

HOW CAN WE BEST UNDERSTAND THE EVALUATION OF SOCIAL IMPACT AND FINANCIAL RETURN IN ENVIRONMENTAL AND SOCIAL IMPACT INVESTING?

An exploration of common perspectives of Development Finance Institutions (DFIs) and Vanilla smallholder farmers in Mexico.

A thesis submitted for the degree of Doctor of Philosophy to the University of East Anglia, School of International Development

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How do development finance institutions (DFIs) and vanilla smallholder farmers in Mexico understand social impact in impact investing?

Impact investing, worth \$1.16 trillion in 2021 (Hand *et al.*, 2022), is a promising way of using private capital in development. Impact investments are channelled through development finance institutions (DFIs) who deliver overseas development assistance (ODA) to developing countries. Impact investing in development, however, has been critiqued as indicative of the financialisation of development, whereby financiers gain control over development policy.

In this research I identify a gap in the current conceptualisation of impact within impact investment. It is yet unresolved how to best combine the linear logic that underpins financial accounting with a multi-dimensional logic to capture social results that are not linear. To address this gap, I explore the way blended social, environmental and economic impact is measured in DFIs, using the theoretical perspectives of Jürgen Habermas and Max Weber on rational capitalism. The research looks at how DFI measurement frameworks are constructed through a synthesis of 103 evaluation framework documents from DFIs, highlighting areas of harmonisation and showing gaps in developmental evaluation approaches. It is combined with a thematic analysis of 18 semi-structured interviews with DFI experts and farmers at the country-level in Mexico. The interviews adopted the vignette technique (using hypothetical investment cases) which enabled questions on how impact is measured to be asked of both smallholder vanilla farmers in Veracruz, Mexico and managers at DFIs.

The findings suggest that blended value, understood as environmental and social returns, occurs within business and investment ecosystems. In these ecosystems, impact risk (the risk of the intended impact not taking place as planned) plays a key role. This research reveals that both financial and impact risk feed into decision-making and impact tracking. In this research I suggest that the management of this risk requires closer cooperation with stakeholders, which occurs in some of the institutions, through technical assistance. I propose that future research should therefore explicitly consider the role of impact risk in conceptualisations of blended value in impact investing.

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Glossary of key terms

Blended value	The environmental, social and economic value all business activities generate.
Impact Investing	Investments to create environmental and social impact, which is actively measured.
Public goods and services	Goods and services traditionally under the domain of the State that all citizens need. It can typically include education, energy, healthcare, water and sanitation.
Social Business	A business that seeks social goals as well as a profit. Often provide public goods and services. The business re-invests profits to generate more social benefit. In this key aspect it differs from a social enterprise (below). There is no redistribution of profits to shareholders.
Social economy	A term used mainly in Europe and understood as the actors (businesses, funders, citizens) in an economy and the relationship between the actors who seek to produce social goods and services.
Social enterprise	A business that seeks social goals as well as a profit. Often provide public goods and services. Profit made can be kept or redistributed to shareholders.
Social Impact Investing	Investments that seek to create social impact that are actively measured alongside financial return. Usually through investing in the provision of public goods and services.
Socially Responsible Investing (also known as ethical investing)	Investments that seek to do no harm. Environmental and social factors are considered but not specifically sought or actively measured (in contrast to impact investing)

List of Abbreviations

AfDB African Development Bank

ADB Asian Development Bank

BIO Belgian Investment Company for Developing Countries

BII British International Investments (previously Commonwealth Development Committee-CDC)

COFIDES Compañía Española de Financiación del Desarrollo

DFI Development Finance Institution

DEG Deutsche Investitions-und Entwicklungsgesellschaft

EBRD European Bank for Reconstruction and Development

EIB European Investment Bank

FAO Food and Agriculture Organization of the United Nations

FMO Nederlandse Financierings- Maatschappij voor Ontwikkelingslanden N.V

IFU Investeringsfonden fort udviklingslande

IDB Inter-American Development Bank

IFC International Finance Corporation

IFAD International Fund for Agriculture and Development

IRIS Impact Reporting and Investment Standards

JICA Japan International Cooperation Agency

JIM Joint Impact Model

KPI Key performance indicator

ODA Overseas Development Assistance

OEeB Oesterreichische Entwicklungsbank AG

Proparco Promotion et Participation pour la Coopération économique

SIFEM Swiss Investment Fund for Emerging Markets

SRI Socially Responsible Investment

ToC Theory of Change

US DFI United States Development Finance Institution (formerly Overseas Private Investment Corporation-OPIC))

UNAM Universidad Nacional Autónoma de México

UN SDG United Nations Sustainable Development Goals

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CHAPTER ONE: INTRODUCTION AND RESEARCH RATIONALE

1.1 Introduction

Impact investments are channelled through development finance institutions (DFIs), development banks that form part of the mix of public and private capital which delivers overseas development assistance (ODA). Impact investing is defined as an investment approach that seeks to create both financial return and measurable positive social and environmental impact that is actively measured throughout the lifecycle of the investment (O'Donohoe, Leijonhufvud and Saltuk, 2010; Bugg-Levine and Emerson, 2011b; Social Impact Investment Taskforce, 2014; Clark, Emerson and Thornley, 2015; Hochstadter and Scheck, 2015). Impact investments are made in sectors that include agriculture, education, healthcare, social housing, microfinance, water and sanitation, and renewable energy.

In the context of the United Nations (UN) Agenda 2030 on the Sustainable Development Goals (SDGs), impact investing managed by DFIs is a promising way of using private capital in development. The international community of multilateral, bilateral institutions and development banks declared in 2015 that scaling private capital in development is the only way to meet the 17 SDGs (which include no poverty, zero hunger, decent work) by 2030 (UN, 2015; McHugh, 2021). The trend is framed by neo-liberal strategy that has dominated aid allocation since the 1989 Washington Consensus between the World Bank and the International Monetary Fund.

Neo-liberalism sees privatization, market-based approaches and the creation of markets as key components to the developmental effectiveness of ODA. DFIs work to deliver towards development goals and specialise in private sector development in low-and middle-income countries. Due to the increasing role of DFI impact investing programmes in development, I aim through the research detailed below to better understand how DFIs approach the evaluation of their impact investments.

The underlying position in this thesis accepts a particular understanding of the relationship between economic growth and poverty reduction. It is understood that poverty reduction means expanding access to basic goods and services such as clean water, sanitation, education and healthcare, not just increasing incomes alone (Sen, 2001; Collier and Dollar, 2002; Sachs, 2006; Collier, 2007; Sachs and Souer, 2016). Collier (2008) and Easterly (2008) demonstrate that if policies to encourage economic growth focus on markets to provide these (often in the absence of governments' ability to do so) growth can be more equitable in terms of resource distribution and access to goods and services (Collier 2008; Easterly 2008). Developmental policies that seek growth can make some people wealthier while others poorer, particularly if these policies do not also address inequalities in access to public goods and services (Easterly 2004; Easterly 2008).

The centrality of impact investing in meeting the SDGs, however, raises concerns over the financialisation of development. These issues are clustered broadly around financial markets and institutions gaining influence over development policy (Mawdsley, 2012, 2018; Watts and Scales, 2020; Tori and Onaran, 2021; Bernards, 2022). This is particularly important as impact investors are predominantly in developed economies and funds disbursed in developing economies. High-income, developed economies account for 92% of the \$1.164 trillion impact investments in 2022 with low- and middle-income economies accounting for only 8% of all investors (Hand, Ringel and Danel, 2022). This has the potential to be viewed as capital expansion from high-income countries to lower-income countries at the expense of poverty reduction policies.

The central challenge to impact investing is in how to bring together two different value propositions, financial on the one hand and social on the other (Jackson and Harji, 2012; Mudaliar, Schiff and Bass, 2017; Alijani and Karyotis, 2018), as I explain in this thesis. It is interesting to study DFIs so I can explore blended measurement approaches within them. This is because they differ from other parts of the system (such as governments that give aid) in that their specific aim is to encourage the private sector in development. I identify 25 DFIs as of June 2022 that have impact investing programmes (see Total Assets Under Management listed in Chapter Five). DFIs are also among the more experienced investor organisations. Some of the DFIs

have been doing a form of impact investing for over 60 years (Bugg-Levine and Emerson, 2011a, 2011b) though it has only recently been specified in these terms, previously having been part of the delivery of the DFIs economic development impacts alongside and environmental goals.

I explore these issues within metrics applied to agricultural investments due to the importance of the agricultural sector as a key provider of livelihoods in lower-income regions and as an important driver of development (Rauno Zander and Mhlanga, 2013; World Bank, 2020). It is estimated that 65% of the world's working poor rely on agriculture to make a living (Castañeda *et al.*, 2016). Its importance in sustaining livelihoods has been fairly constant, as it was earlier found to account for an estimated 70% of the workforce in many developing economies (Maxwell 2001). The links between the role of agriculture in the economy and poverty reduction are well established (Timmer, 2002; Christiaensen and Demery, 2007; Byerlee, de Janvry and Sadoulet, 2009). It is an instrumental sector in economic growth (Schultz, 1964; Adelman, 1984) and other aspects of development (Byerlee, de Janvry and Sadoulet, 2009). Byerlee, de Janvry and Sadoulet (2009) show that the multiple functions of agriculture (in increasing labour benefits, rural livelihoods, food security, and stability) for development need highlighting alongside its more recognised contribution to exports and GDP growth.

Agriculture is also the most common sector for impact investment, with 58% of investors reporting some investment in the sector (GIIN, 2019). Nonetheless, there are fewer impact investments in the sector than its size and importance would warrant (Hand *et al.*, 2020). A third of impact investor members of the GIIN planned to increase investments in the sector in 2016 (GIIN, 2016) but the increase has not made significant changes to the overall share of investments in agriculture. It is also a sector in which the relationship among a business, the environment and people might be more clearly explored than in other sectors.

From the outset of methodology design for this research, I have sought an understanding of metrics from the ground up at the country level, not just among investors in high-income economies. Research participants therefore include four smallholder farmers in Veracruz, Mexico and eight DFI representatives and

intermediaries in Mexico City. Smallholder farmers manage land, forests and fishing areas of up to ten hectares (FAO, 2013). Farmer households here are understood as being part of farming communities, which comprised of a network of relationships, agricultural production and linkages to markets (Antle *et al.*, 2014). Mexico has an abundance of both investors (UNCTAD, 2022) and social enterprises (Páramo-Ortiz, 2019; Osorio-Novela, Mungaray-Lagarda and Ramírez-Angulo, 2021). This makes it a useful country to study because one of the concerns with impact investing is that investors are predominantly in the global north and far removed from investees in lower income countries. Mexico's history in micro-investments and social investments (de la Torre, Martinez, 2016) lends itself as a country in which social investment issues can be meaningfully explored. It is also a country with a tapestry of smallholder farmers (Zander, Miller, 2013) that are linked to international markets.

1.2 Research rationale: Why is it important to understand how development finance institutions (DFIs) measure a blend of environmental, social and financial impact?

Among aid institutions DFIs are unique in their delivery of blended finance, which is the use of development funds to mobilise or leverage further financing, usually from the private sector. The blended finance that DFIs disburse is broadly a mix of state funds, concessional finance (meaning loans at below market rates) and private investments. Due to this blend, they can take on higher risk, which makes them a particularly important part of aid delivery during times of crisis and declining ODA. In other words, DFIs are often counter-cyclical, meaning they increase their spending in times of crisis, providing essential support to delivering on aid outcomes (Spratt, 2009; Lemma, 2015, 2019; Massa, Mendez-Parra and te Velde, 2016; Spratt, Lawlor and Coppens, 2021). Investments, however, may not lead to sustainable results, particularly without clear impact measures (Mawdsley, 2018; Cash and Belloy, 2020; Hughes-McLure and Mawdsley, 2022). Indeed, without appropriate measures, it can lead to the misdirection of funds (Clist, 2016). This can be a concern for agriculture (Watts and Scales, 2020) as a sector that has a direct link with poverty reduction (Timmer, 2002; Christiaensen and Demery, 2007; Byerlee, de Janvry and Sadoulet, 2009).

Impact investing is also subject to criticism for ushering in the financialisation of social sectors (Lehner, 2016; Aalbers 2017; Cetindamar, 2017). In these areas it is seen as eroding essential services through privatisation (Lehner, 2016; Aalbers 2017; Cetindamar, 2017), and in micro-finance it has been shown to financialise poverty (Mader, 2015b) and public goods (Mader, 2015a). How power is distorted is seen via an analysis of the political economy associated with providing social goods (Mader, 2015b; Bracking, 2016c; Mawdsley, 2018). Mader (2015a, 2015b) views credit in the microfinance sector as loans to poor people to access goods and services that were previously collectively provided. The credit is marketed to rich people as potential providers. As a result, it can make poverty a marketable commodity. This can then distort power (Mader, 2015b).

Meanwhile in the press, investing for social and environmental returns has been slammed for ‘greenwashing’ (providing misleading information that makes it appear to be having more beneficial impact than it is). The Economist took a critical stance in an eight-part series of articles from June to August 2022 (the Economist, 2022a) suggesting that measurement practices need to be overhauled as there is little clarity on what is being invested in, what is measured and how (the Economist, 2022b, 2022c). The Financial Times’ critique of environmental, social and governance (ESG) financing suggests that an increase in investment flows around sustainable goals may not necessarily lead to better outcomes for emerging markets (Mundy and Meadows, 2021).

The response from the heads of the International Sustainable Standards Board (ISSB) and the Global Steering Group (GSG) for Impact Investing suggests the critique misses the point because it conceptualises as *ESG investing* not *impact investing* (Cohen, 2022). The ESG principles for the private sector were established with the United Nations Secretary General and the UN Global Compact in 2000 as a way of factoring in non-financial considerations into business. The response to the Economist reiterates the definitional difference (Cohen, 2022). Impact investing is not ESG, because it is supported by systemic structures that have been developed for this purpose. These include the creation of the ISSB in 2021 and a large impact-weighted accounts project at the Harvard Business School that published the

impacts of thousands of companies (Cohen, 2022). Nonetheless, as Findlay and Moran (2019) find in an analysis of private investment funds, the funds packaged as impact investing did not necessarily fit the definition in terms of seeking social and environmental goals. This they call “*purpose-washing*” (Findlay and Moran, 2019, p. 853). Impact investing still needs to address claims of ‘green-washing’ (The Economist, 2022a) and “*purpose-washing*” (Findlay and Moran, 2019) in impact investing still need to be addressed. Through the analysis in this thesis, I add some understanding as to the divergence between proponents of impact investing and opponents’ criticisms of it.

Through the research detailed in this thesis, I view these debates as rooted in conceptual tensions in impact investing. In impact investing, the logic of non-profit and for-profit are in conflict (Ebrahim and Rangan, 2010; Antadze and Westley, 2012; Alijani and Karyotis, 2018) and there are tensions between mission-based social impact evaluation and financial impact evaluation (Ebrahim and Rangan 2010). The tension in evaluation exists because financial evaluation follows linear accounting logic whereas social impact evaluation is multi-dimensional to capture the complexity of social impact (Ebrahim and Rangan, 2010; Antadze and Westley, 2012; Alijani and Karyotis, 2018). The bringing together of these two value propositions, financial on the one hand and social on the other, presents a key challenge for impact investing (Jackson and Harji 2012; Mudaliar, Schiff, et al. 2017; Alijani and Karyotis 2018).

The conceptual construct of blended value is built into the definition of impact investing (Bugg-Levine and Emerson, 2011b; Sinha, Bortes and Grettve, 2011; Hochstadter and Scheck, 2015). Blended value is the concept that all activity, by individuals and by companies, produces three kinds of value economic, social and environmental. The concept of blended value originated with the Quakers in the 17th Century and was first applied as a theoretical construct to financial markets by Emerson (2000). It has been used to conceptually underpin impact investing (Bugg-Levine and Goldstein, 2009; Bugg-Levine and Emerson, 2011b; Social Impact Investment Taskforce, 2014; Alijani and Karyotis, 2018; Ormiston, 2019). Because of this impact investing needs to create and measure the three types of value.

To understand impact investing conceptually research should look at how impact is measured in these investments. In socially responsible investing (SRI), against which impact investing has often been compared, investors are not required by definition or accounting standards to give social impact the same weight as financial return in their decision to invest. To put the size of the impact investing market in context, sustainable and responsible investments in 2020 globally amounted to \$35.3 trillion according to the Global Sustainable Investment Alliance (GSIA, 2021). In 2020 the GIIN reported \$47 billion in impact investments had been invested by respondents in 2019 (Hand *et al.*, 2020), with impact investments passing the \$trillion mark for the first time in 2022 (Hand, Ringel and Danel, 2022). SRI does not suffer the same conceptual tension because it does not depend on a need to integrate social impact with financial returns, which impact investing explicitly does (Bugg-Levine and Emerson, 2011b; Hochstadter and Scheck, 2015). Instead, it is explicitly value laden with moral or ethical judgement (Bugg-Levine and Emerson, 2011b).

I recognise in this thesis that the way in which measurement is framed has an impact on practice and theory. Measurement frameworks impact on which outcomes are given priority (Clist, 2016), on power-structures (Nicholls, 2009) and on how to track how much impact can be attributed to a particular investment. Impact investors use a variety of measurement tools and methods to capture blended impact (Olsen and Galimidi, 2008; Flynn, Young and Barnett, 2015; Reeder *et al.*, 2015; So and Staskevicius, 2015; O'Flynn and Barnett, 2017; Barnett *et al.*, 2018). Among the approaches used to measure blended impact in measurement frameworks, development evaluation approaches that employ theories of change can help establish causality and trace attribution (Patton, 2002; Jackson, 2013b; Flynn, Young and Barnett, 2015; Patton, McKegg and Wehiipeihana, 2015; O'Flynn and Barnett, 2017). Impact can then be traced along impact pathways. Impact pathways link social and environmental impacts with the institutions' activity and resource inputs, via the outputs and outcomes it produces. The extent to which impact pathways are used by DFIs is explored in Chapters Five and Six.

1.2 Research Questions and Thesis Outline

I examine the impact measurement and management practices of DFIs to help build conceptual understanding around impact investing. The research is therefore framed around the central research question of *How can the role of evaluation in impact investments be best understood in the measurement and management systems of DFIs?*

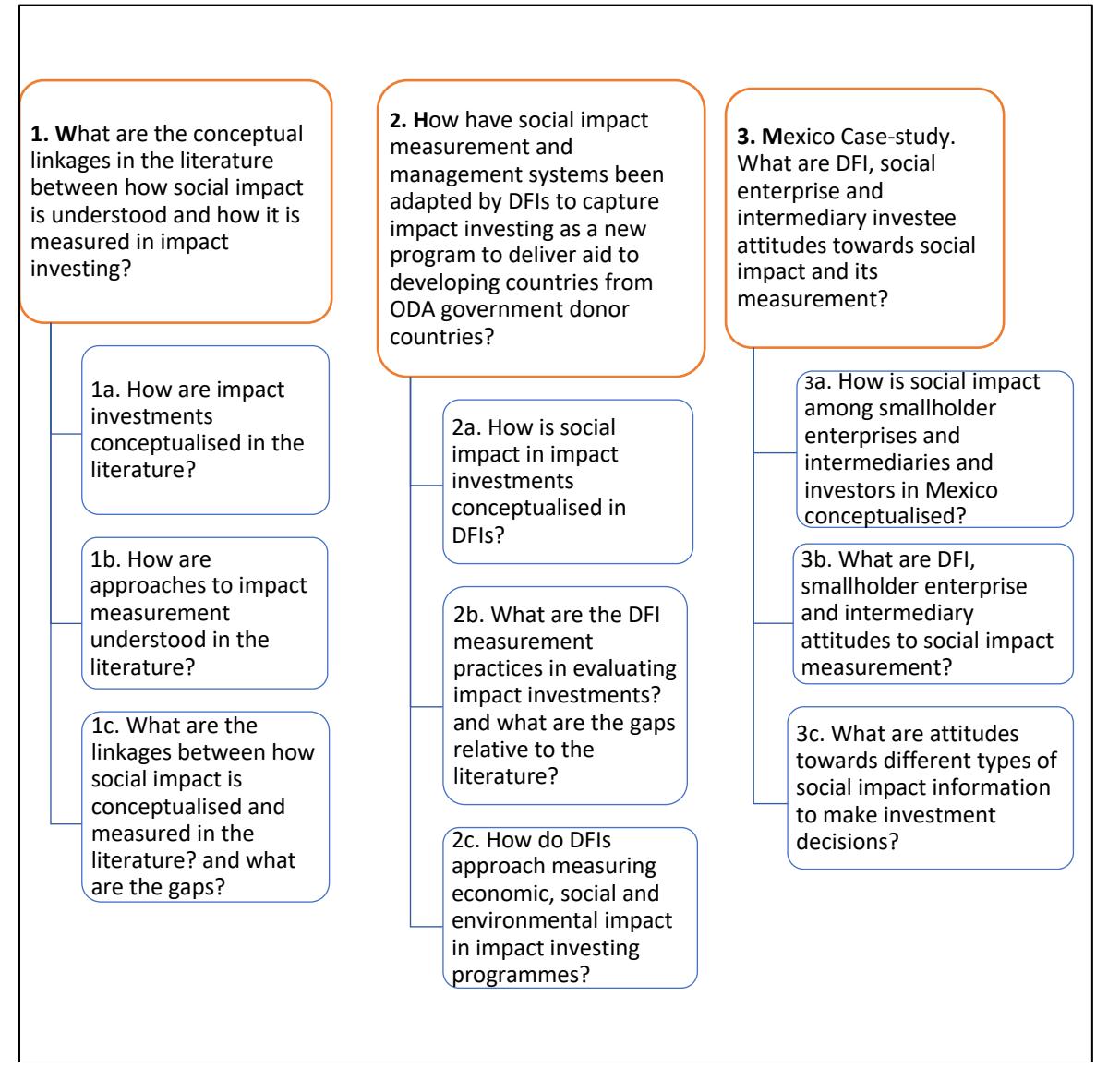
The central research question aims to better understand evaluation in impact investing by exploring how DFIs measure their impact investments. The central research question examines this through the three sub-questions:

1. What are the conceptual linkages in the literature between how social impact is understood and how it is measured in impact investing?
2. How have social impact measurement and management systems been adapted by DFIs in the context of impact investing?
3. How is social impact and its measurement understood on the ground by DFIs and by smallholder farmers? A case study in Mexico City and Veracruz, Mexico.

The research question and sub-questions are detailed in Figure 1.1 below. I explore how DFIs institutions measure blended environmental, social and financial impact. Through this I contribute to the understanding of how social and environmental impact factors into the investment decision-making process alongside financial return and how impact is monitored across the lifecycle of the investment, the two defining characteristics of impact investing. I suggest that inherent tensions in impact investing can be addressed by exploring conceptual linkages between how impact is measured and how it is understood in these types of investments managed by DFIs.

Figure 1.1 Research Questions and Sub-Questions

How can the role of evaluation in impact investments be best understood in the measurement and management systems of development finance institutions?



I focus this research on social impact measurement, with the questions framed around social impact rather than environmental impact or both. With criticism of impact investing mounting in the social sciences, it is an area of conceptual understanding that is worthwhile exploring. Through looking at the tensions between social and financial impact I explore a theoretical blend that can be better understood as an investment approach, by examining how a blend of social and financial impact is measured in practice by DFIs. Blending environmental impact is

nonetheless a piece of the puzzle and, in the thesis, I touch on aspects of blending the three as well as on aspects of green finance.

DFIs impact investments take two main forms. Investments take place through funds of funds and through impact bonds. I focus on funds of funds models in this research. These are pooled public and private investments that then invest in other types of funds. In funds of funds intermediaries receive investments from the DFI and disburse to micro, small and medium-sized enterprises (MSMEs), social enterprises, smallholder farmers, and larger agribusinesses. In social impact bonds and green impact bonds, or in those purchased on securities markets, investments from the DFI are often channelled through a local venture capital trust fund. In social impact bonds the social and financial goal are inextricably linked in a linear, quantitative way. Social or environmental performance leads to a positive financial pay out, and negative social or environmental performance leads to no pay out. In funds of funds, there is more variation in how social and financial goals are linked and measured, which I explore in this research.

1.2.1 Thesis Outline

Addressing the first set of questions in Figure 1.1 above, Chapter Two explores the literature on impact investing, social impact and development evaluation. It establishes conceptual linkages between how social impact is understood and how it is measured. It outlines impact investing as defined by two characteristics of impact actively being sought and impact being measured throughout the lifecycle of the investment. In the chapter I note that there are conceptual gaps in the literature in understanding impact investing. Tensions exist between linear financial accounting and multi-dimensional impact evaluation impact investing. To address these gaps, I explore the financial and social approaches in impact measurement. This can help better understand impact investing conceptually based on practice.

Chapter Three details the key concepts within this research and the conceptual framework for it before laying out the methodology in Chapter Four. Using the theoretical perspectives of Habermas (1981; 1987) and Weber (1921;1968) on

rational capitalism detailed in Chapter Three, the research analyses impact evaluation in DFIs. Through this lens of the relationship between financial systems and society the research can draw theoretical and practical conclusions around the questions and sub-questions outlined in Figure 1.1.

I describe methods and analysis in Chapter Four, which lays out an exploratory qualitative methodology around the questions in Figure 1.1. The empirical chapters, Chapters Five through Eight, examine social impact measurement and management systems in DFIs (Chapters Five and Six); and how social impact, value created, and its measurement are understood on the ground by DFIs and by smallholder farmers through interviews in Mexico (Chapters Seven and Eight). A narrative synthesis of 103 evaluation framework documents and an evidence gap map (White, 2011; Snistveit *et al.*, 2017) form the basis of the findings in Chapter Five. Across Chapters Six to Eight, thematic analysis is combined with the vignette technique (using hypothetical investment cases) over 18 semi-structured interviews.

Chapters Five and Six together answer the question; *How have social impact measurement and management systems been adapted by DFIs to capture impact investing as a new program to deliver aid to developing countries from ODA government donor countries?* Chapter Five explores the sub-question of *What are the DFI measurement practices to evaluating impact investments?* and looks at the extent to which these are captured in the literature. It provides the foundation for answers, explored in more detail in Chapter Six, to the question of *How do DFIs approach measuring economic, social and environmental impact in impact investing programmes?*

Chapters Seven and Eight investigate how social impact and value are created, and its measurement is understood on the ground by DFI interviewees and by smallholder farmers Mexico City and Veracruz, Mexico. The third question is structured around sub-questions (shown in Figure 1.1 above) of how social impact among smallholder enterprises is understood, and attitudes towards different indicators and their use in investment decisions. In the research here, smallholder enterprises are understood as small businesses within farming communities. The rural population in Veracruz makes up two thirds of the total population, resulting in

its ranking as the second largest Mexican state in terms of agricultural production. I identified partners at Veracruz University at the Eco-literacy and knowledge dialogue centre (Centro de EcoAlfabetización y Diálogo de Saberes, Universidad Veracruzana) based in Jalapa, Veracruz. As there are clear environmental, social and financial impacts linked with the Vanilla farmers, interviews with them form the basis of a case in which to explore attitudes towards blended value creation.

Through the research detailed in the thesis, I provide insights into evaluation approaches to impact investing. The mix of respondents draws themes that are common to DFI framework designers, DFI respondents on the ground in Mexico, and smallholder farmers. Several key themes emerged including on the role of the business and investment ecosystem in which an investment takes place and the role of impact risk in how social impact is understood, as well as common gaps in metrics systems.

Through the research detailed in Chapters Five to Eight, I find that risk, both as financial and impact risk, feeds into decision-making and impact tracking. The analysis finds that social and environmental impact risk is given strong consideration in the measurement systems of DFIs. This is the case both in the metrics systems of DFIs and in how respondents understand social and environmental impact. It suggests the subject of future research should be a multi-faceted concept of impact investing that includes impact risk.

CHAPTER TWO: LITERATURE REVIEW

Finance for Development or the Financialisation of Development? Impact Measurement Matters.

2.1 Introduction: Finance for Development or the Financialisation of Development? Impact Measurement Matters.

It is recognised both by the international development community (UN, 2015) and in the literature that private finance in development is needed to meet the SDGs (Sachs, 2015; Bracking, 2016a; Bebbington and Unerman, 2018; McHugh, 2021). The rapid growth of social impact investing does deliver education, healthcare and other social or public goods in welfare states and in developing economies on the one hand. On the other hand, however, it is criticised on the grounds that it financialises development (Bracking, 2016c; Musthaq, 2021; Hughes-McLure and Mawdsley, 2022) and marketizes the social sector (Dowling, 2017a; Chiapello *et al.*, 2020; Williams and Treffers, 2021).

In this chapter I argue that this dichotomy is underpinned by conceptual tensions in impact investing (Jackson and Harji 2012; Mudaliar, Schiff and Bass 2017; Aljani and Karyotis 2018) detailed in Section 2.3. Due to the centrality of measurement to the definition of impact investing, it is only through impact measurement that the role of impact investing can be understood either as financing or financialising development. An associated practical constraint arises for impact investing. When private and public financing is oriented towards goals such as the SDGs, “*time-bound, quantified goals*” are needed (Sachs, 2015, p. 270), to succeed in meeting them. To achieve a financial and non-financial blend, impact investors face the challenge of developing measurement techniques that are suitably sophisticated to capture a combination of social and financial value (Mudaliar, Schiff and Bass 2017).

In this chapter I review the social sciences literature (understood as business studies, political science, social anthropology, political economy, sociology and behavioural science) on impact investing with a focus of the role of impact

measurement practices. The literature includes the *Journal of Business Ethics*, the *Journal of Social Entrepreneurship* and the *Journal of Sustainable Finance and Investment*. There are also debates in the *Stanford Social Innovation Review* and *Harvard Business Review* over whether there is a trade-off between financial and social gain in impact investing and how to establish impact accounting. The trend in *New Political Economy* and *World Development* are questions around whether it financialises development. Due to the centrality of impact measurement in impact investing, discussions are also found in *Evaluation*, *African Evaluation* and *Development in Practice* that discuss practical issues of measuring development results. The grey literature emanating from the Centre for Development Impact, ITAD, the Overseas Development Institute (ODI), the Organization for Economic Cooperation and Development (OECD), and Oxford Policy Management (OPM) on DFIs detailed in this Chapter add insight into impact measurement practices.

The chapter begins with briefly explaining how impact investing is defined and how it emerged (Section 2.2) and providing an overview of the renewed concerns over financialization of development (Section 2.3) that impact investing used for development presents. The measures and measurement approaches are discussed in Section 2.4. Section 2.5 then more specifically examines the measurement approaches in impact investing used in DFIs. This chapter finds that gaps in the literature result in impact investing being conceptually underdeveloped. The important dimension less studied in the literature is the way impact measurement relates to how impact investing is understood conceptually as well as how investment decisions for impact are made.

2.2 What is Impact Investing and how is it defined?

Impact investing is based on the idea of investing capital into enterprises and ventures with the expectation that social and environmental returns are realised. It is one of many investment strategies that have risen in prominence in recent years, including SRI also known as ethical investing. Amid consumer calls for ethical banking and investment options, ethical and socially responsible banking has become a mainstream consumer option since the 1990s. Since the global recession beginning in 2007, the sector has matured into a different investment type called

‘impact investing’ a term coined at a meeting convened by the Rockefeller Foundation at the Bellagio Centre, Italy to discuss the establishment of this emerging investment approach.

Impact investing is characterised by two defining features. **Firstly, impact Investments by definition should produce a blend of social, environmental and financial results that are actively measured. Secondly, it should measure social results all along the lifecycle of the investment** (O’Donohoe, Leijonhufvud and Saltuk, 2010; Bugg-Levine and Emerson, 2011b; Social Impact Investment Taskforce, 2014; Clark, Emerson and Thornley, 2015; Hochstadter and Scheck, 2015). This brief section details these defining points and where impact investing has evolved from, while section 2.4 below deals with the definitional hurdles and conceptual tensions that face impact investing due to its varied roots.

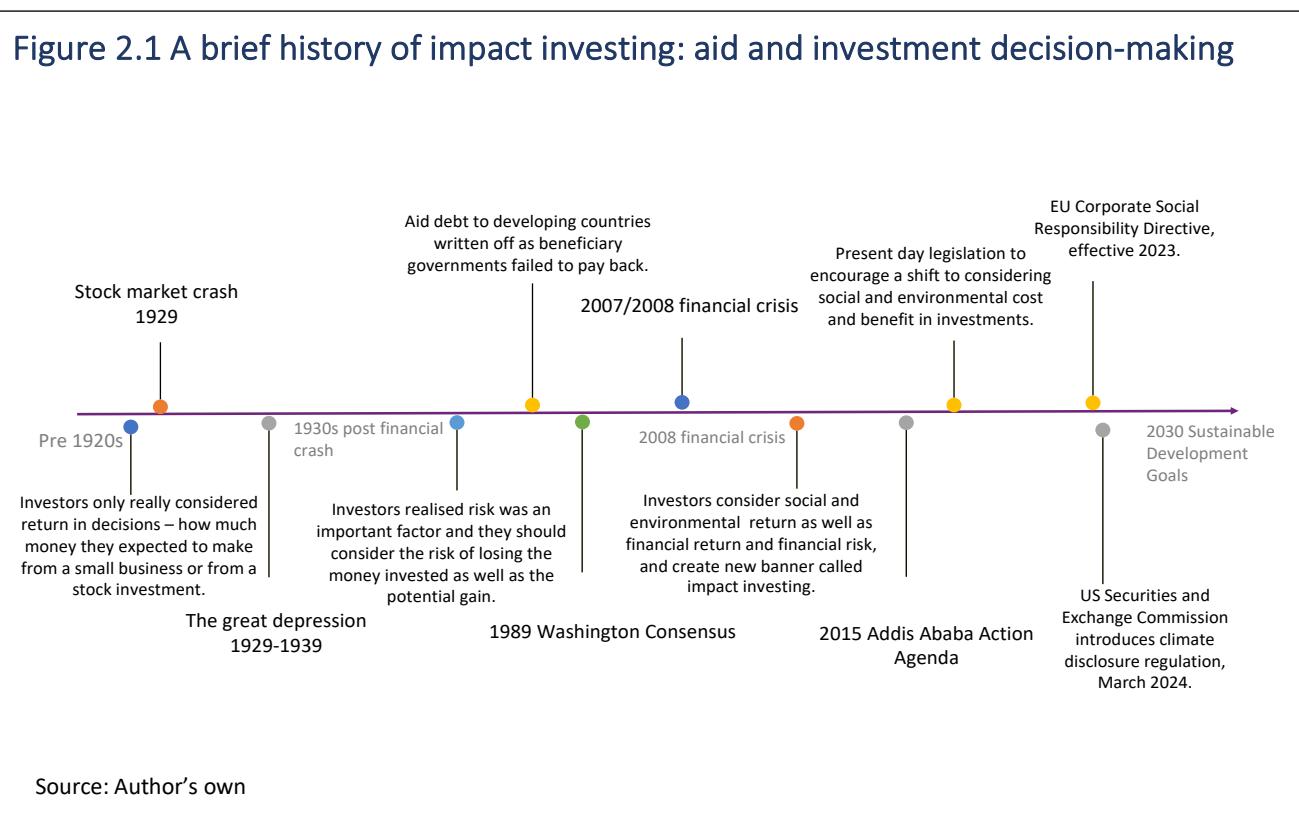
2.2.1 Impact investing in the context of capital markets history

Proponents of impact investing, such as the G20 taskforce, the OECD and convenors at the Bellagio Centre, talk of it as potentially a transformation of capital markets (Bugg-Levine and Emerson, 2011; Cohen, 2021; OECD, 2022). The positioning of proponents can be best understood in the history of investment decisions which are characterised by financial risk and return. The timeline diagram below (Figure 2.1) places impact investing within a particular context of the history of capital investments. Prior to the 1929 Wall-Street stock market crash and ensuing Great Depression (the deepest and longest recorded global recession, beginning in the US) investors only considered possible financial gain in their investment choices. In the 1930s risk was added to the decision-making process. Proponents of impact investing see it as a movement of adding a third aspect, social and environmental impact, alongside the risk and return aspects used to decide what to invest in.

A number of studies in contrast view impact investing in terms as a response after the 2008 financial crisis (Bracking, 2016c; Chiapello *et al.*, 2020). I depict this in the timeline presented in Figure 2.1 below to summarise the literature discussed in this Section 2.2.1. The rise of impact investing has been explained as being used in a

variety of ways to explain the global political economy and the post-2008 crisis (Bracking, 2016c). It provided a way of capitalism to be seen as part of the solution at a time when investors were seen as responsible for economic recession (Chiapello *et al.*, 2020). However, efforts to create this new style of social mission investing are guided by the standard financial knowledge and understanding of its proponents (Bourgeron, 2020; Chiapello *et al.*, 2020; Hellman, 2020). The encroachment of neo-liberalism into welfare is seen by these authors as altering public management systems. It makes public provision more complicated by, for example, bringing public services into investor risk sharing mechanisms (Chiapello *et al.*, 2020).

Figure 2.1 A brief history of impact investing: aid and investment decision-making



The timeline above (Figure 2.1) places impact investing within a particular context of the history of development financing. This is characterised by capital investments and private sector investments in development as part of a broader neo-liberal trend in development economics, marked by the 1989 Washington Consensus. This neo-liberal development context has favoured market-based approaches, which have included the strengthening and creating markets in lower income countries. This is by neo-liberals seen as the alternative to large volumes of ODA administered

through governments that preceded the Washington Consensus (Williamson, 2008). The preceding context was in which recipient governments had strong control over their budgets, which neo-liberalism views as detrimental to social and economic development. DFIs are bilateral or multilateral state instruments for development. They provide funding that goes more directly to the market in lower income countries rather than via recipient governments as had been the case in traditional aid delivery structures.

Recent legislation demonstrates an increasing regulatory trend towards environmental and social reporting, reflected in the timeline (Figure 2.1). Effective in 2023, the European Union (EU) Corporate Social Responsibility Directive (CSRD) requires large companies to report on the environmental and social impact of their business (EU, 2022). The EU also passed an anti-greenwashing directive in January 2024, preventing companies from reporting misleading environmental and social information (EU, 2024). The United States (US) Securities and Exchange Commission (SEC) put forward proposals for disclosures on climate-related and other ESG risks in 2022, which were then approved in March 2024 (US SEC, 2024). This regulatory trend, however, comes with some controversy. At the same time, in 2023, proposals were put forward in the US from the Republican party to prevent fund managers from making investment decisions based on non-financial factors. However, the US President used power of veto to reject the proposal (Reuters, 2023). Several US states then passed separate bills that prohibit non-financial factors to be considered when making financial decisions.

2.2.2 Market-based approaches to poverty reduction

Impact investments are part of a package of instruments known as market-based approaches to poverty reduction. Market-based approaches to poverty reduction aim to increase incomes and expand access to basic services such as education, healthcare and water and sanitation through business. The approaches use business models and support to market development as a way of meeting sustainable development challenges at a large scale. These approaches can create more equitable growth by expanding access to livelihood opportunities, goods and services among the poor (Collier 2008; Easterly 2008).

Equitable development is achieved through market-based approaches driven from the bottom up (Collier 2008; Easterly 2008) by the resilient entrepreneurs and consumers among the poorest members of society in lowest income countries (Prahalad, 2005). This contrasts to state aid approaches where development is driven from the top down and can because of this create inequitable growth (Collier 2008; Easterly 2008). However, these types of market-based approaches that are based on enterprise tend to involve cooperation between large corporations, communities and suppliers in their supply chains, with governments and regulation playing a facilitating role.

Tensions within non-profit and for-profit motivations, values and developmental goals are understood through how multi stakeholder public private partnerships take place on the ground (Nelson, 2007; Porter and Kramer, 2007; Jenkins and Ishikawa, 2010; London, Anupindi and Sheth, 2010). While NGO, development institutions and corporations have different motivations and value propositions for their involvement in development, long-term cooperation among the actors creates mutual value for business and communities, consumers and producers in developing countries (Brugmann and Prahalad, 2007; Nelson, 2007; Porter and Kramer, 2007; Jenkins and Ishikawa, 2010; London and Hart, 2010; London, Anupindi and Sheth, 2010).

However, impact investors, particularly portfolio investors (that have pockets of money spread around potentially hundreds of investments), do not have the same geographical or business proximity to entrepreneurs as those that arose through cooperating around business supply chains to create this kind of mutual value. A particular relationship that has been built on long-term cooperation through supply chain relationships creates mutual value. In other types of cooperation, where one interest aims to capitalise on the other, the capacity of local actors can be overlooked or reduced (London and Hart, 2010). Because of this risk of capitalisation impact investing needs to find new ways to get closer to investees and the communities they impact on if it aims to create mutual value.

More recently, Eyre (2021) has looked at financial devices and how they are linked to the way in which philanthropists are interested in creating positive impact on the

people and projects they intend to. Eyre (2021) suggests that researchers need to move beyond either grouping impact investing as “*philanthrocapitalism*” on the one hand (because impact investing shares with it a reliance on market-based devices) or on the other hand seeing it as in contrast to philanthropy “*because one is a gift and the other an investment*” (Eyre, 2021, p. 245).

Nonetheless criticism of impact investing is directed towards the role of markets in capital accumulation. This is because it can be used for fund managers and other investors to accumulate capital from new markets. Musthaq (2021) finds that development finance may risk being used as asset accumulation for fund managers in developing countries. The creation of new markets is seen by others as seeking new capital accumulation under the banner of development (Mawdsley et al., 2018). Bernards (2022) further finds a certain distortion in the microfinance market, where donor agencies and organisations that promote microinsurance have responded to market failure by creating or preparing markets. That is a type of “anticipatory marketization” of risk management that has failed to get traction (Bernards, 2022, p.953). That there are markets strategically waiting for investment highlights that political dynamics in the development of markets need to be considered in future research (Bernards, 2022). The role of extending markets to the poor is also similarly viewed by Bateman and Maclean (2015) who see neo-liberal approaches in development and in poverty reduction as “*equating development with the extension of capital markets*” (Bateman and Maclean, 2015 p.301).

In market-based approaches to poverty reduction and development, financial and social performance are both strategic objectives. Impact investing, by definition, is supposed to elevate social and environmental impact considerations to financial considerations in an investment or business venture (O'Donohoe, Leijonhufvud and Saltuk, 2010; Social Impact Investment Taskforce, 2014; Hochstadter and Scheck, 2015; Clark and Thornley, 2016; Hehenberger, 2022). In order to do this social impact should be assessed at stages that mirror financial impact measurement.

Figure 2.2 below depicts the stages of the investment lifecycle to which the definitions commonly refer. Social impact should be assessed in the eligibility and selection of investments, then in the reporting of on-going impact and at the divestment or exit stages of the investment (Jackson and Harji, 2012; Reeder et al.,

2014). Broadly, these stages can be thought of as before, during and after the investment.

The lifecycle Figure 2.2 below is drawn by combining diagrams from standard setters in impact measurement for investing (Conway and Foundation, 2016; UN PRI, 2021); the Impact Management Platform (2021) and Calvert Impact Management (2020); as well as the International Finance Corporation Operating Principles for Impact Management (OPIM) which DFIs have aligned to as detailed later in this chapter and in depth in Chapter Five, Section 5.4. The diagram below shows that impact goals are incorporated from the outset, it then becomes part of the deal negotiation, where mission and vision are included alongside the key question of is it a viable enterprise to invest in. The next stage is in managing that investment. This means not just financially managing the portfolio but also monitoring against impact objectives. Empirical Chapters Five and Six demonstrate how DFIs do this and important characteristics of impact measurement and management within those approaches.

Figure 2.2 Impact in the Investment Lifecycle



Sources: IFC OPIM (2019), UN PRI (2020), Calvert Impact Management (2020) Impact Management Platform (2021).

The extent to which investors and DFIs do in reality measure with the rigour depicted in Figure 2.2 varies however. Samset and Christensen (2017) for instance argue that the same evaluation rigor as in ex-post evaluation (which usually occurs in the portfolio management stage shown in Figure 2.2) should be applied also when making the investment decision. The Annual Investor Surveys (2016-2022) by the GIIN give some idea of the proportion of investors that measure impact and to what extent. The majority of impact investors, generally at over 90% on average to 2022, consistently measure impact outputs and around 75% of the same investors

measure outcomes. Then less than 40% measure breadth and depth of impact and even fewer in the survey measure impact at exit.

2.3 Financing for Development or the Financialisation of Development?

Social impact investing delivers education, healthcare and other social or public goods in developing economies, typically by investing in social enterprises (Bugg-Levine and Emerson, 2011b; Bugg-Levine and Kogut, 2012). Through investments in social enterprises, defined as businesses that aim to make a profit and produce social and or environmental impact, impact investing can fill a gap in the provision of essential services in low- and middle-income economies. Supporting this approach (which is also used by social businesses (Yunus and Weber, 2010))¹ growth for low- and middle-income countries more equitable (Easterly, 2001, 2004).

Bugg-Levine and Kogut (2012) present a hypothetical social enterprise, which is a clear explanation of how this works. In the example, an African social enterprise needs “\$100,000 to build new health clinics”. It expects the health clinics to earn “\$5,000 a year”, which is “a return on investment of 5%”. (Bugg-Levine and Kogut, 2012, p. 102). In the example the 5% return is not enough to attract private investors. In a traditional philanthropic model, the enterprise would ask a charitable foundation for the \$100,000. If though, the social enterprise asks the foundation for \$50,000 it can then offer private investors a return of 10% on the remaining \$50,000. The charitable foundation, meanwhile, has spent \$50,000 instead of \$100,000. This means it has \$50,000 to invest in another enterprise, explain the authors.

However, impact investors are predominantly in developed economies and funds disbursed in developing economies. Annual Investor Surveys from the GIIN provide breakdowns under classifications of “developed” and “emerging” markets. In 2019, 55% impact investments went to developed markets and 40% to emerging markets (Hand *et al.*, 2020, p. xiv). This has remained stable over the previous years, with

¹ Social businesses differ from a social enterprise on one main point. A social business seeks profit but re-invests profit into creating more social impact whereas a social enterprise retains or re-distributes profit to shareholders.

roughly half of investments, allocated to “emerging markets” in an earlier study (Mudaliar, Schiff and Bass, 2017, p. xiii). This leads to views of impact investing being a means of capital expansion from high-income countries into lower income countries and financialisation.

2.3.1 The financialisation of development

As a result of the flow of financing from high income to lower income economies as part of ODA, social impact investing risks financialising development (Bracking, 2016c; Musthaq, 2021; Hughes-McLure and Mawdsley, 2022). Financialisation is seen as the encroaching power of finance over society (Sokol, 2017) that is characterising modern systems (Mader, 2015a, 2015b). Changes in the flow of financing to development affects who provides and who and what receives funding. As a result, it can alter power relationships either internationally, nationally or at a local level (van Treeck, 2009; Mawdsley, 2012, 2018; Bracking, 2016c; Sykes *et al.*, 2016). These concerns are exacerbated when investing is seen as for-profit capital expansion into less developed countries and markets, as I now explain.

Political economy gains the state receives in providing public goods and services are through impact investing transferred to private financers (van Treeck, 2009; Musthaq, 2021). In developing contexts political economy is an important part of the fabric of maintaining local and national power and therefore stability, particularly where states are struggling (Bevan, Collier and Gunning, 1999; Collier, 2009). Bracking (2020) in more recent work, though, argues that power itself is being financialised through financers’ roles in assistance. The role of investors in the social sector in turn, and the impact this has on democracy as a result of the impact it has, is eroding the influence of governments (Bracking, 2016b). Mader (2015) similarly finds the political economy gains associated with targeting poor populations are financialised and so too is poverty itself (Mader, 2015). Mader (2022) shows how microfinance (small finance options targeting poor population) to expand access to education, healthcare, water and sanitation seek to replace or enhance the state’s provision of public goods. This type of financing is a way of privatising and financialising without privatisation programs, which can be political (Mader, 2015a).

As a result, the main concern in the financialisation of development is related to power. Social impact investing is framed in a context of the financialisation of development in a study on agricultural sector in the sub-Saharan Africa (Watts and Scales, 2020). Watts and Scales (2020) find that social impact investing is changing development policy. It has the potential to create new uneven geographies of agricultural development as a result because of new areas gaining from investments while others lose out. Löscher (2019) produces a case study of Ethiopia in the financialisation of development, finding mixed impact amidst economic crises. Natile (2020) similarly frames the interplay between UK development aid policy and the Kenyan government within the social enterprise ecosystem in Kenya. The author examines mobile money as a social enterprise, which has reached the majority of the population in Kenya (Natile, 2020a). Natile (2020) argues that the way in which the financial inclusion drive in Kenya is framed, rather than greater equality as a result of the increased financial inclusion, instead *“risks reproducing gender inequalities”* (Natile, 2020b, p. 67).

Regional differences in the efficacy of impact investing, according to Roundy (2019), are due to the extent to which impact investment ecosystems support the achievement of impact goals. Investment ecosystems can hinder or support impact investing regionally (Roundy, 2019). The supporting role of ecosystems is particularly important in the context of investors in high income economies investing in low-income countries and communities. Uneven geographic development can be attributed to financialisation (Sokol, 2017) because of its impact on geographic power locally as well as internationally (Mawdsley, 2018) and on geographic development (Sokol, 2017). There is agency attached to who is delivering aid. As a result, it has an important impact on power in the disbursement of global development funding (Hope *et al.*, 2022). Türkelli (2022) also finds that, because of this, multi-stakeholder partnerships in impact investing for development financialise development assistance. A new approach to social impact investing in development, that would try to prevent exacerbating uneven geographies, would focus on the social relations and transfer of value along the chain of interactions (Sokol, 2017). This is an insight that the research in this thesis could contribute to by looking to understand better the chain of interactions in creating social impact. There are fewer studies that focus on

the role of markets and the effect impact investing has on development. As a result, the research in this thesis looks at markets rather than power. It does this through a conceptual framework which includes the social theory of Max Weber (1921;1968) that views markets as social constructs, which Chapter Three explains.

2.3.2 Social finance and the welfare state

The social sciences literature also engages with social impact investing as an approach to public private funding in the social sector. In this there are parallel concerns that a blended financing approach marketizes the social sector (Dowling, 2017a; Chiapello *et al.*, 2020; Williams and Treffers, 2021). Scepticism also surrounds the marketization of non-profits as NGOs become more business oriented (Arvidson *et al.*, 2013). This is in the context of findings that welfare states, notably in Europe, increasingly turn to social finance and social enterprises to fill service provision gaps and to privatize. Sharir and Lerner (2006) show in the UK and Germany social enterprises increasingly provide services to fill gaps in state supply. Though Tori and Onaran (2021) find that the relationship between financial income, investment and financial development may not necessarily increase investments in services (Tori and Onaran, 2021).

Dowling (2017) in the UK context discusses the potential pitfalls of social impact bonds as the ‘financialisation’ of the welfare state. The argument is broadly that social goods are public goods and should not have a monetary value placed on them. By placing monetary value on public goods, they are converted into commodities. Among the first to suggest that privatisation of welfare opens the door to financialization of these services were Le Grand and Bartlett (1993). Private actors replacing the state in welfare provision can have negative implications (Le Grand and Bartlett, 1993), which for instance can be the erosion of social rights to services such as education and healthcare (Busilacchi and Giovanola, 2023).

2.4 Conceptual tensions in impact investing

Social impact investing in low-income countries helps deliver some social goods and services to low-income people where state provision of these is lacking. However, as explained above, it is accompanied with concerns over financialising poverty and development (Bracking, 2016c; Musthaq, 2021; Hughes-McLure and Mawdsley, 2022). This section now demonstrates that the conflict arises from tensions within impact investing conceptually. This dichotomy is underpinned by conceptual tensions in impact investing because it mixes two types of value and logic (Jackson and Harji 2012; Mudaliar, Schiff, et al. 2017; Alijani and Karyotis 2018).

Impact investing is a vast and varied, heterogenous industry. Impact investors range from venture capitalists to philanthropists. Impact investing spans private individual investment, to larger portfolio investments and pension funds, and to state actors and sovereign wealth funds (state owned investment funds) and bonds. It is generally recognised in the literature that impact investors originated in contradiction to the mainstream of their “asset class” and often define themselves in these terms (Bugg-Levine and Emerson, 2011b; Saltuk, Bouri and Leung, 2011; Clark and Thornley, 2016; Alijani and Karyotis, 2018). Asset classes can be equity, bonds, cash or cash equivalents, commodities, real estate, pension funds, philanthropy capital, venture capital, high net worth individual capital.

2.4.1 Varied origins: areas of unified definitions and of fragmentation

As a result, impact investing often conceives of itself in terms of identifying as not the other from which it originated. It is often defined against SRI because of the way in which it requires impact measurement throughout the investment lifecycle while SRI does not (O'Donohoe, Leijonhufvud and Saltuk, 2010; Bugg-Levine and Emerson, 2011b; Reeder and Colantonio, 2013; Hochstadter and Scheck, 2015). It differs conceptually from venture capital investments because of the centrality of a defined social mission (Cetindamar and Ozkazanc-Pan, 2017; Agrawal and Hockerts, 2021). Table 2.1 below shows how it is conceived in the literature as unconventional actors that have emerged from each of their main fields. It is understood as differing from

mainstream investing as it requires measurable social impact (Bugg-Levine and Emerson, 2011b; Jackson and Harji, 2012; Reisman and Olazabal, 2016). It differs from grants and philanthropy because of a need for a financial return.

Table 2.1 Early understanding of impact investing

Paper	Defines against	Publication
Cetindamar and Ozkazanc-Pan, 2017; Agrawal and Hockerts, 2019	Not as venture capitalism	Journal of Business Ethics; Journal of small business and entrepreneurship
Reeder et.al, 2015 Bugg-Levine and Emerson, 2011; Clark and Thornley, 2016	Not as Socially Responsible Investing (SRI)	Journal of Sustainable Finance and Investment; Innovations: Technology, Governance, Globalization; Stanford Social Innovation Review
Jackson and Harji, 2012	Not as philanthropy	The Rockefeller Foundation
Jackson and Harji, 2012 Reisman and Olazabal, 2016,	Not as mainstream investing Not on the continuum between philanthropy and mainstream investing	The Rockefeller Foundation
O'Donohoe, Leijonhufvud and Saltuk, 2010 Bugg-Levine and Emerson, 2011	Not as any of the existing asset classes but as an asset class its own right.	JP Morgan Social Finance Innovations: Technology, Governance, Globalization

Table 2.1 above shows that because impact investing emerged from difference fields, industries or “asset classes” (depending on the categorisation preferred) it defined against those. So, for venture capitalist impact investors, they were not traditional venture capitalists. The philanthropists, for example, defined themselves against traditional philanthropy. The definitions of what impact investing “is not”, shown in Table 2.1 above came about in the context of an implicit trade-off between financial gain and social and environmental benefit.

There was initial debate between those who claimed there was a trade-off (Freireich and Fulton, 2009; Brest *et al.*, 2013) and those who claimed there was not (Bugg-Levine and Emerson, 2011b; Bugg-Levine, 2013). The notion of a trade-off leads to differentiating between investor types in these terms. Freireich and Fulton (2009) segment by what they call “*finance first*” and “*impact first*” investors (Freireich and Fulton, 2009, p.32). Brest and Born (2013) differentiate between “*socially motivated*” and “*socially neutral*” investors (Best and Born, 2013, p.25). These studies suggest some impact investors are driven by a focus on financial returns (while making a difference) and others by creating social impact (while making financial returns).

This conflicts with what proponents see as the purpose of impact investing, which is to unite investors from the more philanthropic traditions and investors from financial traditions. These proponents issued replies, suggesting that the conflict is not unresolvable, but that greater conceptual clarity is needed in impact investing to avoid these categorisations (Bugg-Levine, 2013; Brandstetter and Lehner, 2015). Reisman and Olazabal (2016) similarly highlight that impact investing should not be viewed on “*a philanthropy-investment continuum— between donations and investing*” because of its intention to blend financial, social and environmental outcomes (Reisman and Olazabal, 2016, p. 5).

Among the definitions in Table 2.1 above, impact investors have been keen to differentiate from SRI (O'Donohoe, Leijonhufvud and Saltuk, 2010; Bugg-Levine and Emerson, 2011b; Emerson, 2013; Reeder and Colantonio, 2013; Reeder *et al.*, 2014; Hochstadter and Scheck, 2015). Early proponents in particular defined impact investing against SRI (O'Donohoe, Leijonhufvud and Saltuk, 2010; Bugg-Levine and Emerson, 2011b; Emerson, 2013; Reeder and Colantonio, 2013; Reeder *et al.*,

2014; Hochstadter and Scheck, 2015) often on the grounds that the ethical investing field still focused on negative screening (“do no harm”) whereas impact investing focused on actively seeking positive impact (O’Donohoe, Leijonhufvud and Saltuk, 2010; Bugg-Levine and Emerson, 2011b; Emerson, 2013).

Bugg-Levine and Emerson (2011) suggest impact investing emerged as an alternative because ethical investing implied moral judgement and avoiding certain types of firms (such as arms manufacturers, fossil fuel giants, mining companies). Impact investing did not want to be associated with moral judgement but with rational judgement. Socially responsible fund managers had for instance been found to not employ investment approaches that materially differ from those of standard mutual fund managers who only consider financial returns (Benson, Brailsford and Humphrey, 2006).

Within the different ways of looking at impact investing, it is undisputed that impact measurement is crucial to how it is defined (Bugg-Levine and Emerson, 2011; Jackson and Harji, 2012; Jackson, 2013; Reeder et.al, 2015) and operationalised (OECD, 2015). Impact goals are measured and tracked with the same interest as financial returns, whereas SRI does not require impact measurement and management throughout the investment lifecycle (O’Donohoe, Leijonhufvud and Saltuk, 2010; Bugg-Levine and Emerson, 2011b; Reeder and Colantonio, 2013; Hochstadter and Scheck, 2015).

It is important to be aware that impact investing is not a single unified idea and different authors emphasise different aspects. Different ways of understanding impact investing in turn lead to different conceptual and practical challenges. When it is thought of in terms of blended finance (Bakker and Van Vliet, 2022) (Basile, 2022), it is a necessary source of development funding. As such it can be geared towards developmental goals. If, however, it is thought of as a new “asset class” (O’Donohoe, Leijonhufvud and Saltuk, 2010, p. 5; Saltuk, Bouri and Leung, 2011) and a restructuring of the investment system (Cohen, 2021), it can lead to the view that it can financialise development and welfare.

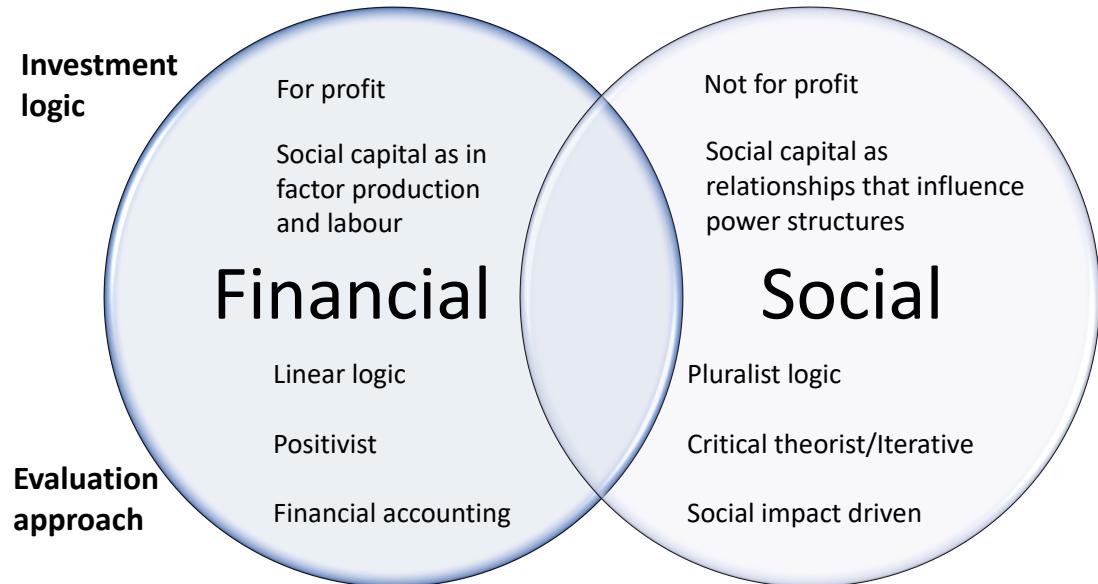
Impact-weighted accounting is where impact is monetised to support a restructuring of the investment system to include social and environmental impact (Freiberg *et al.*, 2020; Serafeim and Trinh, 2020). When it is thought of in this way it would lead to a view that it financialises non-financial systems and that it will create uneven development and resultant inequity (Roundy, 2019; Watts and Scales, 2020;). Some authors emphasise that impact investing treats social and environmental gains as importantly as financial return (Emerson, 2013; Clark, Emerson and Thornley, 2015; Nicholls, 2018). This way of looking at impact investing leads to similar concerns over monetisation (Dowling, 2017; Wainwright and Manville, 2017; Bracking, 2020). This is because of questions surrounding how to do this without absorbing social factors into financial structures. These concerns are at their core due a conflict between non-profit drivers and for-profit drivers and between straight-line financially accounting and multi-dimensional social impact assessment, as I now explain.

2.4.2 Logical tensions

The main issue in impact investing raised in the literature is that the logic of non-profit and for-profit activities are in conflict (Ebrahim and Rangan, 2010; Antadze and Westley, 2012; Alijani and Karyotis, 2019). The logic of financial approaches is linear whereas the social domain is defined by its complexity (Antadze and Westley, 2012). Evaluation of social goals focus on how much an intervention contributes to achieving that goal. Within such an evaluation, financial performance is a means to a social end (Ebrahim and Rangan, 2010). Meanwhile financial evaluation is linear, and its logic cannot go further than placing a monetary value on social outcomes. In Figure 2.3 below I summarise these tensions in attempts to blend social and financial logic in terms of investment and evaluation approach. Financial evaluation approaches, because of their linear logic, fail to account for the complexities of social impact which is caused by a number of factors and actors (Ebrahim and Rangan, 2010; Antadze and Westley, 2012). As a result, the biggest challenge to blending social and economic goals lies in monetizing social value (Alijani and Karyotis, 2019). That is, if financial logic applies to social outcomes, social value becomes monetised.

Figure 2.3 summarises the conceptual tensions from the two value propositions within impact investing. The blended value proposition, which I detail in the next chapter as part of the conceptual framing for this research (Chapter Three), attempts to resolve the tensions. The proposition is based on the notion that when companies seek environmental, social and financial value rather than prioritise one over the other, they maximize all three types of impact. That is there is no trade-off under the blended value proposition. It is the main theory proposed to underpin impact investing which comes from Emerson (2003) and Bugg-Levine and Emerson (2011). In Figure 2.3 below, social and financial practice blends at the intersection between financial and social value propositions. The two value propositions in the diagram summarise the logically opposed approaches within them.

Figure 2.3 Blending Value Propositions in the Literature



Source: Author's own summarising conceptual tensions detailed in Emerson (2003), Nicholls (2009, 2018); Ebrahim and Rangan (2010); Bugg-Levine and Emerson (2011); Antadze and Westley (2012); Alijani and Karyotis (2019).

The concept of blending social and financial values which are logically opposed (see Figure 2.3 above) has been developed further by Nicholls (2009, 2018) to present blended value social accounting (2009) and a theory of dual materiality (2018), discussed further in the next chapter. Dual materiality, as opposed to singular materiality (or the linear logic of financial accounting), helps deal with the tensions. However, attempts to conceptually blend social and financial aspects in impact

investing have yet to find a solution to critiques in the social sciences, detailed here so far.

The theories behind impact investing intertwine with different approaches to impact measurement. In impact investing it is important to capture and track the social mission of investee enterprises. Different evaluation approaches, though, are based in different logics. On the one hand positivist logic dictates that knowledge gained is valid in so far as it can be shown to directly derive from empirical evidence, as I will now explain. Interpretivism in opposition to positivism argues that knowledge is subjective and affected by cultural and historical context. Critical theorists, meanwhile, understand that the evaluator is influenced by their own perceptions and experiences and the power structures within they sit. Nicholls (2009) presents a “*spectrum of blended value accounting*” in social enterprises that ranges from positivist on one hand to interpretive at the other (Nicholls, 2009, p. 765). Positivist approaches are associated with financial accounts, financial value and quantitative data. While interpretive approaches are associated with a social audit, social value and qualitative data. In between these approaches lies the critical theorist approach to accounting blended value (Nicholls, 2009).

Critical theorist evaluation is a theory-based approach that helps critique a programme based on participatory structures (Klecun and Cornford, 2005; Nicholls, 2009; Hummelbrunner, 2015). Interpretive assessment requires communication and learning loops between participants and funders (Nicholls, 2009). Learning feeds back into the decision-making process for future decisions (EC, 2020). According to Ormiston (2019) impact assessment among practitioners has multiple purposes: for accountability, strategy, organisational learning, stakeholder and employee engagement, marketing or combined reasons. Impact measurement from the funder perspective focuses on accountability, transparency, and control. Impact management that fosters institutional learning and which focuses on stakeholder engagement enhances impact. The understanding of impact assessment as well as its practice in impact investing is a blend of these areas of practice (Ormiston, 2019).

Positivist approaches are based on the underlying assumption that impact reporting captures empirical reality. For O’Flynn and Barnett (2017) positivist approaches fail

to address accountability and other effects of an investment (detailed further in the next Section 2.5). Barnett and Jackson (2018) suggest a typology of impact pathways can help create a matrix of indicators of social change for each investment. Doing so helps capture a broader range of social impact indicators than narrower, positivistic metrics are able to do (O'Flynn and Barnett, 2017; Barnett et al., 2018). Others from the economics perspective present positivist approaches and model-building (Grabenwarter and Liechtenstein, 2011; Viviani and Maurel, 2018) shown in Box 2.1 and Box 2.2 below.

Viviani and Maurel (2018) look at non-financial value by measuring the value creation of a social enterprise and formulate an equation to measure social value. Their equation shows it *“is a linear and positive function of the performance in both dimensions social (NFI) and financial (r) and negative one of the characteristics of the best alternative (a and rE).”* (Viviani and Maurel, 2018, p. 6). The excerpt in Box 2.1 explains this with a summary of the equations.

Box 2.1 Example estimated social value creation

“Let us estimate the social value creation of a social enterprise (SE1) with equity equal to 100 monetary units. Its return on equity is equal to 5% for a social output of 10,000 (we voluntary do not put any unit because the social output can be measured in monetary units but also in quantity of goods distributed, in number of people receiving a service, in degree of satisfaction....).”

“Return on equity for an equivalent profit-maximizing company is 10%. So, the equivalent capital employed is: $C/E = 100 \cdot 5\% = 50 \cdot 10\%$

The investor can obtain the same financial income that the one obtained by investing in the multidimensional enterprise by investing only 50 in a private sector organization. So, the other part of the investment amount to be devoted to social activities is 50. Considering that one invested unit (in an equivalent purely social organization) generates on average 180 of social output.

Creation of social value is: $SVC = 10,000 - 180 \times 50 = 1000$. It means that investing in the multidimensional enterprise generated a higher social value (1000) than with an equivalent investment in a portfolio composed of a for-profit organization and a non-for-profit social organization. The social value creation ratio equals: $SVC/CI = 10$.“

(Viviani and Maurel, 2018, p. 6).

Similarly, Grabenwarter and Liechtenstein (2011) earlier build Impact-Adjusted Returns. Impact-Adjusted Returns is an investment model presented to capture the

relationship between financial and social returns, summarised in Box 2.2 where Grabenwarter and Liechtenstein (2011) build an extension of the standard Capital Asset Pricing Model (CAPM) to analyze impact investments in climate change ventures (Grabenwarter and Liechtenstein, 2011). The calculation developed for the World Economic Forum (WEF), summarised in Box 2.2, is based on adding environmental returns. These provide examples of positivist approaches to quantify social impact.

Box 2.2: Impact-Adjusted Capital Asset Pricing Model (CAPM).

CAPM is expressed as:

$$r_a = r_f + B_a (r_m - r_f)$$

Where r_f = risk free rate, B_a = the Beta of the security and r_m = expected market return (Grabenwater and Liechenstein, 2011, p.44).

In this model the gamma factor is applied to realized return (r_{ei}) and can be translated into an impact-adjusted return r_{IA} . Gamma is theorized as a ratio of impact over time where the target impact is:

$$\Delta I = -I_t$$

(Grabenwater and Liechenstein, 2011, p.54)

In the development of ways to quantify social impact in impact investing (as part of efforts to treat it as seriously as financial impact) it is important to recognise the limitations of a focus on quantification. Indicators that do not link up with underlying concepts in impact investing can mislead investment decisions (Clist and Verschoor, 2014; Clist, 2016; Nino-zarazua and Copestake, 2016). When performance against a small set of core measures is the basis for whether an investment happens or not, it has the potential to misdirect funds towards projects that are easy to measure over those that have the most impact (Ormiston and Seymour, 2011; Ormiston *et al.*, 2015; Clist, 2016).

Financial approaches to impact measurement, because of their linear logic, fail to account for the complexities of social impact which is caused by varied factors and actors (Ebrahim and Rangan, 2010; Antadze and Westley, 2012). Samset and Christensen (2017) similarly point to an inherent complexity of logic in public investments. The complexity arises through a mix of “instrumental logic, institutional

logic, environmental logic, and contingency logic" (Samset and Christensen, 2017, pp. 7–10). To improve planning and decision-making in public investments. Samset and Christensen (2017) argue that ex-ante evaluation should come earlier in the investment process and should apply the same criteria as ex-post evaluation. Ex-ante evaluation enables a more proactive approach to development impact (Ravallion, 2009, 2020a; Samset and Christensen, 2017; Campagnolo *et al.*, 2018). However, the use of impact evaluation in impact investment is currently limited to a focus on ex-post assessment, as the empirical Chapters Five and Six find.

As impact investing attempts to bring impact measures to guide impact decisions, the measures then incentive these decisions. Working towards clear goals is necessary for investments to make real impact (Sachs, 2015). However, the measurement of these goals needs to take place in a way in which the measure itself does not become the goal. Clist (2016) present insights from economic models on incentives using the framing of Goodhart's law. The 20th Century economist Charles Goodhart stipulates; "*When a measure becomes a target, it ceases to be a good measure.*" (Clist, 2016, p.301 *citing Elridge and Palmer, 2009, p.164*). This is because measures can distort incentives or goals. The differences between two incentive models described by Clist (2016) can help explain why. These are the principle-agent model and the multitask model (Clist, 2016). The principal-agent model explains the relationship between an asset owner (or principal) and the agent impacted by those assets. According to Clist (2016) under this model, "*in cases where triangulation is not possible: "fool's gold" may be common*" (Clist, 2016, p. 299). It may seem that there will be more impact than there actually is driving investments there.

In a multitask model where a measure is incentivised, it must still correlate with the latent variable after the incentive as well as before (Clist, 2016). This helps prevent issues of yield in reality versus that expected. At the time, one of the breakthrough models was related to social impact bonds to prevent re-offending, trialled in Peterborough, UK. It failed to pay out socially as expected, and consequently, financially. Williams and Treffers (2021) look at social impact bonds in Canada, the United States and the United Kingdom. Their study finds that the financial way of "*reasoning*" is changing crime control culture and presents challenges including

questions over its effectiveness as a way to prevent re-offending (Williams and Treffers, 2021, p. 1313).

Some studies show disparity between investments and aims, for example in venture capital impact investments (Cetindamar and Ozkazanc-Pan, 2017). In this context, the intended value based on social goals plays an influential role in the relationship between impact investor and investee enterprise (Agrawal and Hockerts, 2019).

Traditional management approaches measure value creation in a reductionist way that does not capture the real or intended value social enterprises seek to create (Ormiston and Seymour, 2011; Ormiston *et al.*, 2015). Giuliani *et. al* (2020) further point out that narrow ESG metrics fail to capture the net positive effects of enterprises.

This type of mission drift, understood here in its broadest sense as a weakening of social goals, poses a serious threat in impact investing. As seen in Section 2.2, impact measurement is integral to differentiating impact investing from other investment approaches and to keeping mission drift in check. This is inextricably linked with the key conceptual challenge for impact investing to blend social and financial value propositions (Jackson and Harji, 2012; Mudaliar *et al.*, 2017; Aljiani and Karyotis, 2018). Claims to an intentional and realised blend of social and financial goals can only be made if these are reliably measured.

Ormiston and Seymour (2011) find that social entrepreneurs focus on growth-based measures at the expense of measures that align with their mission. The authors indicate that this is compounded by the use of quantitative measures that are based on measuring growth and which show reaching increased numbers. Furthermore, the activities, creative destruction and adjustments made by entrepreneurs are not captured by focusing on outcome measures, that are not meant to capture these. Social enterprises therefore should consider their social mission in evaluation of their social impact (Ormiston and Seymour, 2011).

Under this understanding, addressing mission drift in impact investing requires the means (investments made) and the ends (the social aims) intended to be more closely coupled (Cetindamar and Ozkazanc-Pan, 2017). This is different from

mission drift in enterprises, NGOs or other types of investments. An entrepreneur, for instance, could adhere to the goals of their mission statement but still be making poor choices around measurement that do not enable them to demonstrate this. A coupling of measurement with its definition means that the risk of mission drift for impact investing is greater. That is if the investments and the goals are not closely aligned it is not only that in practice investments becomes ineffective at achieving those goals. The very definition of impact investing would begin to unravel. In impact investing, unlike other forms of mission- based activity, the only way to address mission drift is to bring the investments made and the social goals closer together in an observable and measurable way (Cetindamar and Ozkazanc-Pan, 2017).

Some studies present this as a key “*paradox*” in impact investing (O’Flynn and Barnett, 2017, p. 4). The paradox is that while social impact measurement is central to the credibility of impact investing as it is defined, it may not be a priority among investors (O’Flynn, 2016; Mudaliar, Schiff and Bass, 2017; O’Flynn and Barnett, 2017). The frequent measurement of impact, however, increases the possibility of alignment between investee and investors during and after the investment (Agrawal and Hockerts, 2019). The next Section 2.5 explores in more detail how this plays out in DFIs. It includes a detailed discussion on different impact measurement typologies that enhance or mitigate the issues laid out so far.

2.5 Approaches to Measuring Impact

The links between sustainable development and DFI investments is well-documented (Spratt, 2009; Attridge, te Velde and Soren, 2019). DFIs are mandated to invest in the private sector in low -and middle-income economies to create macro-economic impact. DFI activities are then directed to produce growth, job creation and poverty reduction. In DFIs, dual economic and social goals more recently are linked specifically to mobilising financing towards the delivery of the UN SDGs (Spratt, 2021; OECD 2018). Previous studies found less coherence in strategy across the DFIs (Olsen and Galimidi, 2008; Sinha, Bortes and Grettve, 2011; Olszewski and Garmedia, 2014). The Danish SDG Investment Fund provides an example. As a commercial fund it expects to generate a financial return of around 10-12% for

investors. At the same time, its aim as an SDG focused blended fund is primarily to contribute to these goals (IFU, 2018).

However, for sustainable development to be created through blending public and private financing, it is vital to select relevant measures for these policy responses (Dietz and Hanemaaijer, 2013). The importance of evaluation in evidence-based policy making has been recognised for over a decade (Sanderson, 2002) and its reliability continues to be well-recognised (Sanderson, 2009; Cairney, 2016; Woensel, 2021). Evaluation enables rational policy making with decisions being informed by evidence (Sanderson, 2009; Cartwright and Hardy, 2012). Moreover, evaluation of sustainable development is essential in making policy decisions for sustainability (von Raggamby and Rubik, 2013; Dufour, 2019).

A wide variety of methods, frameworks and tools are used to assess social impact (Reeder *et al.*, 2014; Flynn, Young and Barnett, 2015; O'Flynn and Barnett, 2017). At least 36 different tools were identified in a literature review by Flynn *et al.*, (2015) some of which are described in this section, and the table reproduced in Annex C. Various studies attempt to catalogue and categorise measurement approaches to impact investment (Olsen and Galimidi, 2008; Reeder *et al.*, 2014, 2015; O'Flynn and Barnett, 2017) detailed below. The essence of this work has been to try to understand impact measurement due to its centrality in the establishment of impact investing as a new and distinct field from other forms of responsible investing (Reeder *et al.*, 2015).

The multilateral system has responded to the call for a need for systemic structures. Systemic efforts at standardization were needed to support impact investing as a distinct industry (Olsen and Galimidi, 2008). The Impact Reporting and Investment Standards (IRIS) at the GIIN is catalogue of common metrics created for this purpose. Meanwhile, DFIs have harmonised impact measurement principles and indicators (Boiardi and Stout, 2021; Hehenberger, 2022). Launched in April 2019, the Operating Principles for Impact Management (OPIM) is a framework for investors led by the IFC. Under OPIM, impact considerations are to be purposefully integrated throughout the investment life cycle; from investment decision to exit. Adherence to OPIM is verified through external evaluation. The OECD and UNDP also launched

the Impact Standards for Financing Sustainable Development in 2021 and the Social Performance Taskforce (SPTF) formed in 2005 developed the Universal Standards for Social and Environmental Performance Management.

An OECD mapping exercise (Hehenberger, 2022) shows these standards are linked. There are linkages and alignment between the Universal Standards for Social and Environmental Performance Management and the OECD-UNDP Impact Standards. The OECD 2022 mapping exercise also finds DFIs have coalesced around the IFC-OPIM (Hehenberger, 2022). An important part of both these standards is integrating evaluation into decision-making. SPTF and Cerise, the partner NGO, built the Universal Standards from analysis of practitioners (Wardle, 2014). SPTF and Cerise, recognise it is important to be able to select the most important data from the field that can be taken into decision-making. The metrics from Cerise with the (SPTF) work closely with the field level and builds capacities locally, not only to collect data but also to analyse data (Cerise, 2022).

Hehenberger (2022) finds even among DFIs there are more sophisticated and less sophisticated DFIs terms of their measurement approaches and organisational capacity. Jackson (2013) suggests that more standardisation through, for instance, the use of IRIS indicators, has not resulted in increased harmonisation. Standardisation is important, but each investor uses the approaches that fit their ability to take on risk and the financial return they are looking for (Olsen and Galimidi, 2008). This gap identified in the literature leads Chapters Five and Six to explore within DFIs the variations in tools and approaches and to explore the evidence across the DFIs as a development finance system. Assessment of DFI contributions to growth and poverty reduction tracks macro-economic impact and links investment to development outcomes. There are a number of important features in the impact measurement approaches of DFIs related to how they track progress and its links to economic growth and poverty reduction, as I will now explain in the next section.

2.5.1 DFI Measurement Approaches, Characterised by Additionality and Employment Effects

Impact evaluation for DFIs relies on an assessment of investment and development outcomes (Massa and Velde te, 2011; Massa, Mendez-Parra and te Velde, 2016).

DFIs create multiplier effects by mobilising private sector investments in developing economies. In this way both private sector development and financial sector development lead to development outcomes (Spratt, 2009; Lemma, 2019).

Within this, a vital part of the link between private investment and development outcomes for DFIs are employment effects (Spratt, 2009; Massa and Velde te, 2011; Lemma, 2015, 2019; Massa, Mendez-Parra and te Velde, 2016). Due to this link between employment and development impacts of DFIs, it is important for DFIs to quantify employment effects. It is also important for DFIs to establish additionality to lay claims to macro-economic impacts. Employment effects are measured by an estimation of direct and indirect jobs produced and sustained by the investment.

Massa and Willem (2011) and Massa, Mendez-parra and te Velde (2016) assess the macro-economic impacts of DFIs. The exploration of impacts in sub-Saharan Africa, for example, shows a relationship between DFI commitments and growth. A study on the impact of concessional finance from DFIs (financing at below market rate to accelerate development objectives) and impact investing in agricultural investments, though, finds the evidence base that links concessional finance to the achievement of development impact is limited (Hague and Tyler, 2020).

2.5.1 a. Job creation

Previous studies have also suggested that there is a heavy reliance on job creation indicators among the impact investing measurement approaches of DFIs (Sinha, Bortes and Grettve, 2011; Olszewski and Garmedia, 2014; Barnett *et al.*, 2018). A potential pitfall in metrics design is that many private sector investors in reality choose a small number of indicators against which to measure social and environmental returns. When relying on a small set of metrics adverse impacts are less apparent, similarly broader impacts are not captured. Research on 13 investments from the Venture Capital Trust Fund (VCTF) in Ghana suggests that

common metrics such as job creation do not capture the full value of investments (Barnett *et al.*, 2018). The authors find that some types of investment can be undervalued by a reliance on job creation measures. Barnett *et al.*, (2018) go on to suggest a typology of impact pathways may be able to show a range of impacts that may be underrepresented.

Jobs created is seen on the whole by policy makers as needed. It is often referred to in policy as ‘a must have.’ Though it is recognised that it may not be appropriate to certain types of measure, such as where an investor is more interested in creating “*structural change*” or where aimed at “*stimulating innovation and entrepreneurship*” (ERDF, 2013, p. 5). MacGillivray *et al.*, (2017) detail a methodology for measuring total employment effects where data from businesses are inputted into multipliers that derive from Social Accounting Matrices (SAMs) and labour force data. However, the authors find there are issues with data quality, and because employment multipliers from SAMs are static, they do not account for structural changes (MacGillivray *et al.*, 2017). It is increasingly recognised that the quality of jobs and the extent to which they reflect decent work are needed to understand impact beyond numbers of jobs created (Lemma, 2019). In this thesis I examine employment metrics as a key component of DFI social impact frameworks for impact investments and a vital part of how DFIs produce development effects.

2.5.1 b. Additionality

Being able to demonstrate additionality is important for DFIs as part of their rationale (Spratt, 2008) and to “*justify their use of public funds*” (OPM, 2020, p. 8). In 2018 multilateral development banks established the additionality task-force which, among other resources, provides a list of evidence that can be used to show additionality. The task-force established the harmonised framework for additionality in private sector operations (MDB Additionality Task-force, 2018). The EDFI, the Association of bilateral European Development Finance Institutions that represents 15 member institutions, explains how the three pillars guide how they invest. The investment needs to be i. “Additional”: it goes where private investment does not ii. “Catalytic”: encourages others to follow and iii. “Sustainable”: investments are viable over the long-term (EDFI, 2010, pp. 14–15).

Nonetheless, the way in which to best capture and lay claim to additionality is a contested area. For some additionality is best demonstrated using statistical tools and counterfactuals, whereas for others to truly get a sense of causality more qualitative methods are needed. Carter *et. al* (2019) suggest that DFIs should take a quantitative *“probabilistic approach to evaluating additionality when making investment decisions.”* (Carter, Van de Sijpe and Calel, 2019, p. 2). While the authors suggest qualitative evidence – as self-reported evidence – may not be conclusive evidence, methods such as *“process tracing”* could help predict the conditions in which additionality is *“more or less likely”* (Carter, Van de Sijpe and Calel, 2019, p. 3). Oxford Policy Management (OPM) produced a comparative assessment of DFI impact measurement tools, commissioned by the German Agency for International Cooperation (GIZ). It assesses the tools for degree of scope, robustness, use and integration. Five themes for recommendations emerge that cut across all DFIs: transparency, additionality, definition and measurement of development impact (a clearly defined ToC), a portfolio approach and customer centricity (OPM, 2020). The backdrop of additionality influences the metrics systems of DFIs explored in this thesis, but the ways in which DFIs measure additionality are not the subject of exploration here.

2.5.2 Methods used

Impact measurement and exploring the practical challenges of blending social and financial value can provide resolutions to conceptual tensions in impact investing. This is because impact measurement is central to how impact investing is defined, and in the context of it being a vehicle of development finance, to its potential to help deliver on the SDGs.

O’Flynn and Barnett (2017) identify five types of evaluation used by the range of impact investors: 1) consumer and perception surveys; 2) monetisation; 3) scorecards, indicators and ratings; 4) qualitative tools; 5) statistical tools and counterfactual methods. Each of these methodologies has comparable strengths in ability to aggregate, provide an indication of differential impact and causality. These

categories are made to find commonalities among approaches and ways of choosing between approaches (Flynn, Young and Barnett, 2015; O'Flynn and Barnett, 2017).

A monetisation approach provides an assessment of impact, plausible causality, and the ability to aggregate, under the categorisation. Social accounting tools can be used to forecast pre-investment and used as evaluation. The most common of these in the broader impact investing field is social return on investment (SROI).

Qualitative tools provide an assessment of differential impact and accountability.

Scorecards, indicators and ratings provide aggregation and accountability and tend to collect outputs of an impact investment. **Consumer and perception surveys** provide differential impact, are accountable by including stakeholder views and allow for increased buy-in. Though, by being weak in aggregation and causality they are not used by DFIs, but are found among private foundations (O'Flynn and Barnett, 2017, pp. 13–18). **Statistical tools** are used to assesses differential impact and causality, and because they can estimate the scale of impact (O'Flynn and Barnett, 2017, p. 22).

In the remainder of this section, I focus on detailing statistical tools, scorecards and monetisation approaches as favoured by larger institutions and so most likely to be used by DFIs. As consumer perception surveys are hardly used I do not detail these in depth here. As argued above, the biggest challenge to blending social and economic goals lies in monetizing social value (Alijani and Karyotis, 2019) and so I focus on describing monetised approaches. I then consider the alternative qualitative approaches.

Statistical tools and counterfactuals are used in institutions that favour assessing differential impact and causality at the portfolio level (Flynn, Young and Barnett, 2015; O'Flynn and Barnett, 2017). Scorecards, indicators and ratings are used where there is a preference for an ability to count and to aggregate. This approach is favoured therefore by portfolio investors. There also appears to be from the literature a preference among institutions for quantitative models, with considerable reliance on employment indicators. One of these statistical tools used by several institutions (see Chapter Five) is input-output modelling.

Input-output (I-O) models are quantitative models based on statistical information on the interdependent parts of an economy (such as labour factors, flows of goods and services). For more than 50 years there have been various forms of input-output models and associated criticisms (Rose and Miernyk, 1989). The I-O model of economics is most commonly associated with Wassily Leontif (Leontief, 1936, 1951), who developed the mathematical model (Leontief, 1936) and then economic model of I-O analysis (Leontief, 1951). There are other competing I-O models such as that developed by Ghosh (1958). In any case, there are a number of common limitations to I-O analysis in the evaluation literature. The I-O presents a static moment in time, or a snapshot (Leontief, 1951; Ghosh, 1958; Bekhet and Mugableh, 2012). In order to get a continual picture, the calculation has to be repeated, pointing to a limitation in the ability of the model to show continuous change.

This 'moment in time' aspect of the model is the main cause of its restrictiveness (Jensen, 1980, 1990). The model is often seen to be limited due to being rigid, making it restrictive in what it shows and in its use. The model focuses on the production side of an economy which includes land, labour, capital, and export factors. Getting the right inputs can be challenging with rigid input fields in I-O models. The models present a static model of the economy and use national accounts data in input fields. A common problem in this is double counting from aggregating sectoral outputs. Constraints that lead to the problem surround ability to find and use constant multipliers (Kolokontes *et al.*, 2019). Inputs are observable data and as the result the quantity of inputs is not consistent. As an approach to understand impacts across a country's economy it is also limited. Keynesian economic theory for instance emphasises that demand for goods and services drives growth (Rotheim, 1981; Keynes, Johnson and Moggridge, 2012). The I-O model typically misses this demand side of the economy because it focuses on factors of production.

The most well-known and contested of the approaches that monetises social impact is SROI (Manetti, 2014; Moody, Littlepage and Paydar, 2015; Nicholls, 2018). Nicholls (2009) looks at the use of SROI in a housing project that combined environmental regeneration with employment creation. The SROI was that “£4.65 *had been realised*” in added social (that is not financial – environmental regeneration

and jobs created) value for “*every £1 spent*” (Nicholls, 2009, p. 762). In healthcare, SROI calculations have been seen as a way of capturing the views of multiple stakeholders and computing these into a monetary value (Banke-Thomas et al., 2015). Nicholls (2009) finds that social enterprises use reporting strategies to capture a more nuanced blend of financial and social impact than the reporting frameworks imposed on them by funders. Monetisation approaches to impact evaluation can reinforce top-down structures which hamper the development of more nuanced and innovative reporting practices (Dart, 2004; Nicholls, 2010).

In efforts to quantify impact it is important to not omit the voices of the people and communities to which social impact is targeted. Participation in evaluation is needed for a number of reasons. Some authors advocate a participatory approach to evaluation (Guba and Lincoln, 1989; Patton 1986; Patton, McKegg and Wehiipeihana, 2015; Patton and Campbell-Patton, 2021). The voices of participants should be fed into the decision-making and implementation process (Zaveri, 2020; Patton and Campbell-Patton, 2021). This makes for policy and investment decisions that consider the complexity of the social world. It increases the uptake and utilization of the policies that are designed using evaluation information that includes participant voice (Patton, 2002; Woolcock, 2009; Patton, McKegg and Wehiipeihana, 2015; Bamberger, Rao and Woolcock, 2015; Patton and Campbell-Patton, 2021). In this context of a need for quantification, mixed methods approaches may be relevant for complexity analysis (Bamberger, Vaessen and Raimondo, 2016).

Costa and Pesci (2016) propose that multiple stakeholders should be systematically considered in evaluation of social enterprises and specifically from an early stage and in the construction of metrics (Costa and Pesci, 2016). Including stakeholders can reduce bias in selecting measures that show the highest impact. There are some examples of this in the impact investing practice. Though these tend to be isolated and innovative projects and approaches. For example, in the blockchain tokenization process social and financial goals, once met, pay out in the form of a token. The design involved shopkeeper recipients of social investments in the choice of indicators on which results are measured (Blockchain for Social Impact, 2018).

Capturing the voice of beneficiaries is important in making evaluation matter. Evaluation can be more meaningful by reflecting the realities of beneficiaries in ways that can feed into the decision-making and implementation process (Zaveri, 2020; Patton and Campbell-Patton, 2021). By triangulating multiple voices a picture of the impact in reality on people can begin to be drawn (Zaveri, 2020). Further, qualitative methods used to reach stakeholders can add understanding to the programme mechanisms (White and Phililips, 2012; Prowse and Camfield, 2013; Camfield and Duvendack, 2014).

Oxford Policy Management (2020) however found that consultation is “*generally lacking*” among DFIs (OPM, 2020, p. 70). The incorporation of stakeholders in measuring impact, including investees and the people and communities they target to impact with social and environmental benefit, can be beneficial for reasons outlined here. Involving stakeholders in evaluation can help capture broader social and environmental impact than narrow, quantitative measures. The ability to capture breadth and depth of impact has important conceptual as well as practical implications for impact investing. A more in-depth exploration of the way in which development evaluation approaches in impact investing capture social and environmental outcomes now follows.

2.5.3 Development evaluation approaches

A growing body of literature pushes for the use of development evaluation in impact investing. The features of development evaluation can be broadly considered as a focus on including stakeholders, institutional learning and establishing causality and tracing attribution (Patton, 2002; Jackson, 2013b; Flynn, Young and Barnett, 2015; Patton, McKegg and Wehiipeihana, 2015; O’Flynn and Barnett, 2017). The majority of impact investors measure social and environmental outputs and outcomes (Mudaliar, Schiff and Bass, 2017). However, proponents of a development evaluation approach to measurement in impact investing, find the way in which these outputs and outcomes are measured falls short of meaningfully evaluating the social impact of investments (Antadze and Westley, 2012; Jackson, 2013a, 2013b; O’Flynn and Barnett, 2017). Only 30% of responses in the 2017 Impact Measurement and

Management Survey said they measure attributable impact and 38% measure additionality (Mudaliar *et al.*, 2017, p. 37). Additionality (detailed above) determines whether an intervention has had an effect compared to if it had not occurred.

Attribution is needed to determine the extent to which the outcome captured is the direct result of an intervention.

Preferred methods for the evaluation of development funding have changed over time. By 2007 programme theory or a theory of change (ToC) approach had become part of the requirement from funders of international development programmes (Rogers, 2007). A ToC approach, commonly used in development evaluation by multilateral institutions and NGOs, describes how and why activities will bring out expected change. A ToC approach seeks to understand “*the complexity of change processes*” (Prinsen and Nijhof, 2015, p. 240). The use of a ToC approach marked a change from the dominance of the logframe in international development funding in the 1980s (Prinsen and Nijhof, 2015). Jackson (2013) argues methods to evaluate private and public impact investments can be drawn from these aspects of development evaluation. Jackson (2013, 2018) highlights that ToC is a useful tool to transfer to the broader impact investing industry. Barnett *et al.*, (2018) though find that ToCs in the case of investment funds channelled through the VCTF Ghana, while present, could show greater specificity. They suggest a more granular set of impact pathways would better trace impacts. In the case they look at they suggest this should follow from the investment level to the participant and household, including well-being indicators.

Although many DFIs lack ToCs at the investment level, a few such as the IFC and EBRD have “*sector level ToCs*”, and only IDB Invest DELTA has ToCs for “*specific investments*” (OPM, 2020, p. 71). Prinsen and Nijhof (2015) find in a discussion on the ToC approach that ToCs help improve claims to causality and long-term impact (Prinsen and Nijhof, 2015). ToCs are also seen to add an advantage as a useful tool to identify indicators, interrogate logic and to communicate impact (Verrinder *et al.*, 2018). Studies have found a ToC to be useful in practice in impact investing (Jackson, 2013a, 2013b; Barnett *et al.*, 2018). Different methods can then be used to track progress along the results chain.

O'Flynn and Barnett (2017) also suggest development evaluation can bring better understanding of social impact. For these authors development evaluation can draw a more “*evaluative*” understanding of social impact; one that balances a focus on accountability and aggregation with assessment of differential impact and causality (O'Flynn and Barnett, 2017, p. 4). Differential impact (what would have happened if the investment had not taken place) is an important aspect in determining the impact an investment creates. It is one aspect of additionality – whether the investment has had an effect. Another important aspect is causality – attributing the change to the action of the investment.

Debate over methodological approaches to development evaluation reflects a wider debate in development economics more broadly over a reliance on quantitative measures. The debate is between proponents of Randomised Control Trials (RCT) (Banerjee et al., 2007; Duflo, Glennerster and Kremer, 2011) and those who question the reliance on these (Deaton, 2008; Ravallion, 2009, 2020b). Some see randomisation (Duflo and Kremer, 2005) and RCTs as the gold standard in evaluation (Cupitt, 2015) and particularly for use when high quality evidence is needed (Puttick and Ludlow, 2012), however, this has been increasingly questioned.

Those who suggest that alternative quantitative and qualitative approaches to randomisation should be considered do so often on the basis of validity issues (Patton, 2002; Patton, McKegg and Wehiipeihana, 2015; Ravallion, 2020). Validity affects its relevance to practitioners (Ravallion, 2009, 2016, 2020a, 2020b) as well as uptake and use (Patton, McKegg and Wehiipeihana, 2015; Patton and Campbell-Patton, 2021). The lack of take-up, for instance, is attributed to insufficient stakeholder participation (Patton, McKegg and Wehiipeihana, 2015; Patton and Campbell-Patton, 2021). Some suggest qualitative approaches (Patton, 2002; Patton, McKegg and Wehiipeihana, 2015; Patton and Campbell-Patton, 2021) or mixed methods (Woolcock, 2009; Bamberger, Rao and Woolcock, 2015). For Woolcock (2009) mixed methods can capture some of the reasons for low take-up. Participation is also seen as an ethically appropriate way to research disadvantaged groups.

Camfield and Duvendack (2014) argue that randomisation alone cannot help

understand intervention mechanisms and complex evaluations. In complex contexts (or small *n* interventions) alternative methods can be used to increase understanding and add rigour (White and Phililips, 2012; Prowse and Camfield, 2013; Camfield and Duvendack, 2014). White and Philips (2012) suggest qualitative approaches are particularly useful in small *n* evaluations. White and Philips (2012) examination of previous studies find that the quantitative data potentially available combined with qualitative research enables the identification of mini-theories, or alternative causal hypothesis. For example, Realist Evalution requires Context Mechanism Outcome theories to be developed, which can then be substantiated or rejected on the basis of the picture of the programme in action built up using quantitative and qualitative methods (Pawson and Tilley, 1997; White and Phililips, 2012).

This realist approach to evaluation (one that assumes projects work under certain conditions and is influenced by how different participants respond to them) would enable researchers to theorize about the ways in which a particular investment type might interact with context. Blamey and Mackenzie (2007) examine a ToC approach alongside realist evaluation to find the two approaches both emphasise the role of context in programme outcomes. The authors suggest that a dual testing model applies well to policy programmes: one where ToCs can be used at the macro policy planning level with realist evaluation approaches being brought in at the micro-level (Blamey and Mackenzie, 2007).

So and Staskevicius (2015) map impact investor measurement methodologies to their objectives at each stage of the investment cycle (So and Staskevicius, 2015). Methods such as ToC and logic models are used for estimating impact that investors do at the due diligence stage and for planning impact in strategy. Mission alignment methods such as social value and scorecards are used in planning and monitoring stages. These are used to improve program impact. Then ex-post impact evaluation is used on exit to prove the social value created by the investment (So and Staskevicius, 2015).

Dufour (2019) demonstrates that impact investing can learn from policy evaluation by looking at Social Impact Measurement and traditional policy programme evaluation. In examining policy evaluation in the context of impact investing in France, Dufour

(2019) finds both evaluation approaches share the same theoretical roots in policy programming. In practice both focus on the stakeholders they fund, and these are mainly social enterprises (Dufour, 2019). White and Koniecki (2013) look at how informed decisions should be made using the example of the European Commission system. They suggest that the impact assessment process itself leads to better information flows and better decision-making processes. Development policy decisions can be positively informed and influenced by what and how programmes are evaluated. It is important, then, that measurement practices are designed with the decision-making process in mind.

This section has outlined the key features of the measurement approaches of DFIs, which are their focus on macroeconomic effects, job creation and additionality (Spratt, 2009; Massa and Velde *et al.*, 2011; Lemma, 2015, 2019; Massa, Mendez-Parra and te Velde, 2016; OPM, 2020). Assessing these aspects is needed to measure the impact on socio-economic development in the countries in which they invest. I look more closely at the measurement approaches of DFIs in the empirical research detailed in Chapters Five and Six.

Many authors writing on non-profit evaluation focus on a need for more meaningful measures of social impact that reflect beneficiary contexts (Clark and Thornley, 2016; Nino-zarazua and Copestake, 2016; O'Flynn and Barnett, 2017). Stakeholder participation is necessary for validity and as part of an approach that assesses quality through evaluations not just numbers of target people reached (Jackson, 2013a; O'Flynn and Barnett, 2017; Barnett *et al.*, 2018; Zaveri, 2020; Patton and Campbell-Patton, 2021).

Evaluation of sustainable development is essential in making policy decisions for sustainability (von Raggamby and Rubik, 2013), detailed above. Ex-post evaluation does not, though, help to identify and respond to weaknesses during implementation. The review above finds ex-ante evaluation feeds into implementation. It suggests that ex-ante evaluation can in this way enhance the ability of institutions to manage impact risk with technical assistance. However, the extent to which large scale portfolio impact investors can do this remain unclear. The empirical Chapters Five and Six explore how DFIs use impact measurement and the extent to which ex-post

evaluation is more widely used than ex-ante evaluation. The research finds a handful of institutions and methodologies are progressing towards ex-ante evaluation.

2.6 Conclusion

Measuring impact is central to how impact investing defines itself. It is defined as a field of investment that seeks three types of impact (social, environmental, financial) which it *actively* measures throughout the *lifespan* of the investment. For impact investing to stake claim to transforming markets through a blended, more nuanced capital structure (which I discuss next in Chapter Three), and be distinct from SRI, positive social impact must be actively sought and measured in the investment. However, how this is achieved in theory and in practice remains unclear. Attempts to understand impact investing conceptually look at categories of investors and measurement types. Therefore, a gap emerges in the literature which suggests that research into impact measurement can contribute to efforts to understand and build a conceptual basis for impact investing.

The literature attempts to classify different approaches to impact measurement in impact investing. It does this as part of efforts to establish and improve measurement methods and tools and to pin down impact investing conceptually in terms of its measurement approach. However, attempts to categorise or unify in the literature are often met with conclusions of a field that varies significantly and remains fragmented. The industry is by its very nature heterogenous with the coming together of 'radicals' from different fields. This suggests that research to understand impact investing should explore vertically along the investment chain rather than across. This means to examine these questions within the investment from investor to intermediary to recipient.

Impact evaluation approaches drawn from the field of international development can help resolve tensions inherent in approaches to impact measurement in impact investing. Primarily these development approaches hinge on establishing causality through a clearly articulated ToC and on incorporating stakeholder voice into efforts to track the desired change. This suggests more research should focus on the role of development evaluation approaches in impact investing.

CHAPTER THREE: WEBER, HABERMAS AND RATIONAL CAPITALISM, A CONCEPTUAL FRAMEWORK

3.1 Introduction

Impact investing is fraught with conceptual tensions. These conceptual tensions (outlined in the previous Chapter Two) have practical implications in how aid money is being spent. Tensions exist between a framing of impact investors in terms of a trade-off between profit and gains for society and the environment. The conceptual model developed in this chapter draws on theory of social action in markets from Max Weber (1921; 1968) and political theory on the relationship between market systems and society from Jürgen Habermas (Habermas, 1984, 1985). To explore how DFIs understand the role of metrics in impact investing I examine blended social and economic metrics using the theoretical lens of how the capitalist system forms and develops and how social change occurs.

Section 3.2 details Max Weber's (1921) theory of the history of capitalism as a social construct. Weber's (1921; 1968) theory is a way to take a fresh look at modern capitalism (Gane, 2012). This is useful framing because, as seen in Chapter Two (Figure 2.1), impact investing can be viewed as a part of an evolving capitalism (Bugg-Levine and Emerson, 2011; Cohen, 2021). That is, similarly to when risk was added to return calculations in the wake of the great depression (see Chapter Two), impact investing, by definition, adds social and environmental impact to investor decision-making. It is this addition of environmental and social impact to the investment decision that proponents see as the reconfiguration of how capital is allocated (Bugg-Levine and Emerson, 2011; Cohen, 2021). Section 3.3 then details Jürgen Habermas' (1981; 1987) view of how social change takes place through rational institutions, laws and norms.

Nicholls (2018) uses Habermas to develop a “*general theory of social impact accounting*” for impact investing (Nicholls, 2018, p. 146). The conceptual framework I develop and use here similarly focuses on the role of rational communication in Habermas' system. Section 3.4 brings Habermas and Weber together. In so doing it introduces into the theory the concept of blended value. This concept is established

in Chapters One and Two as the generally accepted concept that underpins impact investing. Yet, it is conceptually underdeveloped and there is difficulty in constructing effective measures. Drawing on Nicholls (2009; 2018) helps locate the research conceptually in blended value. In the conceptual model, I locate blended value within these theories of rational decision-making in societal systems. This is achieved by drawing on Weber's (Weber, 1947, 1968) presentation of value in the formation of capitalism in Northern Europe and Habermas' (1981; 1987) political philosophy of systems.

3.2 Weber, social action and value

Max Weber (1921, 1968) argued that a set of institutional religious ideas were responsible for the emergence of capitalism in Northern Europe in the 16-17th century. The economic system, for Weber, was based on a protestant ethic that viewed hard work, productivity and profit as virtues. The particular type of capitalism that arose in Northern Europe was characterised by what Weber calls rational capitalism. This type of capitalism for Weber was one defined by emancipated labour, free markets and the exchange of goods and services, all underpinned by the predictability provided by laws (Collins, 1980). In this way, Weber's theory helps account for how global markets are in their current form defined by neoliberalism and the rule of law.

Capitalism developed with the aspects of liberal free markets because it came about through a particular history in Northern Europe dating to 16-17th century (Weber, 1968; Collins, 1980). According to Collins (1980) the theory by Weber of where capitalism originated is the only theory that covers all the aspects involved; "*It is virtually alone in accounting for the emergence of the full range of institutional and motivational conditions for large-scale, world transforming capitalism.*" (Collins, 1980, p.941). Collins (1980) views Weber as being able to account for a variety of national and global institutional systems and the financial actors and individual investors in the financial markets.

Weberian theory has been used by others to explain social investment (Nicholls, 2010) and business ethics (Rosanas and Fontrodona, 2017). Nicholls (2010) draws

on Weber to explore the institutionalization of social investment. Nicholls (2010) locates analysis on investor rationalities within a tradition that analyses markets as socially constructed institutions, which stems from economist Adam Smith. This thesis uses a similar framing of markets as social constructs. Under this understanding, in a market the unit of exchange does not need to be a monetary value.

This gives rise to the notion of a 'social economy.' While there are several accounts of the origins of the social economy in continental Europe, dating to the 19th Century, it can be broadly understood as another sector alongside the public and private sector (Defourny and Develtere, 1999; Monzon and Chavez, 2008). It is commonly understood as a network of activities (such as through businesses, cooperatives, foundations, and social enterprises) that aim to benefit people and environment as well as make a profit.

A social economy in more modern terms is identified as the relationship among the different business activities that have a social mission and are economically viable. Nicholls (2010) uses this construct of social economy to frame analysis in this way as an interplay between investor rationalities and investment logics. Fontrodona *et. al.*, (2017) apply a similar conceptualisation to support the application of the principle of ethics in religion to business ethics. The authors suggest that principles that guide ethical behaviour should also be integrated into financial accounting (Fontrodona *et. al*, 2017). Nicholls (2018) later uses political theory from Habermas to develop a general theory for impact investing, explained in more detail in Section 3.3. Habermas' political theory helps explore power dynamics in impact investing, while Weber helps explore market dynamics.

Weber's theory of the origins of the predominant characteristics of capitalism is grounded in his typology of actions. Weber (1921) saw four types of social action within the mesh of interactions that make up the institutional system. The four types of social action, summarised in Figure 3.1 below, are: those controlled by tradition (traditional action), those driven by emotion (emotive action), those driven by a notion of inherent 'value' (doing good) and those that aim to achieve a specific result (instrumental action). In traditional action the goals are taken for granted and

alternatives not explored. In emotive action social action becomes impulsive and in being driven by wanting to do good, the goal is mixed with the desire to achieve it (Weber, 1921). Only in rational, instrumental, action can goals and values take into account the complex, pluralistic nature of the relationship between the economy and society (Kalberg, 2010).

Figure 3.1 Types of actions that can take place in a social system

Traditional

- Decisions are based on traditional social structures and hierarchies. They can be biased.

Instrumental

- Based on an agreed goal. Decisions are pre-considered and rational.

Value driven

- Values develop from the norms that have come from tradition. They can be biased.

Emotive

- Decisions are emotional. They are spontaneous and irrational.

Source: Weber, 1921

Of the four types of value (depicted in Figure 3.1 above) instrumental action - actions driven by the desire to achieve a specific goal - are the most effective motivation for actions in society (Weber, 1921). He made the point that instrumental action is much more effective at achieving social order and creating value in society, than doing something (or in the case of impact investing; making an investment) because the actor thinks it is the right thing to do. The concept of instrumental action, then, can help understand the separation between impact investing and socially responsible or ethical investing.

The underlying concepts of Weber's theory provide a framework to study impact investing. The concepts of markets in Weber help us think 'creatively' about modern capitalism (Gane, 2012). In doing so, Weber's theory presents a position on what

value means within that system. Gane (2012) responds to criticisms of Weberian theory as a type of meta-theory on society by putting the concepts of capitalism, markets, neoliberalism, class and modernity into a network of thought processes. The processes can frame an understanding of society, the economic system and its present characteristics. Gane (2012) argues that a market is not just about exchange but is instead equally about competition and about power (Gane, 2012; Edmiston and Nicholls, 2018; Nicholls, 2018). The concept of markets from Weber is used in the research for this thesis.

Theoretical constructs from Weber provide a conceptual lens through which to examine impact investing that enables it to be explored as a pluralistic social market construct. That is, the market system interacts with society in multiple ways. The inclusion of this understanding of Weber's social theory in the conceptual framework also helps to locate blended value, which I link with instrumental action within the market system (outlined in Section 3.4 and Figure 3.2). Weber's general economic theory (1921, 1968) also provides links with the starting point of the blended value proposition, in that action is not guided by moral value or tradition (as with Weber's instrumental action above). The blended value proposition instead posits that inherent environmental and social impact is made by any type of action. To make the environmental and social impact positive rather than potentially negative, action (specifically by companies and investors) should be geared towards rationalised common environmental and social goals through instrumental action.

In impact investing, Emerson (2002) and Bugg-Levine and Emerson (2011) use a conceptualisation of a blend of environment, social and financial value that was initiated by the Quakers in the 17th Century. Emerson (2000, 2003) uses this concept of blended value, which was later used to underpin impact investing (Bugg-Levine and Goldstein, 2009; Bugg-Levine and Emerson, 2011b; Social Impact Investment Taskforce, 2014; Alijani and Karyotis, 2018; Ormiston, 2019). The concept is that all activity, by individuals and by companies, produces three kinds of value in a blend of economic, social and environmental returns. Emerson and others apply this as a theoretical construct for impact investing to resolve the tensions between business and social goals. Section 3.4 below further details how Emerson (2000, 2003) and

Bugg-Levine and Emerson (2011) use blended value to conceptually underpin impact investing.

In impact investing, as in other market-based approaches to poverty reduction, financial and social performance are both strategic objectives, as seen in Chapter Two. This creates tensions among the logic of business and the logic of social and environmental gains. That is, between the logics of making a profit and that of producing a social performance while not harming the environment. The tensions lead to a ‘trade-off’ between one and the other (Freireich and Fulton, 2009; Ebrahim and Rangan, 2010; Brest *et al.*, 2013). However, impact investing differentiates itself in removing this trade-off.

It does this conceptually through blended value by defining itself in terms of active measurable impact. Some authors do this in practice in impact-adjusted equations (Chapter Two, Box 2.1 presents extracts from two models (Grabenwarter and Liechtenstein, 2011; Viviani and Maurel, 2018)) to show the social-financial relationship and predict results). I explore through the conceptual framework detailed in Section 3.4 how blended results might be understood and measured by institutions as well as by smallholder farmers with ambitions to create social impact. In doing so, it is therefore useful to see the role of value in the economic system as according to Weber, where value is instrumental action, and combine this with Habermas’ view of meaningful social action (Habermas, 1987) which I now detail in the next section. In this way, the present research hopes to make a theoretical and empirical contribution to understanding how social and financial resources interact in the measurement and reporting practices within impact investments.

3.3 Habermas Social Theory and Impact Accounting

The Frankfurt school of social theorists of which Habermas was a part explored the economic, political and social conditions that create social change through rational institutions and norms. From the 1960s, the school’s critical theory has been led by Jürgen Habermas. The critical theory of Habermas is influenced by and attempts to create a social theory that could overcome the obstacles of positivism and

determinism, drawing on German philosophers Immanuel Kant and Georg Wilhelm Friedrich Hegel. The school also drew from the works of Max Weber and Karl Marx, though with a critical view of Marxism which they saw as too material and deterministic.

Habermas worked with the notion that human society is based on the human ability to be dialectic. That is, humans have developed into living in the social construct of society because they are beings able to have contradictory discourse that leads to an effective common goal. Habermas draws on Wittgenstein's idea that between two different spheres (in the case of Habermas' social theory, the lifeworld and the system detailed further below) discourse revolves around two different sets of language and understanding. Only through effective dialogue can society work as a whole; for Habermas, this comprised communication between the lifesystem and system.

Political and social theory from Habermas has been used to frame studies into evaluation and its relationship to policy making (von Raggamby and Rubik, 2013). Research into the political aspects of corporate social responsibility (CSR) has also drawn from social contract theories and Habermasian theory (Frynas and Stephens, 2015; Dillard, Yuthas and Baudot, 2016; Frynas and Yamahaki, 2016). Nicholls (2018) builds on Habermas to propose a general theory for impact investing. Nicholls (2018) develops the theory, based on social accounting, to apply to impact investing more broadly. Earlier, Nicholls (2009) employed Habermas to explore blended value accounting.

As seen in Section 3.2, Nicholls (2010) also previously draws on Weber to use the concept of a social economy. However, in the other papers Nicholls favours a Habermasian framing. Habermas' systems theory can frame the relationships within the system. Nicholls is interested in exploring the power relations in this system. To do this he combines Habermasian framing with Michel Foucault's (1998) view of power play being involved all interactions. In this case, the interaction between the funder (and their requests for information along defined metrics) and the social enterprise.

This thesis accepts that there are power relationships involved between funder and investee. Metrics systems are therefore not devoid of power dynamics. This thesis, however, does not intend to explore power specifically but instead explores 'markets' understood as social constructs. Nicholls (2009) shows the spectrum between positivistic and critical theory approaches to social accounting (Nicholls, 2009), explained in more detail in Section 3.4 below, to explore how social enterprises view metrics systems imposed on them by funders (Nicholls, 2009). In this thesis I explore the metrics systems of DFIs and consider the extent to which they are positivistic approaches. The findings can help feed into understanding of these approaches. This thesis does not however address the question of whether social enterprises invested in by DFIs see these as positivistic or monetised structures that reinforce power relationships. This is because this research is interested instead in understanding what common views emerge that may advance understanding on how impact measurement systems are essential to how impact investing is understood conceptually. The remainder of this section details how marketisation of social goods occurs under Habermas' theory.

3.3.1 The system, life system, and marketisation of the lifeworld in Habermas

For Habermas, the current capitalist system was born out of 19th century social conditions. These conditions included a rethinking of order and how wealth is distributed in society. The old order had been broken up through the French Revolution and the Industrial Revolution. The extreme economic and political change brought about by the revolutions led to social theorists re-thinking what and how social order exists (by examining the basis of the tacit social contract between state and society that maintains order). Because the system comes from the needs of the lifesystem and is based in the lifesystem, the system is embedded in what Habermas calls the "lifeworld" (Habermas, 1985). The lifeworld is the fabric of ordinary life, conventions, norms, emotions, and reason that humans possess to form a social contract with the state and the economic and political system.

The social theory presented in Habermas' work can help provide a lens through which to explore current movement in impact investing for greater state investment in social and environmental goals. Habermas' theory comes in the context of greater

state intervention (when the welfare state was being created in several European economies including Germany and the UK) and the wider society. Habermas' theory is also a response to his critique of the determinism of Marxism when applied to the domain of society. Specifically, if people are free in their decision making they will create economic demand by being able to spend their money (on food, housing, luxuries etc.). The economic demand they create will be sufficient to feed back into the economic system. This is in contrast to neo-Marxist idea that money should flow between state and society, not through free markets, but via state control over citizens economic activity.

According to Habermas, if the economic or political system seeks to leverage aspects of ordinary life it threatens to take over the *lifesystem*. This can be in such a way that begins to erode the social contract, particularly if deterministic or for material gain. While checks and balances on systemic forces stay in place, communication between the “*lifeworld*” and “*system*” is effective. This helps avert the risk of the “*system*” taking over the “*lifesystem*.” if the system takes over the *lifesystem*, it can lead to the marketization of the *lifesystem*. The *system* can only be prevented from taking over the *lifesystem* through effective communication.

There needs to be communication (and channels for it) between the *system* and the social world. This used to understand the role of civil society in democracies. Levine (2018, 2022) uses this theoretical perspective of Habermas to discuss civic engagement (Flanagan, Levine and Settersten, 2010; Levine, 2015, 2018, 2022). Communication is effective when it is two-way, didactic (back-and-forth) and rational. This used to understand Civil Society Organisations in the functioning of State and Society such as in Levine's (Levine, 2015, 2018) examination of democracy in the United States. To be rational this interchange must not be based on emotions or moral values (Weber, 1968; Habermas, 1985; White, 1988).

The Theory of Communicative Action (Habermas, 1987) posits that societal order begins to break down when the economic and political system disrupts communicative action in the *lifeworld*. Similar to Weber, the answer for Habermas is that instrumental rationality should guide the relationship between the state and society. In this study I am interested in exploring the relationship between the metrics generated in the market system by DFIs and the social goals DFIs aim to create and

measure. Habermas' distinction between the lifeworld and system helps frame this interaction between investors in the system and the social world they aim to impact upon. Impact investing aims to not be labelled with moral values (as detailed in the literature review). It is based on the idea that investments should target environmental and social benefit as well as financial return because it is the rational thing to do. Both Habermas' and Weber's removal of moral values from these types of system-lifesystem interactions provides a grounding to explore impact investing in terms of instrumental rationality.

When the system does assert a take-over of the social, it marketizes aspects in the social world (Habermas, 1984, 1985). Habermas refers to this take-over as "colonization" (Habermas, 1987, p.318) For impact investing, as noted in the literature review above, marketisation and the financialisaton that comes with it, is a challenge. Marketization is broadly understood as the expansion of the market system to non-market social domains. Financialization by extension places a monetary value on actions, actors and goods traditionally in non-market social domains. For Habermas, marketization comes about when the capital system colonises the lifesystem (Habermas, 1987). The market is driven by money (and as Nicholls (2018) explores in a Foucauldian analysis, by power). When money colonises the lifesystem, it results in the monetisation of everyday life (Habermas, 1984; Ebner, 2015). If this goes as far as to erode social cohesion, it threatens the relationship between the system and the lifeworld. In the context of the state and society in the way Habermas was exploring, this was the cohesion that maintained social order.

Ebner (2015) examines marketisation in Habermas alongside Karl Polanyi's theory of marketisation. Karl Polanyi was an economist rooted in the study of markets as social constructs, and focused on coordination in markets. Ebner (2015) introduces the concept of "public goods" into these two theories of marketization. The author differentiates private goods with "*high marketization*" and public goods with "*low marketization*" (Ebner, 2015, p. 383). If we look at markets as complex social constructs, public goods with traditionally "*low marketization*" increase in marketable value.

Ebner suggests that when markets are viewed with the same complexity as the social domain, it can move thinking forward, leading to “*a reconsideration of the types of collective goods that are subject to marketization in diverse institutional fields.*” (Ebner 2015 p.386) This is an important insight when applied to impact investing. This way of considering public goods in markets can help begin thinking into which public and collective goods impact investing can be best placed to provide.

The theoretical perspective of Habermas on marketization is criticised, however, for viewing the expansion of normative functions with commodification. Under this criticism, in Habermas, normative functions such as laws are understood as commodification, which is the transformation of aspects such as goods and services into objects that can be traded as commodities. Because of the logic that markets follow, this extends across factors of production that include labour. As a result, labour is commodified. Habermas, though, highlights the market as the most important arena of interaction between state and society, rather than elevate it to the same status (Habermas, 1985, 1987).

Habermas issued replies focused on the role of the rule of law (Habermas and Rehg, 1996, Habermas, 1999). Habermas developed his social theory to examine the relationship between the state and society by looking at people as part of a whole system. Mouzelis (1997) breaks down the different parts of a system to more closely examine the problem. In a number of theories, including Habermas, individuals, are no longer “*centre stage*” but parts of a bigger “*system*” (Mouzelis, 1997, p. 111). If individuals are parts of a system, then norms regulate their behaviour and each position in that system has rights and obligations. Distribution of resources, according to Mouzelis (1997), then takes on a utilitarian and non-normative role.

These critiques, however, are neo-Marxist in nature and so assume that marketisation is synonymous with capitalism (Levine, 2022). The neo-Marxist critique views the process of marketisation as based on a concept of capitalist exploitation, understood as where capitalists by force appropriate surplus value created by labour. The narrow Marxist view of marketisation, however, underplays the pluralism of Habermas’ theory (Levine, 2022). Habermas instead favours checks and balances

and open discourse geared towards specific rationalised goals (Habermas, 1985, 1999; Habermas and Rehg, 1996; Levine, 2018).

3.3.2 Habermas and Critical Systems Theory

There are evaluation approaches to development interventions based on Habermas' critical systems thinking (CST), which is based on Habermas' overall theory on how the system and social life interacts. This thinking tries to deal with complexity by looking at the world or system as a whole. It makes sense of complex systems through the relationships that take place between the parts of the whole rather than by trying to segment a system into its parts to understand it. The methodology discussed in the following chapter takes this view of a systemic whole as a point of departure.

Critical systems theory is a way of examining structural problems that are large-scale, complex and uncertain (Jackson, 2019). It has common themes that centre around a commitment to systems thinking and critical awareness (Jackson, 2020). It has been taken up as a practical qualitative research methodology whereby solutions can be found based on constructive dialogue. The notion that dialogue is an important factor in designing and implementing social measurement systems has informed the methodology used in this research. In this context, critical systems thinking, helps provide a framing for dealing with complexity. Complexity has a central impact in critical systems thinking (Jackson, 2019, 2020). Jackson (2020, 2022) proposes a multimethodological intervention strategy on this basis. That is, qualitative aspects that include dialogue with stakeholders, and sees the system as a whole of interactions should be included in interventions designed to have an impact on social aspects.

Reynolds (2014) uses critical systems thinking in development evaluation of equity-based funding. He uses this specifically to address complexity and proposes transforming power relationships in complex evaluations. Reynolds (2014) finds critical systems theory a promising enabler of triple-loop learning to improve development evaluation. Triple-loop learning is where learning from evaluation leads

into higher-level change in organisational rationale (Reynolds, 2014). For instance, where evaluations are heard at the board level to steer wider strategic decision. This differs from single loop learning where lessons learned only feed into immediate action but are not considered for wider implications. It also differs from double loop learning where lessons feed into policy, practices and norms. The need to feed into triple loop learning is increasingly important in a world of rapidly shifting knowledge and action based on assessment (Cash and Belloy, 2020).

Critical systems theory, though, is not without criticism. It shares methodological challenges with qualitative research (Hammersley, 2011), which include uncertainty on quality (Hammersley, 2007, 2010), issues of subjectivity and establishing causality. According to Nicholas (2022) a key challenge for Critical Systems Theory is that its main aim is to provide ways of conceptualising rather than measuring. The author concludes that that many critical systems theory tools are not 'field ready' because they are "*generic and conceptual*" (Nicholas, 2022, p.8). Though the author concedes that it can be combined with an understanding of human practice from Bourdieu (1990) to frame a social economy. It is not an easy tool to hand to people in the field to use, but it works well on theoretical constructs (Nicholas, 2022). Critical systems theory can be used in this way, based on the assumption from Bourdieu (1990) that human nature is guided and "*shaped*" instead of "*determined*" (Bourdieu, 1990, 2005; Nicholas, 2022, p. 7). In this way the notion of a social economy can be understood. That is an economy that is guided and shaped by human and therefore social nature.

In examining state and society, Habermas sought to establish a 'critical theory of society' (Habermas, 1985, p. 374). Like other meta-theories of society, it may not account for the full range of social actions and motivations to provide a guiding theory of society (Steinhoff, 2009). While Habermas and other meta-theoreticians might not have been successful in presenting an overall theory of society, the relationship between the system and lifesystem is a useful conceptual distinction. It can be applied to impact investing to help understand the concept and role of "value" in its conceptualisation.

The conceptual understanding from Habermas provides a distinction between the social and the market (or system) applied in the research here. Within this is the notion of value, which is where Weber and Habermas overlap. In this understanding, value is framed in terms of rational communicative action. The combined concepts of value from Weber are detailed in the section below to describe the conceptual framework for the overall research.

3.4 Conceptual Framework

Section 3.3 established that DFIs' role as impact investors can be explored within an understanding of Habermas' theory of communication. DFIs are seen as systemic actors guided by rational, instrumental action. To explore how to best understand and measure social value in impact investments of DFIs, it is useful to draw on Webers' conceptualisation of how to create the most value as detailed in Section 3.2. Weber's rational social action, upon which Habermas (1985) bases rational communicative action, is useful in this framework to be able to include an exploration of value within a broader Habermasian framework. Weber's rational and instrumental actions; that is action geared towards a common goal can be applied to the idea of social value in impact investments. The notion of instrumental action can be applied to understand value in the overlap over Habermasian lifesystem and system, within the understanding of communication theory. This Section 3.4 firstly details how the two theories from Habermas and Weber are brought together to form the conceptual framework for this research (in Section 3.4.1). It then goes on to explain (in Section 3.4.2) where the concept of 'blended value' sits within the conceptual model.

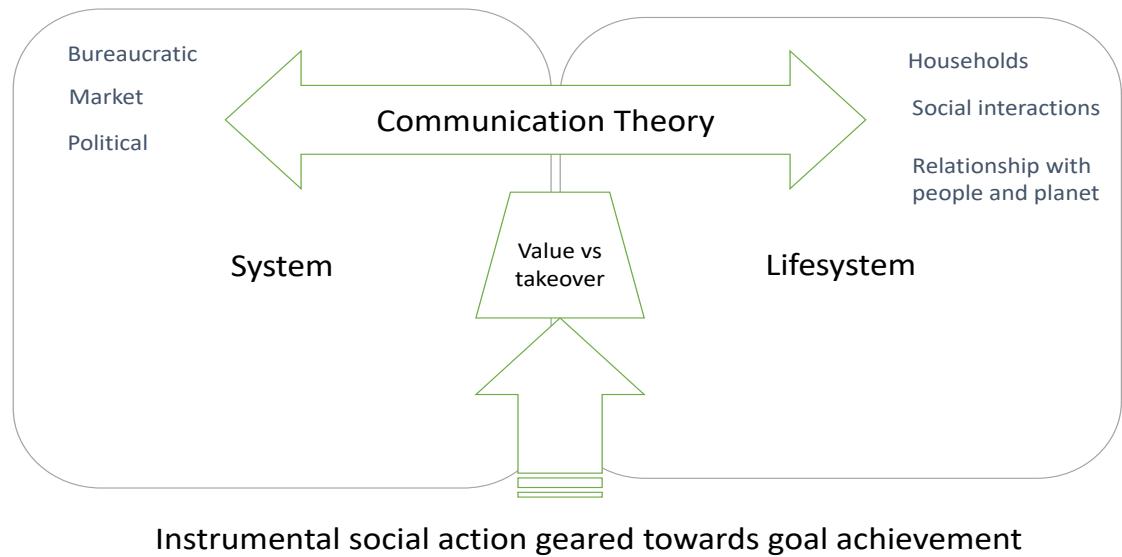
3.4.1 Conceptual framework: Habermas' systems theory and instrumental action in Weber

The conceptual framework is summarised in Figure 3.2 below, which depicts the interplay of the concepts in systems theory from Habermas and instrumental action from Weber. Categories for analysis are then later framed in Blended value. The blended value aspect is in order to examine what types of value social actors might exhibit. Blended value remains understood in this framework as being based on rational common goals and on instrumental action to achieve them.

Nicholls (2018) uses Habermas in a similar way to understand impact investing and to then create a conceptualisation for impact investing. The conceptual framework here differs from Nicholls (2018) who combines the Habermas distinction between system and lifesystem with Foucault's concept of power to understand the power (and relative power of actors) in the system. For Nicholls (2018), power is the key focus, whereas the research here is interested in the role of value in markets – as social constructs - and where that sits within Habermas' system and lifesystem distinctions. Action is guided by rational communication. The conceptual framework and the concept of instrumental action within it is depicted in Figure 3.2 below. In so doing the system is kept in check (from disrupting communication in the lifeworld) and order is maintained in the lifesystem, according to the theory of communicative action (Habermas, 1987).

According to the theory of communicative action, individuals are motivated by the aim to achieve mutual understanding. With this as the basis, individuals are able to accept or disagree based on reason and evidence. In communicative action, social and communicative process learning takes place. In rationality in communicative action, actors coordinate around common goals. It is understood or assumed that there is shared understanding that the goals are inherently reasonable. That these goals themselves have derived from reason. The theory provides a theory of modern society and modernisation (White, 1988; Bohman, 1999, 2008). The theory does, however, present a linear world view that does not account for social inequalities in communication (Miller, 1987). Here in this thesis, depicted in Figure 3.2 below, the theory of communicative action helps guide the relationship between systemic social goals of investments and the way these social goals play out for the citizens they impact upon.

Figure 3.2 Conceptual Framework: Habermas' Systems Theory and Weber's instrumental action



Source: Author's own

Nicholls (2018) blends Habermas and Foucault to build a general theory of social accounting. The use of this is that; *"In Habermasian terms, a general theory of social impact accounting offers a new rationality that can offer emancipation via new forms of communicative action"* (Nicholls, 2018, p. 149). In this context, both in the Weberian concepts of value and in Habermasian theory, validity is crucial. For Habermas validity of statements is the foundation for effective discourse and for Weber validity is essential to rational action. Stakeholder participation in both these theories is an important aspect to communicative action. Nicholls' (2018) study found two features to social impact accounting. One is the role of uncertainty data (quantitative estimation of error present in data), and the other is the need to ensure stakeholder participation. Stakeholder participation is important also for empowerment of social enterprises in making decisions about the impact they intend to make and measure (Nicholls, 2009, 2018).

Previously Nicholls (2009) developed a blended value accounting spectrum as a theory to explain the financial and social reporting behaviour of social enterprises.

Nicholls develops this spectrum using three theoretical interpretations from the sociology of accounting². These are positivist, that is where impact reporting assumes that it is presenting empirical reality; critical theorist, that is where impact reporting recognizes that it is part of power structures and control mechanisms; and interpretative, where reporting is used as a space for discussion and institutional learning.

There is a continuum of reporting practices between financial and social accounting that reflect these interpretations. SROI for instance, which measures social impact in terms of monetary value falls on the ‘positivist’ side of the spectrum (Nicholls, 2009). Due to these reasons, the research here takes SROI as a key variable. It does this to include a positivist and monetised approach to measuring blended value returns. I do this by presenting SROI as a key indicator in hypothetical stories (vignettes) that are used to elicit attitudes towards different measurement approaches. The use of the vignette technique is detailed further in Chapter Four that follows.

In the research here, I use different measurement approaches as key variables within the framing of blended value (detailed in the following Section) and the spectrum of reporting practices. Alongside SROI, the research explores attitudes towards qualitative narrative. A qualitative evaluation is presented in the research alongside SROI. The qualitative excerpt could be considered as representing a critical theorist approach to evaluation, where evaluators seek to understand the underlying social constraints in an intervention. A third variable is included in the form of standardised indicators used by institutions, which are also positivist but not necessarily monetised as is the case with SROI.

Nicholls (2009) finds social enterprises metrics systems are impacted by power structures. Nicholls (2009) and Bacq et al. (2016) find that social enterprises in reality adapt reporting practices imposed on them by law and by funders to use all three interpretations in combination. Specifically, the power structures imposed by their funders influence what and how is measured. In their own use of metrics,

² This applies theories from sociology to accounting and is found in accountancy journals and journals of business ethics. Notably, Palmer and Vinten (1998) analyse a range of theoretical interpretations applied to charity reporting in the UK in terms of positivist, critical theorist and interpretive theories (Palmer and Vinten, 1998).

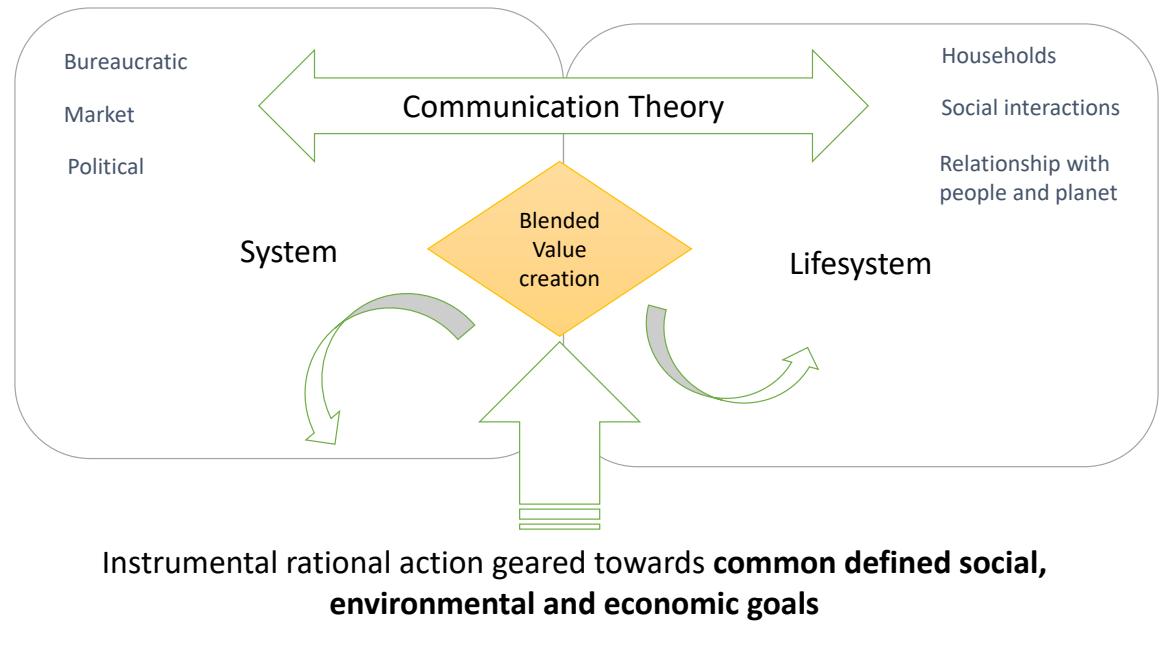
though, social enterprises create and use reporting strategies to capture a more nuanced blend of financial and social value than the reporting frameworks imposed upon them by funders.

In the research here, I similarly use blended value as a lens through which to examine attitudes towards different types of measuring and reporting. Blended value accounting, taken up by Nicholls (2009), has been used as framing to analyse social enterprises (Manetti, 2014; Bacq, Janssen and Kickul, 2016). For example, Bacq et al. (2015) adopts a blended value approach to examine power influences on social enterprises and Manetti (2014) explores SROI within the Blended Value accounting of social enterprises. I examine the findings framed in an understanding of them as market systems, within Weber's framing of society as interpretative, as mentioned above, meaning it is defined by interactions (Weber, 1968). The research in this thesis recognises there are power dynamics between the DFI funders and recipient enterprises in these interactions but does not explore these as other studies have (Nicholls, 2009; Manetti 2014, Bacq et. al.). Instead, I explore what the impact measurement systems of the DFIs are and how this can help create an understanding of "blended value" within these systems. The research is, nonetheless, based on similar fundamentals of blended value and the spectrum of reporting practices.

3.4.2 The conceptual framework with blended value

I combine the conceptual framework for this research (based on systems theory and views of how to create societal value from Habermas and Weber as outlined thus far in this chapter) with more recent attempts to conceptualise impact investing by Emerson (2000, 2003) and Nicholls (2009, 2018). Figure 3.3 below shows how blended value is understood in the framework developed. The diagram shows blended value linked in the framework to Webers' rational action, which is geared towards social, environmental and economic goals. The framework enables social factors and financial factors to be considered simultaneously. As a result of being grounded in social theory and allowing consideration of financial and non-financial factors, it allows the research to explore the overall research question of how can the impact investing programs of DFIs be understood.

Figure 3.3 Conceptual Model: Habermas' systems theory, Weber and blended value



Source: Author's own

The theory of lifeworld and system enables understanding of impact investing to be sought from how and what it measures. Impact investing hinges on the ability to measure net positive impact in the domain of the life system, which is what distinguishes it from other forms of investment.

Blended value sits within this framework as the financial and social value that companies and investments create. In Figure 3.3 investors make investments at different points in the system and lifesystem. Blended value and dual materiality both demonstrate that accounting methods can measure social and environmental performance with the same rigor as financial accounting. Dual materiality is developed by Nicholls (2018) and taken up by business schools as a conceptual lens through which to see impact investing. Using dual materiality as a conceptual framing, Nicholls and Yee (2022) find that the validity of impact data is not given sufficient attention. In exploring the role of impact materiality, the paper builds on Nicholls' earlier work on dual materiality (2018). In not including beneficiary voice impact materiality is negatively impacted in terms of creating a risk to data quality.

The authors find that by ignoring the role of end-user voice in poorly constructed impact measurement tools (Nicholls and Yee, 2022). Without validity being ensured through giving enough consideration to beneficiary voice, impact investing can perpetuate structural inequalities over who decides what is measured and what has importance.

Dual materiality is related to a legal accounting concept called double materiality. It sees both the financial performance and the impact of a company's performance on people and the environment as important. Double materiality is the conceptual basis for several recent regulations in the EU that obligate companies to manage and measure their impact on people and planet. The creation of the ISSB, the EU Sustainable Finance Disclosure Regulation, 2019, the Non-Financial Reporting Directive, 2019 and the Corporate Sustainability Reporting Directive in 2022 require companies to consider and be accountable for their impact on society and the environment (Nicholls, 2017; Deloitte, 2021).

The concepts of materiality and blended value are used as a broader backdrop to the framework within which to explore how a blend of environmental, social and financial value (and consequently how to measure it) is understood. Companies create this blend of value outwards through their performance and operating at different points of the lifesystem-system framing (see Figure 3.3). The research explores how value is created as understood by DFIs and smallholder farmers in Mexico, framed in blended value. This blended value framing is situated in a broader model based on Weber and Habermas.

The conceptual model detailed in this Section and depicted in Figure 3.3 above frames the categories used for analysis. These were derived from inductive methods and the categories used for analysis included ecosystems, blended value and positivist approaches to measurement. The codes used for thematic analysis were framed in this conceptual modelling. The approach aims to develop theory building through an exploratory and inductive approach.

The methodological implications of this framing lie in the pluralist approach favoured by Habermas which favours a qualitative, inductive and iterative approach. This

includes stakeholder consultation around rational communication. It favours communication that is based on information that can be treated analytically (Habermas, 1987), and is based on recognising a distinction between the lifeworld and the system.

As detailed in Chapter Two, the views on value are based on different logical propositions. Measuring linear (financial results) is different to evaluating complex non-linear (social) results. The two opposing logical propositions lead to an assumed trade-off between social good produced and money made. The notion of trade-off, however, is too two-dimensional to be of use in understanding attempts to change the current risk and return framework of capitalism. It is more helpful to examine impact investing within a framework that recognises a multidimensional system. That is composed of a complex system and institutional structures that gave rise to capitalism. In this context, Weber's history of capitalism can act as a lens through which to examine impact investing. It can be used to examine how value may be measured in a multi-dimensional model. Nicholls' (2018) more recent concept of the dual materiality of blended value can be used to support this measurement of value.

The construct of the system and lifesystem in Habermas is a conceptual distinction that can be applied to impact investing to help understand the concept and role of "value" in its conceptualisation. There are different ways of seeing value. Proponents and investors understand "social value" as the way in which financial value in the system creates value for society outside of that "value proposition." Emerson (2000, 2003) presents this value proposition using the concept of social capital. Coming from an investment background, Emerson defines social capital differently to the social sciences. This difference is now briefly explained, before moving on to explaining in the remainder of this Chapter Three the blended value proposition and how it fits within the conceptual model developed for this research.

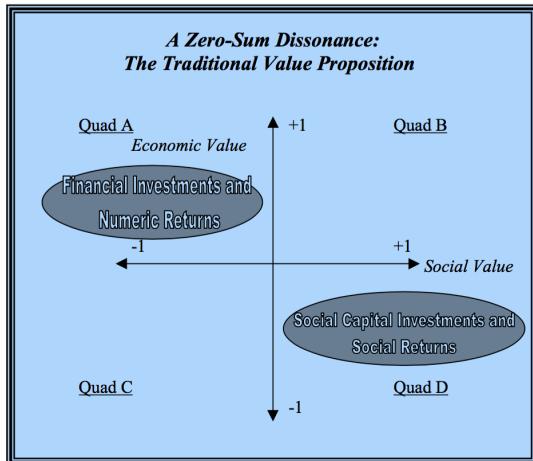
Within the social sciences social capital is broadly seen as the relationships within a particular society that influence opportunity and control structures (Bourdieu, 2005). It is also formed of the relationships between social groups on which trust is founded (Putnam, 1994, 2002) and necessary for a functioning democracy (Putnam, 2002). In the diagram below "social capital" is understood as a financial term. As a financial

term it means social aspects that can be related to financial aspects. For example, human resources as being related to the functioning of a company. Any effort to improve human resources, in quality or conditions, is only to improve the financial return to that company, not to improve social wellbeing through the employees.

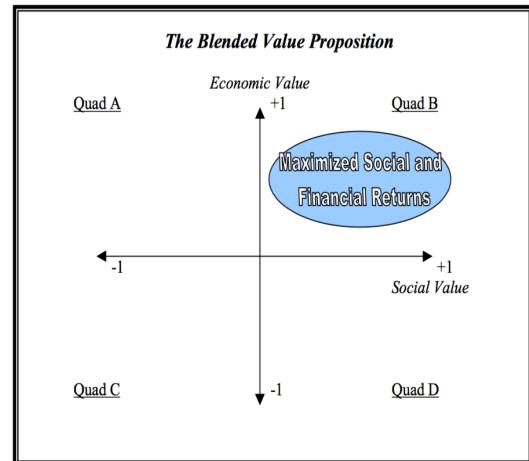
In the blended value proposition in impact investing social capital is understood to mean relationship between 'social elements' (for instance, human resources) and financial performance. Figure 3.4 below, reproduced here from Emerson (2000) shows the traditional view in finance is that social value decreased returns. The blended value proposition in impact investing means that both social and financial returns could be increased by investing in a certain way; with blended value as the underlying conceptual basis. In Figure 3.4 the blended value proposition means a shift from 'social capital' as being just a part of the financial transaction (position a) to one that is rooted in social elements outside of that specific financial transaction (position b) such as families, communities, the public sector, ethnicity and gender (Emerson, 2000, p. 22).

Figure 3.4 Emerson's Blended Value Proposition

a. Traditional Value



b. Blended Value



Source: Reproduced from Emerson, 2000, pp.31-32.

Figure 3.4 above depicts the blended value proposition. In traditional value as presented in Emerson's diagram, 'social capital' is only of consequence if it is part of the financial transaction; this is known as 'transactive social capital'. Transactive social capital is traditionally used in finance to analyse the relationship between financial and social transactions (Emerson 2000). It is distinct from "*interactive social capital*", which means social elements outside of that specific financial transaction such as families, communities, the public sector, ethnicity and gender (Emerson, 2000, p. 22). These also interact with financial resources made in investments and can impact financial performance.

Emerson (2000; 2003) analyses the relationship between financial and social elements in terms of both transactive and interactive social capital. Emerson (2000) finds that when the interplay between financial and social resources are analysed in terms of only transactive social capital, it leads to a model of diminishing social or financial returns i.e., a trade-off between the two exists. This trade-off is shown in fig.3.1a above. When this interplay is analysed with a more comprehensive view of social capital (that is interactive plus transactive social capital) value is maximized when financial and social value is recognised equally and this is blended value shown in fig.3.1b. These diagrams show a movement from a position where if a company focuses on increased social value, it means it will have lower financial returns to one where both are maximised. It is the paradigm shift in the interaction between the social 'lifeworld' and the capital decisions of investors that characterises impact investing as conceptually distinct from ethical investing.

While Weber and Habermas disagreed on some aspects such as democratic theory, they both agreed that the pursuit of social action in both the lifeworld and system should be meaningful and analytical (Habermas and Rehg, 1996; Habermas, 1999). Habermas favoured a more discursive approach based on meaningful communication, while Weber favoured a normative approach underpinned by the rule of law. The concept of value in Weber's mesh of social interactions that make up the system is one that prefers rational social action. Rational social action, as seen above, can only take place with the thread of laws, regulation and norms that run throughout the system (in Habermasian terms, its interactions with citizens in the life system).

Weber's concept of value is a useful bridge in the conceptual framework to understand value and where value sits within the system and lifesystem. It also helps guide understanding on Blended Value and where Emerson's distinction of 'social capital' as understood in finance (as detailed above) can fit within the framework. This enables blended value, the concept underlying impact investing, discussed above, to be both used and explored in the empirical research detailed in the remainder of the chapters that follow.

The Blended Value proposition is used as a lens through which to examine social value creation. It does this among smallholder farmers and DFIs in Mexico, and DFI evaluation headquarters. The conceptual model above frames blended value in Habermas and Weber's view of interactions within the social and political system. This also frames the value propositions of Development Finance Institutions and their metrics systems. Within this framing metrics systems are detailed in an evidence gap map. Followed by interviews with metrics designers, and an analysis of themes and responses to vignettes in Mexico.

3.5 Conclusion

Social impact investing is fraught with tensions that surround creating and measuring social value. These tension centre around different ways of conceptualising "value" for impact investing as a whole. Because of this it was important for the research to examine impact investing within a framework that recognises the complex system and institutional structures that gave rise to capitalism. In this context, Weber's (1921) history of capitalism and Nicholls' (2010, 2018) more recent concept of the dual materiality of blended value can act as a lens through which to examine impact investing and how value may be measured in a multi-dimensional model.

The following chapter details the methodology used to explore the role of social impact measurement in impact investing by DFIs and how social value creation is understood by smallholder farmers in Mexico as presented in the empirical Chapters Five to Eight which examine the metrics systems of DFIs (Chapters Five and Six),

followed by exploring value creation on the ground among DFIs in Mexico and farming communities (Chapters Seven and Eight). The final chapter then draws the empirical findings together and draws conclusions through the lens of theory based on Habermas, Weber and blended value.

CHAPTER FOUR: EXPLORATORY QUALITATIVE METHODOLOGY

4.1 Introduction

This chapter details the methodology, participants sought, and data collection methods used to speak to the gaps identified in the literature outlined in Chapter Two. Chapter Two established that a closer examination of impact measurement approaches is needed to be able to get a conceptual handle on impact investing. To do this I employ a qualitative exploratory methodology, outlined in the first Section 4.2, which includes describing data and appropriateness to this research. The next Section 4.3 describes the participants chosen and sampling methods.

The remainder of the chapter then goes onto detail methods used for analysis in Sections 4.4 to 4.6 including key variables, coding and how these have been chosen as well as how document and interview data collection and analysis complimented each other. It then briefly discusses epistemology and ethical considerations in Section 4.7. Section 4.8 discusses limitations and how they are addressed before concluding in Section 4.9 that the methods help answer the questions around impact investment measurement approaches of interest to this research.

4.2. An Exploratory Qualitative Methodology

This section details primary and secondary data sources used in building the exploratory methodology and how they are analysed to answer research questions on the role of evaluation in impact investing of interest to this study. Figure 4.1 below shows how data collection and analysis speak to the research questions and draw findings.

While a quantitative survey was also explored for this research a qualitative methodology was more fit-for-purpose. A quantitative survey would not be able to look vertically, and this research is interested in a vertical approach to exploration. Existing research has often taken a horizontal approach looking across impact investing (philanthropists, portfolio investors, equity investors, and DFIs, just to name

a few of the asset types) and across the different models, such as funds of funds (pooled investment) models and social and green impact bonds. Chapter Two established that this horizontal research approach may not lead to greater conceptual clarity in impact investing and often only results in new categorisations. If the research were to look across heterogeneous investors it could fall into the same issue of categorisation between investor types. Instead, I sought a more vertical sample base from different levels along the investment chain and it was important to include a mix of representatives, detailed in Section 4.3. This mix included DFI investment decision-makers, DFI metrics experts, investment advisors and smallholder farmers in Mexico. Figure 4.1 depicts the exploratory qualitative methodology and where the semi-structured interviews fit within it.

A qualitative method can explore subjects such as value and how this is understood by different stakeholders. I use the vignette method which uses hypothetical stories to gauge responses to variables within the scenarios to examine attitudes of individuals towards impact investing and its measurement. While the vignette method, detailed in Section 4.6, can be used in survey design (Atzmüller and Steiner, 2010) it is most often used in qualitative explorations (such as Barter and Renold, 2000; Hughes and Huby, 2004; Wilks, 2004; Desautels and Jacob, 2012). Meanwhile, thematic analysis collates views on social impact and what common understanding arises across the different types of respondents. An exploratory approach is used to study new areas and so would apply well to understanding concepts and measures in impact investing, leading to theoretical contributions. The following Figure 4.1 shows the exploratory methodology leading from research questions to analysis and findings, including what and how primary and secondary research are used.

Figure 4.1 The Methodological Process

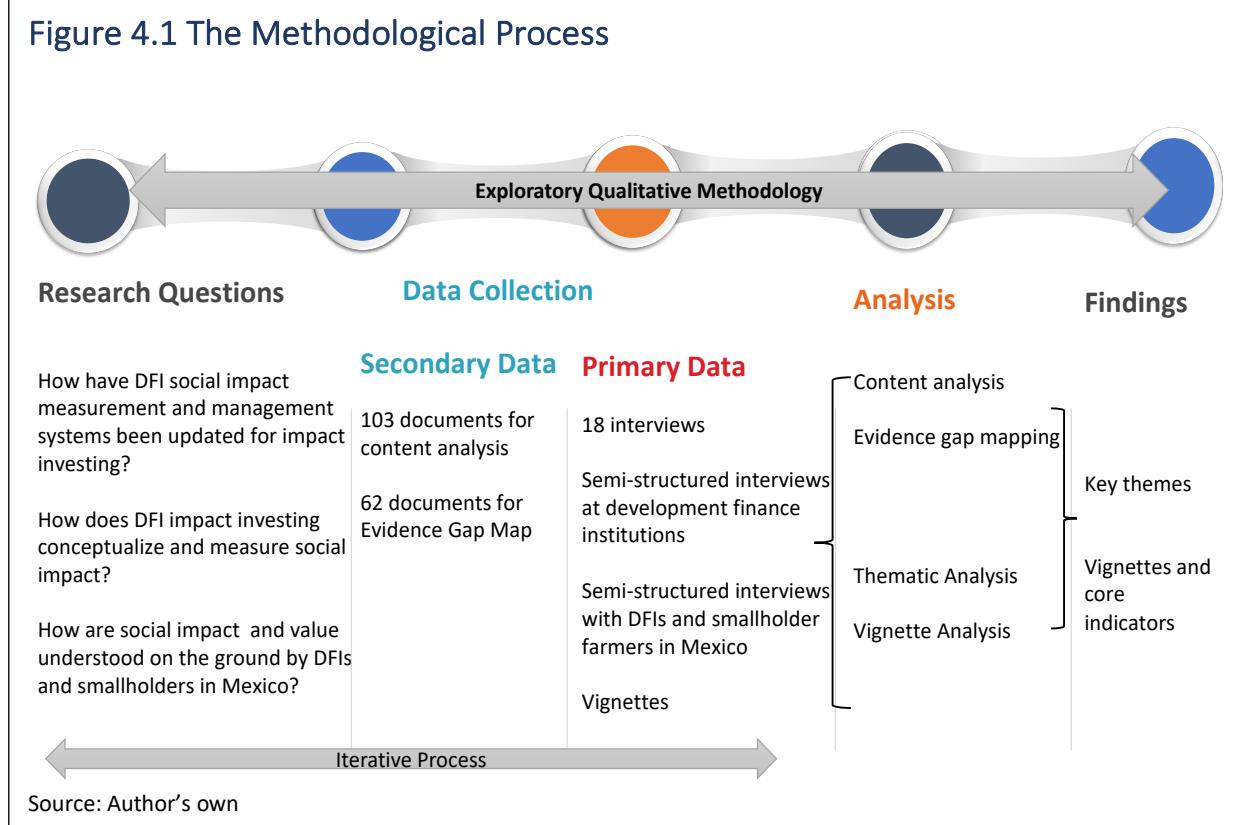


Figure 4.1 above depicts the research questions, approach to data collection, method, and analysis used to answer them. The diagram shows the exploratory research feeds into the formulation of the hypothesis and problem statement in an iterative process between document and interview data collected and analysis (Creswell, 2014). It shows how the methodology goes about answering the stated problem based on the broader question of how can we best measure blended impact? Exploratory research is often divided into primary and secondary research methods data collection (Given, 2008). The methodology follows a structure around primary and secondary methods and the stages involved in this exploratory research are laid out in Figure 4.1.

A first stage of documentary analysis took place in 2017, shown in Figure 4.1. This first stage fed into the interview design, scoping of initial possible themes for coding and into the formulation of hypothesis. The vignettes that were developed from this were trialled with three volunteers at the GIIN Investor meeting in Paris in 2018. Attendance at the three-day meeting in Paris was part of the scoping study for this

research. This fed into the vignettes and a narrowing down of focus for the open questions in the interviews. Data collection on the ground, through a scoping study in Mexico that took place in January 2019, adapted and narrowed the focus of the research and the interview schedule. The pilot of the interviews and analysis helped focus questions and feed into formulating codes for the thematic analysis. A selection of key codes is listed in the thematic map (Figure 4.3, Section 4.5). The main codes are further laid out in Chapter Eight where the findings from this analysis are detailed.

A first stage of data collection took place in Mexico in July and August 2019. Further document collection and analysis took place in 2020-2021 and interviews with experts in evaluation frameworks and metrics in DFIs for impact investing took place in 2021. There are therefore iterative loops in the data collection and analysis stages of this research. Qualitative studies often follow an iterative process (Creswell, 2014). Figure 4.1 shows iterative loops in the design, data collection and analysis phases of this research. Respondent validation is an important part of the iterative process. Transcripts were shared as a first step, then I shared preliminary analysis with respondents in Mexico in 2020 and with respondents from the second round of interviews at DFIs in 2023. The validation process confirmed the main themes drawn from the analysis.

4.2.2 Methods commonly used

Existing literature that explores concepts in impact investing (Hochstadter and Scheck, 2015; Agrawal and Hockerts, 2021) collate the definitions used by actors and they suggest further conceptual study is needed given the limitations of looking at the level of semantics. Others similarly suggest a need to move beyond definitions of impact investing and into exploring the concepts involved in blending two different value propositions (Jackson and Harji, 2012; Mudaliar *et al.*, 2017; Alijani and Karyotis, 2019). Instead of working from the definitions upwards to conceptual inferences, I approach the puzzle of blending propositions by exploring the working practicalities of measuring such a blend.

At the time of method design for this research, I explored the topics and data collection methods used by similar studies. Table 4.1 below lists the details of the data collection method used by existing literature at the time of methodology design in 2017. It is listed against the aim of the research and the type of respondents included in the research. The process revealed common features which I then considered in method design, the type of data sought, and data collection methods used. It shows that the majority of existing literature focused only on one level, most commonly, the investor level and looked across the heterogenous field of impact investors. Table 4.1 also includes a selection of methods in the literature since design. It suggests more varied interest in understanding impact investing in the literature with different levels of focus and depth in existing research.

It has been difficult to establish a conceptual basis across the heterogenous industry. To avoid this potential pitfall, I took a multi-level approach to reflect the different stakeholders in funding structures. From the initial background research summarised in Table 4.1 below, I concluded that a more vertical approach to sampling would produce more unifying results. Instead of seeking new categories for investors and their strategies I collected data in a way so that it can be used to focus on cohesion within these practices. That is, to seek common understanding of impact and cohesion around the best way to measure it. Because of this, the sample I used was within one group of investors, intermediaries, and potential and actual investees. The research focused on data among DFIs and expert sources on the measurement of blended results. Expert sources included the DFI framework documents and the experts within the institutions.

Table 4.1 Data collection levels in existing research (2017)

References	Broad aim	Data collection methods	Level
Vo, Christie and Rohanna, 2016.	To identify primary stakeholders and lessons learned from impact analysis.	Explores variations in practice through survey (161) and interview (13) data from investors, intermediaries, entrepreneurs, and analysts. They describe lessons learned about impact measurement practices from impact analysts.	Multi-level, but results focus on social analysts
Daggers and Nicholls, 2016.	Map academic work under way.	Review of 73 academic papers, compared to 261 practitioner reports, academic research and interviews with researchers in social impact measurement.	Social Impact researchers
Reeder and Colantonio, 2014 Reeder et al., 2015.	Measurement used by funds	Interviews across 15 organisations. maps and categorises measurements used by investors into three different forms of measurement practice culture.	Private investors
Olszewski and Garmedia, 2014.	What the understanding and practice of DFIs is in impact investing.	Interviews with representatives from 16 DFIs as well as written submissions from DFIs on language of impact investing, measuring impact and other questions.	DFI investors
Harji and Jackson, 2012.	Market building	Data collected primarily through online and hardcopy documents supplemented by insights from interviews with more than 100 impact investing leaders.	Investors and policy makers
Freireich and Fulton 2009.	Market building	Interviews, research, and dialogues with impact investment leaders.	Investors and policy makers
Nicholls, 2009.	Blended value and reporting practices in social enterprises	Case studies of reporting and measurement practices of social enterprises within a blended value accounting framework.	Micro, Small and Medium-Sized Enterprises (MSME)
Olsen and Galmind 2009.	Catalogue approaches to impact measurement	Map each approach against investor design using info from interviews producing 25 approaches to impact measurement.	Investors

Examples of more recent methods include:

References	Broad aim	Data collection method	Level
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Bakker and Van Vliet (2022)	Systematic comparative analysis of employment outcomes associated with social investment and the role of policy complementarities.	Employment rates and five social investment policies.	Policy
Watts and Scales (2020)	Who the key actors are in social impact investing in African agriculture.	Mapping of investors and partners	Investors and partners
Freiberg <i>et al.</i> , 2020; Serafeim and Trinh, 2020	Work towards establishing impact-weighted accounting.	Large enterprises voluntary input	Investment grade companies
Bourgeron (2020)	Explores the norms, devices and mechanisms in impact investing.	An ethnographic study into Impact Equity Fund, France.	Impact Equity Fund
Agrawal and Hockerts, 2019	To understand how investor and investee align social enterprise goals in impact investing.	Six cases of impact investing and investee social enterprises and interviews with experts.	Investors and enterprise investees.

Data collection methods among existing studies in Table 4.1 were, in 2017, most commonly a combination of documents and interviews. As with Reeder *et al.* (2015) and Olsen and Galimidi (2008), I use information gained in interviews on how social impact is conceptualised to link up to the evaluation strategies of investors. The process of exploring existing methods also confirmed that a qualitative approach would lend itself better to the questions this research is interested in. Vo *et al.* (2016) use interview data to investigate variations in measurement practice. They also seek to understand the social impact organisations intend to capture with that practice. They combine this with quantitative data but findings in the survey data are descriptive. A focus on a qualitative approach might shed more light on what social impact organisations intend to capture than the descriptive survey findings allow for.

This section established that the exploratory methodology is useful to explore research questions on impact investing that have not previously been studied in depth. Meanwhile a qualitative methodology enables the research to explore concepts. The methodology as a whole allows the research to focus on exploring impact measurement approaches without leading to further categorisation. It enables the research to make a link between measurement approaches and conceptual theorising about impact investing. The next Section 4.3 now details sampling before going on to outline the analysis used within this exploratory methodology.

4.3 Participants and sampling

This section describes the 18 interview participants and how they were selected. Interviews in Mexico in 2019 consisted of four smallholder farmers, three investment advisors, and five respondents from DFI offices on the ground in the country. Figure 4.2 below details example participant types. These interviews formed the basis of the research in Chapters Seven and Eight. Six interviews with evaluation experts in 2021 form the basis of research detailed in Chapter Six.

Figure 4.2 Respondent Types



Source: Author's own

The different participant types were asked the same questions to gauge common attitudes to social impact and its measurement among these different actors. Figure 4.2 above shows the different respondent types. The research was interested in the views of DFIs and partners in Mexico that are impact investors and work with smallholder farmers in the country, defined as those managing pastural, arable, forest land of up to ten hectares (FAO, 2013). I now explain the characteristics of participants and selection criteria in more detail.

4.3.1 Mexican Vanilla

I established partners at Veracruz University at the Eco-literacy and Knowledge Dialogue Centre (Centro de EcoAlfabetización y Diálogo de Saberes, Universidad Veracruzana) based in Jalapa, Veracruz. On initial contact with the Universidad Veracruzana, I undertook a scoping study in January 2019 in Veracruz city, Mexico. Map 4.1 below provides a contextual geography of the region. Veracruz is chosen as the case and smallholder farming communities in Papantla, Veracruz and Tuxtepec, Oaxaca were purposely selected as the unit of study from the capacity building program. The Centre worked with local farmers that wanted to help others with technical assistance and support (detailed in Chapter Seven) as well as being a university department. The small-scale farmers are part of vanilla and coffee investment and supply chains. As there are clear environmental, social and financial impacts linked with this activity it provides a specific case in which to explore attitudes towards blended value creation.

The eco-literacy department at Veracruz University was approached because it understood the nexus between financial credit markets and smallholder farmers who were seeking to improve the social outcomes of others. It specialised in agroforestry and sustainable smallholder agriculture. The centre was established with a mandate to help reduce rural to urban migration. Rural to urban migration can occur when smallholder enterprises take on debt and cannot repay (Bylander, 2019). It means that vital farming enterprise knowledge is lost as generations leave to take their chance in the city rather than make their rural business grow. These issues are explored in the thematic analysis of the interviews in Mexico and reflected in the findings in Chapter Seven.

Map 4.1: Map of Veracruz, Mexico



Source: Tony Burton, Interactive Map of Veracruz, Mexconnect, 2006, accessed 18-02-2021

<https://www.mexconnect.com/articles/5640-interactive-map-veracruz/>

Small scale farming livelihoods are varied and based on activities that include cultivating farmland and pastures, keeping forests, and fishing. Smallholders and family farmers are defined as those farmers who, as defined by FAO, manage areas from “*less than one hectare to ten hectares*” (FAO, 2013). The smallholders in my research were among the larger half of this scale and who also worked with smaller producers who owned one or two hectares. However, I understand the respondents in this present research more specifically to be entrepreneurs running family farming

businesses within farming communities. As Woodhill *et al.*, (2020) highlight, small-scale farmer is a more appropriate way to understand and describe farming families. As farmers whose livelihoods rely on managing land, which they may or may not own (Woodhill, Hasnain and Griffith, 2020).

I further understand the interviewees in this present research as being members of farming communities. This is based on the understanding of farm household systems as a complex network of relationships and links to international markets (Antle *et al.*, 2014). The authors view a community perspective as a necessary consideration in fostering resilient food systems, in their development of the Agricultural Model Inter-comparison and Improvement Project (AgMIP). The development of resilient food systems must consider farming communities because of linkages from sub-national producers to global agricultural production and trade systems (Antle *et al.*, 2014). It is increasingly understood that, in this way, small farms can provide nutritionally and environmentally resilient food systems (IFAD, 2021).

The eco-literacy department helped secure interviews with farmers who were purposively sought as being farming entrepreneurs who seek to improve social outcomes for the people they work with, have a local impact and are involved in international supply chains, and have a vision to grow. Respondents specialised in Vanilla, which is a valuable produce and an integral part of local cultural heritage. One enterprise for example had been a vanilla producer for generations. The owner transformed the business to have an active social mission. Another farming entrepreneur helped much smaller scale Totonac farmers adapt to changing environments, due to climate change, and changing markets for their produce. The main produce, vanilla, is an orchid that is cultivated in a semi-wild state. Smaller scale farmers manage semi-wild forest areas to cultivate vanilla, which are therefore susceptible to these changes. These two entrepreneurs interviewed were also deeply rooted in traditional Mesoamerican Totonac culture and vanilla was an integral part of that cultural history. From July to September 2019 interviews took place in Papantla (el Tajin) and Veracruz (see Map 4.1). Interviews lasted between approximately one hour and two and half hours.

This field support was important as during the scoping study, three cocoa farmers I found independently and interviewed were reluctant to be recorded or to sign consent. However, they provided contextual information (such as the propensity in the region to co-plant different crops together and to cultivate plants in a semi-wild mountainous state) that helped me make the decision to focus on other crops, not only on cocoa, as I had originally envisaged. During analysis I compared my fieldnotes with those I made during the scoping study. I found in this comparison that interviewees that went on to be included in the research were more focused on social outputs than the scoping study participants.

Various contextual information fed into the research to provide background understanding to the interview data. This included notes from three seminars with farmers, academics and students in Veracruz and organised fieldnotes. The notes in part helped match findings that started to emerge from the interviews and helped put those findings into a more comprehensive context (such as discussions on new laws, radio programs, fieldwork from other local academics, complaints from farmers, environmental context). All of which fed into the research validation process (validity in these terms is explained further in Section 4.5.1 in the Thematic Analysis Section 4.5 below). An interview with a couple in Papantla (who did not want to be recorded and were reluctant to sign consent forms) and an interview with our host (which was also not recorded and consent forms not obtained) were manually organised into themes and used as additional sources of validation and reflection in relation to the transcripts analysed in NVivo.

4.3.2 DFI respondents and investors, Mexico City

There were 11 DFIs in the country that had impact investing programmes. I considered random sampling of a proportion of these 11 institutions. However, as the DFI list was not extensive, and after seeing the slow speed of initial response, I changed from random sampling to reaching out to all DFIs. Low response rates were anticipated. The research design was built to accommodate this, by focusing on an exploration for qualitative common themes across a sample that included DFIs, investor intermediaries, and smallholder farmers with a social mission. This

substantive mix was more important to this research than gaining a sample large enough for quantitative analysis.

In contacting DFIs, a representative from each one was purposively sought. The opening criterion was that they were responsible for impact investing in the country office. A specific interest in smallholder agriculture investments was also sought as a second criterion. A total of five DFI respondents took part in the research in two focus groups in Mexico City and interviews were conducted with three associated investment advisors, lasting between approximately 30 minutes and two hours. As the country offices were small, for two of the DFIs timing constraints made interviews not possible (one for instance, due to hosting an official visit, another due the interviewee being away during the time the research was taking place in Mexico City). Three associated investment advisors were also included and were selected as being intermediary private banks that work with DFIs and other large investors in Mexico.

4.3.3 Sampling of evaluation respondents

In Chapter Six I explore the impact investing metrics systems in six DFIs and how they were developed. The data on which the analysis in Chapter Six is based were generated through interviews with six evaluation design experts at DFIs. The research purposively sought respondents who had a key role in designing, developing and implementing the frameworks and models used by DFIs. The institutions covered by the six interviews include: Finnfund (Finland's DFI); the International Finance Corporation (IFC) which is part of the World Bank Group; the DFI of Denmark's government, the Investeringsfonden for udviklingslande (IFU); the DFI of the Netherlands, the Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO); green investments; and the Asian Development Bank (ADB)³. The interviews took place in the autumn of 2021 and lasted between 30 minutes and 45 minutes. Interviews were kept short to ensure a reasonable

³ ADB organised an SDG dialogues seminar in which an expert answered the questions sent to them prior to the meeting. Having gone through the official channels, this was the way the interview could take place, being approved at a higher level in the institution, particularly given the nascent stage of its renewed impact model.

response rate, on the understanding that the senior executives interviewed would be unlikely to agree to longer interviews.

Low response rates had been anticipated and so 15 of the 25 major DFIs were approached (some of the smaller DFIs, as detailed in Chapter Five have not developed systems of their own but are following Joint Impact Indicators in alignment with the European Association of DFIs (EDFI) and so I omitted the smallest DFIs from the sample). The smaller European institutions had not been developing new frameworks of their own but following metrics guidance as it developed in association with the EDFI. I approached the EDFI as a single participant to potentially run interviews around an event. These plans, however, were stalled amid a move to virtual events in the Covid-19 context that dominated 2020-2022. However, the research compensated for this by seeking out respondents who had a key role in designing, developing and implementing the frameworks and models described here.

It had originally been planned to request an interview with investment decision-makers in the institutions, but the interviews with the individuals from the evaluation functions detailed in Chapter Six confirmed findings from the document review in Chapter Five that at the investment stage impact is overall screened around the IFC OPIM, around which institutions have harmonisation standards. The evaluation frameworks and metrics systems detailed in this research are used in other areas of the impact investment process.

As a result, all the respondents provided new insight into the development of evaluation models designed specifically for impact investing. The analysis therefore provided a greater depth of understanding into the metrics systems than had been anticipated. The document review also identified the predominance of certain models, and the interviews cover nearly all of the main models used by DFIs. The Joint Impact Model (JIM) is used by six DFIs; the FMO, CDC (now British International Investments, BII), Proparco, FinDev Canada, Belgium Investment Organisation (BIO) and the African Development Bank (AfDB), in order of adopting the model. A memorandum of understanding has also been signed with the EDFI to the effect that all remaining European DFIs will be using the JIM by 2023. By

including a green finance expert as an interviewee, an insight from the design process in that arena was useful to include in the analysis. Chapter Six finds the IFU evaluation model is among the more integrated screening methods.

4.3.4 Sampling methods for narrative synthesis of documents

The narrative synthesis of DFI evaluation frameworks draws from the systematic review process. Systematic reviews and evidence gap maps begin with a systematic search process, based on pre-defined and tracked criteria (Snilstveit *et al.*, 2017; Munar *et al.*, 2018; Saran and White, 2018; White *et al.*, 2022). The method used here similarly identifies a sample base through document registers, in this case the online document registers of the 25 DFIs (listed in Annex B).

A total of 525 documents were retrieved with the words “impact invest” and stemmed words. Of these, 393 documents were sought and assessed for eligibility and reasons for their exclusion documented. Eligibility criteria used for inclusion were that the documents are part of the evaluation framework for impact investing, that is the DFI impact measurement and management strategy for impact investing, evaluation policy documents and indicator frameworks. Exclusion criteria included that the document is an impact evaluation, or a sector specific impact assessment, is specific to a particular green or social impact bond. Generic “impact” documents were also removed. The search process is documented and reported through the Preferred Reporting Items for Systematic Reviews and Meta-Analyses PRISMA flow diagram in the empirical chapter (Figure 5.1, Chapter Five), following the PRISMA 2020 checklist (Page *et al.*, 2021). The search criteria sought to isolate the documents that are explicitly used within the impact investing programmes of the DFIs. The criteria focused on the results frameworks, policies and impact measurement and management strategies that had been adapted for impact investing. Following the selection criteria, a total of 103 evaluation framework documents were included in the research.

The 103 documents were analysed using codes for blended value (codes such as combined financial and social impact being sought, programmes being defined explicitly as blended value, how it is defined in strategy, and if outputs and outcomes

are measured in terms of blending financial, social and environmental benefits), for harmonisation and for the types of indicators used. As part of the screening process, the documents were narrowed further to create a more specific and reduced sample of 62 documents on which to build an evidence gap map.

In the screening process, a more specific and reduced sample of 62 documents from these 103 was selected on which to build an evidence gap map. For this, I removed the IFC Operating Principles for Impact Management (OPIM) agreement and verification statements, which show adherence to OPIM and feed into findings (detailed in Chapter Five) on impact screening and on harmonisation among DFIs. In terms of evidence gap mapping, however, the OPIM documents repeat format and information, which leads to crowding. I wanted the evidence gap map to focus on documentation that was more specific to the institution, its strategy and mandate. This is to gain insight into the DFI approaches, their commonalities, how they differ and where systemic gaps might form.

As qualitative research, the documentary analysis did not aim to draw general conclusions from this cross-section of 25 DFIs. Instead, it aimed to develop themes that could be addressed through the interviews, explore approaches, and highlight gaps in evidence frameworks for impact investing. Rich interview data from respondents then further provided insights into evaluation approaches to impact investing. Analysis of transcripts from the mix of respondents drew on and advanced themes that were common to DFI framework designers, DFI respondents on the ground in Mexico and smallholder farmers.

4.4 Analysis: Evidence gap map

In the research, I wanted to explore the key themes, areas of harmonisation and gaps among DFI approaches to evaluating impact investments. A structured review is a useful approach to exploring how DFIs measure a blend of social, environmental and financial results in their impact investment evaluations. I used an evidence gap map to do that because it shows where there is a lot of evidence and where there

are gaps in the evidence base. It systemised the existing evidence from DFIs on how they measure impact investments and why they measure in the way that they do. As evidence gap maps are used to collect information thematically it is a tool that complements the thematic analysis of interviews (outlined in Section 4.5).

Three options were explored on how to do this; content analysis (a commonly used documentary analysis process where content is matched against pre-defined codes to produce a numerical value); python (a text mining tool that looks for programmed combinations of words); and evidence gap mapping (increasingly popular in development evaluation). For this research I explored content analysis and text mining, which both produced narrow data and required narrow codes. Specific text codes would require more extensive existing understanding of the phrases used in the topics. It also posed risks of defining out too much data and could crowd out the development of themes. Instead, the present research employed a gap mapping exercise. Evidence gap maps were adapted to this study to be able to explore evidence and themes within in it. It provided a systematic way of analysing the new documentary data on impact investing from DFIs.

An evidence gap map is an appropriate tool because it is designed to provide an overview of existing evidence on a topic or theme (Snilstveit *et al.*, 2017; Saran and White, 2018). DFIs have been upgrading and adapting their impact measurement frameworks to capture the performance of their impact investing. By 2018, many pilot or initial frameworks had emerged, which were then later concretised in the documents released between 2020-2022 by the DFIs on the new frameworks, and that have been examined in this research. As a new and evolving area of practice, this type of overview exercise was necessary to understand the substance of the new documentary evidence base.

In the analysis process, I drew on White *et. al.*'s (2020) outline of Campbell systematic reviews and evidence gap maps. Campbell systematic reviews are a systematic evidence synthesis method (White *et. al.*, 2020). Evidence gap maps are visual representations of the existing evidence and literature on a topic and the gaps. Evidence gap maps have been developed by the International Initiative for Impact Evaluation (3ie) (White, 2011; Snilstveit *et al.*, 2017) and have gained popularity in

recent years. The initiative, established in 2008, supports impact evaluation evidence for decision-making with governments, NGOs, development institutions and research organisations. 3ie developed evidence gap maps to improve policy decision-making and went on to create an interactive online map platform. In 3ie's application, a mapping process leads to a matrix usually split along two dimensions: the rows list interventions and sub-categories, and the columns lists the outcome areas. The online platform has a number of examples of its use in preparing development evaluations (3ie, 2023). This mapping process along two dimensions adapted well to this research. I adapted the intervention and outcome category into the impact investing intervention (with sub-categories of framework documents) along one dimension and the types of measurement approach along the other.

Both Campbell systematic reviews and evidence gap maps begin with systematic search criteria. Once the documents were selected drawing on eligibility criteria, in the analysis process I followed existing guidelines, primarily Munar *et al.*, (2018) and Snilstveit *et al.*, (2017). Following the guidelines from these authors, I coded document text and grouped codes into thematic clusters (Snilstveit *et al.*, 2017; Munar *et al.*, 2018). Coded references in NVivo around these themes then created the variables in the evidence gap map. The thematic clusters, variables and findings of the evidence gap map are detailed in the next chapter (Chapter Five: How do DFIs measure social impact in investments?).

The method used here adapts the evidence gap map to capture key variables of interest to this research. These include different types of evaluation methods, types of key performance indicators used, the use of a ToC approach, development impact in decision to invest, impact in the lifecycle and risk identification and management. Potential variables were identified in Chapter Two: Literature Review (for instance the increasing use of impact pathways or theories of change in evaluation) and refined following field research in 2019.

This section has detailed the method for the structured review of documents used for the analysis of secondary data. An evidence gap map helps explore the extent of the gaps and the current state of play in relation to the literature. Themes emerged in exploring how the documented practice relates to gaps identified in the literature in

Chapter Two. Themes include the uptake of ToC, defining approaches as blended value, the role of stakeholders, and measurement in the lifecycle of the investment (reflected in the evidence gap map matrix produced from the process, Figure 5.2, Chapter Five).

Interviews then complemented data collection and analysis of the documents. The following sections describe the choice and implementation of interview data collection and the thematic and vignette analysis used. Interviews complement evidence gap mapping by providing an understanding of why and how impact measurement approaches are developed and richer insight into what social impact means and how it is measured by DFIs.

4.5 Analysis: Thematic

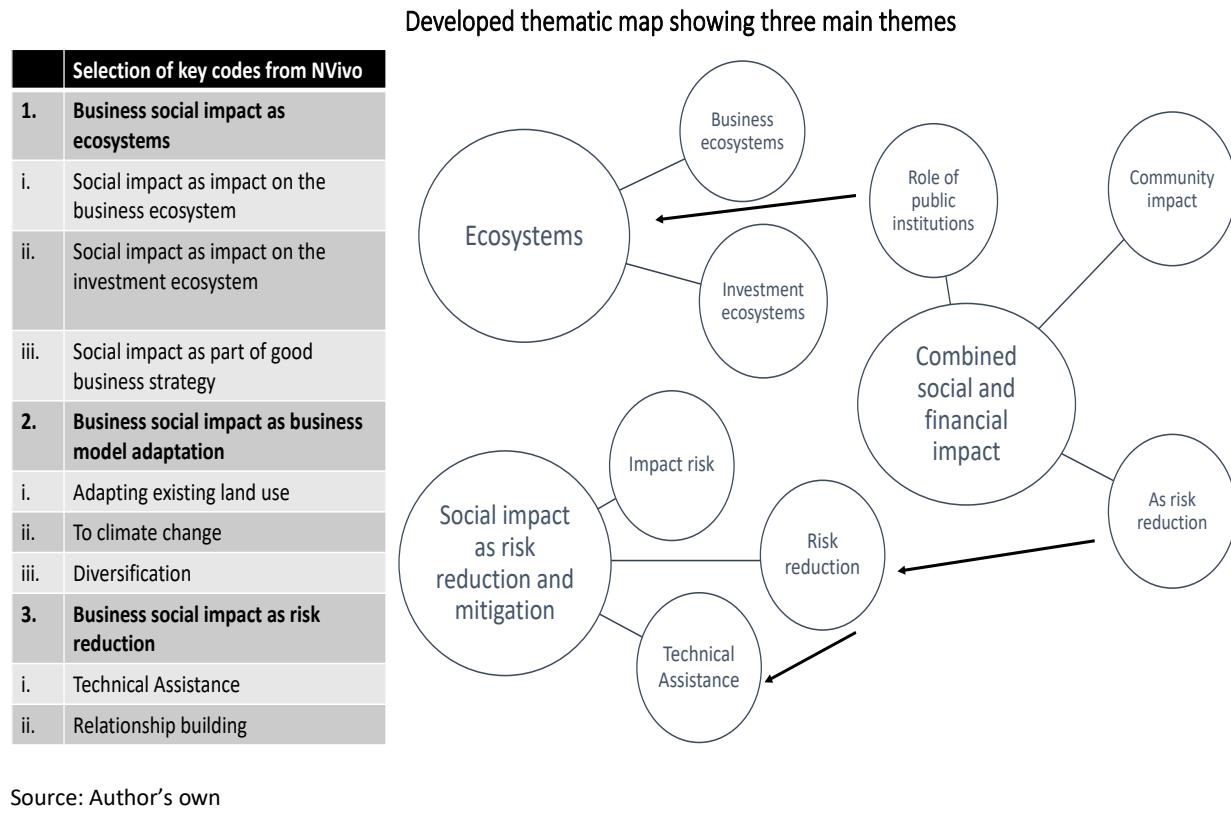
Thematic Analysis is a method to identify, analyse and report patterns in open-ended data (Braun and Clarke, 2006, 2019). It is one of the most common types of analysis in qualitative research, used to look for patterns in data. It does this, as described by Braun and Clark (2006) through coding. Interview transcripts are coded following distinct phases as described elsewhere by Braun and Clark (2006) and Chawla, Eijdenberg and Wood (2021). As one of the most common types of analysis in qualitative research, it is adaptable to most types of qualitative data (Braun and Clarke, 2006; Chawla, Eijdenberg and Wood, 2021). Through the analysis of codes, common themes emerge in interview transcripts. Thematic analysis was applied to interview data for this research using a qualitative analysis tool, Nvivo.

In Nvivo, I created codes for common themes across transcriptions. This was combined with an element of pre-coding where the codes - such as on blending social and financial outcomes, on the types of metrics used, how social impact is understood by the business and investor - were developed from the literature review and pilot analysis (described above). I developed gaps identified in the literature review (Chapter Two) into the key variables of social impact as business and social impact and value Figure 4.3 below lists a selection of among the most codes and sub-codes used listed in order of their prominence in interview data (a full list of

codes in produced in Chapter Seven, Section 7.1). The key variables were then reflected in the coding for the pilot analysis. This was then refined to the codes I used in the analysis for this research. Nowell *et al.* (2017) detail a step-by-step approach, showing how themes are developed from codes in Nvivo. Analysis of each theme and its frequency in Nvivo is then used on interview data here where I produce three core themes that form the basis of the findings from this research depicted in Figure 4.3 below.

Interviewees were asked open questions on what social impact might look like to them and how it might be best measured. A challenge to qualitative research is that data are open ended. In this sense, qualitative data are more difficult to reduce and identify patterns, compared to numerical data (Castleberry and Nolen, 2018). Thematic analysis helps overcome this challenge by organising data along thematic codes. It helps identify patterns without necessarily having to assign numerical values and seek numerical patterns. Instead, patterns are identified through coding themes. They are analysed against hypotheses developed in the previous documentary stages, depicted by the iterative process in Figure 4.3 below. This thematic study also helps deal with open-ended data by including an element of pre-coding.

Figure 4.3 Thematic map developed from coding in NVivo



Source: Author's own

Rich data generated in answer to interview questions on what social impact might look like to them and how it might be best measured enabled a variety of codes to be used to explore how social impact is understood by their business, how it is and could be measured and on reflections from the vignettes (detailed in the following section below) on how core indicators are used in the evaluation frameworks of DFIs developed for impact investing. A selection of the key codes used in the analysis are reproduced in Figure 4.3. I fed these key codes into the development of an initial thematic map, that was then refined to a developed thematic map along three main themes as per existing guidance on thematic analysis (Wilkinson 2003, in Braun and Clark 2006 p.90). The documents and interviews complimented each other during the data collection and analysis process with the themes developed along an iterative process between the documentary findings in Chapter Five and the thematic findings in Chapters Six and Eight.

4.5.1 Reliability and Validity

In both the thematic and vignette analysis validity and reliability for the purposes of this research is considered in the context of Guba and Lincoln's (1994) trustworthiness and authenticity criteria for qualitative research (Guba and Lincoln, 1994). Guba and Lincoln (1985) present four criteria for trustworthiness, which are credibility, transferability, dependability and confirmability. Basically, analysis needs to be traceable, and data verified. Qualitative researchers must provide enough detail on the way in which analysis has been conducted in a consistent, systematic and precise way to show credibility of the analysis methods used (Lincoln and Guba, 1985; Guba and Lincoln, 1994).

In Nowell *et al.*, (2017), the exploration of trustworthiness and rigor in thematic analysis is detailed by a step-by-step approach. Sharing insights from practical experience of thematic analysis, they show how traceability and verification of the thematic analysis is made possible by systematizing the approach in NVivo (Nowell *et al.*, 2017). There is cross-over with external validity per LeCompte and Goetz (1983) and Kirk and Miller (1986) who broadly defined it as the extent to which a study can be replicated (LeCompte and Goetz, 1982; Kirk and Miller, 1986). Replicability is similarly enhanced by systematized approaches. Replicability here is understood as confirmability and dependability (LeCompte and Goetz, 1982), with dependability in terms of trustworthiness in qualitative research (Nowell *et al.*, 2017).

The research reported here also took other steps to address validity and reliability. As with most qualitative studies, I primarily employed respondent validation or 'member checking' (Stahl and King, 2020) to address validity broadly in terms of whether the research is observing and identifying what it claims to (Mason, 1996) and Guba and Lincoln's (1994) criteria. Any form of 'member checking' can enhance trustworthiness (Stahl and King, 2020). The body of literature on qualitative research, though, questions a tendency to assess validity and reliability only post-hoc (Morse *et al.*, 2002). At that point, it is too late to iron out methodological tensions. A focus on post-hoc validation alone does not account for the reflective role and responsibility of the researcher (Morse *et al.*, 2002; Hammersley, 2007, 2011; Wisdom and Creswell, 2013).

Taking this into account, I also took additional steps in the research to address validity and reliability in the research process. The transcripts and summaries of main findings were sent to respondents as part of the respondent validation process. Other steps included having documented the research design process and its evolution and verification having taken place against fieldwork notes and field observations (Wisdom and Creswell, 2013). I took detailed fieldnotes against which I validated findings contextually. These included notes from seminars in the Dialogue Centre, Jalapa that shared views between farmers, students and academics, including presenting on my findings so far. Similarly, I gave a presentation to two DFIs in Mexico City and noted their reflections. An interview with a married couple, who told me they had a small plot of land and mainly subsistence farmed, in Papantla (that was not recorded and to which they were reluctant to sign consent forms) and an interview with our host (which was as not recorded, and consent forms not obtained) who grew vanilla and was a member of the local farming cooperative, were manually organised into themes and used as sources of validation and reflection between the transcripts analysed in NVivo and the three omitted. In many ways these reflections did not change understanding as they were emerging from the analysis, but rather confirmed the two main key themes surrounding risk and ecosystems that were taking shape.

4.6 Analysis: Vignette

The vignette method is a social-science research technique that can be used in quantitative or qualitative method designs. This method bases survey or interview questions on short, hypothetical, but realistic stories, called vignettes. The vignette technique has been extensively used as method in political opinion polls (King *et al.*, 2004; Hopkins and King, 2010) and discussed at length by Hopkins and King (2010). It is widely used elsewhere in the social sciences including psychology, namely child psychology (Barter and Renold, 2000), to explore values in social work (Hughes and Huby, 2004; Wilks, 2004), and in examining evaluator sensitivity (Desautels and Jacob, 2012). Vignettes have been used widely to explore sensitive subjects. Though they have not been used extensively in development research they are

starting to be used to explore views on sensitive subjects, such as HIV infection in children, in the development context (Gourlay *et al.*, 2014). It has not previously been applied to impact investing.

The vignette technique was integrated here into the interviews and focus groups in the qualitative research. The open questions in the interviews were complemented by a vignette exercise around flashcards depicting hypothetical scenarios. The full set of flashcards and accompanying questions are reproduced in Annex A. A total of five vignettes were designed, tested and piloted. In the final interviews, between one and all five vignettes were discussed, with on average three being used in each interview. The vignettes were used in this study to good effect as a practical tool to make qualitative interviews more engaging (Hughes, 1998; Bryman, 2016). Most interviewees gave positive feedback on the use of vignettes.

I designed the vignettes in this research as a complementary technique with thematic analysis of semi-structured interviews. Possible constraints to thematic analysis were the potential for respondent social desirability bias and for a difficulty in separating the view of the individual from the institutional view. The vignette technique employed here helped correct for those factors. That is because, in this technique, questions based around a hypothetical scenario creates distance between the respondent and the subject (Finch, 1987; Hughes and Huby, 2004, 2012). As a result, it was possible to elicit more fine-grained and sensitive information about the different value given to various social-financial aspects of the decision-making process. Because the vignettes are accompanied by closed questions, it also reduced interviewer bias in open questions. Further, due to its ability to enable a more reflective reply to attitude questions (such as Likert scales), the vignette technique enabled a more valid measure of people's attitudes (Atzmüller and Steiner, 2010). This is particularly so when being based on scenarios, as in these investment cases, where different dimensions need to be traded off in people's responses.

The stories developed for this study depict investment scenarios comprising different levels of detail on social and financial impact information, asking how they would respond in that circumstance; in this instance, whether they would invest or not and

what further information they would want. In so doing, it elicited attitudes towards the amount and type of social impact information needed to make an investment decision with gradual increase in the specificity of the situation. This way they complemented thematic analysis to gain more fine-grained information and engage with the views of the respondent on what constitutes value and impact as separate from that of the institution.

Box 4.1 Solar energy vignette summary

The vignette depicts a hypothetical small scale local solar energy enterprise. The enterprise owner seeks impact investment to grow the business.

The business owner presents the social impact it generates from the business in terms of numbers of people reached with low-cost clean energy in the rural community. The case shows an estimated number of people the enterprise currently reaches and the number it could reach with a \$2 million investment.

The vignette assumes that the investor is already satisfied with the rate of risk and return the business can offer.

It aims to elicit attitudes towards indicators that count the numbers of people reached.

The questions surround 1) would you think of investing and why and 2) what impact information might you need to invest?

In order to avoid response fatigue and carry over answers, vignettes within which stories build on each other are more engaging (Barter and Renold, 2000; Hughes and Huby, 2004, 2012). Each of the five vignettes designed with three accompanying questions (plus the two validation vignettes) for this study, built stories on each other, increasing specificity with each vignette question. Key variables in the vignettes included standard employment indicators (direct jobs created); standardised smallholder indicators (increase in yields plus jobs); qualitative information, and a

monetised approach to social impact measurement in the form of social return on investment (SROI).

Due to clear variables built and tested around standardised IFC measures, jobs (alone) and jobs plus yields, SROI and evaluation excerpts, it was possible to bring in a degree of standardization of analysis alongside the thematic analysis of open questions. While the full set of vignettes are reproduced in Annex A, in Box 4.1 an overview of one of the vignettes is reproduced with accompanying questions. The key variables here are made obvious. To improve reliability in analysis, the variable in the vignettes designed for this qualitative research makes the variables obvious (Barter and Renold, 2000; Hughes and Huby, 2012). In the five vignettes that I designed for this present research each variable related to the type and specificity of social impact information. The types of social impact information in the vignettes were around quantitative and monetized reporting, case study accounts, and reporting aligned with international standards. The findings related to these variables in the vignettes were checked by having a second vignette on each variable.

There are a number of vignette design types each with their own merits, which include: factored vignettes (Atzmüller and Steiner, 2010; Harrits and Møller, 2021), more commonly used in survey research rather than interview research presenting a number of similar (repeated) cases; constant vignettes, where all respondents read identical sets allowing to assess differences in judgments; and anchored vignettes, where an anchored question assesses and corrects for personal value positions (Hopkins and King, 2010). Vignettes used in the qualitative interview research here followed the constant variable vignette method. All respondent types – investors and investees – were presented with the same set of vignettes.

4.6.1 Vignettes and internal validity

To work well as a conversation piece in interviews, the vignettes needed to have strong internal validity for the interviewee to engage with them effectively (Gould, 1996; Hughes and Huby, 2004). Studies that do not address internal validity have been subject to criticism (Gould, 1996; Hughes and Huby, 2004). In the design of vignettes Gould (1996) and Hughes and Huby (2004) suggest several ways to build

internal validity. Gould (1996) suggests to draw on existing literature, and others use literature to develop their vignettes (Cheek and Jones, 2003). Gould (1996) advises to draw on real cases to develop the vignettes. Taking this on board, the vignettes I designed in this research were firstly built on existing literature and on existing documentation from DFIs on the type of investments they make. Key variables on employment indicators, standardised indicators, and SROI were chosen through a review of DFI documents and of the broader academic and grey literature. They were selected as among the most common features and needs of impact investing. The variables help identify attitudes towards these measures in realistic impact investing projects.

In this study, interviewees engaged with interest with the hypothetical stories and feedback suggested this was due to a sense of internal validity. Gould (1996) suggests other options to develop the vignettes, including having them vetted by an expert panel, or pre-testing to remove unsuitable items. Existing vignette studies tend to use a combination of these approaches to enhance internal validity (Hughes and Huby, 2004, 2012). While vetting by an expert panel may not always be feasible, piloting or pretesting vignettes is an essential part of the design process (Kalafat, Elias and Gara, 1993; Gould, 1996; Barter and Renold, 2000; Hughes and Huby, 2004, 2012).

The vignettes in this study were then developed further through testing with three volunteers at the GIIN 2018 Global Impact Investor Forum. Next, interviews were refined further. They were then piloted with three separate respondents and the analysis also was piloted. These activities improved the internal validity of vignettes (Gould, 1996; Hughes and Huby, 2012). They also asked them real investment scenarios. For this study, the pre-testing with investors and small social business owners, as well as the piloting stages of the vignette design, proved valuable. They helped ensure the scenarios were realistic, were internally valid, and helped refine the vignette flashcards and questions, and narrowing down the focus in analysis.

This Section 4.6. outlined how and why this research uses the vignette technique. It described how vignettes complement the thematic analysis and are complemented by the systematic review outlined in the previous sections. The next section briefly

details epistemology and ethical considerations before briefly discusses limitations with these methods in Section 4.8 and how these have been addressed for this research. The chapter then concludes that the three methods together form an exploratory qualitative model that enables the research to explore perspectives on how social impact is measured in impact investing.

4.7 Epistemology and Ethical considerations, including own positionality

This research is primarily an inductive enquiry that aims to build on theory conceptualising impact investing from interviews. The analysis in this design is iterative. As an exploratory study, it enables theoretical contributions (Bryman 2016). The research questions are underpinned by realist assumptions that there is a reality surrounding impact measurement practice. This reality is the subject of enquiry to be sought and explained. It draws on critical realism, which recognises that the perceptions of researchers are socially constructed within a reality external to them (Collier, 1994; Sayer, 2000; Bhaskar, 2008; Bhaskar and Hartwig, 2010). As a result, an element of reflexivity is included in the research design.

Quantitative and qualitative research methods are underpinned by different philosophical principles. The division in the social sciences can be seen as positivist and realist traditions underpinning quantitative research while interpretative traditions underpin qualitative enquiry. This division within the social sciences has been increasingly brought into doubt (Bryman, 2012) and there has been an associated increased interest in mixed-methods studies. This is because an interpretivist approach from qualitative philosophical traditions adds meaning to what it is individuals intend to capture with that practice and why. Combined with quantitative realism, it forms a pragmatist approach (Tashakkori and Teddlie, 2003; Brannen, 2005; Bryman, 2012). As this research is interested in both meaning and in measurement, it adopts an interpretive approach to enquiry and so resonates with a pragmatist approach.

All stages of this research were approved by University of East Anglia (UEA) International Development Research Ethics Committee. Ethics approval was sought and gained for the scoping study and pilot approved in 2018, the country-level

interviews in 2019 and the evaluation expert interviews in 2021. The main two ethical considerations surrounded dependent relationships and language power structures with indigenous populations.

A scoping study conducted in January 2019 explored two options for sampling and accessing smallholder farmer participants. One is via the DFI that funds them, the other via the investment capacity building program of Veracruz University. The scoping study found the alternative to accessing smallholders through DFIs reduces a potential sense of obligation among respondents. However, it recognised that farmer participants might be in an indirectly dependent relationship with the Eco-literacy Center at Veracruz University. While this may not have the same implications as a directly dependent relationship, it was important to clearly explain my independent position as a UK student researcher, the voluntary nature of participation, the purpose of the study and providing clear opt-out at any stage of the process. Anonymising data was also an important consideration in this study. Consent forms, information sheets and interview schedules were written and designed by the researcher in Spanish.

I entered into the research with the understanding that Veracruz has the third largest indigenous population in Mexico (OECD 2014) composed of a number of different groups, the largest being '*Huastecs*'. It is also the third largest region in terms of indigenous languages in Mexico. Specific ethnic groups were not targeted for the research, but the ethical considerations aimed to make the research inclusive to indigenous groups in the event that they were included in the sample. In this instance, certain considerations were borne in mind: that the interviewee might not speak Spanish and therefore would need an interpreter and may be reluctant to respond to a request take part in a research study, which may be associated with Hispanic power structures. However, a certain level of engagement with the language and these structures could be assumed as target participants were owners of social enterprises and small businesses who were securing financing. Indeed, the interviewees included in this research were bilingual in Mexican Spanish and in the local *Totonaco* language. Nonetheless, the high level of indigenous population was a cultural and ethical consideration from the outset. A farming couple I interviewed in Papantla were engaging with the open questions but were nervous when the subject

moved to vanilla and ended the interview. The interview was not recorded, and consent signs not signed but did feed into contextual information I used to draw findings, as explained above.

4.8 Limitations and how addressed

The previous sections detail how the research methods were used to answer the research questions of interest here. This section states the known limitations in the exploratory qualitative methodology used for this research. It briefly details how they have been addressed. It then goes on to detail findings on the design, use and analysis of vignettes that contribute to literature that explores this research method (Finch, 1987; O'Dell *et al.*, 2012; Gourlay *et al.*, 2014).

A general limitation to this research is the small sample size. As a result, generalisations from qualitative research are to be treated with caution. This study tried to avoid generalising to the impact investing field, but rather focused on the potential for theory building around the themes discovered. Purposive sampling with defined criteria for selection also addressed small sample size a common issue in qualitative research. The potential for interviewer bias was addressed through structured questions and reflexivity through observations, fieldnotes and supporting interviews.

There are two common limitations with the vignette method. The first relates to interviewee interpretation of the vignettes and the other a pitfall in the researcher ascribing to the answer a link to reality. Interviewee interpretation is the subject of much methodological literature on vignettes (Finch, 1987; O'Dell *et al.*, 2012; Gourlay *et al.*, 2014). Interviewees may shift between discussing vignettes as themselves from the perspective of the character to commenting on what ought to happen (Finch, 1987; O'Dell *et al.*, 2012; Gourlay *et al.*, 2014). The research design used the now generally accepted position to limit this confusion by not having more than three changes to a storyline (Finch, 1987). Confusion was also addressed with expected clarifications during some of the interviews. I also designed the questions to produce similar answers regardless of whether the interviewee was answering

from their individual perspective or commenting on what ought to happen. By focusing the question on the investment decision and information needed to make that decision the question produced appropriate data when answered from either perspective.

4.8.1 Findings on the vignette method

The vignette research detailed in Chapters Six and Eight presents methodological findings from addressing this potential limitation in design. I find through this research that the way in which the vignettes were designed specifically helped address this limitation. The vignette and questions had been carefully designed, tested and piloted along with their analysis so that the relevance of the response remained unchanged regardless of the perspective of the respondent. In a few of the interviews, as anticipated, the interviewee asked for clarification on whether the interviewee was responding as themselves or as the investor in the vignette card. In the three or four cases where the question arose, interviewees did not change their line of answer.

The second main challenge to the use of vignettes relates to whether the research attempts to ascribe a link between beliefs and actions (Hughes, 1998; Barter and Renold, 2000). The vignettes may show that investors believe they should invest at certain points in the story, but it does not necessarily mean that they would, in reality, invest at those points. This is because the relationship is indeterminate; not enough is known about the relationship between vignettes and real life (Hughes, 1998).

To avoid this pitfall, I separated the analysis and reporting of vignettes from that computed and reported in the thematic analysis. The design helped avoid the danger of this leap from vignette response to real-life response by focusing the vignette research on the meanings people place on specific contexts (Barter and Renold, 2000). I designed the vignettes used here to focus on meanings placed on social impact measurement contexts. I applied the thematic analysis to the open questions, where the respondent was more closely identifying their own role in reality (as DFI

employee, smallholder farming entrepreneur, investor etc...). Though vignettes answers were used to triangulate these findings against (namely, those related to the core indicators in employment and emissions used by the DFIs).

4.9 Conclusion

In this research, I employ an exploratory qualitative methodology to investigate how DFIs measure social impact in their impact investment programmes. The research is interested, in firstly, how DFIs have adapted their evaluation frameworks to capture a blend of economic, social and environmental results. Secondly, it aims to find where common understanding on what social impact means in this can be seen across DFIs and small farming businesses. I explore these two parts of the puzzle to seek a more comprehensive conceptual picture than existing literature which often so far has sought to categorise. The qualitative exploratory methodology enables a focus on exploring impact measurement approaches without leading to further categorisation. It also enables the research to make a link between measurement approaches and conceptual theorising about impact investing.

The combined analysis of primary data, underpinned and mapped against findings from the synthesis analysis, contribute insights into how impact measurement is understood, adapted and used in the context of impact investing within DFIs. The next chapter now details the findings from the content analysis and evidence gap mapping (Chapter Five). The subsequent chapter goes on to explore the metrics systems used through interviews using thematic and vignette analysis (Chapter Six) and draws linkages with the findings from the evidence gap mapping. The third of the empirical chapters (Chapter Seven) identifies themes emerging from interviews with smallholder farmers and DFIs. The final empirical chapter details the findings from the vignettes in the interviews with smallholder farmers and DFIs (Chapter Eight).

CHAPTER FIVE: EVIDENCE MAPPING

How do Development Finance Institutions Measure Social Impact in Investments?

5.1 Introduction

Impact investing has gained prominence since 2008 as blended finance has become a strategic option for DFIs and governments. Blended finance is broadly the mixing of public and private funds for common public goals. In DFIs these dual goals tend to, since 2015, be linked to mobilising financing towards the delivery of the SDGs (Spratt, 2021; OECD 2018). Previous studies made efforts to assess the DFIs that have specific impact investing programmes (Sinha, Bortes and Grettve, 2011; Olszewski and Garmedia, 2014) and how DFIs define their impact investing strategies (Olszewski and Garmedia, 2014). This chapter explores how blended value is understood and integrated into the DFI impact investing strategies and associated measurement frameworks.

5.1.2 Method and Sample

In this research I identified a total of 25 DFIs worldwide that, as of June 2022, have impact investment programmes (listed in Table 5.1 below). This marks an increase on those identified in previous studies that found less than half that amount of DFIs had defined impact investing programmes (Sinha, Bortes and Grettve, 2011; Olszewski and Garmedia, 2014). Olszewski and Garmedia (2014) found ten DFIs that formally used the term 'impact investing' (Olszewski and Garmedia, 2014, p. 10). The number has also increased from the 18 DFIs with impact investing programmes in the initial scoping for this research which I carried out in 2017.

DFIs vary in size, geographical scope and focus areas. A sense of the comparative size of DFIs is understood by how much public and private money they manage. This is commonly expressed as "Total Assets Under Management (AUM)." The total AUM from each of the DFI Annual Reports for 2021 (or closest equivalent available) is shown in Table 5.1. DFIs also vary in regional scope and in development areas. For example, the regional development banks such as the IDB, the AfDB the ADB

and the EBRD focus on their regions almost exclusively. Multilateral institutions such as the IFC and the UN finance institutions have global reach. Others, such as Norfund and the IFU, focus on lowest income countries (LICs) and fragile states.

Among the sample of DFIs listed in Table 5.1 below, IFC, IDB and the EIB, EBRD and IFU are the largest institutions in terms of the capital they manage. These are followed by the AfDB and the ADB. The largest of the bilateral institutions are the FMO, the SIFEM, and BII. The smallest institutions are Simest (Italy) and SOFID (Portugal).

Table 5.1. DFIs with Impact Investing Programs, Total Assets Under Management (AUM)

Institution	Size of institution as Total AUM	Commitment year (latest available)
Belgian Investment Company for Developing Countries (BIO)	€1.1bn	2021
COFIDES (Spain)	€1,2bn	2021
British International Investment (formerly the CDC Group)	£6bn (€7bn)	2021
Deutsche Investitions-und Entwicklungsgesellschaft DEG-KfW	€338.7m	2021
FinDev Canada	C\$ 288m (€200m)	2021
FinnFund	€780m	2021
FMO Netherlands Development Finance Company	€9.9bn	2022
IFU (and the Danish SDG Investment Fund)	(DKK) 226,678m (€30.4bn)	2021
Japan International Cooperation Agency	(Y) 377,745m (€2.3bn)	2021
Norwegian investment Fund for Developing Countries (Norfund)	(NOK) 26.9bn (€2.4bn)	2021
US DFC (formerly Overseas Private Investment Corporation-OPIC))	(\\$) 15.3bn (€14bn)	2021
OEeB (Austria)	€1.08bn	2021
Promotion et Participation pour la Coopération économique (Proparco)	€6.57bn	2021

SOFID (Portugal)	€3m	2021
Simest (Italy)	€338m	2021
Swedfund	€696m	2021
Swiss Investment Fund for Emerging Markets	€43.8bn	2020
Obviam (Swiss)	N/A becoming Asteria Obviam	
African Development Bank (AfDB)	(UA) 36.3bn (€44.5bn)	2021
Asian Development Bank (AsDB)	(\\$) 20.5bn (€18.9bn)	2022
European Bank for Reconstruction and Development (EBRD)	€50.2bn	2021
European Investment Bank (EIB)	€65.15bn in financing	2022
Inter-American Development Bank (IDB)	(\\$) 151.7bn (€140bn)	2021
International Finance Corporation (IFC)	(\\$) 99.0bn (€91bn)	2022
Islamic Development Bank	(\\$) 760m (€700m)	2021
UN International Finance Institutions (IFIs)		
IFAD	\$3.3bn (€3bn)	2022
FAO	\$7.2bn (€6.6bn)	2021

All the DFIs produce a wide variety of documentation on results measurement, which spans many aspects of development and development evaluation. This study sought to isolate the results frameworks, policies and impact measurement and management strategies that are explicitly used within the impact investing programmes of the DFIs.

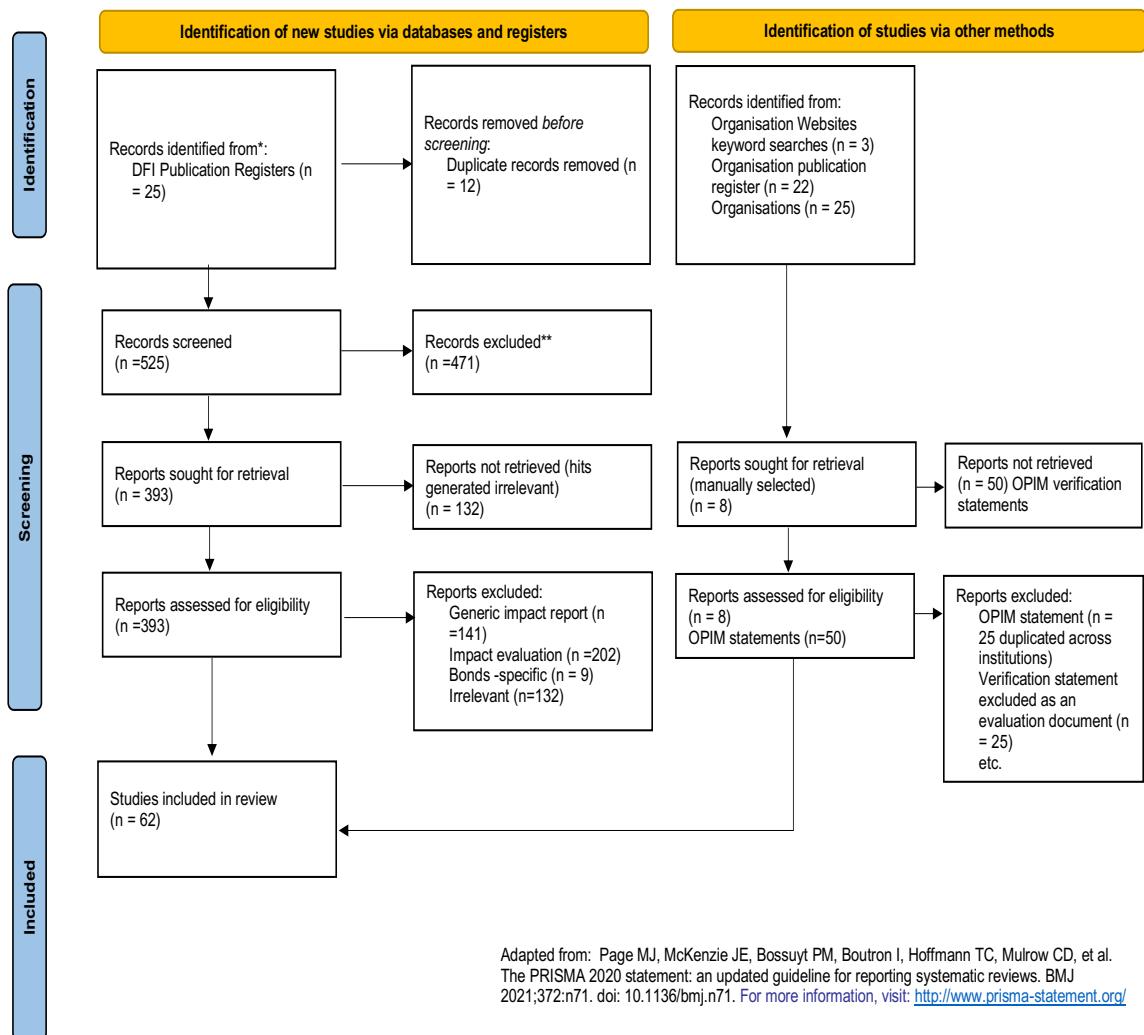
The screening process followed PRISMA 2020 guidelines (Page *et al.*, 2020). The PRISMA flowchart is reproduced in Figure 5.1 below. It shows that keyword searches for impact invest (and stemmed words) and impact invest measure (and stemmed words) from 2017-2022 in the publication registers of DFIs⁴ yielded 525 documents. Publication registers used are listed in Annex B. Three organisations did not have publication registers. In these cases, the keyword search was undertaken

⁴ The range of documents I was able to retrieve from JICA online was limited. The publications included in this study come only from the JICA website, which has English language versions and search function. The sample is limited as it did not include documents in the publication register. This is because of language limitations, being in Japanese text only, I was unable to access them.

in the website search function, screening specifically for publications. A total of 103 documents were selected to include in the study. For the purposes of evidence mapping this was then reduced to 62 documents, outlined in more detail in the previous chapter.

Figure 5.1 PRISMA 2020 flow diagram searches of registers: impact investing measurement and management frameworks of DFIs

PRISMA 2020 flow diagram searches of registers: impact investing measurement and management frameworks of Development Finance Institutions



Documents included are:

- Impact investing strategy documents that outline the rationale and regulatory basis for the institution establishing an impact investment programme.

- Impact investing evaluation strategy documents and impact measurement and management strategy.
- Policy documents on impact investing, blended finance and private capital for development with a specific focus on impact measurement.
- Impact investment indicator frameworks.

Content analysis of the 103 documents sought information in three main areas.

Firstly, it searched for key elements to the concept blended value – how it was defined in strategy, and the extent to which outputs and outcomes were measured in terms of blending financial, social and environmental benefits. The analysis looked to see the extent blended value underpinned the impact investing programme.

Secondly, through coding of text within the DFI impact measurement and management documents, the research examined the measurement approach of the institutions.

I developed codes around types of indicators used types of approach and the extent to which a ToC and stakeholder views were considered in the documents. This coding was used to produce an evidence gap map, a tool developed by 3ie and described in Chapter Four: Methodology. The evidence gap map is used here in Section 5.2 to help better understand the approaches of DFIs to impact investing. Finally, I explore the extent to which DFIs have harmonised around metrics sets and collaborative efforts since 2008, when efforts began with HIPSO.

5.2 Understanding Impact Investing in DFIs: Blended value and blended finance

Impact Investing distinguishes itself from other types of responsible investing through two principles. The first is that the decision to invest is not only guided by financial considerations (risk and return traditionally used to make an investment decision) but also the social and environmental impact the investor seeks. In this field, measuring social and environmental impact - not only financial return and risk profiling - is essential to making an investment decision. However, unlike financial return and risk (which have standardised mechanisms for measurement, projections and

accounting), how social and developmental impact are measured is far from agreed upon in either social accounting or development evaluation. Broader social and environmental impact, beyond the 'usual' economic impacts that a business creates (such as jobs, salaries, tax payments), is understood in impact investing and for the purposes of this study as net social and environmental benefit generated by a business or investment. This impact is, by definition, to be actively measured along the lifecycle of the investment (Jackson and Harji, 2012; Reeder and Colantonio, 2013; Reeder *et al.*, 2014).

Document text was coded for instances of where the impact measurement and management approach are framed in blended value as environmental, social and financial returns. I found that all 25 DFIs broadly conceptualised their impact investing programmes in terms of blended value to some extent, that is, in the broadest sense of aiming to generate social, environmental and financial impact. It marks an increase on Olszewski and Garmedia's (2014) study in which around half of the ten DFIs defined their impact investing in terms of blended social, environmental and financial goals (Olszewski and Garmedia, 2014). The other half of the 2014 sample had no definition of their impact investing purpose.

However, simply defining impact investing strategy as 'blended value' is far from purposefully producing blended value outcomes. While DFIs may define impact investing in terms of blended value, it does not necessarily mean that blended value is embedded in the approach (Olszewski and Garmedia, 2014). As a result, I looked not only at definitions and concepts used to define DFI impact investment strategies but also at the blended value outcomes of the institutions in the analysis (see Figure 5.2). Therefore, coding further examined the extent to which the blended value concept is more embedded in the DFI approach. Codes were defined as 1) a stated blend of social, environmental, and financial goals in the DFI investment strategy, and 2) whether this was also reflected in DFI output and outcome measures. Figure 5.2 shows the extent of references to blended value across three levels in the frameworks: as defined in strategy, measured at the output level, and measured in outcomes.

5.2.1 Blended value strategy, measures and outcomes

Firstly, for about 68% of the DFIs (17 out of the 25 DFIs), the coding showed blended value to be embedded in the investment approach. Of the 25 DFIs, 17 define their impact investing strategy in terms of 'blended value'. The documents from the 17 DFIs contained explicit statements that frame the rationale for investing in terms of blended value. OeEB (Oesterreichische Entwicklungsbank AG), the Austrian State Investment Fund, for example is illustrative; *"Our mission is to promote economically, environmentally and socially sustainable development by investing in profitable private sector projects in developing and emerging countries."* (OeEB, 2020, p. 2). That is, the development investment programme sought financial returns as well as positive developmental impacts on society and the environment. Similarly, Swedfund states; *"Our business model is based on three pillars: impact on society, sustainability, and financial viability"* (Swedfund, 2021, p. 30). However, the mission statements do not provide an indication of the extent to which these investments produce a blend of social and environmental benefits that create breadth and depth of impact in society beyond core business and financial gains.

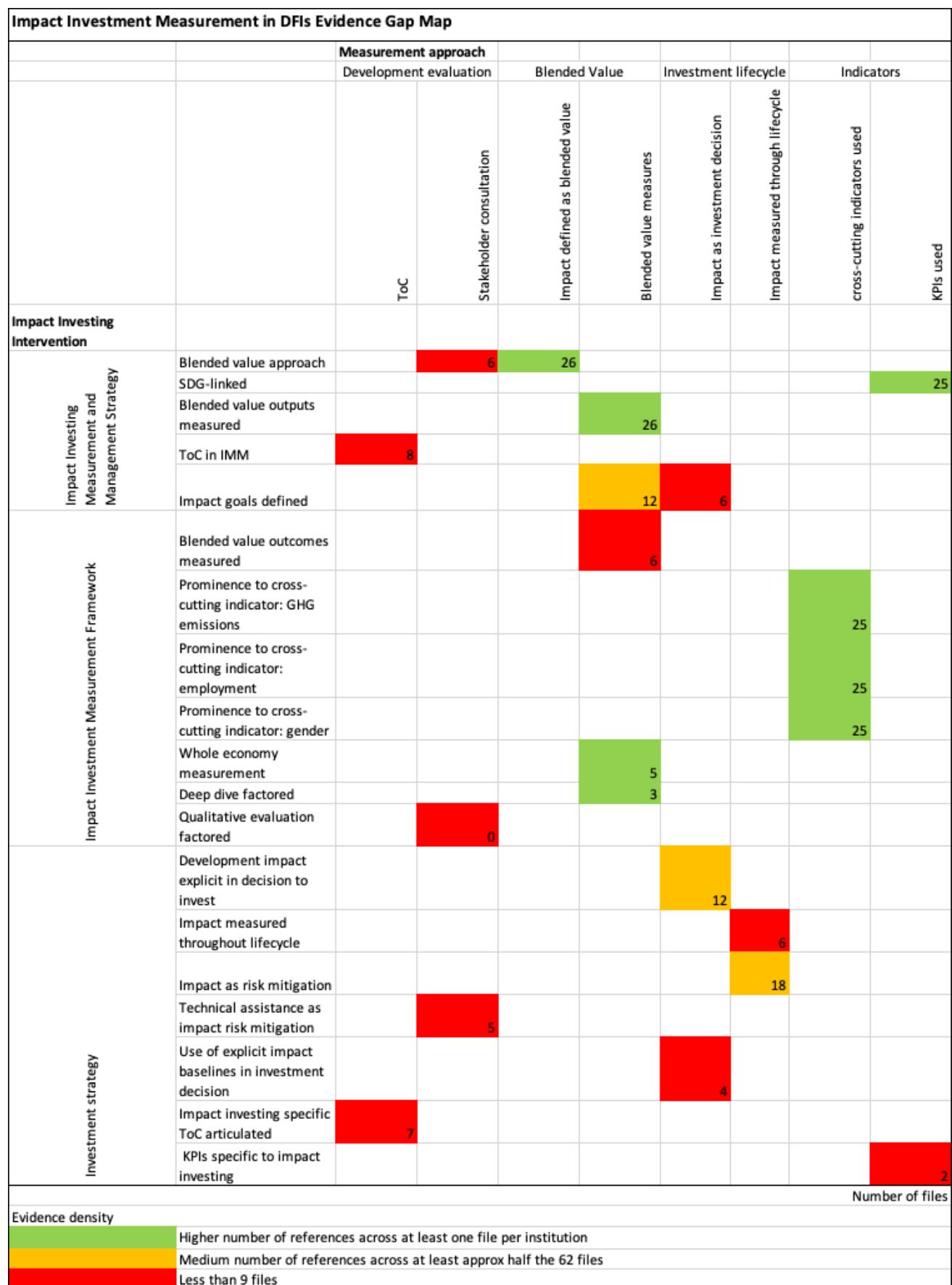
The creation of financial value alongside social and environmental impact was also seen as a guiding feature in the impact investing strategy of the DFIs; with 48 direct references coded as 'using blended value terms to define strategy' and 56 aggregated (that is, including reference to outcomes as blended value) references coded as 'blended value' across 26 files (see Figure 5.2 below) for the 17 institutions. Norfund's investing for development programme, for instance, invests in *"Sound environmental and social performance"* and *"Financial and value additionality"* (Norfund, 2015, p. 17). It is clear from the content analysis that the investment strategies of the DFIs sought not only social and environmental impact in developing countries but also financial returns.

This differs from findings elsewhere that look at the broader impact investing field or those that look specifically at the private sector that finds a trade-off between financial gain and social benefit (Frierich and Fulton, 2012). Due to their focus on developmental goals, social and environmental impact for DFIs means the achievement of specified developmental outcomes. The rationale for seeking dual

aims is that the investments will generate economic growth, employment and tax revenues in developing countries. The Danish SDG Investment Fund helps illustrate this duality. As a commercial fund it expects to generate a financial return of around 10-12% for investors. At the same time, its aim as an SDG focused blended fund, is primarily to contribute to the UN SDGs (IFU, 2018). The theory is that by catalysing investments from the private sector (predominantly in developed economies) to the private sector in developing economies, the impact investing programmes of the DFIs contribute to developmental outcomes.

The evidence gap map is presented in Figure 5.2 below. The 3ie mapping process with two dimensions adapted to this study well. The rows list the first dimension of the impact investing intervention (with sub-categories of framework documents) and the columns become the types of measurement approach as the second dimension to the evidence gap map. The evidence gap map helps show how the documented practice relates to themes identified from the literature review in Chapter Two. Key themes and gaps that emerged in the literature review included: the role of blended value in defining impact investing and gaps in conceptual understanding; the need to adapt evaluation approaches, drawing from development evaluation traditions and practice; and the role of tracking causal relationships and validity through theories of change approaches used in development evaluation and through stakeholder participation in evaluation.

Figure 5.2 Evidence Gap Map of Impact Investment Measurement Strategy



Themes emerged in exploring how the documented practice relates to gaps identified in the literature in Chapter Two. The matrix above (Figure 5.2) was based on these themes found and was produced from the process detailed in Chapter Four. I found the process enabled a cross-sectional view without the need to categorise. Themes include the uptake of ToC; defining approaches as blended value; the role of stakeholders; impact in the decision to invest; and measurement across the lifecycle of the investment.

However, only five institutions' impact investment strategy across the sample – AfDB, US DFI, EIB, FAO and IFC - included statements that were coded as "blended value outcomes." Blended value outcomes are the social, environmental and financial impacts that the programme aims for. These outcomes were typically found in the impact measurement frameworks used by these institutions. The findings here suggest that DFIs do not differ considerably from private sector impact investors, which have been found to measure at the level of outputs rather than outcomes (Mudalair, 2017, OPM 2020).

Nonetheless, a study from the Association of bilateral European Development Finance Institutions (EDFI) that represents 15 member institutions shows that many European DFIs have measured and achieved "*dual objectives of development effects and financial returns.*" (EDFI, 2010, p. 27). A number of DFI studies provide breakdowns for developmental and financial returns, which the EDFI examine. This analysis demonstrates that the FMO (Dutch entrepreneurial development bank), Proparco (France) and Deutsche Investitions- und Entwicklungsgesellschaft (DEG), Germany's development finance institution, have high developmental outcomes and high financial returns. In the research detailed below I found that in many of the measurement frameworks financial return and profitability are also factored in as 'developmental effects' (the varying way in which the frameworks are designed to measure this is detailed further in Section 5.3).

5.2.2 Developmental impact in investment decisions

A total of ten institutions in the analysis were explicit that development impact was part of their investment decisions. This included the AfDB, DEG-KfW, US DFC, FinDev Canada, IFU, SIFEM and Swedfund. About one tenth of the documents were explicit in the DFIs' use of development impact measurement to guide investments. Among the documents that explained this there were 12 documents that referenced the decision to invest being based on development evaluation measures (see Figure 5.2). In these, the evaluation metrics were used to gauge expected social and environmental impact as part of the decision to invest. However, for the majority of institutions, development impact has only a vague linkage to the decision to invest.

The UN SDG Impact Standards for the private sector have been developed by the UN for investment decision-making. The Impact Standards aim to bring impact management into decision-making for the private sector to *"optimize their contribution to sustainable development and the SDGs."* (UNDP, 2020, p.10). As part of alignment efforts, spurred by the Addis Ababa Action Agenda in 2015, many of the DFIs link to the SDGs in their evaluation frameworks. While I found half of the 25 DFIs here directly link to indicators with the SDGs, the extent to which this was factored in as a robust part of the decision-making process varied considerably, and for many appears as framing rather than decision-making. In contrast, IFAD and FAO, because they are UN institutions, invest specifically in support of the SDGs. The reasons for IFAD and FAO to impact invest was specifically stated is supporting the delivery of UN programmes towards the SDGs through IFIs.

Similarly, the JIM, the result of an efforts to harmonise evaluation which began with the Commonwealth Development Committee (CDC) (from 2022 British International Investment), FMO, and Proparco also specifies that developmental impact should guide the investment decision. BIO, the AfDB and FinDev Canada joined later, and the JIM aligns with efforts at the EDFI (Steward Redqueen, 2021). However, the JIM is currently designed and used as an ex-post tool (evaluates after the project has taken place) and is not used a part of the investment decision-making process. Investment screening is largely limited among the DFIs to simple ESG

(environmental social governance) screening and DFIs all use anticipated profitability of the project or enterprise being invested in as a gauge for its sustainability over the long-term. The matrix in Figure 5.2 shows that, in the DFIs, impact goals are defined at the investment stage and impact is factored into the decision to invest through OPIM. Though it suggests that impact is not necessarily tracked during the lifecycle of the investment, with a few exceptions including Proparco and IDB-Invest.

Screening is often conducted by the investment branch of the DFI and not the evaluation teams and it is limited to checking against the IFC Operating Principles for Impact Management (OPIM), launched in 2019, to which as of 2022, all DFIs are signatories.

As signatories, DFIs disclose annually the alignment of their impact management systems with the IFC principles. The nine principles provide a framework for investors to integrate impact into the investment lifecycle. The principles apply at the four different stages of investment: in strategic intent; in investments' origination and structuring; portfolio management; and impact at exit. DFIs integrate OPIM into ESG screening and verify their contribution through external reviews.

However, among the DFIs, only the IFU was found to have a holistic development evaluation screening mechanism. The IFU project screening tool integrates "*impact criteria with the general investment criteria*" (IFU, 2020, p. 9). All nascent project ideas are submitted to impact criteria before investment considerations begin. Once a project is under consideration for investment its impact potential is considered in relation to its contribution to the SDGs as part of due diligence. In the investment decision-making process a large majority of the DFIs sampled here check against OPIM standards as part of due diligence process. DFIs do not necessarily use the same tools, methods and approaches in screening as they do in ex-post evaluation. By bringing evaluation tools into the screening process, more robustly than the other DFI methods, the IFU framework integrates development evaluation into the investment decision.

The JIM used by five institutions - and Social Accounting Matrix (SAM, used by some as an option within the JIM, detailed further below) can point to aspects of information that can feed into the investment decision-making process. These

methods can identify at the macro level where potential hotspots might be forming. However, DFIs were found here to conduct ESG screening against OPIM in the investment decision-making process. This screening checks investees meet ESG requirements but the screening used does not go as far as to assess impact potential. Among the DFI frameworks sampled here only the IFU integrated screening based on an assessment of impact potential in this early stage of the investment decision-making process. The IFU framework examines the scale and scope of environmental and social impact the project investment could be expected to have.

The ways in which evaluation techniques and considerations are integrated into the investment decision is explored further through interview analysis with institutions, including IFU, in more depth in Chapter Six. The remainder of this chapter looks more closely at the measurement approaches of DFIs towards impact investments.

5.3 Development Evaluation in DFI Impact Investing

As detailed in the literature review above in Chapter Two, there is a growing body of literature that pushes for the use of development evaluation in impact investing. This section firstly explores further the findings of the evidence gap map in relation to key aspects of development evaluation that inputted to the matrix. These were areas that I identify broadly as a focus on including involvement of stakeholders, institutional learning, establishing causality, tracing attribution, and the uptake of a ToC approach (Patton, 2002; Jackson, 2013b; Flynn, Young and Barnett, 2015; Patton, McKegg and Wehiipeihana, 2015; O'Flynn and Barnett, 2017). The chapter then goes on to detail the systems used by DFIs as found by this research.

5.3.1 Development evaluation

This study found 13 of the 62 DFI documents discuss using development evaluation specifically see Figure 5.2: Evidence Gap Map above which presents the use of development evaluation and ToC among the DFIs. The analysis finds that eight institutions explicitly use a development evaluation approach in their frameworks. Five of these also articulate a clear ToC for their impact investing programmes. A

ToC was presented in the strategic documents from BIO, EIB, OeEB, Sifem, Swedfund (as well as IFAD). However, sector level ToCs were less commonly evident across the strategic documents.

The documents of these five institutions in the Evidence Gap Map in Section 5.1 above show that these DFIs also strongly include other development evaluation features of attribution, contribution and additionality. As established in Chapter Two meaningful evaluation, that provides significant and useful information for impact management, addresses causality and additionality, unintended consequences, or differential impact (Clark, Emerson and Thornley, 2015; Flynn, Young and Barnett, 2015; Clark and Thornley, 2016; Nino-zarazua and Copestake, 2016; O'Flynn and Barnett, 2017). Tracing the cause of impact to the institution and attributing changes made to that institution (rather than, for example, external factors) is important to DFIs in being able to claim that their involvement created impact that could not be made without it. Many of the DFI frameworks focus on causality for accountability purposes. They measure additionality (though not all in the same way as how additionality is measured in a contested area as discussed in Section 2.5 as a means to justify an intervention.

The DFIs that verify their results against the IFC OPIM also show these through the disclosure and verification statements examined here. The DFIs also showed a commitment to attribution, contribution and additionality but these were not prominent in their strategic frameworks. The coding across the sample here found seven impact measurement and management framework documents in which attribution, contribution and additionality were explicitly mentioned. These documents related to five of the institutions.

Development evaluation can draw a more “*evaluative*” understanding of social impact; one that balances a focus on accountability and aggregation with assessment of differential impact and causality (O'Flynn and Barnett, 2017, p.4). This shares features with non-profit evaluation (as opposed to many current evaluation practices in impact investing) that focuses on using more meaningful measures of social impact that reflect beneficiary contexts (Clark and Thornley, 2016; Nino-zarazua and Copestake, 2016; O'Flynn and Barnett, 2017).

There are fewer DFIs that describe an evaluation approach that includes strong stakeholder participation and the involvement of communities. Documents from four institutions highlighted stakeholder participation in the evaluation approach (impact measurement and management framework in Figure 5.2) for impact investing they used. The regional banks, EIB, IDB and UN institutions FAO and IFAD. As discussed in length in the literature review above, stakeholder participation is necessary for validity, use and a more evaluative approach (Jackson, 2013a; O'Flynn and Barnett, 2017; Barnett *et al.*, 2018; Zaveri, 2020; Patton and Campbell-Patton, 2021). This favours inclusive approaches that make evaluation more meaningful (Kvam, 2018; Zaveri, 2020) and accurate (Jackson, 2013). While other institutions do conduct qualitative and deep dive assessments, the qualitative, participatory metrics are not included in the framework design such as those found in the EIB, IDB-Invest, FAO and IFAD frameworks.

The way in which impact investing is evaluated is a key driver of where the money goes. Development impact is part of the decision to invest for DFIs, either explicitly through the documents reviewed, or implicitly through the mandate of institutions to create developmental impact. Development evaluation principles, methods and tools used by the DFIs are important drivers of where funds are directed. Lessons learned from development evaluations feed into institutional learning, which in turn, inform longer-term investment drivers for the organization.

Among the 25 DFIs, seven were found in the document coding to use development evaluation in the investment decision process (see also the Evidence Gap Map, Figure 5.2 above). This gap is seen at the intersection between investment strategy and decision to invest. The majority of DFIs do not use development evaluation measures to gauge expected environmental and social impact in their decisions to invest, although influence on investment decision-making may be through longer-term institutional lesson learning from evaluations. Chapter Six explores the evaluation frameworks' connection to decision-making in more depth based on interviews.

Ex-ante evaluation is proactive (Ravallion, 2009; Parsons, 2017; Samset and Christensen, 2017; Campagnolo *et al.*, 2018). Areas of strong or poor performance can be identified for further evaluation or deep dive studies and action can be taken to improve the investment's impact (Samset and Christensen, 2017). Impact risks can be identified with *ex-ante* evaluation and risk mitigation techniques deployed. Risk mitigation strategies include technical assistance provided by the institution to the project. Figure 5.2: Evidence Gap Map shows the extent to which the need for technical assistance is identified through *ex-ante* evaluation and the extent to which it is deployed to mitigate impact risk. The IMM documents from three institutions AfDB, US DFC and IFAD highlight technical assistance used in these ways to mitigate the risks identified. The use of technical assistance in this way is explored further through analysis of interviews with DFIs in the following chapter.

Most of the development evaluation approaches (see Table 5.2 for the list of approaches) found here among the DFIs are designed and used as *ex-post* evaluations. *Ex-post* evaluations look back at results that have already occurred and are designed to generate lessons learned. *Ex-ante* evaluation occurs during the project, which allows for adjustments to be made. Some DFIs are working to increase their use of *ex-ante* evaluations, as the tools and impact measurement and management frameworks develop. For example, the JIM, is currently being developed for *ex-ante* evaluation possibilities. This progression is important for impact investing, which relies, definitionally and conceptually, on the idea that investors should base investments on expected environment and social impact that is actively measured, not only on financial returns and risk.

Several gaps highlighted by the evidence gap map in the intersections between intervention and measurement (see Figure 5.2). These are: 1) qualitative participant inputs were not explicit in the blended outcome measures used by institutions; 2) impact measurement along the lifecycle of the investment is limited due to a current focus on *ex-post* evaluation; and 3) at the intersection of measurement approach and investment strategy the matrix shows that explicit baseline studies in the investment decision process are not common. The insight provided by these gaps suggest scope for future research. In particular I suggest from these findings that it would be profitable to explore 1) how blended value can be expressed in blended

outcomes that encompass further impact that is externalised by an investment and an investee; 2) how more ex-ante evaluation can strengthen impact investing, and in particular its links to risk management; and 3) the role of impact narratives and proxies for baseline studies and data used in the investment decision-making process.

5.3.2 How DFIs Evaluate Impact Investments

Chapter Two established that a wide variety of methods, frameworks and tools are used to assess social impact (Reeder *et al.*, 2014; Flynn, Young and Barnett, 2015; O'Flynn and Barnett, 2017). The research in this section explores the frameworks of DFIs in more depth and in the context of existing categorisations. Table 5.2 lists the evaluation tool used and presents an overview of the five dominant frameworks among DFIs: 1) KPI (Key performance indicators) based, linked to the SDGs; 2) those based on the Impact Reporting and Investment Standards (IRIS) in IRIS+ the metrics catalogue of the Global Impact Investing Network (GIIN) and the Joint Impact Indicators (a sub-set of IRIS indicators put together by the EDFI; 3) those that have harmonised around the JIM using input-output models (typically used by companies to trace indirect effects of the business) or social accounting matrices (SAMs), (and social impact matrices (SIMs)), used to trace the flow of money and its impact through an economy; and 4) those that have developed from the IFC Development Outcome Tracking System (DOTS).

Table 5.2 DFI Summary of Evaluation Frameworks

Institution	Evaluation type
AfDB	AfDB Results Measurement Framework (RMF) and the Development Business Delivery Model (DBDM)
AsDB	In-house logic-based model
BIO	Joint Impact Indicators (JIIs)
BII	Joint Impact Model, ESG tool
COFIDES	EDFI aligned, JIIs
DEG-KfW (Germany)	Corporate Policy Project Rating System (GPR) and Development Effectiveness Rating (DERa)
EBRD	Transition Impact Monitoring System (TIMS) and Transition Objectives Measurement System (TOMS)
EIB	EIB Additionality and Impact Measurement (AIM) Framework
FinDev Canada	Development Impact Framework based on core KPIs
FinnFund	Development Effect Assessment Tool (DEAT)
FMO	Joint Impact Model (JIM), in-house proprietary framework
UN FAO	IRIS metrics
IDB Invest	Development Effectiveness Learning, Tracking and Assessment Tool, DELTA
IFU (including Danish SDG Investment Fund)	IFU project screening tool
IDB	IRIS metrics using PULSE a cloud-based system
IFC	Anticipated Impact Measurement and Monitoring System (AIMM), Development Outcome Tracking (DOTS) extension
IFAD	Results and Impact Measurement System (RIMS)
JICA	Development contribution tracked aligned with SDGs
Norfund	Additionality framework focused on SDGs
Obviam	KPIs SDG linked
OEEB	EDFI aligned
Proparco	Based on the GPR Corporate Policy Rating
Simest (Italy)	EDFI aligned
SOFID (Portugal)	EDFI aligned
Swedfund	KPIs theory-based evaluation
SIFEM	KPIs SDG linked
US DFC	Impact Quotient (IQ)
Approaches to Measurement in Impact Investing	
Monetisation	
Qualitative tools	
Scorecards indicators and ratings	
Statistical Tools and counterfactuals	
Consumer and Perception Surveys	

As part of the analysis for the research here I categorised the measurement frameworks of DFIs approaches (colour coded in Table 5.2 above) according to five main approaches to impact measurement among impact investors that O'Flynn and Barnett (2017) identify. Each of the method types provide for and reflect different sets of criteria that O'Flynn and Barnett (2017) identify as necessary for a more

evaluative approach. These criteria are: “impact, aggregation, accountability, differential impact and plausible causality” (O’Flynn and Barnett, 2017, p. 9), detailed in Chapter Two. This aspect of the content analysis carried out here found that the methods used in the DFI impact investing programs fall into the two categories of ‘scorecards, indicators and ratings’ (57%) and ‘statistical’ approaches (21%), shown in the pie chart in Figure 5.3, following brief examples of these score-based approaches.

5.3.2. a. Examples of scoring systems

The Development Effectiveness Rating (DERa) used by Germany’s development bank and the US DFC Impact Quotient, for instance, both generate a score for investments based on the extent to which they meet certain developmental criteria. FinnFund’s Development Effect Assessment Tool (DEAT) scores against strategic, market and additionality criteria. The IFC Anticipated Impact Measurement and Monitoring (AIMM) system scores potential development outcomes within a country context. Example extracts from these systems are now provided here to show how points are collated around categories and then aggregated in a final scorecard.

The FinnFund Development Effect Assessment Tool (DEAT) scores against three categories. A. Strategic relevancy (40%) B. Correcting market failures (40%) C. Additionality (20%) (Finnfund, 2020). Below is an example of the scoring in the metrics system for the first category. There are similar points scoring for the other categories. For example, under category B, there are indicators for numbers of customers and end users, direct job creation, and local competition. The scores on each category are computed to create final overall scores.

Box 5.1 Example of scoring: FinnFund Development Effect Assessment Tool (DEAT)

Scoring and definitions

Categories	3 points	2 points	1 point	Bonus +1
A. Strategic relevancy (40%)				
A1. Country category	Fragile state	LDC/LIC	LMIC	
A2. Sector			Finnfund priority sector	
A3. Inclusive business		Identified and quantifiable	Identified	Main target (+1)
A4. Gender marker		Principle	Significant	
A5. CSR / Community development	Benefit sharing	Community involved	CSR policy in place	
A6. Climate change mitigation	Significant positive effect	Positive effect		Negative effect (-1)

Source: Reproduced from FinnFund, Development Effect Assessment Tool (DEAT) - Scoring and definitions (FinnFund, 2020, p. 1)

The US DFC similarly computes along three pillars: Economic Growth; Innovation; and Inclusion. To take the economic growth pillar as an example, the categories covered in this pillar are “Factors of Production”, “Human Capacity Development” and “Net Balance of Trade.” Scoring for these in the US DFC model is based on scale. So, an example for the Factors of Production metric example in Energy is in Gigawatt hours (GWh) as “*Energy delivered to the offtaker (#GWh)*.” In “Human Capacity Development” the metric in Agriculture, for example, is the HIPSO/IRIS aligned “*Value of domestic sales of agricultural products*” (US DFC, 2020, p. 3). Within this pillar are metrics for local income and jobs, which go further than the other scale measures, as they are benchmarked against “DFC’s active portfolio”. There are also “bonus points” on quality jobs measures (US DFC, 2020, p. 2).

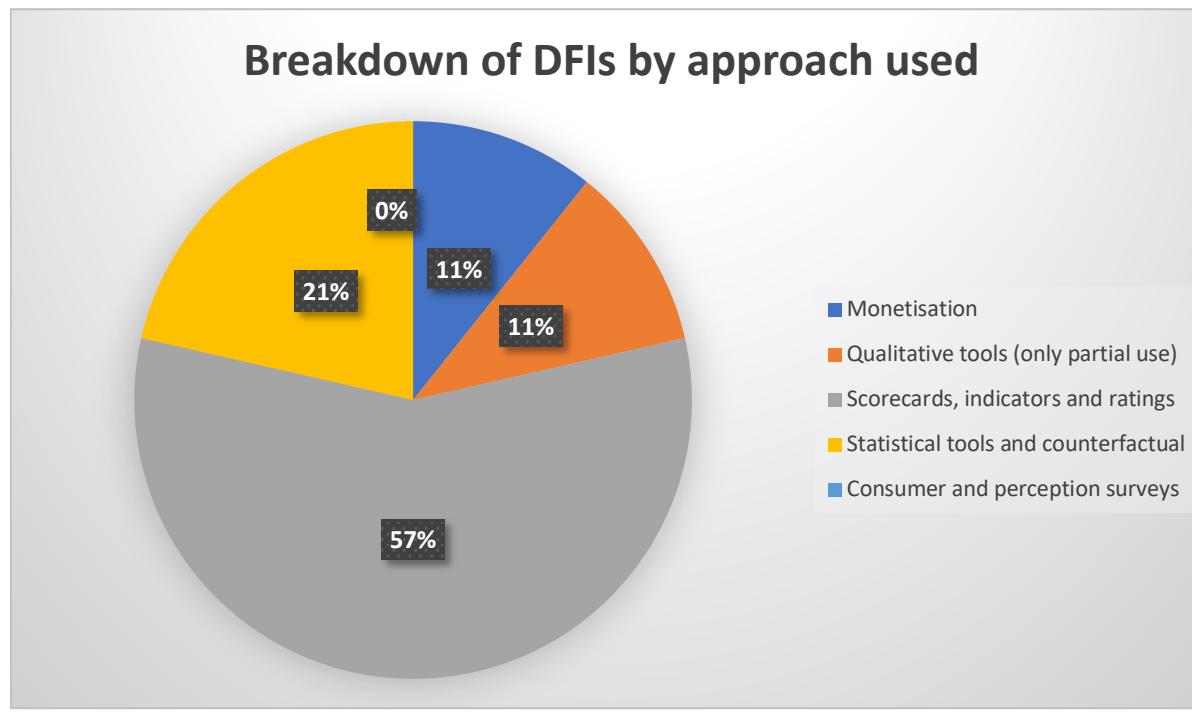
Scoring on all three pillars (Economic Growth, Innovation and Inclusion) is aggregated to provide an overall impact score.

The IFC's Anticipated Impact Measurement and Monitoring (AIMM) system, launched in 2018, scores investments based on project outcomes and the contribution of the project to creating and developing markets (International Finance Corporation, 2018). It is based on an extension of the IFC Development Outcome Tracking System (DOTS) that is used across the corporation. The Development Outcome Tracking System uses proxies for development outcomes (IFC, 2011; Sinha, Bortes and Grettve, 2011). These indicators are framed around financial performance, social and environmental impact, and the impact on the private sector in developing economies. (IFC 2011; Sinha et al. 2011).

The IFC adapted DOTS to be more applicable to measuring the developmental results of impact investments (IFC AMC, 2020). The DOTS tool is applied to and fits an evaluation of impact investments because it allows for tracking of development results throughout the project lifecycle and because it provides a calculation on which to choose whether to invest in the project or not (IFC 2011). To obtain a positive rating, a project must contribute to development in the project country (IFC 2011).

In O'Flynn and Barnett's (2017) categorisation this type of scoring approach is favoured when an institution finds it important to establish attribution and causality, which are important because DFIs use government funds and are accountable to them for the development effects they generate. As discussed in more depth in Chapter Two, however, there are competing approaches to tracing attribution and causality.

Chart 5.3: Predominant measurement approaches in impact investing programs of DFIs

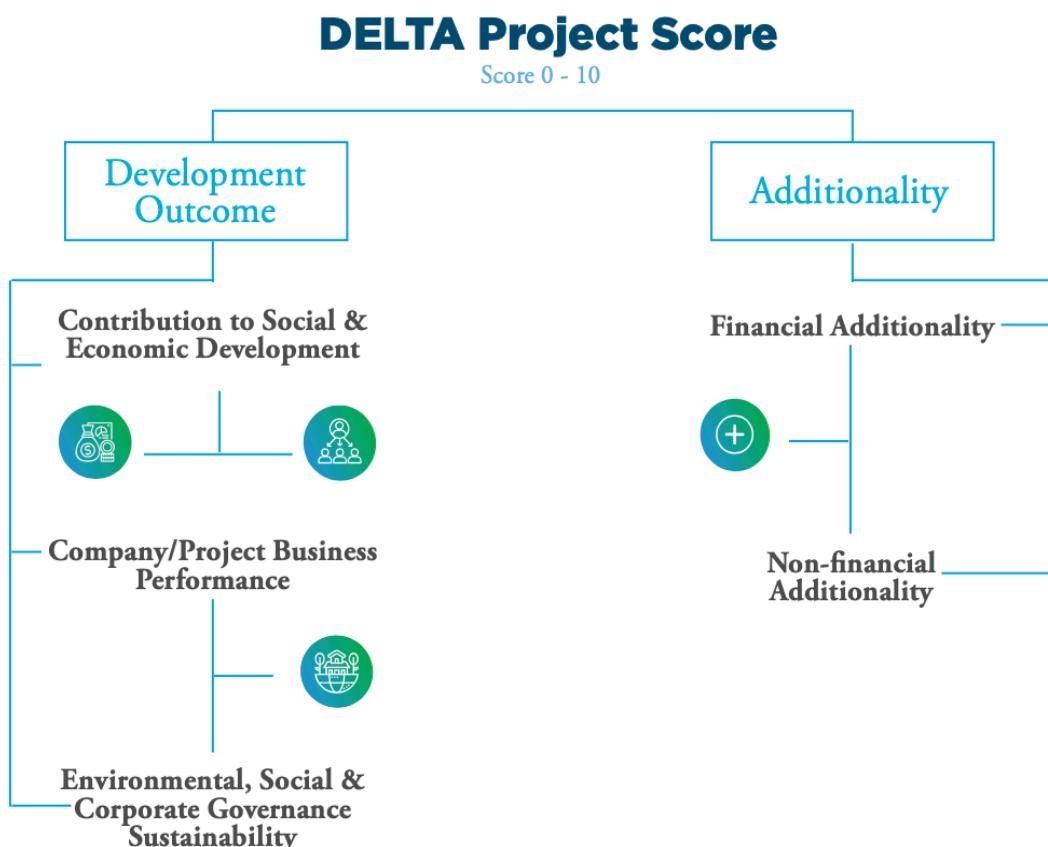


Scorecards, indicators and ratings are also used where there is a preference for an ability to count and to aggregate. This approach is favoured therefore by portfolio investors. Similarly, DFIs also seem to favour the ability to count and to aggregate as they are investors at the portfolio level. DFIs want to be able to see aggregate portfolio level impact in order to report impact across the DFI impact investing activities as a whole. This approach is also favoured as institutions work towards greater standardisation and harmonisation in impact investment measurement. In standardised settings aggregate impact can help see how the development system as a whole is performing and can allow for comparisons among institutions, which is currently not possible due to the varied approaches used. This is also seen as one of the motivators behind recent system upgrades found in the analysis of interviews with metrics designers, discussed in Chapter Six.

IDB-Invest DELTA (Development Effectiveness Learning, Tracking, and Assessment), for example, combines a monetised approach with a scoring system. It estimates rates of return on economic and social dimensions. Although it is an

explicitly monetised approach, stakeholder analysis and a counterfactual design are “*embedded within this score*” (IDB Invest, 2020, p. 13). The DELTA Scorecard scores at three levels. As with many of the other systems, sustainability assessment and additionality are also included in the score. It scores against alignment with the SDGs at the corporate level; it generates a score at the project level based on two categories: development outcomes and additionality; and produces an overall evaluation score. The screenshot below of the DELTA project scoring system from the IDB Invest Impact Management Framework illustrates this process in calculating the project score.

Box 5.2: Example IDB Invest DELTA Project Score



Source: IDB Invest, 2020 p.16

DFIs also use qualitative tools, and statistical tools and counterfactual methods, but to a lesser extent (see Figure 5.3). The present research also finds that, where used,

these other tools and methods are not employed as primary tools. Instead, they are used alongside ‘scorecards and indicator approaches.’ Qualitative tools are employed to conduct deep dive assessments such as by DEG, BII and FMO. They are also used for validity, and to purposefully include stakeholder voice. Only the EIB and IDB among DFIs were found in the research to include stakeholder voice in this way (as well as FAO and IFAD).

5.3.2. b. Whole of economy modelling

The analysis of the frameworks here finds that statistical tools and counterfactual methods are used by those institutions that are taking a whole of economy approach to development impact and its measurement. Examples include uses of social accounting matrix (SAM) by BII and FMO. A whole of economy approach is used by these institutions as a way to mainstream social, environmental impact considerations across the whole portfolio. A whole of economy is a type of economic modelling that considers both direct and indirect effects and enables cost-benefit analysis from the perspective of the whole economy, not only a particular sector or impact area. It includes aspects of impact within the economy that are directly relevant, and also other sectors or areas that are not typically considered – that is impact is tracked across all of the economy which produces goods and services.

In economic modelling, there are two types of mathematical models – partial equilibrium models (that show direct impact of a policy or intervention) and general equilibrium models (that show wider impact that includes the flow of labour and capital, goods and services and the markets in which these flows take place). Input-Output techniques estimate a multiplier that shows the interconnection between an intervention and the rest of the economy. Computable General Equilibrium Models (CGE) include a large number of equations depicting rules of behaviour to estimate how an economy reacts to an intervention.

Notable tools and methods used among the DFIs include the JIM and the IFC Anticipated Impact Measurement and Monitoring System. A “*harmonisation*” effort began work on the JIM in 2019 (Steward Redqueen, 2021, p. 1). The method is used, for example, by the FMO and BII to report at portfolio level. The FMO uses it to

estimate the impact of investments made on ‘jobs supported’ and ‘absolute GHG emissions financed’ (FMO, 2021). The JIM design can also be used by financial intermediaries. In so doing, the JIM helps ADDRESS with some of the issues with impact measurement in on-lending – such as a reliance on observable data from reporting companies invested in. There are the main parameters of jobs and emissions and also the possibility to input extra observable data. Users can input as much usable data as possible.

The JIM uses a social accounting matrix (SAM). SAM modelling is used to trace developmental impacts throughout an economy in a comprehensive economy-wide database of all transactions among economic actors. The model follows financial flows of all economic transactions within an economy. It is a type of Input-Output (IO) modelling used by economists to measure indirect impacts of companies. Company revenues in the IO model are traced through an economy. Input-Output modelling, like randomised control trials, can estimate the magnitude of impact. These are preferred to other methods as they consider the whole economy (Cravolatti, 2018). The BII also measures development effects throughout an economy. For the CDC, I-O provided a link between the macro picture and individual investments (CDC, 2019). It can be used to locate sectors and areas that need support and/or that can be identified for deep dive studies (FMO, 2021; Steward Redqueen, 2021).

However, statistical methods such as I-O modelling and RCTs are not able to provide the views of beneficiaries. They fail to provide accountability in terms of “voice” to beneficiaries of the investment (O’Flynn and Barnett 2017, p.22). Others also point to the need of including stakeholder voice in evaluation in order to get a better and more granular sense of causality and differential impact (Patton, McKegg and Wehipeihana, 2015; Barnett *et al.*, 2018; Zaveri, 2020).

Nonetheless, a number of the programs do supplement impact calculations with qualitative evaluation (see table 1.2). The JIM, for example, can be used alongside deep dive studies. The JIM can identify sectors or areas for which a deep dive might be useful to understand how impact is generated or to assess where weaknesses are emerging. DEG Corporate Policy Rating System (GPR) and the former DfID

Impact Fund evaluation systems both have included in depth qualitative case studies of project impact.

The other three types of approaches are less common among the DFIs. Consumer and perception surveys are not regularly used among the institutions. This is not surprising as these types of surveys do not tend to be used in development evaluation as they are “*not very strong at addressing plausible causality*” (O’Flynn and Barnett, 2017, p. 15). While scorecards also do not robustly address causality, they are favoured by DFIs because they can be aggregated, unlike consumer and perception surveys. These are more appropriate for capturing “*differential impact*” such as differences between groups or communities (O’Flynn and Barnett, 2017, p. 15). An initial analysis of the indicators used by DFIs in 2017 alongside findings from Sinha et al (2011) suggested that DFIs might favour monetised approaches. However, the content analysis carried out here finds that while there are some aspects of monetisation within individual indicators, DFIs do not on the whole utilise monetised approaches.

5.3.3 Monetisation and positivism

DFIs may use monetisation approaches for the needs of transparency and standardisation, according to O’Flynn and Barnett (2017). Monetisation approaches such as SROI and the IDB PULSE as well as scorecards, indicators and ratings (such as IRIS metrics, GIIRS and GECES) are used because they can be aggregated. Monetised results can be aggregated, which makes it a useful tool in choosing among possible investments (O’Flynn and Barnett, 2017).

However, monetisation approaches can be at the expense of evaluation approaches that demonstrate differential impact that is, the impact of the investment against what would have been the case if the investment had not been made. The documentation reviewed here suggests that DFIs balance this need for aggregation with a focus on accountability and causality. IFC focuses on accountability and transparency and therefore positivistic and monetised approaches are suitable for them (IFC, 2011; Sinha, Bortes and Grettve, 2011; O’Flynn and Barnett, 2017; International Finance Corporation, 2018; IFC AMC, 2020). Some approaches, such as the AfDB aim to

demonstrate the separate effects of the bank contribution to an outcome and the private sector investee contribution (African Development Bank Group, 2017). Monetised approaches can therefore be helpful in this framework.

Social scientists often criticise impact investing on the grounds that it monetises social goods (Dart, 2004; Dowling, 2017b). Although the methods used by DFIs were not found here to tend toward monetising social impact, they are broadly positivistic in approach and favour experimental design such as randomised control, quantitative and correlational research. A common criticism of positivism is that, because it is one-dimensional it can lead to reductionism (that is a picture of reality that is based on simplified component parts). Nonetheless the methods used by DFIs can be applied to hypothesis testing and so can also fit with a ToC approach, although greater efforts to prevent reductionism may be needed.

5.4 Findings on Harmonisation and Standardisation

Standardisation of impact measurement is necessary for impact investing (Bugg-Levine and Emerson 2011, Hochstadter and Scheck, 2015). It is needed to establish impact investing as a distinct field from responsible investing, as detailed in the literature review, and to prevent it from being reduced to a mere marketing tool (Bugg-Levine and Emerson, 2011b; Bugg-Levine, 2013; Hochstadter and Scheck, 2015). While the heterogenous industry – which spans actors from philanthropists to pension funds – remains fragmented, DFIs have undertaken significant efforts to standardise principles for impact measurement and harmonise indicators since 2008, when impact investing was first defined.

While the literature suggests that practice across the impact investing industry is fragmented despite efforts by financial investors to measure social returns (Olsen and Galimidi, 2008; Reeder *et al.*, 2015; Vo, Christie and Rohanna, 2016; O'Flynn and Barnett, 2017), this research finds that DFIs have undertaken significant efforts to harmonise indicators and standardise principles for impact measurement. As part of the research here, I mapped out the main commitments to standardisation that are made by the 25 DFIs in the study. The content analysis showed there are two main commitments around:

- Harmonized Indicators for Private Sector Operations (HIPSO)
- Operating Principles for Impact Management (OPIM)

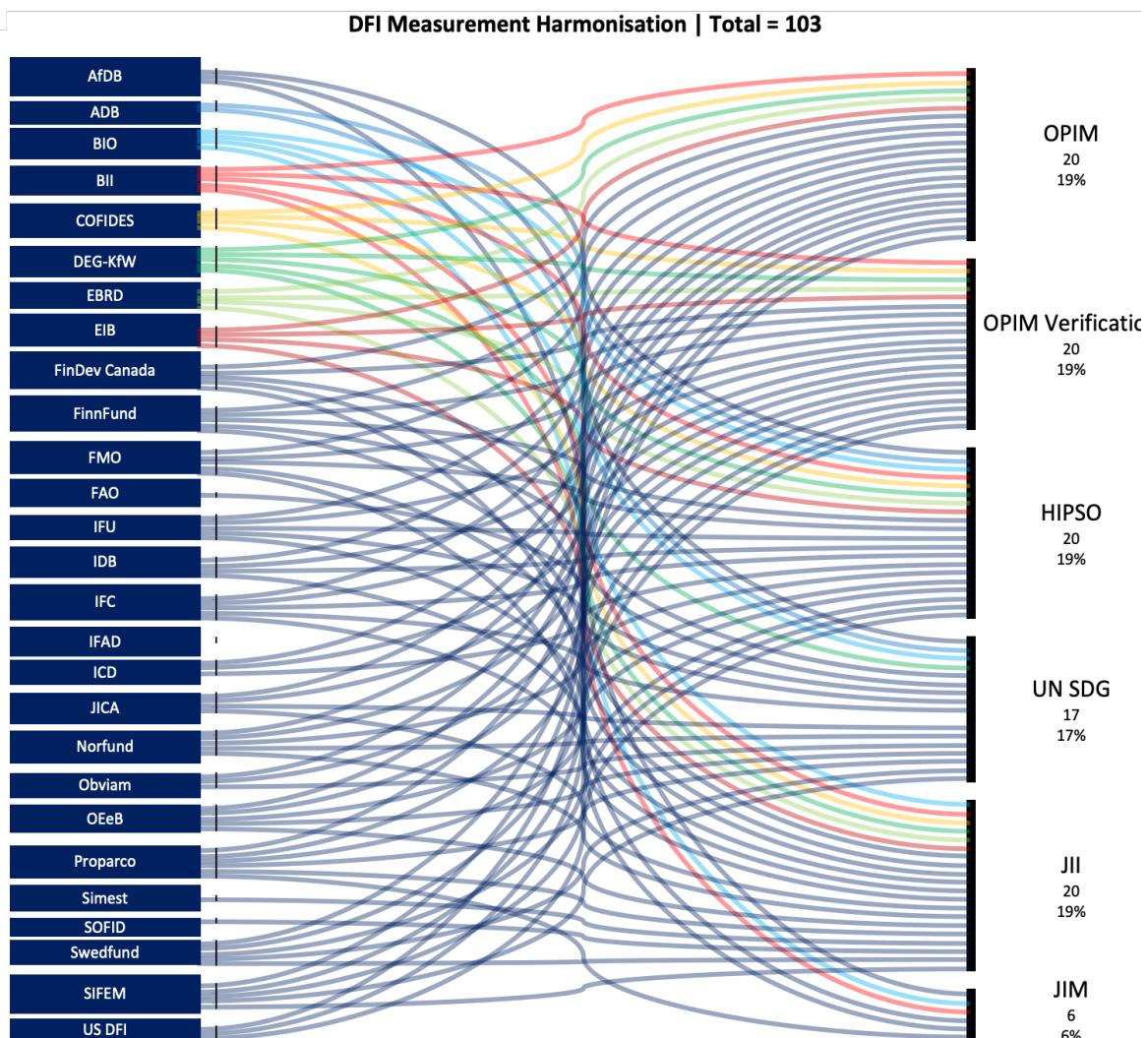
And common approaches around:

- Joint Impact Indicators (JIIs)
- Joint Impact Model (JIM)

Within these, aspects and indicators are drawn from IRIS, the Impact Reporting and Investment Standards metrics. Figure 5.4 shows the institutions that coalesce around each of these common standards or approach.

Figure 5.4 Harmonisation among DFI measurement frameworks

January, 2022



Launched in April 2019, the OPIM is a framework for investors led by the IFC. As of 2021, it had 144 signatories, including all of the DFIs in this study. Under OPIM, impact considerations are to be purposefully integrated throughout the investment life cycle; from investment decision to exit. Adherence to OPIM is verified through external evaluation. All the DFIs in this study were found to have published such OPIM verification statements. Signatories to the Impact Principles are a diverse group of impact investors, comprising of asset managers, asset owners as well as multilateral development banks and development finance institutions. Figure 5.4 shows OPIM was implemented by most of the DFIs by January 2022. OPIM declaration and verification statements comprised 19% of the sample of 103 documents analysed for the present study. By 2023, the 20 DFIs that reported against OPIM disclosed a total of \$296bn (about €273bn) in assets (OPIM, 2023).

As of 2021 there were 28 DFI partners that had joined the Harmonized Indicators for Private Sector Operations (HIPSO) partnership launched in 2008 (HIPSO, 2021). HIPSO contains 38 reporting indicators for the shared clients of DFIs. The indicators developed to reduce the burden on shared investees that otherwise had to report to multiple DFIs using different sets of criteria. Figure 5.4 shows OPIM interlinks with reference indicators from HIPSO. These form part of as JII, which is a subset of HIPSO and indicators from IRIS.

Harmonisation has also occurred around the attainment of the UN SDGs. Following the 2015 Addis Ababa Call to Action on the private sector to help meet the SDGs. The content analysis of the DFI documents coded to explore DFI measurement frameworks linkage to the UN SDGs. I found that, by 2022, all of the DFI frameworks linked to the SDGs. This integration was in part aided by the IRIS indicators that underpin a number of the metrics systems and were linked to the SDGs in 2020. The IRIS upgrade of indicators in 2020 involved the key feature that each already formulated indicator in IRIS was linked to the SDGs. Alignment with the SDGs has continued among DFIs since the analysis in Figure 5.4 took place, in the form of more recent documentation published by the ADB (ADB, 2023) and KfW (KfW, 2022). The documents support the findings in Figure 5.4 of an increasingly

integrated approach to including SDG goals in metrics systems. To avoid distortion effects, as noted in Chapter Two, goals such as the SDGs should remain targets and not become the measures themselves. Instead, as with the IRIS+ mapping to the SDGs, alignment to the SDGs in the DFIs occurs alongside but separate to indicator design.

In March 2021, the EDFI endorsed the Joint Impact Indicators (JIs) on behalf of all of its members. The JIs are a subset of IRIS and HIPSO indicators that are common across impact investments. They are sets of indicators that are designed to cover a wide range of impact investors and covers broad themes. The JIs include common cross-cutting indicators on gender, jobs and climate. The HIPSO partnership sees these indicators as complementary to OPIM. Meanwhile the JIM has been taken up by six institutions. Looking ahead, it is understood from the interviews in the next Chapter that there are plans to expand JIM uptake among EDFI member institutions.

Most of the frameworks for alignment in Figure 5.4 (except for the earlier HIPSO) are based on the principles and norms convened by the Impact Management Project (IMP) for impact investing. The IMP collaboration has built consensus along five dimensions of impact that it developed. To be tracked in impact measurement and management systems, these dimensions are: 1) What; defined as the outcome; 2) Who; identifying the stakeholders who experience that outcome; 3) How much; often taken to mean how many of the target stakeholders have experienced the outcome; 4) Contribution; compared to the extent that outcome would have occurred without the financing; and 5) Risk; the likelihood that impact will be different to that anticipated. These have developed into norms by the over 3,000 practitioners involved to 2018 (Impact Frontiers, 2023).

The norms underpin all the recent international efforts toward standardisation and alignment detailed here, including the IRIS upgrade, OPIM, and the development of the ISSB. Concluded in 2021, the IMP migrated resources to Impact Frontiers as a peer learning and market-building collaboration (Impact Frontiers, 2023) and to the Impact Management Platform. The platform coordinates leaders of sustainability standards drawn largely from multilateral development organisations, with Co-chairs in 2023 being the OECD and UNEP (Impact Management Platform, 2023).

5.4.1 Common cross-cutting indicators

Common indicators among the DFI frameworks analysed were found to focus on jobs, gender and emissions. Nearly all of the indicator frameworks among the DFIs examined here define and use cross-cutting indicators in these three areas (see Figure 5.2: Evidence Gap Map). This comes following efforts at greater integration of cross-cutting themes in aid across OECD economies (OECD, 2014). Common examples of indicators I found across the DFI documents for each of the three themes include number of direct jobs created, direct jobs for women, and GHG emissions. There are other additions to cross-cutting indicators for specific institutions; for example, the US DFC and JICA include a policy alignment dimension, Proparco includes access to essential services as a cross cutting indicator, and the IsDB includes Aqwaf, where Islamic assets are held in trust for causes that are socially beneficial.

Cross-cutting metrics are core indicators on key topics that transcend each thematic area of interest to the institution. At the multilateral level, they are necessary in mainstreaming cross-cutting issues such as gender and the environment in developmental programs and their measurement. As well as gender and emissions, employment is a cross-cutting metric for DFIs. At the portfolio level, cross-cutting indicators help track investment performance. At the aggregate level and at the level of the individual investment, they provide simple reporting burdens.

All the DFIs in this study use employment creation metrics as a core indicator. It is used as a measure of developmental outcomes. It is one of three cross-cutting indicators alongside gender and emissions in IRIS+, which forms the basis for many investor indicator frameworks. For DFIs it can be used among measures to decide whether to invest, at least in where impact is considered in the investment decision-making process. Employment creation is a key part of the rationale for DFIs mandate to invest in the private sector and a necessary cross-cutting measure.

However, a potential pitfall in metrics design is that many private sector investors in reality choose a small number of indicators against which to measure social and

environmental returns, as discussed in Chapter Two. When relying on a small set of metrics, adverse impacts are less apparent and similarly broader impacts are often not captured. When performance against a small set of core measures is the basis for whether an investment occurs or not, it has the potential to misdirect funds towards projects that are easier to measure over those that may generate the most impact.

Nonetheless, the DFI indicator frameworks examined here show that job creation indicators can give an idea of scale, scope, and potential replicability of an intervention. They can be used alongside a variety of other metrics and issues. Its versatility means it can be used alongside measures for gender equality, agricultural yields, energy production and so on. In this way, it can be used to get an overview of contribution to economic benefits for people in developing countries. However, Sinha et al. (2011) find that the indicators the IFC transferred to impact investments from DOTs in reality almost exclusively include indicators that count jobs.

In practice, job creation is used alongside measures of impact from enterprise development, agriculture, gender, climate and the range of developmental issues. The JII common measures used by European DFIs focus on cross-cutting indicators; gender, jobs and climate. In gender for example indicators cluster around female ownership and leadership, employment and consumption (students served and health services accessed). In employment, the main indicators are direct jobs supported, construction jobs and direct jobs created. Climate indicators are around emissions, water, energy, land use and natural resources.

There is recognition in the DFI frameworks that measures can capture better quality jobs; *“the purpose of job creation is to replace informal, unstable jobs that pay poorly with formal, stable jobs that pay well.”* (IFU, 2020, p. 14). The US DFC Impact Quotient framework provides *“bonus points”* for high-quality jobs. These include exemplary employee benefits and conditions, human capacity building and advancing women in the workplace (US DFC, 2020). This is due to a recognition that job quality is a key determinant in poverty reduction and welfare gains.

The upgrade of IRIS and the extension of IFC-DOTS, which form the basis of most of the metrics systems used by the DFIs studied here, both recognise the need to progress to measuring quality of jobs as well as numbers of jobs created as a cross-cutting indicator. As a result, the upgrades started to focus on a shift towards measuring quality of these jobs not just the numbers of jobs (Nicholls, 2009; ERDF, 2013; Litwin and Phan, 2013; Cravolatti, 2018). Indicators in IRIS + that speak to quality jobs focus on measures of improved health and well-being in the workforce, rights and respect in the workplace and improved job skills for the future. Stier (2015) examines four measures of job quality: job security, job achievement, job content and work schedule flexibility across 28 countries. According to Clist (2016), attempts to include social impact measures, such as employment creation, in the financial decision to invest would therefore need to factor in the validation of distortion effects (see Chapter Two).

The role of employment creation indicators in the decision to invest is explored further in the study chapters that follow. The next chapters present the findings from interviews with DFIs (Chapter Six) and smallholder farmers (Chapters Seven and Eight). Interviewees were asked to respond to hypothetical stories about investing. These vignettes are built around core indicators on employment creation used by DFIs. It elicits attitudes about these indicators and the broader social impact sought by DFI investments. The aim is to 1) gain more insight into common practices in the ex-post and ex-ante evaluation in DFIs and 2) explore what the use of impact measures in investment decisions might look like.

5.5 Conclusion

In the documents analysed here, the DFI's place impact investing programmes within a broader blended finance strategy. Within the strategies examined for the present research, development evaluation approaches (as defined by O'Flynn and Barnett 2017 and Jackson 2013, 2018) among the DFIs were found to be always used ex-post and only in some case ex-ante and rarely in the decision-making process. To varying degrees, attribution, contribution and additionality are core factors that are measured. The evidence gap map (see Figure 5.2) shows in eight measurement and strategy documents across six DFIs an explicit ToC was

articulated. In the documents, there is scant information that shows strategic consideration of stakeholder participation and measuring community level impact, though DFIs conduct some deep dive assessments alongside their broader impact data collection. Impact risk, in the form of risk mitigation and de-risking strategies, constitute a core aspect of investment strategy seen throughout the documents. Some, although not many, include technical assistance in impact risk mitigation.

The findings reported here suggest significant alignment in metrics among development finance institutions. Efforts to create greater standardisation, though, if combined with positivistic measures can lead to the view that financial systems are encroaching into the social domain. Through the lens of Habermas' theory, communicative action is needed between the system and the social domain to prevent it being viewed in this way. Without sufficient stakeholder consultation and buy-in, through the lens of Habermas' theory, efforts to bring financial systems around impact investing into development, will continue to be viewed as the encroachment of financial systems into the social domain. Standardised metrics can provide the basis for the rational discourse needed in relationships between the system and the social world that is a common feature across the theories of Weber (1968) and Habermas (1985) discussed in Chapter Three.

For Weber (1921, 1968), if social dimensions are to be factored in market transactions, these transactions should be based on rational information. The efforts toward standardisation provide the foundation for this. However, I suggest through the theoretical frameworks of Habermas (Habermas, 1984, 1985) and Weber (1921, 1968) that work toward standardisation in impact investment markets must include greater space for rational communication on social impact and its measures to take place among those it seeks to benefit in society.

Through the lens of Weber's theory on how society interacts with markets and market evolution (detailed in Chapter Three), the findings of this chapter suggest more systemic methods to gauge expected social and environmental impact are needed. The evidence gap map found baseline studies and data were lacking, which I suggest in the next chapter is because they are difficult to achieve at the investment stage. Instead impact statements, agreements and narratives are used

as proxies for baselines. Without strong baseline, the extent to which actions and impact investments seek specific goals will be severely limited. This is because instrumental actions that are driven to achieve a specific goal need reliable information on which to make those decisions or investments.

Use of expected impact as part of the decision-making process was found in 12 of the documents, across only seven of the DFIs. In decision-making, impact considerations outside of this are limited to ESG screening in line with IFC OPIM. Verification against this acts as a marker that informs future decisions. These findings are explored in more depth in Chapter Six, the next chapter, which looks at themes that emerged from interviews with those working on the metrics systems at six of the DFIs. It is an exciting moment in impact metrics as impact investing seeks to create, define and use new measures to capture environmental, social and financial value. Although DFIs have been “impact investing” for more than 50 years, development evaluation in these investments is still maturing as a field. Moving from *ex-post* evaluation to *ex-ante* means a more proactive approach to development impact and to risk mitigation. More *ex-ante* evaluation is needed in DFI frameworks, and they are working on this, as interviews with DFI respondents in the next chapter reflect. The leap to making estimates of expected impact as a decision-making factor is still a way from being developed. In turn, this has implications on impact investing conceptually, which relies on social and environmental impact measurement to be integrated into financial decisions.

As impact investing evolves conceptually (Emerson, 2013; Hochstadter and Scheck, 2015; Acevedo and Wu, 2018; Agrawal and Hockerts, 2019), it centres on the concept of blended value; that all companies create a blend of environmental, social and financial value (Emerson, 2003; Bugg-Levine and Emerson, 2011b). The analysis shows DFI documents place almost all DFI impact investing strategies within a blended value frame. While blended value is a core feature at the definitional level it is found to be less present as a framing when looking at how DFI documents conceptualise and measure outcomes. However, for impact investing to have a conceptual basis distinct from other investment types, broader social outcomes must be sought and captured (Emerson, 2003; Bugg-Levine and Emerson, 2011b; Nicholls, 2018). The findings I present in this chapter confirm a blended value frame

but find that the measurement systems could be more specific in framing blended value *outcomes*. The conceptual framing for impact investing proposed by Emerson (2003) and Bugg-Levine and Emerson (2011) and the concept of dual (social and financial) materiality developed by Nicholls (2018) rely on measuring broader social outcomes.

CHAPTER SIX

How do Development Finance Institutions Approach Measuring Economic, Social and Environmental Impact in Impact Investing Programmes?

6.1 Introduction

The empirical study detailed in this chapter explores how social and environmental impact measurement can be factored into investment decisions. Data in this chapter were generated through interviews with six evaluation design experts at DFIs. The interviews asked open questions and questions designed around vignettes.

Vignettes are hypothetical stories, used in this research, to elicit attitudes towards impact information. The open questions asked how and why the impact measurement frameworks have been developed and are used in the institutions for which they work. The open questions in the interviews sought in particular to understand how impact evaluation (as defined in the institutional frameworks) relates to decisions on spending. In impact investing, social and environmental factors, by definition, should be given equal weight to financial considerations in the investment process.

This chapter firstly details the reasoning behind the impact systems that have been developed. Using thematic analysis, it then explores the investment logic in terms of how financial and non-financial considerations are factored into the decision to invest. It examines the extent to which metrics systems are used to do this. In this chapter I elaborate further the findings from the evidence gap map in Chapter Five. In particular, I elaborate reasons behind an apparent lack of reference to baselines and ToCs among the framework documents from DFIs analysed in Chapter Five. Common to all of the institutions is a focus on core common measures for social impact created by jobs and environmental impact created by a reduction in emissions.

This chapter then explores how the core common metrics used by all institutions, which measure emissions and jobs, relate to the dual (mission-based and return-

driven) investment logic. The chapter concludes that DFIs can use narrow measures on jobs and emissions to produce blended impact because the measures used, and results achieved for these institutions are very closely aligned to their organisational mission, and this is because, as detailed in Chapters One and Two, DFIs are accountable to governments on the developmental effects they create. The way in which social and environmental impact guides the financial decision for DFIs found here can have implications for impact investing measurement approaches more broadly. The erosion of a strict adherence to mission presents a serious problem for impact investors. Mission erosion can occur both on the side of the investor and on the side of investee enterprise, discussed in Chapter Two. The strong adherence to mission found among the DFIs means that these institutions are unique in their ability to use narrow impact measures, such as emissions saved and jobs created, to help guide investment decisions.

However, while a narrow set of indicators is needed to factor social impact into financial decisions, social impact, by its nature being complex, is better evaluated multidimensionally, rather than with linear financial logic. DFIs nonetheless can use metrics in this way because of their strict alignment to mandate, upon which “impact pathways” (detailed in Section 6.3 below) lead from the social and environmental outcome to the original organisational mission. Some DFIs, although to a lesser extent than traditional aid institutions, include qualitative approaches that collect some data at the participant (beneficiary) level. Often, though, these are isolated initiatives that are yet to be fully integrated, mainly due to the burden of implementation on investee companies.

6.1.2 Method and sample

The research detailed in this chapter is based on interviews with originators and developers of impact investing metrics systems in six DFIs: FinnFund⁵, the IFC, IFU,

⁵ The interviewee had asked to not be quoted directly.

the FMO, the Green Investment Bank⁶ and the Asian Development Bank (ADB)⁷. The individuals were also sought on the basis of having a level of awareness of other models and the reasons they saw their impact measurement model took these further. As a result, all of the respondents provided new insight into the development of impact models specifically for impact investing. The analysis therefore provided a greater depth of understanding into the metrics systems than previously examined in the literature. The interviews took place in the autumn of 2021 remotely and lasted between 30 minutes and 45 minutes. Interviews were kept relatively short (compared to interviews in Chapters Seven and Eight that lasted up to two and half hours).

Thematic analysis was used to analyse the interviews and responses coded for: 1) 'dimensions of impact', that is direct, indirect, and wider impact; 2) 'investment logic' to see if a linear or multidimensional investment logic is used; and 3) the degree of financial and impact consideration in the investment. Other codes included 'verification methods,' 'stakeholder/community dialogue,' 'the importance of narrative' and 'data availability.'

The interviews included two vignettes (the use of which is detailed in Chapter Four). The vignettes (presented in full in Annex A) in this study intended to elicit views towards standardised indicators, which I used as the key variables in the vignettes. These included standard employment indicators (direct jobs created); standardised smallholder indicators (increase in yields plus jobs); qualitative (narrative) information; and a monetised approach to social impact measurement in the form of SROI. One of the key reasons that vignettes are used in this study (the role of vignettes in the study are discussed in detail in Chapter Four) is to create a degree of separation between the views of individual experts from that of the institution and evaluation framework.

⁶ The expert interviewee had designed the systems for the first Green Bond, the Green Investment Bank and the Green Infrastructure Fund. As a result, they are referred to in citations as 'Green finance interviewee' to capture this.

⁷ ADB organised an SDG dialogues seminar in which an expert answered the questions sent to them prior to the meeting. Having gone through the official channels, this was the way the interview could take place, being approved at a higher level in the institution, particularly given the nascent stage of its renewed impact model.

6.2 Contextual starting point for DFIs to change their measurement frameworks

Chapter Five showed that DFI metrics systems have been developed specifically for assessing the results of investments made for blended (financial, environmental, social) outcomes. It showed how metrics have been standardised and harmonised across DFIs for this purpose. The IFC developed the Anticipated Impact Measurement and Monitoring System (AIMM) in 2018. The FMO, CDC and Proparco came together to develop the JIM in 2020. The IFU began to upgrade its development evaluation system⁸ in 2020. The ADB at the time of interviews in 2021 was piloting a new system that captures the role of private investments in meeting the SDGs. A recent research report further supports the SDG linkages for the ADB (ADB, 2023). The research detailed in the present chapter is based on interviews with the people who have led these developments.

The chapter briefly describes why and how the models were developed before going on to explore the investment (financial and mission-based) logic within them. To open conversation before delving into details about the evaluation systems, interviewees were asked briefly to explain the thinking behind the systems and how they came about. All respondents identified three aspects to the development of the new impact measurement models. These were to build comparability and consistency, and capture new dimensions of impact. The combination of these three factors differed across the developers, as will now be discussed.

6.2.1 Comparability and consistency

The developers of the measurement systems started by seeking a certain level of consistency and comparability. For those that developed the JIM, a driving factor was to build comparability among institutions. According to the interviewee, three institutions (FMO, CDC and Proparco) began looking at an impact investing evaluation framework from the starting point of examining what the three

⁸ With no specific name. It is the development evaluation system internal to the institution.

institutions already had in place. In initial exploration, the three DFIs found that, while they have many similarities (such as in mandate, structures, and evaluation) their results were based on different assumptions. Assumptions about employment factors, for instance, varied only slightly across institutions, but it still made comparability of results very difficult.

“Different DFIs have the same basic concept but slightly different assumptions. At the end of the day what that meant is that the results are totally incomparable. Because everyone has their own model. It was nonsense even trying.”

FMO interviewee

The three institutions conducted an internal study to see to what extent they could use common indicators. They found that the assumptions underlying those indicators varied greatly across institutions. That is, some assumed that indirect jobs were created because of xyz and some assumed that they were created by other factors represented by abc. Some saw emissions generated in one way; others saw emissions avoided in a different way. Even if the indicators were similar, they could not be used to compare because the assumptions of how impact was created was different.

By building comparability across institutions, institutions then have an incentive to compete to create the most impact, according to the interviewee. This is elaborated in the extract below regarding emissions. With standardised measures, institutions can view their performance against others. This enables institutions to compete (McHugh, 2021) and to learn from the practices that lead to the greatest reduction of emissions. In the case of emissions, where results are measured as a decrease rather than an increase (in a particular benefit, or numbers reached, for example); competition can be fostered by having standardised quantitative measures. As the interviewee explains if comparability is created then a “race to the bottom” to zero emissions can be encouraged.

“Then it becomes a race to the bottom of emissions, where everybody is comparing with each other every year, how we’re doing with emissions, based

on the JIM, based on country sector averages and who is reducing it the fastest year by year.”

FMO interviewee

In building some comparability between institutions it was important to have consistency across each institution's portfolio. In the case of other institutions, such as IFU, the main driver of evaluation metrics upgrades was to build consistency across the portfolio. Consistency is needed to be able to have comparability either for institutions to look at their portfolios (the basket of investments they are involved in) or to look at other institutions. For IFU the focus was to be able to assess at the portfolio level while, for the FMO, the impetus was to find areas of commonality with other institutions. Not only was it important to build some comparability between institutions but also across the portfolio. That is the totality of the projects and investments that the DFI is involved in. This was most clear from the IFU response where an impetus was to understand the performance of the portfolio as a whole.

“That is where the tool came from and the purpose of the tool. To build consistency at an institutional level. If you're putting all of your opportunities through the same cheese grater [the same metrics] then you start to develop some consistent results that can then be compared.”

IFU interviewee

For IFU there was a strong focus that came across in the aim to build consistency. At IFU, this consistency has less to do with being able to compare between institutions and more about being able to understand the portfolio. The aim for consistency also enabled the IFU model to bring in a degree of screening for impact when making the investment decision. This research found how this differs from other institutions, as described in Section 6.3.

6.2.2 Mandates and measurement

For the IFC, the aim was to be able to build a model that captured a new dimension of impact. The IFC interviewee recalled that the starting point for their model was

that the IFC needed to play a bigger role in contributing to the UN SDGs. This research has found that models such as in the ADB, FinnFund and KfW are closely aligned with measuring against contribution to the SDGs. A number of the DFIs are mandated to encourage private investments to meet the SDGs, as noted in Chapter Five. As a result, the impact goals of the investments were defined in mandates related to the SDGs in these institutions. The new dimension of impact the IFC in particular sought to capture dimension was market creation. That means, for the IFC, investing aid money not only in projects but also in the value chains and enabling environment to create markets that work better for the poor. The development and integration of this dimension of impact was one of the key features in the adapted framework.

“The ambition was to reinvest in this idea of market creation. A way of thinking about private sector development and trying to catalyse private investment in emerging markets and developing countries.”

IFC interviewee

In order to understand the idea of market creation, it helps to understand where it comes from. Market creation is the notion that development effects are not just generated by projects alone but by supporting the market conditions around which they take place. The idea of measuring market creation at the IFC arose from a secondment by a senior executive from the IFC to the EBRD, which led to the proposition that tracking market development as a dimension of impact was a viable addition to the model that the IFC had been using to track its impact. The EBRD mandate to reconstruct markets in eastern Europe meant that it had a system to monitor this type of impact called the Transition Impact Monitoring System (TIMS). The existing IFC Development Outcome Tracking System, which tracked impacts in a project and then aggregated to see the impact of the portfolio, was developed into AIMM. AIMM could then be used for impact investments and to track a more multidimensional approach to impact creation through markets.

6.3 Impact, decision-making and investment logic

In this section, I now explore the investment (for-profit) and mission-based (not-for-profit) logic and how they are combined in the metrics systems of DFIs. The section details findings from thematic analysis about the investment logic. It investigates financial considerations in the success of a programme in meeting its targets and into the role of impact considerations. This is to understand impact measurement against the backdrop of tensions inherent in impact investments as detailed in the literature review in Chapter Two. It seeks to understand the investment logic within the models that are used by DFIs to evaluate the impact that they create.

Based on findings from thematic analysis about the investment logic, the analysis explored answers to open questions. This section firstly details findings that financial considerations were most important. Without good financial grounding, it is unlikely an investment would take place. The section then goes on to detail the role of impact information in the investment decision-making process, which varies among institutions, but is often limited to due diligence. The analysis then concludes with the findings that the investment logic, while containing both financial and impact considerations, produces positive social, economic and environmental impact in the case of DFIs. It does this because it is inextricably linked to the mandate of these types of institutions. In DFIs, the impact investing mandate is more specifically linked to the UN SDGs while for others it is more broadly specified to create developmental impact through the private sector.

6.3.1 Financial considerations in the investments

All the interviewees concurred that financial considerations were paramount in making the decision to invest or not. Thematic analysis of the interviews revealed that this is for three main reasons. Firstly, DFIs by definition seek private sector development. The underlying assumption is that the ODA channelled through DFIs should support financially sound projects that improve private sector performance and competition in developing countries. In this respect they are unlike other aid institutions which can use their aid budgets more freely across for profit, not-for-profit and public sectors (see Introduction: Chapter One). Secondly, for a project (business

or investment) to be sustainable in the long-term, it needs to show signs of making a profit. Thirdly, DFIs target certain sectors and countries where they can steer policy and investments to make the most impact, encapsulated in one response saying that they invest for *“high-level soft steering”* reasons. Steering policy and investments at higher levels is an important part of DFIs’ role in the development aid infrastructure.

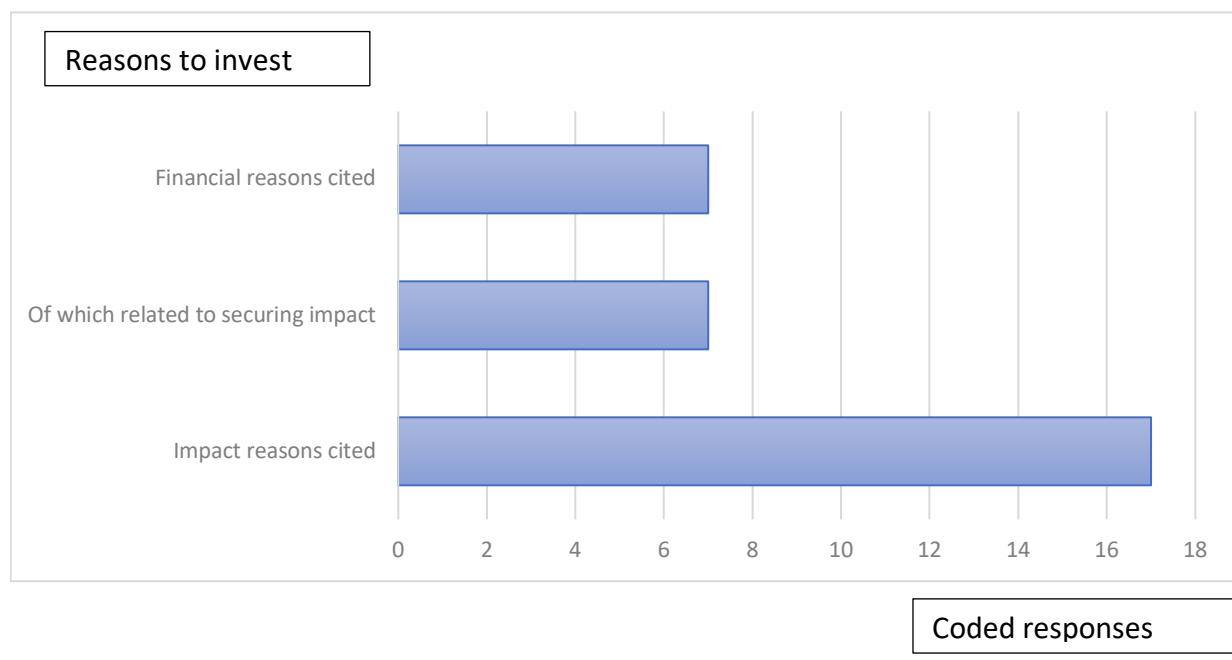
A strong business case is at a minimum needed to make sure that an investment is sustainable in the long term. To be sustainable in the long term, it would need to be able to continue after the DFI stopped financing it. The investment could only be self-sustaining if the project shows signs of being able to make a profit. The interviewee goes on to explain in the quote below, what others also pointed to, which is that sustainable impact can only start with a sustainable business (both as a business in making profit, and as a means of creating social and environmental positive impact).

“We also feel that we are not creating long lasting effects if we do not make sure the business case is solid.”

FMO interviewee

Although financial considerations were necessary for the DFIs to invest, there were two and half times more references made to impact reasons to invest than to finance or profit, in response to open questions. The two main reasons given were that, firstly, the financial viability of project or company to invest in is considered part of a ‘minimum standard.’ The second, related reason, most commonly provided was that without a project showing financial viability, either through revenues generated or a solid business plan, it may not continue to create impact once the funding from the institution comes to an end. This is shown in the responses that tended to link financial reasons to a need for long term sustainability, summarised by Chart 6.1. It is clear though that financial viability is not the sole basis on which these DFIs judge a social investment. The link between financial and impact considerations is made in the way DFIs operate within their mandate, explained further in Section 6.3.2.

Chart 6.1 Financial versus social and environmental reasons cited in investment decision-making



6.3.2 Impact considerations in the investments

The reason sound financials are needed is fairly straight forward as detailed above. In short, it ensures long term viability and therefore impact. Chart 6.1 above shows that nonetheless social impact is explicitly factored into making a financial decision to invest. There were almost one and half times more references to social impact (coded among reasons to invest) than there were financial reasons. The role of social and environmental impact (or potential impact) in guiding the investment decision in contrast is complex and multidimensional, as established in the literature review in Chapter Two. This is due to the complexity inherent in social impact and measuring it (Bamberger, Vaessen and Raimondo, 2016; Dufour, 2018; Zaveri, 2020). As a result, institutions vary in how they use social impact information in guiding the decision to invest.

The remainder of this Section 6.3 examines where social and environmental impact is factored into the investment decision-making process in the DFIs interviewed. This section now explores the role of impact, as impact information and as considerations of potential impact within this investment decision. It tests the hypothesis that arose

from the literature review: that for social or environmental considerations to be given the same status as financial considerations in making the decision to invest, they need to be considered at each stage of the investment process.

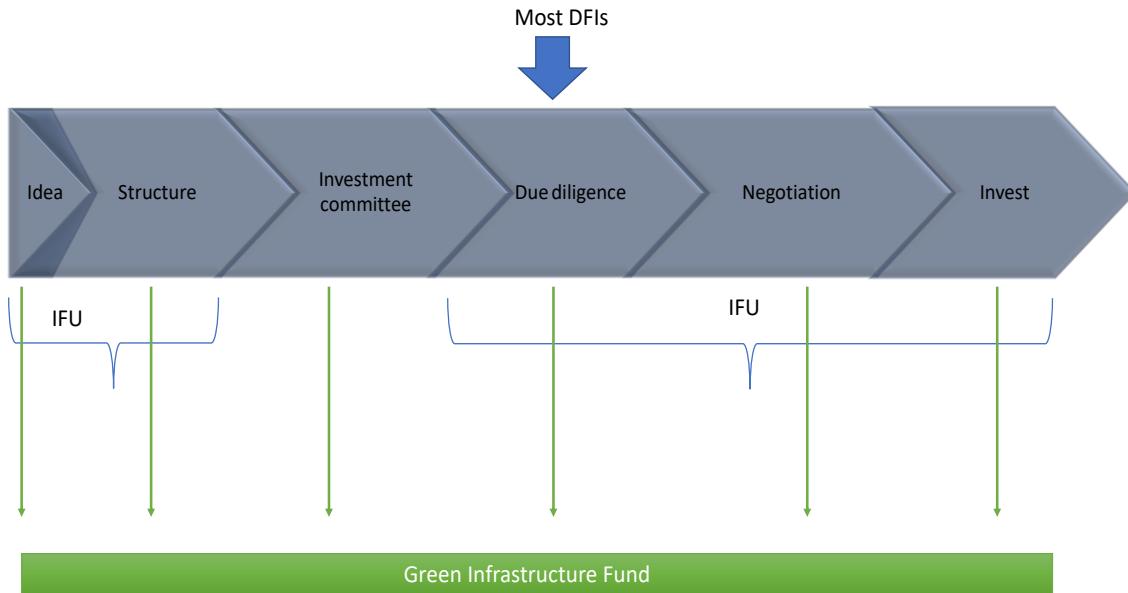
An investment decision is not a binary or one-off decision (as also established in Chapter Two). It is best understood as a process or a negotiation that follows a number of stages. In summary, firstly, an idea is presented. Then the investment is structured. Following this, the investment board or committee must agree to it. After this stage, due diligence is undertaken. The investment then undergoes final negotiation resulting in an agreement being concluded. Finally, the investment decision is confirmed and executed.

All of the interviews suggested that typically social and environmental factors are only considered in the due diligence stage of decision-making. Figure 6.1 shows where most DFIs check against environmental and social performance within the decision-making process. At this due diligence stage, screening against the IFC OPIM standards occurs. Chapter Five shows that DFIs have coalesced around the IFC OPIM standards. Interviewees confirmed that OPIM fits into the investment decision-making process in due diligence. Assessment takes place through external evaluation consultants who check against the key standards. However, the impact assessment and evaluation models of the institutions are not typically used at this stage.

There were some exceptions found among the interviews (IFU, the Green Infrastructure Fund, and to a lesser degree FinnFund) where evaluation metrics are used more systematically in screening and decision-making. The way in which these metrics are used in investment screening is discussed later in this section. Figure 6.1 shows how most DFIs assess environmental and social impact during the decision-making process, according to the interviews. The findings reveal that only two institutions among the six, the IFU and the Green Infrastructure Fund, assess and use impact also at other points in the investment decision. Figure 6.1 includes an overlay of the points at which the IFU and the Green Infrastructure Fund assess impact, according to analysis of the interviews.

Figure 6.1 Impact in Investment Decision-Making

Impact in the Investment Decision Process



Source: Author's own

The IFU and the Green Infrastructure Fund are the only two models explored in this study that conduct impact screening. Impact screening is understood here as checking for current and potential future social and environmental impact. This not only rules out companies that are harmful to the environment and to communities but actively selects those companies that can create positive impact to invest in. This is more integrated than checking that investee companies and investments meet certain environmental, social and governance (ESG) standards in due diligence. Screening on ESG standards is necessary due diligence, but is different from trying to gauge the extent of social and environmental impact from an investment. The extract below describes how financial considerations (i.e., making a sound investment) is essential. However, it highlights that this needs to fit with the impact goals of the institution.

"This then needs to be matched with the evaluation credentials side, risk, return preferences and gut feel about the investment. As well as checking against not negative return, fraud, if it is small and fits mandated objectives.

As well as material aspects – the business is more competitive, better return profile, technologically robust, management of risks. At each stage there is a detailed green assessment at each level of detail.”

Green Finance interviewee

The link between financing and impact goals can be traced through explicit impact pathways in the framework and agreeing an impact plan with the investee, or by developing a theory of change early on. These impact plans, pathways or theories of change can only take place if there is an initial idea of the outcomes or goals expected. Impact assessment then ideally takes place at each stage of the investment, as described in the extract above, where a green assessment takes place at each level of the investment. That is the idea stage. This is followed by the term-sheet (a document of serious intent that signals the beginning of a transaction), structuring (how the deal is structured), the investment committee agreement process, then by due diligence, negotiation, finalising the agreement, and ultimately, in investing.

The two interviewees both pointed to a level of detail being brought into an early stage of the project. Similarly, the FinnFund Development Impact Assessment Tool (DEAT) aims to steer towards the most impactful projects. It produces scores that can be used to communicate to investment managers, analysts and decision-makers. The extract below is an example of this, which also demonstrates impact detail is brought in at a much higher and continuous level than in due diligence alone.

“It is bringing a level of detail into the initial formulation or development of a project. Bringing this to a much higher level. We’re starting to ask questions early on that would typically only be looked at in due diligence.”

IFU interviewee

For the two interviewees, this was possible because of common goals and language. The Green Infrastructure Fund is able to screen because it is set up to only invest in the “most green” among the infrastructure projects. Similarly, according to the IFU interviewee, Denmark was able to introduce screening because of the creation of

their Green Futures Fund which established minimum standards. These standards were developed into the creation of a more sophisticated tool that was updated to align with the *EU taxonomy for sustainable activities* (an EU classification system that entered into force in July 2020 that establishes a list of environmentally sustainable economic activities). The interviewee explained that the EU taxonomy was not used for screening, but it was able to provide a “yardstick” against which models’ efficacy to produce impact could be measured.

6.3.4 Dangers and limitations

Not all models can factor impact screening into the decision-making process at the level of detail described above. Interviewees from other DFIs suggested that the use of their DFI impact evaluation models to produce potential impact factors to guide decisions may not lead to more impactful projects. Doing so was described as “dangerous”, “you can apply it wrong”, and “make bad decisions.” The reason it can be dangerous to apply rigid quantitative models to social investment decisions lies in the type of model. A linear quantitative model can influence investments to congregate in certain areas for reasons other than investment quality (Clist, 2016). Investments can pool in areas because they are easy to measure or because those investments are gaining momentum and in turn attracting more (Clist, 2016). I-O models can be subject to these difficulties. Common issues with I-O include such as double counting from aggregating sectoral outputs and difficulty in using constant multipliers (Kolokontes *et al.*, 2019). As discussed in Chapter Two, I-O models are quantitative models based on statistical information on the interdependent parts of an economy (such as labour factors, flows of goods and services, etc.).

For the JIM, model inputs are taken from national level statistics, detailed in more depth in Chapter Five. They are very useful tools in estimating total economic impact associated with a change. Although they are not appropriate for use in decision-making as impact screening (however, as explained further below in relation to feedback loops, the information generated can in fact feed back into the decision-making process by providing information for learning and adaptation).

“If you were looking at it in that way because you wouldn't be investing in machines to increase productivity per employee. That's really important caveat of the JIM is that it gives you some indication of your portfolio and impacts, but it should never be used as a tool for decision-making because otherwise you run into this problem. We always say this.”

FMO interviewee

There are a number of reasons why input-output models such as the JIM cannot be used for investment decisions. Firstly, they are linear models that rely on observable data. Secondly, they lean heavily on the estimates produced from this. Because of their linear nature, certain aspects counted, such as job creation, company revenue and emissions can lead to assumptions that miss key impacts and lead to the wrong impact. For example, job creation in the JIM, if used for decision-making would miss the importance of productivity. We can use the example of a factory. If someone invests in a factory and looks only at tracking the number of jobs, any activity that may increase productivity and quality of jobs may be calculated as a negative. As the interviewee above went onto explain, if productivity is low, *“you will want to keep it that way.”* This is because one will want to maximize the number of jobs and continue to maximize the number of jobs throughout the lifetime of the investment. This may mean reducing productivity so one can bring in more labour.

Primarily, though, these models cannot be used to make decisions because the models are designed for *ex-post* evaluation. They have only recently been developed. For example, the JIM was launched in 2020. The models, designed for *ex-post* evaluation, are only slowly moving into the possibility of being applied *ex-ante*. This will require some tweaking of the models so that it is possible to look at impact at other points in the project or investment.

6.4 Investment screening and ESG risk management

For the DFIs, impact assessment occurs in a different department from investment impact screening. It is assigned to what is referred to in the interviews as 'due diligence.' In the due diligence function, investee companies are checked against

their ENS or ESG performance. This is most commonly tested against the IFC OPIM standards. All of the DFIs in the study have committed to these standards for impact investments. The due diligence process then forms part of ESG risk management.

Impact planning and ESG risk management are kept separate. This is shown in Table 6.1 below. All DFIs point to the need to separate impact potential and ESG risk. It is necessary for DFIs to separate impact potential from risk to environmental and social governance. This is because if ESG risk creeps into impact potential, then it can dissuade decision-makers from making an investment.

Table 6.1: ESG due diligence and screening separate to impact assessment	
<i>Example quotes of the role of impact in investment decision</i>	
Number of DFIs out of the six: ESG due diligence is a separate function for six out of six of the DFIs	
DFI	Example Citation
FMO	<i>“At FMO we have impact and ESG separated. Because the impact side is the particular indicators, the data collection, and the portfolio analysis. ESG is really checking with the client, making sure they are not or that they are in line with the IFC performance standards.”</i>
FinDev Canada	<i>“The way we’re currently structured is that the development impact team is different to the ENS risk team.”</i>
IFU	<i>“Screening early on with quite a level of detail, which sometimes works and sometimes doesn’t. The IFU is really lucky and a lot of other DFIs don’t necessarily have developed this kind of thinking.”</i>
IFC	<i>“The IFC has a long-standing sustainability framework. This is what we typically refer to as ESG risk management.”</i>

Say a project has high impact potential but also big risks to that expected impact taking place. If the risks are factored into the decision, the investment may not take place at all, and so miss out completely on the impact potential. It is important for DFIs to be able to invest in higher risk projects than a private investor. This is because higher risk projects may be more impactful. It is also because it is an important aspect of a DFI’s additionality. That is, to not crowd out private investment,

but to invest where private investors, on their own, would not. It is part of DFIs' *raison d'être* and reason to invest in private projects.

"Yes but separate out the risk from the impact. The risks are kind of covered, stock standard IFC performance +++ [plus gender, plus human rights, and other aspects of specific concern to Denmark] human rights aspects, predominantly at the IFU. But that's all risk based and those risks you can manage. There's action plans and you get agreement on it."

IFU interviewee

The IFU interviewee above points to a common view among interviewees to separate measurement approaches used to identify and manage ESG risk from measurement approaches used to evaluate and track impact performance. The IFU citation is interesting as it shows how standardised measures can also be complemented or tailored towards the mandate of the institution. For IFU and for the aid policy of Denmark, human rights are a key priority component. So, in IFUs ESG risk management, it assesses against IFC OPIM performance measures plus additional human rights aspects, on which it wants to directly have a high impact. The ESG measurement side is separate from impact measurement because, as the extract above highlights, that side of the process is all risk based. ESG risk management plans are produced, to act upon the areas identified as in need of extra support to reach expected goals. While in impact performance, impact action plans are produced. The following quote from the IFC interviewee elaborates, in the IFC.

"We can assign development impact potential to the project and separate the risk from that and then we can find the metrics to motivate behaviour."

IFC interviewee

The IFC and IFU interviewees in particular explained why this is so important to their models. The above quotes illustrate in depth a common view among all respondents

about the value of separating impact and ESG. The two institutional models set about different ways of doing this. For the IFU an impact creation plan is established at the beginning and agreed with the investee company. In the IFC model, scoring is updated, to reflect changing impact potential.

“Risk assessment also drives our impact scoring supervision. Not only do we provide scores for the project; as we monitor the project we [also] update the aid score to make sure that we’re delivering on our impact ambitions.”

IFC interviewee

The impact risk can be separated out and considered as two forms of risk: ESG risk and the risk to the project taking place as expected. If separated, it can be managed as part of ESG requirements placed on investee companies and projects. As the DFI interviewee with the IFC pointed out, *“When you separate those two analytical constructs then you can affect behaviour.”* Impact risks are considered as part of predefined impact potential, but they do not guide the decision of whether a project may be impactful or not. Rather impact potential and the risks to realising that potential form part of the scoring of a project ex-post. In some, more advanced cases, such as that of the IFC, ex-ante assessment helps monitor the project trajectory towards its impact potential.

Baselines were not evident in the analysis of DFI framework documents, reported in Chapter Five. Therefore, DFIs on the whole do not use minimum points of impact comparison along the lifetime of the investee project. All interviewees explained that there is not enough impact information available at the beginning of an investment to be able to draw a baseline. The only indicators that consistently map against baselines are those that measure emissions reductions (see Section 6.5.1). The interview analysis suggests that this is also the case because the environmental and social performance of the project or company before investment is in nearly all of the DFIs examined by a different department and under a different system. This function in the institution looks at the ESG performance of the potential investee company

rather than the impact it already creates. As a result of the separation of functions, baselines are not developed.

6.4.1 Impact screening and tracking

The interview with the IFU respondent, though suggests that there is a way in which impact could be tracked over time against expected impact. For IFU, impact is tracked over time through an 'impact plan' agreed at the beginning. IFU has recently, in 2020, started using an impact creation plan. Potential impact is formulated at the idea and structuring stage of the investment decision. An impact investment plan is then agreed with the company during the negotiation and due diligence stages. There is not enough information to create baselines at this stage, according to the interviewees, but as the IFU interviewee pointed out an idea of the impact is beginning to take shape at this stage. Furthermore, while the impact creation plans are not legally binding, they do help form a trajectory that both investee company and investor DFI can monitor.

"But on the impact side, what we started doing last year, as we go through the investment process you put together an impact creation plan. We're not interested in run of the mill projects. You need to show additionality. You need to show what more or why we can help you do more. That then gets anchored into a results framework. In the results framework, depending on the sector the project is in, depending on the specificity of the project, you would then agree with that sponsor say three to five impact indicators and those can vary. They can be financial; they can be non-financial."

IFU interviewee

Similarly, according to the interviewees, the DEAT system used at Finnfund and the IFC scoring system, does enable impact scoring which can be updated over time. This allows for impact tracking. The ADB was also at the time of interviewing piloting a system that enabled impact to be updated along the lifetime of the project. However, these systems all differ from the IFU in that they place impact tracking in the analytical construct of "ESG risk." This is a useful analytical construct in practice because the risks can then be mitigated by deploying technical assistance to help

the company or project perform better in environmental and social factors. This can only work for the larger DFIs that have the resources to include technical assistance as response. Finnfund, for instance, does not have a technical assistance budget as part of its impact investing.

More often, the interviews confirmed that, impact information informs investment decision-making through feedback loops. That is ex-post impact evaluation gets fed back to the decision makers who can use that to get a better idea of what works and what does not for a future project. It relies on the effectiveness of these feedback loops. It is dependent on the structure of the organisation. That is, on how effective the structure is at relaying this information. In so doing, assessment plays the same role as when evaluation information feeds into policy decision-making, for example. It is an indirect feed rather than direct. In this way, it is not factored into decision-making with the same level of rigour and status as financial factors. Financial factors are always fed into the decision to invest at an early stage and throughout the project. As a result, the impact feedback is also only occurring on the level of steering, rather than screening. Although some do implement ‘minimum standards’, few actually do.

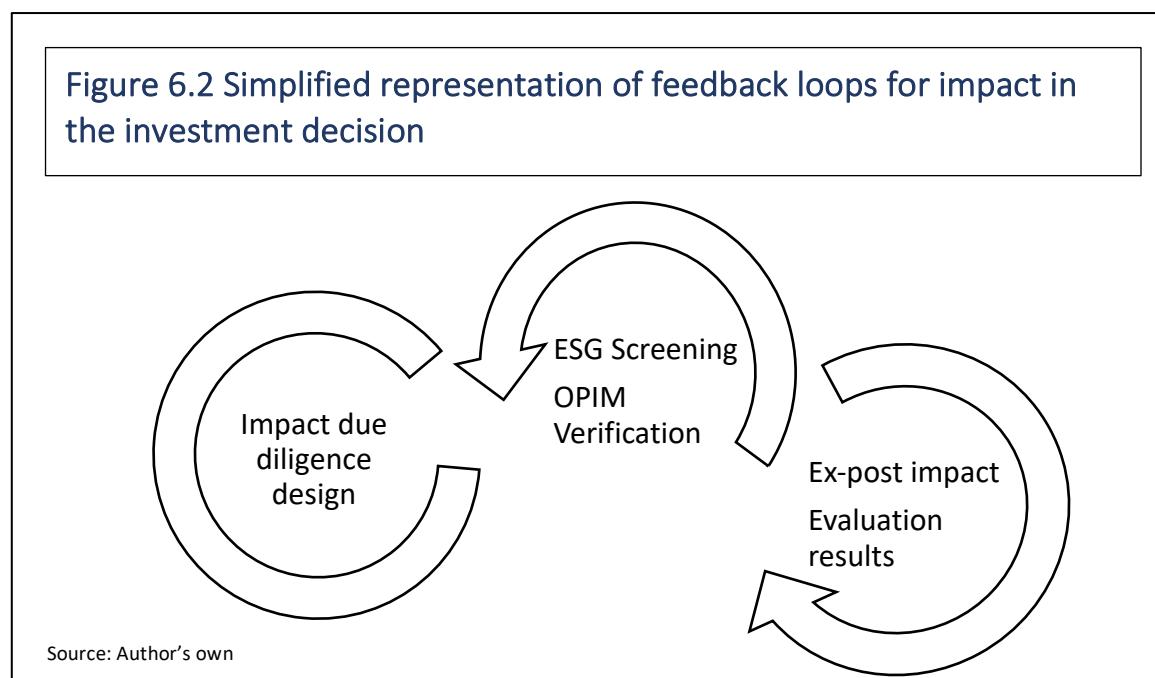
“This is how impact can connect to ESG because we can give them [the due diligence department] some more information. We know this country and this sector are having issues here. Or there seems to be very low productivity in these sectors. Or we need to check the suppliers of this particular client so that we don't get into any issues with the client itself. That's how the JIM should be used.”

FMO interviewee

Information on impact produced through the JIM helps identify certain countries and sectors that may have, for example, human rights issues. It can then be used to “hotspot.” It can “hotspot” a project, company, or investment where there may be environmental, social and governance concerns. The information can be fed to the ESG due diligence team. The ESG due diligence team can then use that to look more closely at potential risks, such as abuse of human rights in the supply chain, during that stage of the investment decision. Most of the interviewees framed this

due process as the management of ESG risk, that is, ensuring the companies they invest in are compliant with basic ESG standards.

In Figure 6.2, I show how impact information from evaluation teams feeds into investment decision-making. Some models, such as the JIM, enable this to be done with a fair degree of specificity. It can be specific about the countries and sectors to “watch out” for. This organisational structure enables the information to feed back in a way that can be directly applied as part of the investment decision.



In FinDev Canada, the two departments of ESG due diligence and impact evaluation have, according to the interviewee, been brought under the same director. While the teams are still distinct this may, according to the interviewee, enable a vision that more closely combines the two. However, the extent to which impact information feeds into the decision-making process is reliant on the organisational structure. If teams are very separate, feedback loops may have a lower degree of specificity. If this is the primary model in which impact feeds into the investment decision, then, the extent to which impact information informs the decision to invest depends heavily on the organisational structure and organisational effectiveness of the institution, rather than on the impact evaluation model itself.

6.4.2 Investment logic based on impact goals

This section has so far established that financial consideration i.e., making a sound investment is essential. However, this needs to fit with the impact mandate and therefore the implicit goals of the institution. In execution, the investment logic then follows from the mandate of the DFI. Consequently, DFIs will not invest in those opportunities that have no social or developmental mandate. The following extract from the IFC highlights the importance of the DFI mandate that was clear among all the responses. It shows how the measurement framework assesses along the three dimensions central to the specific mandate of this particular organisation. In this case of the IFC the central dimensions are productivity, private sector development, and investment flows. These are related to the two mandates of the IFC to deliver on private sector development and on productivity.

“Back to IFCs’ original mandate to deliver also on productivity. So, to help improve the conditions that would be helpful in promoting private investment in that market in developing countries. Within those two mandates we developed a framework that would assess our projects on three dimensions. On the productivity dimension, which we refer to as the project outcomes dimension, and on the private sector development and on the investment flows. All leads to the idea of market creation.”

IFC interviewee

The quote above is indicative of how DFI measurement and investment practices relate back to their mandates. Some DFIs’ mandates and corresponding measurement practices are explicitly framed around the SDGs as part of a growing trend towards delivery against the SDGs by DFIs (Spratt, 2021; OECD 2018).

When impact is considered in each of the investment stages (the stages described at the beginning of this section, outcomes can readily be stratified in line with the mandate. The logic on each outcome then flows up through from that outcome. It then runs through back to the original inception, term-sheet and structuring, described above. The interviewee, quoted below, explains that different ways of

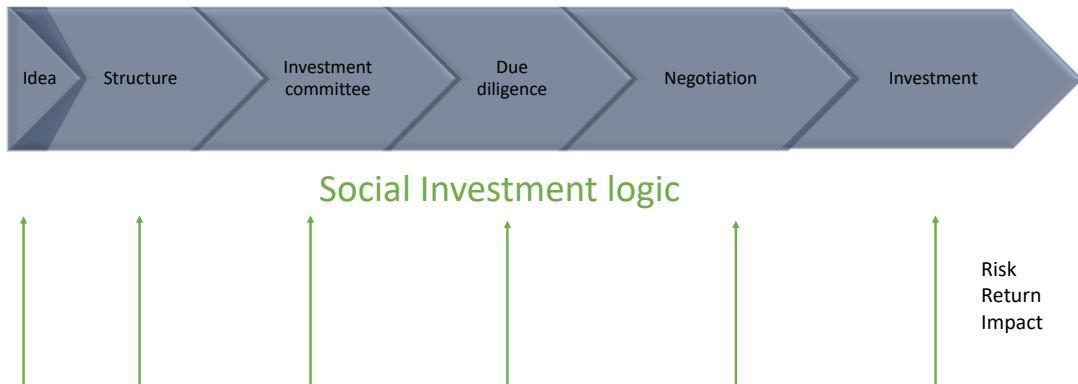
looking at impact are used at each of the decision-making stages. At the first stage some form of green screening takes place, then at the structuring and negotiation stages detailed based green assessment takes place (see Figure 6.1). A ‘green tick’ assessment takes place where the question of whether a “*green return is appropriate*” (the interviewee explains it is like a credit committee that examines risk-returns). Then, monitoring and reporting tests data against outcomes. Because of each of these stages it is possible to have objective decision-making, explained in the interviewee’s terms:

“Stratification of outcomes form objectivity; the logic flows up.”

Green Finance interviewee

When asked how this process of green verification may apply to the less linear social impacts, the interviewee gave the suggestion that “*it doesn’t stop a logic model from defining the SDGs and screening; but it needs to be specific.*” Figure 6.3 below demonstrates how social assessment information could feed into investment logic in this way. The interviewee offered the example of the logic model for coral reefs. “*Core KPIs are based around the goal of: Don’t have an impact on reefs. With indicators for specific positive benefits (e.g., waste projections, reducing waste from landfill into rivers, reduce waste into the ocean). Results are then tracked over time.*” The interviewee was pointing out that when financial considerations are placed in the backdrop of a specific mandate, for developmental, green, or social outcomes for the SDGs, the three factors of risk, return and impact are stratified.

Figure 6.3 Stratified outcomes and investment decision-making



Source: Author's own, based on interviews

This stratification occurs more clearly in the case of investments aiming to reduce emissions, as shown in the green finance example, than it does for more complex social goals and those related to the SDGs. The interviewee here suggested that in social outcomes similar stratification to that in green finance, there may be a way to deal with the complexity of social impact and its evaluation. This could be achieved through stratifying outcomes with a social assessment taking place at each level of the investment, according to the expert interviewee. This would enable the social investment logic to *“flow up”* to the investment decision. Figure 6.3 shows that assessment information, around stratified outcomes, could affect the social investment logic, which in turn feeds into the investment decision. This would be a more direct way of having impact guide the investment decision, as is the case with green assessment in the Green Infrastructure Fund. It is more direct than impact guiding decisions either through an implicit adherence to a social mandate or through ex-post impact feedback loops.

As seen so far in this chapter, the investment logic of the DFIs flows from the DFI mandate. That is a mandate to spur private sector development in developing

countries. Some mandates include the meeting of the SDGs through encouraging private sector money, which is to be added to efforts to meet developmental goals. This investment logic then leads to a strong consideration of the financial viability of a project over the long term as part of the guiding decision to invest. It assumes impact by investing in projects that according to interviewees are “*inherently impactful*” rather than “*run of the mill*” and provide some kind of “*additional*” value that helps meet the SDGs. It suggests that DFIs integrate the financial and impact investment logics through an adherence to their mandates. The causal pathways to this impact are then tracked in the different ways described here and in Chapter Five.

6.5 Indicators

In Section 6.1, I argued that achieving some comparability and consistency among institutions on how to measure jobs as a social impact is seen as a driver in creating the type of measurement framework developed. Chapter Five established that all of the institutions and their measurement frameworks include a specific and central focus on two areas. One is employment and the other emissions. In analysis of interview and document data, linear indicators, focused on jobs, emissions and gender were established to meet the investment logic of the institutions. All the DFI interviewees highlighted the centrality jobs and emissions indicators, which are further elaborated in Chapter Eight in relation to similar findings from DFI interviewees in Mexico.

The literature review, however, details a conceptual conflict inherent in impact investing. It shows that linear and narrow indicators that follow for-profit straight-line investment logic are in conflict with measuring the not-for-profit logic of maximizing social impact. This section discusses why core indicators around jobs and emissions are needed as seen from an analysis of the interviews. It then highlights the importance of the narrative and impact pathways that emerged from the interviews. The section then goes on to explore views on types of impact information. To separate out views on types of indicators from the indicators used in DFI models, the respondents were presented with two impact stories (vignettes) and asked to

respond to questions on the impact information depicted in the scenarios. This analysis finds that jobs estimates are necessary but not to be used alone as a decision-making tool and that there is a scepticism about monetised approaches such as SROI, particularly where there is insufficient detail to understand how the SROI ratio was calculated.

Among various codes used in the analysis of the interview transcripts were five related to the type of indicator used. Codes included “uses core KPIs” and “emissions”, “gender”, “jobs.” The codes were developed *in vivo* but with an element of pre-coding as they appeared in the literature and DFI documents as predominant features of the indicators commonly used by DFIs. Measures around emissions and jobs came through as the essential core indicators. The way in which these were portrayed is now examined in more detail.

6.5.1 Core indicators: emissions and jobs

The DFIs established metrics systems that include linear indicators, focused on jobs and emissions, to meet the investment logic of the institutions. This was evident in the findings on harmonisation and standardisation in Chapter Five, Section 5.5. All the DFI interviews highlighted the centrality of these two indicators and provided further insight onto why they are important components to all the metrics systems. Among the reasons mentioned why jobs were important were that “everyone asks *about this*”, because that is what “*parliament wants*” there was “*a push from the EC*” when handing out funds for a blended finance instrument, and it is a “*minimum*.” In this thesis, I primarily focus on DFI measures for social outcomes, though it became apparent that emissions metrics were integrated into systems for blended impact and so I provide insights gained on these here. The vignettes were designed to specifically focus on job creation as a key cross-cutting indicator of social impact. Of the five vignette stories, only one was focused on the energy sector. However, the interviews revealed interesting aspects of the emissions metrics development (which often in the institutions took place concurrently with designing metrics for jobs) that shed light on difficulties in measuring social outcomes via its similarities and differences. These are briefly detailed prior to a more in-depth exploration of jobs metrics and their potential for integration into investment decision-making.

6.5.1.a. Emissions

The use of a narrow, direct indicator is most clearly understood in looking at emissions. In the interviews the comparison between measuring jobs and measuring emissions was made. This helped illuminate the issues involved in measuring jobs and other social factors. The interviewees all agreed that in measuring emissions it was possible to create and use linear metrics because there was a single, clearly defined target. That target was to reduce emissions. The target was defined in the context of there being clear baseline data on emissions. The following comment from the co-creator of the first Green Bond and of the Green Infrastructure Fund was repeated across interviewees.

“For Green finance it is more robust because we had one specific objective which was to reduce against baseline emissions.”

Green Finance interviewee

Indicators have been developed to show the volume of emissions are produced from a DFI's investments. In the case of green finance, such as the Green Infrastructure Fund and Denmark's Green Futures Fund, the interviewees discussing these funds highlight that screening is part of the process. This differs from the DFIs as a whole, which do not screen investments for impact, but rather steer projects and companies through ESG due diligence. The reason this is the case, according to these two interviewees, is because the funds were created with the specific objective of investing in green projects. As a result, right from the start of the investment they are asking 'how green really is your project?' As seen above in Section 6.3 and evidenced in this quotation, this means that investment decisions in green finance for emissions reduction are based on a consideration of potential impact. The end goal is clear: to reduce emissions against a baseline. However, it also means that the indicators used were able to speak to both impact evaluation and impact decision-making. They are able to do this because they are singular and linear.

“So, if one of our investees reports they’re emitting 100 tonnes of CO2 equivalent and we own 10% of that company then we attribute ourselves 10% of 100 tonnes, so 10 tonnes and this is what we count as FinDev Canada’s financed emissions.”

FinDev Canada interviewee

The direct and linear logic of the emissions indicator also works for DFIs whose funds do not directly aim to be green, but that also seek to reduce emissions. The extract above shows how the attribution of emissions is a direct calculation. In these cases, emissions are attributed to the institution based on the reporting of the investee company or project.

It has also become increasingly possible as evaluation frameworks have pre-established frameworks to which to align to. The JIM for example, in 2021, became fully aligned with the Global GHG Accounting and Reporting Standard for financial institutions (PCAF) standards, interviewees explained. PCAF, developed through 2019 to 2020, provides a standard for financial institutions to measure financed emissions. Financed emissions are those that can be attributed to the investments made. This moves beyond the previous method used by financial institutions, according to two interviewees, because earlier only operational emissions from the institution would be measured. Operational emissions are those produced directly by the office buildings of financial institutions. Unlike factories, for example, these are a relatively small section of emissions produced by investments.

Emissions that go beyond the finance institutions’ operational emissions are those that investee companies produce in their operations. Investors’ financed emissions are attributed as a percentage of ownership of emissions produced by investees. Emissions reductions in investees then contribute to overall investor emissions targets.

6.5.1. b. Jobs – essential but decisions should not be based on these alone

The case with jobs indicators is more complex. There is no applicable alternative calculation for jobs, as there is with the attribution of emissions (as a 10% of 100

tonnes for example in the citation above). Further, the DFI impact funds do not set out to create jobs or even to create decent jobs, but to meet an overall mandate to reach developmental goals through the private sector. All the interviewees pointed out that it would be, as three interviewees said, “*dangerous*” to make investments based on job indicators. In contrast, green indicators can be used to make investment decisions. The interviews suggest that this is because emissions indicators are more singular. Similarly, the sub indicators under ‘green’ can be brought together logically in a way that has not been established with jobs indicators.

Jobs metrics are more complex than emissions metrics for a number of reasons. The interviews revealed some of these reasons. Firstly, as revealed by one of the interviewees the International Labour Organization’s (ILO) efforts to find a common jobs metric indicator were not successful because of the different starting points of the institutions. Indeed, part of the drive to create the JIM was in response to this problem of a lack of commonality in measuring and attributing impact to employment, whether this was direct, indirect, or wider impacts, number of jobs or quality of jobs. It was clear across the interviews, nonetheless, that “decent work” formed a core part of, as one interviewee said, “*everything that we do.*”

“I’ll make a parallel to GHG to start. It’s great to look at jobs but there’s so many different definitions: full time, part time, permanent, temporary, construction versus other jobs so there’s still a challenge in bringing these sub indicators together. It’s different to GHG with the one metric that everyone can use. For jobs there’s still some work to be done on refining the methodology.”

FinDev Canada interviewee

Secondly, the science of the metrics systems for measuring jobs still needs further development. Three of the interviewees talked about “*employment intensity*” which is in simple terms how much a gain in employment increases output (for example, how many more shirts a manufacturer can make with an extra ten employees). Also known as *elasticity*, which can be calculated at the company level or at a national level where employment and growth are correlated (usually as percentage change in employment over percentage change in growth, often measured as GDP). The three

respondents saw employment intensity factors as a potential way of looking at job creation indicators. As one interviewee explained, a private company needs to be able to adjust labour and return. The “*proper commercial function*” of a business needs to have the flexibility to adjust their labour intensity. If it does not have this flexibility, then it would get a lower rating overall on whether to invest or not.

For example, within the JIM, labour and revenues are both inputted. The type of labour (expensive, low productivity, manual versus expert) can have an impact on revenues. As a result, some form of labour intensity factors needs to be included in the way impact is evaluated. The way the JIM deals with this is by being able to look at sector and country averages. It then enables a comparison between the project and the sector and country averages to determine if it is along the lines of that expected for the sector and country where the project is taking place.

Three interviewees suggested that some kind of “*stratification*” and the bringing together of “*sub-indicators*” is needed to resolve some of the issues with job creation indicators. These three interviewees also pointed out that much methodological work is still needed to be able to find a way to do this. It is understood among interviewees that the evaluation frameworks used may not be perfect, but they are much more specific and sophisticated than before 2015. It was suggested by two interviewees that before 2015 impact measurement systems were more “*principles based*” and specific indicators had not been fully developed.

Three of the interviewees explained that a level of understanding and sophistication has developed over the years since 2015, (when the international development system agreed to a formal need for private financing, which is largely channelled through DFIs, as noted in Chapter One). One of the main developments is that indirect jobs have become more important. The FMO interviewee used the example of a construction project. In a construction project it is not the temporary direct jobs created by building that project in the short term to build, but the indirect jobs that will last longer and have deeper impact. Efforts are then made to calculate or estimate indirect jobs. One interviewee also pointed out, though, that jobs indicators are used because “*they’re easy.*” Meaning the data are already collected by the company. All that is needed is to “*go to HR and ask how many are on the payroll.*” Indeed, all the

models examined rely on input of observable data from companies. For some models, such as JIM, estimates on indirect impact and wider impact are then made.

While the models that have developed since then have become more sophisticated, as one interviewee suggested, “*we really need metrics engineers.*” These types of experts need to be brought in, according to one interviewee, to examine the issue more closely and come up with indicator frameworks that better capture the complexity of job creation indicators. In the analysis that follows, questions around hypothetical investment stories, focused on job creation indicators as one of the variables (detailed further in Chapter Four). The others are information related to SROI (detailed as a monetised approach in Chapter Two) and a qualitative impact narrative.

6.6 Vignette analysis: job creation indicators

Respondents were presented with two impact stories, as a way to distance views towards indicators, from the actual metrics systems of DFIs, also being discussed in the open questions of the interview. One story concerned a potential investee, called Carlos. The other, separate story was that of an investor named Clara, who looks to invest in a potential investee, called José. These hypothetical stories or vignettes were based on real investments and indicators. The full vignettes are reproduced in Annex A. The stories each contained three types of indicators. Respondents were then asked their opinion on the type of information they were given in the story. Then they were asked whether this was enough information to invest with, and what other information they would like to see.

The views of respondents towards job creation indicators and qualitative information in deciding to invest are detailed below. Job creation indicators are found to be essential, but with caveats and much more work in developing these indicators needs to be done, according to interviewees. A summary of the views toward the use of SROI is also included below and detailed in more depth in Chapter Eight. The implications of the views of metrics designers toward job creation indicators and

findings on attitudes toward qualitative information are detailed in the remainder of this section.

6.6.1 The Carlos Vignette

The first vignette depicts a hypothetical enterprise owner, Carlos. Carlos seeks impact investment to grow his business. It presents the social impact from Carlos' business in terms of job creation. It shows an estimated number of jobs created through the business information services that Carlos provides via his enterprise. The vignette assumes that the investor is already satisfied with the rate of risk and return that Carlos' business can offer. It aims to elicit attitudes toward job creation indicators.

Both in the thematic analysis of open questions and in the answers to the Carlos vignette, respondents concurred that job creation indicators should not be used to guide investment decisions. Some indicated that to use job creation indicators would be *“dangerous.”* On the one hand, a focus on jobs may mean that an investor misses good opportunities. On the other hand, it may mean that investments are made in companies that employ many people but have unacceptable working conditions. This is evidenced by the comment below, which was echoed among interviewees on the whole.

“That very much depends on what strategy you have as an investor. If your stakeholders want you to maximise job creation because that's what's most important, then you may end up investing in huge manufacturing textile companies that have terrible decent work policies.”

FMO interviewee

Simply put, a focus on getting as many jobs for your money as possible may lead to investing in bad quality jobs. Three of the respondents pointed to the need for job quality information. The FMO interviewee related the vignette response to the JIM, which at the time of interviewing, was looking to include a job quality component for

these reasons. All interviewees, though, framed their answer in terms of the objectives of the investor. It was clear that any investment would need to be made in the context of what impact the investor was looking to create.

“On the quant [quantitative] side there’s also job quality. Even if you create a high number of jobs if they’re low paying, with low job security, bad working conditions. Maybe it should be less on job maximisation need [and] more on the job quality side.”

FinDev Canada interviewee

Factors to include in job quality as described in the FinDev interview extract above include rate of pay and job security as well as working conditions. In the case of Carlos’ business, what is of interest is the potential of how much that business can grow to meet the needs of more smallholder farmers. In its first pitch to the investor, Carlos’ business creates less than ten jobs. As the interviewee below points out the investment decision method should take care to not “penalise” that kind of business. In fact, later in the investments story, a narrative from Carlos’ employees describes improved quality of life since the job included medical insurance.

“Or, if looking cross-sectoral, say at a technological business – the ‘bricks and mortar;’ mobile phone company that employs 1,000s of sales staff versus an online business which is scalable. You don’t want that kind of business penalised. You don’t want that ringfenced.”

Green Finance Interviewee

All interviewees pointed out that the difficulty with only focusing on the number of jobs created is that it obscures other important impact considerations. The above extract is indicative of the responses and provides further explanation that this can lead to ring-fencing. That is a certain sector being put aside to not invest in. One respondent, however, conceded that it could be possible to use job creation indicators as described in the vignette. This though came with the important caveat that it should not be used as a target. To do so, though, the interviewee explains would need specific sub-indicators that could capture job intensity and job quality factors.

6.6.2 The Clara Vignette

The second vignette presents social impact information on a different project to a potential investor, called Clara. Clara has the option to invest through three different financial institutions. All that is known about the institutions is the social impact information they provide. The information is presented in three forms:

- as SROI. Clara has used SROI to calculate the impact of a previous investment as she is familiar with it as a method (*Option C*)
- in the form of a qualitative information from an independent evaluation (*Option B*) that relates to how the quality of life of one of the beneficiaries has improved.
- as a job creation indicator. The indicator is shown as jobs plus yields in the exact format of a smallholder job creation indicator. The yields plus jobs indicator is taken from the IFC framework, but not labelled as such in the vignette (*Option A*).

The majority of the answers said that they would prefer to invest through Option A which uses a 'yields plus jobs' indicator. This indicator was based on the IFC standardised indicator in its Development Outcome Tracking System (later transferred to AIMM). The extract below exemplifies views that came across in the interviews in response to this indicator. The view of respondents to the vignettes was that it is important to be able to explain the investment "*story*" or "*narrative*". This was also found through the thematic analysis. It is clear that an indicator such as yields plus jobs does help start to build an impact story. The impact story in this scenario is that farming has improved, and job intensity or productivity considerations mean that the number of jobs has also increased, rather than decreased.

"The reason DFIs do what they do and align with the assessment of Bank A is that calculating those social returns is helpful analytically. It's a useful benchmark, but it doesn't help provide the narrative that makes it possible to scale these types of activities. So, if you're in the business of scaling

development finance you need to have a narrative that accompanies the work that you do.”

IFC interviewee

In the case of yields plus jobs the investor can see that production and jobs are maximized. In contrast, SROI does not help build an impact story. For some the issue was that, for an inexperienced investor SROI can be a “*black box*.” Without knowing what the inputs are it would be difficult to gauge the impact the investment has had. While the two methods, DOTS and SROI, are positivistic, linear approaches (see Chapter Two on the different approaches), they differ in this important aspect of building an impact narrative. Similar views were expressed in response to this vignette when put to respondents in Mexico. This is detailed in Chapter Eight which discusses the appropriateness of measures to capture what respondents understand as “social impact.”

6.6.3 The importance of narrative

For practical reasons, a narrow set of core indicators is used. The interviewees said that they would like to have initiatives to increase community and stakeholder engagement, to have more “*academic research*”, and to have more “*narrative*.” One of the DFIs has set up an innovative model where communities can provide views on the impact of their projects by filling in a survey on a mobile application. However, this is a small part of their portfolio, and it is difficult and costly for the DFI to scale it across all investments.

While core, linear metrics were deemed to be essential, interviewees also pointed to a strong need for a narrative or an impact story. One interviewee mentioned that they do “*appreciate it*” when they have an impact story. The FMO interviewee highlighted that they have started to include an impact narrative at the beginning of the investment folder.

The DEAT used by FinnFund and the AIMM used by the IFC produce impact scores as a number. Different dimensions of impact are rated and fed into the model. From this an overall number is generated. The scoring helps the institution see what works and what does not in creating more impact. For the IFC the important dimensions of impact in the extract below are the impact created by the project and the impact made in terms of developing a competitive market. The interviewees from FinnFund and the IFC that use scoring systems also highlighted the importance of narrative.

“I often compare this to the AIMM score when we score projects with a number. That number is not particularly useful outside of the organisation. But it’s helpful for us to be able to steer direction for development impact and for the types of activities we do and the types of investments that we make. But they don’t help us tell our story better.”

IFC interviewee

The role of an impact story is to understand the impact better and to be able to explain how the impact is taking place. The scoring systems alone do not provide the whole picture. However, the methods needed to engage with communities are time consuming and costly for financial institutions and not viable across a large portfolio of investments. The analysis of the interviews revealed that is more important in these models to have accurate data that can be used to measure direct impact, calculate indirect impact and estimate wider impact. It is also costly and difficult for investee companies to collect and measure a lot of impact data. Even in the case of emissions data, which is considered in this analysis as a more straightforward indicator, there is difficulty in getting data.

“Then, we may head in that direction but it’s not the key priority for a small SME operating in Africa. So, it doesn’t make sense to impose this on every investee. This is where JIM becomes very useful in estimating the finance GHG emissions. For those investees that don’t measure.”

FinDev Canada interviewee

For FinDev Canada, for instance, 60% of their portfolio reports on emissions. For the remaining 40% it does not make sense to impose that burden on the investee company or project. A large multinational construction company, for example, will gather emissions data as part of their ESG requirements. A small SME in Africa is less likely to gather that information unless it is specifically targeting emissions. It makes more sense for them to use data gathering resources for other impact data more specific to the SME activities than emissions generated or saved. To look at impact across the whole portfolio of investments, then, a sophisticated method of estimation is needed. This is where input-output models such as the JIM become very useful in tracking and assessing the environmental and social impact of DFIs.

6.7 Discussion

The research reported in this chapter provides insight into how and why the metrics systems of DFIs have been upgraded or developed to encompass impact investing and its blend of financial, environmental and social goals. Motivations were framed around comparability and consistency within metrics systems and across or between DFIs. The research more specifically examined the types of indicators that have been developed and are used to measure blended impact. It explored how impact evaluation can be used in decision-making for blended impact. The research detailed above finds that on the whole environmental and social factors only come into play in the due diligence stage of the investment process.

I find instead that, on the whole, current efforts to establish impact investing screening and accounting mechanisms can help create more robust accounting for ESG. The IFC OPIM used as part of due diligence and the EU taxonomy used as a yardstick in the design phase of some of the metrics systems, as detailed above in Section 6.3, produce a more standardised and sophisticated way of measuring environmental and social impact of investments made in the private sector as also supported by findings in Chapter Five.

However, when viewed through the lens of the blended value proposition (Emerson, 2000) and dual materiality (Nicholls, 2018), the systems used by DFIs fall short of the requirements defined in impact investing. These two propositions posit that social

and environmental considerations (capital, material) are given the same weight as financial capital. That is the underlying requirement to actively seek impact and actively measure it, as defining characteristics of impact investing. The new evaluation models, frameworks and standards discussed in these two empirical chapters are, viewed in this framework, reduced to a new, stronger accounting standard for environmental and social performance, but not much more. Greater integration throughout the lifecycle of the investment is needed.

However, this chapter and the preceding chapter have found that the application of these standards in some cases only strengthens due diligence. This is in contrast to some of the metrics systems above that more closely integrate impact into the investment decision-making process. The analysis can help provide some understanding as to the divergence between proponents of impact investing and criticisms of it. The recent critical stance from the Economist in an eight-part series, detailed in Chapter Two, criticises “ESG Investing” and opaque measurement practices (The Economist, 2022a). The response from the heads of the ISSB and the Global Steering Group for Impact Investing suggests the critique misses the point because it conceptualises as *ESG investing* not *impact investing*. The response reiterates the definitional difference (Cohen, 2022). However, the criticism from the Economist on the lack of clarity on what and how is being measured (the Economist, 2022a, 2022b, 2022c) may equally apply to impact investing. The findings reported in this chapter suggest that DFIs as impact investors examine ESG factors in the due diligence stage of their investment. While a vital component of impact investing, this alone, however, does not make the investment decision based on expected or actual environmental and social impact. There is an accompanying expansion of accounting standards to encompass reporting on environmental and social impact. The findings in this chapter suggest that measurement practices subject to this debate because impact measures can only amount to improvements in due diligence without clear channels to feed into decision-making.

Practicality, though, is a strong guiding force. As seen in this chapter, complex data are not sought because it poses a burden on investee companies. When this burden is too great, the data created become meaningless because they are not collected properly. Baselines are not produced at the beginning of an investment because

insufficient information is available. Meanwhile, indirect and wider impact is estimated with statistical tools, such as I-O models and scorecards, to provide as close to accurate numbers as possible. The findings point to an increased need for effective communication and stakeholder involvement under Habermasian theory. Habermasian theory in this way can help resolve claims of 'monetisation' and associated 'greenwashing' among criticisms of the social and environmental investment approach seen in Chapters One and Two. If efforts to create greater standardisation are combined with positivistic measures without sufficient stakeholder consultation and buy-in, the social domain will resist this encroachment. I have explored these questions through the lens, of market transactions, drawing on Weber's social theory of how capitalism evolves as a social construct. Through this lens rational action in social impact markets cannot take place without credible information that actors can trust.

The efforts in standardisation provide the foundation for efficient transactions. Harmonised measures enable investors and investees to base transactions on rational information about potential and actual social impact. However, I suggest that through this combined conceptual lens, that efforts at standardisation in impact investment markets must include greater space for rational communication on social impact and the development of measures. Rational communication needs to take place between those it seeks to benefit in society. Studies so far have primarily focused on communicating to investors so that they can make rational decisions on where to place their money. This greater integration can be achieved by drawing on development evaluation approaches that include the voice of participants. Through the findings presented in this research so far, I suggest that impact investing has the opportunity to integrate this into the various stages of an investment lifecycle.

More in-depth, qualitative, studies are used but are rare and are not the main source of evaluation data. This is because the statistical models rely on observable data provided by the investee companies. (In many traditional development organisations qualitative independent evaluations more common than in the blended finance aspects of DFI investments). It is costly for both the DFI investor and the investee to undertake studies that involve a high degree of stakeholder consultation. The ability to involve stakeholders and communities in evaluation is considered positive by

respondents, if it is possible. Finally, DFIs invest across a large portfolio of sectors and countries and so it is more viable for DFIs to examine their impact across the portfolio as a whole, rather than on a project-by-project basis. As a result, stakeholder consultation is used as an additional, rather than a necessary, component to investment monitoring and management.

6.8 Conclusion

The research has found that both financial and impact factors are considered in the investments made by DFIs. In some cases, impact metrics are integrated into all points of the decision-making process. In others, it informs decisions through feedback loops. The research has found that this is possible for DFIs because these institutions, and their metrics systems, are structured around clear mandates. The investment and impact logic both hinge on the mandate of the institution to create this impact through the private sector. Evaluation information indirectly guides impact decisions through feedback loops into the due diligence that takes place. The due diligence process, now standardised around the IFC OPIM, is to ensure that positive environmental and social impacts are created by the investee projects and companies.

In developing many of the metrics systems documented in Chapter Five and Six respondents began with exploration of emissions metrics and jobs metrics. This was for different reasons. One reason was to find comparability across the important job creation indicator. This is important because it is the basis of a key claim of the positive effects DFI investments have on a national economy in which it invests. Not least because some quantitative sense of direct impact is needed to be able to calculate indirect impact and be able to go further to estimate wider impact. Though the research has found that a reliance exclusively on jobs indicators could lead to bad investment decisions, meaning spending aid money on projects and companies that may not create the greatest impact.

However, and perhaps significantly, the financial and impact logics are not combined in the DFI models. They are kept separate and stratified. ESG risk is separated from

impact risk. The findings in this chapter suggest that only in the models by Finland and Denmark is impact screening made more specific are supported by similar findings in Chapter Five. This is not only because of the sophistication of the models but also because FinnFund and IFU are smaller institutions that are able to implement these mechanisms in a way that the much larger institutions such as FMO or CDC are not able to do across very large portfolios. However, the findings reported here show that in FinnFund and IFU also, ESG risk is separate from impact risk. Interviewees note that this is for several important reasons. Firstly, ESG risk should not influence the impact potential. Secondly, *ex-ante* impact evaluation information can help mitigate impact risk while *ex-post* evaluation information can inform due diligence. Finally, impact risk is addressed with technical assistance while ESG risk is addressed through due diligence.

CHAPTER SEVEN

Common understanding of social impact among DFIs, investors and smallholder producers in Mexican impact investments: a thematic analysis

7.1 Introduction

In the absence of a clear conceptualisation of impact investing, discussions in the literature centre around how social impact is blended into the financial decision-making process. Scholars have examined definitions (Bugg-Levine and Emerson, 2011b); concepts (Bugg-Levine and Emerson, 2011b; Brest *et al.*, 2013; Hochstadter and Scheck, 2015); and models (Grabenwarter and Liechtenstein, 2011; Reeder and Colantonio, 2013; Reeder *et al.*, 2014) of how to blend social and financial impact. There are, however, few empirical studies of how both impact investors, predominantly in higher income countries, and those who benefit from the investments, predominantly in lower-income countries, understand these concepts in practice. The study reported below answers research sub-question 3a. *How is social impact among DFIs at the country level, smallholder enterprises, intermediaries and investors in Mexico conceptualised?* The research detailed in this chapter finds that common to all the three respondent types is an understanding of social impact as occurring within broader ecosystems. Social impact is therefore created by the interviewees' businesses and investments through interactions within those ecosystems. Within this, risk and how to limit it, is a key part in how creating social impact is understood.

7.1.2 Study participants and method

Twelve participants agreed to take part in the study. Of these, five were representatives from DFIs, four were smallholder farmers, and three were investment advisors. Interviews took place face-to-face and lasted between approximately 30 minutes and two and half hours. All the interviews, except two, were conducted in Spanish.

Thematic analysis examined which conceptualisations of social impact in impact investing are common across the sample, and which are different. Interview

questions were structured around three core questions: How respondents view their business's (or investments in the case of investors) creation of social impact; how they perceive impact investing to create social impact; and what their attitudes are towards the relationship between social and financial gains. The themes discovered by this research are summarised in the following Section 7.2 before examining the themes in more depth in the remainder of this chapter.

7.2 Themes overview

The process of thematic analysis applied to the transcripts elicited key concepts evident in the data. These themes are viewed as central in the understandings of all participants and have been labelled as 'Ecosystems,' 'Risk Reduction' and 'Social and financial linkages.' Table 7.1 below shows the themes and various sub-themes identified from the coding process in NVivo, described earlier in Chapter Four. The codes were created to reflect common themes across transcriptions of the twelve interviews, combined with an element of precoding. Analysis of each theme and its frequency in NVivo was then used on interview data here to produce three core themes that formed the basis of the findings discussed in this chapter. Table 7.1 shows the responses that emerged across more than half of the respondents and those that had the highest number of references.

Table 7.1 Prominent codes and themes developed

Codes and sub-codes	More than half of respondents	Highest number references	Themes	Sub-themes
The social impact of the business is through eco-systems	x	x	Ecosystems	Investment Ecosystems
Social impact as impact on the business ecosystem				
Social impact as impact on the investment eco-system				
Social impact as part of good business strategy	x			
Impact on surrounding communities	x	x		
Public partnerships for communities	x	x		
Business social impact as business model adaptation			Social impact of business as risk	Risk reduction
Adapting existing land use				

Other climate change adaptation			reduction and mitigation	
Diversification				
Social innovation				
Business social impact as risk reduction	x			
Technical Assistance				Technical assistance and capacity building
Relationship building				
Financial and social weighting linked	x	x	Social and financial impact is combined	As risk reduction
Financial importance for sustainability				
Social impact mainstream				
Social impact factored in as risk	x			At community level
Mutual benefit				
Social value				With public institutions

Table 7.1 shows the codes that then fed into developing the more prominent themes and sub-themes. The relationship between the themes, codes and sub-codes is shown in more detail in the thematic map (Figure 4.3) produced in Chapter Four. The themes and sub-themes were found to cluster around two core themes of ecosystems and risk, which is explored in Sections 7.3 and 7.4. The thematic analysis showed that the relationship between social and financial impact is understood as interdependent, as detailed in Section 7.5. The analysis found that the interplay between financial and social impact occurs within these ecosystems and shares a common core focus on risk reduction.

7.3 Ecosystems

All twelve respondents mentioned the importance of ecosystems in relation to the social impact of business or investments. Investment ecosystems are the networks of organisations that surround the investor-(social) entrepreneur transaction and the

Table 7.2 Ecosystems theme		
Codes	Respondents	Coded references
Business impact is though ecosystems	7	20
Public partnerships needed in ecosystems	6	9
Ecosystems seen as the surrounding communities	5	10

relationship surrounding this.⁹ Enterprise ecosystems are the networks of organisations in the delivery of a (social) good or service.¹⁰ As seen in Table 7.2, the majority of respondents (7/12) gave strong importance in their answers to ecosystems, with over 20 coding references across the seven to this theme. For half of the respondents, ecosystems discussions included the role of public institutions in

these ecosystems and, for five respondents, ecosystem discussions surrounded social impact on communities. The findings from the analysis of the ecosystem theme and sub-themes are presented in remainder of this section. Three respondents gave answers surrounding ecosystems to questions about how their business creates social impact and six respondents in answers to questions about how impact investments create social impact. The same respondents also discuss ecosystem and community implications in questions about measuring social impact in investments.

In answer to questions about how impact investments create social impact, half of the respondents suggested that impact investments created social impact through the ecosystem that surrounds that investment. While there are investors and

⁹ Investment ecosystems are those that surround the entrepreneur-investor relationship; for instance this is explained as “*those with a surplus of capital, but a deficit of ideas, provide their capital to those with a deficit of capital, but a surplus of ideas*” (Voss, 2017).

¹⁰ A business ecosystem is commonly understood as the network of organizations—suppliers, distributors, customers, competitors, government agencies, and so on—involved in the delivery of a specific product or service through both competition and cooperation (Investopedia, 2022). The notion of a business ecosystem originated as a strategic planning concept, which emphasised strategic cooperation and relationships more than competition (Moore, 2006). Isenberg, Babson Institute? Enterprise ecosystem ref

investor-ready entrepreneurs, ecosystem failures hamper impact investment growth in the country. This perspective is reflected in the responses of one Mexican investment fund interviewee. The interviewee explained the context of research they had done recently:

“Proponemos un nuevo servicio a los start-ups. Nos dimos la tarea de investigar sistemas de emprendimiento en el nivel de todo el mundo, y tomamos tres casos, el caso de Israel, el caso de Estados Unidos, y el caso de Japón...”

Investor 2

“We proposed a new service to start-ups. We tasked ourselves with researching enterprise systems on a global scale and we took three case studies, Israel, the US, and Japan...”

The interviewee explained that in the study they found that:

“Tenemos la misma calidad de investigación que en los tres países...que hay inversión aquí en México. Claro, no es comparable con los tres países, pero sí hay dinero, cosa que mucha gente dicen ‘es que no hay dinero’. No. Es dónde se invertiría y dónde se va. Tercero, los emprendedores son los mismos: Son localizados. Se avientan, muchas veces asumen el riesgo, pero todos son iguales en los tres países ¿Entonces cuál es la diferencia de la cual ellos son tan exitosa?”

Investor 2

“We've got the same research capabilities, there's investment in Mexico. Obviously, it's not comparable to the three countries. But contrary to common adage that “there isn't any money;” there is money here. The question is where it's invested and where it leads to. Third, the entrepreneurs are the same, they're embedded locally, they're prepared for risk. So, they're all the same [attributes] in the three countries...so what makes them [entrepreneurship systems in the other countries] successful?”

Investor 2

In the extract above, the interviewee was referring to a study conducted internally by the investment fund, looking at the enterprise investment environment in Japan, Israel, and the US, to map lessons learned to the Mexican context. In the quote below they explained that the findings demonstrate that there is a lack of unity and trust among segments within the ecosystem in Mexico, compared with the other three countries. The rationale, they explained, led to the development of a start-up fund that focused on addressing this challenge to the Mexican investment ecosystem. They went on to say;

“Simple y sencillamente es el nivel de confianza entre los factores de la producción. ¿A qué nos referimos con eso? Simplemente tú en los Estados Unidos, con una idea en una servilleta, te presentas a un inversor o algo así, hay inversionistas que están dispuestos, venture capital, angel investors, o lo que sea, y te dan allí el dinero. Un millón de dólares para que desarrolles tu idea. Eso, para que suceda en México, es prácticamente imposible: No hay confianza entre los inversionistas hacia los emprendedores o los emprendedores hacia el gobierno, el gobierno hacia inversionistas. Entonces los factores de producción están desasociados, no hacen equipo, no hay confianza.”

“Simply, trust is key in the factors of production [in an economy]. What do we mean by that? In the US you can write your idea on a napkin, show it to an investor and there will be people willing - venture capitalists, angel investors, or what have you, and they'll give you the money. A million dollars for you to develop your idea. Here in Mexico that is practically impossible. Investors don't trust entrepreneurs; entrepreneurs don't trust the government, and vice-versa. Therefore, the factors of production are disassociated, they don't team up, there's no trust.”

They explained how this finding led to the start-up fund the investor is talking about:

“¿Entonces qué fue nuestra propuesta? Pues hay que crear un ecosistema de innovación, un ecosistema de emprendimiento, en el cual los factores de producción confíen en sí mismos y puedan apoyar todos estos proyectos.”

Investor 2

“So, what was our proposal? Well, we have to create an innovation ecosystem, an ecosystem for entrepreneurship, one in which there is trust between the factors of production and they can support all these projects.”

Investor 2

The foregoing extracts suggest that while the elements for entrepreneurship investments are present, trust among these elements is a key factor impeding Mexican investors and entrepreneurs. It suggests that an important role of the enterprise ecosystem is creating trust between participants within in it. Similar concerns were expressed at the enterprise level. Three respondents gave answers relating to ecosystems to questions about how their business create social impact. All three respondents were smallholder producers and/or worked on capacity building programs with subsistence farmers. In answer to questions about how their business creates social impact, one smallholder who works with subsistence farmers, for instance, talked in a similar way about the local ecosystem.

“Por que, si no, ellos lo que, cuando empezamos a trabajar con ellos, lo primero que nos decían: ¿Pero, vas a regresar? ¿Nos vas a apoyar? Porque la mayoría que vienen a comprar solamente buscan por las temporadas de venta de la verde.”

Entrepreneur 2

“Otherwise, when we first started working with them, they first ask ‘will you be back?’ will you support us? Because most of them [companies] are looking to come to buy only in the season when [the crop] is green.”

Entrepreneur 2

The extract above reflects issues of trust among members of the ecosystem and that social impact is in part a product of relationship-building. This response was representative of a recurring issue raised among the interviewees that were involved with Vanilla production. The interviews revealed that traditional business practices exploited a lack of knowledge among producers to bring down prices for raw materials. The social impact of the businesses interviewed are therefore in the context of knowledge sharing, technical assistance and fair pricing. All interviewees at the producer level, for instance, commented on a lack of trust or knowledge sharing at different levels and indicated that social impact is the correction of this problem. In this way social impact is linked to risk reduction, a theme discussed in the Sections 7.4 to 7.6 below.

As also seen in the responses above, even for investors within Mexico, there is a distance from the entrepreneurs and projects in which they seek to invest. Unlike corporations with clear value chains in the emerging economies in which they conduct business, impact investors cannot obtain to same level of closeness of interactions in the economies they invest in. Closer working relationships among the different parties to an investment is needed to co-create mutual benefit. This is reflected in comments from one Mexican investor in discussing impact measurement, who explained;

“And as I said you’re going to have different pockets. When it comes to your more philanthropy spirited and like, impact first, you’re going to be closer to it. You’re going to want to hear the stories, see the videos or ten fifteen people, and you’re going to say I want to say that. But then we’re getting impact to another point, you’re going to want to align your ethics with your portfolios and then you’re going to want to see the numbers.”

Investor 1

The quote from the investor above suggests that, although investors might want to be closer to the impact, this may not be viable. This is particularly the case for portfolio investors, who invest across a number of different programmes and so the desired level of proximity to the investment cannot be obtained. In either case, be it

the philanthropic investor and the portfolio investor, neither is assumed to be involved in the value chains associated with that investment.

At the enterprise level, however, proximity and mutual value creation are more apparent in the interviews. Mutual value is created when businesses are deeply embedded in the communities with which they do business (Brugmann and Prahalad, 2007; London and Hart, 2010; London, Anupindi and Sheth, 2010). The extract below, for instance, suggests that the conditions for mutual value creation are present among vanilla producers in Veracruz. The quote indicates that ecosystem relationships have formed in which new areas for creating value can be sought. He set out the context of the ecosystem with the neighbouring municipality with which he is working.

“Si de hecho en Tezonapa, un municipio cerca de Veracruz, el ayuntamiento está formando un grupo de 50 productores, ya con algunos pequeños que hay que siembran la vainilla también, no en grandes cantidades, pero que también conocen un poco el tema. Ellos están organizando a los productores y empezando a darles poquito de ayuda, el esqueje. Ellos vinieron a Zamora primero y lo primero que los dijo al técnico, cuando ustedes tengan 50 kilos de producto a cada productor pues nosotros podemos revisarlo y asesorarlo.”

Smallholder entrepreneur 1

“Actually, in Tezonapa, a municipality near Veracruz, the local council is putting together a group of around 50 producers, with quite a few small homesteads that also sow vanilla, not in large quantities, but [are farmers] that have some understanding. They’re organising the producers and starting to give them some help; with [providing] the cuttings. They came to Zamora first. The first thing they said to the [agrarian] technician was when each producer has 50 kilos of product, then we can come and check on it and evaluate it.”

He went on to explain where he directed his involvement to be best placed in helping the neighbouring farming producers' group:

“Yo estuve platicando con el ingeniero del departamento de Tezonapa e hice unos primeros acuerdos. Les voy a regalar un millar de esquejes de mi parte como empresa sin tener digamos, sin ser una empresa grande, una empresa mediana pues les voy a dar un millar de esquejes para los productores que ustedes van a dar y el otro millar y medio lo van a comprar ustedes como ayuntamiento. De entrada, yo les apoyo de esa manera. Lo puedo ir a asesorar de manera gratuita, podemos revisar, podemos hacer un taller de capacitación, puedo ir dos días, un día de revisión de campo, y un día para platicar con ellos.”

Smallholder entrepreneur 1

“I was chatting with the engineer from the Tezonapa department and made some preliminary deals. That is, I'm going to give you a thousand cuttings as a gift, even though I don't have a large enterprise, for the producers of your choosing and the other thousand and a half you're going buy on behalf of the local council. I'll support in this way to start with. I can advise for free; we can check on it, we can hold training courses. I can go two days: one to check on the crops in the field and another to talk to them [the producers].”

Smallholder entrepreneur 1

Interviews with the same producer revealed at least five core relationships in the enterprise ecosystem: At the employee level and supplier level, in the neighbourhood and local communities, with universities and knowledge-sharing platforms, with local government and through providing technical support to other communities. These references came in answer to questions surrounding how the business owner viewed the social impact their business generates. In that way, this smallholder producer viewed the social impact of their business within this ecosystem and relationship areas. The respondent went on to say that these practices help provide market competition to more exploitative big-business practices:

“Es una manera de obligar a las empresas grandes a que suelten un poco más. Que no sea nada más ganar, ganar, ganar. Hay que aprender a compartir.”

Smallholder entrepreneur 1

“It’s a way of forcing larger companies to loosen their grip a little, so that it isn’t just profit, profit, profit. They have to learn to share.”

The importance of ecosystems and the perspectives of the communities within them was referenced frequently by the majority of respondents in answers to questions about measuring social impact in investments. The same respondents that described their impact in terms of ecosystems also responded to questions about impact measurement by highlighting the need to consider the local ecosystem and factor in the perspectives of communities in impact measurement approaches. One investment consultant provided an example from the community perspective in Mexico:

“For me, there’s a real need to take into account people’s world view. Take for example the eolica [wind] plant in Oaxaca where the government funded program focused on the numbers of jobs created. The project was bigged up by politicians and in the media locally and nationally. But looking at the community, rather than just the business, it shows that it would ultimately lead to a net loss of jobs in the area.”

Expert 3

The interviewee explains that in the example a different picture was built when the community was factored in. In this case the project had detrimental effects on local livelihoods. The interviewee elaborates that this is due to looking at the impact through the lens of two different world views: one of the state, and its evaluation systems, and the other of the community;

“Two opposing world views; that of the developed state seeking environmental solutions, clean energy, whereas the world view of the local community was their focus on fishing as a livelihood and an ecosystem. When they spoke to the local communities, they weren’t interested in how many jobs

it would create but how it would affect the water basins and the surrounding ecosystem which they had a relationship with and relied on for crops and fishing. World views remain polarized and can't be changed unless there is two-way knowledge sharing."

Expert 1

The extract above suggests that the way social impact is measured needs to consider all participants, including local participants, in the investment project ecosystem. It refers to a wind farm expansion project in a predominantly rural indigenous community in Oaxaca. The investment received resistance locally, while previous similar projects had been viewed only in light of impacts in terms of renewable energy produced and jobs created. Impact reporting had overlooked the impact on local livelihoods in terms of access to fishing areas. It suggests that the need for the local perspective is even greater in the context of standardisation, and an accompanying focus on job creation as a core cross-cutting metric. Qualitative and participatory approaches, it is suggested, are needed to create checks and balances. This is to counter a focus on being able to demonstrate impact over being able to create broader impact that is sustainable over the longer-term.

7.4 Risk

Social impact is viewed by the majority of respondents (ten out of the twelve) as related to reducing or mitigating risk. Half of the respondents cited issues related to risk reduction in answer to questions about how their business or investments create social impact. This is summarised in Table 7.3. Four of the six respondents mentioned risk reduction in terms of technical assistance (one DFI representative and three producers). Two DFI respondents explained how risk factors into their broader portfolio-level investment thinking. Three respondents also discussed risk implications in questions about measuring social impact in investments. These sub-themes are presented in the remainder of this section.

Table 7.3 Risk themes

Codes	Respondents	Coded references
<i>How does your business or investment create social impact?</i>		
Social impact of business is through risk reduction	6	15
Risk reduction as technical assistance	6	10
<i>How do you see the relationship between financial and social impact?</i>		
Social impact is factored in like risk	4	15
Social impact risk is factored into impact measurement	3	5
Total	10	45

7.4.1 Business and Investment Risk

In six interviews, respondents mentioned risk reduction as one of the main ways in which they create social impact. The 15 references coded as risk reduction in answer to questions of how do they create social impact suggest the relative importance of this issue among the respondents who mentioned it. Similarly, to the ecosystems theme, the respondents who highlighted risk reduction as social impact are balanced between DFIs, investors and smallholder producers. Social impact, for instance, was discussed in terms of absorbing risk by a respondent from a DFI in Mexico, below.

“Claro. Nosotros al entrar a proyectos riesgosos que están perjudicando nuestro perfil de riesgo en alguna forma, estamos poniendo en peligro el financiamiento y nuestro vencimiento. Nosotros lo que buscamos en el rendimiento es financiar a nuestros proyectos, o sea a reinvertir las utilidades. Precisamente, si fueran cuantiosas o no, es distinto del modelo (cuantiosas o no lo reinsertamos en el negocio para poder reinvertir más el año que viene). Si nosotros nos comemos un golpe podemos atender a si tenemos que reducir en primer lugar. Si no es muy fuerte podemos reducir el crecimiento

dentro de los años a venir: Podemos decrecer, o podemos poner en peligro todo el negocio.”

DFI interviewee

“Of course, in entering risky projects that are negatively affecting our risk profile, we’re in some ways, putting the financing at risk and our own repayment deadlines. What we look for in the performance is to fund our projects, i.e., to re-invest the assets. Regardless of the size of the returns, we re-invest it in the business to be able to further invest the following year. If we take a hit, we can turn our attention to whether we need to reduce size in the first instance. If it isn’t too big a hit, we can reduce growth within the two years; we can [have the option to] divest or risk the entire business.”

The DFI respondent went on to explain that the social impact measures can relate to risk reduction. That means that they can keep an eye on the risk level and see how much can be absorbed. It means, as described in the following extract, that it is a way of managing risks ex-ante. That is because volumes of funding can be adjusted according to the impact and risk data that they started with compared to data that comes in during the project:

“Entonces cuando avanzamos tenemos que poner el nivel de riesgo, entendiendo que ese proyecto o la suma de la degradación del nivel de riesgo, pueden perjudicar a las inversiones. O sea, se tienen que proyectar los impactos, cuántos impactos saca ahora por un crecimiento no se puede imaginar de mantener. Pueden [responder en] mantener el volumen o aumentar el volumen. Entonces está ex-ante considerando protegiendo los impactos.”

DFI interviewee

“Therefore, as we go on ahead, we have to set a limit on the amount of risk, knowing that that project, or the lack of caution around that risk, can negatively affect the investments. We have to have forecasts; we can’t base

what future impact it'll have on how much impact it's having now. They can maintain the volume of their investment or increase it. Protecting impact is, therefore, an ex-ante consideration.”

As shown through the foregoing DFI interviewee responses, the ability to absorb financial risk for social impact gain across the portfolio ensures the social and financial stability of the investments. Built into the investment model is a consideration of social and financial risk at the project and portfolio level. It suggests that social impact is factored into the investment decision-making process in terms of both returns and risk. The same need to consider sectoral implications of risk is echoed in an example from an investment advisor:

“Infrastructure is a space in which I think ESG [Environmental, Social, Governance] is mainstream, I wouldn't see anyone investing in infrastructure if it's not ESG because you're mitigating risks that you're otherwise going to be gaining if you're investing in that asset class and if you're not think about it. Even if you're only thinking about the returns and the risks, you're going to want it to be ESG because you're mitigating risks that otherwise they're really big risks if you're talking about infrastructure.”

Investor 1

The extract above suggests that where risks are part of the business model, such as in infrastructure, social impact and risk mitigation go hand in hand. The extract below from a vanilla producer and entrepreneur in Papantla, Veracruz, for instance, also described social impact in terms of reducing market risk. This is reflective of the responses from the other producer-level interviewees, all of whom reference pricing issues either through global price fluctuations or in dealing with local intermediaries. He explained how his business helps subsistence farmers cushion against price fluctuations;

“¿Entonces cómo vamos a apoyar a estos? Cuando la demanda está alta, que ellos amplían a otras alternativas y pueden seguir produciendo sin que les afecte en lo económico demasiado para sostener la plantación.”

“Then how are we going to help support these [subsistence farmers]? When demand is high, they diversify, and they can carry on sustaining their plantation without being hit too hard by economic effects.”

The respondent explained that the reason his business supports in the way it does (through technical assistance, seed investment etc.) is that it helps cushion against the risks associated with being subsistence farmers without direct access to pricing information. Larger companies and intermediaries have in the past been able to capitalise on smallholders' lack of information and need for income. Due to this dynamic, smallholders have borne the risk of price fluctuations:

“Estamos haciendo eso porque antes, por ejemplo, había otras empresas más grandes. Ellos adelantaban dinero en temporadas de fecundación por la iniciación, porque es un producto que depende de trabajo ajeno. Para la polinización se necesita estar un mes metido en su trabajo en el campo. En lo del alrededor, no tienen ingresos.”

“We’re doing that because before us there were larger companies that put money upfront during the pollination season, because it’s work that is dependent on other people’s labour. One has to focus on working the field. They have no other way of making money.”

The interviewee explained that the problem with this is that it is open to manipulation and hard bargaining from the large companies and intermediary sales:

“Muchas veces solicitan prestamos a quien los venden. Y entonces, bien, me han comentado varios que les daban, pero al momento de corte, muchas veces dicen, la semana antes les dicen, ‘bueno aún la vainilla, si va a estar a 300, te voy a dar 180.’ Entonces el trabajo que estamos haciendo nosotros es exactamente tratando de quitar eso, de alisar eso. Y las compañías y

empresas grandes, si quieren dar los recursos, que los den, pero sin querer abaratar la materia prima.”

Entrepreneur 2

“They often ask their buyers for loans. Then, well, as many [smallholders] have told me, they gave them the loans, but then when it’s time to harvest they change the offer from 300 pesos to 180 pesos. What we’re trying to do is to get rid of that, to cushion the blow from that. If large companies do want to give resources, then they should provide those [resources] without trying to cheapen raw product.”

On international markets, vanilla prices remain fairly stable in comparison to similar crops like cacao, whose prices fluctuate.¹¹ Though there has been a hike in vanilla prices since 2015.¹² The interviews suggest that at the local level gains have been absorbed by intermediaries. In the price differential game, gains are absorbed by intermediaries, but risks are transferred to smallholders. For the respondent above, the business itself was providing competition in giving smallholders an alternative to deals with the large company buyers and in sharing access to information. This was the business’ starting point and it developed into providing broader social impact. The impact within the local business ecosystem seemed in this case to be as important as the technical assistance and other capacity building and more “social” aspects to the business discussed above.

This section showed that respondents framed the social impact their business or investment is generated in terms of the ecosystem within which it sits. Within the ecosystem, risk plays a prominent part in responses. In the analysis of the transcripts, risk was found to be key in how impact is generated by an enterprise within its ecosystem. Types of risk shown in the analysis include business and investment risk. Nonetheless, these were also shown to be linked to impact risk, which the next section discusses.

¹¹ See for instance Zucchi (2021), who explains price fluctuations in chocolate markets (Zucchi, 2021).

¹² Mexico's vanilla boom began in the 1850s and brought wealth to Papantla; from the turn of the Century Vanilla prices remained stable but low to 2015; from 2015-2019, when these interviews were conducted, there had been a rise in prices.

7.4.2 Impact Risk and Risk Reduction as Technical Assistance

Risk reduction featured strongly in responses on how businesses and investments create social impact (see Table 7.3). Section 7.4 has so far discussed the role of business and investment risk in decision-making and in how respondents talked about their social impact. Similarly, social impact was seen by respondents as being created through mitigating or reducing specific social impact risks. Respondents identified a number of methods built into the impact they set out to create, such as helping smallholders adapt business models, diversify, retain, and share knowledge. The majority of respondents who discussed risk reduction alongside social impact (see also Table 7.1, Section 7.2 above) suggest that the social impact of their business is produced through risk reduction or mitigation. This is achieved through capacity building, technical assistance, and knowledge sharing.

The main risks identified in the interviews with smallholder producers and those who work with them included price fluctuations, crop robberies, and climate change (drought). The issue of social impact as risk mitigation was particularly prevalent among the interview responses of smallholder vanilla producers. Associated risk mitigation identified as part of the businesses' social impact includes crop management techniques, crop diversification and business model adaptation. For one smallholder, for instance, risk reduction particularly through technical assistance was seen as a tacit social agreement as part of his business:

“Sí, un compromiso. Y también con el compromiso de que, en el momento que ellos digan tengo un problema de plaga o de enfermedad o en este manejo que recomiendas, pues nosotros vamos directamente a sus parcelas y lo revisamos con ellos.”

Entrepreneur 1

“Yes, a commitment. It’s also a commitment [on our part] to help if the plants are diseased, or in the method we’ve shown them, we’d go to their plantations, and we review [the problem].”

The vanilla orchid is native to the region and the wild plants were cultivated by Totonac people (Bruman, 1948). The Totonac culture existed among the indigenous Mesoamerican Totonac people who lived mainly in Veracruz. The Totonac continue to live and cultivate in unpopulated hilltop areas. Our host where we stayed for the duration around Papantla, was situated behind a Totonac-language boarding school, funded by UNICEF. School children return home during weekends and during pollination (the labour-intensive part of the vanilla cultivation cycle). The school serves the dispersed mountain communities to avoid long, treacherous walks to and from mountain homes to school. Having hilltop plantations away from homes, however, leaves the crops exposed to theft at harvest time. An increasing problem identified among the vanilla producers interviewed was that of robberies. One vanilla supply chain intermediary who works with indigenous producers said:

“Ahora mucha gente se ha frustrado por que se han robado esa vainilla, se la han destrozado, su trabajo. Y deciden mejor dejarlo por detrás.”

Entrepreneur 2

“Many people are frustrated because the vanilla gets stolen, and destroyed in the process, all their hard work. And they decide to leave it behind.”

This quote seems to suggest that as vanilla becomes increasingly known locally and nationally as profitable, it has also become a target for criminals. Vanilla crops are slow to cultivate, taking months to mature enough to attach to a tutor (a living plant, usually a tree, for the orchid vine to grow onto), and three to seven years to ultimately produce a crop. There is only one production period, and, in Mexico, agricultural Law 15 prohibits harvesting before a certain date. During robberies, the plants are destroyed as opposed to properly harvested. This level of destruction can lead to financial ruin and abandoning farms and homes.

One intermediary described the social impact of his business as responding to these new risks as well as more common risks of pricing insecurity. The extract below shows how his business is helping mitigate these risks. He has been implementing

adaptation and capacity building programs with farmers. His response suggests that business and crop management models are having to adapt to security risks:

“Puede ser porque este le da empleo directo a mucha gente o puede ser una empresa familiar. La recomendación que estamos haciendo, que el vainillar, que lo tengan cerca de donde viven. Para lo de vigilar y que tenga una fuente de agua segura en verano y eso es el que se suele hacer para realmente seguir adelante como productor.”

Entrepreneur 2

“This can be a source of direct employment for many people, or it can be a family business. We’re recommending that they [the smallholders] plant near to their homes. For security reasons and so that they have a secure water source during the summer. This in reality is the way to be able to continue as a producer [in the face of robberies and climate change].”

The respondent above has, he explained, through his business been helping communities adapt by planting close to homes. However this approach requires more artificial conditions such as artificial shade and tutors (Havkin-Frenkel and Belanger, 2018). Vanilla is a vine and needs live trees (tutors) to grow on and is best cultivated in a semi-wild state. Further, many Totonac people continue to have semi-migratory livelihoods, as evidenced by the UNICEF boarding school above for children whose parents are cultivating in the wild forests in the region. However, higher yields in a cultivated state can be produced in a smaller area. The change to growing vanilla within homesteads with artificial shading and support is based on security needs rather than production requirements.

Promoting this level of change can only take place through a long-term relationship built up with indigenous producers (this entrepreneur had been working with the same producers for over 20 years). Yet, this production system may have negative impact, as recent research suggests a need to restore tree cover to preserve vanilla

production in the area (Peraza-Villarreal *et al.*, 2018).¹³ The intermediary's business, however, also works in enabling diversification which encourages better management of existing resources. He described this knowledge as one way in which they help create benefit for small producers. He explained that it also demonstrates how existing resources can be adapted to generate income to cushion against risks to Vanilla crops:

“Además el productor al principio no sabía aprovechar. El árbol lo macheteaba a punta de machete, a punta de hacha, para podar la pimienta. Ahora se ha dado cuenta que le dan buen ingreso y, sobre todo en la época en que mas necesita, también es cuando muchachos salen o entran a la escuela. Ahora se preocupan más por el árbol: Lo cosechan ahora con tijera de podar, lo hormiguean, lo cuidan, ya. Por eso es que la pimienta ya es vamos dentro de poco yo creo.”

Entrepreneur 2

“At first the producers didn't know how to make the most of the pepper tree. They would hack at the pepper tree to prune it. They've now realised that can make good money off it, importantly when they need this income the most, that is in school term times, so they look after it. They actually harvest it properly and prune it with the proper shears, they apply anticide. That's why I think pepper is working out.”

The foregoing suggests that diversification can be achieved through largely through knowledge-sharing.¹⁴ Pepper, for instance grows wild on farmers' land.¹⁵ By linking smallholder farmers to markets and knowledge of the crop, this entrepreneur who acts as an intermediary suggested that the social impact he creates is in helping farmers diversify to cushion against risks associated with vanilla. Others are

¹³ For instance this approach may make the crop more susceptible to plague (fungus) (Havkin-Frenkel and Belanger, 2018; Peraza-Villarreal *et al.*, 2018).

¹⁴ For instance, compared to land, seeds etc., that would be needed to plant a whole new, different crop type.

¹⁵ See for example (Angel-Perez and Mendoza, 2004) who views the Totonac traditionally designed agroecosystem which mixes different elements, such as cultivated and wild plants and livestock, as a strategy for subsistence and natural resources management.

encouraging smallholders and subsistence farmers to make use of the tree cover they have for vanilla. For instance, as another entrepreneur in Papantla explained:

“Entonces, aquí nosotros logramos, podemos decir, los primeros pasos experimentales. Una vez que están los resultados entonces nosotros les decimos a ellos. Es una manera que pueden cultivar si ustedes cultivan naranja y tienen como adaptarla. De esta manera pueden trabajar con la naranja.”

Entrepreneur 3

“Here we successfully took the first experimental steps. Once we've got the results we'll let them know. It's a way they can cultivate [vanilla]. We tell them if they have orange trees [for instance] that they can adapt, they can cultivate the vanilla on them.”

Going on to say, following in-depth elaboration:

“De esa manera la empresa está trabajando con los productores, pero presentando diferentes alternativas de manejo. Y que ellos adapten de acuerdo con lo que tienen; el manejo que pueden ocupar.”

Entrepreneur 3

“That way the company is working with the producers but presenting alternative methods. And they therefore can adapt them to what they already have.”

The quote above summarises extensive work being undertaken by interviewees in Veracruz to assist smallholders to make a sustainable living from existing land structures. During the interviews, smallholder farmers, entrepreneurs and capacity builders who worked with them all talked in detail about produce per hectare. In general, the interviews suggested, that sufficient vanilla production, along with diversification to create sustainable economic growth for smallholders can be obtained in just half a hectare. Local smallholders do not tend to have more than this to work with, it seems from the interviews. A capacity-builder who works with

subsistence and smallholder farmers in Veracruz summarises risk reduction into one basic aim:

“Fundamos esta institución con nuestro propio dinero; con tarjetas de crédito particulares (como que no nos financiaron) con el propósito único que los pequeños agricultores no abandonen sus terrenos.”

“We founded the institute with our own money. On our own credit cards (because we couldn’t get financing). Our sole purpose was that smallholders don’t abandon their lots.”

The extract above summarises the extent to which smallholder and subsistence farmers are extremely vulnerable to economic and environmental shocks. The respondents all refer to instances of people they know who have abandoned their farms as a result of overstretching to meet demands from large buyers, not being able to pay back creditors, or because of crop devastation from plague or robbery. For some of the interviewees and seen in the seminars at Veracruz University the need to prevent this is part of preserving local cultural heritage. The importance of providing a sustainable living as a form of cultural value was highlighted by one respondent:

“[Hace] veinte años que trabajamos con los productores, generalmente son indígenas o totonacos. Hemos promovido el cultivo desde el principio y estamos, últimamente, brindándoles asesoría para que no se desmotiven en cultivar la vainilla, que para los totonacos es cultural. Porque cuando hablas de Papantla hablas de vainilla, del Volador, y el Tajín. Entonces eso nos compromete muchísimo para no dejar que eso se pierda.”

Entrepreneur 2

“We’ve been working with producers, usually of indigenous or Totonac origin, for twenty years. We’ve encouraged the growing [of vanilla] since the very beginning, and lately we’ve been advising them so that they carry on cultivating it, as it also has cultural significance for the Totonacs. When one talks about Papantla, one conjures up images of vanilla, of the ‘Voladores’ [a

local ritual acrobatic dance] and of el Tajín [the ancient Mesoamerican city and pyramid]. So, that further motivates us, lest it be lost.”

The previous sections of this chapter have established that risk plays an important part in how enterprises and investments view the impact that their business generates. The present section has shown the importance of impact risk in investment considerations and in considerations on how to measure investment progress. In interviews with DFI metrics experts, reported in Chapter Six, impact risk management is also an important use of the evaluation information generated by their systems. As seen in Chapters Five and Six, technical assistance is, to varying extents, deployed by institutions as a way of responding to and managing impact risk. The present section has shown that, for DFI respondents and smallholder (social) entrepreneurs, impact risk is managed through capacity building, technical assistance and knowledge sharing by the respondents. These methods used for impact risk management are built into the business model itself in some of the cases detailed here, for instance one of entrepreneurs, provided competition to large firms by organising smaller producers. Providing this market competition created impact itself, as well as the social impact the entrepreneur more directly sought. The next now looks more at related findings on how the business and financial (profit-making) impact and the social impact (not-for-profit) were sought by respondents.

7.5 Blending Social and Financial Impact

Chapter Two established that blending social and financial impact is central to definitions of impact investing. How this blend is understood varies and there are competing perspectives on this. Chapter Five demonstrated that DFIs have increasingly framed impact investments in this way. Chapter Six then explored how this blend plays out in the investment metrics of DFIs and in decision-making, by looking at the investment process through a blended value conceptual lens (see also Chapter Four). This section now examines findings on how respondents describe the business and financial (profit-making) impact and the social impact (not-for-profit) they seek through their business and investments.

The perceptions of all respondents towards social and financial impact tended to link the two together. Some respondents felt very strongly that social impact is more important than financial impact. There is some recognition of the differences between where social and business values originate. Yet the interplay between financial and social impact is generally discussed in terms of mutual value. Analysis of these sub-themes (also listed in Table 7.1) follows.

It was evident from interview data that social impact was considered by respondents as a key decision-making factor alongside financial return. This view is reflected in the extract from one DFI respondent below who explains how the organisation in Mexico places social impact at the forefront of the DFIs investment decision-making:

“Nos hemos propuesto de poner los impactos por delante de las decisiones financieras. Por lo menos así lo presentamos. Todavía estamos buscando el ‘sacred grail’ de como funciona esto, pero dijimos que entre 2015 y 2020 íbamos a duplicar nuestras inversiones en términos de volúmenes anuales y que íbamos a triplicar los impactos ex-ante que estábamos buscando.”

DFI interviewee 1

“We’re planning on prioritising impact when making financial decisions. At least that’s how we’re starting, we’re still after the “holy grail” of how it works, but we’ve said that between 2015 and 2020, we’re going to double of investments in terms of annual volumes and that we’re going to triple the ex-ante impacts that we’re looking for.”

DFI interviewee 1

The extract above reflected a general recognition that there was yet to emerge a definitive way to link social and financial impact in the decision-making process. Nonetheless, in the absence of this, social impact can still be given weighting in the investment decision. In this case, a doubling of funds dispersed is expected to generate a three-fold increase of social impacts. Moreover, the purpose of the increase in funds is explicitly to increase social impact.

7.5.1 Social versus financial impact

Many respondents felt very strongly that social impact is more important than financial impact. Some respondents expressed this in terms of ‘the urgent issues facing mankind.’ Several examples of global issues in the Mexican context emerged across responses: climate change, pollution, inequality, and migration. Factoring social impact in the investment decision-process is in these views the only way to counter the problems, viewed in part as caused by an investment system that doesn’t consider social impact in this way. This perspective was summarised in the view of a state-level investor:

“Y creo que en la pirámide de la que platicamos hace rato, parte de la razón de por la que estamos hoy en el mundo en tema de cambio climático, etc. es porque nosotros no facturamos el impacto social incluso en las inversiones sociales. Y creo que hoy es una muestra de que todas las inversiones que se hagan, tanto como privado como no privado, tienen que tener un poco del anticipo social desde el principio.”

DFI interviewee 3

“In terms of the pyramid we’ve just been talking about, part of the reason climate change etc... is such a problem, is because we haven’t considered social impact, even in social investments. It’s a sign that today all investments, private or public, must have some form of social planning from the start.”

As a result, many respondents expressed the view that investments should categorically factor in social impact. That is, factoring social impact should no longer be optional. This is summarised again by the same state-level investor:

“Deberían tener un impacto social sí o sí...No hay vuelta para atrás.”

“They must have social impact. There’s no going back now.”

7.5.2 Mutual value

The interplay between financial and social impact was generally discussed by respondents in terms of mutual value. For investors and smallholder producers alike, social impact in the form of mutual value creation, was seen as good business practice. This reflects what the metrics experts in Chapter Six described as basing decisions on the business model and sustainability of its finances. For DFIs this was linked to the mission-based mandates of the institutions. The comment below from one investor in Mexico demonstrates the importance of both the social and business performance of what they invest in;

“Tampoco son, como decimos aquí, amas de la caridad, ¿no? No, no, no. Están haciendo negocio y, para que sea un negocio que sea sostenible, se tiene que ser sostenible socialmente.”

Investor 2

“As we say, it’s not charity, its business. They’re doing business and for that business to be sustainable it has to be socially sustainable.”

Similarly, a smallholder producer describes it in terms of mutual benefit and as sound business practice. The producer in the comment below sees a deal with a large buyer had created value for both the producers and buyers. This is because the technical assistance received as part of this deal provided both buyer and seller regular produce:

“Mientras que ellos también tengan producción en verde, nosotros vamos a seguir creciendo más también, porque podemos poder garantizar el mercado que nos compra si van a tener producto cada año.”

Entrepreneur 3

“As long as they carry on producing raw produce, we’re going to keep expanding, because we can guarantee the market that buys from that they will have produce each year.”

Nonetheless, the relationship between social and financial impact in business and investment decisions are influenced by the motivations of investors and the picture they have available to them. This is demonstrated by the extract below from one investment advisor:

“I think one thing that they have to focus on and they have to transmit this to their clients is definitely seeing what their goals are and understanding the different dimension of their goals.”

The investor went on to explain that for a wealthy individual client, for example, their goal is only to leave a stable, secure inheritance to their grandchildren, for instance. However, if you enter into the discussion with them, the interviewee explained, you get a little closer to the client and obtain an idea of what their goals might be beyond that.

“Their goal might be leaving a huge inheritance to their grandkids but then you have to combine that with their ethics and how they're gonna play, because you might say, well fantastic, Mr X you're going to leave this inheritance to your kids, and we can invest it really well ... You might leave them an amazing chunk of money, but wouldn't you be worried about the impact that is having? Do you want me to invest all this money in arms and carbon producing businesses or whathaveyou? I think and that's when you're going to hit a spot in the client where you're going to go beyond a discussion of returns and risk, you know.”

The investor explains their role in guiding and understanding, and how investments with impact can be presented as an alternative choice that may speak more closely to the wider goals of the individual:

“You're almost going to be like a psychologist ... the closer you're going to get with the client once you're talking about that. First of all, you're talking about his goals about what he wants to do with his family and everything but

then if you incorporate the ethics and like alright you have a plan, this is going to be 60 years from now, but, like haven't you thought about this? And then you switch the conversation, and they'll step back and say alright this is something interesting."

Investor 1

There is some recognition among respondents of the differences between where social and business values come from. These are that the logics of for-profit and not-for profit value creation. One respondent said:

"The two principles of society and of business, we ultimately see businesses as not caring but the principles of why an enterprise is (to make money, survive as an enterprise, respond to markets, including government incentives and protocols, like the SDGs) comes from a different place to the principles we develop in society. A change of values can only happen when principles from society and communities can move into enterprise."

Expert 1

It is clear, however across the variety of responses, that the investment picture is not as clear-cut as a tension between two competing logics. Social impact is factored into investment decisions to varying degrees across the globe. The way investors, philanthropists and institutions go about incorporating social impact is more nuanced than balancing a trade-off between too competing logics. The relationship between social impact, risk and return is multidimensional, as other respondents highlighted.

7.5.3 Social impact, Risk and Return

Other respondents went further in the way they talked about the relationship between social and financial return. More than half of the respondents (see also Table 7.1) go on to say that social impact should be given the same consideration as both productivity and risk. Social impact should be more than just an add on to the return side of the risk and return calculation an investor makes. Instead, social impact should be factored into investment decisions in a more integrated way. The extract below reflects the views of three respondents that social impact should be

factored into the investment decision-making process to the same degree as risk and financial returns.

“Es que el impacto social se tenga en el mismo grado que el riesgo y la productividad.”

DFI interviewee

“Social impact should be given the same weight as risk and productivity.”

Risk among investor-level respondents was clearly a standard consideration alongside social impact and financial return (discussed in more depth in Section 7.4). An investment consultant, for instance, said:

“As with many other things, when you're talking about risk and return, I think you have a new dimension when you're talking about impact. Then you have impact. Then you have this surface in which there are certain points you're looking at a certain risk and at a certain return, but you're looking at the impact as well. I might be willing to take higher risk, lower return, really high impact. So, it all depends on what I'm looking for. And for me, and I was talking about this with some investors the other day actually, and they said like, it may even be a negative return, but that's still better than just giving your money away.”

Investor 1

The extract above further demonstrates the link between risk, financial return, and social impact. It suggests that rather than a two-way trade-off between social and financial returns, the investment decision-making picture is a balancing of risk, social impact, and financial returns preferences. Sometimes this preference is expressed by simply investing socially over philanthropic giving. In other cases, as seen in the DFI interviewees elaborated in this chapter and the previous chapter, social impact is viewed as an integrated part of the investment decision process. Social impact in DFIs is considered alongside risk and return, enabled by the metrics systems that are designed to do this. The following section now discusses the related findings on the importance of ecosystems in creating and measuring impact; and the importance of risk in financial decision-making for impact.

7.6 Discussion

The results reported above highlight findings that are important to understand how social impact is conceptualised in impact investments. In this study, I have determined concepts central to DFI, investor and smallholder producer understandings of social impact in Mexican impact investments. These are the concept of the ecosystems in which the investments take place and enterprise and investment risk. Through the analysis I find social and financial impact are linked.

The foregoing analysis indicates that enterprise ecosystems are a core theme in how respondents view the social impact of their business and impact investments. This supports a view found in the literature (see Chapter Two) and DFI documents (Chapter Five) of a need to factor in ecosystems in conceptualisations of impact investing and corresponding measurement approaches. The ecosystem perspective considers a range of factors that influence the effectiveness of entrepreneurship (Stam and Spigel, 2016; Mason and Brown, 2014; Isenberg, 2011).

The factors within this environment include political and legal institutions, social-cultural factors, knowledge transfer, local social capital, natural capital, entrepreneurship capital, and microfinance. These factors are included in the way Weber (1921, 1968) frames thinking about the interaction between systems and society and how markets have developed. More recently, enterprise ecosystems have been used to frame research into impact investments (Acevedo and Wu, 2018; Roundy, 2019).

While it may be unsurprising, then, that ecosystems featured prominently in the data, the evidence detailed here suggests that there is a relationship between social impact and these ecosystems, which can advance the development of a conceptual understanding of impact investing. I suggest here, then, through the theoretical perspectives of Weber (1921, 1968) and Habermas (1984, 1985) on the interactions between systems and society, that social impact measures to capture impact produced by businesses and investments can encompass broader impacts through an ecosystems perspective. Future research could look at the intersection between

enterprise ecosystems and impact investing ecosystems. This may provide insight into how the two ecosystems link together conceptually and in practice.

The views of respondents I outline in this research align with the findings from existing studies in Mexico and the Latin American region. The social impact potential of impact investing in the Latin American and Mexican contexts relies on creating and supporting enterprise ecosystems (Zinny, 2015; Liern *et al* 2017; Mendoza 2018; ANDE; LAVCA, 2018; LAVCA, 2018). Liern *et al* (2017) consider ecosystems for social and environmental impact as one of the basic principles of impact investing. ANDE and LAVCA (2018) suggest that a weak supporting ecosystem is an impediment to the potential of investor-ready entrepreneurship in the country. The paper reproduces a ranking of enterprise ecosystems in which the US ranks 1st and Mexico 87th out of 110 countries. While there are investors and investor ready entrepreneurs in Mexico, ecosystem failures hamper impact investment growth in the country.

Through the findings of this study, I suggest that while the elements for investments in entrepreneurship are present, trust among these elements is a key factor impeding Mexican investors and entrepreneurs. I suggest that an important role of the enterprise ecosystem is creating trust among the participants within it. When viewed through the lens of Habermas (1987) and the theory of communication, (see Chapter Three), the necessary channels for trust building are missing in the social construct of the impact investing market in Mexico. The investment ecosystem in Mexico has all the necessary components (Zinny, 2015; ANDE; LAVCA, 2018). However, it is in the functioning of the ecosystem in Mexico where impediments to social enterprise occur, similarly to a number of other Latin American economies (Gatica, Carrasco and Morabec, 2015; Espinoza *et al.*, 2019). For instance, there is capital in Mexico (Zinny, 2015; ANDE; LAVCA, 2018; Espinoza *et al.*, 2019) but access to capital remains a key constraint in the enterprise ecosystem (Zinny, 2015; ANDE; LAVCA, 2018; LAVCA, 2018).

The analysis I have presented in this chapter aligns with the literature on impact investing in that it presents a view of social impact as broader than that of the business. Encapsulated in the concept of blended value shown in Chapter Three on

how businesses create social impact externally with people and communities. Through this, I provide evidence that supports the blended value proposition at the core of the impact investing; that enterprises create environmental, social and financial impact beyond their core business transactions (Emerson, 2000, 2003; Bugg-Levine and Emerson, 2011b). As a consequence, I suggest similarly that the *measurement* of impact in business, financial and investment transactions should reach outwards to capture broader social impacts.

I find through the research outlined in this chapter that social impact is viewed by the respondents in my sample as extending to communities and ecosystems and therefore beyond business transactions. However, this may not be reflected in current approaches to social impact measurement. A breadth and depth of social impact is necessary to adhere to the broader definition of 'social' factors in impact investing (Emerson, 2003, 2013). Although over 75% of impact investors measure social and/or environmental outcomes, only 43% measure the breadth of their impact and 37% the depth of their impact (Mudaliar, Schiff and Bass, 2017, p. 42). Significant efforts undertaken between 2017 and 2019 to upgrade standardized measurement systems to focus more on breath, depth and quality of impact were discussed in the DFI policy review in Chapter Five. Attitudes among respondents towards social impact measurement are discussed in the following Chapter Eight in participants responses to vignette questions.

At the investor level, the analysis revealed that risk along with social impact is factored into the decision-making process. Many studies on impact investments focus on linking social returns with financial returns, for instance (Grabenwarter and Liechtenstein, 2011). The findings I have presented here support the view that there is a link between social and financial impact in the investment decision-making process. Some studies, however, lead to an unhelpful categorisation (Bugg-Levine, 2013) between finance first and impact first investors (for instance, Freireich and Fulton, 2009; Brest *et al.*, 2013). These studies often underplay the role of risk in the investment decision. The findings presented here indicate that the relationship between social and financial impact is inextricably linked but complex and nuanced. I suggest from these findings a further element to the conceptualisation of social impact in impact investments of social and financial risk (see Figure 7.2), which

contributes towards a need for greater conceptual clarity in impact investing (Bugg-Levine and Emerson, 2011b; Jackson and Harji, 2012; Brandstetter and Lehner, 2015).

Established literature on the private sector as a new actor in international development discusses tensions within non-profit and for-profit motivations, values and developmental goals (Nelson, 2007; Porter and Kramer, 2007; Jenkins and Ishikawa, 2010; London and Hart, 2010). This literature suggests that while non-governmental organisations, aid institutions and corporations have different motivations and value propositions for their involvement in international development, long-term cooperation between the two types of actors creates mutual value for business and communities, consumers and producers in developing countries (Brugmann and Prahalad, 2007; Nelson, 2007; Porter and Kramer, 2007; Jenkins and Ishikawa, 2010; London and Hart, 2010; London, Anupindi and Sheth, 2010). This type of long-term cooperation comes through in the interviews above. These chains of cooperation are formed within business ecosystems.

At the enterprise level, however, proximity and mutual value creation are more apparent in the interviews. Mutual value is created when businesses are deeply embedded in the communities with which they do business (Brugmann and Prahalad, 2007; London and Hart, 2010; London, Anupindi and Sheth, 2010). Through proximity and mutual value creation, a new social contract between some businesses and communities can be formed (Brugmann and Prahalad, 2007). One interviewee went as far as to describe their social impact as a form of "*compromiso*" or social obligation to those within the enterprise's value chain and surrounding community. As a result of this type of social contract, these companies have a 'fortune creating' rather than 'fortune finding' outlook in doing business in developing economies (London and Hart, 2010; London, Anupindi and Sheth, 2010). This outlook is reflected in the responses from producers. This kind of social contract between business and communities creates value for the company, the quality of life of the communities served, and the NGOs and development institutions' developmental goals. The result has the potential to make a significant impact on economic growth (London and Hart, 2010).

From this perspective a concern with impact investing is the geographic and socio-demographic distance between investors and beneficiaries. For instance, an estimated 70% of impact investments in 2014 were made in developing countries though investors are predominantly from developed economies (Saltuk *et al.*, 2014). As the foregone analysis shows, even for investors within Mexico, there is a distance from the entrepreneurs and projects in which they seek to invest. Unlike corporations with clear value chains in developing economies, impact investors cannot obtain the level of closeness of regular interactions needed to co-create mutual benefit in this way.

The role of risk in decision-making for social impact was highlighted in the majority of responses in three main forms: as social risk, as environmental risk and as business risk. Risk was discussed by respondents in answer to questions about how their business or investments create social impact. These findings, I suggest, present an interesting contribution by determining that respondents describe the social impact they create in terms of risk factors. This was evident both at the portfolio level and at the enterprise or programme level. Framed in ways of thinking about the interaction between systems and society from Weber (1921, 1968) and Habermas (1984, 1985), these findings, suggest a conceptual contribution that includes social impact risk. These insights contribute to a clearer and more accurate understanding of impact investment and how best to measure a blend of impact, which I now detail in the concluding Section 7.7 that follows.

Within the vanilla projects examined here, I found that the ultimate social aim of these projects was to create a sustainable living for smallholder and indigenous producers in order to curtail unskilled rural to urban migration. Among some respondents, this is interlinked with vanilla being seen as preserving cultural value among the Totonac people. Small scale producers have traditionally been pressured, through competitive purchase agreements with large companies, to dramatically increase their production.

The smallholders who rely on family labour do not directly employ farm workers. In order to increase yields, they need to take on credit to pay for land, labour and expensive inputs for new plantation. Cases mentioned by respondents suggest

smallholders cannot pay back creditors. In the scoping study for this research (see Chapter Four) local interest rates for small businesses would start around 52%. The unfeasibility of repayment was mentioned by a number of respondents.

Through cooperation between producers and the Universidad Veracruzana a model has been developed where local producers are encouraged, as an alternative to taking on credit or to migrate, to make use of the existing land structures and techniques that they have to expand. This involves managed cultivation of vanilla along with complementary diversification. Heavy amounts of technical assistance and initial inputs (such as cuttings to get producers going) are creating greater efficiency yields. Meanwhile cooperation between buyers, local organisations, and indigenous producers are making a more competitive market to one previously dominated by large buyers. This is achieved, according to the evidence, through knowledge-sharing, access to pricing information, and opening of new markets through these organisational structures. This model could have the potential to transform the lives of the local rural poor.

7.7 Conclusion

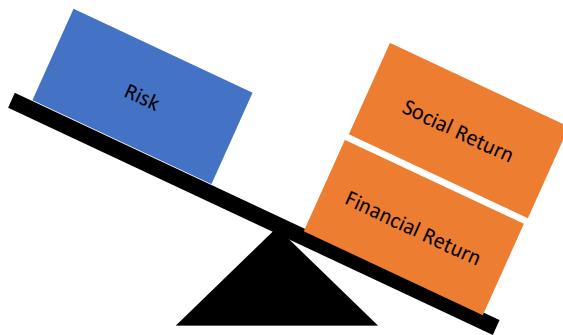
All investors - traditional and social investors - make their decisions based on risk calculations as well as returns. The results presented in this chapter suggest that the inclusion of social impact should speak to both risk and financial returns, rather than to returns alone. Studies on the interplay between social and financial impact in impact investing are often framed conceptually in terms of the tensions and presumed trade-offs between for-profit and not-for profit logics. This framing narrows the focus to the relationship between social and financial gains. Attempts to conceptualise impact investing (Emerson, 2003, 2013; Grabenwarter and Liechtenstein, 2011; Edmiston and Nicholls, 2018; Nicholls, 2018; Viviani and Maurel, 2018) stem from a linear model where social impact is added to returns.

The findings reported in this chapter suggest that attempts at linear adjustment to the model may be failing to achieve traction because they are inherently flawed, by being, in fact, linear. As discussed in the literature review in Chapter Two, this

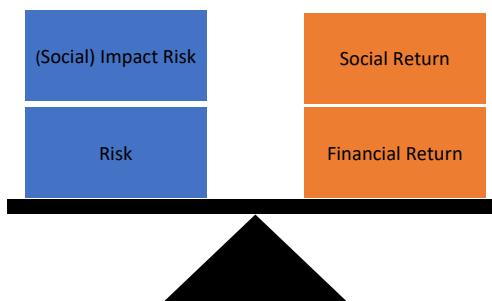
creates a conflict with multi-dimensional logic which has to be applied to social impact evaluation, because of the inherent complexity of the social world. The idea underpinning impact investing is that risk and return calculations now become risk + return + impact. In current studies, broadly the logic shifts from a position where risk and return then becomes risk plus return plus impact. In this way impact becomes part of the decision-making calculation (examples are shown in Chapter Two (Grabenwarter and Liechtenstein, 2011; Viviani and Maurel, 2018)). Figure 7.1 depicts these current models and also what a more balanced model including impact risk would look like. In the framing used by investors, risk and financial return are two necessary elements of the equation. Current studies, though, only focus on bringing social return into the financial return part of the calculations to invest. To balance the equation, however, impact risk needs to be brought into the risk side. The difference is depicted in Figure 7.1.

Figure 7.1 Integrating social impact into risk and return calculations

Risk and Return plus Social Impact



Risk and Return plus Social Impact and Social Return



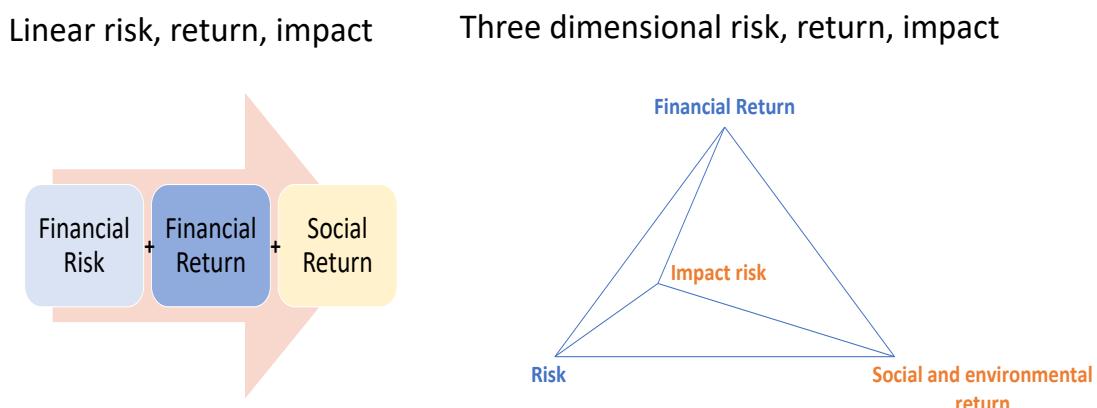
Source: Author's own

It has not been the role of the qualitative research in this thesis to explore the incorporation of social impact into financial modelling. The findings I present here, though, suggest a conceptual shift that proposes a new direction in developing these types of models that would factor in impact risk as well as social return. The findings reported here would suggest one possible direction would be to explore how to include impact risk into the pricing model, such as via Grabenwater and

Liechenstein's (2014) impact extension to CAPM discussed in Chapter Two, which these authors suggest needs refining.

Through the findings here I suggest that these current efforts to create impact adjusted equations (for investment decision-making that include social impact) need to look at ways to incorporate it as a third dimension, rather than as a stand-alone addition to the financial return part of the equation, depicted by the model in Figure 7.2. The inclusion of impact risk here suggests a *triangular* rather than linear model. This multidimensional conceptual model has the potential to sit better with social impact as complex.

Figure 7.2 Linear versus multidimensional integration of social impact, which includes impact risk.



Source: Author's own

The heightened role of impact risk identified here develops this approach to further integrate social impact into the financial decision-making process. The findings on impact risk reported in Section 7.4 combine with similar findings in previous Chapters Five and Six (detailed in the previous discussion Section 7.6). I suggest that these findings lead to theorise that the approach for impact investing risk + return + impact should instead follow the logic shown in Figure 7.2. The logic depicted in the diagram

brings impact risk into the model. In so doing, it shifts from being a linear model to a multidimensional, triangular, model of impact investing.

In conclusion, the key finding from this research is that ecosystems and risk bear conceptual linkages with how social impact in impact investing is understood. In terms of the blending of social and financial returns in the investment decision-making process, the role of risk has important implications. The findings of this study suggest that the current focus on how social impact links with financial return could and should be expanded in future research to further explore how social impact relates to both risk and financial return. This would help present a more comprehensive picture of social impact in the investment decision that would have greater real-world implications for investors than a binary framing around tensions between social and financial values and measures. The linkages among social impact, risk and financial return are examined further in Chapter Eight, which discusses attitudes towards social impact measurement in impact investments elicited through vignettes.

CHAPTER EIGHT

Attitudes towards social impact measurement among DFIs, investors and smallholder farmers in Mexico: a vignette analysis.

8.1 Introduction

Chapter Seven established the core themes common to respondents in Mexico on smallholder businesses and how impact investments in them can create social impact. Now Chapter Eight uses the vignette method to answer research sub-question 3b. *What are attitudes to different approaches to social impact measurement at the country level?* The vignette method adds specificity to themes developed in the previous chapter. It does this by providing responses to specific indicators used by investors, for example “number of jobs created”, “jobs plus yields”, and “matriculation rates” (see Chapter Four). Analysis of the vignettes detailed below elicited views on the different values placed on social-financial aspects of the decision-making process. The analysis revealed attitudes towards standardised measures and specific indicators as well as attitudes towards qualitative approaches to impact measurement.

The hypothetical stories in the vignettes were based on a cross-section of existing DFI investment projects compiled in 2017/18, (see Chapter Four). As the participants’ ability to engage with the story is enhanced if they have personal experience of the scenario (Barter and Renold, 2000), the vignettes depicted projects very similar to those funded by DFIs, focused on rural settings to provide sufficient contextual understanding for the smallholder farmers in the study. The impact investment projects that were found in smallholder agriculture through this process included technological solutions to smallholder farmers, solar energy projects, water and sanitation delivery to places that are difficult to access with infrastructure, and education. The vignette stories were built around these sectors for the scenarios to be plausible and realistic to respondents.

8.1.2 Study participants and method

The same study participants as for the thematic analysis in the previous Chapter Seven were included in the vignette component. Ten participants agreed to take part in the vignette study (two respondents had time constraints and were only able to answer the open questions analysed in Chapter Seven above). Of these, five were representatives from DFIs, three were at the smallholder farmer level, and two were investment advisors.

The vignettes were presented as cards on which respondents were given an investment pitch for a social impact project. They were asked to place themselves in the position of an investor with a defined amount, for instance, \$50,000 to invest. The full set of vignettes is reproduced in Annex A. In all the vignettes, the investor on the card is said to be satisfied with the rate of financial return and the level of risk. That is, they have already made the financial decision to invest. The investor now needs to decide on the basis of the limited social impact information they have on the card. Respondents were asked if they would invest with this information and why. If respondents said they would not invest, they were then asked what social impact information they would need to make the decision to invest.

The initial hypothetical story or scenario in each of the five vignettes was designed to elicit attitudes towards: standard employment indicators (direct jobs created); standardised smallholder indicators already used among some DFIs (increase in yields and direct plus indirect jobs); impact framed around the SDGs (access to education and access to energy); and a monetised approach to social impact measurement in the form of social return on investment (SROI).¹⁶ These acted as

¹⁶ The interviews were designed to include three to four vignettes, as detailed in the Methodology. Following advice in the literature, a fifth (back-up) vignette had also been designed. However, the discussion which the vignettes elicited went on for some time (more than half the interview in some cases). In two cases, enthusiastic interviewees were happy to do all five, but in most cases, we stopped after three. The fifth vignette which included a WASH scenario (also reproduced in Annex A) is therefore included in the total computations, but not discussed in depth in the research presented here.

key variables in the vignettes. Each vignette then presented one or two changes in storyline. The change in storyline presented additional qualitative social impact information and monetised social impact information to elicit views towards these two approaches. The sections in the remainder of this chapter discuss the attitudes towards job creation indicators (Section 8.2) and the type of social impact information sought by respondents (Section 8.3) revealed in the vignette analysis. It then goes on to detail attitudes towards standardised indicators (Section 8.4) targeting the UN SDGs and includes a discussion of positivistic and monetised indicators.

8.2 Attitudes to job creation indicators

Vignette one depicts a hypothetical enterprise owner called Carlos. In the story, Carlos is seeking impact investments to expand his information services business. This section lays out the first vignette and discusses responses to it. The vignette is specifically designed to focus on job creation measures, before bringing in supporting responses on job creation, built into the second vignette. The Carlos vignette elicited attitudes towards job creation measures for social impact evaluation in impact investments.

8.2.1 Vignette 1: The 'Carlos' Vignette

Vignette one depicts a hypothetical enterprise owner, Carlos, seeking impact investments to expand his business. The business provides information services for smallholder farmers. The respondent is asked to place themselves in the role of an investor, who has the available funds to cover Carlos' expansion needs. The vignette aimed to elicit attitudes towards job creation measures for social impact evaluation in impact investments. The vignette presents two cards where the storyline changes once. The first card in the vignette presents Carlos' social impact information in terms of job creation. It serves to direct discussion on job creation as a core cross-cutting indicator. The second card in the vignette provides qualitative information on the social impact of Carlos' business and further contextual information about the business model (see Box 8.1 below). The assumption in the vignette is that the

investor is already satisfied with the rate of financial return and the level of risk of the project. The vignette aims to elicit what information on the social side the investor might need to make the decision to invest.

8.2.1.a. Job creation measures

The analysis showed that job creation measures alone are not sufficient for respondents to decide to invest. Only one respondent, for instance, agreed to invest at the first card. However, this was based on the respondent being satisfied with the rate of return rather than due to the potential for job creation. The respondent also made it clear that investing was also on the condition of knowing more about the business model. In the first card, the variable of job creation is purposely very exposed. There is no information on the social impact of the business seeking investment. This is in order to obtain a broad, unguided view of what key information respondents might seek.

All responses to the Carlos vignette were examined for commonalities in answer to two core questions: why respondents would not invest; and what social impact information they would want to see to make their decision. An examination of these responses demonstrated that all respondents view the information provided on the social impact of Carlos' business in terms of job creation was seen as insufficient. Respondents reported that they required more information on the broader social impact. Broader social impact was seen as information on the impact the business was having not only on employees but also on Carlos' smallholder clients. Less frequently mentioned, but noted by interviewees nonetheless, was the impact of the business on communities within its value chains. Respondents particularly wanted more information on how the smallholder clients of Carlos' business were impacted. Specific information sought related to how the business produces social impact and an elaboration of the quality of the jobs created. It was clear from the responses that job creation alone does not signify social impact. One DFI respondent put this in context in a group discussion:

A: *“Entiendo de lo del trabajo es [esencial], pero, si me dejan ustedes ejemplo lo vamos a poner; ¿Quién puede ser la empresa mas diabólica, mas detestada? ¿Carbón, Cigarrillos, el traidor?”*

A: *“I understand that the jobs [numbers are essential], but if you'll allow me, I'd like to pose an example; Who is the evilest company, the most detested? In coal, tobacco, some other treacherous company?”*

B: *“Monsanto”* [Others in the interview offer up the company Monsanto, which has gained bad press in Mexico and elsewhere, as an example].

A: *“Tranquilo si tú tomas tu ejemplo de los ocho empleos, se arregla en forma de este Carlos, Monsanto te va a dar mas ofertas en su acción. Monsanto va a creer 200 empleos ni ser una inversión social.”*

A: *“You can rest assured that if you take the example of the eight jobs, shown in Carlos' case, Monsanto is going to give you a greater offer in its action [than Carlos]. Monsanto is going to create 200 jobs, and that's without even being a social investment.”*

The foregoing extract demonstrates that, based on jobs alone, even companies with poor social and environmental reputations can appear to create more social impact than a small social enterprise. Evidently, investment decisions are not as clear cut as a choice between these two company types. The illustration by the respondent served to point out that there are a number of impact issues at work in a social investment. The employment indicators are used to show that there is some social component to the enterprise. The DFI respondent explains that:

“Para hablar del empleo para mi es nada mas que el indicador base de empleos para decir que hay algo social...”

“To talk about employment [indicators] is for me the absolute minimum indicator to show there is a social component...”

However, the enterprise needs to show more, broader and additional social impact. Respondents wanted to know more about the smallholder clients and how they were impacted. This was not, according to the majority of respondents, covered by the employment focus of the cards. That is, the information helps the investor understand impact on employees but not on smallholder clients. The majority of respondents said they needed more information on the positive and negative social impact of Carlos' business on the surrounding community and supply chain. The DFI respondent quoted above went on to elaborate:

“...O sea, claro que un cambio de paradigma, una adicionalidad, entender y constatar que la inversión que estás haciendo, los 8 empleos los creas de muchas otras formas; es qué tipo de empleos, en el riesgo.”

“...Of course, a change in paradigm, and bringing additionality, is to understand and demonstrate that an investment you're undertaking, these eight jobs, can be created in a number of ways; it is about what kind of jobs, in terms of [employment] risk.”

This quote reflects a view among respondents that numbers of jobs can be created in other ways than by investing in Carlos' business. It is the added *social component* to job creation figures that differentiates a project with social impact potential. The social context of job creation is therefore important information to access. Respondents cited for instance, whether the jobs were targeted at a particular demographic such as rural youth and whether there was any indication of the *quality* of these jobs, including whether the jobs were sustainable. Information on the type of jobs is important to gauge to what extent the business might produce sustainable employment. An indication of sustainability of employment over the long-term, as suggested in the extract below, can assist in getting a sense of the social and financial risk of the investment.

8.2.1. b. Quality jobs

Some respondents, for instance, expressed a need to know more about the quality of jobs created in order to better understand how the business creates social impact. This is summarised in the response of one DFI respondent:

“La calidad de empleo que esta buscando; empleo sostenible.”

“The quality of the jobs you’re seeking; sustainable employment.”

The second card in the Carlos vignette provides the investor with another chance to invest. Here Carlos’ business has grown. The investor also knows a little more about the business model as the card informs that the business has now expanded into 15 micro-franchises. The social impact information provided related to the quality of jobs created. This was presented as an extract from a qualitative case-study assessment of Carlos’ social impact reproduced in Box 8.1 below. The analysis of the responses found that interviewees reacted more in response to the business information on the card than the qualitative information on social impact. Only two respondents explained why they were unconvinced by the qualitative information. These two respondents pointed to the question of how we can transfer the one scenario to be representative across the 15 franchises.

Box 8.1: Vignette 1. Cards 2 and 3

Vignette 1, Card 2

“Carlos’ business has grown to serve the entire district through the creation of 15 micro-franchises providing digital services. With the business model having spread, he wants to implement a health insurance scheme for employees, which will help his business be more efficient. Absence and costs due to illness are high, in an area without access to public healthcare and with employees unable to pay for private healthcare. To provide health insurance throughout his 15 franchises he is looking for an investment of \$20,000, which will provide investors a 5% return. He trialled the health insurance scheme with his eight direct employees.”

Vignette 1, Card 3

“An independent evaluation presented a series of case-studies, an extract of one read by the investor is: The health insurance trial helped one of Carlos’ employees, Jana, access vital healthcare which virtually eliminated her time off due to illness. Jana had been suffering with diabetes for the past five years. Unable to access the drugs to stabilize her condition she would often have to take sporadic days or half days off. “It’s the first time I’ve been able to go to a doctor in ten years” she said. Jana described a recent morning where she felt unwell and “Instead of being ill for days unable to work, within a few minutes of taking medication I was feeling able to go to work.” The access to medication also means Jana is better able to care for her family. “I now have more energy to care for and play with my children” she said.”

Responses often reinforced perspectives towards the first card that summarised Carlos' business. For instance, one DFI respondent reiterated that the impact depicted in both cards two and three does not demonstrate that the enterprise can produce more social impact than an ordinary company. The respondent uses the example of Coca-Cola. The respondent suggests a company of that size would create quality jobs in the way depicted in the card without it necessarily being labelled social impact. In these terms, an investor would likely be able to create social impact more effectively by investing elsewhere than in Carlos' enterprise. A respondent from another DFI similarly explained that without information on other aspects of the businesses' social impact (outside of that of employing people), the extent of the social impact cannot be seen. By only having this one dimension of impact presented, the social impact appears small in comparison to the investment amount. The respondent said:

“Cinco mil de personal, pues te sale carísimo, por que sea un proyecto muy padre, muy bueno, con bueno impacto social, pues, de nuevo el impacto es chiquito entonces mejor invierto en otro lado. Y no es que no sea un proyecto rentable, puede ser que tenga un buen rendimiento.”

“Five thousand staff is very expensive, even if it’s a really cool project (or very good) with great social impact, well, if the impact is small then you’d probably be better off investing elsewhere. Also, it’s not that it’s not profitable, maybe it even has decent profitability...”

The majority of respondents expressed a need to know more about the broader social impact created by the enterprise. While the second card tells us that Carlos' model now reaches more smallholder farmers, the social impact of the business on smallholders is purposefully omitted. The majority of respondents and all DFI respondents, picked up on this omission. This is reflected in the quote below from another DFI respondent. The respondent reiterated her need to know more about the smallholder producers Carlos' business serves. She explained that the business model serves smallholder producers but, even by the second card, the investor still does not know how the model creates impact for the producers:

“Entonces lo mismo, pues se trata de los agricultores y no aparecen aquí. Y su negocio anda bien, refuerza las preguntas de la primera inversión. Para sus empleados esta bien pero no puedes decir que es una inversión de tanto impacto.”

“Then it’s the same, since we’re talking about smallholder framers, and they don’t appear here [in the card]. And if business is going well, it reinforces the questions in the first investment. [That is] its good for his [Carlos’s] employees but you can’t say from that it is that impactful an investment.”

The extract above reflects a view, common among respondents, that both cards two and three contain information only about impact within Carlos' business. The information presented does not provide sufficient social impact information on the communities and smallholder enterprises Carlos' business serves. All respondents

express some need to know more about this impact before making an investment decision at the second card.

8.2.1.c. Qualitative information and entrepreneurs' vision

According to the other five respondents, at this point they would become more open to investing. Three of them agreed to invest at the second card (split among one DFI, one investment consultant and one smallholder producer).¹⁷ The presentation of the second card elicited positive comments such as “*ahorita ya si*” (“Now I will.”). One investment consultant, though, for instance explained that the more qualitative information (on card three) helps provide a picture of what Carlos’ business motivations are, which this respondent found lacking in the first scenario:

“You see this is interesting, because if I had this information, I would have definitely invested in the first one because I think he's taking care of his employees.”

The consultant went on to explain that knowing Carlos provides health insurance to employees helps understand Carlos’ vision as a business owner. It opens up the possibility for the investor to see the social impact potential of becoming involved. The consultant, similar to the DFI respondent above, explained that a sense of the entrepreneurs’ vision is important to know to what extent Carlos is providing a beneficial service to smallholder farmers:

“You would expect him to actually give this ‘seguro de salud’ [health insurance] to probably more people as well, not just his employees, but the same smallholder farmers that he's already supporting. Which would be interesting to understanding if he has that vision, you know, if you have an M-PESA [an existing successful mobile money service] of social, of information for smallholder farmers then you can tap on that technology and offer other things to smallholder farmers.”

¹⁷ One of the five didn’t categorically agree to invest but became more open to exploring the option to invest.

This extract suggests that the qualitative information on Carlos' impact in card three starts to present a picture of Carlos' vision as an entrepreneur. This is needed to see whether the (social) vision of the investor and the entrepreneur align. The same respondent at the first card had envisaged the business as a type of 'cybercafé.' The comparison between the two views of the same respondent demonstrated the importance of understanding the business model. As reflected in the views of other respondents above, without knowing more information on how and why Carlos is expanding, the investor cannot get a sense of whether social impact is part of the business model. Indeed, the other two respondents that do agree to invest at the second card, attribute their decision to the additional information on Carlos' business model. This is reflected in the view of one smallholder respondent that the business plan presented at the second card is enough to spur the decision:

"De acuerdo con el plan de trabajo que vamos mencionado, haciendo uso, para mi sería suficiente, si."

"In line with the workplan just mentioned, using [this information] for me would be sufficient, yes."

One DFI respondent explained further how the business information in the second card serves as a basis for investing at this point.

"Por eso, pero tu ya tienes tu modelo validado, ya estas viendo, ya tienes seguro en este negocio. En este sentido ya esta funcionando, ya creció aquí, en estés franquicias...El negocio esta ya creciendo en un proceso de expansión. Pues yo si le invertiría en estés términos."

"Yes, so, if your model is already being validated, you're already seeing [results], you're already sure of this business. In this sense it's already up and running, its already grown, in these franchises...The business is already expanding. I would invest in it given these conditions."

The two other participants in the group interview argued they would not invest because (as detailed above) without further information, the impact appears

potentially small and the impact on smallholders surrounding the business is unknown. The respondent above argued that, by the second card, a sustainable business model is evident, and the vision of the entrepreneur is more apparent. The respondent explained that often the investment committee of their organisation has little to go on other than the entrepreneur and a brief pitch by them, which may contain as little social impact information as the cards in the exercise. In these situations, it is the vision of the entrepreneur and the strength of the business model that 'make or break' the decision to invest.

Overall, DFI respondents in particular were quick to notice the job creation variable in the exercise. Consequently, as intended in the design, this prompted discussion on the use of core indicators. Two DFI respondents explained the role of job creation as a cross-cutting indicator in the frameworks of their organisations. The DFI respondent below, for instance, explained that they pinpoint a number of core indicators around which they evaluate. These are based on the social impact the DFI expects to produce ex-ante from its investment. One of these core indicators is job creation. The DFI respondent explained that these core indicators are necessary in order to have some indication of the risk and impact expected from the project. This is needed to balance risk, return and social impact across the portfolio.

“Si tenemos un objetivo de movilizar cantidades cada vez mayores en favor de los objetivos ...y si queremos mantener el rendimiento alto... lo segundo social que tenemos en cuenta en el tríptico es el riesgo social, el tercero que tenemos en el tríptico es el impacto.”

“If we take as our objective to mobilise ever larger quantities towards the objectives [SDGs]...and we want to keep financial performance high...the second point in the triptych that we keep in mind is social risk and the third is the impact.”

This quote highlights that the DFI needs to track two further dimensions: social and environmental impact and social risk. This is particularly important, according to the interviewee, as greater quantities of investments are moved towards the SDGs and

at the same time, they seek to maintain decent profitability. The context of the SDGs is explored in Section 8.4 through vignettes on rural education and energy. This next sub-section discusses findings from a second vignette that was used to validate findings in the other vignettes.

8.2.2 Vignette 2: The ‘Clara’ Vignette

The second vignette, called the ‘Clara’ vignette, presented a different business project. Still in the smallholder agriculture sector, the project focused on irrigation and water. In this vignette social impact information is presented to Clara, an investor. Clara, the investor, has \$20,000 to invest in a smallholder farming project. Clara is given the opportunity to select from three different options that provide different types of social impact information in a potential investee called José (depicted in the card in Box 3 below):¹⁸ Clara can choose to invest in José through Bank A, which gives her figures on yields and jobs (taken from the IFC DOTS as detailed in the Methodology Chapter Four). Or she can choose Bank B, which provides a qualitative extract, or Bank C, that presents an SROI assessment. The respondent is asked to advise Clara on which to go for, based on the type of information provided.

In the first ‘Carlos’ vignette, detailed above, the option to wait for more information was given when each card was presented. In the Clara vignette, the decision to invest among the three types of information is forced by presenting it at the same time. Respondents are not given the option to wait for more information. This differs from the other vignettes and was used a method to have a second vignette to substantiate findings in the main vignette. The part of the Clara vignette on the job creation variable on the whole corroborated views towards the information provided on the Carlos vignette.

¹⁸ The information is presented in three forms: A. as SROI; B. in the form of a qualitative citation; and C. as a job creation indicator. In this scenario the three are placed side by side (rather than consequentially as in the Carlos vignette). The job creation variable is presented as jobs plus yields in the exact format of the smallholder job creation indicator used by the IFC.¹⁸

Box 8.2: Vignette 2, the 'Clara' Vignette, Cards 1 and 2.

Card 1

Investment project, \$20,000

José has inherited 20 acres of land. Rather than farm the land himself as his father had, he wants to use the water resource on his land to provide irrigation to between 100 and 500 smallholder farmers. He has part-build the infrastructure and already supplies 20 farmers. The philanthropic investor had previously invested in a similar investment that yielded a Social Return on Investment (SROI) of \$3.55 per \$1 invested. Meaning for every dollar invested more than three dollars of social benefit was created.

Card 2

Three different Banks present Clara with three different types of impact information in A, B, and C below.

1. Which one do you think she should choose and why?

A. The social impact information available is:

The secure water supply has increased yields by 12% and created an additional 300 jobs. An investment of \$20,000 would increase yields by 18% and create 800 jobs.

B. The social impact information available is:

An independent evaluation presented a series of case-studies. An extract of the case study the investor reads. "Felipe and his family were struggling to subsist. The irrigation meant they were able to increase yields over three years, expand their farming business and employ new staff. Their youngest son and daughter can now go to school, where the eldest had previously had to stay at home and work the farm."

C. The social impact information available is:

An independent evaluation found Jose's enterprise created a SROI of \$4.45 per \$1 invested.

Similar to the Carlos vignette, only one respondent opted to invest at the first card (where the enterprise of the potential investee, José, is described) and when information was provided as SROI. The points at which respondents said they would make the investment, though, were more evenly split among respondents than in the Carlos vignette (where virtually none opted to invest on the basis of the job creation variable alone). In the Clara vignette DFI respondents leaned slightly in favour of the recognisable standard indicator of job creation. Two respondents opted for C (SROI),

two for B (qualitative) and three for A (standard indicator). There were two main reasons given by respondents to invest through the yield plus jobs impact option A. Firstly, that it was an indicator that they use or are familiar with seeing. Secondly, that it demonstrates growth in impact through jobs and income for the entrepreneur.

Interestingly, all respondents were unconvinced by the qualitative information in option B. It describes how the initiative has helped one family and the wider impacts on the family, such as the children now being able to stay in school. Respondents were uncertain as to how representative the insight was of the other 800 employees in the scenario. Unlike in the Carlos case, in the Clara case (José's enterprise) there was not a direct link made between the qualitative results given (in Carlos' case healthcare to employees). José's business does not aim to increase education or measure those results. Respondents also noted that through experience they had come to treat qualitative independent evaluations with caution. Among this set of responses, interviewees explained that information was lacking from the qualitative study to be able to generalise. As a result, it did not have any '*decision-making elements*' to it (i.e., there was not enough information to support decision-making).

8.3 Social Impact Information Sought

The vignette analysis revealed a number of cross-cutting findings among the five vignettes on the type of information investors might need to make their decision to invest. In nearly all cases, the social impact information sought by respondents fell into two groups: a need to know more about the social context and a need to know more about the business model. This section discusses these two types of information sought by responses. Respondents said that they needed information on the social context including details on the local ecosystem and on who the beneficiaries are (for instance are they employees, are they rural communities). This was needed to grasp not only who was being impacted but how. Information on the business model was needed to understand how social impact and the business are linked.

The section discusses the main reasons respondents cited when they decided to invest in the vignette stories. The dominant reasons cited to invest at any point through all the vignettes were that:

- 1) Enough information had been given to be able to gauge if the vision or values of the entrepreneur aligned with that of the investor. That is, there was enough information to reach a level of trust in the entrepreneur. This seemed to outweigh or at least precede most other considerations.
- 2) That respondents had enough information to be able to see the breadth and depth of social impact that the business reaches, including an understanding of who the beneficiaries are and how they are impacted.
- 3) When an indicator framework or project seemed familiar to the portfolio of the organisation, the DFI investors in the sample were more inclined to invest. For instance: An education investor respondent said they would invest in education at the first card; one respondent said they would invest in the solar and WASH enterprises because they were projects similar to successful ones the organisation had already invested in. In the Clara vignette all DFI respondents chose the bank that used the standardised IFC indicator with which they were familiar.

The three main reasons given are now explored in the remainder of this section, grouped as information on the social context and information on the business model.

8.3.1 Social Impact and the enterprise business model

The additional information sought on social context centred on who is being impacted and how much they are being impacted. This aligns with growing consensus that numbers of beneficiaries reached is more than just 'how many.' It is also important to know 'who' and 'how much.' In understanding 'numbers of beneficiaries reached' reported by companies, the DfID Impact Programme, for instance, uses the core questions: Who are the company's beneficiaries? How many are there? How do they benefit? The Impact Management Project (IMP) launched in 2016 to guide impact measurement in impact investments, reached global consensus that impact can be measured across five dimensions: what, who, how

much, contribution and risk.¹⁹ More recently, the five dimensions have formed the basis of the upgrade of the IRIS metrics system. This and other efforts to reach consensus are discussed in more depth in Chapters Two covering the impact investing literature, Chapter Five on how DFIs have standardised, and Chapter Six in the impetus shown for metrics-systems upgrades.

The information sought by respondents on the business model aimed to understand the business' contribution and if it could be increased. It was also needed to gauge the level of social risk in the investment. That is any risk transferred to clients of the business and surrounding communities. These risks could be an impediment to the social impact produced by the business. These findings reflect increasing international consensus, detailed in Chapter Five, around the IMP dimensions of impact.

According to the five respondents from DFIs, key considerations such as additionality and negative impact are at work in the investment decision. As seen in the literature review in Chapter Two, DFIs have a strong focus on additionality as part of their mandate and measuring systems. Potential negative impact is what was found in Chapters Five and Six as "impact risk" and "ESG risk." The role of these types of environmental and social risk in the metrics systems and in the investment decision-making process are discussed in depth in Chapter Six. As a result, information on a broader dimension of the business is needed, in particular, on how the business is designed specifically to produce social impact. The investment would provide Carlos greater access to pricing, risk, and market information. One smallholder respondent, for instance, said:

"Ver que, si es buen manejo de trabajo, entonces dices allí va."

"See if its good business practice, then you can say that it's getting there."

¹⁹ These are broken down into 15 categories of data.

Further, one DFI respondent said it would need to be clear whether the benefit is going to go directly '*into Carlos' pocket*' or whether it would be to the benefit of smallholder clients. The respondent went on to explain:

"Por que Carlos va a tener mejor y mas información, ese acceso a mas información le puede utilizar en detrimento a los pequeños agricultores que se puede suponer son sus propios clientes o compartir el valor creado que lo sucede aceptable, hace el proceso mas estable, para mi es el parte que no me queda claro."

"Carlos is going to have more and better information. He can use that to the disadvantage of smallholder farmers, who one can suppose are his own customers. Or he can share the value created in whichever way he sees fit, he can for example make the [agricultural business] process more stable, that's for sure."

This observation demonstrates a view common among respondents that more information on the business model is needed in order to know how the business will produce social impact. Understanding the business model is an aspect that ran across all the key social impact information sought from respondents: in the types of jobs created; the quality of jobs; and to what extent social impact is internal to Carlos' business or externalised to smallholders. That is, how much is Carlos gaining a profit from smallholders as opposed to helping smallholders increase their margins?

A number of studies into investor behaviour have found that impact investors do not invest in ideas, but rather in solid business models and capable entrepreneurs (Simanis, 2012; Simanis and Milstein, 2012; Polak and Warwick, 2013; Business Fights Poverty; iDE UK, 2014; Agrawal and Hockerts, 2019). For Agrawal and Hockerts (2019) impact investors can only ensure social and commercial returns through the investee enterprise. These enterprises are the only vehicle for this dual generation available to investors, according to the authors. Some practitioners argue that impact investors invest based on the strength of "*the business model*" (Business Fights Poverty; iDE UK, 2014, p. 13). For Simanis (2012), this starts with the

business unit and estimating the radius of consumers the business unit serves. Impact and opportunities within this radius can then be sought and a financial plan built around that (Simanis, 2012; Simanis and Milstein, 2012; Business Fights Poverty; iDE UK, 2014).

It is not surprising, then, that all respondents at some point in the vignettes wanted to know more about the business model. The analysis detailed above, however, revealed that respondents' interest in the business model explicitly related to how the business balances social and financial impact. Concerns were raised across respondents and across vignettes as to whether the guaranteed return in the cases was at the detriment of greater social impact. That is, respondents wanted to know how the business creates this return and in what way is it supplying its services to consumers. This is needed to determine how much social impact is externalised by the enterprise and how much is absorbed by the enterprise. In effect, how much scope is there for the business to create more social impact?

8.3.2 Attitudes towards qualitative extracts

On their own, the qualitative extracts were at no point sufficient social impact information to invest. Furthermore, there were only two instances across the vignettes where a respondent said that they would invest with the information from a standardised indicator plus the qualitative information. The main reason given by respondents was that it did not have any 'decision-making elements' and this was because it wasn't possible to generalise from the qualitative study.

Attitudes towards the qualitative information provided were dependent on the existing information prior to reading the qualitative extract. It was seen in terms of how it added to the information respondents already had from the first card. That is, it was seen as additional, rather than primary impact information for decision-making. However, this may be largely due to, with exception of the Clara vignette, this information being presented on a second card. Nonetheless, the qualitative information was found to be of use, in some instances, by providing the extra impetus to invest. The common reasons given were that it provided clarification on

the vision of the entrepreneur and an indication of the breadth and depth of social impact.

In some instances, across the five vignettes the qualitative information helped provide potential investors with a sense of the entrepreneurs' vision. This included whether entrepreneurs were seen to take care of their employees and clients. In the first, Carlos vignette, for instance, the qualitative information was, by some respondents, found useful in providing insight into Carlos' vision as an entrepreneur. In the other vignettes, the qualitative information was found to be lacking by most respondents. In the education vignette, respondents did not change the decision they had made at the first card once they had qualitative info in the second. Due to the lack of standardised information in the energy vignette's first card, the qualitative information was found to not add anything of decision-making value.

These findings suggest that qualitative information is helpful in understanding whether the vision of the business aligns with that of the investor but does not help gauge the level of social impact compared to another potential investment. Yet, there is an important limitation to this finding, notably that qualitative evaluations are usually presented as lengthy systematic documents. A small extract from one would therefore not necessarily be expected, even by those favouring qualitative evaluations, to be sufficient. Nonetheless, respondents did not state that they found the qualitative information to be lacking because they wanted more qualitative information. Rather, respondents focused on the issues with qualitative evaluation versus quantitative standardised indicators, particularly on the ability to generalise from the information, and to use that information to make an investment decision.

8.4 Attitudes towards standardised, positivistic indicators: meeting the SDGs and monetising impact

Attitudes were more favourable towards numbers reached when this was presented as a standardised indicator.²⁰ Vignettes 1, 2 and 3 all feature standardised indicators that are used in the metrics systems of DFIs. The first vignette features 'direct jobs

²⁰ Taken from IFC DOTS metrics set 'Agriculture'- 'Smallholder'- 'Livelihoods'.

created,’ the second ‘jobs plus yields,’ and the third, which I detail below, features ‘matriculation rates and numbers of teachers trained.’ While for most respondents, the need for more social context on the types of beneficiaries reached remained, the analysis indicates that respondents were marginally more inclined to invest when presented with standardised indicators.

In the case of the jobs plus yields indicator in vignette 2 (the Clara vignette) respondents marginally favoured the bank that used the standardised indicator, with three choosing this bank. In vignette 3, though questions remained as to the appropriateness of the ‘matriculation’ indicator, respondents were more responsive to this than other non-standardised indicators. In the final vignette, where numbers reached were presented just as a number and not in the format of a standardised indicator, respondents were reluctant to invest. In this vignette respondents consistently needed information on how the business is structured to produce social impact. Even with additional qualitative social impact information and an SROI assessment, respondents needed more social and business information.

The vignettes based around SDG 7 and SDG 4 elicited attitudes towards the role of the SDGs in guiding investments, which are now detailed in the next section that before exploring attitudes towards monetisation. A number of respondents focused on the need for legislative impetus and incentives structures for impact investing to become the mainstream form of investing globally. Impact investments have increasingly become directed towards the SDGs and metrics systems have evolved to reflect this. The 2019 upgrade of the IRIS metrics system, notably, enables investors to approach impact measurement either from a metric specific entry point or an SDG entry point. The previous iteration of the IRIS catalogue did not include this explicit link to the SDGs. The SDGs have the potential to filter into incentives structures at the national level that favour projects that address specific SDGs (Mohammed, Steinbach and Steele, 2018; Hazarika and Jandl, 2019; Hege, Brimont and Pagnon, 2019; Náñez Alonso, 2020; Urazgaliev and Menshikova, 2020).

8.4.1 SDG Vignettes: education (vignette 3) and energy (vignette 4)

Impact investments have increasingly become directed towards the SDGs and metrics systems have evolved to reflect this. The vignettes based around SDG 4: inclusive and equitable quality education and SDG 7: access to energy elicited attitudes towards the role of the SDGs in guiding investments now detailed below.

8.4.1. a. Education vignette

Respondents were presented with an investment pitch for an education project. They were asked to place themselves in the position of an investor with \$50,000 to invest. The education project is described as explicitly aimed at meeting Sustainable Development Goal (SDG) 4: inclusive and equitable quality education. As in the other vignettes, the investor on the card is said to be satisfied with the rate of financial return and the level of risk. That is, they have already made the financial decision to invest. The investor now needs to decide on the basis of the limited social impact information they have on the card. Respondents were asked if they would invest with this information and why. If respondents said they would not invest, they were then asked what additional social impact information they would need to make the decision to invest.

The first card presented the following impact information within the story: “The enterprise has increased primary school enrolment rates by 12% across five schools. It has supplied equipment, including computers and software to these schools, and trained 50 teachers in their use.” This is a standardised indicator associated with SDG4 in impact investing.

Two respondents said they would invest with the social impact information on the first card. For the two respondents, the extent of the social impact is immediately obvious. This is because it shows the broader range of impact that can be seen as including the teachers and schools on the supply side and children and families on the demand side. One respondent said, for example:

“Aquí pues, es una capacitación mas amplia a lo donde incluye maestros, familias enteras, un suministro de fondo de semilla, es para hacer un suministro de capacitación.”

“Well, here we have more comprehensive impact that includes teachers, whole families, seed funding, and to build a training fund.”

The extract above demonstrates the view common to these two respondents that the impact is seen as extending to teachers, facilities and students and is clearly demonstrated. This broader, demonstrable impact is used as a reason to invest. For one respondent, the decision was also influenced by a background in education investment. This respondent, for instance, said; *“Yo como soy una entidad de educación no tengo la menor duda.”* (“As [a representative from] an educational institution I have no doubt.”). Overall, they were convinced with the social impact information presented in the first card.

There were two main reasons given by those who decided not to invest that they needed 1) a clearer indication of the numbers of people impacted and 2) how the 5% financial return is produced. Although the 12% increase in matriculation sounded promising, respondents expressed a need to know how many children and families were being impacted. The numbers were needed to be able to obtain a sense of the scale of impact. They were also needed to be able to get more fine-grained information such as how many children stay in education as a result of the initiative. The point was summarised by one respondent;

“It’s not just about matriculation but how many people stay; it’s (how the SDG) is equitable, not just access.”

The card says that the investor is already satisfied with the 5% financial return offered by the investment. Four respondents, though, focused on the need for more information on this return. The social impact within these financial returns is an important consideration. For these respondents, it is vital to gain a sense of to what extent financial returns are absorbed or re-invested by the enterprise to produce

more social impact, with comments such as: “*How do they guarantee this 5% they’re offering me?*” (“*como garantizan ese 5% que me esta ofreciendo.*”). The four respondents wanted to guarantee that the 5% financial return was not being given at the expense of being able to produce more social impact.

The second card presents standardized impact information such as increases in enrolment rates. However, respondents did not change the decision they had made at the first card. The two that had decided to invest found this information as further substantiation of their decision. Those that did not invest at the first card continued to need more information. The card uses the same indicator format as the first card but demonstrates expansion to 25 schools (with the same 12% increase in enrolment rates) and 300 teachers. Respondents pointed out that while the information may show the enterprise has expanded its scope, it does not show whether impact is greater. One respondent explained:

“It shows growth in that its bigger and has more impact, but we still don’t know how many people are staying. It’s the same as with investment and return; there’s no sense of growth; just a series of investments.”

This vignette presents one change in storyline at the third card. At this card, a charitable foundation comes in with half the needed investment. Three respondents said they would invest once they know there is this additional source of capital. For these respondents, the inclusion of another type of capital changes the model in important ways. It is clearer that there is a blend of public and private capital invested in the enterprise. Respondents cited blended finance as a reason to invest at this card. Blended finance is generally defined as the strategic use of development finance and philanthropic funds to mobilize private capital flows towards sustainable development in emerging and frontier markets (World Economic Forum, Organisation for Economic Co-operation and Development and Deloitte Monitor, 2016; OECD DAC, 2017). Impact investing is of interest to some private investors as it helps mitigate risks and manage returns in emerging markets (Sklair and Glucksberg, 2021). The following quotation from one respondent summarised these views:

“It’s blended capital, so I definitely think it is appealing to a private investor.”

Furthermore, the return offered to the investor is increased as a result of the foundation grant. Chapters One and Two established this is a common result of blended capital (see (Bugg-Levine and Kogut, 2012) for example). Respondents did not state the increase in return as the main reason for wanting to invest at this card. However, it is cited by the three respondents as having some bearing on their decision. When prompted about the increased return, responses were generally that it feeds into the overall picture, with comments such as “yes, it helps.” It is well established that blended finance reduces investment risk for private investors and can provide more guaranteed returns. The increased returns element did not, in the instance of these vignettes, receive much attention as a deciding factor. Those that did not invest at this card showed interest in the blended capital component but remained unconvinced by the social impact information or the business model.

8.4.1. b. Energy Vignette

Respondents were placed in the position of an investor with \$2m to invest in SDG 7: Ensure access to affordable, reliable, sustainable and modern energy for all. They received an investment pitch for an initiative that reaches 2,400 people in rural communities with access to electricity through solar power. The investment would increase reach to 10,000 people. In this vignette, the \$2m up for investment is much larger than in the other vignettes. As in the other vignettes, though, the investor on the card is said to be satisfied with the rate of financial return and the level of risk.

Only one respondent indicated that they would invest at the first card. This was because they identified the scenario as based on an existing project that their organisation funds. The respondent considered the model, from experience, to be effective. Nonetheless, the DFI respondent did say that although they would most probably invest in the project, they would still need more social and financial impact information. All respondents required more social impact information. This common view among respondents was summarised in the response of one interviewee:

“Aunque sigue un retorno social, pero yo si dudaría. Yo no. Con esta información no la entraba.”

“Even though it might have a social return, I would still be hesitant. I wouldn’t. With this information I wouldn’t invest.”

This extract suggests that although the investor is shown that there is a social return, it is not sufficient impetus to invest. Responses highlighted that the investor is not told how this social return is reached, nor who is benefiting from this social impact. Even though relatively large numbers of beneficiaries are reached, all that can be understood from this is that there is some social impact. Essential information on what type and how much social impact is being generated would still be needed to make the decision to invest, the respondents indicated.

The type of social impact information sought varied among respondents. The responses could be grouped into two main categories, the need to know more about 1) the social context and 2) about the business model. In terms of social context, respondents expressed a need for more information on ‘the investment ecosystem,’ whether these are ‘rural communities,’ and an indication of the ‘social risk.’ On the business model, respondents said they needed more information on ‘employment strategies,’ ‘how energy is being supplied to communities,’ and ‘how is the return guaranteed.’ The business model information was needed to gain a better idea of the social impact produced by the business.

This need for a better understanding of how social impact and the business are linked suggests that the enterprise model depicted in the card could be seen from the business perspective, but not in terms of social impact. All respondents to this vignette needed more social impact information at each stage. Many respondents explained further that it is not clear how the social impact produced by the energy enterprise is linked to its model as a business. This view was distilled by one comment in the interviews that:

“Es una empresa normal, simplemente con un impacto social muy alto.”

“It’s just a normal company, that happens to have high social impact.”

The information provided in the card on social impact alone was insufficient to invest. More information on how the business is structured to produce social impact was needed to appeal to an impact investor interested in supporting this SDG. Without a better view of impact measurement and management beyond only the numbers reached, an understanding of the entrepreneur and hence decision to invest cannot be made. Another respondent explained that:

“The Impact Management is important for me to know more about the attitude of the entrepreneur and enterprise growth strategy.”

Across all the vignettes, the importance of ‘understanding the entrepreneur’ and ‘getting a sense of their vision’ was highlighted. Respondents across all the vignettes describe their investment in terms of investing in the entrepreneur and the business model. Responses to this vignette suggested that the information provided did not enable this understanding to form. One respondent summarised:

“You can always want more info, and you just have to get to that point of trust or belief I suppose in the entrepreneur, but you can’t be too risk adverse. It’s a matter of knowing when and how much info is a good point to go in at.”

The quote above highlights a view across many of the interviews that in the absence of being able to have all the information on a potential investment (for sensible, practical reasons as also detailed in Chapter Six), an investor needs to be able to know they have enough information to go into a project. This depends on how much social impact risk an investor is able to take on.

Respondents were presented with a second and third card. One with qualitative social impact information that highlighted the positive impact of energy access for the families the enterprise supplies. The other card states that the initiative produced an SROI of \$4.55 per \$ invested. The investor was shown to have previously invested in a project that produced an SROI of \$3.55 for every dollar invested. Respondents

were asked to reflect on the value of the information presented in the second and third card.

There was general scepticism around the qualitative information, with responses such as “*no te dice nada*” and “*yo sigo igual*” (“*this doesn’t tell you anything*” and “*it’s all the same to me*”). Not much reason was given for this across the responses, so it is difficult to surmise the reason behind the scepticism. Yet, perspectives towards qualitative evaluation reflected views elsewhere across the vignettes. The analysis finds that the qualitative information is helpful in understanding whether the vision of the business aligns with that of the investor, although it does not help gauge the level of social impact compared to another potential investment. However, one respondent did suggest that in this case it was due to a much larger investment size compared with the other vignettes. With \$2m rather than \$50,000 to be invested, this respondent suggested, more information was needed on the social impact of the enterprise seeking investment and importantly how it produces this social impact.

The two SDG vignettes launched focus group discussions, as well as in individual interviews, on the role of the SDGs in guiding investment decisions. Three respondents were vocal about how the SDGs provide a clear target for investments. For one respondent, this is due to the SDGs having noticeably ‘changed perceptions.’ Institutionalisation of the SDGs at the national level has been instrumental in guiding investments towards initiatives with social and environmental impact. The respondent explained how the investment landscape has changed in Mexico. As government projects are targeted towards the SDGs, more projects are designed to explicitly address a specific SDG in order to gain funding. The respondent summarised;

“Si tu proyecto no resuelve uno de ese no te apoyan. Así de sencillo.”

“If your project doesn’t address one of these [an SDG] you don’t get funded. It’s that simple.”

Other respondents similarly highlighted that legislative impetus to invest in enterprises or projects that produce financial, environmental and social returns,

rather than those that only produce financial returns, is needed for impact investing to become mainstream. One respondent cited the move towards electric vehicles as now being inevitable as penalties are imposed on car manufacturers for producing polluting vehicles. Another respondent noted that if there were a credible system to determine the quality of a potential impact investment, then impact investing would have a good chance of becoming mainstream. One of the main impediments to impact investment mainstreaming is the costly and non-uniform way to collect social impact data. It takes reaching that level of trust in the entrepreneur or the project a little further. To summarise, the respondent said;

“If Standard & Poor’s [global ratings agency] said this had good impact, then I’d believe them, you know.”

The extract above demonstrates that the core issue with any social impact metrics is how the numbers behind that are reached. This is because there are myriad options for how to measure social impact. Standardisation and legislative impetus for impact investments would therefore enable impact investing to become mainstream. As one respondent commented ‘we’re a long way off’ that. In the meantime, fine-grained qualitative information on individual projects will need to be balanced with the requirement for headline numbers when dealing with a number of projects across an investment portfolio.

8.4.2 Monetisation

Across the five vignettes, respondents were on the whole more convinced by impact information in the form of standardised indicators. These indicators (in the Carlos vignette) were clearly favoured above those that provided just numbers reached, as was in the case of the energy vignette, for instance. In vignette 2, where Clara had invested in a project that communicated its results in SROI, respondents favoured the standardised indicator over the indicator that the investor already used. In a subsequent vignette on energy access, respondents explained that two SROI figures could not be comparable and that without knowing the inputs into the calculation, it was difficult to gauge the level of actual social impact.

However, respondents were consistently sceptical towards monetised impact information, such as SROI. The common concerns were a lack of transparency and comparability with SROI figures. When presented with SROI figures, many respondents needed to know more about the information that went into producing those figures. A number of the respondents cited an experience with SROI that had made them wary. While the headline ratio may have appeared impressive, there was a sense that the information to obtain that figure could be manipulated. As a result, these respondents would not invest on the basis of SROI without all the background information that led to that figure.

In the Clara vignette (vignette 2), Clara was described as already having used SROI to evaluate the social impact of her investment. Only one respondent picked up on this, saying that they thought Clara would invest through A, because Clara is already familiar with SROI. Option A shows a higher SROI than Clara's previous investment. The majority of respondents, however, did not choose option A. There were two main reasons given for not choosing the SROI option. First, the increase in SROI was not viewed to anything to the gaps in information on social impact and, second, a lot of information was seen to be needed in order to be able to verify the headline ratio. This is summarised by one respondent who highlighted how this increase '*doesn't change anything.*' Eight of the ten respondents were sceptical towards SROI.

By converting social impact into a monetary value, as in SROI, social impact can be put into an attractive sound bite. The issue, though, is how social benefit can be measured in monetary value. SROI does not necessarily get at the broader social impact of an investment. One DFI respondent cited reasons from experience with an SROI calculation. While the calculation might be solid, they indicated, it was not clear what social impact information it was based on. The respondent says, in their case it had sounded good, but no-one verified it.

Views towards the SROI information in the energy vignette (detailed in Section 8.4.1 above) were more mixed. For instance, one respondent found the SROI figure gave more 'solid content' on which to base the investment. They found the higher SROI than a previous investment to be a good benchmark. In sharp contrast, another

respondent found that the inputs into SROI calculations varied widely. As a result, for them, the higher SROI did not provide any additional information to help make the decision to invest. The respondent commented, in summary:

“Two SROIs are not the same benchmark, not comparable.”

Ultimately, in the energy vignette, neither the information presented as an independent evaluation nor the SROI figure were judged to provide much impetus among respondents to invest. Respondents expressed that they still needed to know more about the ‘social context,’ i.e., what type of communities were targeted; the level of risk involved for clients in these communities; and the ecosystem surrounding the investment. Two respondents would not invest with any of the information provided, citing similar reasons.

The following extract in response to the Clara vignette reflected the views of most respondents towards the SROI information: That while it appears good, there was a common need to further verify social impact. Respondents referred to it, for instance, as ‘social washing’ or as ‘too good to be true.’ Three respondents would not invest at all on the basis because they needed to know more about the possible negative impact of the business. The key issue raised here was of water usage. The enterprise Clara could invest in supplied irrigation to smallholder farmers. The respondents wanted to know more about how sustainable the use of water is, how it compares to water usage in other irrigation systems elsewhere, and what the cost of water supply to farmers was. This view is summarised in the comment from one DFI respondent:

“Quiero asegurarme que el recurso agua, que es un recurso escaso, esta siendo bien utilizando.”

“I want assurance that, the resource here, water, which is a scarce resource, is being well utilised.”

Reasons for the split in responses can be also attributed to the difference in format of the Clara vignette. Firstly, it forced a choice between social impact information

types. As a result, there is more of a split among responses than to the Carlos vignette. Secondly, the vignette also serves to elicit attitudes towards SROI, which consequently became the subject of discussion around this vignette. Having discussed employment indicators in the previous set of cards, respondents, particularly among the DFIs, moved on to discuss SROI. Nonetheless, no respondents invested on the basis of job creation alone both in the Clara or Carlos vignette. However, as outlined above, when job creation was expressed in the form of a standardised sector indicator, respondents were marginally more inclined to invest.

The findings of the present study demonstrated that there was scepticism among respondents towards monetised social impact information. However, reactions towards standardised indicators and positivistic indicator frameworks were, overall, positive. A preference for standardised indicators alongside a wariness of SROI suggests that while positivism and aggregable indicators may be favoured among respondents, monetisation is not. Much of the criticism of impact investing surrounds claims that it monetises social impact (Dart, 2004; Dowling, 2017b; Watts and Scales, 2020). Watts and Scales (2020), for instance, find that the financialisation of development brought about by social impact investing in sub-Saharan Africa has created uneven geographies of development. However, the use of monetised approaches to evaluation in impact investing, via SROI, are not common.

8.5 Discussion

The initial hypothetical story or scenario in each of the five vignettes elicited attitudes toward types of impact information: standard employment indicators (direct jobs created); standardised smallholder indicators (increase in yields and jobs); impact framed around the SDGs (access to education and access to energy); and towards a monetised approach to social impact measurement in the form of SROI.

Each vignette then presented one or two changes in storyline. The change in storyline presented additional qualitative social impact information and monetised social impact information to elicit views towards these two approaches. In one further scenario, a charitable foundation comes in with part of the investment. This

presented blended finance directly, without additional impact information, aimed at eliciting attitudes more broadly towards this financing model.

The foregoing analysis demonstrated that standardised social impact indicators are a useful tool in the decision to invest in a social impact initiative. However, numbers of beneficiaries reached alone does not differentiate between investments. Instead, a deeper understanding of who is being impacted, and by how much, is required for investors to decide whether to invest. As a result, respondents sought information on the broader social impact of the investment beyond that stated in standardised indicators. Chapter Six earlier showed how a variety of impact information feeds into the decision to invest. As elaborated in Chapter Six in some institutions this feedback occurs through feedback loops while in fewer cases impact information feeds into the decision to invest through stratified outcomes. As established in Chapters Five and Six, are influenced by the missions or mandates of the institutions involved.

Numbers of beneficiaries reached – as total clients, employees or other – is presented by businesses as a headline figure for the social impact they wish to demonstrate. Numbers of beneficiaries is also used by DFIs to gauge core impact; that is that there is social impact involved in the enterprise seeking investment. DFIs have recognised for some time that these headline numbers are more than just counting people (Forbes 2013; DFID Impact Programme 2014). Nonetheless, the methods used to capture these numbers vary greatly across companies (Reeder *et al.*, 2014; Vo, Christie and Rohanna, 2016). Consequently, the numbers are not comparable. Therefore, numbers of beneficiaries reached alone cannot be used to choose between investments.

Domestic and global efforts to unpack numbers reached focus on understanding who and how many people are reached and how they benefit. The job creation (Carlos) vignette focuses on one core type of beneficiary reported, number of employees. Although it is increasingly agreed that number of employees reached is not by itself a decisive indicator of social impact, job creation numbers do play a key role as core cross-cutting indicators in all the DFI (as established in Chapter Five) and Impact Investing common metrics sets (see also Chapter Two). The vignette exercise, though, revealed that many investors do in reality make decisions based on very little

impact information. In discussions with some of the investors, for instance, it was remarked almost jokingly that “*this [referring to the vignette card] is often about as much as we have to go on*” in terms of social impact information along with a “feel” for the enterprise/entrepreneur/investee.

The interviews with DFI respondents revealed how these indicators can be used to obtain a basic sense of there being a social component to the enterprise seeking investment. In balancing across a portfolio, this can be a useful indicator of anticipated impact and social risk assessment. The analysis here revealed that there is a difference between the need to know the numbers of people reached and using this solely to guide investment decisions. The literature review in Chapter Two established that besides DFIs there are other asset classes and types of actors that ‘impact invest’ (such as venture capitalists, portfolio investors, small family offices). These other actors in impact investing have been struggling with social impact measurement (Reeder *et al.*, 2014, 2015; Vo, Christie and Rohanna, 2016).

Increasingly, the other actors in impact investing rely on common metric sets for social impact and the core cross-cutting indicator of employment creation. Consequently, many also use number of jobs as justification or as headline figures for communicating their social impact. An overreliance on these figures may, as detailed in responses to the job creation (Carlos) vignette, lead to investments being directed towards projects that create large numbers of jobs over those that produce social impact at scale. In evaluating progress towards developmental goals different outcomes are presented depending on the type of measure used (Easterly, 2009).

The findings from the research documented here provide preliminary insight into how job creation indicators feed into investment decision-making. An understanding of how DFIs use job creation indicators can help guide other actors in the use of these core, cross-cutting indicators. Many impact investors are struggling with social impact measurement may rely too much on these measures. It was often concluded in the interviews that standardisation of impact measures is therefore needed to be able to show outcomes that are comparable. Within necessary efforts to foster greater standardisation and replicability of social impact measures (as established in Chapters Two and explored for DFIs in Chapters Five and Six), the role of core

cross-cutting indicators needs to be clarified. It is important, then, that increased awareness of the role of core indicators, beyond communicating numbers reached, is raised among the other actors.

Through the lens of Habermas' political theory (Habermas, 1985,1987), the social realm conceptualised as the 'lifesystem' can view the encroachment of the financial system into providing social and environmental goods and services as a type of take-over. This leads to criticism of impact investing among the social sciences research as a means through which the social realm is financialised (or marketized or monetised depending on the study), as I discussed in Chapter Two. Effective communication around rational information provided by metrics systems and evaluations, under Habermas' Communication Theory (Habermas, 1987), can help improve take-up and prevent perceptions of colonisation. Through these findings, I suggest that impact measures that are designed from the top-down and are implemented through investor-investee hierarchy are more likely to be seen as systemic attempts at colonisation if the measures are monetised and positivistic. Through this lens these findings suggest that a greater degree of bottom-up stakeholder engagement is needed in the evaluation of impact investments to help counter views that impact investing financialises the social lifesystem.

It became apparent through the course of the vignettes that the context of the enterprise and investment within the vignette had as much bearing on investment decisions as the core variable in terms of specific indicator formats or measurement approaches. Numbers reached were left without context in the vignette based on a solar energy project. In this case respondents were reluctant to invest without more social impact information. It was clear that numbers are useful but without context they are meaningless for the purposes of investing for social impact. This aligns with a blended value conceptualisation of impact that is based on the notion of a breadth and depth of impact (Chapter Three, Section 3.4). The interviews showed that context was needed by respondents in order to understand if the social impact and the level of risk in the enterprise aligns with that sought by the investor. The qualitative information was viewed to be useful by interviewees in this aspect of gaining an understanding of an investment. Increasingly, as seen in Chapters Five

and Six, investors required a sense of the impact narrative to get a gauge on the investee company and in tracking impact pathways or theories of change.

The questions associated with the vignettes were designed to surface what types of social impact information investors would require to make their decision to invest. Throughout the five vignettes, the analysis consistently and repeatedly found that outside of social impact indicators, respondents sought information in the two main areas of social context and business model. Through a conceptual lens that views impact investment markets as social constructs, drawing from Weber (1921, 1968), I suggest that action aimed at social as well as financial gain in these markets include a need for deeper understanding of the social context if they are to be effective in achieving those goals. Respondent indicated that information on the two areas was crucial to get a sense of the entrepreneurs' vision and to understanding what extent impact was absorbed by the business versus externalised as social impact in the community the business serves.

8.6 Conclusion

The research presented in this Chapter Eight and building on Chapters Five and Six shows that DFIs, experts and respondents on the ground all concur that standard DFI measures are favoured over others. These measures are used in an understanding among respondents that standardised measurement is taking place in the absence of consensus on how exactly to measure social impact. Secondly, an over-reliance by the private sector on headline numbers of beneficiaries reached, could be balanced through principles from the IMP five dimensions of impact (see Section 5.4). Finally, the findings suggest that the notion of a 'good business model' is one where financial returns are not bought at the expense of social impact. Rather, financial gains offered are considered in light of how much social impact could be bought with the financial return that is being offered.

The main criticism of impact investing among social scientists is that it monetises social impact (Dart, 2004; Dowling, 2017b; Watts and Scales, 2020). This view is based on impact investing being seen as an asset class. I found that there was a

preference for standardised indicators alongside a wariness of SROI. The concern with SROI is its lack of standardisation of the inputs that go into any given SROI calculation. This suggests that while positivism and aggregable indicators may be favoured, monetisation is not. Building on findings from the literature review in Chapter Two, Chapter Five discusses the advantages and pitfalls of monetisation. In Chapter Five, DFIs are shown to generally not use monetised approaches²¹ (with a few exceptions such as IDB-Invest), but do favour positivistic approaches. While monetisation is a positivistic approach, not all positivistic approaches monetise social impact. In this way, Dart (2004) and Dowling (2017) argue that there are negative impacts of private provision of public goods where financial returns and public goals are combined. Effective communication around rational information provided by metrics systems and evaluations, viewed in Communication Theory (Habermas, 1987), can help improve take-up and prevent perceptions of colonisation. To achieve this, a greater degree of stakeholder engagement is needed in the evaluation of impact investments. Positivistic and monetised approaches cannot do this alone.

In this study, I found that while standardisation, quantifiable outcomes and cross-cutting indicators are useful in investment decision-making, they need to be complemented with impact measures that capture broader and wider reaching social impacts. Headline numbers need to be understood in terms of their social context, a context that is framed by the surrounding ecosystem and an understanding of who is being impacted and how much they are being impacted. Without this, impact numbers have little value for the purposes of investment decision-making.

At its core, however, the decision hinges on understanding the entrepreneur and their business model. This is similar to traditional investing. The relationship between venture capitalist and the entrepreneur whose venture they will invest is an important factor in the success of a venture capital investment (Tyebjee and Bruno, 1984; Flynn, 1991; Fried and Hisrich, 1994). It is recognised in venture capital investing, for instance, that it is the entrepreneur's pitch that swings the decision (Balachandra

²¹ As established in Chapter One the present research is focused on the measurement practices in the impact investing funds of funds models of DFIs. It does not explore the metrics in social bonds in the same depth. Social Bonds, as pointed out in Chapter Two, by definition try to monetise results, to varying effects, results and success.

2017). However, the findings reported here suggest that for DFIs this differs in one important aspect: that the business model and the entrepreneur must demonstrate a commitment to social impact. This commitment must ensure that financial returns are not gained at the expense of being able to produce more social impact.

CHAPTER NINE: CONCLUSION

Ecosystems perspectives and impact risk in DFI impact measurement frameworks.

9.1 Financing for Development or the Financialisation of Development? Measurement Matters.

The starting point of this thesis was that impact investing faces criticism because of conceptual challenges that have not yet been resolved by research or practice to date. The main challenge for impact investing is to elevate social impact to the same status as financial returns in social investment without, in so doing, simply absorbing it into financial structures that are linear and fail to account for more complex social outcomes. Social impact evaluation in impact investing is under scrutiny because of an inherent conflict. The conflict is between multi-dimensional logic that must be applied to social impact measurement approaches (because of the complexity of the social world) and linear logic used to assess financial return. Accordingly, this research has been interested in untangling the conceptual problem that impact investing presents. The problem leads to a practical challenge for impact investors in how to measure a blend of social, environmental, and financial impact. This is because impact investing relies definitionally on measuring a blend of impact throughout an investment.

To unpack the puzzle, I explored what common understanding can be found among different types of actors related to development impact investment focused on smallholder agriculture. I interviewed the DFIs, investor intermediaries and smallholder farmers with a social purpose in the Veracruz region of Mexico. Thematic, vignette and documentary analysis were conducted, framed by the theoretical perspectives of Habermas (1984, 1985) and the recent conceptualisation of 'dual materiality' (Nicholls, 2018). Weber's (1921, 1968) social theory on different types of value helped place the findings within social market interactions and locate the conceptual construct of blended value within this frame. The main findings of this research are discussed in the remainder of this concluding chapter.

9.2 Main findings

A main finding of this research is that common to all respondents was a focus on social impact as sitting within an ecosystem. The findings point to there being two main types of ecosystems that overlap: the enterprise ecosystem and the investment ecosystem. A concept of blended value was evident within these ecosystem perspectives and more broadly in how social impact is understood and measured. In making decisions to invest, respondents were found to be interested in the breadth and depth of impact, including impact on communities. However, DFIs are still in the process of developing and integrating sophisticated measures to capture this. Currently, this type of understanding is created through the information generated around theories of change (ToCs) or impact pathways. The extensive take-up of the ToC approach among DFIs is seen in the evidence gap mapping exercise presented in Chapter Five and analysis of responses from developers of the metrics systems in seven of the DFIs (FMO, FinnFund, IFU, IFC, ADB (SDG Impact Forum) and Green Finance (see Chapter Six).

The second main finding of this research suggests a pathway to resolving current conceptual tensions in impact investing. In adding social return to financial return, impact investors suffer criticism of financialising social impact. This thesis suggests that instead of a linear model, a multi-dimensional model could include impact risk. This is because I find in this research that impact risk features throughout responses and analysis. DFIs evidently factor impact risk into their investment decisions. Furthermore, they separate this risk from ESG risk. This is, according to respondents, so that projects that have a potentially high impact are not screened out based on ESG rather than impact, amongst other reasons.

9.2.1 Breadth and depth of impact in an ecosystem perspective

This research finds that increased standardisation of measures has been accompanied by a necessary focus on core metrics. These core metrics centre on jobs created and emissions reduced. Chapters Five and Six reported that DFIs use statistical tools, I-O models, and scoring systems to measure blended impact in investments. In these, core common indicators on employment and emissions

ensure comparability and consistency. However, too narrow a focus on linear core metrics has the potential to distort funding. Linear narrow measures have the potential to reinforce top-down positivistic power structures (Nicholls, 2009). The approach leads to reductionism; a picture of reality that is based on its simpler component parts. In these structures, inappropriate measures can also lead investments to congregate in projects that are easy to measure (Clist, 2016), and, potentially, away from those that create deeper, broader, and longer lasting positive social impact.

Attitudes towards three types of impact information were elicited through vignette stories that depicted social impact information of a potential investment. The stories included employment numbers and emissions measures, monetisation approaches (SROI) and qualitative impact information, which acted as key variables. The vignettes helped create a distance between the views of the respondent and that of the institution or business. Thematic analysis provided the key themes that seemed important to respondents. Questions for the thematic analysis asked respondents to describe the social impact their institution or business create. Thematic analysis alone, though, could not provide the more granular data that the answers to questions on the vignette stories gave.

Respondents on the whole were ready to invest with information depicted as standardised measures. Monetised approaches, however, were viewed with caution. The main issues with monetised approaches was concern over the transparency of the inputs which were, on more than one occasion, described as a “black box” of hidden information. The vignette interviews revealed an overall distrust of monetised approaches, based on a lack of clarity over the inputs to create the final figure. Chapters Five and Six find that DFIs in the fund of fund investments I focused on in the research for impact investing do not use monetisation approaches. This is with a few exceptions such as IDB DELTA, which combines an explicitly monetised approach with stakeholder engagement.

A tradition of development evaluation theory has shown that a number of important development evaluation characteristics help prevent reductionism (Patton, 2002; O’Flynn and Barnett, 2017; Patton and Campbell-Patton, 2021). This is achieved

through a focus on evaluation aspects such as attribution (the share of results the DFI directly causes) and causality (establishing the cause of impact was the intervention and not external factors). The evidence gap map in Chapter Five shows that DFIs have developed ToCs and track impact pathways. The extensive take-up of the ToC approach among DFIs is seen in the analysis of responses from developers of the metrics systems in seven of the DFIs (FMO, FinnFund, IFU, IFC, ADB (SDG Impact Forum) and Green Finance (in Chapter Six). This helps establish causality alongside statistical methods. In doing so, the involvement of the people that are supposed to eventually benefit from the aid money is of high importance.

Although the methods used by DFIs here are not found in this research to tend towards monetising social impact, they are broadly positivistic in approach. In making decisions to invest, respondents were instead interested in a breadth and depth of impact, including an impact on communities. However, DFIs are still in the process of developing and integrating sophisticated measures to capture this. Currently, this type of understanding is created through the information generated around ToCs or impact pathways. Specifically, the research identifies DFI approaches as post-positivistic. Like positivism it is an approach that fundamentally aims to reduce bias or interference in the collection of observable data. It favours experimental design, randomised control, quantitative and correlational research. This can be used in hypothesis testing and so can also fit with a ToC approach.

I find in this thesis that a sense of breadth and depth of impact is an important element of the information needed to invest on social grounds (rather than on financial grounds). Measures that capture a greater breadth and depth of impact include those that captured impact on the communities in which an investment or enterprise sits. In the vignette interviews, as reported in Chapters Six and Eight, respondents tended to say they would invest at a point where they had enough information to be able to see the breadth and depth of social impact. They said they wanted to understand the reach of the business, who the beneficiaries are and how they are impacted. Approaches that engage with beneficiaries may capture broader, deeper social impact. Understanding the breadth and depth of social impact is necessary to adhere to the broader definition of 'social' factors in impact investing compared with financial factors (Emerson, 2003, 2013).

In the research, I found that an ecosystems perspective may better capture the complexity of social impact than narrow measures alone. The ecosystem perspective considers a range of factors that impact on the effectiveness of entrepreneurship to achieve social goals (Stam and Spigel, 2016; Mason and Brown, 2014; Isenberg, 2011). The views of respondents in this research align with the findings from existing studies in Mexico and the Latin American region (Zinny, 2015; ANDE, 2018): namely, that while there are investors and investment-ready entrepreneurs, ecosystem failures hamper impact investment growth in the country.

These combined findings suggest that attempts at linear adjustment to the model may be failing to get traction because they are inherently flawed by being linear. The research, through the lens of Weberian theory, suggests that blended value is part of the impact investing system. Through this lens, I found that multidimensional approaches are better suited than linear, positivistic, approaches to achieve this. Qualitative and multidimensional approaches to evaluation combine with the need for quantitative methods to gauge expected social and environmental impact. This is required for investments and systemic structures associated with impact investing (such as the creation of the ISSB) to be based on rational action. Rational action is necessary for the actors in impact investments to be able to claim that they seek specific social goals.

Systemic approaches to engage with stakeholders and communities, however, are less common in measurement frameworks, as seen in Chapters Five and Six. Many DFIs, although fewer than in traditional aid institutions, include qualitative approaches that collect small pockets of data at the participant (beneficiary) level. Chapters Five and Six reported that qualitative tools are used to conduct deep dive assessments by DEG, BII and FMO, and FinnFund also uses innovative video interview tools. Among DFIs, the EIB and IDB were found in the research to integrate stakeholder voice into their evaluation frameworks. The UN agriculture institutions FAO and IFAD also engage with stakeholders as part of their evaluation strategy and framework for impact investing. In these cases, stakeholder voice is integrated into evaluation in order to gain a better sense of causality and differential impact (Patton, McKegg and Wehiipeihana, 2015; Barnett et al., 2018; Zaveri, 2020). Often, however,

these are isolated initiatives, such as focus groups with videos for textile workers in India to respond to in order to input into the evaluation of a FinnFund programme. These types of initiatives are yet to be fully integrated, mainly due to the burden of implementation on investee companies.

Through the lens of Habermas' Communication Theory, consultation and accompanying qualitative methods to assess impact are a necessary space for effective and rational communication to take place. Under this theory, a space for rational communication is needed, so that standards from the 'system' are accepted by the 'lifesystem,' by avoiding the lifesystem perceiving a take-over or 'colonisation' threat. While impact investing and blended finance remain a small part of all development funding it faces specific criticism. Critics argue that the increase of this type of financing for development is a form of financial colonisation of the social world (see Chapter Two). At the same time, the research points to an increased need for effective communication and stakeholder involvement, under Habermasian theory, to resolve recurrent claims of 'greenwashing' and opaqueness in measurement among criticisms of the social and environmental investment approach. Under this conceptualisation, then, the role of stakeholder consultation and qualitative methods to assess impact are vital.

9.2.2 Impact Risk in decision-making

In this research I found that identifying and responding to impact risk is an important part of creating impact. Impact risk featured strongly in DFI measurement frameworks (see Chapters Five and Six). Impact risk was a common theme identified among respondents in Mexico (in Chapters Seven and Eight). In Chapter Six, I showed that ESG and Impact are assessed separately by the DFIs. ESG typically falls under 'due diligence,' and impact generally is assessed ex-post, with some exceptions. Where impact is assessed in earlier stages of the investment beyond ex-post evaluation (such as in structuring and negotiation), the assessment of impact can be used a screening mechanism to guide the investment decision.

This research finds that impact risk is a key factor in the decision-making and evaluation processes of DFIs. It is a potential area of shared understanding among

various actors in impact investment processes. This understanding develops within the business ecosystems of smallholders and the investment ecosystems that surround them. The inclusion of social impact should, then, speak to both risk and financial returns, rather than to returns alone. Accordingly, impact risk, as well as social impact return should be factored into the definition of impact investing and the investment decisions under the term.

The basic idea underpinning impact investing is that social and environmental impact should be added to the risk and return calculation. This results in the idea that Risk plus Return calculations now become Risk plus Return plus Impact (expressed as Social Return). This is a linear integration of Impact into investment decision-making calculations. The role of impact risk found in this research develops this theoretically, to further integrate social impact into the financial decision-making process.

The ideas I have presented here on impact risk theorise that the approach for impact investing is, instead of Risk plus Return plus Impact, should be the logic of Risk plus Impact Risk as well as Return plus Social Return. This conceptualisation has the potential to lead a more balanced equation than efforts to date that focus only on adding social return to the returns side of the equation. This conceptualisation brings impact risk into the model, one of the main contributions I make through this research (depicted in Figure 7.2 and detailed in the concluding section of Chapter Seven). By bringing in impact risk, I present a view where impact investing shifts from being a linear model to a multidimensional model. A multidimensional conceptual model has the potential to recognise the complexity of social impact.

The research in this thesis has developed findings to theorise that the inclusion of impact risk alongside financial risk re-shapes how to look at models which attempt to explain impact investing. This multidimensional conceptual model has the potential to sit better with the social impact as being complex by involving numerous factors, actors, and relationships. A conceptual theory that links social impact risk to financial risk instead of only to return in the decision-making process can provide a bridge between linear financial accounting and complex multidimensional social accounting, which are the subject of conceptual tensions in impact investing.

9.4 Limitations and subjects for future research

The findings suggest that future efforts to produce impact-adjusted calculations should explore how to factor in social impact risk to the risk side. This has the potential to create a more balanced equation than efforts to date that focus only on adding social return to the returns side of the equation. It has not been the role of the social science research in this thesis, however, to explore the incorporation of social impact into financial modelling. The findings suggest, though, that future work could explore this finding on the role of impact risk in decision-making, which can draw from other disciplines in economics and business studies. There is also scope to explore further conceptual implications of adding impact risk to pricing models.

Through the evidence gap map, I found a number of common gaps among DFI impact measurement and management frameworks and practices. The evidence gap map suggest that baselines are not commonly used in the impact frameworks, which was confirmed in interviews, in turn, this suggest other ways in which an initial sense of an impact narrative can be understood. The analysis also found that systemic approaches to engage with stakeholders and communities are on the whole lacking, though with promising innovative initiatives. More research is needed on how and why target participants and communities surrounding them can be included into impact measurement and management. A move to more ex-ante evaluation may be an arena in which to include stakeholders in evaluation frameworks as they further evolve in the future. I also found later through the evidence gap map that more fine-grained impact pathways and sector-level ToCs may be needed. Interviews suggested impact pathways are important features of the systems in practice, but more work needs to be done to define the narratives around these.

One key limitation of this research was that I was not able to secure institutional access at the DFIs to explore perspectives at different levels within the same investment. Individual interviews were possible with representatives and experts, but DFIs were reluctant to provide access to their smallholder farmer investees. Instead, I secured smallholder farmer participants separately to address this limitation. Should it be possible to extend the research in this way, I would use the methods applied in this thesis to explore what social impact means within the chain of a

particular investment from investor to final beneficiary. This would enable some of the insights I have found in the research here to be explored further, with greater specificity, through the lens of how people at different points in the flow of the same funds view social impact and its measurement.

The topic of impact investing is relatively new. In this thesis I have outlined conceptual and practical concerns which have prompted me to provide several insights. Findings in this thesis on the role of social risk in decision-making bring impact risk into theoretical and conceptual understanding of impact investing. I also suggest that an appreciation of the breadth and depth of impact viewed in an ecosystem perspective is worthy of exploration in the future as part of the way to look at impact and impact risk that include participant voice. For DFIs and larger portfolio investors, practical challenges remain. These include finding a proxy measure for baselines, systemic approaches to engage with stakeholders and communities, and more fine-grained impact pathways and sector-level ToCs. These insights have contributed to the research and highlighted issues that would be profitable to address in the future.

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Annex A: Vignette Cards and Questions

The following vignettes cards were used in the interviews.

A.1 Three vignettes used with DFI metrics experts

Vignette Questions



Any investor, whether socially orientated or not, considers current and expected risk and financial return in making decisions about whether to invest or not.



Socially minded investors (ones that look beyond profit and the risks associated with making that) also consider the social impact of the investment in deciding whether to invest or not.



The scenarios on the cards assume the investor **has already decided that these options will bring them the financial return within a range they expect at a level of risk they are willing to take**. This is to isolate the role of social impact in that decision.



You will be asked questions about what you think an investor would do. There are no right or wrong answers you do not need to understand the details about percentages and yields. These are used just to make the stories realistic. We're interested your **reaction to the type of stories about impact you're hearing**.

Vignettes Set 1

Carlos has set up a small information and business service for local farmers which he runs out of his grocery store. While he is one of few businesses in the area to have internet connection, his software and hardware isn't fit to meet demand. He reckons that if he had a new smartphone and new software he would be able to access prices and be able to help farmers better negotiate supply terms as he would have better and faster price information. To do this he is looking for an investment of \$15,000. This will grow his business so that he can provide investors a 5% return. With the improvement to his business that this investment makes he would directly create 8 new jobs.

An investor has up to \$15,000 to invest in digital services for farmers and is looking for a 5% return. The investor is happy with the level of risk associated with this investment.

Do you think the investor should;

- Invest
- not invest
- await more social impact information?

What information do you think the investor might need?

Vignettes Set 1

Carlos' business has grown to serve the entire district through the creation of 15 micro-franchises providing digital services. With the business model having spread, he wants to implement a health insurance scheme for employees, which will help his business be more efficient. Absence and costs due to illness are high, in an area without access to public healthcare and with employees unable to pay for private healthcare. To provide health insurance throughout his 15 franchises he is looking for an investment of \$20,000, which will provide investors a 5% return. He trialled the health insurance scheme with his eight direct employees.

An independent evaluation presented a series of case-studies, an extract of one read by the investor is: The health insurance trial helped one of Carlos' employees, Jana, access vital healthcare which virtually eliminated her time off due to illness. Jana had been suffering with diabetes for the past five years. Unable to access the drugs to stabilize her condition she would often have to take sporadic days or half days off. "It's the first time I've been able to go to a doctor in ten years" she said. Jana described a recent morning where she felt unwell and "Instead of being ill for days unable to work, within a few minutes of taking medication I was feeling able to go to work." The access to medication also means Jana is better able to care for her family. "I now have more energy to care for and play with my children" she said.

Do you think the investor should;

- Invest
- not invest
- await more social impact information?

What information do you think the investor might need?

Vignettes Set 2

Clara, a philanthropic investor has \$20,000 to invest in smallholder farming. Three different intermediaries she has worked with before present her with the same investment opportunity in Jose's business.

Jose has inherited 20 acres of land. Rather than farm the land himself as his father had he wants to use the water resource on his land to provide irrigation to between 100 and 500 smallholder farmers. He has part-build the infrastructure and already supplies 20 farmers. The philanthropic investor had previously invested in a similar investment that yielded a Social Return on Investment (SROI) of \$3.55 per \$1 invested. Meaning for every dollar invested more than three dollars of social benefit was created.

Three intermediaries present her with three different types of impact information A, B and C below.

Which intermediary should she choose and why?

Vignettes Set 2

BANK A

The social impact information available for Jose is:

The secure water supply has increased yields by 12% and created an additional 300 jobs. An investment of \$20,000 would increase yields by 18% and create 800 jobs.

BANK B

An independent evaluation presented a series of case-studies. An extract of the case study the investor reads. “Felipe and his family were struggling to subsist. The irrigation meant they were able to increase yields over three years, expand their farming business and employ new staff. Their youngest son and daughter can now go to school, where the eldest had previously had to stay at home and work the farm”.

Bank C

The social impact information available is:

An independent evaluation found Jose's enterprise created a SROI of \$4.45 per \$1 invested.

Vignettes Set 3

An investor has \$2 million to invest towards UN SDG 7: Adequate access to affordable, reliable and sustainable energy for all.

The investor is presented with an option to invest.

They had previously invested in a similar company that expanded access to energy. The previous investment had yielded a Social Return on Investment (SROI) of \$3.55 per \$1 invested.

A local solar energy company provides energy to 2,400 people in rural communities. Energy is supplied at affordable rates. With a \$2 million investment the program can expand to reach more than 10,000 people in areas where access to energy is sporadic and costly.

Should they invest or wait for more social impact information?

If so, what type of information?

Vignettes Set 3

An extract from an independent evaluation conducted by an NGO reads; “the families and communities served can now keep produce refrigerated and have the lighting they need. Previously they depended on intermittent and limited energy. Only at limited periods and barely enough to light a bulb.” This has they continue, “created tremendous opportunities”.

One of the beneficiaries, Juana has been able to start a jewelry business with the access to electricity, expanding from “making a few things here and there”. She says, “My children are able to study at night now.”

Another independent evaluation found that the company creates a Social Return on Investment of \$4.45 per \$1 invested.

Which information might be more appealing to the investor?

A.2 Full set of five vignettes used with DFIs, investors and smallholder farmers in Mexico

Viñetas

- Vamos a repasar algunas historias hipotéticas; que no son reales pero que se basan en métricas reales usadas por empresas e inversores similares. Se trata de empresas sociales en las que alguien puede invertir dinero.
- Cualquier inversionista, ya sea con orientación social o no, considera el riesgo actual y el esperado y el rendimiento financiero cuando toma decisiones sobre si invertir o no. Los inversionistas con mentalidad social (aquellos que miran más allá de las ganancias y los riesgos asociados con hacer eso) también consideran el impacto social de la inversión al decidir si invertir o no. Los siguientes escenarios suponen que el inversor ya ha decidido que estas opciones les brindarán el rendimiento financiero dentro de un rango que esperan, con un nivel de riesgo que están dispuestos a asumir. Lo hace para aislar el papel del impacto social en esa decisión. Esto es para explorar las actitudes hacia diferentes tipos de información de impacto social que pueden guiar esa decisión.
- Se hará preguntas sobre lo que la persona cree que haría un inversionista. No hay respuestas correctas o incorrectas, no necesita comprender los detalles sobre porcentajes y rendimientos. Estos se utilizan sólo para hacer las historias realistas. Es su reacción al tipo de historias sobre el impacto que me interesa escuchar.

Set de Viñetas 1

Carlos ha establecido un pequeño servicio de información y negocios para los granjeros locales, el cual opera desde su tiendita de alimentos. Como su local es una de las pocas empresas en el área que tiene conexión a Internet, su software y hardware no son adecuados para satisfacer la demanda. Él cree que, si tuviera un nuevo sistema informática y nuevo software, él podría tener acceso a los precios y podría ayudar a los agricultores a negociar mejor los términos de suministro, ya que tendría mejor información de precios más rápido. Para ello busca una inversión de \$15,000. Esto hará crecer su negocio para que pueda proporcionar a los inversores un rendimiento del 5%. Con la mejora en su negocio que esta inversión hace, él creará directamente 8 nuevos empleos.

Un inversionista tiene hasta \$10,000 para invertir en servicios digitales para agricultores y está buscando un beneficio del 5%. El inversionista está satisfecho con el nivel de riesgo asociado con esta inversión.

¿Creen que debería invertir? ¿O pedir más u otro tipo de información? ¿Qué tipo de información social podrá servir?

Set de Viñetas 1

El negocio de Carlos ha crecido para servir a todo el distrito a través de la creación de 15 micro-franquicias que ofrecen servicios digitales. Una vez que se ha extendido el modelo de negocios, quiere implementar un plan de seguro de salud para los empleados, lo que ayudará a que su negocio sea más eficiente. La ausencia y los costes debido a la enfermedad son altos, en un área sin acceso a la atención médica pública y con empleados que no pueden pagar para atención médica privada. Para proporcionar el seguro de salud a través de sus 15 franquicias, está buscando una inversión de \$ 20,000, que proporcionará a los inversores un retorno del 5%. El ya hizo una prueba del plan de seguro de salud con sus ocho empleados directos.

Habiendo decidido o no de invertir en la anterior; ahora que sepan que el negocio ha crecido y tienen otra información sobre el impacto social – ¿van a invertir o pedir más u otro tipo de información? En caso de si, ¿que tipo de información?

Set de Viñetas 1

Una evaluación independiente presentó una serie de posibles casos. Un extracto de una lectura leída por el inversionista es: La prueba de seguro de salud ayudó a una de las empleadas de Carlos, Jana, tener atención médica vital que prácticamente anuló sus bajas por enfermedad. Jana había estado sufriendo con diabetes durante los últimos cinco años. Al no poder acceder a los medicamentos para estabilizar su condición, a menudo tendría que faltar días completos o parciales. "Es la primera vez que puedo ir a un médico en diez años", dijo. Jana describió una mañana reciente en la que se sintió mal y "En lugar de estar enferma por días sin poder trabajar, a los pocos minutos de tomar los medicamentos me sentía capaz de ir a trabajar". El acceso a los medicamentos también significa que Jana está mejor capacitada para atender a las necesidades de su familia "Ahora tengo más energía para cuidar y jugar con mis hijos", dijo.

Añadiendo esta información ¿ Van a invertir o pedir más u otro tipo de información? En caso de si, ¿que tipo de información?

Set de Viñetas 2

Clara, una inversionista filantrópica, tiene \$20,000 para invertir en la agricultura de pequeños agricultores. Ella había invertido previamente en un trabajo similar que produjo un Retorno Social de la Inversión (SROI) de \$3.55 por cada \$1 invertido. Ósea, se creó más de tres dólares de beneficio social por cada dólar invertido.

Tres bancos diferentes con los que ha trabajado antes le presentan la misma oportunidad de inversión en el negocio de José.

José ha heredado 20 acres de tierra. En lugar de cultivar la tierra él mismo como su padre, quiere usar el recurso hídrico en su tierra para proporcionar riego a entre 100 y 500 pequeños agricultores. Él ha construido parcialmente la infraestructura y ya suministra a 20 agricultores.

Los tres bancos presentan tres extractos diferentes de los informes de impacto social de José.

¿Cuál de los tres siguientes extractos crees que la convencería de invertir? ¿Por qué?

Banco A, B o C?

Banco A le dice a Clara que el impacto social es:

El suministro seguro de agua que José ha proporcionado aumentó los rendimientos en un 12% y ha creado 300 empleos. La inversión de \$ 20,000 aumentaría los rendimientos en un 18% y crearía 800 empleos.

Banco B le da a Clara un extracto de un informe de evaluación:

Una evaluación independiente presentó una serie de escenarios. Un extracto del escenario que lee el inversionista dice: "Felipe y su familia luchaban por subsistir. El riego significó que pudieron aumentar los rendimientos a lo largo de tres años, expandir su negocio agrícola y emplear nuevo personal. Su hijo e hija más pequeños ahora pueden ir a la escuela, en cambio al hijo mayor, que había tenido que quedarse en casa y trabajar en la granja."

Banco C le dice a Clara que su información de impacto social es:

Una evaluación independiente encontró que la empresa de José creó un Retorno Social de la Inversión (SROI) de \$4.45 por \$1 invertido. Eso es decir que se creó un beneficio social de más de cuatro dólares por cada dólar invertido.

Set de Viñetas 3

Un inversionista tiene \$10,000 que quiere invertir para ampliar el acceso a la atención médica en una población en desarrollo. También quieren obtener un retorno financiero de esta inversión.

Una empresa social proporciona medi-kits que incluyen suministros de agua y saneamiento (WASH), como jabón, y kits básicos de primeros auxilios en zonas de montaña difíciles de alcanzar. El inversor sabe que las ponderaciones de riesgo son favorables, pero la información de rendimiento financiero no está disponible. Aunque el inversor sabe que la empresa social ya suministra con éxito financiero a 200 personas en cinco aldeas, pero con la inversión solicitada puede suministrar hasta 1.000 personas con equipos médicos para salvar vidas.

¿Creen que debe invertir? ¿O pedir más u otro tipo de información? ¿Qué tipo de información social sería la más útil?

Set de Viñetas 3

Una evaluación independiente presentó un extracto:

Un programa regional de "salud en el hogar" tiene instructores de salud que visitan hogares en las aldeas de las montañas.

Preguntaban a los hogareños qué pensaban acerca de la iniciativa de los medi-kits.

Entre ellos, citan; "No hay un hospital aquí y tener desinfectantes, vendas y medicamentos esenciales como el paracetamol, los sueros es realmente importante", dijo un trabajador de salud.

Otro acordó diciendo: "Hemos notado que las personas no se enferman tanto con mejores productos de higiene y que los jóvenes se curan más rápido con el acceso a medicamentos básicos".

Un miembro de unas de las familias dijo: "Antes teníamos que rationar jabón y productos de limpieza. Solo podíamos comprar estas cosas cuando podíamos costearlas y solo a través de un viaje largo y peligroso al pueblo cercano".

Otra evaluación independiente encontró que la empresa creó un Retorno Social de la Inversión (SROI) de \$3.45 por \$1 invertido. Ósea, se creó un beneficio social de más de tres dólares por cada dólar invertido.

¿Cuáles de las dos evaluaciones les impulsaría más a invertir? ¿Qué información falta?

Set de Viñetas 4

Un inversionista tiene \$ 50,000 que quiere invertir en ampliar el acceso a la educación en una población en desarrollo. También quieren obtener un retorno financiero de esta inversión.

Jaime e Inés están abriendo un negocio que está trabajando para lograr el ODS 4 que garantiza una educación inclusiva y equitativa de calidad. La empresa social que abrieron ha aumentado las tasas de matriculación en la escuela primaria en un 12% en las 5 escuelas con las que trabaja. Ha suministrado equipo actualizado que incluye computadoras y software y capacitó a 50 maestros. La empresa necesita \$50,000 en fondos semilla para iniciar su negocio de suministro de capacitación y apoyo a familias y maestros en áreas de baja matrícula en la escuela primaria. Puede proporcionar un 5% de retorno de la inversión.

Debe invertir? ¿O pedir más u otro tipo de información? ¿Qué tipo de información social podrían requerir?

Set de Viñetas 4

La empresa social ha aumentado las tasas de inscripción en la escuela primaria en un 12% en las 25 escuelas con las que trabaja. Ha proporcionado mejor equipo que incluye computadoras y software y capacitó a 300 maestros. Cumple con los estándares globales en ODS 4 que garantiza una educación de calidad inclusiva y equitativa. La empresa necesita \$ 50,000 en fondos para expandir su negocio de suministro de computadoras, software, junto con capacitación y apoyo a familias y maestros en áreas de baja inscripción en la escuela primaria en toda la región. Como antes, puede proporcionar un retorno de la inversión del 5%.

¿Debe invertir? ¿O pedir más u otro tipo de información? ¿Qué tipo de información social podría servir?

Set de Viñetas 4

Una fundación benéfica invierte en el programa. Proporciona \$ 25,000 como una subvención que permite a la empresa social ofrecer un retorno del 10% sobre los \$ 25,000 restantes. Como antes, la empresa social ha aumentado las tasas de inscripción en la escuela primaria en un 12% en las 25 escuelas con las que trabaja. Ha proporcionado mejor equipo que incluye computadoras y software y capacitó a 300 maestros. La empresa necesita \$ 25,000 en fondos para expandir su negocio de suministro de computadoras, software, junto con capacitación y apoyo a familias y maestros en áreas de baja inscripción en la escuela primaria en toda la región.

Si antes decidieron o no de invertir; ahora que sepan que el negocio ha crecido y tienen otra información sobre el impacto social – ¿van a invertir o pedir más u otro tipo de información? En caso de si, ¿que tipo de información?

Ahora que les ofrece 10% invirtiendo la mitad, ¿les interesa la oferta de invertir mas?

Set de Viñetas 5

Un inversionista filantrópico tiene \$2 millones para invertir en ODS 7: objetivo para garantizar el acceso a energía asequible, confiable, sostenible y moderna para todos. Le han presentado una opción de inversión. El inversionista filantrópico había invertido anteriormente en una inversión similar en una empresa de acceso a la energía que produjo un Retorno Social de la Inversión (SROI) de \$3.55 por cada \$1 invertido. Eso es decir que se creó más de tres dólares de beneficio social por cada dólar invertido.

Una empresa de energía solar que se fundó en la localidad proporciona energía a 2,400 personas en comunidades rurales a precios asequibles. Con una inversión de \$2 millones, puede ampliar el programa para llegar a más de 10,000 personas en áreas desatendidas donde el acceso a la energía es esporádico y costoso.

¿Creen que debería invertir? ¿O pedir más u otro tipo de información? ¿Qué tipo de información social podría servir?

Set de Viñetas 5

Un extracto de una evaluación realizada por una ONG dice que "las familias y las comunidades ahora pueden mantener los productos refrigerados y tener la iluminación que necesiten. Anteriormente, dependían del suministro de energía intermitente donde podían encender solo una bombilla durante períodos limitados de la tarde." Continúa: "esto crea tremendas oportunidades."

Una de las beneficiarias, Juana ha podido iniciar un negocio de joyería: "Siempre he fabricado joyas que vendía aquí y allá, pero era difícil trabajar con poca luz, pero ahora puedo hacer mucho más y convertir esto en algo para ayudar a apoyar mi familia".

Otro, Alfonso dijo: "es genial ver a mis hijos que pueden estudiar por la noche".

Otra evaluación independiente encontró que la empresa creó un Retorno Social de la Inversión (SROI) de \$ 4.45 por cada \$ 1 invertido. Ósea, se creó más de cuatro dólares de beneficio social por cada dólar invertido.

¿Cuáles de las dos evaluaciones les impulsaría más a invertir? ¿Qué información falta?

Three of the five vignettes were developed in English and are at the beginning of this Annex A. Two of the vignettes (Vignettes 3 and 5 above) developed in Spanish are translated here below:

Vignette 3: WASH Vignette

Card 1

An investor has \$10,000 to invest in expanding medical access in a developing country. They would also like a financial return from the investment.

A social enterprise delivers medi-kits to the last mile and include water and sanitation (WASH) supplies. These include soap and basic first aid kits to populations in mountainous regions that are hard to access. The investor knows that the risk conditions are favourable, but the financial information is not available. Although they do know that the social enterprise has had some success with 200 clients in five hamlets. With the investment they seek they could reach up to 1,000 people with vital medi-kits that save lives.

Questions

Should the investor invest? Or ask for more or different types of social information? If so, what type of social impact information might they need?

Card 2

An independent evaluation presents extracts:

A regional program of “health in the home” has health instructors that visit homes in the mountain hamlets. They asked at these homes what they thought about the medi-kits initiative.

Citation from the evaluation include: “There isn’t a hospital anywhere nearby and having sterilisation, disinfectants, essential medicine such as paracetamol and salts has been really important” said one health worker.

Another agreed stating: “We’ve noticed that people aren’t as ill with better products and hygiene. We’ve finding infants are suffering less and getting better quicker just with basic medicines.”

A member of the beneficiary families said: “We used to ration soap and cleaning products. We could only buy these things infrequently because of the cost and we could only obtain them through a long and treacherous mountain journey

Another independent evaluation presents a Social Return on Investment (SROI) of \$3.45 for \$1 invested. So, it creates a social benefit of more than three dollars per dollar invested.

Question

Which of the two types of evaluation information would make you most interested in investing? Why?

Vignette 4: Education Vignette

Card 1

An investor has \$ 50,000 to invest in expanding access to education. They would like to invest this in a developing area. The investor would also like to get a financial return from this investment.

Jaime and Inés have set up a business that is working towards UN SDG 4 that guarantees inclusive quality education for all. The social enterprise that they have opened has increased matriculation rates by 12% across the five schools they work with. They provide equipment, software, and training to 50 teachers. The business needs \$50,000 in seed funding to expand their business to supply capacity development and support to families and teachers in wider areas with low primary school matriculation rates. It could provide a 5% return on investment.

Questions

Should the investor invest? Or should they ask for more or different types of social information? If so, what type of social impact information might they need?

Card 2

The social enterprise has increased matriculation rates in primary schools by 12% across the 25 schools with which it works. It has provided better equipment which includes computers and software, and it has trained 300 teachers. It meets global standards on SDG 4 that guarantee quality and inclusive education. The business needs \$50,000 in funding to expand its provision of computers, software and training and support to families and teachers at primary schools across the whole regions. It expects a 5% return.

Questions

Should the investor invest? Or ask for more or different types of social information? If so, what type of social impact information might they need?

Card 3

A philanthropic foundation provides a grant for half of the financing. This means that the social enterprise can now offer a 10% return on investment on the remaining \$25,000 needed. As before the social enterprise has increased matriculation rates in primary schools by 12% across the 25 schools with which it works. The business needs \$25,000 in funding to expand its provision of computers, software and training and support to families and teachers at primary schools across the whole regions.

Questions

If before you decided, they should not invest – would you now be interested or would you seek further information? If so, what type of information would you want?

Is it a more interesting prospect now that they can offer a higher return?

Annex B: Data sources

B.1 List of documents used in the analysis in Chapter Five

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B. 1.i. List of document repositories

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B.2 Respondents: List of participating institutions

The Asian Development Bank (ADB) SDG dialogues seminar

Finnfund (Finland's DFI)

FinDev Canada

IDB-Invest

The International Finance Corporation (IFC)

Investeringsfonden for udviklingslande (IFU), the DFI of Denmark's government

The Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO)

Green Finance Expert (Green Bond, the Green Investment Bank, and the Green Infrastructure Fund).

KfW (in the form of providing a short, written response to the open questions)

Proparco

UNAM investments

Large private investment bank (undisclosed)

Local financial intermediary (undisclosed)

Local legal intermediary (undisclosed)

Smallholder farmer (social enterprise)

Smallholder farming (capacity building)

Farmer enterprise moving into exports

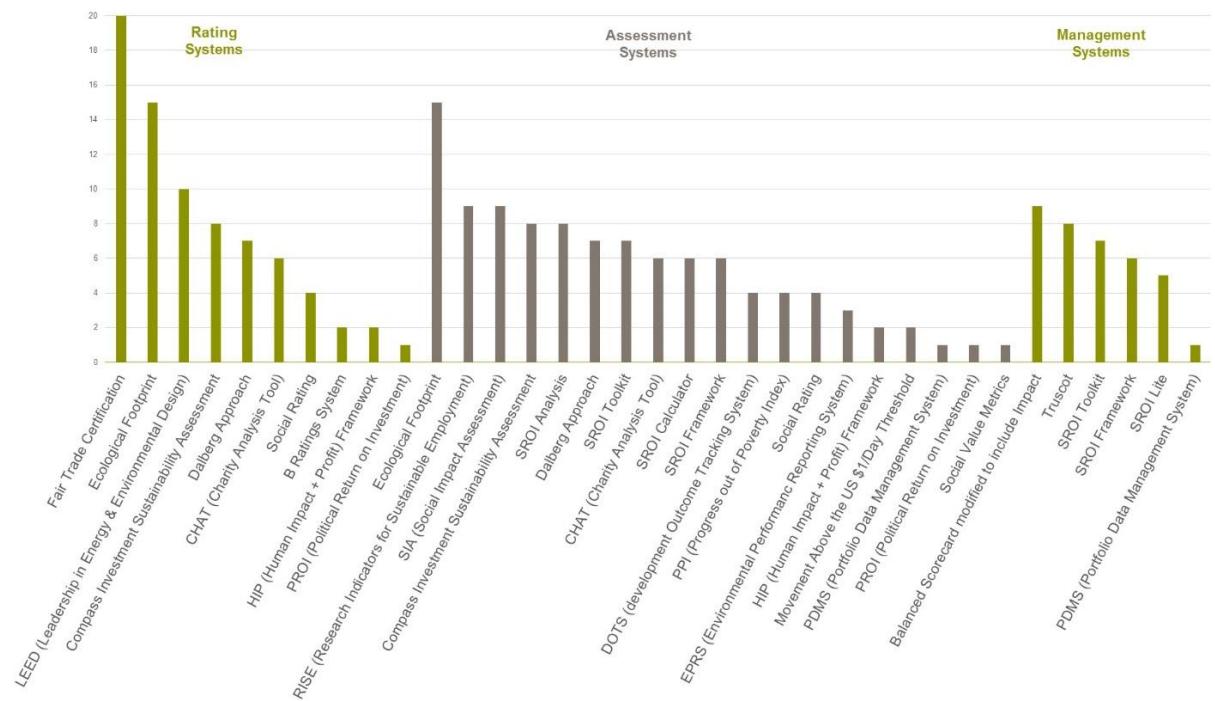
Smallholder start-up farmer

Annex C: Social Impact Measurement

In Chapter Two I mention that Flynn *et al.*, (2015) present a range of tools and approaches. These are reproduced here for information.

Box C.1 Social impact assessment tools and methods

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



Source : Adapted from Olsen and Galimidi (2008)

Source: Reproduced from Flynn *et al.*, 2015, p.3.