfolio of investees that are advanced and already familiar with IM or investees that are only starting and need to be guided – like the Change Leaders supported by Reach for Change – or even investees that are resistant to the idea of implementing an IM system – like the SMEs supported by I&P. It is important to reflect on this situation before choosing an approach to setting the objectives at the SPO level.
4. *Your objectives and the ones of the investee will guide you in selecting the investments* – An alignment in the objectives of the VPO and a potential investee is a selection criteria for making (or not) an investment. That is why it is extremely important to set the objectives – for both VPO and SPO – at the very beginning.

Step 2 – Analysing Stakeholders

Step 2 – analysing stakeholders – consists of two sub-steps: *stakeholder identification* and *stakeholder engagement*. The following recommendations emerged from the case studies:

1. *Make a list of direct and indirect stakeholders and be selective* – The identification of the stakeholders is done at the outset, parallel to setting the objectives and it is then subject to periodical revision. This is valid for both VPO and SPO.
2. *Involve the investees in the stakeholder identification process* – As shown by the experience of I&P, involving the investees is easier said than done, because there might be some resistance from SMEs that are not too fond of impact measurement. However, it is crucial as it helps building ownership of the process.
3. *Stakeholders’ engagement is a recurring activity* that needs to happen throughout the investment process and thus the impact measurement process (i.e. by surveying the stakeholders at the outset of the investment about the needs/expectations and after the investment about the effectiveness of what was offered, in Step 4 – verifying and valuing impact – to assess the claimed impact has been achieved, etc.).
4. *Revise periodically* – also based on the lessons learned through the IM exercise. To this end it is crucial to give the stakeholders moments in which they can give feedback, as Reach for Change does when collecting stories from final beneficiaries, children.
5. *Stakeholders’ alignment will guide you in selecting the investments* – Together with the objectives, an alignment on the stakeholders helps you decide whether or not to invest in a certain SPO. Reach for Change, for example, only invests in social entrepreneurs who work to improve the lives of children.

EXECUTIVE SUMMARY

Step 3 – Measuring Results: Outcomes, Impact and Indicators

Step 3 – measuring results – is the step in which the objectives set in Step 1 are transformed into measurable results through the definition of **outputs, outcomes, social impact and indicators**. The case studies show that:

1. *You shall not reinvent the wheel* – Use available databases to choose indicators from – IRIS, Global Value Exchange, etc. where possible and feasible. Using indicators found in these databases helps when aggregating and comparing data.
 2. *You measure for yourself, so assess and reassess what data is useful* – Any indicator chosen should be useful and help you take decisions and show your impact, and this is valid for your investee too. Usefulness for management shall always come first and indicators should not be chosen because they are fancy or to “tick a box”. Both I&P and Reach for Change perform a yearly revision of the indicators used, to avoid wasting resources on collecting data that is not worthwhile.
 3. *You can't measure everything (and you shouldn't)* – Although it is important to measure impact, the more precise the measurement the higher the cost of measuring. Thus it is important to be realistic and try and get the measurement that delivers the best value for money. Sometimes the data you need to complement the information you have collected is available through public sources, which are a cheaper source of data.
 4. *Excitement tends to fade* – both in the VPO team and in the SPO, so it is important that the information collected through the IM system continues to be useful and relevant for taking managerial decisions at both the VPO and the SPO level.
 5. *Aggregating at portfolio level is crucial, though complex* – Organisations that support a high number investees using different indicators to measure impact such as Reach for Change find it difficult to aggregate the results and measure impact at portfolio level. However, simplifications are possible by measuring the percentage improvement on the different indicators.
 6. *Don't complicate your life* – and the life of your investees. Data collection can be simplified, by using Excel questionnaires like the one developed by I&P and by using Google Drive as done by Reach for Change, instead of investing resources on fancy and complex tools if not needed.
 7. *Don't overdo it* – sometimes two to three indicators per objective are sufficient. Additionally, not all indicators need to be measured from the outset: beginners can start with one, and add more as they go along. Both I&P and Reach for Change follow this principle, asking SPOs to collect and report based on their evolving capabilities.
-

EXECUTIVE SUMMARY

Step 4 – Verifying and Valuing Impact

In Step 4 – verifying and valuing impact – the claim we make on having positive social impact needs to be verified, including to what extent (i.e. to what value). This is a test of the causal link as part of the theory of change. In particular, during this step the VPO measures the achievement, *verifies* that the impact claimed actually happened and was real to the intended stakeholders and *values*, i.e. makes an assessment of whether the outcome is/was important to the stakeholders. The following recommendations can be made regarding how to perform this step:

1. *Have an independent external evaluator helping you* – some fairly cheap ones can be available such as the student association working with I&P. Having an external evaluator reduces the chances of bias in the responses given by the investees.
2. *Involve the beneficiaries* – as your ultimate goal is to serve them. Beneficiaries can be involved in multiple ways, i.e. through interviews, focus groups, etc.
3. *Combine quantitative and qualitative data*
4. *Perform the analysis at the outset* – as this helps you build the counterfactual against the baseline
5. *Close the learning cycle* – all the information collected in Step 4 must generate learnings that help the VPO and the SPO adjust the course of action, including potentially revising the objectives, the list of stakeholders and the indicators used to measure the achievement of the objectives. The learnings will then need to be reported (see Step 5).

Step 5 – Monitoring and Reporting

The final step in the impact measurement process involves monitoring – tracking progress against (or deviation from) the objectives defined in the first step and made concrete through the indicators set in the third step; and reporting – transforming data into presentable formats that are relevant for key stakeholders.

For data collection, the following recommendations are made:

1. *Identify data sources for all measures*, as well as the type of data to be collected along with how they will be collected.
2. *Establish a baseline status* at the beginning of the intervention, and where possible, comparable data for control or comparison group members. Baseline data are important for assessing change over time.
3. *Describe how data will be collected*– for example through administrative records such as academic records, program systems, such as scorecards maintained by staff, or through instruments specifically created for the purpose, e.g. surveys. The questionnaires self-filled by I&P's investees, for examples, are then checked by (i) the investment officers and (ii) by the ESG Team and, if necessary, information from public sources is then used to complement the data collected.

EXECUTIVE SUMMARY

4. *Indicate who will collect all data used in the evaluation, and make sure you check and double-check data reported* – this involves assessing the involvement of both internal and external people, and the capacity and availability of staff members in relation to the data collection process. Having a well-structured system helps guarantee that the data collection process is solid. Reach for Change has a so-called “Triple Audit Process”: data is self-reported by the investee and then checked by (i) local Programme Managers, (ii) Regional Directors and, lastly, (iii) by the Central Impact Team, to guarantee the quality and correctness of the data collected.
5. *Keep an open dialogue between the central function and the local teams* – local teams will be in charge of collecting data and checking it without being experts on impact measurement, so it is important that the central function keeps an open dialogue with them to guarantee the maximum support and collaboration.
6. *It’s hard to find a balance between resources and precision* – Both I&P and Reach for Change have been struggling with the data collection process, and have finally opted for easy IT solutions that allow for the SPOs to self-report most of the data.
7. *Data collection is a learning process* – Both the SPO and the local VPO’s team will need time to learn about the IM system, so patience is important when the IM system is first introduced.

As shown also by the case studies, no reporting standards exist, but a number of elements are common in reporting the results:

1. *Be conscious of language barriers* – When operating in many countries with many different languages it is important to produce reports (and IM systems) that can be used by the local SPOs and the local teams.
 2. *Aggregating data for reporting is technically difficult* – The more customised the IM system, the more difficult it will be to aggregate data at portfolio level (and for reporting). It is therefore important to think of ways to show outcomes at portfolio level, for example showing the improvements in the impact levels across the portfolio.
 3. *It is difficult to find data to benchmark* – One issue for reporting is the lack of the “counterfactual”, i.e. of external data showing what would have happened without the SPO’s (or the VPO’s) intervention to support the final beneficiaries (or the SPO).
 4. *It would be useful to have an external evaluator for the reporting* – to revise the overall impact measurement methodology of the VPO.
-

Introduction and Overview

INTRODUCTION AND OVERVIEW

What is VP/SII?

Venture philanthropy (VP) is a high engagement and long term approach to generating societal impact through 3 core practices as shown in figure 1:

- **Tailored financing:** Using a range of financing mechanisms (including grants, debt, equity hybrid financing) tailored to the needs of the organisation supported.
- **Organisational Support:** Added value support services that VPOs offer to investees (SPOs) to strengthen the SPO's organisational resilience and financial sustainability by developing skills or improving structures and processes.
- **Impact measurement and management:** Measuring and managing the process of creating social impact in order to maximise and optimise it.

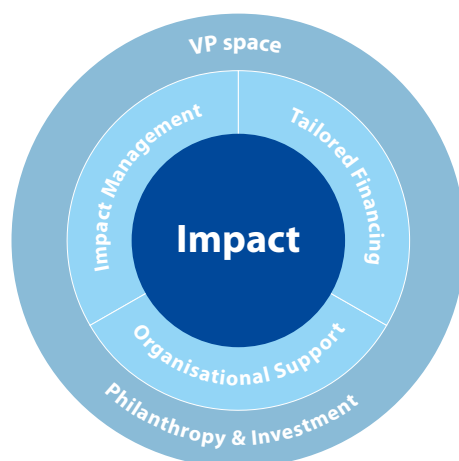


Figure 1:
Key Characteristics of Venture
Philanthropy

Source: EVPA

Organisations that practise venture philanthropy following the principles outlined above are defined “venture philanthropy organisations” (VPOs), social impact investors (SII) or simply “investors” in this document.

Venture philanthropy works to build stronger social purpose organisations (SPOs). The term SPO captures the entire spectrum of organisations whose primary purpose is to create social value (rather than shareholder value). The terminology for these different kinds of organisations varies enormously across countries and jurisdictions, and is therefore far from precise. The following types of organisations fall under the banner of SPOs:

- Charity, non-profit, foundation, association, company limited by guarantee (having no trading activities, or where trading is of marginal importance).
- Social enterprise, Community Interest Company (having trading as a significant or exclusive part of their operations). Some do not make any financial returns to investors (or cap returns) but reinvest surpluses into the organisation. Even within social enterprise there are several different models.

INTRODUCTION AND OVERVIEW

- Socially driven business – profit distributing businesses but with clear and stated social objectives.

Often the SPO is referred to as the “investee”, as VPOs invest in SPOs using the venture philanthropy approach.

The venture philanthropy / social impact investment organisation (VPO) acts as a vehicle, channelling funding from investors and co-investors and providing non-financial support to various investee organisations. The non-financial support is provided by the VP/SII organisation itself, but also by external organisations and individuals. The investee organisations in turn develop multiple projects that may be focused on particular sectors such as healthcare, education, environment, culture, medical research, etc. The ultimate beneficiaries are usually groups in the society that are somehow disadvantaged, such as disabled, women, children, etc. The societal impact ultimately needs to be measured by assessing how the lives of the beneficiaries are improved thanks to the actions of the investee organisations, and, going one step further, assessing the contribution of the VPO to that improvement. The VPO generates social impact by building stronger investee organisations that can better help their target beneficiaries and achieve greater efficiency and scale with their operations. Investors in VP/SII are usually focused on the social return of their investment, rather than on the financial return.

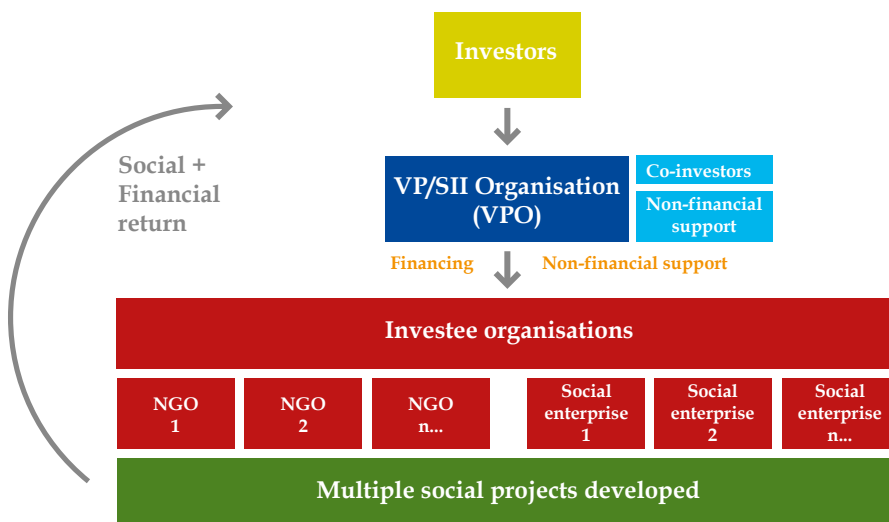


Figure 2:
Venture Philanthropy model

Source: EVPA

INTRODUCTION AND OVERVIEW

Why a collection of impact measurement case studies?

The European Venture Philanthropy Association (EVPA) focuses on providing its members with resources and knowledge to assist them in the development of strategy and best practice in the VP approach. As impact measurement and management is one of the key practices of VP, since 2012 EVPA has been developing its Impact Measurement Initiative (IMI), with the aim of addressing the concerns raised by EVPA members about guidance on how to work with the maze of existing impact measurement methodologies, databases, tools and metrics.

The first result of the IMI was the publication, in 2013, of the manual “A practical guide to measuring and managing impact”. The Guide provides VPOs with a hands-on manual on impact measurement which is both a tool to assist social impact investors in their daily activities and a practical road map on how to actually implement an impact measurement system for a VPO (investor) and its SPOs (investees).

The Guide is neutral in terms of methodologies, databases, tools and metrics and does not “reinvent the wheel”, but proposes a five-step process (presented in the figure below) which shall serve as a general framework to guide practitioners setting and implementing an impact measurement system and is composed of the following steps:

- i. Setting Objectives
- ii. Analysing Stakeholders
- iii. Measuring Results
- iv. Verifying and Valuing Impact
- v. Monitoring and Reporting

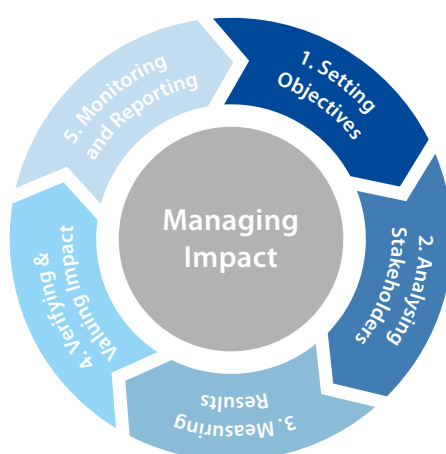


Figure 3:
The EVPA five-step impact measurement process

Source: EVPA

INTRODUCTION AND OVERVIEW

The centrepiece of the model is impact management, as the data resulting from the measurement exercise needs to be turned into useful information for management to achieve greater impact.

Since its publication the Guide has been widely downloaded and shared by VP practitioners, academics, SPOs and policy makers, has been translated to Swedish, Spanish and French, and a second edition has seen the light in June 2015.

EVPA is playing a leadership role in the IM field, and has been recognised as an important player, as shown by its participation in and contribution to the report⁷ produced by the Working Group on Impact Measurement of the taskforce on social impact investment established by the G8⁸, and by the extent to which EVPA's work on impact measurement is being referenced in the European Commission's Standard on impact measurement^{9,10}. The GECES¹¹ standards mirrors the EVPA five-step process and sets a universal process that can be applied by VPOs and SPOs, regardless of the specific method chosen, in line with EVPA's recommendations.

Despite this increasing attention given to impact measurement in the sector and the developments we have experienced in the past few years, practitioners still need guidance on how to implement the five-step process proposed in EVPA's Impact Measurement Guide. In fact, the EVPA manual gives guidance on the steps to follow for implementing an impact measurement system, thus focusing on the process, but there is still a need to offer further practical guidance on how to implement this process.

A recent report¹² commissioned by the European Impact Investing Luxembourg Initiative (EIII)¹³ to BWB Impact¹⁴ tackles this problem. The report reviews existing methodologies applicable to each of the five steps of impact measurement with the purpose of providing practical guidance to practitioners on how to do impact measurement by highlighting among the maze of existing methodologies the most likely to deliver workable solutions to the needs for social impact measurement. According to this review work best practices have emerged

7 Social Impact Investment Taskforce established by the UK presidency of the G8, (2014). "Measuring Impact – Subject Paper of the Impact Measurement Working Group".

8 For more information on the uptake of the Guide, please see **Hehenberger, L., Harling, A. and Scholten, P.,** (2015), "A practical guide to measuring and managing impact – Second Edition". EVPA.

9 GECES Sub-group on Impact Measurement (2015). "Proposed Approaches to Social Impact Measurement in European Commission legislation and in practice relating to EuSEFs and the EaSI". European Commission Directorate-General for Employment, Social Affairs and Inclusion Unit C2.

10 Press release: http://europa.eu/rapid/press-release_IP-14-696_en.htm?locale=EN

11 "Groupe d'Experts de la Commission sur l'Entrepreneuriat Social", an Informal consultative group set up for six years (2012-2017) to examine the progress of the measures envisaged in the Social Business Initiative. http://ec.europa.eu/growth/sectors/social-economy/enterprises/expert-groups/index_en.htm

12 **Clifford, J., Hehenberger, L., Fletcher, L. and Harling, A.-M.,** (2015). "European Impact Investing Luxembourg: Social Impact Measurement in the framework of a Société d'Impact Sociétal". BWB Impact.

13 <http://www.impact-investing.eu/who-we-are>

14 <http://www.bwbilp.com/>

INTRODUCTION AND OVERVIEW

in the sector for Step 1, Step 2 and Step 5, while in other cases many options remain , as shown in the figure¹⁵ below.

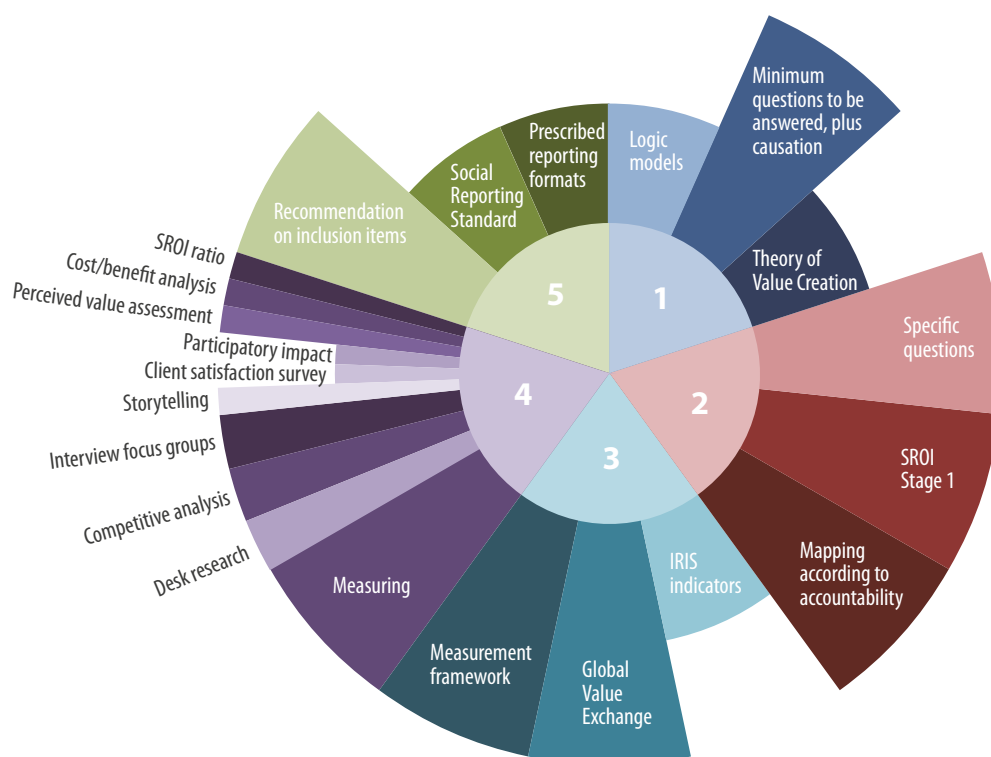


Figure 4:
Suggested method per step of the IM process

Our practical case studies complement EVPA’s Practical Guide and other emerging work by providing practical examples of how practitioners implement the five-step impact measurement process, showing how a venture philanthropy foundation (Reach for Change) and an impact investing fund (Investisseurs et Partenaires) have approached impact measurement and have found ways to apply existing methodologies to their own organisations.

Methodology

To provide VP/SII practitioners with practical real-life and in-depth cases of how impact measurement can be performed, we selected two organisations, Reach for Change (R4C) and Investisseurs et Partenaires (I&P). We selected these two organisations for two reasons. First, both I&P and R4C are at the forefront of impact measurement (“IM”), having worked intensively on developing their IM systems. Second, I&P and R4C take two very different approaches to impact measurement, which makes studying them particularly interesting and shows that no “one-size-fits-all” approach can exist for impact measurement.

¹⁵ Source: Clifford, J., Hehenberger, L., Fletcher, L. and Harling, A.-M., (2015). “European Impact Investing Luxembourg: Social Impact Measurement in the framework of a Société d’Impact Sociétal”. BWB Impact.

INTRODUCTION AND OVERVIEW

These case studies are the result of one year of work studying the practices of these two leading organisations. We conducted two in-depth interviews with the team of each organisation, in the course of 2015. The purpose of the in-depth interviews was to understand how the two organisations had approached impact measurement, how they managed for impact, what worked and what didn't and what these two organisations were and are struggling with based on the five steps in EVPA's IM guide. The case studies are not a means for EVPA to "prove" its five steps, but a way to reflect on what organisations are struggling with when measuring impact. Thus although for clarity and ease of use we structure the case studies into the five steps of the EVPA Impact Measurement guide, we focus on the challenges and emergent issues practitioners encountered in the development and implementation of their impact measurement and management processes (e.g. how to evaluate outcomes, the issue of proportionality, the use of control groups, measurement standards that allow comparability, etc.).

The interviews have been complemented by the reading of R4C's and I&P's impact reports and internal documents outlining the impact measurement methodologies of the two organisations.

To gather feedback on the case studies and to fine-tune them, we organised a site visit at I&P in June 2015, where the first case was presented, while the Reach for Change case was presented at the EVPA Training Academy in September 2015.

Both cases were then presented and discussed at the 11th EVPA Annual Conference in Madrid in December 2015, to a broad audience of VPOs, SPOs, academics and service providers; an additional opportunity to gather feedback.

The report is structured as follows. After the introduction and an overview of the IM process, we present the two case studies, first I&P and then Reach for Change. Both case studies are structured following the impact measurement process proposed by EVPA in its report "A Practical Guide to Measuring and Managing Impact"¹⁶.

We then compare the two cases to find similarities and differences in the two approaches, to highlight the main challenges and to draw conclusions on what are the PROs and CONS of the each approach.

¹⁶ Source: **Hehenberger, L., Harling, A-M. and Scholten, P.,** (2015). "A Practical Guide to Measuring and Managing Impact – Second Edition". EVPA.

The Five Steps

THE FIVE STEPS

This section is based on a combination of the recommendations from EVPA's Practical Guide on Measuring and Managing Impact¹⁷, the GECES report on Social Impact Measurement¹⁸, and the report prepared for the European Impact Investing Luxembourg Initiative¹⁹.

Step 1 – Setting Objectives

Step 1 in EVPA's impact measurement process is "Setting Objectives". This step includes defining the **scope of the VPO's impact measurement** and **setting objectives**. Setting objectives is a vital step in any impact measurement process and needs to be considered at both the level of the VPO and the investee. Often VPOs do not spend enough time upfront considering their own impact objectives and why they want to measure impact, which later makes it difficult to make decisions regarding what is relevant and what is not when faced with scarce resources. A VPO must formulate its overarching social problem or issue so as to choose investments in SPOs that can contribute to solving that social issue. The more specific the objectives the better the impact measurement that can be prepared²⁰.

It is fundamental to begin by setting the objectives of what the organisation is trying to achieve, and this is valid for both the investor and the social enterprise. This may appear an intuitively simple task but in practice there is often confusion.

In all existing methodologies identifying and setting objectives begins with some aspect of the **theory of change**. A theory of change shows an organisation's path from needs to activities to outcomes to impact. It describes the change you want to make and the steps involved in making that change happen. Theories of change also depict the assumptions that lie behind your reasoning, and where possible, these assumptions are backed up by evidence²¹.

It is possible to extract the commonalities of the various tools that use the theory of change and logic model, such as social return on investment (SROI) and the balanced scorecard, to come up with a recommended list of questions that at a minimum a social enterprise

17 Hehenberger, L., Harling, A.-M. and Scholten, P., (2015). "A Practical Guide to Measuring and Managing Impact – Second Edition". EVPA.

18 GECES Sub-group on Impact Measurement (2015). "Proposed Approaches to Social Impact Measurement in European Commission legislation and in practice relating to EuSEFs and the EaSI". European Commission Directorate-General for Employment, Social Affairs and Inclusion Unit C2.

19 Clifford, J., Hehenberger, L., Fletcher, L. and Harling, A.-M., (2015). "European Impact Investing Luxembourg: Social Impact Measurement in the framework of a Société d'Impact Sociétal". BWB Impact.

20 Hehenberger, L., Harling, A.-M. and Scholten, P., (2015). "A Practical Guide to Measuring and Managing Impact – Second Edition". EVPA.

21 Kail, A., Lumley, T., (2012). "Theory of Change: the beginning of making a difference". New Philanthropy Capital.

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should answer²². This approach is embraced in the EVPA Guide²³, and in line with the recommendations of the GECES, and established best practice.

We recommend that each impact measurement process starts with an organisation answering the *minimum questions* outlined below, including a clear explanation of causation, i.e. how the proposed activities bring about the desired outcomes. These questions will be sufficient to provide a clear overview of the theory of change of a social enterprise, and can be used by small and young as well as larger or more established organisations. It should always be underpinned with proportionate evidence as to why it is believed that those outcomes arise from that activity. The question on causal links will be hypothetical for early stage organisations testing new ground, but as evidence from the own intervention, and from other research builds up, the causal link will become more robust (or will be refuted). Thus, the theory of change of any organisation should be fully analysed and then reassessed as it gains new and deeper experience.

Following this recommendation means that setting objectives should include answering at least the following questions.

For the **VPO**, the theory of change should be an integral part of its investment strategy, and should address the following questions:

1. *What is the overarching social problem or issue that the VPO is trying to solve?*

This can be more or less difficult depending on how broad or focused your approach is but a clearly articulated response is necessary to be able to choose investments that can contribute to solving the social issue that the VPO is addressing, e.g., the issue of youth unemployment in Spain (including an assessment of the magnitude of the problem as the base case).

2. *What objective(s) does the VPO want to achieve and how will it do that?*

This implies looking at your overall objectives and how you can achieve those objectives by investing in a specific type of social purpose organisations, e.g. reduce youth unemployment in Spain by investing (financial and non-financial support) in social enterprises with innovative solutions to introduce the youth in the labour force (including an assessment of what the greatest needs of such social enterprises and how the VPO can help them).

3. *What are the expected outcomes and what is the logic behind these expectations?*

The VPO should evaluate the expected outcome of its investment in the SPO, i.e. the expected outcome of the SPO and how the VPO expects to contribute to achieving

22 Clifford, J., Hehenberger, L., Fletcher, L. and Harling, A.-M., (2015). "European Impact Investing Luxembourg: Social Impact Measurement in the framework of a Société d'Impact Sociétal". BWB Impact.

23 Hehenberger, L., Harling, A.-M. and Scholten, P., (2015). "A Practical Guide to Measuring and Managing Impact – Second Edition". EVPA.

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that outcome, what the VPO must achieve to be considered successful (and the milestones against which the VPO will be measured). It is important to consider potential unintended consequences of the VPO's activities. Increasingly, the sector should start considering how it can establish evidence that the activities of the VPO (financial and non-financial support) will actually deliver the desired outcomes.

For the **SPO**²⁴:

1. *What is the social problem or issue that the social enterprise is trying to solve?*
With the response including information about the nature and magnitude of the problem or opportunity; which populations are affected; whether the issue is changing or evolving and in what way it is changing or evolving. The aim of this question is to understand the base case and therefore, at a later stage, allow the social enterprise to see whether there has been any change from the base case.
2. *What resources or inputs, as per the impact value chain, does the social enterprise have and need to undertake its activities?*
This should include the time, talent, technology, equipment, information and other assets available to conduct the activities. Ideally it should also consider whether a mismatch exists between the activities and the resources available to execute those activities.
3. *What activities is the social enterprise undertaking to solve the social problem or issue?*
The response should include a description of exactly what the social enterprise is doing to try to effect a change. It should include a set of specific steps, strategies or actions arranged in a logical sequence demonstrating how each activity relates to another.
4. *What are the expected outcomes?*
This should include what the social enterprise must achieve in order to be considered successful and will form the basis of the milestones against which the social enterprise will be measured.
5. *What are the key factors in the cause-and-effect relationship?*
Think about and describe how the inputs link to the intervention and then link to the desired outcomes. Briefly describe the basis for the logic model (theory or prior research, or both) along with aspects of the model, if any, which have been confirmed (or refuted) by previous research. As the intervention is tested by the social enterprise or otherwise, more evidence will be collected to either "prove" or refute the theory of change, so that the social enterprise may alter its course based on the learnings and change course as necessary.

²⁴ Clifford, J., Hehenberger, L., Fletcher, L. and Harling, A.-M., (2015). "European Impact Investing Luxembourg: Social Impact Measurement in the framework of a Société d'Impact Sociétal". BWB Impact.

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Step 2 – Analyse Stakeholders

VP/SII investments generate value for a variety of stakeholders, who are an important element of any impact measurement. The involvement of stakeholders is also a key part of methodologies such as SROI, whose principles include involving stakeholders and valuing the things that matter to those stakeholders.

EVPA defines a stakeholder as “Any party effecting and/or affected by the activities of the organisation.”²⁵ GECES is more concise using, “who gains and who gives what and how”²⁶. It is important to understand stakeholders’ level of engagement with, control over, and contribution to achieving the desired objectives and the outcomes and impacts that come with them.

In this step the VPO needs to understand:

- the expectations of the stakeholders;
- the contribution of each stakeholder to the SPO and the potential impact the SPO’s work will have on them;
- the co-operation of the main stakeholders in the impact measurement process.

Applying to both the VPO and SPO level, there are two aspects to stakeholder analysis:

- i. *Stakeholder identification*, which includes stakeholder mapping (direct and indirect contributors and beneficiaries), stakeholder selection (using concepts such as materiality, accountability and relevancy) and analysis of stakeholder expectations.
- ii. *Stakeholder engagement*, which includes communicating with the selected stakeholders and is vital to be able to understand their expectations and, later in the process, verify if their expectations have been met. This is described in more detail in Step 4²⁷.

The GECES recommends that social enterprises engage with stakeholders to test and challenge their understanding and that such an engagement is not just at the planning stage, but throughout the whole measurement process. Thus analysing stakeholders would include at least the following practical steps:

1. Begin by putting together a long list of all those who might affect or be affected by the activities of the organisation, whether the change in outcome is positive or negative, intentional or unintentional.

²⁵ Hehenberger, L., Harling, A-M. and Scholten, P., (2015). “A Practical Guide to Measuring and Managing Impact – Second Edition”. EVPA.

²⁶ GECES Sub-group on Impact Measurement (2015). “Proposed Approaches to Social Impact Measurement in European Commission legislation and in practice relating to EuSEFs and the EaSI”. European Commission Directorate-General for Employment, Social Affairs and Inclusion Unit C2.

²⁷ Source: Hehenberger, L., Harling, A-M. and Scholten, P., (2015). “A Practical Guide to Measuring and Managing Impact – Second Edition”. EVPA.

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2. Prioritize those a social enterprise will focus on by asking:
 - a. How material are the benefits and inputs provided by the identified stakeholders?
 - b. How relevant is the stakeholder group to the primary mission of the social enterprise?

3. Taking into account the concept of proportionality, it is recommended that the social enterprise is accountable for material but only positive outcomes on main beneficiary groups, and that *at least* those stakeholder groups are included in the analysis.

As advised by the GECES, stakeholders should be involved to some degree in all stages of impact measurement:

- Identifying stakeholders.
- Understanding the nature of their interest and confirming that with them, either prior to investment, or at another suitable date.
- Agreeing the framework and/or indicators suitable to those needs and notifying them (individually or as a class) of how measurement will be provided. This can be by information on a website, by live presentation or written notification, or by other suitable means.
- Providing a suitable means for stakeholders to raise queries or comments, and advise them of how to do it.
- Summarising, and if necessary revising, at least annually, or at shorter intervals suitable to stakeholder need:
 - who are the key stakeholders or key classes of stakeholders;
 - the measurement produced for them (which does not need to be repeated if common to several groups);
 - how that has been communicated to them ;
 - feedback received from them;
 - any planned changes to measurement in future.

Step 3 – Measuring Results: Outcomes, Impact and Indicators

This step occurs at two levels:

- *VPO level*: its own outputs, outcomes, impact and indicators as per its own objectives (theory of change etc); impact measurement at a portfolio level; impact of the VPO/SI's work on the SPO.
 - *SPO level*: transforming its objectives into measurable results via outputs, outcomes, impact and indicators.
-

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To transform the objectives set in Step 1 into measurable results a VPO and SPO must consider **outputs, outcomes, social impact and indicators**.

Outputs:	the tangible products and services that result from the organisation's activities.
Outcomes:	the changes, benefits, learnings or other effects (both long and short term) that result from the organisation's activities.
Social Impact:	the attribution of an organisation's activities to broader and longer-term outcomes.

Outputs are directly related to the activities of the organisation i.e. what is done to try and make a change in the base case, hence these are generally easier to measure. Outcomes and impacts are related to the expected and unexpected effects of the activities of the organisation, hence they are outside the scope of the organisation's activities (but within their scope in terms of accountability) and generally more difficult to measure²⁸.

The GECES report²⁹ and the EVPA guide *strongly advise against jumping ahead to Step 3* and starting to define indicators without having clearly understood the objectives and the theory of change. Step 3 builds on the previous two stages and makes the measurement more concrete and quantifiable.

Therefore, we recommend that the social enterprise starts by clearly selecting the outcomes that it wishes to measure with indicators. Building on the Theory of Change defined in Step 1, and corroborated through stakeholder involvement in Step 2, the following questions (as in the EVPA guide) are useful to further refine those outcomes³⁰:

- Which outcomes are *most important* to achieve (this will depend on the prioritisation assigned to the stakeholders)? Which are most closely related to the core business of the organisation?
- Are the outcomes *material*? Is the change or benefit something that makes a real difference for the key stakeholders?
- Which outcomes are *most useful*? Which will provide the best information for management decision-making, reporting or other purpose of impact measurement?
- Which outcomes are *most feasible*? Which are most likely achievable with the resources available? Which are likely achievable within the designated evaluation period? It is important to reiterate that this question relates to achievability of the outcomes and not the feasibility of their measurement.

28 Source: **Hehenberger, L., Harling, A.-M. and Scholten, P.**, (2015). "A Practical Guide to Measuring and Managing Impact – Second Edition". EVPA.

29 GECES Sub-group on Impact Measurement (2015). "Proposed Approaches to Social Impact Measurement in European Commission legislation and in practice relating to EuSEFs and the EaSI". European Commission Directorate-General for Employment, Social Affairs and Inclusion Unit C2.

30 **Clifford, J., Hehenberger, L., Fletcher, L. and Harling, A.-M.**, (2015). "European Impact Investing Luxembourg: Social Impact Measurement in the framework of a Société d'Impact Sociétal". BWB Impact.

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This exercise should produce a number of concrete outcomes that the social enterprise can use to measure its progress towards the overarching impact objectives.

From the theory of change set forth in Step 1 and the identified outcomes, a series of *measures* (indicators) that fairly and helpfully reflect what is being achieved need to be developed and clarity needs to be made around how they should be presented simply and clearly to meet stakeholders' needs. The selected measures then need to be agreed with the previously identified stakeholders.

We would recommend that the social enterprise selects two or three indicators for each particular outcome, and that if possible indicators are chosen that have been used successfully for impact measurement purposes in the past. In other words, by using the "wisdom of the crowds" found in databases such as **IRIS** and the **Global Value Exchange** a social enterprise can be more confident that it is selecting the appropriate indicator for that outcome. The social enterprise should therefore always include the source of the particular indicator. This has the secondary effect of lowering the burden on the social enterprise, as it can learn from others. It is clear that not all indicators will be covered and if that is the case, then the social enterprise should create its own indicator, but include a justification as to why it has felt it necessary to do so, following the recommendation of the GECES report³¹.

Four factors are highlighted in the EVPA Guide as constituting a good indicator³²:

- Indicators should generally be *aligned with the purpose of the organisation*. Although if a potential unintended outcome has been identified, relevant indicators for this outcome may by definition not be aligned with the purpose of the organisation.
- Indicators should be *SMART*: specific, measurable, achievable, relevant, time-bound.
- Indicators should be clearly defined so that they can be reliably measured, and ideally, comparable with those used by others so that performance can be better benchmarked and understood in a broader context.
- *More than one indicator* should be used, with a preference for two to three. For example if a social enterprise's objective is to increase women's empowerment and one outcome is that they take better care of their health, then an appropriate indicator could be the number of times they visit their doctor in a certain period. However whether this number goes up or down, it is very difficult to draw a conclusion as to whether they are taking better care of their health. At least one other indicator is required and a conclusion can only be drawn about whether the outcome is achieved by seeing if they all point in the same direction.

31 Clifford, J., Hehenberger, L., Fletcher, L. and Harling, A.-M., (2015). "European Impact Investing Luxembourg: Social Impact Measurement in the framework of a Société d'Impact Sociétal". BWB Impact.

32 Hehenberger, L., Harling, A.-M. and Scholten, P., (2015). "A Practical Guide to Measuring and Managing Impact – Second Edition". EVPA.

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Step 4 – Verifying and Valuing Impact

In this step, we need to verify whether the claim we make on having positive social impact is true, and if so, to what extent (i.e. to what value). As described by the GECES, this stage requires (i) measuring whether the targeted outcomes are actually achieved in practice, (ii) validating whether they are apparent to the stakeholder intended to benefit, and (iii) assessing whether they are valuable to that stakeholder. The responses to these questions will allow us to refine the target outcomes and associated indicators, creating a positive feedback loop in the impact measurement process. This step also helps **identify the impacts with the highest social value**, which can help an organisation focus its resources towards those initiatives that create most impact on society. Again, this step needs to occur at two levels: both at the level of the VPO as well as at the level of the SPO³³.

The **VPOs** must verify (or at least record) the non-financial assistance provided to their investees. They should then confirm with the investees that this assistance was in fact valued. It may also be necessary for VPOs to verify at regular intervals that the expectations of other stakeholders (donors/investors and human resources) are met so that corrective actions can be undertaken if necessary. EVPA developed practical online tools to support VPOs in planning the provision of non-financial support, monitoring its delivering and assess the value for the investee³⁴.

At the level of the **SPO**, it is important to verify whether the outcomes make sense for the stakeholder i.e. if the outcomes were realised during the timeframe and in the quantities expected.

Thus Step 4 embodies two sub-sections, each of great importance and requiring separate recommendations.

(i) *Verifying* should include verifying that the impact claimed actually happened and was real to the intended stakeholders. It can be seen as an additional way for the social enterprise to build proof for its theory of change or the causal links in its logic model. At least one of the following methods should be used to validate or verify the impact³⁵:

1. *Desk research*: looking at external research reports, databases, government statistics etc. to confirm the trends the social enterprise has dictated through the outcome indicators.
2. *Competitive analysis*: comparing the data of the social enterprise with the data of other comparable social enterprises operating in similar geographies on similar issues.
3. *Interviews / focus groups*: ask stakeholders through personal interviews or focus groups about the results of the intervention.

³³ Source: **Hehenberger, L., Harling, A.-M. and Scholten, P.**, (2015). "A Practical Guide to Measuring and Managing Impact – Second Edition". EVPA.

³⁴ <http://evpa.eu.com/research-and-policy/knowledge-centre/non-financial-support-process-tools/>

³⁵ **Clifford, J., Hehenberger, L., Fletcher, L. and Harling, A.-M.**, (2015). "European Impact Investing Luxembourg: Social Impact Measurement in the framework of a Société d'Impact Sociétal". BWB Impact.

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Different types of social enterprises may be guided to choose a different type of approach. Desk research is intuitively attractive as it tends to be less resource intensive, but external information about a new and innovative approach may be difficult to find. Competitive analysis provides a high degree of comparability but only if there is a pool of relatively similar social enterprises that openly shares data. Both desk research and competitive analysis should be easier to perform as the sector grows and data is shared. Interviews and focus groups can follow a relative “light” approach of engaging and checking with key stakeholders how they perceive the impact of the intervention. Developing focus groups and making such an analysis more professional would normally require external consultants which would provide a more neutral assessment, but also require higher costs.

(ii) *Valuing* is an assessment of whether the outcome is/was important to the stakeholders. This analysis is often omitted by social enterprises who believe that it refers to monetising. However, monetising is just one method of valuing. We recommend that valuing includes, where possible, a combination of at least one qualitative and one quantitative method. For example, storytelling will increase the understanding of how an intervention affects a particular beneficiary, and when complemented with a qualitative approach such as cost savings methodology, the story will be put in perspective and compared to the investment made. Furthermore, a quantitative analysis alone may fall into the trap of making assumptions that are too far removed from the reality of the person on the ground being affected, so that it becomes a “garbage in – garbage out” analysis. *Qualitative* methods include mainly storytelling, client satisfaction surveys, and participatory impact assessment (i.e. focus groups). *Quantitative* methods include perceived value assessments, cost savings or cost reallocation methodologies (for example a calculation of social return on investment)³⁶.

Step 5 – Monitoring and Reporting

The final step in the impact measurement process involves monitoring – tracking progress against (or deviation from) the objectives defined in the first step and made concrete through the indicators set in the third step; and reporting – transforming data into presentable formats that are relevant for key stakeholders. Monitoring and reporting are iterative processes that go hand in hand because what is monitoring to one stakeholder is reporting to another, e.g. when a VPO is monitoring the progress of an investee SPO, that SPO is reporting relevant data to the VPO³⁷.

Monitoring includes collecting data according to the indicators defined in Step 3. We would provide the following recommendation for social enterprises to collect data:

³⁶ Clifford, J., Hehenberger, L., Fletcher, L. and Harling, A.-M., (2015). “European Impact Investing Luxembourg: Social Impact Measurement in the framework of a Société d’Impact Sociétal”. BWB Impact.

³⁷ Source: Hehenberger, L., Harling, A.-M. and Scholten, P., (2015). “A Practical Guide to Measuring and Managing Impact – Second Edition”. EVPA.

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1. *Identify data sources for all measures*, as well as the type of data to be collected along with how they will be collected. Descriptions should cover data for beneficiaries. Where possible, data should also include control or comparison group members.
2. *Establish a baseline status* for beneficiaries, at the beginning of the intervention, and where possible, comparable data for control or comparison group members. Baseline data are important for assessing change in participants over time.
3. Indicate *who will collect all data* used in the evaluation (internal or external people), and the capacity and availability of staff members in relation to the data collection process.
4. *Describe how data will be collected*, for example through administrative records such as academic records, program systems, such as scorecards maintained by staff, or through instruments specifically created for the purpose, e.g. surveys. It is likely that some combination of efforts will be required to capture of the data the measures warrant.

As defined by the GECES, as the products and services are delivered and the measurements of their effectiveness emerge, so these results are reported regularly and meaningfully to internal and external audiences. This enables each stakeholder, and most importantly those most directly concerned with service delivery, to learn and to revisit, refocus and improve the services. The reporting needs to be:

- appropriate to the audience;
- presented in such a way as both to be transparent and useful, and to encourage the future behaviours most useful to making the service effective in delivering desired outcomes;
- transparent, to the point that it may demonstrate that the targeted outcomes, as well as the means by which they are achieved, are not appropriate and need changing.

Additionally, reporting needs to stay close to the process, therefore reporting clearly on how the social enterprise has conducted the impact measurement (including all stages), and bringing out the most important and useful points to the stakeholder receiving the information.

Until such a time that reporting formats have been developed at the European level, we recommend social enterprises include in their reports the information recommended by the GECES.

Specifically, all reporting of measurement should include appropriate and proportionate evidence supporting each material point, and specifically:

- a clearly explained account of the effects of the intervention (outcomes, and identified beneficiaries, also explaining , at least in qualitative terms, deadweight, development and drop-off);
- an explanation as to how that happened: what activity achieved those outcomes and their impacts, and the Social Enterprise's logic model (theory of change, or hypothesis) as to why the activity caused or contributed to the outcome;

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- an identification of any third parties having a role in the effective delivery of those outcomes and impacts, explaining how they contributed (alternative attribution);
- an identification of those stakeholders whose interests are being measured, and the nature of the gain to them, categorising them appropriately;
- a well-explained, proportionate, selection of indicators for the identified impacts for those stakeholders, identifying how the indicator relates both to the impact, and the needs and interests of the stakeholders, and how these have been agreed with those stakeholders;
- an explanation of social and financial risk (the risk that social and financial outcomes are not delivered) quantified, where helpful and proportionate, with an evaluation of likelihood and impact, and with a sensitivity analysis showing the effect on targeted outcomes, impact, and financial results if the risks arise.

Reports should be published on an *annual basis*, in line with the financial reporting schedule, and completed in the quarter following the end of the social enterprise's financial year.

In terms of learning and improving this must be explicitly addressed and defined in the various operating documents of the social enterprise and reported accordingly. For example discussion of impact measurement results should be included in all board meetings, with discussions and decisions recorded in the board minutes.

We should never lose track of the ultimate objective of the social impact measurement – to enable the social enterprise to work towards achieving greater impact in a more effective way. A survey of 1,000 SPOs in the UK by New Philanthropy Capital³⁸ showed that more than half put meeting funders' requirements as a key driver for impact measurement versus only 5% saying that the main driver was improving services. However the main benefit that SPOs said they found when they did measure their impact was not increased funding but improved services! This result and other evidence demonstrate that by integrating impact measurement into the management systems and mind-sets of social enterprise, the sector can produce greater and more impactful work.

³⁸ Ní Ógáin, E., Lumley, T., Pritchard, D., (2013). "Making an Impact: Impact measurement among charities and social enterprises in the UK". New Philanthropy Capital.

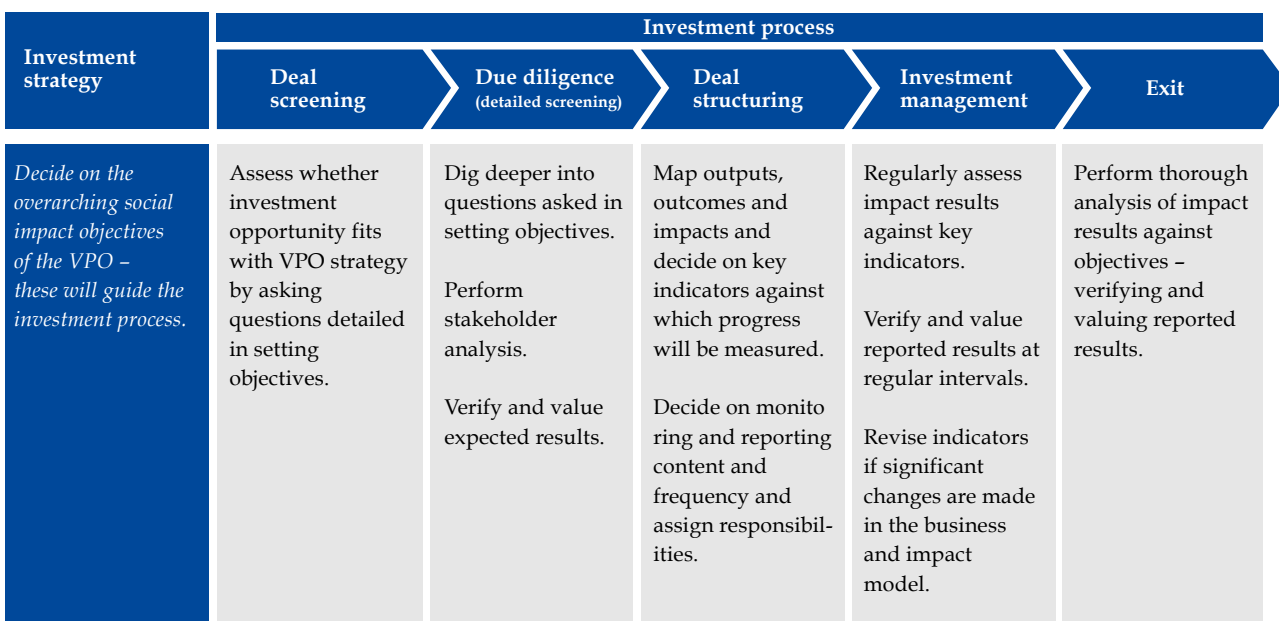
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Managing Impact

The impact measurement process outlined in the EVPA five step process should allow the VPO to better manage the impact generated by its investments. To manage impact, the VPO should continuously use the impact measurement process to identify and define corrective actions if the overall results deviate from expectations. Impact measurement is very closely aligned with the investment management process. Given VPOs are aiming to maximise impact, the corrective actions taken may apply as much to the investment management process as to impact measurement itself.

Figure 5: Managing Impact in the Investment Process

Source: EVPA



Case 1 – Impact Measurement at Investisseurs & Partenaires

“Impact measurement is not about feeling good about what you did, it’s about learning on yourself and leaving things behind that others can reuse and scale.”

Jean-Michel Severino, I&P’s CEO

CASE 1 – IMPACT MEASUREMENT AT INVESTISSEURS & PARTENAIRES

Background on Investisseurs & Partenaires³⁹

History and Organisation

I&P was created in 2002 by Patrice Hoppenot, co-founder of BC Partners and expert in private equity issues. In 2011, Jean-Michel Severino, previously CEO of l'Agence Française de Développement (2001-2010) and Vice-President of the World Bank for Asia (1996-2000), took over the management of the VPO. Based in Paris, I&P currently employs about 20 people and has six African local offices (Burkina Faso, Cameroon, Ivory Coast, Ghana, Madagascar, Senegal).

I&P manages three impact funds covering financing needs ranging from €300,000 to €1.5 million through:

- The financial company I&P Développement (IPDEV), that includes the funds IPDEV 1 and IPDEV 2.
- The investment fund I&P Afrique Entrepreneurs (IPAE), managed by I&P Gestion

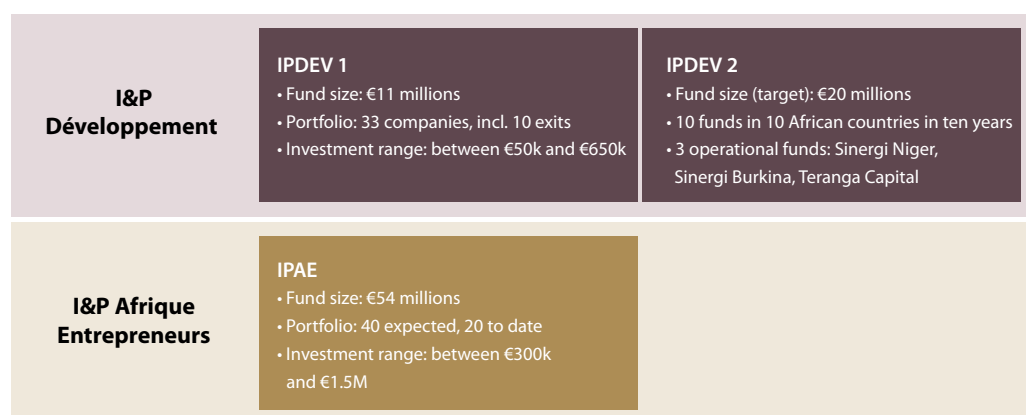


Figure 6:
The structure of I&P

Source: I&P

I&P Développement targets small and fast growing African enterprises (including start-ups), with high social and/or environmental impact. IPDEV 1 is now in the process of divesting its portfolio and has achieved 10 exits since 2012, with a gross IRR of 15% on average.

Drawing lessons from its 13-year old experience, I&P conceived the project IPDEV 2 as an incubator and sponsor of African investment funds. These national funds will be able to efficiently and sustainably support start-ups and very small enterprises, with financing needs comprised between €30,000 and €300,000. IPDEV 2 aims to incubate ten investment funds in ten African countries within the next decade, in order to support 550 early-stage entrepreneurs and contribute to creating 15,000 jobs.

³⁹ Source: <http://www.ietsp.com/about-us/#organisation>, "I&P Afrique Entrepreneurs – Annual ESG and impact reporting – I&P Gestion-31 March 2014" and interview with **Elodie Nocquet**, Financial and ESG Officer, and **Pierrick Baraton**, Impact Assessment Officer, on March 6 2015.

CASE 1 – IMPACT MEASUREMENT AT INVESTISSEURS & PARTENAIRES

Ten years after IPDEV 1, I&P launched the fund I&P Afrique Entrepreneurs to respond to the financing needs of slightly larger SMEs, comprised between €300,000 and 1.5 million. IPAE currently counts 20 companies in its portfolio and follows a fast investment pace, and plans to add about twenty new investments to its portfolio by 2017.

Target areas

With 75 million euros under management, since its inception I&P has supported about 60 small and medium enterprises in 15 African countries. This support has generated the creation or maintenance of more than 2,600 jobs, as well as annual growth rates of 24% in the investee companies.

So far, I&P has invested mainly in agribusiness (15%), microfinance (25%), building materials & construction (15%), health sector (20%), equipment (10%) and various services (15%).

Investors

I&P is funded by three main groups of investors:

1. *Institutional (Development Finance Institutions – DFIs)*. These investors focus on technical issues and on achieving a moderate financial return.
2. *Foundations, family offices and high net worth individuals (HNWI)*. These investors focus on mission and values. Several of them provide time and non-financial support.
3. *Large corporations*. Industrial partners provide the connections, the market understanding and the technical support needed in the business world for the SMEs I&P supports.

In particular, *impact measurement* is co-financed by two investors, the European Investment Bank⁴⁰ and Proparco⁴¹ (which provides a technical assistance budget to finance the impact case studies conducted to verify and value impact, as further explained in Step 4).

In what follows we will look into the five steps of impact measurement at I&P, following EVPA's five step process.

⁴⁰ <http://www.eib.org/>

⁴¹ http://www.proparco.fr/site/proparco/Accueil_PROPARCO

CASE 1 – IMPACT MEASUREMENT AT INVESTISSEURS & PARTENAIRES

STEP 1 – Setting Objectives

I&P’s vision, mission and impact objectives

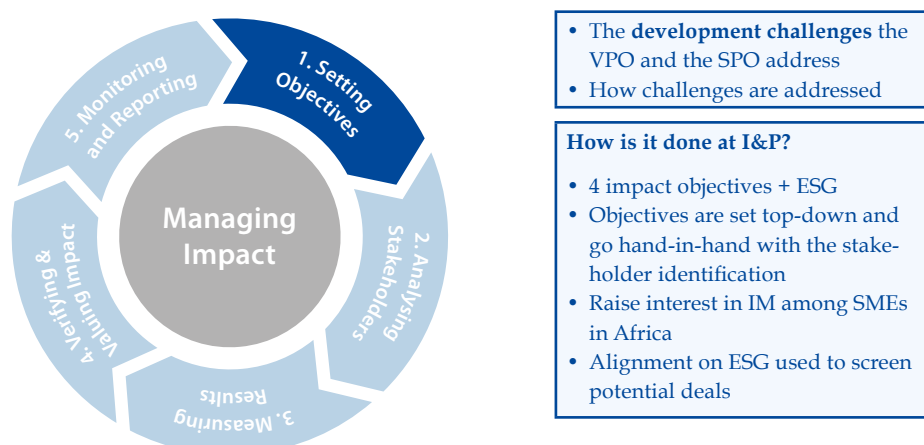


Figure 7:
Step 1 – Setting Objectives
at I&P

Source: EVPA elaboration of I&P material

I&P works *exclusively with start-ups and SMEs based in Sub-Saharan Africa and in the Indian Ocean*, with the strong conviction that these enterprises (owned by African entrepreneurs) actively contribute to a sustainable and inclusive growth in the African continent. This conviction is based on the acknowledgement that these SMEs:

- Create sustainable employment, for both qualified and unqualified workers
- Develop market-based solutions and improve access to essential goods and services
- Lead to high productivity gains
- Contribute to political stability and social redistribution of wealth

Despite their crucial role for development, *African SMEs often lack access to long-term finance*. In most African countries, existing financial institutions are not tooled to address SMEs’ long-term investment needs. The microfinance sector is growing fast in Africa, but its streamlined procedures are not adapted to SMEs that need larger and longer investments. As for commercial banks, SMEs remain very far from their typical clientele considering their small funding needs.

Additionally, there is a *significant lack of formal SMEs in Sub-Saharan Africa*, which is commonly referred to as “the missing middle” phenomenon.

CASE 1 – IMPACT MEASUREMENT AT INVESTISSEURS & PARTENAIRES

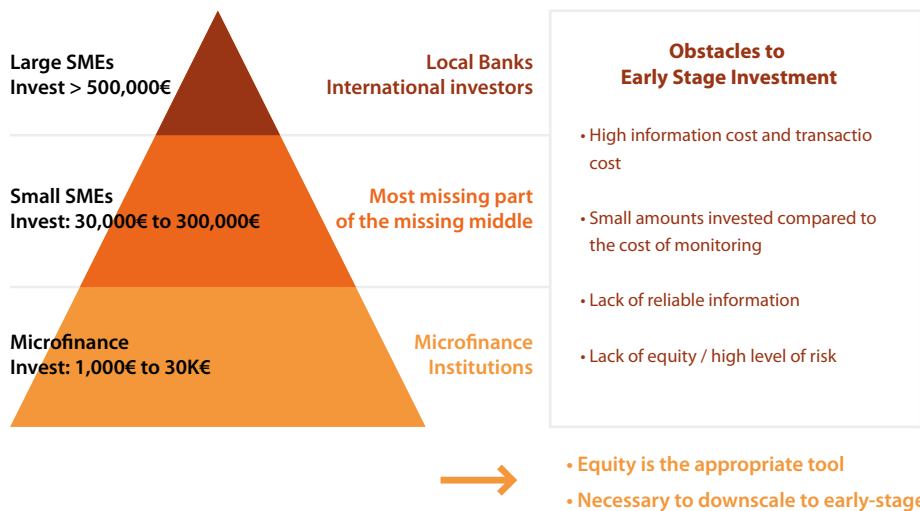


Figure 8:
The issue of financing the missing middle in Africa

Source: I&P

In light of the needs of the African SME sector, since it started its activities Investisseurs & Partenaires has aimed to support African entrepreneurs, enabling them to build profitable and sustainable activities with high local added value and strong local impacts through a specific VP approach combining financial tools and strategic/operational support.

I&P's **vision** is that the development of profitable and responsible SMEs will contribute to a socially and environmentally sustainable growth in Africa, as these key actors create jobs, value add and also generate positive social, environmental and governance impacts.

The **mission** of I&P is to contribute to the development of a sustainable private sector in Africa by promoting a new generation of African entrepreneurs through a trust-based relationship on financial, strategic and operational levels on one hand, environmental, social and governance levels on the other hand.

I&P has two main **objectives**. The first one is to create and manage financial instruments demonstrating profitability. By means of the new fund – IPDEV 2 – I&P wants to demonstrate that investing in SMEs in Africa can be profitable. Being funded by local investment vehicles is not a common practice in Africa, thus I&P wants to invest in developing this practice, while guaranteeing that both impact can be reached and profitability can be generated.

The second objective of I&P is **to generate measurable impact** on local development by addressing the following four developmental challenges:

1. Develop sustainable entrepreneurship in local SMEs
2. Create decent jobs and training opportunities
3. Meet unsatisfied demand for goods and services
4. Create business for local suppliers and distributors

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The four developmental challenges constitute I&P’s impact objectives and are defined top-down for all the SMEs supported. They are used in Step 3 to define the indicators that I&P uses to measure the impact **of each SME supported**.

In the early years of its existence, I&P had only one goal: go where other investors did not go and demonstrate that investing in SMEs in Africa could be financially sustainable. I&P’s business model was still experimental at that stage and the organisation felt it did not need a formalised approach to impact measurement. Everyone was convinced that investing in African SMEs was the way to go and the initial investors, very close to I&P’s project and team, felt the impact was being created –so they did not need figures. As Elodie Nocquet, I&P’s Head of ESG & Impact, puts it “Through our work in the field, we were so sure we were having an impact we thought we didn’t need a customised approach or figures”. I&P investors believed that the impact strategy was embedded in the nature of their work, because they were favouring SMEs that had a local impact. Therefore they did not need to have any figure or number: investing in SMEs in the least developed countries of Africa was already proving to them they were achieving impact.

It was only at a later stage of I&P’s development that a decision was taken to work deeper on measuring the impact that was being generated. Thus I&P started working on specific objectives and realised that thanks to the definition of clear objectives and indicators their work could be better monitored and improved. The impact strategy was so well structured that I&P even went beyond the expectation of its investors.

Environmental, Social and Governance approach

On the side of its impact goals, I&P has a structured approach towards the Environmental, Social and Governance (ESG) practices of the SMEs supported, as a means to achieve the developmental challenges that constitute the final objectives of I&P at **portfolio level**.

The ESG practices are implemented at two levels:

- SME level
- Portfolio level

At the SME level, when reviewing an investment project, the investment team draws up a complete report of the company’s ESG practices. This report includes an assessment of social practices such as remuneration and employment contract practices, working and safety conditions at the company, and, where applicable, at its suppliers, as well as an assessment of environmental practices (systems for processing effluent and waste for example) and governance practices (integrity and structuration of the governance).

In addition to this company-by-company approach, I&P has implemented an ESG strategy at the portfolio level.

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The process to select which ESG goals to focus on started in 2012, and involved mainly the investment fund IPAE. The introduction of ESG metrics allowed for a more systematic approach to I&P's portfolio, as ESG goals address portfolio-wide issues and enable I&P to look for shared solutions at portfolio level.

Two initiatives across two strategic E&S issues have been launched to produce “**turnkey**” **solutions** for partner companies and achieve **portfolio-level impact objectives**:

- **Reduce the portfolio carbon footprint** (Environmental objective). In terms of environmental cross-cutting action, I&P focuses on the reduction of the carbon footprint by means of increased energy efficiency and an increased use of renewable energies in the SMEs it invests in. The main purpose is to propose replicable solutions in Africa starting from its investees, to set an example and ensure that SMEs can step up their operations without increasing their carbon emissions. Reducing the carbon footprint to contribute to the fight against climate change is a **strategic** objective in Africa, as year on year climate change becomes more and more acute. On the other hand, energy savings are of great interest to entrepreneurs in countries where electricity is extremely expensive. As I&P believes there is value in tackling climate change issues at **portfolio level**, it supports all SMEs in the portfolio implementing actions to reduce their carbon footprint. More broadly but at a modest scale I&P wish to contribute to the overall fight against climate change.

I&P produces an annual assessment of the carbon footprint of all recent investments. This analysis identifies the main sources of CO₂ emissions at both the company and portfolio level. Thanks to the annual assessment of the carbon footprint of all companies, I&P identifies the main sources of CO₂ emissions at both the company and portfolio level and encourages companies to think more about vehicle management, supply practices, energy efficient processes, and the use of renewable energies. A systematic analysis of energy-related issues is implemented for projects involving large energy consumption, resulting in action plans for energy efficiency and renewable energies.

I&P also looked at other environmental objectives (such as for example waste reduction) but they tend to be sector-specific so they are tackled individually for each company which is more efficient than using a portfolio approach. Energy efficiency and renewable energy, on the other hand, showed great potential as they can be generalised at portfolio level and, thanks to the cost-reduction aspect for the investee, they have the potential to generate enthusiasm for the SMEs supported⁴².

⁴² Systematic actions that can be put in place (first check during due diligence). Chosen because they could be measured for all investees.

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- **Promote universal health insurance coverage** for all employees within investee companies (Social objective). Often SMEs in Africa do not provide **social protection** for their employees.

Only some of the countries where I&P is present have national schemes in place to provide basic health insurance for the employees of the private sector (Mali, Madagascar, Senegal, Ghana). When they exist, public systems provide very low levels of coverage and although insured people suffer from long waiting periods and a limited choice of healthcare centres. According to the analysis performed by I&P, only a minority of workers in African SMEs has a complementary health insurance policy. In order to change this situation, SMEs need to have access to complementary healthcare policies at more advantageous conditions.

Thus, I&P decided to focus on this issue and in particular on improving the **healthcare** coverage for the employees of the SMEs it supports, across its entire portfolio. To do so, a study has been completed to analyse the health insurance systems of I&P current partner companies in order to review practices and consider areas for improvement. Based on these findings, a tailored assistance has been launched, to help companies implement or upgrade health insurance systems. To manage the process I&P has put in place a system of common management and a dedicated support.

In terms of how the two specific objectives were chosen, three reasons guided the choice, as Elodie Nocquet explains. First of all I&P chose issues that it considered strategic for Africa's development. Second, the two cross-cutting objectives had to constitute portfolio-wide issues, so that they could be compared across investees and sectors. Third, Elodie commented that I&P built on its decennial experience in investing in SMEs in Africa, so which issues to tackle also became apparent while investing from taking stock of the learnings of past investments.

While the Environmental and Social goals are set top-down by I&P for all portfolio companies, governance is tackled with a company specific approach as described previously.

Different ESG factors are used both to screen and select the potential investments, and to manage them to maximise impact.

Using ESG as a screening tool

I&P uses ESG factors to screen potential investments, with the purpose of gaining insights into the quality of a company's management, culture, risk profile and other characteristics.

When reviewing an investment project, the investment team of I&P draws up a complete report of the company's ESG practices. The report is based on data collected by the investment manager through an ad-hoc questionnaire called the "ESG Assessment Tool". The report includes an assessment of *environmental practices* (such as the systems for processing

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effluent and waste), *social practices* (such as remuneration and employment contract practices, working and safety conditions at the company and, where applicable, at its suppliers), as well as an assessment of *governance practices* (integrity and structuration of the governance of the SME).

Then, based on this report, the investment team *rates the ESG risks of the SME and their management*. Priority action points are established for the main challenges and everything is formalised in an ESG action plan, which is used to monitor the development of the SME on ESG practices throughout the investment (as prescribed in **Step 5**). The SMEs legally undertake to implement and monitor the plan, and a contact person is appointed to oversee the process.

Using ESG as a management tool

Throughout the investment I&P works on SMEs' corporate social responsibility (CSR) on the three pillars (environment, social and governance issues) as it wants to demonstrate that SMEs need to have a strong CSR strategy to generate more impact. By investing in implementing ESG in the portfolio companies, the financial investment made by I&P is leveraged further and has more impact since the investee is more responsible, social and environmentally friendly – with ripple effects on other organisations in the country/community, etc.

ESG objectives at I&P team level

I&P has also developed ESG action plan for its team, i.e. measures the impact of its own activities on the three dimensions of reducing the carbon footprint, promoting the decent work agenda and fighting corruption to stand as an example.

I&P is committed to ensuring the well-being of its employees by offering **health insurance policies** and professional training. Gender issues are also considered: I&P has the objective of having 50% of female staff.

I&P has developed **its own Code of Ethics** in 2013 and since then has continuously monitored its implementation. When introduced, the Code of Ethics was a big step for I&P in setting the example on integrity and transparency. The code has four principles: entrepreneurial spirit, commitment to development, integrity and high standards. The code is signed by the whole team and guides the relationship each employee has with its stakeholders: investors, companies, partners, consultants, investees etc. These values provide a common framework for the entire I&P team and ensure that I&P's actions and reputation are consistent with the same central, guiding principles. Adherence to the guidelines is a prerequisite for recruitment, and also forms the basis for the assessment of I&P team members, individually and collectively. Furthermore, these four values establish and characterize the relationship I&P maintains with all its stakeholders: investors, companies, partners, consultants, etc.

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To implement the code of ethics, I&P has appointed an **Ethics Advisor**. This Ethics Advisor works independently of the employee team, and focuses on addressing the challenging ethical situations the team faces internally and on the ground.

Regarding the implementation of the **environmental-conscious practices** at team level, I&P reviewed its supply strategy: all its office furniture and equipment are now selected on **environmental criteria** in its head office. I&P assessed and offset its own carbon emissions, in its head offices and local offices.

The Process of Setting the Objectives for the SPO

The investees in I&P's portfolio can be divided into two groups when it comes to impact measurement:

- *Social businesses, with impact as the main objective* – I&P sets specific objectives for the **social businesses** it invests in – so only for a part of its portfolio. Some of the investees in the portfolio are advanced enough to implement their own impact measurement system – which means having more tailored impact objectives. “Impact first” investees have as an objective the maximisation of the impact without any capital loss, but not necessarily with a significant profit (e.g. Nutri'Zaza, an SME selling a product to fight against child malnutrition in Madagascar). The objective of such an SME is to scale to have more impact. In a case such as this there is a possibility to develop specific objectives (and indicators).
- *SMEs that are also generating a social impact (but don't have the generation of impact as main objective)* – Given I&P's current investment strategy, social businesses remain a minority, and the majority of investments is represented by SMEs which are also generating a positive social impact. Although having a high impact potential, other SMEs in the portfolio are less socially oriented and are therefore not interested in implementing a sophisticated impact measurement system. For these businesses I&P does not define measurable quantitative social impact goals, but only develops the **ESG action plan** which includes more qualitative guidelines to achieve of social impact goals, instead of specific numbers. I&P and the investees meet regularly to assess the status of implementation of the roadmap that has been defined in the action plan.

Given this context, I&P takes a **top-down approach on impact measurement**, and the definition of the *objectives* is done mostly from I&P's side. I&P also proposes *indicators* to investees, instead of co-developing them with the investees once the objectives have been set. The advantage of such a top-down approach is that I&P has the opportunity to set portfolio-wide impact objectives, and thus to have a real portfolio approach. The downside is a lack of flexibility in adapting the objectives to the specific needs of each investee. However, the ESG approach and in particular the ESG action plans are co-developed with investees and tailored to each company's challenges and opportunities.

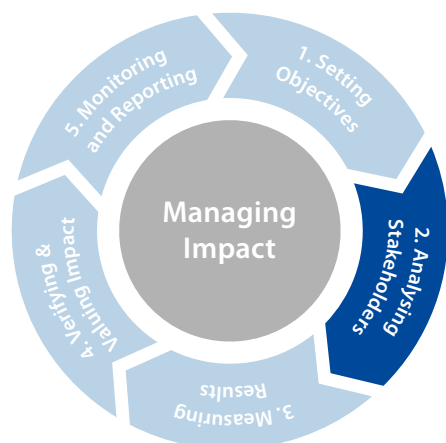
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Key Issues and Learnings for Step 1

1. *Developing objectives takes time, but pays off* – It took time for I&P to define its goals and to translate them into measurable indicators. I&P is active in many different countries and in different sectors, so identifying common objectives and the impact goals both for all investees and for I&P was challenging. An important recommendation is to plan for a long time process to reflect deeply on one's strategy and understand how and why the VPO will introduce an IM system.
2. *Be aware of proportionality* – Not all investees will be able to develop a full IM system from day one, and this needs to be accepted. I&P applies the proportionality principle and tries to tailor the impact measurement system to the capabilities of the investee. In the case of small investments, for example, it is not possible to co-develop complex and articulated objectives and it makes no sense to ask them for extensive reporting, so I&P tries to identify the main impacts, without relying on an extensive impact measurement system. For the new fund – IPDEV 2 – I&P will adopt the same ESG portfolio approach it is currently adopting, but in a simplified version. In fact most of the investees of IPDEV 2 will be small SMEs in the early stage of their development, so although the structure of the IM system will remain the same, the requirements will be much simplified, to respect the proportionality principle.
3. *Be flexible, revise, evolve* – I&P considers its impact objectives to be flexible and evolving as its investment strategy evolves.

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STEP 2 – Analysing Stakeholders



- Impact on investees
 - Impact on investees’ stakeholders
-
- Top-down stakeholders’ identification (primary and secondary)
 - For each stakeholder → one **developmental challenge** identified
 - Potential social impact of SME on stakeholders is selection criterion
 - Stakeholders engaged in all steps
 - Hard to engage SMEs in the process

Figure 9:
Step 2 – Analysing Stakeholders at I&P

Source: EVPA elaboration of I&P material

Stakeholder Identification

Stakeholders can be defined at two levels: primary and secondary.

The investee company, including its staff, is the *primary* stakeholder for I&P, whereas the stakeholders of the investee are *secondary* stakeholders.

The investee is clearly the primary stakeholder because for I&P it is crucial to choose the right entrepreneur and the right investment that can contribute to the portfolio-wide developmental impact goals.

I&P identifies three main groups of secondary stakeholders: the clients of the investee company, the suppliers and distributors the investee works with and the nation-wide level of added value. For each of the four (primary and secondary) stakeholder groups, I&P identified a broad **developmental challenge** I&P’s investees can help solve.

Stakeholder	Developmental Challenge
Staff (of the social enterprise)	High level of unemployment and informality → Creation of decent wage-paying jobs is critical to promote a socially sustainable inclusive growth
Clients	Many basic products and services are not easily available in Africa for businesses and individuals → Help meet basic needs
Suppliers/distributors	Structuring local sectors to raise sales, profits and employment levels upstream and downstream
National Value Add	Macroeconomic impact on state budget, generating taxes and allowing more public spending and investment Need for fiscal resources to finance public spending and investment, in a context of a predominant informal sector

Table 1:
Identified stakeholders

Source: EVPA elaboration based on I&P documents

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The **stakeholders' categories** and the **developmental challenges** the investee helps to solve are **defined top-down by I&P** for all the investees in the portfolio.

However Elodie Nocquet explained that the ESG due diligence entails an in-depth analysis of each company's specific practices with its own local stakeholders, so a level of flexibility is foreseen. In order to identify both the stakeholders and the developmental challenges for each specific investee, I&P performs an in depth analysis of the context in which the investee operates, focusing on the economic overview, the state of development and on the analysis of the private sector.

The list of stakeholders is used to:

- Have a clear view of where the impact is generated (from the micro-level of the investee's staff to the macro, nation-wide level)
- Translate the general objectives of the impact measurement and the ESG into more specific objectives
- Operationalise the objectives into measurable indicators (see Step 3 for further detail)
- Develop the impact measurement tool (see Step 3 for further detail)

Stakeholder engagement

The stakeholders identified are then engaged during all phases of the impact measurement process.

Engaging primary stakeholders: the investee

As mentioned, I&P has a top-down approach to impact measurement, so the investees are not involved in setting the impact objectives (and consequently the indicators).

Even though the investees are not extensively engaged in the development of the objectives and the indicators of the impact measurement system, I&P involves the investee in the development and testing of its **impact tool** (described in Step 3). As the tool needs to be used by investees, it made no sense to develop something they would find too heavy or not understandable.

The investees are highly involved in the identification of the technical assistance and capacity building issues. Through a bottom-up approach, very tailored to the investee's needs and characteristics, the technical issues that need to be tackled to strengthen the SPO's financial sustainability and organisational resilience are highlighted. In this process the SME is supported by the **investment team which operates at the local level**. Involving I&P's local staff is crucial because local investment managers have a deep knowledge of the investee, the sector, and the situation at the country level. Being on the ground it is easier to understand and identify the real needs in terms of capacity building for the investee company.

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Finally, every year, I&P sends an impact report to its investees. Usually the investees are happy to see how their impact translates into figures. This increases their commitment and gives rise to concrete actions.

Engaging secondary stakeholders

Secondary stakeholders are engaged in Step 4 – verifying and valuing impact. During this step – as we will see in more detail later – I&P performs in-depth case studies to verify the SME is achieving the impact shown by the data. During the development of the case studies final beneficiaries of the SME's actions, including clients, suppliers and distributors are involved by means of interviews and focus groups.

Key Issues and Learnings for Step 2

1. *Involve your investees in identifying and prioritising stakeholders* – The stakeholders' categories and the developmental challenges the SME helps to solve are set top-down by I&P at portfolio level, but it would be suitable to involve investees much more in this process.
 2. *Stakeholders' matching guides the VPO in the choice of SPO* – When I&P needs to decide whether or not to invest in an SME, the potential social impact of the company on its stakeholders is a main selection criterion and an integral part of the rationale for investing. However, not all SMEs I&P invests in can be defined social businesses a priori, as the social component is not the core focus of the company, and they have no experience or knowledge of impact measurement before I&P invested and are not interested in measuring measure impact.
-

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STEP 3 – Measuring Results: Outcomes, Impact and Indicators



- Impact and ESG tools (Excel-based)

- Use IRIS indicators (don't reinvent the wheel)
- Relevance to the investee! (+ proportionality)
- “One size fits all” approach has positive and negative sides
- Assess what data is most useful by revising the indicators periodically
- Additionality and attribution are still open issues
- Data management

Figure 10:
Step 3 – Measuring Results at I&P

Source: EVPA elaboration of I&P material

Impact measurement at I&P is done at two levels:

- **At investee level.** I&P collects a set of impact metrics (including ESG data) on all investments, categorised based on the company stakeholder analysis (see Step 2).
- **At portfolio level.** I&P aggregates data collected at investee level to benchmark the performance of its investees and to assess the overall performance of the portfolio.

The aggregation **across funds** is not so extensive because for IPDEV I&P collects data on only a few indicators, and not for all those that are set for IPAE's investments.

For IPDEV 2, I&P is planning to collect data on a close and specific set of indicators, to increase the number of indicators that can be aggregated at portfolio level.

I&P measures the performance of its investees both on the impact side and on the ESG practices side, by means of an impact measurement tool (which includes a detailed ESG questionnaire at company-level) developed in-house.

The quantitative data collected through the questionnaire is used to analyse the individual and collective contribution of the investees in the portfolio to **local development**.

I&P's Impact Measurement Tool

I&P has developed its own **impact assessment and monitoring system**, which uses as indicators, among others, IRIS⁴³ metrics (about 70% of the indicators).

⁴³ Catalogue of performance metrics for impact investors. See: <https://iris.thegiin.org/metrics>

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When I&P started developing its impact measurement tool, the topic of impact measurement was not so developed in VP/SII. Therefore at first I&P hired CERISE⁴⁴ as a consultant to develop its impact indicators, and borrowed the indicators developed by CERISE on microfinance to monitor the impact of its microfinance activities.

According to Elodie Nocquet it would have been useful to have the EVPA guide as a reference, and to have the opportunity to interact with other investment funds to benchmark. After a lengthy process which involved high interaction within the team, in the end I&P decided to opt for a majority of IRIS indicators.

When it first developed the impact measurement tool, I&P piloted it on three investees to check its feasibility. Based on the feedback they got they sent the scorecard to all investee companies. The questionnaire was reported to be quite heavy by some of the entrepreneurs. Additionally, after the 1st year I&P realised they were not using all the indicators for monitoring and reporting. Therefore they decided to drop some of the indicators on the scorecard.

The impact measurement tool consists of five excel sheets, each one of them collecting information to measure different impacts.

The Excel questionnaire⁴⁵

The Excel questionnaire developed by I&P is composed of five sheets.

1. Sheet one (F1): Company Characteristics
2. Sheet two (F2): I&P's products and services
3. Sheet three (F3): Investee's organisational performance
4. Sheet four (F4): Impact Results
5. Sheet five (F5): ESG results

Sheet 1 – Company Characteristics

This first part collects detailed data on the characteristics of the specific SME. Data is divided in three parts:

- *Description of the company*, including name, date of incorporation, sector and specific area of activity, position in the value chain, size and stage of development
- *Description of the entrepreneur*, including name, age, gender, nationality, level of education, experience, management exposure and profile
- *Product/service information*, including product/service type, information on the clients' demography and localisation and information on suppliers.

⁴⁴ See: <http://www.cerise-spi4.org/>

⁴⁵ The excel file has been designed by Pierrick Baraton, I&P's Impact Assessment Officer, and Elodie Nocquet, Financial and ESG Officer.

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Sheet 2 – I&P's products and services

The second part of the questionnaire collects information on I&P's commitment with the investee, including:

- *Information on the financial investment*, including type of support, size, investment period and weighting of capital.
- *Information on exit*, including planned exit date, whom to exit to and exit options.
- *Information on the involvement of I&P*, including the level of involvement (from 0, very low, to 4, very high) and the nature of the involvement (strategic or operational). A description of what each level of involvement entails is provided in the excel questionnaire.

Technical assistance and capacity building are issues identified with the entrepreneur at the outset of the relationship. Then the questionnaire included in Sheet 2 is used to measure the impact of the work done by I&P with the investee and to tailor the provision of mentoring and technical support (i.e. the technical assistance missions).

The issue with the measurement of the effectiveness of I&P's provision for technical assistance is naturally the attribution of impact, i.e. to what extent changes can be attributed to the intervention of I&P⁴⁶.

Sheet 3 – Investee's organisational performance

This part of the questionnaire aims at evaluating the organisational performance of the investee, in terms of financial sustainability and organisational resilience.

This part collects information concerning:

- Accounting and financing practices
- Marketing practices
- Management of the quality of products and/or services
- Human Resources Management
- Firm's autonomy

The first four blocks are evaluated on a scale from 0 to 4, where 0 = none, 1 = weak, 2 = reasonable, 3 = good and 4 = very good, while the last block is evaluated on a scale going from 0 = none to 1 = weak, 2 = reasonable, 3 = strong and 4 = total.

The five categories of information were identified by I&P a few years ago. As for the rest of I&P impact measurement approach, these dimensions were selected top-down: I&P assessed that these business practice dimensions were the ones that needed most improvement in its investees. Back then, the five categories mentioned above seemed the most

⁴⁶ Attribution refers to both isolating and estimating accurately the particular contribution of an intervention and ensuring that causality runs from the intervention to the outcome.

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relevant ones, but – if I&P were to revise the categories today – it is not excluded that they could rephrase or revise some of them.

The questionnaire also describes clearly what each level of the scale in each dimension means.

This questionnaire is used to perform a diagnosis of the situation of the SME in all the dimensions listed above and to see where I&P can help the SME develop further. Though not extensive, this part of the questionnaire allows I&P to evaluate its impact on the investees, i.e. how its support is helping the investees improve and generate more impact, and plan further mentoring and technical assistance missions if necessary.

The SME self-assesses its level of development at the beginning of the relationship and tracks improvement, giving feedback on the value of the non-financial support received by I&P.

Sheet 4 – Impact Results

Based on the stakeholder analysis performed in Step 2, and the developmental challenges identified, I&P selected a list of impact indicators used to monitor and evaluate the impact of each investee.

Stakeholder	Developmental Challenge	Examples of indicators
Staff (of the social enterprise)	High level of unemployment and informality → Creation of decent wage-paying jobs is critical to promote a socially sustainable inclusive growth	<ul style="list-style-type: none"> • Creation of jobs • Job patterns (gender, wages, etc.) • Employee training and other advantages
Clients	Many basic products and services are not easily available in Africa for businesses and individuals → Help meet basic needs	<ul style="list-style-type: none"> • Number of clients • Number of borrowers/savers for microfinance institutions
Suppliers/distributors	Structuring local sectors to raise sales, profits and employment levels upstream and downstream	<ul style="list-style-type: none"> • Number and share of local suppliers/distributors
National Value Add	<p>Macroeconomic impact on state budget, generating taxes and allowing more public spending and investment</p> <p>Need for fiscal resources to finance public spending and investment, in a context of a predominant informal sector</p>	<ul style="list-style-type: none"> • Contribution to state revenues, GDP and exports

Table 2:
Indicators and challenges in measuring impact on each group of investees

Source: I&P

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The groups of indicators are in line with the dimension of impact creation presented in the impact value chain and linked to the stakeholders identified in Step 2. Specific indicators, mostly IRIS indicators, are then linked to each dimension.

Concretely, this exercise translates into the questionnaire on sheet 4, which by means of certain indicators (70% of which coming from the IRIS database⁴⁷) aims at evaluating the impact results

Sheet 5 – ESG results

Sheet 5 collects information on the implementation of the ESG practices by the investee. Some questions pertaining to the ESG practices of the investees are asked specifically in this section, whereas others are included among the “impact” indicators.

Environmental objective – Environmental Policy of the SME

I&P works with specialists to implement energy related operational improvements within the investees. Carbon footprint reduction issues are incorporated in I&P’s due diligence and monitoring processes. The tool measures the progress of each investee on the reduction of CO2 emission by estimating the carbon footprint of the single investee and of the portfolio as a whole⁴⁸.

Sheet 5 of the impact questionnaire collects information on the use by the SME of renewable energies, and on whether the SME has a waste management system in place, by assessing the percentage of waste that is recycled.

Social Objective – Social Policy of the SME

The implementation of most of the principles pertaining to a “decent work” agenda is checked when assessing the investee’s results by means of the impact measurement tool on sheet 4.

Sheet 5 asks questions pertaining to the company’s social policies, thus focussing on the provision of complementary health insurance to the employees, the welfare system (maternity and sick leaves, access to credit and housing, etc.) and the management of risks on the workplace.

Governance Objective

The progress on governance objectives is not reported in any of the sheets of the excel file used for measuring impact. This because the considerations around corruption and good governance are more general, and come in in different phases of the investment process (see chapter “Managing Impact at I&P”).

47 Catalogue of performance metrics for impact investors. See: <https://iris.thegiin.org/metrics>

48 Source: <http://www.ietp.com/sites/default/files/ESG%20Impact%20Policy%20-%20IP.pdf>

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In this sheet the VPO only monitors whether and how often the Board of the SME meets, if the Directors of the Boards are independent and if the accounts of the SME are revised by an external auditor.

Key Issues and Learnings for Step 3

1. *Do not reinvent the wheel* – I&P uses the “wisdom of the crowd” taking most of the indicators it uses from IRIS – a public database of impact measures.
2. *Even a standardised IM system needs to be adapted to the needs and capabilities of the SPO* – Although the structure of the IM tool is identical for all SMEs, I&P adopts a case by case approach, and implements a customized impact measurement approach in addition to the cross-cutting approach only in investees that have the capabilities to implement an impact measurement system, but also are committed and have a social attitude.
3. *Data aggregation at portfolio level can be challenging* – One big challenge I&P is facing at the moment has to do with data aggregation. Since it started collecting data, I&P has built a huge database, which includes many investee companies. As the dataset is growing very fast, soon the tool I&P is using (Excel) will not be sufficient or appropriate to handle the data anymore. Thus I&P will explore the possibility to use a different, more “advanced” and appropriate tool. An idea is to use the same tool I&P’s financing department is using (Qlikview) and apply it to impact measurement. This tool is more sophisticated than Excel, so it would enable I&P to collect all data in the same database, both the financial and the impact-related and would allow I&P to do more extensive comparisons and more in-depth analysis.
4. *Assess what data is really useful* – An important next step for I&P is to evaluate what data is truly useful – for it as an investor and for the investees. This would reduce the probability to “overdo” the number of indicators on which data is collected and assess what data is really crucial to have.
5. *The indicators need to be revised periodically* – In order to improve its method, I&P performs a **yearly revision** of the indicators of the impact sheet and decides which ones keep and which ones to skip. Thus a learning point for I&P is that the **selection of indicators** is – and should be – an **iterative process** where the VPO builds the learning and makes sure it is measuring the really key indicators that correspond to the Theory of Change as an investor – and that the investee collects data that is relevant to them. The revision of the indicators is also crucial as sometimes investees complain about the length of the questionnaire and they have time constraints that can make it difficult for them to complete the survey.
6. *It is hard to prove additionality* – One important remark concerns how I&P measures its impact on the investees. The concept of **additionality** is very important. I&P tries to assess whether its action was or not instrumental to the survival and growth of the investee. For

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example, I&P's support in developing a business plan can translate into increased levels of fundraising. Banks in Africa are generally very risk-adverse, mostly because they do not have the resources to perform an in-depth due-diligence. By performing the due diligence on the investee and helping it develop a solid business plan I&P is able to leverage its support so that for each Euro I&P invests in an SME, one Euro is generally raised by the investee through other sources.

7. *It is hard to attribute impact* – Another important issue is that of **attribution**. I&P can only assess how the investee is working towards meeting its impact goals but can never be sure that the impact is solely generated by the investee or if it could be attributable to other actors and circumstances. To overcome this issue I&P has developed a questionnaire in excel to do an **ex-ante screening** of the investment using various impact criteria. Collecting impact information before the start of the investment period allows I&P to analyse the situation before and after the investment and have a baseline against which to compare the results of the impact measurement exercise. The chosen criteria need to be weighted, so that the most important (e.g. employment issues) would have higher relevance. The impact questionnaire should be used by the investment team during the due diligence phase, as it could also be used to be more concrete and impact-oriented in choosing which companies to invest in. I&P is also exploring the possibility of conducting a **counterfactual analysis**⁴⁹. Last year I&P realised that it would be crucial to take its pool of investees and to conduct in-depth **benchmarking**, i.e. to check whether the SMEs that were supported by I&P created more employment than the SMEs that were not supported by I&P. At the moment, I&P uses a couple of reports⁵⁰ World Bank reports and compares a country's GDP growth – or other aggregated data from sub-Saharan countries – with the growth in value added of its investees. However, it is clear that using such a proxy makes it difficult to compare. Therefore, since last year, I&P is trying to find some **external data** to compare other SMEs with SMEs they invested in. This work is complicated, since data on African SMEs is very scarce. A research program will be launched to collect and analyse external data.

49 Counterfactual analysis enables evaluators to attribute cause and effect between interventions and outcomes.

The 'counterfactual' measures what would have happened to beneficiaries in the absence of the intervention, and impact is estimated by comparing counterfactual outcomes to those observed under the intervention. The key challenge in impact evaluation is that the counterfactual cannot be directly observed and must be approximated with reference to a comparison group.

50 For example McKinsey Global Institute report, "Africa at work: Job creation and inclusive growth" (2012) and The World of Work report, published by ILO in 2014 (<http://www.ilo.org/global/research/global-reports/world-of-work/2014/lang-en/>).

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STEP 4 – Verifying and Valuing Impact



- Impact case studies

- External Evaluators
- Qualitative complements quantitative
- “Reality check”:
 - verify outcomes are achieved
 - choose the impacts with the highest social value
- Bottom-up complements top-down
- Re-align objectives → learn!

Figure 11:
Step 4 – Verifying and Valuing Impact

Source: EVPA elaboration of I&P material

Impact case studies

The impact management tool is not enough to understand the dynamics at play for the generation of long-term sustainable impact. Thus each year I&P conducts a multidimensional and detailed impact evaluation focused on one or two portfolio companies, belonging to either IPDEV or IPAE. Not all investees are thoroughly screened each year by means of an in-depth case study due to I&P's resource constraints.

Impact case studies are in-depth cases based on field research that aims at verifying in which way the single investee contributes to the impact objectives it sets for itself, i.e. the causal link in the theory of change that shows that the claimed impacts on the different stakeholders are actually created, and how to improve operations to generate even more positive impacts on the target populations. Impact case studies allow I&P to test and validate the assumptions made earlier.

Added value of performing in-depth case studies:

- The impact survey constitutes a self-evaluation of the entrepreneur. Even though data is double-checked by the I&P team, most of what is claimed by the entrepreneur needs to be taken for granted. The in-depth case study on the other hand is an opportunity for I&P to get first-hand information from the entrepreneur and the stakeholders.
- The in-depth case study is a great tool to understand the dynamics at the investee level. While data collected through the impact measurement tool is analysed to be aggregated at portfolio level, the in-depth case studies are specific for each investee.
- Through the in-depth case studies investee-specific issues can be explored.
- Sometimes this analysis results in a different impact than what had been predicted – thus prompting a revision of the impact objectives and indicators.

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A team of four to five people goes to meet the local social entrepreneur and the stakeholders. The team – supervised by a member of I&P staff – is composed of pro-bono students from the HEC⁵¹ association (IM)PROVE⁵², with which I&P has built a partnership.

(IM)PROVE is a student association sponsored by HEC Paris and large French and Moroccan companies. (IM)PROVE realises impact evaluation studies for social enterprises in France and in developing countries. (IM)PROVE has three main objectives:

- Help social entrepreneurs evaluate their social impact
- Promote social entrepreneurship, through articles on its website and the development of case studies for HEC Paris
- Carry out field research missions

Founded in 2009 by three HEC students, (IM)PROVE currently has six team members and 17 active members. So far it has realised 16 missions collecting data on more than 600 social entrepreneurs, 80 of which were met in person.

I&P **identifies the social enterprise** to visit each year. Then the team conducts the case study. First, a phase of **analysis** is performed. The team works to develop a very detailed **theoretical framework** of the company, highlighting both the positive and negative impacts. The **causal links** between *input*, *output*, *outcome* and *impact* are built, so that the theory of change of the company is constructed. This work is supported by data already collected by I&P's investment officers during the due diligence phase.

The team then elaborates a set of five to ten **research questions** to challenge the hypothesis defined in the theoretical framework. The questions are derived from the detailed logical framework. The team defines what can actually be measured and **how to measure** it and develops a questionnaire for the stakeholders.

Then, using **stratified sampling** techniques, the team identifies different groups of **stakeholders** to interview. The focus is naturally on the stakeholders on which the company is supposed to have the most significant impact. A shortcoming of this approach is that not all stakeholders can be interviewed. For example, it will be often quite hard to interview the investees' competitors.

Figure 12⁵³ outlines the groups of stakeholders identified in Step 2 that are then used to assess the impact in Step 4.

51 HEC is a French business school headquartered in Paris - www.hec.edu/

52 <http://www.im-prove.fr/>

53 Source: "ESG & Impact Policy and Management System", Investisseurs&Partenaires, May 2014, p.6.

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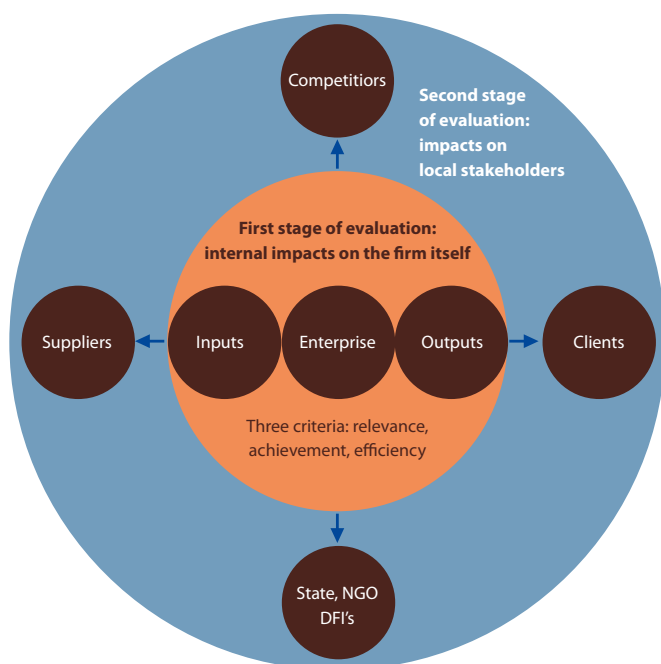


Figure 12:
Groups of stakeholders mapped in Step 2 and used to assess the impact in Step 4

The information collected during the interviews is then used to **confirm or deny the theoretical framework** built for the investee. The results of the interviews are used to improve and maximise social impact of the SME. Based on what emerges from the interviews, the impact team works on assessing **areas of improvement** for the investee and on developing concrete actions to address these shortcomings. Results and recommendations are then summarised in an action plan that is shared with the investee and the local team.

Nutri'Zaza is an SME that helps fight child malnutrition by selling a locally-produced food complement (KobaAina) that is highly nutritious. I&P cannot check directly if the SME has an impact on the consumers in the sense of reducing their children's malnutrition, but it can use a proxy, i.e. by checking the number of products sold. In order to check for this, the I&P team met with 170 local mothers (final beneficiaries). The mothers were selected using a stratified sampling (i.e. mother had to come from different areas, have different characteristics, etc.), to make interviewed group representative. From the theoretical framework it was derived that the ideal consumption of the product is twice per day, but the team sent by I&P realised that not many mothers could afford buying two servings of the product per day. Therefore the team started working with the investee on ways to improve the business model to optimise the impact of the product on the final beneficiaries.

For the microfinance company **ACEP Cameroun** the impact evaluation team found that loan amounts were not tailored to ACEP's largest SME clients, impeding their ability to grow further. Measures were proposed and discussed by the company's board.

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One important element that guarantees the success of the case studies is the commitment and the availability of the investee. So far no investee has refused to perform the impact evaluations. This positive result is also thanks to the fact that investees only finance the local logistical costs of the missions and commit to dedicate time: between 70% and 80% of the evaluation missions are financed by a specific I&P technical support budget⁵⁴. Additionally, the investees see the added value of having a team helping them to analyse and fine-tune their activities.

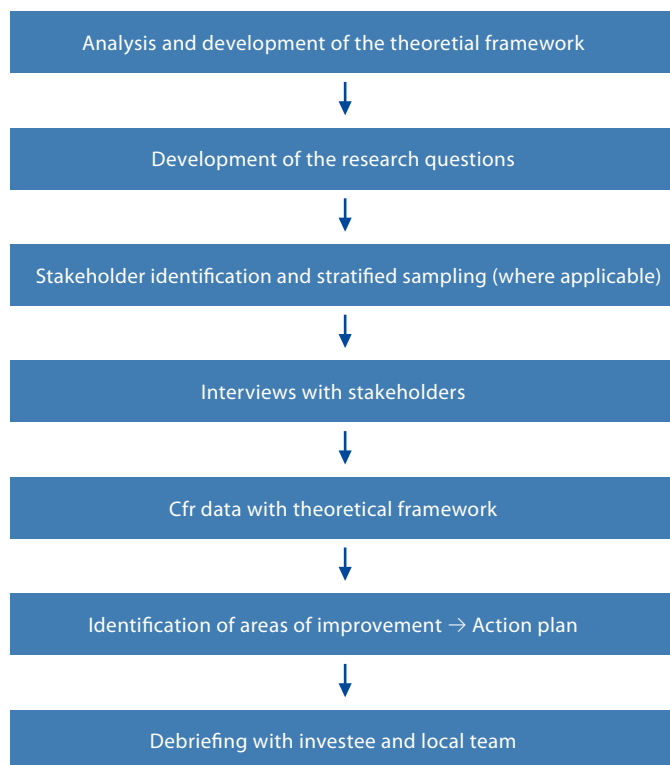


Figure 13:
Process of development of
in-depth case studies

Source: EVPA elaboration of I&P documents

⁵⁴ This budget is granted by the European Investment Bank (<http://www.eib.org/>) and FISEA (http://www.proparco.fr/lang/en/Accueil_PROPARGO/fisea-proparco), an investment fund that makes equity investments in businesses, banks, microfinance institutions and investment funds operating in Sub-Saharan Africa.

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So far four case studies have been developed:

- Biotropical (funded through IPDEV), engaged in organic fruits exportation in Cameroon (2012).
- MFI ACEP Cameroun (funded through IPDEV), providing loans for micro entrepreneurs and small SMEs in Cameroun (2013).
- ACEP Madagascar (funded through IPAE), providing loans for micro entrepreneurs and small SMEs in Madagascar (2014).
- Nutri'Zaza (funded through IPDEV), a social business providing baby food to improve child nutrition.
- A new case study is under development: SIATOL, engaged in local soybean processing in Burkina Faso, the first investment funded through IPDEV 2 (via Sinergi Burkina).

The case studies reports are available for download on I&P's website⁵⁵.

Impact Case study: the evaluation of Biotropical⁵⁶

Biotropical is an enterprise that specialises in the production and exportation of tropical biological fruit. Biotropical produces fruit that is then sold fresh, frozen or dried in the EU. Its founder, Jean-Pierre Imélé, is a pioneer of organic farming in Cameroun. In fact, it can be said that Biotropical created the organic sector in Cameroun.

Analysis and development of the theoretical framework

The impact evaluation team analysed the activities of Biotropical and synthesised the strategic objectives of the investee. Biotropical has three specific objectives:

- Create a sustainable and ethical enterprise
- Convince local producers of the importance of cooperating with Biotropical in the field of organic farming
- Sensitize people in Cameroun and abroad about the importance of organic farming

The analysis conducted within Biotropical's environment had two focuses of interest:

- To what extent does Biotropical contribute to the improvement of local producers' living standards?
→ More sales, better prices, input supplying
- How far does Biotropical support the structuring of the local organic sector?
→ Organic process training, producers' certifications, organisation of local players

Additionally, I&P wanted to assess whether the impact Biotropical was generating was positive and whether such positive impact was generated by an increase in the prices.

⁵⁵ http://ietp.com/knowledge_center/#publications

⁵⁶ We chose the Biotropical case as we found it to be the most complete and complex. In fact, the impact evaluation team (consisting of Pierrick Baraton, I&P's Research Officer, and the team of (IM)PROVE (consisting in 3 students) found that Biotropical had an impact on local producers it works with, but offset by the volatility of the volumes ordered and the dependency towards Biotropical.

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Stakeholder identification and stratified sampling

The impact team identified three groups of stakeholders:

- The local producers
- Biotropical employees
- Competitors and local administrations

Local producers and Biotropical employees are the most important stakeholders, as their activities are directly impacted by the activities of Biotropical.

Development of the research questions

The impact evaluation team studied the impact of Biotropical on the three categories of stakeholders, in order to choose the indicators and the questionnaire for the stakeholders.

Two “impact maps” were created, one for the employees and one for the producers to link the expected impact and the indicators, as shown in Figure 14⁵⁷.

	Impact		Nature	Indicators
	How to describe the change?		Which part of impact is it?	How to measure it
Biotropical employees	Incomes	<ul style="list-style-type: none"> • Monthly income • stabilisation/increase • Access to social benefits 	<ul style="list-style-type: none"> • Direct & indirect/quantitative 	<ul style="list-style-type: none"> • Historical of earned wages • Breakdown of costs • Access to health insurances
	Activities	<ul style="list-style-type: none"> • Access to a stable wage • Quality of labour • Conditions of employment 	<ul style="list-style-type: none"> • Direct/qualitative 	<ul style="list-style-type: none"> • Number of hours worked per week • Number of accidents on the work place • Nature of the duties performed • Type of contract (part-time / full time)
	Qualifications	<ul style="list-style-type: none"> • Technical training given by Biotropical Career Development Prospects 	<ul style="list-style-type: none"> • Direct/qualitative 	<ul style="list-style-type: none"> • Number of hours and type of training delivered • Improvement of work duties and promotions
	Quality of Life	<ul style="list-style-type: none"> • Impacts on the familial environment • Pride in working for Biotropical • Sense of belonging to a valued supply chain 	<ul style="list-style-type: none"> • Direct & indirect/quantitative & qualitative 	<ul style="list-style-type: none"> • Purchase of new home equipment • Level of children education • Worker satisfaction in the organic sector and within Biotropical

Figure 14: “Impact map” for Biotropical’s employees

⁵⁷ Source: “Evaluation d’impact social”, Biotropical, September 2012, p.26.

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Since Biotropical is the largest player in Cameroun and created the market for organic farming, it had positive effects on a number of indirect stakeholders. Therefore instead of developing a specific impact map for competitors, public authorities and intermediaries, the impact evaluation team analysed the impact on the development of the supply chain.

Interviews with the stakeholders

The impact evaluation team interviewed 47 non-skilled employees of Biotropical, representing about 80% of the total workforce. (IM)PROVE (which back then was called *Planète d'Entrepreneurs*) also interviewed 68 producers (over a total of about 80), who supply Biotropical with different types of fruit and six intermediaries in four regions.

Last, the impact evaluation team met with six out of the eight local producers of Biotropical and with seven others local players (i.e. administration representatives, local consultants, etc.).

Data analysis and comparison with the logical framework

Employees

The impact evaluation team analysed the data collected through the interviews with the stakeholders and came to some interesting conclusions.

Employees were divided into two groups: factory workers and farmers.

Factory workers experienced an improvement in their employment status, as 56% of them were unemployed before starting to work at Biotropical. With salaries 2.8 times larger than the minimum salary in Cameroun, factory workers could start sending their kids to school on a permanent basis, increasing the average education in the area. Finally, Biotropical factory workers had easier access to credit.

The analysis on **farmers** showed that Biotropical had a positive impact in that the salaries of the farmers grew by about 77% and became more stable thanks to the affiliation with Biotropical. However, the salaries of the farmers were found to be 33% lower than the salaries of the factory workers and 20% of the farmers lamented a delay in the payment of the salaries, which translated into issues concerning the schooling of their children.

Local producers and intermediaries

The impact evaluation team interviewed **producers** and **intermediaries** working with Biotropical.

For what concerns the producers, the first finding was that a large number of the interviewees were not capable of quantifying their annual revenues when they were selling their products in the local market, i.e. before starting to work with Biotropical. Thus it was very difficult for the team to construct a counterfactual to assess the impact of Biotropical

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on the local producers. However, the assumption was that since they cooperated with Biotropical all local producers would be capable of estimating how much they earned in one year, increasing their professionalization, and being able to plan expenses and make investments.

The second finding was that 43% of the local producers sold their products only in the local market before working with Biotropical. By selling in the local market they could have asked for higher prices for their products in some periods, Biotropical guaranteed them higher volumes of sales and more attractive sales conditions (no transportation needed), without indirect costs. Thus, they assumed Biotropical had a positive impact on stabilising the revenues of local producers.

Third, it was found that most of the local producers depended completely on Biotropical: 71% of local producers sell 100% of their production to Biotropical. This can constitute a problem if the date when Biotropical collects the fruit is not sufficiently well communicated. In fact, lack of communication and delays on behalf of Biotropical in collecting the products caused significant losses for the local producers.

A deeper analysis of the first two findings showed that Biotropical was generating an adverse effect, as the producers had higher volatility of their revenues than before. The evaluation team tried to understand the costs of this volatility and the reasons behind it, and discovered that it was difficult for Biotropical to assess and communicate to the producers, from one year to the other how much it would need in terms of production ultimately. As a result, small local producers could not know from one year to the other how much they were going to be able to produce and sell. Under normal conditions this would not have constituted an issue, but since the local producers had become dependent on Biotropical, a decrease in their sales to Biotropical would have implied the impossibility to preserve the income, hence the volatility. This volatility undermined the trust of producers with Biotropical and made them less motivated to respect the requirements of organic farming. If one single producer had decided not to respect the requirements of organic farming Biotropical could have been negatively affected, as it would risk losing its “organic producer” certification.

Last, in some of the regions where Biotropical sources the fruit, the organic plantations have been affected by pesticides coming from neighbouring farms. This can be a risk for Biotropical, because it also could cause it to lose its certification.

In terms of **intermediaries**, the team found that they bear a high financial risk. They collect the fruit from the producers and sell it to Biotropical. However, they are not always sure they will be able to sell to Biotropical and they might have a liquidity problem if the time between when they buy and when they sell is too long.

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Due to the existence of the intermediaries, often local producers do not even know the brand Biotropical. In order to have a relationship based on trust it would be advisable that Biotropical invests in knowing better these local producers.

Supply Chain

By meeting five direct competitors of Biotropical, the impact evaluation team could assess the impact of Biotropical on the development of the supply chain for organic fruit farming in Cameroun.

The interviews highlighted some positive impacts on the supply chain linked to the activities of Biotropical:

- Biotropical is recognised by its competitors to be the leader in the sector. It played a major role in organising the activities locally, especially in relation to the fostering of local processing, thus bringing back to Cameroun a part of the added value.
- Four out of five of the competitors interviewed are interested in cooperation more than competition in the sector of organic farming.
- One of the competitors, ExoBio, was created by a former Biotropical employee who embraced the model.

Biotropical also worked to raise awareness about organic farming among local authorities. Although a number of institutional actors start to see the potential of organic farming, no structured activities have been rolled out to support organic farming in Cameroun.

Identification of areas of improvement and development of an action plan

Based on the data analysis, the impact evaluation team developed recommendations for the three categories of stakeholders.

Producers	Employees
Develop a reliable procurement plan Communicate better and have a more direct relationship with the producers to be directly known (and not only through the intermediaries)	Define and harmonise HR policy
Ensure the traceability along the supply chain to avoid the loss of the organic label	Pay the salaries of the employees to a bank account

Debriefing with investee and local team

The recommendations outlined above were presented to Biotropical. The idea behind sharing the results and the recommendations was that an improvement of the business plan could help Biotropical achieve an even greater impact.

Based on the recommendations, a local NGO was identified to give technical assistance to help local producers and Biotropical work better together and streamline their relationship.

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Key Issues and Learnings for Step 4

1. *It is often hard to measure impact for all the stakeholders.* For example, it will be particularly hard to involve competitors in the evaluation interviews. Additionally, some stakeholders are more important than others, and this has to be taken into consideration when selecting them and during the analysis of the results.
2. *The issue of attribution is also difficult to manage.* The evaluation team develops the theoretical framework and builds the causal links, but it is still hard to know which of the impacts are generated by and attributable to the work of the investee and which aren't. Additionally, the I&P team does not go as far as including counterfactual analysis⁵⁸. However I&P can go beyond the counterfactual thanks to the in-depth case study that allows the VPO to know if the SME has contributed to the local development, even without defining by how much⁵⁹. As the I&P team put it: "We can see the impact, but we cannot really say how much of it is thanks to the investee". One thing the impact case study can check though is that the SME has participated in the impact. Thus, I&P knows that, by improving the investee's work and by maximizing the way the SME delivers the impact, it is working to increase the overall impact on the target population.
3. *Close the learning cycle* – Step 4 is very important for I&P as it allows the VPO to revise the indicators that were defined top-down and make them more customised to the specific investee. It is a **bottom-up approach** and it highlights the challenge of making impact measurement relevant to the investee.

⁵⁸ Counterfactual analysis enables evaluators to attribute cause and effect between interventions and outcomes.

The 'counterfactual' measures what would have happened to beneficiaries in the absence of the intervention, and impact is estimated by comparing counterfactual outcomes to those observed under the intervention. The key challenge in impact evaluation is that the counterfactual cannot be directly observed and must be approximated with reference to a comparison group.

⁵⁹ It is important to note that the evaluations do not include a scientific approach (such as randomization with control groups).

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STEP 5 – Monitoring and Reporting

Data from monitoring feeds the reporting system. Reporting helps I&P assess the different impacts it has on the different local stakeholders. When the results of the analysis are shared with the stakeholders, interesting discussions are started. For example, if the reporting shows that the share of women in IT is still low, the VPO and the SPO can decide which actions to take to tackle the problem. Thus with Step 5 the IM cycle comes to a closing, as reporting informs the future work of VPO and SPO, which set new objectives.

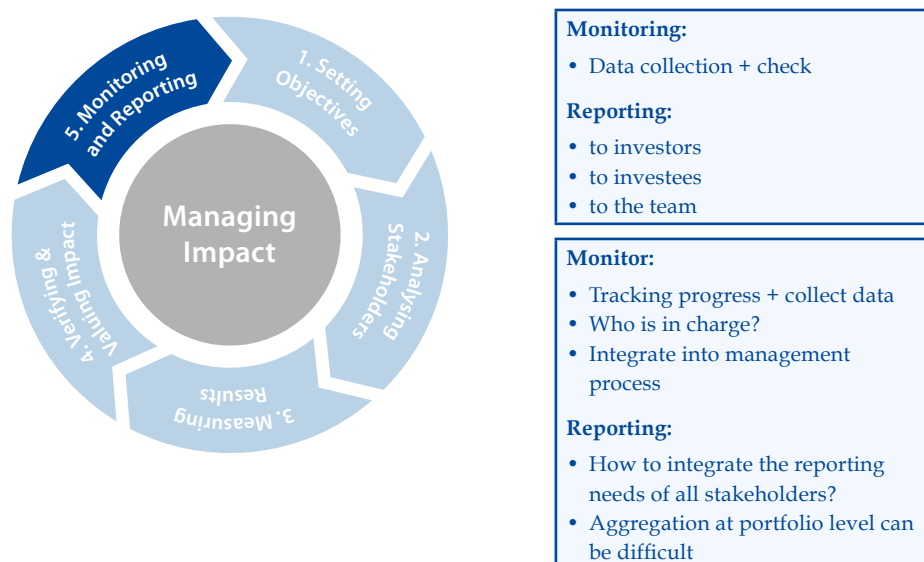


Figure 15:
Step 5 – Monitoring and Reporting

Source: EVPA elaboration of I&P material

Monitoring: the Impact Measurement Process – How data is collected and checked

I&P monitors the ESG action plan with the management team, at least bi-annually. Additionally, as board member of its investee companies, I&P ensures that ESG & impact considerations are regularly raised and discussed, and action plans approved at least annually.

Practically, data on all indicators is collected every year on **all of IPAE's** portfolio companies. All IPAE investees receive the excel file (the Impact Measurement Tool, presented in Step 3) with the different questions which they have to fill in. However, a little bit of customisation is always possible, depending on the investee and its needs, capabilities and sector.

For what concerns IPDEV investees, since they are smaller and have less capacity, a smaller questionnaire made up of 15 questions is sent every year, to assess the general impacts, without going into the same level of detail as for IPAE.

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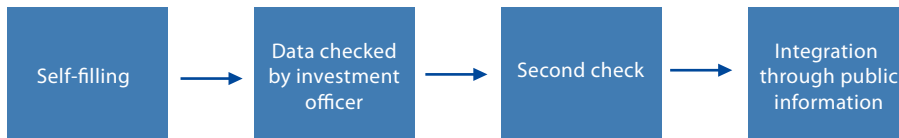


Figure 16:
The data collection process

Source: EVPA elaboration of I&P data and documents

The investees perform a **self-filling** of where they stand in relation to the different questions asked. Given that they have to fill in the questionnaires on their own it is crucial that I&P explains well why it is collecting the data, that it is not a performance evaluation, that all data will be treated with confidentiality, etc., otherwise there is a high risk that the investee will not fill in the survey as needed (i.e. there might be an incentive to lie for the investee).

After data is collected through the self-filling, consistency checks are performed. A first check is performed by the research officer, who makes sure that the information received is complete. Data checks are mostly guided by previous knowledge of the SME and common sense: the team compares the investee with other companies from the same sector/country and with previous year's results. If discrepancies or strange results are found, a second check is performed by the ESG and impact measurement team to point out eventual inconsistencies. In one instance, for example, the data provided showed that the SME had destroyed jobs instead of creating them. Thus, a second check had been necessary in order to understand whether the respondents had made a mistake in answering the question or the discrepancy was correct and the causes needed to be analysed further.

The information collected can then be checked and integrated by using public sources, such as the company books, etc.

I&P does not involve a third party when collecting or analysing impact data collected through the investees' surveys.

All data is currently stored using an excel file. However, there is an increasingly pressing data aggregation issue. By now I&P has invested in many SMEs so the dataset is growing very fast. Therefore at the moment I&P is considering whether to opt for using another tool to aggregate the data.

Assessing organisational performance⁶⁰

I&P monitors the performance of its investees by means of a questionnaire that is part of its impact measurement tool (see Sheet F3 of the excel file, presented in Step 3). Thanks to an internal rating scale from 0 to 4, I&P can assess the organisational performance of its investee companies.

⁶⁰ I&P Afrique Entrepreneurs. Annual ESG and Impact Reporting, I&P Gestion, End March 2015, page 10.

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This yearly rating is very useful to design I&P's support towards the management team, through **mentoring** and **technical assistance** missions.

The **capacity building dimensions** are defined with the investee and their progress over time is monitored during investment period. Capacity building encompasses all operational dimensions, such as financing tools, management capacity, etc.

Figure 17⁶¹ shows the average organisational performance of IPAE's investee companies.

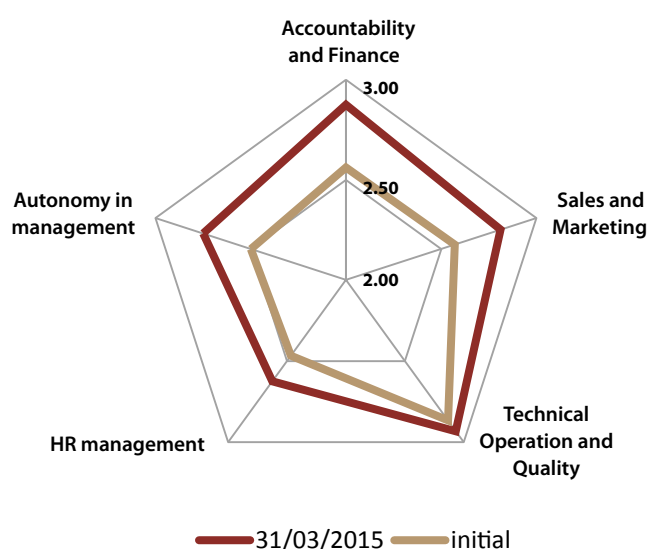


Figure 17:
Average organisational performance of IPAE's investee companies

As shown in the figure above, calculating the average organisational performance of IPAE's investee in 2014 and 2015, **companies are improving** on all dimension. Thus, the support provided by I&P to assist the entrepreneurs and the management teams in the development of IPAE's partner companies and to strengthen their autonomy over the years is useful. Despite these promising results and entrepreneurs reporting the technical assistance offered very valuable, I&P cannot claim attribution.

Reporting⁶²

I&P creates different reporting documents depending on the stakeholders it is sharing it with. Each time a report needs to be created the team brainstorms about what to aggregate and to report.

At **investor** level, the principle is always to report the most meaningful impact data.

⁶¹ Source: I&P Afrique Entrepreneurs. Annual ESG and Impact Reporting, I&P Gestion, March 2015, page 10.

⁶² This section refers to the following document: "I&P Afrique Entrepreneurs. Annual ESG and Impact Reporting", end of March 2015.

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ESG and Impact Reporting

I&P provides a comprehensive “**ESG and impact**” report to its **fund investors** on an annual basis, for the moment only for the IPAE investments, then the reporting activity will be implemented for IPDEV 2 and for all the future investments. This report generally includes:

1. an update on their **ESG portfolio strategy** and **impact strategy**
2. a review of investee companies’ **measurable impacts** on all **stakeholders**;
3. a review of the development on the **ESG objectives** of the investee companies.

In addition, since I&P carries out a **detailed impact evaluation** on one of their investees each year it also provides a separate report on that to its investors. For the SMEs for whom I&P, together with the team of (IM)PROVE, developed a comprehensive case study (i.e. Nutri’Zaza, Biotropical), a presentation of the activity, of the stakeholders, of the country context, of the general problematic, and of the methodology used, are described in the final report.

Investees’ evaluation reports

The results of the questionnaire are shared with the investees, but due to time constraints I&P does not do an extensive reporting to its investees on the results of the questionnaire. However this analysis is accessible and every year I&P **shares with each investee the specific impact report**. The practice of sharing the single-investee impact report is raising increasing interest among the investees. Usually the investees are happy to see how their impact translates into figures. This increases their commitment and gives rise to concrete actions.

Building on this experience, I&P has started using the data collected from the investees at the meeting it organises annually for its entrepreneurs. The focus in 2015 was on “Human resources” in the perspective of social responsibility towards entrepreneurship”. I&P provided investees with benchmarking data from three years, across I&P companies on human resources and CSR towards the employees (e.g. health coverage, health and safety). This information gives I&P’s investees a picture of where they stand vis-à-vis other investees, to assess the areas of weakness each investee needs to work on. The exercise should, on one hand, help investees improve their work and, on the other hand, make the investees understand the value of impact measurement.

For I&P such gatherings are the first step towards giving individual and detailed feedback to the investees.

Reporting to the I&P team

The ESG and impact measurement team reports to the all I&P’s staff members the results of the regular review of ESG and impact performance at both the investee and portfolio levels in the following way:

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- bi-annual meetings with the investment team to review ESG & Impact performance per partner company;
- annual collective review of portfolio & investee ESG & Impact performance;
- based on this review, strategic thinking about the ESG & Impact strategy and the new investment vehicles to be launched.

Other types of reporting

In 2015 I&P⁶³ launched an innovative form of reporting, a series of videos within a project called: “Small is powerful” – An advocacy project on the contribution of African SMEs to the development of the African continent⁶⁴.

Apart from the videos, I&P produced a series of photographs that show how SMEs generate impact in Africa.

The main goals of the project were to:

- **fight against stereotypes** on how African economy and society are now perceived;
- **support and promote the reality of African entrepreneurship** which is rich and dynamic, carrying prospects for the future;
- **produce visual and analytical content** allowing an efficient case to be made for these entrepreneurs committed to this dynamic, and who are vital contributors supporting African growth.

Thus the target of this type of reporting is wide and the communication potential is broad. I&P aims to reach and raise awareness among the broader community, public and decision makers and other potential investors, in showing how entrepreneurs and African SMEs are a vector of growth of the continent, so that more resources can be attracted to finance impactful SMEs in Africa.

Key Issues and Learnings for Step 5

Monitoring:

1. *Data collection is a learning process* – In terms of the process followed to collect data, the first time the investee has to fill in the survey, the investment manager and the research officer should take the time to explain it to the team. However, once the SME is capable of filling in the questionnaire, more time could be allocated by I&P investment managers to check the data than what is planned now.
2. *It's hard to find a balance between resources and precision* – As the current system is not efficient, an option would be to have **interviews** directly with the investees to collect data. However, due to time constraints, this is not yet possible. **Self-reporting** is not the best

⁶³ Project managers: **Emilie Debled**, I&P's PR and Business Development Director and **Clémence Bourrin**, I&P's Communication and Fundraising Officer.

⁶⁴ For more details see: <http://www.smallispowerful.fr>

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option to collect data, but it is the only one currently manageable given the workload and time constraints of the investment team. Conversely, organisational performance is assessed by the investment team and not self-assessed by the investee and this means more objective criteria are used. Data collection is and remains a challenge, but I&P continues looking into different options to optimise the process making it more efficient.

Reporting:

1. *Aggregating data for reporting is technically difficult* – At the moment I&P is moving from an Excel-based system to a system employing use Visual basics, which gives a better visual idea of the results to the different stakeholders and to have a more articulated impact reporting.
2. *It is difficult to find data to benchmark* – One issue for **reporting** at the moment is the development of more **benchmarks**. I&P has realised that there is a need for benchmarking data to see how the SMEs financed compare to others in Africa. The issue is that a lack of benchmarking data makes it impossible to build the counterfactual (i.e. to determine what would have happened without I&P's intervention). Currently, when reporting the results of the SMEs it invests in, I&P compares trends on job creation to data for sub-Saharan Africa or turnover statistics for the investees VS the GDP growth of the country they are active in. Although not optimal, this second best solution is the best available for I&P at the moment.

One option I&P is currently exploring to have comparable results is to go through the **GIIRS**⁶⁵ evaluation. If I&P decides to go through with the approach, it will do so in 2016 on 2015 data. However, a blocking factor is preventing I&P to go through with GIIRS: the potential work burden for the investees. GIIRS is in fact not too expensive, as the price for the assessment depends on the size of the investment fund. However, GIIRS foresees interviews with 70% of I&P's investees, which could be too time consuming.

I&P is also working on finding benchmark information on specific topics. For example, analysing the results on the gender issue, I&P found that the situation is not optimal within its investees and that benchmarks are needed to better evaluate the strengths and weaknesses of its approach. By analysing the impacts per company profiles (sector, size, etc.) in further detail, I&P was able to assess in which sector it has the strongest impact. This learning will guide the strategic definition of new funds (IPDEV 2).

⁶⁵ GIIRS (pronounced “gears,” stands for Global Impact Investing Rating System) is a system for assessing the social and environmental impact of developed and emerging market companies and funds with a ratings and analytics approach analogous to Morningstar investment rankings and Capital IQ financial analytics. It seeks to spark the impact investment industry by providing a tool that is intended to change investor behaviour and unlock sidelined investment capital through comparable and verified social and environmental performance data on high impact funds and companies seeking investment capital. GIIRS Ratings & Analytics has the largest database of social and environmental performance data for private companies and funds, and it is the first and only platform that provides ratings, data, research, and analytics for impact investing. (Source: www.thesroinetwork.org/publications/doc_download/441-sroi-and-giirs).

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3. *Hard to work with many investors who have many different requirements for reporting.* Another issue to be solved is the presence of too many investors, and sometimes investors ask for some specific indicators and/or specific format of reporting (i.e. Proparco asked for information related to gender). So it is difficult for I&P in terms of reporting and selection of relevant indicators. However I&P every year asks its investors for feedback about the reporting format but it is always difficult to receive answers, also due to time constraints.
4. *It would be useful to have an external evaluator for the reporting* – it could improve even more the entire impact measurement process, helping I&P in structuring and enhancing its methodology.

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Managing Impact at I&P

For I&P, impact measurement is closely aligned to the investment management process, as shown in this section.

Deal Screening⁶⁶

The investee is clearly the primary stakeholder because for I&P it is crucial to choose the right entrepreneur and the right investment that can contribute to the portfolio-wide developmental impact goals. This implies that the deal screening and due diligence phases are central in I&P's investment process, as the in-depth analysis that is performed during these two phases is instrumental to assess whether a good investment in terms of financial return is also a good investment in terms of social impact achievable. For example, once I&P had to decide whether or not to invest in an SME producing beer. Despite the potential the business had to become sustainable and to contribute to generate employment in the area where it was active, I&P decided not to invest due to the potential ethical challenges and negative externalities driving from the production of alcoholic beverages (e.g. alcoholism).

During the deal screening phase I&P assesses whether the investment proposal is in line with its policies and guidelines and conducts an assessment and rating of the main ESG-related risks and opportunities.

Due diligence

In the due diligence phase, I&P reports having made a lot of progress compared to what it used to do in the past.

Now during the due diligence phase the investment team performs an in-depth screening of the ESG practices to assess if there is a match between I&P and the SME in terms of ESG values and whether I&P can help the investee company improve its ESG practices.

When I&P needs to decide whether or not to invest in an SME, the potential social impact of the company on its stakeholders is a main selection criterion and an integral part of the rationale for investing. However, not all SMEs I&P invests in can be defined as social businesses a priori, as the social component is not the core focus of the company. As these SMEs or microfinance institutions meet essential needs and support the development of less developed areas operating in Africa, they are considered by I&P as businesses achieving long-term social impact goals.

I&P looks for a match on philosophy and shared values when it decides whether or not to invest. Therefore not all the SMEs I&P invests in are explicitly driven by specific social

⁶⁶ Source "I&P Afrique Entrepreneurs. Annual ESG and Impact Reporting, I&P Gestion, 31st March 2014", pages 48-49.

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objectives. However, they are interested in developing their local stakeholders (employees, suppliers, local communities, etc.) so they do have an embedded social commitment. In I&P's experience, African entrepreneurs are very committed to work on local development, but not specifically on a specific impact dimension, such as create jobs, build local sectors that did not exist etc. However, they see a value in developing the local community they are part of.

As an integral part of the investment assessment, I&P conducts an in-depth analysis of ESG-related matters – Environmental, Social and Governance – and, if applicable, I&P incorporates the specific sectorial guidelines from the IFC's Performance Standards⁶⁷.

Within this phase, thanks to field visits to the SME in Africa, and meetings with management and other stakeholders, I&P elaborates a preliminary analysis on its potential investees.

To do that, I&P developed an “**ESG risk assessment methodology**” and **tool** that combines:

- the *ESG gross risk* that depends on the company's sector, the operation's size, the country, etc. The gross risk indicates which investment requires more thorough attention from an ESG perspective. And
- the *quality of the risk management* by the investee company itself.

This analysis allows I&P to assess the *ESG Net Risk* – high, medium or low – that its potential investees bear.

This analysis allows I&P to better understand the conditions in which its potential investees work in order to choose whether to invest or not.

Figure 18⁶⁸ shows how I&P calculates the risk profile of an investment.

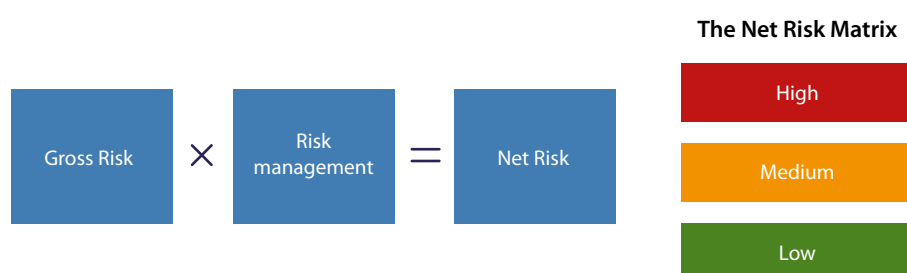


Figure 18:
Current benchmarking
of I&P investees' turnover
growth vs. GDP growth

According to the sector, the size and the structure of the deal the SME is categorised as high/medium and low risk. This assessment is directly derived from the CDC toolkit⁶⁹, a toolkit

⁶⁷ Environmental and Social Performance Standards (from the International Finance Corporation of the World Bank Group) define responsibilities for managing environmental and social risks.

⁶⁸ Source: I&P Afrique Entrepreneurs. Annual ESG And Impact Reporting, End March 2015, p. 4.

⁶⁹ Rosencrantz & Co (2010). “Toolkit on ESG for fund managers. Adding value through effective environmental, social and governance” (ESG) management”. CDC Group plc.

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for fund managers investing in third world countries. Thanks to the toolkit I&P determines the gross risk and then assesses how the risk is managed. By deducting the risk management profile from the gross level of risk the SME is evaluated in terms of net risk. This approach is different, as it develops a matrix (in the figure above), in which the risk management plays a role in reducing the perceived risk of the investment. This approach can be a bit “theoretical” and schematic, but it serves the purpose of including all dimensions in the assessment of risk. In the reporting document, each SME has a matrix assessing the level of risk.

During the due diligence, the investment team is asked to fill in a sheet which aims at testing the impact of the SME ex-ante. This ex-ante screening of the investment uses various impact criteria, weighted according to their relative importance (for example, I&P considers employment creation as the most important criteria).

The tool allows I&P to take a “prospective approach” to impact and helps I&P to:

- be more concrete in choosing the investment by:
 - having an objective view when deciding whether or not to invest (i.e. no investment if impact is too low. If for example the investment meets less than 50% of I&P impact criteria it would be a no-go);
 - having a way to make a comparison between financial and impact performance; the tool should be useful to compare the financial performance and impact profile of the SME, by asking questions such as: “Are we in the scope of our mandate if we invest in...”;
- have something tangible to start the discussion on impact in the investment team;
- have a tool that reminds the investment team about impact, helping the investment manager think more about impact.

I&P would particularly value technical assistance in this phase, because it would allow the VPO to perform in-depth detailed impact evaluations. In this phase it is important to work with local teams, train them, and technical assistance would be crucial. However, DFIs do not want to provide technical assistance in this phase. I&P has very limited budget for the due diligence phase, so technical assistance is often cornered in favour of more detailed financial audits. Thus detailed environmental audits are not possible due to budget constraints. This is a pity for energy efficiency issues, because by looking at them early in the process the SME could be implementing more efficient solutions from the start, i.e. by buying more efficient equipment.

Deal Structuring

Having a scorecard to measure the situation of the SME and its potential impact before the investment is made is a way to measure the additionality of the intervention of I&P, i.e. to measure the importance of I&P’s intervention for the success of the investee company.

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Elodie Nocquet worked on integrating ESG in the management process; to include it in all steps of the investment memorandum. Investment managers should talk about ESG practices from the outset of the relationship with the SME.

At the beginning, integrating the ESG practices was – says Elodie – a huge challenge. When the team was young and inexperienced it was difficult to introduce detailed ESG analysis during the due diligence and monitoring phases. Additionally, having a long-term view is hard when you are thinking about how to make it to the next month, which is the case for some of the investees I&P supports.

Investment Management

I&P's impact measurement scorecard is well implemented in the due diligence phase, and less effective in the monitoring phase. The monitoring phase is more complex, as the investees have less time to deal with impact measurement issues, and they are not seen as a priority.

At the beginning, I&P was not explaining well enough the impact measurement process to its investment management team but then – learning from its mistakes– it started organising specific seminar sessions on ESG & impact measurement to train and educate both the investment team and its investees (entrepreneurs) on impact measurement. Elodie admits that I&P did not work enough on educating the entrepreneurs at the beginning, and this generated some failures. However, the situation was turned around, also thanks to the support from the top of I&P, and now people in the whole I&P team are raising ESG issues.

Exit

So far I&P has exited twelve investments, either to the initial entrepreneur, or to existing investor (co-investors), or by selling to strategic players active in the same field through trade sales.

Although one option could have been to exit from IPDEV to IPAE, I&P never performed such an exit, to avoid conflicts of interest.

All the companies exited so far were investments made through IPDEV, so I&P did not measure impact neither during the investment nor at the time of exit.

However, when exiting I&P always values impact considerations above financial return considerations, even when this approach implies accepting a lower financial return. For example, during one of the trade sales in Mali, I&P decided not to explore possible exits to big international players, but to a small French company already shareholder of the company, achieving a lower IRR. Doing so, I&P avoided that the SME lost part or all of its impact after exit.

Similarly, structuring the deal in such a way that favours the exit to the entrepreneur often means capping the expected financial return.

Case 2

– Impact Measurement at Reach for Change

CASE 2 – IMPACT MEASUREMENT AT REACH FOR CHANGE

Background on Reach for Change⁷⁰

History and Organisation

Reach for Change is a non-profit organisation that aims to improve the lives of children across Europe, Africa and Central Asia through social innovation.

Reach for Change was founded in 2010, in Sweden, by the Kinnevik Group with Sara Damber, who is currently the CEO. The purpose was for the Kinnevik group to find a way to invest in children and to use the experience and the market knowledge of the group to benefit children. Sara Damber was approached to start Reach for Change given her previous experience working on children-related issues⁷¹. Five years later Reach for Change is present in Northern Europe – Sweden, Norway, Denmark, Lithuania, Latvia, Estonia; Eastern Europe/Central Asia – Russia, Kazakhstan, Bulgaria, Croatia and Africa – Chad, Tanzania, Ghana, Rwanda, DRC, Senegal, Ethiopia.

When Reach for Change was launched in 2010 “social entrepreneurship” was a new and not widely spread movement in Sweden. Still, Reach for Change decided to give it a try, and launched the first call for social entrepreneurs who wanted to solve children-related issues to join the incubator. Within three months Reach for Change had already received 2,000 applications, showing that there was a market for social entrepreneurship in Sweden and a need for what Reach for Change could offer: financial and non-financial support to incubate the ideas of social entrepreneurs working to improve the lives of children. Today Reach for Change has launched local incubators in 17 markets, and has a big base in Africa, Eastern Europe and the Baltics. In many of the “new” markets – i.e. those markets where Reach for Change has recently expanded – social entrepreneurship is still relatively unknown and thus poses challenges. In Chad, for example, the concept of “business people doing good” has still quite a negative aura that is hard to get rid of. Reach for Change sees the promotion of social entrepreneurship as being part of its work as a VPO. Locally, Reach for Change makes consistent use of awareness-raising communication to push forward the debate around social entrepreneurship.

⁷⁰ Source: <http://reachforchange.org/en/about> and interview with Annica Johansson and Marlene Claesson on June 16 2015

⁷¹ The group has a focus on children already, as one of their biggest target group is the young generation.

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Reach for Change’s Investment Strategy

Table 3 summarises Reach for Change’s investment strategy.

Dimension		
Investment Focus	Geographical focus	17 markets across Europe, Central and Eastern Europe and Africa
	Sector focus	Children must be the main beneficiaries. Six investment themes: health and development, education, social inclusion, child protection, expression and participation and economic participation.
Model of intervention	Size of the SPO	Individuals with a ground-breaking idea to improve the life of children
	Type of SPO	“Change leaders”: social entrepreneurs with an innovative idea to improve children’s lives around the world that can be turned in a social enterprise
	Stage of development of the SPO	Early stage/incubation. Often individuals with an idea but no organisation (yet).
Social and financial return goals of the VPO	Return expectations	Investing through grants with no financial return expectations
	Type of VPO	Non-profit Foundation
	Type of funding	Grants
Size of investment		<ul style="list-style-type: none"> • Non all ventures get funding • Funding size depends on the country (e.g. USD25 k per year in Africa, €50 k per year in Europe – not everyone receives funding) • Financial support is coupled with extensive non-financial support offered through an up to five-year incubator programme

Table 3:
The Investment Strategy of
Reach for Change

Source: EVPA elaboration of
Reach for Change material

Through its 17 incubators across Europe, Eastern Europe/Central Asia and Africa, Reach for Change invests in local entrepreneurs and – to be as close as possible to its investees – it has local staff in each of the countries where it has an incubator and partnerships with local business programmes and other partners, offering non-financial support to the social entrepreneurs.

Reach for Change enters a new country where it has a local partner who wants to start working with the VPO. The role of the local business partner is to be involved from the start in setting up the objectives and the operations of Reach for Change and contribute additional sources of support in complement to Reach for Change local staff.

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Reach for Change invests through grants and by means of a five-year incubation programme focusing on very early stage social entrepreneurs (called Change Leaders⁷²): individuals with innovative solutions that have the potential to solve pressing issues facing children across the world, such as education, health and social inclusion at such early stage that often they don't even have a structured organisation. Reach for Change takes the risk and invests in these early-stage social entrepreneurs, allocating relatively small funds, going from \$25k in Africa up to €50k in Europe. The unrestricted grant aims at enabling social entrepreneurs to focus on developing their organisations and to explore alternative opportunities for sustainable funding.

Although the size of the investment might seem small, it is important to note that it is coupled with a heavy investment in non-financial support, which Reach for Change believes to be crucial for the early stage enterprises supported. The incubator is a multi-year (up to five years) support program designed to help social entrepreneurs grow social innovations and reach financial sustainability. The Incubator entails an ambitious curriculum including a number of core modules provided to all Change Leaders. In addition, customized support activities are developed for specific local contexts or individual entrepreneurs. Throughout 2014, 59 Change Leaders across ten countries were supported through the Reach for Change Incubator. In addition, 36 new Change Leaders were invited to join the incubator at the end of 2014. Today Reach for Change has 120 social entrepreneurs in its 17 incubators and its first generation of social entrepreneurs who have graduated from the incubator, becoming the first cohort of Reach for Change *Alumni*.

Why does Reach for Change measure impact?

Reach for Change measures impact since it first started its incubation activities. The CEO Sara Damber was convinced from the very beginning that measuring impact was a crucial aspect of Reach for Change's work. Helped by a consultant, Reach for Change started by exploring what its peers were doing in terms of impact measurement. After investigating others' experiences Reach for Change came up with its methodology, that has since then been changed and tweaked thanks to the experience and learnings from working with social entrepreneurs.

The way the **impact measurement tool** is used by Reach for Change also has evolved through the years. In the beginning the tool was just something that had to be useful for the social entrepreneurs. Through the years, Reach for Change has realised the importance of using the tool to explain what Reach for Change is doing to its investors, and to take reinvestment decisions.

⁷² <http://reachforchange.org/en/about/our-change-leaders>

CASE 2 – IMPACT MEASUREMENT AT REACH FOR CHANGE

Today, Reach for Change has summarised the reasons why it is measuring impact in seven points, which can be summed to three main groups:

Management purpose:

1. To learn from the insights gained and become even better at efficiently developing social enterprises that improve children's lives
2. To assess performance among the social enterprises that they support, and inform their reinvestment decisions – the incubator programme of Reach for Change lasts three to five years, but a decision is made each year of whether the entrepreneur is to be refinanced or not

Fundraising Tool:

3. To validate partners' return on investment, i.e. give existing funders reassurance that their money is well spent
4. To inspire partner engagement, i.e. motivate new funders to invest in their programs (and existing funders to reinvest!)

Marketing Tool:

5. To demonstrate the value of program participation and enthuse entrepreneurs to apply
6. To signal credibility of their programs and thereby give the entrepreneurs a stamp of approval that increases the probability that other social impact investors will offer them support.

Four external sources provided inspiration in the development of Reach for Change's impact measurement framework:

- EVPA Practical Guide to Measuring & Managing Impact⁷³
- Theory of Change approach⁷⁴
- Objectives & Key Results (OKRs)⁷⁵
- Logical Framework/Model

In what follows we will go through each of the five steps of the Impact Measurement System of Reach for Change, highlighting the challenges Reach for Change had in setting it up and in managing it. We have also formulated recommendations and outlined next steps that should help Reach for Change improve even further its impact measurement system.

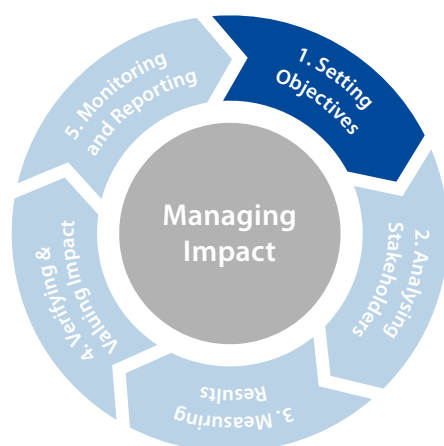
⁷³ Hehenberger, L., Harling, A-M. and Scholten, P., (2015). "A Practical Guide to Measuring and Managing Impact – Second Edition". EVPA.

⁷⁴ For more information see: <http://www.theoryofchange.org/>

⁷⁵ For more information see: <https://weekdone.com/resources/objectives-key-results>

CASE 2 – IMPACT MEASUREMENT AT REACH FOR CHANGE

STEP 1 – Setting Objectives



- Objectives for the SPO at individual and portfolio level

How is it done at R4C?

- 6 investment themes + impact of VPO on SPO through OKR
- Objectives for the SPO are set bottom-up and depend on the SPO, but the framework is given by R4C
- Additional measures set for all portfolio
- In-house tool for setting objectives (“Pathway of Change”)

Figure 19:
Step 1 – Setting Objectives at Reach for Change

Source: EVPA elaboration of Reach for Change material

Vision, Mission and investment themes

Vision

We envision a global movement of smart, brave and passionate change agents, creating a better world for children.

Mission

We find outstanding social entrepreneurs and help them develop innovations that improve children’s lives on a big scale.

Reach for Change aims at building a better world for children by supporting smart, brave and passionate social entrepreneurs.

The end goal of Reach for Change’s work is **to improve children’s lives on a big scale**⁷⁶. To achieve this goal, Reach for Change sets objectives at two levels:

1. *Impact of the SPO on the final beneficiaries:* Reach for Change wants to improve children lives through supporting social entrepreneurs who work to improve the life of children. Therefore **impact goals** are set at **level of the social enterprise**. These goals will be monitored and reported at SPO level.
2. *Impact of the VPO on the SPO:* Reach for Change wants to support the development of social entrepreneurs (Change Leaders) through an incubator programme so that the

⁷⁶ <http://reachforchange.org/en/impact/impact-children/improving-childrens-lives-through-social-innovation>

CASE 2 – IMPACT MEASUREMENT AT REACH FOR CHANGE

SPOs can deliver *even better* their services and create even more positive impact on children’s lives. Part of Reach for Change’s impact measurement system should therefore address how the VPO helps the SPOs supported become better at delivering impact.



Figure 20:
The impact objectives of
Reach for Change

To capture and operationalise the impact on **children**, Reach for Change has defined **six investment themes**, encompassing the different issues that the social entrepreneurs supported address. These are:

1. *Education (41% of projects)*: Improve children’s access to education. All children have the right to go to school for free and be encouraged to reach high levels of education. Each child’s human dignity should be respected in all aspects of education and children should be encouraged to respect others. Education should develop each child’s personality, talents, skills and abilities to the fullest.
2. *Health and development (39% of projects)*: Help children live healthier lives. Each child has the right to life and a healthy development, both of their body and mind, including access to health care. Children should be helped to be safe and prevent accidents and given information about health and safety. Every child should grow up in a family environment, in an atmosphere of happiness, love and understanding.
3. *Child Protection (6% of projects)*: Protect children from physical and mental abuse and threats. All children shall be protected from all forms of physical and mental violence, abuse, neglect, and exploitation, including sexual abuse. Children who have been neglected, abused or exploited should get special help to recover physically and psychologically and to reintegrate into society.
4. *Expression and participation (6% of projects)*: Help children express themselves and participate in society through improved access to information. Children have the right to get and share information in a way they can understand and with easy access. Children have the right to form and express their own opinions. Children have the right to participate and have adults listen to their opinions when making decisions that affect children.
5. *Social Inclusion (4% of projects)*: Allow children from marginalised groups to participate in society on more equal terms. All children and their rights are to be respected – no child should be treated unfairly on any basis, no matter their or their family’s race, colour, sex, language, religion, opinion, ethnicity, social status, abilities, or any other factor Each

CASE 2 – IMPACT MEASUREMENT AT REACH FOR CHANGE

child has the right to feel included in society, to build and maintain strong self-esteem, and have their differences respected and valued.

6. *Economic Participation (4% of projects)*: Equip youth to successfully enter the labour market. Children should be considered stakeholders of economic activities with an understanding of their potential and vulnerabilities. Children, especially from marginalized groups, should be trained and supported to enter the labour market and allowed to work in ways that respect and support them, their rights, safety, development and education. Children should be given information about work opportunities, work culture and learn economic language and tools.

Reach for Change selected these areas because it believed it could contribute to them, based on its expertise. When selecting the investment themes, Reach for Change did some pre-research into what other investors focussed on when it came to improving the lives of children, trying to understand which areas they invested in. The principles set out in the UN Convention on the Rights of Children⁷⁷ were used by Reach for Change as guiding principles to assess which were the most important areas of intervention.

The current list of investment themes is the result of a process, through which Reach for Change learned what worked and what didn't, simplified and clarified what it aimed to achieve. Reach for Change started with nine investment themes and after two years it decided internally to drop three of the themes as they didn't match the rest of the portfolio. An example of an investment theme that was dropped is "play". When working with the social entrepreneurs, Reach for Change realised that "play" was used as a tool to achieve something else (e.g. play to achieve social inclusion). Thus as play was not an objective in itself it could not be kept as a separate investment theme, and was dropped.

Setting objectives for the SPO, monitoring achievement and reporting: the integrated system "Pathway of Change"

The impact measurement system of Reach for Change revolves around the tool the VPO developed in-house called "The Pathway of Change".

The *Pathway of Change* is the **cornerstone of Reach for Change's impact measurement system**. This platform brings together the five steps of the impact measurement process of Reach for Change. It is used to **set the objectives and the indicators**, to **identify and engage the stakeholders**, to **monitor** the progress of the social entrepreneur and to do the **reporting**. The *Pathway of Change* integrates all different aspects of impact measurement of the social entrepreneur, offering a complete overview.

⁷⁷ <http://www.ohchr.org/en/professionalinterest/pages/crc.aspx>

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The online platform is divided in seven sections:

1. My Profile
2. Problem & Solution
3. Theory of Change⁷⁸
4. Objectives & Key Results⁷⁹
5. Reflection & Learning
6. Report organisational growth
7. Report Social Impact

The *Pathway of Change* has **several application** areas:

1. Planning of strategy and operations
2. Monitoring and evaluation of progress
3. Learning and development
4. Communication with stakeholders

In what follows, we detail the parts of the Pathway of Change that are relevant for Step 1.

1. My Profile

In the “My Profile” sheet, the Change Leader inputs information about him- or herself and the organisation and Reach for Change inputs information (locked for the Change Leader) about when the social enterprise entered the programme, which is the partner company, target group(s), investment theme and development stage. “My Profile” includes all the personal information on the SPO, the organisation and the participation in the Reach for Change Programme. This data is aggregated at portfolio level, so that it is possible, for example, to assess how many children the SPOs that started in 2013 have supported.

2. The “Problem and Solution”

Figure 21:
The “Problem and Solution” sheet

Source: Reach for Change

Problem			Solution		
Core problem identified	Root causes of the problem	Consequences of the problem	Your solution	Primary target group	Other target group
60% of children in Chad cannot read and write	Parents cannot read and write (therefore no support from home) Poverty stops children from going to school	Low self-esteem and self-confidence Not accepted to higher education Reduced chances of getting a job, in turn leading to limited integration with society	Literacy training	Boys and girls aged 6-15	Teachers

78 Inspired by www.theoryofchange.org and Hehenberger, L., Harling, A-M. and Scholten, P., (2013), “A Practical Guide to Measuring and Managing Impact”. EVPA.

79 Inspired by the technique originally developed by Intel: <https://weekdone.com/resources/objectives-key-results>.

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The *Problem and Solution* sheet is divided into:

1. Core problem identified
2. Root causes of the problem
3. Consequences of the problem
4. Your solution
5. Primary target group
6. Other target groups

When a social entrepreneur enters the incubator, he/she has a **session** with a member of Reach for Change's team⁸⁰ during which the social entrepreneur is asked to **define the problem and its root causes and consequences**, and the **proposed solution**.

In order to give the social entrepreneurs ownership of the process, Reach for Change acts as a **facilitator and guides the social entrepreneurs in the process of defining both the problem** they are addressing and the **objectives** they set for themselves to generate specific **outcomes**. Roles are well defined: social entrepreneurs are the experts in their topic and in their field, whereas the Reach for Change team is expert on the tool.

The first part of the "Problem and Solution" is the definition of the "Core Problem". This first part remains mostly stable through the years and is not destined to change.

The social entrepreneur is helped to⁸¹:

1. *Identify the core problem*: The social entrepreneur needs to come up with one sentence describing the issue that his/her organisation addresses. The sentence should not include any root causes or consequences. The description may trigger interest, but must not lead to questions such as: "What do you mean by...?". If it does it is likely not to be clear or specific enough.
2. *Identify the problem's root causes*: "Root causes of the problem" are the underlying issues that are causing the problem that the social entrepreneur has identified. Root causes may be social, legal, historical, cultural, environmental, technological etc. There may be many root causes, and they may affect each other.
3. *Identify and list the problem's consequences*: "Consequences of the problem" are the negative implications that the problem identified brings about for the primary target group. Consequences may be both intermediate and long-term. Social entrepreneurs are asked to place the consequence that they are most passionate to address at the top of the list – this is the "primary problem consequence". The purpose of the organisation is to combat this consequence.

⁸⁰ It differs who runs the session with the Change Leader. Normally it is either someone from the Central Function or someone from the regional staff, together with the local program manager (i.e. the person running the local Incubator).

⁸¹ Source: Reach for Change internal presentation "Change Leader introduction to the Pathway of Change", p.6.

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The second part of the “Problem and Solution” section focuses on the *solution* the social entrepreneur is proposing. *Your solution* is a one sentence description of the core approach/method to solving the problem identified, targeting the primary target group. The entrepreneur is asked to focus on the factual characteristics of his/her solution, rather than the benefits. The benefits will instead be captured in the intermediate outcomes in the Social Impact Stream. Many social entrepreneurs find this exercise helpful, because they never had such a direct dialogue on the technical aspects of their entrepreneurial idea with an external person. Many social entrepreneurs are good at explaining what is good about what they are doing, but it is harder for them to explain exactly what it is that they are doing. Reach for Change helps them crystallise the *unique selling proposition* of the social enterprise.

Clarifying the unique selling proposition of the proposed solution to the social entrepreneurs themselves can help them prioritise and work more effectively. Additionally, the outcomes of this exercise can be used in the social enterprises’ marketing and communication material that can be used for additional fundraising.

The entrepreneur is asked to define the purpose of its organisation, answering questions like: why are you engaging in this project?, what will the world look like when there is no need for your organisation anymore? In summary, the social entrepreneur is asked to define the *long-term outcome* of its social enterprise. This should be specific and achievable for the organisation, so social entrepreneurs are encouraged to define for whom they are doing their work, at what point in time the goals will be achieved, in what geographical area and so on. Compared to the “Vision”, which asks entrepreneurs to “think big”, this part is meant to be much more specific and focussed. Reach for Change is very liberal about how all of this is phrased, because this part is meant to be inspirational for the entrepreneur, to get him or her excited about what they will be doing and to have something that can be used for their internal and external communication.

After having identified the problem and the solution, the social entrepreneur is asked to be specific about their *target group*, by detailing the geographical scope, demographics and other significant characteristics of the children that he or she aims to support through his/her programme. The social entrepreneur must aim at being as specific and detailed as possible and differentiate between primary and secondary (other) target groups.

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3. The Theory of Change

After the problem and solutions are identified, the social entrepreneur is asked to define its *Theory of Change*.

In the *Theory of Change* sheet the Change Leader maps the social impact that he or she aims to achieve as well as the activities carried out to achieve it.

Each entrepreneur works to impact children's lives in different ways. Some reach many children, working in areas such as awareness, attitudes and knowledge. Others reach fewer children, with a more in-depth approach, focusing on areas such as skills, behaviour and status. The significant differences between the social entrepreneurs supported are reflected in the way in which the objectives are set for the social entrepreneurs, i.e. using a highly tailored, bottom-up approach.

The information input in this sheet will then be used by the Change Leader **to set the targets and indicators in Step 3** and to **monitor** to what extent he or she is achieving the social impact that he or she is aiming for, i.e. where the Change Leaders enters the results and compares them with the targets, in **Step 5**.

The Theory of Change part is very much inspired by the work of EVPA on impact measurement⁸², as it specifically looks at the **activities** the social enterprise performs, the **outputs** – i.e. the direct and tangible results that come out of it, immediately measurable – and the changes the social entrepreneur wants to create for the individuals supported, i.e. the **intermediate outcomes**.

When this part of the platform is tackled in practice, the social entrepreneur and Reach for Change start from the right-hand side, i.e. from looking at what the social entrepreneur has defined as vision and long-term outcomes, and then work backwards to define the long-term outcomes, the intermediate outcomes, which outcomes are to be prioritised and when and how they should be monitored for the coming year(s).

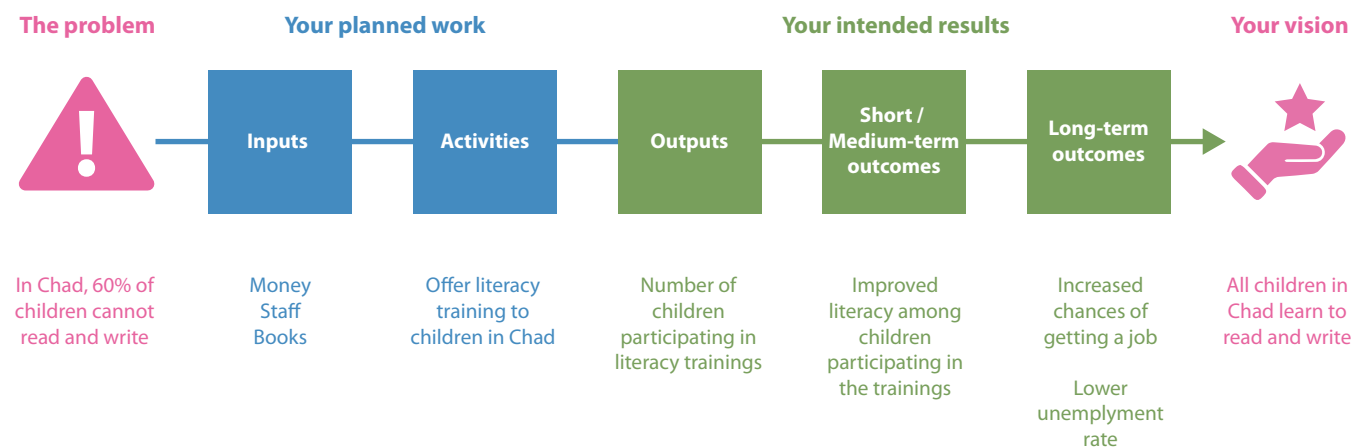
The backward approach ensures that the focus on the overarching goal is kept, so that the social entrepreneur does not bring up activities that are not relevant to achieve the long-term outcome.

82 Hehenberger, L., Harling, A.-M. and Scholten, P., (2015). "A Practical Guide to Measuring and Managing Impact – Second Edition". EVPA.

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Figure 22: The “Theory of Change” sheet⁸³

Your *Theory of Change* is your belief about how to best solve a problem.



Problem

The pressing issue for children that you address
e.g. In Chad, 60% of children cannot read and write

Inputs

The resources invested in your activities
e.g. Money, Staff, Books

Activities

The key thing(s) you do that improve children’s lives
e.g. Offer literacy training to children in Chad

Outputs

The tangible ‘products’ that demonstrate the reach/scope of your work
e.g. Number of children participating in literacy trainings

Short / Medium-term outcomes

The short- and medium-term improvement for children that you work to achieve
e.g. Improved literacy among children participating in the trainings

Long-term outcomes

The long-term and indirect effects that you hope for (for individuals and society)
e.g. Increased chances of getting a job, Lower unemployment rate

Vision

The future reality that you want to see – bold, ambitious and inspiring!
e.g. All children in Chad learn to read and write

⁸³ Source: Reach for Change internal documentation

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From the Vision to Long-term Outcomes

Reach for Change specifies that the “*Vision*” is one short sentence describing a utopia, written in present tense that pictures how the world will be 20 years from now. In contrast to the long-term outcome, it does not need to be attainable – and if it is, it must not be attainable by the social entrepreneur’s organisation alone. The vision does not need to detail target group demographics (apart from mentioning children) or specify geographical scope – but could if desired. A well-phrased vision is inspirational, clear, memorable, and concise, and will serve as your one-line hook to engage with all of the stakeholders.

The *Long-term Outcomes* are the indirect effects that the social entrepreneurs hope to achieve through reaching their short/medium-term outcomes. Often this concerns the status or life conditions of the target group, or societal conditions e.g. economical, environmental, social etc.

Long-term outcome	
Definition	The long-term and indirect effects that you hope for (for individuals and society)
Examples	<ul style="list-style-type: none"> • All Swedish children have equal opportunities to excel in maths, and all receive a ‘pass’ • Increased chances of getting a job • Reduced unemployment rate

Table 4:
Long-term Outcomes

Source: Reach for Change

Once the long-term outcome is defined, Reach for Change and the social entrepreneur start working together to define the intermediate outcomes, the outputs and – finally – the activities.

4. Objectives and Key Results (OKR): Setting objectives for the organisational development

The Objectives & Key Results sheet is a mapping of the Change Leader’s unique path to organisational development and of the impacts Reach for Change wants to have on the SPO.

Reach for Change’s most direct impact is seen in the entrepreneurs that it supports. Through the **Reach for Change Incubator**, Change Leaders are helped to develop innovative ideas into sustainable ventures that improve children’s lives. The assumption is that by helping the social entrepreneurs run better and more sustainable ventures, children’s lives will be improved at a greater scale.

For the “*Problem and Solution*” and the “*Theory of Change*” parts, the social entrepreneur sets its own goals in terms of **social impact achieved**. However, Reach for Change also works to improve the way in which the social entrepreneur delivers the social impact. The three dimensions of development of the SPO – social impact, financial sustainability and organisational resilience⁸⁴ – are tightly linked to each other and Reach for Change believes that only if the three are developed the SPO can achieve the long-term outcomes.

⁸⁴ For further detail on the three areas of development of the SPO and how to strengthen them through non-financial support see: Boiardi, P. and Hehenberger, L. (2015). “A Practical Guide to Adding Value through Non-financial Support”. EVPA.

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The first step in the process of setting objectives for organisational development is that Reach for Change helps the social entrepreneurs identify their current **growth stage** as well as where they want to be at the end of the year. The model used is inspired by the work presented by Duke University and SJF Institute in the report *Accelerating Impact Enterprises*⁸⁵, supported by the Rockefeller Foundation.

The next step is to diagnose the social entrepreneur’s status within **eight development areas** that Reach for Change has identified as key for social enterprise advancement:

- Social impact
- Revenue model
- Leadership and team
- Operations
- Communications
- Impact scaling
- System change
- Credibility

Two statuses are identified; **current** and **targeted** status. The current status is the level that the social enterprises is at in the beginning of the year, while the targeted status is where the social enterprise needs to be in order to reach the desired growth stage (as identified in the first step). The gap between the current and targeted status reveals which areas that the social entrepreneur needs to prioritize.

Figure 23:
The Objectives and Key Results sheet

Within each prioritized area, Objectives and Key Results are mapped out.

Source: Reach for Change

Development Area	Objectives			Key results		Status Update				Comments
	Targeted objective	Priority	Status start of the year	Targeted key result	Time-frame	Q1	Q2	Q3	Q4	
Sustainable revenue model										

For each prioritised area of development of the SPO, the social entrepreneur is asked to set an objective for the year, describe the current status and then set key results that need to be achieved for the specific objective in order to achieve the overall objectives.

⁸⁵ Clark, C.H. and Allen, M.H. (2013). “Accelerating Impact Enterprises – How to Lock, Stock and Anchor Impact Enterprises for Maximum Impact”. SJF Institute and Duke University.

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For each objective, social entrepreneurs are asked to identify a number of **measurable key results**, i.e. the various targets the social enterprise needs to achieve in order to meet the objectives. The difference between objectives and targets is that objectives can be general, whereas targets need to be specific and measurable.

Objective	Proven Social Impact
Key Results	<ul style="list-style-type: none"> • Positive results on outcome indicators • At least 10 impact stories demonstrating the targeted outcomes • Endorsed publicly by at least one expert in the field

Table 5:
Example of objective and key results

Source: Reach for Change

In terms of process, each social entrepreneur needs to define its own objectives. Thus, the areas of development are defined top-down by Reach for Change, but the specific objectives for each SPO are defined by the social entrepreneur himself or herself.

The Business Model Canvas⁸⁶

Filling in the Business Model Canvas (BMC) is a pilot project for the moment. Reach for Change would like to apply the BMC methodology to the social enterprises it finances. The model has been adapted by Reach for Change to fit the social nature of the business supported. The pilot has shown that the BMC is a valuable tool in giving the social entrepreneurs a complete picture of their business and in helping them assess their strength and weaknesses. The BMC is complementary to the Theory of Change and OKR.

The process of development of the Pathway of Change

Annica Johansson, Reach for Change's Impact Manager, has developed a presentation of the Pathway of Change that she uses to train social entrepreneurs when they enter the incubation programme.

The presentation is shared with programme managers (i.e. the local staff) and with the Change Leaders (i.e. the social entrepreneurs). Annica and the regional staff of Reach for Change run the sessions with the entrepreneurs in all countries. Reach for Change believes that an important part of ToC creation is to allow social entrepreneurs to reflect on what to use it for, in order to increase their sense of purpose and ownership.

From Annica's experience it is important to get to the social entrepreneurs to **identify the purpose** of the exercise first before getting into the rest of the framework. The rationale is that otherwise the social entrepreneurs might not see the point of using the framework. In fact, Annica experienced sessions where 80% of the time was devoted to talking about "why" there was the need to do the exercise. Going through the framework takes a lot of time and effort for the social entrepreneur. Thus, a key success factor is to make the social entrepreneurs feel there is a point. This approach guarantees that there is the right energy and the right focus in the conversation.

⁸⁶ For more info on the Business Model Canvas see: <http://www.businessmodelgeneration.com/canvas/bmc>

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How could the PoC support my work. Here are three Change Leaders sharing their experiences:

“I use the Pathway of Change for checking the progress made by my organisation. When things don’t go as planned, I try to take the time to think about what I need to change for the coming months in order to do better. This helps our development.”

“The information documented in the Pathway of Change shows that what I am doing leads to results, and helps me convince potential partners and funders to work with my organisation. It gives an organised impression and inspires confidence.”

“Working with the Pathway of Change challenges me to be specific and clear about what problem I am trying to solve, what my solution to that problem is and what I am aiming for long-term. When it is clear to me, it becomes easier to align my staff and make sure that we are all pulling in the same direction.”⁸⁷

Reach for Change gives the social entrepreneur an idea of **where the Pathway of Change comes from**, thus explaining that its approach is not a copy of anything that exists, but is inspired by the *Theory of Change*⁸⁸ framework, and the *Logical Framework*⁸⁹ approach. Social entrepreneurs are not asked to have a detailed understanding of what the theory of change is, but they should understand the main concepts, so that if a follow-on funder uses them – and not the Reach for Change specific framework – they know what they refer to.

Once the objectives are set, the social entrepreneur is asked to make a *reflection* on the *objectives* set. Then the objectives are *reviewed* and *approved* both at programme manager level (so at the country level) and at central level.

The sessions where the **Pathway of Change framework is presented** can either be one-on-one or for groups of social entrepreneurs. A group session is normally the way to go to start and explain to the whole cohort of entrepreneurs entering the incubator programme how it works theoretically. This first training is followed by individual sessions where the Change Leader – and possibly someone from his/her organisation – joins. These sessions are consulting-like sessions and can vary depending on the needs of the social entrepreneurs. Annica reports having had different setups depending on different circumstances (e.g. the resources and the previous knowledge of the social entrepreneur, different country settings, etc.).

Reach for Change works with **start-up and early stage ventures**, which has both advantages and disadvantages. Early-stage ventures are flexible and open to changes in the strategy and the organisational structure. Changing established companies is more difficult, as deciding not to perform one activity has implications at the organisational level.

⁸⁷ Source: Reach for Change internal presentation

⁸⁸ <http://www.theoryofchange.org/what-is-theory-of-change/>

⁸⁹ http://en.wikipedia.org/wiki/Logical_framework_approach

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Changing the activities of an organisation can be difficult, as it implies revising the whole organisational structure, firing people, etc.

The Resources for impact measurement

Currently, the resources allocated to the development and implementation of the impact measurement system come from a specific donor, who is financing exclusively the part of Reach for Change that is in charge of impact measurement. In special cases, specific additional projects linked to impact measurement are financed by other donors.

In terms of human resources involved in the impact measurement process, Reach for Change has a three-level approach, made up of one Programme Manager per country, one Regional Director per country and the Impact Measurement Core team (which is part of the Central Function).

The largest part of the resources comes from the Kinnevik group, complemented by other corporate partners. Specifically, the resources for the impact measurement system come from one of Reach for Change founding partners, the Stenbeck Foundation (HSS).⁹⁰

Key Issues and Learnings for Step 1

1. *It all starts with the Theory of Change (ToC)* – All impact measurement systems start from the definition of the objectives of the measurement, using the Theory of Change in one way or another. Regardless of what form the impact measurement system takes, you always need to start by defining the Theory of Change.
2. *Be conscious of who your investees are* – Depending on your investment strategy, you might decide to support investees that are in an earlier (or more advanced) stage on development. Early stage ventures are open to changes, but often they don't know anything about concepts like the Theory of Change. Thus often it's better to take a bottom-up approach, which creates a deeper understanding and sense of ownership.
3. *You can standardise the process, without imposing the objectives* – Reach for Change has a highly standardised process to Step 1 – Setting Objectives. However, given the type of investees it supports and the bottom-up approach it follows, Reach for Change does not pre-define objectives for SPOs in the same investment theme.

⁹⁰ <http://www.hsstiftelse.se/en>

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STEP 2 – Analysing Stakeholders



- Impact on investees
- Impact on investees' stakeholders

- Stakeholders' identification (primary = children and social entrepreneurs; secondary = applicants, partners and ecosystem)
- For each stakeholder → one **developmental challenge** identified
- Potential social impact of social entrepreneur on children is selection criterion
- Stakeholders engaged in all steps

Figure 24:
Step 2 – Analysing Stakeholders at Reach for Change

Source: EVPA elaboration of Reach for Change material

Stakeholder Identification

Reach for Change identifies five groups of stakeholders, divided into two sub-groups, primary stakeholders and secondary stakeholders.

- Primary stakeholders:
 - Children
 - Change Leaders (social entrepreneurs who enter the incubator programme)
 - Participants in the accelerator programme⁹¹
- General/secondary stakeholders:
 - Applicants (social entrepreneurs who applied but do not qualify to enter the accelerator or the incubator)
 - Partners
 - Ecosystem for social entrepreneurship

Entrepreneurs who enter the incubation programme and children are the core stakeholder groups for Reach for Change.

“Applicants”, “partners” and the “ecosystem for social entrepreneurship” are secondary stakeholders because they are less directly and deeply impacted by the work of Reach for Change.

⁹¹ For a clarification of the difference between incubators and accelerators see: <http://www.techrepublic.com/article/accelerators-vs-incubators-what-startups-need-to-know/>

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The term “ecosystem for social entrepreneurship” is used by Reach for Change to report on the impact achieved in terms of “system change”⁹².

Primary Stakeholders – Children and Change Leaders

Children are the final beneficiaries of the actions of Reach for Change, hence primary stakeholders.

Social Entrepreneurs – also referred to as **Change Leaders** – are, together with children, primary stakeholders.

For many years Reach for Change considered social entrepreneurs as a “means to an end”, i.e. as the way to reach and improve the lives of the main stakeholder group: children. Recently Reach for Change has revised this strategy and now considers Change Leaders as being part of its primary stakeholder group. Children are still seen as the main stakeholder group, but social entrepreneurs are now recognised as a crucial group to be supported. Social entrepreneurs are key stakeholders for whom Reach for Change creates value and are thus a focus of the work of Reach for Change and one of the two main stakeholders’ groups.

First the entrepreneurs are *applicants*, i.e. secondary stakeholders. If a social entrepreneur is invited to participate in the Accelerator program he/she becomes a primary stakeholder. After the accelerator programme is completed, the social entrepreneur can decide to take part in the incubation programme. The Accelerator program is a part of the Incubator application process. Thus after the Accelerator program, Change Leaders are selected for the Incubator. Applicants to the incubation programme might also be organisations that did not participate in the acceleration programme. The social entrepreneurs who successfully apply for the incubator programme become “Change Leaders”, while those who do not succeed in entering the incubator programme and remain simple “Applicants”. While “Change Leaders” are part of the primary stakeholders group “Applicants” are part of the secondary stakeholders group.

Who are Change Leaders?

To be selected for the Incubator, Change Leaders’ ideas must have the potential to be system changing. This means that the idea must address the context and root causes of the problem, through altering **legislation** or **societal values, norms and behaviour**, as the social entrepreneurs in the examples presented below.

⁹² Please note that in its marketing and communication material and in its reporting Reach for Change prefers to refer to the “society” than to the system change because the former is a term everyone can relate to, whereas the latter is more technical and less straight forward.

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System change through altering values, norms and behaviour: Swedish Change Leader Georgios Karpathakis runs Underbara ADHD, an organisation spreading information through social media, plays, lectures, blogging, books and other platforms, in order to influence public knowledge and attitude towards people with ADHD.

System change through altering legislation: Congolese Change Leader Naomi Kuseyo runs ONGD Naomi Les Écoles du Coeur, an organisation that improves access to education for hospitalized children. Beyond increasing access by starting schools inside hospitals, she lobbies to strengthen the legal rights to education for this group of children.

Secondary Stakeholders

Partners

Reach for Change’s programs are delivered in close collaboration with **partners**⁹³ from the corporate, social and public sector. Partnerships not only generate funding for programs, they also bring invaluable non-financial resources such as business expertise, network and media exposure. Thus Reach for Change always strives to develop strong relationships with partners based on trust and to maximise the impact of each collaboration. Partners are considered as “enablers”, helping social entrepreneurs to achieve their mission and Reach for Change to achieve its goals.

Reach for Change has defined what it believes is **important** in a **partnership** and why partners are collaborating with Reach for Change on its website⁹⁴.

Become a Pro-bono Partner

Reach for Change offers an attractive program for pro bono partners. A pro bono partner is a company or a service provider who contributes to Reach for Change’s work to improve children’s lives by using the organisation’s specific competences and assets

What you give: As a pro bono partner you commit to supporting Reach for Change by offering relevant free services or products that strengthens our work and our impact.

What you get: As a pro bono partner you get visibility on Reach for Change website and in other relevant communication materials. You will also get content for communication to show to customers or stakeholders how your company is contributing to better lives for children. Pro bono partnerships also include opportunities for your staff to engage personally with R4C and/or our Change Leaders, plus invitations to special events.

⁹³ <http://reachforchange.org/en/about/our-partners>

⁹⁴ <http://reachforchange.org/en/engage/partner>

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Finally, Reach for Change aims at having a fundamental positive impact on the **ecosystem for social entrepreneurship**. In Ethiopia and Russia, for example, Reach for Change is among the first organisations to talk about social entrepreneurship, thus being part of a new movement.

One of the new partnerships that were initiated in 2014 is a collaboration with Kinnevik and H&M Conscious Foundation to improve the lives of women and girls in Ethiopia. The result of the collaboration is a program, launching in 2015, to help social entrepreneurs working with women and youth, to develop more sustainable revenue streams. Other examples of programs that were launched jointly with partners in 2014 are Bayport Teacher Innovation Competition, Tigo Digital Changemakers and MTG Game Changers.

The ecosystem for social entrepreneurship

Reach for Change believes that that social innovation has the potential to change the “rules of the game” going beyond changing individual lives. Thus, the **ecosystem for social entrepreneurship** as a whole can be seen as a stakeholder for Reach for Change.

Stakeholder engagement

Primary Stakeholders

Children

Children are the final beneficiaries of the actions of Reach for Change, so they have always been considered as the primary stakeholder group of Reach for Change, and are involved at different stages.

First of all, children help Reach for Change **understand the market**. It is of crucial importance for Reach for Change to understand how kids perceive the situation in a specific country. Reach for Change organises surveys and focus groups with children to better assess their needs and through the so-called “**children reviews**”, two-hour sessions during which children can ask questions to the social entrepreneurs about their ideas, children are given the opportunity to give important feedback and input on the work of the social entrepreneurs.

Second, children are involved in the **selection process**, to help Reach for Change assess if the impact the social entrepreneur wants to achieve will actually help children improve their lives. Children participate in the face to face interviews with the social entrepreneurs, in the interview panels and in the final investment decision. Working with children is not always easy, but thanks to their input Reach for Change has taken investment decisions differently and better.

Third, children are involved in the **impact verification** conducted by Change Leaders, as further elaborated in Step 4. Last but not least, children are one of the parties Reach for Change listens to when it needs to decide about **reinvesting**.

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Change Leaders

Reach for Change wants to impact Change Leaders by means of their participation in the incubator programme. Thus the VPO engages at different moments in time with the social entrepreneurs to:

- assess the social entrepreneurs' **needs** and **expectations** from the incubator programme,
- the social entrepreneurs' perception of the **impact** the incubator programme is generating and of the **improvement** their social business has made thanks to the incubator programme.

The **needs** and **expectations** of the social entrepreneur and what they should anticipate from their relationship with the VPO are derived from the needs assessment, which aims at highlighting the strong and weak areas of each social entrepreneur's business and design the best actions to strengthen the weak areas. Thanks to this needs-based assessment the social entrepreneur is well aware of what it should expect from its relationship with Reach for Change, so that expectations are managed.

Reach for Change also asks yearly the social entrepreneurs' opinion on how they **perceived the impact** of the incubator and how useful the programme was in terms of their development through the "**Change Leader Survey**", as further developed in Step 4.

Secondary Stakeholders

Applicants

Reach for Change is interested in monitoring whether going through the selection process for the incubator has a positive impact on the social entrepreneurs even if they are not selected, i.e. on the applicants.

Partners

Business partners are very much involved with Reach for Change as they are the advisors and they are those who provide most of what the Reach for Change programme is built on. Business partners are involved in the **screening and selection** of the social entrepreneurs and as such they are always part of the interview/selection panels that make the decisions on what to invest in⁹⁵. Business partners can also be part of the team that decides what are the **important issues to tackle** in a specific country (i.e. education in Ghana) in the framework of the six investment themes.

The ecosystem for social entrepreneurship

To extend the impact beyond the individual change that the Change Leaders create, Reach for Change works to create **visibility and public engagement** around social innovation

⁹⁵ In terms of the decision on whether or not to invest business partners are asked to openly express their opinions, but do not take the final decision, which rests solely with Reach for Change.

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for children. The engagement with the ecosystem for social entrepreneurship is pursued in four ways:

1. Challenging individuals to come up with innovative ideas through **Challenge Campaigns** and other **media campaigns**
2. Inspiring change by highlighting **Change Leaders as role models**, showing that change is possible
3. Strategically engaging with **Key Influencers** in society, e.g. through events and conferences
4. Engaging with **Governments**

Reach for Change challenges individuals across the globe to come up with innovative ideas on how they can be change agents for children through *The Challenge Campaigns*⁹⁶. The purpose is not only to find the Change Leaders for the incubator program, but also to mobilize a movement to actively work for the good of children. In 2013, Reach for Change launched the Challenge Campaign in six countries (Sweden, Ghana, Kazakhstan, Chad, Rwanda, and Tanzania) receiving over 4,000 ideas. Each campaign is tailored to the local context and media platform access from the corporate partners.

Through the Challenge and other campaigns Reach for Change tries as much as it can to engage with society and to inspire change. Last year the VPO piloted a project with one of its partners in which it asked people to **engage through the internet** and help choose the idea in which the VPO should invest. The five finalists were exposed to the general public who could choose the best idea through a website. Depending on the country, the public could either make the final decision on whom to invest in or make recommendations on which should be the winners. In other collaborations Reach for Change has engaged people on Facebook.

As Reach for Change believes that it is important for the social entrepreneurs to engage with key influencers, it asks the social entrepreneur to start by preparing **mapping** of the **key influencers**. Through this exercise it becomes apparent who it is necessary to target and what kind of support the social entrepreneur needs to reach out. Engaging with **key influencers** is a very important part of what the social entrepreneurs do, and therefore a key objective. Reach for Change engages with key influencers through events and conferences, such as the Child 10 Summit that took place in Stockholm in November 2014⁹⁷.

Reach for Change also engages with **Governments**. One example is the work of a social enterprise working to build schools for children inside hospitals so that the children can continue schooling while they are being cured. Once the pilot project proved the concept the social enterprise started engaging with the Government to scale, supported by Reach for Change and the partners, who are instrumental in opening doors.

⁹⁶ More info on Campaigns can be found here: <http://reachforchange.org/en/about/impact-2013/performance/program-effectiveness>

⁹⁷ For more info see: <http://reachforchange.org/en/child10>

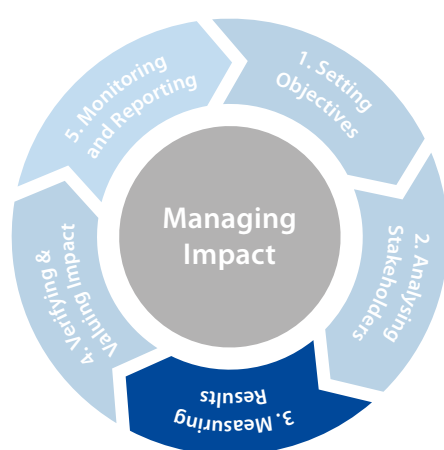
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Key Issues and Learnings for Step 2

1. *It is crucial to prioritise stakeholders, i.e. to assess which stakeholders are to be considered as primary and which ones are to be considered secondary. Although both categories are important, both VPO and SPO need to measure first the impact on its primary stakeholders (children and Change Leaders in the case of Reach for Change) and then – if possible – the impact on the secondary stakeholders.*
2. *The analysis of the stakeholders is a constant work in progress and can be revised based on the learnings from the VPO's experience. It is actually advisable that the VPO revises the stakeholder groups and their relative importance periodically, especially if the VPO's strategy changes. As in the case of Reach for Change, the importance of the Change Leaders as part of the primary stakeholder group and not just as a means to an end came only at a later stage.*
3. *Survey the stakeholders about the needs/expectations and the effectiveness of what was offered before and after the investment. Surveying before and after helps setting and managing expectations and raise awareness about the value of the financial and non-financial support provided. If the VPO does not have the resources to survey the stakeholders before and after the investment in a structured way it can at least do it informally (by means of a chat at the outset of the relationship, for example) to highlight strong points and improvement areas.*

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STEP 3 – Measuring Results: Outcomes, Impact and Indicators



- Pathway of Change (Excel-based on Google Drive)

- Indicators set bottom-up by the SPOs (guided by R4C) → guarantee relevance for SPO
- Indicators of impact on:
 - **Primary stakeholders** – SPO → children and VPO → SPO
 - **Secondary Stakeholders** (applicants, partners and ecosystem)
- “Bottom-up” approach has positive and negative sides
- Additionality and attribution are still open issues
- Data management is an issue

Figure 25:
Step 3 – Measuring Results at Reach for Change

Source: EVPA elaboration of R4C material

SPO-level: Targets and indicators of the impact of social entrepreneurs

Supported by Reach for Change, each social entrepreneur is asked to come up with **outcome** and **output indicators** (s)he will use to assess to which extent the objectives have been reached and the activities that will be performed to achieve such objectives and that will be added in the sheet called “*Theory of Change*”. The **indicators** will be used to measure the impact on the primary and secondary stakeholders as well as the achievement of the goals on financial sustainability and organisational resilience.

Intermediate outcomes

For Reach for Change, an *intermediate outcome*⁹⁸ is a change in individuals or systems that happens thanks to the activities that the social purpose organisation (SPO) pursues. Examples of short-term changes may be in awareness, attitude, aspirations, skills and knowledge, while examples of medium-term change may be in behaviour and decision-making.

During the first year in the Incubator program, each entrepreneur **identifies targeted improvements** (‘outcomes’) in the lives of children, e.g. ‘Increased self-confidence among disabled children’. At the end of each year, the entrepreneurs report on – through stories and outcome indicators – to what extent the targeted outcomes have been achieved.

98 Source: Reach for Change internal presentation “*Change Leader introduction to the Pathway of Change*”, p.11.

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The intermediate outcome shall be written in present tense. Ideally it contains a movement and a direction, e.g. 'Increase in...' or 'Reduction of...'. This is not a "must have" but in the past it has proven to be quite useful for social entrepreneurs to think in terms of increases and reductions. The timeframe for following up and reporting on an intermediate outcome depends on the type of activities that the social purpose organisation pursues, and on the outcome at hand. The entrepreneurs are asked to specify a relevant timeframe for each intermediate outcome.

Outcomes constitute the specific change that each entrepreneur aims to achieve for their target group. Outcome indicators signal **progress in the targeted outcome**; increase, maintenance or decrease. For example, if the targeted outcome of a training is 'Reduced smoking among children', the outcome indicator could be 'Percentage of children trained that quit smoking within one month after the training'.

Outcome indicators have the same structure for the *long-term* and the *intermediate term*. The expectations for reporting (and for the results attained) will of course differ depending on whether the measurement is long term or mid-term, but the indicators used are the same.

This theoretical description needs to be complemented with **practical examples**. When the social entrepreneur is presented with the framework is always useful for him or her to think about an example of an intermediate indicator for his/her own organisation.

Intermediate outcome	
Definition	The social change that the activities are intended to bring about
Examples	1. Improved math skills (change in individuals) 2. More teachers present during math lessons (change in systems)

Table 6:
Intermediate Outcomes

Source: Reach for Change

Outputs and Activities

The main output objective for the social entrepreneur is the "number of children supported". Reach for Change does not set an objective for the social entrepreneur in terms of number of children to support, but it is the social entrepreneur him-/herself setting the output objective. The social entrepreneur sets the target for the year, and then reports to Reach for Change. The VPO then asks to provide verification for the numbers reported and monitors the reporting on the social entrepreneur.

Output	
Definition	The tangible 'products' from the activities
Examples	1. The number of children participating in the after school trainings 2. Whether the meetings with the three key government officials took place
Activity	
Definition	The major activities you do in order to improve children's lives
Examples	1. Conduct free after school math trainings 2. Meet with government officials to lobby for more teachers present at math lessons

Table 7:
Outputs and Activities

Source: Reach for Change

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After defining the outcome indicators, Reach for Change and the social entrepreneur define the activities and the outputs for the one to five years of support.

Reach for Change defines **activities** as the interventions carried out by the social entrepreneur aimed directly at creating social impact on individuals and/or system change. In order to help the social entrepreneur, Reach for Change clarifies that all activities aimed at developing the capacity of the organisation (i.e. the social enterprise) shall not be included in the Theory of Change. All such activities have to be input in the tool “Objectives & Key Results”

Reach for Change defines three types of activities:

- *Core activity*: Core activities means continuing with and/or refining existing operations. It concerns management of a repeatable concept (as opposed to development), with little disruption of the existing organisation.
- *Scale-out activity*: Scaling out is about taking a strategic step to develop operations to have more impact on individuals. It could be to design a new offering, focus on a new target group and/or expand to a new location. Scaling out is likely to require additional resources as well as close attention from management.
- *Scale-up activity*: Scaling up is about carrying out activities that aim to influence the system rather than individuals; e.g. policy and legislation, universal conditions or widely held societal values and norms. Scaling up is often about addressing the root causes of the problem, in order to achieve long-term change for everyone – also when the organisation is no longer there to ensure it happens.

Each activity is linked to one or more **outputs**.

Outputs are tangible and immediate practices, products and services resulting directly from the activities. In many cases it is the number and type of participants in the activities performed by the social enterprise. Similarly to the activities, each output is linked to an *output target*, i.e. “the targeted number of tangible and immediate practices, products and services resulting directly from the activities”.

Reach for Change guides the social entrepreneur in defining **indicators, targets** and – if possible – the current status of the issue the social enterprise wants to solve (**baseline**) for the intermediate outcomes. Having a baseline is not always applicable, but the social entrepreneurs are encouraged to look at that to be able to evaluate the progress.

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The table below shows how these three elements are defined for **intermediate outcomes**.

Intermediate outcome indicator	Intermediate outcome indicators are used to signal if progress is made towards the outcome. An indicator consists of four components that make up its “formula”: “How many... of who/ what... will reach what level... by when”. If regarded useful, more than one indicator may be used.
Intermediate outcome target	Intermediate outcome target is the planned performance standard against which actual performance is to be compared and measured. It has the same structure as the intermediate outcome indicator, but includes a goal.
Intermediate outcome baseline	Intermediate outcome baseline is the point of reference or benchmark used when setting targets and evaluating results. The difference between a target and a baseline, is that while a target can be SET at any level that the evaluator sees fit, a baseline is GIVEN. The baseline is most commonly given in two ways: (1) Benchmarking with a control group OR (2) Assessing the level before the intervention and comparing it with the level afterwards.

Table 6:
Intermediate outcomes –
Definitions

Source: Reach for Change

Social entrepreneurs can become very enthusiastic about outcomes (and thus indicators). To avoid that too many outcomes are selected so that focus is lost and resources diluted, Reach for Change asks social entrepreneurs to prioritise the outcomes, assigning them a value between 1 and ∞. Not all social entrepreneurs can talk about outcomes from the start so the system allows for this part of the spreadsheet to be hidden and unhidden when needed. Social entrepreneurs have to report annually on the indicators, but they also have the opportunity to comment on the outcomes⁹⁹.

Children Supported – The portfolio output measure

On top of the individual output and outcome indicators, Change Leaders have to report on a common output indicator: the number of children supported.

“Children Supported” indicates the scale of the impact, by measuring the number of children (individuals under 18) that have had increased opportunities to have their rights fulfilled in accordance with the UN Convention of the Rights of the Child.

Social entrepreneurs report on the number of children **directly** or **indirectly** supported. For example, if the social entrepreneur is running a school, the measure of interest would be the number of children attending the school. Conversely, if the social enterprise has developed a product, i.e. an app that supports autistic children, the number of downloads of the app could be considered a direct output measure. If the social entrepreneur who opened the school also provides training for teachers and parents, the number of people trained would be an indirect measure.

Change Leaders report on this number as part of the “*Report on Social Impact*” they have to submit at the end of each quarter.

⁹⁹ An example of this is a social entrepreneur providing specific training to children being contacted by the parents of the children in his training programme congratulating him on having made their children progress. Such comments can be added to the spreadsheet and constitute valuable qualitative data.

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Table 8: The Theory of Change Sheet – Linking objectives to the targets

Source: EVPA elaboration of Reach for Change material

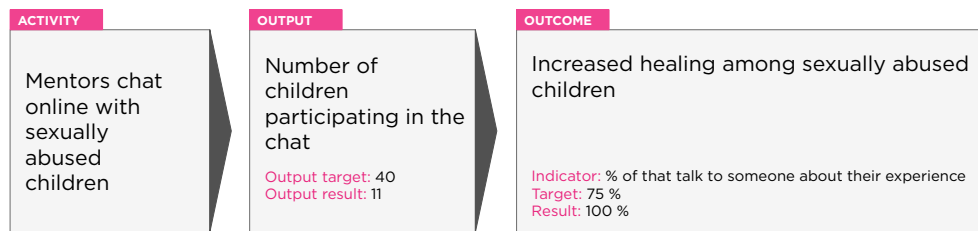
Theory of Change									
	5. Activities		4. Outputs		3. Outcomes			2. Long-term outcome	1. Vision
	Activity	Activity Target	Outputs	Output target	Outcome	Priority	Monitoring timeframe		
Definition	The major activities you do in order to improve children's lives	Your goals for the activities	The tangible 'products' from the activities	Your goals for the outputs	The social change that the activities are intended to bring about	A ranking of the importance of your outcomes (1 = most important)	When to follow up on to what extent an outcome has been achieved	How things are when you have achieved the purpose of your organisation	A utopian dream scenario for children, that motivates and inspires you
Examples	Conduct free after school math trainings	20 trainings	The number of children participating in the after school trainings	200 children	Improved math skills (change in individuals)	1	June	All Swedish children have equal opportunities to excel in maths, and all receive a 'pass	All children realize their full potential
	Meet with government officials to lobby for more teachers present at math lessons	3 meetings	Whether the meetings with the three key government officials took place (Yes/No)	Yes	More teachers present during math lessons (change in systems)	2	December		

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SANNA BERGENDAHL (Föreningen Storasyster)

Brief problem background: In Sweden, children who are victims of sexual assault risk facing stigma and a society which lacks resources and knowledge to support them. It is difficult to get assaulters convicted, and when it happens sentences tend to be weak. Children who have been sexually assaulted face the risk of mental illness, depression, sexual dysfunction, relationship problems and self-harm – even suicide. *Föreningen Storasyster* mentors sexually abused children so that they are able to talk about their experiences and get the help they need.



JAMES KOFI ANNAN (Challenging Heights)

Brief problem background: According to a mapping performed by the Ghana Statistics Service in 2003, over 1.3 million Ghanaian children are involved in child labor, of which more than 240 000 children are engaged in slavery work. Challenging Heights rescues children trapped in child labor in the Lake Volta district (estimated to be almost 10 000 children), and reintegrates them with their communities.

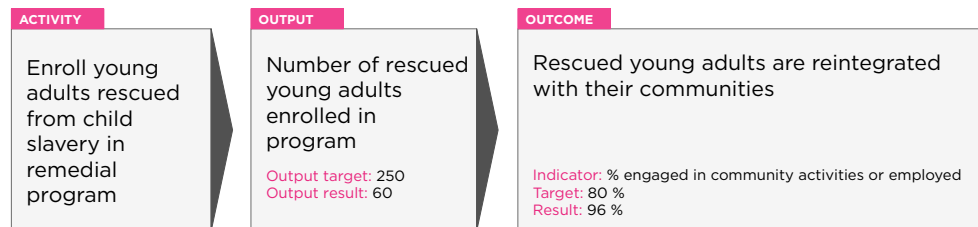


Figure 26: Examples of completed impact value chain based on the information input in the Theory of Change Sheet

Source: Reach for Change

VPO-level: Impact on social entrepreneurs – The Development Survey¹⁰⁰

The Development Survey is a key component of Reach for Change’s evaluation framework.

Through the ‘**Development Survey**’ – which is submitted Upon Incubator entry (forming the baseline) and thereafter once a year – the social entrepreneurs self-assess the level of development they reached within the eight key operational areas (social impact, revenue model, leadership and team, operations, communications, impact scaling, system change and credibility). The entrepreneurs’ self-assessments are audited by the local Reach for Change Program Managers, and supported by verification when applicable.

The *Development Survey* asks each Change Leader to self-assess what level they have reached within areas where Reach for Change wants the entrepreneurs to develop through their participation in the Incubator. Examples of such areas are: proven theory of change, effective stakeholder communication, sustainable business model etc. This is an example of a self-assessment question pertaining to “sustainable business model”:

100 Source: “Introduction to the Development Survey”- Reach for Change internal document.

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Has your organisation developed and implemented a sustainable* way to make money?

** Sustainable means that it is a source of revenue that allows you to serve your end beneficiaries many years ahead, even if external donor funding is withdrawn.*

1. This is not a priority for us right now, but we are going to attend to it later
2. My organisation is currently working hard on finding a sustainable way to make money
3. My organisation has identified a sustainable way to make money, but hasn't yet had a chance to prove that it work
4. My organisation has successfully piloted a sustainable way to make money, and is about to roll it out full scale
5. My organisation has fully implemented a sustainable way to make money, ensuring that we will be able to serve our beneficiaries many years ahead – even without external donor funding

If you have answered 3, 4 or 5, please describe in a few sentences how your organisation makes money, and in what way this model is viable long-term.

The standardised response options allow for a view on portfolio level. As all Change Leaders answer the same questions using the same response options, Reach for Change can **aggregate** the answers and form a view on **portfolio** level.

Aggregated answers enable status snapshots of Reach for Change global, regional and local level portfolios, e.g. by making statements such as: “At the end of Q1, 40 % of our entrepreneurs had not yet identified a sustainable way to make money”. This provides an indication of where the entrepreneurs need the most support from Reach for Change, and how the VPO could most efficiently allocate its resources.

Aggregating the answers at portfolio level also allows Reach for Change to monitor the portfolio's development over time, e.g. by making statements such as “During 2015, 75 % of our entrepreneurs successfully piloted a sustainable way to make money”. This enables evaluation of the work of Reach for Change and its social entrepreneurs, as well as communication of results to key stakeholders.

An additional benefit of asking the self-assessment questions is that the social entrepreneurs are made conscious of their strengths and development areas, thus they can be better supported in prioritising where to focus their efforts going forward.

Analysing the situation **before and after** the intervention of Reach for Change through the “Development Survey” creates a feedback loop that benefits both the social entrepreneur and Reach for Change. The social entrepreneur has a better view on how things are going, and understands better the importance of the work Reach for Change has done.

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The Report Organisational Growth

The “*Report Organisational Growth*” is the sheet where the Change Leaders set objectives (and indicators) on growth measures **common to all social entrepreneurs** supported through the programme, i.e. the objectives at portfolio level.

Footprint Units

“Footprint Units” are indicators of the reach of the social enterprise, the scale of the organisation’s impact. Examples of footprint units are schools, municipalities, communities, cities, countries etc. During the definition of the objectives – i.e. at the beginning of each year – each Change Leader selects a footprint unit that is applicable to his/her organisation and that reflects when the organisation is growing and reaching more children. For example, a social enterprise active in schools might measure its geographical footprint with the number of schools in which it launched its programme.

Human Resources

“Human Resources” (HR) is an indicator of the capacity of the organisation to deliver its offering and scale its impact. It is an indicator of the size of the social enterprise and it covers both employees and volunteers. Employees are paid resources while volunteers are unpaid resources. Reach for Change gives guidance to the social entrepreneurs regarding which method shall be used to calculate the number of employees and volunteers.

Turnover

“Turnover” is an indicator of the organisation’s financial sustainability and is meant to aggregate the total amount of money that the organisation raised during the year including, for example, sales, rents, membership fees, donations, grants, equity, but excluding loans and the funding from Reach for Change. The revenues are an indicator of the financial sustainability of the organisation, and have to be reported quarterly, while the documentation for verification is required annually.

Key Influencers and Recognition

“Key Influencers” is an indicator of to what extent the work of the social enterprise has gained a stamp of approval by people who have a role and/or are in a position which allows them to impact the opinion of many others. Examples of Key Influencers are politicians, celebrities and experts.

There are different ways in which a key influencer can “demonstrate support”, such as holding a speech at an event organised by the social enterprise, mentioning the work of the social enterprise in various contexts/media or even applying the social enterprise’s solution.

Reach for Change also monitors the media exposition the social enterprises it finances get. Examples of media include offline or online newspapers, radio and TV.

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Business Plan

Reach for Change keeps track of how many social entrepreneurs have a business plan in the year of analysis, compared to the previous year. The business plan should have a number of characteristics indicated by Reach for Change in the explanation and should be documented and ready to be shared with Reach for Change and other stakeholders.

Indicators to measure the impact on secondary stakeholders

Impact on Applicants: the Applicant Survey

The Applicant Survey is an **annual** survey sent to all applicants in all the countries where Reach for Change is present with the purpose of investigating:

- How satisfied the social entrepreneurs are with the **Reach for Change application process**
- To what extent the social entrepreneur learnt something through applying
- How Reach for Change can improve the application process for the following year

The Applicant Survey is sent to all social entrepreneurs that have been through the selection process of Reach for Change, regardless of which step they reached.

This survey is considered very important by Reach for Change, as the VPO believes that an improved application process means being able to attract more applicants with excellent ideas, and in the end support more children in a more impactful manner.

Although excluded from the incubator, applicants are important actors, who have passion and want to make the world a better place for children. As Reach for Change offers support to all applicants before selecting the Change Leaders, it is interested in monitoring whether the social entrepreneurs excluded from the incubator continue pursuing their idea afterwards. To assess this, Reach for Change uses the indicator “Applicant Continued Idea Development”, which indicates to what extent the Reach for Change application process encourages and enables applicants – even though not selected for the Incubator – to continue developing their ideas aimed at improving children’s lives.

Impact on partners

Although secondary stakeholders, partners are a very important group of actors working with Reach for Change and for whom the VPO wants to generate value. The table below shows which indicators are used by Reach for Change to assess how successful each partnership has been.

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Impact on partners	
Key Partner Executives Satisfaction	Level of satisfaction with the collaboration among key decision makers in Reach for Change’s partner companies. They are defined as the individuals in each organisation with decision-making power over the collaboration with Reach for Change or direct influence on success of the collaboration.
Partner Co-workers Engaged	Individual co-workers from Reach for Change’s founding and senior partners who are actively engaged in our mission. Either through participating in Reach for Change activities, or contributing to our organisation by helping us with contacts, services, expertise, screening applications, money or by spreading the word about Reach for Change.

Table 9:
Overview of the indicators used by Reach for Change to assess the impact on partners

Source: Reach for Change documents and interviews

Impact on the ecosystem for social entrepreneurship

Reach for Change checks to which extent the social enterprise has an impact on society by means of output indicators.

Engagement with society – impact on the ecosystem for social entrepreneurship		
Key Influencers	Number of Key Influencers that Reach for Change or Change Leaders have been in contact with during the year.	To what extent influential individuals in society are engaging with Reach for Change and the Change Leaders. Key influencers are people that influence society and/or opinion , i.e. have the power to affect structures in society or what other people think, including, politicians, celebrities and experts.
Ideas submitted	Number of aspiring entrepreneurs that are activated through Reach for Change’s challenge campaigns.	It measures the number of unique applications to Reach for Change’s Incubator programme. For an application to be counted, the first application step (the ‘pitch’) has to be finalised and submitted.
Unique votes	Total number of unique votes in campaigns	Level of public engagement in Reach for Change’s selection process, when Reach for Change invites the public to engage in the selection process by voting for their favourite candidates. Votes are submitted online or via SMS and a maximum of one vote per voter, candidate and selection process is counted.

Table 10:
Overview of the indicators used to assess the impacts achieved by Reach for Change on system change

Source: Reach for Change documents and interviews

“Unique votes” refers to a project that was piloted last year thanks to one of Reach for Change’s partnerships in ten countries. The five finalists were exposed to the general public who could choose the best idea through a website. Depending on the country, the public could either make the final decision on who to invest in or make recommendations on which should be the winners. In other collaborations Reach for Change has engaged people on Facebook. These are all ways Reach for Change is using to engage the society.

Reach for Change only uses output indicators to measure the impact on society for a number of reasons. First, because system change is a very broad and complex concept, so the impact on system change made by the single actor is difficult to attribute. Second, because Reach for Change realised that if you start measuring things that are not core you lose track of what really matters. Thus, the team gives priority to measuring the impact on

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the primary stakeholders (linked to the primary objectives). Third, because the concepts of “impact on society” and “system change” are mostly used by Reach for Change communication team to measure the impact of the marketing campaigns and to see how many people apply thanks to the campaigns.

The process of definition of the indicators

As for step one, in order to give the social entrepreneurs ownership of the process, Reach for Change acts as a **facilitator and guides the social entrepreneurs in the process of defining the indicators** they will be using to assess the achievement of the objectives set in step one.

When choosing the indicators, Reach for Change always starts from asking the social entrepreneur what he/she thinks and where he/she is. This because once the social entrepreneur has understood theoretically what an outcome is, what an indicator is and what he wants to achieve, it's much more likely he will **be able to come up with an example of an indicator**. A lot is of course about timing: **asking** about indicators **at the right point** in time is crucial to guarantee that the social entrepreneur is able to come up with a relevant answer.

Once social entrepreneurs understand how the process works they get very enthusiastic and want to find indicators for everything. Reach for Change then encourages them to focus on a **meaningful** and **small number** of indicators and to choose the indicators that **can be measured** and that the social entrepreneur has the **resources to measure**.

Reach for Change has tried to work with other organisations to **look for available indicators** that could suit some of its social entrepreneurs. For example, on a project dealing with kids with ADHD, Reach for Change has looked into indicators recommended by researchers and then proposed them to the social entrepreneur, looking at how they could be matched with the needs of the organisation. Reach for Change is not yet sure if this approach will be helpful, but it is an experiment which could potentially lead to positive results. To this end, Reach for Change is working on compiling an **index of indicators** that have been used repeatedly for a specific issue or topic that tends to come back, such as ADHD, social inclusion, etc. The problem though is that in existing databases (such as IRIS), no good indicators exist for measuring the impact on children. The **catalogue of indicators** developed by Reach for Change constitutes one of the sources of inspiration for the social entrepreneur. The process is mostly a dialogue facilitated by Reach for Change, asking questions on why something should be measured and challenging the social entrepreneurs to come up with ideas that are implementable (i.e. that do not take up too much of the resources of the SPO) and really measuring what the SPO needs to measure.

Sometimes it takes one or two years before the “perfect” indicator is found. Indicators are tested and refined until the SPO finds the one that really works.

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Issues of Aggregation at Portfolio level

Reach for Change **aggregates the total number** of “Children Supported” **per each of the six investment themes**¹⁰¹ to prepare its impact reporting. Reach for Change aggregates only the **output** measure by investment theme and at portfolio level, but does not aggregate outcome measures, as with the data available it is not possible to do so.

In order to capture the different ways that the entrepreneurs improve children’s lives, however, Reach for Change follows up on the impact of the social entrepreneurs in relation to **individual outcome indicators**.

The issues addressed by the social entrepreneurs vary greatly in character, which means there is no ‘one-size-fits-all’ list of indicators to measure outcomes at portfolio level. This challenge is not unique to Reach for Change, but is true for many funders in the social sector.

As a result each social entrepreneur has a different set of outcome indicators, so **aggregation** at portfolio level is *not* done at outcome-level. Aggregation is made at **output-level**. Reach for Change’s social entrepreneurs are so different and work in so many different ways that Reach for Change has not been able to find a way to aggregate outcomes and thus impact. In order to overcome this problem, in 2015 Reach for Change has tracked the percentage of social entrepreneurs that demonstrate through an outcome indicator that they improve children’s lives, as well as the percentage of social entrepreneurs that demonstrate through a story that they improve children’s lives.

Reach for Change is struggling to assess how the aggregation at investment theme-level could be conducted. Social enterprises active under the investment theme “Social Inclusion”, for example, have as a purpose helping children participate into social life on more equal terms. This means that the SPO could be targeting children living in the streets, children with disabilities, etc. In the case of children with disabilities an outcome could be to increase the children’s independence, while for children living on the streets it could be about changing people’s attitudes towards children living on the streets.

In order to measure how well the VPO is achieving its own outcome objectives, Reach for Change could attempt to define overarching indicators that are linked to the investment themes within its investment strategy. For example, in Ghana, improving children’s education is the most important objective for Reach for change. Beyond just counting how many children are helped by the specific programmes Reach for Change supports, it would be interesting to find concrete indicators that measure improvement in children’s education in Ghana and track progress over time (although attribution of Reach for Change’s investments will be impossible to define). If there is no progress, Reach for Change clearly would need to revise its strategy.

¹⁰¹ For more detail on the six investment themes see the chapter “Improving children’s lives through social innovation”.

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Furthermore, for each specific investment, Reach for Change can track the progress the investee is making on achieving its customised outcome indicators. The degree of achievement of those indicators (e.g. 80%) will be a measure of success of the investment for Reach for Change, and can allow it to make a social “valuation” of its portfolio of investments by calculating an average success rate.

Key Issues and Learnings for Step 3

1. *The bottom-up approach in the definition of the indicators has PROs and CONs:*
 - PROs: It is very customised, thus there is a higher chance that all the data collected by the SPO is useful for the SPO
 - CONs: It is hard to find outcome indicators that fit all social entrepreneurs (i.e. per investment theme), so it is difficult to aggregate outcomes at portfolio level (and at the level of investment themes).
2. *The quality of measurement and of the follow-up of the outcomes differs per VPO* – As the social entrepreneurs don’t use “standard”, agreed measures equal for all, Reach for Change is finding it difficult to show to others that the outcome measures being used by its social entrepreneurs are good ones and well verified.
3. *In terms of the challenges for the social entrepreneurs, one difficulty often experienced is being able to measure the chosen indicator.* Change Leaders work to improve personal characteristics of individuals such as self-confidence, self-esteem, leadership skills, independence, etc. which are very hard to find indicators for and thus to measure. In such cases Reach for Change takes the approach of asking the children themselves in different ways, through interviews, focus groups, questionnaires and so on. An example of how to do it is to perform a **360 analysis** where children, parents, teachers and any other relevant group are asked the same questions about the children’s behaviour. This method is used because finding objective external indicators about complex issues such as children’s self-esteem is incredibly difficult if not, in some cases, impossible. As it is hard and time-consuming to find the right indicator, it is quite difficult to aggregate results at thematic level or at portfolio level. If the indicator is not solid, making these kinds of aggregations is not meaningful (yet).

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STEP 4 – Verifying and Valuing Impact



- Impact story telling + Change Leader Survey
- No External Evaluators
- Qualitative complements quantitative
- “Reality check”:
 - verify outcomes are achieved
 - choose the impacts with the highest social value

Figure 27:
Step 4 – Verifying and Valuing Impact

Source: EVPA elaboration of Reach for Change material

Reach for Change verifies that the impact SPOs claimed is achieved by:

- collecting quantitative and qualitative data on the impact achieved by the SPOs in its portfolio,
- asking the SPOs to provide supporting documentation proving the impact achieved and
- developing Case Studies involving the final beneficiaries: children

Collecting data to verify and value: qualitative and quantitative methods

Reach for Change uses both quantitative and qualitative methods to verify and value the impact achieved. Both methodologies present challenges, and Reach for Change is constantly **revising its procedures and methodologies** to improve them. Sometimes changing systems is not so easy on everyone.

Collecting impact data in a credible and cost-efficient manner is challenging in the markets in which Reach for Change is active, since they have remarkably **different infrastructures and conditions for documentation**. Recognising this challenge, Reach for Change uses a wide variety of **qualitative and quantitative data collection** methods to maximize its understanding of the impact achieved, i.e. to verify the impact has been achieved on three levels derived from the objectives stemming from Reach for Change’s vision and mission:

1. The impact of the work of social entrepreneurs on children (i.e. the “social impact”) – the green arrow

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2. The impact of the work of Reach for Change on the social entrepreneurs supported (i.e. the impact on the SPO's "financial sustainability" and "organisational resilience") – the red arrow



1. Verifying the impact of social entrepreneurs on children: Impact Storytelling

To verify the impact social entrepreneurs have on children, Reach for Change uses qualitative data collection methods that include:

- **interviews** with entrepreneurs and children (final beneficiaries)
- **field visits** to the sites where the social entrepreneurs carry out their work
- **impact storytelling methods**
- **case studies**

During the course of the investment the programme managers perform **field visits** to verify and value the impact achieved. Part of the reinvestment decision discussion is actually for the investment manager to talk to the key stakeholders to assess the satisfaction level of the beneficiaries. The partners (who are advisors to the SPO) also help the VPO verify and value the impact generated by the SPO.

Children are involved when Reach for Change checks whether the outcomes have been achieved. Through the "*impact storytelling method*", an existing method perfected by Reach for Change to suit its needs, children are asked to explain how their lives have changed thanks to the support provided by the social entrepreneur.

Report on Social Impact

The *Report on Social Impact* is the sheet of the **Pathway of Change** where the social entrepreneur can store the stories he or she collects. Each quarter, the social entrepreneurs are asked to submit a story about how the social purpose organisation has improved a child's life. The submission of stories fulfils primarily three purposes:

1. *Stories allow to qualitatively explore what creates impact – and what that impact consists of.* Stories can help **verify** that what the social entrepreneur is doing leads to the intended results, and may inform on what activities that he or she should do more or less of.
2. *Stories allow for engaging the stakeholders in a manner that numbers and statistics cannot.* Reach for Change believes that the voice of the beneficiary – be it an entrepreneur or a child – greatly enriches its understanding of the impact achieved.

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3. *Stories are powerful communication tools.* Through submitting a story, the social entrepreneur has the opportunity to have it communicated by Reach for Change in international and/or national media channels (see example in the figure below). This may in turn lead to new exciting connections as well as additional opportunities for drawing attention to the social entrepreneur’s work.

“All the pieces finally fell into place”

John lives with his mother in rural Tanzania: “For a long time my son didn’t speak. Many people in the local community thought he was deaf, but I always suspected it was something else. I had approached many experts to understand how I could help my boy, but it was not until I came in contact with Gabriella Children’s Rehab Center that all pieces finally fell into place. John has autism.”



The center works to ensure that children with disabilities are diagnosed early and correctly, and are trained to become accepted member of the community. After one year in the center, John is able to speak in short sentences, sit calmly through class recite the alphabet, count numbers, paint and do his own laundry. In addition, he has developed his social skills to extent that he teases others, smiles and initiates play. John’s mother is ecstatic: “This is a true miracle.”

Brenda Shuma, Change Leader, Tanzania Founder of Gabriella Children’s Rehab Center

Figure 28:
An example of a Change Maker story highlighted in Reach for Change annual Social Impact Report 2014

Source: Reach for Change.

The stories are collected using a very rigorous process. Social entrepreneurs are asked to include the following:

- **BEFORE:** How was the child’s life before your organization intervened?
- **INTERVENTION:** What did your organization do to help the child?
- **AFTER:** How did the child’s life change after your organization helped out?

Social entrepreneurs are told that really spending time on explaining the ‘before’ and ‘after’, can show how impactful and significant the intervention was.

Additionally, Reach for Change performs **case studies**, to increase the understanding of the impact the social entrepreneur had on society. Differently from the stories, case studies are **not collected in a systematic way**, but for all change leaders at a certain point in time. Reach for Change meets with the social entrepreneurs and interviews them with the intention of creating a case study that can be used to show the work of Reach for Change’s entrepreneurs but also to take an objective look at what happened.

Business partners are very interested in knowing how the social enterprises are evolving, thus they quarterly go through the portfolio with the investment managers, so they can

CASE 2 – IMPACT MEASUREMENT AT REACH FOR CHANGE

advise the social entrepreneur on how to improve their operations (if necessary). Some business partners are also interested in **verifying the impact** of Reach for Change. More specifically, for one business partner Reach for Change activities fell inside the CSR actions they were taking. Therefore they had an auditor who went through all that Reach for Change reported to them. However, in general, **business partners are not** formally involved in the **evaluation** of the work of the social entrepreneurs. They are involved in evaluating the programme as such, but not specifically the performance of the single social entrepreneur.

2. Verifying the impact of Reach for Change on social entrepreneurs: the Change Leader Survey

The Change Leader Survey is an **annual** survey sent to all Change Leaders with the purpose of evaluating the Incubator Program.

This survey takes only about ten minutes to complete and the goal is to understand how satisfied the social entrepreneur is with the Reach for Change support provided during the year, and how Reach for Change can improve the support for following year, etc.

Change Leaders are asked which type of non-financial support they received through the incubator and whether they found it useful to achieve the goals set in the OKR sheet and in the Theory of Change sheet. Reach for Change does not set for itself a target for the satisfaction level of the social entrepreneurs, as currently, the Change Leaders are systematically surveyed **only after their experience in the incubator**, and not before. Most probably the investment manager collects the expectations of the social entrepreneur when (s)he enters the incubator, but not in a structured and systematic way.

In the future, Reach for Change will also try to **evaluate the results of the incubator programme** through external benchmarking.

In addition, currently Reach for Change is working on **case study examples** of how Reach for Change helps the social enterprises it supports come to system change. So far Reach for Change is in the exploratory phase and has conducted interviews and has some good examples, which will be used to complement the information gathered through the surveys.

Reflection and Learning

In addition to responding to the survey, the social entrepreneurs share a '**Development Reflection**' at the end of each quarter. The reflection captures the highlights of the achievements and learnings made, as well as the challenges faced. The question asked to the social entrepreneur is simple: "What significant things have happened to your organisation in this quarter?".

The Triple Audit Process

In an ideal situation Reach for Change would ask someone external (i.e. a **third party**) to perform the evaluations that are needed to assess whether the claimed impact has been

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achieved. In fact, except for imposed external audits and for a review of the social impact report¹⁰², Reach for Change does not involve external evaluators at any point in the process. However, all the data collected through the Surveys is anonymous and quality assurance measures are put in place.

One quality assurance measure that Reach for Change take is to **triple-audit the data**.

1. Each **Change Leader** fills in its *Pathway of Change* and sends it off to the Programme Manager. All entrepreneurs must **back up their reported data with verification**, i.e. documentation that proves what they have reported, supporting the numbers stated. Such documentation could be the entrepreneur's annual report, or lists with the names of the children supported. Verification is done in two ways, depending on the data collected. For some data, verification is always asked. For example, when social entrepreneurs report revenues on an annual basis they always have to support the numbers they provide with documentation. For other data, verification is not compulsory, and it is only done on an ad-hoc basis. For example, when the numbers provided by the social entrepreneurs are unrealistic or inconsistent, Reach for Change requests additional verification.
2. The **local Reach for Change Program Managers** – who know the entrepreneurs' operations by heart as they work the closest with them – carefully review the numbers. Programme managers look at data and make initial assessment as to whether data makes sense and is in line with the work performed by the social entrepreneurs.
3. The **Regional Directors** receive aggregate data to have a view on each country's portfolio. They examine, question and eventually approve the data.
4. Lastly, the numbers are inspected by the **central impact team**. Each reviewer screens the reported data for plausibility (are the numbers realistic given the entrepreneur's operations) and consistency (e.g. do the numbers make sense over time, i.e. from one year to the next). The Impact Measurement Core Team thus has the overview of the sheets filled in by all Change Leaders in the portfolio.

Data is collected every quarter and aggregated for the annual reporting, so the triple audit is performed quarterly and annually.



Figure 29:
The flow of information on IM

Source: EVPA elaboration from Reach for Change material

¹⁰² See "Step 5 - Monitoring and Reporting".

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Although individual answers are both anonymous and confidential, as for the other surveys data is **self-reported** by the Change Leaders and checked by Reach for Change as the VPO does not have an external evaluator performing an independent assessment of its work. Reach for Change is confident that the Triple Audit process guarantees the reliability of the data provided, but having the possibility and the resources to involve a third party would be of great added value for Reach for Change.

Another key measure for assuring data quality, is that all entrepreneurs must **back up their reported data with verification**, i.e. documentation that proves what they have reported, supporting the numbers stated. Such documentation could be the entrepreneur's annual report, or lists with the names of the children supported. Verification is done in two ways, depending on the data collected. For some data, verification is always asked. For example, when social entrepreneurs report revenues on an annual basis they always have to support the numbers they provide with documentation. For other data, verification is not compulsory, and it is only done on an ad-hoc basis. For example, when the numbers provided by the social entrepreneurs are unrealistic or inconsistent, Reach for Change requests additional verification.

Key Issues and Learnings for Step 4

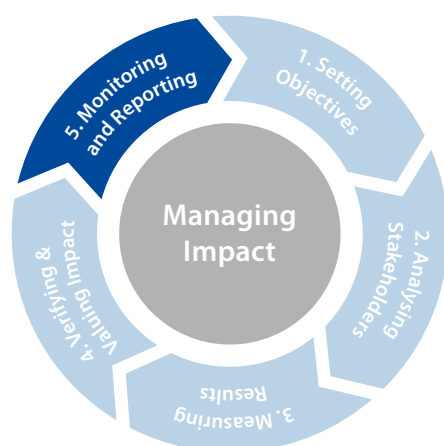
1. *Hard to find a balance between resources (of both VPO and SPO) and precision.* The social entrepreneurs measure the achievement of the indicators themselves as Reach for Change **does not have the resources to collect the data itself for all the social entrepreneurs in the portfolio**, so data is self-reported by each social entrepreneur. At the end of every quarter the SPO and Reach for Change look into what has been achieved and revise the outputs, the set of indicators and the OKR part, commenting on how the progress is going. Reach for Change constantly struggles with the issue of proportionality: for as much as it would be great to have a more complete system of data checking, which would include an external party, the risk is that the amount of resources needed would exceed the benefits. Another big challenge for Reach for Change in the past years has been to find the right balance between the **resources of the social entrepreneurs** in the portfolio have and something that can be trustworthy for Reach for Change, as the VPO needs to show in a credible and solid way that it is creating impact.
 2. *Celebrate successes and learn from failures* – One of the most important purposes of verifying and valuing the impact achieved is to **identify successes and failures and use them for learning and development**. Impact analysis is performed both locally by Program Managers as well as globally by the Central Impact Management Team. Insights and learnings gained are fed into **the Program Development Team (PDT)** where each region is represented, which ensures that all learnings are shared throughout the organisation irrespective of geographical location.
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3. *Guarantee data correctness* – In an ideal situation Reach for Change would ask someone external (i.e. a **third party**) to perform the evaluations that are needed to assess whether the claimed impact has been achieved. In fact, except for imposed external audits and for a review of the social impact report, Reach for Change does not involve external evaluators at any point in the process. However, all the data collected through the Surveys is anonymous and quality assurance measures are put in place.
4. *Complement quantitative data with qualitative information* – Reach for Change Core IM Team tries to learn as much as possible from both the quantitative data and the qualitative stories collected from the Change Leaders. From these conversations with social entrepreneurs and other stakeholder Reach for Change gets valuable input that can be used to “anchor development”, i.e. to make sure that things work in practice.
5. *Keep other ‘informal’ information channels open* – Reach for Change collects data on the benefits of its programme for social entrepreneurs both formally and informally. The results of the Surveys show that the programme works well and, in particular, social entrepreneurs appreciate the support in developing the impact measurement system and strategic planning. These results are corroborated by the stories informally told by the social entrepreneurs. Often, the informal channels to collect information on what does not work are more effective than the formal ways, thus Reach for Change finds social entrepreneurs’ storytelling very valuable.

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STEP 5 – Monitoring and Reporting



Monitoring:

- Data collection + check

Reporting:

- to investors
- to investees
- to the team

Monitoring:

- Tracking progress + collect data at portfolio level through the key measures survey
- Integrate into management process

Reporting:

- Aggregation at portfolio level can be difficult and is done only for outputs
- Impact report + new formats

Figure 30:

Step 5 – Monitoring and Reporting

Source: EVPA elaboration of Reach for Change material

Monitoring

Reach for Change has two goals, as outlined in Step 1: (i) support the work of social entrepreneurs (ii) improving the lives of children, which the VPO monitors throughout the investment period.

In Step 1 the entrepreneur is guided through the process of setting up its *theory of change* and the business development programme for the organisation is designed, outlining the steps needed to achieve the goals in the **Pathway of Change tool**.

The planning made through the Pathway of Change tool goes into the *monitoring structure*. The social entrepreneurs report quarterly and yearly based on the monitoring system on the achievement of their goals. The report is then used to revise the plan and to take the reinvestment decision for the following year.

Reach for Change monitors and collects output data for all entrepreneurs through the Key Measures Survey, where entrepreneurs provide **quarterly reports on selected indicators**. In 2014 45 of the 59 Change Leaders in the portfolio¹⁰³ qualified for assessment (>10 months in the Incubator) and submitted data on all key measures¹⁰⁴.

The *Report Organisational Growth* is the **monitoring and reporting tool** of Reach for Change.

¹⁰³ The others entered the programme later.

¹⁰⁴ <http://reachforchange.org/en/impact/impact-entrepreneurs/results-2014-change-leader-development>

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The purpose of the Key Measures Survey is to follow up on the progress of the organisation, as well as to **aggregate all Change Leaders' results to the Reach for Change annual report.**

The social entrepreneur makes a self-assessment on the **level of achievement** on each of the different areas, in dialogue with the programme manager. The close collaboration with the programme manager makes it possible for the analysis to be as accurate as possible and as little biased as possible.

Each quarter Reach for Change asks the social entrepreneur to report on its **revenues** (net of Reach for Change grant). Social entrepreneurs need to specify which revenues they had, what the target was and the currency. The social entrepreneurs do this for every quarter, and at the end of the year they are asked to upload **verification** (i.e. a copy of the income statement) for the numbers provided. With respect to revenues, the system also reports on the percentage of revenues of the social entrepreneur which is made up of Reach for Change's grant. This number gives an indication of how much dependent the social entrepreneur is on Reach for Change's grant, with the purpose of making the social enterprise less and less dependent on it, thus achieving financial sustainability.

Additionally, the social entrepreneur is asked to report **employees** and **volunteers** at the beginning and at the end of the year and the **geographical footprint**, which is an indicator of the social entrepreneur's scale and reach (e.g. number of schools, communities, countries, etc. The scale very much changes on a case-by-case basis, depending on what is relevant for the organisation).

Last, the social entrepreneur is asked to report on the **total number of children supported**, on six categories: health and development, education, social inclusion, child protection, expression and participation and economic participation. Children can be reached face-to-face, through teacher, parents, etc.

The reporting is planned quarterly, so Reach for Change can monitor the development of the social enterprise on the key measures.

Data Collection through the Change Leader Profile

Reach for Change has developed the Pathway of Change spreadsheets in Google Drive, so they can be easily accessed by Change Leaders, Programme Managers and Country Managers. Thanks to the online nature of the platform, the Change Leaders can input data on their progress on the achievement of the indicators set directly on the online platform. However the downside is that technical issues can always arise. The internet connection can be a challenge, so the system allows for the online spreadsheet to be worked in offline, and then synced once internet connection is back.

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The continuous monitoring and evaluation allows the VPO to quickly identify entrepreneurs in need of supplementary support, as well as best practice examples to learn from. Choosing what to monitor is important because it is a way to *signal* to the social entrepreneurs what are the things that matter most/ what R4C is doing that is important and not to be taken for granted.

Reach for Change is aiming for **data aggregation** to be **automatic**. The Central Team will create the links so that whenever a change is made at any level it will automatically translate in a change at all levels. All levels of aggregation have been created separately, with the aim of making the spreadsheets as easy as possible to work with. The next step is to link the different spreadsheets with the data scripts behind the user interface that will allow for automatic data aggregation.

Reach for Change collects both quantitative and qualitative data. At the moment, the VPO is sitting on a large amount of qualitative data in the form of stories and examples. These stories help understanding better the impact the social entrepreneurs are achieving, but has not yet been used to perform analysis involving – for example – text pattern analysis, etc.

The social entrepreneurs report **quarterly** to the VPO on the achievement of their objectives. In all countries there is a quarterly conversation scheduled between the social entrepreneur and the programme manager to look into what the SPO has reported.

The quarterly reports form the basis for the **reinvestment decision** that is taken once a year. When the process works well the reinvestment decision taken at the end of the year does not come as a surprise for the SPO. Additionally, the conversations help the social entrepreneurs gather new energy and try to turn things around when they do not work. Three SPOs in Sweden, for example, faced the risk of not being refinanced because they were not meeting their targets. Having the conversation with their investment managers helped them assess which were the reasons behind the shortcomings. The clear risk of not being refinanced gave them new energy and all three SPOs managed to stay in the incubator and be refinanced for the following year. Thus, the quarterly monitoring conversations are not meant to punish the social entrepreneurs, but to understand their needs to be able to offer the right Incubator support and to keep up their engagement from one year to the other.

Programme Managers are the first point of contact with the social entrepreneurs and as such they are the ones helping them filling in the different excel sheets. The Central Impact Measurement team has a core role in supporting the Programme Managers feeling confident and competent in managing this process with the social entrepreneurs. As Reach for Change's **programme managers are not experts on impact measurement**, it is the central team (Marlene and Annica) that is in charge of the follow up (i.e. check that the data provided by the social entrepreneurs is complete and verify it). As at the moment Reach for Change has 25 different programme/country managers, it is hard:

CASE 2 – IMPACT MEASUREMENT AT REACH FOR CHANGE

1. for Marlene and Annica to train the facilitators to be experts in all the different themes and
2. for the facilitators to be good at facilitating these workshops with the social entrepreneurs.

The implication is that the 120 social entrepreneurs will naturally receive a **level of assistance that differs largely in quality**. This double skills-gap is a focus area for Reach for Change this year. The goal is to both make the level of quality less dependent on the “core team” (Marlene and Annica) being present at the sessions and to ensure quality through more scalable measures (i.e. that don’t foresee the core team being present).

What to report? – Managing proportionality

Change Leaders are not necessarily requested to fill in the **intermediate indicators** in the first year. The process is actually quite customised. If the social entrepreneur has a business background and is familiar with indicators it is possible that he/she fills them in already from early on. In other cases during the first period of working together it is best not to mention specific indicators, as they might be too confusing for them. Thus during the first year the Change Leaders are not required to fill in indicators at all, but they are still required to reflect upon them quarterly and to report quotes and stories that explain how they have been working to achieve them. After the first year, Reach for Change asks for data for at least one of the intermediate outcomes indicators, i.e. the core one. The reason is that Reach for Change wants social entrepreneurs to focus on the most important thing and allocate the resources as efficiently as possible.

For the **long-term outcomes**, which are more difficult to identify and monitor, some social entrepreneurs are asked to assess the achievement starting from the third year while others will have to report after five years. The approach is thus highly customised and will largely be at the discretion of the programme manager. All social entrepreneurs report quarterly, but they need to report with comments. So even if they do not have an indicator, they can still say something about the long-term outcome, similarly to what happens for the intermediate indicators during the first year. When entering the incubator, most social entrepreneurs have never heard terms like “outcomes”, “outputs”, “Theory of Change”, etc. Therefore Reach for Change invests in supporting the social entrepreneurs in developing their objectives. However, given the reduced knowledge and resources of many Change Leaders, the VPO does not ask the social enterprise to have a complete impact measurement system in place from the outset of the relationship, but has defined some “minimum requirements” for each of the phases of the involvement of the SPO with the VPO. This approach is in line with the principle of proportionality, which acclaims that it is important to align the resources available for impact measurement with the impact measurement system in place.

CASE 2 – IMPACT MEASUREMENT AT REACH FOR CHANGE

Requirement	Within ...				
	3 months	6 months	1 year	2 years	3–5 years
Complete all of the Strategic Framework apart from the long-term outcome indicator and baseline	×	×	×	×	×
Outline one chain of activity-output-intermediate outcome (without the intermediate outcome indicator and baseline)	×	×	×	×	×
Attach documentation for verifying outputs		×	×	×	×
Start measuring at least one intermediate outcome indicator and baseline			×	×	×
Attach documentation for verifying intermediate outcomes			×	×	×
Map scale-out and scale-up activities				×	×
Start measuring long-term outcome indicator and baseline					×

Figure 31:
Minimum reporting requirements for social entrepreneurs

Source: Reach for Change documentation

Reporting

Impact report

The impact report shows aggregation of results at portfolio level in terms of:

- Children supported
- Total turnover
- Human resources
- Geographical spread of activities

The impact report shows that in 2014, thanks to Reach for Change:

- 54,000 children from marginalised groups were helped to participate in society on more equal terms
- 498,000 children were helped to live healthier lives
- 72,000 children received improved access to education

In addition, Reach for Change and the social entrepreneurs expanded their activities:

- Reach for change launched initiatives for children in 7 new countries
- 89% of Reach for Change's social entrepreneurs expanded geographically
- The number of social entrepreneurs supported doubled, from 47 to 105.

Social entrepreneurs publish their **own social impact report** on their website. The Change Leaders produce a *Social Impact Report* each year, which is reviewed by a country expert in their field (e.g. for an education programme the report could be revised by a professor in teaching).

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Additionally, social entrepreneurs have their own **blog** on Reach for Change website, where they post updates about their work.

Some of the **funders** want detailed reports on each social entrepreneur at the local level, whereas other funders want specific report only with “their” results, the results linked to their own investment. In Sweden, where there are many partners and only one incubator this is a quite difficult exercise.

Other reporting formats

Reach for Change also produces reporting in other formats, such as **videos**¹⁰⁵ and **website testimonials**¹⁰⁶, which are used to spread as much as possible among the greater public and as marketing material to show the work done by Reach for Change.

Reach for Change has produced a **video**, used for external communication, to show how this method works. Two children are introduced to one of Reach for Change’s entrepreneurs. Reach for Change explains what the social entrepreneur does and then kids are asked to report it in their own words, which are always simple and straight-forward: “someone came, made it better”.

Key Issues and Learnings for Step 5

Monitoring:

1. *Choosing what to monitor is important* – because it is a way to SIGNAL to the social entrepreneurs what are the things that matter most/ what R4C is doing that is important and not to be taken for granted.
2. *Keep an open dialogue between the central function and the local teams* – Reach for Change has 17 local programs adapted to each country where Reach for Change is active. Reach for Change puts one person from the Core IM team (central level) and one person per each region representing the local Programme Manager (i.e. the local programme manager or someone working very close to him/her). These mini-teams meet very often, once or twice per month. The Central function is in charge of developing the Path of Change and the reporting tool, but the regions and the Change Leaders are of course very much involved.
3. *Manage (your own) expectations* – The variety in experience among social entrepreneurs in working with indicators, objectives and even with IT platforms makes it difficult to align the needs of the VPO with the time the SPO needs to grow into Reach for Change’s expectations. Even the use of Excel or the access to a stable internet connection can be problematic in some areas. These occurrences are a sort of reality check for Reach for Change, reminding the VPO that the expectations need to be reasonable.

105 See: <https://www.youtube.com/watch?v=5rog0DcdhD4>

106 See: <http://reachforchange.org/en/impact/impact-entrepreneurs/testimonials-entrepreneurs> and <http://reachforchange.org/en/impact/impact-children/testimonials-children>

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Reporting:

Reach for Change asked an external evaluator to look at the social impact report. The reviewers highlighted areas where Reach for Change could improve.

1. *The reporting infrastructure has been a challenge for Reach for Change.* – The VPO produces all the documentation in the **local languages** to facilitate the work of the social entrepreneurs. In some countries – like Denmark – filling in the documentation in English is not a problem, but in others, such as Russia, translations are often needed. It is up to the local manager to decide if a translation in the local language is necessary. Having many languages can be problematic, because at the central level it is not always possible to make sense of all the stories informally told by the social entrepreneurs.
 2. *SPOs are encouraged to continuously **monitor and report on their activities**, not for the benefit of Reach for Change, but **for the benefit of the SPO itself*** – Monitoring and reporting gives the SPO access to the information it needs on a daily basis to improve its operations and its relations with other stakeholders.
-

CASE 2 – IMPACT MEASUREMENT AT REACH FOR CHANGE

Managing Impact at Reach for Change

Deal Screening and Due Diligence

The screening of the social entrepreneurs to be included in the incubator programme is done through a “call for proposals” through which social entrepreneurs can apply for entering the incubator programme.

Reach for Change screens social entrepreneurs for the following **selection criteria**:

- *Early stage*: Reach for Change only invests in early stage social entrepreneurs.
- *Aim to scale*: Social entrepreneurs who will make it into the incubator programme are people who are ready to scale in the future, ideas that can produce system change.
- *Children focus*: All ideas must have a children-focus
- *Sustainability*: The social entrepreneurs must be ready to find a sustainable business model for its idea
- *Leadership*: the person who gets the investment must be a leader: Reach for change invests very much in the person, as connected to the specific idea, i.e. the specific organisation¹⁰⁷.

Reach for Change’s accelerator works to *find*, *select* and *support* exceptional social entrepreneurs that have a positive, sustainable impact on the lives of children.

In 2014, Reach for Change received more than 2,900 ideas from individuals applying for a place in the Incubator program, and less than 2 percent were selected.

To ensure that all relevant aspects are considered, a multitude of stakeholders are consulted in the selection process. These include external sector experts, co-workers from local partners and, in many cases, children. In addition to finding high potential people and ideas, the application and selection process is aimed at boosting the development of a wider group of aspiring social entrepreneurs

The **selection process** Reach for Change uses is very rigorous and this ensures that the social entrepreneurs supported are the truly *exceptional* ones. In 2014, of the 530 social entrepreneurs who applied to enter the accelerator programme, only 100 made it to next stage. To make sure that the method proposed by the social entrepreneur is solid (i.e. that it is believable and likely to work) Reach for Change checks for references, asks input from experts, and creates jury panels in front of which the social entrepreneurs have to pitch. So, the process followed to select the social entrepreneurs is a sort of “**quality assurance**” for Reach for Change.

¹⁰⁷ Differently from Ashoka, that continues investing in the social entrepreneur even when he or she has left the specific social enterprise, Reach for Change invests in an individual, as connected to the specific social enterprise.

CASE 2 – IMPACT MEASUREMENT AT REACH FOR CHANGE

To check the improvement in the work of the SPO and to assess the impact the VPO has on them, Reach for Change uses surveys.

To capture the impact on children, Reach for Change, has defined **six investment themes**, encompassing the different issues that the entrepreneurs address. During the screening phase, Reach for Change checks whether the social entrepreneur is active in one of the six investment themes, which constitute a selection criterion.

Reach for Change added a step in the investment process. Currently the VPO provides the **pre-selected Change Leaders** with **pre-incubation support**, i.e. support before they enter the incubator programme. Reach for Change decided to add this phase as a **support to the investment decision it takes**. From this year Reach for Change and the SPO have a three-month period during which they go through the problem, doing a pilot and engaging with the stakeholders to test the social entrepreneur's idea, starting to plan for the *Pathway of Change* and developing a lighter version of the Pathway of Change. After these three months Reach for Change takes the investment decision. The three months are used to **assess if there is a match between what the social entrepreneur wants to achieve and what Reach for Change can offer** (i.e. Reach for Change's investment strategy).

The application process starts with the social entrepreneur explaining in detail how the social enterprise will be creating impact on children, describing the "gap" in the society and how the idea will be filling such gap and how the idea is different from what others are doing. This phase is very important, because it helps the VPO assess the level of development of the SPO, the newness of the idea and its feasibility and the risks. A pool of experts helps Reach for Change assess if the social entrepreneur's idea is feasible, and if it will make a difference, i.e. generate impact. The work of the expert group complements Reach for Change's assessment.

This pre-phase is extremely important because it gives the SPO the time to interact with the final beneficiaries, reflect on the feasibility of the idea and reduces the risk for Reach for Change. Adding an extra period also implies giving more social entrepreneurs a chance to understand what they are doing. The pre-investment phase increases the chances of Reach for Change to select the best social entrepreneurs and, as a result, to have more impact.

Deal Structuring

When setting up the strategy and the plan in the **Pathway of Change**, Reach for Change signs a legally binding agreement with the social entrepreneur, stating that the social entrepreneur needs to report quarterly and that (s)he will fulfil the mission that is stated in the Pathway of Change. Thus, reporting and achieving the impact objectives is mandatory for the social entrepreneurs, in terms of achieving social impact, striving for a system change, financial sustainability and organisational resilience and scaling the operations.

CASE 2 – IMPACT MEASUREMENT AT REACH FOR CHANGE

At the beginning of the relationship with the social entrepreneur Reach for Change makes an assessment of what the social entrepreneur needs. Through the due diligence process it becomes apparent that the social entrepreneur needs support on – for example – marketing or human resources management, etc. Reach for Change uses its **“Needs assessment tool”** which is related to the social entrepreneur’s expectations. The Needs Assessment Tool screens the social entrepreneur and finds the strong/weak areas of their business and support prioritising what the investor and investee should focus on in the coming year. This feeds in the *“Objectives and Key Results”* highlighting what areas of development the VPO and the SPO should be working on. The tool is needs’ based and thus reflects the expectations of the social entrepreneur.

Investment Management

Reach for Change monitors the investments throughout the investment period to make sure they are achieving the impacts they have set for themselves.

To **check the improvement** in the lives of children Reach for Change conducts interviews with children to assess the impact the SPOs have on them, moving from output to outcome indicators to check if the change really happened.

It can be the case that the social entrepreneur does not develop as well as expected. In case the lack of development can be attributed to a mismatch between the needs of the SPO and the offer of the VPO, Reach for Change puts all possible efforts into improving its incubator programmes and the specific support given to the social entrepreneur.

The social entrepreneurs report **quarterly** to the VPO on the achievement of their objectives. In some countries there is a quarterly conversation scheduled between the social entrepreneur and the programme manager to look into what the SPO has reported.

The quarterly reports form the basis for the **reinvestment decision** that is taken once a year. This decision is also driven by the data collected through the impact measurement system of Reach for Change. During the course of the investment the programme managers do **field visits** to verify and value the impact achieved. Part of the reinvestment decision discussion is actually for the investment manager to talk to the key stakeholders to assess the satisfaction level of the beneficiaries. The partners (who are advisors to the SPO) also help the VPO verify and value the impact generated by the SPO.

The Change Leaders produce a *Social Impact Report* each year, which is reviewed by a country expert in their field with no links to the SPO (e.g. for an education programme the report could be revised by a professor in teaching). The expert then produces a one-page signed report to “approve” the work of the SPO.

CASE 2 – IMPACT MEASUREMENT AT REACH FOR CHANGE

Exit

In the framework of the incubator programme, Reach for Change has designed an **exit strategy module**. Additionally, impact is embedded in the reinvestment decision taken early and that can result in an exit (although this happened rarely).

The “general” rule that guides the exit decision is that the social enterprise should be able to “survive without Reach for Change”, either by itself or using funds coming from another source. Social entrepreneurs are ready to enter the Alumni cohort once they are sustainable.

Today Reach for Change has 120 social entrepreneurs in its incubators and its first generation of Alumni, organisations that are ready to move on. Reach for Change follows up with these social entrepreneurs who have “exited” since they have completed the programme and Reach for Change feels it cannot add any more value to them. However, follow-up is not done in a very structured way. The first year social entrepreneurs still have to report to Reach for Change, but not more than that has been planned yet, especially because the first cohort of social entrepreneurs is just about to be born.

As the Alumni cohort gets bigger, follow-up with them will have to become more systematic. Thus the “qualitative” interviews that are performed after exit and constitute the current, more informal reporting will increasingly need to be complemented with other methods Reach for Change is keeping track of the survival rate of the social entrepreneurs supported.

Comparing the case studies: Key Issues and Learnings

COMPARING THE CASE STUDIES: KEY ISSUES AND LEARNINGS

I&P and Reach for Change have two very different approaches to impact measurement, as they have very different objectives, investees and history.

I&P has a top-down approach to impact measurement. As the SMEs that are in I&P's portfolio are not directly set up with the purpose of generating a social impact, I&P sets up the whole impact measurement system for them, and they apply it. I&P has a set of objectives (also used to screen the investments), stakeholders and indicators that it proposes to the SMEs, keeping in mind the proportionality principle: the number of indicators each SME has to report on depends on its capacity and on the usefulness. This approach facilitates aggregation at portfolio level, but makes it difficult to build ownership in the SMEs. Thus, I&P works hard on showing the SMEs the added value of having an IM system in place, by providing them with impact reports that show – for example – the savings generated by a reduction of the CO2 emissions or the positive impacts on the local communities.

Conversely, **Reach for Change** has a bottom-up approach: each investee is guided in the process of setting the objectives and the indicators to measure the achievement of such objectives, but nothing is defined top down – except the final beneficiaries, which need to be children. This approach guarantees the social entrepreneur's ownership of the IM process from the very beginning and the usefulness of the indicators for the social entrepreneurs. However, it makes it difficult for Reach for Change to measure its own impact at portfolio level or even at the level of each investment theme.

Despite their differences, the two organisations have traits in common, as they both developed and managed their impact measurement system following best practice in the VP sector.

Step 1 – Setting Objectives

First, it took both organisations some time to develop their IM system. Reach for Change started developing at the outset while I&P started only after ten years, but both tend to agree that the best way to do it is to start by clearly defining with the whole VPO team the **Theory of Change of the VPO**. Theory of Change is a methodology that helps VPOs clarify the causal links between the elements of the impact value chain (i.e. activities, outputs and outcomes), forcing organisations to clearly state their assumptions and to reflect on what they want to achieve and how. The Theory of Change provides the roadmap that should be tested, challenged and refined regularly and helps both VPO and SPO to be clear about the *purpose* of the measurement exercise (i.e. what they want to achieve).

Reach for Change developed its own methodology for setting the objectives for each SPO, based on the Theory of Change and the OKR – Objectives and Key Result – methodology developed by Google. Each social entrepreneur – also called Change Leader – participates in the Theory of Change Workshop during which he or she is guided through the process

COMPARING THE CASE STUDIES: KEY ISSUES AND LEARNINGS

of setting the objectives by drawing the causal links that define its Pathway to Change, linking short, medium and long-term outcomes to the activities and outputs.

Similarly, **I&P** follows a case-by-case approach, setting the objectives for each of its investees, making sure that each of them generates measurable impact on local development by addressing the following four developmental challenges:

1. Promote local entrepreneurship and strengthen private sector
2. Meet unsatisfied demand for goods and services
3. Create decent jobs and training opportunities
4. Foster an environment-friendly development

Additionally, I&P checks that the investees in its portfolio contribute to the achievement of the environmental and social impact objectives that the VPO has set at portfolio level. This enables I&P to check which impact it is having as a VPO on the reduction of CO2 emissions and on the improvement of the healthcare conditions of the employees of the SMEs in its portfolio.

Step 2 – Analysing Stakeholders

Both organisations adopt best practices for what concerns the stakeholder identification and engagement. For what concerns stakeholders' mapping, both organisations distinguish between primary and secondary stakeholders, and assign them different levels of priority. Both organisations recognise the investee as the primary stakeholder for the VPO. This is directly derived from the Theory of Change of each VPO developed in Step 1. For what concerns stakeholders' engagement, both organisations try to involve both primary and secondary stakeholders depending on their level of priority. At I&P, for example, the investee is involved throughout the IM process as a primary stakeholder with a high level of priority. Final beneficiaries are then involve in Step 4, to verify and value the impact claimed by the investee has actually been achieved. Thus in both cases stakeholders provide feedback loops (positive/negative and intended/unintended results) that help improve course of action of the SPO and the VPO.

Step 3 – Measuring Results: Outcomes, Impact and Indicators

Another common trait concerns Step 3 – measuring results. Both organisations adopt best practice to perform this step, as Step 3 builds on the objectives defined in Step 1 and follows the stakeholder analysis of Step 2.

To perform this step both organisations have decided to opt for easy-to-use Excel tools that can be filled in directly by the SPO. As recommended by EVPA, regardless of the approach,

COMPARING THE CASE STUDIES: KEY ISSUES AND LEARNINGS

what matters is having quality indicators to determine if and what change happened. To this end, both VPOs take the time to assess which are the best indicators for the investee to report on, although using different approaches: top-down for I&P, bottom-up for Reach for Change. Both VPOs revise the indicators periodically, to assess which data is the most useful to collect for both VPO and SPO. Additionally, to avoid reinventing the wheel, indicators at I&P come from the IRIS database, with some minor adaptations. Another important common point is the fact that both organisations measure their own impact on the SPOs they support. As pointed out in EVPA's report "A Practical Guide to Adding Value through Non-financial Support"¹⁰⁸ measuring the impact of the work of the investor is crucial to direct the VPO's scarce resources where they are most needed.

Step 4 – Verifying and Valuing Impact

According to the GECES¹⁰⁹, there are three steps that need to be performed in Step 4 – verifying and valuing impact: *measuring*, *validating* and *valuing*, as shown in the figure below.

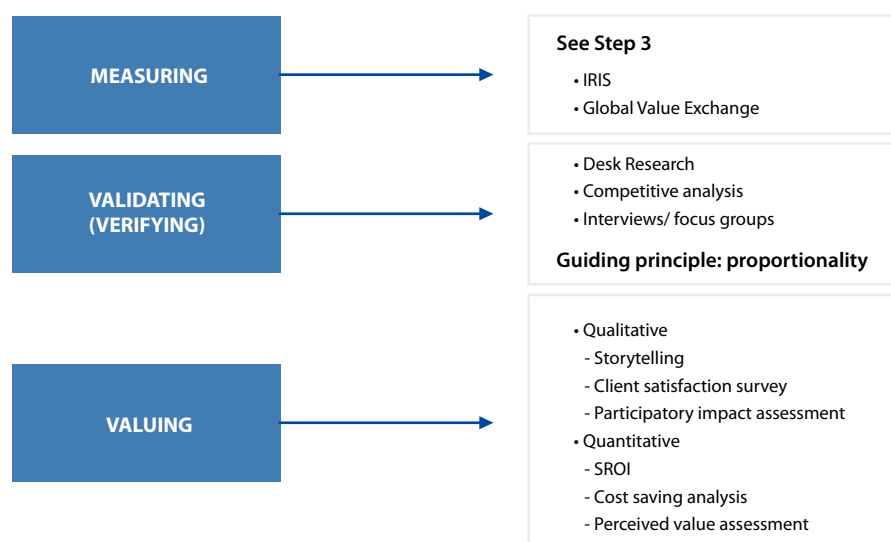


Figure 32:
The sound data collection process

Source: elaboration of GECES

First, the VPO measures according to a pre-defined set of indicators defined in Step 3, which shall come to a trusted and widely used database, such as IRIS or the Global Value Exchange. I&P for example, uses IRIS indicators.

Then, **validation** needs to take place. Through the Triple Audit Process Reach for Change guarantees that the data provided by the investee in the Pathway of Change is correct and supported by evidence. Similarly, at I&P the data is self-reported by the investee and

¹⁰⁸ Boiardi, P. and Hehenberger, L., (2015). "A Practical Guide to Adding Value through Non-financial Support". EVPA.

¹⁰⁹ Clifford, J., Hehenberger, L. and Fantini, M., (2014). "Proposed approaches to social impact measurement in European Commission legislation and in practice relating to: EuSEFs and EaSI". European Commission.

COMPARING THE CASE STUDIES: KEY ISSUES AND LEARNINGS

then checked by the investment officer and the impact measurement team, and finally integrated through public information. Both I&P's and Reach for Change's processes are well documented.

Lastly, qualitative data is used to complement the information collected through the quantitative surveys in the **valuing** step, to check that the impact has actually happened and that it was relevant for all stakeholders. Once again, both VPOs follow best practice, and collect information on how the change is understood by the beneficiaries and other stakeholders. I&P does so through in-depth impact measurement case studies performed with an independent evaluator, while Reach for Change collects impact stories through the storytelling method.

All the information collected through verifying and valuing is then used to revise and realign the objectives of the SPO supported and – if necessary – of the VPO.

Step 5 – Monitoring and Reporting

No best format/template exists for reporting. The recommendation is thus to make sure the report is appropriate to the audience, transparent, useful (i.e. it should include learnings and recommendations for improvement) and done on an annual basis (or at least in line with the financial reporting). The lack of regulation on social impact reporting is due to the need to leave room to the natural evolution process, with the hope that a solid standard for the industry emerges in the next years.

The reporting at I&P and Reach for Change is very different, and is linked to the structure of each VPO and the funding model.

Both I&P and Reach for Change provide specific reporting documents for:

- *The broader public.* Each year, I&P publishes the “ESG and Impact Reporting”, which is also uploaded on the website, to show the impact of the work of the SPOs it supported to the broad public. Similarly, Reach for Change produces an Annual Social Impact Report. Recently, both organisations have been complementing these publications with video material, to help them reach an even broader audience.
- *SPOs.* Both I&P and Reach for Change prepare specific impact reports for each investee, to build ownership of the IM process among investees and to show them their progress and make recommendations about next steps. By showing the SPO the improvements made thanks to the learning of the IM and the implementation of the ESG policies, I&P makes it easier to collect data
- *Internal VPO Team.* Reporting to the team helps the team in charge of impact measurement in both organisations gain visibility, motivates the staff and especially the investment team to support the work of data collection and revision.

COMPARING THE CASE STUDIES: KEY ISSUES AND LEARNINGS

- *Funders.* As I&P is constantly fundraising, it is important for the VPO to share the results achieved to each of the funders. Similarly, Reach for Change is sometimes asked by specific funders to produce detailed reports on how their money was spent. Developing ad-hoc reports for individual funders has proven to be a challenge, especially when the information asked is very specific.

Challenges

CHALLENGES

The impact measurement case studies featured in this report show how two leading organisations perform social impact measurement. Despite being at the forefront of measuring impact, both I&P and Reach for Change are still facing challenges, which are the same faced by most VPOs that start engaging with IM.

Two typical challenges VPOs face are the difficulty to prove additionality¹¹⁰ and the struggle to attribute¹¹¹ impact, thus assessing whether there has been an impact on the final beneficiaries and that this impact is attributable to the work of the VPO and the SPO. In particular, both organisations struggle with the definition of the baseline (i.e. what the situation is before the intervention) and of the counterfactual – as often, see for example the case of Reach for Change, innovations are so disruptive there is no possibility to see how the target population would have behaved without the intervention taking place. Additionally, due to the resource constraints, I&P and Reach for Change do not have the possibility to invest in costly methodologies such as Randomised Control Trials (RCTs).

These issues constitute real challenges for a large number of VPOs, who want to develop the most accurate IM system possible. However, complex and burdensome data collection methods are often difficult to use for early-stage social enterprises and the information too costly and not adding enough value to the work of the SPO.

A recent article published in Stanford Social Innovation Review (SSIR)¹¹² looks at these issues from a different perspective, arguing that for too long investors have focused on the needs and capabilities of the investors, rarely on the ones of the investees – i.e. the social enterprises – but never on the needs and reality of final beneficiaries. Thus they have focused on developing the most precise IM systems possible – without thinking about the implications. As a result, it can be the case that the complex IM system developed by the VPO has a cost (in terms of time spent to collect the data) for the SPO that is much higher than the value it provides to the decision making process of the SPO and to the SPO's understanding of the impact it is having on its beneficiaries.

A conceptual shift needs to happen, and IM tools need to be rethought in light of the needs of the social enterprises and the capabilities of the beneficiaries. Social enterprises work in dynamic environments, within financial constraints, with limited human capital and few resources to invest in data-management systems. Thus the IM system they need must take these considerations into account. The SSIR article proposes five core properties of such a system (which go by the acronym BUILD)¹¹³:

110 Additionality is the property of an activity being additional. It is a determination of whether an intervention has an effect, when the intervention is compared to a baseline.

111 Attribution takes account of how much of the change that has been observed is the result of the organisation's activities, and how much is the result of actions taken simultaneously by others (e.g. other SPOs, government).

112 **Dichter, S., Adams, T. and Ebrahim, E.** (2016). "The Power of Lean Data". Stanford Social Innovation Review.

113 *Idem*, p.5.

CHALLENGES

- *Bottom-up* – It nurtures the habit of listening to customers in order to provide actionable insight on their needs and interests.
- *Useful* – It yields data that is of sufficient quality to support decision-making.
- *Iterative* – It allows for learning, adaptation, and replication.
- *Light-touch* – It uses low-cost tools and technologies that require a minimal investment of time and money.
- *Dynamic* – It enables rapid data collection within a fast-changing environment.

Both I&P and Reach for Change have included elements of BUILD in their IM systems. Although having built the IM system top-down, I&P listens to the final beneficiaries through the case studies, and uses the data collected to produce reports that contain crucial learnings for the SMEs supported. Reach for Change has a bottom-up approach and a simple low-tech Google Drive-based tool, which allows for learning and adaptation. Despite the challenge of aggregation at portfolio level, Reach for Change can count on a system that is close to the needs of the final beneficiaries and useful to the investees.

The case studies described and analysed in this report do not constitute ideal or perfect examples of impact measurement. They are real-life stories of two very different VPOs that have worked hard to measure impact and manage their respective organisation towards achieving greater impact with their work. In their own way, each organisation has found a proper balance between rigorous data collection, a contained cost and useful information to improve the impact on the investees and the beneficiaries – the ultimate objective of impact measurement.

Appendices

APPENDICES

Reports and Articles

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APPENDICES

I&P Documents and Presentations

- “I&P – An Impact Investment Group dedicated to African entrepreneurs”, June 2015.
- “I&P Impact Measurement & Management”, June 2015
- “I&P – Unlocking Equity for Early-Stage African Entrepreneurs”, EVPA Site Visit, June 2015, Presentation of IPDEV 2 by David Munnich
- “*Small is powerful* – An advocacy project on the contribution of African SMEs to the development of the continent”, June 2015.
- “I&P Afrique Entrepreneurs. Annual ESG and Impact Reporting”, I&P Gestion, March 2015.
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Reach for Change Documents and Presentations

- **Johansson, A.**, (2015). “*Case Study of impact measurement and implementation in day-to-day work*”. Presentation made at the EVPA Training Academy in September 2015.
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Internal documents explaining Reach for Change’s approach to impact measurement:

- Introduction to the Pathway of Change
- Introduction to the Development Survey
- An Introduction to Impact Management at Reach for Change
- Pathway of Change – Guidelines for Change Leaders

The Surveys used by Reach for Change:

- Key Measures Survey
- Applicant Survey
- Change Leader Survey
- Development Survey

Websites

- Bates Wells Braithwaite (BWB) Impact: <http://www.bwblp.com/>
- Business Model Canvas: <http://www.businessmodelgeneration.com/canvas/bmc>
- CERISE: <http://www.cerise-spi4.org/>
- Convention on the Rights of the Child: <http://www.ohchr.org/en/professionalinterest/pages/crc.aspx>
- European Investment Bank: <http://www.eib.org/>
- European Investment Fund: <http://www.eif.org/>
- EVPA Tool to plan, deliver and value non-financial support: <http://evpa.eu.com/research-and-policy/knowledge-centre/non-financial-support-process-tools/>
- FISEA: http://www.proparco.fr/lang/en/Accueil_PROPARCO/fisea-proparco
- Global Impact Investing Rating System (GIIRS): www.thesroinetwork.org/publications/doc_download/441-sroi-and-giirs
- HEC Paris: www.hec.edu/
- Impact Investing Luxembourg: <http://www.impact-investing.eu/who-we-are>
- Investisseurs et Partenaires: <http://www.ietp.com>
- IRIS Metrics: <https://iris.thegiin.org/metrics>
- Logical Framework: http://en.wikipedia.org/wiki/Logical_framework_approach
- Logic Model: https://en.wikipedia.org/wiki/Logic_model
- Objectives and Key Results (OKR): <https://weekdone.com/resources/objectives-key-results>
- (IM)PROVE: <http://www.im-prove.fr/>
- Proparco: http://www.proparco.fr/site/proparco/Accueil_PROPARCO
- Reach for Change: <http://reachforchange.org/en/>
- Small is Powerful: <http://www.smallispowerful.fr>
- The Stenbeck Foundation: <http://www.hsstiftelse.se/en>
- Theory of Change: www.theoryofchange.org

List of interviewees

- Investisseurs et Partenaires: **Elodie Nocquet** and **Pierrick Baraton** (Paris, 6th of March 2015) and **Elodie Nocquet** (Paris, 23rd of June 2015)
- Reach for Change: **Annica Johansson** and **Marlene Claesson** (Stockholm, 15th of April 2015 and 16th of June 2015)

APPENDICES

Glossary

Activity

The concrete actions, tasks and work carried out by the organisation to create its outputs and outcomes and achieve its objectives, i.e. what is being done with the available resources by the VPO or the SPO (the intervention).

Additionality

The property of an activity being additional. It is a determination of whether an intervention has an effect, when the intervention is compared to a baseline.

Attribution

Attribution takes account of how much of the change that has been observed is the result of the organisation's activities, and how much is the result of actions taken simultaneously by others (e.g. other SPOs, government).

Beneficiaries

The people, communities, broader society and environment that a SPO seeks to reach through its activities. Beneficiaries can be affected positively or negatively by the activities of the SPO.

Contributors

The people, communities, broader society and environment that contribute to the SPO performing its activities. Contributors can enhance or decrease the effect of the activities of the SPO.

Deadweight

Deadweight is the change that would have happened anyway i.e. the outcomes the beneficiaries would be expected to experience if the organisation were not active. This is sometimes called the "baseline" or "counterfactual". Deadweight includes the progress or regress beneficiaries typically make without the organisation's intervention.

Displacement

Displacement occurs when the positive outcomes experienced by beneficiaries accessing the organisation's services are offset by negative outcomes experienced by another group elsewhere (also as a result of the organisation's activities).

Drop-off

Drop-off occurs when, over time, the effects of the output and the observed outcomes decreases (e.g. beneficiaries relapse, lose the job attained, revert to previous behaviours). The organisation's definition of its outcomes sets the scope for how long

they are expected to last. Drop-off occurring within this period is accounted for in assessing the organisation's true impact.

Framework (for Impact Measurement)

For each major area of social enterprise interventions, a list of the most usual outcomes being targeted, and, for each of these outcomes, a series of sub-outcomes that again appear most regularly. Examples would include, for an intervention relating to supporting ex-prisoners at risk of reoffending, outcomes such as not re-offending over a twelve-month period, and gaining full time employment, with sub-outcomes of engaging in retraining for the workplace, and keeping on a substance abuse support programme, and changing social circle to engage with mentors

Global Value Exchange

Global Value Exchange is a database of values, indicators and outcomes for stakeholders.

Impact

See: *Social Impact*

Impact investor

See: *Social impact investor*

Impact value chain

Represents how an organisation achieves its impact by linking the organisation to its activities and the activities to outputs, outcomes and impacts.

Indicator

A particular way of attaching a value or measure to those outcomes and impacts. Indicators are specific and measurable actions or conditions that assess progress towards or away from outputs or outcomes. Indicators may relate to direct quantities (e.g. number of hours of training provided) or to qualitative aspects (e.g. levels of beneficiary confidence). Examples include financial measures of savings in state funding, or productivity gains, well-being scores, etc.

Inputs

The resources, whether capital or human, invested in the activities of the organisation and used in the delivery of the intervention.

Investee

A SPO that receives investment from a VPO/SI.

APPENDICES

Investment

We use investment throughout this document as including the range of financing instruments from grants, loans to equity.

IRIS

IRIS is the Impact Reporting & Investment Standards initiative of the Global Impact Investing Network (“GIIN”) and was developed to provide a common reporting language for impact related terms and metrics.

IRIS indicators

IRIS indicators are a set of standardised metrics that can be used to describe an organisation’s social, environmental and financial performance.

Logic Model

A logic model (also known as program matrix) is a tool used by funders, managers, and evaluators of programs to evaluate the effectiveness of a program. Logic models are usually a graphical depiction of the logical relationships between the resources, activities, outputs and outcomes of a program. While there are many ways in which logic models can be presented, the underlying purpose of constructing a logic model is to assess the “if-then” (causal) relationships between the elements of the program; if the resources are available for a program, then the activities can be implemented, if the activities are implemented successfully then certain outputs and outcomes can be expected. Logic models are most often used in the evaluation stage of a program, they can however be used during planning and implementation.

Minimum Questions to be Asked (method)

It is possible to extract the commonalities of the various tools that use the theory of change and logic model, such as social return on investment (SROI) and the balanced scorecard to come up with a recommended list of four questions that at a minimum a social enterprise should answer. This approach is embraced in the EVPA Guide:

What is the social problem or issue that the social enterprise is trying to solve?

What activities is the social enterprise undertaking to solve the social problem or issue?

What resources or inputs, as per the impact value chain, does the social enterprise have and need to undertake its activities?

What are the expected outcomes?

This should include what the social enterprise must achieve in order to be considered successful and will form the basis of the milestones against which the social enterprise will be measured.

These questions are in line with the logic model but do not specifically ask that causal links between inputs, outputs, outcomes and impacts be established.

Monetisation

Monetisation is the process of transforming the value of outcomes and/or impacts into a unit of currency. SROI is a way to monetise the value of social impact in financial terms.

Organisation

In this case an entity working to bring about positive social impact i.e. the term includes SPOs and VPO/SIs.

Outcomes

The changes, benefits, learnings, or other effects (both long and short term) in the lives of beneficiaries and others that result from the organisation’s activities.

Outcomes matrix

A classification tool, developed by Big Society Capital in combination with Investing for Good and other UK based VPOs, for use by investors and SPOs to map areas in which, and beneficiaries for whom, their impacts are being achieved.

Outputs

How that activity touches the intended beneficiaries, i.e. the tangible products and services that result from the organisation’s activities.

Process (for Impact Measurement)

The series of steps or stages by which a Social Enterprise or Fund investigates, understands and presents how its activities achieve change (outcomes) and impact in the lives of service users and stakeholders

Social Impact

The attribution of an organisation’s activities to broader and longer-term outcomes. To accurately (in academic terms) calculate social impact you need to adjust outcomes for: (i) what would have happened anyway (“deadweight”); (ii) the action of others (“attribution”); (iii) how far the outcome of the initial intervention is likely to be reduced over time (“drop off”);

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(iv) the extent to which the original situation was displaced elsewhere or outcomes displaced other potential positive outcomes (“displacement”); and for unintended consequences (which could be negative or positive).

“The reflection of social outcomes as measurement, both long-term and short-term, adjusted for the effects achieved by others (alternative attribution), for effects that would have happened anyway (deadweight), for negative consequences (displacement) and for effects declining over time (drop off)”, (GECES, 2014).

Social impact investor (“SII”)

An organisation pursuing a social impact investment approach.

Social impact investment

Social impact investment is the provision and use of capital to generate social as well as financial returns. The social impact investment approach has many overlaps with the key characteristics of venture philanthropy, however social impact investment means investment mainly to generate social impact, but with the expectation of some financial return (or preservation of capital).

Social purpose organisation (“SPO”)

An organisation that operates with the primary aim of achieving measurable social and environmental impact. Social purpose organisations include charities, non-profit organisations and social enterprises.

Social return on investment (“SROI”)

Social return on investment is a framework for measuring and accounting for the broad concept of value. It tells the story of how change is being created by measuring social, environmental and economic outcomes and uses monetary values to represent them. This enables a ratio of benefits to costs to be calculated e.g. a ratio of 3:1 indicates that an investment of €1 delivers €3 of social value.

Stakeholder

Any party that is effecting or affected by the activities of the organisation. The most prominent stakeholders are the direct or target beneficiaries, though stakeholders as a group also includes the organisation’s staff and volunteers, its shareholders and investees, its suppliers and purchasers and most likely the families of beneficiaries and those close to them, and the communities in which they live.

Theory of change

The theory of change defines all building blocks required to bring about a given long-term goal. This set of connected building blocks is depicted on a map known as a pathway of change or change framework, which is a graphic representation of the change process.

“Theory of Change is essentially a comprehensive description and illustration of how and why a desired change is expected to happen in a particular context. It is focused in particular on mapping out or “filling in” what has been described as the “missing middle” between what a program or change initiative does (its activities or interventions) and how these lead to desired goals being achieved. It does this by first identifying the desired long-term goals and then works back from these to identify all the conditions (outcomes) that must be in place (and how these related to one another causally) for the goals to occur. These are all mapped out in an Outcomes Framework.”
Source: www.theoryofchange.org

Examples of methodologies commonly used to derive the Theory of Change are the Logic Model, the Theory of Value Creation and the Minimum Questions

Theory of Value Creation

The Theory of Value Creation (ToVC) has evolved out of thinking from Michael Porter and Mark Kramer on Shared Value, and Jed Emerson on Blended Value. It defines the mechanisms through which value is created for the stakeholders.

Venture philanthropy (“VP”)

Venture philanthropy is an approach that includes both the use of social impact investment (equity and debt instruments) and grants. The key characteristics of venture philanthropy include high engagement, organisational capacity-building, tailored financing, non-financial support, involvement of networks, multi-year support and societal impact measurement.

Venture philanthropy organisation (“VPO”)

Organisations following the venture philanthropy approach.



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The European Venture Philanthropy Association (EVPA)

Established in 2004, EVPA works to enable Venture Philanthropists and Social Investors to maximise societal impact through increased resources, collaboration and expertise.

EVPA's membership covers the full range of venture philanthropy and social impact investment activities and includes venture philanthropy funds, social investors, grant-making foundations, impact investing funds, private equity firms and professional service firms, philanthropy advisors, banks and business schools. EVPA members work together across sectors in order to promote and shape the future of venture philanthropy and social impact investment in Europe and beyond. Currently, the association has 214 members from 29 countries, mainly based in Europe, but also outside Europe showing the sector is rapidly evolving across borders.

EVPA is committed to support its members in their work by providing networking opportunities and facilitating learning. Furthermore, we aim to strengthen our role as a thought leader in order to build a deeper understanding of the sector, promote the appropriate use of venture philanthropy and social impact investment and inspire guidelines and regulations.

<http://www.evpa.eu.com>

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