EUROPEAN VENTURE PHILANTHROPY ASSOCIATION

IMPACT MEASUREMENT IN PRACTICE

In-depth case studies

EUROPEAN VENTURE PHILANTHROPY ASSOCIATION | JANUARY 2016

Published by the European Venture Philanthropy Association

This edition January 2016

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Design and typesetting: Pitch Black Graphic Design The Hague/Berlin

ISBN 9789082494013

This publication is supported under the EU Programme for Employment and Social Innovation – EaSI.

For more information see: http://ec.europa.eu/social/main.jsp?catId=1081

With the financial support of the European Commission.

IMPACT MEASUREMENT IN PRACTICE

In-depth case studies

EVPA is grateful to **Fondazione CRT** for the support of its Knowledge Centre

EVPA is grateful to **Acanthus Advisers**, **BMW Foundation** and **Omidyar Network** for their structural support

The EVPA in-depth case studies on impact measurement are kindly supported by **Argidius**

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JANUARY 2016

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Acknowledgements

We are grateful to Elodie Nocquet and Pierrick Baraton from Investisseurs et Partenaires and Annica Johansson and Marlene Claesson from Reach for Change for their precious contribution in shaping these case studies.

We would also like to thank the expert group members that participated in the development of the EVPA guide on impact measurement[1], the members of the GECES sub-group on social impact measurement[2], as well as Anna-Marie Harling for her work on both the EVPA guide and the paper[3] for the European Impact Investing Luxembourg Initiative (EIIL)[4], and Jim Clifford for his leadership of the GECES sub-group and of the Luxembourg paper.

Disclaimer

The two case studies presented in this report feature organisations that are continuously working on impact measurement. As a result, both cases are evolving organisations and thus the IM systems are continuously improving.

1 **Hehenberger, L., Harling, A-M.** and **Scholten, P.,** (2015)."*A Practical Guide to Measuring and Managing Impact – Second Edition*". EVPA.

2 http://ec.europa.eu/growth/sectors/social-economy/enterprises/expert-groups/index_en.htm

3 **Clifford, J., Hehenberger, L., Fletcher, L.** and **Harling, A.-M.,** (2015). "*European Impact Investing Luxembourg: Social Impact Measurement in the framework of a Société d'Impact Sociétal*". BWB Impact.

4 http://www.impact-investing.eu/who-we-are

Case 1 –
Impact Measurement at Investisseurs & Partenaires

"Impact measurement is not about feeling good about what you did, it's about learning on yourself and leaving things behind that others can reuse and scale."

Jean-Michel Severino, I&P's CEO

CASE 1 – IMPACT MEASUREMENT AT INVESTISSEURS & PARTENAIRES

Background on Investisseurs & Partenaires[39]

History and Organisation

I&P was created in 2002 by Patrice Hoppenot, co-founder of BC Partners and expert in private equity issues. In 2011, Jean-Michel Severino, previously CEO of l'Agence Française de Développement (2001-2010) and Vice-President of the World Bank for Asia (1996-2000), took over the management of the VPO. Based in Paris, I&P currently employs about 20 people and has six African local offices (Burkina Faso, Cameroon, Ivory Coast, Ghana, Madagascar, Senegal).

I&P manages three impact funds covering financing needs ranging from €300,000 to €1.5 million through:

- The financial company I&P Développement (IPDEV), that includes the funds IPDEV 1 and IPDEV 2.
- The investment fund I&P Afrique Entrepreneurs (IPAE), managed by I&P Gestion

I&P Développement	**IPDEV 1** • Fund size: €11 millions • Portfolio: 33 companies, incl. 10 exits • Investment range: between €50k and €650k	**IPDEV 2** • Fund size (target): €20 millions • 10 funds in 10 African countries in ten years • 3 operational funds: Sinergi Niger, Sinergi Burkina, Teranga Capital
I&P Afrique Entrepreneurs	**IPAE** • Fund size: €54 millions • Portfolio: 40 expected, 20 to date • Investment range: between €300k and €1.5M	

Figure 6:
The structure of I&P

Source: I&P

I&P Développement targets small and fast growing African enterprises (including start-ups), with high social and/or environmental impact. IPDEV 1 is now in the process of divesting its portfolio and has achieved 10 exits since 2012, with a gross IRR of 15% on average.

Drawing lessons from its 13-year old experience, I&P conceived the project IPDEV 2 as an incubator and sponsor of African investment funds. These national funds will be able to efficiently and sustainably support start-ups and very small enterprises, with financing needs comprised between €30,000 and €300,000. IPDEV 2 aims to incubate ten investment funds in ten African countries within the next decade, in order to support 550 early-stage entrepreneurs and contribute to creating 15,000 jobs.

39 Source: http://www.ietp.com/about-us/#organisation, "*I&P Afrique Entrepreneurs – Annual ESG and impact reporting – I&P Gestion-31 March 2014*" and interview with **Elodie Nocquet**, Financial and ESG Officer, and **Pierrick Baraton**, Impact Assessment Officer, on March 6 2015.

CASE 1 – IMPACT MEASUREMENT AT INVESTISSEURS & PARTENAIRES

Ten years after IPDEV 1, I&P launched the fund I&P Afrique Entrepreneurs to respond to the financing needs of slightly larger SMEs, comprised between €300,000 and 1.5 million. IPAE currently counts 20 companies in its portfolio and follows a fast investment pace, and plans to add about twenty new investments to its portfolio by 2017.

Target areas

With 75 million euros under management, since its inception I&P has supported about 60 small and medium enterprises in 15 African countries. This support has generated the creation or maintenance of more than 2,600 jobs, as well as annual growth rates of 24% in the investee companies.

So far, I&P has invested mainly in agribusiness (15%), microfinance (25%), building materials & construction (15%), health sector (20%), equipment (10%) and various services (15%).

Investors

I&P is funded by three main groups of investors:

1. *Institutional (Development Finance Institutions – DFIs*). These investors focus on technical issues and on achieving a moderate financial return.
2. *Foundations, family offices and high net worth individuals (HNWI).* These investors focus on mission and values. Several of them provide time and non-financial support.
3. *Large corporations*. Industrial partners provide the connections, the market understanding and the technical support needed in the business world for the SMEs I&P supports.

In particular, *impact measurement* is co-financed by two investors, the European Investment Bank[40] and Proparco[41] (which provides a technical assistance budget to finance the impact case studies conducted to verify and value impact, as further explained in Step 4).

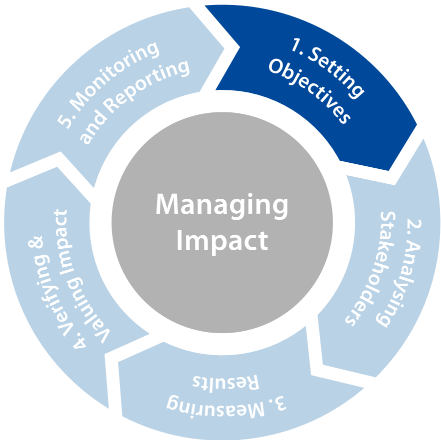
In what follows we will look into the five steps of impact measurement at I&P, following EVPA's five step process.

40 http://www.eib.org/
41 http://www.proparco.fr/site/proparco/Accueil_PROPARCO

CASE 1 – IMPACT MEASUREMENT AT INVESTISSEURS & PARTENAIRES

STEP 1 – Setting Objectives

I&P's vision, mission and impact objectives



- The **development challenges** the VPO and the SPO address
- How challenges are addressed

How is it done at I&P?

- 4 impact objectives + ESG
- Objectives are set top-down and go hand-in-hand with the stake-holder identification
- Raise interest in IM among SMEs in Africa
- Alignment on ESG used to screen potential deals

Figure 7:
Step 1 – Setting Objectives at I&P

Source: EVPA elaboration of I&P material

I&P works *exclusively with start-ups and SMEs based in Sub-Saharan Africa and in the Indian Ocean*, with the strong conviction that these enterprises (owned by African entrepreneurs) actively contribute to a sustainable and inclusive growth in the African continent. This conviction is based on the acknowledgement that these SMEs:

- Create sustainable employment, for both qualified and unqualified workers
- Develop market-based solutions and improve access to essential goods and services
- Lead to high productivity gains
- Contribute to political stability and social redistribution of wealth

Despite their crucial role for development, *African SMEs often lack access to long-term finance*. In most African countries, existing financial institutions are not tooled to address SMEs' long-term investment needs. The microfinance sector is growing fast in Africa, but its streamlined procedures are not adapted to SMEs that need larger and longer investments. As for commercial banks, SMEs remain very far from their typical clientele considering their small funding needs.

Additionally, there is a *significant lack of formal SMEs in Sub-Saharan Africa*, which is commonly referred to as "the missing middle" phenomenon.

CASE 1 – IMPACT MEASUREMENT AT INVESTISSEURS & PARTENAIRES

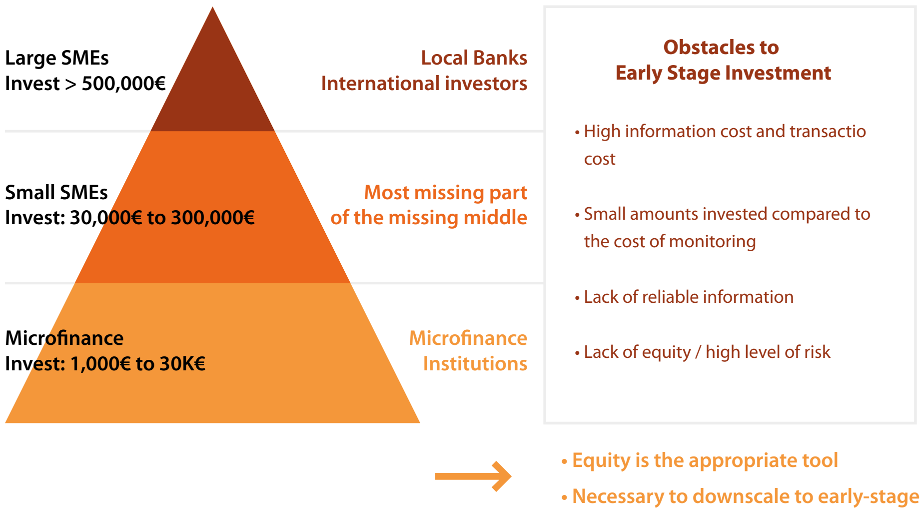


Figure 8:
The issue of financing the missing middle in Africa

Source: I&P

In light of the needs of the African SME sector, since it started its activities Investisseurs & Partenaires has aimed to support African entrepreneurs, enabling them to build profitable and sustainable activities with high local added value and strong local impacts through a specific VP approach combining financial tools and strategic/operational support.

I&P's **vision** is that the development of profitable and responsible SMEs will contribute to a socially and environmentally sustainable growth in Africa, as these key actors create jobs, value add and also generate positive social, environmental and governance impacts.

The **mission** of I&P is to contribute to the development of a sustainable private sector in Africa by promoting a new generation of African entrepreneurs through a trust-based relationship on financial, strategic and operational levels on one hand, environmental, social and governance levels on the other hand.

I&P has two main **objectives**. The first one is to create and manage financial instruments demonstrating profitability. By means of the new fund – IPDEV 2 – I&P wants to demonstrate that investing in SMEs in Africa can be profitable. Being funded by local investment vehicles is not a common practice in Africa, thus I&P wants to invest in developing this practice, while guaranteeing that both impact can be reached and profitability can be generated.

The second objective of I&P is **to generate measurable impact** on local development by addressing the following four developmental challenges:

1. Develop sustainable entrepreneurship in local SMEs
2. Create decent jobs and training opportunities
3. Meet unsatisfied demand for goods and services
4. Create business for local suppliers and distributors

CASE 1 – IMPACT MEASUREMENT AT INVESTISSEURS & PARTENAIRES

The four developmental challenges constitute I&P's impact objectives and are defined top-down for all the SMEs supported. They are used in Step 3 to define the indicators that I&P uses to measure the impact **of each SME supported**.

In the early years of its existence, I&P had only one goal: go where other investors did not go and demonstrate that investing in SMEs in Africa could be financially sustainable. I&P's business model was still experimental at that stage and the organisation felt it did not need a formalised approach to impact measurement. Everyone was convinced that investing in African SMEs was the way to go and the initial investors, very close to I&P's project and team, felt the impact was being created –so they did not need figures. As Elodie Nocquet, I&P's Head of ESG & Impact, puts it "Through our work in the field, we were so sure we were having an impact we thought we didn't need a customised approach or figures". I&P investors believed that the impact strategy was embedded in the nature of their work, because they were favouring SMEs that had a local impact. Therefore they did not need to have any figure or number: investing in SMEs in the least developed countries of Africa was already proving to them they were achieving impact.

It was only at a later stage of I&P's development that a decision was taken to work deeper on measuring the impact that was being generated. Thus I&P started working on specific objectives and realised that thanks to the definition of clear objectives and indicators their work could be better monitored and improved. The impact strategy was so well structured that I&P even went beyond the expectation of its investors.

Environmental, Social and Governance approach

On the side of its impact goals, I&P has a structured approach towards the Environmental, Social and Governance (ESG) practices of the SMEs supported, as a means to achieve the developmental challenges that constitute the final objectives of I&P at **portfolio level**.

The ESG practices are implemented at two levels:
- SME level
- Portfolio level

At the SME level, when reviewing an investment project, the investment team draws up a complete report of the company's ESG practices. This report includes an assessment of social practices such as remuneration and employment contract practices, working and safety conditions at the company, and, where applicable, at its suppliers, as well as an assessment of environmental practices (systems for processing effluent and waste for example) and governance practices (integrity and structuration of the governance).

In addition to this company-by-company approach, I&P has implemented an ESG strategy at the portfolio level.

CASE 1 – IMPACT MEASUREMENT AT INVESTISSEURS & PARTENAIRES

The process to select which ESG goals to focus on started in 2012, and involved mainly the investment fund IPAE. The introduction of ESG metrics allowed for a more systematic approach to I&P's portfolio, as ESG goals address portfolio-wide issues and enable I&P to look for shared solutions at portfolio level.

Two initiatives across two strategic E&S issues have been launched to produce **"turnkey" solutions** for partner companies and achieve **portfolio-level impact objectives:**

- **Reduce the portfolio carbon footprint** (Environmental objective). In terms of environmental cross-cutting action, I&P focuses on the reduction of the carbon footprint by means of increased energy efficiency and an increased use of renewable energies in the SMEs it invests in. The main purpose is to propose replicable solutions in Africa starting from its investees, to set an example and ensure that SMEs can step up their operations without increasing their carbon emissions. Reducing the carbon footprint to contribute to the fight against climate change is a **strategic** objective in Africa, as year on year climate change becomes more and more acute. On the other hand, energy savings are of great interest to entrepreneurs in countries where electricity is extremely expensive. As I&P believes there is value in tackling climate change issues at **portfolio level**, it supports all SMEs in the portfolio implementing actions to reduce their carbon footprint. More broadly but at a modest scale I&P wish to contribute to the overall fight against climate change.

  I&P produces an annual assessment of the carbon footprint of all recent investments. This analysis identifies the main sources of CO2 emissions at both the company and portfolio level. Thanks to the annual assessment of the carbon footprint of all companies, I&P identifies the main sources of CO2 emissions at both the company and portfolio level and encourages companies to think more about vehicle management, supply practices, energy efficient processes, and the use of renewable energies. A systematic analysis of energy-related issues is implemented for projects involving large energy consumption, resulting in action plans for energy efficiency and renewable energies.

  I&P also looked at other environmental objectives (such as for example waste reduction) but they tend to be sector-specific so they are tackled individually for each company which is more efficient than using a portfolio approach. Energy efficiency and renewable energy, on the other hand, showed great potential as they can be generalised at portfolio level and, thanks to the cost-reduction aspect for the investee, they have the potential to generate enthusiasm for the SMEs supported[42].

42 Systematic actions that can be put in place (first check during due diligence). Chosen because they could be measured for all investees.

CASE 1 – IMPACT MEASUREMENT AT INVESTISSEURS & PARTENAIRES

- **Promote universal health insurance coverage** for all employees within investee companies (Social objective). Often SMEs in Africa do not provide **social protection** for their employees.

  Only some of the countries where I&P is present have national schemes in place to provide basic health insurance for the employees of the private sector (Mali, Madagascar, Senegal, Ghana). When they exist, public systems provide very low levels of coverage and although insured people suffer from long waiting periods and a limited choice of healthcare centres. According to the analysis performed by I&P, only a minority of workers in African SMEs has a complementary health insurance policy. In order to change this situation, SMEs need to have access to complementary healthcare policies at more advantageous conditions.

  Thus, I&P decided to focus on this issue and in particular on improving the **healthcare** coverage for the employees of the SMEs it supports, across its entire portfolio. To do so, a study has been completed to analyse the health insurance systems of I&P current partner companies in order to review practices and consider areas for improvement. Based on these findings, a tailored assistance has been launched, to help companies implement or upgrade health insurance systems. To manage the process I&P has put in place a system of common management and a dedicated support.

In terms of how the two specific objectives were chosen, three reasons guided the choice, as Elodie Nocquet explains. First of all I&P chose issues that it considered strategic for Africa's development. Second, the two cross-cutting objectives had to constitute portfolio-wide issues, so that they could be compared across investees and sectors. Third, Elodie commented that I&P built on its decennial experience in investing in SMEs in Africa, so which issues to tackle also became apparent while investing from taking stock of the learnings of past investments.

While the Environmental and Social goals are set top-down by I&P for all portfolio companies, governance is tackled with a company specific approach as described previously.

Different ESG factors are used both to screen and select the potential investments, and to manage them to maximise impact.

Using ESG as a screening tool

I&P uses ESG factors to screen potential investments, with the purpose of gaining insights into the quality of a company's management, culture, risk profile and other characteristics.

When reviewing an investment project, the investment team of I&P draws up a complete report of the company's ESG practices. The report is based on data collected by the investment manager through an ad-hoc questionnaire called the "ESG Assessment Tool". The report includes an assessment of *environmental practices* (such as the systems for processing

CASE 1 – IMPACT MEASUREMENT AT INVESTISSEURS & PARTENAIRES

effluent and waste), *social practices* (such as remuneration and employment contract practices, working and safety conditions at the company and, where applicable, at its suppliers), as well as an assessment of *governance practices* (integrity and structuration of the governance of the SME).

Then, based on this report, the investment team *rates the ESG risks of the SME and their management*. Priority action points are established for the main challenges and everything is formalised in an ESG action plan, which is used to monitor the development of the SME on ESG practices throughout the investment (as prescribed in **Step 5**). The SMEs legally undertake to implement and monitor the plan, and a contact person is appointed to oversee the process.

Using ESG as a management tool

Throughout the investment I&P works on SMEs' corporate social responsibility (CSR) on the three pillars (environment, social and governance issues) as it wants to demonstrate that SMEs need to have a strong CSR strategy to generate more impact. By investing in implementing ESG in the portfolio companies, the financial investment made by I&P is leveraged further and has more impact since the investee is more responsible, social and environmentally friendly – with ripple effects on other organisations in the country/community, etc.

ESG objectives at I&P team level

I&P has also developed ESG action plan for its team, i.e. measures the impact of its own activities on the three dimensions of reducing the carbon footprint, promoting the decent work agenda and fighting corruption to stand as an example.

I&P is committed to ensuring the well-being of its employees by offering **health insurance policies** and professional training. Gender issues are also considered: I&P has the objective of having 50% of female staff.

I&P has developed **its own Code of Ethics** in 2013 and since then has continuously monitored its implementation. When introduced, the Code of Ethics was a big step for I&P in setting the example on integrity and transparency. The code has four principles: entrepreneurial spirit, commitment to development, integrity and high standards. The code is signed by the whole team and guides the relationship each employee has with its stakeholders: investors, companies, partners, consultants, investees etc. These values provide a common framework for the entire I&P team and ensure that I&P's actions and reputation are consistent with the same central, guiding principles. Adherence to the guidelines is a prerequisite for recruitment, and also forms the basis for the assessment of I&P team members, individually and collectively. Furthermore, these four values establish and characterize the relationship I&P maintains with all its stakeholders: investors, companies, partners, consultants, etc.

CASE 1 – IMPACT MEASUREMENT AT INVESTISSEURS & PARTENAIRES

To implement the code of ethics, I&P has appointed an **Ethics Advisor**. This Ethics Advisor works independently of the employee team, and focuses on addressing the challenging ethical situations the team faces internally and on the ground.

Regarding the implementation of the **environmental-conscious practices** at team level, I&P reviewed its supply strategy: all its office furniture and equipment are now selected on **environmental criteria** in its head office. I&P assessed and offset its own carbon emissions, in its head offices and local offices.

The Process of Setting the Objectives for the SPO

The investees in I&P's portfolio can be divided into two groups when it comes to impact measurement:

- *Social businesses, with impact as the main objective* – I&P sets specific objectives for the **social businesses** it invests in – so only for a part of its portfolio. Some of the investees in the portfolio are advanced enough to implement their own impact measurement system – which means having more tailored impact objectives. "Impact first" investees have as an objective the maximisation of the impact without any capital loss, but not necessarily with a significant profit (e.g. Nutri'Zaza, an SME selling a product to fight against child malnutrition in Madagascar). The objective of such an SME is to scale to have more impact. In a case such as this there is a possibility to develop specific objectives (and indicators).
- *SMEs that are also generating a social impact (but don't have the generation of impact as main objective)* – Given I&P's current investment strategy, social businesses remain a minority, and the majority of investments is represented by SMEs which are also generating a positive social impact. Although having a high impact potential, other SMEs in the portfolio are less socially oriented and are therefore not interested in implementing a sophisticated impact measurement system. For these businesses I&P does not define measurable quantitative social impact goals, but only develops the **ESG action plan** which includes more qualitative guidelines to achieve of social impact goals, instead of specific numbers. I&P and the investees meet regularly to assess the status of implementation of the roadmap that has been defined in the action plan.

Given this context, I&P takes **a top-down approach on impact measurement**, and the definition of the *objectives* is done mostly from I&P's side. I&P also proposes *indicators* to investees, instead of co-developing them with the investees once the objectives have been set. The advantage of such a top-down approach is that I&P has the opportunity to set portfolio-wide impact objectives, and thus to have a real portfolio approach. The downside is a lack of flexibility in adapting the objectives to the specific needs of each investee. However, the ESG approach and in particular the ESG action plans are co-developed with investees and tailored to each company's challenges and opportunities.

CASE 1 – IMPACT MEASUREMENT AT INVESTISSEURS & PARTENAIRES

Key Issues and Learnings for Step 1

1. *Developing objectives takes time, but pays off* – It took time for I&P to define its goals and to translate them into measurable indicators. I&P is active in many different countries and in different sectors, so identifying common objectives and the impact goals both for all investees and for I&P was challenging. An important recommendation is to plan for a long time process to reflect deeply on one's strategy and understand how and why the VPO will introduce an IM system.

2. *Be aware of proportionality* – Not all investees will be able to develop a full IM system from day one, and this needs to be accepted. I&P applies the proportionality principle and tries to tailor the impact measurement system to the capabilities of the investee. In the case of small investments, for example, it is not possible to co-develop complex and articulated objectives and it makes no sense to ask them for extensive reporting, so I&P tries to identify the main impacts, without relying on an extensive impact measurement system. For the new fund – IPDEV 2 – I&P will adopt the same ESG portfolio approach it is currently adopting, but in a simplified version. In fact most of the investees of IPDEV 2 will be small SMEs in the early stage of their development, so although the structure of the IM system will remain the same, the requirements will be much simplified, to respect the proportionality principle.

3. *Be flexible, revise, evolve* – I&P considers its impact objectives to be flexible and evolving as its investment strategy evolves.

CASE 1 – IMPACT MEASUREMENT AT INVESTISSEURS & PARTENAIRES

STEP 2 – Analysing Stakeholders

- Impact on investees
- Impact on investees' stakeholders

- Top-down stakeholders' identification (primary and secondary)
- For each stakeholder → one **developmental challenge** identified
- Potential social impact of SME on stakeholders is selection criterion
- Stakeholders engaged in all steps
- Hard to engage SMEs in the process

Figure 9:
Step 2 – Analysing Stakeholders at I&P

Source: EVPA elaboration of I&P material

Stakeholder Identification

Stakeholders can be defined at two levels: primary and secondary.

The investee company, including its staff, is the *primary* stakeholder for I&P, whereas the stakeholders of the investee are *secondary* stakeholders.

The investee is clearly the primary stakeholder because for I&P it is crucial to choose the right entrepreneur and the right investment that can contribute to the portfolio-wide developmental impact goals.

I&P identifies three main groups of secondary stakeholders: the clients of the investee company, the suppliers and distributors the investee works with and the nation-wide level of added value. For each of the four (primary and secondary) stakeholder groups, I&P identified a broad **developmental challenge** I&P's investees can help solve.

Stakeholder	Developmental Challenge
Staff (of the social enterprise)	High level of unemployment and informality → Creation of decent wage-paying jobs is critical to promote a socially sustainable inclusive growth
Clients	Many basic products and services are not easily available in Africa for businesses and individuals → Help meet basic needs
Suppliers/distributors	Structuring local sectors to raise sales, profits and employment levels upstream and downstream
National Value Add	Macroeconomic impact on state budget, generating taxes and allowing more public spending and investment Need for fiscal resources to finance public spending and investment, in a context of a predominant informal sector

Table 1:
Identified stakeholders

Source: EVPA elaboration based on I&P documents

CASE 1 – IMPACT MEASUREMENT AT INVESTISSEURS & PARTENAIRES

The **stakeholders' categories** and the **developmental challenges** the investee helps to solve are **defined top-down by I&P** for all the investees in the portfolio.

However Elodie Nocquet explained that the ESG due diligence entails an in-depth analysis of each company's specific practices with its own local stakeholders, so a level of flexibility is foreseen. In order to identify both the stakeholders and the developmental challenges for each specific investee, I&P performs an in depth analysis of the context in which the investee operates, focusing on the economic overview, the state of development and on the analysis of the private sector.

The list of stakeholders is used to:

- Have a clear view of where the impact is generated (from the micro-level of the investee's staff to the macro, nation-wide level)
- Translate the general objectives of the impact measurement and the ESG into more specific objectives
- Operationalise the objectives into measurable indicators (see Step 3 for further detail)
- Develop the impact measurement tool (see Step 3 for further detail)

Stakeholder engagement

The stakeholders identified are then engaged during all phases of the impact measurement process.

Engaging primary stakeholders: the investee

As mentioned, I&P has a top-down approach to impact measurement, so the investees are not involved in setting the impact objectives (and consequently the indicators).

Even though the investees are not extensively engaged in the development of the objectives and the indicators of the impact measurement system, I&P involves the investee in the development and testing of its **impact tool** (described in Step 3). As the tool needs to be used by investees, it made no sense to develop something they would find too heavy or not understandable.

The investees are highly involved in the identification of the technical assistance and capacity building issues. Through a bottom-up approach, very tailored to the investee's needs and characteristics, the technical issues that need to be tackled to strengthen the SPO's financial sustainability and organisational resilience are highlighted. In this process the SME is supported by the **investment team which operates at the local level.** Involving I&P's local staff is crucial because local investment managers have a deep knowledge of the investee, the sector, and the situation at the country level. Being on the ground it is easier to understand and identify the real needs in terms of capacity building for the investee company.

Finally, every year, I&P sends an impact report to its investees. Usually the investees are happy to see how their impact translates into figures. This increases their commitment and gives rise to concrete actions.

Engaging secondary stakeholders

Secondary stakeholders are engaged in Step 4 – verifying and valuing impact. During this step – as we will see in more detail later – I&P performs in-depth case studies to verify the SME is achieving the impact shown by the data. During the development of the case studies final beneficiaries of the SME's actions, including clients, suppliers and distributors are involved by means of interviews and focus groups.

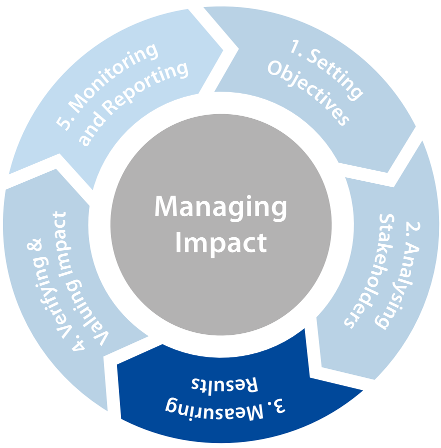
Key Issues and Learnings for Step 2

1. *Involve your investees in identifying and prioritising stakeholders* – The stakeholders' categories and the developmental challenges the SME helps to solve are set top-down by I&P at portfolio level, but it would be suitable to involve investees much more in this process.

2. *Stakeholders' matching guides the VPO in the choice of SPO* – When I&P needs to decide whether or not to invest in an SME, the potential social impact of the company on its stakeholders is a main selection criterion and an integral part of the rationale for investing. However, not all SMEs I&P invests in can be defined social businesses a priori, as the social component is not the core focus of the company, and they have no experience or knowledge of impact measurement before I&P invested and are not interested in measuring measure impact.

CASE 1 – IMPACT MEASUREMENT AT INVESTISSEURS & PARTENAIRES

STEP 3 – Measuring Results: Outcomes, Impact and Indicators



- Impact and ESG tools (Excel-based)

- Use IRIS indicators (don't reinvent the wheel)
- Relevance to the investee! (+ proportionality)
- "One size fits all" approach has positive and negative sides
- Assess what data is most useful by revising the indicators periodically
- Additionality and attribution are still open issues
- Data management

Figure 10: Step 3 – Measuring Results at I&P

Source: EVPA elaboration of I&P material

Impact measurement at I&P is done at two levels:
- **At investee level**. I&P collects a set of impact metrics (including ESG data) on all investments, categorised based on the company stakeholder analysis (see Step 2).
- **At portfolio level**. I&P aggregates data collected at investee level to benchmark the performance of its investees and to assess the overall performance of the portfolio.

The aggregation **across funds** is not so extensive because for IPDEV I&P collects data on only a few indicators, and not for all those that are set for IPAE's investments.

For IPDEV 2, I&P is planning to collect data on a close and specific set of indicators, to increase the number of indicators that can be aggregated at portfolio level.

I&P measures the performance of its investees both on the impact side and on the ESG practices side, by means of an impact measurement tool (which includes a detailed ESG questionnaire at company-level) developed in-house.

The quantitative data collected through the questionnaire is used to analyse the individual and collective contribution of the investees in the portfolio to **local development**.

I&P's Impact Measurement Tool

I&P has developed its own **impact assessment and monitoring system**, which uses as indicators, among others, IRIS[43] metrics (about 70% of the indicators).

43 Catalogue of performance metrics for impact investors. See: https://iris.thegiin.org/metrics

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When I&P started developing its impact measurement tool, the topic of impact measurement was not so developed in VP/SII. Therefore at first I&P hired CERISE[44] as a consultant to develop its impact indicators, and borrowed the indicators developed by CERISE on microfinance to monitor the impact of its microfinance activities.

According to Elodie Nocquet it would have been useful to have the EVPA guide as a reference, and to have the opportunity to interact with other investment funds to benchmark. After a lengthy process which involved high interaction within the team, in the end I&P decided to opt for a majority of IRIS indicators.

When it first developed the impact measurement tool, I&P piloted it on three investees to check its feasibility. Based on the feedback they got they sent the scorecard to all investees companies. The questionnaire was reported to be quite heavy by some of the entrepreneurs. Additionally, after the 1st year I&P realised they were not using all the indicators for monitoring and reporting. Therefore they decided to drop some of the indicators on the scorecard.

The impact measurement tool consists of five excel sheets, each one of them collecting information to measure different impacts.

The Excel questionnaire[45]

The Excel questionnaire developed by I&P is composed of five sheets.

1. Sheet one (F1): Company Characteristics
2. Sheet two (F2): I&P's products and services
3. Sheet three (F3): Investee's organisational performance
4. Sheet four (F4): Impact Results
5. Sheet five (F5): ESG results

Sheet 1 – Company Characteristics

This first part collects detailed data on the characteristics of the specific SME. Data is divided in three parts:

- *Description of the company,* including name, date of incorporation, sector and specific area of activity, position in the value chain, size and stage of development
- *Description of the entrepreneur,* including name, age, gender, nationality, level of education, experience, management exposure and profile
- *Product/service information*, including product/service type, information on the clients' demography and localisation and information on suppliers.

44 See: http://www.cerise-spi4.org/

45 The excel file has been designed by Pierrick Baraton, I&P's Impact Assessment Officer, and Elodie Nocquet, Financial and ESG Officer.

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Sheet 2 – I&P's products and services

The second part of the questionnaire collects information on I&P's commitment with the investee, including:

- *Information on the financial investment*, including type of support, size, investment period and weighting of capital.
- *Information on exit*, including planned exit date, whom to exit to and exit options.
- *Information on the involvement of I&P*, including the level of involvement (from 0, very low, to 4, very high) and the nature of the involvement (strategic or operational). A description of what each level of involvement entails is provided in the excel questionnaire.

Technical assistance and capacity building are issues identified with the entrepreneur at the outset of the relationship. Then the questionnaire included in Sheet 2 is used to measure the impact of the work done by I&P with the investee and to tailor the provision of mentoring and technical support (i.e. the technical assistance missions).

The issue with the measurement of the effectiveness of I&P's provision for technical assistance is naturally the attribution of impact, i.e. to what extent changes can be attributed to the intervention of I&P[46].

Sheet 3 – Investee's organisational performance

This part of the questionnaire aims at evaluating the organisational performance of the investee, in terms of financial sustainability and organisational resilience.

This part collects information concerning:

- Accounting and financing practices
- Marketing practices
- Management of the quality of products and/or services
- Human Resources Management
- Firm's autonomy

The first four blocks are evaluated on a scale from 0 to 4, where 0 = none, 1 = weak, 2 = reasonable, 3 = good and 4 = very good, while the last block is evaluated on a scale going from 0 = none to 1 = weak, 2 = reasonable, 3 = strong and 4 = total.

The five categories of information were identified by I&P a few years ago. As for the rest of I&P impact measurement approach, these dimensions were selected top-down: I&P assessed that these business practice dimensions were the ones that needed most improvement in its investees. Back then, the five categories mentioned above seemed the most

46 Attribution refers to both isolating and estimating accurately the particular contribution of an intervention and ensuring that causality runs from the intervention to the outcome.

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relevant ones, but – if I&P were to revise the categories today – it is not excluded that they could rephrase or revise some of them.

The questionnaire also describes clearly what each level of the scale in each dimension means.

This questionnaire is used to perform a diagnosis of the situation of the SME in all the dimensions listed above and to see where I&P can help the SME develop further. Though not extensive, this part of the questionnaire allows I&P to evaluate its impact on the investees, i.e. how its support is helping the investees improve and generate more impact, and plan further mentoring and technical assistance missions if necessary.

The SME self-assesses its level of development at the beginning of the relationship and tracks improvement, giving feedback on the value of the non-financial support received by I&P.

Sheet 4 – Impact Results

Based on the stakeholder analysis performed in Step 2, and the developmental challenges identified, I&P selected a list of impact indicators used to monitor and evaluate the impact of each investee.

Stakeholder	Developmental Challenge	Examples of indicators
Staff (of the social enterprise)	High level of unemployment and informality → Creation of decent wage-paying jobs is critical to promote a socially sustainable inclusive growth	• Creation of jobs • Job patterns (gender, wages, etc.) • Employee training and other advantages
Clients	Many basic products and services are not easily available in Africa for businesses and individuals→ Help meet basic needs	• Number of clients • Number of borrowers/ savers for microfinance institutions
Suppliers/distributors	Structuring local sectors to raise sales, profits and employment levels upstream and downstream	• Number and share of local suppliers/ distributors
National Value Add	Macroeconomic impact on state budget, generating taxes and allowing more public spending and investment Need for fiscal resources to finance public spending and investment, in a context of a predominant informal sector	• Contribution to state revenues, GDP and exports

Table 2:
Indicators and challenges in measuring impact on each group of investees

Source: I&P

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The groups of indicators are in line with the dimension of impact creation presented in the impact value chain and linked to the stakeholders identified in Step 2. Specific indicators, mostly IRIS indicators, are then linked to each dimension.

Concretely, this exercise translates into the questionnaire on sheet 4, which by means of certain indicators (70% of which coming from the IRIS database[47]) aims at evaluating the impact results

Sheet 5 – ESG results

Sheet 5 collects information on the implementation of the ESG practices by the investee. Some questions pertaining to the ESG practices of the investees are asked specifically in this section, whereas others are included among the "impact" indicators.

Environmental objective – Environmental Policy of the SME

I&P works with specialists to implement energy related operational improvements within the investees. Carbon footprint reduction issues are incorporated in I&P's due diligence and monitoring processes. The tool measures the progress of each investee on the reduction of CO2 emission by estimating the carbon footprint of the single investee and of the portfolio as a whole[48].

Sheet 5 of the impact questionnaire collects information on the use by the SME of renewable energies, and on whether the SME has a waste management system in place, by assessing the percentage of waste that is recycled.

Social Objective – Social Policy of the SME

The implementation of most of the principles pertaining to a "decent work" agenda is checked when assessing the investee's results by means of the impact measurement tool on sheet 4.

Sheet 5 asks questions pertaining to the company's social policies, thus focussing on the provision of complementary health insurance to the employees, the welfare system (maternity and sick leaves, access to credit and housing, etc.) and the management of risks on the workplace.

Governance Objective

The progress on governance objectives is not reported in any of the sheets of the excel file used for measuring impact. This because the considerations around corruption and good governance are more general, and come in in different phases of the investment process (see chapter "Managing Impact at I&P").

47 Catalogue of performance metrics for impact investors. See: https://iris.thegiin.org/metrics

48 Source: http://www.ietp.com/sites/default/files/ESG%20Impact%20Policy%20-%20IP.pdf

In this sheet the VPO only monitors whether and how often the Board of the SME meets, if the Directors of the Boards are independent and if the accounts of the SME are revised by an external auditor.

Key Issues and Learnings for Step 3

1. *Do not reinvent the wheel* – I&P uses the "wisdom of the crowd" taking most of the indicators it uses from IRIS – a public database of impact measures.

2. *Even a standardised IM system needs to be adapted to the needs and capabilities of the SPO* – Although the structure of the IM tool is identical for all SMEs, I&P adopts a case by case approach, and implements a customized impact measurement approach in addition to the cross-cutting approach only in investees that have the capabilities to implement an impact measurement system, but also are committed and have a social attitude.

3. *Data aggregation at portfolio level can be challenging* – One big challenge I&P is facing at the moment has to do with data aggregation. Since it started collecting data, I&P has built a huge database, which includes many investee companies. As the dataset is growing very fast, soon the tool I&P is using (Excel) will not be sufficient or appropriate to handle the data anymore. Thus I&P will explore the possibility to use a different, more "advanced" and appropriate tool. An idea is to use the same tool I&P's financing department is using (Qlikview) and apply it to impact measurement. This tool is more sophisticated than Excel, so it would enable I&P to collect all data in the same database, both the financial and the impact-related and would allow I&P to do more extensive comparisons and more in-depth analysis.

4. *Assess what data is really useful* – An important next step for I&P is to evaluate what data is truly useful – for it as an investor and for the investees. This would reduce the probability to "overdo" the number of indicators on which data is collected and assess what data is really crucial to have.

5. *The indicators need to be revised periodically* – In order to improve its method, I&P performs a **yearly revision** of the indicators of the impact sheet and decides which ones keep and which ones to skip. Thus a learning point for I&P is that the **selection of indicators** is – and should be – an **iterative process** where the VPO builds the learning and makes sure it is measuring the really key indicators that correspond to the Theory of Change as an investor – and that the investee collects data that is relevant to them. The revision of the indicators is also crucial as sometimes investees complain about the length of the questionnaire and they have time constraints that can make it difficult for them to complete the survey.

6. *It is hard to prove additionality* – One important remark concerns how I&P measures its impact on the investees. The concept of **additionality** is very important. I&P tries to assess whether its action was or not instrumental to the survival and growth of the investee. For

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example, I&P's support in developing a business plan can translate into increased levels of fundraising. Banks in Africa are generally very risk-adverse, mostly because they do not have the resources to perform an in-depth due-diligence. By performing the due diligence on the investee and helping it develop a solid business plan I&P is able to leverage its support so that for each Euro I&P invests in an SME, one Euro is generally raised by the investee through other sources.

7. *It is hard to attribute impact* – Another important issue is that of **attribution**. I&P can only assess how the investee is working towards meeting its impact goals but can never be sure that the impact is solely generated by the investee or if it could be attributable to other actors and circumstances. To overcome this issue I&P has developed a questionnaire in excel to do an **ex-ante screening** of the investment using various impact criteria. Collecting impact information before the start of the investment period allows I&P to analyse the situation before and after the investment and have a baseline against which to compare the results of the impact measurement exercise. The chosen criteria need to be weighted, so that the most important (e.g. employment issues) would have higher relevance. The impact questionnaire should be used by the investment team during the due diligence phase, as it could also be used to be more concrete and impact-oriented in choosing which companies to invest in. I&P is also exploring the possibility of conducting a **counterfactual analysis**[49]. Last year I&P realised that it would be crucial to take its pool of investees and to conduct in-depth **benchmarking**, i.e. to check whether the SMEs that were supported by I&P created more employment than the SMEs that were not supported by I&P. At the moment, I&P uses a couple of reports[50] World Bank reports and compares a country's GDP growth – or other aggregated data from sub-Saharan countries – with the growth in value added of its investees. However, it is clear that using such a proxy makes it difficult to compare. Therefore, since last year, I&P is trying to find some **external data** to compare other SMEs with SMEs they invested in. This work is complicated, since data on African SMEs is very scarce. A research program will be launched to collect and analyse external data.

49 Counterfactual analysis enables evaluators to attribute cause and effect between interventions and outcomes. The 'counterfactual' measures what would have happened to beneficiaries in the absence of the intervention, and impact is estimated by comparing counterfactual outcomes to those observed under the intervention. The key challenge in impact evaluation is that the counterfactual cannot be directly observed and must be approximated with reference to a comparison group.

50 For example McKinsey Global Institute report, "Africa at work: Job creation and inclusive growth" (2012) and The World of Work report, published by ILO in 2014 (http://www.ilo.org/global/research/global-reports/world-of-work/2014/lang--en/).

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STEP 4 – Verifying and Valuing Impact

- Impact case studies

- External Evaluators
- Qualitative complements quantitative
- "Reality check":
  - verify outcomes are achieved
  - choose the impacts with the highest social value
- Bottom-up complements top-down
- Re-align objectives → learn!

Figure 11: Step 4 – Verifying and Valuing Impact

Source: EVPA elaboration of I&P material

Impact case studies

The impact management tool is not enough to understand the dynamics at play for the generation of long-term sustainable impact. Thus each year I&P conducts a multidimensional and detailed impact evaluation focused on one or two portfolio companies, belonging to either IPDEV or IPAE. Not all investees are thoroughly screened each year by means of an in-depth case study due to I&P's resource constraints.

Impact case studies are in-depth cases based on field research that aims at verifying in which way the single investee contributes to the impact objectives it sets for itself, i.e. the causal link in the theory of change that shows that the claimed impacts on the different stakeholders are actually created, and how to improve operations to generate even more positive impacts on the target populations. Impact case studies allow I&P to test and validate the assumptions made earlier.

Added value of performing in-depth case studies:

- The impact survey constitutes a self-evaluation of the entrepreneur. Even though data is double-checked by the I&P team, most of what is claimed by the entrepreneur needs to be taken for granted. The in-depth case study on the other hand is an opportunity for I&P to get first-hand information from the entrepreneur and the stakeholders.
- The in-depth case study is a great tool to understand the dynamics at the investee level. While data collected through the impact measurement tool is analysed to be aggregated at portfolio level, the in-depth case studies are specific for each investee.
- Through the in-depth case studies investee-specific issues can be explored.
- Sometimes this analysis results in a different impact than what had been predicted – thus prompting a revision of the impact objectives and indicators.

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A team of four to five people goes to meet the local social entrepreneur and the stakeholders. The team – supervised by a member of I&P staff – is composed of pro-bono students from the HEC[51] association (IM)PROVE[52], with which I&P has built a partnership.

(IM)PROVE is a student association sponsored by HEC Paris and large French and Moroccan companies. (IM)PROVE realises impact evaluation studies for social enterprises in France and in developing countries. (IM)PROVE has three main objectives:

- Help social entrepreneurs evaluate their social impact
- Promote social entrepreneurship, through articles on its website and the development of case studies for HEC Paris
- Carry out field research missions

Founded in 2009 by three HEC students, (IM)PROVE currently has six team members and 17 active members. So far it has realised 16 missions collecting data on more than 600 social entrepreneurs, 80 of which were met in person.

I&P **identifies the social enterprise** to visit each year. Then the team conducts the case study. First, a phase of **analysis** is performed. The team works to develop a very detailed **theoretical framework** of the company, highlighting both the positive and negative impacts. The **causal links** between *input*, *output*, *outcome* and *impact* are built, so that the theory of change of the company is constructed. This work is supported by data already collected by I&P's investment officers during the due diligence phase.

The team then elaborates a set of five to ten **research questions** to challenge the hypothesis defined in the theoretical framework. The questions are derived from the detailed logical framework. The team defines what can actually be measured and **how to measure** it and develops a questionnaire for the stakeholders.

Then, using **stratified sampling** techniques, the team identifies different groups of **stakeholders** to interview. The focus is naturally on the stakeholders on which the company is supposed to have the most significant impact. A shortcoming of this approach is that not all stakeholders can be interviewed. For example, it will be often quite hard to interview the investees' competitors.

Figure 12[53] outlines the groups of stakeholders identified in Step 2 that are then used to assess the impact in Step 4.

51 HEC is a French business school headquartered in Paris – www.hec.edu/
52 http://www.im-prove.fr/
53 Source: "*ESG & Impact Policy and Management System*", Investisseurs&Partenaires, May 2014, p.6.

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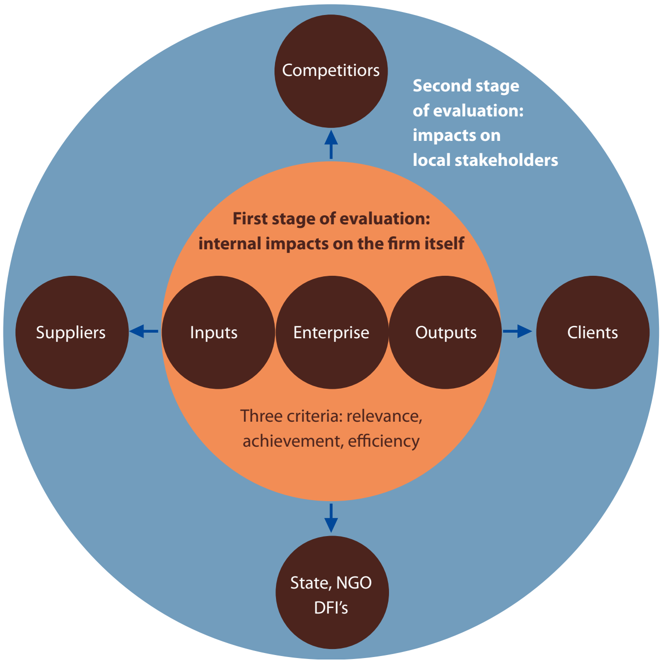

Figure 12: Groups of stakeholders mapped in Step 2 and used to assess the impact in Step 4

The information collected during the interviews is then used to **confirm or deny the theoretical framework** built for the investee. The results of the interviews are used to improve and maximise social impact of the SME. Based on what emerges from the interviews, the impact team works on assessing **areas of improvement** for the investee and on developing concrete actions to address these shortcomings. Results and recommendations are then summarised in an action plan that is shared with the investee and the local team.

Nutri'Zaza is an SME that helps fight child malnutrition by selling a locally-produced food complement (KobaAina) that is highly nutritious. I&P cannot check directly if the SME has an impact on the consumers in the sense of reducing their children's malnutrition, but it can use a proxy, i.e. by checking the number of products sold. In order to check for this, the I&P team met with 170 local mothers (final beneficiaries). The mothers were selected using a stratified sampling (i.e. mother had to come from different areas, have different characteristics, etc.), to make interviewed group representative. From the theoretical framework it was derived that the ideal consumption of the product is twice per day, but the team sent by I&P realised that not many mothers could afford buying two servings of the product per day. Therefore the team started working with the investee on ways to improve the business model to optimise the impact of the product on the final beneficiaries.

For the microfinance company **ACEP Cameroun** the impact evaluation team found that loan amounts were not tailored to ACEP's largest SME clients, impeding their ability to grow further. Measures were proposed and discussed by the company's board.

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One important element that guarantees the success of the case studies is the commitment and the availability of the investee. So far no investee has refused to perform the impact evaluations. This positive result is also thanks to the fact that investees only finance the local logistical costs of the missions and commit to dedicate time: between 70% and 80% of the evaluation missions are financed by a specific I&P technical support budget[54]. Additionally, the investees see the added value of having a team helping them to analyse and fine-tune their activities.

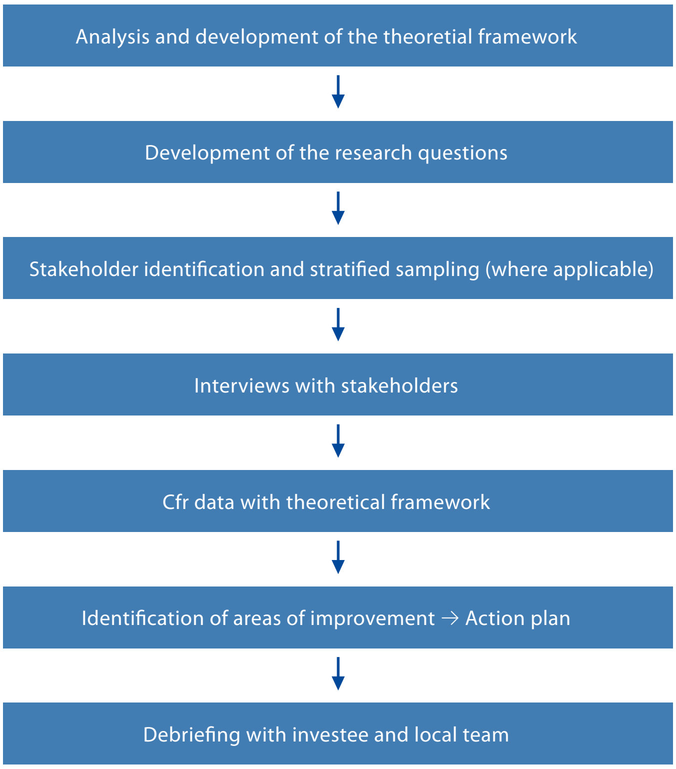

Figure 13:
Process of development of in-depth case studies

Source: EVPA elaboration of I&P documents

54 This budget is granted by the European Investment Bank (http://www.eib.org/) and FISEA (http://www.proparco.fr/lang/en/Accueil_PROPARCO/fisea-proparco), an investment fund that makes equity investments in businesses, banks, microfinance institutions and investment funds operating in Sub-Saharan Africa.

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So far four case studies have been developed:

- Biotropical (funded through IPDEV), engaged in organic fruits exportation in Cameroon (2012).
- MFI ACEP Cameroun (funded through IPDEV), providing loans for micro entrepreneurs and small SMEs in Cameroun (2013).
- ACEP Madagascar (funded through IPAE), providing loans for micro entrepreneurs and small SMEs in Madagascar (2014).
- Nutri'Zaza(funded through IPDEV), a social business providing baby food to improve child nutrition.
- A new case study is under development: SIATOL, engaged in local soybean processing in Burkina Faso, the first investment funded through IPDEV 2 (via Sinergi Burkina).

The case studies reports are available for download on I&P's website[55].

Impact Case study: the evaluation of Biotropical[56]

Biotropical is an enterprise that specialises in the production and exportation of tropical biological fruit. Biotropical produces fruit that is then sold fresh, frozen or dried in the EU. Its founder, Jean-Pierre Imélé, is a pioneer of organic farming in Cameroun. In fact, it can be said that Biotropical created the organic sector in Cameroun.

Analysis and development of the theoretical framework

The impact evaluation team analysed the activities of Biotropical and synthesised the strategic objectives of the investee. Biotropical has three specific objectives:

- Create a sustainable and ethical enterprise
- Convince local producers of the importance of cooperating with Biotropical in the field of organic farming
- Sensitize people in Cameroun and abroad about the importance of organic farming

The analysis conducted within Biotropical's environment had two focuses of interest:

- To what extent does Biotropical contribute to the improvement of local producers' living standards?
  → More sales, better prices, input supplying
- How far does Biotropical support the structuring of the local organic sector?
  → Organic process training, producers' certifications, organisation of local players

Additionally, I&P wanted to assess whether the impact Biotropical was generating was positive and whether such positive impact was generated by an increase in the prices.

55 http://ietp.com/knowledge_center/#publications

56 We chose the Biotropical case as we found it to be the most complete and complex. In fact, the impact evaluation team (consisting of Pierrick Baraton, I&P's Research Officer, and the team of (IM)PROVE (consisting in 3 students) found that Biotropical had an impact on local producers it works with, but offset by the volatility of the volumes ordered and the dependency towards Biotropical.

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Stakeholder identification and stratified sampling

The impact team identified three groups of stakeholders:

- The local producers
- Biotropical employees
- Competitors and local administrations

Local producers and Biotropical employees are the most important stakeholders, as their activities are directly impacted by the activities of Biotropical.

Development of the research questions

The impact evaluation team studied the impact of Biotropical on the three categories of stakeholders, in order to choose the indicators and the questionnaire for the stakeholders.

Two "impact maps" were created, one for the employees and one for the producers to link the expected impact and the indicators, as shown in Figure 14[57].

Figure 14:
"Impact map" for Biotropical's employees

	Impact		Nature	Indicators
	How to describe the change?		Which part of impact is it?	How to measure it
Biotropical employees	**Incomes**	• Monthly income • stabilisation/increase • Access to social benefits	• Direct & indirect/ quantitative	• Historical of earned wages • Breakdown of costs • Access to health insurances
	Activities	• Access to a stable wage • Quality of labour • Conditions of employment	• Direct/qualitative	• Number of hours worked per week • Number of accidents on the work place • Nature of the duties performed • Type of contract (part-time / full time)
	Qualifications	• Technical training given by Biotropical Career Development Prospects	• Direct/qualitative	• Number of hours and type of training delivered • Improvement of work duties and promotions
	Quality of Life	• Impacts on the familial environment • Pride in working for Biotropical • Sense of belonging to a valued supply chain	• Direct & indirect/ quantitative & qualitative	• Purchase of new home equipment • Level of children education • Worker satisfaction in the organic sector and within Biotropical

57 Source: "*Evaluation d'impact social*", Biotropical, September 2012, p.26.

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Since Biotropical is the largest player in Cameroun and created the market for organic farming, it had positive effects on a number of indirect stakeholders. Therefore instead of developing a specific impact map for competitors, public authorities and intermediaries, the impact evaluation team analysed the impact on the development of the supply chain.

Interviews with the stakeholders

The impact evaluation team interviewed 47 non-skilled employees of Biotropical, representing about 80% of the total workforce. (IM)PROVE (which back then was called *Planète d'Entrepreneurs*) also interviewed 68 producers (over a total of about 80), who supply Biotropical with different types of fruit and six intermediaries in four regions.

Last, the impact evaluation team met with six out of the eight local producers of Biotropical and with seven others local players (i.e. administration representatives, local consultants, etc.).

Data analysis and comparison with the logical framework

Employees

The impact evaluation team analysed the data collected through the interviews with the stakeholders and came to some interesting conclusions.

Employees were divided into two groups: factory workers and farmers.

Factory workers experienced an improvement in their employment status, as 56% of them were unemployed before starting to work at Biotropical. With salaries 2.8 times larger than the minimum salary in Cameroun, factory workers could start sending their kids to school on a permanent basis, increasing the average education in the area. Finally, Biotropical factory workers had easier access to credit.

The analysis on **farmers** showed that Biotropical had a positive impact in that the salaries of the farmers grew by about 77% and became more stable thanks to the affiliation with Biotropical. However, the salaries of the farmers were found to be 33% lower than the salaries of the factory workers and 20% of the farmers lamented a delay in the payment of the salaries, which translated into issues concerning the schooling of their children.

Local producers and intermediaries

The impact evaluation team interviewed **producers** and **intermediaries** working with Biotropical.

For what concerns the producers, the first finding was that a large number of the interviewees were not capable of quantifying their annual revenues when they were selling their products in the local market, i.e. before starting to work with Biotropical. Thus it was very difficult for the team to construct a counterfactual to assess the impact of Biotropical

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on the local producers. However, the assumption was that since they cooperated with Biotropical all local producers would be capable of estimating how much they earned in one year, increasing their professionalization, and being able to plan expenses and make investments.

The second finding was that 43% of the local producers sold their products only in the local market before working with Biotropical. By selling in the local market they could have asked for higher prices for their products in some periods, Biotropical guaranteed them higher volumes of sales and more attractive sales conditions (no transportation needed), without indirect costs. Thus, they assumed Biotropical had a positive impact on stabilising the revenues of local producers.

Third, it was found that most of the local producers depended completely on Biotropical: 71% of local producers sell 100% of their production to Biotropical. This can constitute a problem if the date when Biotropical collects the fruit is not sufficiently well communicated. In fact, lack of communication and delays on behalf of Biotropical in collecting the products caused significant losses for the local producers.

A deeper analysis of the first two findings showed that Biotropical was generating an adverse effect, as the producers had higher volatility of their revenues than before. The evaluation team tried to understand the costs of this volatility and the reasons behind it, and discovered that it was difficult for Biotropical to assess and communicate to the producers, from one year to the other how much it would need in terms of production ultimately. As a result, small local producers could not know from one year to the other how much they were going to be able to produce and sell. Under normal conditions this would not have constituted an issue, but since the local producers had become dependent on Biotropical, a decrease in their sales to Biotropical would have implied the impossibility to preserve the income, hence the volatility. This volatility undermined the trust of producers with Biotropical and made them less motivated to respect the requirements of organic farming. If one single producer had decided not to respect the requirements of organic farming Biotropical could have been negatively affected, as it would risk losing its "organic producer" certification.

Last, in some of the regions where Biotropical sources the fruit, the organic plantations have been affected by pesticides coming from neighbouring farms. This can be a risk for Biotropical, because it also could cause it to lose its certification.

In terms of **intermediaries**, the team found that they bear a high financial risk. They collect the fruit from the producers and sell it to Biotropical. However, they are not always sure they will be able to sell to Biotropical and they might have a liquidity problem if the time between when they buy and when they sell is too long.

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Due to the existence of the intermediaries, often local producers do not even know the brand Biotropical. In order to have a relationship based on trust it would be advisable that Biotropical invests in knowing better these local producers.

Supply Chain

By meeting five direct competitors of Biotropical, the impact evaluation team could assess the impact of Biotropical on the development of the supply chain for organic fruit farming in Cameroun.

The interviews highlighted some positive impacts on the supply chain linked to the activities of Biotropical:

- Biotropical is recognised by its competitors to be the leader in the sector. It played a major role in organising the activities locally, especially in relation to the fostering of local processing, thus bringing back to Cameroun a part of the added value.
- Four out of five of the competitors interviewed are interested in cooperation more than competition in the sector of organic farming.
- One of the competitors, ExoBio, was created by a former Biotropical employee who embraced the model.

Biotropical also worked to raise awareness about organic farming among local authorities. Although a number of institutional actors start to see the potential of organic farming, no structured activities have been rolled out to support organic farming in Cameroun.

Identification of areas of improvement and development of an action plan

Based on the data analysis , the impact evaluation team developed recommendations for the three categories of stakeholders.

Producers	Employees
Develop a reliable procurement plan Communicate better and have a more direct relationship with the producers to be directly known (and not only through the intermediaries)	Define and harmonise HR policy
Ensure the traceability along the supply chain to avoid the loss of the organic label	Pay the salaries of the employees to a bank account

Debriefing with investee and local team

The recommendations outlined above were presented to Biotropical. The idea behind sharing the results and the recommendations was that an improvement of the business plan could help Biotropical achieve an even greater impact.

Based on the recommendations, a local NGO was identified to give technical assistance to help local producers and Biotropical work better together and streamline their relationship.

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Key Issues and Learnings for Step 4

1. *It is often hard to measure impact for all the* ***stakeholders***. For example, it will be particularly hard to involve competitors in the evaluation interviews. Additionally, some stakeholders are more important than others, and this has to be taken into consideration when selecting them and during the analysis of the results.

2. *The issue of* ***attribution*** *is also difficult to manage*. The evaluation team develops the theoretical framework and builds the causal links, but it is still hard to know which of the impacts are generated by and attributable to the work of the investee and which aren't. Additionally, the I&P team does not go as far as including counterfactual analysis[58]. However I&P can go beyond the counterfactual thanks to the in-depth case study that allows the VPO to know if the SME has contributed to the local development, even without defining by how much[59]. As the I&P team put it: "We can see the impact, but we cannot really say how much of it is thanks to the investee". One thing the impact case study can check though is that the SME has participated in the impact. Thus, I&P knows that, by improving the investee's work and by maximizing the way the SME delivers the impact, it is working to increase the overall impact on the target population.

3. *Close the learning cycle* – Step 4 is very important for I&P as it allows the VPO to revise the indicators that were defined top-down and make them more customised to the specific investee. It is a **bottom-up approach** and it highlights the challenge of making impact measurement relevant to the investee.

58 Counterfactual analysis enables evaluators to attribute cause and effect between interventions and outcomes. The 'counterfactual' measures what would have happened to beneficiaries in the absence of the intervention, and impact is estimated by comparing counterfactual outcomes to those observed under the intervention. The key challenge in impact evaluation is that the counterfactual cannot be directly observed and must be approximated with reference to a comparison group.

59 It is important to note that the evaluations do not include a scientific approach (such as randomization with control groups).

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STEP 5 – Monitoring and Reporting

Data from monitoring feeds the reporting system. Reporting helps I&P assess the different impacts it has on the different local stakeholders. When the results of the analysis are shared with the stakeholders, interesting discussions are started. For example, if the reporting shows that the share of women in IT is still low, the VPO and the SPO can decide which actions to take to tackle the problem. Thus with Step 5 the IM cycle comes to a closing, as reporting informs the future work of VPO and SPO, which set new objectives.

Monitoring:

- Data collection + check

Reporting:

- to investors
- to investees
- to the team

Monitor:

- Tracking progress + collect data
- Who is in charge?
- Integrate into management process

Reporting:

- How to integrate the reporting needs of all stakeholders?
- Aggregation at portfolio level can be difficult

Figure 15:
Step 5 – Monitoring and Reporting

Source: EVPA elaboration of I&P material

Monitoring: the Impact Measurement Process – How data is collected and checked

I&P monitors the ESG action plan with the management team, at least bi-annually. Additionally, as board member of its investee companies, I&P ensures that ESG & impact considerations are regularly raised and discussed, and action plans approved at least annually.

Practically, data on all indicators is collected every year on **all of IPAE's** portfolio companies. All IPAE investees receive the excel file (the Impact Measurement Tool, presented in Step 3) with the different questions which they have to fill in. However, a little bit of customisation is always possible, depending on the investee and its needs, capabilities and sector.

For what concerns IPDEV investees, since they are smaller and have less capacity, a smaller questionnaire made up of 15 questions is sent every year, to assess the general impacts, without going into the same level of detail as for IPAE.

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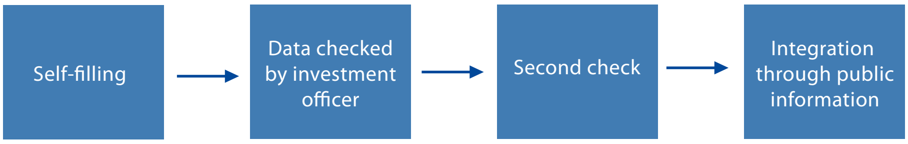

Figure 16: The data collection process

Source: EVPA elaboration of I&P data and documents

The investees perform a **self-filling** of where they stand in relation to the different questions asked. Given that they have to fill in the questionnaires on their own it is crucial that I&P explains well why it is collecting the data, that it is not a performance evaluation, that all data will be treated with confidentiality, etc., otherwise there is a high risk that the investee will not fill in the survey as needed (i.e. there might be an incentive to lie for the investee).

After data is collected through the self-filling, consistency checks are performed. A first check is performed by the research officer, who makes sure that the information received is complete. Data checks are mostly guided by previous knowledge of the SME and common sense: the team compares the investee with other companies from the same sector/country and with previous year's results. If discrepancies or strange results are found, a second check is performed by the ESG and impact measurement team to point out eventual inconsistencies. In one instance, for example, the data provided showed that the SME had destroyed jobs instead of creating them. Thus, a second check had been necessary in order to understand whether the respondents had made a mistake in answering the question or the discrepancy was correct and the causes needed to be analysed further.

The information collected can then be checked and integrated by using public sources, such as the company books, etc.

I&P does not involve a third party when collecting or analysing impact data collected through the investees' surveys.

All data is currently stored using an excel file. However, there is an increasingly pressing data aggregation issue. By now I&P has invested in many SMEs so the dataset is growing very fast. Therefore at the moment I&P is considering whether to opt for using another tool to aggregate the data.

Assessing organisational performance[60]

I&P monitors the performance of its investees by means of a questionnaire that is part of its impact measurement tool (see Sheet F3 of the excel file, presented in Step 3). Thanks to an internal rating scale from 0 to 4, I&P can assess the organisational performance of its investee companies.

60 I&P Afrique Entrepreneurs. Annual ESG and Impact Reporting, I&P Gestion, End March 2015, page 10.

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This yearly rating is very useful to design I&P's support towards the management team, through **mentoring** and **technical assistance** missions.

The **capacity building dimensions** are defined with the investee and their progress over time is monitored during investment period. Capacity building encompasses all operational dimensions, such as financing tools, management capacity, etc.

Figure 17[61] shows the average organisational performance of IPAE's investee companies.

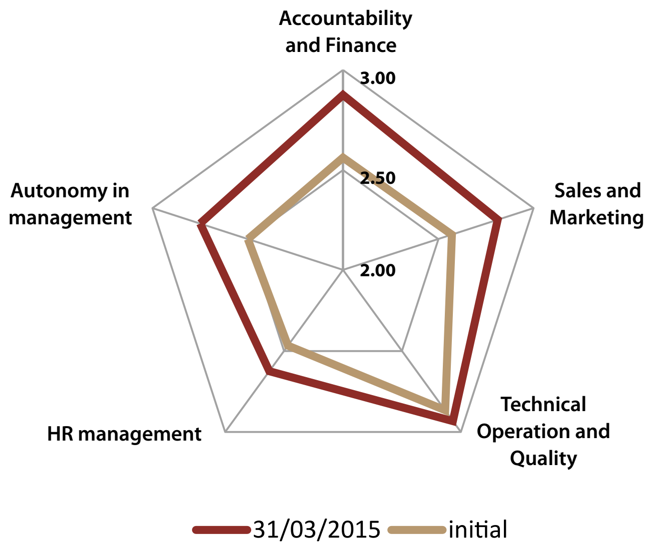

Figure 17: Average organisational performance of IPAE's investee companies

As shown in the figure above, calculating the average organisational performance of IPAE's investee in 2014 and 2015, **companies are improving** on all dimension. Thus, the support provided by I&P to assist the entrepreneurs and the management teams in the development of IPAE's partner companies and to strengthen their autonomy over the years is useful. Despite these promising results and entrepreneurs reporting the technical assistance offered very valuable, I&P cannot claim attribution.

Reporting[62]

I&P creates different reporting documents depending on the stakeholders it is sharing it with. Each time a report needs to be created the team brainstorms about what to aggregate and to report.

At **investor** level, the principle is always to report the most meaningful impact data.

61 Source: I&P Afrique Entrepreneurs. Annual ESG and Impact Reporting, I&P Gestion, March 2015, page 10.

62 This section refers to the following document: "*I&P Afrique Entrepreneurs. Annual ESG and Impact Reporting*", end of March 2015.

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ESG and Impact Reporting

I&P provides a comprehensive "**ESG and impact**" **report** to its **fund investors** on an annual basis, for the moment only for the IPAE investments, then the reporting activity will be implemented for IPDEV 2 and for all the future investments. This report generally includes:

1. an update on their **ESG portfolio strategy** and **impact strategy**
2. a review of investee companies' **measurable impacts** on all **stakeholders**;
3. a review of the development on the **ESG objectives** of the investee companies.

In addition, since I&P carries out **a detailed impact evaluation** on one of their investees each year it also provides a separate report on that to its investors. For the SMEs for whom I&P, together with the team of (IM)PROVE, developed a comprehensive case study (i.e. Nutri'Zaza, Biotropical), a presentation of the activity, of the stakeholders, of the country context, of the general problematic, and of the methodology used, are described in the final report.

Investees' evaluation reports

The results of the questionnaire are shared with the investees, but due to time constraints I&P does not do an extensive reporting to its investees on the results of the questionnaire. However this analysis is accessible and every year I&P **shares with each investee the specific impact report**. The practice of sharing the single-investee impact report is raising increasing interest among the investees. Usually the investees are happy to see how their impact translates into figures. This increases their commitment and gives rise to concrete actions.

Building on this experience, I&P has started using the data collected from the investees at the meeting it organises annually for its entrepreneurs. The focus in 2015 was on "Human resources" in the perspective of social responsibility towards entrepreneurship". I&P provided investees with benchmarking data from three years, across I&P companies on human resources and CSR towards the employees (e.g. health coverage, health and safety). This information gives I&P's investees a picture of where they stand vis-à-vis other investees, to assess the areas of weakness each investee needs to work on. The exercise should, on one hand, help investees improve their work and, on the other hand, make the investees understand the value of impact measurement.

For I&P such gatherings are the first step towards giving individual and detailed feedback to the investees.

Reporting to the I&P team

The ESG and impact measurement team reports to the all I&P's staff members the results of the regular review of ESG and impact performance at both the investee and portfolio levels in the following way:

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- bi-annual meetings with the investment team to review ESG & Impact performance per partner company;
- annual collective review of portfolio & investee ESG & Impact performance;
- based on this review, strategic thinking about the ESG & Impact strategy and the new investment vehicles to be launched.

Other types of reporting

In 2015 I&P[63] launched an innovative form of reporting, a series of videos within a project called: "Small is powerful" – An advocacy project on the contribution of African SMEs to the development of the African continent[64].

Apart from the videos, I&P produced a series of photographs that show how SMEs generate impact in Africa.

The main goals of the project were to:
- **fight against stereotypes** on how African economy and society are now perceived;
- **support and promote the reality of African entrepreneurship** which is rich and dynamic, carrying prospects for the future;
- **produce visual and analytical content** allowing an efficient case to be made for these entrepreneurs committed to this dynamic, and who are vital contributors supporting African growth.

Thus the target of this type of reporting is wide and the communication potential is broad. I&P aims to reach and raise awareness among the broader community, public and decision makers and other potential investors, in showing how entrepreneurs and African SMEs are a vector of growth of the continent, so that more resources can be attracted to finance impactful SMEs in Africa.

Key Issues and Learnings for Step 5

Monitoring:

1. *Data collection is a learning process* – In terms of the process followed to collect data, the first time the investee has to fill in the survey, the investment manager and the research officer should take the time to explain it to the team. However, once the SME is capable of filling in the questionnaire, more time could be allocated by I&P investment managers to check the data than what is planned now.

2. *It's hard to find a balance between resources and precision* – As the current system is not efficient, an option would be to have **interviews** directly with the investees to collect data. However, due to time constraints, this is not yet possible. **Self-reporting** is not the best

63 Project managers: **Emilie Debled**, I&P's PR and Business Development Director and **Clémence Bourrin**, I&P's Communication and Fundraising Officer.
64 For more details see: http://www.smallispowerful.fr

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option to collect data, but it is the only one currently manageable given the workload and time constraints of the investment team. Conversely, organisational performance is assessed by the investment team and not self-assessed by the investee and this means more objective criteria are used. Data collection is and remains a challenge, but I&P continues looking into different options to optimise the process making it more efficient.

Reporting:

1. *Aggregating data for reporting is technically difficult* – At the moment I&P is moving from an Excel-based system to a system employing use Visual basics, which gives a better visual idea of the results to the different stakeholders and to have a more articulated impact reporting.

2. *It is difficult to find data to benchmark* – One issue for **reporting** at the moment is the development of more **benchmarks**. I&P has realised that there is a need for benchmarking data to see how the SMEs financed compare to others in Africa. The issue is that a lack of benchmarking data makes it impossible to build the counterfactual (i.e. to determine what would have happened without I&P's intervention). Currently, when reporting the results of the SMEs it invests in, I&P compares trends on job creation to data for sub-Saharan Africa or turnover statistics for the investees VS the GDP growth of the country they are active in. Although not optimal, this second best solution is the best available for I&P at the moment.

   One option I&P is currently exploring to have comparable results is to go through the **GIIRS**[65] evaluation. If I&P decides to go through with the approach, it will do so in 2016 on 2015 data. However, a blocking factor is preventing I&P to go through with GIIRS: the potential work burden for the investees. GIIRS is in fact not too expensive, as the price for the assessment depends on the size of the investment fund. However, GIIRS foresees interviews with 70% of I&P's investees, which could be too time consuming.

   I&P is also working on finding benchmark information on specific topics. For example, analysing the results on the gender issue, I&P found that the situation is not optimal within its investees and that benchmarks are needed to better evaluate the strengths and weaknesses of its approach. By analysing the impacts per company profiles (sector, size, etc.) in further detail, I&P was able to assess in which sector it has the strongest impact. This learning will guide the strategic definition of new funds (IPDEV 2).

65 GIIRS (pronounced "gears," stands for Global Impact Investing Rating System) is a system for assessing the social and environmental impact of developed and emerging market companies and funds with a ratings and analytics approach analogous to Morningstar investment rankings and Capital IQ financial analytics. It seeks to spark the impact investment industry by providing a tool that is intended to change investor behaviour and unlock sidelined investment capital through comparable and verified social and environmental performance data on high impact funds and companies seeking investment capital. GIIRS Ratings & Analytics has the largest database of social and environmental performance data for private companies and funds, and it is the first and only platform that provides ratings, data, research, and analytics for impact investing. (Source: www.thesroinetwork.org/publications/doc_download/441-sroi-and-giirs).

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3. *Hard to work with many investors who have many different requirements for reporting*. Another issue to be solved is the presence of too many investors, and sometimes investors ask for some specific indicators and/or specific format of reporting (i.e. Proparco asked for information related to gender). So it is difficult for I&P in terms of reporting and selection of relevant indicators. However I&P every year asks its investors for feedback about the reporting format but it is always difficult to receive answers, also due to time constraints.

4. *It would be useful to have an external evaluator for the reporting* – it could improve even more the entire impact measurement process, helping I&P in structuring and enhancing its methodology.

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Managing Impact at I&P

For I&P, impact measurement is closely aligned to the investment management process, as shown in this section.

Deal Screening[66]

The investee is clearly the primary stakeholder because for I&P it is crucial to choose the right entrepreneur and the right investment that can contribute to the portfolio-wide developmental impact goals. This implies that the deal screening and due diligence phases are central in I&P's investment process, as the in-depth analysis that is performed during these two phases is instrumental to assess whether a good investment in terms of financial return is also a good investment in terms of social impact achievable. For example, once I&P had to decide whether or not to invest in an SME producing beer. Despite the potential the business had to become sustainable and to contribute to generate employment in the area where it was active, I&P decided not to invest due to the potential ethic challenges and negatives externalities driving from the production of alcoholic beverages (e.g. alcoholism).

During the deal screening phase I&P assesses whether the investment proposal is in line with its policies and guidelines and conducts an assessment and rating of the main ESG-related risks and opportunities.

Due diligence

In the due diligence phase, I&P reports having made a lot of progress compared to what it used to do in the past.

Now during the due diligence phase the investment team performs an in-depth screening of the ESG practices to assess if there is a match between I&P and the SME in terms of ESG values and whether I&P can help the investee company improve its ESG practices.

When I&P needs to decide whether or not to invest in an SME, the potential social impact of the company on its stakeholders is a main selection criterion and an integral part of the rationale for investing. However, not all SMEs I&P invests in can be defined as social businesses a priori, as the social component is not the core focus of the company. As these SMEs or microfinance institutions meet essential needs and support the development of less developed areas operating in Africa, they are considered by I&P as businesses achieving long-term social impact goals.

I&P looks for a match on philosophy and shared values when it decides whether or not to invest. Therefore not all the SMEs I&P invests in are explicitly driven by specific social

66 Source "I&P Afrique Entrepreneurs. Annual ESG and Impact Reporting, I&P Gestion, 31st March 2014", pages 48-49.

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objectives. However, they are interested in developing their local stakeholders (employees, suppliers, local communities, etc.) so they do have an embedded social commitment. In I&P's experience, African entrepreneurs are very committed to work on local development, but not specifically on a specific impact dimension, such as create jobs, build local sectors that did not exist etc. However, they see a value in developing the local community they are part of.

As an integral part of the investment assessment, I&P conducts an in-depth analysis of ESG-related matters – Environmental, Social and Governance – and, if applicable, I&P incorporates the specific sectorial guidelines from the IFC's Performance Standards[67].

Within this phase, thanks to field visits to the SME in Africa, and meetings with management and other stakeholders, I&P elaborates a preliminary analysis on its potential investees.

To do that, I&P developed an "**ESG risk assessment methodology**" and **tool** that combines:
- the *ESG gross risk* that depends on the company's sector, the operation's size, the country, etc. The gross risk indicates which investment requires more thorough attention from an ESG perspective. And
- the *quality of the risk management* by the investee company itself.

This analysis allows I&P to assess the *ESG Net Risk* – high, medium or low – that its potential investees bear.

This analysis allows I&P to better understand the conditions in which its potential investees work in order to choose whether to invest or not.

Figure 18[68] shows how I&P calculates the risk profile of an investment.

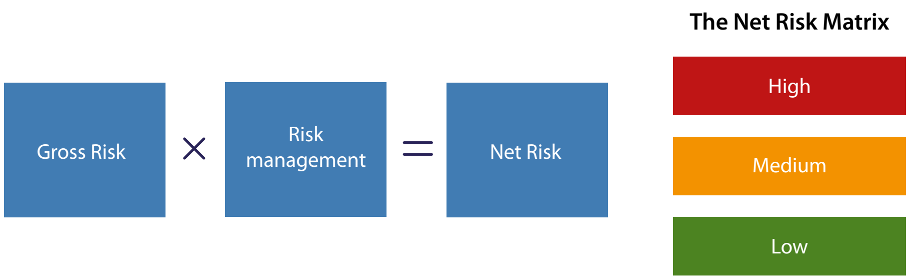

Figure 18: Current benchmarking of I&P investees' turnover growth vs. GDP growth

According to the sector, the size and the structure of the deal the SME is categorised as high/ medium and low risk. This assessment is directly derived from the CDC toolkit[69], a toolkit

67 Environmental and Social Performance Standards (from the International Finance Corporation of the Word Bank Group) define responsibilities for managing environmental and social risks.

68 Source: I&P Afrique Entrepreneurs. Annual ESG And Impact Reporting, End March 2015, p. 4.

69 Rosencrantz & Co (2010). "*Toolkit on ESG for fund managers. Adding value through effective environmental, social and governance*" (ESG) management". CDC Group plc.

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for fund managers investing in third world countries. Thanks to the toolkit I&P determines the gross risk and then assesses how the risk is managed. By deducting the risk management profile from the gross level of risk the SME is evaluated in terms of net risk. This approach is different, as it develops a matrix (in the figure above), in which the risk management plays a role in reducing the perceived risk of the investment. This approach can be a bit "theoretical" and schematic, but it serves the purpose of including all dimensions in the assessment of risk. In the reporting document, each SME has a matrix assessing the level of risk.

During the due diligence, the investment team is asked to fill in a sheet which aims at testing the impact of the SME ex-ante. This ex-ante screening of the investment uses various impact criteria, weighted according to their relative importance (for example, I&P considers employment creation as the most important criteria).

The tool allows I&P to take a "prospective approach" to impact and helps I&P to:
- be more concrete in choosing the investment by:
  - having an objective view when deciding whether or not to invest (i.e. no investment if impact is too low. If for example the investment meets less than 50% of I&P impact criteria it would be a no-go);
  - having a way to make a comparison between financial and impact performance; the tool should be useful to compare the financial performance and impact profile of the SME, by asking questions such as: "Are we in the scope of our mandate if we invest in…";
- have something tangible to start the discussion on impact in the investment team;
- have a tool that reminds the investment team about impact, helping the investment manager think more about impact.

I&P would particularly value technical assistance in this phase, because it would allow the VPO to perform in-depth detailed impact evaluations. In this phase it is important to work with local teams, train them, and technical assistance would be crucial. However, DFIs do not want to provide technical assistance in this phase. I&P has very limited budget for the due diligence phase, so technical assistance is often cornered in favour of more detailed financial audits. Thus detailed environmental audits are not possible due to budget constraints. This is a pity for energy efficiency issues, because by looking at them early in the process the SME could be implementing more efficient solutions from the start, i.e. by buying more efficient equipment.

Deal Structuring

Having a scorecard to measure the situation of the SME and its potential impact before the investment is made is a way to measure the additionality of the intervention of I&P, i.e. to measure the importance of I&P's intervention for the success of the investee company.

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Elodie Nocquet worked on integrating ESG in the management process; to include it in all steps of the investment memorandum. Investment managers should talk about ESG practices from the outset of the relationship with the SME.

At the beginning, integrating the ESG practices was – says Elodie – a huge challenge. When the team was young and inexperienced it was difficult to introduce detailed ESG analysis during the due diligence and monitoring phases. Additionally, having a long-term view is hard when you are thinking about how to make it to the next month, which is the case for some of the investees I&P supports.

Investment Management

I&P's impact measurement scorecard is well implemented in the due diligence phase, and less effective in the monitoring phase. The monitoring phase is more complex, as the investees have less time to deal with impact measurement issues, and they are not seen as a priority.

At the beginning, I&P was not explaining well enough the impact measurement process to its investment management team but then – learning from its mistakes– it started organising specific seminar session on ESG & impact measurement to train and educate both the investment team and its investees (entrepreneurs) on impact measurement. Elodie admits that I&P did not work enough on educating the entrepreneurs at the beginning, and this generated some failures. However, the situation was turned around, also thanks to the support from the top of I&P, and now people in the whole I&P team are raising ESG issues.

Exit

So far I&P has exited twelve investments, either to the initial entrepreneur, or to existing investor (co-investors), or by selling to strategic players active in the same field through trade sales.

Although one option could have been to exit from IPDEV to IPAE, I&P never performed such an exit, to avoid conflicts of interest.

All the companies exited so far were investments made through IPDEV, so I&P did not measure impact neither during the investment nor at the time of exit.

However, when exiting I&P always values impact considerations above financial return considerations, even when this approach implies accepting a lower financial return. For example, during one of the trade sales in Mali, I&P decided not to explore possible exits to big international players, but to a small French company already shareholder of the company, achieving a lower IRR. Doing so, I&P avoided that the SME lost part or all of its impact after exit.

Similarly, structuring the deal in such a way that favours the exit to the entrepreneur often means capping the expected financial return.

Appendices

APPENDICES

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APPENDICES

I&P Documents and Presentations

- "I&P – An Impact Investment Group dedicated to African entrepreneurs", June 2015.
- "I&P Impact Measurement & Management", June 2015
- "I&P – Unlocking Equity for Early-Stage African Entrepreneurs", EVPA Site Visit, June 2015, Presentation of IPDEV 2 by David Munnich
- "*Small is powerful* – An advocacy project on the contribution of African SMEs to the development of the continent", June 2015.
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Reach for Change Documents and Presentations

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- **Reach for Change**, (2014). "Social Impact report 2014".

Internal documents explaining Reach for Change's approach to impact measurement:
- Introduction to the Pathway of Change
- Introduction to the Development Survey
- An Introduction to Impact Management at Reach for Change
- Pathway of Change – Guidelines for Change Leaders

The Surveys used by Reach for Change:
- Key Measures Survey
- Applicant Survey
- Change Leader Survey
- Development Survey

Websites

- Bates Wells Braithwaite (BWB) Impact: http://www.bwbllp.com/
- Business Model Canvas: http://www.businessmodelgeneration.com/canvas/bmc
- CERISE: http://www.cerise-spi4.org/
- Convention on the Rights of the Child: http://www.ohchr.org/en/professionalinterest/pages/crc.aspx
- European Investment Bank: http://www.eib.org/
- European Investment Fund: http://www.eif.org/
- EVPA Tool to plan, deliver and value non-financial support: http://evpa.eu.com/research-and-policy/knowledge-centre/non-financial-support-process-tools/
- FISEA: http://www.proparco.fr/lang/en/Accueil_PROPARCO/fisea-proparco
- Global Impact Investing Rating System (GIIRS): www.thesroinetwork.org/publications/doc_download/441-sroi-and-giirs
- HEC Paris: www.hec.edu/
- Impact Investing Luxembourg: http://www.impact-investing.eu/who-we-are
- Investisseurs et Partenaires: http://www.ietp.com
- IRIS Metrics: https://iris.thegiin.org/metrics
- Logical Framework: http://en.wikipedia.org/wiki/Logical_framework_approach
- Logic Model: https://en.wikipedia.org/wiki/Logic_model
- Objectives and Key Results (OKR): https://weekdone.com/resources/objectives-key-results
- (IM)PROVE: http://www.im-prove.fr/
- Proparco: http://www.proparco.fr/site/proparco/Accueil_PROPARCO
- Reach for Change: http://reachforchange.org/en/
- Small is Powerful: http://www.smallispowerful.fr
- The Stenbeck Foundation: http://www.hsstiftelse.se/en
- Theory of Change: www.theoryofchange.org

List of interviewees

- Investisseurs et Partenaires: **Elodie Nocquet** and **Pierrick Baraton** (Paris, 6th of March 2015) and **Elodie Nocquet** (Paris, 23rd of June 2015)
- Reach for Change: **Annica Johansson** and **Marlene Claesson** (Stockholm, 15th of April 2015 and 16th of June 2015)

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Glossary

Activity
The concrete actions, tasks and work carried out by the organisation to create its outputs and outcomes and achieve its objectives, i.e. what is being done with the available resources by the VPO or the SPO (the intervention).

Additionality
The property of an activity being additional. It is a determination of whether an intervention has an effect, when the intervention is compared to a baseline.

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

Beneficiaries
The people, communities, broader society and environment that a SPO seeks to reach through its activities. Beneficiaries can be affected positively or negatively by the activities of the SPO.

Contributors
The people, communities, broader society and environment that contribute to the SPO performing its activities. Contributors can enhance or decrease the effect of the activities of the SPO.

Deadweight
Deadweight is the change that would have happened anyway i.e. the outcomes the beneficiaries would be expected to experience if the organisation were not active. This is sometimes called the "baseline" or "counterfactual". Deadweight includes the progress or regress beneficiaries typically make without the organisation's intervention.

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

Drop-off
Drop-off occurs when, over time, the effects of the output and the observed out-comes decreases (e.g. beneficiaries relapse, lose the job attained, revert to previous behaviours). The organisation's definition of its outcomes sets the scope for how long they are expected to last. Drop-off occurring within this period is accounted for in assessing the organisation's true impact.

Framework (for Impact Measurement)
For each major area of social enterprise interventions, a list of the most usual outcomes being targeted, and, for each of these outcomes, a series of sub-outcomes that again appear most regularly. Examples would include, for an intervention relating to supporting ex-prisoners at risk of reoffending, outcomes such as not re-offending over a twelve-month period, and gaining full time employment, with sub-outcomes of engaging in retraining for the workplace, and keeping on a substance abuse support programme, and changing social circle to engage with mentors

Global Value Exchange
Global Value Exchange is a database of values, indicators and outcomes for stakeholders.

Impact
See: *Social Impact*

Impact investor
See: *Social impact investor*

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

Indicator
A particular way of attaching a value or measure to those outcomes and impacts. Indicators are specific and measurable actions or conditions that assess progress towards or away from outputs or outcomes. Indicators may relate to direct quantities (e.g. number of hours of training provided) or to qualitative aspects (e.g. levels of beneficiary confidence).Examples include financial measures of savings in state funding, or productivity gains, well-being scores, etc.

Inputs
The resources, whether capital or human, invested in the activities of the organisation and used in the delivery of the intervention.

Investee
A SPO that receives investment from a VPO/SI.

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Investment
We use investment throughout this document as including the range of financing instruments from grants, loans to equity.

IRIS
IRIS is the Impact Reporting & Investment Standards initiative of the Global Impact Investing Network ("GIIN") and was developed to provide a common reporting language for impact related terms and metrics.

IRIS indicators
IRIS indicators are a set of standardised metrics that can be used to describe an organisation's social, environmental and financial performance.

Logic Model
A logic model (also known as program matrix) is a tool used by funders, managers, and evaluators of programs to evaluate the effectiveness of a program. Logic models are usually a graphical depiction of the logical relationships between the resources, activities, outputs and outcomes of a program. While there are many ways in which logic models can be presented, the underlying purpose of constructing a logic model is to assess the "if-then" (causal) relationships between the elements of the program; if the resources are available for a program, then the activities can be implemented, if the activities are implemented successfully then certain outputs and outcomes can be expected. Logic models are most often used in the evaluation stage of a program, they can however be used during planning and implementation.

Minimum Questions to be Asked (method)
It is possible to extract the commonalities of the various tools that use the theory of change and logic model, such as social return on investment (SROI) and the balanced scorecard to come up with a recommended list of four questions that at a minimum a social enterprise should answer. This approach is embraced in the EVPA Guide:

What is the social problem or issue that the social enterprise is trying to solve?

What activities is the social enterprise undertaking to solve the social problem or issue?

What resources or inputs, as per the impact value chain, does the social enterprise have and need to undertake its activities?

What are the expected outcomes?

This should include what the social enterprise must achieve in order to be considered successful and will form the basis of the milestones against which the social enterprise will be measured.

These questions are in line with the logic model but do not specifically ask that causal links between inputs, outputs, outcomes and impacts be established.

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

Organisation
In this case an entity working to bring about positive social impact i.e. the term includes SPOs and VPO/SIs.

Outcomes
The changes, benefits, learnings, or other effects (both long and short term) in the lives of beneficiaries and others that result from the organisation's activities.

Outcomes matrix
A classification tool, developed by Big Society Capital in combination with Investing for Good and other UK based VPOs, for use by investors and SPOs to map areas in which, and beneficiaries for whom, their impacts are being achieved.

Outputs
How that activity touches the intended beneficiaries, i.e. the tangible products and services that result from the organisation's activities.

Process (for Impact Measurement)
The series of steps or stages by which a Social Enterprise or Fund investigates, understands and presents how its activities achieve change (outcomes) and impact in the lives of service users and stakeholders

Social Impact
The attribution of an organisation's activities to broader and longer-term outcomes. To accurately (in academic terms) calculate social impact you need to adjust outcomes for: (i) what would have happened anyway ("deadweight"); (ii) the action of others ("attribution"); (iii) how far the outcome of the initial intervention is likely to be reduced over time ("drop off");

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(iv) the extent to which the original situation was displaced elsewhere or outcomes displaced other potential positive outcomes (“displacement”); and for unintended consequences (which could be negative or positive).

“The reflection of social outcomes as measurement, both long-term and short-term, adjusted for the effects achieved by others (alternative attribution), for effects that would have happened anyway (deadweight), for negative consequences (displacement) and for effects declining over time (drop off)”, (GECES, 2014).

Social impact investor (“SII”)
An organisation pursuing a social impact investment approach.

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

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

Social return on investment (“SROI”)
Social return on investment is a framework for measuring and accounting for the broad concept of value. It tells the story of how change is being created by measuring social, environmental and economic outcomes and uses monetary values to represent them. This enables a ratio of benefits to costs to be calculated e.g. a ratio of 3:1 indicates that an investment of €1 delivers €3 of social value.

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

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

“Theory of Change is essentially a comprehensive description and illustration of how and why a desired change is expected to happen in a particular context. It is focused in particular on mapping out or “filling in” what has been described as the “missing middle” between what a program or change initiative does (its activities or interventions) and how these lead to desired goals being achieved. It does this by first identifying the desired long-term goals and then works back from these to identify all the conditions (outcomes) that must be in place (and how these related to one another causally) for the goals to occur. These are all mapped out in an Outcomes Framework.” Source: www.theoryofchange.org

Examples of methodologies commonly used to derive the Theory of Change are the Logic Model, the Theory of Value Creation and the Minimum Questions

Theory of Value Creation
The Theory of Value Creation (ToVC) has evolved out of thinking from Michael Porter and Mark Kramer on Shared Value, and Jed Emerson on Blended Value. It defines the mechanisms through which value is created for the stakeholders.

Venture philanthropy (“VP”)
Venture philanthropy is an approach that includes both the use of social impact investment (equity and debt instruments) and grants. The key characteristics of venture philanthropy include high engagement, organisational capacity-building, tailored financing, non-financial support, involvement of networks, multi-year support and societal impact measurement.

Venture philanthropy organisation (“VPO”)
Organisations following the venture philanthropy approach.

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The European Venture Philanthropy Association (EVPA)

Established in 2004, EVPA works to enable Venture Philanthropists and Social Investors to maximise societal impact through increased resources, collaboration and expertise.

EVPA's membership covers the full range of venture philanthropy and social impact investment activities and includes venture philanthropy funds, social investors, grant-making foundations, impact investing funds, private equity firms and professional service firms, philanthropy advisors, banks and business schools. EVPA members work together across sectors in order to promote and shape the future of venture philanthropy and social impact investment in Europe and beyond. Currently, the association has 214 members from 29 countries, mainly based in Europe, but also outside Europe showing the sector is rapidly evolving across borders.

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

http://www.evpa.eu.com

EVPA is grateful to **Fondazione CRT** for the support of its Knowledge Centre

EVPA is grateful to **Acanthus Advisers**, **BMW Foundation** and **Omidyar Network** for their structural support

ISBN 9789082494013

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