A SHORT GUIDE

Concepts, Definitions and Aspects Related to Measuring Impact

INVESTMENT IMPACT INDEX™
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A Short Guide:

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Introduction

Over the past few years, a wide range of organisations from the private, public and charity sectors have become increasingly interested in measuring the social value and impact they create. In this guide we introduce the main concepts and approaches of social impact measurement to consider when assessing impact.

This short guide aims to:

1. Provide the various concepts of **impact measurement**
2. Provide definitions of the various aspects of **impact management**
3. Describe **Next Generation's Investment Impact Index™** framework and approach for measuring impact.

Different Ways of Measuring Impact

It's not easy to measure impact. The reason it's not easy is because different organisations, funders, investors and governments all have a different understanding of what is important in creating social change and impact. Consequently, they all value different elements. This is an important insight that needs to be emphasised. Different stakeholders have different understandings of value, change and impact, and it's inherently linked to how different parties want change to happen.

That's why using consistent measures across sectors doesn't work. So, the heart of the social value and impact issue isn't an evaluation problem, it's a translation problem—how can I translate the change that I have captured into a change that others understand and value?

The following section aims to unpack and provide greater clarity around various terminologies and definitions that are used in measuring social impact. The objective is to provide development practitioners and professionals with an overview and contribute to a body of knowledge for the sector.

Key Concepts

What is Impact

Impact is a concept that is used for many purposes at all stages of development programming.

- In **planning** a programme, discussion about intended impact can be used to clarify a vision through which to build cooperation and coordinate action. Assessments of potential impact are used to identify possible risks or adverse effects (i.e., **environmental and social impact assessments);** ambitions of impact are used to make decisions about which programmes to fund; they establish expectations of achievement by which success will be defined; and these in turn are used to plan appropriate inputs and strategy.
- **During or after a programme**, measurements of impact are used to determine to what extent the intervention achieved what it set out to achieve. They also determine other effects, positive or negative; decide whether to stop, continue, scale up, replicate or adapt the intervention; and to draw lessons for other similar interventions.

The way that impact is defined and understood, therefore, has widespread implications. It affects how a programme is perceived and how people will want to or are expected to be involved. It affects which programmes get funded and the level of risk a funder is willing to tolerate.

It affects how programmes are designed, the strategies they take, and how ambitious they will be. It affects the way in which programmes will be judged, who takes the credit and who takes the blame for negative outcomes. It affects what can be learned from one programme and applied to another. It affects the view of the world in which a programme operates.

Given the implications of different conceptions of impact, there is a strong imperative to be very clear about what we mean when we use this term, and to use it carefully.

1. The Organization for Economic Cooperation and Development's Development Assistance Committee (OECD-DAC) defines impact as the "positive and negative, primary and secondary long-term effects produced by a development intervention, directly or indirectly, intended or unintended".
2. UNICEF defines impact as "The longer-term results of a programme—technical, economic, socio-cultural, institutional, environmental or other—whether intended or unintended. The intended impact should correspond to the programme goal."
3. The Oxford English dictionary gives two definitions of the word impact: 'the action of one object coming forcibly into contact with another' and 'a marked effect or influence'.
4. USAID defines impact as 'A result or effect that is caused by or attributable to a project or programme. Impact is often used to refer to higher level effects of a programme that occur in the medium or long term and can be intended or unintended & positive or negative.
5. According to the Impact Management Project, Impact is a change in positive or negative outcome for people or the planet. The IMP has built consensus that to understand any impact, we need to understand five dimensions of performance: What, Who, How Much, Contribution and Risk.

- **What,** tells us what outcomes the enterprise is contributing to and how important the outcomes are to stakeholders.
- **Who,** tells us which stakeholders are experiencing the outcome and how underserved they were prior to the enterprise's effect.
- **How Much,** tells us how many stakeholders experienced the outcome, what degree of change they experienced, and how long they experienced the outcome for.
- **Contribution** tells us whether an enterprise's and/or investor's efforts resulted in outcomes that were likely better than what would have occurred otherwise.
- **Risk** tells us the likelihood that impact will be different than intended.

Impact Assessments

- An **impact assessment** is a formal, evidence-based procedure that assesses the economic, social and environmental effects of public policies, development programmes and interventions.
- An **impact assessment** is a means of measuring the effectiveness of organisational activities and judging the significance of changes brought about by those activities.
- **Impact analysis** is defining the potential consequences of a change or estimation. It identifies what aspects need to be modified to accomplish a change.
- **Social impact assessment** is the process of identifying and managing the social impacts of projects. It can also be applied to policies, plans and programmes. It's used to predict and mitigate negative impacts and identify the opportunities to enhance benefits for local communities and broad society.
- The purpose of a **social impact assessment** includes the processes of analysing, monitoring and managing the intended & unintended social consequences of planned interventions and any social change.
- **Environmental social impact assessment** is a process of evaluating the likely environmental impacts of a proposed project or development. This assessment considers inter-related socio-economic, cultural and human-health impacts, both beneficial and adverse.

Monitoring and Evaluation

Monitoring and evaluation are about collecting, storing, analysing and synthesising data into strategic information so that it can be used to make informed decisions for programme management and improvement, policy formulation and advocacy.

The main difference between monitoring impact and impact evaluation is their timing and focus of assessment.

- **Monitoring** is ongoing and tends to focus on what is happening.
- **Evaluations** are conducted at specific points in time to assess how well it happened and what difference it made

Monitoring impact is the systematic process of collecting, analysing and using information to track a programme's progress toward reaching its objectives. Monitoring usually focuses on processes, such as when and where activities occur, who delivers them and how many people or entities they reach. Monitoring is conducted after a programme has begun and continues throughout the programme implementation period. Monitoring is sometimes referred to as process, performance or formative evaluation.

Impact evaluation is the systematic assessment of an activity, project, programme, strategy, policy, topic, theme, sector, operational area or institution's performance. Evaluation focuses on expected and achieved accomplishments, examining the results chain, processes, contextual factors and causality, in order to understand achievements—or lack thereof. Evaluation aims at determining the relevance, impact, effectiveness, efficiency and sustainability of interventions and the contributions of the intervention to the results achieved.

Key Differences Between Monitoring and Evaluation

The difference between monitoring and evaluation can be clearly established on the following premises:

1. Monitoring is a routine process, that scrutinises the activities & progress of the project and finds out the deviations that occur while undertaking the project. Evaluation is a periodical activity that makes inferences about the relevance and effectiveness of the project or programme.
2. While monitoring is observational in nature, evaluation is judgmental.
3. Monitoring is an operational-level activity performed by implementers and project or programme managers. On the other hand, evaluation is an organisational-level activity performed by the managers.
4. Monitoring is a short-term process that is concerned with the collection of information regarding the success of the project. Conversely, evaluation is a long-term process, which not only records the information but also assesses the outcomes and impact of the project.
5. Monitoring focuses on improving the overall efficiency of the project by removing bottlenecks while the project is under process. Evaluation stresses on improving the effectiveness of the project, by making a comparison with the established standards.
6. Monitoring is usually carried out by the people who are directly involved in its implementation. In contrast, evaluation can be conducted by the internal staff of the organization, such as managers, or by an independent external party who can give their impartial views on the project or programme.

Logic Model Framework

- **Logic models are narrative or graphical depictions of processes in real life that communicate the underlying assumptions upon which an activity is expected to lead to a specific result. Logic models link the problem (situation) to the intervention (inputs and outputs) and the impact (outcome).**
- Another description of a logic model is that it is a **conceptual picture or roadmap** of how a programme or intervention is intended to work, with programme activities and strategies linked to specific outcomes and desired results.

Theory of Change

- Theory of Change is a **specific type of methodology** for planning, participation and evaluation used in companies, philanthropy, not-for-profit and government sectors to promote social change. A Theory of Change defines long-term goals and then maps backward to identify necessary preconditions.
- Theory of Change is **also a tool for developing solutions** to complex social problems. A basic TOC explains how a group of early and intermediate accomplishments set the stage for producing long-range results. A more complete TOC articulates the assumptions about the process through which change will occur and specifies the ways in which all the required early and intermediate outcomes related to achieving the desired long-term change will be brought about and documented as they occur.
- Theory of Change is also described as a **systematic assessment** of what needs to happen for a desired outcome to occur. This usually includes an organization's hypothesis about how and why change happens, as well as the potential role of an organization's work in contributing to its vision of progress.

Impact Value Chain

The Impact Value Chain is a tool that illustrates how the organisation's impact intent, vision and objectives lead to the ultimate desired outcomes. The Impact Value Chain builds on the Theory of Change by articulating the relationship between the activities, outputs, outcomes, and impact.

- **Inputs:** The resources used to operate the organization or activity such as money, people, facilities, and equipment.
- **Activities:** The interventions that are funded to make a difference. The various aspects that contribute to the change.
- **Outputs:** A measurable unit of production created by the activities of an organization or an intervention. This can be a good or service delivered, for example the number of people trained, or a by-product. Outputs are operational variables that correlate with the ultimate desired social outcome of the project or intervention.
- **Outcomes:** The ultimate changes one is trying to make in society, as well as the intended and unintended side effects of the business. Outcomes are always expressed as a change, an increase or a decrease of some factor.
- **Impact:** Refers to the portion of the total outcome that happened because of the activity of the organisation or intervention, above and beyond what would have happened anyway. In social science, one needs what is called a "counterfactual" to compare the experimental state with the current state to discern the effect of the dependent variable from all other factors that could be causing a change. Impacts may be negative, undesirable or unintended, as well as the converse.

There is a difference between the impact value chain of social investors vs impact investors:

(See following page)

Social Investors:

Impact Mission

A social investors theory of change is aligned to is mission

Impact Design

Social investors generally call for or accept proposals for funding aligned to their mission

Alternatively they also design their own programs (signature or flagship programs) aligned to their missions

Impact Criteria

In general social investors conduct due diligence according to set criteria which is also aligned to their mission.

Generally the governance and financial sustainanbility of the social purpose organisation are considered

Input

This aspect relates to the investment size and may include other input resources such as time, skills, networks, products, services, etc.

Activities

This aspect relates to what is done with the investment resources and is generally expressed in quantitative results

Outputs and outcomes

Are the results (related to the mission) that is expected as a result of the invested resources

Impacts

Are the long term results resulting from the invested resources

In general the impact is measured for the benefiaries at whom the intervention is targeted.

Beneficiaries can be individuals or social purpose organisations

Impact Investors:

Impact Intent

Impact investors have a clear intent of what change they want to bring about with their investment - this is generally recorded in an impact thesis

Impact Pipeline

In order to select the most appropriate investment - a deal pipeline is created

Due Dilligence

A defined set of criteria to select the best investee organisation is developed, applied and tested

Investment

An investment deal is structured based on the impact intent, the criteria applied and the outcomes identified and agreed

Outcomes

Outcomes are related to interest, profit and impact and is directed to commercial entities

Investments are focused on either startup or growth focused commercial entitities

Exit

Exit is agreed at the start of the investment phase and impact is measured according to agreed performance management indicators

Key Differences Between Assessments and Evaluations

- Assessment is defined as a process of appraising something or someone, i.e. the act of gauging the quality, value or importance. Evaluation focuses on making a judgment about values, numbers or performance of someone or something.
- An assessment is made to identify the level of performance of an individual, whereas evaluation is performed to determine the degree to which goals are attained.
- The basic difference between assessment and evaluation lies in the orientation, i.e. while the assessment is process oriented, evaluation is product oriented.
- The process of collecting, reviewing and using data, for the purpose of improvement in the current performance, is called assessment. A process of passing judgment, on the basis of defined criteria and evidence is called evaluation.
- Assessment is diagnostic in nature as it tends to identify areas of improvement. On the other hand, evaluation is judgemental, because it aims at providing an overall grade or objective.
- The assessment provides feedback on performance and ways to enhance performance in future whereas evaluation ascertains whether the standards are met or not.
- The purpose of assessment is formative, i.e. to increase quality, whereas evaluation is all about judging quality, therefore the purpose is summative.
- Assessment is concerned with process, while evaluation focuses on product.
- In an assessment, the feedback is based on observation and positive & negative points. In contrast to evaluation, whereby the feedback relies on the level of quality as per set standard.
- In an assessment, the relationship between assessor and assessee is reflective, whereby the criteria are defined internally. On the contrary, the evaluator and evaluatee share a prescriptive relationship, wherein the standards are imposed externally.
- The criteria for assessment are set by both the parties jointly. As opposed to evaluation, wherein the criteria are set by the evaluator.
- The measurement standards for assessment are absolute, which seeks to achieve the quintessential outcome. As against this, standards of measurement for evaluation are comparative, that makes a distinction between better and worse.
- **Impact assessment** focuses on the effects of an intervention, whereas evaluation is likely to cover a wider range of issues such as the appropriateness of the intervention design, the cost, the efficiency of the intervention, its unintended effects and how to use the experience from this intervention to improve.

Impact Management and Measurement

Impact management and measurement (IMM) refers to the practices and methods used to generate and use data on impact to advance the intended **social and environmental impact from investment and business activities.**

Impact management and measurement is iterative by nature. It's more than counting metrics. It means considering information about risks, returns and impact, to adjust and improve decision making.

Aspects of Impact Management and Measurement

The following section provides an overview of the **Investment Impact Index™** framework, methodology and approach. It is aligned to numerous international standards, guidelines and frameworks.

A comparative assessment between the Investment Impact Index and prevailing global standards can be found HERE:

Impact Design and Planning

1. Impact design is focused on defining the investment intent
2. Impact planning is focused on setting investment objectives
3. The impact design and planning phase includes:
    a) Defining the overarching social problem that is being addressed (through a Theory of Change)
    b) Defining the scope and impact objectives (through a logic model)
    c) Selecting (and investing in) Social Purpose Organisations (SPO) or investees, or implementing partners that can contribute to solving the social problem and meet the impact objectives

Impact Engagement

1. Impact is always directed at specific stakeholders or groups of stakeholders (communities or individuals or investees)
2. To confirm and validate impact—the views and perceptions of stakeholders are included in the measurement process
3. The stakeholder engagement process is aimed at understanding the expectations of stakeholders, their contribution and the potential impact on them
4. The impact engagement phase includes:
   a) **Stakeholder identification and analysis:** mapping & selection and analysis of their expectations
   b) **Stakeholder engagement:** understand their expectations and then verify that they've been met

Impact Measurement

This phase looks at transforming the impact intent and objectives into measurable results. The **impact measurement** phase includes:

a) **Outputs:** tangible products and services that result from the activities (number of people reached)
b) **Outcomes:** changes, benefits and other effects on the beneficiaries that result from the activities
c) **Impact:** the attribution of the investor's contribution to the broader long-term societal change
d) **Indicators:** set to measure outputs, outcomes and impact

Impact Verification

1. Verifying impact focuses on whether the investor can claim having a positive impact. This can be done in a number of ways:
   a) **Desk research:** Confirming whether the trends detected and interpreted can be triangulated with other data (external research reports, databases, government statistics etc.)
   b) **Competitive analysis:** comparing the impact results with other comparable organisations in terms of similar issues, geographies and populations targeted
   c) **Reviews:** Considering the input and outcomes of monitoring and evaluation reports to confirm and validate the impact observed
   d) **Interviews / focus groups / site visits:** asking neutral questions to a representative sample of key stakeholders
2. Valuing and calculating the value and impact created

Impact Analysis

Once the **impact assessment** is complete, additional analysis is conducted. This phase includes:

- **Cost benefit analysis**: **A cost benefit analysis** is a process by which organizations can analyse decisions, systems or projects, or determine a value for intangibles. The model is built by identifying the benefits of an action as well as the associated costs and subtracting the costs from benefits.
- **Return on Investment analysis:** A **social return on investment analysis** is a performance measure used to evaluate the efficiency of an investment or compare the efficiency of several different investments. To calculate ROI, the return of an investment is divided by the cost of the investment. The result is expressed as a percentage or a ratio.
- **Multi criteria analysis**: **MCA** is an umbrella term for a range of assessments that, broadly speaking, formulate a set of success criteria and assess the options in terms of their contribution to the different criteria. Options are scored and ranked in terms of their performance against the success criteria. A key feature of MCA is its emphasis on the judgment of the decision-making team, in establishing objectives and criteria and to some extent, in judging the contribution of each option to each performance criterion. The **Investment Impact Index™** considers more than 20 dimensions, including; effectiveness, efficiency, feasibility & viability, materiality & relevance, inclusiveness & integration and coherence & relevance.

Impact Reporting

The outcome of the impact management process concludes with an impact report.

It includes both an online dashboard as well as an impact management report with comparable data across investment themes, portfolios, focus areas, and individual programmes.

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