Situating the Next Generation of Impact Measurement and Evaluation for Impact Investing

Jane Reisman
Veronica Olazabal

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Foreword

This paper is timely in light of the anticipated continued growth of impact investing – particularly as the public sector looks to the private sector as a partner in creating innovative solutions to the world's pressing social and environmental issues. The 2015 Sustainable Development Goals are but one example of how private capital is needed to address the estimated $2.5 trillion shortfall required to move the needle on social and environmental challenges. Inequity and threats to sustainability will require far more capital than governments, multilaterals, foundation grants, and NGOs can provide (see Figure 1).

The authors of this paper are members of the evaluation profession, which has historically been engaged with social sector actors in designing and implementing assessments of outcomes and impacts related to social innovations. Veronica Olazabal is a Senior Associate Director, Evaluation, in The Rockefeller Foundation's Evaluation Office and Jane Reisman is a Monitoring and Evaluation Advisor to the Foundation, as well as the founder of the strategy and evaluation firm, ORS Impact. Together with Nancy MacPherson, Director of The Rockefeller Foundation's Evaluation Office, Olazabal and Reisman have been convening thought leaders in both the impact investment and evaluation realms to support the evolution of impact measurement over the last several years.

The Rockefeller Foundation places particular emphasis on evolving impact measurement as a way to support its dual goals of building resilience and advancing inclusive economies. The Foundation values robust data that address outcomes and impacts throughout all of its work, including its partnerships with market-based actors, in order to build evidence and support data-driven decision making. Regular and timely access to these data helps maximize impact, provides investors with verifiable ways of knowing what changes their investments and interventions are producing, and supports a culture of learning and accountability that can be used in making strategic decisions.

To support the growth of a stronger evidence base for market solutions, this paper offers a typology for structuring and thinking about a next generation of impact measurement and evaluation for impact investing.

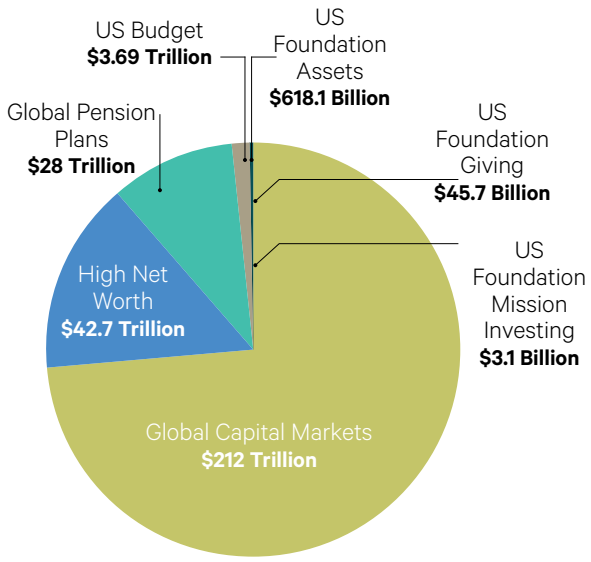
Background and context

Market approaches are gaining popularity as a mechanism for generating social and environmental impact at scale. Traditionally, funders such as governments, multilaterals, philanthropies and non-governmental organizations (NGOs) have dominated the social and environmental sectors, bearing primary responsibility for impacts such as food security, well-being and energy conservation. Today, however, the world is witnessing an emergence of new market-based players – impact investors - who are leveraging the power of private capital and using financial and market principles to drive social and environmental change.

Private sector companies and investors alike demonstrate a knack for collecting, analyzing and using data to support their decision-making. In general, market incentives ensure that information on consumer behavior, revenue and profit is abundant. However, for impact investors, who are equally committed to generating impact alongside profit, financial data tell little about the extent to which social and environmental changes are actually being achieved.

This paper explores the measurement of impact associated with impact investing, one segment of the growing field of market solutions. Industry leaders coined the term "impact investing" in 2007 at The Rockefeller Foundation Bellagio Center to encompass "investments made with the intention of generating both financial return and social and/or environmental impact" (The Rockefeller Foundation, 2016). Impact investing typically includes a variety of asset classes, including cash equivalents, fixed income, venture capital, and private equity (GIIN, 2016). Foundations

FIGURE 1. Potential capital available for positive impact



TOTAL: $287,056,800

Source: Adapted from Correlation Consulting, Insights and Innovations: A Global Study of Impact Investing and Institutional Investors released at the US Department of State's Global Impact Economy Forum, April 26-27, 2012. Funding generously provided by The California Endowment, River Star (Hong Kong), The Nathan Cummings Foundation, The Hull Family Foundation and the David & Lucille Packard Foundation

have also adopted specific terminology for impact investing such as "mission–related investments" (MRIs) and "program-related investments" (PRIs)—both of which further their philanthropic goals.

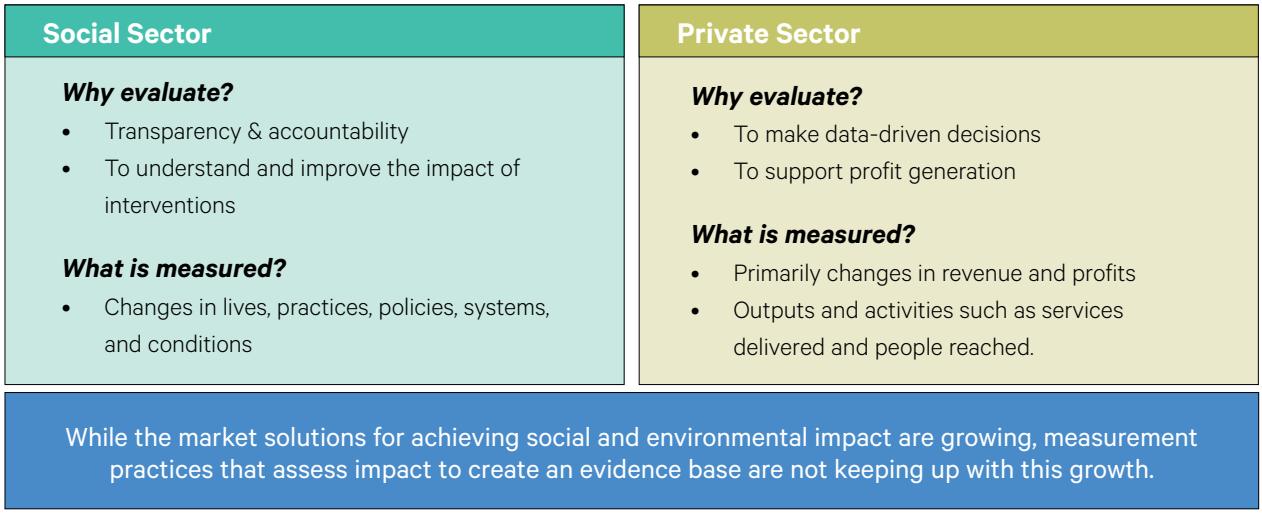
A big question motivates the development of this paper: How does the impact investment field establish evidence about its contributions to positive social and environmental impacts? Public sector entities have a long history of non-financial impact measurement and have emphasized transparency in the evaluation of their successes and shortcomings. NGOs are accustomed to undertaking routine monitoring and evaluation in order to receive funding from governments and multilateral organizations. Philanthropies, too, typically build monitoring and evaluation into their business practice to help achieve their social and environmental missions.

Driven by market incentives that give companies and investors with robust data a comparative advantage, the private sector is particularly skillful at data-driven decision-making. This skill, however, is mostly limited to the collection and use of financial data. Companies and investors consulted have indicated that the data needed to measure social and environmental impact such as changes in lives, practices and policies, are much less common.

The primary differences between social and private sector approaches to evaluation, as highlighted in Figure 2, illustrate that while the market solutions for achieving social and environmental impact are growing, measurement practices that assess impact and contribute to an evidence base remain focused at the output level.

In a 2015 Stanford Social Innovation Review article, Paula Goldman and Laura Booker of the Omidyar Network described impact investing as a "big tent" of diverse investors united around a shared purpose. The article helps to dispel "age-old thinking that doing good and doing well are separate domains – that to 'give back' you should first make money and then give some of it away." In commenting on the article, Paul Brest, long-time advocate of strategic philanthropy, added that although impact investing covers a spectrum of expected returns and asset classes, what primarily distinguishes it from other investing is "'additionality' – that the investments are likely to increase the investees' socially valuable outputs to an extent that ordinary commercial investments do not."

FIGURE 2. Social vs. Private Sector Evaluation



Source: Reisman & Olazabal (2016), presented 4 August 2016 at The Rockefeller Foundation.

FIGURE 3. Impact investing relative to philanthropy and investment

	DONATING			IMPACT INVESTING		INVESTING		
Donors/ Investors	Charitable donor	Strategic philanthropy donor	Venture philanthropy donor	Direct impact investor	Indirect impact investor	Sustainable investor	Socially responsible investor	Financial investor
Screening	Basic Compliance	High Impact Organization	Organizations with potential to scale	Social impact first, then seek a positive financial result	Financial first, then seeking positive social impact	Financial + positive screen for ESG	Financial + negative screen	Financial only (besides bank regulatory compliance)
Expected Financial Return	-100%	Negative	Negative	Flat to market	Close to market	(Almost) market	(Almost) market	Market (risk adjusted)
Expected Impact Intent	Full	Full with leverage	Full with leverage	Significant	Some	Modest	Neutral	None
Donors/ Investors Seeking	Organization with a mission they believe in	Well-run organizations in donor's theory of change	High-impact and scalable	High social impact with below market rate financial return	High rate return, with some social/ environmental impact	Market-rate returns that are socially targeted	Maximize profit without provoking conscience	Maximize profit with no regard to social impact

Source: Adapted from *Markets for Good* by Brian Walsh, SOW Asia

As shown in Figure 3, traditional views tend to situate impact investing along a philanthropy-investment continuum– between donations and investing, where its essential characteristic is its intention to produce both social and financial benefits. This characterization of impact investing is controversial among some impact investors, who claim that high social returns can be had along with market-level returns. Another way to understand impact investing is illustrated by the three-phase approach shared by the Bill & Melinda Gates Foundation's Julie Sunderland, who led the development of their program-related investments (PRIs) (Bank, 2015). It calls for the following:

- Understanding the Gates Foundation's impact strategies in grantmaking and identifying private sector partners and appropriate incentives that would engage them to work on difficult problems, such as bringing agricultural technologies to smallholder farmers in Africa or developing breakthrough scientific discoveries that could be translated into products for global health
- Thinking deeply about market failures that allow market-based actors to experiment, innovate, and invest in solutions to social and environmental problems, for example, making markets work better for the poor; and

- Betting on great partners, including entrepreneurs, innovators, and companies, through the use of PRI financial tools such as direct equity investments in companies, equity funds, loans to non-profits, and guarantees (Bank, 2016).

Sunderland surmises that the market failures are largely due to the slim profit margin related to developing products for the poor. Therefore, the applicable business model is to get to high volumes and large scale with small margins. Following this logic, volume and scale often become important foci for measurement and focus on social and environmental performance becomes secondary.

Global Impact Investing Network

The Global Impact Investing Network (GIIN) was formed in 2009 to build a strong network of investors and leaders with the intent of scaling up this emerging field. The GIIN has identified four characteristics of the impact investment industry: intentionality, investment with return expectations, range of return expectations and asset classes, and impact measurement. Of these, impact measurement is particularly relevant to this paper.

The GIIN refers to impact measurement as a "hallmark" of the industry, calling attention to the "commitment of the investors to measure and report the social and environmental performance and progress of underlying investments, ensuring transparency and accountability while informing the practice of impact investing and building the field" (GIIN, 2016).

Yet, in spite of this intention, a gap in attention to impact measurement has become increasingly noticeable to observers both inside and outside of the industry. A related article in *The Guardian* criticized the U.K. Department for International Development (DFID) for the lack of impact data generated in partnerships involving private sector market-based organizations (Anderson, 2015). Further, a study of narrative analytics conducted by Monitor 360 (2016) reinforced general satisfaction with the status quo of impact investing–while pointing out that the scarcity of evidence remains a challenge for the industry.

A GIIN report released in August 2016 stressed the value of applying impact data to inform business decisions and investment approaches to maximize both financial and non-financial objectives. The report also encouraged investors to "push the frontier of impact measurement and management practices" (Schiff *et al.,* 2016, pg.3). Similarly, Jim Fruchterman (2016) extolled the importance of social purpose enterprises incorporating a data-driven ethos that moves past financial and output data, in order to support interventions that lead to lasting change.

To move this agenda forward, this paper asserts three propositions that address the impact investment industry's accountability to its commitment to measuring and reporting underlying investments.

1. **Measurement practices (methods, tools, and approaches) need to evolve.**
   Current measurement practices were adequate for early-stage development of this sector, but as market solutions continue to develop and expand, a stronger evidence base will be needed to ensure more accurate accounting of the effects of different investments. Currently, the GIIN's inventory of measures, Impact Reporting and Investment Standards (IRIS), is the most common approach incorporated into impact measurement practices. However, early signs can be seen of the impact investment field incorporating a wider variety of proprietary and customized methodological approaches to respond to the multiple needs and situations that IRIS does not address.

   As the industry is evolving, so is the need to strengthen the impact of impact investing. Industry observers So and Staskevicius (2015, p.57) amplified this concern when they stated: "We believe that informal, inconsistent, and weak impact measurement methods could be

a real constraint to the growth of the impact investing sector and its prospects to create real social change…we also believe that the term 'impact investing' runs the risk of being diluted and used as a marketing tool if a certain level of rigor in impact measurement is not established in the industry." Further, they recommended an integrated model of impact measurement that tracks across the investment life cycle and incorporates approaches such as social return on investment, logic models, impact scorecards, and experimental and quasi-experimental models. Their recommendation, which is shared by others, leads to a logical conclusion that it is time to support a suite of options that are suited to impact measurement for impact investing. Factors that will matter for matching approaches to particular investment strategies include deal size and terms, investment asset classes, sector, region, stage of investment, and maturity of investors.

2. **It is imperative to conceive of new measurement practices that borrow from the strengths of both business metrics and social sector evaluation**.
   Currently, the measurement practices of impact investors and social sector actors operate independently– as two parallel streams with little crossover (Reisman *et al.,* 2015). These separate pathways largely reflect the marked differences in how impact investors and social sector actors operate in general– requiring both sectors to consider the need for new mindsets and practices– or what evaluation field leader Robert Picciotto (2015) has called the "fifth wave of evaluation." As Picciotto describes it, "the evaluation discipline, still wedded to traditional public sector program interventions, has not kept pace with this deep-seated transformation. It has yet to adapt its methods and processes to the dynamic pace of decision making favored by the new [market-based] actors. In particular, it has failed to find cost-effective ways to deliver adequate and timely evidence to decision makers about the likely development impact of interventions." He identifies the salient characteristics of this new measurement wave as "responsive and nimble."

   Opportunities for these sectors to cross-fertilize best practices for impact measurement will need to reflect the distinct incentives and drivers in the financial and market-based context that can position impact investors to make a big dent in social and environmental outcomes. Measurement practices will also need to be contextualized in the decisions about data, including timing, level of rigor, integration into business decisions and transparency, and into impact intent including sector, timeframe, scope, and scale. The development of evaluation expertise, which dates back to the 1950s, will have much to offer the impact investment industry's measurement practices once the barriers that divide these two fields are addressed. This will call for a number of substantial changes: moving toward common language, clarifying definitions of impact, and applying innovative thinking to measurement. The American Evaluation Association (AEA) has taken leadership in bridging these worlds. For example, the AEA's 2016 Impact Convergence Conference, hosted in partnership with Social Value International (SVI), was planned with this end in mind. Similarly, a number of MBA programs, such as those at Harvard, Stanford and Wharton business schools, have featured panels of evaluation experts in their Net Impact Conferences, signaling that the perspective of evaluation is not marginal anymore– it is mainstream.

3. **Impact theses are a foundational element of impact measurement and can apply at both investor and investee levels.**
   Impact theses, also known as theories of change or logic models, map the underlying assumptions about how impact will result from planned interventions. Widely adopted in traditional social sector grantmaking and evaluation practices, impact theses specify the relationships between strategies, outcomes, and impacts. Edward T. Jackson, a pioneer

in evaluation of impact investing, posits that a theory of change increases visibility of the processes of change that maximize results and provide the basis for testing the investment assumptions about intentional impacts. As such, theories of change allow parties to better understand and strengthen the process of change. Jackson laments that investment theses are absent in many parts of this industry. This gap impedes the ability to assess the impact of impact investing. Many impact investors and social enterprises have embraced this challenge and have encouraged others to follow suit. Echoing Green (2013), for example, has created a guide for building a theory of change referred to as the "Impact Blueprint"– one that calls for investors to probe their impact thesis in order to mitigate risk and maximize the likelihood that an investment achieves its social targets.

The Rockefeller Foundation has been taking stock of the need for more robust impact data over several years in a variety of ways and contexts. For example, in 2014 and 2015, the Foundation engaged in a host of activities for improving the evidence base including the following:

- **Conference hosted by Wilton Park with Centre for Development Impact (CDI) July 2015** – the New Frontiers for Evaluation in an Era of Market-Oriented Development Conference convened development actors engaged in social impact work, including impact investors, multilaterals, evaluators, and impact analysts
- **Funded meeting at Social Capital Markets (SOCAP) 2015 Conference** – impact investors and thought leaders gathered to discuss the current state of measurement
- **Funded working papers** – *Streams of Social Impact* (Reisman *et al.*, 2015) and *The Fifth Wave* (Picciotto, 2015); *The Streams* working paper notes that two professions are developing side by side with both concerned with impact measurement yet barely intersecting—missing an opportunity to cross-fertilize and strengthen measurement of outcomes and impacts when market-based players are at the table. The Waves working paper challenges the evaluation community to adapt its methodologies to be nimble and responsive to the changing context of impact work, taking into account the contexts, risks, and intents of impact investments and other market solutions in a new era of addressing global threats
- **Presidential Plenary Panel at AEA 2014 Conference**– featured panelists who elevated the importance of mobilizing the evaluation community to engage in the growing sector of impact investment and market-based solutions.[1]

To build on momentum generated during 2015, the Foundation convened two meetings in 2016 that further tested its assumptions about the need to evolve measurement practices. The first meeting– held in June 2016 to coincide with the Global Enterprise Summit 2016 (GES16)– dove deeply into the risks and barriers that impede measurement. The second meeting, convened at The Rockefeller Foundation in July 2016, brought together a small group of implementers, investors and measurement experts active in developing and testing new methods for impact measurement. The Foundation also organized convenings for SOCAP 2016 and supported the Impact Convergence with a pre-event to the October 2016 American Evaluation Association (AEA) Conference and the conference itself.

Risks and barriers of social impact measurement

The gap between the growth of impact investing and the measurement of impact is rooted in substantial factors that will need to be addressed if progress is to be made. These factors– which were identified through consultation with impact investors– are easily grouped into themes that ring true across the

[1] The proceedings of the panel are available in the American Evaluation Association's Evaluation 2014 Press Kit (2014, pp.5)

TABLE 1: Risks and barriers of social impact measurement[2]

CATEGORY	DESCRIPTION
Defining positive impact	Diverse stakeholders hold diverse definitions of positive impact; some definitions may be competing or conflicting.
Examining complexity of impact measurement	Impact is multidimensional, making standardization of measurement a challenge.
Recognizing mismatch of methods with early-stage business models	Early-stage business models may not lend themselves to measurement, while the fluid and evolving nature of enterprise may necessitate the adoption of numerous and different business models throughout the lifetime of the enterprise.
Perceived value vis-a-vis alignment with investor priorities	Incentives for impact measurement can sometimes be unclear. The value of impact measurement is not consistently understood, including how it can support operations.
Navigating how impact investing fits into the larger landscape	Investors struggle to see how their vision for impact might align with larger existing efforts, such as SDG measures. Current measurement systems exclude B corporations and corporate social responsibility writ large and other classes of companies.
Facing lack of specificity about intentionality	Investors struggle with intentionality of their impact goals, resulting in a weak link between goals and what is measured.
Articulating the value proposition	The value of impact measurement has not yet been clearly articulated and communicated.

impact investment industry (see Table 1). In fact, there are innovative pioneers actively working, pushing the boundaries on existing measurement practices and addressing recognizable risks and barriers. For example, the Lean Methods approach, piloted by the Acumen Fund and its partners, is a practical, low-cost, rapid, and meaningful approach to managing decisions for improving business models and social impact (AEA Webinar, August 2016).

Interestingly, one area that is considered of prime importance to evaluators but was not identified by the impact investors consulted is the need to employ measurement approaches that are responsive to dynamic systems, such as market systems. Evaluators' toolkits have evolved to be able to address externalities, interactions among stakeholders, confounding factors, and the enabling environments in which interventions operate. Recognizing that the impact sought by investors is often multi-dimensional and long-term in nature, a systems approach becomes critical for measuring and evaluating real change.

Considering the breadth of issues that will need to be taken into account in future efforts to raise the bar on impact measurement, this paper now turns to proposed solutions. The following section offers a menu of options for identifying measurement approaches and attempts to create a taxonomy that supports sound measurement practices. The menu of options addresses several of the risks and barriers identified by investors, particularly those related to matching methods to stages of investment and navigating a confusing landscape.

[2] The themes in Table 1 were generated from the discussions held by the impact investors during the pre-GES meeting of impact investing actors in June 2016.

The current landscape: menu of measurement approaches

Menu of measurement approaches

The following menu of measurement approaches is based on a review of existing practices. Contrary to early expectations that the industry would adopt a set of standards that would enable benchmarking across portfolios and funds, the field is experiencing a proliferation of diverse methods, metrics and approaches. Figure 4 illustrates that while some groups have been developing proprietary approaches, nearly just as many are using metrics aligned with IRIS.

As approaches gain traction, clear patterns are emerging. In fact, four clusters have formed; these can be described as a menu of options for impact measurement:

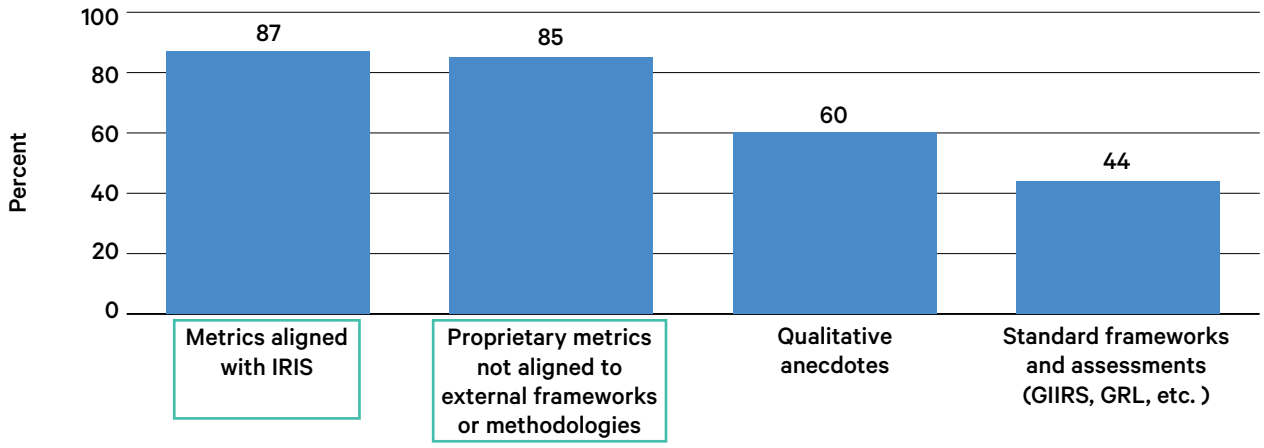
A. Standards
B. Performance Monitoring
C. Rigorous Outcome and Impact Measurement
D. Market Systems Analysis

These clusters have evolved since the 2012 "Accelerating Impact" review which scanned the impact investment industry, and noted that outputs dominated measurement schemes and that the momentum for standardization lent itself to the GIIN and B Lab approaches that offered standardized ratings (Harji and Jackson, 2012). Since that time, a number of fund managers have begun to develop additional approaches that respond to the central question: What has changed in the lives of the individuals, communities, markets, or systems as a result of the social or environmental intervention?

Interestingly, the impact investment community adopted the term "measurement" to encompass what the traditional evaluation sector typically refers to as "monitoring and evaluation." It is not unusual for different fields to adopt different language systems, however, the time is ripe to understand how impact "measurement" corresponds to the terms used in the traditional "monitoring and evaluation" field.

Monitoring is typically employed to track progress toward goals and can involve a range of measures, including inputs, activities, outputs, and short-term outcomes. Monitoring, which is best understood as a management activity, also overlaps with performance management and measurement, which are commonly used in the public and private sectors. Evaluation, in contrast, is a broad field of inquiry, including many schools of practice, and typically addressing outcomes

FIGURE 4: Approaches to impact measurement



Source: Saltu, El Idrissi, Bouri, Mudaliar, & Schiff (2015)

and impacts in addition to processes. The perspective of the end user/beneficiary is a critical aspect of evaluation. Evaluation also pays close attention to contextual and systemic factors that influence change and create unanticipated consequences. Additionally, evaluation practitioners often incorporate a strategic learning lens and synthesize data findings into insights that can guide actions and decisions.

The authors regard two of the options (standards and performance monitoring) as leaning toward a monitoring frame while the second two options (rigorous outcome and impact measurement, and market systems analysis) are more characteristic of an evaluation frame.

Menu Option A: Standards

The use of standards, including rating systems and negative and positive screens, has been the most prevalent approach to measuring impact among impact investors. These standards include:

- IRIS inventory of metrics developed by GIIN
- Global Impact Investment Rating System (GIIRS) as applied by B Analytics
- Environmental, social and governance measures (ESG) which are commonly used to rate public companies
- Global Reporting Initiative (GRI) which is commonly used by corporations to report on their sustainability performance.

As mentioned earlier in this paper, IRIS metrics were developed with the purpose of creating a unified way to demonstrate and compare impact at a time when the field was newly emerging. In a 2012 study of 99 impact investors surveyed by J.P. Morgan and GIIN, a large majority (70 percent) believed that having standardized impact metrics is "important" or "very important" in furthering the field of impact investment. Furthermore, more than half (52 percent) indicated that they used metrics that aligned with IRIS (Saltuk *et al.,* 2013), and these findings remained steady across many surveys. While there are many different sets of standards, this section looks closely at IRIS for purposes of illustration.

WHAT IS IRIS?

IRIS is a set of hundreds of publicly available standardized performance metrics that cover the social, environmental, and financial performance of companies, organizations, or funds. Along with other standards, IRIS often appeals to investors because it offers the opportunity to standardize definitions and metrics. IRIS is the underlying set of metrics used in GIIRS, which rates funds or companies on their social purpose against their own impact criteria (B Analytics, 2016).

One of the key appeals of IRIS– its standardized metrics inventory– also has a flip side. Some organizations, among them social enterprises, have expressed concern that this standardization can constrain a bottom-up approach (Reeder and Colantonio, 2013). Rather than view this concern as a conflict, some observers have urged the field to develop measurement systems that employ both top-down and bottom-up approaches, where sector experts agree upon standards and social enterprises self-define impact and measurements – with the expectation that broader sector norms will ultimately materialize (Greene, 2015; Social Impact Investment Taskforce, 2014).

According to Kelly McCarthy, Senior Manager of IRIS and Impact Measurement at GIIN, the fourth iteration of IRIS, released in 2016, incorporates changes based on market feedback (Field, 2016). This integration of practitioner insight into standardization of metrics is exactly the kind of top/bottom approach that the evolving field requires. Additionally, the ability to self-select the most relevant metrics enables investors and enterprises to tailor their assessments in a manner that is consistent with a bottom-up approach.

IRIS and other metrics that provide a set of standard measures also allow for consideration of net impact. The field of impact investment commonly recognizes the concept of negative screening, whereby investors eliminate enterprises from consideration, based on their subjective values around social impact (Greene, 2015; Brest and Born, 2013; Reeder and Colantonio, 2013). Less frequently acknowledged is the consideration of

net impact, which considers both enterprise benefit and harm (Brest and Born, 2013).

While the concept of negative screening, such as filtering out tobacco enterprises, seems fairly obvious to impact investors, some unintended and negative impacts may escape investor assessment (Greene, 2015). IRIS wisely includes metrics relevant to harmful impact, such as greenhouse gas emissions and waste production. The inclusion of such metrics makes a more holistic– and honest– assessment of enterprises possible and is characteristic of the approach typically taken in the social sector when they take into account unintended negative consequences of interventions.

IRIS CHALLENGES

The field of social impact measurement differentiates between outputs and outcomes. Outputs represent the level of activity and outcomes represent the changes that occur as a result of activity. Ultimately, outputs function as necessary but not sufficient factors in social impact (Fruchterman, 2016). Further, the field distinguishes between short-term outcomes, medium-term outcomes, and long-term impact, taking the long view that social change may require decades to achieve and measure. While IRIS lays an important foundation for assessing outcomes, other method options extend measurement practice beyond these standardized metrics.

Differentiating metrics across different sectors is another challenge that impact investing commonly addresses. The GIIN is currently engaged in developing a deeper set of standard measures that is tailored to particular industries, with initial reports provided in the fields of clean energy (Spector *et al.,* 2016) and health care (GIIN, forthcoming).

The GIIN is also actively engaged with supporting the use of metrics beyond a narrow accountability purpose to include using data to guide operations. For example, it has been developing additional IRIS metrics that will provide useful data for strengthening operational decisions to improve impact performance and drive business value (Schiff *et al.,* 2016).

Case Illustration: Using IRIS to communicate social performance[3]

The Triodos Sustainable Trade Fund (TSTF), founded in 2009, invests in improving the lives of famers and stimulating sustainable agriculture through organic agriculture and fair trade. TSTF saw many benefits to using IRIS to communicate its social performance, including:

- Streamlining data collection and reporting activities for its investing organizations, many of which had other investors requiring IRIS use
- Reinforcing the objectivity of the measures reported because they are developed by an independent third-party network organization
- Committing to transparency and accountability through regular reporting of metrics
- Uniformity of reporting across many trade finance investments afforded by selecting a range of metrics that were broadly applicable
- Developing the ability to track changes at the individual level (farmers) as well as changes in practices that promote sustainable agriculture
- Promoting investor satisfaction in the reporting of a concise list of measures
- Ensuring flexibility to make trade-offs between the time and resources involved in data collection weighed against the relevance of the data for effective management decisions.

[3] This case illustration is based on impact reports from the GIIN in collaboration with TSTF and KL Felicitas Foundation (IRIS, 2012).

Additionally, a number of TSTF's investors expected the fund to align with the United Nations' Millennium Development Goals (MDGs) – since replaced by the SDGs. Several IRIS measures aligned directly with the MDGs.

As this example illustrates, the selected measures would yield valuable data that could serve as a dashboard for assessing performance and informing management decisions. The frequency of data collection is at the discretion of the fund that tracks these data. The standardization will allow for comparisons, for example across portfolios, regions and time.

It should be noted that these data are primarily output-focused, relying on quantity or reach to determine impact and for the demographics of suppliers serves as a proxy for inclusion. More in-depth information, particularly of an outcome nature that reflects changes in lives or practices, would provide a clearer picture about additionality and more substantive changes in conditions and well-being.

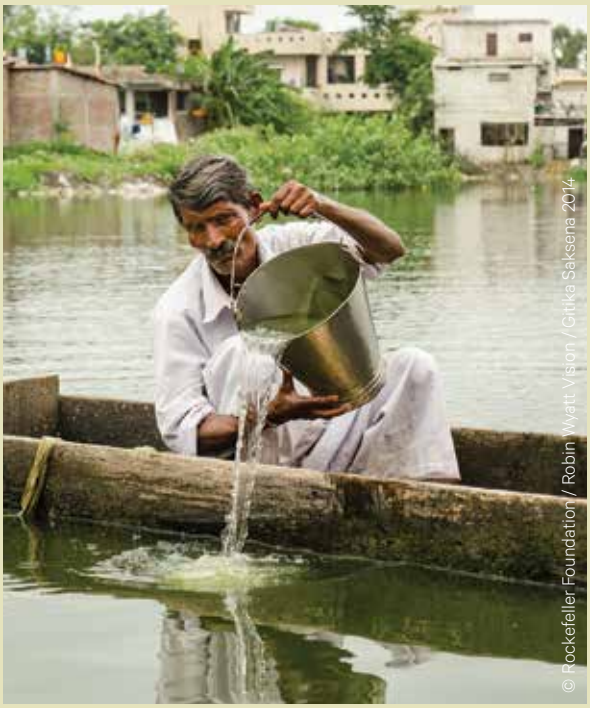

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TABLE 2: IRIS categories and UN MDGs

The items denoted with asterisks indicate proprietary measures and their associated MDGs.

IRIS CATEGORIES			UN MDGS
Product description	Product information	Unit of measure	Metric tonnes
	Product service type	Product service type	Agriculture
Operational impact	Environmental performance	Cultivated land area	No. of hectares
		Sustainable cultivated land	No. of hectares
	Employees	Permanent employees	No. of people
Product impact	Quantity and reach	Units/volume exported: total	No. of metric tonnes
		Units/volume exported: fair trade & organic*	No. of metric tonnes
	Units/malaria medicine equivalents*		No. of treatments
	Supplier information	Supplier individuals: total	No. of people
		Supplier individuals: female	No. of people
		Supplier individuals: rural	No. of people
		Supplier individuals: smallholder	No. of people

Menu Option B: Performance Monitoring

Performance monitoring is a term for regularly collecting data on key indicators to assess social performance. Many forms of data fit under this description, including financial data, activity and output data, and outcomes. Popular in both business and government contexts, the essence of performance monitoring is to track progress and make judgments about whether the interventions, investments, companies, portfolios, or any other units of focus are performing as intended. Targets are often associated with performance monitoring, as are benchmarks which provide comparisons over time or to other organizations or settings.

Performance monitoring also provides data that can be used in managing operations, programs, initiatives, and strategic decisions. While performance monitoring sounds like an accountability process, it is equally applicable for supporting learning that can inform decisions and actions. For example, Bridges Ventures, which focus on health and well-being, tracks patient feedback as well as family members served by enterprises providing care to disabled, elderly, and

Case Illustration: Acumen Fund's Lean Data approach

The Acumen Fund has been piloting an innovative method for collecting and using data to strengthen their intended impacts. Designated as "Lean Data projects," this method has many appealing features that address some concerns in the impact investment field (Acumen, 2016):

- Moving beyond outputs to outcomes
- Low-cost data collection technology
- Systematic data collections at the household level– "customer first"
- Brevity
- Relevant data for performance management– "data to make decisions."

How do Lean Data projects work?

Acumen has piloted its Lean Data approach with over 30 companies in six geographies. The approach is based on engaging interviewers who reach customers/households with a mobile phone survey consisting of a set of questions that typically take only seven minutes to administer. Its first year of data collection involved 12 Lean Data projects, each of which lasted for six weeks with a cost of $25,000. As Acumen improved upon its methodology, it reduced the cost to $10,000 to 15,000 per company over a period of eight weeks. Acquired data provides a clear picture of how many poor people they are reaching using Grameen's "Progress Out of Poverty" survey questions and the conservative income threshold of less than $2.50 per day. Its data also provide information about outcomes, for instance, kerosene reduction at the household level and additional light-per-night at the household level in the case of a solar energy company. Interestingly, an open-ended question used in the pilot revealed a significant percentage of people who experienced service issues. Data such as this offer a company rapid feedback that can be used to learn about service issues and to correct course if needed.

Acumen has also used its performance monitoring system to examine breadth of impact by comparing sectors of its investments to learn where its companies are most likely to be providing services and products that affect poor people. Its data have shown that it is most likely to reach the poor through its agriculture sector investments, compared to other sectors.

Acumen's Lean Method pilot also allowed it to examine *depth* of impact by learning directly from customers how much they perceived that "there have been changes in my (life/home) because of (product/service)." This assessment can be done at the individual company level.

vulnerable populations. By including patients' relatives in their measurement approach, they are building a more complete picture of the effectiveness of their services to the populations they serve. Their impact thesis speculates that both patients and their relatives will experience better health if the patients receive high-quality care. Their measurement system reflects this thesis (Schiff *et al.,* 2016).

Performance monitoring is by nature broad and does not indicate any specific methodology. The data can be generated top-down or bottom-up. The data tend to be quantitative in order to allow for comparative progress assessments, but may be supplemented with qualitative data. Due to its lack of specificity about methods and areas of focus, e.g. outputs or outcomes, this paper distinguishes it from the Menu Option C– rigorous outcome and impact studies– introduced below.

Second to reporting on standards, performance monitoring is likely to be the most common method adopted in the impact investing industry. It is completely aligned with standards as well. The differentiator is that the performance monitoring system itself moves the data into a more central place in the managing of investments and the learning cycle. It often uses the standards as the data input of the performance management system, although a performance monitoring system can develop its own measures that are more directly tied to the area of underlying impact thesis.

Menu Option C: Rigorous Outcome and Impact Evaluation

Although the impact investment and evaluation communities have not interacted much in the past (Reisman *et al*., 2015), numerous efforts are promoting a convergence of these professional communities.

Evaluation is underpinned by the transdisciplinary social sciences. Evaluation has always been an applied field, serving the public, nonprofit, and philanthropy sectors' needs to assess the effectiveness of various social and environmental interventions. Both the impact measurement and evaluation professions share a goal of assessing social and/or environmental impact, and both typically rely on proxy measures that represent the short, intermediate, and longer-term outcomes that contribute to impact. In many instances, evaluators measure contribution to impact more often than they measure attribution, due to practical and ethical constraints of using methods that would enable more robust inferences of causation, such as randomized control trials. Because many evaluators depend on robust data collection processes, evaluation methods more typically can offer more rigor through established protocols about systematic processes for collecting and analyzing both qualitative and quantitative data.

The range of evaluative techniques is broad and similar to techniques employed by performance monitoring, such as surveys, interviews, and secondary data analysis. The starkest differences would likely revolve around:

- Conventions constructed to enhance validity and reliability of the data collection instruments and protocols throughout implementation
- Strong expectations for articulating a theory of change, which is likened to an impact thesis as it describes the causal linkages between selected strategies, outputs, near-term outcomes, longer-term outcomes, and ultimate impact
- Protocols around data analysis, which distinguish between exploratory analyses that describe findings, and hypothesis-testing approaches that use inference and analyses to reach judgments and confirm whether differences in observed data patterns are real or not (i.e. based on chance alone)
- Utilization–focus of evaluation data to inform policy and programmatic decisions-across the lifetime of an investment.
- Emphasis on participatory methods including the voice of the beneficiary

Nonetheless, the worlds of impact measurement and evaluation are coming closer together as the impact investment industry has been actively constructing new methodologies– both of a monitoring nature and evaluation nature– to test impact theses.

Case Illustration: Moving beyond job creation

Pacific Community Ventures (PCV) has been developing a methodology for addressing stagnant wages and a troubling decades-long trend of stagnation and decline in the United States. As a Community Development Financial Institution (CDFI), it has a mission to invest in and create jobs in underserved communities. In this role, it set out to achieve three goals: build consensus among CDFIs of what constitutes a quality job, undertake practical efforts to foster the creation of new jobs, and measure results to understand what works (Woelfel and Brett, 2016).

PCV developed its methodology by combining secondary and primary data sources. It conducted an extensive review of the literature on job quality, including academic literature and professional reports. It also reviewed various measurement approaches published in social impact reports, metrics used by standard-setting organizations, and other relevant resources. This literature review was accompanied by in-depth interviews with a purposeful sample of experts from a wide range of organizations, including foundations, CDFIs, fund managers, researchers, and impact investing intermediaries.

Its background research was used to develop a standardized evaluation approach that is based on operationalizing key components of job quality and standard protocols for data collection and analysis.

Some of the key elements of its approach included:

- Select questions from each of the five core components that define a quality job: a living wage, basic benefits, career-building opportunity, wealth-building opportunity, and a fair and engaging workplace
- Develop surveys that can be administered to borrowers (company/investee level) annually by their loan underwriters
- Develop scoring criteria for quantitatively assessing borrowers' responses to survey questions, using the company level as the unit of analysis
- Analyze data annually to measure the amount of jobs that meet a baseline as well as the number of businesses that embody high performance (e.g. four or five quality job characteristics)
- Use the data to identify trends in the quality of jobs provided by the companies supported by the CDFI as well as to work with the companies to improve job quality.

Menu Option D: Market Systems

The fourth menu option is a suite of methods that addresses systemic impact. According to Will Morgan of Sonen Capital (SOCAP, 2016), impact creation can be categorized as either systemic change or incremental change. Morgan defines systemic change as "policies or activities implemented at scale and that influence long-term outcomes." In contrast, he describes incremental change as "unit or step-wise activities"– those services, technologies, and practices that are more near-term and operate at smaller relative scale. For example, an incremental change related to sustainability would be increased use of recycled and repurposed materials. A systemic change would be protection of land and water resources from the pressure of population growth and urbanization. Impact investing in its current incarnation focuses far more on incremental change than on systemic change. However, there is notable movement in this direction as the number of actors involved in impact investing is expanding and the field is becoming more broadly defined to include the actions of public equity investors, public and private partnerships, and other market solutions.

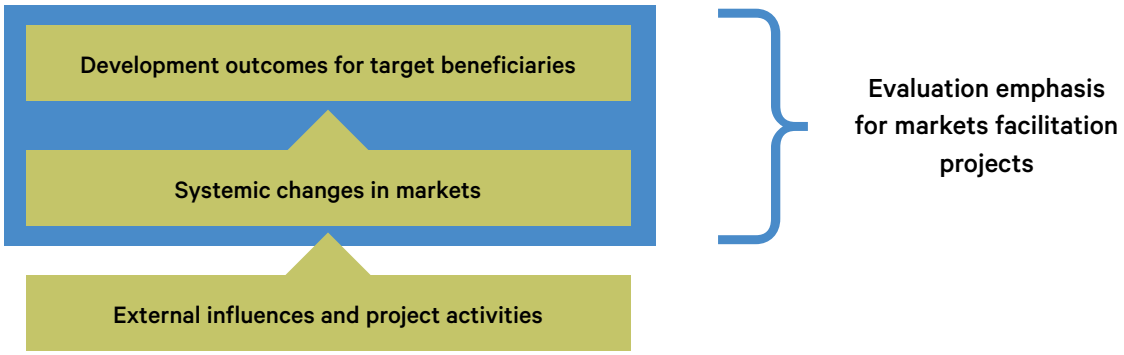
From a systems perspective, impact investing is directly associated with market systems. The Donor Committee for Enterprise Development (DCED), which aims to leverage private sector development to create economic opportunities and jobs for the poor, identifies three functions of systems that merit focus (Kessler, 2014):

- Providing core functions of exchange
- Supporting services such as finance and information
- Establishing rules that govern how the other functions operate.

Impact measurement of market systems changes typically requires more robust measurement strategies because systemic factors are often less tangible and more complex to measure. Mixed methods approaches, which use both qualitative and quantitative data collection approaches, are most appropriate (Fowler and Dunn, 2014). According to a report commissioned by the Beam Exchange, which supports the development of market systems, the characteristics of market systems, particularly their context-specific nature and focus on advocacy and policy change, make them less suitable for experimental and quasi-experimental methods (Humphrey, 2014).

When it comes to measuring market systems, an impact thesis, or theory of change, becomes essential, because the selection of measures is based upon an understanding that an interconnected chain of outcomes can ultimately have an impact on the lives of the poor or other intended beneficiary groups. The Leveraging Economic Opportunities (LEO) project, funded by the United States Agency for International Development (USAID), focuses on developing an

FIGURE 5: Dual emphasis in evaluating market systems facilitation



Source: Fowler & Dunn (2014)

evaluation framework that addresses market systems development and identifying and monitoring systemic change. The project specifies a change that situates market system changes between the project activity, business service, or product on the one hand and the outcome for the target beneficiary on the other hand (Figure 4). Such thinking is grounded in a systems mindset that suggests that a durable and sizable chain requires more than a direct intervention approach. The policies, practices, norms, networks, access to markets, availability of markets, and other systemic factors are essential to effecting change, and inattention to these factors will only create impacts that are temporary or nominal (Reisman *et al.,* 2015).

Case Illustration: Measurement of market systems using the DCED indicators

Indicators for measurement look strikingly different in a market systems approach compared with other impact investment strategies, because they take a wider focus on the indicators for measurement. They also incorporate the elements that characterize a system in addition to direct changes in the customer or household. DCED offers guidance about the areas for defining indicators in the list that follows:

"The DCED's guidance on a systemic change (Kessler and Sen, 2013) outlines five aspects of systemic change.

- **Crowding in:** The program helps targeted enterprises provide a new service by supplying training or improving the market environment. Other enterprises see that this service can be profitable, and start supplying it as well. For example, a program helps agricultural suppliers start up pesticide spraying services. Other agricultural input suppliers, who did not receive any direct input from the program, may then start up a similar pesticide spraying service.
- **Copying:** The program improves the practices of targeted enterprises, to improve the quality or efficiency of production. Other entrepreneurs can see the positive impact of these new practices, and adopt them in their own business. For example, a shoe-making entrepreneur who sees that his rival has improved the quality of his shoes copies the quality improvements and so also gets higher prices for his goods.
- **Sector growth:** Program activities cause the targeted sectors to grow. Consequently, existing enterprises expand their businesses and new entrants come into the market.
- **Backward and forward linkages:** Changes in the market can trigger changes at other points along the value chain. For example, a program increases the amount of maize cultivated. This benefits not just farmers, but others in the value chain, such as truck drivers who transport maize. They receive more business as there is a greater volume of maize to transport.
- **Other indirect impact:** As a result of program activities, other indirect impacts may occur in completely different sectors. For example, if a program increases the income of pig producers, they may spend more on consumer goods, benefiting shops in the local area.

Of the five aspects of systemic change, the first two (crowding in and copying) represent imitation and replication of business models, technologies and behaviors by other market actors. The last three indicators describe second-order or multiplier effects that are created by the first two. These last three aspects of systemic change– sector growth, backward and forward linkages, and other impacts– are different from the first two" (Fowler & Dunn, 2014).

Case Illustration: Tetra Tech ARD in Uganda Measures Network Development[4]

As part of USAID's Feed the Future Agricultural Inputs Activity, Tetra Tech ARD is contracted to promote the development of the agro-inputs industry in Uganda. One element of this work relates to the sector growth indicator area DCED identified by increasing transactional relationships among agro-input suppliers, wholesalers, and retailers. It set up a "network and noise" team to conduct activities that would support network development. [5]

In order to evaluate this sectoral growth, Tetra Tech ARD collected data from 200 wholesalers through in-person visits to 21 districts in Uganda– mostly where field staff members were active, although four districts were beyond the area of activity. The data collectors asked many questions about the strength of the wholesalers' relationships with various suppliers, perception of suppliers' expertise about business products and operations, and business interactions with wholesale customers. These questions yielded data that could be analyzed in network maps and could provide the basis for determining the extent to which networks were developing. The analysis demonstrated the development of over 2,000 connections among a universe of 800 agro-input suppliers, wholesalers, and retailers.

A second step of the data collection involved analysis of the interviews, which probed for quality of relationships between wholesalers and retailers and the wholesalers and their suppliers. The interview questions were rooted in the context of concrete experiences shared by the respondents. A proprietary software application called Sensemaker analyzed shifts in these relationships, providing another source of evidence for assessing the sector growth.

The authors of the case illustration described their plans to collect further data using surveys gathered through mobile technology that would support triangulation of the varied sources of evidence.

[4] This case illustration is based on reports of the USAID/Uganda Feed the Future Agriculture Inputs Activity (Tetra Tech ARD, 2013).

[5] Note that this illustration is actually a contractual arrangement and not an impact investment. It is included as an illustration, nonetheless, because it could conceivably be shaped into an investment opportunity and it illustrates a market systems approach to measurement.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Conclusion

In taking stock of the landscape, this paper promotes a convergence of methods, building from both the impact investment and evaluation fields. The commitment of impact investors to strengthen the process of generating evidence for their social returns alongside the evidence for financial returns is a veritable game changer. But social change is a complex business and good intentions do not necessarily translate into verifiable impact.

The commitment of impact investors to strengthen evidence for their social returns alongside the evidence for financial returns is a veritable game changer. But social change is a complex business and good intentions do not necessarily translate into verifiable impact.

As the public sector, bilaterals, and multilaterals increasingly partner with impact investors in achieving collective impact goals, the need for strong evidence about impact becomes even more compelling. The time has come to develop new mindsets and approaches that can be widely shared and employed in ways that will advance the frontier for impact measurement and evaluation of impact investing. Each of the menu options presented in this paper can contribute to building evidence about impact. The next generation of measurement will be stronger if the full range of options comes into play and the more evaluative approaches become commonplace as means for developing evidence and testing assumptions about the processes of change from a stakeholder perspective– with a view toward context and systems.

Creating and sharing evidence about impact is a key lever for contributing to greater impact, demonstrating additionality, and for building confidence among potential investors, partners and observers in this emergent industry on its path to maturation. Further, the range of measurement options offers opportunities to choose appropriate approaches that will allow data to contribute to impact management– to improve on the business model of ventures and to improve services and systems that improve conditions for people and households living in poverty.

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The authors

Jane Reisman

Social Impact Advisor,
Founder and Senior Advisor, ORS Impact

Jane Reisman, Ph.D., advises on social impact by drawing on three decades of leadership at the intersection of strategy and evaluation. She also continues to affiliate with ORS Impact, the strategy and evaluation firm she founded in 1989 and led for more than 25 years. Under her leadership, ORS Impact engaged with many of the world's leading organizations in the social and environmental impact arenas and created a set of innovative field resources related to measurement, learning, evaluation, and strategic planning that propel social-change agents onto faster and smarter paths to success.

Jane has engaged in field building activities in a number of areas, including: (1) influencing the outcome measurement movement spearheaded by United Way of America; (2) advancing results-based budgeting and management for the United Nations; (3) developing Annie E. Casey Foundation's leading-edge evaluation approaches to policy change and advocacy; (4) designing MLE plans emphasizing learning and accountability with national and global foundations, notably the Bill & Melinda Gates Foundation; (5) bridging the gap in approaches to measurement and evaluation of outcomes and impacts between the impact investing industry and the traditional social sector and currently serves as an advisor to the Rockefeller Foundation's work in this area.

Veronica Olazabal

Senior Associate Director,
Evaluation, The Rockefeller Foundation

Veronica Olazabal joined the Rockefeller Foundation in 2015. As Senior Associate Director, Evaluation, Ms. Olazabal works to develop and manage the Foundation-wide evaluation function at the strategy, initiative, and grant portfolio levels, including assessment of the impact of the Foundation's work.

Ms. Olazabal comes to the Foundation with more than 15 years of program and research management experience. Her professional portfolio spans four continents and includes working with the MasterCard and Rockefeller Foundations' international programs on topics ranging from financial inclusion through to climate change and global health. A strong believer in the systematic role evaluation can play in addressing global poverty, Ms. Olazabal has co-chaired InterAction's Working Group for Evaluation and Program Effectiveness and acted as the North American representative for the ACT Alliance at the United Nations Fourth High Level Forum on Development Effectiveness.

Ms. Olazabal holds a B.A. in Communications and a master's degree in Urban Policy and Planning with an applied agriculture economics focus from Rutgers University. She is also the recipient of the 2014 American Evaluation Association's (AEA) Alva and Gunnar Myrdal Evaluation Practice Award, presented to an evaluator who exemplifies outstanding evaluation practice and who has made substantial cumulative contributions to the field of evaluation.

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