The Impact of Impact Measurement

How elea's experience can contribute to the impact investing sector

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elea

Abstract

Building on the experience of elea Foundation for Ethics in Globalization (elea), this white paper presents a framework to distinguish between the different ways that impact capital can be deployed. It also describes the various challenges of these different approaches and provides examples of impact measurement methodologies that fit their respective scope and purpose. Within the context of the rapidly growing complexity and heterogeneity of the impact investing sector, we illustrate how impact investors can benefit from suitable impact measurement methodologies. We achieve this by leveraging examples from our more than ten years of experience in using the elea Impact Measurement Methodology (eIMM). Based on our learnings, we offer several recommendations for other impact investors. First, impact measurement should be aligned with an investor's purpose. Second, it is crucial that impact investors integrate impact measurement and management, moving beyond mere reporting toward the active management of impact as a central element in their decision-making process. Third, the use of standardized impact measurement methodologies fosters consistency and comparability. However, relying solely on such a standardized approach may produce results that lack meaning, since it is not designed to fit the specific purpose of its users. Therefore, we encourage impact investors to select and potentially tailor impact measurement methodologies to meet their objectives and needs, while adhering to standards that foster better impact measurement and management practices across the sector. Finally, well-calibrated impact measurement methodologies are a necessary condition for establishing patient impact investing within the broader impact investing sector, since patient impact investing approaches cover investment themes that are typically not dealt with by commercial impact investors[1].

[1] The authors would like to thank Niloufar Aazam-Zanganeh, Lisa Jean-Mairet, Stefan Kappeler, and Peter Wuffli for their valuable contributions to this white paper, as well as the broader elea team for their feedback and support during the writing process. A further word of thanks goes to Lisa Levasseur Berlinger (Chameleon Language Services GmbH) for her comprehensive and meticulous editing assistance.

Introduction

Impact investments are defined as “investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return” (Global Impact Investing Network [GIIN], 2022). Over the past years, the impact investing sector has grown exponentially. It reached close to USD 1.2 trillion in capital commitments in 2021, compared to USD 114 billion in 2016 (GIIN, 2022). Several trends have been driving the growth of this sector. First, many private and institutional investors increasingly see a need – and an opportunity – to consider environmental and social criteria beyond financial returns in their investment approach. Second, as a novel form of capital deployment, impact investing has catalyzed growing hopes and expectations when it comes to private capital’s contribution to solving global issues. Finally, private equity and venture capital have become mainstream asset classes that leverage the momentum of young entrepreneurial talent who increasingly want to work for innovative start-ups, many of which pursue environmental and social objectives beyond financial value creation.

The recent growth of the impact investing sector has fostered serious challenges. For instance, it has increased the heterogeneity of impact investor profiles[2], each of which has its own set of goals, processes, resources, and expectations when it comes to the (non-)financial performance of their investments. This has made one-size-fits-all benchmarks exceedingly difficult to develop and potentially unsuitable to implement. Furthermore, the number, diversity, and complexity of impact measurement methodologies have also been growing alongside the impact investing sector. While new impact measurement methodologies have been developed by impact investors, other approaches have been inherited from fields with a long history of studying impact measurement, like philanthropy and academic research. As a result, it has become more challenging for practitioners to keep track of which impact measurement methodologies fit their purpose, especially in the absence of a credible and widely adopted standard (Busch et al., 2021).

In this paper, we argue that the resulting confusion may threaten the credibility, growth, and success of the impact investing sector if the following questions are left unanswered: How should one navigate this increasingly complex landscape? What role should impact management and (reporting) standards play in impact investing? Which impact measurement tools are the most relevant for what specific purpose? How can the (non-)financial performance of impact investments be adequately measured and managed?

Established in 2006, elea Foundation for Ethics in Globalization (elea) has tackled these questions extensively[3]. elea’s purpose is to fight absolute poverty (i.e., positively impacting people living below USD 3 in daily income) with entrepreneurial means. Therefore, we aim to create social impact that contributes to poverty alleviation. In 2009, elea started to develop and apply the elea Impact Measurement Methodology (eIMM), a proprietary method for impact measurement and management. Since then, we have accumulated valuable experience on how to benefit from the consistent application of this methodology and have found that plausible answers to the questions above can only be derived through the systematic use of an effective impact measurement methodology. While standards play a key role in enhancing transparency and spreading best practices, users need to choose impact measurement methodologies that fit their purpose. This may require tailoring methods to specific contexts and needs. Our development journey proved to us that impact measurement can be – and, we believe, also should be – fully integrated into the decision-making of impact investors.

[2] Impact investors include foundations, development finance institutions, family offices, asset managers, and institutional investors (GIIN, 2023a).

[3] www.elea.org

In the first part of this white paper, we begin by describing the impact investing sector's development and the three major risks that have emerged as a result of its rapid growth. Then we provide a framework for situating impact investing among other forms of impact capital deployment, explaining their respective challenges and mapping appropriate impact measurement approaches to overcome them. This allows for contextualization of the different impact measurement methodologies based on their scope of application (i.e., at the sector level, the capital-provider level, and the impact-creator level). Second, we describe our own methodology for impact measurement (the eIMM), explaining how it is tailored to elea's purpose and how it is core to elea's work. Finally, we discuss the limitations of the eIMM and the lessons we have learned from applying it, before offering recommendations for other impact investors.

Part 1: Impact investing and impact measurement methodologies

Despite its recent growth, impact investing is still at an early stage in its development. The term can be traced back to a report written in 2006 by the Shell Foundation to describe a framework for how active investments can help to stimulate business-based solutions to social problems (published by the Foundation Strategy Group, 2006). This led to a discussion among experts with a view to create a new global investment industry that strives for positive social and environmental impact (Höchstädter & Scheck, 2015). In 2009, the Global Impact Investing Network (GIIN[4]) was created, and a year later, J.P. Morgan published a study in collaboration with the Rockefeller Foundation and GIIN that explored the potential of impact investments as an emerging asset class for institutional investors. According to J.P. Morgan, impact investments are defined as "investments intended to create positive impact beyond financial return [...] they require the management of social and environmental performance (for which early industry standards are gaining traction among pioneering impact investors) in addition to financial risk and return" (J.P.Morgan, 2010). From the outset, intentionality and impact measurability were fundamental characteristics and prerequisites of this new investment approach. The notion of investment "additionality", which refers to the idea that an investment creates "an outcome that would not occur but for the investment" (Brest et al., 2018, p.9), later became an integral element of impact investing.

Three major risks have emerged from the rapid growth of the impact investing sector

While the growth of capital mobilized for the purpose of social and environmental impact is to be applauded, three major risks have emerged for the sector over the past years. First, since the number of impact investors has sharply increased[5], the range of their expectations has also grown (GIIN, 2023a), and so has the risk of mission drift. In other words, impact capital may be channeled to a narrow field of capital-intensive segments with the promise of attractive financial returns (e.g., energy, financial inclusion, social housing, or health), potentially at the cost of social impact. This is illustrated in Figure 1, which shows the types of impact investors and the sector allocations of impact investments (GIIN, 2023b). Economically challenging sectors, like smallholder farmer development, skill building, or last-mile distribution, may be neglected because they do not promise a consistent positive net financial return on capital. Consequently, the financial component of impact investments may eclipse their impact component, which underlines the need to better articulate the significance of impact[6].

[4] www.thegiin.org

[5] The GIIN estimated that there are more than 3'300 impact investors (GIIN, 2022).

[6] The impact pursued by investors varies in nature, with environmental, social, and governance aspects as the most common categories of impact considered. Given that elea's goal is to fight absolute poverty, we focus on social impact creation that is targeted at poverty alleviation.

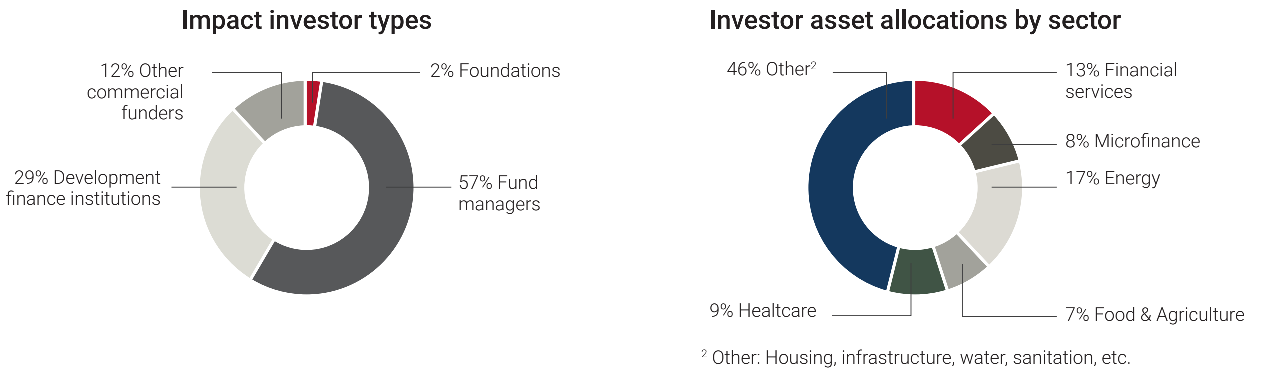

Figure 1: Investor types by assets under management (AuM) and the proportion of AuM allocated to each sector (GIIN, 2023b).

While scholars are debating the general relationship between financial and social returns (e.g., Brest et al., 2018), the trend of lower investment activity in some highly impactful sectors may indicate the existence of a trade-off between financial returns and impact. This is consistent with the view that it depends on the economics of the chosen business models whether profit and impact reinforce each other or whether there is such a trade-off (Farber & Wuffli, 2021). Acumen, an impact investor that focuses on patient capital, summarized it this way in its 20-year anniversary report: "Twenty years of experimentation and deploying patient capital have shown us that you cannot have it all. […] Investors can reasonably expect to get back more than nothing (as they would in pure philanthropy) but less than [the] market rate (as most impact investors expect)" (Acumen, 2022, pp.8-9).

The second risk faced by the sector is the probability of disappointment about the financial returns of impact investments. There is limited visibility on the overall realized performance of impact investors, since most impact investing activity takes place in the form of private equity or debt funds that are often still in their investing phase (with a limited number of exits). Some first indications come from the self-reported assessments by GIIN, which suggest that impact investors consider their financial and impact performance to be mostly "in line" with their expectations (GIIN, 2023b). Yet very limited empirical evidence on impact investments' returns (Cole et al., 2020; Barber et al., 2021; Jeffers et al., 2022) and additionality (Cole et al., 2023) has been provided to date. Mostly supported by anecdotal insights, the recent fast growth of the sector bears some resemblance to a hype, potentially jeopardizing its long-term growth. In this context, demonstrating an additional transformative impact with adequate impact measurement methodologies may allow impact investors to provide material evidence about the success of their investments. Since some impact investing strategies explicitly aim to maximize an investment's additionality at the cost of financial returns[7], the aggregated financial performance of impact investors should only be assessed in light of their value-added impact. This, again, points to the need for adequately capturing and reporting social impact.

Finally, we regard the confusion around standards, frameworks, principles, and impact measurement methodologies as the third major risk for the sector. While the desire for a broad application of impact measurement methodologies has been articulated for quite some time (Clark, Rosenzweig, 2004; Maas & Liket, 2011), various stakeholders within the impact ecosystem, particularly investors, have developed publicly available or proprietary impact measurement methodologies in recent years. Some of these have leveraged techniques that were initially developed for philanthropy, such as the Social Return on Investment (SROI; Emerson et al., 2000) and the Theory of Change (Center for Theory of Change, 2002). Others have built on advances in scientific methods to empirically measure impact, like randomized controlled trials (RCTs), notably put forth by the seminal work of Nobel Prize winners Esther Duflo and Abhijit Banerjee (Duflo & Banerjee, 2011). Existing tools from the for-profit sector, such as the Balanced Scorecard (Kaplan & Norton, 1992; Kaplan & Moore, 2003), were also adapted to the purposes of organizations that primarily focus on generating social impact.

[7] More details on the different impact investing strategies are provided later in this paper. For theoretical views on additionality, see, for example, Brest et al. (2018) and Green & Roth (2024).

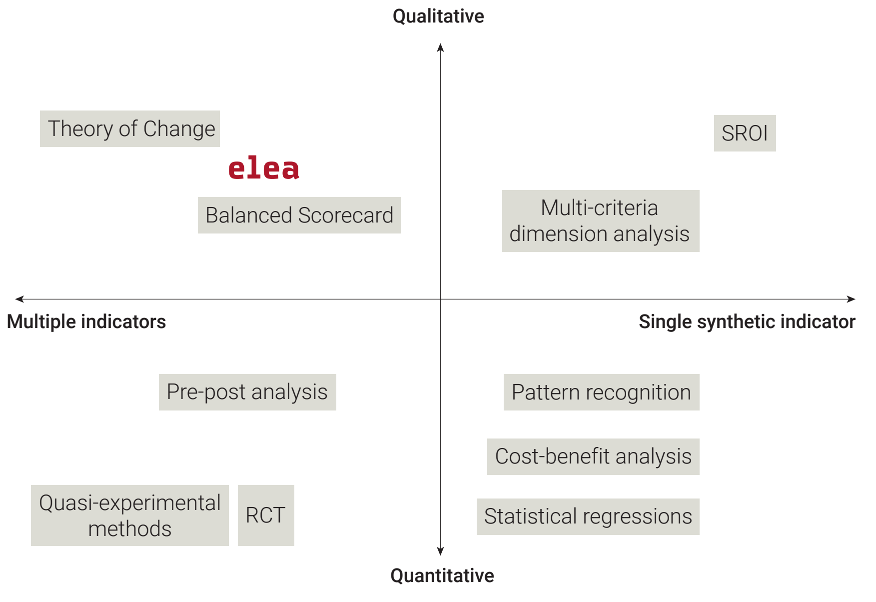

Figure 2: Overview of selected impact measurement methodologies for impact investors (adapted from European Investment Bank, 2021; Reeder & Colatonio, 2013). The reference to "elea" in the chart stands for the elea Impact Measurement Methodology (eIMM). SROI = Social Return on Investment, RCT = Randomized Control Trial.

The proliferation of methodologies used to measure impact – depicted in Figure 2 – has led to several standardization efforts. These span from high-level standards driven by international organizations and industrial bodies to company-level reporting frameworks. Prominent examples include the Sustainable Development Goals (SDGs), the UN Principles for Responsible Investment (UNPRI), the Operating Principles for Impact Management (OPIM), and GIIN's IRIS+ reporting framework[8] – although these can hardly be compared with one another (more on this later).

As the number, diversity, and complexity of impact measurement methodologies, frameworks, and standards available to impact investors has significantly increased, it has become difficult to identify which method is relevant for what purpose and for which stakeholders. Hence, there is a serious risk that the term "impact" will become progressively diluted because of ineffective (yet omnipresent) communication about what it means and how much of it is realized. With rising calls for more transparency in the impact investing sector, fueled by public debates around greenwashing and social washing, the need to clarify this point has become crucial for the sustainable growth of the impact investing sector.

[8] www.iris.thegiin.org

A framework for navigating the landscape of impact capital deployment

Figure 3 depicts the landscape of capital deployment approaches to generate impact. The figure is structured along two axes: *impact capital deployment models* (x-axis) and *impact scope* (y-axis). On the x-axis, we distinguish between the mix of non-financial and financial return expectations, following Bridges Fund Management (2015)[9]. On the y-axis, we graph the scope of impact, which spans from the sector level to capital providers and then to the entities and individuals actively generating impact (i.e., the impact creators).

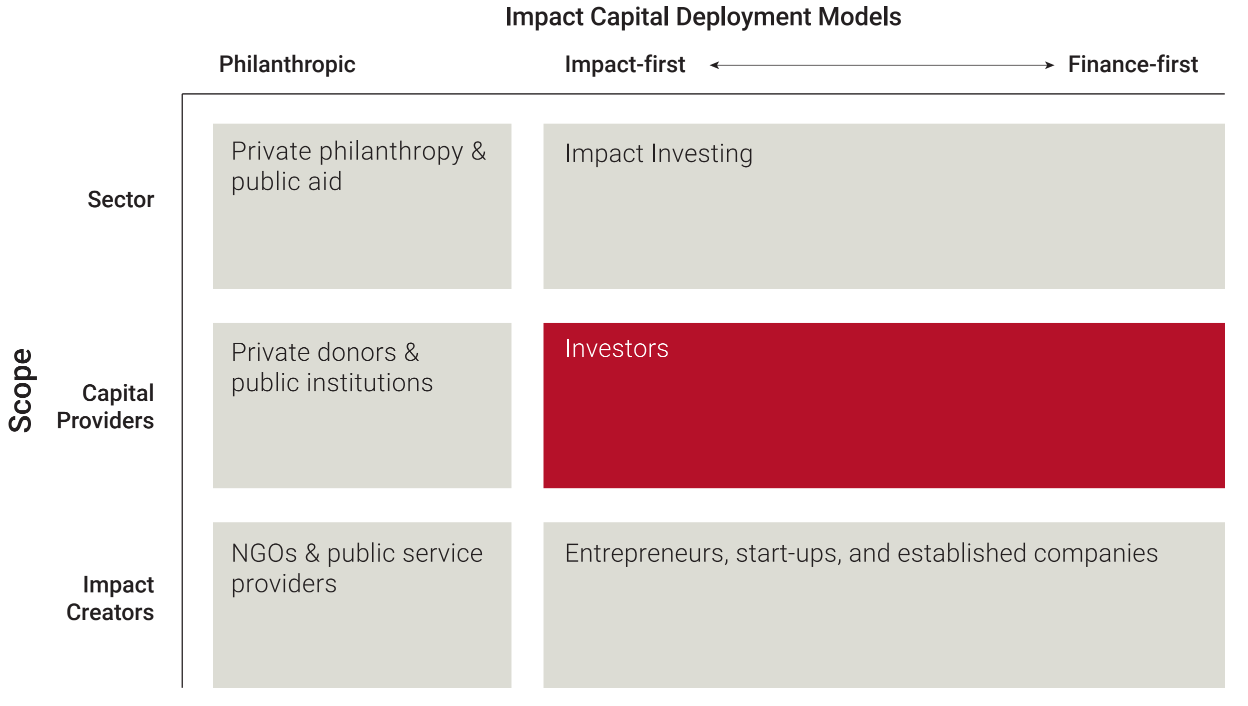

Figure 3: Framework for impact capital deployment models

The left side of Figure 3 illustrates the philanthropic sector, where private donors and public institutions deploy capital for aid and development projects that aim to create a positive impact on their beneficiaries. Philanthropy can be defined as acts of giving “money, time, or effort to a charitable cause or public purpose” (Sulek, 2010, p. 204), and it has a long history that dates back to charitable giving, often in the context of religious beliefs. It is only recently that public and private forms of philanthropy have started using more entrepreneurial approaches to (social) impact creation, for instance through grants for ventures that pursue impact goals.

Moving along the x-axis toward the right, the second category of impact capital deployment concerns *impact-first* impact investors, i.e., investors “who want to invest in the impact economy and are willing to accept higher risk and lower returns” (Farber, Reichert & Huang, 2023). This is where elea can be categorized: elea provides patient capital to impact ventures in the post-start-up phase that are having a positive impact on people in absolute poverty, i.e., earning less than USD 3 per day[10]. By taking substantial risks, elea bridges the funding gap to more commercially oriented investors, with the goal of playing a catalytic role in the development of its investees.

Finally, the right-side of the figure groups *finance-first* impact investors, i.e., investors “who want to invest in the impact economy and receive market returns” (Farber, Reichert & Huang, 2023). These investors maximize the impact of their investments for a given return expectation. For this reason, they typically invest in more established companies to reduce their risk.

[9] Bridges Fund Management (formerly Bridges Ventures) is one of the pioneers in the field of institutionalized investment firms in the impact investing sector.
[10] See Farber & Wuffli (2021) for a description of how elea defines absolute poverty.

We can draw two conclusions from this framework, which captures the heterogeneity of capital providers, aspirations, and impact scopes. First, as the frontiers between philanthropy and commercial investing are blurring, robust impact measurement is essential to establish clear criteria on how to manage impact goals and financial return ambitions. In that sense, impact measurement activities should not only concern reporting and communication but should also be integrated into impact management and controlling, thereby safeguarding impact at every step of the investment life cycle and preventing mission drift. Second, transparency about one's positioning in the impact capital deployment landscape is crucial for developing and/or using the appropriate impact measurement methodology. By doing so, an efficient, evidence-based dialogue on mutual performance expectations for (non-)financial performance can be facilitated.

Distinguishing which impact measurement methodologies are relevant to whom

Building on the previously discussed landscape (Figure 3), we now turn to the challenges faced by the different stakeholders who deploy impact capital at each scope level and the corresponding measurement approaches that can be used to overcome these challenges.

At the *sector level*, philanthropy (public development aid, in particular) faces "externally generated pressure for legitimacy" (Benjamin, Ebrahim & Gugerty, 2023, p. 321), since many question the effectiveness of its activities. This point is extensively covered in economic development literature (e.g., Bourguignon & Sandberg, 2007; Hongli & Vitenu-Sackey, 2023). For this reason, we believe that deep-dive approaches like randomized controlled trials and (quasi-)experimental methods should be encouraged: Despite their high implementation costs, they can accurately isolate and quantify the causal effect of development projects and interventions. The resulting findings, however, should be used to improve the current practices and not solely justify them, which requires long-term and repeated impact measurement (Technoserve, 2023).

Impact investing at the sector level is mostly concerned with demonstrating credibility, fostering trust, and improving transparency. For this reason, we advocate that the use of meta-principles is the most relevant approach for integrating impact considerations into investment practices. In this sense, the Operating Principles for Impact Management (OPIM), established by the International Finance Corporation (IFC) and now managed by GIIN, are a promising example. They provide a set of guiding principles for investors committed to generating positive social and environmental impact alongside financial returns (OPIM, 2019). To a certain degree, these investment principles facilitate comparisons among investors regarding their impact management practices. However, further initiatives dedicated explicitly to fostering comparability, such as GIIN's IRIS+ system, may be beneficial, particularly if they are adaptable enough to accommodate the increasing diversity within the field[11].

At the *capital-provider* level, impact investors are mainly preoccupied with deal flow, capital allocation, portfolio management, impact value creation initiatives, and investment exits. We therefore argue that impact investors should not only measure impact *ex post* for reporting purposes but also integrate impact considerations systematically along their investment cycle (i.e., when reviewing investment opportunities, monitoring the progress of each investment, reporting to the relevant stakeholders, and completing deal exits). For this reason, we advocate that impact measurement methodologies should enable investors to not only measure their impact but also actively manage it. This, in turn, requires impact measurement methodologies that are tailored to investor-specific variables, such as their impact goals and investment strategy, as well as available resources. Below are examples of impact measurement methodologies that are used for impact management:

[11] We would also like to mention the impact-weighted accounts initiative from Harvard Business School, chaired by Sir Ronald Cohen, which proposes financial accounts that monetize a company's social and environmental impact. The method aims to integrate impact measurement into well-established accounting and financial reporting practices. See https://www.hbs.edu/impact-weighted-accounts/Pages/default.aspx

- LeapFrog's proprietary measurement and management framework (FIIRM)[12]: "FIIRM [Financial, Impact, Innovation, and Risk Management] uses a matrix of operational KPIs [key performance indicators] to quantify each investment opportunity's current and expected financial performance (F), impact & innovation performance (II), risk management (RM) and is combined with direct feedback on pain points and opportunities received through customer due diligence" (GIIN, 2020, p. 2). It uses metrics from GIIN's IRIS+ system, which allows for industry benchmarking. Portfolio companies provide input data for applying FIIRM on a quarterly basis.

- Blue Earth Capital's proprietary measurement and management framework[13]: This framework is aligned with the Operating Principles for Impact Management (OPIM), the Impact Management Project (IMP), GIIN's IRIS+ system, and the UN Principles for Responsible Investment (PRI). The method measures metrics around inclusive growth, access to essential services, and climate action (Blue Earth Capital, 2022).

- elea's eIMM: The impact measurement methodology of elea (eIMM) integrates different theories of change by using the logic of an impact scorecard to enable the measurement and management of elea's pursuit to achieve transformative social impact. The next section discusses the eIMM in more depth.

Finally, at the *impact-creator* level, entities (impact ventures) and individuals (entrepreneurial teams) face operational and monitoring challenges when running impact-generating activities. In the context of impact measurement, they have a key role to play in picking context-specific metrics to keep track of impact creation. This can be facilitated and standardized by (digital) tools for data collection and monitoring. Ideally, the data collected is not only used for impact reporting but also for operational impact measurement. A widely used example is the impact measurement service by 60 Decibels, a methodology developed by Acumen that was later established as an independent company. The method involves using lightweight surveys, mobile technology, and other innovative data collection techniques to gather information from customers, beneficiaries, and other stakeholders[14].

"Standardization *or* Customization" versus "Standardization *and* Customization"?

There is an ongoing debate around the standardization of impact measurement. On one hand, standardization offers consistency and comparability across its applications, thereby enabling benchmarking and transparency. However, standardized methods may lack accuracy in capturing the unique outcomes of specific investments and interventions in different sectors, regions, and contexts. On the other hand, customizable tools provide flexibility and context sensitivity, ensuring a tailored impact assessment. Yet they limit comparability and can be costlier to implement.

We believe that standardization and customization should be balanced. Industry standards, like the OPIM, are desirable for fostering the adoption of best practices in impact management. Moreover, standardized methods and metrics may be appropriate for broad assessments of different actors in the sector. However, customized methods remain necessary for context-specific insights that serve organizations beyond reporting. Such customized methods might themselves include standard metrics, such as those provided by IRIS+.

[12] www.leapfroginvest.com

[13] www.blueearth.capital

[14] https://60decibels.com, https://acumen.org

Part 2: elea's Impact Measurement Methodology (eIMM)[15]

Objectives and principles of eIMM

From the outset, elea made a commitment to systematically measure and manage its impact. As an active investment manager, a customized impact measuring methodology supports our core task, namely to select and continuously monitor resp. support our investments as rationally as possible in order to optimize the use of our scarce capital and knowledge base.

As we set out to develop the eIMM, we pursued the following objectives:

- Establish a common language when talking about the success of our engagements.
- Support rational capital allocation when deciding on new investments.
- Set impact-related medium-term goals and control their achievement.
- Communicate the assessed impact to our Philanthropic Investors' Circle in the context of regular reporting, thereby helping investors to internalize the idea of impact.

Along the development process, we were guided by the following principles:

- **Comparability before specificity:** The tool was designed to provide a comparison of the relative social impact assessed over time and between investments. Hence, comparability across elea's range of (potential) investments has priority over the consideration of their case-specific circumstances.
- **Simplicity:** The method had to be simple enough to allow for meaningful results without unduly diluting the efforts of our team from its core task of finding, evaluating, and supporting impactful investments.
- **Easy data access:** The required factual and judgment-derived data should be easy to obtain and documented in a standardized and consistent way, enabling validation through external audit.
- **Consistency over time:** Our method should be generic and robust enough to allow for consistent measurement over a horizon of seven to ten years, thereby avoiding frequent adjustments to the method and restatements.

How does it work?

When applying the eIMM, an artificial currency is created, namely the *elea Impact Point* (eIP). Impact points are calculated based on an algorithm that multiplies the assessed (elea-independent) impact value (venture impact) of an investment with our share of total funding (elea Share) and with the estimated leverage that our organization brings in terms of contributions of expertise, advice, and guidance (elea Leverage).

[15] See also Farber & Wuffli (2021, p. 220 ff.).

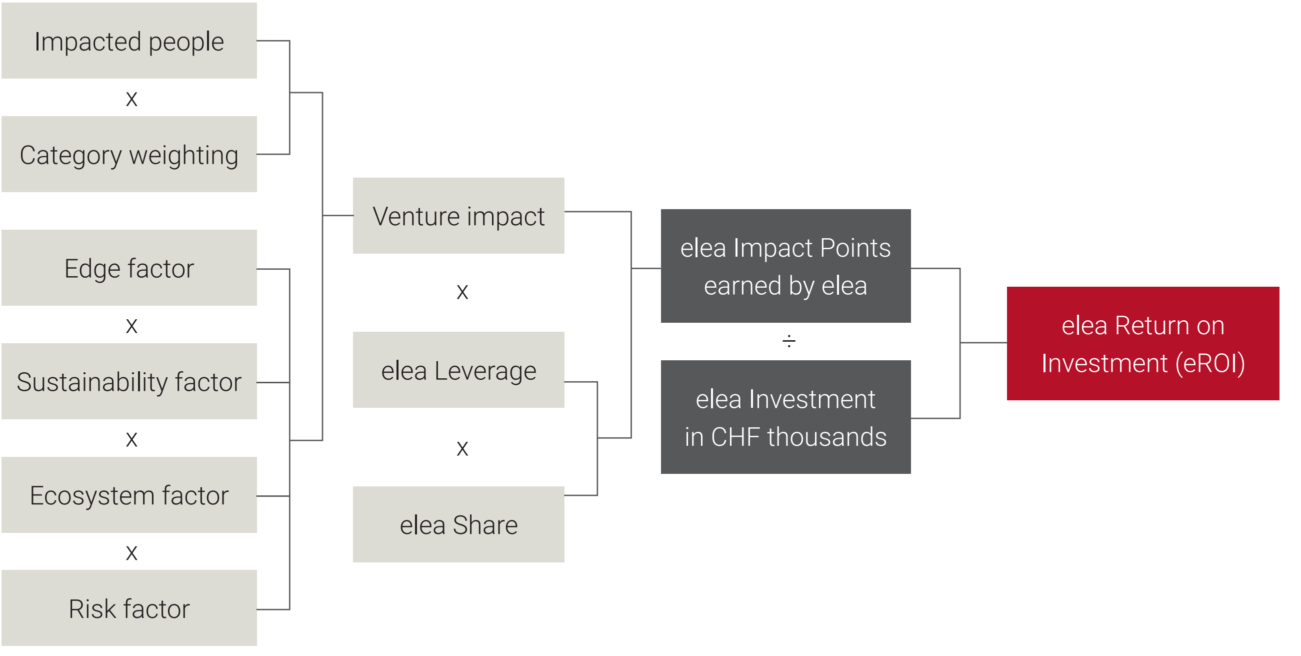

Figure 4: Schematic illustration of the eIMM

Venture impact is derived, in part, from the core metric "impacted people", which includes directly impacted people as well as an estimate of indirectly impacted people, considering that there is income sharing within and among households. As shown in Figure 4, the number of impacted people is multiplied by an impact category weighting, defined according to different theories of change. These allow for categorization of the different groups of impacted people according to the distinct change that our investments aim to catalyze[16]. Together with the number of impacted people, the category weighting reflects our goal to achieve a balance between reaching as many people as possible and achieving a deep, life-changing impact for individuals[17].

A set of factors (the "edge factor," the "sustainability factor," the "ecosystem factor", and the "risk factor") is then multiplied with the number of weighted impacted people. This approach further incentivizes elea to support innovative business models that not only impact the people who are directly engaging with the venture but also create blueprints that inspire further stakeholders within the sector. Each factor has a detailed manual of sub-criteria to ensure a consistent rating process and covers specific dimensions that constitute an investment's impact from elea's perspective:

- The **edge factor** assesses the potential of a venture as a role model in terms of the degree of innovation and the level of transferability. Innovative projects that could be globally applied without major obstacles to transferability score higher than established and proven business models with limited potential for replication.

- The **sustainability factor** evaluates the economic viability of the business model and the execution capability of the organization. In essence, it assesses the potential of the venture to operate sustainably over the long term thanks to a viable economic model and reliable attractiveness to investors. Furthermore, we look at the organization's ability to implement the planned approach in the foreseen timeframe and to establish the basis for its continued existence.

- The **ecosystem factor** captures the extent to which a venture builds or improves an ecosystem that increases its impact on people in poverty.

- The **risk factor** considers political, environmental, thematic, and cultural risks and indicates whether the composite risk level motivates the use of philanthropic capital. This factor constitutes an impact premium for elea within an acceptable range of risk.

[16] See the table on page 12 for a deep dive into the eIMM's theories of changes.

[17] These are known to be two relevant levers for investor's impact (Brest et al., 2018; Kölbel et al., 2020).

Finally, the **elea Share** and **elea Leverage**, respectively, weigh elea's monetary and non-monetary contributions towards a successful partnership with its investees. The elea Share considers that the venture's impact should be attributed to elea in proportion to its share of total funding. The elea Leverage captures the degree of elea's active support for the venture (e.g., via governance activities, strategic advice, fundraising support through elea's network, etc.). In short, the elea Share and elea Leverage show that elea considers monetary and non-monetary investments as both highly important impact-generating levers.

The **elea Return on Investment** (eROI) is computed by dividing the eIPs of a venture by elea's monetary investment. While eIPs measure elea's overall impact, the eROI measures how effectively elea has achieved this impact with the invested resources. The impact measurement process is managed by a dedicated committee within elea, which reviews and approves the proposals submitted by the team. This helps to ensure that the eIMM is applied consistently across the portfolio and that it creates the basis for independent verification by an external auditor.

Deep dive: The nine theories of change that reflect elea's investment focus

Measuring impact with the eIMM starts with the categorization of different groups of impacted people according to specific theories of change that correspond to our distinct investment focus. The categories are weighted by the expected change experienced by the impacted people in a particular category. The weightings are the result of three estimates: the *time needed* to achieve the impact described by the theories of change, the *likelihood* of achieving it, and the *impact depth* (i.e., the magnitude of the shift away from the absolute poverty line that is attributed to a venture's activities, as defined in Table 1 below).

Category		**Theories of change**
Skilling enabling employment	1.1	Impacted people are equipped with relevant skills and hired, thereby receiving formal employment they would otherwise not have access to.
	1.2	Impacted people are equipped with relevant skills and it is ensured they find (self) employment in the market that they would have otherwise lacked access to.
Employment	2.1	Impacted people are provided with a job within the venture ensuring a regular income.
Value chain integration	3.1	Impacted people are integrated into the value chain and receive systematic training that will continue to affect their income generation capacity beyond the intervention of the impact venture.
	3.2	Impacted people experience an improved integration into the value chain combined with some capacity building, thus increasing their income generation.
	3.3	Impacted people experience an improved integration into the value chain increasing their income.
Access to products and services	4.1	Impacted people are provided with access to a combination of relevant resources that lastingly alter their productivity path.
	4.2	Impacted people are provided with access to higher value products and services that improve their existing productivity path or living conditions within a definite period of time.
	4.3	Impacted people are provided with access to basic products and services that ensures the impacted people have more disposable income, albeit without affecting their productivity path.

Table 1: Categories of impacted people and the corresponding theories of change of the eIMM

Impact at the center of elea's flywheel

An impact measurement methodology is only valuable if it is applied in daily work as a starting point for managing impact. To ensure this, the eIMM is embedded at the center of elea's flywheel, which reflects the essence of our model. elea is a philanthropic impact investor that invests in ventures and entrepreneurial initiatives in regions across Asia, Latin America, and Sub-Saharan Africa, where average daily incomes are USD 3 or less. We specifically aim to deploy our capital in markets where commercial investments are scarce, and we focus on early-stage ventures for which the risk of failure is particularly high and comprehensive non-financial support is required to further develop the business. The ventures in which elea invests should be innovative and scalable, and they should have a clear intention to become financially self-sustaining.

Since its founding, elea has had the conviction that impact is the result of entrepreneurial energy and skills, combined with dedicated capital. Over time, we came to describe our impact model as a flywheel, with three components that reinforce each other (see Figure 5): the elea Philanthropic Investment Management (ePIM), the elea Philanthropic Investors' Circle (ePIC), and the elea Professional Development Program (ePDP). Impact is at the center of this flywheel, and each of the three components applies eIMM in its daily work.

Figure 5: The elea Model

elea Philanthropic Investment Management (ePIM)

ePIM is the element of elea's model through which ventures are identified, evaluated, selected, and supported. Over a thousand candidates per year are screened, and those with significant potential for investment are extensively discussed. Two to three dozen short Preliminary Investment Recommendations (PIRs) are developed annually, and about a third of these are selected to undergo a thorough, multi-month due diligence process. Each year elea makes five to ten investments either in new ventures or as add-ons to existing investments. Throughout all these steps eIMM plays a crucial role. At a portfolio level, we set impact targets alongside our theories of change to achieve a healthy balance between ventures that are expected to reach a massive number of consumers versus those that strive to provide life-changing impact through skill building. A preliminary eIMM estimation is a key element in every PIR and thus plays a pivotal role when sourcing new investment opportunities and deciding whether to conduct due diligence. eIMM projections are also a core component of our investment proposals to the Board of Trustees. Investment opportunities are declined when there is no balance between the capital requirements and the number of people living in poverty being significantly impacted, which would be indicated by an eROI far below comparable investments. The eIMM is not only core to the allocation of our financial capital but also our human capital. Once we make an investment, we calibrate our active support (e.g., advice and guidance) to focus on the most promising impact levers. At least once a year during the eIMM audit process, all factors of the respective ratings are evaluated, which sometimes leads to specific impact value creation initiatives (see point 3 re "portfolio management"). eIMM perspectives are also considered to safeguard elea's impact beyond investment exits.

Figure 6 depicts the systematic integration of the eIMM throughout the five steps of elea's investments lifecycle, as framed by the Operating Principles of Impact Management (OPIM, 2019), to which elea is a signatory. The figure highlights the importance we place on considering all factors of the eIMM at each step of our investment process.

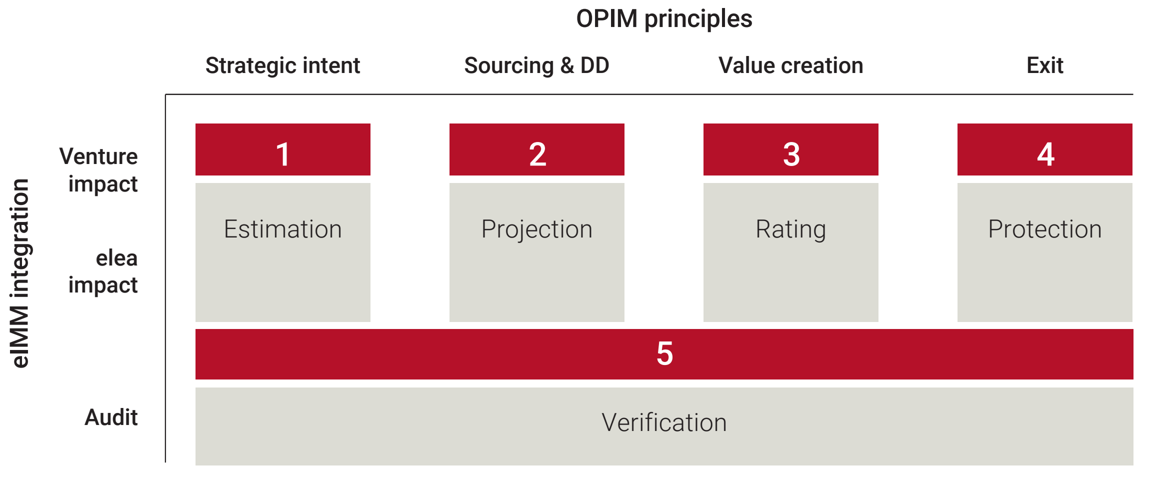

Figure 6: eIMM integration across elea's investment lifecycle, following OPIM (2019). DD = due diligence.

Examples of the eIMM integration in ePIM

1. Strategic intent:

We leveraged the eIMM to define elea's vision for 2030, namely to scale our impact to about 5% of the world's population living on an income of under USD 3 a day. Using backward induction, the eIMM helped us to determine how many new investments (and hence, which financial and human resources) would be required to reach this objective, thereby ensuring that our target is both realistic and ambitious. Furthermore, we took advantage of the eIMM's theories of change to define the impact mix we plan to achieve by 2030. Since we do not want to sacrifice impact depth for impact scale, we set the condition that the most transformative categories defined in the eIMM should collectively account for at least 10% of all individuals impacted by the ventures in our portfolio. By design, the eIMM mechanically balances impact scale with impact depth (recall the multiplication of impacted people with category weighting in Figure 4). In other words, smaller-scale ventures that create a transformative impact, which are typically found in the skill-building sector, might generate as many eIPs as larger-scale ventures, which have a less transformative impact on individuals. Hence, the consistent use of the eIMM in our sourcing and due diligence activities ensures that we continue to look for both types of impact ventures to reach our target by 2030.

2. Sourcing & due diligence:

When reviewing an investment opportunity, building eIMM projections requires reflection on each of its components. In the process, it sometimes happens that a specific eIMM factor crystallizes our critical questions. For instance, this was the case during our due diligence on a venture that enables global sourcing companies to finance healthcare coverage for the smallholder farmers that work in their supply chains by means of a digital platform. During elea's due diligence, the eIMM's category weighting factor required finding an answer to the following question: Do the farmers impacted by the venture's activities only benefit from protection against downside health shocks (which corresponds to eIMM's category 4.3 in Table 1), or do the farmers also gain an economic upside through their insurance coverage (which corresponds to eIMM's category 4.2 in Table 1)? Our thorough investigations, which included in-depth discussions with the entrepreneurs, data and literature reviews, as well as a field visit where the impacted farmers were consulted, established the latter. Insured farmers are not only shielded from illness, accident, and impoverishing health expenditures but can also improve their existing productivity path and eventually secure a higher income. This finding confirmed that the venture creates the type of transformative impact that elea is looking for, which ultimately motivated our equity investment[18].

3. Portfolio management:
Once an investment is made, the eIMM is applied on a yearly basis to rate our active investments and compare them to our initial expectations. This, in turn, may guide our value creation efforts towards the most relevant impact levers that could help a venture to reach its full impact potential. One example is a portfolio venture that operates an efficient distribution network for fresh produce and basic commodities in urban centers. In 2022, the venture piloted a delivery service to informal urban food vendors in areas below USD 3 daily income, thereby testing a model where the vendors serve as customers to the venture as well as distribution points for the orders by end customers. The pilot comprised around 60 women selling products in local markets, operating within a larger cooperative with which the venture had ties. Recognizing that this new channel constituted an opportunity to fight absolute poverty and to significantly scale the venture's social impact, elea decided to invest. As a member of the Board of Directors – which elea helped to structure – we are now building on our experience in last-mile retail and services to help the management team integrate this service as part of the venture's core business model.

4. Investment exits:
In elea's model, investment exits are necessary when philanthropic capital is no longer required and more commercially oriented impact funds can be attracted. As investee companies develop, grow, and mature, elea's potential to make a difference – both through financial and non-financial contributions – diminishes (Farber & Wuffli, 2021). In the eIMM logic, this means that the elea Leverage and elea Share of promising exit candidates can be expected to decrease over time. An example how we apply our impact thinking with exits is illustrated by one of our former portfolio ventures in the coffee industry. The venture specializes in buying specialty coffees from small-scale producers at higher prices and distributing them to private and business customers online. This not only increases the income of coffee farmers but also creates awareness about coffee market issues, thereby putting coffee producers and consumers on an equal footing. elea made an equity investment in 2013 and completed a full exit in 2023. To avoid dilution of the venture's social purpose, elea carefully evaluated several buyout options. Although purely commercial offers from large coffee trading groups were financially attractive, we eventually sold elea's share to an entrepreneur whose values were in line with ours, thereby ensuring some degree of impact continuity as defined by the eIMM.

5. Audit:
In 2011, two years after its creation, the eIMM was sufficiently robust to warrant an external audit, which has been conducted since then on an annual basis by BDO AG, Switzerland, a company of the international BDO audit firm network. Thereby, BDO regularly acknowledges that elea's impact measurement methodology is in line with the International Standard on Assurance Engagements (ISAE 3000). We are proud to say that we were the first philanthropic impact investment organization in German-speaking Europe to receive such an endorsement from BDO.

[18] It should be noted that, in other cases, different eIMM factors could have an equally significant influence on our investment decision.

elea Philanthropic Investors' Circle (ePIC)

ePIC ensures elea's sustainability as a philanthropic organization without the need for commercial revenue. It goes without saying that impact ambitions and achievements expressed in eIMM terms are among the decisive factors that motivate entrepreneurial families, philanthropic foundations, companies, and other institutions to invest philanthropic capital for impact. eIMM is regularly used at the very beginning of any dialogue with potential philanthropic investors to create awareness about the sector and elea's specific approach. It also forms the basis for capital allocation decisions when considering the inclusion of specific ventures in a selected ePIC investor portfolio and is the backbone of annual impact performance reviews.

Once a year, a Philanthropic Investment Performance Report (PIPR) is compiled, which provides an aggregate view of the eIPs achieved over the past year, as well as the number of impact points accumulated since the initial investment in a particular venture was made (see Figure 7 for an excerpt of such a report). The report serves as a means of informing investors about the impact performance of their portfolio with elea. For investment management purposes, a report that includes all investments made by elea helps us to assess which ventures are not meeting expectations and thus require additional attention.

Portfolio overview

Investment structure

40% Equity
40% Loan
20% Grant

Sectoral allocation

54% Agrigultural value chain
23% Last-mile retail and services
15% Employable skills
8% Climate and livelihoods

Regional allocation

36% Africa
29% Asia
35% Latin America

Investment report

Assets			Investment [CHF]		elea Impact Point		eROI	Management attention
Active Investments	**Launch year**	**2023**	**Total to date**	**Stake**	**2023**	**Total to date**		
Investments 1	2020	70'000	**280'000**	**33.0%**	**+1'835**	**4'200**	**15.00**	
Investments 2	2019	180'000	**340'000**	**30.0%**	**+2'124**	**6'492**	**19.09**	
Investments 2	2021	25'000	**125'000**	**12.5%**	**+3204**	**5'920**	**47.36**	
Total		**275'000**	**745'000**		**+7'163**	**16'612**	**22.30**	

Figure 7: Example of an elea Philanthropic Investment Performance Report (PIPR)

elea Professional Development Program (ePDP)

Finally, our ePDP is the element through which we develop and apply elea's professional capacity and expertise. When elea was founded, the fundamental decision was made to employ a team of professionals rather than rely on a group of volunteers. This was based on the belief that true entrepreneurial value and impact are achieved when capital is combined with professional skills. Consequently, elea's structure and operations resemble more those of a professional investment organization than a traditional charitable foundation. During the recruiting process, we have repeatedly heard from candidates, investment professionals, and potential talents alike how elea's professional approach to impact measurement and management has sparked their interest. At the organizational level, the eROI creates transparency about our effectiveness and efficiency in creating impact, which helps to reveal where the team needs to improve, both individually and at the organizational level.

Limitations of the eIMM and lessons learned

The systematic use of the eIMM has clearly enhanced the rationality, effectiveness, and professionalism of elea's investment decision-making process and contributed to elea achieving significant impact since inception. For example, it has sharpened elea's focus on high-impact investment opportunities during sourcing and due diligence by facilitating meaningful comparisons between alternative proposals. It also enables a differentiated assessment of progress achieved post-investment, with regular discussions on all impact factors. Accumulated data from numerous investments over more than a decade has allowed elea to identify trends and establish benchmarks by venture type and theories of change. Finally, the eIMM has boosted elea's credibility in its regular communication with external philanthropic investors given that such a formalized (and externally audited) impact reporting is rare.

At the same time, we must also acknowledge that the eIMM has its limitations. It only works with a straightforward purpose and plausible theories of change, as it does not foresee a complicated analysis of the secondary and tertiary positive and negative consequences and side effects of an investment. It also does not replace human judgment but rather enhances it, thus limiting the levels of automation. Furthermore, as a proprietary tool, the eIMM lacks external benchmarking, which makes it challenging to compare the impact of ventures within elea's portfolio with those outside of the organization.

elea designed its own impact measurement methodology while keeping these limitations in mind. One important trade-off that had to be accepted was the tension between comparability and specificity. The eIMM is purposefully designed to be a practical and effective tool, which involves a certain degree of simplification and generalization. It is simple enough to enable a lean implementation that does not require a disproportionate time investment from the team while being sophisticated enough to derive valuable insights. Hence, despite its limitations, the eIMM brings significant value. It enables elea to include qualitative factors in its impact assessment and minimizes the reporting burden for ventures, thereby allowing them to focus more on their core operations and impact delivery.

Conclusion

Since its inception in 2006, impact investing has grown rapidly in size, diversity, and complexity. With diverse actors pursuing different impact goals, crucial sectors for social impact creation, such as agricultural solutions for smallholder farming and last-mile retail and services, are at risk of being gradually neglected by impact investors. Due to the limited data available on the financial performance, exits, and additionality of impact investing funds, we only have a partial picture of the sector's value added. While systematic impact measurement can play an important role in this regard, impact measurement methodologies have proliferated, making it difficult to distinguish which approach makes sense, in what context, and for whom. Altogether, these challenges put the sector's effectiveness, transparency, and credibility at risk.

To overcome these challenges, this white paper presents a comprehensive framework for classifying impact capital deployment models, considering both their financial and impact objectives. The framework not only identifies the specific hurdles associated with each approach but also offers examples of pertinent impact measurement methodologies that are tailored to their distinct scopes and purposes. Our nuanced classification underscores the dynamic nature of the boundaries between philanthropy and finance-first investing. Differentiating between scopes of impact, it also emphasizes the significance of one's positioning within the impact capital deployment landscape when selecting appropriate impact measurement methodologies.

Finally, building on our ten-year experience with the elea Impact Measurement Methodology (eIMM), we demonstrated how well-calibrated impact measurement methodologies can meaningfully contribute to an impact investor's purpose. Leveraging concrete examples from our investment work, we showed how the eIMM helped us to establish a common language to discuss and communicate elea's impact within our team, with entrepreneurs, as well as with our investors and partners. Applied consistently at every step of our investment process, we notably showcased how the eIMM allows us to strike a balance between impact depth and impact scale. While the eIMM is not without limitations, we showed how it enhances the rationality, effectiveness, and professionalism of our decision-making process, thereby playing a key role in our fight against absolute poverty.

Based on our insights gained, we offer the following recommendations for other impact investors:

- **Impact measurement should be linked with the purpose of investors:** Clearly defining the impact goals and choosing an impact measurement methodology that mirrors the purpose of an investor is key for making more informed decisions, i.e., to allocate capital and value creation efforts to those ventures and initiatives that contribute most to the purpose.

- **Impact measurement and management should be integrated:** Many impact measurement methodologies are primarily used for reporting. While reporting serves important purposes, like enhancing sector-level transparency, it is not sufficient for maximizing the impact given an investor's financial return expectations. Thus, impact should be actively managed and constitute a central element of the normative, strategic, and operational decision-making of impact investors.

- **Standardized and customized methods complement each other:** Standardization in impact measurement brings the benefits of consistency and comparability at the expense of relevance in capturing context-specific outcomes. We advocate that impact investors should apply both standardized and customized methods. elea's eIMM is highly customized whereas we also adhere to OPIM, a global standard for managing investments for impact.

- **Well-calibrated impact measurement methodologies are needed to establish philanthropic impact investing within the impact investing sector:** Investing in companies that serve the poor in high-risk contexts requires patient capital. While some impact funds may indeed achieve attractive returns in addition to social impact, our experience at elea, along with insights from other investors, suggests that in many instances, regions, and sectors, there exists a trade-off to a certain degree. Therefore, we believe that individuals, corporates, foundations, and other actors who wish to take an entrepreneurial approach in their philanthropic efforts (i.e., by engaging in philanthropic impact investing) have an important role to play. Well-designed and consistently applied impact measurement methodologies are important for establishing this area of impact investing, as they prevent investors from diverting their focus away from challenging sectors and contexts where impactful change is needed.

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About elea Foundation for Ethics in Globalization

Established in 2006 and based in Zurich, elea Foundation for Ethics in Globalization fights absolute poverty with entrepreneurial means. elea invests philanthropic capital in and provides strategic support to entrepreneurially led ventures that create lasting social impact by giving people living in absolute poverty access to employment, markets, and value chains. Across Africa, Asia, and Latin America, we collaborate with impact ventures that have innovative, economically viable models which catalyze change in their ecosystems and eventually attract further capital. Our investments are centered around agricultural value chains, last-mile retail and services, employable skills, and climate and livelihoods.

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