Scaling Frontier Innovation

CONTEXTUALISING IMPACT MEASUREMENT AND MONETISATION A REVIEW OF LITERATURE AND TRENDS

SUMMARY VERSION
DELIVERED BY
MOONSHOT GLOBAL & LIVING COLLABORATIONS

Note to Readers: We are interested in your thoughts on Impact Monetisation and Measurement. If you would like to join a conversation about these topics and/or to receive the full literature review, please contact Claire Daley (claire@moonshotglobal.com), Innovation and Learning Specialist, Moonshot Global.

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BACKGROUND

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.[1] 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.

Under the Scaling Frontier Innovation (SFI) Program, an initiative of Australia's Department of Foreign Affairs and Trade (DFAT)'s innovationXchange (iXc) to support social enterprises to scale their development impact in the Asia Pacific region, a review was compiled summarising past research on and approaches to measuring impact and current trends in impact monetisation. This review intends to help DFAT and other donors that are experimenting with new methods of delivering aid to (i) provide more value for money and (ii) leverage the skills and resources from the private sector to understand the value of these investments in comparison with traditional development programs and aid delivery.[2] 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.

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.[3]

REVIEW

Impact monetisation is a subset of impact measurement that involves the translation of impact into transferable economic value. Impact management is the use of insights from measurement practices to inform strategic decision making.

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. According to the Low Income Investment Fund, 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.

COMMON APPROACHES TO IMPACT MONETISATION AND MEASUREMENT

A wide range of impact measurement tools and techniques have been developed covering a range of sectors and requiring varying levels of resources and knowledge needed for implementation.

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. CBA can be used to forecast expected returns or to retrospectively evaluate outcomes that have taken place. Benefit-Cost Analysis 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, also expressed in monetary terms.

Social Return on Investment (SROI): This method, 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.

Monetisation is considered the most complex 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; 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).

USE OF PROXIES

In recent years, the use of proxies in various monetisation and assessment 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 (QALY) to account for both objective and subjective patient experiences.

SOCIAL IMPACT CALCULATOR

This tool developed by the Low Income Investment Fund applies existing evidence in available academic research to estimate impact and monetised value based on output proxies collected by the businesses receiving the investment since capturing longitudinal data is not always possible.

PRACTICAL IMPACT ASSESSMENT (PIA)

The Global Innovation Fund developed PIA to help solve two challenges in measuring potential investments: comparing disparate outcomes and tracking progress towards long-term impact. PIA 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.

RESULTS BASED FINANCING

Recent research and current trends are expanding the discussion to move beyond measuring SROI to placing transferrable economic value on results achieved 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. 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 outcomes or outputs. 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 financing hard to reach, costly to serve enterprises that have high impact additionality and enhance the business models of social enterprises which have high social impact, but face inherent constraints within customers and markets they serve. This approach diverges from traditional funding designs that focus on inputs and activities rather than achieved results (outputs and outcomes). 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.

MEASUREMENT INITIATIVES

Significant efforts have emerged to try to address the issues of fragmentation of tools and terminology used in impact investing, such as the Global Impact Investing Network's Impact Reporting and Investment Standards and Impact Measurement and Management Project: The Impact Management Project is a collaborative effort by over 700 organisations. Efforts to develop platforms aimed at standardization are being led by the International Development Innovation Alliance and the Donor Committee on Enterprise Development,. These initiatives 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. 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.

RECOMMENDATIONS

Based on an analysis of findings, it is recommended that 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.