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Assessing the Impact of Impact Investing: Practices, Challenges, and Opportunities Towards the Standardization of Impact Assessment Mechanisms

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Assessing the Impact of Impact Investing:

Practices, Challenges, and Opportunities Towards the Standardization of Impact Assessment Mechanisms

by

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An Honors Thesis in partial fulfillment of the requirements for the degree Bachelor of Science in Business Administration in Finance and Marketing.

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SECTION 1: Introduction

What is Impact Investing?

For the past three centuries, investors have employed social finance practices to choose investments based on ethical criteria. Such practices include avoiding investments in businesses with negative impacts on society, the environment, or other areas valuable to investors. From the roots of social finance, impact investing arose as a way to ensure that investments not only contribute to personal wealth, but also to the betterment of society as a whole.

As the impact investing industry has developed, investors have searched for ways to measure impact in a way that is standardized across organizations, countries, and industries. Finding ways to define and measure impact has become increasingly important, as impact investing has become one of the largest forces of driving environmental and social change. According to a Global Impact Investing Network (GIIN) survey, "83% of impact investors agree that measuring and managing impact is very important for better understanding the impact of their investments (Nuveen)." Without an accurate understanding of their investments' impacts, investors may be subject to 'impact washing,' which prevents them from making well-informed decisions (Verrinder, Zwane, Vaca, Nixon).

According to GIIN, "Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending on investors' strategic goals."

"The growing impact investment market provides capital to address the world's most pressing challenges in sectors such as sustainable agriculture, renewable energy, conservation, microfinance, and affordable and accessible basic services including housing, healthcare, and education."

The History of Impact Investing

The development of the impact investing industry has been strongly influenced by the developing initiatives of the United Nations, which established the United Nations Environment Programme (UNEP), the Millennium Development Goals (MDGs), and the Sustainable Development Goals (SDGs). As defined by the United Nations, UNEP's goal is to "to provide leadership and encourage partnership in caring for the environment by inspiring, informing, and enabling nations and peoples to improve their quality of life without compromising that of future generations." Over time, the United Nations various goals served as the framework for IRIS, the main accepted system to evaluate the impactfulness of impact investing initiatives.

It is important to consider the history of social entrepreneurship as a predecessor for the development of the impact investing industry. Social finance first began in the mid-1700s when certain religious groups passed rules prohibiting members from engaging financially in the slave trade (Tekula). Over a century ago, investors began to utilize social entrepreneurship methods to avoid companies with "immoral" associations, such as companies in the tobacco, gambling, or weapons industries (Trager).

One of the first pioneers of social entrepreneurship was the non-profit organization Ashoka, which was founded in 1980 and promoted social entrepreneurs as solutions to global problems. After beginning operations in India in 1981, the organization focused on identifying leading social entrepreneurs by awarding them the Ashoka Fellowship. Currently, over 4,000 Ashoka Fellows have been elected from over ninety-five countries.

Over a decade later, the National Philanthropic Trust was established in 1997 and raised over $153,615,516 in grants for social entrepreneurship over the next 24 years. As a public charity, the National Philanthropic Trust provides expertise to donors and financial institutions to help them develop philanthropic initiatives. Currently, the National Philanthropic Trust is one of the largest grantmaking institutions in the United States. While the organization's focus lies in charitable contributions, the National Philanthropic Trust paved the way for investors to begin placing assets into socially-conscious businesses.

In 1999, eBay Foundation founder Jeff Skoll created the Skoll Foundation to fund select social entrepreneurs. While identifying entrepreneurs for funding, the Skoll Foundation works to identify interconnected problems that may be opportunity areas for impact. Categories of impact at the Skoll Foundation include strengthening health systems, promoting effective governance, mobilizing action for a sustainable planet, creating inclusive and sustainable economies, and advancing racial justice. Similar categories of impact and selection processes are utilized in impact investing operations.

The Skoll Foundation led the way for the founding of Omidyar Network in 2004. Omidyar Network also provided funding to social entrepreneurs, especially ones who were identified to be able to produce innovative solutions at scale. From 2018 to 2020, Omidyar Network created several independent entities within its operations, including initiatives around financial health, property rights, education, emerging technology, digital rights, civic participation, and independent media (Omidyar). As an entity that allowed for-profit investing and grant making, Omidyar Network set the groundwork for supporting social benefit organizations in their early stages.

Only a few years prior to the foundation of Omidyar Network, the United Nations established 8 "Millennium Development Goals" (MDGs) that were agreed upon by all UN Member States in the United Nations Millennium Declaration, which aimed to accomplish the goals by 2015. In September 2000, the leaders of 189 countries gathered at the United Nations headquarters to establish the MDGs, which include the following goals: eradicate extreme poverty and hunger, achieve universal primary education, promote gender equality and empower women, reduce child mortality, improve maternal health, Combat HIV/AIDS, malaria, and other diseases, ensure environmental sustainability, and develop a global partnership for development. The establishment of the MDGs provided a common agreement between global leaders as well as guidelines for clear measurement mechanisms (UN).

The establishment of the MDGs was followed by the foundation of Acumen, which introduced an impact investment model using previously established concepts of social entrepreneurship. Acumen aimed to invest capital towards the gap between the traditional investment market and philanthropic efforts. Acumen's largest business functions include pioneering investments by investing in early-stage companies, managing funds through Acumen Capital Partners, and educating social innovators through Acumen Academy.

The term "Impact Investing" was first used in 2008 by the Rockefeller Foundation surrounding the movement to allocate capital in new ways that would make a positive contribution to society (Dallmann). Though the technical term was new, the rise of a new form of investing had

already begun. Such efforts included the creation of Generation Investment Management by Al Gore in partnership with Goldman Sachs in 2004 after his documentary about global warming and other environmental challenges (Dallmann).

Though such funds already existed, impact investing was largely uncommon in 2007 and was known mostly by environmental activists or members of the uppermost economic class. A large milestone in the creation of the impact investing industry occurred in 2008 when a group of investors and philanthropists gathered in Bellagio, Italy, to discuss the future of specific investments that prioritized positive social initiatives. At that meeting, world leaders developed standardized definitions, rating systems, and performance management tools that would guide the growth of the industry (Brandenburg).

Over the next ten years, impact investing funds grew to over $77 billion in assets. A large amount of this growth was due to support from some of the world's largest investment managers such as Bain Capital, BlackRock, Credit Suisse, Goldman Sachs, and JP Morgan (Godsall, Sanghvi). In one of BlackRock CEO Larry Fink's annual letters, he made a point that all corporations need to "serve a social purpose" (Dallmann). Shortly thereafter, JP Morgan released statements calling the industry an emerging asset class. Investment clubs such as the global club Toniic also assisted the growth of the industry (Dallmann).

Currently, Toniic is composed of over 500 high-net-wealth individuals, and the club's capital is held in more than twenty-five countries around the world. Benefits to club members include access to a catalog of over 1,500 impact investments across all asset classes, co-investment opportunities, and investment teams to strengthen investment portfolios.

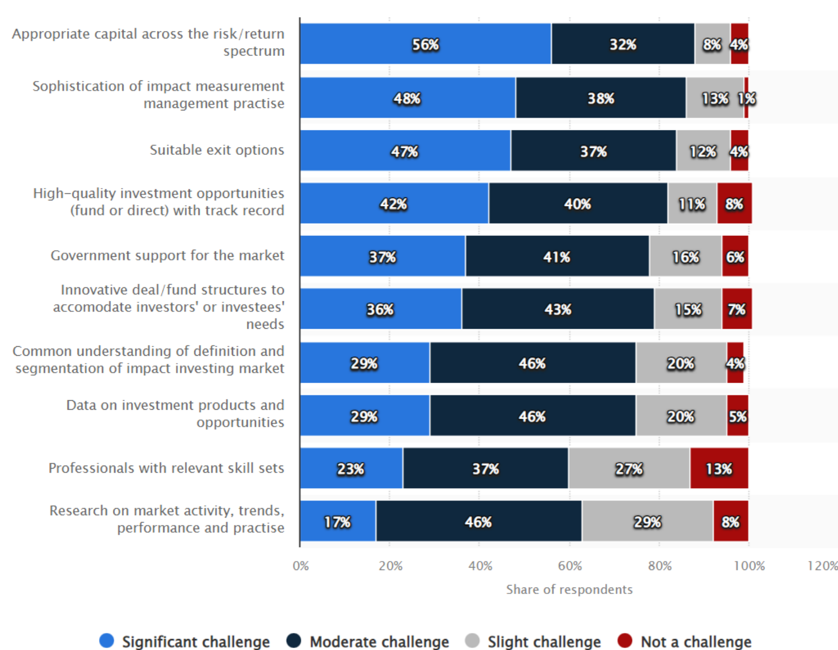
One financial firm that made significant contributions to the development of the industry during this time was UBS, which launched an impact fund that raised $51 million in 2015. UBS continued to raise $471 million the following year through a fund that transformed cancer research initiatives into successful businesses (Dallmann). By 2018, UBS had committed $5 billion in assets to funds focused on the United Nations Sustainable Development Goals (Dallmann).

Established in 2016, The United Nations' Sustainable Development Goals (SDGs) were developed from the MDGs, and they provide a framework for how to measure impact in several key areas. Over time, many impact investment funds have utilized the SDGs as a framework through which to identify funds and assess their impact. These 17 SDGs serve as key performance indicator (KPI) categories through which funds' impacts can be measured. The SDGs include the following initiatives: no poverty, zero hunger, good health and well-being, quality education, gender equality, clean water and sanitation, affordable and clean energy, decent work and economic growth, industry, innovation, and infrastructure, reduced inequality, sustainable cities and communities, responsible consumption and production, climate action, life below water, life on land, peace and justice strong institutions, and partnerships to achieve the goal (UN).

The development of the SDG's has provided guidance to the rapidly growing impact investment industry. By 2018, 84% of surveyed investors reported being interested in impact investing due to the industry's profitability and ability to create measurable positive environmental and social impacts (Trager). By that time, JP Morgan, the Rockefeller Foundation, and the Global Impact Investing Network (GIIN) had reported that the impact investing asset class was estimated to be between $400 billion and $1 trillion by 2020 (Lamy, Leijonhufvud, O'Donohoe). By 2020, GIIN reported the impact investing industry to hold over $715 billion in assets, and the International Finance Corporation (IFC) reported the industry to hold around $2.1 trillion.

Industry Challenges

In 2020, a survey was conducted that asked investors which challenges they believed were the most prevalent in the impact investing industry. Results were percentages that indicate the number of investors that believe the statement is a significant challenge in the industry. In that survey, investors reported that the biggest challenges in the impact investing industry were appropriate capital across the risk/return spectrum (56%), sophistication of impact measurement practices (48%), suitable exit options (47%), and high-quality investment opportunities with a track record (42%) (Statista). The other reported challenges included government support for the market (37%), innovative fund structures to accommodate investors (36%), definition and segmentation of impact (29%), data on investment products and opportunities (29%), professionals with relevant skill sets (23%), and research on market activity, trends, performance and practice (17%) (Statista).



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Research from *McKinsey* supports that several of the largest challenges in impact investing surround investors desiring professionalism and years of experience from fund managers. Investors are often concerned that fund managers don't possess the experience or investment abilities to earn the level of returns that they would like for their investments (Godsall, Sanghvi). This issue is partly existent because of needs for competitive pay for impact investing fund managers. Additional key concerns regard firms that are under 5 years old, as these firms require in-depth financial modeling, business-plan preparation, and management evaluation (Godsall, Sanghvi).

Another large challenge to the industry is representing a diverse array of investors and the availability of funds that create impact in the areas of diversity, equity, and inclusion. Currently, there is no aggregate global diversity and inclusion data for the impact investment industry (Blues, Collier). Skoll Foundation research indicates that the majority of impact investors have not fully adopted the initiative of fostering equity and inclusion across their organizations and portfolios. In

surveys regarding impact investing organization board members, people of color held less than 7% or board positions and women were outnumbered 2:1 (Blues, Collier).

In the next ten years, the impact investing industry is expected to address a new series of challenges that have begun developing over the past few years. These include the rising importance of selecting companies that have beneficial Diversity, Equity, and Inclusion practices by aiming to support diverse entrepreneurs, attempting to spread new technologies to underdeveloped areas, and improving accessibility to smaller buyers (Lamy, Leijonhufvud, O'Donohoe). Climate-focused initiatives and investor expectations are also expected to rise, as investors have stated a need for products that are adaptive and have significantly lower carbon emissions (Lamy, Leijonhufvud, O'Donohoe). As impact investing fund managers attempt to address these investor needs, they will also have to prioritize creating new capital instruments and remaining transparent in operations.

Impacts of Government Involvement

The growth of the global impact investing industry has largely been supported by public policy enacted or encouraged by a large number of actors, including multinational groups of national governments, local governments, nonprofit organizations, and for-profit corporations. Currently, the UK has the most sophisticated policies around impact investing and has funded large research projects on social entrepreneurship such as Big Society Capital in 2012. Across all international legislatures, governments participate in the industry's development in any of four categories, which include enabling, improving, moving, and launching impact investing organizations (Tekula).

37% of surveyed investors believe that adequate policy and government support for the impact investing market is a significant challenge to the industry (Statista). Compared to its European counterparts, the United States government has enacted less policy guiding and supporting impact investing efforts.

However, policy around legislation focused on for-profit businesses making social impact is visible in the United States through the rise of policies recognizing the Benefit Corporation (B Corporation) business model. Though no laws have been passed at the federal level in the United States, twenty-nine states have passed local laws recognizing the business model in twelve years.

By definition, B Corporations are certified for-profit businesses that create measurable positive impact on society, workers, the local community, or the environment. B Corporations obtain a certification through the nonprofit BLabs and are different from public Benefit Corporations, which are legal entities that have implemented public benefit statements into their Certificate of Incorporation (Rubicon Law). Oftentimes, B Corporations' mission or vision statements include reference to their social impact goals. In 2010, Maryland was the first state in the United States to adopt laws that recognized B Corporations, and many other states quickly followed.

Such laws pertained to operational requirements such as the requirement that a director consider public benefits or that shareholders not pursue legal action against B Corporations that experience a drop in stock value. Currently in the United States, the following states have approved the B Corporation legal entity: West Virginia, Washington, Virginia, Vermont, Utah, Tennessee, South Carolina, Rhode Island, Pennsylvania, Oregon, New York, New Jersey, New Hampshire, Nevada, Nebraska, Minnesota, Massachusetts, Maryland, Louisiana, Illinois, Idaho, Hawaii, Florida, Delaware, Connecticut, Colorado, California, Arkansas, and Arizona (UpCounsel). In addition, fourteen states are beginning to consider legislation around B Corporations.

One example of specific state legislation enabling the creation of B Corporations is the "Vermont Benefit Corporation Act," which introduces a variety of laws outlining the B Corporation model. Requirements for electing corporations to become benefit corporations, merges and share exchanges, termination of B Corporations, corporate purpose, director and officer conduct, and annual benefit reports are all addressed in the addition to Vermont legislature. Vermont also outlines that B Corporations must submit yearly benefit reports that include a "statement of specific goals or outcomes identified by the benefit corporation for creating general public benefit and any specific public benefit for the period of the benefit report" (Vermont Statute). Similar legislation around annual reporting has also been passed in the states of California, Washington, and Colorado.

In addition to these state policies, many cities have adopted legislation around B Corporation creation. United States cities with local B Corporation laws include Boston, New York, DC, Philadelphia, Chicago, Atlanta, Austin, Houston, Denver, Santa Fe, Seattle, Portland, Los Angeles, and San Francisco. Among these, New York City was the first to implement legislation establishing the availability of social impact bonds in 2012, and similar legislation has since been passed in over ten states (Hathaway). The establishment of social impact bonds has been beneficial to impact investing ventures, as investors or fund managers may apply for and use funding to establish research committees prior to creating new funds or projects.

The IRI has supported several organizations such as InSight and Enterprise Community Partners that research how policy in the United States can support the impact investing market. These organizations' research regarding domestic policy and the impact investing industry is currently available to policymakers and stakeholders. Policy researchers have identified areas where the government has the most opportunity to create policy supporting the impact investing industry, including the supply for impact investing, the demand for impact investing capital and investment opportunities, and directing existing capital towards investments with social benefit (Wood, Thornley, Grace). Specific policy recommendations from InSight and Enterprise Community Partners emphasize defining fiduciary duty to not limit opportunities such as tax credits, directing the transactional level "point of sale," mandating performance floors, and establish transparency and reporting requirements (Wood, Thornley, Grace).

Industry Leaders

The rapidly growing industry of impact investing has been shaped by several key industry leaders since its conception (Trager). As impact investing practices, impact assessment mechanisms, and social ventures have developed, the following firms have laid the groundwork for approach to the industry: the Open Value Foundation, the Division of Economic Development at the University of Arkansas, and Heifer International. These leaders all meet four distinct selection criteria: 1) They have adopted social impact practices since their conception, 2) they have fostered innovative practices now used by other organizations, 3) they have accelerated the growth of the impact investing industry, and 4) their funds have had a measurable impact on a defined set of individuals. In this context, defined sets of individuals refer to the specific geographic or socioeconomic groups that are targeted and defined by each of these firms' missions. Historically, each of these organizations has laid the groundwork for approaching the creation of impact measurement benchmarks. Specific overviews and contributions of the organizations include the following:

1. Open Value Foundation
    1. The Open Value Foundation seeks to promote and facilitate equal opportunities, support organizations that work to solve the problems that affect the poorest, and focus on projects that generate income and create employment.
2. Division of Economic Development at the University of Arkansas
    1. The Division of Economic Development at the University of Arkansas strives to expand economic opportunity and prosperity in Arkansas and strategically amplify the university's economic impact on the state and region.
3. Heifer International
    1. Heifer International is a nonprofit organization that provides appropriate livestock, training, and related services to small-scale farmers and communities worldwide.

In the second part of this paper, the contributions and practices of these key firms will be further examined to identify benchmarks or best practices in the industry with the purpose to create a universal benchmark.

In the last year, several additional smaller funds have contributed to the expansion of the impact investing industry. In 2021, Net Impact named four current leaders in the industry: Human Ventures, The Reinvestment Fund, Global Partnerships, and Farmland LP.

1. Headquartered in New York City, Human Ventures facilitates access to entrepreneurship by hosting a platform of partners and impact investors that collaborate to found companies and external investments. Since 2016, Human Ventures has created over sixty-two funds dedicated to growing new for-profit businesses with positive social impact (Human Ventures).
2. Founded in 1985 in Delaware, The Reinvestment Fund is a federally certified community development financial institution (CDFI) that provides funds focused on providing underserved communities with essential resources. The CDFI model was made possible through The Community Reinvestment Act (CRA), which requires the federal banking regulators to "encourage financial institutions to help meet the credit needs of the communities in which they do business, including low- and moderate-income neighborhoods (Federal Reserve)." The fund's portfolios primarily focus on the impact areas of affordable living, access to healthy food and health care, education, and local businesses. As a part of several economic coalitions, The Reinvestment Fund works to disrupt systems that contribute to social and economic inequality (The Reinvestment Fund). The Reinvestment Fund does not provide capital loans, but focuses on financing through a variety of loan products with flexible terms, such as short-term and mini-permanent financing utilizing New Market Tax Credits, Historic Tax Credits, or LIHTC funds.
3. Since Global Partnerships was founded in 2008, its funds have grown to hold over $590.6 million in cumulative impact investments over fourteen investment initiatives. Global Partnerships aims to expand opportunities for individuals living in poverty, including funds specifically aimed at providing women with access to affordable healthcare. Since its founding, Global Partnerships has claimed to have impacted over 28.2 million cumulative lives (Global Partnerships).

4. Farmland LP manages over 15,000 acres of previously commercial farmland with organic and sustainable practices that reduce chemical use. Investors interested in environmental initiatives as well as supporting local communities can invest in Farmland LP funds.

Current Investor Trends

Recent surveys conducted by Fidelity Charitable provided data that 62% of Millennial investors feel that impact investing has greater potential than traditional philanthropy to create long-term positive change in the world. While one-third of the overall investor population actively use impact investing strategies, 6 in 10 Millennial investors held assets in impact investing funds. Of the investors currently using impact investing strategies, 41% indicated that they intended to increase the amount they allocate to impact investments in the next year. However, investor surveying also indicates a lack of knowledge surrounding the industry, as 39% of investors who hadn't tried impact investing felt as though they didn't know enough about it (Fidelity Charitable). Potential concerns to investors also include difficulty choosing impact investing options, as some investors are comfortable with products that aim for below-market risk-adjusted returns and others are only interested in market-rate returns.

Over the past decade, assets in sustainable investment funds have more than tripled. A large portion of this growth is attributed to increased investor demand (Baier). According to Morningstar, sustainable investments rose $7 billion from 2019 to 2020, and they equaled $20.5 billion in the fourth quarter of 2020 (Morningstar). As investor demand for sustainable investment funds rose, so did the number of sustainable fund products. In 2020, 77 new sustainable funds were introduced to the US, and new products led to the existence of over 1,000 ESG indexes. Not only demand for new products rose in the past year, but also demand for standardization and consolidation. This trend is visible in investment manager behavior, as over 2,000 investment managers signed the UN's Principles of Responsible Investment (Baier).

The Importance and Current State of Standardized Measurement

As the impact investing industry has developed, investors have long searched for ways to measure impact of investments in a way that is standardized across organizations, countries, and industries. Currently, there is a lack of consistency in the industry, as many impact investing firms employ multiple impact measurement frameworks due to the inability of one framework to provide metrics that apply to all portfolio types. Often, impact investing firms also apply loose measurement frameworks to prospective investments prior to including them in a portfolio.

Research highlighted in Wharton Social Impact Initiative's "Research Spotlight" series indicates that impact assessment is often conducted informally before an investment is made. Examples of informally considering impact include investor feelings and whether the fund has socially motivated leadership or in an impactful sector (Brown). It is then later in the investment process that impact investors typically utilize financial performance metrics and impact-based data to assess impact (Brown).

Such performance metrics and impact-based data is often based upon the United Nations' Sustainable Development Goal categories. To provide portfolio structure and comparability of assessment with other portfolios, many impact investing firms and social finance organizations report categorizing their funds by the Sustainable Development Goal categories (Jackson, Harji).

As aforementioned, the SDGs include the following initiatives: no poverty, zero hunger, good health and well-being, quality education, gender equality, clean water and sanitation, affordable and clean energy, decent work and economic growth, industry, innovation, and infrastructure, reduced inequality, sustainable cities and communities, responsible consumption and production, climate action, life below water, life on land, peace and justice strong institutions, and partnerships to achieve the goal (UN).

In addition to basing measurement benchmarks upon UN SDG categories, impact investment firms often utilize impact assessment guidelines provided by external organizations (Jackson, Harji). Key organizations that have developed such guidelines include GIIN, Root Capital, the MacArthur Foundation, the Omidyar Network, Skopos Impact Fund, Bridges Impact+, the World Economic Forum, and the Rockefeller Foundation (Jackson, Harji).

Academic theory also plays a key part in shaping the development of impact investment benchmarks. Research from the Rockefeller Foundation indicates that evaluators of impact investment funds should consider several lenses through which to consider evaluation. These lenses for consideration include the following: industry wide systems, theories of change, policy assessment, sector-based interventions, and outcome-based financing instruments. Included in the Rockefeller Foundations report is the definition of the theory of change as an explanatory model that shows the inter-relationships among logic, resources, assumptions, activities, and results, and outcome-based financing instruments refers to social impact bonds and other similar bonds (Jackson, Harji).

Further research from the Harvard Business School that involved over 20 leading impact investors expounded upon how impact investors should go about creating measurement benchmarks. According to study findings, impact investors should separate the impact assessment process into four phases: estimating impact, planning impact, monitoring impact, and evaluating impact (Alina, Capanyola).

Despite the presence of recommendations from academic studies and findings as well as SDG guidelines and individual impact assessment guidelines, standardized measurement of impact continues to be a persistent issue in the industry. In 2020, an investor survey conducted by Statista indicated that 48% of surveyed investors indicated that sophistication of impact measurement practices was a significant challenge in the impact investing industry (Statista). Standardization is a key concern to investors, as it would allow for a universal benchmark for the industry and local legislations to hold companies accountable in a globalized economy. A universal benchmark is key to developing more sophisticated ways to measure impact, and discussions of several key topics are essential to creating such a benchmark. These key topics include an assessment of the state of the industry, identification of best practices, and an assessment of industry challenges to developing universal standards, including a discussion of local legislation.

SECTION 2: Research and Findings

Introduction to Research Methods

This study focuses on examining prominent impact assessment mechanisms to identify benchmarks or best practices in the industry. Data gathering methods employ a qualitative research method that includes semi-structured interviews and document study. This research was conducted

in the following stages:

1. Research findings were consolidated from a variety of academic publications and journals. Data and research findings were then organized into several topics: 1) current and past practices used to report impact, 2) challenges facing impact measurement standardization and their root causes, and 3) recommendations or frameworks to report investments' impacts in a standardized and effective way
2. Document study research findings were supplemented with findings from virtual semi-structured interviews with leadership from key impact investing organizations such as the Open Value Foundation, the Division of Economic Development at the University of Arkansas, and Heifer International. These interview findings were then consolidated into challenge type, measurement mechanism, or opportunity area.
3. Document study and interview findings were integrated into the following written report. Supplemental data to the report includes notes from usage of existing impact measurement tools, such as GIIN's IRIS+ tool, which is a popular tool used by impact investors globally to increase comparability and ability to communicate impact results.

As a result of this research process, this study provides a snapshot of where the industry stands in adopting a standardized impact assessment benchmark, which is key to increasing firm accountability, decreasing impact washing by fund managers, and creating tangible positive impacts on the environment and communities. As several organizations such as GIIN are attempting to create a universal benchmark, findings of this study focus on the discussion of limitations and obstacles to creating and implementing these benchmarks. Specifically, limitations include challenges that exist at the legislative level and the difficulties that the industry faces as several companies and financial institutions attempt to create their own impact assessment mechanisms. Additionally, this study provides a discussion of where the industry is now and what can be done to homogenize efforts towards a standardized benchmark.

Research findings are also included on the current state of impact investment operations in the state of Arkansas, which currently houses few official impact investing funds or groups. These findings are included to contribute to the availability of information to new funds and support the growth of the impact investing industry in Arkansas.

Research Findings

For the purpose of discussing specific interview findings and overarching findings from interviews and document study, research findings are organized into two key sections. The first section is "Current and Past Practices Used to Report Impact," which includes specific case study, document study, and stakeholder observation findings. The second section is "Challenges Facing Impact Measurement Standardization and their Root Causes," which includes discussions of specific industry challenges revealed by the study.

Current and Past Practices Used to Report Impact

To identify and explain current and past practices used to report impact, this study utilizes several elements, including industry interviews, document study, and direct and indirect

stakeholder observation. The primary portion of this section on current and past mechanisms for impact reporting will focus first on the industry interview portion of the research process. Specific findings from interviews are detailed below, and the following list identifies key individuals that participated in the interview process and their roles and corresponding organizations:

- María Cruz-Conde, Co-Director, Open Value Foundation
  - María has over 15 years of experience in the nonprofit and impact investing space. She is currently involved with the Impact Medication project at Global Social Impact and serves as a board member for the Serra Schönthal Foundation.
- Meredith McKee Adkins, Assistant Research Professor, University of Arkansas
  - Meredith serves the University of Arkansas' Office of Industry and Community Engagement as a key liaison and front-line resource for Northwest Arkansas businesses, non-governmental organizations, and other community leaders as they navigate engagement at the University. She has varied experience in the higher education and government sectors, primarily in corporate and community outreach.
- Jensyn Hallett, Director of Impact Capital, Heifer International
  - Jensyn has over 15 years of experience in the nonprofit space and is the Executive Director of Southern Capital Project, which works to provide women in the South with equitable opportunities to build wealth.

As an understanding of each participant organization is key to understanding and eventually examining its overall approach to impact assessment, each group's organizational structure and current approach to impact assessment are detailed below.

Case Study: Open Value Foundation

Organization Structure and Background

The Open Value Foundation is a family holding that conducts the majority of its operations in its founding country of Madrid, Spain. Additionally, it conducts some funds management operations in sub-Saharan Africa. The foundation utilizes a hybrid model that combines traditional models of philanthropy and traditional tools of investing. Rebranding of the foundation that occurred in 2019 states its purpose as "Opening opportunities and opening minds," which refers more specifically to the goals of innovating in financial spaces and facilitating discussions about new ways of investing. The Open Value Foundation states, "We open opportunities, we open minds, and we trust people and their potential to develop; we just have to open doors (Open Value Foundation)." Due to its involvement with management of impact funds, Open Value Foundation lies in the impact investing industry. Additionally, the foundation played a key role in creating Foro Impacto, an organization that promotes impact investment in Spain that is a key member organization of the International Network for Impact Investors.

Overall, the organization is comprised of two key components: 1) a traditional asset management firm and 2) the Open Value Foundation. In this context, Open Value Foundation refers to investment in high impact and social enterprise projects, including the Acumen Foundation, that the overall Open Value Foundation contributes 30% of its benefits towards. Within this high impact and social enterprise project portion of Open Value Foundation is the new project "Global Social Impact Investments," which is a global social funds manager with two

impact funds. These impact funds include 1) a debt fund that benefits companies in sub-Saharan Africa and 2) a "Impact Investing Bakery," which invests in social companies in Spain and functions as a private equity bakery. According to Forbes article "What are debt funds and how do they work," debt funds "invest in fixed-interest generating securities such as treasury bills, commercial papers, debentures, government securities, and corporate bonds, alongside other money market instruments (Jain)." Such funds have received the name "debt funds" due to the lending of money to the issuer of the instruments. The funds that Open Value Foundation manages in sub-Saharan Africa include a venture philanthropy fund where investing is conducted in six stages in social enterprises. Similarly, a six-stage investment process also exists in Open Value Foundations' operation in Spain. In Ghana, Open Value Foundation also provides grants to companies that meet its business model criteria. Alongside these investments, the organization also has a traditional line of philanthropy in Ethiopian refugee camps. According to Open Value Foundation Co-Director María Cruz-Conde, this line of venture philanthropy focuses on measuring impact, providing technical assistance, and adapting the financial tool provided to the business, as some need equity financing, some need debt financing, and some need a hybrid between grant and debt financing. Such grant-focused financing involves the act of giving resources to finance specific programs or projects, and equity financing involves the selling of shares to investors to raise capital.

The Open Value Foundation acts as a funds manager for the companies held in the "Global Social Impact Investments" project and completes impact management, analysis, and measurement.

In addition to the "opening opportunities" section of Open Value Foundation's mission that is centered around innovation in financial spaces, the organization also strives to "open minds." According to Cruz-Conde, whenever the organization started operations in Spain 6 years ago, impact investing was not in the picture in Spain. Since then, the Open Value Foundation has become a large ecosystem that focuses on transforming people and companies by facilitating discussions about impact investing.

Impact Assessment Practices:

Open Value Foundation organizes impact investments in its Venture Philanthropy Fund into several scopes of action. These scopes of action include the United Nations Sustainable Development Goals (SDGs) of No Poverty, under which there are 10 Open Value Foundation related initiatives, Reduced Inequalities, under which there are 2 Open Value Foundation related initiatives, and Responsible Consumption and Production, under which there are 3 Open Value Foundation related initiatives. SDG #1 No Poverty related initiatives account for 55% of the fund, SDG #10 Reduced Inequalities related initiatives account for 13% of the fund, and SDG #12 Responsible Consumption and Production related initiatives account for 32% of the fund. These percentages account for all ten companies included in the Venture Philanthropy Fund, which are each classified in more than one field of activity. As of 2021, the foundation's Venture Philanthropy Fund includes ten companies which are located in either Southeast Asia, Spain, Sub Saharan Africa, or Latin America. These companies, their location, their SDG correlations, and impact measurement indicators are included in the table below:

Company Name	**Operations**	**Location**	**SDG Correlation**	**Impact Measurement Indicators**
Husk	Agriculture and sustainable production	Southeast Asia	1) No Poverty, 2) Zero Hunger, 8) Decent Work and Economic Growth, 12) Responsible Consumption and Production, 13) Climate Action	Tons of biochar produced, Farmers who use fertilizers derived from biochar, carbon credits sold, Tons of CO2 captured with the project (T), Income Increase
Kuvu	Socioeconomic inclusion	Spain	3) Good Health and Well-Being, 8) Decent Work and Economic Growth, 10) Reduced Inequalities, 11) Sustainable Cities and Communities, 17) Partnerships for the Goals	Older people who own registered in KUVU, Coexistences (and increase in accommodation offers), Families reached from the Maitea network, Quality of Life: Increase the interpersonal relationships, Loneliness reduction not desired
Feltwood	Sustainable Agriculture and Production	Spain	9) Industry, Innovation, and Infrastructure, 12) Responsible Consumption and Production, 13) Climate Action, 15) Life on Land	Tons of plant waste eliminated, Tons of oil saved, Hectares of cultivation for bioplastics avoided

Company Name	**Operations**	**Location**	**SDG Correlation**	**Impact Measurement Indicators**
i4SD	Socioeconomic inclusion	Sub Saharan Africa	7) Affordable and Clean Energy, 8) Decent Work and Economic Growth, 10) Reduced Inequalities, 11) Sustainable Cities and Communities, 17) Partnerships for the Goals	Institutions connected, Households connected, Monthly diesel savings, People employed full time in Nakivale, People directly benefited from the activities of project management
Smartbrain	Social inclusion	Spain	3) Good Health and Well-Being, 4) Quality Education, 10) Reduced Inequalities	Number of program clients, number of program users (monthly average web version), Monthly average hours of use of the program (web version), Increase in the number of clients and users of the program vs. the prior year, Increased usage time of the program vs. the prior year

Company Name	**Operations**	**Location**	**SDG Correlation**	**Impact Measurement Indicators**
Apadrina un Olivo	Agriculture and sustainable production, Socioeconomic inclusion	Spain	8) Decent Work and Economic Growth, 10) Reduced Inequalities, 11) Sustainable Cities and Communities, 12) Responsible Consumption and Production, 15) Life on Land	Number of olive trees recovered, Number of godparents, Quality jobs generated among inhabitants of Oliete, Quality jobs generated among new settlers, CO2 captured
Microwd	Socioeconomic inclusion	Latin America	1) No Poverty, 5) Gender Equality, 8) Decent Work and Economic Growth, 10) Reduced Inequalities, 17) Partnerships for the Goals	Number of female borrowers, Number of training courses given, Number of local jobs created by Microwd, Number of jobs created supported by women entrepreneurs, Women who increase their income
RobinGood	Socioeconomic inclusion	Spain	8) Decent Work and Economic Growth, 10) Reduced Inequalities, 12) Responsible Consumption and Production, 13) Climate Action, 17)	Number of social providers, number of clients, increase in supplier sales that manufacture for RG, number of indirect jobs supported

			Partnerships for the Goals	
Company Name	**Operations**	**Location**	**SDG Correlation**	**Impact Measurement Indicators**
BeGirl	Social inclusion	Sub Saharan Africa	3) Good Health and Well-Being, 4) Quality Education, 5) Gender Equality, 6) Clean Water and Sanitation, 10) Reduced Inequalities	Girls who received the product for free, Girls and women who were able to buy products at an affordable price, Girls and boys educated about menstruation, SDGs baseline (before product use), Results after product use, Percentage of girls who state they understand the functioning of the menstrual cycle, Percentage of girls who state they feel safe with boys during menstruation
Fondo de Fundaciones	Ecosystem strengthening of impact	Spain	4) Quality Education, 17) Partnerships for the Goals	Number of face-to-face training hours structured in the form of challenges so that the participants are acquiring certain techniques, Number of participating entities, Result indicators, Number of entities that have constituted the background

Case Study: Division of Economic Development

Organization Structure and Background

The Division of Economic Development at the University of Arkansas focuses on networking and connectivity and acts as a provider of support to the Arkansas Impact Investing Group. Specifically, the division is responsible for connecting the local community and prevalent industries to the university to enhance the university's role in economic development. While this connectivity is a focal point of all the division's practices, it places a particular emphasis on conducting workforce development, contributing to the research enterprise, and providing consulting services to local companies to assist with global trade and business practices.

The practice of connecting the local community to the university also pertains to connecting with investors who are interested in impact investing and involving them in the Arkansas Impact Investing Group.

Impact Assessment Practices

As observed by The Division of Economic Development at the University of Arkansas, local businesses in Northwest Arkansas that are considered impact investments often report measuring financial return but not impact key performance indicators. Often, qualitative impact is considered over quantitative impact as an indicator of impact. For example, many local businesses make their impact through having BIPOC (black, indigenous, or people of color) or women founders. While these qualitative impact measuring methods have garnered investments from investors, difficulty measuring quantitative impact prevents many local businesses from providing metrics on the social or environmental impact of operations.

Case Study: Heifer International

Organization Structure and Background

Heifer International is an organization that was founded in the 1950's and that works with farmers to help them make a living income. Originally, the organization began with giving farmers cows and teaching them how to manage livestock. Over time, however, Heifer International has focused more on investments and empowerment than education. These activities allow the organization to make a direct impact on economic development and progress in the world's most impoverished areas. Over the years, Heifer International's projects have grown and become more sophisticated. Oftentimes, the organization works with whole villages and value chains such as poultry or cardamom spice. Rather than simply focusing on production and sustainable agriculture, Heifer International also focuses on the market and on providing access to capital. To connect the production and market side of operations, the organization employs impact investing. Heifer International searches for corporations that will partner with the farmers they work with, and those farmers are required to have the ability to bring in a good quality product for corporations to buy. Oftentimes, strategically placed investments help those farmers build infrastructure to increase the quantity or quality of what they're producing. While investing monetarily in farmers, Heifer International also brings in resources to educate farmers about financial management and sustainable agricultural practices.

Heifer Impact Capital is the subsection of Heifer International that was launched six years ago and places and manages impact investments. While Heifer International is a nonprofit organization, it owns Heifer Impact Capital, an LLC, which places investments. As a result of this legal structure, Heifer Impact Capital is required to complete charitable purpose forms that show how investments made align with Heifer International's charitable purpose. Heifer Impact Capital

partners with the Heifer Foundation, another subsection of Heifer International that manages its endowment. To provide Heifer Impact Capital with resources for investment, the Heifer Foundation provided a portion of the endowment totaling $7.5 million to be used as a line of credit for Heifer International to build a track record in impact investing.

To utilize its endowment in a way that makes a positive impact on farmers, Heifer International utilizes a vast variety of financing structures. These include equity deals, debt deals, and investment funds for farmers with partner organizations in other countries that provide them access to microfinance or bridge loans throughout different seasons. In this context, debt deals refer to the direct lending of funds and equity deals refer to the exchange of company ownership for financial backing. Microfinance refers to banking provided to unemployed or low-income individuals who do not have access to financial services, and bridge loans refer to loans that provide short-term cash flows.

The focus of Heifer Impact Capital's investments is regenerative agriculture, a form of farming that rebuilds soil organic matter and restores biodiversity, and shifting agricultural practices to care for the earth. One of the organization's larger goals is to ensure that farmers can make a living income. In order that their investments make the intended impact and work towards growing organizational goals, Heifer Impact Capital has to prove to its investment committee that each investment will contribute to farmers making a higher income. Investments made by the organization often focus on providing smaller farmers with more "food dollar," which refers to the annual expenditures by a country's consumers on domestically produced food, along the value chain.

Impact Assessment Practices:

To ensure that impact investments make an impact on the organizational mission of ending hunger and poverty while caring for the Earth, Heifer International utilizes the United Nations' Sustainable Development Goals (SDGs) and Global Indicators. According to Heifer International, the following are the specific SDGs that Heifer International centers its impact investments around, as well as the indicators that are used to measure the impact of these investments.

SDG #	**Project Specific Indicators**
#1 No Poverty	Actual Income
#2 Zero Hunger	Household Dietary Diversity Score (HDDS) & Months of Adequate Household Food Provisioning (MAHFP)
#5 Gender Equality	Women making household decisions jointly & Women in leadership positions*
#6 Clean Water and Sanitation	Household with clean water access* & Household with adequate hygiene score
#8 Decent Work and Economic Growth	Farmer Owned Agribusiness (FOAB) strengthened & Value of commodities produced, marketed, or processed

SDG #	Project Specific Indicators
#10 Reduced Inequalities	Stable Household Income Growth
#13 Climate Action	Household adopting Climate-Smart Agriculture (CSA) techniques
#15 Life on Land	Land restored from prior degradation*
#16 Peace, Justice, and Strong Institutions	Household demonstrating solidarity and cooperation among Community Members
#17 Partnerships for the Goals	Public sector and other contribution* & Private sector contribution*

These categories that correlate with SDGs serve as guidelines for where Heifer Impact Capital places its impact investments. Heifer International's review board validates that investments are relevant to the categories and the mission of ending hunger and poverty while caring for the Earth as potential impact investments are submitted for approval. Prior to submission to the board, investments go through an 8-step vetting process. Overall, this 8-step process falls into 5 stages: Identification, qualification, approval and agreements, deployment, and portfolio management. At any step in the process, an investment could be disqualified and not continue to the next step. The process is as follows: First, an investment opportunity is informally identified by the program or regional manager. The investment opportunity could be identified from a variety of different areas, including from signature projects, country offices, business development opportunities, contracts, consultants, or partners. Then, a regional assessment of the investment is completed by a Heifer Impact Capital Regional Director to ensure that the investment meets Heifer Impact Capital's criteria. This stage also involves validation of the investment through an assessment of how the investment would align with Heifer's mission and if it would assist in achieving Heifer's living income goals for farmers. This stage also involves the charitable purpose test, where the investment is examined to ensure alignment with Heifer's goals and charitable purpose. Then, the Regional Director creates a written investment opportunity overview, which involves them documenting the investment opportunity and discussing its meeting Heifer's criteria and then sending the document internally within the organization. This stage involves the use of forms that ask substantial questions about the impact and people reached through the investment as well as financial models through which to examine the investment. If the investment progresses in Heifer's process, it continues on to be discussed in an informal pre-credit discussion meeting that is led by the Regional Director. Then, after securing overall approval from the pre-credit discussion meeting members, the Regional Director fills out an opportunity form. The next step is the completion of a due diligence checklist that is completed by the Regional Director. The due diligence checklist involves items such as a credit report on the investment. Then, the Regional Director creates a formal investment proposal using a standardized proposal document. Then, the last step prior to submission to the international review board involves the creation of a recommendation memo to the investment committee that is written by the Regional Director. These 8 steps that are completed before any investment opportunity is submitted to the international review board ensures that Heifer has consistent information about all investments, a plan for the investment, and alignment between the investment and Heifer's core indicators.

Though limited information about the international review board is available, Heifer representatives validate that the committee is extremely impact focused, and that the majority of activities conducted during the review board's meetings involve specific identification of impact created and indicators that should be used to measure impact and success for each investment. If approved by the international review board, the project specific indicators are utilized depending on which SDG category the impact investment falls under. While several of these indicators are directly connected to the UN's SDGs, others are developed by Heifer International to serve as standard measurements of impact.

The following example illustrates one way that Heifer measured the impact of a loan given to an impoverished region:

Heifer Impact Capital invested in Hatching Hope, a company in Mexico that strives to improve nutrition and economic livelihood through enhanced production, promotion, and consumption of poultry products. The project aimed to help local families and communities prosper by strengthening social capital, improving access to finance and new markets, and maximizing productivity, sustainability, and biosecurity. Overall, the project aimed to give rural communities more access to capital to scale businesses. For the project, Heifer Impact Capital worked with El Buen Socio, a woman-owned social finance organization, to provide financial education and create an affordable financial product for small poultry producers. The program focused on providing a loan that acted as a revolving fund with an affordable interest rate to provide a long-term solution to the problem of acquiring capital. Qualified farmers could receive two loans with the first stage involving 50 to 100 birds and the second stage involving 150 birds. The goal of the project was that producers could generate more sales to help put farmers on a pathway to a living income. Additionally, those farmers could also use additional revenue to reinvest and further scale-up their businesses.

After ensuring that the project aligned with its mission, Heifer established several indicators that would be used for the Hatching Hope project to measure its success. While developing these metrics, Heifer focused on lean data in order to be aware of the cost associated with measuring impact. Several of the indicators that Heifer employed for the project included increase in profits/revenue, number of jobs created, dollar value of investments deployed, and number of individuals and entities accessing financial services. While measuring against these metrics, Heifer has prioritized separating the impact of its involvement from impact that occurred due to project teams. While Heifer is continuing to measure the results of the Hatching Hope project, 148 families received loans to increase their flocks, 75% of farmers who received loans were women, and farmers with loans had a higher average annual income of $4,227 (for those without, it was $2,621).

*indicators which directly contribute to the Sustainable Goals

Case Study: Global Impact Investing Network (GIIN)

Organization Structure and Background

GIIN is the global champion of impact investing, dedicated to increasing its scale and effectiveness around the world. To accelerate the scale and effectiveness of impact investing, GIIN works with investors by convening them to facilitate knowledge exchange, highlight innovative investment approaches, and produce valuable tools and resources. Additionally, GIIN focuses on reducing barriers to impact investment so more investors can allocate capital to fund solutions to

large global challenges. In total, GIIN provides investors with industry networks and events through its membership program and partnerships with entities such as the Impact Investors Council and Toniic, tools and resources for impact measurement and management such as IRIS+, industry research through its site, and market leadership initiatives such as the GIIN Impact Forum.

Overview of Document: "GIIN Sight: Sizing the Impact Investing Market"

Each year, the Global Impact Investing Network (GIIN) conducts an analysis on the size of the impact investing market. The report itself often reveals the key drivers of impact investing for that year around the world, and the report created in 2022 also considers timing of important global initiatives, such as the goal to achieve the Sustainable Development Goals (SDGs) by 2030 and reach net zero emissions by 2050. In addition to highlighting drivers of the industry, the report also has relevance to impact investors or researchers seeking to better understand the market, enter the market, identify competitive opportunities, or understand market scale.

To create its annual report, GIIN compiled a database of impact investing organizations using previously existing data from GIIN's past research studies, the IRIS+ system, and the Impact Classification System. Information considered for each of the organizations in the final database included organization-level impact assets under management. For those organizations for which assets under management (AUM) data was not available, GIIN estimated AUM using average impact AUM and average percentage of direct allocations per organization type for all data submitted directly to the GIIN. GIIN then estimated the portion of the impact investing market that was not captured in the analysis.

According to the GIIN's impact investing marketing sizing report for 2022, the market currently holds around $1.164 trillion in assets under management. Considering that the industry is continually in development, this amount signifies a substantial milestone. One important disruption factor to the industry that the report noted was COVID-19, although data shows that new impact investors continued to join the industry throughout the pandemic. GIIN's consideration of all important influencing factors to market size included the rigorous screening and analysis of over 3,000 public and private market asset owners and managers, although only investors that meet GIIN's definition of impact investing were included in the final report. Of the considered sample, fund managers accounted for the majority of organizations and represented 61% of impact assets under management. Of the sample organizations that reported on their headquarters location, the majority of locations are based in developed markets, especially in the United States and Canada. The three most prevalent developing markets with headquarter locations in the sample were sub-Saharan Africa, Latin America & the Caribbean, and Southeast Asia.

The results of the report indicate that the impact investing industry is experiencing global growth and is well-positioned to continue building momentum.

Impact Assessment Practices

Before introducing GIIN's recommendations for impact assessment, it is important to outline the organization's definition of impact investing. According to GIIN, the impact investing industry involves four core characteristics that establish a baseline expectation for impact investing. Those four characteristics are intentionality, use of evidence and impact data in investment design, management of impact performance, and contributions to the growth of the

industry. These four characteristics require a clearly stated impact intention and measurement and management of impact performance to ensure that investments provide sufficient impact. To employ the core characteristics in a way that benefits impact investing practices, GIIN encourages investors to make adjustments over the life of an investment to optimize impact results.

Overview of Document: "IRIS+ Core Metrics Sets"

According to GIIN, "impact metrics should ultimately deliver investment decision information, help learn and pivot when necessary, and strengthen the performance of investors' portfolio and investment strategy." To accomplish these goals, GIIN encourages impact investors to utilize the IRIS+ tool, which include key indicators called Core Metrics Sets which revolve around a variety of strategic goals. These Core Metrics Sets are based on evidence of best practices and standardized to enable comparison of data. They are also in alignment with the UN Sustainable Development Goals (SDGs), including both SDG Goals and targets. The Core Metrics Sets and their corresponding strategic goals are listed below and taken directly from the "IRIS+ Core Metrics Sets." The information and wording is directly from IRIS+.

- Objective of investment or enterprise
    - The Strategic Goal the impact investor or the enterprise seeks, such as "Improving financial health."
    - Outcome to measure
        - Each of an investor's or enterprise's goals may lead to several different outcomes—for example, evidence shows that the Strategic Goal "Improving Financial Health" leads to an improved ability to manage and recover from shocks, improved day-to-day financial management, increased savings, and improved business opportunities. Based on evidence, each IRIS+ Core Metrics Set names several common outcomes for each Strategic Goal and identifies one key outcome to be measured.
- Key questions addressed, in alignment with the Impact Management Project's five dimensions of impact.
    - WHAT is the goal?
        - Example:
            - Strategic Goal: Improving Financial Health
            - Key outcome being measured: Increased savings
            - How that outcome will be measured (outcome indicator): Measured through Value of Voluntary Savings Accounts
    - WHO is affected?
        - Two key indicators included by IRIS+:
            - Stakeholder type
                - This indicator states which stakeholders are the primary target of the investment's or business's intended impact (e.g., clients, distributors, patients, environment). In this case, the indicator comprises a single IRIS metric, Target Stakeholders
            - Stakeholder characteristics
                - This indicator specifies the demographic (e.g., female), socioeconomics (e.g., low-income), setting (e.g., rural, urban), and geography (e.g. Latin America) of the target

stakeholder group. In other words, this dimension describes the stakeholders for whom the outcome in question—increased savings, in the example above—will be measured. This indicator comprises four IRIS metrics: Target Stakeholder Demographic, Target Stakeholder Socioeconomics, Target Stakeholder Setting, and Target Stakeholder Geography.

- HOW MUCH change is happening?
  - Two factors are considered:
    - Scale
      - This indicator measures how many stakeholders are experiencing the outcome out of all stakeholders reached. In the example above, Scale is the number of target stakeholders with increased value in their voluntary savings accounts out of all clients served. In this case, calculating the scale indicator requires IRIS metrics Client Individuals: Total to understand the total number of clients served and Number of Voluntary Savings Accounts to understand the number of clients with voluntary savings accounts. The provided formula or calculation guidance includes the steps required to calculate this indicator, including identifying the number of unique clients with increased value in their voluntary savings accounts, and notes any required or optional data disaggregation.
    - Depth
      - This indicator measures the degree of change experienced by the target stakeholders, that is, the change in outcome identified in the WHAT dimension for the target stakeholder group identified in the WHO dimension. The change in outcome is calculated as the difference between the value of the outcome at baseline or in the previous period and its value in the current (reporting) period.
- What is the CONTRIBUTION?
  - Enterprise Contribution
    - Identifies the data needed to assess an enterprise's contribution to the social and environmental outcomes that people and planet experience relative to what the market or social system would have done anyway. IRIS+ Core Metrics Sets do not yet include key indicators for Enterprise Contribution; these are planned for future development. This dimension currently points to guidance by the Impact Management Project
  - Investor Contribution
    - Identifies the strategies investors employ, often in combination, to help the enterprises in which they invest have an impact. As outlined by the Impact Management Project, these strategies, from which

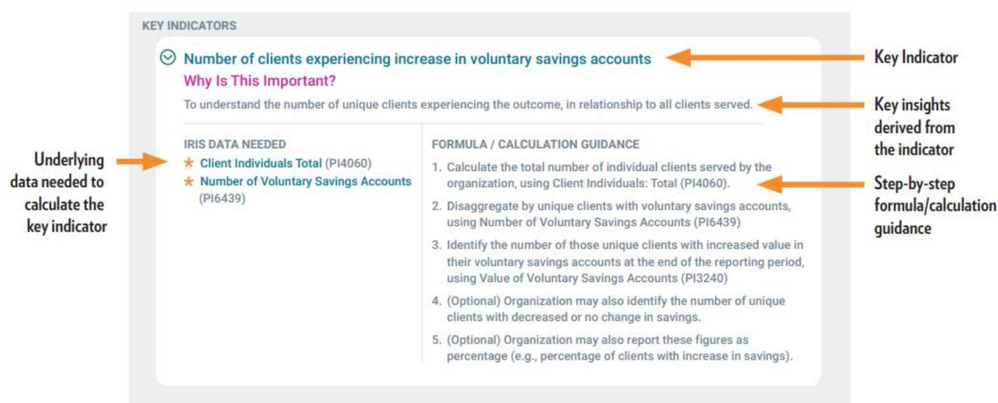
investors should identify those best representing their approach, are:

- signal that measurable impact matters
- engage actively
- grow new or undersupplied capital markets
- provide flexible capital.

- What is the impact RISK?
    - IRIS+ Core Metrics Sets identify and describe each of the impact risk factors identified as material for each specific Strategic Goal. In the above example—the Strategic Goal of "Improving Financial Health"—risk factors identified as material and included in the Core Metrics Set for this Goal are:
        - stakeholder participation risk, the need for products or services to be tailored to the needs and experience of target stakeholders
        - external execution risk, referring to political, economic, or social instability
        - contribution risk, referring to market saturation
        - dropoff risk, referring to low client uptake
- HOW is change happening?
    - This question helps further contextualize the data captured by the previous five dimensions, capturing data to examine business processes and product or service details that provide a fuller picture of the enterprise and its relationship with people and planet. In the example of "Improving Financial Health," used above, some of the included indicators are
        - Product or Service Offering: the range of financial products or services actively used. Calculating this indicator requires two IRIS metrics: Product or Service Description and Client Individuals: Active.
        - Client Engagement: the engagement of clients in the design, development, and delivery of products or services. Calculating this indicator only requires one IRIS metric: Stakeholder Engagement

- Additional metrics
    - These provide a high-level understanding of other or additional possible effects, including for other affected stakeholder groups.
- Custom functionality
    - Investors may add relevant metrics from the IRIS Catalog or create their own custom indicators based on IRIS metrics to tailor a Core Metrics Set to their specific approaches and goals.

The following is a specific example from "IRIS+ Core Metrics Sets" of what step-by-step calculation guidance looks like in the IRIS+ tool:



Case Study: World Economic Forum

Organization Structure and Background

The World Economic Forum is an international non-governmental and lobbying organization that brings important decision-makers from across the globe together to shape global, regional, and industry agendas. The forum brings together many types of organizations, from both the public and private sectors, international organizations, and academic institutions. Four annual meetings make up the majority of the forum's gatherings. These meetings are The World Economic Forum Annual Meeting in Switzerland, The Annual Meeting of the New Champions in China, The Annual Meeting of the Global Future Councils in the United Arab Emirates, and The Industry Strategy Meeting. The World Economic Forum also possesses research capabilities to support its mission, and its world-class research capabilities focus on significant world issues such as competitiveness, gender parity, and global information technology.

The World Economic Forum's activities take place at the intersection of three focus areas: mastering the fourth industrial revolution, solving the problems of the global commons, and addressing global security issues. While The World Economic Forum does not focus specifically on the impact investing industry, it has produced work that is relevant to the growth of the industry and measurement of impact produced by investments.

Overview of Document: "Measuring Stakeholder Capitalism Towards Common Metrics and Consistent Reporting of Sustainable Value Creation"

For half a century, the World Economic Forum championed the principles of stakeholder capitalism as a method through which to rebalance corporate purpose. Such rebalancing is of utmost priority, as the COVID-19 pandemic emphasized and resurfaced economic and social inequalities as well as a rising climate crisis. According to the World Economic Forum, "The context in which businesses now operate has been transformed by climate change, nature loss, social unrest around inclusion and working conditions, COVID-19, and changing expectations of the role of corporations."

In the summer of 2019, the World Economic Forum held a meeting where members re-emphasized the importance of environmental, social, and governance (ESG) to business performance and the creation of long term value. After members established a focus on ESG, the Forum invited members to work in collaboration with Deloitte, EY, KPMG, and PwC to identify a set of universal ESG metrics and recommended disclosures that companies can use in reporting.

While identifying parameters for this goal, the Forum established that metrics should be transparent and allow alignment between corporations, investors, and stakeholders. The Forum maintained that such transparency is key to "encourage greater cooperation and alignment among existing standards as well as to catalyze progress towards a systematic solution."

Impact Assessment Practices

At its summer meeting in August 2020, The World Economic Forum presented a refined set of indicators that was constructed by forum members and leading consulting firms. These indicators received strong support at the forum, and the majority of participating members at the meeting committed to report against the metrics. In total, 21 core and 34 expanded metrics were presented. The core metrics were detailed at the forum as being more critically important and primarily quantitative metrics for ways in which information was already being reported by many organizations. These core metrics also focused on measures that can be attained internally within an organization. In addition to these core metrics, the expanded metrics that were presented focused on newer metrics that have a wider value chain scope. These expanded metrics could refer to more monetary metrics.

All 55 metrics, core and expanded, that were presented were organized under four pillars that align with the SDGs and main ESG focuses. These pillars are Principles of Governance, Planet, People, and Prosperity. These pillars were aligned to the SDGs in order to emphasize alignment with the long-term goals of society that will create long-term sustainable value.

During development, relevant decision-making parties decided that each metric should meet the following criteria: 1) Consistency with existing frameworks and standards, 2) Materiality to long-term value creation, 3) Extent of actionability, 4) Universality across industries and business models, and 5) Monitoring feasibility of reporting. Forum leaders also made several recommendations for adoption of these metrics. Companies were encouraged to report on the core metrics as soon as possible using mainstream corporate disclosures such as annual reports to investors and MD&A reports that address ESG metrics. Leaders also recommended that organizations adopt this foundational set of metrics to report with sector and industry-specific indicators as needed.

Challenges Facing Impact Measurement Standardization and their Root Causes

Challenges Towards Industry-Wide Standardization

Discussions with industry professionals, document study, and stakeholder observation revealed several key insights regarding the challenges that face industry-wide standardization of impact measurement practices on global, national, and state-wide levels.

Legislation

At all levels, legislation proves to be a barrier to standardization or to entry into the impact investing industry for investors. One example of such legislation is the Sustainable Finance Disclosure Regulation (SFDR) in Europe. The SFDR was intended to improve transparency in the market for sustainable investments and to prevent greenwashing. Within SFDR, funds managers can categorize themselves by several articles. Article 6 applies to more traditional markets that do not focus on the sustainability of their products. Article 8 attempts to benefit stakeholders, and Article 9 involves investing in sustainable products. Most impact funds seek to be defined under Article 9, however, the article requires that funds report on certain key performance indicators and activities. This requirement has become a substantial barrier to entering the impact investing industry in Europe, as many of the investments that desire Article 9 categorization do not have the tools or money to report on specific measurements such as house emissions or carbon footprint.

Overregulation

Another barrier that exists at all levels is over-regulation that serves as a barrier to entry for the industry. One such example relates back to the Article 9 measurement indicator requirements to be categorized as an impact investment under SFDR. Since European regulators are enforcing such high standard requirements, many companies are disincentivized from entering the impact investing industry due to a lack of resources. In this way, capital is often prevented from entering social finance markets.

Industry Visibility

Though awareness of the impact investing industry is increasing in the United States, the industry is not well-known in Europe. In Spain, the term "value investing" has significant visibility with investors, however, investors are not as familiar with the impact investing. One potential reason for this is that understanding impact investing involves familiarity with concepts of social finance that are complex if not previously known. Fund managers in Europe report that familiarity with the industry could be low due to the difficulty of understanding that there are impact investing companies in liquid markets. This lack of understanding or knowing about the impact investing industry could also be due to a lack of organization within liquid markets for impact investing in Spain. Additionally, the industry could be lesser known in Europe due to impact funds being smaller than in the United States. For example, in Spain, many impact funds have around 4 million euros, which is a relatively small amount of money for investment pools.

Proving Profitability

While the impact investing industry claims that its investments have a comparable level of profitability to regular financial portfolios, impact investments are generally perceived as being less profitable than such portfolios. While many financial professionals believe that impact investments do and should have the same level of profitability, others claim that the impact created compensates for the loss of profits that might have otherwise been made on alternative investments. For these individuals, making less returns is acceptable because "making the same

returns goes against the idea of making impact." Regardless, the impact investing industry may benefit from identifying its level of profitability in contrast with other investments in order to improve understanding of the industry.

Defining Impact

There has been some difficulty in the industry establishing which investments create impact. The challenge in discerning which investments create real impact is determining between metrics that show direct impact or are related to the SDGs versus metrics that claim impact but do not directly measure it. Oftentimes, "impact washing" comes into play in the industry when investments claim to cause impact simply due to the presence of key performance indicators. Especially in developing countries, improving standards for defining true impact investments will allow for sector development and impact creation.

Focus on Developed Countries

Conversations with industry professionals identified that one challenge to the impact investing industry lies in that more impact investments are needed in private sectors of lesser developed countries. To promote economic development of poorer areas and countries, impact investing can be used in the private sector. The most beneficial investments would be ones that create jobs within the most vulnerable communities, such as groups of people with disabilities or long-term unemployment. The specific intentionality of "creating jobs in economically underdeveloped areas" defines these private sector investments as impact investments despite creating jobs not generally being considered an impact investment.

Challenges Towards Standardization in Arkansas

The Current State of Impact Investing

In the state of Arkansas, there are many individuals who are intentionally investing into entrepreneurs utilizing microfinance. Community Development Financial Institutions Funds (CDFIs) are tools utilized to support investors in the state, and one such fund is the Community Loan Fund, Forge, which is based out of Huntsville, Arkansas. Other financial institutions and funds such as the Southern Capital Project, a project to provide capital to women-owned entrepreneurs, and the Imani Fund, a pilot program that offers microloans to underserved entrepreneurs.

Much of the state is missing an opportunity for investors to place their money in actual businesses. To provide more direct investment opportunities, organizations like Southern Capital Project are considering the creation of for-profit funds where people can invest to directly benefit entrepreneurs. While such investments will be highly beneficial to investors, they do not yet exist. Additionally, investors statewide would benefit from the existence of a fund with an investor accelerator. Having such a fund would help keep money in the state, as it would allow for the education of investors and a fund for them to invest in that benefits entrepreneurs.

Another potential opportunity would be bringing more angel investors into investing specifically in Arkansas' entrepreneurs. Currently, Angel Investors in the state do not always act as impact investors. These investors often aren't focused on location-based investing, and, while they may invest in companies that make an impact, they're not focused on certain regions.

Arkansas Impact Investing is currently the only organization focused on impact investing in the state of Arkansas. To build up the economy of specific geographies, the group may benefit from directing investors to or partnering with foundations that have made it their strategy to invest in a specific region. Several local foundations such as the Walton Family Foundation have blended capital strategies with impact investing and grants. Other location-based funds include the Rockefeller Foundation, which focuses on social equity and providing grants to regions with few resources such as the Pine Bluff delta region.

Connecting the Investor Community

Currently in Arkansas, there is not a large investing community. However, there are a small number of impact investors that are connected to each other. Most are well-known personalities that are co-investing, and the ones that are involved with impact investing make impact investments individually. Active investors in the small local investing community are often already familiar with the startups and businesses that make an impact and invest in them regardless of the presence of impact focused key performance indicators. While there are many high net worth, philanthropic individuals in the area, there is not a substantial angel investor community in Arkansas. A rise in the number of angel investors could contribute to the overall number of impact investors in the state, and more opportunities to engage in equity crowdfunding could assist with involving people in investing and eventually becoming angel investors. Despite the number of investors in the state, Arkansas Impact Investing is the first and only organized impact investing movement in the state, so it is the sole official effort to connect investors with investments. While investments can be facilitated by word of mouth, this system only works with a small number of individuals. Building an impact investing movement in the state will provide new opportunities, companies, and deals that ultimately give investors more options and bring new investors into the impact investing space. While forming a movement for impact investing in the state, incorporating an educational component is key. In Arkansas, there is a general lack of awareness in regards to impact investing. More education around the subject may remove ambiguity around how the term is defined and the many different ways in which impact is understood. Additionally, the state needs more investors and especially women investors to have a large and diverse enough investing community to support investments. Women especially are needed in the industry, as only 2% of funds go to women founders in venture capital. Currently, there are national movements to educate women investors to involve them in the industry with the goal of expanding the number of overall deals and investors. According to interview findings, if there were more women investing, there would likely be more investments going to women founders.

Accelerating the Movement

As Arkansas Impact Investing works to connect investors with investments, it also needs to focus on providing adequate education around impact investing to investors. As this movement accelerates, it must be acknowledged that there is a lot of work to be done to advance the current landscape of impact investing in Arkansas. While there are many investment opportunities in Arkansas, most are not focused on impact. One recent exception to this majority is that Walton’s VCC firm recently opened a $5 million fund with Plug and Play that is focused on sustainability. In order for Arkansas to have enough investment opportunities for its growing impact investor community, the state needs more investable companies. Additionally, research shows that individuals in Arkansas are highly philanthropic. To ensure that highly philanthropic individuals are involved with impact investing, there needs to be more clarity on what constitutes impact

investing and scalability of investments, which could allow more impact than typical philanthropy, needs to be considered.

Lack of Familiarity with Social Finance

Within the economic development space in Arkansas, there's a lot of focus on jobs and small businesses as a large catalyst for new jobs. However, the state's key decision makers focus on bringing in manufacturing facilities rather than funding small businesses to create jobs. As incentives to bring operations to the state, manufacturing companies are given tax breaks. The leaders who are making these key decisions may not be aware of the potential of innovative, creative finance or not have access to attorneys who are experienced with innovative finance and different legal structures. To push economic development and job creation in the state, key leaders should partner with individuals who are educated on the legal structures of impact investing to focus on incentivizing small businesses and entrepreneurs by investing in their companies. While forming these partnerships, it is essential that leaders are cognizant of the barriers of entry that prevent companies from entering markets. Capital requirements, access to distribution channels, cost disadvantages separate from scale, and government policy could all be examples of such de facto barriers to entry for businesses and impact funds.

ESG Legislation

Recently, the term ESG has become highly political in the state of Arkansas, as legislation against state funds considering ESG in their investment plans has been proposed. In March 2023, for example, a bill was passed as amended in the Arkansas Senate that requires the state to divest from financial companies that follow ESG obligations. The politicalization of the term ESG is harmful to the growth of impact investing in the state, as any company with positive ESG will be a better investment than one with negative ESG. Especially when evaluating impact investments, ESG should be a key consideration of individual investors and state fund managers when choosing where to invest.

Barriers to Entry with Accreditation

Currently, the accreditation process prohibits many individuals from investing, as most people who are interested in impact investing are younger or women and do not qualify to be an accredited investor yet. One recent piece of legislation that is accelerating the impact investing movement in Arkansas allowed small dollar equity investments through platforms like We Funder. Before the enactment of this legislation, equity investing was only allowed for accredited investors with high net worth. Due to these regulations, many people were unable to become equity investors. This new piece of legislation could help young people get involved with equity investing through crowdfunding, as crowdfunding allows people the opportunity to invest on a small level. Additionally, users of equity crowdfunding platforms can often search for B-Corps to engage in impact investing, and the platform We Funder is a B-Corp itself.

Investment Focus Areas

One specific desire of the local investing community is to invest in certain types of founders and in companies that make a strong environmental impact. To focus on environmental impact, investors may want to focus on investing in clean energy companies in the state. However, the difficulties with facilitating investments that benefit founders of color or create a positive

environmental impact is that these impact measures are sometimes more qualitative and difficult to justify or measure. Additionally, favoring founders of colors does not technically fall under impact investments using the traditional definition and use of the term. To consider if these types of investments should fall under impact investing, investors need a deeper and more diverse understanding of how these investments expand the diversity and inclusion boundaries of investing at different stages of the start-up process.

Another issue with identifying areas for investment in Arkansas is ensuring that companies that receive investments are scalable so that they do not sacrifice profit for purpose. To satisfy local investments and invest in companies that prove financial success and impact, the area needs more opportunities for investments in successful companies. One example of such a company that was introduced to investors through the Arkansas Impact Investing Group and has had opportunity for impact investments is Sober Sidekick, a sobriety and recovery app for individuals struggling with addiction or are in recovery from alcohol or drugs.

One area that Arkansas investors and legislators have shown interest in that stands to gain the most traction with impact investments in the future is renewable energy and sustainable supply chain. The primary reason for interest in this area is due to the cost savings of saving energy. Specifically, a move towards advancement in renewable energy and sustainable supply chain is visible in Arkansas' legislature. Legislation on clean energy and electric mobility has received little pushback from state inhabitants and legislators, as this legislation has the possibility to facilitate a positive environmental impact, cost savings, and high growth business opportunities.

SECTION 3: Recommendations and Frameworks for Standardization

Approaching Standardization

While approaching the topic of standardization, it is important to note several key considerations.

Firstly, standardization could be key to emphasizing the importance of actually measuring impact. If standardization were to be adopted widely within the industry, it could contribute to awareness around the importance of measuring impact as a way to make decisions and understand if the fund is completing its intended purpose. If standardizing the ways in which impact is measured places impact measuring and management at a focal point in the industry, then it could have an overall beneficial impact. Standardization could make impact investing easier to understand to society, which would cause more people to invest since people are more likely to invest in something that they understand. Additionally, standardization around the taxonomy of impact investing could contribute to broadening barriers and making more individuals interested in investing.

Secondly, standardization could potentially be very complicated and calls for a standard through which the majority of impact investments should be considered. In order to not place restraints upon the industry, it is importance to not place constraints on the meaning of "impact." Measuring impact means vastly different things in different scenarios, and each problem has a unique solution. Standardizing impact should not place restraints on impact investing or barriers to entry in the industry. However, it should reinforce the themes of additionality and intentionality within investor/investee communities. Standardizing the ways that impact is measured should increase transparency between investors and funds and make impact easier to measure and

understand. While emphasizing intentionality is important, it is just as important to not place constraints on what "impact" pertains to. Investors and funds cannot be constrained by a narrow definition of impact investing that does not consider the economic, environmental, and social applications of the term.

Thirdly, if standardization is implemented, it must be both simple and realistic. Having additional regulation in the industry would place additional pressure on both funds and fund managers in a financial industry where there is already substantial regulation. If standardization is implemented, the standardized framework needs to be efficient and easy to adopt, unlike the accreditation process to be an investor. Funds and fund managers should not have to jump through loopholes to be able to take part in the wealth-generating part of the economy. Additional regulations could deter organizations from creating impact funds or investing in them. Additional regulations would contribute to the amount of negative bi-products in the financial system. In order to contribute to the growth of the industry and not hinder growth, standardization would need to be able to be implemented without creating any harm.

Fourth, many successful impact funds and investment firms have a specific impact that they want to have, such as regenerative agriculture, and do not use or consider an impact framework. Rather than seeing results through measuring pre-defined metrics, these firms focus on the stories of impact that they create and about seeing the change. Since, at its heart, impact investing maintains the focus of helping people, these stories can be key to illustrating impact in a more personal and emotive way than quantitative measurement. The value of emotion and resonance with other humans cannot always be measured by indicators, so it is important to leave space in the impact investing industry for firms to utilize storytelling as a way to illustrate impact.

Finally, while it is important to minimize greenwashing and impact washing, the impact investing industry must be mindful of the additional costs that are associated with proving impact. That is a cost that the financial industry, historically, has not had to pay attention to because the impact in the finance industry is money. If additional screening is implemented in the impact investing industry, there will be additional costs. It is key to be mindful of the additional cost that standardization of impact measurements could produce, as we cannot implement too many industry requirements, as some firms will not have the capacity to fulfill these requirements and could be barred from participating in the impact investing industry.

Given these factors of consideration and results of this study, it is the conclusion of this study that a standardized framework should be strongly recommended, but not required, to participants of the impact investing industry. Such a framework should build upon existing reporting so as not to cause additional burden to organizations, and standardized metrics should be easy to adopt, able to be gathered internally, and general so that they may be applicable to various types of investments and situations. Additionally, organizations should plan to utilize additional metrics that are industry-specific and situation-specific that may include more monetary terms if there is organizational capacity to measure such metrics. Best practices to go about measuring impact in a standardized way are presented in the next section.

Best Practices for Adoption

BEST PRACTICES

The results of this study reveal several common best practices that are utilized by current industry leaders. These best practices include the following:

1. To clearly understand and define desired impact and increase the comparability of investments, investments and their metrics should be aligned with the United Nations Sustainable Development Goals. Performance metrics and impact-based data should be aligned to SDG categories to provide portfolio structure. As aforementioned, the SDGs include the following initiatives: no poverty, zero hunger, good health and well-being, quality education, gender equality, clean water and sanitation, affordable and clean energy, decent work and economic growth, industry, innovation, and infrastructure, reduced inequality, sustainable cities and communities, responsible consumption and production, climate action, life below water, life on land, peace and justice strong institutions, and partnerships to achieve the goal (UN).
2. Specific metrics should be developed to address Impact Management Project's dimensions of impact: 1) What is the goal?, 2) Who is affected?, 3) How much change is happening?, 4) What is the contribution?, 5) What is the impact risk?, and 6)How is the change happening? Metrics should provide a clear answer to each of these questions, and more than one metric is recommended to provide a response to each question. An example of implementation of these dimensions of impact could be answering the question of "What is the goal?." If a goal of improving financial health is established, the metrics of increased savings and value of voluntary savings accounts could track towards that goal.
3. Metrics should meet the following criteria: 1) Consistency with existing frameworks and standards, 2) Materiality to long-term value creation, 3) Extent of actionability, 4) Universality across industries and business models, and 5) Monitoring feasibility of reporting.
4. Funds should first focus on measuring against metrics that are easy to adopt or already included in mainstream corporate disclosures such as annual reports to investors and MD&A reports that address ESG metrics. Data on these metrics should be able to be collected internally. After establishing that they have capacity to measure these items, funds should identify and report against sector and industry-specific indicators if they have capacity. These additional metrics could be more monetary or focus more on information that must be collected externally. Valuable additional metrics may also address ESG criteria.
5. If assistance is needed to identify metrics, funds should look to the IRIS+ tool to provide guidance as to which metrics are needed. The tool is free and publicly available through the IRIS+ website and recommends specific metrics from GIIN's core metrics sets which are aligned to the SDGs. While not all IRIS metrics meet the criteria identified by this study's recommended framework, IRIS+ can be a valuable tool to be used as a starting point for funds that require resources or guidance.

One important note to these best practices is that organizations should focus on leaving room for tailoring metrics to the individual project or investment at hand. These practices should serve as guidance and guard rails to determine how to measure impact in a way that is comparable across different types of investments. The following section details a specific framework of thought that generally encompasses the best practices presented above.

Recommended Framework

When choosing metrics to measure impact of impact investments, fund managers should ensure that the investment and its metrics align with one or more SDG's and utilize metrics that track impacts created towards that SDG. Usage of the SDGs allows for a globalized approach to standardization, as the SDGs are international goals identified by the United Nations. Since the SDGs are the goals that have attained the highest level of commitment and participation globally, they should be considered in a standardized framework that is intended for international adoption. Additionally, funds that identify with certain SDG goals can also adopt specific metrics that address their fund-type and narrower objectives as well as broad metrics that address growth towards the SDG goal.

Additionally, fund managers should ensure that metrics are in place to answer the Impact Management Project's dimensions of impact. Fund managers should emphasize considering capacity when considering which metrics to implement. Amounts of metrics presented below are only for illustrative purposes, and they do not show recommendations of how many metrics fund managers should adopt. Refer to the following chart to view the framework that this study recommends.

SDG Alignment					
What is the goal?	**Who is affected?**	**How much change is happening?**	**What is the contribution?**	**What is the impact risk?**	**How is the change happening?**
Metric #1 Metric #2 Metric #3	Metric #1 Metric #2 Metric #3	Metric #1 Metric #2 Metric #3	Metric #1 Metric #2 Metric #3	Metric #1 Metric #2 Metric #3	Metric #1 Metric #2 Metric #3

To create metrics that address this framework, fund managers may refer to general guidance in the table above and the specific Impact Assessment Decalogue in the next section. If a fund manager were looking to utilize the guidance provided in the framework above in the example of a fund that contributes to improving financial health, they could first identify that that fund aligns with the SDGs of No Poverty and Industry, Innovation, and Infrastructure. Then, the fund manager could go about answering the Impact Management Project's dimensions of impact questions through the lens of those SDGs, attempting to create metrics that address both the question and clearly display the SDG alignment. Then, that fund manager could consider the Impact Assessment Decalogue to determine which metrics best fit the fund at hand. If that fund manager had few resources or little knowledge about deciding on metrics, they could turn to the IRIS+ Core Metrics sets. Then, they may fill in the chart with as many metrics as needed to answer the questions. For example, they could utilize the metrics of Number of Target Stakeholders, Stakeholder Demographics, Stakeholder Socioeconomic Status, and Stakeholder Geography to answer the "Who is affected?" dimension of impact question.

While considering which specific metrics to utilize in this recommended framework, the following key considerations outlined in the **Impact Assessment Decalogue** created as a product of this study should be made:

Impact Assessment Decalogue

I. Alignment with SDG Goal
II. Ability to answer Impact Management Project's dimensions of impact questions
III. Ease of Adoption or utilization in existing reporting methods
IV. Representative of the project's industry or specific project details
V. Capacity to measure against the metric
VI. Whether the data will be collected internally or externally
VII. Inclusion of metrics in GIIN's Core Metrics Sets
VIII. Sustainability of metric over time
IX. Reliability of metric over time
X. Timeliness of metrics

SECTION 4: Conclusion

The impact investing industry allows investors to generate positive, measurable social and environmental impact as well as financial return. While the popularity of impact investing among investors is growing, there exists a lack of consistency in the industry in how the impact of such investments is measured and qualified. While many organizations have their own distinct methodologies of determining impact in place, a methodology to standardize the ways that impact is measured could prove highly beneficial to the industry. This study referenced the work of several industry leaders, including the Global Impact Investing Network, Heifer International, the World Economic Forum, and the Open Value Foundation to better understand the current state of impact measurement standardization. Additionally, the University of Arkansas' Office of Industry and Community Engagement was included in the study to gather insight into the current environment for impact investing in the state of Arkansas, as well to identify challenges the area faces in terms of growing its impact investing opportunities. The research process involved both interviews with industry leaders and research of scholarly sources. The following key points represent a summary of findings from the research process.

1. Impact measurement practices currently in use by industry leaders share several commonalities. The majority of industry leaders employ the United Nations Sustainable Development Goals in their impact measurement process. Additionally, alignment with organizational purpose, leeway for project or situation-specific indicators, and considerations of organizational capacity are all aspects of the impact assessment process that industry leaders emphasize.
2. A variety of challenges exist to standardizing impact measurement. Legislation around required reporting for impact investments is a significant industry challenge, as such legislation creates barriers to entry in the impact investing industry. Additionally, overregulation, the level of knowledge about impact investing within investor communities, the struggle to prove profitability, and a focus on developed countries all pose substantial challenges to the industry and to standardization of impact measurement specifically. Several challenges towards the development of the impact investing industry in Arkansas include difficulties connecting the investor community, making the shift from

philanthropy to investment, providing substantial education to investors, a lack of familiarity with social finance, and accreditation posing barriers to entry.

3. Many opportunities towards effective adoption of standardized impact measurement mechanisms exist. Such opportunities are identified in the form of best practices used by industry leaders that should be included in a standardized framework to ensure that such a framework is efficient and easy to adopt. In summary, these best practices are as follows: Metrics should be aligned with SDG categories, specific metrics should address Impact Management Project's dimensions of impact, and funds should focus first on measuring against metrics that are easy to adopt or already included in mainstream corporate disclosures.

Given these findings, it is the conclusion of this study that a standardized framework should be strongly recommended, but not required, to participants of the impact investing industry. Such a framework should build upon existing reporting so as to not require organizations to expend more resources than are easily accessible. Standardized metrics should be easy to adopt, able to be gathered internally, and general so that they may be applicable to various types of investments and situations. Additionally, organizations should plan to utilize additional metrics that are industry-specific and situation-specific that may include more monetary terms if there is organizational capacity to measure such metrics.

Organizations with the capacity to adopt this standardized framework are recommended to do so. Adoption of the framework involves correlating impact investments directly with one or more SDGs. Most of the industry leaders in this study utilized this strategy of correlating investments with SDG goals, and the SDGs were selected for a standardized framework due to their global adoption and recognition. After determining which SDG categories are relevant to the investment at hand, the fund manager may also adopt specific metrics that address their specific fund-type and narrower objectives as well as broad metrics that address growth towards the SDG. Chosen metrics should answer the Impact Management Project's dimensions of impact questions while continuing to demonstrate clear alignment with the chosen SDGs. Fund managers should also employ the Impact Assessment Decalogue while determining which metrics best fit the fund at hand. This decalogue includes several key considerations, such as ease of adoption or utilization in existing reporting methods, capacity to measure against the metric, and whether the data will be collected internally or externally. If that fund manager had few resources or little knowledge to go about selecting appropriate metrics, they could turn to the IRIS+ Core Metrics sets as a resource to begin determining which metrics to use.

The adoption of this standardized framework will allow for more consistency in the impact investing industry and will benefit individual impact funds by providing guidance through the adoption of best practices currently in use by industry leaders. Though not all funds may have the capacity to adopt this framework, it may still prove to be a valuable resource for fund managers to reference, and the findings of this study on industry challenges and best practices may assist fund managers in gaining a comprehensive view of the impact investing industry, impact measurement mechanisms, and the different geographic and legislative factors that influence impact investing.

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