nesta impact investments

Impact measurement in impact investing

learning from practice

Eibhlín Ní Ógáin

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nesta impact investments

We invest in life-changing innovations that help tackle the major challenges faced by older people, children and communities in the UK.

www.nestainvestments.org.uk

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EXECUTIVE SUMMARY

As impact investors, we make investments first and foremost to create social impact, and secondly to make a financial return. Therefore, measuring the social impact of our investments is fundamental to what we do. The aim of our fund is to scale new innovations that successfully tackle social problems in a financially sustainable and impactful way. This means that we look to back outstanding social entrepreneurs who are developing new products and services that can significantly impact issues in the areas of young people's education and employability, older people's quality of life and the sustainability of UK communities.

The evidence behind the success of these new innovations is crucial for us to understand whether our investments are significantly impacting on these issues over and above what would have happened without our investment. Being confident in our impact measurement and the quality of our evidence is a core part of this. To ensure that we can confidently understand the social impact of our investments, we developed the *Standards of Evidence for Impact Investing* in 2012.[1] This approach lays out five levels evidence that range from early-stage evidence (Level 1) to robust replicable evidence (Level 5). Over the last two years, we have been working with our investees to implement these standards of evidence and improve the quality of evaluation investees undertake over time. This experience of implementing impact measurement has given us invaluable insight on how to meaningfully combine evidence and evaluation with impact investment.

This paper presents our practical experience of implementing impact measurement within an impact investing context. We discuss a number of case studies of how investments have carried out evaluation and what we have learnt from this practical experience. As a result of testing the Standards of Evidence over the last two years, we have learnt a number of lessons about what does and doesn't work. These lessons can be summarised as:

- **Lesson one**: taking a flexible, iterative approach – early-stage ventures will grow, develop and sometimes change substantially over the course of a five-year plus investment. These startups are testing and refining what they do and improving their offer as they learn. It is essential that impact measurement compliments this process and is flexible enough to measure key indicators at each stage of the venture's growth.
- **Lesson two**: using evaluation to avoid drift from social mission – as well as tackling social issues, a social venture will also need to make a financial return. Impact measurement can ensure that a venture remains accountable to its social mission and keep the investor focused on both impact success and financial success.
- **Lesson three**: the importance of an impact lead and external support – if ventures are to embed impact at the heart of their business, it is key to have a point person who takes responsibility for research and evaluation.
- **Lesson four**: understanding the smaller steps within the levels of evidence – we have found that ventures do not move neatly between levels but rather trial a number of evaluations at one level, learning about what works and what doesn't before progressing to the next level.

- Lesson five: understanding different trajectories of impact and financial growth – over the last two years, we have found that companies often develop in each of these areas at different points in time. It is important to understand that these two things do not always occur in parallel and so we, as an investor, have learnt to focus our support on wherever a company is falling behind – so over a longer period of time we see development on both commercial and impact aspects.

We hope that this paper can add to the ongoing development of and debate around impact measurement in the impact investment space, as well as offering a practical resource to funds and social enterprises which are considering taking an evidence-based approach to impact.

INTRODUCTION

About Nesta Impact Investments

Founded in 2012, Nesta Impact Investments is a £17.6 million fund that aims to scale innovative solutions to the UK'S largest social issues. We want to see the power of innovation and technology used to solve major social problems, bringing the benefits of innovation to everyone in society. We help to do this by investing in social ventures with inclusive and scalable innovations that are run by outstanding entrepreneurs. We focus on three major social needs: ageing, education and community inclusion. We are an experienced team of sector experts, venture capitalists, impact investors and evaluators backed by a strong, innovative institution – Nesta.

Current context

In the last five years, impact investing has grown from being the niche activity of a few pioneering funds to a buoyant field increasingly close to the mainstream, with global financial institutions, foundations, individuals and government all participating. A JP Morgan report published in 2010 predicted impact investing could reach a global profit of up to $667 billion by 2020;[2] and Big Society Capital, formed in 2012 has funds of £600 million to provide capital to the impact investment sector in the UK. Alongside this growth in impact investing, there has been a corresponding interest in how to measure the non-financial benefits that impact investments deliver. Social impact is the reason these funds operate and so coming up with a language and a set of metrics to underpin social performance is key to the development of the sector.

There have been a number of reports and initiatives aimed at developing consistent impact measurement in the impact investment space. BSC published its set of outcome matrices for impact investment in 2012, which aim to give investors consistent language and metrics to describe social impact.[3] The Global Impact Investing Network (GIIN) also have a set of metrics for social investors in their IRIS catalogue.[4] IRIS includes a number of different performance metrics for investors to evaluate, communicate and manage social and environmental performance. Despite these two initiatives, a number of reports have called for increased consistency and comparability in the sector. A Clearly So and NPC report on investment readiness in the UK found that most investors focus first on understanding the financial return of investments and social return often comes as an afterthought.[5]

A 2013 London School of Economics reported a lack of consensus over definitions and methodologies and as a result major differences between impact investment funds.[6] In 2014 a number of reports looking at these issues of consistency and quality were published. The G8 working group on impact investment released a report outlining a number of impact measurement principles for social investors[7] and the Cabinet Office launched a £1.5 million fund to support social ventures to improve their impact measurement in order to attract impact Investment.[8] Evidently, this is an area receiving a lot of attention and there is some evidence of traction with impact measurement among social investors. The June 2014 survey by GIIN and JP Morgan found that 95 per cent of impact investors report using standard impact metrics like the GIIN IRIS metrics or the BSC outcome matrix. Seventy-four per cent of impact investors also consider it important to measure impact post-investment. However, when you ask investors about the type of impact information they consider important to collect, the majority focus on activity data (72 per cent) and operational performance (69 per cent) while only 8 per cent consider it important to gather data from external evaluations on the efficacy of investments.

Social Value International recently published a study looking at international impact measurement practices among social investors.[9] It found that there is still scope for improvement among funds when it comes to impact measurement. The majority of respondents in their study reported using surveys or interviews, with only 8 per cent using standardised cognitive or behavioural tests. Only a small minority of funds – 16 per cent and 8 per cent respectively use any form of quasi-experimental design or randomised control trial. And, only one in five funds use any form of statistical testing to analyse impact. The report concluded that the current state of evaluation within impact investment is limited in scope and scale and therefore may not be capturing the more nuanced and direct impacts of investments.

The most recent study of practice in the UK, published by Big Society Capital and The Esmée Fairbairn Foundation in June 2015, found that impact investment funds vary a great deal in the approaches they take to impact measurement. At one end of the scale, many funds have developed systems, scorecards and classified metrics while other funds rely on a more descriptive approach – using discussions and case studies. The report called for greater guidelines on what form of impact measurement is most appropriate for investments that differ by type, length and term as well as a peer review group to provide feedback on input on each fund's approach.

The purpose of this paper

Impact investing is still growing as a discipline and asset class. At the heart of the sector's development is the ability to accurately classify and measure the impact of investments. Developing a language and set of metrics for social impact to rival those of the financial world is no easy feat. First of all, social change is not as easy to categorise and quantify as numerical financial information. Neither is it easy to develop a common comparable standard for the range of social issues and effects impact investors may be working on. We believe that learning from academic disciplines that have been quantifying and measuring such social phenomena is a useful starting point. Our approach to impact measurement borrows from the world of academia and has adapted this for an impact investment context. This paper presents our experience of implementing such an approach with social ventures on the ground. Our aim is for this paper to be a useful resource for social enterprises and other impact investors, who are looking for a framework to understand social impact.

OUR APPROACH TO IMPACT

Nesta Impact Investments' primary aim is to increase the impact of the ventures we back, both in the difference they are making, the number of people they are reaching and whether they can do this in a financially sustainable way. Therefore key to our impact is understanding whether investees are having a positive effect, whether there is good quality evidence to back up this effect, whether investees have scaled their product or service (in order to help a significant proportion of people) and whether the venture is financially sustainable. These are the four key indicators that we use to understand impact at various stages of the investment cycle.

INDICATOR 1: **Effect**: The effect of the venture's activities on the people it is targeting.

INDICATOR 2: **Impact risk**: How certain are we that the effect is real, as indicated through high-quality research and evaluation, and our *Standards of Evidence for Impact Investing.*[10]

INDICATOR 3: **Scale**: How many units of the venture's product or sessions of a service are being supplied to the targeted users?

INDICATOR 4: **Financial sustainability**: Can the venture sustain its scale?

The Nesta Standards of Evidence

In 2012, we developed a framework to assess the quality of evidence of our investments. This framework outlines five levels of evidence that range from early-stage evidence (Level 1) to robust replicable evidence (Level 5).

Level 5

You have manuals, systems and procedures to ensure consistent replication and positive impact.

Level 4

You have one + independent replication evaluations that confirms these conclusions.

Level 3

You can demonstrate causality using a control or comparison group.

Level 2

You capture data that shows positive change, but you cannot confirm you caused this.

Level 1

You can describe what you do and why it matters, logically, coherently and convincingly.

We work with ventures to move up these levels of evidence over time, increasing our confidence that our investments are having a credible and measurable impact. We also use the framework to assess the impact risk of investments. This helps us to judge the risk that the investment will not have an impact on our target outcomes. Over the course of our investment, we aim to reduce this impact risk by moving ventures up the levels of evidence. We also believe that increasing impact performance will often lead to an increase in financial value.

At each stage of our investment we assess the potential of the venture to achieve success on these indicators, as illustrated in the process below. We look for key features to be present when we screen ventures. We then make an initial assessment of impact before carrying out detailed due diligence on this impact. Before we make an investment, we develop an impact plan for the venture. This plans the progress we want the venture to make on effect, evidence, scale and financial sustainability over the course of the investment. This plan is then used for monitoring and to understand progress of the fund overall. This process is summarised below.

Pre-investment			Post-investment
Initial screening	**Preview assessment**	**Recommendation**	**Implementing and monitoring**
• Initial screening of investment opportunity through examining proposal. • Must be addressing significant social problem. • Problem must match our fund's focus areas. • Must be an innovation.	• Initial assessment on effect, impact risk. scale and financial sustainability. • Some desk research to inform this assessment. • This produces an initial rating and a list for areas to examine in more detail for the next stage.	• Detailed due diligence examining effect, impact risk. scale and financial sustainability to product a final recommendation. • Development of an impact plan to implement on investment completion.	• Investee implements impact plan with support from NII • Impact plan is used to monitor progress on effect. impact risk, scale and financial sustainability. • Impact plans are aggregated to understand progress and impact of fund.

Public benefit and target populations

Our target outcomes describe the positive change we want our investees to deliver.[11] Before we make an investment, an essential part of our impact strategy is assessing who will benefit from our investments. Inclusivity is a key criterion for Nesta Impact Investments. Therefore when we assess ventures we need to ensure that their products and services are:

1. Accessible: an investee's business plan must contain a credible long-term strategy to distribute the product or service to all segments of the target population and must not exclude any segment from the opportunity to benefit from the product or service; and
2. Affordable: the business plan must contain a credible long-term pricing and sales strategy that demonstrates how the product or service could be afforded by all segments of the target population and the strategy intends that the pricing and sales channels used do not create barriers to access for any segment of the target population.

IMPLEMENTING IMPACT MEASUREMENT: WHAT WE'VE LEARNT

Embedding impact into the routine practice of busy startups can be challenging, but with the right approach can be easily integrated into the day-to-day routine of a venture. Over the last two years, our fund has made ten investments and we have used the Standards of Evidence to support investees to improve the quality and rigour of their impact measurement work. We have learnt a number of valuable lessons in implementing impact measurement in this context. Our investees are now at the point where they are integrating evidence and impact measurement into the day-to-day running of their ventures. They are making real-life decisions about balancing evidence and revenue, judging the right amount of resource to invest in evidence for an early-stage company and using impact data to improve their products and services and to inform future strategy. We discuss these lessons here so other funds and ventures can learn about what does and doesn't work when trying to measure impact in a social investing context.

Lesson one: Taking a flexible, iterative approach

The very nature of early-stage investing means that ventures will grow, develop and sometimes change substantially over the course of a five-year plus investment. We recognise that our investments are testing and refining what they do and should develop their products and services as a result of what they learn. This means that impact measurement cannot be overly rigid and prescriptive. Rather it needs to allow for this kind of development and be flexible enough to measure key indicators at each stage of the venture's growth.

The last two years have taught us that we need to be even more iterative and flexible when developing impact plans, than we originally thought. Theory of Change is a useful tool to allow this flexible approach. A Theory of Change allows a venture to map out the change it hopes to make but does not specify the kind of evaluation it should carry out. This helps to identify the areas of impact that are a priority to measure over the course of the investment, while also allowing the development of evaluations that are appropriate for each stage of the investee's growth. FutureGov illustrates this lesson well in their use of Theory of Change and iterative approach to evaluation.

FutureGov: the importance of having a flexible, iterative approach

FUTUREGOV

Description: A digital product company developing products to improve local services and outcomes for communities.

Impact Objective: To increase access to products and services for individuals and communities experiencing exclusion.

Currently measuring:

- Improved co-ordination and reduction in crisis interventions.
- Improved capacity of practitioners.
- Reduced social isolation of older people.
- Improved food provision to older people.

FutureGov was set up in 2008 with the vision to transform local government. It uses social and digital media to improve services and engagement with service users. Its flagship product, **Patchwork**, was developed in response to the Baby P scandal, when its founders saw how technology could connect the different teams working with children and families and transform the way they communicated. Co-founder Dominic Campbell says their mission has always been to improve public services: *"As councils across the country face the challenge of increasing demands for their services alongside declining budgets many are realising the potential technology offers to significantly improve public services, helping more people in need."*

FutureGov is continuously developing and refining new products. This poses a challenge to impact measurement; first of all: products will change as they are developed and secondly; it needs to prioritise areas for evaluation as it does not have the resource to do this for its entire product range. To overcome these challenges, FutureGov first developed Theories of Change to help understand the main benefits of its products. This helped to focus on outcomes that do not change even if the product is refined over time. Secondly, FutureGov focussed only on its products that had made greater traction in the market. Therefore, as products reach a greater stage of maturity and traction, they are considered for a full evaluation. Kiran Dhillon from FutureGov explains how it helped: *"When we started working with Nesta, it was great to have some support to think through what we needed to measure and how we would do it. The Theory of Change they took us through really helped and gave us a clear model and focus. We were able to use this approach to run workshops with our team and get everyone on the same page."*

Today FutureGov has developed Theories of Change and evaluations for its mature products; Patchwork and Casserole. Patchwork is a web tool that allows different teams in a local authority, working with a child and/or family to communicate with each other. Casserole is an online platform that connects local residents who volunteer to cook and share a meal with an older person in their area. It hopes that this will provide friendship and social contact for the older person and as well as providing a home-cooked meal. FutureGov has completed two pre-post surveys of both products. The results so far have been positive but have also highlighted areas to iterate for the next evaluation. Kiran Dhillon believes the surveys have been important for proving the social impact of their work:

"Measuring the impact of Casserole Club, especially when it comes to reducing social isolation for older people, has been very powerful. This work really brought to life the impact of what we do – it's motivated everyone and made us more confident about the difference we are making. We don't just talk about the activities we run; we can actually talk about outcomes and impact." FutureGov plans to iterate the evaluation approach for the next wave of service users and will test how this approach works before developing a Level 3 evaluation. *"We have learnt that you can start simple, learn from what does or doesn't work and then make it more rigorous."* says Kiran Dhillon.

Lesson two: Using evaluation to avoid drift from social mission

As discussed above, for ventures in their early stage of development, the product and business plan will rightly change as the company develops. However, for ventures that also need to make a financial return, there can be a pressure to find revenue generating activities that may not be wholly consistent with its impact mission. Impact measurement can ensure that a venture remains accountable to its social mission and keep the investor focused on both impact success and financial success. This means setting out its impact objectives prior to investment completion and agreeing metrics by which it will monitor whether it is making progress on its mission.

Over the last two years, we have had first-hand experience of the conflict that can arise between revenue and impact. Having clear outcomes and impact metrics agreed at the beginning of the investment has helped us and investees navigate this conflict and make decisions that are both good for financial and impact performance. The main learning point for the fund has been to keep these outcomes and metrics at the strategic level, and develop detailed evaluations over time. Again, using a Theory of Change can clarify the outcomes to hold the investee accountable to, while not being overly prescriptive on the exact type and nature of evaluation that should be done.

Ffrees: Using impact measurement to ensure beneficiary focus

ffrees

Description: A financially inclusive current account targeting the underbanked.

Impact Objective: To increase access to products and services for individuals and communities experiencing exclusion.

Currently measuring:

- Increases in access to a transactional bank account.
- Increases in use of electronic payments and budgeting tools.
- Increases in savings of individuals and households.

Ffrees is a current account that is designed to be financially inclusive and particularly targets underbanked individuals and families in the UK. It is easy to sign up to, includes features to help customers save and manage their money as well as rewarding customers when they shop in a large number of retailers throughout the UK. These rewards are converted into cash and placed into a separate savings jam jar inside the customer's account. Ffrees targets the estimated 7.8 million people in the UK who are unable to easily qualify, or are deterred from, access to mainstream bank accounts. Ffrees has a simple electronic sign-up process to open an account with transparent, affordable and easily understood pricing.

Ffrees is demonstrating that the underbanked can be provided with a fairly priced, well serviced and high-quality current account on a profitable basis. This is a challenge to the model of 'free-in-credit' current account banking in the UK which incentivises banks to target higher-income customers and promotion of expensive credit facilities to people who do not fully understand the cost. This launches the spiral of increasing debt and misery that afflicts 8.8 million households today as they struggle with problem debt. The banks also use fines, high charges, unregulated overdraft fees, poor access and services to deter poorer and lower-value customers. This lack of willingness from mainstream banks to target and tailor services to those on low incomes is one of the key drivers behind financial exclusion in the UK.

Key to understanding whether Ffrees is achieving its mission and delivering particular value to the underbanked is data on whether this group of individuals are adopting and accessing the account more frequently than other users. Ffrees gathers detailed data to understand whether the account is benefiting the underbanked. It uses quarterly Acorn postcode data to understand the type of users, reflected by where they live. It also surveys its customers quarterly to understand whether customers are underbanked or financially excluded before joining Ffrees and whether they have improved their money management and savings since joining. So far, this data indicates that 68 per cent of Ffrees customers come from communities that are more likely to be financially excluded.

The next step for Ffrees is to show that the account can improve money management and financial behaviour in the long term. To do this it will need to carry out a pre-post trial of Ffrees customers in comparison to a similar group who do not access the Ffrees account. Ffrees is using national data on savings and financial behaviour as a benchmark. This national data compares Ffrees' customers to the general population, indicating that Ffrees customers are more likely to be underbanked than the average population. The intention is to use this data to design a Level 3 evaluation to understand in more depth the impact that Ffrees has on financial behaviour over time.

Lesson three: The importance of an impact lead and external support

If ventures are to embed impact at the heart of their business and be accountable to impact success, as well as financial, it is key to have a point person who takes responsibility for research and evaluation. Over the past two years, we have learned that ventures which have a designated role for impact, and who have invested in this resource, have made much more progress with impact measurement and have moved up the Standards of Evidence.

It is also worthwhile considering investing in external support. While it is important to have a lead on impact in the venture, it is unlikely that they will have all the skills and expertise to ensure rigorous evaluation. The external advice offered by our fund has helped investees make progress. Partnerships with researchers and academics can also help ventures run high-quality impact measurement.

Oomph!: the importance of an impact lead and external partnerships

Description: A social enterprise improving the health and quality of life of older adults through innovative group exercise classes.

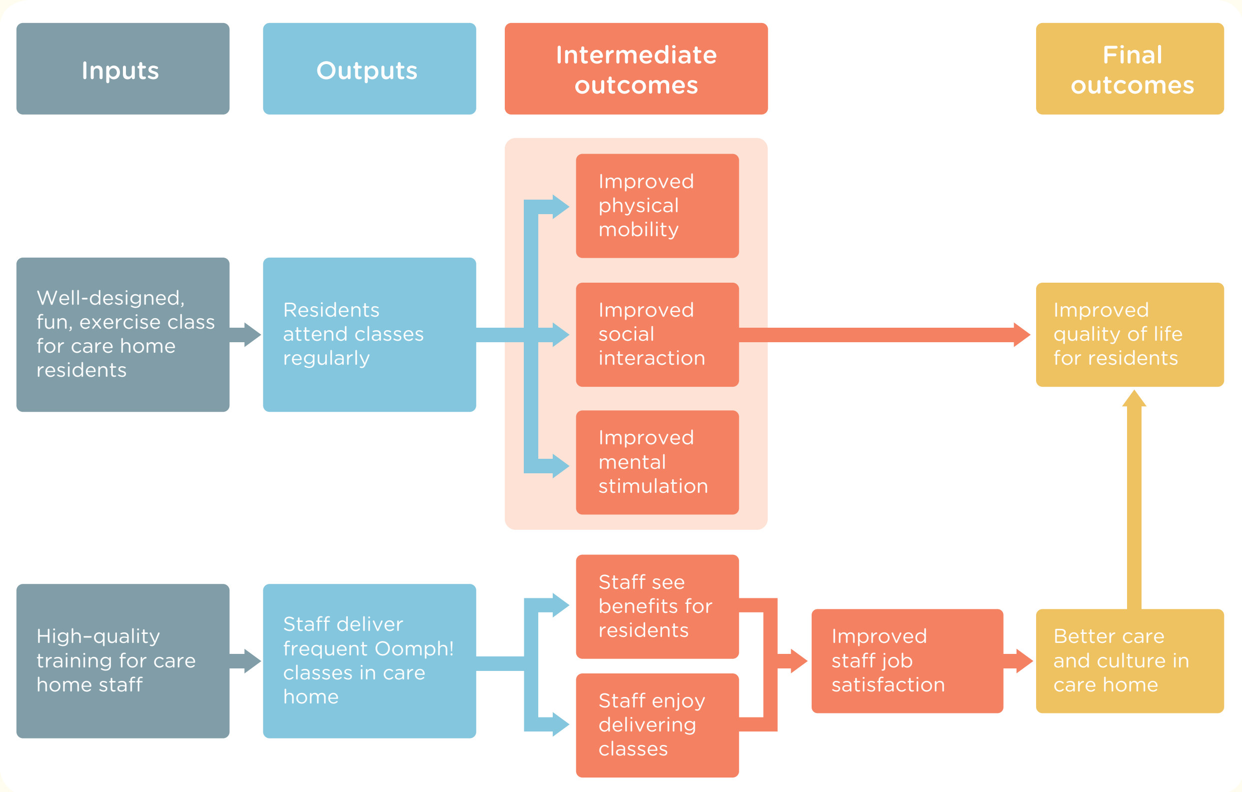
Impact Objective: To increase the number of older people enjoying a high quality of life.

Currently measuring:

- Improved quality of life of older people.
- Improved mental stimulation of older people.
- Improved mobility of older people.
- Improved social interaction of older people.

Oomph! ('Our Organisation Makes People Happy!') is a social enterprise that trains care staff to deliver fun, interactive, group exercise classes within care homes and in the community. Its specialist exercises are based on expert methodology, and use sensory props, reminiscence imagery, music and simple routines to deliver physical and mental health benefits. It aims to improve quality of life of older people by improving their physical mobility, social interaction and mental stimulation.

Oomph!'s Theory of Change



Oomph! have put impact measurement at the heart of managing its business, putting in place a Head of Impact to manage this area of work. Parita Doshi, from Oomph! says there are real benefits from being able to focus on impact:

> *"There is always a risk in any startup or social enterprise that measuring impact will fall down the priorities list. I think it is helpful to have one person who is focused on this work and has the time to test our new approaches and adapt. I think it's very hard to fit evaluation in around other jobs that you are doing. I know we have been able to move on much quicker with our impact work because it's a huge part of my role."*

Oomph! captures ongoing monitoring information on care homes' satisfaction as well as observational analysis on attendees' well-being. It uses this information to report back to clients on the impact of the classes thus showing the return on their investment, to identify instructors that require extra support and to improve its core product. Oomph! have worked closely with Nesta and are committed to working through their standards of evidence. In 2014 Oomph! began tracking direct beneficiary quality of life outcomes, using the EQ5D, a widely used and well-regarded scale that measures self-reported health and quality of life. In autumn 2014 it gave these questionnaires to a sample of 50 of its class attendees and then repeated the questionnaire three months later. Results from this survey showed a 10 per cent improvement in quality of life scores. Oomph! is now repeating a similar survey with a more rigorously controlled sample and are working with the Health Economics department from UCL to analyse the results. Off the back of this study, Oomph! plans to carry out a Level 3 evaluation by 2016.

An important lesson for Oomph! has been the benefit of engaging external experts in their evaluation. Partnerships with academics bring rigour to their evaluation and opens up a route to leverage external funding for their impact work.

It is now building on these partnerships and discussing the development of a much larger-scale controlled trial with academic experts.

Parita Doshi, Head of Impact at Oomph! said:

"Working with UCL is an important step for us in moving onto more rigorous measurement with scientific analysis of what we do. It involves quite complex data, so getting outside help has been crucial. Working with an independent expert like Steve Morris, Professor of Health Economics at UCL, will also add credibility to our evaluation work."

Lesson four: Understanding the smaller steps within the levels of evidence

The Standards of Evidence categorise five different levels of evidence, ranging from early-stage theories of impact through to robust high-quality evaluation. Our aim for investees is to pass through these levels, improving the quality of their evidence over the course of our investment.

In reality, the process by which ventures move through the levels is not as neat or linear as we first thought. Early-stage ventures tend to trial a number of evaluations at one level, learning about what works and what doesn't before progressing to the next level. In implementing the standards we have also learned that there are smaller steps within the current levels of evidence. For example, many of our investments have initially attempted smaller, less well-controlled Level 2 evaluations before progressing to a high-quality Level 2. Similarly, some have gathered data from a comparison group as a first step towards Level 3 before thinking about a high-quality control group design.

This means that there is a cycle of testing and learning about impact evaluation at different levels before investees are ready to commit to a more robust evaluation design. Just as ventures are innovating their product and services and testing what works, they are also testing their impact and learning about how best to evaluate what they do. The lean model is becoming popular for tech startups to quickly launch, test and improve products. Similarly, companies need to take a lean approach to social experimentation and impact measurement. Evaluation should be used alongside the development of new products to understand their social impact and should be reiterated based on what the results say.

Digital Assess: starting small with evaluation

Description: A developer of innovative educational assessment tools.

Impact Objective: Increases in young people's educational attainment and employability.

Currently measuring:

- Increases in employability skills.

Digital Assess develops engaging and adaptive learning materials to help young people learn effectively. Its innovative digital assessment products seek to improve reliability and encourage a more robust marking system. By engaging learners it aims to improve attainment and employability. Digital Assess has long recognised the challenge of assessing more subjective subjects and skills (art and design, for example) as well as allowing more opportunity for learner feedback. A number of vocational and employability courses are now using these assessment products.

Yet when it came to measuring the impact of their work, Digital Assess faced a particular challenge; they had many different products with different benefits and limited resource to evaluate all of them at the same time. As Karim Derrick, COO, says:

> *"Measuring impact can be a real challenge, but one that modern businesses cannot afford to avoid. By starting with and learning from smaller impact projects, we have since been able to go on to bigger things. My advice when it comes to impact measurement is, 'do it well and then scale it."*

Digital Assess worked with Nesta Impact Investments to develop a Theory of Change that helped to map out the short and long-term impact of each of its products, and develop a plan to evaluate the links in its Theory of Change through separate evaluations.

"Firmly embedding a Theory of Change approach to our work has helped us to better articulate the focus of our business to other investors and to the market," says Karim. *"Internally, it has enabled us to think through how our different products hang together. I would recommend that everyone puts a Theory of Change in their business plan from the very start to help focus on how the business is going to make a difference, because in this modern age, these are the businesses that will thrive."*

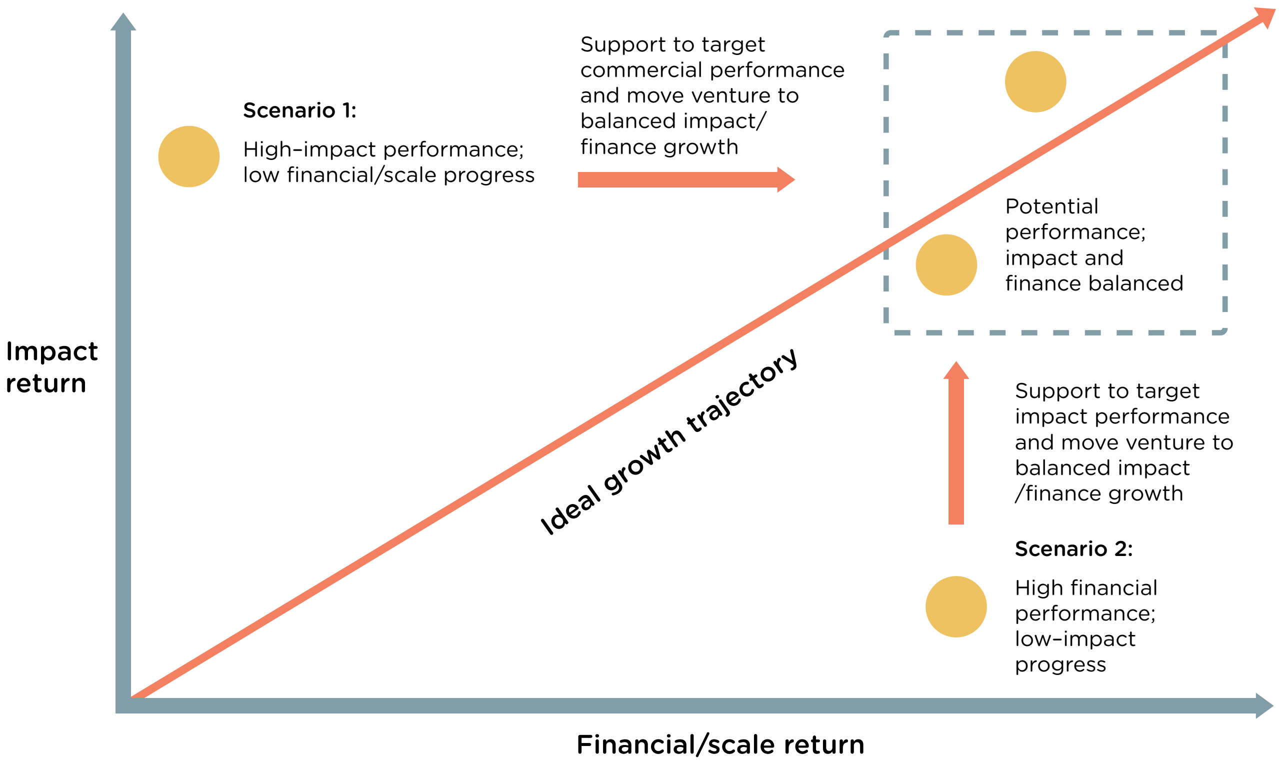
They are now running the first of these evaluations in partnership with the University of Edinburgh and this will show the impact of Digital Assess's software on the employability skills of students. The software is being used in a special initiative of the university—the Edinburgh Award. This award scheme aims to support students to develop their employability skills by getting involved in extracurricular activities (volunteering, societies or work placements for example). Students have been using Digital Assess's PeerAssess software that allows them to provide feedback on each other's work in a systematic way. It is hoped that this will help students gain greater insight into their own work and how to improve. To evaluate this, Digital Assess is carrying out a pre-post evaluation looking at student's self-reflection skills. Digital Assess has also given the same questionnaire to a group of students taking part in the

Edinburgh Award Scheme who are not using the PeerAssess software. Results so far suggest that students using PeerAssess see a greater improvement in their self-reflection skills. Digital Assess's approach shows the importance of starting small, running one or two evaluations and learning about what works before investing in a larger evaluation.

"We are currently preparing for a big push into a new area and a key part of our strategy is to plan how we will prove our impact from the start. It is also fundamentally important to remain agile and review and adapt impact goals over time to keep them in line with the direction of the business." Karim Derrick, Digital Assess

Lesson five: Understanding different trajectories of impact and financial growth

In an ideal world, social companies would develop commercially as well as socially within the same timeframe. However, over the last two years, we have learnt that often a company may see commercial progress first and impact evaluation may come later. Equally, some companies have seen positive impact results while financial success has taken longer. Because of these two different timelines, it is crucial for us as an investor to focus our support on making sure that in the long term, financial success and impact success are balanced. Because commercial progress or impact progress may come at different points in time, we need to ensure we look at the potential for each when we make decisions about our portfolio companies. Assessing the potential impact and financial performance of a venture, as well as how they are currently performing, has allowed us to develop support plans for our portfolio that targets support for each of these areas. The intention is that over time this will ensure that all ventures will see impact as well as financial success even though the journey might look different for each venture.



RECOMMENDATIONS

Recent years have seen an incredible level of interest and activity in the impact investment space. The market continues to grow year-on-year and is becoming a mainstream activity for many foundations, banks and institutions. However, if the ambitions of impact investing are to be realised, the sector needs to focus on measuring and articulating its value through robust impact measurement. Below are some key recommendations that we believe will realise this ambition

1. Impact investors should publish, share and discuss their approach to impact on a regular basis

The impact investing market is still young and there is huge potential to shape best practice around impact. We believe that funds need to take a leading role in opening up their impact practices to promote transparency and increase consistency.

2. We need to standardise at the right level

The sector has seen much discussion on the need to standardise our impact metrics. Greater consistency in the sector is crucial in order to benchmark best practice, compare performance and ease the burden on social ventures. However, standardisation needs to be at the right level - not all areas of impact will be possible to standardise, depending on the type of investment. However, where appropriate funds can make use of the same outcome metrics, approaches to looking at outputs and evaluation designs for similar ventures.

3. We need to take a broader approach to impact (as outlined in NPC's recent Smart Money report and the G8 report)

Current impact practice in the sector focuses heavily on counting outputs to represent impact. We agree with the approach outlined in the recent NPC and G8 reports that argue for a more holistic approach—starting with understanding the problem you are trying to address, choosing outcomes to measure, choosing the appropriate tool, collecting data and finally using the data to learn and improve. This approach will help us to design more relevant evaluations, and support investees by feeding meaningful data into product and service design.

The global impact investing market is growing year-on-year and we now have 20 funds operating in the UK. However, like all developing markets, systems, standards and structure have yet to be formed. Sharing our practice and what we have learnt is core to developing this. We hope this paper has added to this discussion on how to develop best practice in the field. It is our aim that this will add to the conversation on impact measurement in this space and hopefully offers a good starting point and guide for ventures and other funds.

GETTING STARTED: SOME PRACTICAL TIPS

There are many guides and tools developed by impact measurement experts that can help ventures get started on impact. We've outlined five questions to start with and sources to help you develop an impact strategy.

1. What social problem does you venture address? What are its root causes and how will your venture tackle these factors?

Gather statistics on the issue you are tackling to understand the nature of the problem: e.g. how many people are affected? what are the demographics of this group? Using **government statistics**, the **Office for National Statistics website** as well as policy reports and publications from think tanks can help you to map the problem out.

2. Where is the innovation? Is it different from what is already out there? What evidence do you have that your innovation will have an impact?

Carry out a market analysis to see if you are offering something new. Gather research to understand your evidence base. The What Works centres like the **National Institute for Health and Care Excellence**, the **Education Endowment Foundation**, the **Early Intervention Foundation**, the **Centre for Ageing Better**, the **Well Being What Works centre** or the **What Works Centre for Crime Reduction** will have evidence reviews for their focus areas.

3. Map out your theory of change to understand the impact you will have

Map out the short and long-term impact of your venture and why it links to your final vision. A good tool for this is a **Theory of Change** which helps you to connect what you do on a day to day basis with the overall change you're trying to make.

4. Have a strategy for scale and sustainability

Think about how you are going to reach a significant proportion of people affected by the social problem you are tackling. What kind of growth do you expect each year? What inputs does this growth need and how will you make it financially sustainable. **Nesta reports** on scaling can help with this.

5. Think about your impact metrics and type of evaluation you will need to do

It is important to have a clear idea of how you will measure your impact. Qualitative data provides a rich picture on how change has happened. Quantitative research is useful for overall effect and whether this is consistent. Inspiring Impact has a **great hub** of different types of impact metrics. **Nesta's Standards of Evidence** can help you understand different level of evaluation rigour.

Going through this process not only gets impact investors like Nesta Impact Investments excited but also helps you to focus on the social mission at the heart of what you do.

ENDNOTES

1. See: https://nestainvestments.org.uk/wp-content/uploads/2015/01/standards_of_evidence_for_impact_investing.pdf
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3. See: http://www.bigsocietycapital.com/outcomes-matrix
4. See: https://iris.thegiin.org/
5. See: http://www.thinknpc.org/publications/investment-readiness-in-the-uk/
6. Reeder, N. and Colantonio, A. (2013) 'Measuring Impact and Non-financial Returns in Impact investing: A Critical Overview of Concepts and Practice.' The London School of Economics and the European Investment Bank Institute.
7. See: http://www.thinknpc.org/publications/impact-measurement-working-group-measuring-impact/
8. See: http://www.sibgroup.org.uk/impact-readiness-fund/
9. See: http://socialvalueint.org/wp-content/uploads/2015/05/SIAA_Influencing-Impact-Report_April-2015.pdf
10. Puttick, R. and Ludlow, J. (2012) **'Standards of Evidence for Impact Investing.'** London: Nesta.
11. See: www.nestainvestments.org.uk/target-outcomes/

nesta impact investments

Nesta Impact Investments

1 Plough Place
London EC4A 1DE

impactinvesting@nesta.org.uk
@nestaimpact

www.nestainvestments.org.uk