



Lessons learned: Assessment in the impact investment sector

Challenges and Recommendations



By Line Cottier, May 2020



Introduction¹

At the beginning of this year, Persistent decided to take a fresh look at our assessment of our impact. Although Persistent has a clear vision and approach – namely to provide essential goods and services to households and businesses in underserved emerging markets – and a clear understanding of our basic impact on people and climate, we aspire to follow best practices. This has led to our examination of those practices and, as result, this white paper.²

Impact measurement is a bit like America’s “Wild West” - it is relatively new territory. There is little open-sourced research and few wide-spread rules or standards. Everyone talks about it using common terms but often with different meanings. This makes it a highly complex and multi-layered fabric that makes comparisons difficult. Without common measurement tools, it is difficult to measure relative effectiveness of various investments, business models and impact strategies.

To get an overview of different interests and relations in the sector regarding impact, we knew we would have to collect accounts not only from our portfolio companies, but also from other stakeholders in the sector. Consequently we carried out various interviews with our portfolio companies such as Rensource, Asobo, upOwa, Oolu Solar and candi, and with other important partners and sector stakeholders such as Shell Foundation, FMO or responsAbility. The goal of this paper is to share the information we gathered and make it useful for all stakeholders involved.

1. The impact investment sector and its stakeholders

Persistent is a venture builder primarily focused on providing off-grid energy to mitigate climate change. As a result, arguments in this publication will often be made in reference to clean energy and specifically the off-grid energy sector. However, our lessons learned can largely be applied to the impact investment space as a whole.

What is impact investing? According to The Global Impact Investing Network (GIIN), “impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.”³ Common impact investors include development banks, socially driven wealth and fund managers, pension funds, financial advisors, family foundations, NGOs, foundations and government investors.

¹ This paper is an outgrowth of Line Cottier’s work for Persistent while an intern in Winter and Spring 2020. The author thanks Chris Aidun for his assistance with this article.

² You can find another paper that supports this article with our own impact metrics [here](#).

³ Source: [The GIIN](#)



2. Why impact assessment is important

Measuring is of course key to impact investing. In some instances impact investors set specific impact targets with their investments: For example, Persistent recently received an impact investment predicated on reaching five new lives with clean energy for every \$100 invested. In other instances, investors seek to simply know their investment 'returns', i.e., to know what their impact is as well as their financial returns from investing. But we are seeing other investors with changing perspectives – what might otherwise be considered pure financial investors too are starting to put more emphasis on impact, reflecting a desire to invest only where they are doing so consistent with their personal or institutional social and environmental worldviews.

For companies, impact measurement can help a great deal in gaining customer insight. Fully understanding the needs of end beneficiaries enables companies to adapt their marketing and business development efforts or even core business plans to meet these needs, as well as increasing credibility and thus securing funds from fund and direct investors.

Not why, but how: *“Impact measurement is central to impact investing, and is increasingly viewed as a driver of value creation for both investors and investee companies. The question among many impact investors is no longer why and whether to measure, but what and how to measure.” (The GIIN)*

3. Metrics and methodologies: A cost-benefit analysis

The founders of Persistent began their careers in the energy access sector with E&Co, an early impact investor in energy access. When E&Co failed in 2012, it had more staff monitoring impact than it had investment officers. One lesson from this founding experience is that impact assessment can be complex and costly, and there are trade-offs between precision and cost. **Like everything we do to improve the sector, impact measurement must therefore be practicable and affordable.**

As there is no way that impact investors and investees can track everything, they need to measure only what matters to them in cost-benefit analysis – usually by using at least two, and on average seven different key performance indicators, though only displaying a small selection of those on their websites⁴. The KPIs most used by stakeholders in the clean energy sector are access to energy, job creation, and CO₂e avoided. Other common indicators include enhanced opportunities for productivity and income generation, gender impact or benefits to women and girls, health, education, and security. Highly established

⁴ These numbers are based on a sampling of 30 different stakeholders in the clean energy sector we made.



stakeholders in the sector also tend to publish a yearly impact report (e.g. Acumen or responsAbility).

Some investors rely on existing metrics and methodologies to measure their impact. In the off-grid energy sector, organisations that provide standard metrics and methodologies are GOGLA, Gaia Impact Fund and The GIIN. While it can be extremely useful to have consistent impact reporting across regions, products and companies, these organisations also encourage their network companies to go beyond their metrics framework to collect targeted data and increase the knowledge base.

Usually it is the investee's responsibility to collect impact data and report to investors, just as it is their duty to collect and report financial performance. Investors then require the use of theory of change methods, mission alignment methods (e.g. to compare current KPIs to a historical baseline, original forecast or those of industry peers) and experimental/quasi-experimental methods to apply the metrics that matter to them in analysing reported results.

4. Challenges

As impact investing is making headway into the mainstream of financial investing, it is useful to take a closer look at challenges in impact assessment and recommend directions to overcome these challenges.

I. Misestimation of the benefits of impact assessment

The importance of impact data is often underestimated by investors and companies alike. Manual ad hoc work is very costly and time-consuming, and often the expectations of investors for early-stage companies to do extensive assessment themselves is unrealistic. Many investees therefore do not yet see the value of keeping track of their impact in quantitative terms. As there are no clear rules and requirements regarding impact assessment and little standardised metrics and methodologies, investees and impact investors alike often turn to qualitative assessments and anecdotes instead. Although storytelling can make impact more tangible, quantification of impact is equally essential to enable comparisons between stakeholders.

II. Need for more collaboration

In general, standardised and widely accepted methodologies and metrics are lacking. Despite obvious benefits of shared learnings and costs, little collaboration between stakeholders is taking place in this sector with regard to impact assessment. Although there are some networks that focus on providing sector-wide metrics and methodologies, they often do not work together to avoid double efforts. This leads to impact data being in



various different pools instead of being centralised and accessible for everyone. For example, GOGLA (the leading network organisation in the off-grid energy sector) and The Global Impact INvesting Network (GIIN) used to provide impact metrics featuring the same impact indicators based on different calculations. Now, however, the GOGLA Impact Metrics form part of the official [IRIS](#) catalogue, an initiative of The GIIN⁵. This is a good example of how efforts can be joined to share databases and thus increase efficiency and cost-sharing.⁶

At the investor or fund manager level the situation is similar: Investors often require different levels of detail and simplicity from the same investees to track and report their impact. The result is that investees often have the burden of measuring different metrics, complying with inconsistent reporting frequencies, and using multiple data collection templates when measuring their impact. We see an opportunity here for increased collaboration among co-investors, for example during the due diligence phase of an investment when impact reporting requirements are being determined.

III. Limited availability of data

Particularly in the off-grid sector, which is relatively young, most impact metrics are based on certain assumptions about the product, sector, industry or customer; and local variations such as local fuel prices are seldomly taken into account. Common limitations include assumptions on household size and the use of a product not taking into account gender and age dynamics, as well as defective products that are improperly counted.

We therefore suggest one always use a conservative approach to all metrics, i.e. make conservative estimations and approximations. In addition, impact indicators should be adapted and re-examined on a periodic basis to keep them aligned with company values and reflect changing market conditions. If, for example, GOGLA publishes a new version of their impact metrics to replace outdated calculations, off-grid energy companies and investors alike should consider when it is most cost-effective to implement new changes.

IV. Double-counting of impact

Investors typically take 100% credit for the company's impact, ignoring the fact that multiple investors are involved in financing the company. As no rules are in place for impact reporting, multiple investors often attribute the same impact to their investments.⁷

At first blush it seems as though the solution to double counting impact is straightforward: allocate pro rata amongst investors. Yet, on deeper analysis the solution is not so simple.

⁵ See [here](#) for more detail on the coordination between GOGLA and The GIIN.

⁶ Another positive example is the [EDFI Impact Conference 2019](#), which was attended by experts across Europe to examine investments in developing countries and their impact on jobs, energy, climate change, and economic transformation. The idea was to promote knowledge exchange and learning around how DFIs affect sustainable development, how impact is being measured, and how efforts can be harmonised.

⁷ We note that Persistent has followed this industry practice so that we are measured against other investors on a fair basis. We nonetheless support the change advocated in this article.



How can impact be allocated between equity investors, lenders and grantors? As between equity investors, shouldn't early stage investors get more credit for taking more risk?

We believe that an industry consensus should be developed on how best to allocate impact among investors of all types. While solving this challenge is beyond the scope of this article, perhaps some double counting between equity investors, on the one hand, and lenders and grantors, on the other hand, is warranted. One could see that it is reasonable to allocate impact pro rata among equity investors – perhaps with some weighting to earlier investors – while employing some kind of non-burdensome tracing test to track the impact of lenders and grantors.

For example, let's say a company has \$1,000,000 of equity invested equally from two investors, \$500,000 of debt and \$250,000 of grants specifically to expand sales. Let's assume that the cost of each sale before overhead is \$250 (i.e. cost of inventory, sales team, transportation cost, etc.). Over the period when all of these investments are being utilized, the company sells 10,000 solar home systems serving a total of 55,000 people (5.5 per household according to GOGLA⁸). The "lives impacted" metric could be allocated as follows:

- Equity Investors (impact split equally):
 - Equity Investor #1: 27,500 lives impacted
 - Equity Investor #2: 27,500 lives impacted
- Lenders: 11,000 lives impacted ($\$500,000/250 = 2,000$ units x 5.5 people per household = 11,000)
- Grantors: 5,500 lives impacted ($\$250,000/250 = 1,000$ units x 5.5 people per household = 5,500)

16,500 "lives impacted" of the total 55,000 would be counted by both equity investors and lenders/grantors. While this overstates the company's total impact from the investor perspective, it seems a fair way to allocate impact between equity, which has greater permanence, debt funding, which must be returned, and grant funding, which is invested for a specific purpose.

V. Validation

Investors often have no practical way to verify the accuracy and reliability of the information provided to them by their investees. The responsibility of providing correct data therefore often lies with partner companies, and there is no 'audit' by third persons as required for financial reporting.

One way investors can make sure their impact metrics rely on accurate data is to collect raw data rather than end calculations by breaking down a calculation into its variables. This allows for the prevention of mistakes and tracing them back more easily. Often the simplest data, such as sales of different sizes of solar home systems, is the easiest to verify – it is

⁸ Find here the [GOGLA Impact metrics 2020](#) for more information.



separately reported in financial results and audited by auditors on an annual basis in the preparation of audited financial statements.

Blockchain technology could present an opportunity to facilitate validation. As it is impossible to tamper the data fed into the system, this could be a powerful technology to automate reporting tools. Of course, methodology must be developed to ensure the data inputted is accurate. Movement in this direction is occurring in measuring climate impact which may inform how this could be accomplished cost effectively in the impact measurement space.

VI. Focus on output rather than outcome

While outputs are tangible, immediate products and services that result from an activity, outcomes are the actual changes on individuals or the environments that happen through these products and services. The majority of impact investors are not yet actively measuring outcomes such as customer satisfaction – instead, too much effort is spent by companies in trying to increase the numbers they serve without knowing how their services are changing their customer’s lives or circumstances. In other words, in most cases companies focus on increasing their output, neglecting the fact that more output doesn’t necessarily mean providing better outcomes.

There are a range of innovative surveying techniques and data collection programs that are currently on the rise and should be promoted by investors and organisations in the impact investment space. Angaza PAYGO, for example, is increasingly used to collect data on customer satisfaction; as is Open Data Kit for after-purchase feedback. Requiring⁹ more portfolio companies to participate in GOGLA’s consumer protection assessments and Acumen’s customer-centric and technology-based Lean Data SM¹⁰ could be a decisive step in making more data available and prioritising good outcomes rather than high output.

⁹ This could be done in lender or investor covenants.

¹⁰ See [here](#) for Acumen’s press release on their launch of Lean Data SM.



5. Impact assessment in the future: Our vision

We envision an investor marketplace where impact is incorporated as a standard measure and investment criteria, where metrics and methodologies are mainstreamed so that impact assessment is harmonised and standardised, and where more focus is put on customer satisfaction (“outcome”) rather than number of products sold (“output”).

We realise that to make this vision comes with a price tag. We therefore suggest the following approach:

- Companies, investors and lenders need to follow practical routes to impact measurement on a pure cost-benefit analysis that weighs useful data against cost of extraction, with the goal of preserving financial assets for companies and promoting successful businesses.
- Allocation rules to avoid undisclosed double counting of impact should be developed by industry consensus. This should be part of an overall effort to move toward industry standards.
- Other organizations should pursue development of digitisation¹¹ and other improvements to increase efficiency, transparency and credibility. Organizations such as the World Bank, Development Finance Institutions, nonprofits and aid agencies such as USAID and DFID should have an interest in promoting and funding the investment in better, digitized measurement techniques that, once developed, would enable economical metric collection.
- NGOs, governments and international institutions like the World Bank are good candidates to conduct the “unaffordable” measurements (i.e., those not justified on a cost-benefit basis). What Acumen does in its quality and customer satisfaction assessments is a good example. Perhaps an industry association like GOGLA should manage customer satisfaction testing every year with a rotating sample of companies, publishing “blind” industry data and giving companies their own data.
- To make impact assessment more financially viable and put a value on impact assessment, we also propose using an instrument like renewable energy credits (RECs)¹² and carbon credits. The marketplace has several players selling these voluntary credits to individuals, businesses and other institutions seeking to offset their carbon footprints.¹³ Developing trusted measurement methodologies could bring additional financing to the industry.

¹¹ rA for example has recently developed a new web-based carbon assessment and monitoring tool called CO2RA which offers clients simplified reporting and feedback on project eligibility, tracks on-lending targets, gives clients an overview of their portfolio, and visualizes CO2 emissions and energy saved.

¹² See [here](#) for more information on RECs.

¹³ See for example <https://www.indigoag.com> or <https://www.southpole.com>.



Conclusion

Changing perspectives to incorporate impact as a standard measure and investment criteria will take time. If one were to draw an analogy to measurement of financial performance, one can imagine that financial indicators and measurements such as loan-to-value ratios, debt service coverage ratios, and leverage tests evolved over time. One can also imagine that borrowers complained that they didn't have the resources to track all these performance tests in the beginning, but over time invested the resources to meet these new requirements. Impact assessment is in a similar place today.

The key in reaching a new level of performance will be in the donor sector financing the development and standardization of more effective measurement tools and, in particular digitization. By increasing collaboration, innovation and academia, impact investing can become more accurate to target and better able to provide the outcomes investors seek.

We are excited to be a part of this process and hope that this paper can contribute to boosting the discussion.

