CONTEXTUALISING IMPACT MEASUREMENT AND MONETISATION
A REVIEW OF LITERATURE AND TRENDS

DELIVERED BY
MOONSHOT GLOBAL & LIVING COLLABORATIONS
WHAT IS A QUICK WIN?

‘Quick Wins’ are a series of focused knowledge products produced by Moonshot Global and Living Collaborations, the Monitoring, Evaluation, and Learning Partner for the Australian Department of Foreign Affairs and Trade’s (DFAT) Scaling Frontier Innovation (SFI) Program to support learning about topics that are not only directly relevant to the SFI Program but also of interest to the innovationXchange, DFAT and broader entrepreneurship and impact investing ecosystems.

A ‘Quick Win’ can take many forms, but the essential element is that it is implemented over a relatively short period (1-2 months) to make a specific approach accessible or to circulate lessons to a target audience. Examples of outputs include literature reviews, case studies, system mapping, taxonomy development, learning from after-action reviews and reflection or high-level practice guidance.

This Quick Win summarises past research on and approaches to measuring impact and highlights current trends in impact monetisation.

For additional information on the topic covered by this Quick Win or about the series, please contact claire@moonshotglobal.com.
Over the past 20 years, there have been numerous efforts by organisations working to generate social change to determine how to measure the impact of their activities and to place a value on these effects based on return on investment, cost-benefit analysis, and other methods. There is a consensus that impact measurement and management remain a challenge, especially when it comes to the monetisation of impact. Active discussion on this topic continues today among impact investors and donors who work with social enterprises as they seek to measure and manage the impact of their portfolios and make smart decisions about effectively allocating resources. As Australia’s Department of Foreign Affairs and Trade (DFAT) and other donors experiment with new methods of delivering aid, to (i) provide more value for money and (ii) leverage the skills and resources from the private sector, it is necessary to understand the value of these investments in comparison with traditional development programs and aid delivery.

This review summarises past research on and approaches to measuring impact\(^2\) and highlights current trends in impact monetisation. Much of the literature on these topics is currently being generated from the impact investing sector and environmental and health economics, with few comparative pieces focusing specifically on international donors. Thus, the majority of this review covers that literature from which DFAT and other donors can draw valuable lessons when considering how to manage their programs that support social enterprises.

This review was conducted as a Quick Win\(^4\) under the Scaling Frontier Innovation (SFI) Program, an initiative of the DFAT’s innovationXchange (iXc) to support social enterprises to scale their development impact in the Asia Pacific region.\(^5\) This review builds on research conducted by Results for Development (R4D)\(^6\) and SecondMuse\(^7\) in earlier stages of the design and implementation of the SFI Program and has the dual objectives of creating awareness within the iXc\(^8\) and more broadly across DFAT of the research landscape and current discussions on this topic and identifying potential ways in which DFAT can contribute to research, tools, and approaches to serve as a thought leader in the impact measurement and management of programs that support social enterprises.

Findings are that two distinct, yet interrelated, themes have emerged: the critical role of and need for improved impact measurement and management tools for donors, investors, and social enterprises, and the potential to monetise impact through results-based financing. Both are directly relevant to DFAT’s 2018-2021 Innovation Strategy and Making Performance Count framework (2014). The Innovation Strategy articulates the desire to focus on demonstrable outcomes, create greater impact, take informed risks, and contribute to the core evaluation objectives of:

- Evaluating current iXc programs and sharing lessons learnt,
- Accessing and sharing the latest thinking on how to understand and measure innovation impact, and
- Benchmarking activity in comparison to similar national and global practice.\(^8\)

Based on an analysis of findings, Moonshot Global recommend three ways in which DFAT can advance these objectives and serve as a thought leader in impact measurement and management of programs that support social enterprises, particularly in the Asia Pacific region.

1. Supporting learning and sharing within DFAT and across the broader impact investing ecosystem in identifying and ensuring the uptake of best practices.
2. Identifying key metrics for internal use and productising and promoting these as best practices for us by ecosystem players active in the Asia Pacific Region.
3. Continuing to support impact measurement and management capability development of DFAT’s social enterprise partners.

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1 To have a real understanding of the benefits that any investment creates, some form of impact measurement must occur (TGNIC, 2012).
2 For this review the term impact will encompass both social and environmental impact. Impact is the difference that individuals or organisations intend to make or have made, which can include both positive and negative changes, and measuring it will promote understanding of how activities have helped create this difference and should inform future strategy (AVPN, 2016, p. 13). ‘Impact’, it is argued by many in the space (Karlan, 2018; Milder, 2018; Brest and Born, 2013), occurs only when the change (or outcomes) achieved would not have happened without the investment or intervention. Brest and Born write, “Having impact implies but-for causation, and therefore depends on the idea of the counterfactual—on what would have happened if a particular investment or activity had not occurred. And for an investment or non-monetary activity to have impact, it must provide additionality—that is, it must increase the quantity or quality of the enterprise’s social outcomes beyond what would otherwise have occurred (Brest and Born, 2013).”
3 A Quick Win is a short-term effort to investigate a topic, explore how to apply a tool that has already been developed or learn more about an area of broad interest to SFI Program stakeholders.
5 Results for Development, 2016.
7 The mission of the iXc is for Australian Aid to be a recognised leader in innovation, delivering new and cost-effective solutions to pressing development challenges to improve the lives of people in the Asia Pacific region.
METHODOLOGY

Moonshot Global in our role as monitoring, evaluation, and learning (MEL) partner for the SFI Program conducted this activity as a ‘Quick Win,’ which is defined as a short-term effort to investigate a topic, explore how to apply a tool that has already been developed or learn more about an area of broad interest to SFI Program stakeholders. Therefore, the review of existing approaches and current trends was thorough but not exhaustive.

This approach to this activity was to:

- Undertake a review of academic literature, research and technical papers, funder and practitioner reports and working papers (where available),
- Conduct interviews with eight key informants on selected cases or tools, which employ an array of approaches to impact monetisation, and
- Analyse emerging themes and trends, including challenges and gaps that exist in research and practice.

There is a paucity of literature on traditional development donors’ support to social enterprises (Rogerson et al., 2014). It is worth noting that much of the existing literature on these topics focus on the use and application of impact measurement and management methods by those engaged in impact investing and environmental and health economics. The key informant interviews were conducted to help shed light on how donors such as DFAT can contribute value to research and dialogue on impact monetisation.

LITERATURE REVIEW

CONTEXTUALISING IMPACT MONETISATION

Organisations that work to generate social change seek to determine how they can measure the impact of their activities. Change needs to be measured so that organisations can determine how much impact (both positive and negative) their investments and activities have (e.g., tons of greenhouse gas reduced, number of jobs created, etc.) to inform future strategic decisions around resource allocation, this is imperative for international development donors who need to be accountable to taxpayers and program beneficiaries.

Impact monetisation is a subset of impact measurement that involves the translation of impact into transferable economic value. The concept of impact monetisation emerged in the 1990s as part of the ‘philanthrocapitalism’ movement when business methods began to be applied to the social sector; interest in monetisation has continued to increase with the proliferation of impact investing (Carvalho, 2012; Bishop and Green, 2008). Just as for-profit companies measure performance using financial return on investment (ROI), providing clear and consistent metrics by which to compare the performance across companies and investments, the social sector has tried to move its measures of impact toward similar clarity and consistency (Ebrahim and Rangan, 2014; Carvalho, 2012; Tuan, 2008). The discourse around monetisation has been most prevalent in environmental and health economics, but new methodologies are beginning to extend the approach into other fields.

Impact management is the use of insights from measurement practices to inform strategic decision making. Current discussions on impact measurement are increasingly paired with impact management, acknowledging that the value impact measurement lies in organisations and individuals’ ability to apply evidence to practice.

Impact measurement approaches are used for a variety of purposes (often depending on the target audience(s)). Four common objectives relevant to DFAT and other donors investing in social enterprises include due diligence, monitoring, evaluation, and reporting.  

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9 Tuan (2008) refers to this as ‘social value,’ the practice of measuring social impacts, outcomes, and outputs through the lens of cost.
10 Return on investment is a financial performance measure used to evaluate the amount of return (money made or lost) on an investment, relative to the investment’s cost.
11 (Social Value UK, 2016).
12 Impact measurement frameworks are commonly designed to cater to different audiences or users of data (AVPN, 2016).
COMMON APPROACHES TO MEASUREMENT & MONETISATION

Since the popularisation of the theory of change approach to measuring impact in the 1960s, more than 130 impact measurement tools and techniques have been developed covering a range of sectors and requiring varying levels of resources and knowledge needed for implementation. Still, impact measurement remains a challenge in the international development and impact investing sectors. Within both communities, there has been a conscious effort to do more to organize and standardise impact measurement metrics and tools. Below is a summary of common approaches to impact measurement and monetisation.

Cost Benefit Analysis

Many of the most well-known approaches to impact monetisation draw on cost-benefit analysis (CBA), which is a process for calculating and comparing benefits and costs of a decision. According to Tuan (2008), CBA monetises associated benefits and costs and then compares them to see which one is greater; CBA is the most difficult approach to analysing impact as it requires the ability to place a monetary value on program impacts across stakeholders (Tuan, 2008). CBA can be used to forecast expected returns or to retrospectively evaluate outcomes or impact that has been achieved (So and Staskevicius, 2015). When forecasting, CBA uses a ‘discount rate’ to reduce the value of future costs or benefits to place them on a par with costs and benefits incurred at present (Better Evaluation, 2014).

CBA is widely used across the public and private sector to help decision-makers prioritise among various uses of funds for programs and projects (Tuan, 2008). Often CBA focuses on value from the perspective of real, potential, or imagined savings to the public sector expressed as an indirect financial value to the taxpayer or as a proxy for achieving impact (Social Value UK, 2016). While widely used, CBA weightings in the calculation or on conclusions reached from analysis are not standardised. The insights that come from CBA are only as useful as the data used; many assumptions go into a CBA, which should be stated explicitly to help decision makers understand the context and limitations of the evidence they are using to inform strategies.

Benefit-Cost Analysis (BCA), the inverse of CBA, is the ratio of the benefits of a project or proposal, in monetary terms, relative to its costs. BCA has perhaps most notably been used by the Robin Hood Foundation to capture and convey an estimate of collective benefits to poor individuals that their grants create per dollar cost to the foundation, which enables them to shift funds from lower BCA programs to higher BCA programs across their portfolio of grants (So and Staskevicius, 2015).

In 2013-2014, the Bill and Melinda Gates Foundation commissioned the development of a reference case for economic evaluation of health-related interventions in low- and middle-income countries that resulted in recommendations for a methodological approach to BCA (Tuan et al., 2015). The Harvard T.H Chan School of Public Health, funded by the Bill and Melinda Gates Foundation, is currently working to develop guidelines for BCA with the goal of building on this research to encourage high quality, comparable benefit-cost analyses of initiatives designed to improve the health and well-being of low- and middle-income populations. According to the initiative, “By using money as a common metric, [BCA] in principle allows the simultaneous, integrated consideration of multiple consequences, including both health and non-health impacts.”

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19 The theory of change approach involves an assessment of outcomes or results following a logical model that explains the process of intended [impact] by an organization, intervention, or investment (So and Staskevicius, 2015, p.23). This has been advocated as the primary approach to impact measurement within traditional development donors since the 1960s, despite mixed evidence of success (Ebrahim and Rangan, 2014). Ebrahim and Rangan find that there is limited evidence on if these forms of measurement have led to improved performance in social sector programming.


21 The challenge of impact measurement and management was noted at almost all of the panels at the 2018 AVPN Conference in Singapore, with the ‘Making A Difference? Making Impact Measurement’ an especially popular session. Similarly, the topic was explored in-depth at the recent ANDE Metrics from the Ground Up Conference in Washington, DC.

22 Nichols argues that “despite increasing convergence on measuring impact, practical application remains very variable and resource allocation decisions are rarely influenced (Nicholls, 2015).”

23 CBA is often also referred to as Benefit-Cost Analysis (BCA) which is the inverse of the CBA equation.

24 CBA monetising methodology typically takes the format of price per unit multiplied by number of units.

25 Expected returns can refer to outcomes or impacts that are anticipated to be achieved during the period of funder support (IDIA).

26 According to Better Evaluation (2014), “The ‘discount rate’ will vary depending on the sector or industry, but public-sector activity generally uses a discount rate of 5-6%. The sum of the discounted benefits of an option minus the sum of the discounted costs, all discounted to the same base date, is the ‘net present value’ of the option.” Converting the future expected value into a present value using the discount rate is called a time value of money calculation. However, the discount rate can be subjective.

27 https://www.ipa.fas.gov/Taskscfm?PageName=Benefit%2FCost%20Ratio

28 https://sites.sph.harvard.edu/bcaguidelines/what-we-are-doing/

29 ibid.
MILLENNIUM CHALLENGE CORPORATION’S APPROACH TO ECONOMIC RATE OF RETURN

The Millennium Challenge Corporation (MCC) uses an Economic Rate of Return (ERR) methodology, which draws on CBA, to inform their due diligence process by calculating the expected ERR of potential investments. Weibe, former Chief Economist at MCC:

The reason [ERR] is important is because we’re talking about investments and you need to have a tool that tells you whether investments are appropriate or not. The private sector has a very easy way. They simply look at profitability. CBA is a way that the public sector can look at their funds and decide whether those investments make sense or not (Weibe, 2008).

MCC’s approach to ERR provides a single metric to demonstrate how a project’s economic benefits compare to its costs, with projects requiring an ERR of at least 10 percent to be eligible for investment (see https://www.mcc.gov/our-impact/err). The MCC ERR calculation considers the expected outcome with and without the proposed project; outcomes typically include the impact an investment will (and later has had) have on local incomes, which is quantifiable, as well as an examination of other ‘extra-financial’ impacts, such as the impact on gender and environment (Weibe, 2008). What’s unique about this approach, compared to the others outlined in this report, is that MCC is specifically focused on country-level economic growth. MCC posts all their calculations online to ensure accountability and transparency. This example represents one way in which monetisation has been used in a due diligence process to inform investments.

SOCIAL RETURN ON INVESTMENT

Developed in 1997, Social Return on Investment (SROI), which is perhaps the most well-known and widely used method of assigning a monetary value to social impact, draws on CBA, social accounting, and principles of ROI. The SROI method is designed to measure the performance of a given program or investment by assessing impact generated. Unlike CBA, stakeholder involvement is a key principle of SROI analysis. According to Social Value UK, “This principle is fundamental to the SROI approach and is followed in all aspects of SROI. It is especially important to involve stakeholders when trying to determine outcomes or the changes that result from an activity.”

Like CBA, assigning monetary values to outcomes is a fundamental component of the SROI method of assessing impact (So and Staskevicius, 2015). According to Social Value UK’s SROI Guide (2012), “sometimes monetisation is a straightforward process—where it relates to a cost saving, for example” or when outcomes have a clear market price. In other instances, proxies are used to estimate the monetary value of non-monetary goods to different stakeholders, which is an important part of SROI analysis (Hebb and Bhatt, 2013).

DEVELOPMENT INNOVATION VENTURE’S APPROACH TO SOCIAL RATE OF RETURN

Development Innovation Ventures (DIV), part of the U.S. Global Development Lab, is USAID’s open competition supporting “breakthrough solutions to the world’s most intractable development challenges—interventions that could change millions of lives at a fraction of the usual cost.” DIV seeks to bring in new ideas for solving problems facing millions around the world—delivering more impact, for less money, with greater potential for sustainable scale (see https://www.usaid.gov/div). Michael Kremer, Gates Professor of Developing Societies in the Department of Economics at Harvard University, recently presented a portfolio-level case study on the social return of the DIV Program at USAID’s Global Innovation Week, applying BCA to determine the net present value of investments made to three social enterprises, noting that when looking across a portfolio of investments it may be unrealistic or impossible to apply this type of analysis to every enterprise. The case, which focused solely on investments in enterprises with data that is more easily monetized, showed that DIV generated at least $3 in social benefits for every $1 in costs incurred and at least a 39-percent return on investment. This example represents one way in which monetisation has been used to evaluate the achievement of results within a development program.

The SROI method identifies quantified outcomes attributable to a project and then finds financial proxies that match these outcomes, and, by calculating in monetary terms the total value of benefits produced against the cost of investment, the final SROI ratio communicates at a glance the net value of a project (Marden, 2011). This process of assessing impact enables the conversion of qualitative research or results to monetary terms, making impact more comparable across portfolios and between financial and social returns (AVPN, 2016).”

Monetisation is considered the most common part of any CBA or SROI calculation for a few reasons:

- It is often difficult to attribute a financial value to outcomes without a market price;
- There has been a reluctance to assign monetary values to more subjective social outcomes which are dynamic and may change over time; 32, 33 and
- These processes involve complex techniques for monetising diverse aspects of social benefits, such as present and future value and value for specific populations compared to value for society (Moody and Littlepage, 2013). 34, 35

To date, three primary non-market methods, which involve both proxies and willingness to pay, have been used to monetise impact (see Table 1): cost saving, stated preference, and revealed preference (Bhatt and Hebb, 2016; Social Value UK, 2016). 36

31 “Majority of those working in social sector appear to advocate for a balance in quantitative and qualitative analyses, believing it best to use a mixture of approaches that can capture the complexities and subjectivities of the communities and beneficiaries they are serving (AVPN, 2016, p. 29).”
32 Bracking et al (2014) assert that subjective measures of value change according to the moral, social and economic forces of the time, and therefore cannot be viewed as static figures.
33 Sievers (2004) cautions that “[m]easurable outcomes ... may distort an organization’s program or actually cause more important, intangible aims to be overlooked.”
34 This is often due to a tension between measuring ‘hard’ and ‘soft’ outcomes. Morgan (2015) defines ‘hard’ outcomes as those that are considered easier to measure and value and ‘soft’ outcomes as those regarded as more subjective and therefore more difficult to quantify robustly and reliably (Morgan, 2015). Attributing monetary values to soft, or social, outcomes, which are without a market price, poses a challenge in practice (Morgan, 2015; Bracking et al., 2014; Mulgan, 2010; Cabinet Office, 2009c). Bracking et al.(2014) argue that through this practice new markets and commodities are being created in key policy areas, putting prices, and thereby a value, on previously unpriced, but not necessarily unvalued things, the consequences of which have not been studied in adequate detail. Mulgan (2010) similarly argues that many social value metrics are inherently unreliable, given the subjective, and often arbitrary nature of estimates.
35 A fourth method, economic experimentation, can combine elements of stated and revealed preference.
<table>
<thead>
<tr>
<th>METHOD</th>
<th>DESCRIPTION</th>
<th>CHALLENGES</th>
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</thead>
<tbody>
<tr>
<td>COST SAVING METHOD</td>
<td>Assigns a monetary value of the cost-savings a program has achieved for the government or other stakeholders.</td>
<td>To do this credibly requires rigor and guidance on marginal costs and displacement.</td>
<td></td>
<td>✓</td>
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<tr>
<td>STATED PREFERENCE</td>
<td>Asks people what they would pay for a service or outcome to help infer willingness to pay. This approach is most commonly used in estimating environmental values to date.</td>
<td>This approach requires survey-based data collection, can be sensitive to framing bias, and requires technical knowledge is needed for design and estimation. The validity of stated preference is often contentious.</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>REVEALED PREFERENCE 37</td>
<td>Uses evidence of how people behave when making real choices and uses that to infer their willingness to pay. This is often done by looking at either people’s purchasing decisions in markets related to the non-market good in question. These estimated values are grounded in actual behaviour making their validity less contentious.</td>
<td>Few fields have enough data to do this rigorously. There are circumstances where it is difficult to provide the estimates. needed for environmental policy analysis.</td>
<td></td>
<td>✓</td>
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37 There are two common approaches to revealed preference: hedonic pricing and the time value method. According to Social Value UK (2016), hedonic pricing builds up a value from the market values of constituent parts of the service or good being considered. This method could be used to value environmental amenities that affect the price of residential properties. The time/value method looks at wage differentials that people are required to take on certain risks, to calculate how they value different aspects of their lives. Another approach recognises that people are generally willing to travel some distance or give up some time to access goods and services on which they place value. This inconvenience can be translated into money to derive the estimate of the benefits of those goods and services (Social Value UK, 2016, pp. 47-48).
Use of Proxies

Proxies are used to demonstrate change or results when direct measures are not feasible. Leading indicators are common proxies that are designed to help project or assess the potential impact of interventions (IDIA, 2018, p. 12). The SVT Group, a social and environmental impact measurement and management firm, explains:

A quality leading indicator marks the difference between something that’s easy to count but unrelated to actual impact and something that’s both countable and is, in fact, a valid proxy for impact. A new relationship is emerging between researchers and investor/managers, wherein researchers prove through experimental studies what actions cause impact, and investor/managers grow enterprises that perform these actions on a large scale. The critical question in practice is whether the actions are being done in a manner that delivers the desired results. It is possible to gauge this to a reasonable degree of credibility via the proxy of actions and/or outputs that have been determined by researchers to be leading indicators of impact, and which can be easily measured by management during regular operations (SVT Group, 2008).

For example, if existing research has been conducted on the effectiveness of a vaccine in preventing disease; it is reasonable to measure the cost and scale of a vaccine-delivery program and have confidence about the impact that it has on the long-term health of children (Fruchterman, 2016). Such research is often generated by or of interest to academic institutions, which creates an interesting opportunity for DFAT and other donors to consider how to engage academia in these discussions further. Although this practice is common, it can be tricky when trying to apply research across vastly different geographic, social, economic, and political contexts. Further, certain metrics are more comparable than others (e.g., financial return, incremental increases in income, etc.), but it is more complicated when we are trying to compare years of education with life years of health.

In recent years, the use of proxy indicators in various methodologies has expanded, with acceptance and standardisation varying across sectors, such as healthcare, employment, and education. For example, the healthcare industry has accepted and widely uses Disability-Adjusted Life Years (DALY)—a measure of overall disease burden, expressed as the number of years lost due to ill-health, disability or early death—and Quality-Adjusted Life Years to account for both objective and subjective patient experiences. The development of the DALY by the World Health Organization in the 1990s, was initially contested and took years to reach consensus; continuous updates are required for it to remain relevant. As there is no established marketplace for human life, economists must determine the value of this indirectly through a range of techniques, which often produce significantly different values.

The Low-Income Impact Fund (LiIF) Calculator and the Global Innovation Fund’s (GIF) Practical Impact Assessment Tool are two tools being deployed today to measure and manage impact within investment portfolios. Beyond being useful for due diligence, monitoring, evaluation, and reporting, these tools offer a valuable tool for strategic communication and public engagement around the potential of enterprise-led development (SecondMuse, 2018).

Given that there are tools already being tested in impacting investing, DFAT could consider deploying similar methodologies across their social enterprise investment portfolios to improve the rigor of selection processes, manage individual grants and portfolio health on an ongoing basis, and evaluate within and across programs to identify best practices and needs for reform. Experimenting with one project or staying engaged in discussions with practitioners and other donors around which tools work can help inform adoption of successful tools across DFAT.

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31 Within the niche of education and health it is easier to find comparability (Milder, 2018).
40 Valuations of health and life are complex and controversial (Social Value UK, 2018).
LIIF’s Social Impact Calculator

LIIF recently launched a Social Impact Calculator, which is available for public use online. LIIF’s approach to calculating impact relies on leveraging the best available academic research in a ‘common sense manner’ to monetise their impact; they use existing evidence to estimate impact and monetised value based on output proxies that they can collect in the normal course of business, acknowledging that capturing longitudinal data is not always possible (LIIF, 2014).

The Social Impact Calculator is currently only applicable to affordable housing, early care and education, and community health clinics; however, this methodology could be replicated for other sectors where there is sufficient information on relevant output proxies.

LIIF acknowledges that monetizing impact “by proxy” is imprecise and most of their calculations do not use a discount rate, accounting for the time value of money, as best practice recommends for forecasting.

Most of LIIF’s monetary estimates also do not account for the time value of money (LIIF, 2014). LIIF’s goal in releasing the calculator is to spur conversation about impact metrics and encourage others to find new ways to measure and communicate the value of their work (see http://www.liifund.org/news/post/new-tool-can-quantify-your-social-impact/). While this tool may help establish benchmarking data to help funders make decisions about future investments, it is currently most applicable to help monetize impact after outputs have been achieved.

GIF’s Practical Impact Assessment

GIF is a $200 million-dollar non-profit fund that invests in social enterprises that have the potential to help people in the developing world living on less than $5/day, with the goal of maximising social returns (see https://globalinnovation.fund/who-we-are/about-us/).

GIF developed the Practical Impact Assessment to help solve two challenges in measuring potential investments: comparing disparate outcomes and tracking progress towards long-term impact. The Practical Impact Assessment defines impact as breadth of impact, or the number of people who will benefit after 10 years, times the depth of or the benefit per person relative to annual income, times the probability of success, or the likelihood that the innovation will be successful in 10 years.

CBA and SROI are useful complements to the Practical Impact Assessment, which are usually too data-demanding to calculate before implementation. SROI analysis can be used to complement this assessment as results begin to be achieved. According to Michael Eddy, the VP of Analytics at GIF, the overall goal of this tool is to help funders understand the possible benefits or costs of a program at the time of making that decision about to invest in or fund a enterprise. Forecasting allows portfolio managers to start with a ‘good enough’ order of magnitude estimate when making investment decisions and promotes portfolio-level monitoring and evaluation of impact. LIIF, GIF leverages existing social and economic research to inform their calculations in the forecasting stage to develop their assessments. Eddy goes on to say that at GIF, their process of applying the tool is ‘more of an art than a science.’ Over time, they hope to develop a database of existing data to inform their investment decisions to make the process more of a science than an art. This tool is currently only being used by GIF, but the goal is to expand its use to other investors and donors interested in improving their impact measurement and management and contributing to the database to enhance the ecosystem’s understanding of how investments are shaping impact in different countries and contexts.
Due diligence tools and techniques allow donors and investors to project whether expected future costs and benefits indicate a favourable investment in the present. This is a way of forecasting results and can be used to inform the structure of grants and contracts, as well as to prioritise resource allocation (Scott Kemmis, 2018; Shah, 2018; So and Staskevicius, 2015; J.P. Morgan, 2015).

Monitoring tools and techniques are those that enable donors and investors to look across their programs and portfolios throughout implementation to monitor impact and make course corrections along the way. Clara Barby from Bridges Ventures writes, “We aggregate data to drive decisions about portfolio construction: aggregation shows us whether a current portfolio is on track to meet expectations or whether resources need to be re-allocated (Social Value UK, 2016, p. 8).”

Evaluation is typically a retrospective look at a project (or investment) against predetermined metrics to evaluate actual outcomes achieved. This approach is common amongst traditional development programs.

Reporting involves communicating the information gathered from due diligence, monitoring, and evaluation to key stakeholders (e.g., beneficiaries, taxpayers, service providers, funders, etc.) (So and Staskevicius, 2015, p. 140). Ongoing learning should ideally take place internally and externally to ensure information from impact measurement activities is informing impact management at the project, organisational, and ecosystem-level, although the latter is, of course, more challenging.

Different tools and techniques are being tested and used for each of these purposes to help funders achieve objectives at various stages of their funding cycles and project implementation.

There are many potential benefits to impact measurement and, specifically, impact monetisation. According to the Global Impact Investing Network (GIIN), impact measurement helps those dedicated to creating social change understand and manage their resources, set goals, and adapt processes along the way to improve outcomes (GIIN, 2017). Further, Bugg-Levine et al. (2012) notes, “without standards and ratings, investors can’t distinguish between good investments and bad ones...when it comes to evaluating a social enterprise, the challenge is doubled... This can have two effects: It can starve good organisations of funding and leave investors focused solely on financial returns (Bugg-Levine et al., 2012).”

Impact measurement can help organisations and individuals tangibly demonstrate impact, calibrate risk, enhance accountability, bolster reputations by showing results beyond qualitative storytelling and meet various reporting requirements (Shah, 2018). According to the Low Income Investment Fund (2014), which works on community development initiatives, there are several perceived benefits to impact monetisation in particular, including:

- Channeling public and private resources to the highest impact strategies and approaches;
- Making a stronger case and potentially unlocking private sector capital for investments; and
- Encouraging a shift in practice and mindsets of practitioners to define success through the lens of achieving specific social outcomes.

Each of these benefits is relevant to today’s international development context.

Within DFAT and the broader international development community, there is additional interest in unlocking innovative solutions and capital from the private sector, as official development assistance (ODA) is no longer the primary source of development financing. Globally, the funds required to achieve the Sustainable Development Goals (SDGs) fall short of the total global aid budget, with an estimated funding gap of USD 2.5 trillion. The growing impact investing market holds potential to contribute to bridging the gap in development financing; however, the impact investing ecosystem is still relatively nascent in the Asia Pacific region.

Impact measurement and management were mentioned in most sessions at the Asia Venture Philanthropy Network (AVPN) 2018 Annual Conference as critical to further unlocking impact investment across the region and identified as a key gap in the sector in R4D’s landscape analysis of the region. Improved measurement and management practices have the potential to promote greater impact investment in the region, as Impact Investing Australia (2016) notes that investors and other stakeholders consistently cite access to clear measurement and data as a critical challenge to the growth of impact investment, which is of direct relevance to the SFI Program.

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15 Monitoring also ensures accountability among those receiving funds (AVPN, 2016).
14 According to Moody and Littlepage (2013), measurement processes have a significant learning benefit for organisations as they can gain a better understanding of whether their programs are driving towards success and in some cases, improve the mission-orientation as the focus of organisational culture (Moody and Littlepage, 2013).
15 https://www.scalingfrontierinnovation.org/
16 Based on attendance at the following sessions: Sustainable Finance and Impact Investment; Financing Multi-Sector Development Partnerships in Asia; Impact Investing in North East Asia; Making A Difference? Making Impact Measurement Work; The Role of Ecosystem Builders; and Unlocking Social impact investing in the Asia Pacific.
17 Impact Investing in the Asia Pacific
18 OECD’s Social Impact Investing (SII) initiative research has found that impact measurement remains a key challenge and Rodin and Brandenburg (2014) writes that for the impact investment practice to become more broadly adopted, impact measurement is necessary (Rodin and Brandenburg, 2014). Impact Investing Australia, 2016, p. 1.
Impact Monetisation and Results-Based Financing

Recent research and current trends are expanding the discussion to move beyond measuring social return on investment to placing transferrable economic value on results and catalysing the achievement of these results through market-led approaches to designing and implementing the activities that produced them. Parallel to discussions around impact measurement and management is the emergence of results-based financing (RBF) as an approach for monetising impact and promoting social enterprises.\(^4\)\(^5\) Originating in the private sector, RBF is not a new idea, but there is growing interest in applying it to shift the focus of activities to achieving social impact. RBF, which leverages existing or new financial resources to incentivise results by paying for desired outputs or outcomes, diverging from traditional funding designs that focus on inputs and activities.\(^6\)

Applied to programs designed to assist early-stage social enterprises, payments incentivise and enable intermediaries to attract investment by guaranteeing investments or rewarding the achievement of specific outcomes. This can facilitate the financing of high additionality investments in social enterprises with high impact but face constraints due to customers and markets they serve.\(^7\)

Evidence suggests that clear results-based incentives can yield improved outcomes (CDG, 2013). Donors use RBF to help ensure that money meant for public service delivery goes to fund effective programs, using payments to align incentives between a funder and a recipient of funds tasked with achieving specific outcomes. These models improve service delivery and government performance by incentivising the achievement of desired results. RBF makes it possible to move the focus from activities and plans to the monitoring of results and learning about what works (Sida, 2015, p.7). The partner can thus be given more freedom to choose suitable activities and methods and determine the budget according to needs.

However, the question of what the ‘right price’ for impact comes into play when dealing with RBF, making impact measurement, particularly monetisation, critical to conversations around RBF. Most important to this discussion is the fact that RBF sharpens the focus of development financing on measuring and demonstrating verifiable results and improving service delivery (Eldridge and TeKolste, 2016, p. 9). Unfortunately, processes and data around monetising impact within the international development space are often overlooked in discussion around RBF. The tools and techniques outlined in the first part of this review are often used in the process of developing RBF agreements, with donors tending to hire outside economic analysts and consultants. These approaches provide examples of where donors have begun to monetise impact by establishing donors’ willingness to pay for specific results and begun to pinpoint cost savings.

RBF solutions have proliferated in the public health sector, where outcome measures can be relatively straightforward, and data are often more readily available. Jonathan Wong, Chief Innovation and Technology Officer of UNESCAP noted, “Impact monetisation is the ‘holy grail’ that makes things like [RBF] possible...but we are miles off (Wong, 2018).”

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\(^{4}\) The World Bank applied the concept of RBF to the social sector in 2012 in their lending instruments.

\(^{5}\) RBF under the umbrella of ‘outputs-based aid’ contracts with service providers was initially focused primarily on outputs as a proxy for impact but, agreements are increasingly emphasising on outcomes (Eldridge and TeKolste, 2016).

\(^{6}\) (CFF, 2017).
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What’s more, RBF is proving to be an effective tool for creating environments that reward creativity and innovative solutions, by shifting the focus from how activities are delivered towards the impact they have achieved. Tennerson notes:

> When incentives are aligned with results, government and service providers are held accountable for delivering the outcomes communities need, and providers are rewarded for innovation that leads to greater efficiency and performance. This focus on outcomes makes so much sense, and yet, after more than two decades, paying for [results] is still in need of additional support (Tennerson, 2015).

The ability to adapt while working with donors can be especially helpful when working with social enterprises, given that the focus on a social enterprise’s activities, rather than its results, limits its ability to pivot, when most social enterprises need to be agile in their early stages of growth (Bugg-Levine, et al.,). While there is more flexibility in implementation, RBF requires transparency and accountability, with a need to have clear measures in place to verify results (Sida, 2015). Finally, RBF models are a critical tool to unlocking private capital by reducing the operational and financial risks in promoting investment in social enterprises and creating a modality for public-private partnerships and collaborations.44, 45

There are several forms of RBF currently being utilised across the public sector, most notably Social and Development Impact Bonds. Smaller-scale results-based grants and contracting mechanisms that build upon these models and involve service providers and social enterprises receiving payment for results, which are being tested by practitioners, also are presented in the text boxes as examples.

45 Bugg-Levine et al., (2012) explain how this works with impact bonds, “To see how the process works, imagine that a social enterprise operating in Africa requires an investment of $100,000 to build new health clinics and expects the clinics to earn $5,000 a year—a return of 5% on the investment. Unfortunately, 5% is too low to attract private sources of capital. Traditionally, the enterprise would obtain the $100,000 from a charitable foundation instead. But suppose the enterprise asked the donor for only $50,000. It could then offer a financial investor a 10% return on the remaining $50,000. The donor would receive no repayment—but it would have $50,000 to give to another socially worthy enterprise. What we’ve just described is, of course, analogous to the way conventional companies are financed. By raising a portion of the capital it needs from equity investors, a risky business can then borrow money from debt investors that seek predictable returns (Bugg-Levine et al., 2012).
The emergence of the social impact bond (SIB) is an interesting thread in the discourse around impact monetization. Murray (2018) defines a SIB as ‘a financing tool that promised to raise capital for government social interventions from private investors without risking taxpayer dollars’. In *The Power of Impact Investing: Putting Markets to Work for Profit and Global Good*, Rodin and Brandenburg explain how SIBs work:

“When a local authority or department has identified successful intervention to address a problem—from long-term unemployment or homelessness to poor student performance at government schools—it enters a contractual agreement with an investor or intermediary (such as a bank or foundation) that can raise funds from other investors. Well-proven service providers execute the program. And as soon as the terms of the contract are met (as assessed by independent evaluators) and the project has achieved its intended savings and social or environmental impact, returns are paid out to investors (Rodin and Brandenburg, 2014, p. 47).”

SIBs propose to give private investors a financial return if the project they support produces an agreed social return (Marden, 2011). By incorporating the private sector into the promotion of social impact, programs stand to benefit from the market-driven efficiencies gained by integrating a profit motive and society stands to benefit in return, through both the more effective provision of social services and the cost savings realized by government entities (Bergfeld et al., 2016). SIBs are generally likely to work best in situations where there are misaligned incentives to develop, fund, and deliver preventative services that can save costs down the line and achieve a better result from the system (Mulgan et al., 2011). Further, programs should be able to produce measurable outcomes, produce outcomes in a short timeframe, have evidence of success, and an appropriate political and legal environment (Instiglio) (see http://www.instiglio.org/en/impact-bonds/). SIBs thus monetize social interventions by tying funding to performance. Monetization is determined both by government’s willingness to pay and verified typically via independent evaluators from the private sector who engage in financial modelling and due diligence to help determine shared metrics, evaluation, and cash flows (Dermine, 2013).

In the SIB market, the essential requirement is the willingness of the government, or outcome funder, to support the specific social service, engage in a SIB project, and repay investors. As this market is still nascent with a limited proven track record, many governments are cautious about engaging in the market. On a broader level, questions have been raised about the availability of monetizable and easily measurable socially desirable outcomes that would be suitable for SIB projects, making the SIB space highly relevant to the conversation around impact measurement and monetization (Rodin and Brandenburg, 2014).
The DIB was introduced in 2013 by Social Finance UK and the Center for Global Development (Development Impact Bond Working Group 2013). DIBs transform social problems into “investible” opportunities by monetizing the benefits of tackling social problems, so attracting private sector investors wanting to bring their resources and skills to development (CDG, 2013).

In a SIB the outcome payer is the government, while in a DIB the outcome payer is a donor (see http://www.instiglio.org/en/sibs-worldwide/). DIBs finance development programs with money from private investors who earn a return if the program is successful, paid by a third-party donor. The outcomes to be measured are agreed upon at the outset and independently verified. With a greater focus on outcomes instead of inputs, DIBs create space for more innovation, local problem-solving, and adaptation (CDG). DIBs can enable more impact investment in development, by providing a shared platform for governments, donors, investors, firms and civil society to work together, achieving more in partnership than any of them could achieve separately. Investors get their money back (with a potential positive return), the government realizes potential future cost savings, families and society benefit from better outcomes, and social service providers strengthen the case for funding their model (Eldridge and Tekolste, 2016).

A recent example of a DIB comes from USAID’s DIV program in partnership with the intermediary Instiglio. DIV provided support to Instiglio to develop, with Village Enterprise and other donors, a DIB to scale Village Enterprise’s poverty graduation model in Kenya and Uganda. In this specific example, USAID and other donors agreed to pay a certain rate for rigorously verified outcomes from Village Enterprise. Village Enterprise then received funding upfront from socially-motivated investors and had the flexibility to deliver services as they see fit. If the model being proposed by Village Enterprise didn’t work, the donors wouldn’t have to pay, but, if Village Enterprise met its targets, then the non-profit unlocked more funding from USAID and its partners. There were four perceived benefits of pursuing the DIB model over more traditional funding mechanisms:

- By tying funding to verified outcomes, the DIB ensures the interests of Village Enterprise and their investors, and the donors are well aligned and focused on improving the same outcomes.
- As the DIB requires measuring program outcomes, it makes those outcomes more visible, drawing the attention of the service provider to what matters rather than to the activities performed.
- The DIB offers flexibility and freedom to Village Enterprise to pursue a range of strategies and adapt the program to maximize impact.
- As donors pay if social outcomes are achieved, the DIB ensures that every cent disbursed creates a real impact, providing a significantly greater guarantee of value-for-money compared to pay-for inputs funding (Instiglio, 2018).

A randomized control trial is currently being conducted to assess the overall impact of this intervention by Innovations for Poverty Action. This is a unique model as it demonstrates one way in which donors can work with social enterprise grantees to structure an RBF agreement.
The Women’s Livelihood Bond, of which USAID and DFAT are guarantors, is the first IIX Social Sustainability Bond. IIX Social Sustainability Bonds™ are uniquely structured fixed-income financial instruments that pool together a group of high-impact enterprises and issue a collective bond. These bonds differ from traditional SIBs as they mobilize private sector capital to generate positive social impact worldwide, offer financial returns independent of social outcomes, and can be listed on both social and traditional stock exchanges (see https://iixglobal.com/2017/08/iixs-womens-livelihood-bond-officially-listed-singapore-exchange/). One of the goals of this bond is to demonstrate that investments can achieve positive social-environmental impacts while also generating financial returns. The bond’s structuring was supported by global partners from the public, private and philanthropic sectors, including the Rockefeller Foundation, Japan Research Institute, DBS Bank, ANZ Bank, Shearman & Sterling and Hogan Lovells. IIX’s sister organization, the IIX Foundation, will monitor the performance of borrowers and report on social outcomes (see https://www.usaid.gov/sites/default/files/documents/1861/FS_Womens_Livelihood_Bond_May2018.pdf).

With the loan’s principal being guaranteed by USAID and DFAT, the Women’s Livelihood Bond will provide more than 385,000 Southeast Asian women with access to credit, enhanced linkages to supply chains, and affordable goods and services to improve their livelihoods. The $8-million bond will benefit women in Cambodia, Vietnam and the Philippines. Proceeds of the bond will be lent to microfinance institutions and social enterprises across Cambodia, Vietnam, and the Philippines, which, in turn, will provide loans to support women’s livelihood development. The bond creates a channel to attract more significant amounts of capital than these entities could access on their own. The bond also reduces the risk for investors by combining lower-risk loans to well-established microfinance institutions with higher-risk loans with social enterprises. The Women’s Livelihood Bond is applying the SROI methodology to measure performance over time.
ROOTS OF IMPACT’S SOCIAL IMPACT INCENTIVE

As a logical next step to SIBs, Roots of Impact and the Swiss Agency for Development and Cooperation developed the “Social Impact Incentive,” or SIINC, as an innovative RBF instrument through which high-impact enterprises can earn additional revenues and improve profitability by receiving performance-based payments that have an interest in monetising positive externalities (see https://www.roots-of-impact.org/wp-content/uploads/2017/05/Social-Impact-Incentives-SIINC-White-Paper-2016.pdf).

Roots of Impact is currently piloting the SIINC model to enable impact enterprises in the off-grid energy sector to secure outcome-based payments for achieving results, through a variation of the SIINC model that could be applied at a sector level and enable multiple enterprises to access outcomes payments and is working with Village Infrastructure Angels (VIA). VIA provides solar home systems and solar-powered agro-processing community mills run by women entrepreneurs in remote regions of Honduras where less than 25 percent of the population have access to energy in many rural areas. SIINC payments are aimed to reward and incentivise VIA to go beyond simple household electrification, contribute to women’s empowerment, and increase household income. The results-based revenue will complement income from the villages, creating a solid business case for VIA to attract investors. It will also pioneer more impactful solar-based solutions for impoverished communities. The SIINC mechanism is based on three carefully designed metrics that were co-created with VIA:

- Number of lease contracts signed with female entrepreneurs,
- Number of hours of manual labour saved, and
- Amount of additional economic value created.

To date, the approach to pricing has been ad hoc. However, Roots of Impact are working with Acumen’s Lean Data team to develop a more precise framework for off-grid clean energy systems. This can only really be done on a sectoral basis. Approaches like this, which focus on moving social enterprises towards attracting alternative forms of investment, can help them become less dependent on government grants and subsidies.
PROSPR AND SAVE THE CHILDREN

Save the Children is exploring a similar approach to using RBF to leverage donor funding to unlock private capital to support social enterprises. Prosr’s objective is to operate as a broker between large businesses donors to drive new transaction models around capital blending, shared value, and inclusive business. They help social enterprises think in new ways, develop strategies, and project pipelines. The social enterprises they work with are selected based on their likelihood to deliver on SDGs. Thus, SDGs become their key performance indicators and part of their core business models. The gap between the cost to deliver outcomes and the internal targeted rate of return becomes the gap that donors can meet. The analysis enables donors to achieve their additionality principles. By monetising these outcomes, donors can see the ROI of the offer and compare this approach to the analysis-free approach to capital allocation.

The previous examples illustrate how RBF can be used to monetise impact and attract private capital. However, RBF can be used on a smaller scale within grants and contracts to monetise impact when working with social enterprises in their portfolios, which can ensure that donor money is tied to performance and spent effectively (UNDP, n.d.). For example, USAID’s DIV program pursues RBF grants and contracts, where after an initial money to launch or improve a project, the partner must meet agreed-upon outcomes-based milestones or forfeit further payment DIV grant managers negotiate different milestones with each grantee depending on their ‘stage’, given that specific targets may not be appropriate for smaller, newer partner organisations that need flexibility. Outcome targets such as improved health knowledge or behaviour by the beneficiaries as verified by a rigorous evaluation may be more appropriate. Progress against important implementation metrics, such as sales or margin targets, might also be acceptable (USAID, 2018).

RESULTS-BASED GRANTS AND CONTRACTS

AgResults, a $118 million collaborative initiative between DFAT, DFID, USAID, and the Bill and Melinda Gates Foundation designed to incentivise the scaling of high impact agricultural innovators, is another example of RBF agreements with social enterprises. The AgResults Kenya On-Farm Storage Pilot was an impact prize designed to address post-harvest grain loss experienced yearly by Kenyan farmers. The award sought to incentivise producers of on-farm storage devices to design or adapt, market, and sell storage products to smallholder farmers through a series of performance-based grants. The grants, ranging from $750,000 to a share of $3,000,000, are provided to companies based on verified sales of approved devices to smallholder farmers that meet the sales threshold of 21,000 metric tons. In its third year of operation, the Kenya pilot has nine companies working in the Rift Valley and the Eastern Province. Participating companies have sold a combined total of 704,766 devices, and smallholder farmers now have an increased capacity to store 146,436 MT of maize (USAID, 2018).
There are challenges to pursuing RBF models, which depend primarily on the scale of the agreement and rigor of verification required. For example, currently, more substantial agreements may be comparatively complex and time-consuming and costly to set up, coordinate, and implement (UNDP, n.d.). The Collaborative for Frontier Finance (2018) recently identified four primary challenges to RBF: transaction costs, capital available, capacity, and evidence. Given that many RBF models remain in the early stages of development, there are few examples to follow requiring deals to be tailored by each organisation, and there is limited capacity in existing intermediaries to structure these deals. Narrow evidence of returns at this stage makes capital providers less aware of and comfortable contributing to these models (CFF, 2018). As more cases of RBF emerge, the costs of developing and implementing RBF activities should reduce over time and with the proper application of impact measurement approaches by current practitioners—greater evidence can be generated to help understand the social and economic impact of these models.

As many of these funding models are new, sharing evidence and lessons learned is critical to ensuring that they are applied appropriately to maximise impact. To address some of these issues, the Collaborative for Frontier Finance,46 has identified impact monetisation in the context of RBF as a core theme for further exploration, which entails convening a multi-stakeholder group focused on a specific topic to take stock of progress to date in the field and avoid duplication, identify opportunities to solve challenges, and collectively design initiatives around particular challenges facing practitioners (CFF, 2018).

CHALLENGES TO MEASUREMENT AND MONETISATION

While there is research interest in impact measurement and monetisation and while it is sometimes performed within health and environmental economics, uptake in practice of these approaches is still low among impact investors and donors that support social enterprises. There are several reasons why uptake in practice has been mixed, including the general complexity of measuring impact, the difficulties in attaching monetary value to social impact, perceived subjectivity,47 questions around additionality, the often-burdensome cost of producing robust evidence to support the calculations, lack of infrastructure to conduct such calculations within social enterprises and across the public sector, and lack of agreement on definitions of metrics and practices (Rodin and Brandenburg, 2014; Tuan, 2008).

Much of the previous section focused on the complexities and challenges in applying monetary value to social impact. This section focuses on questions of additionality, the cost of impact measurement, and issues in comparing outcomes across sectors.

Additionality is a critical challenge given that impacts are rarely achieved by individual organisations acting alone, but more often by collections of actors working towards a shared goal (Ebrahim and Rangan, 2014). This reality makes it difficult for funders, including DFAT, to measure direct, causal impact. The gold standard for measuring causal impact is a randomised controlled trial, which is costly and unrealistic for many programs. Some players, like Root Capital, are experimenting with new approaches to impact measurement to identify contributions to impact.

While much of the “How To” information on specific methods (CBA, SROI, etc.) is publicly available, applying the methodologies to inform decision making for specific interventions and investments continues to be a resource-intensive undertaking (So and Staskevicius, 2015). According to Ebrahim and Rangan (2014) “assessing impact requires a level of research expertise, commitment to longitudinal study, and allocation of resources that are typically beyond the capabilities of operating organisations and sometimes even their funders.” This is particularly burdensome for early-stage social enterprises,48 especially if the types of data required by the investor are not inherent to the investee’s information collection systems. Findings suggest that social enterprises have low perceptions of value in impact measurement (So and Staskevicius, 2015; Tuan, 2011). The Frontier Innovators Stage One Report, produced by SecondMuse, the implementing partner for this component of the SFI Program, found that impact measurement and reporting practices are lacking in both quality and consistency across the Asia Pacific region, with most recognised practices being viewed as too onerous and resource-intensive to be practical. Many funders use their frameworks with metrics that do not align with or complement key business metrics already being measured, creating extra work for small and resource-constrained organisations (SecondMuse, 2018).49

46 The Collaborative for Frontier Finance is a group of investors, funders, and field builders committed to increasing appropriate capital available for small and growing businesses. They particularly focus on supporting businesses that face significant financing gaps, including early stage businesses and those with moderate growth trajectories. https://www.frontierfinance.org/

47 Finding financial proxies to match a particular outcome can be subject to considerable judgment (Marden, 2011).

48 These costs, while not insignificant for collecting social output data, will be significantly higher if there is an expectation for measuring social outcome data (Tuan, 2011).

49 The report found that the exception to this was amongst enterprises that had received targeted capacity building support around impact measurement (SecondMuse, 2018).
The SFI Program is providing opportunities to help build impact measurement capabilities of winners, given that this emerged as a gap when SecondMuse conducted preliminary research to understand the impact investing ecosystem in the region. This has been done in a few ways. First, a two-hour training session on impact measurement was delivered to the entire Frontier Innovators cohort (comprised of 15 social enterprises) during the 27-29th March 2018 Design Workshop. Each enterprise’s impact measurement needs were then assessed by a panel of experts to help determine custom support programs. Given the varied stages of growth across the 15 enterprises, this process revealed that perceived relevance of and capabilities related to impact measurement differed across the portfolio. This information was used to design unique support programs for each social enterprise based on their objectives and needs. For example, one enterprise is receiving support to to refine a develop metrics and processes for capturing human impact data and a basic model to project their impact based on growth and another enterprise is working with a consultant to capture consistent and comparable data over time so that they can understand and articulate the extent to which the model has improved community health outcomes.

It is argued that donors should pay for or provide additional support when requiring extraneous reporting from grantees as well as promote research that contributes to the overall ecosystem (Milder, 2018; Tews, 2018). However, to date, such investments are limited. Fruchterman, (2016) notes, “[r]elatively few donors, investors, or government agencies want to fund this work. Although the rhetoric in the social sector demands greater evidence of impact, in practice funders typically allocate more money to implementation, rather than evaluation, of activities (Fruchterman, 2016).” In this context, it is important to consider which approach and degree of rigor is necessary or appropriate for a given project or portfolio.

One of the ultimate challenges is the lack of shared definitions—and clear boundaries for metrics—and methods for both impact measurement and impact monetisation. This is consistent both among international donor programs supporting social enterprises and impact investors. Rogerson et al. (2014), who conducted a survey of over a 100 donor programs including USAID, DFAT, and DFID working to support social enterprises, found that a third of the programmes reviewed did not have explicit systems in place for monitoring impact, and majority did not have standard impact metrics or measurement practices, even when conducting some form of impact measurement (DFAT did do some form of evaluation on 70 percent of programs). They noted that the absence of clear metrics and practices makes it difficult to evaluate impact across programs and recommend that tools are needed to close these knowledge gaps (Rogerson et al., 2014). This is a critical challenge as “differences in the methods and assumptions can lead to widely varying conclusions regarding the impacts of particular programs and policies, making consistent approaches are needed to allow comparison of results.”

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50 AVPN Making A Difference? Making Impact Measurement Work
51 It depends on why you are evaluating and what are you measuring, who you want to inform, who will be using the data, what type of evaluation. Starr and Hattendorff (2012) consider rigor “good enough” when the approach is simple enough to do, but rigorous enough to mean something. The NESTA Standards of Evidence (2013) suggests that the method selected and degree of evidence sought should be proportional to the stage of business model development (AVPN, 2016).
52 https://sites.sph.harvard.edu/bcaguidelines/what-we-are-doing/
Across the Asia Pacific impact investing landscape, the SFI Program’s Frontier Innovators Stage One Report (SecondMuse, 2018) found that in the region, since few of the frameworks are transferable, they compete for usage and that the terminology varies significantly between the public and private sectors. The multitude of definitions and approaches makes it difficult to get clarity on the subject and develop a standard way of discussing the topic, let alone developing standard approaches to measurement and monetisation in practice. According to Clara Barby of the Bridge Fund, “we need to standardise the dimensions of impact performance we all think are important.” Rory Tews, Program Manager at Roots of Impact, contends that identifying and measuring comparable outcomes is critical to enable comparisons across different business models or project types, as well as for enabling longer-term research on impact.54 As previously noted, for impact measurement and monetisation to effectively inform decisions and benchmark55 impact within and across programs a degree of consistency or comparability is required (Tews, 2018; Rodin and Brandenburg, 2014).56 This precision, Bugg-Levine et al. (2012) asserts, “will make it easier to disentangle the social returns and risks of a blended business from the financial ones... enabling social enterprises, investors, and donors to determine the appropriate balance between types of capital...[using] the machinery and infrastructure of the financial markets to the fullest (Bugg-Levine et al., 2012).”

To achieve this level of precision, we need horizontal (across different risk-return exchanges) and vertical (within the same sector) approaches to standardisation to enable decision-makers to understand the most financially efficient and sustainable ways to achieve certain types of impact and move the practice from more of an art to more of a science (Milder, 2018). The development of standardised units of impact might offer a path to align different impact measurement and reporting practices and enable valuable comparisons and projections to be made, but this work would require the long-term engagement of many different parties, requiring an exercise in mass collaboration and coordination (SecondMuse, 2018). To move the needle, a higher level of data sharing is needed and, even still, getting to a reasonable place of comparability may take a decade (Milder, 2018; Tews, 2018; Wong, 2018).

The International Development Innovation Alliance (IDIA) and Donor Committee on Enterprise Development are two platforms for international development donors supported by DFAT that have acknowledged the need for greater alignment around shared approaches to impact measurement.

- The International Development Innovation Alliance (IDIA): Created in 2015, the IDIA is an informal platform for knowledge exchange and collaboration among international development funders focused on innovation. IDIA seeks to collaboratively develop “common platforms for supporting innovation from idea to scale, shared learning and improved impact measurement” 17 to make is to enhance the global evidence base and build an understanding of the role of innovation within international development. In 2017, the Working Group on Impact Measurement developed a high-level architecture for measuring the impact of innovation within three key domains: impact on beneficiaries, scale, and sustainability. 18 This framework provides guidance on proposed indicators (both leading and outcome indicators) 19 and is intended to facilitate closer alignment across international development donors.

- The Donor Committee for Enterprise Development (DCED): In 2015, the Donor Committee for Enterprise Development Results Measurement Working Group (DCED RMWG) launched an initiative to develop a harmonised set of outcome and impact indicators to report on results from advisory/technical assistance operations for private sector development that are broadly aligned with the relevant SDGs. The process for identifying indicators involved consultations with DCED members to identify common indicators being reported and filtered down from 689 indicators to a set of 32 indicators.

IRIS and the Impact Measurement and Management Project are two initiatives that have emerged to try to address the issues of fragmentation of tools and terminology used in impact investing. They are playing a critical role in helping the ecosystem create a shared language and baseline understanding of available resources and best practices and are a positive indication that there are interest and a willingness to work towards greater convergence in approaches being used by various stakeholder types within the ecosystem. However, much more work could be done to foster internal collaboration within the iXc, DFAT, and other international donor programs to improve measurement and management practices when engaging with social enterprises and the broader impact investing ecosystem.

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54 Despite being able to aggregate data via Acumen’s Lean Data approach, Tom Adams from Acumen notes that, “Nonetheless the challenge of comparing diverse outcomes across multiple investment sectors remains (Social Value UK, p.4).
55 A benchmark is a reference point or standard against which performance and results can be assessed.
56 So and Capanyola (2016) also note that this will have benefits for social enterprises in that common definitions in standardised metrics help ensure that investor and investee are on the same page when they are communicating about outputs, using common metrics with all funders can reduce the burden on the entrepreneur, and standardised metrics can provide investors a starting point to think about what types of metrics to include for a new investment.
57 IDIA Working Group on Impact Measurement, 2018
58 Ibid
59 Leading indicators are measured when you want to forecast potential impact and outcome indicators measure actual results achieved.
A GIIN activity, IRIS was developed to address the need for a ‘common language’ for understanding and describing and comparing impact within the industry. IRIS, a catalogue of generally-accepted performance metrics used by a majority of impact investors, provides a set of common terms that can be used to describe a range of impacts (Rodin and Brandenburg, 2014, p. 60). According to GIIN’s annual survey of impact investors, IRIS is the most commonly used framework used to measure and manage impact, followed by the SDGs (GIIN, 2017). The SDGs have similarly gained traction within the broader private sector, especially as part of many multinational corporations’ corporate social responsibility and sustainability reporting as well as across the international donor community, making the SDGs of significant relevance to this dialogue as well.

The goal of creating this common language was to enable investors to compare the performance of their investments, set performance targets, and manage returns. It is also believed that creating common metrics can generate data to accelerate flows of capital to high performing social enterprises. Standardised metrics bring credibility to impact reporting while enabling data comparability and other efficiencies (GIIN, 2016). Many organisations apply IRIS metrics differently. One organisation, YGAP, uses IRIS metrics to measure the impact of social enterprises within their portfolio’s impact on access to health, education, and employment. But when looking across their portfolio they measure the number of lives improved as a means of comparing disparate outcomes such as job creation and provision of sanitary products to girls attending school (SecondMuse, 2018). Others argue that ‘lives impacted’ is more meaningful on a per-issue basis, given that impacts vary tremendously and does not provide enough information about the depth of impact when aggregated in this way.

IRIS metrics can be used in conjunction with a range of tools and resources that do support these steps. IRIS continues to modify their terms and is currently doing with a Working Group and consultations with over 400 social enterprises, investors, funders, and impact measurement experts. IRIS is working to integrate with other efforts taking place within the ecosystem to common data for learning and decision making, including incorporating further guidance on how to align IRIS metrics with the SDGs.

The Department for International Development (DFID)’s Impact Fund uses IRIS metrics, along with other metrics, to ensure financial and social impact reporting is in line with industry standards and to track their impact. Managed by CDC, the DFID Impact Fund is a ‘fund of funds,’ investing long in impact investment funds that invest in enterprises which serve the poor as consumers, suppliers or employees with the goal of transforming the market for impact investment in Sub-Saharan Africa and South Asia to benefit poor and low-income people. The Fund also seeks to catalyse further capital through proving the financial viability of pro-poor business models and demonstrating the positive impact that this type of investment will deliver. Investments are focused in low-income and lower-middle income countries in Sub-Saharan Africa and South Asia and cover a range of sectors. The Fund uses IRIS to track (quarterly) certain common indicators across funds and underlying companies regarding financial performance, the number of beneficiaries reached, and sectoral and operational metrics are selected when relevant for specific investee companies. This feeds into the Funds overall results framework, which is managed by a Programme Coordination Unit from PwC.  

98% of investors recognise the importance of standardised metrics and over 5,000 organisations are using IRIS to evaluate, communicate and manage their social and environmental performance.
The Impact Management Project is a collaborative effort by over 700 organisations, from different disciplines and geographies, to agree on shared fundamentals for how we talk about, measure and manage five dimensions of impact: what, how much, who, contribution, and risk. The Omidyar Network views the body of work emerging from the Impact Management Project a convention—a general agreement of shared norms and fundamentals—about how to communicate, analyse, and assess impact across five key dimensions; embedded in this convention is the assumption that a more nuanced characterisation of impact (alongside financial risk and return) can and should play a much greater role in helping investors better assess investment opportunities tailored to their unique motivations, expectations, constraints, and capabilities (https://www.omidyar.com/blog/why-we-invested-impact-management-project). The Project, which is ever-evolving via feedback and inputs from the ecosystem, currently lives on an interactive, online platform.

The Impact Management Project emerged in part after observing that there was growing interest from asset owners to have access to tools to help tackle specific social and environmental challenges. Over time, the project hopes to help organisations:

- Gather data that describes an enterprise’s total impact on people and the planet—positive and negative, intended and unintended,
- Analyse and classify data that enables everyone in the value chain to understand performance, and
- Provide decision-making frameworks that enable everyone to set goals and improve—in other words, to “manage impact” (proprietary or off-the-shelf) (IMP, 2018).

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Impact Management Project, 2018
RECOMMENDATIONS

We recommend three ways in which DFAT can serve as a thought leader on the topic of impact monetisation, particularly in the Asia Pacific region.

1. Continue to Support Impact Measurement Capabilities of Social Enterprise Partners

This review revealed the need for improved impact measurement and management capabilities among social enterprises in the Asia Pacific region. For all of its social enterprise partners, DFAT should provide support to consistent and high-quality reporting. While custom technical assistance has merits, it is costly and time-intensive. Given that investments have been made within several DFAT programs to provide different forms of impact measurement support to social enterprises, DFAT has the opportunity to productise aspects of this support in the form of tools and guidance to codify the approach and make these assets available to social enterprises within the broader ecosystem.

2. Identify Key Metrics for DFAT and Promote These for Use Across the Asia Pacific Region

Within DFAT, a variety of metrics are being used across the different programs working with social enterprises, making it difficult to create internal benchmarks to understand within and across portfolios where and how these investments are creating the greatest value. As Rogerson et al. (2014) found, DFAT is not alone in the lack of consistent measurement approaches across donor programs supporting social enterprises. To improve its understanding over the medium to long-term of the value of delivering support to social enterprises DFAT should:

- Look across programs investing in social enterprises to identify the ‘what’ (indicators) and ‘how’ (tools, processes, techniques) are most realistic and valuable for measuring impact—for DFAT and the broader Asia Pacific region. This would involve surveying existing programs within DFAT and selected donors to understand which metrics and tools are currently being applied within programs supporting social enterprises to identify commonalities and establish priorities;
- Conduct consultations and focus groups engaging key internal and external decision makers to better understand how these metrics were selected and prioritised; and
- Consider using the IDIA High-Level Architecture for Measuring the Impact of Innovation framework as the basis for standardising internal approaches to evaluating programs supporting social enterprises.
- Achieve consensus among internal decision makers around priority indicators to be standardised and tracked across DFAT’s programs.

3. Support Learning and Sharing Across the Ecosystem

There is incredible value in encouraging greater impact measurement and management across the impact investing ecosystem. Increased knowledge sharing is critical to ensure the uptake of best practices. Many of the conversations covered in this review are being discussed are of interest to the Impact Monetisation cluster of the Collaborative For Frontier Finance. However, DFAT could support a periodic, focused convening around impact measurement in the Asia Pacific region to share best practices. In preparation for the first of these convenings, DFAT could build upon its work to identify key metrics and processes internally, with the aim of achieving standardisation across the impact investing ecosystem. DFAT could start by leveraging existing platforms for engaging other donors investing in social enterprises and in the Asia Pacific. The DCEF Secretariat and IDIA are possible forums for launching this discussion. After some consensus is achieved among donors, DFAT could bring these key metrics to other ecosystem players and advocate for them as shared priorities that will improve the collective ability to make more informed, and higher impact investments.

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63 The Collaborative has been made a formal partner of the SFI Program to support the Capital Providers.
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