

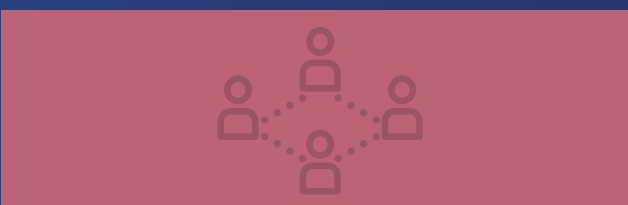


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EVPA REPORT

# IMPACT STRATEGIES

## How Investors Drive Social Impact



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How Investors Drive  
Social Impact

Alessia Gianoncelli and Priscilla Boiardi  
with the editing support of Caroline Cornil

European Venture Philanthropy Association  
*November 2018*

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# FOREWORD



**Steven Serneels**  
EVPA CEO *a.i.*

*Impact*: an often contested word with multiple meanings. Especially in the world of finance, the term *impact investing* brings about lots of questions, such as: do you have to forgo financial return when striving for more (social) impact? Can high social impact go hand in hand with market-level financial returns? Is there a role of grants in the impact investment space, and if so, what is it?

The space of impact investing has been growing and maturing over the last decade, attracting the attention of an increasing number of people. The positive news is that the lively discourse around impact investing brings more resources and capital to the space. The challenge, however, is that the risk-return-impact discussion becomes more blurred, creating confusion amongst both investors and investees and sometimes even disillusion or frustrations due to wrong expectations and lack of clarity around the intentions.

This research report is an important step forward in the process of clearing the air around risk, return and impact. It describes in concrete terms the difference between two impact strategies: “investing *for* impact” and “investing *with* impact”.

An investor *for* impact sees itself as a means to an end, hence it starts from the social challenge it wants to solve, the beneficiaries being front and centre. For an investor *for* impact, financial and non-financial support are both equal and indispensable instruments to get to the impact. Investors *with* impact, on the other hand, are primarily investors. The impact aspect is considered alongside the need to achieve stable financial returns, which remain their primary objective.

Investors *for* impact and investors *with* impact sit at the two sides of the same ecosystem. They represent two typologies and provide a framework inside which investors and investees can orientate themselves.

The discussion about “investing *for* impact” and “investing *with* impact” is neither a discussion about values, nor about right or wrong. On the contrary, both strategies are very valuable, exist next to each other and support social innovations at different stages of their development.

Recognising the differences though is important to make both spaces more transparent on intentions, better align shareholders, manage expectations towards investees, and create the right setting to collaborate with other types of capital providers.

EVPA does not want to claim the final say. We would like to start an informed and constructive dialogue with a broad field of philanthropic funders and both types of impact investors, based on real cases and, most importantly, relevant for practitioners. We want to hear from you how you shaped your impact strategy, how you put it in practice, the challenges you faced, the lessons you learned and what is the way forward.

Hence this report is a warm invitation to you to join the discussion. As of January 2019, we will start posting thought pieces on EVPA website and other major outlets. We will collaborate with major thought leaders in the venture philanthropy, social and impact investment space to hear their voices and keep the discussion alive.

Hopefully, such an interesting and much needed discussion can create further clarity to allow impact investors to become even more effective, and also remain credible over time.

Thank you to the experts and the team, and to all investors, both *for* impact and *with* impact, that day in, day out try to make the world a better place.

# EXECUTIVE SUMMARY

## A CHANGING LANDSCAPE

**The space of venture philanthropy and social investment is changing, and impact investing is gaining attention.** On the one hand, an increasing number of mainstream investors, attracted by the idea of doing good while achieving positive financial returns, are entering the impact investing market. On the other hand, traditional grant-making foundations are increasingly giving grants in a long-term and sustainable way and starting to look into how they can put their endowments at use. Between these two types of capital providers, a group of venture philanthropy and social investment funds are mixing the two approaches,

adopting for the past fifteen years the so-called venture philanthropy approach, combining financial support with capacity-building and a focus on impact measurement and management.

Making social impact mainstream is good, as it helps attract more resource to social purpose organisations, including social enterprises, non-profit organisations and hybrid social ventures. However, **the more actors enter the space, the more complex it is to define and distinguish different impact strategies.** This is why it is fundamental to provide a definition and a framework to identify and distinguish impact strategies.

## WHAT IS AN IMPACT STRATEGY?

An **Impact Strategy** represents the way in which a capital provider **codifies its own activities** along three axes: **social impact targeted, financial return sought** and **social/financial risk appetite.**

## INVESTING FOR IMPACT AND INVESTING WITH IMPACT

**All impact strategies are useful and needed, but we need to define and distinguish them.** Using the same label to define practices that are very different creates confusion in the market. It increases the risk of reducing the trust towards the venture philanthropy, social investment and impact investment market – crowding out capital instead than crowding it in. For this reason, this research report aims at **clarifying what social impact capital providers do, and why they do it.**

In this report we identify a continuum of impact strategies between two extremes: investing *for* impact and investing *with* impact.

The **two impact strategies** discussed in this report represent **two extremes of a continuum of impact strategies.** In reality, capital providers will position themselves along a continuum of impact strategies, not adopting exclusively one strategy or the other.

## OVERVIEW IMPACT STRATEGIES

INVESTING <i>FOR</i> IMPACT	INVESTING <i>WITH</i> IMPACT
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### SOCIAL IMPACT - OBJECTIVES, MEASURES AND LEVELS OF EVIDENCE

<p><b>Investors <i>for</i> impact:</b></p> <ul style="list-style-type: none"> <li>• consider primarily the achievement of a <b>positive social impact</b>, with a range of intentions for or without a financial return;</li> <li>• have the social challenge, social solution and beneficiaries as the starting point (“<b>solution focus</b>”);</li> <li>• articulate a <b>Theory of Change</b>;</li> <li>• evaluate <b>their own impact</b> on the social purpose organisation (SPO) supported;</li> <li>• give particular attention to the potential of the SPO to generate the desired impact, resulting in the <b>centrality of the SPO’s impact model</b> in the deal screening and due diligence phases;</li> <li>• adopt a <b>positive screening approach</b> when selecting investees;</li> <li>• adopt a <b>more rigorous and management-oriented, bottom-up approach to impact measurement</b>, including the use of <b>customised indicators</b> – often co-designed with SPOs, while trying not to burden investees with excessively demanding requests for evidence during the investment itself;</li> <li>• focus on <b>additionality</b> instead of just intentionality;</li> <li>• put particular <b>emphasis on preserving the impact</b> of the SPO when <b>they exit</b>.</li> </ul>	<p><b>Investors <i>with</i> impact:</b></p> <ul style="list-style-type: none"> <li>• have <b>impact as a secondary objective</b>, subject to the achievement of a financial return;</li> <li>• use <b>social impact to mitigate the risks</b> associated with the achievement of a financial return;</li> <li>• screen investments <b>primarily based on the potential financial return</b> they can generate – and then on the potential impact;</li> <li>• select investments mostly using <b>standardised criteria</b> (e.g. ESG, PRI, etc.) or a <b>negative screening approach</b>, requiring a <b>high detail of evidence</b> that a specific model has achieved impact in the past;</li> <li>• measure investees’ social impact performance based on <b>standardised indicators</b> (e.g. IRIS, GRI, etc.)</li> </ul>
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### FINANCIAL RETURNS

<p><b>Investors <i>for</i> impact:</b></p> <ul style="list-style-type: none"> <li>• are <b>very dispersed</b> in terms of the financial return they target (from -100% to 0% and +);</li> <li>• consider <b>potential financial returns as a means to an end</b> (i.e. the achievement of a social impact);</li> <li>• are <b>willing to give up part of their financial return</b> for the achievement of a higher social impact.</li> </ul>	<p><b>Investors <i>with</i> impact:</b></p> <ul style="list-style-type: none"> <li>• generally expect <b>positive returns</b> in line with those of traditional investors;</li> <li>• target primarily <b>financial returns</b> – with the achievement of a social impact as a secondary goal;</li> <li>• are <b>not willing to give up part of their financial return</b> for the achievement of a higher social impact.</li> </ul>
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### RISK COMPONENT

<p><b>Investors <i>for</i> impact:</b></p> <ul style="list-style-type: none"> <li>• are willing to take <b>higher operational risks</b> if it means achieving a <b>major social impact</b>;</li> <li>• perform an <b>explicit social and financial risk assessment</b> (e.g. also considering risks associated with not achieving the desired social impact);</li> <li>• take also into account the potential (and collateral) <b>negative impact</b>.</li> <li>• develop <b>ways to mitigate the risks</b>;</li> <li>• use <b>impact evidence to reduce the risk</b> associated with impact.</li> </ul>	<p><b>Investors <i>with</i> impact:</b></p> <ul style="list-style-type: none"> <li>• start looking at risk <b>from the financial perspective</b> and focus on <b>de-risking the financial component</b>;</li> <li>• do <b>not always develop ways to assess and mitigate risks</b> associated with <b>social impact</b>;</li> <li>• look at the risk of generating a <b>negative social impact</b> only as a <b>screening criterion</b> (i.e. in the “do no harm” sense).</li> </ul>
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## THE LOCKSTEP MODEL

Some practitioners use an “investing *for* impact” strategy that works under specific conditions in certain markets and adopt a lock-step model. These investors, thanks to the evolution of the social investment market, are able to identify a “**sweet spot**” in which the achievement of a **social impact** and the **generation of financial returns go hand in hand and reinforce each other**.

Investors who move in this space support SPOs whose **social impact component is so embedded in their business model** that **by scaling the SPO the impact is also scaled**.

Capital providers adopting a lockstep model have all the characteristics of investors *for* impact, but also:

- invest their resources in **highly risky new ventures**, testing the solutions that will then be scaled by investors who adopt an “investing *with* impact” strategy, and in certain cases by the government;
- use **financial instruments** through which they can generate **financial returns** (often investing through equity);
- consider (high) positive **financial returns more as a “bet” rather than a selection criterion** for investments;
- have to **meet their own funders’ expectations in terms of financial returns**<sup>1</sup>;

- are **willing to take high risks** if they believe in the SPO’s business model;
- couple their financial offer with **intensive non-financial support**;
- take a **portfolio approach** to find a good balance between social impact, financial return and risk;
- look at impact measurement and management with a **bottom-up approach**, not imposing pre-defined indicators (which do not work in markets or sectors without track record);
- are mostly **sector-agnostic**, as they look for the most innovative way to solve a social issue, without focussing on specific sectors or geographies.

Investors *for* impact following the lockstep model logic have been active in the VP/SI space for over a decade, working to build the market and to strengthen social innovation models, by also **accepting low financial returns**. Investors *for* impact following the lockstep model logic are a fundamental actor in the VP/SI space as they test new solutions to social problems, making them ready to be mainstreamed by investors *with* impact and traditional capital providers.

Often capital providers **mix and match strategies to achieve a certain level of impact, financial return and risks**. Contextual factors, internal and external barriers and roadblocks or impeding factors will push an investor into adopting a blended approach which moves across a continuum of impact strategies.

**All impact strategies are useful and needed to guarantee a “line of travel” for SPOs**. As we already argue in last year’s report “*Financing for Social Impact*”<sup>2</sup>, SPOs have different financing needs depending on many factors, including their business model and their stage of development. SPOs in the start-up phase will need small ticket sizes and in-depth non-financial support to overcome the valley of death, while fast-growing social enterprises need big tickets to be able to scale up quickly. Different capital providers

<sup>1</sup> In certain cases, the financial return expectations of the investors in VP/SI organisations are growing, also due to the unrealistic narrative that promotes high returns in the impact ecosystem. This tendency forces VPO/SIs to give more and more attention to the achievement of financial returns – especially if we consider investors *for* impact adopting the lockstep model.

<sup>2</sup> **Gianoncelli, A. and Boiardi, P.**, (2017), “*Financing for Social Impact | The Key Role of Tailored Financing and Hybrid Finance*”. EVPA.



cater to different SPOs' needs in different moments of their growth, so they are all equally needed. If one of the pieces of the puzzle is missing, the "journey" of an SPO from early stage, to growth, scaling and mainstreaming might be missing, causing a market failure.

## IMPACT STRATEGIES IN PRACTICE

**The impact strategies presented in this report provide the framework for the intentions - the next step is the reality check.** This report is the first step in a journey to uncover how impact capital providers adopt an impact strategy in practice. Our work aims at **providing the framework - co-developed with experts and practitioners - that can be used to analyse how practitioners implement their impact strategy in practice.**

In *Part 3* we introduce the factors that have an influence on how capital providers implement their impact strategies. These include:

- the **maturity of the market** in which the VPO/SI operates (defined as a combination of geography, sector, beneficiary group targeted);
- the **type of SPOs supported** (in terms of business model);
- the **financial and non-financial support** the VPO/SI wants to provide (e.g. the type of financing instrument and the capacity building);
- the **role the capital provider** aims at having in the market (e.g. making a change at transactional level or achieving a systemic change).

The **level of maturity of a market** is determined by the level of development of the social sector infrastructure in the market and the level of development of the specific sector. A sector should be considered **mature** when it has enough track record and an evidence base that allows measuring the outcomes in a standardised way. A market is **immature** when the social sector infrastructure is not developed in a certain geographical area or sector of choice, or when a certain social sector is not yet developed in a certain geography. In an **ideal world**, where markets are dichotomously separated in these two categories, high-risk-taker

investors *for* impact would invest in immature markets where there is no evidence base, while investors *with* impact will tend to invest in mature markets, taking over and scaling solutions that have been successfully brought through the testing and validation phase by practitioners adopting an "investing *for* impact" strategy. Actors with an "investing *with* impact" strategy can also bring existing and proven solutions to immature markets.

Using the classification of the market that we have developed in our latest report "*Financing for Social Impact*"<sup>3</sup>, which looks at the **presence of a market, either immediately or down the line**, and at the **business model of the potential investee**, we can place the two strategies along the continuum of development.

Another aspect that has consequences on the way in which investors can implement their impact strategies is **the stage of development of the SPO to support**: (i) pre-seed/seed, (ii) start-up/early stage, (iii) validation, (iv) preparation to scale and scaling.

The **financial instruments** (FIs) available and the **non-financial support** (NFS) offered also have implications on the way in which investors *for* impact and investors *with* impact implement their strategies in practice. There could be, for example, specific criteria to meet linked to the specific FI(s) available to the capital provider, which might lead to some **limitations/constraints in the full implementation of all the characteristics proper to the impact strategy adopted by the investor.**

Finally, **the role capital providers want to play in the market** is particularly important. Working for impact means working for the long term. While the intervention can change over time, investors *for* impact need to be in for changing the system, either as the main convener of the stakeholders or creating serial partnerships for system change. As every investor *for* impact has a role in system change, it should not only look at its own contribution but also at the contribution of all the actors involved.

<sup>3</sup> Idem.

## THE WAY FORWARD

Throughout 2019, we will be publishing **full case studies of EVPA members sharing how they implement their impact strategy, showing how they put it into practice**. We will be launching a series of cases, video interviews and blog posts aiming at uncovering the practices of EVPA members, the challenges they face, the roadblocks they encounter and how they act in their different contexts. We will also collaborate with **thought leaders** in the venture philanthropy, social investment space to hear their voices and keep the discussion alive.

We value your contribution too, so if you want to join the debate and give us your feedback – do not hesitate to email us at [knowledge.centre@evpa.eu.com](mailto:knowledge.centre@evpa.eu.com).

## PRACTITIONERS INTERVIEWED

NAME	ORGANISATION
Virginie Samyn	4WINGS Foundation
Nicholas Colloff	Argidius Foundation
James Burrows & Cliff Prior	Big Society Capital
Claudia Belli	BNP Paribas Asset Management (France)
Caroline Thijssen & Guy Janssens	BNP Paribas Fortis (Belgium)
Erwin Stahl	BonVenture Management GmbH
Peter Surek & Johann Heep	Erste Group Bank AG – Social Banking Development
Olivia Cosgrove	Genio
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Elodie Nocquet	Investisseurs & Partenaires (I&P)
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Zoran Puljic	Mozaik Foundation
Luciano Balbo	Oltre Venture
Kathrin Dombrowski & Medje Prahm	Phineo AG
Olivier de Guerre	Phitrust Partenaires
Pieter Oostlander & Timothy Lambert	SI <sup>2</sup> Fund
Deirdre Mortell	Social Innovation Fund Ireland
Peter Brouwer	Start Foundation (former)
Karen Hitschke	Yunus Social Business



## ACKNOWLEDGEMENTS

We are thankful to all the practitioners who accepted to be interviewed and provided us with in-depth insights and case studies. We would also like to thank the additional experts and practitioners who joined the kick-off, the webinars and shared with us additional inputs and feedback.

All errors and omissions remain the responsibility of the authors. We encourage you to submit comments and clarification questions to:

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Sophie Robin	<i>Stone Soup Consulting</i>

# PART 1. INTRODUCTION

*La Varappe - Phitrust Partenaires © Cyril Crespeau*



# PART 1.

## INTRODUCTION

### 1.1. A CHANGING LANDSCAPE

The landscape of venture philanthropy and social investment is changing. When EVPA started almost fifteen years ago, only a few foundations were considering to adopt a more long-term and highly engaged approach to grant-making, and just a few venture capitalists and private equity practitioners started looking into how to support social innovation and generate social impact. Today we see new actors entering the space from different sides of the market. On one side, we have **classic philanthropy**, representing combined annual expenditures of nearly EUR 60 billion in Europe<sup>4</sup>. Traditional philanthropic institutions, such as foundations, start adopting a more engaged approach to grant-making (applying venture philanthropy for example), while diversifying their activities and financial instruments to achieve social impact in different ways, for example by exploring new paths to move into social investment (and thus also using equity).

At the opposite side of the market, **classic investors** start to show interest in achieving more societal impact<sup>5</sup> alongside their financial returns. Institutional investors, such as pension funds or insurance companies, and

traditional PE/VC funds<sup>6</sup>, are more and more interested in converting parts of their portfolios to more sustainable investments, adopting ESG criteria as the standard. Furthermore, corporate social investors<sup>7</sup> are giving an extra push to corporates' activities towards social impact and financial institutions are starting programmes to support social enterprises. The GIIN's 2018 Annual Impact Investor Survey<sup>8</sup> shows that the impact investing industry represents a market of USD 35.5 billion<sup>9</sup> a year. About 84% of the GIIN's sample is made of organisations that seek risk-adjusted market-rate returns or returns close to market-rate returns<sup>10</sup>, which can be classified as capital providers coming from traditional finance, adopting sustainability more firmly into their investment strategy.

These capital providers, which represents traditional finance-only investors, are **moving from investing with a “do no harm” logic to actively looking at (sizeable) measurable social impact through each of their investments.**

4 Source: **McGill, L. T.**, (2016), “Number of Registered Public Benefit Foundations in Europe exceeds 147,000”, compiled by the Donors and Foundations Networks in Europe (DAFNE) and analysed by Foundation Center (New York). Important note from the study: “[...] these estimates do not include all organisations that operate as foundations in Europe, only those with a public benefit focus. In about half of the countries represented by DAFNE members, the term “foundation” can also refer to organisations that serve private purposes. According to the European Foundation Centre (EFC), “private benefit foundations are those that pursue private purposes, such as the advancement of one family, relatives of the founder, trust funds for the education of the founder’s children, etc.” Including private benefit foundations, the total number of foundations in Europe would exceed 200,000.”

5 EVPA purposely uses the term “societal” because the impact may be social, environmental, medical or cultural. However, throughout this report we refer to “social impact” to indicate the same concept.

6 See as examples the RISE fund (<http://therisefund.com/> and <https://www.bloomberg.com/news/articles/2018-09-21/tpg-is-said-to-look-for-3-billion-for-its-second-social-impact-fund>), launched by TPG during spring as part of their asset management offering.

7 See the work done by EVPA within the Corporate Initiative on how corporate social investors can leverage corporates' assets: <https://evpa.eu.com/knowledge-centre/publications/social-impact-through-employee-engagement> and <https://evpa.eu.com/membership/evpa-corporate-initiative>

8 **Global Impact Investing Network**, (2018), “Annual Impact Investor Survey 2018 – the eight edition”, GIIN.

9 Amounts invested in 2017 by 225 respondents to the GIIN Survey.

10 Only 26% of the respondents to the GIIN Annual Impact Investor Survey 2018 are not-for-profit fund managers (13%) or foundations (13%).

The core of the EVPA membership, consisting of organisations adopting the venture philanthropy approach, is placed in between these two categories of actors (i.e. classic grant-making and traditional investors), in what we call **VP/SI space**, which represents an annual investment of roughly between EUR 1 billion and EUR 2 billion a year<sup>11</sup>.

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## DEFINITIONS IN THE SPACE

The **evolution of the space** has blurred the **boundaries**, calling for new ways to define capital providers and their practices. This has led to a variety of new definitions<sup>12</sup> of venture philanthropy, social investment, social impact investment, impact investment, sustainable investing and so on, with an increasing risk for practitioners and others of getting lost in the terminology.

This is why, in this report, we focus on *how* practitioners define their impact strategies in practice, trying not to get caught up in the definitions' debate. To this end, we built on the experiences of EVPA members to show the different elements that characterise impact strategies.

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What is also changing is **the way in which the different actors in the space can be classified**. As shown in the latest EVPA report *“Financing for Social Impact | The*

*Key Role of Tailored Financing and Hybrid Finance*”<sup>13</sup>, capital providers are generally classified by looking at their **legal structure**. However, in the report we argue that this is not the best approach to look at the ways in which different organisations contribute to generating social impact.

As a matter of fact, we often see that actors with the same legal structure adopt different approaches when deploying their capital to sustain social impact. For example, foundations are not all alike: endowed foundations have a different risk profile, which can translate into different approaches, compared to foundations that need to raise funds from external donors on a continuous basis and be accountable for the impact achieved. Financial institutions can have several branches doing social investment with different impact and risk/return profiles, translating into a wide diversification of practices and impact/financial return expectations within the same type of organisation.

Moreover, investment strategies are often categorised considering – exclusively or mostly – their **risk and financial return expectations**, without including an in-depth assessment of the risk and return considerations related to their targeted impact. This simplification has some limits:

- First, it does **not consider the social impact objectives** of the investor as a dimension that should be combined into its risk/financial return considerations.
- Second, it puts **too much emphasis on the expected financial returns**, with the risk of distorting the discussion about social investment. In fact, a discussion on social investment which prominently focuses on financial returns contributes to create unrealistic expectations for investors that would like to engage in the space<sup>14</sup>.

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<sup>11</sup> This estimate comes from the fact that, especially looking at all the organisations we have targeted within our latest Industry Survey, we can estimate to have surveyed half of the VP/SI space (i.e. 110 organisations), and that our respondents invested EUR 767 million in 2017. See: <http://bit.ly/EVPAsurvey18>

<sup>12</sup> EVPA has developed its own glossary (see page 76 of this report), and the same has been done by several other organisations. For example, definitions have been developed by the OECD (see: <http://www.oecd.org/sti/ind/social-impact-investment.htm>); the G8 Social Impact Investment Taskforce (see: **G8 Social Impact Investment Taskforce**, (2014), *“Impact Investment: the invisible heart of market – Harnessing the power of entrepreneurship, innovation and capital for public good”*); then the Global Steering Group on Impact Investing (see: <http://gsgii.org> and <http://gsgii.org/about-us/>); the Impact Management Project (see: <https://impactmanagementproject.com/emerging-consensus/the-impact-management-glossary/>); the European Commission (see: <http://ec.europa.eu/social/main.jsp?catId=1044&langId=en>); and also the Global Impact Investing Network (see: <https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing>).

<sup>13</sup> **Gianoncelli, A.** and **Boiardi, P.**, (2017), *“Financing for Social Impact | The Key Role of Tailored Financing and Hybrid Finance”*. EVPA.

<sup>14</sup> **Bolis, M., West, C., Sahan, E., Nash, R., and Irani, I.**, (2017), *“Impact Investing: Who are we serving? A case of mismatch between supply and demand”*, Oxfam and Sumerian Partners.

In order to overcome these issues, it is necessary to move beyond the traditional way of categorising capital providers on the basis of their legal structures and on the dichotomy risk/returns, and start considering their **impact strategies** that combine **social impact, financial return expectations** and the **risk considerations associated with both**.

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#### **DISCLAIMER**

With the term “investor”, we refer to any organisation that provides social purpose organisations with financial and non-financial support. An investor can be deploying **grants, debt, and equity or hybrid financial instruments**. Hence, grant-making is also included in the definition of “investing” we use throughout the report.

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## 1.2. WHY A RESEARCH ON IMPACT STRATEGIES?

As more and new organisations label themselves as “impact investors”, each seeking a different balance between financial return, social impact and risk, each coming from a different perspective, and each developing new tools to achieve an impact, the **risk of “impact washing”**<sup>15</sup> becomes more concrete, calling for **more transparency** around impact strategies. If everything is impact, nothing is impact.

Therefore, EVPA decided to explore the topic of impact strategies to ensure **more clarity around the focus on social impact** of the different capital providers making investments in social innovation. We believe clarity around impact strategies will **improve the effectiveness** of VP/SI practitioners as it will allow a **better**

**understanding of investors’ motivations** and **how impact strategies are built** in practice.

With this research we try to answer the following questions:

- What are **the motivations of different capital providers** when designing their impact strategy?
- How do investors **define their impact goals**?
- How **central is the social impact** within the overall investment strategy of each investor?
- What is **the role of each impact strategy** (and therefore, each funder) in the impact ecosystem?
- What is **impact integrity** and how do the different capital providers live up to it?

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### THE OBJECTIVES OF OUR RESEARCH

- Develop an in-depth understanding of impact strategies, extending the framework developed as part of the research report “*Financing for Social Impact*”<sup>16</sup> and combining it with EVPA’s prior research and other existing research on investment strategy, investors’ motivations, and impact management.
- Develop an in-depth understanding of the role of different practitioners with diverse impact strategies in the ecosystem.

This **hands-on manual** will:

- Help VP/SI organisations **develop individual impact strategies** based on sound impact/financial risk/return considerations.

- Help VP/SI organisations that have multiple ways of adopting an “investing *for* impact” strategy, or that adopt more than one impact strategy, to **make the most of their financial resources**.
- Help VP/SI newcomers and beginners **develop an impact strategy aiming at achieving real social impact**, i.e. bringing to the market new solutions that help solve pressing social problems or change the way in which a social problem is tackled.
- Help different actors in the ecosystem to **improve their effectiveness acting individually or collectively**, by supporting them in understanding how others work and choose partners that match their own profile.

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<sup>15</sup> A definition of impact washing is included in the Glossary at the end of this report.

<sup>16</sup> **Gianoncelli, A.** and **Boiardi, P.**, (2017), “*Financing for Social Impact | The Key Role of Tailored Financing and Hybrid Finance*”. EVPA.



## HOW TO NAVIGATE THE REPORT

This report is structured as follows. The introduction (*Part 1*) explains **how the venture philanthropy and social investment space is changing** and the **reasons why** EVPA decided to conduct this research.

In *Part 2*, we provide a description of **what an impact strategy is** and **the two main impact strategies** seen in the ecosystem: “investing *for* impact” and “investing *with* impact”. Specifically, we analyse how the three elements of an impact strategy (i.e. social impact, financial return, risk) behave in each strategy.

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Then, in *Part 3*, we take a first look at the **contextual factors that have implications on how capital providers implement their impact strategies** (i.e. level of development of the market, the SPO supported, the financial instruments available and the non-financial support offered, and the overall ambition).

We conclude in *Part 4* by looking at **what is next**, focussing on how we want to stir a debate that can move the sector forward.

# PART 2. IMPACT STRATEGIES

*Centro Medico Santagostino © Oltre Venture*



## PART 2.

# IMPACT STRATEGIES

An **Impact Strategy** represents the way in which a capital provider **codifies its own activities** along three axes: **social impact targeted, financial return sought** and **social/financial risk appetite**.

### TALKING TO THE EXPERT

*Making SPOs successful in developing solutions to solve societal issues and generate social impact requires capital. Funding to support SPOs comes from different sources and hence in different forms, from philanthropic capital to loans and equity. Each group of capital providers has different risk-return profiles and further, within each of these main groups we find smaller or larger differences as to financial return requirements (and varying approaches to responsible investment, social impact investment; sector and geographic preferences etc.), as individual actors have **different starting points** and thus also **different investment approaches and policies**<sup>17</sup>.*

**Anne Holm Rannaleet**, Trustee and Executive Director of IKARE Ltd.

**So far at EVPA** we have classified capital providers **using the following broad impact strategies**, based on the dichotomy between social impact and financial returns:

- organisations **only accepting social return**, with no financial return possible;
- organisations **prioritising social return**, but **also accepting financial return**;

- organisations considering social and financial return on **equal footing**;
- organisations **prioritising financial return**, but also seeking social return;
- organisations **only focussing on** achieving a **financial return**.

However we believe there is a **more accurate way to look at the wide range of capital providers** that sustain social purpose organisations (SPOs), looking at the three main elements: the **desired social impact**, the **financial return expected** and the (financial and social) **risk appetite** of each capital provider, moving beyond the dichotomy social impact vs. financial returns.

Thanks to the findings of our previous research<sup>18</sup> and the understanding of the sector EVPA has gained through the past 14 years, coupled with the inputs received from the Expert Group and the insights shared by the practitioners during a number of interviews, we have clearly defined **two main impact strategies: “investing for impact”** and **“investing with impact”**.

In the next sections we analyse each impact strategy, and look at how the three elements of social impact, financial return and risk are embedded in each strategy, providing some practical examples.

<sup>17</sup> From the interview with Anne Holm Rannaleet, Trustee and Executive Director of IKARE Ltd. (July 2018).

<sup>18</sup> The EVPA Knowledge Centre conducts research since 2010; for more information see: <http://evpa.eu.com/knowledge-centre> and <https://evpa.eu.com/knowledge-centre/research-and-tools>

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## DISCLAIMER

The two strategies described in this section should be considered as **typologies**, including various dimensions. Capital providers in the VP/SI space adopt impact strategies that are placed along a continuum that goes from “investing *for* impact” to “investing *with* impact”.

Additionally, capital providers do **not necessarily adopt all the characteristics that pertain to the chosen strategy**. Contextual factors (such as the

legal boundaries and the market characteristics) will influence the extent to which each capital provider can adopt a certain impact strategy in full.

It is also important to stress that **both strategies are crucial and needed for the ecosystem to function properly**. The two strategies should be thus seen as complementary, with neither strategy being “better” than the other. Our aim is to provide more clarity as of how capital provider can direct their resources to achieve social impact in the VP/SI space.

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## AIM AND STRUCTURE OF THE QUESTIONNAIRE USED DURING THE INTERVIEWS

We developed a questionnaire to understand how practitioners deal with **social impact and financial return considerations**, and with the **risk associated** with achieving (or not) both social impact and financial returns.

We used the questionnaire to collect insights from the selected sample of practitioners that we have interviewed. The aim of this exercise was (i) to come up with the **description of the characteristics** of the two impact strategies and (ii) to have **practical examples to corroborate the theory**.

We asked practitioners:

a. **how the three elements** (i.e. social impact aimed, financial return expectations, risk appetite) **influence** the definition of an impact strategy;

b. how **the different elements of the investment strategy** (e.g. geographies and market selected, sectors and beneficiaries targeted, type of SPOs supported, co-investment practices, non-financial support provided and exit strategies foreseen) are influenced and influence **the three main variables of an impact strategy** (i.e. social impact, financial return and risk).

Thanks to this process, we could collect **extensive data on why and how practitioners focus on certain investments and how they select them**, taking into account all the considerations linked to the social impact they seek, the financial returns they expect and the risks they are willing to take. We could also gather a huge amount of information related to the elements of the investment strategy that let us understand **how practitioners implement their impact strategies in practice**.

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## 2.1. SOCIAL IMPACT, FINANCIAL RETURN AND RISK CONSIDERATIONS

### INVESTING FOR IMPACT

#### SOCIAL IMPACT - OBJECTIVES, MEASURES AND LEVELS OF EVIDENCE

At EVPA we define social impact as the **attribution of an organisation's activities to broader and longer-term outcomes**, which are in turn defined as the changes, benefits, learnings, or other effects (positive or negative, both long and short term) that result from an organisation's activities.



When it comes to **social impact**, investors who adopt an **“investing for impact” strategy**:

- consider primarily the achievement of a **positive social impact**, with a range of intentions for or without a financial return;
- have the social challenge, social solution and beneficiaries as the starting point (**“solution focus”**);
- articulate a **Theory of Change**;
- evaluate **their own impact** on the SPO supported;
- give particular attention to the potential of the SPO to generate the desired impact, resulting in

the **centrality of SPO's impact model** in the deal screening and due diligence phases;

- adopt a **positive screening approach** when selecting investees;
- adopt a **more rigorous and management-oriented, bottom-up approach to impact measurement**, including the use of **customised indicators** – often **co-designed** with SPOs, while trying not to burden investees with excessively demanding requests for evidence during the investment itself;
- focus on **additionality** instead of just intentionality;
- put particular **emphasis on preserving the impact** of the SPO when **they exit**.

Investors that adopt an “investing for impact” strategy have as a **main goal the achievement of social impact**. The main differentiating factor of investors for impact is taking the social challenge, the **innovativeness of the potential solution** and all the different beneficiaries (which we can also call clients or customers) as the starting point for the definition of the objectives. These actors **focus on the solution** to the social problem, and try to find the best way to financially – and non-financially – support it.

Investors for impact see themselves as a means to an end: **a means for SPOs to achieve their own social impact objectives**. Hence, investors adopting an

“investing for impact” strategy support their investees in their operational activities and in delivering services in a way that enables SPOs to generate the social impact they pursue and to reach an appropriate level of sustainability.

Therefore, the first question investors for impact ask themselves when investing in a specific SPO is: *“How can I support most effectively this specific social purpose organisation, given my means and giving its characteristics and needs?”*<sup>19</sup>.

<sup>19</sup> For more information on the elements to be considered and taken into account for this exercise, see **Gianoncelli, A.** and **Boiardi, P.**, (2017).

The best way to articulate social impact objectives is by means of a **Theory of Change**<sup>20</sup> (ToC). A well-articulated ToC helps choose investments in SPOs that contribute to solving the social issue the capital provider is focussing on. Considering the elements described above, investors *for impact* seek **impact on two levels**: the impact **on the final beneficiaries and on**

**the society at large** (i.e. through the SPOs they support – *indirect impact*) and the impact **on the SPO itself** (i.e. *direct impact*). A good Theory of Change also takes into account **the added value that investors for impact bring to the SPO**.

## KEY COMPONENTS OF THE THEORY OF CHANGE<sup>21</sup>

Defining the ToC means that practitioners need to determine :

- The **overarching social problem or issue** that they aim at alleviating, including an assessment of the magnitude of the problem as the base case – *e.g. youth unemployment in Spain*.
- The **specific objective** they want to achieve, including an assessment of the needs of the SPOs supported, and how to help the SPOs in the most efficient way – *e.g. reduce youth unemployment in*

*Spain by supporting financially and non-financially social enterprises that develop innovative solutions to introduce youth into the labour force.*

- The **expected long-term, mid-term and short-term outcomes** VPO/SIs must achieve to be considered successful. Concretely, the milestones against which the contribution of the capital provider will be measured – *e.g. improved skills for unemployed youth (short/medium-term outcome); increased chances of getting a job for youth, and lower unemployment rate (long term outcomes).*

**Mozaik Foundation**<sup>22</sup> (Mozaik) is a social investor active in the Balkans region that was founded in 2002 with the aim of encouraging the development of rural communities.

Mozaik looks at the impact it would like to achieve by taking a **long-term approach**. In 2016, fourteen years after it was founded, the VPO/SI designed a **10-year strategy** with the following long-term impact objective: *“Between 2016 and 2026, Mozaik Foundation will lead the development of a new generation of entrepreneurial and innovative youth in Bosnia and Herzegovina - a value-driven force that creates new social and economic value, creates new jobs and serves as role model to other youth.”* The main KPI linked to this 10-year impact strategy is that by 2026 a quarter of youth in the country will list at least one social entrepreneur as her or his personal role-model.

By developing this strategy, Mozaik reflected on all the aspects linked to the ToC, identifying its mission, long-term objectives and KPIs linked to each objective. Then, Mozaik identified intermediate results, with their own KPIs, outcomes and outputs. While impact and result KPI's are set in stone and are not going to change in the 10-year period, the KPIs linked to outputs and outcomes will develop and change – as a result of Mozaik's learning process and possible changes in the ecosystem.

This **comprehensive impact management process** helps Mozaik to take informed decisions, to be sure to adjust their strategy to achieve their final impact, and to be able to track their progresses over the years.

<sup>20</sup> For more information on Theory of Change, see: <http://www.theoryofchange.org/what-is-theory-of-change/>

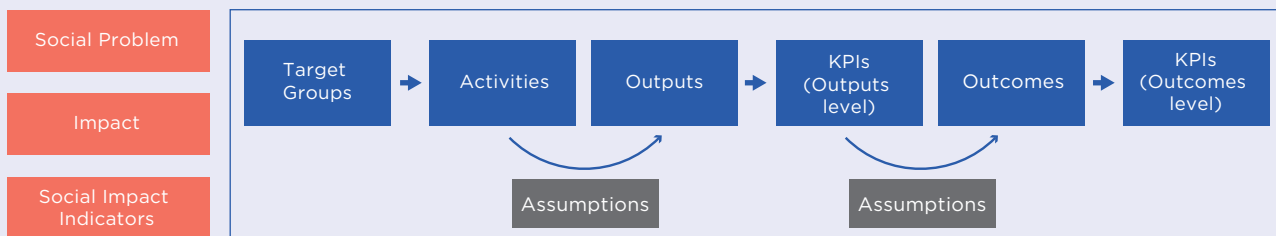
<sup>21</sup> Balbo, L., Boiardi, P., Hehenberger, L., Mortell, D., Oostlander, P., and Vittone, E., (2016), “A Practical Guide to Venture Philanthropy and Social Impact Investment”. EVPA.

<sup>22</sup> For more information: <http://mozaik.ba/>

Founded in 2007, **Karuna Foundation**<sup>23</sup> aims at improving the lives of children with a disability in developing countries and to prevent children from having disabilities. Karuna started with solving the immediate needs - with a “do-no-harm” approach. Five years after it was founded, Karuna felt strong and experienced enough to create a long-term Theory of Change in a more professional way. Karuna created an impact value chain for itself, which lays out the social problem, the activities, the outputs, outcomes and relative KPIs, the assumptions that link activities, outputs and outcomes and finally the impact.

Additionally, Karuna has developed what it calls an “**impact model**”, which is a visual representation of its Theory of Change using the Business Model Canvas. The impact model contains the following nine elements: the value proposition at the centre, the key activities, resources and expenditures on the left hand side, the relationships, sales channels, beneficiaries, founding partners and income on the right hand side and the societal problem and intended impact on top.

**Figure 1:** Karuna’s Theory of Change layout



**Genio**<sup>24</sup> is an Ireland-based non-profit organisation working **with government and philanthropy to transform social services** by putting the citizen at the heart of their design and delivery. Genio currently works to achieve social impact in the fields of disability, mental health, homelessness, dementia and refugees and asylum seekers. To date, over 8,000 people’s lives have been improved through projects supported by Genio and its partners and the number is growing every day.

Over time, Genio has moved from its initial phase of development, which supported innovation at a demonstration level to now scaling impact at a national level with a view to supporting **system wide change**. Genio defines **systems change** as “[...] a collaborative endeavour as systems are not owned by one person or entity and cannot be changed by one organisation alone. Our experience tells us that effective system change strategies need to take account of all of the

key stakeholders identifying what each needs to do in order to bring about the required changes. A range of key stakeholders need to be supported to achieve change including policy-makers, politicians, funders (philanthropic and public), public service commissioners, service providers and people who rely on services (and their families/carers)”<sup>25</sup>.

Genio went through **several iterations of its ToC** adapting to how its role changed over time. Genio has outcome measures to track its progress and assesses **its own impact**. Genio evaluates **the impact the changes linked to its intervention are having at a system level** and aims for a 360° view on the impact it seeks, focussing on the individual, the organisation and the wider system.

The indicators Genio looks at while focussing on system wide change include budget lines going towards more innovative models, policy changes, communication,

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<sup>23</sup> For more information: <https://www.karunafoundation.nl/en/>, <https://karunanepal.org/>, and <https://stories.evpa.eu.com/inspire2care-karuna-foundation/>

<sup>24</sup> For more information: <https://www.genio.ie/>

<sup>25</sup> For more information: <https://www.genio.ie/systemwide-change>



reconfiguration of resources, reconfiguration of human capital, investments in sustainability and organisational commitment.

Genio places a high priority on **being accountable and providing independently measured impact**<sup>26</sup>. Since 2008 Genio spent over EUR 2 million on research and evaluation, much of which has been undertaken independently by researchers at universities and research institutes.

Genio also **encourages and supports grantees to create their own ToC** and an internal monitoring system, to be able to assess progress along the same lines. Genio then gathers all the information on impact provided by the SPOs. Genio has developed a **comprehensive monitoring and evaluation system** to extract and collate the learning from all projects funded.

The ToC helps investors articulate their impact objectives at the level of the final beneficiaries (as described in the boxes above) and vis-à-vis the SPO, leading them to the **evaluation of the impact of their own contribution** to the SPO’s achievement of the social impact expected.

A much-debated question in the VP/SI space is **how to evaluate the impact investors have on the SPOs supported**. Researchers, academics, as well as practitioners are trying to find mechanisms to assess **the impact of both the financial and non-financial support** investors provide to SPOs. No standardised methods

have been widely adopted, but each practitioner can develop **tailored ways to assess its own contribution**. For example, investors can use **surveys** to ask their investees about the perception of the added value VPO/SIs support brought to SPOs’ activities and to their capability to achieve the impact they sought.

As prescribed in the EVPA report “A Practical Guide to Measuring and Managing Impact”<sup>27</sup>, the best practice is to assess the impact of the investor’s contribution through an **external evaluator**, to keep a certain level of independence of the analysis.

**Reach For Change**<sup>28</sup> is a non-profit founded to **improve the lives of children and youth**. Reach for Change invests in **early-stage social entrepreneurs** who have a strong desire to promote children’s rights, an innovative idea to change the world for children, and the passion and the drive to create this change. The entrepreneurs are helped to scale their innovations through seed funding, access to business expertise and networking opportunities.

Reach for Change has developed a **very accurate impact measurement and management system** to track and evaluate both the VPO/SI’s **direct impact** on social ventures and the VPO/SI’s **indirect impact** on children<sup>29</sup>.

**Figure 2: Reach for Change**

(Source: “EVPA VP in a Nutshell - Case Studies and Good Practices”)

Impact of SPO	<p>The Change Leader/SPO:</p> <ul style="list-style-type: none"> <li>comes up with <b>outcome</b> and <b>output indicators</b> → Theory of Change</li> <li>reports on the <b># of children supported</b></li> </ul>
Impact on SPO	<p>RfC:</p> <ul style="list-style-type: none"> <li>measures yearly the level of <b>development</b> of the SPOs in eight key operational areas</li> <li>can <b>aggregate</b> the answers to <b>portfolio</b> level</li> </ul>



<sup>26</sup> For more information: <https://www.genio.ie/our-impact/transforming-social-services>

<sup>27</sup> Hehenberger, L., Harling, A., and Scholten, P., (2015), “A practical guide to measuring and managing impact – Second Edition”, EVPA.

<sup>28</sup> For more information: <http://reachforchange.org/en/>, <http://reachforchange.org/en/impact/helping-social-ventures-scale> and <http://reachforchange.org/en/impact>.

<sup>29</sup> To access the short Guide developed by EVPA on this best practice example on how to measure both levels of impact: <https://evpa.eu.com/knowledge-centre/publications/vp-in-a-nutshell>.

Considering the way in which Reach for Change measures its *direct* impact, in order to understand the development of the social ventures supported, in 2017 the VPO/SI monitored<sup>30</sup>:

- The SPO's **organisational growth**, in terms of increase or decrease in revenues gained, staff employed, volunteers engaged, geographical footprint and number of children supported.  
→ Data was collected on a quarterly basis.
- The development of the SPO's **organisational capabilities** (e.g. the components needed to support sustainable growth) – for example: clear and engaging leadership, a sustainable business model and a viable impact scaling strategy.

→ Organisational capabilities are assessed upon programme entry (constituting the baseline) and thereafter at least once a year, using the assessment tool *Development Tracker* © 2015.

In order to get an indication of the attribution of the ventures' development to Reach for Change's support, the VPO/SI collected **anonymous feedback from the social ventures** about what role they thought Reach for Change played in their development during 2017.

In addition to tracking the development of the social ventures that are currently in their programme, Reach for Change also **follow up with their Alumni** on whether they are still in business and if they have scaled.

**Yunus Social Business**<sup>31</sup> (YSB) is a venture philanthropy fund focussing on poverty-related issues. YSB offers **loans at interest rates lower than traditional banks** to sustainable social businesses (SBs) that provide employment, education, healthcare, clean water and clean energy to over five million people worldwide. YSB as a VP fund aims on average at **capital preservation**.

YSB started to evaluate **its own contribution** to social businesses in a **systematic way**. YSB provides non-financial support in **different areas of development of the SBs**. These areas include impact management, financial planning and monitoring, fundraising, management team and HR, governance, sourcing, production and operations and product marketing and sales.

For YSB, measuring its own impact means **evaluating the effectiveness of the non-financial support** it offers. In order to do it, YSB **records the support provided** and **tracks SBs' maturation over time**. In this way, YSB can better understand its own contribution and ensure that resources are being directed toward areas that generate meaningful results<sup>32</sup>.

YSB and Boston Consulting Group (BCG) developed **a tool to track the progress of the SBs in each area of development over time**. YSB establishes a baseline for each SBs' capability at the time of the investment, and then it tracks the same dimension over time (e.g. after one year), indicating the SBs' level of development on a scale from 1 to 4 (Figure 3).

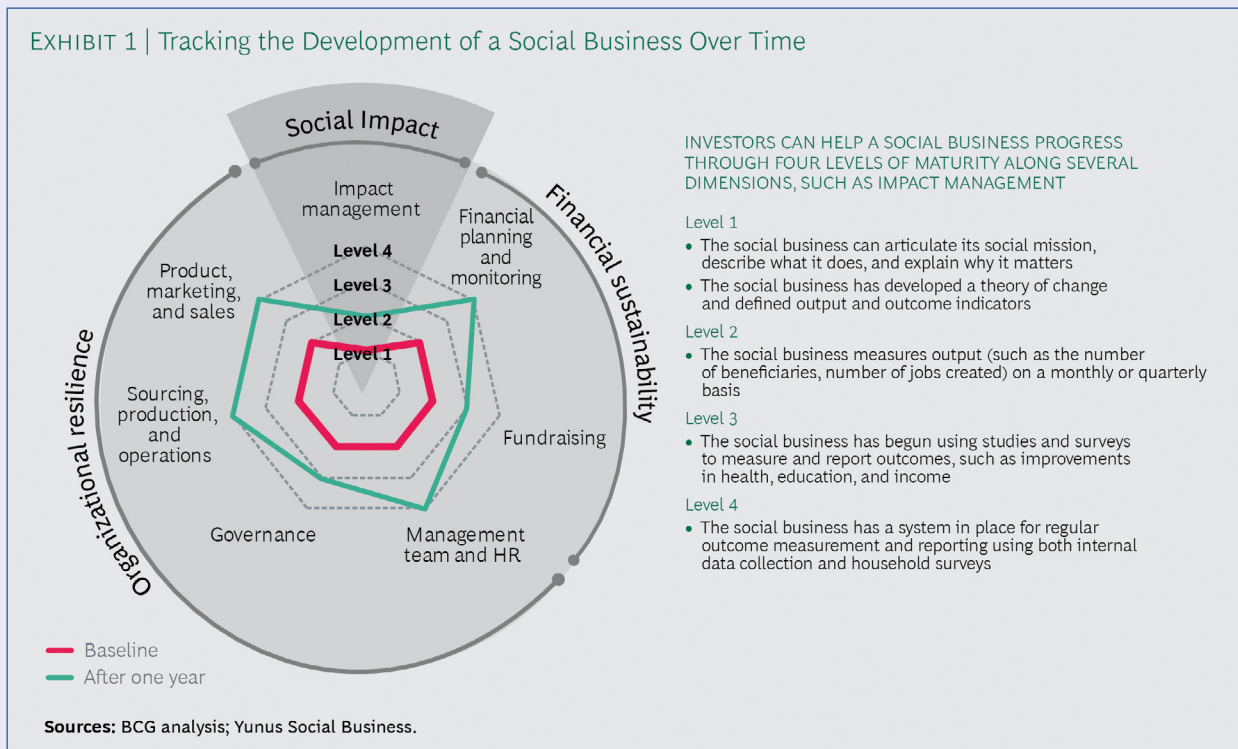
→

<sup>30</sup> The information included in this paragraph is taken from Reach for Change website: <http://reachforchange.org/en/impact/how-we-measure>

<sup>31</sup> For more information: <http://www.yunusfb.com/>

<sup>32</sup> See for reference: **Uekermann, F., Fratesi, L., Hitschke, K., Müller, B., and Beal, D.** (2018), "*Strengthening Social Businesses Through Venture Philanthropy*", Yunus Social Business and Boston Consulting Group.

**Figure 3:** Tracking the Development of a Social Business over Time (Source: BCG analysis, Yunus Social Business)



**4WINGS Foundation**<sup>33</sup> (4WINGS) supports, through **grants, loans and equity**, social ventures committed to the **fight against precariousness in Belgium**, by creating virtuous circles of inclusion. Today it is involved in **innovative social projects** on the following issues: access to housing, tech education, and nutrition- and sport-based health. Through personalised support, networking, and various forms of support and financing, 4WINGS enhances the beneficial effects of concrete projects that have a strong impact on society. The goal is to participate in bringing about **long-term improvement to the living conditions of vulnerable people**.

In order to understand its own impact on the SPOs supported, 4WINGS set **indicators linked to its own contribution**. These KPIs are included in a document

4WINGS developed internally, which includes columns for reporting updates through the investment.

4WINGS believes that when there is trust from grantees/investees, there is a good relationship that leads the SPO to share comments in an open way, also about negative aspects of the relationship. 4WINGS sends **a questionnaire to all its investees** who can fill it in anonymously. Through the questionnaire, 4WINGS asks questions about negative externalities linked to the project itself but also linked to 4WINGS' investment. It is a 360° evaluation to assess 4WINGS' contribution to the SPOs supported, and the room for improvement. It is thanks to negative - but constructive - feedback that the VP/SI organisation can better understand the added value of its own support and change practices that do not work as expected.

<sup>33</sup> For more information: <https://www.linkedin.com/company/4wings-foundation/>

**Erste Group** is a leading retail bank in **Central and Eastern Europe** for advising and servicing **private and corporate clients**, with more than 2,500 branches and 16.5 million clients in seven countries.

**Erste Social Banking**<sup>34</sup> promotes the financial inclusion of **low-income individuals, starting entrepreneurs** (social or not) and **social organisations** (NGOs and social enterprises - SEs), offering them fair access to financial products, sound financial advice and business training and mentoring. Concretely, Erste Social Banking offers loans to individuals and organisations that are considered as **underbanked or not bankable** by traditional banks.

Erste Social Banking focuses on making an impact on societies by: (i) improving financial stability and inclusion for people with low incomes; (ii) enabling job creation and self-employment by financially supporting first-time entrepreneurs; (iii) fostering development and enlarging the impact of social organisation (NGOs and SEs).

Through the network of local banks and partnership with other organisations and NGOs, Erste Social Banking within its **“Step-by-Step” initiative** provides its customers with **tailored products and non-financial support** in terms of financial literacy and advice, business training and mentoring. The bank can therefore support individuals and organisations in their maturing and in making wise financial decisions. This creates a sustainable base for improving clients' economic situations and helping them achieve financial stability in the long term.

Erste Social Banking has started to **assess the banks' impact on its client segments** with the support of the Nonprofit Institute of the University of Economy in Vienna<sup>35</sup>. A survey was developed to measure whether the NGOs and SEs are improving their services and accomplishing their mission, thanks to the support of Erste Social Banking.

The survey also measures the economic impact of Erste Social Banking's work, including:

- How the income of the family has improved, thanks to access to banking;
- The growth in turnover and the jobs created;
- The psychological effects of financial inclusion (such as people's motivation and optimism);
- The change in financial management behaviour, thanks to access to banking.

Here **some highlights** from the 2018 survey:

→ **Social organisations and social enterprises:** in total 400 SPOs were financed, with a volume of more than EUR 40 million. More than 3,000 new jobs were created and 6,000 jobs were preserved. About 75% of the clients in this segment improved their income, 80% increased their assets and 75% started new projects or services. More than 1,000 people participated in educational activities and 81% found the capacity building programmes useful.

→ **Starting entrepreneurs:** overall more than 2,500 businesses were created and EUR 60 million in loans were paid out. About 4,750 jobs were created (33% of the beneficiaries were without a job before) and 12% of business owners employed socially excluded people. About 92% of the respondents believe it was the right decision to start their business and 90% look optimistic into their future. More than 6,000 people took part in business trainings and 90% feel now well trained and educated.

For Erste Social Banking **it is vital to plan, execute and track all of its undertakings based on the principles of Social Entrepreneurship**, creating social impact with commercial means for a long term and sustainable support to individual people and their communities.

<sup>34</sup> For more information: <https://www.erstegroup.com/en/about-us/social-banking>

<sup>35</sup> For more information: <https://www.wu.ac.at/en/npocompetence/laufendeforsch/impact-assessment-of-the-social-banking-initiative-of-erste-group/>

Since for investors adopting the “investing *for* impact” strategy any consideration around social impact is extremely important, the **centrality of social impact in an SPO’s business model** is also crucial. This aspect is a **pre-condition** for any investment, hence the decision on whether or not to fund an SPO is primarily

guided by **the potential of the SPO to achieve the social impact desired**. This particular attention to the SPO’s potential translates in the **centrality of the SPO SPO’s business model** in the deal screening and due diligence phases, and throughout all the investment.

**BonVenture’s** goal is to tackle social and ecological problems, by improving the efficiency and transparency in the social sector, and by setting an example for social investments by **combining philanthropy and economic efficiency**<sup>36</sup>. To achieve this, BonVenture applies proven venture capital methods to the social sector. BonVenture provides its investees with long-term financial resources as well as a network and professional support. In addition, BonVenture develops and applies initiatives to improve the transparency and the visibility of the social impact of these projects.

In BonVenture’s activities, **the investee has a primary role** and SPOs are supported through tailored financing, receiving equity, loans or grants depending on their needs, as well as active management support.

BonVenture supports organisations in the social sector which develop an **innovative idea** and have the potential to become **financially sustainable in the long run**. This social investor believes that

SPOs can achieve a positive social impact only by becoming financially sustainable. In other words, if the SPO goes bankrupt, no impact can be achieved.

BonVenture does **not invest** in companies **without a focus on social impact**.

In the selection of projects, BonVenture applies clearly defined criteria including the **motivation, persistence and credibility of the SPO’s team** as well as the **value of the project as a role model**. In fact, BonVenture strongly believes in the importance of **social entrepreneurs**, individuals who think and act as entrepreneurs and whose enterprises are driven predominantly by a social or ecological purpose. Social entrepreneurs use their **energy, personal commitment and high level of motivation** to achieve sustainable positive change in the social and ecological field. BonVenture acts as a partner to bring social entrepreneurs, collaborators and investors together.

**Yunus Social Business**<sup>37</sup> (YSB) does not focus on maximising profit, but on letting the social business (SB) properly perform in a financially sustainable way. YSB aims at **bringing SBs up to speed** so that they can achieve the impact they seek. This VPO/SI believes that if the SB is not financially sustainable it is not possible to generate social impact.

The centrality of the SPO in YSB’s strategy is also reflected in its focus on the **missing middle**:

YSB supports organisations that would not have been financed otherwise.

While screening investments, YSB looks at the SB’s **team composition and expertise**. In this phase, **negative impact** is also considered: the solution proposed cannot be worse than any other type of alternative solution. YSB also involves the **final beneficiaries** during the due diligence phase.

→

<sup>36</sup> For more information: <https://www.bonventure.de/en/home.html>

<sup>37</sup> Yunus Social Business is a venture philanthropy fund that focuses on poverty-related issues and offers loans to sustainable social businesses at interest rates lower than traditional banks. For more information: <http://www.yunusssb.com/>

With its support, YSB helps SPOs **scale and refine their social impact objectives**, and it contributes to the **definition of a ToC for each SB** supported. YSB has a **bottom-up approach to IMM** and asks SPOs to **come up with their own impact indicators**. The SBs supported are asked for a monthly reporting where social indicators are linked to operations but not to outcomes, as no changes in outcomes can

be registered in such a short period of time (i.e. one month). SBs have to report on social impact in a more extensive way at the end of the year, plus they have to produce quarterly reports. YSB performs a **sanity check** on social indicators – duty considered by YSB as more complex than tracking the financial performance – by directly going into the field. For this sanity check, YSB also involves the **final beneficiaries**.

When **screening potential investees**, practitioners adopting an “investing *for* impact” strategy have the challenging duty of **assessing the social purpose**

**organisation’s potential of achieving the social impact expected.**

**Investisseurs & Partenaires**<sup>38</sup> (I&P) is a **pioneer in the field of impact investing in Africa**, aiming to achieve economic, social, and governance impacts through its investments.

- impact on local suppliers & distributors;
- impact on environment.

I&P supports the financial needs of responsible African entrepreneurs by:

If the SME does not achieve a certain level of **potential impact**, I&P does not invest.

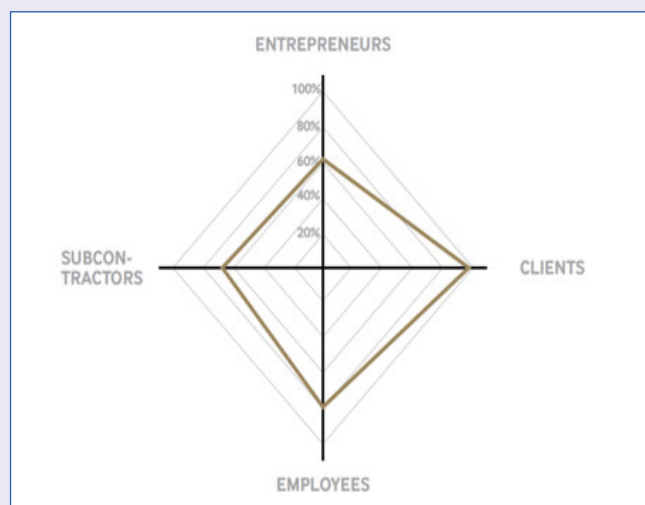
- making equity investments as a minority shareholder in African SMEs, focusing strongly on startups, promoting environmental, social, and governance best practices;
- providing non-financial support by supporting the SMEs throughout the investment period as its investment team builds a personal trust-based relationship with the entrepreneur.

Lastly, for all its recent impact funds, I&P has developed, in collaboration with its investors, **financial incentives that are tied to financial and impact targets.**

For each of its impact funds, the I&P team uses **Impact Screening Scorecards**. They are used to identify ways to **improve overall impact** and to **screen investment projects** for alignment with the fund’s core impact objectives considering:

**Figure 4:**  
Impact Screening Scorecard  
(source: I&P)

- impact on local entrepreneurship (entrepreneur nationality and location, additionality of the investment, etc.);
- impact on employees (creation of decent jobs);
- impact on clients (meeting of local and essential needs);



38 For more information: <http://www.ietp.com/>

Practitioners that adopt an “investing *for* impact” strategy largely use a **positive screening approach** to evaluate potential investees. This means that they proactively select investments by looking at the impact

objectives they would like to achieve as investors, through assessing the potential of the investees to generate such an impact.

**SKala**<sup>39</sup> is an initiative of the German entrepreneur Susanne Klatten<sup>40</sup> in cooperation with **PHINEO**<sup>41</sup>, a think tank and non-profit consultancy for effective societal engagement. PHINEO’s goal is to strengthen civil society by helping those doing good to achieve greater social impact.

The SKala Initiative will support about 100 high impact social purpose organisations (SPOs) with a total grant volume of up to EUR 100 million. SKala supports selected organisations active in one of the following fields in Germany and abroad:

- promoting an inclusive and participatory society;
- building skills and fostering civic engagement;
- bringing generations together;
- disaster relief (with a particular focus on neglected humanitarian crises).

PHINEO selects the grantees through a rigorous standardised process based on SPOs’ **effectiveness** and **overall potential to make a lasting impact** in their field. This involves the consideration of multiple

criteria: **organisational capacity** (e.g. funding structure and financial transparency) as well as SPOs’ **impact orientation** as evident in the Theory of Change, the identification of the target group, the formulation of impact objectives and evidence of results.

The **selection process** for the SKala Initiative is structured in **three phases**. During the first phase all applicants (more than 1,800 applications) submit a two-page proposal which is reviewed and screened by PHINEO. Applicants that do not meet the SKala eligibility criteria are filtered out. During phase two those SPOs that passed the first phase (around 180) are asked to submit more extensive documentation and fill out a questionnaire. Based on an assessment of the information submitted, PHINEO selects the most promising candidates (around 80) for a further in-depth assessment, involving telephone interviews, on-site visits and close engagement between the organisation and PHINEO team. Finally, PHINEO submits all recommended projects to Susanne Klatten for a final decision on the allocation of the grant money.

**Big Society Capital**<sup>42</sup> (BSC) is a **social investment wholesaler** that improves the lives of people in the United Kingdom by investing in intermediaries who then invest in charities and social enterprises to tackle social issues across the country.

BSC focuses on **sustainable solutions that will achieve positive investment returns**, as BSC believes those solutions will be able to attract the most co-investors and, ultimately, achieve the greatest systemic change.

BSC has a **market building role** in the UK, as it works as a market wholesaler.

In July 2017, BCS launched a **new strategy** that builds on what the organisation has learned from their first five years and aims to maximise the positive impact it has on the lives of people in the UK. The new strategy focuses on the efforts to develop new investments in **three key areas**: providing homes for people in need, strengthening communities and taking early action to prevent problems. →

<sup>39</sup> For more information: <http://www.skala-initiative.de/initiative/>

<sup>40</sup> For more information on Susanne Klatten: <https://www.forbes.com/profile/susanne-klatten/#3bda1d3436b4>

<sup>41</sup> For more information: <https://www.phineo.org/english>

<sup>42</sup> BSC was established by the UK Cabinet Office and launched as an independent organisation with a £600m investment fund in 2012. For more information: <https://www.bigsocietycapital.com/>

**BSC aims to:** (i) help charities and social enterprises grow, so they can support more people; (ii) help intermediaries reach out and support these social enterprises; (iii) build a market which grows far beyond them; (iv) grow a vibrant, high impact ecosystem of finance for good.

For every investment that BSC works on, it assesses its potential in terms of (i) the social impact, (ii) the financial return, and (iii) the ability to enable systems change. The risks of not achieving the potential in each of these areas are also core to the assessment.

The social impact component is central here for BSC and they ask themselves: “**How can we use the tools and resources we have to enable as much as impact as possible?**”. As part of this BSC looks at (i) how much capital is needed to support a specific investment, (ii) for how long the capital needs to be committed and (iii) how much impact BSC can generate with the investment.

BSC takes a **balanced approach across the portfolio**, which helps it achieve the long term impact, financial and systems change goals in aggregate across all investments.

BSC uses the Impact Management Project<sup>43</sup> approach at the heart of its investment process, and this is aligned throughout the key stages it goes through. First, BSC looks at an investment proposal before the due diligence has started, when the team discusses whether the proposal is aligned to one of the strategic goals, and how strong a potential fit could be. This **pre-due diligence phase** captures all the relevant considerations about the specific investment on one page. The document includes reflections on impact (including outcomes, risks and indicators), potential for systems change (target, risks and indicators), and financial aspects (for example thesis, risks, returns and indicators), as well as the investee team’s potential ability to deliver. The pre-due diligence tool is **for**

**internal use** and helps BSC’s investment team (i) **start the discussion** on whether they should consider the proposal further, (ii) have a **standardised framework** with **standardised language** across all investments, and (iii) set the key areas for due diligence.

For proposals passing through the pre-due diligence phase, the investment team performs an **in-depth due diligence** (DD) which culminates in recommendations being made to the investment committee. When this committee provides its approval, it gives authority to the team to undertake the legal process and finalise terms of the deal. Throughout every stage, the criteria of social impact, financial returns, and potential for systems change are assessed, taken into account, and documented. For example, there are indicators specific to the investment thesis of each deal that are agreed and documented within the legal process and that are subsequently tracked through the investment lifecycle, as part of the portfolio management approach. This ongoing monitoring and evaluation helps BSC know how the deal is performing, whether there is additional support required and what strategies to pursue next.

Considerations about the **potential negative impacts** on the broader ecosystem are also included in the DD phase (e.g. if too much capital is injected in the market, whether it might crowd out other investors, whether the right sort of incentives are in place etc.).

Within the team at BSC, c.20 out of the team of 50 people are part of the investment team, which is responsible for each part of the investment process. Additionally, BSC also has a **separate impact function** with a small number of dedicated resources. This team works across the wider group on specific impact projects, and maintaining standards, but it also works with the investees (i.e. the funds) on impact measurement and management. This may involve helping them think through the **Outcomes Matrix**<sup>44</sup> and how it might apply to the investments that each fund is making.

<sup>43</sup> See box at page 52 of this report.

<sup>44</sup> To see the full guide on how to use the Outcomes Matrix: [http://www.goodfinance.org.uk/sites/default/files/Outcomes%20Matrix%20Full%20Guidance\\_01.pdf](http://www.goodfinance.org.uk/sites/default/files/Outcomes%20Matrix%20Full%20Guidance_01.pdf)



Depending on **how central social impact is** to the activities of the investors, the way in which they **measure and manage it** varies. Due to the special consideration given to social impact by “investing *for* impact”

capital providers, these actors develop **robust systems to measure and manage impact** with a high level of accuracy.

### EVPA IMPACT MANAGEMENT TOOL

When it comes to social impact, what is crucial is to **measure and manage it**. At EVPA we have developed “*A Practical Guide to Measuring and Managing Impact*”<sup>45</sup> that proposes the following **five-step approach**:

1. setting objectives;
2. analysing stakeholders;
3. measuring results;
4. verifying and valuing impact;
5. monitoring and reporting.

For practitioners, it is important to follow this process since through it they make sure to: (i) clearly understand the problem they are trying to solve; (ii) fix concrete and **relevant objectives** for their contribution; (iii) determine **inputs and activities needed** in order to achieve the objectives set up; (iv) define **appropriate outcomes and outputs** for themselves and for the SPOs they are supporting; (v) set a list of **evidences** that they should require from their grantees/investees; (vi) get in contact with **all the relevant stakeholders** that should be involved; (vii) make the best use of

the data collected to **identify and define corrective actions** if the overall results deviate from expectations.

**Figure 5:** EVPA five-step approach to impact measurement and management (Source: EVPA)



As shown in the EVPA report “*Impact Measurement Case Studies*”<sup>46</sup>, **Investisseurs et Partenaires (I&P)**<sup>47</sup> follows the five-step approach of impact measurement of EVPA<sup>48</sup> (see Figure 6).

In particular:

- I&P assesses potential impacts and monitors them **throughout the investment cycle**, from pre-investment screening to exit.

- The impact strategy is developed **both at the company and at the portfolio level**. This approach fosters the emergence of innovative and mutual ESG solutions for African SMEs.
- I&P has developed **a specific methodology to evaluate the impacts** of its partner companies on their stakeholders: employees, suppliers and distributors, clients, local communities, and public authorities. →

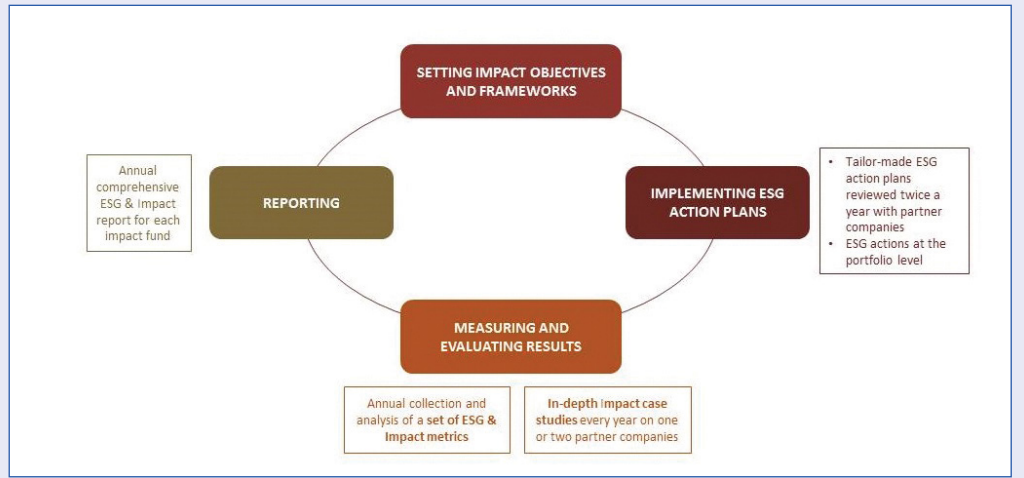
<sup>45</sup> Hehenberger, L., Harling, A., and Scholten, P., (2015), “*A Practical Guide to Measuring and Managing Impact - Second Edition*”, EVPA.

<sup>46</sup> Boiardi, P., Hehenberger, L., and Gianoncelli, A., (2016), “*Impact Measurement in Practice. In-Depth Case Studies*”, EVPA.

<sup>47</sup> Investisseurs & Partenaires is a French pioneer in the field of impact investing in Africa.

<sup>48</sup> The work of EVPA on impact measurement has been approved by the European Commission’s Expert Group on Social Economy and Social Enterprises (GECES) and its sub-group on Social Impact Measurement, and informed the European standard for impact measurement.

**Figure 6:**  
I&P's impact measurement framework  
(Source: I&P)



**FROM THE SPACE - IMPACT MEASUREMENT AND MANAGEMENT**

**Social Value UK** (former The SROI Network) standardised a methodology for measuring and accounting for the value created or destroyed by investors' activities, where the concept of value is much broader than the one that can be captured in financial terms.

The aforementioned framework, named **Social Return on Investment** (SROI)<sup>49</sup>, is a framework that seeks to reduce inequality and environmental degradation; and to improve wellbeing by incorporating social, environmental and economic costs and benefits in investment decisions and management. SROI tells the story of how change is being created by measuring social, environmental and economic outcomes and uses monetary values to represent them. This enables a ratio of benefits to costs to be calculated. For example, a ratio of 3:1 indicates that an investment of £1 delivers £3 of social value (The SROI Network, 2012).

SROI is based on **seven principles**: 1. involve stakeholders; 2. understand what changes; 3. value the things that matter; 4. only include what is material; 5. do not over-claim; 6. be transparent; 7. verify the result. They are generally accepted social accounting principles and are important for accountability and maximising social value<sup>50</sup>.

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In 2017, EVPA and Social Value International launched the **"Impact Management Principles"**<sup>51</sup>, a document in which EVPA's five-step process and SVI's seven principles are linked. This guide serves VP/SI organisations and social purpose organisations to set up impact management systems that are solid and deliver useful information to maximise the value for the final beneficiaries.

49 To get a comprehensive overview of SROI, download: **SROI Network**, (2012) "A Guide to Social Return on Investment".

50 For more information about SROI seven principles: <https://socialvalueint.org/social-value/principles-of-social-value/>  
51 To download EVPA/SVI Impact Management Principles: <https://evpa.eu.com/knowledge-centre/publications/impact-management-principles>

“Investing *for impact*” practitioners adopt a **bottom-up approach** to impact measurement and management, hence they tend not to **use a standardised set of indicators**. Investors *for impact* co-develop with each SPO **customised ad-hoc indicators** that can serve better the purpose of the SPO’s activities. Co-designing

indicators allows SPOs to better understand their own impact and to only collect data that is relevant to manage impact.

**Big Society Capital**<sup>52</sup> (BSC) helped developed the **Outcome Matrix**<sup>53</sup> in collaboration with social investment financial intermediaries, front line organisations and impact experts including the Good Analyst, New Philanthropy Capital, Social Value International and Triangle Consulting.

The Outcomes Matrix is a free tool to help organisations plan and measure their social impact, and has already been downloaded over 18,000 times. It includes outcomes and measures for **nine outcome areas** and **15 beneficiary groups**. The areas are: (i) employment, training and education; (ii) income and financial inclusion; (iii) mental health and well-being; (iv) citizenship and community; (v) conservation of the natural environment; (vi) housing and local facilities; (vii) physical health; (viii) family, friends and relationships; (ix) arts, heritage, sports and faith.

This tool is used as a suggestion and **to support organisations think through what the right social impact indicators might be**. However, when the investee already has its own indicators, BSC asks for them first.

Thanks to the **menu options**, organisations can browse and select relevant outcomes and measures from the nine outcome areas to create their own unique outcomes matrix. It is also possible to select

beneficiary groups to highlight suggested outcomes and measures which relate to that specific group.

The **selected outcomes and measures** can be **exported into an excel file** and then customised to meet the individual needs of each organisation.

Although the definition of indicators is a **shared process**, in case there are specific impact areas BSC wants to capture, **it recommends a list of useful indicators to each fund**. These indicators become the minimum requirement from BSC to the funds, which are still free to add further indicators. As a general rule, BSC does **not want to make the reporting too onerous** to the funds but still wants to be able to understand whether the overall intended impact is being achieved, and if not how it can learn from the process.

BSC foresees a **regular impact assessment for the funds**, which is formalised as part of the investment agreement. BSC ask for quarterly and annual reporting to measure the success on three levels: impact, financial returns, and systemic change.

BSC publishes an annual impact report to showcase the work it is doing and the impact its funds are having<sup>54</sup>.

<sup>52</sup> Big Society Capital is a social investment wholesaler that improves the lives of people in the UK by investing in intermediaries who then invest in charities and social enterprises to tackle social issues across the country. For more information: <https://www.bigsocietycapital.com/>

<sup>53</sup> For more information on the Outcome Matrix: <https://www.goodfinance.org.uk/impact-matrix>

<sup>54</sup> For more information: <https://www.bigsocietycapital.com/impact-report/>

As part of its non-financial support, **4WINGS Foundation**<sup>55</sup> (4WINGS) **helps grantees/investees articulate a Theory of Change** (ToC). 4WINGS first asks grantees/investees to come up with outputs, outcomes and impact objectives and indicators for their own activities. However, 4WINGS often ends up defining the relevant indicators together with the grantees/investees, as it is easier for SPOs to decide indicators when they are supported by the VPO/Sl.

In articulating impact objectives with its grantees/investees, 4WINGS takes a **tailored approach** as it develops indicators based on each SPO's ToC. It is not an easy exercise and it can take **one year and half on average**.

4WINGS developed an internal document, featuring a list of KPIs on its own impact on the SPO, and **indicators** on societal impact, outcomes and quantitative and qualitative outputs, with columns for **reporting the updates** throughout the investment. 4WINGS sets up two annual meetings around impact measurement and management (IMM) with each SPO:

one to discuss the KPIs and the other one to see the overall progresses of the SPO's activity. Additionally, every three months, SPOs send updates on KPIs via email. The KPIs are also included in the partnership agreement signed by all the parties involved in the investment.

For 4WINGS, it is not necessary that the investees identifies the KPIs in advance, but it is fundamental that a conversation between the VPO/Sl and the SPO starts around the topic of IMM, right at the outset of the relationship. Moreover, it is essential that each grantee/investee understands that developing a ToC is neither an exercise done to please the VPO/Sl, nor a tool for the VPO/Sl to "control" the way in which SPO runs its activities, but that it is a strategic tool to better manage the SPO's activities and to maximise the achievement of the social impact targeted.

Lastly, 4WINGS believes that it is very complex to measure the impact per se but it is necessary to talk about it, also to reshape the debate around the topic in the VP/Sl space, making some clarity.

Within the **SKala Initiative**<sup>56</sup>, PHINEO develops **impact indicators in cooperation with the grantees**. Each grantee (SPO) suggests indicators that are relevant and meaningful to measure and manage the impact of its activities, supported by external coaches or impact advisors, if necessary.

PHINEO supports the organisations in refining indicators and impact management approaches. Once organisations start receiving grant money through SKala, PHINEO organises an **impact management and reporting workshop**. This workshop as well as the impact advice are part of the non-financial support provided by PHINEO.

As part of its **commitment to transparency**, PHINEO publishes an annual report on SKala activities, highlighting some of the funded project activities and documenting outcomes where possible. A complete overview of all the funded projects is presented on the SKala website. The annual SKala report also lays out the activities conducted by PHINEO in the context of the SKala Initiative. This report shows how PHINEO activities have contributed to the overall objective of supporting impactful SPOs and strengthening the sector more broadly<sup>57</sup>.

<sup>55</sup> 4WINGS Foundation supports, through grants, loans and equity, social ventures committed to the fight against precariousness in Belgium, by financing innovative social projects on access to housing, tech education, and nutrition- & sport-based health. For more information: <https://www.linkedin.com/company/4wings-foundation/>

<sup>56</sup> SKala is an initiative of the German entrepreneur Susanne Klatten, in cooperation with PHINEO, a think tank and non-profit consultancy for effective societal engagement.

<sup>57</sup> To have a look at the latest annual report published on Skala Initiative (in German): [http://www.skala-initiative.de/fileadmin/DATEN/PDF/SKala-Initiative\\_Taetigkeitsbericht\\_2018.pdf](http://www.skala-initiative.de/fileadmin/DATEN/PDF/SKala-Initiative_Taetigkeitsbericht_2018.pdf)

Despite the marked preference for co-defining impact objectives and indicators bottom-up and with investees – as shown in the examples above – sometimes investors

for impact consider using **existing databases of standardised indicators**.

The vision of **Social Innovation Fund Ireland<sup>58</sup>** (SIFI) is to make Ireland the world's best ecosystem for social innovation, and its mission is to provide growth capital and support to the best social innovations in Ireland, enabling them to scale and maximise their impact.

SIFI was **created by the Government** in 2013 to fill the gap on funding innovation in the non-profit sector. Every Euro SIFI raises is matched by a Euro from Government from the Department of Rural and Community Development via the Dormant Accounts Fund. SIFI has established **ten funds to date**, which address, among the others, social issues relating to tech for good, community resilience, social enterprise development, education, health and youth mental health.

SIFI is currently in a **transition phase** for what concerns **social impact indicators**. So far, SIFI has set individual objectives per grantee, based on the project and on the stage of development of the grantee itself. Within this system, for SIFI the **impact is related to the stage of development of the SPO**: this VPO/SI aims at bringing SPOs to the next phase. The question SIFI asks for its 6 month Accelerator programmes is: *“After six months and after the financial and Accelerator supports, where do we want to see the SPO?”*

**Indicators of success** have been defined to measure this impact but they are **mostly linked to outputs**. Some examples are: the SPO has identified its own social impact measurement system; the SPO has collected some data to show; the SPO has done a medium-term plan including a Theory of Change; the SPO has pitching skills; the SPO has a strategy to raise money; the SPO has further tested its product / service.

By using this system, **aggregating social indicators at portfolio level might be challenging** for SIFI, either to tell its own impact story, or to report back to its own donors about the impact generated. This is why SIFI started looking at a **more standardised system of indicators** to refer to for reporting. In the next phase, SIFI will start **tracking KPIs against the Sustainable Development Goals (SDGs)<sup>59</sup>** with the objective of aggregating at the portfolio level. Thanks to this new strategy, SIFI will be able to report on the overall impact achieved and on its own contribution. SIFI will start with a pilot on one fund with ten social innovations in its portfolio. Additionally, SIFI will keep both IMM systems.

Looking then at the evidence requested from the SPOs during the investment phase, investors for impact try **not to burden investees by requiring excessively demanding** evidence. Investors evaluate the level of accuracy and extensiveness of the evidence they can require based on each SPO, considering – among others – the SPO's capacity to provide them.

As the SPO grows and strengthens its capacity, the VPO/SI can ask for more evidence, reporting on a larger number of outcome indicators, and more precise data.

<sup>58</sup> For more information: <http://www.socialinnovation.ie/>

<sup>59</sup> An overview about SDGs is given in the box “From the space – Social Impact Indicators”, at pages 55 of this report.

**BonVenture<sup>60</sup>** produces **impact analyses for each project supported**. In these documents the social investor reports on: the social problem the SPOs is trying to solve, the approach adopted, the inputs, outputs and outcomes/impact objectives, the indicators used, the target value, and the status of the achievement of the objectives. With these impact analyses, BonVenture also includes in the quarterly reports of the funds managed **the percentage of the impact targeted that was achieved**.

BonVenture aims at setting **indicators that investees can report on without being burdened**, as it does **not want to ask its investees for unrealistic impact measures**. In fact, it is possible that when investing in early stage ventures, BonVenture accepts that the SPO tracks only outputs in the first period, instead of immediately reporting on outcomes. **BonVenture then reports in the impact analysis the reasons of not measuring outcomes**, considering tracking outputs enough for the moment.

Given all the above considerations about the centrality of SPOs in the investment decisions and the focus on the impact of the investors' contribution, we can definitely say that practitioners with an "investing *for* impact" strategy – aim at **additionality in their impact** instead of simply focussing on intentionality<sup>61</sup>. Additionality means that investors

do not settle for having the intention of generating an impact but they focus and manage all their activities with the **final goal of generating a social impact**. They want to create additionality in the social impact ecosystem, by supporting for example the ability of the investees to generate new solutions to societal challenges.

**Start Foundation** is an established venture philanthropy fund, founded in 1998, which gives through grants and makes social investments<sup>62</sup>. Start Foundation aims for a **labour market that welcomes everybody**. Start Foundation initiates and supports initiatives that focus on people who have, for whatever reason, limited or no access to the labour market in the Netherlands.

Start Foundation **invests in SPOs that no other VPO/SI or capital provider more generally would provide for**, demonstrating willingness to bring **additionality** into the VP/SI space by supporting innovative activities.

In order to achieve the objective of an inclusive labour market, Start Foundation assessed the market to understand why the labour market is not truly

inclusive yet and what services/activities were missing in the VP/SI field in the Netherlands. The final aim of the market analysis was to identify which beneficiary groups were the most underserved in the Netherlands. Thanks to this market assessment and twenty years of experience, Start Foundation has developed a new impact strategy in 2017, through which it aims to reduce unemployment or incapacity for work of the most disadvantaged groups in the Dutch society. In particular, Start Foundation decided to focus on two different target groups it believed were not well served: ex-convicts and lower-educated unemployed people aged 55+. Thanks to this strategy, Start Foundation can **achieve more impact** than it would if focussing on areas in which other capital providers are already active (e.g. education and employment for youth, which is a sector that attracts large pools of investments and practitioners). →

<sup>60</sup> BonVenture supports companies and organisations with a social purpose, which are based on an innovative idea and are financially self-supporting in the long term, in German-speaking countries. For more information: <https://www.bonventure.de/en/about-us/about-us.html>

<sup>61</sup> The GIIN defines impact investments as "investments made into companies, organisations, and funds with the *intention* to generate social and environmental impact alongside a financial return". We think the intention of generating an impact is not enough to be considered a social investor adopting an "investing *for* impact strategy". Thus, we believe the GIIN's definition can be used for those practitioners we consider as adopting an "investing *with* impact" strategy. This is one of the main important differences between the two social strategies.

<sup>62</sup> For more information: <https://www.startfoundation.nl/>

As part of its new long-term seven-year strategy, Start Foundation identified its own goal of **reaching at least 150,000 people by 2025**. The rationale for this target is that it represents the 10% of its full target group (i.e. about 1.5 million people in the Netherlands receive a subsidy due to unemployment or incapacity for work: 17% of the labour force).

Start Foundation also started thinking of how to reach its goal, focussing both on the demand and supply side. Apart from the two target groups identified (see below), they defined **two new programmes** after the market assessment:

1. **“Open Hiring™”**<sup>63</sup> fills jobs without judging applicants or asking any questions. This is expected to create opportunities for those who have been kept out of the workforce, including, for example, ex-convicts. The employer sets the minimum requirements for a job, the jobseeker decides whether he or she can handle the job and then applies for the vacancy, without adding any personal information. The model has been developed by Greyston in New York since

1982 and, together with them, Start Foundation is starting this year to replicate it in the Netherlands.

2. **“Parallel labour market”**<sup>64</sup> aims at reallocating the cost of subsidies linked to unemployment or incapacity to work in the Netherlands (i.e. EUR 26 billion per year). The traditional labour market does not have enough jobs and people are not always suitable for direct placement. At the same time, there are many jobs within companies or in the society at large, which have not been considered as “regular jobs” so far as they were not economically viable. This is why there is a need for a parallel labour market, which can be the solution that does justice to everyone who wants to work and that reduces costs of subsidies.

Start Foundation believes that **a more focussed strategy** can let them achieve **a greater impact**, not only in quantitative terms, but more important achieving qualitative impact like impact on preconditions such as legislation, regulations and system changes.

Choosing to support SPOs with an approach of real additionality is not always an easy choice. **Karuna Foundation**<sup>65</sup>, for example, is sometimes confronted with the issue of choosing between (i) supporting

the most difficult cases or (ii) supporting the “low hanging fruits” which can be scaled in an easier or faster way.

Unlike investors *with* impact, investors *for* impact **always** seek the **preservation of the social impact after the investment**. Practitioners adopting an “investing *for* impact” strategy are required to give more attention to, and to put more effort in identifying potential exit strategies for their grantees and investees. For investors *for* impact, the range of exit options is extremely relevant, as well as all the conditions included in the agreement signed at the moment of the exit itself.

Generating financial return at the time of the exit is a desirable scenario for investment funds, regardless of the impact strategy they adopt. However, for investors adopting an “investing *with* impact” strategy financial return represents a must-have at the time of exit, even at the expense of a greater impact, whereas for those adopting an “investing *for* impact” strategy the achievement of a financial return always goes hand in hand with the generation of social impact.

<sup>63</sup> For more information on the project: <https://www.startfoundation.nl/programmas/open-hiring> (website only in Dutch but video in English) and: <https://greyston.org/open-hiring/>

<sup>64</sup> For more info on the project: <https://www.startfoundation.nl/programmas/parallele-arbeidsmarkt> and [https://www.startfoundation.nl/FbContent.ashx/pub\\_1000/downloads/v1809101558/2018%20Sociaal%20Bestek%20-%20Geen%20uitkeringen%20meer%20van%20sociale%20Naar%20participatiezekerheid.pdf](https://www.startfoundation.nl/FbContent.ashx/pub_1000/downloads/v1809101558/2018%20Sociaal%20Bestek%20-%20Geen%20uitkeringen%20meer%20van%20sociale%20Naar%20participatiezekerheid.pdf)

<sup>65</sup> Founded in 2007, Karuna Foundation aims at improving the lives of children with a disability in developing countries and to prevent children from having disabilities. For more information: <https://www.karunafoundation.nl/en/>

**Karuna Foundation** was carrying out an intervention in a number of villages in Nepal. At one point, Karuna stopped financing the intervention because it did not see the villages' leaders taking up enough responsibilities and being proactive enough. The decision was very hard from an ethical point of view, so it was initially seen as a failure for the VPO/SI, as it had an immediate negative impact on the community.

However, in the long term, this decision turned out to be the best one to take, as the leaders in surrounding

villages immediately took up responsibility to address the needs of the most marginalized.

In general, **Karuna Foundation** and its co-investors (which are organised as a consortium) decide to exit an investment only when the intervention is not achieving the impact expected. In such case, they do not pull out immediately, but they phase out in a very ethical and legal way, and help the SPO close the project in a sustainable way for the final beneficiaries.

## FINANCIAL RETURNS



When it comes to **financial returns**, investors who adopt an **“investing for impact” strategy**:

- are **very dispersed** in terms of the financial return they target (from -100% to 0% and +);

- consider **potential financial returns as a means to an end** (i.e. the achievement of a social impact);
- are **willing to give up part of their financial return** for the achievement of a higher social impact.

Within the “investing *for* impact” strategy, there is a large spectrum of financial returns expected. In fact, actors adopting the invest *for* impact strategy can be both **grant-makers** and **social investors**. Grant-makers expect a **-100%** return on their “investments”, or a **repayment of capital** (if, for instance, they deploy recoverable grants, or loans with 0% interest rate); whereas social investors aim at **different levels of below-market-rate returns** or the **recuperation of capital** (if, for example, they deploy loans with 0% interest rate).

For investors *for* impact, financial returns – if any – are however not the starting point for deciding whether to invest. When they invest, investors *for* impact “place a bet” on the SPO, and they work primarily to make it achieve its impact goals. If the SPO achieves financial sustainability, then its impact is secured, and the VPO/SI can achieve a financial return. Thus, financial return expectations do not represent an obstacle to the pursuit of an uncertain but consistent social impact.

**SI<sup>2</sup> Fund<sup>66</sup>** (SI<sup>2</sup>) is a European impact investment fund that focuses on **businesses with an integrated impact/business model** and a mission aligned with the United Nation’s Sustainable Development Goals. SI<sup>2</sup> helps social businesses achieve **sustainable societal impact alongside a fair financial return**. SI<sup>2</sup> is particularly keen to support early-stage

(non-seed) or growth phase businesses with scalable, innovative solutions.

The focus on social businesses with a business model allowing them to achieve positive **financial returns and long-term sustainable social impact** forces SI<sup>2</sup> to be active in a **market niche in Belgium**. →

<sup>66</sup> For more information: <http://www.si2fund.com/>



SI<sup>2</sup> is **sector-agnostic**. Instead of making an investment decision based on sectors, the first element SI<sup>2</sup> considers is the **potential of the SPO to create substantial social value**.

As an impact investment fund deploying equity, SI<sup>2</sup> has financial expectation **between 3% and 7% as net return to shareholders**. However, while screening potential investments, **SI<sup>2</sup> looks first at the impact component**, also in terms of risk, and if the impact expected is not enough, SI<sup>2</sup> decides not to invest. Then, SI<sup>2</sup> looks at the financial risk separately, and afterwards it combines both considerations and takes the final decision. During this phase, the SPO's **financial sustainability is crucial**, since without it there cannot be a long-lasting and sustainable impact. SI<sup>2</sup> also considers the influence that generating impact has on the creation of business value for the SPO.

SI<sup>2</sup> believes that the integrated impact/business model helps to align impact and financial returns as much as possible. According to SI<sup>2</sup>, **market rate returns** are not impossible but they are **rare in combination with impact focused investees**. The companies in which SI<sup>2</sup> invests will need to generate financial returns but SI<sup>2</sup> does not expect a market-rate return as a condition to invest.

This fits in a general trend where social enterprises (SEs) are not – yet – data driven enough and rely too much on idealism and less on realism. A major contribution of the SI<sup>2</sup> team is to show SEs **the added value of impact measurement in both achieving impact and business goals**.

**Start Foundation**<sup>67</sup> was established as a traditional grant-maker supporting non-profit organisations. After a number of years, Start Foundation started to support for-profit (social) enterprises through loans, targeted financial returns.

After the definition of their new strategy in 2017, **Start Foundation stopped focussing on financial returns**, making social impact its only objective,

even though it also deploys financial instruments that could potentially generate a financial return. In practice this means that nowadays Start Foundation **deploys loans** not to generate financial returns, but as a **financial incentive for the investees**. Concretely, if investees demonstrate a certain impact, **the loan can become a grant with -100% return for Start Foundation**.

**BonVenture**<sup>68</sup> as a fund management company operates as a **social business itself**.

BonVenture has the **primary objective of reaching a high social impact** coupled with the financial objective of registering at least **capital preservation** for fund BonVenture1 and BonVenture2 and reaching about 5% p.a. for fund BV3 as net return

on investment for investors of that fund. Having to meet its own investors' expectations might have some **limitations**, such as the impossibility for BonVenture of supporting investees that are only able to pay money back. Because of this BonVenture targets at SPOs that can be financially self-sustaining and can generate internal cashflow.

<sup>67</sup> Start Foundation is an established venture philanthropy fund, founded in 1998, which both deploys grants and makes social investments. It aims for a labour market that welcomes everybody. For more information: <https://www.startfoundation.nl/>

<sup>68</sup> BonVenture supports companies and organisations with a social purpose, which are based on an innovative idea and are financially self-supporting in the long term, in German-speaking countries. For more information: <https://www.bonventure.de/en/about-us/about-us.html>

## FROM THE SPACE - FINANCIAL EXPECTATIONS

In the ecosystem, there is no consensus over the magnitude of the financial returns that social investors can expect from their social investments. While some claim that investors can make market-rate returns with impact investing (see for example

the GIIN Annual Impact Investors Survey<sup>69</sup> and Wharton Social Impact Initiative<sup>70</sup>), others (e.g. Oxfam and Sumerian Partners<sup>71</sup>) say that a narrative around unrealistic (i.e. too high market-aligned) financial return expectations can mislead the discussion around impact investment.

## RISK COMPONENT



When it comes to the **risk component**, investors who adopt an “**investing for impact**” strategy:

- are willing to **take higher operational risks** if it means achieving a **major social impact**;
- perform an **explicit social and financial risk assessment** (e.g. also considering risks associated with not achieving the desired social impact);

- take also into account the potential (and collateral) **negative impact**;
- develop **ways to mitigate the risk**;
- **use impact evidence to reduce the risk** associated with impact.

The **risk appetite** of investors *for* impact is **high**, especially as they work to **fund social innovation** which is by definition a risky business.

For practitioners building an “investing *for* impact” strategy, the risk associated to social impact is as important as the risk associated with financial returns, or – in case of grant-makers – it is the only one considered.

Specifically, investors *for* impact take into account<sup>72</sup>:

- (i) the risk of **not achieving the impact desired**;
- (ii) the risk of achieving an **unexpected impact**, different from the one aimed at;

(iii) the risk of achieving a **positive impact** but with **unintended negative consequences**;

(iv) the risk of achieving an **unexpected negative impact** instead of a positive one.

The methods used to assess **risks associated with financial returns** in the VP/SI space are similar to those used by traditional venture capitalists. For what concerns the impact risk, in the VP/SI market there are multiple systems for evaluating the **risks associated with the achievement (or not) of social impact**.

69 **Global Impact Investing Network**, (2018), “*Annual Impact Investor Survey 2018 - the eight edition*”, GIIN.

70 For more information see: <https://socialimpact.wharton.upenn.edu/>

71 For reference see: **Bolis, M.** and **West, C.**, (2017), “Marginalized Returns” in *Stanford Social Innovation Review*, Fall 2017.

72 Please note that these are only the risks related to achieving or not a social impact. For a more exhaustive list of all the risks associates with being a VPO/SI, please see: **Hehenberger, L.**, and **Boiardi, P.**, (2014), “*Learning from Failures in Venture Philanthropy and Social Investment*”. EVPA.

**Karuna Foundation**<sup>73</sup> analyses **all the risks linked to each intervention**, grouping them in the following categories:

- 1) risk of not achieving an impact;
- 2) risk of achieving a negative impact;
- 3) risk of achieving an insufficient impact<sup>74</sup>;
- 4) risk of failure due to the high risk profile of the interventions and their levels of innovativeness;
- 5) risk of failure due to changes in the political systems.

Additionally, Karuna identifies the **risks linked to the financial sustainability and organisational resilience of the intervention**. In particular, Karuna looks at:

- 1) the risk of one of the consortium partners pulling out (which is solved by an agreement that if one of the investors leaves the other five have to take over the financial commitment of the one who exited, to guarantee the stability of the financing for the intervention);
- 2) the risk of replication;
- 3) the risk of not keeping the quality when scaling up a programme.

For **Mozaik**<sup>75</sup>, the impact risk comes first and is more important than the financial risk. However, the VPO/SI identifies and manages both types of risks. For Mozaik seeing the financial risk profile of the investment improve over time is important, because it shows that

the financial sustainability of the SPO is improving. Mozaik performs a risk assessment at portfolio level and has a dedicated person in the team who monitors the impact risk and is supported by banks in the monitoring of the financial risk.

Since investors *for impact* take into account all the possible risks, they also develop **techniques to mitigate them**. A solution widely implemented by “investing *for impact*” practitioners is to adopt **a portfolio approach** in order to mitigate risks across all the investments. Having a portfolio approach is particularly important when investors are confronted with the decision whether to

accept or not to finance a high-risk project with a great social impact expected. Having a portfolio approach to risks enables investors to accept risks in a wiser and better “controlled” way and to **support riskier SPOs**.

<sup>73</sup> Founded in 2007, Karuna Foundation aims at improving the lives of children with a disability in developing countries and to prevent children from having disabilities. For more information: <https://www.karunafoundation.nl/en/>

<sup>74</sup> Karuna Foundation realises that, when it carries out an intervention in a village in Nepal, there is a risk of doing harm if the costs of the intervention are too high comparing to the local context. This would create inequality. Others should be able to replicate the intervention.

<sup>75</sup> Mozaik Foundation is a social investor active in the Balkans region that was founded in 2002 with the aim of encouraging development of rural communities. For more information: <http://mozaik.ba/>

**I&P<sup>76</sup>** uses a risk-assessment approach linked to the ESG (Environmental, Social and Governance) criteria. During the due diligence phase, I&P evaluates the ESG risks (high, medium or low) as well as the ESG management capabilities of the SPO (good, average or poor). The ESG risk rating categories are based on international standards (e.g. International Finance Corporation – World Bank Group)<sup>77</sup>.

I&P also performs a risk assessment on the impact to be generated and a more informal assessment of the side effects (indirect negative impact) for the sector.

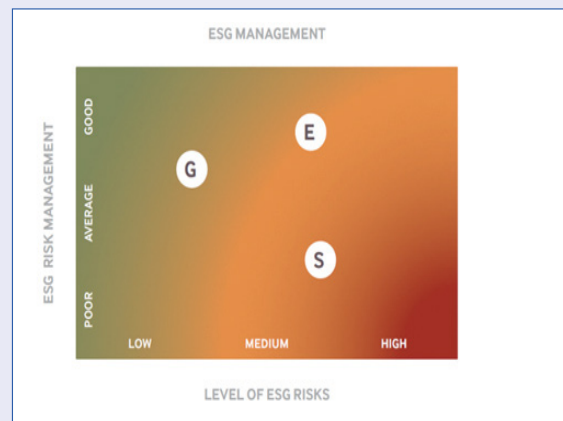
The ESG risk due diligence includes an **in-depth analysis of the following ESG-related matters** as an integral part of the assessment:

- **Social considerations** including, but not limited to, working conditions and human resources management, occupational health and safety, and impact on local communities
- **Environmental considerations**, such as water and waste management, carbon footprint and energy efficiency, impact on biodiversity, etc.
- **Governance-related considerations**, such as business integrity and corporate governance framework

After the in-depth analysis, I&P develops a **plan to mitigate the risks**. For example, if I&P notices that the SME has a high number of work related accidents, I&P co-develops with the SME a management plan to mitigate such risks. **I&P** has an informal way to assess the financial risk, as it does not really based its investment decision on that. During the **due diligence** the VPO/SI performs a **financial risk assessment of each investee on all the business aspects**, taking the time to discuss with the entrepreneur, the employees and the stakeholders to assess the risk related to the solidity of the business model.

**Figure 7:**

ESG risk and management assessment  
(Source: I&P, March 2018)



**Social Innovation Fund Ireland<sup>78</sup>** (SIFI) is willing to take high risks as it focuses on **social innovation** – which normally brings with it a considerable level of risk. SIFI adopts a **portfolio approach to manage the risk**. SIFI aims at having a balanced portfolio including grantees with different level of risk.

SIFI takes a **portfolio approach while screening investments**, performing due diligence project by

project but also aiming to have diversity at portfolio level, in terms of target group, gender of the leader and of beneficiaries, location and setting of the SPO, etc. An additional criterion SIFI uses to select investments is choosing **different solutions to the same social problem**. By using a diversification strategy, SIFI has a **balanced portfolio, both in terms of projects and in terms of risks**.

→

<sup>76</sup> Investisseurs & Partenaires is a French pioneer in the field of impact investing in Africa. I&P endeavors to achieve economic, social, and governance impacts through its investments. For more information: <http://www.ietp.com/>

<sup>77</sup> For more information: [https://www.ifc.org/wps/wcm/connect/Topics\\_Ext\\_Content/IFC\\_External\\_Corporate\\_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards](https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards)

<sup>78</sup> Social Innovation Fund Ireland is a match-making fund, created in 2013 by the Irish Government to fill the gap on funding social innovation in the non-profit sector. For more information: <http://www.socialinnovation.ie/>

To assess the overall risk at the portfolio level, SIFI put together **a tool to evaluate the level of the risk associated with each grantee supported**. SIFI takes into consideration five aspects to assess: track record to date (historic); impact potential of the model proposed (future); leadership and governance; scalability / replicability; potential for financial sustainability. SIFI attributes a risk factor from 1 to 4

to each aspect. By summing up all the points assigned to each SPO, the VPO/SI gets a number that defines the level of risk of each investment. The risk score distribution used by SIFI goes from 0-9 low, to 10-14 medium and to 15-20 high.

**BonVenture**<sup>79</sup> adopts different techniques to **mitigate the risks** associated with the investment:

- project applications have to undergo an intensive due diligence before a commitment is made;
- projects are financed in different financing rounds according to the achievement of pre-defined milestones;
- projects are actively supported through close and intensive cooperation; and

- financial resources are spread over 15-20 portfolio companies.

For BonVenture, another way of reducing risks is **to report frequently on both social and financial performance**. BonVenture asks its investees to report monthly on financial objectives, and to report quarterly on the impact achieved. BonVenture believes that **being able to prove the social impact achieved** can reduce the risk associated with an investment.

It is also a good practice for investors *for* impact to assess not only the risk of not achieving the expected

impact but also the **risk of achieving a negative impact**.

**SI<sup>2</sup> Fund**<sup>80</sup> (SI<sup>2</sup>) takes into account the **negative impact** in advance, both while preparing the forecasts (i.e. the parameters to be compared with actual values linked to identified KPIs) and during the due diligence phase.

Looking at one of its investees, **Justice42** (*justice for two*)<sup>81</sup>, SI<sup>2</sup> played a role in considering the potential negative impact. Justice42 “is a system changer in dispute resolution in the Netherlands. Starting with divorce disputes, it delivers a better resolution service than the current lawyer centric process. Instead of the tournament model where two lawyers fight for their clients, the clients themselves are led through a guided mediation process that seeks the best solution for the couple and their children. This is a change in

dispute resolution which addresses important societal problems and lowers costs”<sup>82</sup>.

It can happen that the online mediation methodology is not the right approach, leading to a drop-out to the lawyer centric process. This drop-out creates additional psychological stress, additional cost for a lawyer, frustration, etc. As investor, SI<sup>2</sup> cannot interfere in the way the project is run, but it can translate the KPI linked to the drop-out rate into concrete actions to minimise it. The indirect role played by SI<sup>2</sup> was to (i) identify the potential negative impact; (ii) point it out and discuss it with the SE; (iii) come up with an action plan to reduce it.

<sup>79</sup> BonVenture supports companies and organisations with a social purpose, which are based on an innovative idea and are financially self-supporting in the long term, in German-speaking countries. For more information: <https://www.bonventure.de/en/about-us/about-us.html>

<sup>80</sup> SI<sup>2</sup> is a European impact investment fund that helps social businesses with an integrated impact/business model and a mission aligned with the SDGs, achieve sustainable societal impact alongside a fair financial return. For more information: <http://www.si2fund.com/>

<sup>81</sup> For more information: <http://justice42.nl/en/home-3/>

<sup>82</sup> For more information: <http://www.si2fund.com/portfolio/justice42/>

### FROM THE SPACE - RISK DIMENSION

The **Impact Management Process** considers **risk as one of the five elements to describe and understand impact**<sup>83</sup>. Linked to the risk, some questions have been formulated: (1) Who experiences impact risk?; (2) How do we assess impact risk?; (3) How do we manage impact risk?; (4) How do we communicate impact risk?

Impact risk is “the likelihood that the impact will be different than the one expected, and that the difference will be material from the perspective of: people (or the planet) who experience (or don’t experience) impact; and society as a whole, if impact is

not delivered as efficiently as it could be, resulting in an opportunity cost of resources, which otherwise could have generated more impact for people and the planet” (The Impact Management Project).

There are several potential risks factors when assessing how confident the investor is that “the impact will be experienced as expected” (Figure 8). To assess these risks, the Impact Management Project advises to consider the probability for each risk, and the consequences on the stakeholders if they do occur. Thanks to this assessment, the investor should be able to review its risk assessment and try to reduce the probability of risks materialising<sup>84</sup>.

**Figure 8:**  
The different potential risks factors  
(Source: *The Impact Management Project*)

Enterprises and investors face 9 types of impact risks	
IMPACT RISK	DEFINITION
1 Evidence risk	The probability that insufficient high-quality data exists to know what impact is occurring (or will occur) across the other four dimensions of impact, for all stakeholders.
2 External risk	The probability that external factors disrupt our ability to deliver the expected impact.
3 Stakeholder participation risk	The probability that the expectations and/or experience of stakeholders are misunderstood or not taken into account.
4 Drop-off risk	The probability that the expected positive impact does not endure and/or that negative impact is no longer mitigated.
5 Efficiency risk	The probability that the expected impact could have been achieved with fewer resources or at a lower cost.
6 Execution risk	The probability that the activities are not delivered as planned and do not result in the desired outcomes.
7 Alignment risk	The probability that impact is not locked into the enterprise model, making mission-drift more likely.
8 Endurance risk	The probability that the required activities are not delivered for a long enough period.
9 Unexpected impact risk	The probability that significant unexpected positive and negative impact is experienced by people and the planet.

Source: Impact Management Project analysis. © ⓘ ⓘ

<sup>83</sup> For more information, see: <http://www.impactmanagementproject.com/understand-impact/risk/>

<sup>84</sup> On how to mitigate impact risk, see: Dimension of impact—Impact risk, Case Study 5 - Impetus PEF: “*Mitigating Impact Risk and Building Investees Impact Management Capacity*” in **Impact Management Project, (2017), “NPC Case Studies: Impact Management Practice in Youth Employment”**.

## THE LOCKSTEP MODEL

Some practitioners use an “investing *for* impact” strategy that works under specific conditions in certain markets and adopt a lock-step model. These investors, thanks to the evolution of the social investment market, are able to identify a “**sweet spot**” in which the achievement of a **social impact** and the **generation of financial returns go hand in hand** and **reinforce each other**.

Investors who move in this space support SPOs whose **social impact component is so embedded in their business model** that **by scaling the SPO the impact is also scaled**.

Capital providers adopting a lockstep model have all the characteristics of investors *for* impact, but also:

- invest their resources in **highly risky new ventures**, testing the solutions that will then be scaled by investors who adopt an “investing *with* impact” strategy, and in certain cases by the government;
- use **financial instruments** through which they can generate **financial returns** (often investing through equity);
- consider (high) positive **financial returns more as a “bet” rather than a selection criterion** for investments;
- have to **meet their own funders’ expectations in terms of financial returns**<sup>85</sup>;
- are **willing to take high risks** if they believe in the SPO’s business model;
- couple the financial offer with **intensive non-financial support**;

- take a **portfolio approach** to find a good balance between social impact, financial return and risk;
- look at impact measurement and management with a **bottom-up approach**, not imposing pre-defined indicators (which do not work in markets or sectors without track record);
- are mostly **sector-agnostic**, as they look for the most innovative way to solve a social issue, without focussing on specific sectors or geographies.

Investors *for* impact following the lockstep model logic have been active in the VP/SI space for over a decade, working to build the market and to strengthen social innovation models, by also **accepting low financial returns**. Investors *for* impact following the lockstep model logic are a fundamental actor in the VP/SI space as they test new solutions to social problems, making them ready to be mainstreamed by investors *with* impact and traditional capital providers.

<sup>85</sup> In certain cases, the financial return expectations of the investors in VP/SI organisations are growing, also due to the unrealistic narrative that promotes high returns in the impact ecosystem. This tendency forces VPO/SIs to give more and more attention to the achievement of financial returns – especially if we consider investors *for* impact adopting the lockstep model.

**Oltre Venture**<sup>86</sup> (Oltre) is a venture philanthropy and impact investment fund that operates in Italy since 2006. Oltre supports **social innovation** by investing (through equity and quasi-equity) in businesses that provide new solutions in services sectors that have been characterised by little or no innovation.

Oltre uses the venture capital operating model, channelling economic resources towards the **most innovative and efficient projects**, and **offering managerial and financial skills** to the entrepreneurs. Oltre invests in **companies in social sectors**, with a specific focus on healthcare, education, social housing, customer-oriented and social services, job placement and economic development of depressed geographic areas. The purpose of the companies in which Oltre invests is to develop **new and better solutions to social and collective needs**, with the aim of creating **added value for customers** and for **the entire community**, not only for the shareholders.

For Oltre the decision on whether to invest is based on **how innovative the business model of the investee is**. Oltre assesses whether the SPO's business model can **create social impact by sustainably changing the way in which a certain social service is delivered** and the positive response of users. Oltre invests in businesses that have an **impact at sector level** and have a **business model that can be replicated**.

When deciding whether to invest, Oltre conducts a **traditional due diligence** on the business, looking at its business plan, people, history and reference market (i.e. by looking at whether the model proposed is innovative enough to generate more impact than the existing models). The investment decision is made based on whether Oltre believes in the business model of the investee.

Oltre Venture has a net return expectation of between 3-5% to investors. However, Oltre does **not target the same return per each investee**. If Oltre identifies an innovative business model that can generate a high social impact but has a low financial return expectation, it will still invest in it, and look for other investments that help offset the return risk, taking a **portfolio approach**.

When making the investment decision, **impact risk** and **financial risk** are both considered but treated separately. The relationship between impact risk and financial risk is **calculated for each investment**, and then **by looking at the entire portfolio**. Oltre takes a **proactive approach in mitigating the risks** as, once they decide to invest they become shareholders of the venture, thus they do all what is in their possibilities to make the business succeed. Oltre Ventures knows that if the business model of the venture is not sustainable, there is no impact and the venture fails.

Additionally, the portfolio approach helps Oltre to **meet the financial return expectations of its own investors**.

Oltre believes that investors that invest in social innovation have to first look at the **innovativeness and sustainability of business models** and that it is impossible (and useless) to impose pre-defined indicators for all investees. **Parameters to measure the impact** (or any other dimension related to the social enterprise) **are defined case-by-case** with each investee, as they need to be useful for the social enterprise and because the level of reporting depends on the size of the investee and how developed it is.

<sup>86</sup> For more information: <http://www.oltreventure.com/>



**Phitrust Partenaires**<sup>87</sup> (Phitrust) is a French social investment fund that provides **technical and financial support** to **small and medium-sized for-profit companies** creating a **positive social and environmental impact** while pursuing **financial sustainability and profitability**.

Phitrust has between 20 and 25 investments in its portfolio, each receiving on average between EUR 100,000 and EUR 800,000 in the form of **equity, debt or a combination of both**. Each investee also benefits from **strategic and tailored support** provided by one of the members of Phitrust's Investment Committee, who are active members of the Board of Directors and/or of the Strategic Committees of each of their portfolio companies.

Phitrust does **not have a sector focus** but it invests in a variety of sectors taking a **project approach**, with a particular focus on financing social businesses in Europe, West Africa and South-East Asia.

Phitrust identifies social enterprises willing to increase their social impact and then it asks itself what it can offer to those businesses to let them pursue their social impact objectives. Phitrust **only invests when it can contribute to the maximisation of the social impact**. Phitrust considers itself as **a means for the social enterprise** to achieve the impact it seeks.

For Phitrust, **social impact is part of the strategy** of the social business (i.e. the SPO). Phitrust supports social businesses in **defining an appropriate strategy** that lets them achieve their objectives in terms of impact expectations and financial and organisational sustainability. For Phitrust, a venture can only **generate a positive social impact** if it achieves **financial sustainability** and **organisational resilience**.

While screening potential investments, Phitrust looks at the potential of each investee in generating the social impact it aims at. One of the core elements

Phitrust takes into account is the **ability of the team of the social enterprise** to solve the issue it wants to tackle.

In the due diligence Phitrust also considers the **potential negative impact** generated by the projects it finances and then puts in place measures to reduce it. All the considerations about unintended negative consequences of the investment are also included in the written agreement with the investee.

Phitrust has a **bottom up approach to impact measurement and management**: it agrees with the social enterprise on indicators - linked to Environmental, Social and Governance criteria (ESG) - for a three-year period and for a five-year period. The social enterprise gives Phitrust its own objectives in terms of impact and then Phitrust works on guaranteeing that the strategy implemented by the social enterprise leads to the achievement of the social impact.

For Phitrust, the **financial return is not the final objective** of an investment. Of course, as investor, Phitrust can achieve a financial return but it can be seen more as a "bet" instead of the primary goal. Thus, for Phitrust, any discussion around the trade-off between social impact and financial return makes no sense in the social investment space.

On average on an annual basis, Phitrust can provide to its own investors a 2%-3% of financial return and, more importantly, it **reports back on the increase of the impact achieved by each investee**<sup>88</sup>.

Phitrust takes a **portfolio approach**, aiming at diversifying the risks in terms of impact and financial expectations, registering at the portfolio level a mix of successes and failures. Last but not least, Phitrust is **willing to take very high risks** if it believes in the team and in the business model of the potential investee. Being so risk prone helps Phitrust avoid problems with the pipeline.

<sup>87</sup> For more information: <https://www.phitrust.com/en/societal-impact/phitrust-partenaires/>. Please note that in the box we use "Phitrust" to indicate "Phitrust Partenaires".

<sup>88</sup> To access the last Annual Report of Phitrust Partenaires from 2017: <https://www.phitrust.com/wp-content/uploads/2018/06/Rapport-annuel-Phitrust-Partenaires-2017.pdf>

## INVESTING WITH IMPACT

### SOCIAL IMPACT - OBJECTIVES, MEASURES AND LEVELS OF EVIDENCE



When it comes to **social impact**, investors who adopt an “**investing with impact**” strategy:

- have **impact as a secondary objective**, subject to the achievement of a financial return;
- use **social impact to mitigate the risks** associated with the achievement of a financial return;
- screen investments **primarily based on the potential financial return** they can generate – and

then on the potential impact;

- select investments mostly using **standardised criteria** (e.g. ESG, PRI, etc.) or a **negative screening approach**, requiring a **high detail of evidence** that a specific model has achieved impact in the past;
- measure investees’ social impact performance based on **standardised indicators** (e.g. IRIS, GRI, etc.)

Investors adopting an “investing *with* impact” strategy consider impact as **secondary objective**, subject to the achievement of a financial return. This means that these investors *with* impact have a mission that is not primarily linked generating of a social impact (as it was for those with an “investing *for* impact” strategy). Investors *with* impact rather aim at achieving a positive impact on the society and on the environment **subject to and alongside a financial return**.

An example of investors *with* impact is a **corporate** that wants to reduce its environmental harm, but will always have as first aim the maximisation of profits for its shareholders.

The **main risk** of having finance-first practitioners entering the social investment space claiming to pursue an investment with impact strategy is the **loss of focus on “impact integrity”**<sup>89</sup>, which is a fundamental element of the impact ecosystem<sup>90</sup>.

Given the importance of **keeping a certain level of “seriousness” about social impact** so that it is not just a “packaging” exercise, it is necessary:

- (i) to understand which actors are contributing to the creation of a *real* impact (i.e. bringing to the market new solutions that help solve pressing social problems or change the way in which a social problem is tackled) and
- (ii) to provide frameworks that can help newcomers in the impact investing space define a strategy that follows certain integrity rules.

Some efforts are currently carried out in the space to identify **common methods for understanding and managing social impact** in the most efficient and coherent way with the aim of reducing the risk of “impact washing”. A definition of this term is included in the glossary at the end of the report and some examples and references are included in the box below.

Investors *with* impact are giving increasing **attention to impact measurement and management**. These investors benefit from the initiatives happening in the space aiming at explaining: what social impact is, how it can be measured, why it is important to manage it and what are the necessary steps to follow.

<sup>89</sup> See for reference: **Nocquet, E., Debled, E., and Bourrin, C.,** (2018), “*There is no such thing as impact, but only proof of impact*”, Investisseurs et Partenaires.

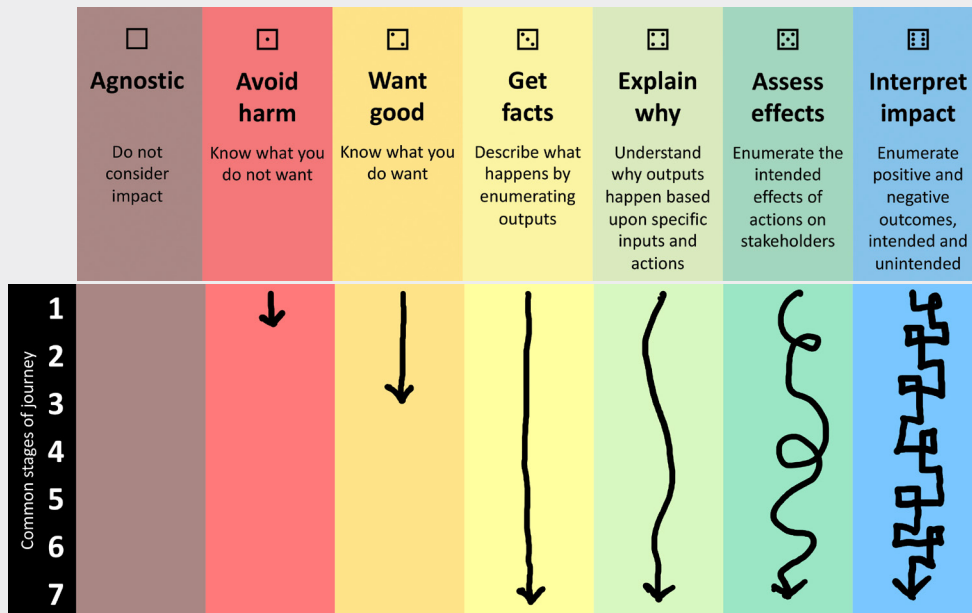
<sup>90</sup> For example, respondents to the GIIN Survey 2018 were asked about ways of preserving impact integrity, and 80% of them highlighted the necessity of a greater transparency for impact investors on their impact strategy and results.

**FROM THE SPACE - IMPACT MANAGEMENT**

In 2018, the **UNDP SDG Impact Finance** developed a tool<sup>91</sup> to help practitioners understand their impact, recognising that impact measurement and management (IMM) involve complex activities that VP/SI organisations can undertake with different levels of methodological intensity (Figure 9). Each level depends on the context and the reasons for which practitioners aim at understanding impact, and on the purpose for which the resulting data will be used (Karl H. Richter, 2018). UNISIF combined these 7 levels of

methodological intensity with a 7-step process to IMM to be repeated as a cycle (Figure 10). The idea is to show all the actions that should be undertaken for each step of the process, depending on the level of intensity aimed by each practitioner. Additionally, for each level, UNISIF indicates different levels of evidences required in order to describe impact.

Then, UNISIF came out with a **practical tool in Excel** to assist practitioners select appropriate Social Development Goals (SDGs)<sup>92</sup> and link them to relevant IRIS indicators for example.



**Figure 9:** Impact Management for Everyone - Rubric for selecting the pathway that suits the methodological intensity you need (Source: Karl H. Richter for UNDP SDG Impact Finance)



**Figure 10:** Common stages of the journey (process) for managing impact (Source: Karl H. Richter for UNDP SDG Impact Finance)

91 The information included in this paragraph about UNISIF comes from: Karl H. Richter, (March 2018), Concept Note: “UNISIF requirements for software (standalone or online) that support impact measurement and management (IMM)”.

92 An overview about SDGs is given in the box “From the space - Social Impact Indicators”, at pages 55 of this report.

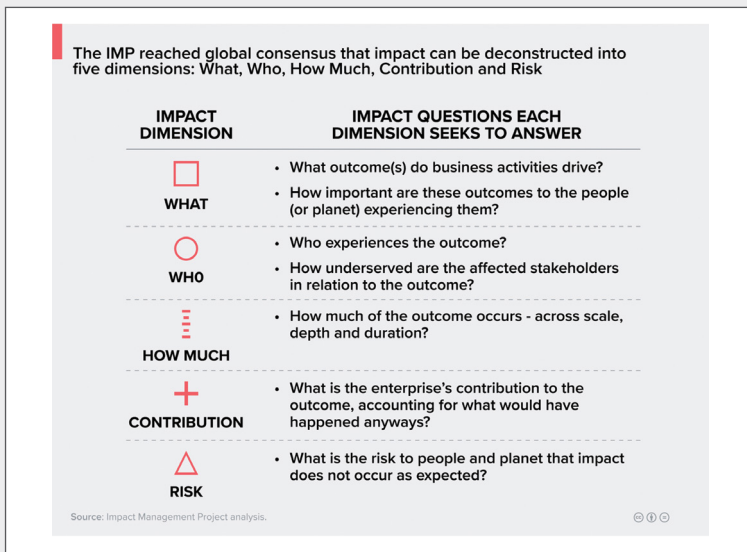


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The **Impact Management Project**<sup>93</sup> (IMP) is facilitating a global network of standard-setting organisations who have come together to accelerate **widespread adoption of impact measurement and management**. The IMP defines the impact of any effect as its performance across five dimensions: what, who, how much, contribution and risk. The **five dimensions** of impact help practitioners better understand the effects of each investment on people and planet. The five dimensions are linked to specific questions (Figure 11) and tell: what outcomes the enterprise is contributing to and how important the outcomes are to stakeholders (WHAT); which stakeholders are experiencing the outcome and how underserved they were prior to the enterprise’s effect (WHO); how many stakeholders

experienced the outcome, what degree of change they experienced, and how long they experienced the outcome for (HOW MUCH); whether an enterprise’s and/or investor’s efforts resulted in outcomes that were likely better than what would have occurred otherwise (CONTRIBUTION); the likelihood that impact will be different than expected (RISK).

The IMP believes that in an increasingly crowded investment landscape, **mapping products/portfolios based on their impact goals** can provide a useful classification. This mapping process enables funds to accurately understand and communicate the impact of their investments, in addition to providing insights into the role they have played in the process<sup>94</sup>.



**Figure 11:**  
The five dimensions of impact  
(Source: *The Impact Management Process*)

93 For more information about the Impact Management Project, see: <https://impactmanagementproject.com/impact-management/what-is-impact/>

94 For more information on the Investor’s Impact Matrix developed by the IMP to map products/portfolios: <https://impactmanagementproject.com/investor-impact-matrix/>

For investors adopting an “investing *with* impact” strategy, social impact is not the end goal of their activities, but it can represent a way of **mitigating the risks associated with financial returns**. For example, increasing the focus on impact, sustainability and responsibility while investing might help these capital

providers better screen organisations, in order not to support and sustain those enterprises that run the risk of being penalised because of their non-virtuous behaviours. This practice can have a positive effect on the financial returns investors *with* impact can generate.

**BNP Paribas Fortis** is the market leader for **socially responsible investments** (SRIs)<sup>95</sup> in Belgium. With a portfolio of EUR 11 billion invested in SRIs, BNP Paribas Fortis is the biggest SRI investor in Europe.

BNP Paribas Fortis offers a fund of funds, with a portfolio of 40 SRI funds via open architecture. The funds are very diversified in terms of thematics which include water, clean energy, healthy living, healthy food, aging population, gender equality, green bonds, etc. These funds are also available for **three risk profiles** (i.e. defensive, neutral, dynamic).

On top of the financial analysis, the SRI team in Paris is responsible for **screening the enterprises the funds invest in** (i.e. for the due diligence process). BNP Paribas has an internal rating system to evaluate the enterprises and decide whether to invest. These enterprises need to respect the group sector policies and apply ESG criteria. Some of them are listed companies, while typically the ones working in micro-finance are not.

BNP Paribas Fortis has also more traditional investment options, but a strategic decision was made to position SRIs as the **first and preferred offer** to clients. BNP Paribas Fortis feels the responsibility of directing clients’ capital towards the most virtuous companies in terms of ESG and the sectors of the future. Today,

one third of the assets under management are already SRI, and two thirds of the new investments are SRI. BNP Paribas Fortis has invested lots of time and energy in creating internal and external awareness. This strategy has resulted in an **exponential growth of SRI funds**.

The **reasons** for BNP Paribas Fortis to move towards SRIs are the following:

- looking at the risk/return profile, investing through SRI contributes to reduce the risk as enterprises not respecting ESG criteria are penalised nowadays;
- *CSR and Engagement* is one of the three pillars of BNP Paribas Fortis’ strategy. Hence it is very natural that the private banking division transforms its core business of investments into socially responsible investments;
- allowing clients to invest in solutions that are in line with their personal values and beliefs.

Since their launch, **the returns of SRI funds are in line or slightly above returns of traditional funds**, but certainly not lower. As a result of the financial crisis and its effect on the stock markets, SRI funds and the application of ESG criteria have contributed positively to a good performance.

<sup>95</sup> For more information: <http://www.bnpparibas.be/en/bnp-paribas/socially-responsible-investments-savings-put-good-use/>

When screening potential investees, investors adopting an “investing *with* impact” strategy **start by looking at the financial return** these investees could generate (primary objective) and then the social impact they might achieve (secondary objective). This does not mean they will invest in ventures that do not generate an impact. It simply means that the social impact is only a secondary screening criteria.

When looking at the social impact component, investors *with* impact adopt techniques to select investments mostly based on **standardised criteria** (e.g. ESG<sup>96</sup>, PRI<sup>97</sup>, etc.) or a **negative screening approach** since they need to make the business case for social impact and consequently also need to show that there is potential impact to be generated. This approach results in the request of

**standardised evidences in the pre-investment phase**, which serve as proof that potential investees meet the criteria. Moreover investors *with* impact request high detail of impact evidence in the pre-investment phase, because these investors support SPOs that already have a track record in terms of impact generated.

Standardised indicators help investors with an “investing *with* impact” strategy when it comes to measuring social impact. These practitioners generally benefit from **indicators coming from standardised datasets**, which are useful to report back in a more immediate way, also to their own investors. So they ask their investees to measure impact according to **pre-defined indicators** (such as IRIS, GRI, etc.).

#### FROM THE SPACE - SOCIAL IMPACT INDICATORS

When it comes to social impact, one aspect that should be taken into consideration is the typology of indicators that practitioners can use in order to measure it and then be able to manage it. In the VP/SI space a lot of effort has been made to find common indicators. Practitioners can then benefit from existing indicators or develop their own indicators based on the databases present in the field. Below is a list of the most common databases used.

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Since 1997, the Global Reporting Initiative (GRI) helps businesses and governments worldwide understand and communicate their impact on critical sustainability issues such as climate change, human rights, governance and social well-being. To be able to do so, the GRI has developed the **GRI Sustainability Reporting Standards**<sup>98</sup>, which are the first global standards for sustainability reporting. The GRI Standards feature a modular, interrelated structure, and help organisations report on a range of economic, environmental and social impacts. The GRI Standards are designed to be used by any organisation that wants to report

about its impact – positive and negative –, and about its contribution towards sustainable development.

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In 2008, because of the perceived lack of transparency and credibility in how funds define, track, and the report social and environmental performances of their portfolios, the Rockefeller Foundation, Acumen and B Lab began the **IRIS initiative**<sup>99</sup> to create common metrics for reporting the performance of impact capital. In 2011, 29 leading impact investors signed a letter of support for IRIS<sup>100</sup>, recognising standardised social and environmental performance as an industry best practice and strongly encouraging peers to adopt IRIS for their performance reporting.

IRIS metrics are widely used and are compatible with over 50 metrics standards, frameworks, and analytics platforms (including GRI, the B Assessment, PRI, Aeris, SPTF, and others).

Since 2009, IRIS is an initiative of the Global Impact Investing Network (GIIN), which offers IRIS as a free public good to support transparency, credibility, and accountability in impact measurement practices

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96 Environmental, Social and Governance criteria.

97 Principles for Responsible Investment.

98 To get more information about the GRI Standards, visit: <https://www.globalreporting.org/standards>

99 For more information about IRIS: <https://iris.thegiin.org/>

100 To read the letter and see the 29 signatories: <https://iris.thegiin.org/assets/files/2011%20Letter%20of%20Support.pdf>

across the impact investment industry. Since then, the GIIN has led four IRIS upgrades, and it is currently working on the next one that will (i) enable portfolio aggregation through KPIs; (ii) align to the SDGs; (iii) adhere to the five dimensions of impact as defined by the Impact Management Project; (iv) integrate existing work from Navigating Impact<sup>101</sup> and the Impact Toolkit<sup>102</sup>; and (v) provide guidance on how to use the defined KPIs.

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The **GRI** and the **IRIS initiative** have joined forces to help impact investors use both methods for reporting aggregate and compare standardised performance information across their portfolios<sup>103</sup>. The document they produced as a joint initiative<sup>104</sup> shows how the GRI G4 Sustainability Reporting Guidelines (G4 Guidelines) and the IRIS 3.0 catalogue of metrics (IRIS metrics) are linked, improving consistency and comparability of sustainability data, and making the reporting more efficient and effective.

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The **Sustainable Development Goals** (SDGs)<sup>105</sup> emerged at the United Nations Conference on Sustainable Development in Rio de Janeiro in 2012 with the objective of producing a set of universal goals that meet urgent worldwide environmental, political and economic challenges (Figure 12). The SDGs replace the Millennium Development Goals, which started a global effort in 2000 to tackle the indignity of poverty. The SDGs are a bold commitment to finish what the UN started, and tackle some of the more pressing challenges facing the world today. All the 17 goals – linked to 169 targets, which are in turn linked to 304 indicators – are interconnected, meaning that the success in one affects the success for others.

**Figure 12:** The Sustainable Development Goals (Source: United Nations)



SDGs are not properly social impact indicators but can serve as a **decision-making framework** for capital providers that would like to contribute to solve specific societal challenges. At the moment in the space, some practitioners start using the SDGs in order to map their impact. Therefore, some efforts are currently being made in order to link existing indicator databases to the SDGs in order to let practitioners better demonstrate how they contribute to sustainable development at a larger scale.

For example, **Sinzer**<sup>106</sup> has recently started to develop a **database**<sup>107</sup> containing all **SDG, IRIS and GRI indicators, metrics and targets**. The aim of this database is to provide suggestions on links between these three datasets, meaning that organisations can use it and find organisation-, product-, and service-level indicators and immediately see to which SDG these relate<sup>108</sup>.

101 For more information: <https://navigatingimpact.thegiin.org/>

102 For more information: <https://impacttoolkit.thegiin.org/>

103 From more information: <https://iris.thegiin.org/users/profile/the-global-reporting-initiative-gri>

104 **Carey, E., Buck, B., Espinach, L., and Kriege, K.,** (2015), "Linking GRI and IRIS. How to use the IRIS metrics in the preparation of a sustainability report based on the GRI G4 Sustainability Reporting Guidelines". GRI and IRIS.

105 To get more information about the Sustainable Development Goals, visit: <http://www.undp.org/content/undp/en/home/sustainable-development-goals/background/> and <https://sustainabledevelopment.un.org/>

106 For more information about Sinzer, whose mission is to support organisations in developing strategies to map, measure, report and improve their social impact, visit: <http://www.en.sinzer.org/>

107 To access the database: <http://standardstest.sinzer.org/standards>

108 <http://blog.sinzer.org/combining-sustainable-development-goals-with-iris-and-gri-for-a-better-world>

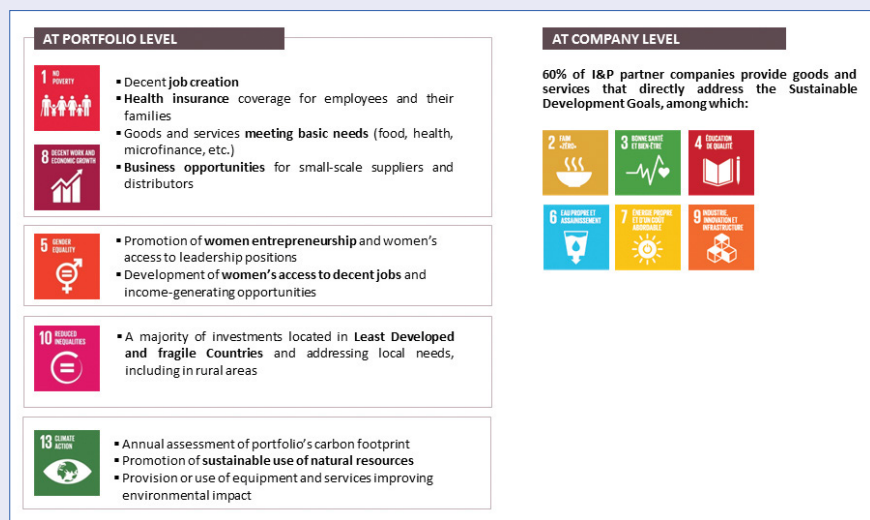
Reporting the impact achieved according to the SDGs can also help investors *for* impact better show what they are achieving. In fact, the SDGs constitute a useful

framework to show to the broader public what the VPO/SI has achieved.

I&P<sup>109</sup> is committed to addressing key development issues in Africa and to measuring its contributions to the United Nations' newly established **Sustainable Development Goals (SDGs)**.

**Figure 13:**

I&P's contribution to the SDGs  
(Source: I&P)



## FINANCIAL RETURNS



When it comes to **financial returns**, investors who adopt an **“investing with impact” strategy**:

- generally expect **positive returns** in line with those of traditional investors;
- target primarily **financial returns** – with the

achievement of a social impact as a secondary goal;

- are **not willing to give up part of their financial return** for the achievement of a higher social impact.

Capital providers that “invest *with* impact” **always** expect a positive financial return when supporting SPOs. The range of returns is wide: it goes from **close-to-market-rate** to **market-rate returns**.

Since the achievement of a social impact is secondary in their activities, investors *with* impact **cannot** or **are not willing to give up part of their financial return** for the achievement of a higher social impact.

Pension funds, for example, **need to follow their investment guidelines and/or regulatory guidelines** which in most cases still state their **primary fiduciary duty as delivering financial returns**. Therefore, when entering the impact investing space, pension funds look for investments that generate a sustainable financial return for their shareholders (the retired people who have entrusted their savings to the pension fund) and then a positive social impact.

Given these premises, investors with impact such as pension funds cannot invest in high-financial-risk high-impact-potential ventures, and they cannot lose their shareholders' money. Consequently, they will look for safer investment in proven social sector projects and/or impact investing funds that have in their portfolio financially sustainable social enterprises.

<sup>109</sup> Investisseurs & Partenaires is a French pioneer in the field of impact investing in Africa. I&P endeavours to achieve economic, social, and governance impacts through its investments. For more information: <http://www.ietp.com/>



## RISK COMPONENT



When it comes to the **risk component**, investors who adopt an “investing *with* impact” strategy:

- start looking at risk **from the financial perspective** and focus on **de-risking the financial component**;
- **do not always develop ways to assess and mitigate risks** associated with **social impact**;
- look at the risk of generating a **negative social impact** only as a **screening criterion** (i.e. in the “do no harm” sense).

Investors adopting an “investing *with* impact” strategy consider risk **from the financial perspective**. As opposed to investors *for* impact, investors *with* impact focus on de-risking the financial component instead of de-risking the social impact. Consequently, investors adopting an “investing *with* impact” strategy **do not always develop ways to assess and mitigate risks associated with social impact**. Their assessment of the risk of producing a **negative social impact** is used just

as a screening criterion, while for example they adopt a “do no harm” strategy.

Although sometimes they might be taking what they perceive as high financial risks, investors *with* impact tend **not to accept any risk that could compromise the generation of financial returns**, and hence will not invest in ventures that they cannot de-risk.

## ADOPTING MULTIPLE STRATEGIES

Since the ecosystem is in a continuous evolution and the boundaries might be blurry, there is also a number of investors who adopt **multiple strategies**.

Financial institutions can adopt multiple impact strategies. BNP Paribas is a good illustration of this diversified approach in terms of impact strategies. **BNP Paribas Fortis in Belgium** (BNP Paribas Fortis) combines its “investing *with* impact” strategy via its SRI funds, with its “investing *for* impact” strategy, via its support to the Venture Philanthropy (VP) Fund of the King Baudouin Foundation (KBF).

On the one hand, BNP Paribas Fortis is market leader in social responsible investments (SRIs)<sup>110</sup>, which can be considered as an “investing *with* impact” strategy. On the other hand, BNP Paribas Fortis engages in pure

local positive impact, by supporting since 2015 the **VP Fund of KBF**<sup>111</sup>. How does it work? Thousands of clients invest in BNP Paribas Fortis’ Private SRI Fund. The Bank donates 4bps (equivalent to 0.04%), with a **cap of 1.5 million**<sup>112</sup>, to local impact projects, via the VP Fund.

So, at the same time, BNP Paribas Fortis allows its clients to “invest *for* impact”. Thanks to BNP Paribas Fortis involvement, 47 local projects throughout Belgium were supported, for more than EUR 4 million, including Bednet, one of EVPA’s 2017 Success Stories<sup>113</sup>.



<sup>110</sup> For more information: <http://www.bnpparibas.be/en/bnp-paribas/socially-responsible-investments-savings-put-good-use/>

<sup>111</sup> For more information: <https://www.bnpparibasfortis.be/fr/Investissements/Decouvrez/Approche/Investir-durablement/Fondation-Roi-Baudouin?axes4=prbk> and <https://www.venturephilanthropyfund.be/fr/financial-partner>

<sup>112</sup> It is important to mention that even though BNP could invest more than that, KBF cannot manage such amount of money.

<sup>113</sup> <https://stories.evpa.eu.com/bednet-king-baudouin-foundation/>

Additionally, **BNP Paribas Asset Management**<sup>114</sup> (BNPP AM) in France is an early adopter of 90/10 Funds, the French Impact Funds, and has thus helped the group to develop a solid offer of Solidarity Funds since 2003. These Funds are accessible to **its own employees**, to **its corporate clients** who propose them to their own employees through the employee savings plans (e.g. Plan d'Épargne Entreprise, PERCO)<sup>115</sup> but also to any **institutional investors**. This is part of the Bank's "investing *with* impact" strategy.

Since early 2015, the Bank also proposes a 90/10 Solidarity Fund to the **retail clients** of the French Network, called **BNP Paribas Social Business France**. This is the first 90/10 Fund proposed outside the classic Corporates' saving schemes, where every single individual can invest anytime as little as EUR 100. This Fund has democratised the impact investment by providing to retail clients the liquidity of a SRI fund with a proven social impact.

BNPP AM has developed internally a **tool to measure the social performance of the investees of the Fund** (i.e. the 5% to 10% part)<sup>116</sup>, therefore the individual client can see the impact of its savings. The 25 investees of the Solidarity Funds have financed 21,900 entrepreneurial projects that are still alive after three years, or have provided 3,934 beds to ageing and poor persons, or have provided housing to 3,198 distressed people in 2017<sup>117</sup>.

BNP Paribas France has also launched the **Social Business Impact France** (SBIF), a fund that invests (through long or medium term debt and/or quasi-equity) **100% into social enterprises**, and its clients are **institutional clients**. This is part of the Bank's "investing *for* impact" strategy. What has been seen until now is that **the default risk of the companies that are part of this portfolio is similar to the default risk of traditional SMEs**.

There is a key difference between the **Social Business France Fund (I)** and the **Social Business Impact France Fund (II)**. From a client's perspective the first (I) has a lower risk profile and a higher liquidity, since the 90% of traditional investments is invested into SRI listed companies, and therefore it may offset the risk of the 10% unlisted social investments. In the second fund (II) the companies are not listed, and the risk profile is therefore much higher, the liquidity much thinner but with an higher impact potential, which is reflected in the name, the SBIF cannot be sold to retail clients.

All the Solidarity Funds have **Finansol label**<sup>118</sup> that in France grants that at least 5% of the fund is invested into companies of the Third Sector (*Economie Sociale et Solidaire*). The Bank manages five Finansol labelled funds.

BNP Paribas also **invests directly in social impact funds**, such as Oltre Venture in Italy, Alter Equity, Phitrust and NovESS in France. Interestingly, first among other actors, the Bank has brought its Pension Fund in Italy and its Insurer (BNP Paribas Cardiff) to also invest into these impact funds. The **total impact investment** as of mid-2018 brought long term funding to social enterprises for a total amount of EUR 200 million.

In terms of **products offered to social enterprises**, BNP Paribas tailors its offer of banking products to the needs of the social enterprises, which, like all other companies, need access to loans but sometimes can be **perceived as less bankable**. This is also coupled with non-financial support services<sup>119</sup>, such as legal pro bono offered during working time from BNP Paribas employees. As of mid-2018 the **Total Impact Loans** offered to social enterprises is close to EUR 1,000 million, including EUR 200 million of loans deployed to microfinance institutions, bringing all support (i.e. loans or investment) to social enterprises to **EUR 1.2 billion**.

114 For more information: <https://www.bnpparibas-am.com/en/>

115 So far, 175,000 employees have saved their money in BNP Paribas solidarity funds.

116 For reference: <https://group.bnpparibas/en/news/measuring-social-impact-key-step-promoting-social-enterprises>

117 For reference (as of 30.06.2018), see: <https://www.bnpparibas-am.com/fr/responsabilite-sociale-et-environnementale/notre-responsabilite-economique/investissement-social-et-solidaire/> and <https://docfinder.bnpparibas-am.com/api/files/DDE4B7F2-1243-478D-8529-E97C6A8B89D6> (in French).

118 For more information on Finansol: <https://www.finansol.org/>

119 For more information: <https://group.bnpparibas/en/news/act-impact-bnp-paribas-brand-france-social-entrepreneurs>

# PART 3. IMPACT STRATEGIES IN PRACTICE

– CONTEXTUAL FACTORS, INVESTMENT  
STRATEGY AND INVESTORS' ROLE

*Inspire2Care - Karuna Foundation © Leonard Fäustle*



# PART 3.

## IMPACT STRATEGIES IN PRACTICE

### - CONTEXTUAL FACTORS, INVESTMENT STRATEGY AND INVESTORS' ROLE

After considering the three main elements of an impact strategy, this chapter explores how those elements are influenced by and influence the following contextual factors:

- the **maturity of the market** in which the VPO/SI operates (defined as a combination of geography, sector, beneficiary group targeted);
- the **SPOs** supported;
- the **financial and non-financial support** the VPO/SI wants to provide (e.g. the type of financial instruments and of capacity building);
- the **overall approach** of the VPO/SI (e.g. making a change at the transactional level or work on achieving systemic change).

This clarifies how investors who adopt an “investing *for* impact” strategy and investors who adopt an “investing *with* impact” strategy do so in their daily practice.

This chapter is meant to **start a discussion around the nuances that are linked to the implementation of different impact strategies**. This report will not go in-depth into discussing each element, but it introduces them to stimulate a debate in the VP/SI space, which EVPA wants to continue moderating in the years to come.

## 3.1. MATURITY OF THE MARKET<sup>120</sup>

The investment focus includes investors' choices in terms of **geographical areas** and **social sectors** to support. Before deciding to enter a certain market, an investor should **assess the level of maturity of the market**.

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### TALKING TO THE EXPERT

Similarly to investors, **SPOs also have to assess the market** while deciding to offer a service/produce a product to satisfy a societal need or address a societal challenge.

*First, SPOs should understand well the needs and challenges they aim at solving in a particular geography/sector. Without a need (be it primary – e.g. shelters, food etc. – or secondary, tertiary etc.) there is no market, and without a market there is no incentive to produce and deliver products or services. SPOs should understand who the final beneficiaries/users of their products/services are while developing a Theory of Change of their activities<sup>121</sup>.*

**Anne Holm Rannaleet**, Trustee and Executive Director of IKARE Ltd.

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The **level of maturity of a market** is determined by:

- the level of development of the social sector infrastructure in the market,
- the level of development of the specific sector. A sector should be considered mature when it has enough track record and evidence to measure outcomes.

A market is **immature** when:

- the social sector infrastructure is not developed in a certain geographical area or in the sector of choice;
- a certain social sector is not yet developed in a certain geography.

**Immature markets** present a **higher level of risk and uncertainty** compared to mature markets. In immature markets there is no evidence base to show whether a social innovation works or not. There is no certainty about the financial sustainability of the social enterprises that will develop solutions in it, and there is no guarantee that the regulatory environment is/will be favourable.

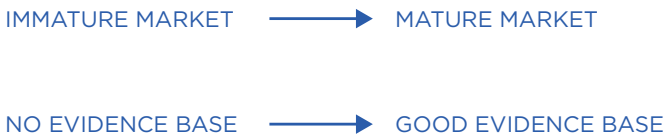
A low level of development of a market has consequences on the way in which investors can implement their impact strategies. For example, investors adopting an “investing for impact” strategy could require a **lower level of evidence of the impact achieved as a pre-requisite to investment**, during the screening and the due diligence phase. In fact, for SPOs active in new markets where there is not enough data to build a strong baseline, it is particularly difficult to provide evidence in the pre-investment phase. Additionally, considering the centrality attributed to the SPO, “investing for impact” practitioners are willing to undertake a greater effort and spend more time in assessing the SPO’s potential to achieve social impact, even without considerable evidence. These investors *for impact* **co-develop with the investee a complete Theory of Change** and **customised impact indicators**.

On the other hand, **mature markets** are well developed and populated by social enterprises that are well established, financially sustainable and that have a good client base. In such markets, SPOs can provide good evidence of their impact sustainability, hence being attractive for investors *with impact*. However, even in mature sectors with a good track record, there will always be a segment of the targeted population that needs to access a certain product or service for free or at a reduced price (i.e. bottom of the pyramid). This segment will be better served by investors *for impact* (or by governments). The more mature a sector is, the smaller this segment of the population, which however is unlikely to disappear.

<sup>120</sup> We are referring to the market as the combination of geographies and sectors.

<sup>121</sup> From the interview with Anne Holm Rannaleet, Trustee and Executive Director of IKARE Ltd. (July 2018).

**Figure 14:** Different levels of development of the market  
(Source: EVPA)



In an **ideal world** with a dichotomous division between mature and immature markets, high-risk-taker investors *for* impact would invest in immature markets, where there is no evidence base. By contrast, investors *with* impact would tend to invest in mature markets, taking over and scaling solutions that have been successfully brought through the testing and validation phase by practitioners adopting an “investing *for* impact” strategy.

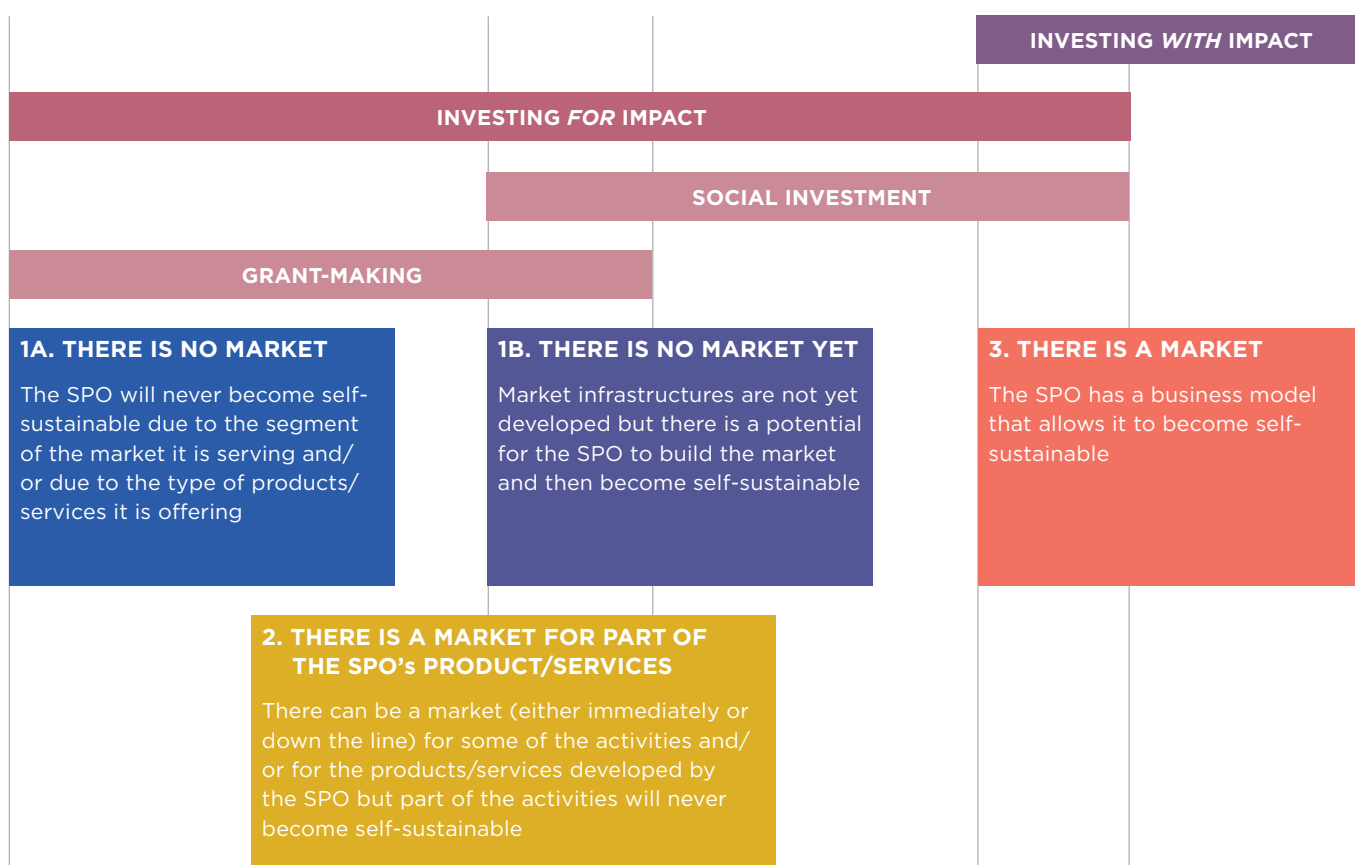
However, actors with an “investing *with* impact” strategy can also come in to bring existing and proven solutions to immature markets. For them this is a scaling strategy that enables them to generate high financial returns even if the markets are new. An example is microcredit in India. It is important to note that this scaling strategy does not work when supporting new solutions into developed markets.

## 3.2 THE SPO SUPPORTED

Another component that influences and is influenced by the impact strategy of the VPO/SI is the **business model of the SPO**, which can be assessed by looking at whether *a market (public or private) exists for the SPO's products/services or activities*<sup>122</sup>. Using the classification of the market developed in EVPA's report "*Financing for Social Impact*"<sup>123</sup>, which looks at the

**presence of a market, either immediately or down the line**, and at the **business model of the potential investee**, the two strategies can be placed along the continuum of development.

**Figure 15:** Different types of business models in markets with different levels of development for the two Impact strategies (Source: EVPA Knowledge Centre)



122 **Gianoncelli, A. and Boiardi, P.,** (2017), "*Financing for Social Impact | The Key Role of Tailored Financing and Hybrid Finance*". EVPA.

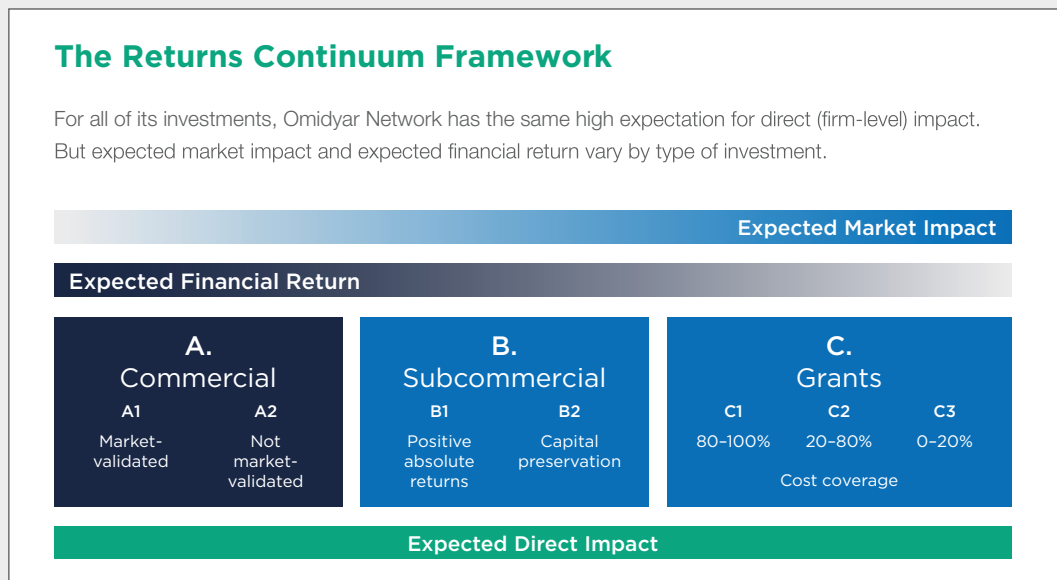
123 Idem.

**FROM THE SPACE - THE RETURNS CONTINUUM**

Omidyar has developed a framework for assessing the market-level impact whose creation is the only condition in which below-market returns are accepted. Omidyar uses grant instruments only when its investment in a SPO is generating a positive market-level impact - category C

In the framework shown below, both financial returns and expected impact are taken into account for deciding whether or not to invest. In this continuum, in categories B and C, the expectations on the market impact increase as the financial returns expectations decrease<sup>124</sup>.

**Figure 16:**  
The Omidyar Network’s Returns Continuum Framework  
(Source: Omidyar, 2016)



Another aspect to be considered when looking at the implementation of impact strategies is the stage of development of the SPO to support. An SPO goes through **four sequential stages** - which constitute its life cycle: (i) pre-seed/seed, (ii) start-up/early stage, (iii) validation, (iv) preparation to scale and scaling<sup>125</sup>.

The stage of development of the SPO has consequences on the way in which investors can implement their impact strategies. For example, investors for

impact ask for impact evidences in a **proportional way, not overwhelming, early-stage SPOs** with reporting duties, but asking for incremental and more sophisticated reporting as the SPO grows and scales. In fact, especially for start-ups - and sometimes even for more mature SPOs that do not have enough track record yet - it is particularly difficult to provide evidence at the beginning of the investment.

124 Bannick, M., Goldman, P., Kubzansky, M., and Saltuk, Y., (2017), "Across the Returns Continuum", Omidyar. in *Stanford Social Innovation Review*.  
 125 Gianoncelli, A. and Boiardi, P., (2017), "Financing for Social Impact | The Key Role of Tailored Financing and Hybrid Finance". EVPA.



### 3.3. TYPE OF FINANCIAL INSTRUMENTS AND NON-FINANCIAL SUPPORT

The **financial instruments** (FIs) available and the **non-financial support** (NFS) offered have implications on the way in which investors *for* impact and investors *with* impact implement their strategies in practice. For example, some specific criteria linked to the specific FI(s) might lead to some **constraints in the full implementation of all the characteristics of the impact strategy** adopted by the investor.

The financial instruments used by practitioners articulating an “investing *for* impact” strategy are similar to those used by investors with an “investing *with* impact” strategy (i.e. loans, equity, and hybrid instruments); however, what is **different is the end goal** of the investors themselves. Furthermore, “investing *for* impact” actors could also choose to use **grants and grant-related financial instruments**, and this has obviously implications on the financial returns they can expect (i.e. -100% or even 0% the use of recoverable grants for instance).

The **process of choosing which FI is the most appropriate** to support a specific SPO<sup>126</sup> is something that is very much related with actors adopting an “investing *for* impact” strategy, considering the particular attention that these actors give to SPOs while screening potential investees, for example.

Non-financial support (NFS)<sup>127</sup> is one of the most important variables that distinguishes an “investing *for* impact” strategy from an “investing *with* impact” strategy. For practitioners adopting an “investing *for* impact” strategy, the NFS is **an essential part** of the support given to the SPO. It can be as important to

the investee’s development as the financial support provided. EVPA defines non-financial support as the support services the investor offer to investees to increase their social impact, organisational resilience and financial sustainability, i.e. the three core areas of development of the SPO.

**Figure 17:**

The three areas of development of the SPO

(Source: EVPA)

<b>Social impact</b>	The social change on the target population resulting from an SPO's actions.
<b>Financial sustainability</b>	The assessment that an SPO will have sufficient resources to continue pursuing its social mission, whether they come from other funders or from own revenue-generating activities.
<b>Organisational resilience</b>	The assessment of the degree of maturity of an SPO, in terms of the degree of development of the management team and organisation (governance, fund-raising capacity etc.).

<sup>126</sup> EVPA defines this practice as “tailored financing” – the process through which a venture philanthropy organisation or social investor (VPO/SI) finds the most suitable financial instrument (FI) to support a social purpose organisation (SPO), choosing from the range of financial instruments available (e.g. grant, debt, equity or hybrid financial instruments). Tailored financing is a three-step approach that takes into account and on the same level of importance the assessment of both the characteristics of the investor and those of the investee. To access the short Guide developed by EVPA, see: [https://evpa.eu.com/uploads/publications/VP\\_in\\_a\\_Nutshell\\_2\\_Tailored\\_Financing\\_2018.pdf](https://evpa.eu.com/uploads/publications/VP_in_a_Nutshell_2_Tailored_Financing_2018.pdf)

<sup>127</sup> For reference see: **Boiardi, P., and Hehenberger, L.,** (2015), “A Practical Guide to Adding Value through Non-Financial Support”. EVPA.

Some practitioners adopting an “investing *for impact*” strategy already start **providing non-financial support to SPOs before the investment** is made. Support offered to SPOs in the deal screening and due-diligence phase can be given, for example, to develop relevant impact indicators, or to define effective methods to measure the social impact the potential investees are targeting. Then, of course, the investor can also guide SPOs in refining their business model with the aim of strengthening their capacity to become financially sustainable.

The non-financial support provided before the investment helps investors increase the chances of supporting a successful deal. Practitioners adopting an “investing

*for impact*” strategy should carefully assess the ability of the SPO to achieve its objectives, both in terms of social impact and financial returns. Giving support and advice already before the investment is made **reduces the risk of failure**, primarily for the SPO and, consequently, also for the investor. The non-financial support offered needs to be in line with the goals of the investors in terms of financial return and social impact targeted, as defined in its Theory of Change.

### 3.4. INVESTORS’ ROLE IN THE ECOSYSTEM

When it comes to selecting which organisations to invest in, investors can adopt an impact strategy along the spectrum of strategies. However, when choosing its place in the social impact ecosystem – and defining its objectives – an investor should also consider whether its focus is *transactional* or *systemic*.

An investor with a **systemic approach**<sup>128</sup>:

- has a long-term time horizon,
- has bold ambitions (i.e. wants to see a big change, hard to achieve, wants to move the needle on a broad social issue),
- tackles the issue with a multi-stakeholder approach at value-chain level (not at the level of the single transaction).

To make a long-lasting bold change a large amount of resources is needed, both financial and non-financial. Additionally, investors aiming at creating this significant change need to have the capacity to mobilise a large pool of stakeholders at value-chain level and a very long-term horizon – and be willing to fail.

An investor with a **transactional approach**:

- focuses on the short-term and on single investments,
- focuses on achieving incremental change,
- looks for partners for single projects/investments, in a transactional way.

**Each actor has a role to play in the ecosystem.** Investors who decide to have a transaction focus can provide a lot of value in the social innovation ecosystem, as long as they keep an eye on the broader systemic change picture.

<sup>128</sup> See: <https://hbr.org/2018/01/inclusive-growth-profitable-strategies-for-tackling-poverty-and-inequality>

# PART 4. CONCLUSIONS

*Green Bio Energy - Yunus Social Business © Tom Woollard*



## PART 4.

# CONCLUSIONS

The present report outlines a framework for impact strategies based on three components: social impact targeted, financial return sought and impact/financial risk appetite. Based on these three main elements, two typologies of impact strategies have been identified: invest *for* impact and invest *with* impact. Each strategy is then described, looking at their role in the ecosystem and their complementarity. The third part identifies the contextual elements and the elements of the investment strategy that influence and are influenced by the

impact strategy chosen by an investor. Throughout the report, cases and examples are used to show how the different strategies are set up and implemented, also pointing out how sometimes reality is different from theory, and how different capital providers adopt a mix of strategies or strategies between the two typologies.

### 4.1. WHAT'S NEXT?

This research report is a first step into a broader discussion. EVPA would like to start an informed and constructive dialogue with a wide range of stakeholders, from investors *for* impact to investors *with* impact, from experienced VP/SI practitioners to newcomers in the VP/SI and impact investing space. Investors and social enterprises alike are welcome to give us feedback, share their experiences and challenge our thinking.

Throughout 2019 we will be publishing in-depth case studies to show how practitioners have translated their impact strategy intentions into practice, providing a reality check, showing the challenges, the lessons learnt, and starting to paint the way forward for the VP/SI sector in the next years. Additionally, we will post thought pieces on EVPA's website and other major outlets. We will collaborate with thought leaders in the venture philanthropy, social and impact investment space to hear their voices and keep the discussion alive. Hopefully, such an interesting and much

needed discussion can create further clarity to allow impact investors to become even more effective, and also remain credible over time.

This report is a warm invitation to you to join the discussion. Join the debate! Reach out to the EVPA research team at [knowledge.centre@evpa.eu.com](mailto:knowledge.centre@evpa.eu.com) and let us know what you think. Together, we can shape the VP/SI and impact investing space for the future, improve the overall transparency of the sector, and attract more capital for good.

# ANNEXES

## VENTURE PHILANTHROPY AND SOCIAL INVESTMENT: MEANS TO SUPPORT SOCIAL PURPOSE ORGANISATIONS

Venture philanthropy (VP) and social investment (SI) emerged in Europe 15 years ago to support financially and non-financially social purpose organisations (SPOs) to address particular **pressing societal challenges** and generate social impact.

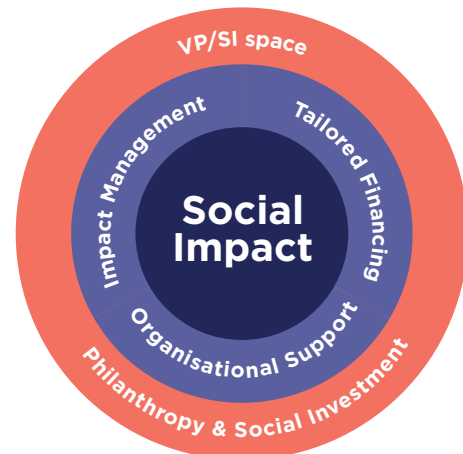
Venture philanthropy and social investment work to build stronger investee organisations – the SPOs – by providing them with both **financial and non-financial support to increase the social impact** they can achieve.

VP/SI organisations take a **high engagement, long-term** approach to support SPOs through three core practices:

- **tailored financing**, the process through which VP/SI organisations find the most suitable financial instrument(s) to support SPOs choosing from the range of financial instruments available (e.g. grant, debt, equity, and hybrid financial instruments);
- **organisational support**, the provision of added-value support services to investees to strengthen their organisational resilience and financial sustainability by developing skills or improving structures and processes; and

- **impact measurement and management**, the measurement and management of the process of creating social impact in order to maximise and optimise it.

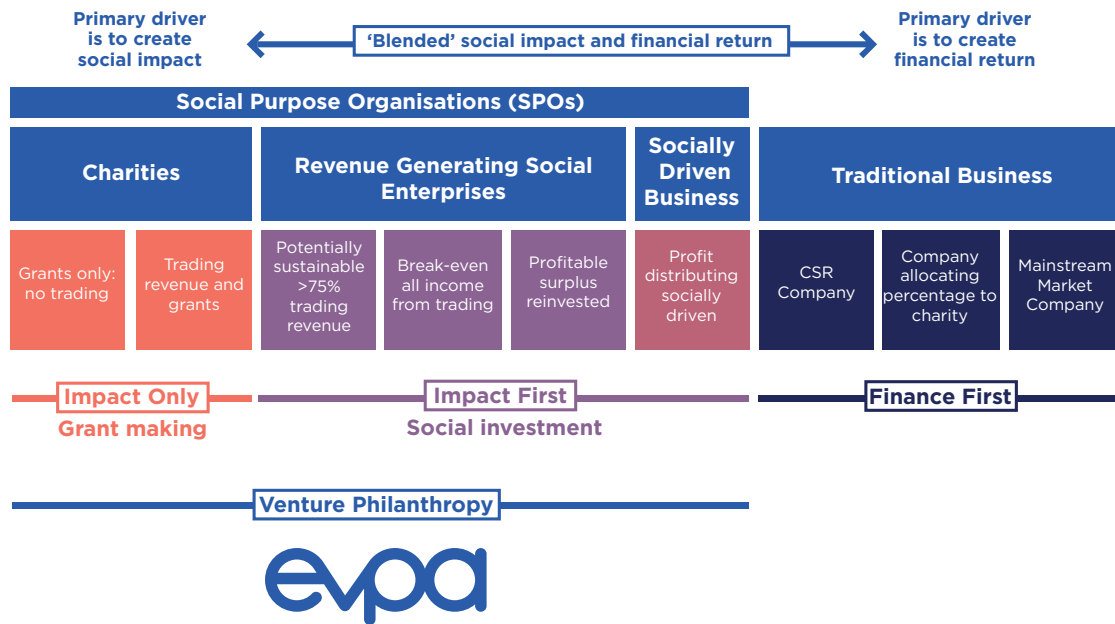
**Figure 18:** The venture philanthropy approach  
(Source: EVPA)<sup>129</sup>



As shown in Figure 19, the venture philanthropy approach includes the use of the **entire spectrum of financial instruments** (i.e. grants, equity, debt and hybrid financial instruments). It can support a **wide range of social purpose organisations** (i.e. charities, NGOs with or without trading revenues, social enterprises, social businesses and socially-driven commercial businesses). And it pays particular attention to the ultimate objective of **achieving social impact** and of **financing solutions to both old and emerging societal challenges**.

<sup>129</sup> For more information: <http://evpa.eu.com/about-us/what-is-venture-philanthropy>

**Figure 19: The EVPA Spectrum**  
(Source: EVPA)

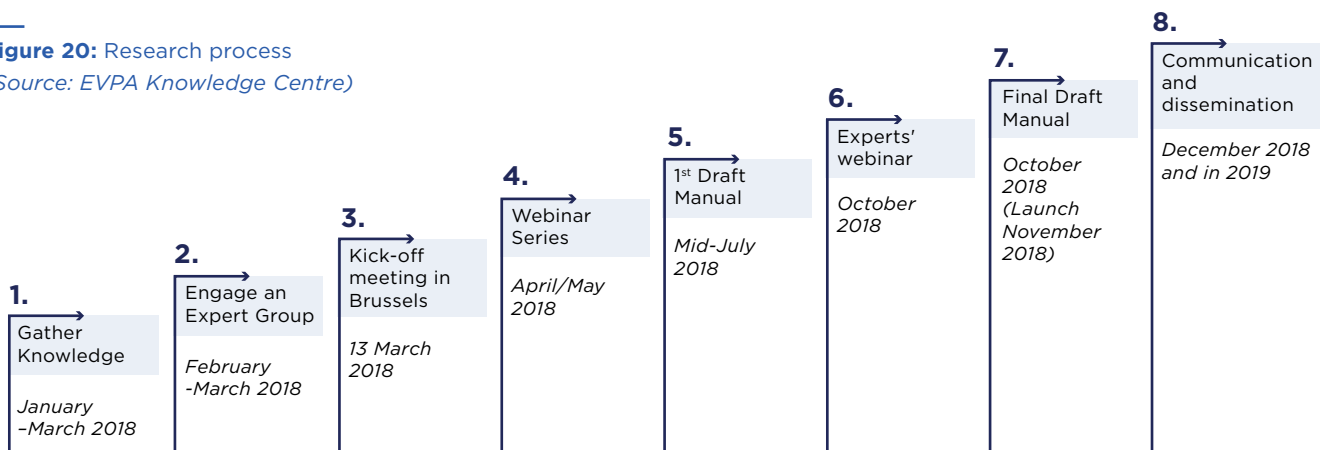


## RESEARCH METHODOLOGY

This report is the result of one year of intensive work, trying to unravel all the diverse impact strategies adopted by the variety of actors active in the space to support SPOs in order to create innovative solutions to solve pressing societal issues.

In terms of process, this project was divided into eight phases, as described in Figure 20:

**Figure 20: Research process**  
(Source: EVPA Knowledge Centre)



This research **builds on fourteen years of EVPA's experience** and the **research of its Knowledge Centre**. It was also inspired by **existing work of other thought leaders** in the VP/SI space, including the research on the identification of diverse impact profiles developed by Karl H. Richter within the UNDP SDG Impact Finance (UNSIF) and the OECD Social Impact Investment Working Group<sup>130</sup>; the impact classes classification proposed by Cathy Clark and the Tideline team within the Navigating Impact Investing project<sup>131</sup>; and the Continuum of Capital explored by AVPN (the Asian Venture Philanthropy Network)<sup>132</sup>.

A framework was developed to include the main themes identified through desk research and, in the meantime, the research team reached out to the EVPA network and established an **Expert Group** (EG) composed of VP/SI practitioners, academics, representatives of the European institutions and consultants<sup>133</sup>.

The EG provided significant contribution to the development of the report by:

- ensuring whether our framework included the relevant themes around impact strategies;
- giving EVPA feedback, particularly on all the possible ways to look at impact strategies;
- coupling the theoretical modelling with their direct experience in the VP/SI sector to solidly ground the research in practice.

In March 2018, a **kick-off meeting** was organised at EVPA's premises in Brussels, during which the members of the Expert Group were divided into working groups. Thanks to the insights received from the experts during this first gathering, **a questionnaire was developed to look in-depth at the different impact strategies adopted by practitioners** to support social purpose organisations.

During a series of **expert-only webinars**, the Expert Group was asked for feedback on the questionnaire and a selected group of EVPA members was contacted to conduct **in-depth interviews** and compile the first draft of the report. The interviewees were practitioners with different profiles (e.g. foundations, VP/SI funds, social investment intermediaries, and financial institutions) based in Europe but deploying capital worldwide<sup>134</sup>. Moreover, they have been active in the space for several years – some of them for 10-15 years. This means that their extensive experience on how to balance social impact, financial returns and risk appetite, was particularly relevant.

Thanks to the conversations with practitioners, many practical examples were compiled to validate the theory. Besides, we corroborated the insights collected during the interviews with the findings from our past research publications.

<sup>130</sup> Presentation prepared for the OECD Social Impact Investment Working Group 2 by **Karl H. Richter** (2017).

<sup>131</sup> **Clark, C.**, (2016), "*Navigating Impact Investing. The Opportunity in Impact Classes*". Tideline.

<sup>132</sup> On this topic, AVPN recently launched the report: **Mettgenberg Lemière, M., Nguyen Le Phuong, A. and Yutong Wang, O.**, (2018), "*The Continuum of Capital in Asia. Highlights Across the Full Spectrum of Social Investment*", AVPN.

<sup>133</sup> The names of the experts involved in this research are listed on page 12.

<sup>134</sup> The names of the practitioners interviewed and the logos of their organisations are listed on page 11.

## STRUCTURE OF THE QUESTIONNAIRE USED DURING THE INTERVIEWS

A questionnaire was developed to interview practitioners in order to collect examples and better describe the characteristics of the two impact strategies, and to get a first sense about the different approaches in implementing them. The **questionnaire is very extensive** and not all questions could be answered by all interviewees, as the level of experience and sophistication varied. Additionally, as some of the questions were not relevant for some of the practitioners, each interview was conducted in a customised way. Practitioners were not expected to answer any question

in preparation for the interview, but the questionnaire served as a support during the interviews to cover all the relevant points.

The first part of the questionnaire covers **the three elements** (i.e. social impact aimed, financial return expectations, risk appetite). Then it looks at **impact objectives** identified by the different practitioners, at the **measures they adopt** and at the **evidences they ask** to their investees (Table 1).

**Table 1:** Social Impact: Objectives, Measures and Evidences – A Questionnaire for Practitioners  
(Source: EVPA Knowledge Centre)

Social Impact		
Objectives	Measures	Evidences
1. What problem(s) are you addressing/try to solve? 2. What is your impact objective? 3. Are there other existing interventions/solutions to address this problem? 4. What are your expected outcomes? (Long-term, mid-term and short term) 5. Do you also consider potential negative impacts? 6. What are your expected outputs?	1. How do you measure your outcomes/your impact? 2. How do you define the baseline? 3. Are you using an existing system of indicators (e.g. IRIS, GRI, ect.) or do you customise the indicators to the needs of each investee? 4. How do you use the data on impact that you collect? (e.g. do you use it to change your strategy if you realise you are not achieving the impact you were expecting?)	1. In terms of your investees, what type of impact evidences would you expect? (multiple choice): - none - thesis-aligned - strategic outputs - positive intended outcomes - complete outcomes (positive and negative outcomes + stakeholder informed) - impact data 2. Do you only collect data from your investees or also from their final beneficiaries/stakeholders? 3. Do you have any example of evidences you require to your investees?
1. How do you define your impact profile/your mandate for impact management methodology?		



Then, interviewees were asked questions about their organisation’s **financial expectations** – if any (Table 2) and **risk component**, looking at both social impact and financial objectives (Table 3).

**Table 2:** Financial Objectives – A Questionnaire for Practitioners (Source: EVPA Knowledge Centre)

Financial objectives	
1.	How do you define your capital mandate? (Modality of capital)
2a.	Are you willing to give up a part of your financial return in order to achieve a higher social impact?
2b.	Have you ever gave up a part of your financial return in order to achieve a higher social impact? (Any specific consideration about a possible trade-off between impact and financial return?)
3.	Do you stop financing projects/businesses if they don't reach their impact targets?

**Table 3:** Risk component associated with social impact and financial returns – A Questionnaire for Practitioners (Source: EVPA Knowledge Centre)

Risk	
Social Impact	Financial objectives
1. Do you consider any risk associated with: not achieving the impact you expect / achieving a negative and / or unintended impact?	1. Do you consider any financial risk?
2. Do you measure any of them?	2. How do you deal with it?
3. (If YES) How?	3. What is your risk appetite? (bar from Low-risk averse to High-risk prone)
1. Do you consider the impact risk when you calculate the overall risk-adjusted return of the investment?"	

The second part of the questionnaire focusses on **the different elements of the investment strategy** (e.g. geographies and market selected, sectors and beneficiaries targeted, type of SPOs supported, co-investment practices, non-financial support provided and exit strategies foreseen). Questions were asked about **each element** to understand **how they influence and how they are influenced** (or even determined) **by the social impact/financial return/risk profile** of the investor (Tables 4 and 5)<sup>135</sup>.

**Table 4:** The market (geography/sector) – A Questionnaire for Practitioners (Source: EVPA Knowledge Centre)

Market (geography/sector)	DESCRIPTION
<p><i>Does the market you invest in have an implication on: impact, risk, financial return? What are the characteristics of the market you invest in that have an impact on: IM/ Risk/FinRet?"</i></p>	<ol style="list-style-type: none"> <li>Which <b>geography/sector</b> (aka market) are you active in?</li> <li>What is the <b>level of development</b> of the market you are active in? (bar of 5 grades, from underdeveloped to established)</li> <li>Did you make a <b>market assessment</b>?</li> <li>(If YES) How? Which elements are you considering to make such assessment?</li> </ol>

<sup>135</sup> Here we are only reporting the section of the questionnaire about the market (in terms of geography and sector) as reference. All the other elements have been included in the version of the questionnaire submitted to the practitioners, following the same structure and rationale.

**Table 5:** The market (geography/sector) and the three main variables – A Questionnaire for Practitioners  
(Source: EVPA Knowledge Centre)

<b>Social Impact</b>	<b>Objectives</b>	<ol style="list-style-type: none"> <li>1. How does the <b>geography(ies)</b> you are active in influence the impact targeted/achieved?</li> <li>2. How does the <b>sector(s)</b> you are active in influence the impact targeted/achieved?</li> <li>3. How does the <b>level of development of the market</b> you are active in influence the impact targeted/achieved?</li> </ol>
	<b>Measures</b>	<ol style="list-style-type: none"> <li>1. How does the <b>geography(ies)</b> you are active in influence the way you measure your impact?</li> <li>2. How does the <b>sector(s)</b> you are active in influence the way you measure your impact?</li> <li>3. How does the <b>level of development of the market</b> you are active in influence the way you measure your impact?</li> </ol>
	<b>Evidences</b>	<ol style="list-style-type: none"> <li>1. How does the <b>geography(ies)</b> you are active in influence the level of impact evidence you can collect?</li> <li>2. How does the <b>sector(s)</b> you are active in influence the level of impact evidence you can collect?</li> <li>3. How does the <b>level of development of the market</b> you are active in influence the level of impact evidence you can collect?</li> </ol>
<b>Financial objectives</b>		<ol style="list-style-type: none"> <li>1. How does the <b>geography(ies)</b> you are active in influence the financial return targeted/achieved?</li> <li>2. How does the <b>sector(s)</b> you are active in influence the financial return targeted/achieved?</li> <li>3. How does the <b>level of development of the market</b> you are active in influence the financial return targeted/achieved?</li> </ol>
<b>Risk</b>	<b>Social Impact</b>	<ol style="list-style-type: none"> <li>1. What impact does the <b>geography(ies)</b> you are active in have on the impact risk profile?</li> <li>2. What impact does the <b>sector(s)</b> you are active in have on the impact risk profile?</li> <li>3. What impact does the <b>level of development of the market</b> have on the impact risk profile?</li> <li>4. What <b>measures</b> do you put in place to reduce the impact risks associated with working in a specific geo/sector and/or in an underdeveloped market? (e.g. local partners/offices)</li> </ol>
	<b>Financial</b>	<ol style="list-style-type: none"> <li>1. What impact does the <b>geography(ies)</b> you are active in have on the financial risk profile?</li> <li>2. What impact does the <b>sector(s)</b> you are active in have on the financial risk profile?</li> <li>3. What impact does the <b>level of development of the market</b> have on the financial risk profile?</li> <li>4. What <b>measures</b> do you put in place to reduce the financial risks associated with working in a specific geo/sector and/or in an underdeveloped market (e.g. local partners/offices)?</li> </ol>

**Table 6:** Constraints practitioners might face – A Questionnaire for Practitioners  
(Source: EVPA Knowledge Centre)

<p><b>Time horizon/duration of commitment</b> <i>Does the duration of your commitment have an implication on: impact, risk, financial return?</i></p>	<ol style="list-style-type: none"> <li>1. What is the <b>average duration</b> of your investment commitments? <ul style="list-style-type: none"> <li>• less than 2 years</li> <li>• from 2 to 4 years</li> <li>• from 4 to 6 years</li> <li>• from 6 to 8 years</li> </ul> </li> </ol>
<p><b>Legal structure</b> <i>Does your legal structure have an implication on: impact, risk, financial return?</i></p>	<ol style="list-style-type: none"> <li>1. How is your VP/SI organisation structured legally?</li> </ol>
<p><b>Investors/funders</b> <i>Does the type of your investors/funders have an implication on: impact, risk, financial return?</i></p>	<ol style="list-style-type: none"> <li>1. Where does the funding for your VP/SI activities come from?</li> <li>2. What (impact or financial) return do your investors/funders expect from you? “</li> </ol>

Finally, the questionnaire covers possible **constraints practitioners might face** (Table 6), and all the implications these constraints can have on the implementation of the impact strategy (Table 7).

**Table 7:** Constraints and the three main variables – A Questionnaire for Practitioners  
(Source: EVPA Knowledge Centre)

Social Impact	Objectives	1. How does the <b>average duration</b> of your investment commitments influence the impact targeted/achieved?	1. How does your <b>legal structure</b> influence the impact targeted/achieved?	1. How does your <b>investors/funders</b> (and the promises you made to them) influence the impact targeted/achieved?
	Measures	1. How does the <b>average duration</b> of your investment commitments influence the way you measure your impact?	1. How does your <b>legal structure</b> influence the way you measure your impact?	1. How does your <b>investors/funders</b> (and the promises you made to them) influence the way you measure your impact?
	Evidences	1. How does the <b>average duration</b> of your investment commitments influence the level of impact evidence you can collect?	1. How does your <b>legal structure</b> influence the level of impact evidence you can collect?	1. How does your <b>investors/funders</b> (and the promises you made to them) influence the level of impact evidence you can collect?
Financial objectives		1. How does the <b>average duration</b> of your investment commitments influence the financial return targeted/achieved?	1. How does your <b>legal structure</b> influence the financial return targeted/achieved?	1. How does your <b>investors/funders</b> (and the promises you made to them) influence the financial return targeted/achieved?
Risk	Social Impact	1. What impact does the <b>average duration</b> of your investment commitments have on the impact risk profile? 2. What <b>measures</b> are you putting in place to reduce the impact risks associated with the average duration of your investment commitments?	1. What impact does your <b>legal structure</b> have on the impact risk profile?	1. What impact do your <b>investors/funders</b> (and the promises you made to them) have on the impact risk profile?
	Financial objectives	1. What impact does the <b>average duration</b> of your investment commitments have on the financial risk profile? 2. What <b>measures</b> are you putting in place to reduce the financial risk associated with the average duration of your investment commitments?	1. What impact does your <b>legal structure</b> have on the financial risk profile?	1. What impact do your <b>investors/funders</b> (and the promises you made to them) have on the financial risk profile?

## LIST OF CASES INCLUDED IN THE REPORT

Organisation	Number of page in the report
<i>4WINGS Foundation</i>	27, 36
<i>Big Society Capital</i>	31-32, 35
<i>BNP Paribas Asset Management</i>	53, 57-58
<i>BNP Paribas Fortis</i>	53, 57-58
<i>BonVenture Management GmbH</i>	29, 38, 41, 45
<i>Erste Group Bank AG - Social Banking Development</i>	28
<i>Genio</i>	24-25
<i>Investisseurs &amp; Partenaires (I&amp;P)</i>	30, 33-34, 44, 56
<i>Karuna Foundation</i>	24, 39, 40, 43
<i>Mozaik Foundation</i>	23, 43
<i>Oltre Venture</i>	48
<i>Phineo AG</i>	31, 36
<i>Phitrust</i>	49
<i>Reach for Change</i>	25-26
<i>SP² Fund</i>	40-41, 45
<i>Social Innovation Fund Ireland</i>	37, 44-45
<i>Start Foundation</i>	38-39, 41
<i>Yunus Social Business</i>	26-27, 29-30

## GLOSSARY

### Accountability

The obligation of an organisation to account for or take responsibility for the effect of its activities.

### Activities

The concrete actions, tasks and work carried out by the organisation to create its outputs and outcomes and achieve its objectives.

### Attribution

Attribution takes account of how much of the change that has been observed is the result of the organisation's activities, and how much is the result of actions taken simultaneously by others (e.g. other SPOs, government).

### Baseline

The baseline is the initial collection of data that describes the state of development of the SPO when the VPO/SI starts investing in it. The baseline serves as a basis for comparison with the subsequently acquired data on the development of the SPO.

### Beneficiaries

The people, communities, broader society and environment that a SPO seeks to reach through its activities. Beneficiaries can be affected positively or negatively by the activities of the SPO. Beneficiaries can be divided into direct and indirect or primary and secondary, depending on their relation with the benefits.

### Business model

A business model describes the rationale of how an organisation creates, delivers, and captures value, in economic, social, cultural or other contexts. The process of constructing a business model is part of the business strategy. In theory and practice, the term business model is used for a broad range of informal and formal descriptions to represent core aspects of a business, including purpose, business process, target customers, offerings, strategies, infrastructure, organisational structures, sourcing, trading practices, and operational processes and policies including culture.

### Business plan

Document which describes an organisation's goals and the operating model and financial resources which will be used in order to reach them.

**Capacity building** (also known as organisational support)

Approach aimed at strengthening organisations supported to increase their overall performance by developing skills or improving structures and processes.

**Co-investment** (also known as Co-funding)

In private equity, co-investment is the syndication of a financing round or investment by other funders alongside a private equity fund. In venture philanthropy, it involves the syndication of an investment into a social purpose organisation (SPO), by other funders (e.g. grant-makers or individuals) alongside a VPO/SI.

### Convertible loans and convertible debts

Convertible loans and convertible debts are "two different circumstances in which the loan may be converted into equity." In both cases we are looking at "a loan that has to be repaid. However, in one circumstance, because the lender is willing to vary the loan terms in the borrower's favour, the borrower gives the lender rights to exchange its creditor position for an ownership in the enterprise at a later date. In another, more challenging circumstance, a loan is converted into equity either because the borrower's regulator requires the intermediary to bolster its capital or upon the occurrence of a future funding round. It is particularly useful where the enterprise is so young that a valuation is not possible and an equity price cannot be set".

(Source: **Varga, E., and Hayday, M.,** (2016), "A Recipe Book for Social Finance. A Practical Guide on Designing and Implementing Initiatives to Develop Social Finance Instruments and Markets", European Commission)

### Corporate Social Investor (CSI)

A Corporate Social Investor (CSI) is any vehicle formally related to a company that aims to create social impact – i.e. impact-first or impact-only organisations linked to companies. Examples are corporate foundations, social businesses, social impact funds, and accelerators.

### Debt instruments

Debt instruments are loans that the VPO/SI can provide to the SPO, charging interest at a certain rate. The interest charged can vary depending on the risk profile of the investee and on the securitisation and repayment priority of the loan (senior vs subordinated loan).

### Displacement

Displacement occurs when the positive outcomes experienced by beneficiaries accessing the organisation's services also create negative outcomes experienced by another group elsewhere (also as a result of the organisation's activities).

### Drop-off

Drop-off occurs when, over time, the effects of the output and the observed outcomes decreases (e.g. beneficiaries relapse, lose the job attained, revert to previous behaviours).

### Due diligence

Due Diligence is the process where an organisation or company's strengths and weaknesses are assessed in detail by a potential investor with a view to investment.

### Endowment

A donation of money or property to a non-profit organisation, which uses the resulting investment income for a specific purpose. "Endowment" can also refer to the total of a non-profit institution's investable assets, also known as "principal" or "corpus", which is meant to be used for operations or programmes that are consistent with the wishes of the donor.

### Equity instruments

Equity instruments are contracts through which a VPO/SI provides funding to SPOs and in return acquires ownership rights on part of the SPO's business. This can be appropriate when the prospect of a loan repayment is low or non-existent. If the SPO is successful, the equity share holds the possibility of a financial return in the form of dividend payments. In addition, it allows for the possibility of a transfer of ownership to other funders in the future.

### Exit

The end of the relationship between the VPO/SI and the social purpose organisation (SPO). The nature of the exit will normally be agreed before the investment is completed. In the case of a charity, the VPO/SI will ideally be replaced by a mix of other funders (see financial sustainability). The time scale for the exit can be agreed upon at the outset. In the case of a social enterprise, exit may require the repayment of a loan, for example, and the timing will depend on the commercial success of the enterprise. An exit strategy is the action plan to determine when the VPO/SI can no longer add value to the investee, and to end the relationship in such a way that the social impact is either maintained or amplified, or that the potential loss of social impact is minimised.

### Financial Instruments (FIs)

Financial instruments are contracts involving monetary transfers through which, in the VP/SI space, venture philanthropy organisations and social investors financially support social purpose organisations.

### Financial sustainability

Financial sustainability for a social enterprise is the degree to which it collects sufficient revenues from the sale of its services to cover the full costs of its activities. For charities, it involves achieving adequate and reliable financial resources, normally through a mix of income types.

### Foundation

Public-benefit foundations are asset based and purpose-driven. They have no members or shareholders and are separately constituted non-profit bodies. Foundations focus on areas ranging from the environment, social services, health and education, to science, research, arts and culture. They each have an established and reliable income source, which allows them to plan and carry out work over a longer term than many other institutions such as governments and companies. In the context of VP, foundations are non-profit organisations that support charitable activities either through grant making or by operating programmes. (Source: **European Foundation Centre** <http://www.efc.be>)

### Fund

A fund is a vehicle created to enable pooled investment by a number of investors and which is usually managed by a dedicated organisation.

### Grant-maker

Grant-makers include institutions, public charities, private foundations, and giving circles, which award monetary aid or subsidies to organisations or individuals. Generally known as foundations in Continental Europe, grant-makers also include certain types of trusts in the United Kingdom.

### Grants

Grants are a type of funding in the form of a cash allocation that establishes neither rights to repayments nor any other financial returns or any form of ownership rights on the donor.

### Guarantee

A guarantee is a promise by one party (the guarantor) to assume the debt obligation of a borrower if that borrower defaults. A guarantee can be limited or unlimited, making the guarantor liable for only a portion or all of the debt. In the VP context, guarantees are one of the financial instruments available for VPO/SIs to support SPOs. The VPO/SI in this case

does not need to supply cash up-front, but it opens up access to bank funding by taking on some or all of the risk that the lender would otherwise incur. (Source: [https://en.wikipedia.org/wiki/Loan\\_guarantee](https://en.wikipedia.org/wiki/Loan_guarantee))

### Hybrid structure/nature

The hybrid structure of the SPO is a combination of a for-profit entity and a not-for-profit entity. The hybrid structure is an innovative way to address the issue of access to finance. By setting up a hybrid structure, the SPO can attract grants through the non-profit entity and social investment through the for-profit entity, hence increasing the pool of resources available while channelling them in the most effective way. (Source: **Gianoncelli, A.** and **Boiardi, P.**, 2017)

### Impact Investing (II)

Impact investing is a form of investment that aims at generating social impact as well as financial return.

### Impact Management

The use of the information collected through impact measurement to make informed decisions to increase positive outcomes and reduce negative ones.

### Impact Measurement (IM)

Measuring and monitoring the amount of change created by an organisation's activities.

### Impact Strategy

An Impact Strategy represents the way in which a capital provider codifies its own activities along three axes: social impact targeted, financial return sought and social/financial risk appetite. Two main impact strategies have been identified in the ecosystem: investing *for* impact and investing *with* impact.

### Impact Value Chain

Represents how an organisation achieves its impact by linking the organisation to its activities and the activities to outputs, outcomes and impacts.

### Impact Washing

Impact washing refers to the process of labelling as “impact investments” or, more in general, as investments aiming to achieve a social impact, investments that do not provide a real positive change for the final beneficiaries. Impact washing occurs when traditional investments with a market-like risk-return profile are labelled as impact investments for marketing reasons. Identifying impact washing is difficult, as no categorisation of “real” impact investments exists.

### In-house resources

Resources provided within the VPO/SI itself, through its staff members or volunteers, as opposed to people within the greater network of the VPO/SIs, service providers, or portfolio organisations.

### Indicators

Indicators are specific and measurable actions or conditions that assess progress towards or away from outputs or outcomes. Indicators may relate to direct quantities (e.g. number of hours of training provided) or to qualitative aspects (e.g. levels of beneficiary confidence).

### Institutional Investor

An entity that invests large sums of money on behalf of others. Institutional investors usually seek commercial returns. Commercial banks and pension funds are examples of institutional investors. (Source: The Global Steering Group for Impact Investing)

### Investee

The social purpose organisation (SPO) that is the target of the VPO/SI activity and the recipient of financial and non-financial support.

### Investment

An investment is the use of money with the expectation of making favourable future returns. Returns could be financial, social, and/or environmental.

### Investment proposal

The investment proposal is the document prepared by the VPO/SI to present a potential investment (including nature, goals and funding) to the investment committee.

### Key performance indicators (KPIs)

Key Performance Indicators are a business metric used to evaluate the extent to which the organisation has achieved a goal and factors that are crucial to the success of an organisation. KPIs differ per organisation, business KPIs may be net revenue or a customer loyalty metric, while government might consider unemployment rates.

### Long-term investment

A long-term investment is made over a period of five years or more.

### Monetisation

Monetisation is the process of transforming the value of outcomes and/or impacts into a unit of currency. SROI is a framework that guides how to monetise the value of social impact in financial terms.

### Non-Financial Support (NFS)

The support services VPO/SIs offer to investees (SPOs) to increase their societal impact, organisational resilience and financial sustainability, i.e. the three core areas of development of the SPO.

### Organisational resilience

The assessment of the degree of maturity of an SPO, in terms of the degree of development of the management team and organisation (governance, fund raising capacity etc.).

### Organisational support (also known as capacity building)

Approach aimed at strengthening organisations supported to increase their overall performance by developing skills or improving structures and processes.

### Outcomes

The changes, benefits (or dis-benefits), learnings, or other effects (both long and short term) that result from the organisation's activities. Outcomes can be short or long term, negative or positive.

### Outputs

The quantified summary of activities (e.g. tangible products and services) that result from the organisation's activities.

### Portfolio

A portfolio is a collection of projects and/or organisations that have received sponsorship from the investor. A distinction is often made between 'active' and 'past' portfolio, distinguish between the organisations with which the investor is actively involved. Usually, however, all portfolio organisations are included in the greater network of the investor.

### Portfolio manager (also known as Investment manager)

A portfolio manager is given the responsibility of tracking the performance of and maintaining communications with the various organisations and/or projects within the investor's portfolio.

### Pre-investment stage

The pre-investment stage is the process during which the investor examines the operations and leadership of the project or organisation with a view towards making an investment. This might include a detailed review of the financials, operations, or reference checks for organisational leaders. The term due diligence is also used, which has a legal definition as a measure of prudence. In other words, the investor is assessing if it is likely to get what it thinks it is paying for.

### Private equity

Ownership in a firm which is not publicly traded and which usually involves a hands-on approach and a long-term commitment for the investors.

### Pro-bono contribution

Professional work undertaken voluntarily and without payment. Unlike traditional/unskilled volunteerism, it is service that uses the specific skills of professionals to provide services to those who are unable to afford them.

### Recoverable grants

Recoverable grants are grants that can be returned to the VPO/SI, under certain terms and conditions agreed in advance by the VPO/SI and the SPO. Recoverable grants are "designed to focus the recipient on sustainability and reduced risk of grant dependence". (Source: **Varga, E., and Hayday, M., 2016**)

### Return on Investment (ROI) (see also Social Return on Investment – SROI)

The Return on Investment is the profit or loss resulting from an investment. This is usually expressed as an annual percentage return.

### Scaling up

Processes of developing and growing the activities of an SPO to expand its social reach and increase its social impact.

### Seed financing

Seed financing is money used for the initial investment in a start-up company, project, proof-of-concept, or initial product development.

### Short-term investment

A short-term investment is made over a one-year period less, or an investment that matures in one year or less.

### Social enterprise

A social enterprise is an operator in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involves employees,

consumers and stakeholders affected by its commercial activities.

The European Commission uses the term 'social enterprise' to cover the following types of business:

- Those for who the social or societal objective of the common good is the reason for the commercial activity, often in the form of a high level of social innovation.
- Those where profits are mainly reinvested with a view to achieving this social objective.
- Those where the method of organisation or ownership system reflects the enterprise's mission, using democratic or participatory principles or focusing on social justice.

There is no single legal form for social enterprises.

Many operate in the form of social cooperatives, some are registered as private companies limited by guarantee, some are mutual, and a lot of them are no-profit-distributing organisations like provident societies, associations, voluntary organisations, charities or foundations.

(Source: **European Commission** [http://ec.europa.eu/growth/sectors/social-economy/enterprises\\_it](http://ec.europa.eu/growth/sectors/social-economy/enterprises_it))

### Social impact

The attribution of an organisation's activities to broader and longer-term outcomes. To accurately (in academic terms) calculate social impact you need to adjust outcomes for: (i) what would have happened anyway ('deadweight'); (ii) the action of others ('attribution'); (iii) how far the outcome of the initial intervention is likely to be reduced over time ('drop off'); (iv) the extent to which the original situation was displaced elsewhere or outcomes displaced other potential positive outcomes ('displacement'); and for unintended consequences (which could be negative or positive).

### Social Innovation

Social innovations are new ideas that meet social needs, create social relationships and form new collaborations. These innovations can be products, services or models addressing unmet needs more effectively. The European Commission's objective is to encourage market uptake of innovative solutions and stimulate employment.

(Source: **European Commission** [http://ec.europa.eu/growth/industry/innovation/policy/social\\_it](http://ec.europa.eu/growth/industry/innovation/policy/social_it))

### Social Investment (SI) (also known as Social Finance)

Social investment is the provision and use of capital to generate social as well as financial returns. The social investment approach has many overlaps with the key characteristics of venture philanthropy, however social investment means investment mainly to generate social impact, but with the expectation of some financial return (or preservation of capital).

### Social investment intermediaries

Organisations that aim at increasing the pool of financial resources available for SPOs to reach and scale their social impact by bridging the demand and the supply side of capital, channelling funds towards SPOs in a more efficient way and bringing more resources into the VP/SI space.

### Social Purpose Organisation (SPO)

An organisation that operates with the primary aim of achieving measurable social and environmental impact. Social purpose organisations include charities, non-profit organisations and social enterprises.

### Social Value

Is the relative importance of changes experienced (or likely to be experienced) by stakeholders as a result of activities.

### Socially Responsible Investing (SRI)

Also known as sustainable, socially conscious, "green" or ethical investing, this term defines any investment

strategy seeking both financial return and social good. In its broadest usage, SRI refers to proactive practices such as impact investing, shareholder advocacy and community investing. Socially responsible investments encourage corporate practices that promote environmental stewardship, consumer protection, human rights and diversity. They can also represent the avoidance of investing in industries or products that can be socially harmful, including alcohol, tobacco, gambling, pornography, weapons and/or the military. The term dates back to the Quakers, who in 1758, prohibited members from participating in the slave trade.

### Social Return on Investment (SROI)

SROI is a framework of principles that allows us to account for social value/impacts. It places the involvement of stakeholders as central to understanding the consequences of activities and the value of experiences so that we can better understand, report and manage impacts to improve performance.

### Social sector

Social sector is an alternative term used in reference to the non-profit sector, non-governmental sector, voluntary sector, independent sector, or third sector.

### Stakeholder

Any party that is effecting or affected by the activities of an organisation. The most prominent stakeholders are the direct or target beneficiaries, though stakeholders as a group also includes the organisation's staff and volunteers, its service-users and investees, its suppliers and purchasers and most likely the families of beneficiaries and those close to them, and the communities in which they live.

### Tailored financing (TF)

The process through which a venture philanthropy organisation or a social investor (VPO/SI) finds the most suitable financial instrument(s) to



support a social purpose organisation (SPO), choosing from the range of financial instruments available (grant, debt, equity, and hybrid financial instruments). The choice of the financial instrument(s) will depend on the risk/return/impact profile of the VPO/SI and on the needs and characteristics of the SPO.

### Theory of Change (ToC)

A theory of change defines all building blocks required to bring about a given long-term goal. This set of connected building blocks is depicted on a map known as a pathway of change or change framework, which is a graphic representation of the change process.

### Venture Philanthropy (VP)

VP is a high-engagement and long-term approach to generating social impact through three practices: tailored financing, organisational support, impact measurement and management (IMM)

### Venture Philanthropy Organisation/ Social investor (VPO/SI or VP/SI organisation)

An organisation pursuing a venture philanthropy/social investment approach.

### Volunteer

A person who voluntarily offers himself or herself to perform a service willingly and without pay. For the purpose of this report, differently from pro-bono and low-bono supporters, volunteers offer unskilled labour.

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## The European Venture Philanthropy Association (EVPA)

Established in 2004, EVPA works to enable venture philanthropists and social investors to maximise societal impact through increased resources, collaboration and expertise.

EVPA's membership covers the full range of venture philanthropy and social investment activities and includes venture philanthropy funds, social investors, grant-making foundations, impact investing funds, private equity firms and professional service firms, philanthropy advisors, banks and business schools. EVPA members work together across sectors in order to promote and shape the future of venture philanthropy and social investment in Europe and beyond.

EVPA is committed to support its members in their work by providing networking opportunities and facilitating learning. Furthermore, we aim to strengthen our role as a thought leader in order to build a deeper understanding of the sector, promote the appropriate use of venture philanthropy and social investment and inspire guidelines and regulations.

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