

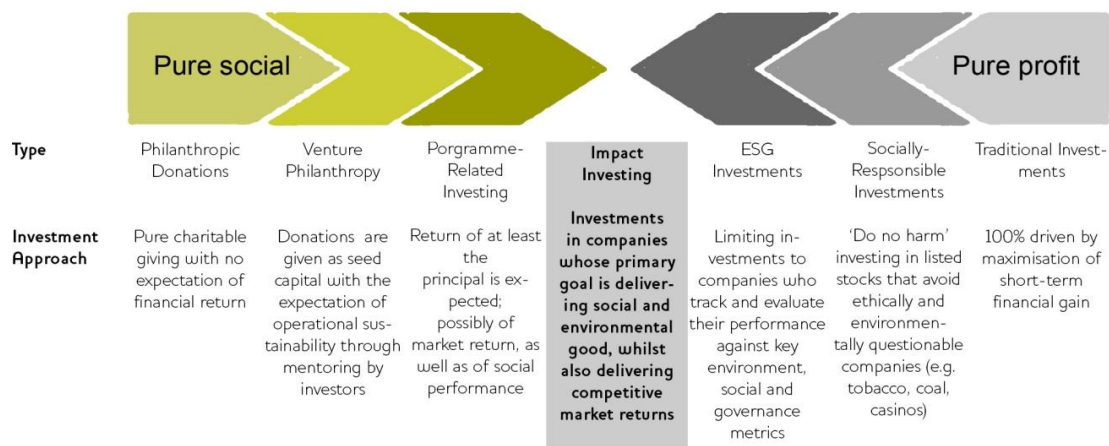
Impact Investments: a literature review

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‘Impact investments’ are investments designed to create positive impact beyond financial return, specifically social and environmental impact (O’Donohoe, Leijonhufvud, Saltuk, Bugg-Levine, and Brandenburg, 2010); (Monitor Institute, 2009, in E. T. Jackson, MacPherson, Gariba, and Ofir, 2012). It is viewed by some as an alternative middle ground between investing for maximum profit at minimum risk and donating for social and environmental purposes (Bugg-Levine and Emerson, 2011; O’Donohoe *et al.*, 2010). Instead investors aim at maximising the total blended value of their investments in terms of economic performance and sustainable social and environmental impact. In doing so, impact investors are leveraging financial tools and business practices for doing good (Bugg-Levine and Emerson, 2011). See Figure 1.

The ‘impact’ in impact investing has been touted as bringing a new dimension to investing, going beyond investment’s traditional ‘risk’ and ‘return’ dimensions, and even becoming a new paradigm in solving society’s problems (Social Impact Investment Taskforce, 2014a). Some philanthropic foundations, bilateral aid donors and non-governmental organisations also view impact investing as having the potential to help address global concerns of inequality and poverty. Yet, there has been a growing body of literature in the past few years calling for increased scrutiny of the sector so that the nature of ventures can be improved and so that a more significant positive change can be brought to the beneficiaries ultimately targeted by impact investments, namely communities, households and individuals (Edward T. Jackson, 2013b). In this sense, evaluation of impact investing must go beyond the function that most often underpins it, namely accountability (Edward T. Jackson, 2013b; Liket, Rey-Garcia, and Maas, 2014).

Figure 1. Spectrum of social and financial objectives



Source: Adapted from Avantage Ventures Analysis (2011)

About this literature review

This paper is a summary of literature reviewed on the topic of the evaluation of impact investments.¹ The literature was scoped using various methods, namely searching for keywords related to the literature review's topic in *Web of Science*, a comprehensive search engine for existing academic publications, as well as *Google*. Other methods included scanning publications related to evaluation of various websites dedicated to impact investing, and scoping referenced articles in the literature. Overall, 101 documents were found to relate to the topic of the review, of which 55 documents were deemed relevant enough for review (based on combinations of their abstracts/executive summaries, tables of content, titles, conclusions and the general body of text). Most of the documents were found to focus on the themes of evaluation and measurement of impact investments, as well as social impact bonds (SIBs). The summary essentially draws on the 55 reviewed articles (as well as a few additional articles).

In terms of structure, this summary paper will first discuss findings from a review of documents presenting various methods of evaluating, assessing and/or measuring impact investments; followed by theoretical contributions made to the field of the evaluation of impact investments; then, this paper covers literature on the evaluation of impact investments, including social and development impact bonds (SIBs/DIBs); and finally, this paper briefly reviews other modalities of socially-oriented investments.

Tools and approaches presented in the literature

Amongst the reviewed literature, there are a number of documents putting forward similar tools and approaches for assessing the social value created by impact investments. Some articles discuss these tools and approaches, while some catalogue them and summarise their functions. In addition, there are a number of independent grey literature documents detailing philanthropic organisations' or evaluation practitioner approaches to the assessment of social value.

Amongst the tools and approaches mentioned across the literature, IRIS (Impact Reporting and Investment Standards) and GIIRS (Global Impact Investing Rating System) emerge as the most used standardised tools of measuring impact (Edward T. Jackson, 2013b). Briefly, IRIS is a catalogue of metrics (indicators) in social and environmental areas, and does not claim to be an evaluation tool *per se*; rather it is encouraged to be used as a compliment to other evaluation methods (IRIS, 2013). GIIRS on the other hand is a rating approach which is guided by IRIS taxonomy and is more investor-focused. It is used to assess companies as well as funds and their portfolio companies in four performance areas (governance, workers, community, and the environment) (Best & Harji, 2012). Other oft-cited resources for social impact assessment include Pulse (a management information system developed by Acumen Fund also integrating the IRIS taxonomy), Social Return on Investment (SROI), Best Available Charitable Option² (BACO), and the Global Reporting Initiative (GRI), which assesses organisations' environmental, social and governance performance (ESG), and is reportedly used by 3,500 organisations in over 60 countries (Porter, Hills, Pfitzer, Patscheke and Hawkins, n.d.). In addition, Woelfel, Thornley, Ren and Sirull (2014) provide an interesting case study showing where IRIS is used to assess the social performance of a specific investment portfolio.

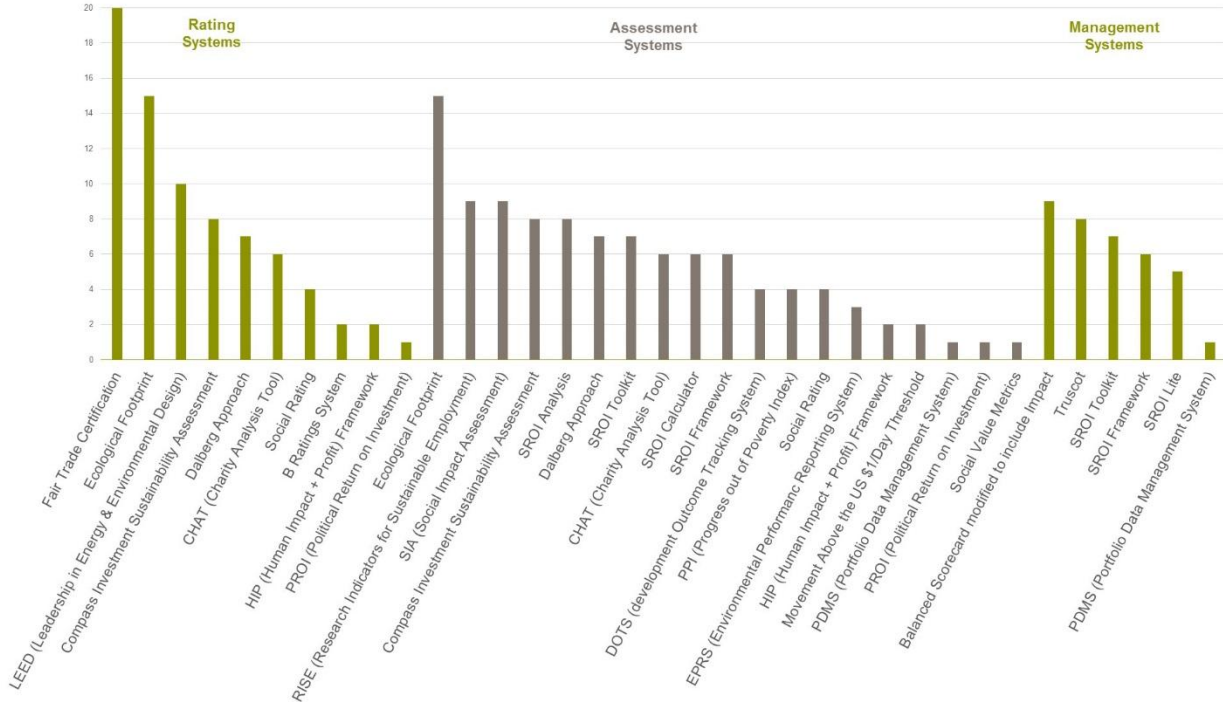
Alongside these more standard metrics and rating-based approaches, there are a plethora of documents compiling and/or presenting various tools and approaches used for social impact assessment (Best and Harji, 2012; Clark, Rosenzweig, Long, and Olsen, 2004; Harji, 2008; Edward T. Jackson & Harji, 2012; Olsen & Galimidi, 2008; Social Impact Investment Taskforce, 2014b; Tides,

¹ In the literature search, other terms were used to refer to evaluation including 'assessment' and 'measurement'.

² An example to illustrate the use of tool is given in Rockefeller Philanthropy Advisors (n.d.), where a comparison in the number of bed nets that can be delivered to poor people via two investments is given, one in a \$350,000 grant to a non-profit organisation, and the other in a \$390,000 loan to a local textile firm. The example concludes by stating that the grant to the non-profit organisation could deliver an estimated 93,000 bed nets, while the loan could deliver 1,000,000 bed nets, thus proving the usefulness of a BACO analysis.

2011; Tuan, 2008). What is interesting to note among the tools and approaches detailed in these documents is the evolution of the trend of tools and approaches proposed. Indeed, older documents (five+ years old) seem to focus on the monetisation of social impacts (e.g. the SROI approach), while newer documents give a more diverse view of approaches. One particularly useful compilation summarises and presents 25 various tools and approaches to assess social impact, classifying the tools and approaches according to their evaluative purpose, i.e. *screening* (e.g. ratings systems), *summarising results* (assessment systems), and *ongoing tracking* (management systems) (Olsen and Galimidi, 2008). See Figure 2, which also indicates the number of years each tool has been in use.

Figure 2. Example of the range of tools and approaches used to assess social impact



Source: Adapted from Olsen and Galimidi (2008)

In addition to Olsen and Galimidi (2008), another important resource is the Tools and Resources for Assessing Social Impact (TRASI) hosted by the Foundation Center (<http://trasi.foundationcenter.org/>), and mentioned in McKinsey and Company (2010). TRASI provides a catalogue of current expert-reviewed tools and approaches, with over 150 tools, methods and best practices that are used for assessing social impact. This database can be searched through using a keyword or checkbox search or browsed through and sorted by name, sponsor organisation or approach; tools that give ratings or certifications are indicated by a blue ribbon symbol.

There is also a group of documents which present their own independently developed approaches to social impact assessment, both the documents detailing The Robert Wood Johnson Foundation’s approach to evaluation (Knickman and Hunt, 2007) and the MIAA (Methodology for Impact Analysis and Assessment) (Hornsby, 2012) respectively are of interest. The first document details an approach to both short- and long-term impact assessment, from specific projects to entire portfolios (such as evaluating the Foundation’s impact on reducing smoking in the USA), while the second document constitutes an entire book dedicated to a new and independent methodology of analysing social impacts of investments. It relies on a CRI rating (confidence-return-impact) of an investment, and also integrates cost-benefit into its methodology.

Theoretical considerations

Beyond a tools-focus, there are a growing number of articles striving to advance the intellectual debate around social impact assessment. The most important theoretical considerations from the reviewed literature follow.

First, as in many other areas of evaluation, there is growing consensus around the need to use theory of change approaches to social impact assessment. This helps to gain greater insight into causal mechanisms, test logical or illogical assumptions made in a programme/evaluation design, and can allow improvement and refinement of programme strategies and implementation (Drew and Clist, 2015; Edward T. Jackson, 2013b; Twersky and Lindblom, 2012). In essence, the aim of this approach is to produce better mapping of outputs, to outcomes, to impacts, thereby increasing the effectiveness of the investment and going further in the assessment of how it improved the lives of targeted beneficiaries.

Second, authors point to the limitations of simply adopting widely-used metrics or rating systems such as IRIS and GIIRS. In fact, one article points out that IRIS and GIIRS provide the first steps in assessing outcomes, but still falls short of doing so (Brest and Born, 2013). Although this does not mean that these metrics are not useful (Freireich and Fulton, 2009; Edward T. Jackson, 2013a), the argument is made for the adoption of multiple methods in developing an impact evaluation approach (Twersky and Lindblom, 2012), including theory of change analysis, for example.

Third, authors also point out the importance of not trying to cover the whole spectrum of methodologies of social impact assessment and use too many metrics, as organisations can risk ‘drowning in data’ (Edward T. Jackson and Harji, 2012; Liket et al., 2014). As such, Ebrahim and Rangan (2014), in their particularly insightful article on the theory of social impact assessment advocate for the focusing of metrics, indicators and outputs which are intimately linked to the mission of an organisation. Because of accountability reasons, and the attempt of trying to cover too much ground, many organisations lose sight of this principle when conducting evaluations of their social performance. Indeed, the essence of the theoretical framework they promote in regard to social impact assessment is simply to ‘clarify the operational mission, specify the set of activities to address that mission (scope), and identify the target size of the problem (scale)’, using only a few metrics (Ebrahim and Rangan, 2014, p. 134).

Fourthly, there is a need for greater focus of evaluation efforts towards improving outcomes for the individuals, who are fundamentally at the heart of the rationale of impact investing (Edward T. Jackson, 2013b). This shift in focus is strongly advocated by Picciotto (2011) in an influential piece, where he calls for greater focus of social and philanthropic investments on improving human wellbeing. One way of increasing the focus towards human wellbeing is to increase the use of participatory methods in social impact assessment, a practice supported by several authors (Ebrahim and Rangan, 2014; E. Jackson and Harji, 2009; Edward T. Jackson, 2013a; Liket et al., 2014; Picciotto, 2011). This can have the effect, for example, of holding funders and investors to account for their statements (Edward T. Jackson, 2013b).

And finally, it is worth keeping in mind other concepts brought up in the theoretical literature on social impact assessment. These include concepts of ‘additionality’, ‘learning return’ (Brest et al., 2013), ‘strategy evaluation’ and the evaluation of re-granting organisations (such as IDRC for example; Twersky and Lindblom, 2012 – see the article for a case study).

Social impact bonds and development impact bonds

Much of the newer literature on impact investing actually focuses on social impact bonds³ (SIBs) (also known as ‘Pay-for-success’ financings (Edward T. Jackson, 2013a)), with less literature being

³ A bond is a debt investment in which an investor loans money to an entity (typically corporate or government) which borrows the funds for a defined period of time at a variable or fixed interest rate. Social Impact Bonds are a type of bond, which still operate over a

available on development impacts bonds⁴ (DIBs) as very few have been implemented thus far. Indeed, this instrument designed to improve social outcomes while reducing social spending has proven quite popular since the inception of the first SIB in 2010, with several jurisdictions such as Canada, the US, Australia and the UK having commissioned dozens of SIBs since. The findings from various evaluations and theoretical articles on SIBs/DIBs are presented here.

While there may be other material covering the evaluations of SIBs/DIBs in existence, only three evaluations of existing SIBs were found and accessed as part of this literature search. The three SIBs covered here include the HMP Peterborough SIB⁵, the London Homelessness SIB⁶, and the New York City (Riker's Prison) SIB⁷. Evaluation methodologies used for the SIBs are propensity score matching (PSM) for the HMP Peterborough SIB and New York City SIB, and a baseline (though it is suggested a historical baseline would have been constituted a more adequate evaluation method) for the London Homelessness SIB. Regarding the use of experimental methods, although it is stated that they would constitute suitable evaluation methods, they are likely to be seldom used, since the existence of context of 'high control' situations are rare for such interventions (Drew and Clist, 2015).

In terms of theoretical basis for analysis and implementation of SIBs/DIBs, the literature states that these interventions rely on the existence of previous evidence confirming the effectiveness of similar interventions (Warner, 2013), or feasibility studies (Galloway, 2014). Yet, there exists a contradiction in this fact, since SIBs/DIBs are supposed to be innovative ways of tackling social problems (Warner, 2013). As such, some interventions are planned on the basis of scarce evidence.

Furthermore, although SIBs have proven somewhat successful thus far (see for example: Social Finance, 2014), some methodological pitfalls have been pointed out regarding SIBs. First, SIB evaluations may offer little in terms of lesson learning because of the rigidity of the metrics needed to evaluate the SIB, and thus the lack of non-payment outcomes and measures. Also, regarding the implementation of the intervention, it is very difficult to modify it and improve during the course of the intervention, thus reducing the capacity to maximise programme effectiveness for intended beneficiaries. There may also be incentives for the intervention to work, and thus for collusion; it is not guaranteed that SIBs are always evaluated with the utmost rigour (especially since it is important to find adequate financing for the intervention, perhaps at the expense of proper evaluation) (Warner, 2013). This may result in 'cherry-picking' (helping those most likely to succeed), and 'parking' (ignoring those less likely to succeed) (Disley and Rubin, 2014). Finally, it is important to distinguish between the effectiveness of the intervention and instrument in evaluation SIBs (Drew and Clist, 2015).

Regarding DIBs, a review of evaluation methods of DIBs commissioned by the UK Department for International Development (DFID) provides a good insight into these methods (see Drew and Clist, 2015). In essence, DIBs are largely based on SIB evaluation methods, since the interventions closely resemble each other (although DIBs may involve more actors). Drew and Clist (2015) advocate for the use of qualitative methods in DIB evaluation, in order to properly understand causal mechanisms. The report also proposes a framework for developing evaluation questions for DIBs, and provides an example of a 'Design of an impact evaluation' in the appendix. The report includes a table that summarises the 'Strengths and weaknesses of existing evidence and evaluation approaches and methods related to SIBs and DIBs'.

fixed period of time, but do not offer a fixed rate of return. Instead, repayment to investors is contingent upon specified social outcomes being achieved.

⁴ DIBs are a variation of the SIB model, but with the aim of providing new sources of financing to achieve improved social outcomes in developing country contexts. As with SIBs, investors provide external financing and only receive a return if pre-agreed outcomes are achieved. Usually funds to reward investors originate from donors, or else the budget of the host country or a combination of the two. Ultimately, the financial returns to investors are proportional to the level of success.

⁵ Sources available for the HMP Peterborough SIB evaluation: (Cave, Williams, Jolliffe and Hedderman, 2012; Disley and Rubin, 2014; Social Finance, 2014).

⁶ Sources available for the London Homelessness SIB evaluation: (HM Government, 2014; The Young Foundation, 2011)

⁷ Sources available for the NYC SIB evaluation: (Rudd, Nicoletti, Misner and Bonsu, 2013).

Other modalities of socially-orientated investments

Corporate Social Performance/Corporate Social Responsibility. Although most of the literature on corporate social performance (CSP) attempts to relate social outcomes of activities to financial performance, there is an increasing focus on the enhancement of CSP to benefit the activities' intended beneficiaries. This literature, however, does point out the overall poor track record of companies to evaluate the performance of the activities tied to corporate social responsibility (CSR). This has been due in part because of the poor auditing culture amongst companies – i.e., which don't engage in meaningful two-way dialogue, and which do not provide feedback loops with beneficiaries, resulting in poor service provision (Bice, 2013). The general attitude regarding the performance of CSR activities is perhaps best captured by Salazar, Husted, and Biehl (2012, p. 175), who cite a manager of a corporation implementing CSR activities: '*the need is so great, anything we do is helpful*' – and thus, there is little regard for social performance. Furthermore, the same article provides a useful case study detailing the evaluation of CSR activities by a cement company in Mexico. The authors advocate for the use of pre- and post-testing and the use of quasi-experimental methods in assessing impacts of CSR activities.

Social Stock Exchanges. Despite the existence of various social stock exchanges (SSEs, in countries such as Canada, UK, Mauritius, South Africa, and in the East Asian region) to promote impact investments towards socially and environmentally conscious companies, there is very little material on the evaluation of such instruments. The 'Social Stock Exchange' (UK) website provides reports of companies listed on the London SSE (<http://socialstockexchange.com/impact-reports/>), which are evaluated by private social impact specialists (such as PWC, Deloitte, etc.) (Edison, 2015). Interestingly, Nexii, the South African SSE actually requires its companies to make their theories of change explicit in order to be listed (Edward T. Jackson, 2013b). Overall though, the literature is scarce on the evaluation of SSEs.

Performance management in impact investing. There are relatively few documents discussing the aspect of Monitoring and Evaluation (M&E) in impact investing. There is one document of interest from the search, which does provide an example of a system to monitor and evaluate a biodiversity conservation fund. Indicators developed as part of this M&E system were based on existing biodiversity conservation rating schemes, and were also individually tailored for each portfolio company (Newmark and Pena, 2012). One other document referring to M&E also mentions the importance of the due diligence in setting up the M&E system between a funder (philanthropic organisation) and their grantee. This organisation measures 'reach' and 'engagement' of grantee activities, and analyses financial statements to carry out its M&E of the grantee organisation (Bannick and Hallstein, 2012). Although there is also relatively little written on performance management, there are some articles which partly address this topic (Ebrahim and Rangan, 2014; Moore, Walker and Murphey, 2011; Warner, 2013). Both Ebrahim and Rangan (2014) and Moore *et al.* (2014) argue that performance management can contribute to and improve evaluation design and implementation, while Warner (2013) warns of the need to use more than just performance management frameworks for evaluation.

Conclusion

In this literature search and the review of over a hundred documents, we have highlighted current tools and approaches available for evaluating impact investments. The review highlights that there are a plethora of tools and approaches available – and some useful compilations (Olsen and Galimidi, 2008; and TRASI) – but still a predominant focus on metrics and rating-based systems (particularly IRIS and GIIRS) which are not evaluative *per se*, but rather provide a complement to other evaluation methods. The past five years has also seen a trend away from attempts at the monetisation of social impacts, with newer documents giving a more diverse view on approaches and tools.

The literature points to some fairly obvious ways forward, including: (i) the need to use theory of change approaches which help gain greater insights into causal mechanisms, test logical or illogical assumptions made in an investment/evaluation design, and allow for refinement and learning; (ii) the need to avoid using too many metrics, such as by focusing on the operational mission, its scope and scale; and, (iii) the need to focus the evaluation effort much more towards improving outcomes for individuals, and particularly human wellbeing – such as through the use of more participatory approaches.

Overall though, there is little consensus in the literature about how best to achieve this, and a real scarcity of examples and learning from evaluation practice in impact investing. There are some examples of evaluations of SIBs/DIBs, and very little on other areas of socially-orientated investments (such as CSP/CSR, and SSEs). Areas for more research, development and learning from evaluation practice include:

- How can existing metrics be used to better complement social impact assessment/evaluation?
- What tangible difference do theories of change approaches make to evaluating investments?
- What should be the focus, scope and scale of theories of change and evaluative assessments?
- What roles can qualitative and participatory methods play in enhancing and strengthening evaluations?
- In what ways can evaluation focus more on improving outcomes for individuals?
- How can evaluations focus more on, and help investments better contribute to, human wellbeing?

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