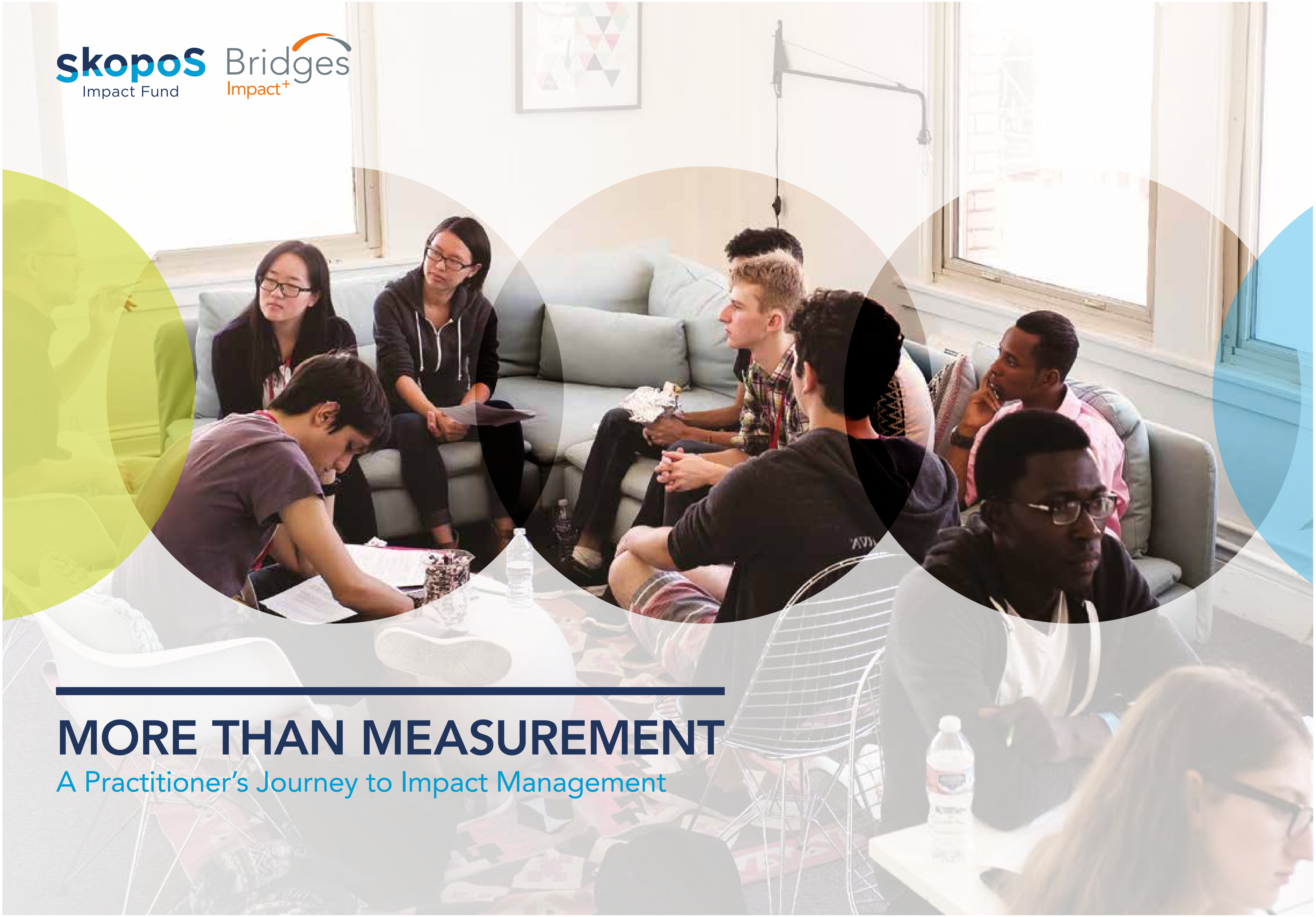
skopoS Impact Fund

Bridges Impact+



MORE THAN MEASUREMENT

A Practitioner's Journey to Impact Management

CONTENTS

Cover photo credit: Minerva, an independent schools group, backed by Learn Capital

About this Document

This document describes our development of an impact management approach, which we define as the management of assets in order to meet explicit impact goals (alongside financial goals). It is primarily intended for existing or prospective impact investors – although we hope the logic can also be relevant for other practitioners engaged in philanthropy and sustainability, in the interests of coordinating the various approaches to creating societal impact.

About Skopos Impact Fund

Skopos Impact Fund ('Skopos') is a global, private, investment fund with the aim to promote human dignity, just societies and sustainability through impact investing. Skopos further aims to help the impact investing field develop to achieve greater scale, visibility and impact.

The capital that Skopos invests is allocated from the charitable endowment established by the Brenninkmeijer family entrepreneurs.

The fund builds on a heritage of charitable engagement that dates back to Clemens and August Brenninkmeijer, the two brothers who founded the clothing retailer C&A in 1841. As the business grew and expanded globally, the generations of the Brenninkmeijer family that followed, continued and solidified that tradition of private charitable giving. Skopos was incorporated with an initial allocation of €100 million and issued its first commitments in the fall of 2014.

About Bridges Impact+

Bridges Ventures ('Bridges') is a specialist fund manager, focused on opportunities where investments can generate investor returns through helping meet pressing social and environmental challenges. In pursuing this strategy over the last fourteen years, Bridges has developed a range of investment vehicles across three main fund types – Sustainable Growth Funds, Property Funds and Social Sector Funds.

Bridges is committed to maximising the impact of the funds it manages and to growing the wider industry in which they operate. In that spirit, they established their advisory function, Bridges Impact+, to equip their internal teams with best practice and to leverage that practitioner experience to support a wide range of external clients – from investors to corporations to governments to charities. Their approach combines research and development of frameworks and products with hands-on advisory services, all rooted in practical experience.

INTRODUCTION

A Letter from Skopos Impact Fund & Bridges Impact+

When Skopos Impact Fund launched in 2014, its approach was to invest in sectors that seemed intuitively to generate impact, such as education. But how would we know if these impact investments were successful? Skopos started by looking at the various impact measurement methodologies available. However, it proved difficult to draw meaningful conclusions about how well the fund was performing from an impact perspective.

At this point, Skopos enlisted the support of Bridges Impact+, the advisory arm of Bridges Ventures. Together, we came to realise that *Skopos' challenge was not measurement per se; it was a lack of clarity about what success looks like.*

From measurement to management

For instance: say a €2.5 million Skopos investment reports that 2,500 low-income girls in Kenya are now accessing higher education. That sounds good but does this constitute a successful investment? Is creating access to higher education for low-income girls in Kenya a priority for Skopos? Does higher education necessarily produce (or predict) better life outcomes for those girls? If it does, are their lives improved in line with Skopos' ambition, and does that improvement justify the risk taken to make that happen? Would the girls have accessed higher education anyway, without Skopos' investment – and does that matter to Skopos? Is the investment cost-effective, or could Skopos have enabled more girls to have better outcomes by allocating an equivalent amount elsewhere?

Finally, does Skopos care if unintended outcomes are occurring, positive or negative, as those girls attend higher education classes?

Traditional investment provided us with a helpful paradigm. Successful financial performance is typically determined according to whether it reflects the underlying goals of the investor – in terms of liquidity, financial risk and financial return. Applying a similar logic to impact performance meant that our starting point was to get a good understanding of Skopos' impact goals.

The result was an impact management approach, of which measurement is but one critical part. This short document is our attempt to share the conclusions we reached, the challenges we encountered along the way and what we would do differently.

In search of a shared convention

We are sharing our experience and conclusions in a spirit of openness and collaboration. The growth of the traditional asset management industry has been possible not just because we have common currencies and accounting standards but also because we have developed a shared language (financial risk, return and liquidity) and shared frameworks (asset classes and portfolio construction norms) to describe, align and manage against our respective financial goals. *Our hope is that this paper can prompt an exchange of ideas that might lead to a shared convention for describing impact goals.*

Why does this matter? Different impact investors have different impact goals. Sometimes they have the same goals but talk about them in different ways (that was certainly true even within Skopos). A common language and framework can help us to identify where our goals do and do not align with one another. Without this shared convention, we risk frustrating the end users we are trying to reach, or the entrepreneurs that serve them, or the asset owners at the other end of the chain. Ultimately, that will make it harder to direct our capital to those who need it most.

We welcome and look forward to your feedback.

Clara Barby (Bridges Impact+)
& **Lisa Hall** (Skopos Impact Fund)

Throughout the document, "we" refers to the Bridges Impact+ team and the Skopos Impact Fund team, as we worked together to develop an impact management approach for Skopos.

EXECUTIVE SUMMARY

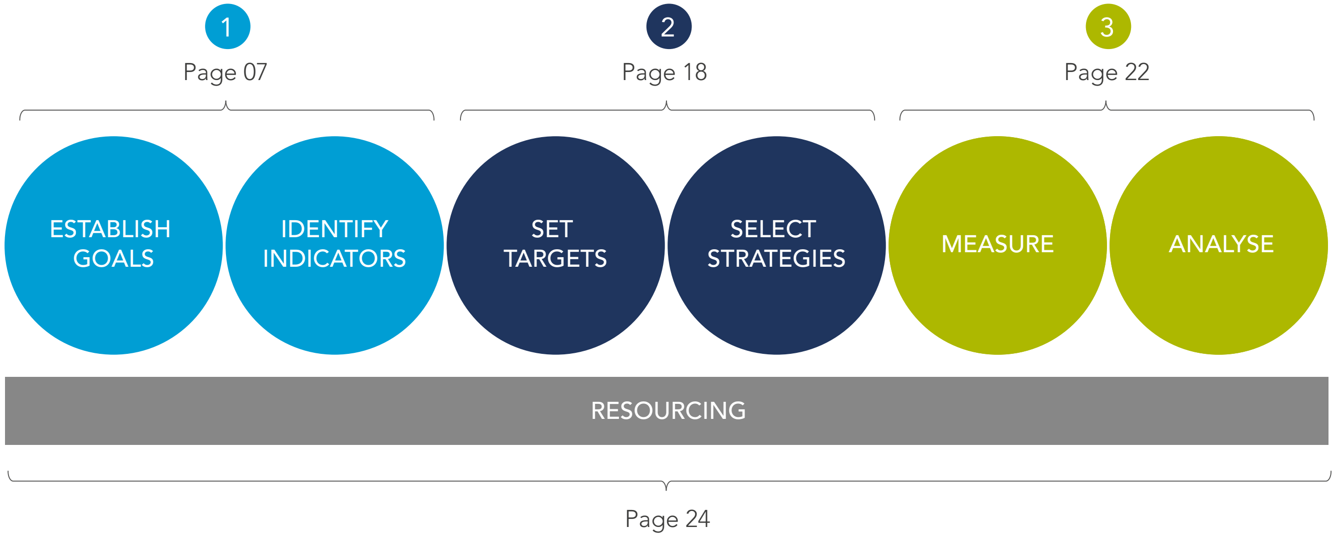
This document describes the development of an impact management approach – which we define as the management of assets in order to meet explicit impact goals (alongside financial goals).

There has been a great deal of focus to-date within the impact investing field on the challenges of impact measurement (all of it urgently needed). In trying to measure Skopos' effectiveness as an impact investor, however, we encountered another fundamental challenge: measuring impact performance (even if possible) does not in itself allow Skopos to draw any meaningful conclusions about whether their impact investments are a success.

Skopos Impact Fund therefore engaged Impact+, the advisory arm of Bridges Ventures. Together we developed an impact management approach, which has six parts.

In practice, we found that these parts are grouped together into *three steps* of an *iterative process:*

Figure 1: The Impact Management Approach



1 STEP 1: DEFINE WHAT SUCCESS LOOKS LIKE

By understanding the type and level of impact that is sought (GOALS) and identifying indicators that show it being achieved (INDICATORS), we know what success looks like. *For example, if an investor's goals include sufficient income for low-income agricultural workers in rural Tanzania, then a relevant success indicator might be the number of individuals now earning a living income (or the best possible proxies for that).*

2 STEP 2: CHOOSE STRATEGIES MOST LIKELY TO ACHIEVE OUR DEFINITION OF SUCCESS

By looking at the expected achievement (TARGETS) of different investment opportunities, we can select investments (STRATEGIES) with the greatest potential to achieve our goals. *For example, there are a wide variety of sectors, business models and outputs that could drive the indicator of agricultural workers earning a living income – from improved roads (the infrastructure sector) or mobile connectivity (the telecommunications industry) to higher-yielding seeds or cold storage (both agricultural in terms of sector but very different outputs). To judge whether a strategy of investing in cold storage makes sense, we can look at the investment's targets and weigh them up relative to our best available comparable option to deliver the same indicator, relative to the investment's level of impact risk.*

3 STEP 3: UNDERSTAND WHETHER SUCCESS IS OCCURRING AND RESPOND AS NECESSARY

By measuring strategies' performance against their targets (MEASUREMENT), we can determine if they are achieving our goals – or whether to adjust our strategy, our indicators, or even our goals (ANALYSIS). *For example, if the Strategy of cold storage has an outcome target of 50,000 agricultural workers in rural Africa achieving a living income (perhaps driven by increased revenue due to less post-harvest waste), then post-investment impact measurement showing that 30,000 agricultural workers are now earning a living income prompts analysis, regardless of how impressive that number may seem in isolation.*

Three Steps of an Iterative Process

The impact management process is not linear; it creates a series of feedback loops.

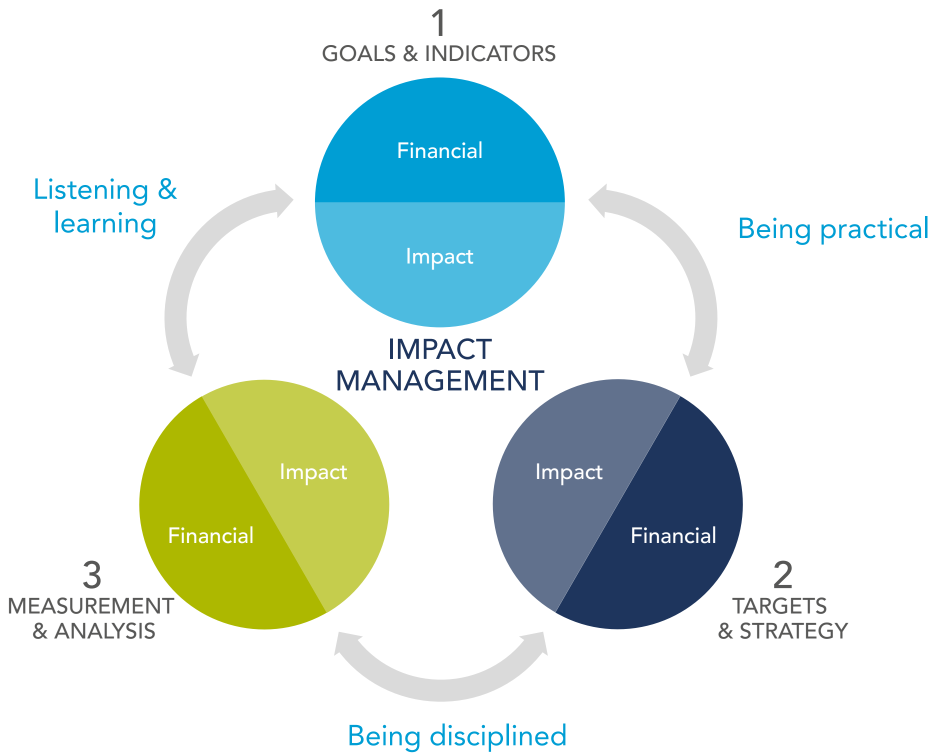


Figure 2. The Impact Management Process

Being practical

A lack of available strategies whose impact indicators – or financial targets – align with our own may require us to widen our goals.

Being disciplined

Post-investment, measurement & analysis of poor performance may signal the need to find an alternative strategy (to achieve our indicators). But measurement can be just as important pre-investment, since measurement of historical impact performance enables us to scrutinise targets in the first place – and therefore select strategies with the best chance of achieving our goals.

Listening & learning

The practice of goal-setting does not mean being rigid; it asks us to be transparent about – and agree on – expectations with all parties in the same value chain. If what we learn encourages us to adjust our goals, in terms of type or level of impact sought, what matters is that we re-set expectations explicitly, with buy-in from relevant stakeholders.

For example, if listening to end users (measurement) teaches us that they are benefitting but not in the way we expect (or our intended end users are not benefitting but other end users are), we could look for a different strategy (that can deliver our original expectations). But we may instead choose to change our goals, by adjusting the type of impact we seek.

Or, if it proves impossible to measure a strategy's progress against targets because the data cannot be collected in an affordable or timely manner, more realistic 'proxy' indicators need to be chosen. This effectively asks us to increase our level of impact risk tolerance (due to a lack of outcome evidence and little information about negative unintended consequences).

EXECUTIVE SUMMARY

The Value of Impact Management

Based on Skopos' experience, we think the adoption of an impact management approach could help resolve some of the big challenges within impact investing.

It makes listening to end users an essential feedback loop – and measurement core to business success

Successful practice of impact management requires a shared convention for describing impact goals, framed in terms of the results that end users want to see. If we all talked about our goals in this way, it would be easier for everyone in the same value chain to attempt to meet shared expectations and it would make listening to and learning from end users an essential feedback loop. This focus on listening to stakeholders means that impact indicators became as relevant for improving businesses' marketing (understanding customers) and risk management (understanding negative impacts), as for improving impact.

It unites the many different ways that we can generate impact, helping us to understand what works best in which situation

Describing our goals in a common format can stimulate a pooling of knowledge about which sectors, business models and outputs – backed by which forms of capital – are proving most effective at delivering which indicators, helping to channel limited resources more effectively.

It helps us make better-informed investment decisions

By considering both what success would look like (impact return), and the probability of achieving this success (impact risk), we can better understand the relationship between the two, so we can make smarter impact investments.

The Impact-Financial Nexus

Although this document describes the development of Skopos' impact management approach, we do not mean to imply that impact management can be divorced from financial (or investment) management. The two inform each other constantly – and are, in turn, informed by the realities of the market.

For example, Skopos has an impact goal of benefitting underserved individuals but has a financial goal of generating attractive risk-adjusted financial returns that can be replicated by institutional investors. In order to achieve both goals, Skopos has looked for investment opportunities where impact and financial performance are mutually re-enforcing.

One example of this is specialist fund managers, whose teams have a track record of launching products that can reach underserved customers. The hypothesis is that a team's deep understanding of an underserved customer segment can turn perceived risk into an attractive financial opportunity. Skopos has invested in a number of opportunities that fit this profile.

In other words: impact investment portfolios will always reflect not only the investor's impact goals but also their financial goals and the reality of the market in which they are operating. Depending on whether financial goals or impact goals are fixed, one can then 'toggle' between whichever goals are flexible and the market opportunity. What matters is that, if the definition of success changes as a result, the revised goals are made explicit and agreed upon by all parties.

Photo credit: Learners Guild, backed by Learn Capital

1 DEFINE WHAT SUCCESS LOOKS LIKE

Establishing Goals

Skopos' initial approach to impact investment was to select investees based on their track record in sectors that intuitively seem to generate positive impact (such as education or microfinance). The plan was to measure activities or outputs related to those sectors, using standard industry taxonomies.

This is a common approach in impact investment today, not least because investable opportunities are typically categorised by sector or industry from a commercial perspective.

Working with Bridges Impact+, Skopos recognised that, in order to work out how best to measure its impact, we first had to answer two more fundamental questions.

- What impact did Skopos want to achieve?
- How would Skopos know if it was successfully achieving that impact?

In traditional investment, successful portfolio performance requires not just that financial performance is measured (using shared accounting standards) but also that it reflects our goals (in terms of liquidity, financial risk and financial return).

We felt the same logic should apply for the successful performance of an impact portfolio, so we started by establishing Skopos' goals.

We assumed that investors' impact goals comprise:

A. The type of impact sought, along with

B. The level of impact they want to achieve and the risk of failure they are willing to bear.

This is somewhat analogous to financial goal-setting, where advisors will ask clients about their goals in terms of time horizon, currencies and liquidity but also their financial return and risk profile, in order to match them with product that shares their goals.

Understanding end user goals

An important insight from our Skopos review was that the family's charitable giving has often been based on personal relationships rather than carefully prescribed goals. We did not want to lose the essential advantage of this approach: that the asset-owner has understood and is responding to what the end user really needs.

We therefore wanted to frame goals in terms of end user experience, rather than the means used to achieve it. This means that sectors, business models and outputs became strategies to achieve impact goals, not the goals themselves.

Throughout this document, we use the term 'strategy' as a generic term that could be interchanged with terms such as investment, thesis, business model, theory of change or logic model, depending on the stakeholder referred to.

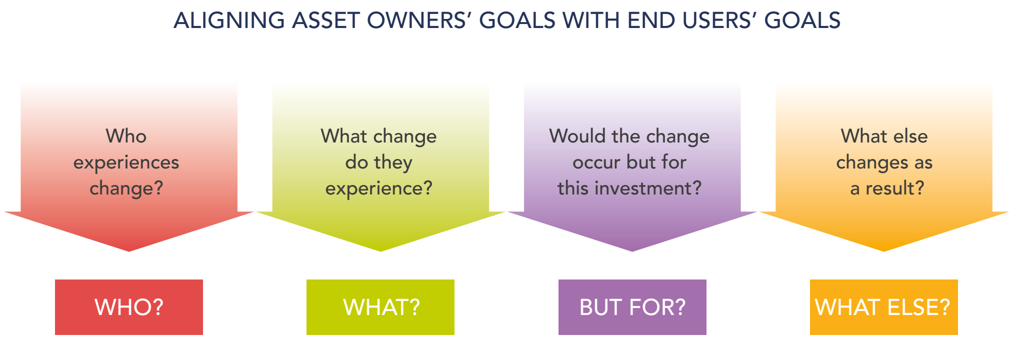
A Type of Impact

Type of impact

Although impact is multi-dimensional and complex, four questions helped us determine what type of impact Skopos wants to prioritise: WHO experiences change; WHAT change they experience; whether the change would occur BUT FOR Skopos' investment; and WHAT ELSE changes as a result.

These questions sound straightforward. In practice we found that different impact investors interpret them in different ways – which means they can end up talking at cross purposes about the impact they're trying to achieve.

Figure 3. Answering four questions



It is important for Skopos that their impact goals reflect the perspectives of end users; listening to end users is therefore part of the feedback loop (see page 22 for more on this point). While gathering feedback from end users may prove difficult to operationalise, Skopos aspires to a greater understanding of who is being served and what they want and need.

WHO?

We found that geography is a typical entry point for a conversation about the desired end user (because many investors have a geographic preference). Demographic preferences, such as women, children or those living in rural areas, are also common. While planet (or future generations) is not typically included as a target end user, we found that this is inferred by preferences for environmental outcomes under "what".

Less straightforward, however, was the frequent use of the term 'underserved' as a type of end user. We concluded that 'underserved' is more appropriate as a level of impact sought: whether, within our target geographies and demographics, our goal is to reach those who are very underserved (also referred to as 'vulnerable') or those who are more resilient. Skopos therefore has a very broad aim in terms of type of end user (covering all countries and demographics) but a narrower aim in terms of level, since success requires that underserved individuals benefit.

Throughout this document we refer to end users, which could also be read to mean 'beneficiaries'. We struggled with the right language here. We recognise that 'end user' is not an appropriate term for describing, for example, someone accessing stable employment. But we settled on the term because it conveys more proactive engagement than a term like 'beneficiary'.

WHAT?

Within impact investing today, we found that some investors frame their goals in terms of a sector or output, while others frame it in terms of outcomes. Figure 4 illustrates this, showing that success can be variously framed in terms of sector (education) or activity (such as building schools) or delivering outputs (such the number of new pupils taught) or generating outcomes (such as improved skills or even employment).

Since, for end users, the ultimate outcome is more important than the strategy (sector, outputs) used to achieve it, we defined Skopos' goals in terms of outcomes.

BUT FOR?

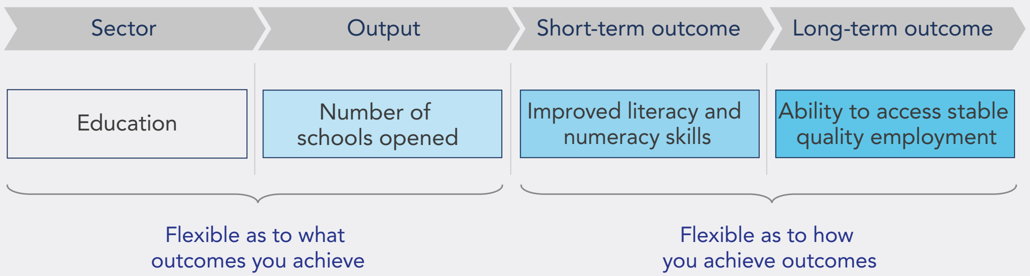
Would change occur "but for" Skopos' investment? To think about this question, we considered end user additionality and investor additionality.

It is important to Skopos that the results generated for the end user from its investments are additional; that is, they do not displace a comparable result or, worse, displace a better result. Since control trials are possible in certain instances, even though expensive, Skopos' ambition is, over time, to be able to support investees to measure additionality for end users.

We then had to consider investor additionality: some impact investors believe that the impact an investment generates can only be answered in terms of change that can be objectively measured as attributable to the investor. Others argue that since additionality is so difficult to measure, there is no point including it as a possible preference.

As an impact investor, Skopos wishes their capital to be additional, enabling their investees to generate impact that the traditional capital markets would not. However, Skopos is less concerned about understanding exactly what portion of the results it can claim credit for (i.e. attribution); its ambition is just to add value that traditional investors would not. We therefore re-framed investor additionality as investor "value-added".

Figure 4. Framing the 'What'



WHAT ELSE?

We were acutely aware that, as impact investments deliver their intended results, unintended impacts also occur, whether for the target end user or for other stakeholders. These consequences may be positive or negative.

For example, an investment in a low-cost solar lighting company that seeks to improve respiratory health (by reducing kerosene usage) will create employment as it scales up its salesforce. If those employed increase their skills and income more than they would have done otherwise, then positive societal impact is occurring beyond the investment's original intention. Conversely, if the lights are being manufactured by an organisation that uses child labour, or the lights rely on polluting batteries, there is negative social and environmental impact.

We looked at how different investors think about unintended consequences. Broadly speaking, we found that practitioners fall into three camps. Some are focused purely on their intended results, and do not consider mitigation of negative externalities (or generation of positive externalities) as part of their impact goals. Some rely on industry-wide indicators of practices (for example having a supplier code of conduct, a whistleblower policy or community consultations) and aim for average or above average practices, as a proxy for negative externalities not occurring and positive results occurring. And some choose to make case-by-case outcome assessments by gathering feedback from relevant stakeholders, understanding what performance looks like for each and aiming to eliminate the negative and increase the positive (the latter often being subject to the constraints of financial goals).

Skopos' preference is for the third approach, allowing relevant stakeholders to share their understanding and weighting of the value they experience as a result of the investment. As feedback can be both positive and negative, this method is particularly comprehensive in capturing unintended consequences.

B Level of Impact Return and Impact Risk

After understanding the type of impact Skopos wants to have, we considered what level of impact Skopos would consider successful (impact return), as well as the risk of failure Skopos is willing to bear (impact risk).

Skopos had historically been making impact decisions by thinking about which opportunities felt intuitively to be good bets. We made this thought process explicit to calibrate decision-making across a diverse team and ensure that impact expectations are always 'risk-adjusted'.

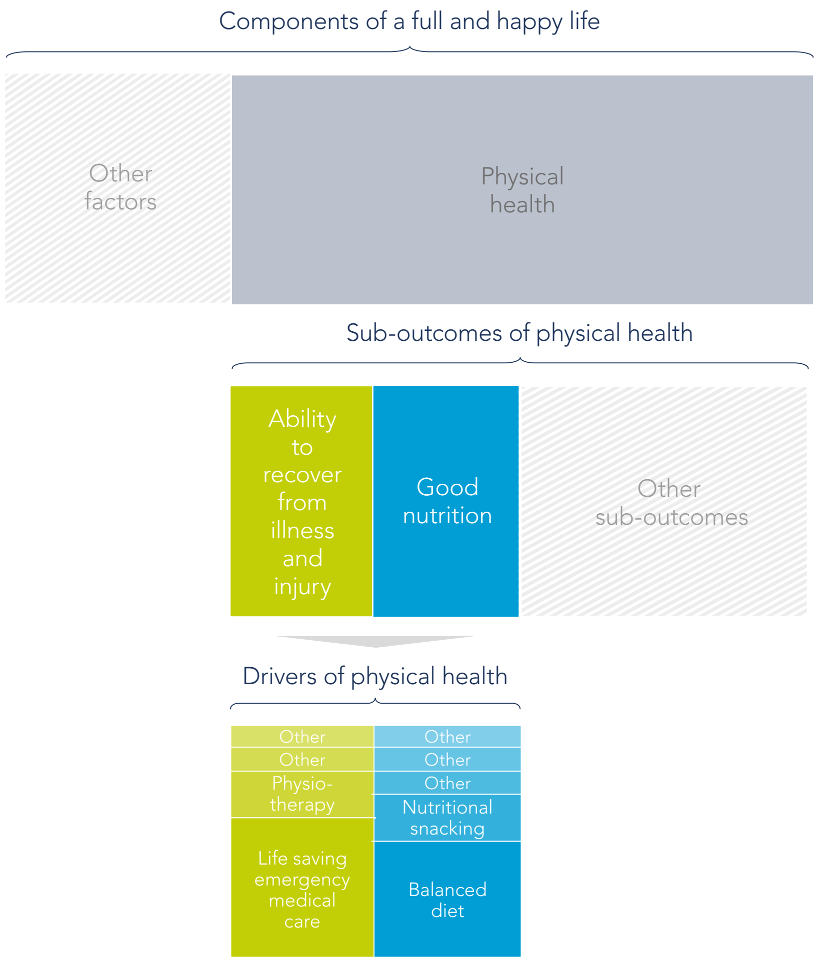
We described a range of impact return and impact risk for each type of impact sought, so that we could explicitly indicate where Skopos' return ambition and risk appetite lie – the illustrative adjectives used are not intended to polarise but to prompt positioning.

Impact return

- WHO: An investment's end users can range from being more vulnerable to being more resilient. An investment can reach a larger number of end users by achieving systemic change or a smaller number through incremental change.
- WHAT: An investment can range from generating an outcome critical to achieving human dignity and just societies to generating an outcome that contributes to them (see Figure 5 for an illustration of this thought process). An investment can generate an outcome that requires more patience or an outcome that is more immediate.
- BUT FOR: An investor's value-added (monetary and non-monetary) can range from catalysing an outcome to supporting it. See Figure 7 for further commentary on this.
- WHAT ELSE: The positive externalities that occur as a result of an investment can range from being responsible (negative externalities mitigated) to sustainable (positive externalities experienced by material stakeholders). Stakeholders can range from being consulted as results are delivered to being included in their design.

Figure 5. Breaking down outcomes

Illustration: determining how 'critical' an investment's result is to the outcome sought. Figure not drawn to scale.



Impact risk

To establish an impact risk range, we considered the key factors that drive the probability of poor performance for each type of impact.

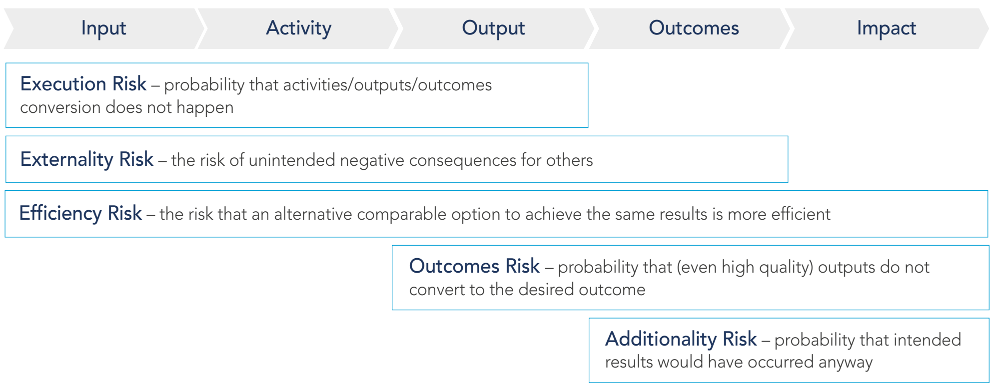
- WHO and WHAT: The probability that an investment will not generate the intended results is higher if there is no track record of converting activities to outputs to outcomes and if there are significant external factors outside of the investee's control.
- BUT FOR: The probability that Skopos will add less value than they could have is higher if the investment is not an efficient approach to delivering the intended results (within the constraints of their financial goals).

Even if Skopos adds value, the probability that end users do not benefit is higher if there is no evidence of additionality, i.e. that the intended results would not have occurred otherwise..

- WHAT ELSE: The probability that an investment will be unsustainable is higher if negative externalities occur, either for the intended end user or for other stakeholders (e.g. if increasing access to energy in low-income households increases child labour).

Figure 6 summarises the impact risk factors we considered.

Figure 6. Impact Risk Factors



Investor value-added as a link between impact goals and financial goals

We observed a variety of ways for investors to add value that the traditional financial markets do not add, each of which has implications for an investor's financial goals.

For example, one investor may add value to impact through voting rights or impact management support, which need not compromise the goal of a competitive risk-adjusted financial return.

Another investor may add value by using their expertise to identify opportunities that the market has overlooked (taking perceived disproportionate risk based on information asymmetry). Again, this need not compromise the goal of a competitive risk-adjusted financial return (and may even lead to market-beating returns).

Another investor may add value by taking disproportionate financial risk in order to catalyse impact, resulting in a below market financial return.

And yet another may add value by being 'patient' or even deliberately re-allocating or re-investing financial surplus. In these cases, the investor must be willing to accept a financial goal of a disproportionately low financial return (or the potential thereof).

With a more explicit categorising of impact goals, one could imagine that we will start to observe links between categories as the impact investment universe grows.

For example, different levels of investor value-added (from capital that supports impact, to capital that catalyses it) may link to our ability to achieve different levels of impact return (in terms of "who" experiences "what" change), as well as different levels of impact risk.

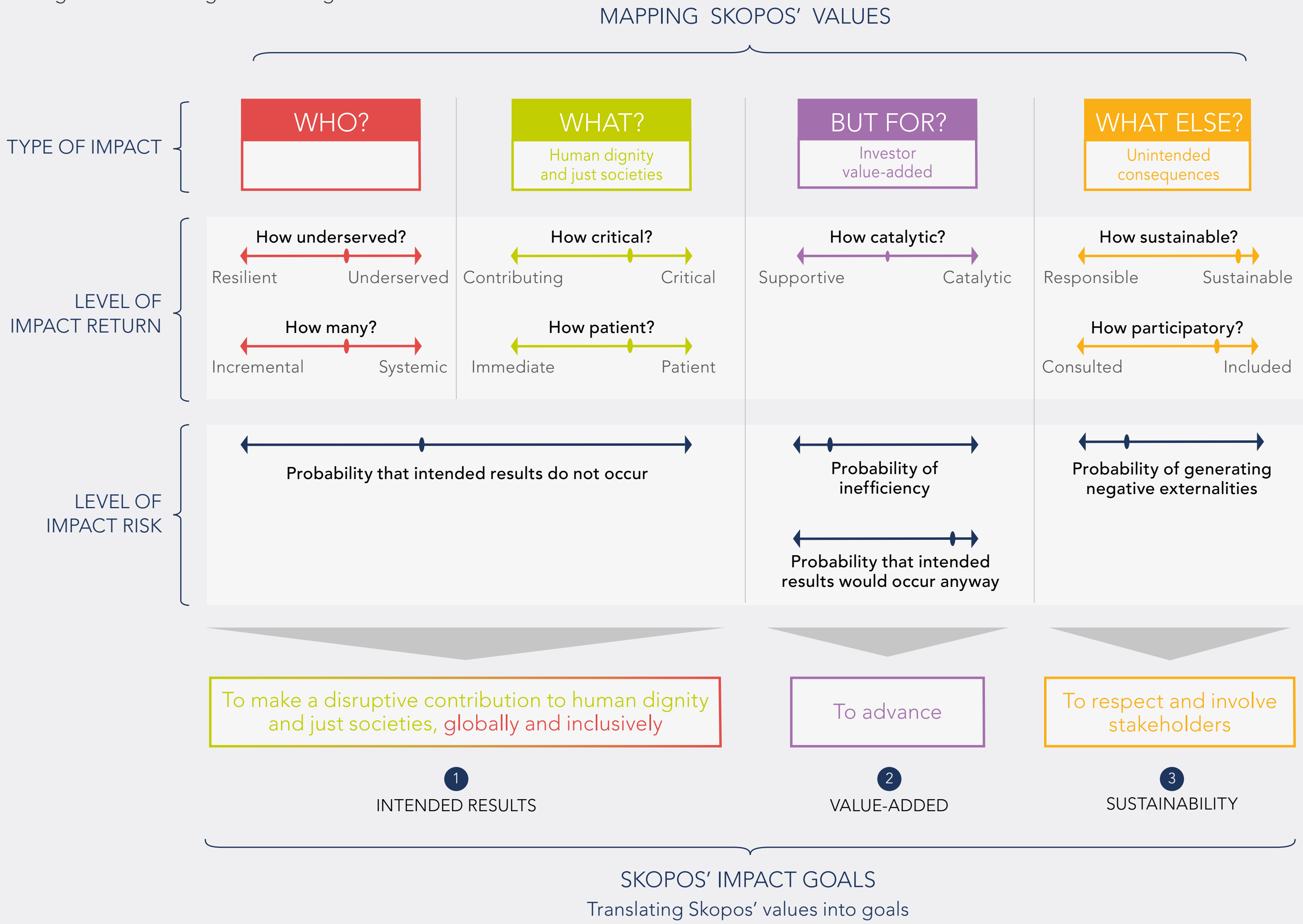
Much like asset classes are a helpful heuristic for quickly conveying whether the characteristics of an investment opportunity can meet an investor's financial goals, repeated observations of such links* might lead us to a shorthand for conveying an investment's ability to meet an investor's impact and financial goals.

* The exciting potential for clustering impact investments on the basis of their impact characteristics ("impact classes") has been explored in the Navigating Impact Investing Project – a project conceived and supported by Omidyar Network and developed by Tideline with Cathy Clark of Duke University. The resulting working paper notes feedback from some commenters that a useful classification of impact investments would convey their impact characteristics in a way that also contributes to our understanding of their financial profile (http://tideline.com/navigating-impact-investing-opportunity-impact-classes/).

Bringing it all together

The type and level of impact that an investor cares about often stems from values: in this case the family's commitment to create real, sustainable and positive impact together with and through others. Using four questions, we derived Skopos' impact goals – in terms of the type of impact they care about, the level of impact they seek and the risk of failure they are willing to bear.*

Figure 7. Translating values into goals



* Whether individual, community-based or organisational.

Our takeaways

- **Frame impact goals using a common convention.** A shared convention for describing impact goals enables every part of the investment value chain to attempt to meet a shared definition of success. This 'impact fidelity' cannot be achieved in a market where goals are not widely understood.
- **Answer four questions to help establish impact goals.** What outcomes you want to occur, for whom you want them to occur, if you care whether the outcomes would occur but for your involvement and what else occurs.
- **Think about what really matters to your end user.** Defining goals (and therefore measuring performance) in terms of outcomes ensures that success is judged by end user experience, rather than the means used to achieve it. This means that sectors, business models and outputs become strategies to achieve impact goals, not the goals themselves.
- **Establish an explicit risk/return threshold within each goal.** Within each preference, performance can vary (which we refer to as the level of 'impact return'), as can the likelihood of performance being different than expected (which we refer to as 'impact risk'). By being explicit about our threshold on these ranges (which is often influenced by our financial goals), we can be clearer with ourselves and with the market about what successful performance looks like, making smarter investments (risk relative to return) and aligning in value chains with shared expectations.

What we should have done differently…

We should have done this upfront.

Skopos had not anticipated the impact management journey and should have spent more time upfront considering its impact goals and indicators. Consequently, an investment stop was implemented until agreement could be reached on its approach. As one stakeholder commented, it was as though Skopos had been doing a jigsaw puzzle without knowing the picture; now we were drawing the picture – and this is clearly the harder way around.

We should have introduced a shared glossary on day one.

Since Skopos sits alongside both the family's philanthropy and their responsible investment activity – and also because it co-invests with development finance institutions – we saw first-hand that we are using different language to describe the same concepts, which derails decision-making. See the Glossary on page 26 for definitions used throughout this document, which also describes those that we saw commonly conflated or confused.

We should have brought everyone together.

It was practically difficult to convene multiple stakeholders at the same time but they would have shaped each other's perspectives if explored in a group setting. Even though one-on-one interviews can seem much easier to arrange, we would have saved time and frustration by bringing everyone together.

Glossary Highlights

"THEME *...is not the same as...* SECTOR

INDICATOR *...is not the same as...* METRIC

END USER *...is not the same as...* STAKEHOLDER

ADDITIONALITY *...is not the same as...* ATTRIBUTION

UNINTENDED CONSEQUENCE *...is not the same as...* EXTERNALITY

SYSTEM *...is not the same as...* ECO-SYSTEM

DISRUPTIVE *...is not the same as...* INNOVATIVE

OUTCOME *...is not the same as...* OUTPUT or IMPACT"

Full Glossary with definitions on page 26.

Photo credit: A tissue paper manufacturer in Nairobi, backed by GroFin.

Identifying indicators

In search of indicators that guide portfolio management

To manage against Skopos' goals, we needed indicators of success. This raised two challenges for us.

Firstly, while Skopos wants to understand the types of impact occurring (such as 30,000 low-income farmers in Africa now earning a sufficient income or the percentage reduction in unintended carbon emissions across its portfolio), these indicators are difficult to make sense of without context. Appendix B, highlighted in Figure 8 below, starts to map outcomes to stakeholders. For indicators to inform management decisions – about how to reallocate resources – we needed them to signal level of performance relative to goals, in terms of impact return and impact risk.

Secondly, although there is a need for investment-specific indicators to track how an individual investment is performing on a day-to-day basis, Skopos' success is defined by how well the overall portfolio meets its goals. We needed a set of portfolio indicators to which investment-specific indicators could 'roll up' to convey overall portfolio performance.

An impact scoring system

We found that the solution to both challenges lies in a simple scoring system. We consider investment-specific impact targets (expressed both qualitatively and quantitatively), judge whether they represent higher or lower performance on the relevant ranges of impact return and risk and assign a corresponding score (from 1 to 3), which can be compared to Skopos' goals, also expressed as a score. A scoring guide helps calibrate judgements across (what are very diverse) investment opportunities.

Post-investment, an individual investment's performance against its targets signals whether we are on-track to deliver its forecast score and, since individual scores can be averaged to provide an overall portfolio score, we can judge portfolio performance relative to Skopos' goals. Figure 9 illustrates how this works for Skopos.

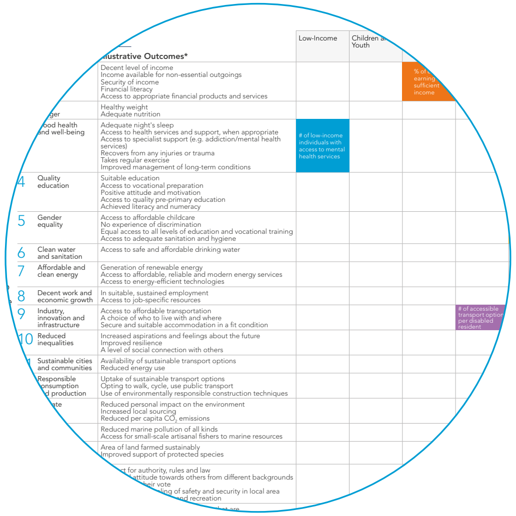


Figure 8. Snapshot of Appendix B, located on page 27.

Investment-specific data allow us to score individual investments. The average of the scores (weighted by assets under management) signals the overall portfolio's progress towards its desired scores (i.e. impact goals), grouped under Intended Results, Value-Added and Sustainability). Underperformance triggers management decisions.

For example, in order to assess the level of 'Intended Results' risk that the portfolio carries, Skopos asks of each underlying investment: Do we have evidence for outcomes? Is the data reliable? The scoring system turns answers to these questions into a score that describes whether each investment's risk is lower or higher. Skopos can then take the weighted average score across the portfolio and determine whether it needs to re-allocate resources to lower the risk that the portfolio will not achieve its Intended Results. For example, Skopos could make future investments in opportunities that carry less risk of Intended Results not occurring, or work more closely with investees to evidence their outcomes.

The merit of scoring impact goals at the portfolio level is that it allows for *individual* investments in the portfolio to be more or less impactful (across different elements of the scoring system), which can help to satisfy financial goals. For example, a portfolio seeking to score a '2' in terms of how catalytic it is, need not have all investments that score a 2. Instead, the portfolio may comprise some investments that score a 3 and others that score a 1, in order to achieve an overall portfolio mix that scores a 2.

Creating an indicator framework that enables management decisions

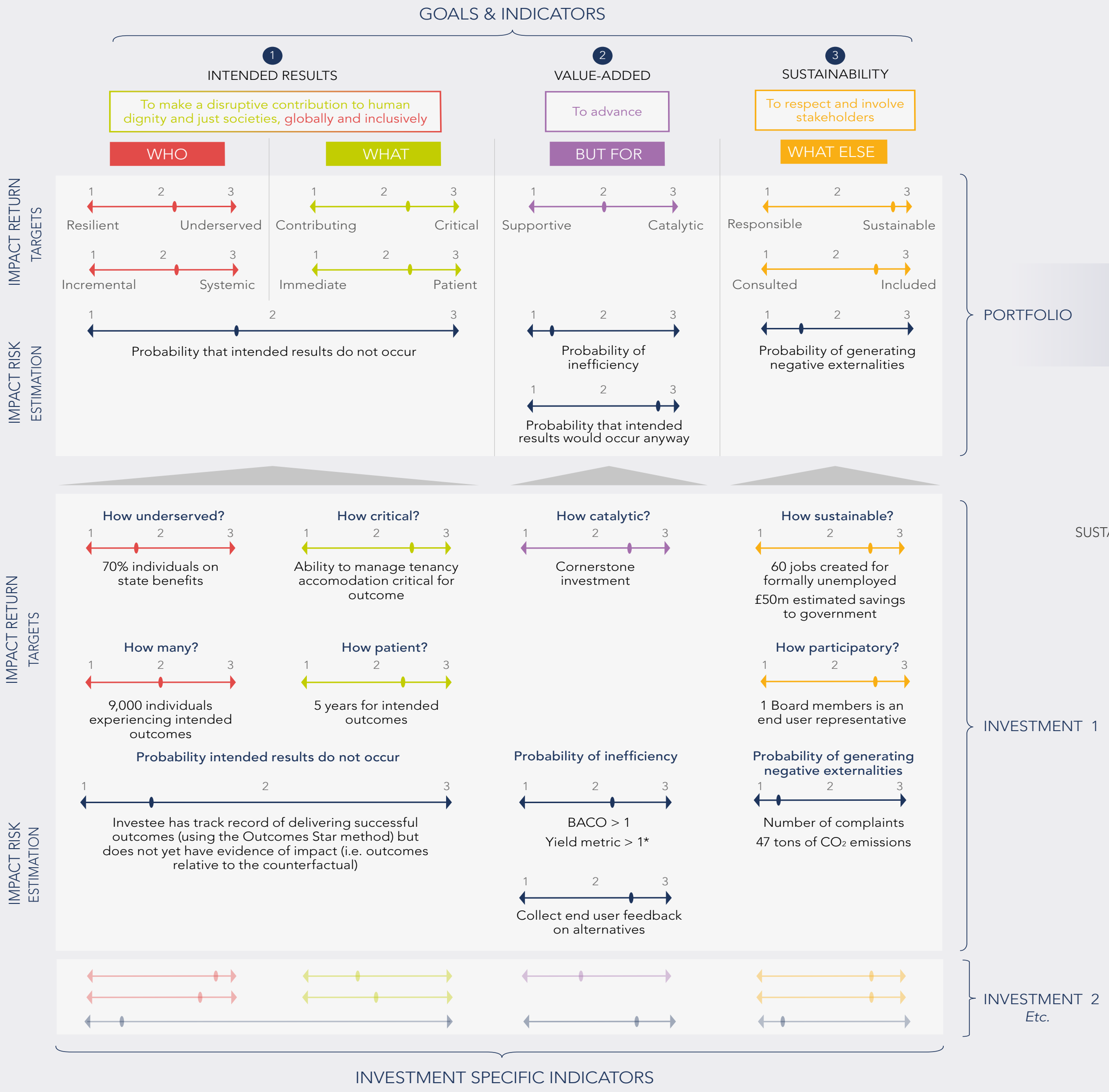
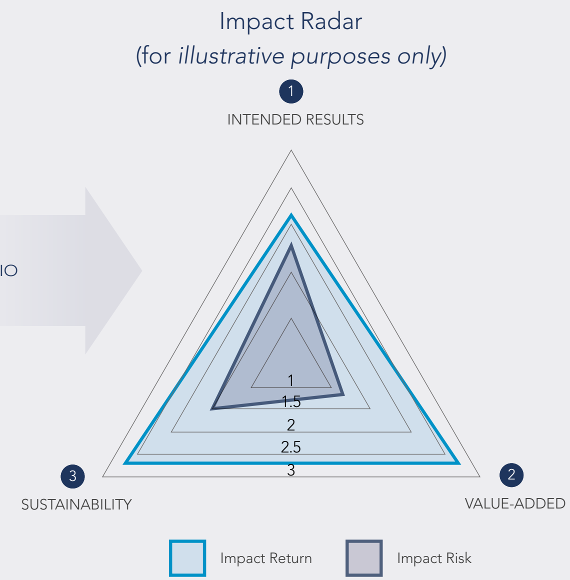
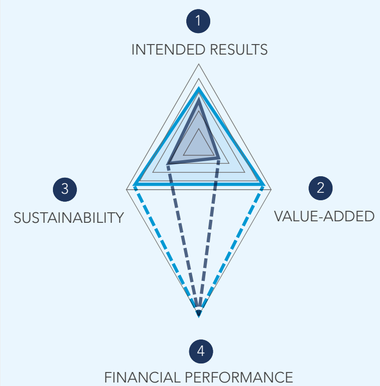


Figure 9. Judging the success of a portfolio



Visually, we have found that an 'Impact Radar' helps to bring these scores to life – and allows us to evaluate the investment's impact risk and return in more depth, by exploring the relationship between the two. For example, Skopos is willing to take high impact risk only if there is promise of high impact return, as well as the potential to reduce this risk during the investment period by better evidencing outcomes.



Adding the additional axis of financial risk and return, as illustrated here, highlights the impact performance being achieved within the constraints of financial goals, or vice versa.

* Yield Metric and BACO are described in the Appendix.

Our takeaways

- ☑ **Indicators are most valuable when they can drive decisions about portfolio construction**, to help us optimise performance against our impact goals.
- ☑ **Sharing our scoring systems makes us open to feedback and revision**, which is critical for learning, especially from the end users we are trying to serve.

What we should have done differently…

We should have been more upfront about both the limitations and usefulness of a scoring system.

While there are an increasing number of market actors now using standardised indicators (such as IRIS metrics) to record their results, we did not find many who explicitly share how they assess such results relative to their specific goals (in terms of what is good enough relative to what level of risk). When we asked various stakeholders why this is not standard market practice – and tested whether a scoring system is one useful format for doing this – some expressed a (very understandable) nervousness that a scoring system could lead to less holistic decision-making ("it will never capture the nuances that conversation can") and inadvertent, inappropriate weighting (for example, by assigning equal weight to two factors that may not be equally significant).

We should have anticipated and acknowledged this perception upfront, when introducing the concept, and been clearer about how the scoring system aims to counter, rather than exacerbate, these dangers.

First, the scoring system is intended to provide a basis for constructive discussion, not lead to binary yes/no decision-making. By developing a framework that signals performance against all of Skopos' goals (not just their intended results), the hope is to prevent certain aspects of impact that need discussing falling through the cracks, which can happen in the course of a conversation.

Second, if we don't score, aren't we weighting anyway, just intuitively and implicitly? For example, by explicitly scoring how critical an investment's results are to an intended outcome, or Skopos' level of value-added, we find that we can be more, rather than less, open to feedback and revision. Our aspiration is that this enables the weighting itself to become a conversation, with investees and, most importantly, with the end users we ultimately serve, about what they value most.

By being transparent about the indicators that we each use to judge success (whether framed as scoring systems or otherwise), we could engage in a dialogue that makes it easier to achieve it.

Investee case study

Quona Capital ("Quona") is a venture firm dedicated to fintech for inclusive finance in emerging markets. Quona is the investment manager of the recently launched Accion Frontier Inclusion Fund and its predecessor fund, Frontier Investments.

Quona's goals are to bring financial services to the billions of unbanked and underbanked individuals within emerging markets (direct impact), as well as to disrupt the wider financial services industry, so that many more individuals benefit (indirect impact). Direct indicators of Quona's impact include the number of individuals previously with little or no access to financial services, who now repeatedly use financial services – whether to finance a business, to build or improve a home, to pay utility bills and school fees or to transfer money to loved ones. Indicators of Quona's indirect success include financial sector expansion and deepening – such as the proliferation of providers in a given market offering credit to lower income consumer and businesses.

To achieve this goal, Quona invests in early and growth stage businesses providing innovative approaches to improving quality and access to financial services. Quona's strategy relies on identifying business model innovation, promoting collaboration among fintech industry stakeholders, and fostering new investors and entrepreneurs with a focus on financial inclusion in emerging markets.

To measure progress, Quona tracks key performance indicators such as direct impacts including client demographics, business size, client uptake and usage, average client balances and customer loyalty, as well as indirect impacts which can be reflected in market pricing, and the expansion of new product offerings and market-level channel usage.

Example portfolio company:

NeoGrowth Credit Private Limited:
NeoGrowth is an Indian fintech player that gives loans to brick & click merchants. NeoGrowth has pioneered a unique model in India which enables flexible and automated repayment of these loans. NeoGrowth provides innovative loan products against future credit card and debit card sales to retailers. The Company has helped customers build and improve credit history, and fosters financial inclusion and business growth, resulting in new job creation. Having piloted the product in 2012, NeoGrowth has launched commercial operations in ten major cities across India and plans to expand to other markets in India shortly. NeoGrowth has also recently launched its new offering, NeoCash Online, designed exclusively for online sellers on e-commerce marketplaces and retailers selling online through independent portals. Some of the key performance indicators that Quona Capital tracks for NeoGrowth on a monthly basis are the following: revenue, loans outstanding, portfolio quality, number of small and medium merchants served and debt provision as a percentage of the company's assets under management.

2 CHOOSE STRATEGIES MOST LIKELY TO ACHIEVE SUCCESS

Set Targets

Why targets matter

Pre-investment, an investment's expected performance – in other words, its targets – is what allows us to 'score' its potential to achieve Skopos' goals. For example, if an investment seeks to generate self-reliance for young people with complex needs, we look at how many young people are targeted and how underserved they are; how much the investment's result contributes to self-reliance and how fast; what specific value-added Skopos is aiming for (both initially but also during the investment); and what positive externalities are estimated.

We then need to understand progress against these targets post-investment, as it signals whether Skopos' desired scores – and therefore their goals – are being achieved.

Who can set targets

To set appropriate targets, we need to have a good understanding of what level of performance could realistically be achieved by a strategy. This requires experience and focus, so it did not surprise us to find that impact targets are most commonly set by enterprises seeking to address a specific outcome for a specific type of end user.

As we moved along the impact investment value chain – from individual enterprises to funds (that invest in lots of strategies/enterprises) to fund-of-funds – we found that appropriate target-setting becomes harder.

Seasoned and specialist investors who, like an individual enterprise, focus on a specific strategy (or series of strategies) to address specific outcomes for specific end users, may be able to set portfolio-level targets, as they have learned enough to forecast the portfolio mix (of how underserved, how many, how critical and how fast) that will satisfy both their impact and financial goals.

But many impact investors do not fit this profile.

Some are deliberately investing in multiple outcomes for multiple end users to achieve financial and impact diversification and/or scale (owing to a growing supply of impact-oriented capital from asset owners but a limited investment universe). These investors want to be opportunistic as to what the portfolio mix looks like, so that they can optimise their impact in light of changing market circumstances.

Other investors are deliberately investing in frontier markets (either in very underinvested geographies and/or new products or innovations in the marketplace). These markets typically lack track record and investors do not yet have clarity on the bundle of strategies that they will invest in.

Finally, some investors are just relatively new to impact investing and looking to experiment and learn. Such investors can set targets on a deal-by-deal basis (according to targets set by the underlying enterprises that they invest in) so that there are targets for the whole portfolio in-place by the end of the investment period. But they find it very difficult to set appropriate portfolio-level targets on day one.

Reconciling the importance of targets with the need to build a market

This illustrates a conundrum: targets matter because they help us choose strategies that are likely to deliver our indicators (and post-investment enable us to understand whether they are doing so). And the people best qualified to set appropriate targets are focused specialists (i.e. single theme funds and the frontline investees themselves). But we also want 'frontier' fund managers to test the potential of innovative strategies. And, in today's market, where we want to encourage capital deployment at scale by asset owners but recognise that there are limited investment opportunities, multi-themed fund managers are critical for building the market. We therefore wrestled with how Skopos should approach target-setting.

Where we landed

As a newcomer to the field, Skopos has an explicit aim to learn from their investees about which strategies can make cost-effective progress against its indicators. This means that Skopos is *not* setting upfront targets for its own portfolio (to guide its own investment selection) but *is* seeking specialist fund managers, who can set portfolio-level targets upfront, against which progress towards Skopos' indicators can be tracked.

In addition, recognising the need for both frontier and multi-theme fund managers for building the market – and wanting to include some of them in its portfolio – Skopos asks for upfront target-setting but only because the exercise of constructing an illustrative impact model provides insight, not because they want them to be binding. During due diligence, an illustrative 'impact model' provides insight into the fund managers' understanding of different (potential) strategies that could achieve their intended impact results. Post-investment, it sparks discussion about what an investee is learning and, once fully invested, targets can be accurately (re)set for each underlying deal, rolled up into fund-level targets and then tracked year-on-year for the rest of the fund's life.

The notion of an 'impact model' is analogous to the financial model that a fund shares with its limited partners (investors): it forecasts a range of strategies, typically rooted in some examples of real pipeline or historic deals, in order to showcase how the overall target financial risk-adjusted return may be achieved year-on-year.

Looking forward

Over time, as the market evolves to more second and third time funds and there are more investable opportunities, Skopos anticipates more specialist single issue funds emerging, for whom upfront (even binding) targets might become the norm, making it easier to link financial incentives to impact and financial performance.

Our takeaways

- **Considering an investment's impact targets pre-investment help us choose strategies that are likely to achieve our goals.** Post-investment, performance against targets enables us to understand whether they are doing so.
- **The exercise of setting impact targets enables a dialogue with investees about their market knowledge.** This can be constructive, even with multi-themed and frontier fund managers, for whom targets are very likely to change as they optimise their portfolio mix in light of changing market circumstances.

What we should have done differently…

It took us a while to recognise that our struggle with target-setting was a function of two compelling but competing motivations.

On the one hand, we wanted to be rigorous about Skopos' selection and management of deals (i.e. using targets to judge whether an investment has the greatest potential to deliver Skopos' goals – and, ex-post, whether it proves to do so). But we also wanted to encourage the growth of the industry, which requires multi-themed funds (for diversification and scale) and frontier funds (for exploring new ways to create impact). This meant that the conversation about whether or not Skopos should ask investees to set targets became unhelpfully stuck at times. If we had stepped back and clarified the conundrum sooner, we would have more quickly found our way to the solution of setting targets but positioning them as a basis for learning.

Done on this basis, the Skopos team's experience has been that the exercise of target-setting together with investees provides the perfect base for continued conversations about measurement and goals.

Photo credit: A woman converting organic household waste into energy with SimGas.

Select Strategies

The development of a strategy (or theory of change) is often encouraged as part of goal-setting ("our thesis is to invest in these sectors and these business models"). For example, an investor wanting to help unemployed people find sustained high-quality employment might decide to focus on higher education (or more specifically on vocational training and apprenticeships) as a preferred strategy. They might then choose indicators that reflect progress of that strategy, such as the number of people signed up onto courses (activity indicator), the number of people achieving qualifications (output indicator), the number of people with access to quality employment (short-term outcome indicator) or the number of people sustaining quality employment (long-term outcome indicator).

Developing a focused strategy makes sense when investors already know which business models are most likely to deliver their indicators (both type and level of impact), based on specialism and a deep understanding of the societal issue. But for those who are not – or do not intend to be – very specialist, we found that it makes more sense to spend time clarifying and communicating goals, letting the market teach us about the sectors and business models that have the greatest potential to deliver them.

Such sectors may be wide-ranging: for example, to enable agricultural workers to earn a living income, telecommunications or roads may be as (or more) relevant. Business models can also vary widely: to enable low income families to access high quality housing, business models can range from housing finance focused on underserved consumers, to affordable housing projects, or even to mixed income projects. Although mixed income business models benefit a wider population, they may prove the most efficient way to benefit previously underserved households.

There is a parallel here with the emerging practice of outcomes-based public commissioning: some government commissioners are shifting their focus from prescribing strategies (historically commissioned on a fee-for-service basis) that they believe will address certain societal issues, to describing only their goals and related indicators instead – prompting the market of service providers to come forward with interventions that can deliver against these indicators. In turn, this allows commissioners to learn about innovative strategies that might help them to achieve their goals in ways they have not previously considered.

Over time, Skopos may choose to develop deep expertise about which strategies are most effective for delivering particular outcomes for particular end users, which could prompt a focus on a particular strategy and even a move to more direct investing.

Our takeaways

- **Being prescriptive about indicators but flexible about strategy can widen the potential investment universe.** Rather than prescribing sectors or outputs, one can be flexible about which strategies (or theories of change) offer the greatest potential to achieve the indicators. The result is a learning approach that casts the net wide in terms of investment opportunities.
- **Goals can be broad in terms of type of impact ('who' and 'what' preferences) but more specific in terms of the level of impact sought and the risk of failure one is willing to bear - or vice versa. Both are equally important when identifying relevant strategies.** Instead, Skopos' goals of contributing to "human dignity and just societies, globally and inclusively" means that a wide range of strategies may be relevant, compared to, say, an investor whose goal is to improve maternal health for women in Africa. However, by framing goals not just in terms of type but also in terms of the level of impact Skopos seeks and their tolerance for failure we created additional lenses to narrow down the universe of strategies.

What we should have done differently…

When Skopos began investing, there was an expectation that they should have a focused strategy – of preferred sectors, such as sustainable land use or housing finance. The team therefore identified different sectors that might be of interest and spent time trying to determine priority business models within these sectors.

Without goals and indicators to guide the team's research – against which targets of different business models could be analysed to see which offered the most promise of success – this exercise was challenging.

Investee case study

LearnCapital

Learn Capital is the investment manager of Learn Capital Venture Partners III and its predecessor funds. With over 80 portfolio companies, Learn Capital is dedicated to scalable learning technology and next generation instructional services for people of every age and background on every continent. Learn Capital takes a broad view of education, investing in early stage companies in every market from early childhood, K12, higher education, to corporate and adult learners.

To achieve this, Learn Capital looks for entrepreneurs providing high quality educational services at scale. Investees typically seek to promote the development of human capital in ways that have not been possible in the past and often for portions of the population that have been overlooked. Learn Capital has found that effectiveness at achieving learning goals is one of the most reliable strategies for achieving business results traction. Therefore, high growth companies that have the potential to improve outcomes dramatically for large populations are of particular interest.

To measure progress, Learn Capital developed an Impact Dashboard in partnership with Skopos Impact Fund. To address the challenge of aggregating outcomes on a portfolio level, Learn Capital developed a Key Impact Indicator (KII) model, which rolls up to three thematic overall repositories: Reach, Intensity, and Performance. All KIIs are compared against baseline data relevant to each indicator and are derived from publicly available sources. Consistent with its mission, Learn Capital also collects data on geographical trends in usage separate from the KIIs.

Example portfolio company:

Andela: Andela seeks to close the skills gap, empower women, and expand access to knowledge for Africans. It combines a global talent agency model with an elite, world-class tertiary education program. The company identifies the top 1% of African youth with outstanding aptitude and trains them to become fully employable in the innovation economy through a New Economy Skills Training (NEST) curriculum. The program centers on current software engineering technology and practices, but critically also provides its fellows with instruction on client services, teamwork, personal effectiveness, integrative thinking, as well as lifelong learning and reskilling.

Measure & Analyse

End user experience as a feedback loop

Measurement of progress against targets is what enables us to decide whether Skopos is on track to meet its goals.

By emphasising goal-setting in this document, we do not mean to distract from the urgent need for more work on impact measurement. In the absence of measurement, goal-setting becomes pointless – just as, in the absence of goal-setting (by end users, investees and investors), measurement becomes meaningless.

But framing Skopos' goals as outcomes focused measurement for us – because listening to end users' experience became an important feedback loop. We therefore wanted the investment-specific data that Skopos uses to judge impact performance (and assign a score) to reflect – or be sufficiently good proxies for – end users' experience.

Many things can make this hard: outcomes can be difficult and/or expensive to measure – and many are complex and take time to materialise (longer than typical investment horizons). But we are seeing some of these barriers tackled:

- Practical but insightful tools are being used to track end users' perception of their own progress – from customer surveying (using smart marketing techniques widely used in traditional business) to the Rickter scale to the Outcomes Star[1].
- Technology (from SMS to call centres to online feedback) is making all this cheaper and a recognition that end user feedback can improve business performance is challenging the mind-set that impact measurement is a costly "add-on"[2]. Acumen's Lean Data Initiative and Root Capital's customer-centric mobile measurement encourage investees to collect impact data as efficiently and effectively as possible by leveraging mobile phones and associated technologies, applying rapid survey questionnaires, and integrating the collection, analysis and use of data into the company's internal processes.
- A growing body of evidence for positive correlations between shorter-term outcomes and longer-term outcomes can make it easier to agree on sensible 'proxy' metrics for the change that is ultimately sought. For example, research has linked better qualifications to better life outcomes, therefore a young person's achievement of a higher education (or vocational) qualification is a good proxy for better long-term economic and employment outcomes.

Recognising that these are positive trends and not widely in use by many investees, we distinguished between the current practice that Skopos would encourage and the aspiration that they would work towards with investees over time.

While these trends use technology to lower cost and re-position measurement as smart business practice, they require a very deliberate decision to invest resources – including time and energy – in listening to end users.

We therefore defined the practice that Skopos would encourage today as a practical stepping stone to a longer-term aspiration, acknowledging that this will require investment by all parties in the impact investment value chain. Skopos' emphasis over the next few years is on working with investees to understand and to support what is feasible. If, in some cases, even the desired current practice proves impractical, then what matters is that Skopos explicitly revises its impact goals (for example, a willingness to tolerate a higher level of outcomes risk). Skopos' current practice and longer-term ambition are described in Figure 10.

Using the radar as an impact management tool

Once measurement of progress against targets shows us whether the portfolio is on track to deliver Skopos' goals, we know whether action needs to be taken to improve performance.

The Radar brings this to life visually and prompts action. If the performance of the portfolio is not meeting the desired level of return and risk for one or more types of impact, Skopos needs to consider whether individual investees (i.e. Skopos' strategies) need more management support, or whether future investments should be targeted to improve performance of the overall portfolio (by lowering the impact risk or increasing the impact return).

1 Rickter Scale see www.rickterscale.com and Outcomes Star see www.outcomesstar.org.uk
2 See Innovations in Impact Measurement Report 2015 by Acumen and Root Capital, www.rootcapital.org and www.acumen.org

Figure 10. Impact Measurement techniques – now and looking forwards

	Skopos' Current Practice	Skopos' Ambition
1 Intended Results	• Preference for outcome metrics but comfort with good proxies (supported by evidence) as an alternative • Use of standardised industry metrics when they reflect end user experience and therefore support investees' impact management • Use of the Yield Metric as a tool to assess impact performance against targets of individual investments. While this may sound very simple, we found that the majority of impact business models have more than one indicator that describes their intended results and may perform differently against each indicator, making it difficult to aggregate overall performance. The Yield Metric calculation can take this into account	• Capture direct end user experience • Yield metric results audited by third parties • Impact studies, including randomised control trials where appropriate, for select portfolio companies
2 Value-added	• Market analysis and qualitative judgement to assess the value that Skopos adds to investees (value-added return) • BACO calculation (see Appendix C) to assess an investment's (potential) impact and compare it to the best available comparable option to deliver the same results	• Investee feedback forums • Collaboration with social science experts to inform choice of BACO
3 Sustainability	Focus on understanding externalities that an investee is already measuring to avoid over-burdening investees. For example: • where co-investing with Development Finance Institutions[4], who have standardised templates for 'ESG' reporting, Skopos will determine which of the suite of standardised indicators are most material and most reflective of negative and positive externalities; or • if an investee is GIIRS-rated, then select the most material outcome indicators from the rating system (for example, results of employee satisfaction surveys and CO_2 emissions[4])	• Periodic review of portfolio by external parties to assess unintended consequences (positive and negative)

3 For example see IFC's Sustainability Framework www.ifc.org/sustainabilityframework
4 See GIIRS Ratings www.BANALYTICS.net/giirs-ratings

RESOURCING

We found that different stages of the management process call for different skills

1 ESTABLISHING GOALS & CHOOSING INDICATORS

This stage of impact management required consensus-building and decision-making about Skopos' impact goals and financial goals, based on an understanding of their interrelationship.

Choosing indicators that best represent the **type** of impact sought (see Appendix B) also required knowledge of indicator catalogues and access to a network of social scientists and issue specialists.

2 SETTING TARGETS & SELECTING STRATEGIES

The skill-set for this stage is somewhat analogous to origination in traditional investment teams: it requires market intelligence. However, instead of starting with sectors and sub-sectors, it requires the ability to start with an outcome, break it down into relevant sub-outcomes and identify investable strategies (sub-sectors, business models) that drive those outcomes (recall Figure 5, which provides an illustrative example of this). This calls for knowledge of socio-economic trends as well as market intelligence.

Figure 11. Resourcing requirements throughout the process

3 MEASUREMENT & ANALYSIS

Specialised econometric analysis can be out-sourced but measurement will always require a level of in-house data entry and systems integration.

In terms of data collection itself: there are some software-based data management systems that are tailored to impact investment[5], with varying levels of adaptability. We found that the great merit of using an external data collection system is the fact that standardised metrics are 'built in' and can be adopted whenever appropriate, enabling benchmarking of performance of specific strategies to achieve specific results. (Also, if standardised metrics are not appropriate, investees can share outcome metrics that they do find appropriate in order to contribute to the growing taxonomy).

However, customisation of the system's architecture was required to reflect Skopos' impact goals, and ensure performance data can be judged and aggregated to enable decisions (as in Figure 9 on page 15). This process of customising an otherwise standardised measurement system requires a strategic mindset as much as data management and technology expertise.

5 See B Analytics http://b-analytics.net/ and Sinzer http://www.sinzer.org/

CONCLUSION

Over the last decade, there has been an industry push to harmonise approaches to impact measurement. While this is unquestionably urgent and essential, our efforts to develop Skopos' impact management approach highlighted the fact that we are still operating without a shared convention for describing impact goals in the first place, or norms for constructing a portfolio to achieve them.

We are sharing this candid summary of how Skopos is starting to think about managing for impact as just one example – to encourage openness and an exchange of ideas about what widespread practice of impact management might look like.

As the impact investment industry grows – and personal relationships between asset owners and end users are fewer and farther between – we aspire to a discipline of impact management that can sustain the essential advantage of a personal relationship: that the asset owner has understood and is responding to what the end user needs.

We look forward to your feedback.

Photo credit: A family cooking with SimGas, who provide biogas systems for household use.

APPENDICES

A Glossary (Words on the left are NOT THE SAME AS key words on the right)

Key Word	Definition	Source
Theme	A central idea that unites a series of outcomes	European Commission – GECES*
Indicator	A quantitative or qualitative descriptor of a condition, typically selected to monitor the effects of a specific intervention or to track changes in a system over time	Committee on Sustainable Agriculture
End user	The person who will eventually use a product	Merriam Webster
Additionality	The outcomes achieved as a result of an intervention that would have otherwise not been seen	Asian Venture Philanthropy Network
Unintended consequence	Outcomes that are not the ones foreseen and intended by a purposeful action	Wikipedia
System	A regularly interacting or interdependent group of items forming a unified whole	Merriam Webster
Disruptive	Allowing a whole new population of consumers access to a product or service that was historically only accessible to those with a lot of money or a lot of skill	Harvard Business Review
Outcome	The effect, or change, both long-term and short-term achieved as a result of an activity	European Commission – GECES

*The impact measurement sub-group of the Expert Group on Social Entrepreneurship (GECES), which was set up in 2012 to agree upon a European methodology which could be applied across the European social economy.

Key Word	Definition	Source
Sector	An area of the economy in which businesses share the same or a related product or service	Investopedia
Metric	The means of measure of an indicator	Committee on Sustainable Agriculture
Stakeholder	A party that has an interest in an enterprise or project, whether intentional or unintentional	Investopedia
Attribution	How much, or what part, of the outcome was caused by the contribution of an intervention	Asian Venture Philanthropy Network
Externality	The cost or benefit that affects a party who did not choose to incur that cost or benefit	Wikipedia
Eco-system	Everything that exists in a particular environment	Merriam Webster
Innovative	Introducing or using new ideas or methods	Merriam Webster
Output	The tangible products, services or opportunities arising from an activity	European Commission – GECES
Impact	The reflection of social outcomes as measurements, both long-term and short-term, adjusted for the effects achieved by others (alternative attribution), for effects that would have happened anyway (dead-weight), for negative consequences (displacement), and for effects declining over time (drop-off)	European Commission – GECES

B Mapping Outcomes to Stakeholders

*To identify indicators that represent the **type** of impact Skopos seeks, we compiled lists of outcomes and end users, such as those developed by Big Society Capital, UN IFAD and ODI – and also mapped them to the Sustainable Development Goals (SDG). Post-investment, individual investment metrics can be 'tagged' according to which of these indicators that they drive, in order to provide a colourful picture of the type of impact being achieved.*

Key

(per beneficiary group) OUTCOME indicators

- 'Percentage of' metrics
- Relative growth metrics (by beneficiary)
- Relative growth metrics (by unit)
- Absolute metrics (by beneficiary)
- Absolute metrics (unit per beneficiary)
- Absolute metrics (by aggregate unit)

* Compiled from Big Society Capital, UN IFAD and ODI.

Stakeholder Index

	SDG Themes	Illustrative Outcomes*	Low-Income	Children and Youth	Elderly	Disabled	Women	Environment and Future Generations	Local Communities
1	No poverty	Decent level of income Income available for non-essential outgoings Security of income Financial literacy Access to appropriate financial products and services			% of elderly earning a sufficient income				
2	Zero hunger	Healthy weight Adequate nutrition							
3	Good health and well-being	Adequate night's sleep Access to health services and support, when appropriate Access to specialist support (e.g. addiction/mental health services) Recovers from any injuries or trauma Takes regular exercise Improved management of long-term conditions	# of low-income individuals with access to mental health services						
4	Quality education	Suitable education Access to vocational preparation Positive attitude and motivation Access to quality pre-primary education Achieved literacy and numeracy							
5	Gender equality	Access to affordable childcare No experience of discrimination Equal access to all levels of education and vocational training Access to adequate sanitation and hygiene					# of hours of training for female artisans		
6	Clean water and sanitation	Access to safe and affordable drinking water							
7	Affordable and clean energy	Generation of renewable energy Access to affordable, reliable and modern energy services Access to energy-efficient technologies							
8	Decent work and economic growth	In suitable, sustained employment Access to job-specific resources							
9	Industry, innovation and infrastructure	Access to affordable transportation A choice of who to live with and where Secure and suitable accommodation in a fit condition				# of accessible transport options per disabled resident			
10	Reduced inequalities	Increased aspirations and feelings about the future Improved resilience A level of social connection with others							
11	Sustainable cities and communities	Availability of sustainable transport options Reduced energy use							
12	Responsible consumption and production	Uptake of sustainable transport options Opting to walk, cycle, use public transport Use of environmentally responsible construction techniques							
13	Climate action	Reduced personal impact on the environment Increased local sourcing Reduced per capita CO_2 emissions							Average % increase in purchase of local produce
14	Life below water	Reduced marine pollution of all kinds Access for small-scale artisanal fishers to marine resources							
15	Life on land	Area of land farmed sustainably Improved support of protected species						% growth in regernative farming practices	
16	Peace, justice, and strong institutions	Respect for authority, rules and law Improved attitude towards others from different backgrounds Make use of their vote Perception and feeling of safety and security in local area Access to culture, sport and recreation							
17	Partnerships for the goals	Public sector procurement practices that are designed to protect the natural environment							

C BACO

The calculation we use to undertake efficiency risk analysis (the risk that we could add more value by investing elsewhere) has been termed BACO (or 'best available comparable option'), an adaptation of the Best Available Charitable Option ratio previously developed by Acumen Fund[6]. As discussed on page 23, BACO enables an investor who has identified its outcome indicator to estimate the most cost-effective strategy to achieve it.

1 The first step is to define a indicator as a 'unit of outcome'. If the indicator is a long-term outcome, then the investor may only have access to data on short-term outcomes (or even outputs) that a business model generates. In that case, the 'unit of output' must be a good proxy for the short- or long-term outcome to generate an accurate BACO ratio. To run the BACO analysis, you will need a potential investment strategy (Strategy A) and the best available strategy (or strategies) in the market for achieving the indicator with which to compare it.

2 The second step is to calculate the **relative costs** of a potential investment strategy (Strategy A) against the best alternative charitable option (BACO). Details required will be the investment amount, the cost of disbursement, the cost of managing the capital, the expected return and the repayment timeframe.

	BACO	Strategy A
Cost Analysis		
$ Committed	$500,000	$500,000
Cost Of Disbursement	$25,000 (5%)	$35,000 (7%)
Cost Of Management	$10,000 (2%)	$50,000 (10%)
Expected % Return	2%	15%
Return (Financial Leverage)	$510,000	$575,000*
Net 'Cost' (Return – Funds Committed – Costs)	(25,000)	(10,000)

* The return amount and/or the target group penetration can be flexed to test how far this affects the BACO ratio, should expectations not be reached.

3 The third step is to calculate the **relative effectiveness** of the different strategies to deliver the outcome, in terms of quality and quantity. Details required will be the output cost, investor's share of output, and the target group penetration (if a specific target group is defined).

	BACO	Strategy A
Effectiveness Analysis		
Comparable Output Cost	$1000	$500
Output (Total $ Committed/ Output Cost)	500	1000
Investor Share of Output (Attribution)	100%	50%
Investor Output (Output * Investor Share)†	500	500
Target Group Penetration	50%	100%*
Total Target Group Outputs	250	500

† You may choose to also consider relative output efficacy (e.g. how long change is experienced), and an output factor (e.g. if more than one end user is served by one unit of output).

4 The cost-effectiveness comparison (or BACO ratio) can then be calculated from the Net Cost (from Step 2) divided by the Total Target Outputs (from Step 3) for each option resulting in a 'net cost or gain per beneficiary':

	BACO	Strategy A
Effectiveness Analysis		
Net Cost	$25,000	$10,000
Total Target Group Outputs	250	500
Net Cost/Unit Outputs	100	20
BACO Ratio		5

6 See Acumen's BACO Concept Paper www.acumen.org/idea/the-best-available-charitable-option/

D Yield Metric

The Yield Metric goes with BACO to tell us whether a strategy estimated to be the most cost-effective use of capital to achieve our indicator(s) is proving to be so.

Calculating the impact 'yield':

1. Firstly, indicators should only be chosen if they have targets set against them (assuming this means that they have been correctly identified as the key drivers of impact).
2. Secondly, where there is more than one indicator for one strategy, a weighting should be assigned to each indicator, based on their relative importance (this could be based on how aligned the indicator is with the Theory of Change –i.e. weighting longer-term outcome indicators higher – or relative to where the business planned to focus for that period). It may also be that they are valued equally and remain unweighted.
3. Both of these factors then combing to set the 'Yield Metric weighting' for the yield metric (i.e. how much do we value the output, and what volume are we targeting?)
4. A volume ratio is then calculated from dividing the realised volume by the target.
5. Applying the Yield Metric weighting to this ratio generates the weighted yield.

For example, for an employment programme, research might conclude that getting an at-risk young person into Employment is worth $5000 to Government (based on costs avoided), and the steps that a young person might take to upskill effectively enough to achieve employment may be worth various proportions of that same value.

Target outcome indicators	1 Relative value	2 Target	3 Weighted value	3 Yield Metric weighting
Improved attitude	0.1	236	15	7%
Improved attendance	0.1	118	15	7%
Improved behaviour	0.1	236	28	13%
Entry level qualification	0.1	552	46	21%
Level 1 qualification	0.1	242	25	11%
Entry into Employment	0.5	185	93	42%
	100%	1569	222	1

This Yield Metric weighting is then applied to the volume ratio calculated, which generates the weighted yield.

Target outcome indicators	Yield Metric weighting	Inputs		4	5
		Target volume	Realised volume	Volume ratio	Weighted yield
Improved attitude	**7%**	236	508	2.2	**0.15**
Improved attendance	**7%**	118	341	2.9	**0.20**
Improved behaviour	**13%**	236	500	2.1	**0.27**
Entry level qualification	**21%**	552	651	1.2	**0.24**
Level 1 qualification	**11%**	242	139	0.6	**0.06**
Entry into Employment	**42%**	185	84	0.5	**0.19**
					1.12

If the aggregate Yield Metric is greater than 1, then the investment has generated more impact (of the desired type) than was targeted.

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