Measuring What Matters.

An Introduction to the Global Impact Measurement Movement.

"Our aim is to join the race against time to support our collective vision of a future that is vibrant, prosperous and sustainable for everyone. What we know so far is that our frames of reference, our processes for making decisions, and our ability to assess the impact of those decisions will need to change."

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Part 01

What is Impact?

Impact is effect. No individual, group, business or species exists in a vacuum. Every aspect of our world exists in a complex network of cause and effect, from a cellular to global scale.

Measuring What Matters

Measuring What Matters is part of a global effort to create positive impact for the world by shifting the existing business paradigm to create better social and environmental returns alongside economic benefits. Today there is increasing appetite to create a world where inequality is shrinking, where natural resources are regenerated, and people can benefit from shared prosperity.

The Lever Room is collaborating with international and local experts in the field of impact measurement to incubate an initiative to develop a toolkit capable of measuring the full systems-level impact of any company, organisation or group.

While many companies and organisations do measure the impact of their initiatives, the results of self-evaluation are often selective.

No matter how well intentioned, there is such a wide variation between what organisations choose to measure, and between the systems of measurement themselves, that none currently give us the full picture. Without a standardised and holistic system of measurement, we have limited ways to understand meaningful progress.

Through the Measuring What Matters initiative, the Lever Room is proposing to, in partnership with others, co-create tools that will support investors, companies, governments, non-profits and indigenous groups to do that. Only by measuring and evaluating the impact we have on the world can we mobilise the resources to target the biggest challenges of our time, including climate change, social inequity and economic instability.

What is Impact?

Impact is effect. No individual, group, business or species exists in a vacuum. Every aspect of our world exists in a complex network of cause and effect, from a cellular to global scale.

"In its simplest terms, impact is the measure of an action's benefit to people and the planet. It goes beyond minimising harmful outcomes to actively creating good ones by creating positive impact. It has social and environmental dimensions." — Sir Ronald Cohen.

Over the last two decades, the concept and importance of impact and sustainability has become commonplace for many people. We consider our carbon footprint. We recycle when possible, or choose not to buy single-use plastics. We support brands that claim to be creating positive impact over those that don't, and make contributions to organisations that work to reduce negative social or environmental impact.

Many companies already acknowledge this, and are embracing responsibility for the social and environmental impact their own operations have. Purpose-led businesses like outdoor clothing company Patagonia and food giant Danone are becoming leaders in their field, driven by a mission to achieve something more significant than constant growth and return. Organisations like B Corporation provide independently verified certification for other companies that seek to do the same.

For purpose-led businesses, the focus has moved from simply delivering financial returns to their shareholders, to managing the impact they exert on stakeholders — that is, the employees, suppliers, communities, and natural resources whose destiny is often shaped by the choices of a large company.

For a food company like Danone, which owns many marquee brands, this could cover an ongoing commitment to the agricultural communities that supply its raw ingredients, investing in their transition to regenerative farming practices that sequester carbon and improve the quality of both the land and the food it produces, and supporting its social health in a way that allows the community to thrive sustainably.

For example, one such grant programme allocates paid scholarships that allow the children of farmers to attend agricultural college, as part of an effort to keep family farms intact as a bulwark against the monopoly of factory farming.

Many of these mainstream companies (and investors) are rallying around the 17 Sustainable Development Goals (SDGs) laid out by the United Nations, which range from ending global poverty, achieving gender equality, climate action, affordable clean energy and responsible consumption and production, to decent work and economic growth, and industry, innovation and infrastructure[ii].

In the words of Jochen Zeitz, co-founder of global movement The B Team they are pursuing the idea of "business as a force for good."

What these initiatives including The B Team and Imperative 21 represent are the beginnings of a new, impact-focused economic system that aligns the interests of business, investors and entrepreneurs with those of government, non-profit organisations, philanthropists and impact enterprises, driving them to work together to improve lives and the environment. An impact economy is one that meets the needs of all within the means of the planet[1].

In his most recent book Impact: Reshaping Capitalism to Drive Real Change, Cohen lays out the ways in which "the impact revolution" could be as profound a change for the world as the industrial and technological revolutions. It is the path that each of these organisations can take together to ensure the long-term sustainability and wellbeing of our societies and the environment.

1 https://www.theleverroom.com/news/impacteconomyecosystem

Towards an Impact Economy: the Evolution of Capitalism

Over the last 200 years, the globalised model of capitalism in its current form has been responsible for driving prosperity and lifting billions of people out of poverty.

However, it is no longer fulfilling its purpose to deliver widespread economic improvement and social progress. Rather than creating a positive impact on the world, it has atrophied into an economic system that, in the words of Pope Francis, "excludes and discards".

Our current economic system generates negative impact and relies on government and philanthropy to solve the problems it creates.

Cohen writes in his foreword to Impact: "Inequality is surging in both developed and developing countries. Social tensions are rising, and those who have been left behind feel they will be permanently stuck there. The existing system feels unfair to them, so they rebel against it.

"Simultaneously, environmental challenges threaten quality of life on the planet, and perhaps its very existence. Governments do not have the means to cope with human-made social and environmental problems, nor can they afford to develop innovative approaches to tackling them, a process that requires risky investment, experimentation and sometimes failure.

"The governments in the OECD are already spending $10 trillion a year on health and education, double what was spent 60 years ago. They are constrained by budgets and feel unable to spend more, but it's still not enough.

"Philanthropy can only do so much. Globally, philanthropic foundations contribute $150 billion a year, but this is still a tiny figure relative to government spending.

"We cannot persist with a system that does not actively seek to make a positive impact, while at the same time it creates negative consequences that governments have to spend a fortune trying to redress. We must transform our economies so that they generate solutions rather than problems."

Business coalitions such as The B Team co-founded by Sir Richard Branson and Jochen Zeitz have stated that for business to succeed in the long-term, it's time to change what success means. How we measure success currently guides decision making.

Measuring Impact

In the proposed new economic model, the social and environmental benefits of decision-making become central to thinking rather than an afterthought.

However, to actually channel this into tangible social and environmental improvements, we clearly need to be able to measure impact dependably[iii]. This begs the obvious question: How do you measure impact?

With thousands of potential impacts to measure, from the costs to society created by the recidivism rates of formerly incarcerated people or a lack of education for girls in developing countries, to environmental impacts such as carbon emissions, water security or global deforestation, it is difficult to know where to start.

To create a prosperous and sustainable future, we need to more clearly match how and what we measure to align with our values. This means our ways of measuring success need to support our collective vision of shared wellbeing on a healthy planet.

So what does measuring impact look like? The short answer is that a standardised system for measuring impact and comparing results across sectors, industries and companies is still in development.

While it is true that some companies do measure the impact of their purpose-led or "green" initiatives (and that most of them are entirely well meaning), there is still no independent system of measurement that takes into account the full range of potential impacts, in meaningful ways.

As a result, the tendency is to simply measure operational efficiency as opposed to real world impact. One company may measure positively for carbon neutrality while the working conditions of its employees exist in a corporate blind spot, contributing to negative social impacts.

Overall, companies tend to measure the good that they do while ignoring the bad, giving rise to the term "impact washing". Like the greenwashing that has taken place over the years since environmental sustainability became a key consumer motivator, it is too easily co-opted as a marketing tool — as opposed to taking a long, hard and potentially unflattering look at the impact of a company's behaviour, and comparing it to universal approaches that will allow it to commit to make changes for the better.

To be able to do this, we need to see the whole picture.

How Risk Measurement Changed the World: an Analogy

Taken as a grand concept, the idea of measuring impact can seem so vast and complex as to be completely impossible. However, there is a precedent.

Cohen draws a direct line between impact measurement and risk measurement, which transformed the financial world and the investment market in the second half of the 20th century, and went on to reshape the global economy.

Until the 20th century, the concept of measuring risk was foreign to most people. Business owners and investors only measured how much money they stood to make when allocating and investing capital. Measuring the likelihood of adverse outcomes that could cost investors money sounded nebulous, and was generally considered impossible.

But when the academic community found ways to standardise measurement across all forms of investment, balancing risk with return became a standard part of any financial operation.

This is where it gets interesting. It turned out that measuring risk wasn't just good for investors. Measurement became the fulcrum that allowed a profound change to occur that rapidly reshaped both the economy and the world.

When investment portfolios were diversified to balance risk and return, a wider spread of investments that covered both safe and steady low-return ventures and fledgling companies with high-growth potential, led to the funding of untested ideas and new types of products.

This, in turn, paved the way for the development of venture capitalism in the 1970s and 80s. This updated approach to investing effectively financed the tech revolution, forming a symbiotic relationship with Silicon Valley and ensuring risky new ventures like Apple and Google had the financial backing to innovate, experiment and scale.

Forty years on, the digital revolution has completely transformed our world in the same way that 19th century life was transformed by the industrial revolution.


YOGHURT
STORE

Part 02

How is Impact Measured?

Technology and data have combined with longstanding efforts by many individuals and organizations to make the measurement and valuation of corporate impact a reality.

Existing Examples of Impact Measurement: Public Sector

Some governments already measure impact; they are also the only entities with the power to require businesses and investors to measure and report on the impact of their activities using uniform metrics.

Social Impact Bonds

Several governments already operate "social impact bonds" (UK), also known as "pay for success" in the United States, SBBs (social benefit bond) in Australia, and a social impact contract in France.

The world's first Social Impact Bond "The Peterborough SIB" as it was called, successfully tackled the reoffending rate of young male prisoners released from Peterborough jail in the UK, for the first time linking improvements in social and environmental outcomes to financial returns.

The SIB set targets to lower the recidivism rate, measuring the success of the programme in terms of savings to the public — not only the costs of crime itself, but the annual cost the state pays to keep a prisoner in prison, and the loss in each man's tax and economic footprint.

SIBS are not bonds in the traditional sense, but an outcome-based contract for services between an "outcome payer" and a delivery organisation to achieve social or environmental outcomes.

An investor then provides the funding to deliver the services. If the results do not meet the targets laid out in the contract the investor loses their money, having effectively made a philanthropic donation. If the targets are met, however, the investor receives their investment back with a return that rises with the extent of the outcomes achieved.

At the time of writing, 192 SIBS and DIBS (development impact bonds — SIBS that address challenges in developing countries) were tackling social problems in 32 different countries.

The Unit Cost Database

To frame this in a more accessible way, the UK government published a Unit Cost Database in 2014, which lists the estimated cost to the country of more than 600 issues, ranging from crime and unemployment to homelessness.

Some governments, including Portugal's, have followed the UK, and independent efforts are also being made to quantify the cost of social issues globally. One of these is the Global Value Exchange, a crowd-sourced database of more than 3,000 impact-measurement metrics that offers valuations in a similar way to the Unit Cost Database.

For example, you can find out the cost of a homeless person who is out of work in the UK, based on the benefits payments they receive, their lost income tax and national insurance payments, and their lost economic output.

Existing Examples of Impact Measurement: Business

The era of impact transparency has begun, and it is moving the goal posts for businesses and investors. Technology and data have combined with longstanding efforts by many individuals and organizations to make the measurement and valuation of corporate impact a reality.

As discussed in the recent paper 'Measuring Purpose – An Integrated Framework' the last few years have witnessed a rapid growth of interest and concern about the purpose of business, how it relates to its shareholders and stakeholders, the boundaries of the firm, the resources that are required to manage firm activities, and the impacts firms have on other parties.

This has prompted numerous initiatives to identify data and measurement systems that allow companies to align their practices with their purposes, establish their dependence, exposure and impact on their shareholders and stakeholders, and evaluate the overall effects of their activities. The problem that has arisen has been not so much a shortage but, if anything, an overabundance of initiatives that are often confusing to interpret, costly for firms to implement, and inconsistent in their assessments.

Some useful progress is being made — notably by B Lab. Founded in 2006, the non-profit is dedicated to "using business as a force for good" and has created the Global Impact Investment Rating System (GIIRS) to measure the impact of all stakeholders, including workers, customers and communities.

There are also others, such as the Global Impact Investing Network (GIIN), which provides a catalogue of standardised performance metrics for businesses that receive impact investment capital.

In November 2021, the formation of a new International Sustainability Standards Board (ISSB) was announced to develop disclosure standards. This announcement follows commitments to consolidate efforts including between The Sustainability Accounting Standards Board that guides the disclosure of financially material sustainability information by companies to their investors and the Climate Disclosure Standards Board.

There is also the Global Reporting Initiative's Sustainability Reporting Standards, the World Benchmarking Alliance, and the World Economic Forum's International Business Council, which assess companies' performance in relation to the Sustainable Development Goals.

However, these are only first steps towards a standardised and holistic system of impact measurement.

Impact-Weighted Accounting

One of the most prominent and recent efforts to advance the field of impact measurement is the Impact-Weighted Accounts Initiative, or IWAI.

It is a joint initiative by The Global Steering Group for Impact Investment, which has been driving the impact movement across the world; Harvard Business School, and the Impact Management Project, a group made up of 2,000 practitioners.

It brings together academics and figures from the worlds of business, investment and accounting. They have formulated a different approach that involves integrating the impact a company creates into its regular financial accounts, with the goal of creating a framework through which the impact created by the company directly affects its value.

Put simply, in this type of model, impact is given a financial weighting. Although some might find the concept of assigning a monetary value to issues like environmental damage or human rights distasteful, it is also a straightforward method of placing social and environmental outcomes alongside profit. It takes the usual hierarchy in which profit is king, and replaces it with a democracy in which impact and profit are equals.

The IWAI, which is being incubated at Harvard Business School, is important because it builds upon the work in impact measurement that has been done to date.

The initiative believes that assigning monetary value to social and environmental impacts created by businesses will push investment portfolio theory up to the next level, and allow investors to optimise risk-return-impact in the same way that they already optimise risk and return.

Impact-weighted accounts will apply impact coefficients to the various lines of a company's profit and loss statement — sales, employment costs, cost of goods sold, etc. — to arrive at an impact-weighted profit line that reflects the impact the company has on the environment, on the people it directly employs and within its supply chain, and on its consumers. It will similarly apply weighting to the assets that appear on the company's balance sheet.

These "impact coefficients" would be laid out by an impact accounting board similar to the ones we already have for financial accounting. It would establish "generally accepted impact principles" (GAIP) that sit alongside the "generally accepted accounting principles" (GAAP) we already use in accounting.

This will make it possible for companies to publish impact-weighted accounts in the same form as their financial ones, allowing impact and profit to be judged in the same way, and fostering rigorous comparison between companies: that long, hard and potentially unflattering look discussed earlier.

Case Study: Pepsi v Coke

The IWAI's sample currently contains over 3,500 companies. Calculating the monetary estimates of the environmental impacts of these companies with the data they have made public has provided valuable insights.

For example, PepsiCo and Coca-Cola are old corporate rivals, but they display a dramatically different environmental footprint.

In 2018, PepsiCo's sales ($64.7 billion) were twice that of Coca-Cola ($31.8 billion), but PepsiCo's annual environmental cost was $1.8 billion, much less than Coca-Cola's $3.7 billion.

This striking difference in environmental efficiency can be attributed mainly to differing behaviour around water usage. Coca-Cola withdrew about three and a half times more water than PepsiCo in 2018 yet discharged much less, resulting in total water use of about five times the volume of PepsiCo.

Despite the fact it generated half of PepsiCo's revenue in 2018, its impact through water use alone resulted in an environmental cost of $2 billion, whereas the environmental cost of PepsiCo's water use was around $408 million.

This is the kind of measurement that can shed light on the true performance of companies. Measuring operational impact in this way is useful because it reveals insights into each company's true performance for potential investors.

Part 03

What is Impact Investment?

Impact investment is about creating a chain reaction that results in systems-level change.

Generate Positive Solutions

We are moving to a world in which different groups of 'stakeholders' — entrepreneurs, investors, private companies, philanthropic/ non-profit organisations, indigenous entities and governments — are starting to align their vast resources to focus on collective goals. This collective approach has given rise to the new fields of strategic philanthropy and impact investment, which is about creating a chain reaction that results in systems-level change. Though still in its nascent stages, some of this is already taking place.

1. Impact Entrepreneurship

A growing number of ambitious young companies are leading the way by inventing new businesses that serve customers better, improve lives and help regenerate our planet.

The profit-with-purpose model of impact ventures is increasingly a sensible business decision as well as a moral one. Socially and environmentally conscious companies also avoid the risk of punitive taxes governments will likely impose in the near future, like carbon tax. And, both employees and investors are increasingly shunning harmful companies and embracing those that make a positive difference.

As well as trailblazers like Patagonia, Puma and Unilever, a broad range of these companies already exists, in areas from technology and healthcare to agriculture and consumer goods.

What they demonstrate is that there is no trade-off between social and financial returns: they are thriving not in spite of their impact but because of it.


R.H.NATHAN
TIFFANY & CO.
CHANEL

2. Impact Investment

The role of investors promises to be a crucial one to both creating impact, and to measuring it. For impact investment to achieve what it sets out to do, it needs to have measurable, tangible impacts — investors need to be sure that good intentions translate to real results.

There has been a global shift in how investors regard the companies in which they invest. More and more people want assurance that they are putting their money into companies that are actively creating positive impact.

It has become a priority in their decision-making, and they are channelling capital into these businesses at a rapidly accelerating pace.

ESG versus Impact Investment

Environmental Sustainable Governance or ESG Investing, in which investments are screened for negative impact (generally tobacco and coal companies, or ones that use child labour) grew by 50 per cent in two years and now represent at least a third of all professionally managed assets.

Aside from alignment with the SDGs, to date a large portion of the effort in the impact measurement field has been focused on the risks of enterprises, 'ESG' or environmental, social and corporate governance risk' being one example of this. ESG data has important limitations. It focuses on the how, not the what. By 'how', we mean that companies conduct their business in a long-term, responsible way, with regard to all stakeholders. By 'what', we mean that companies produce goods and services aligned with the society and environment we want.

ESG is anchored to past performance rather than forward-looking. Yet, we know that many sectors need to undergo a profound transition in the coming years to achieve sustainability. A waste management firm might be doing well on recycling rates, but how will it fare if consumers and policymakers get serious about a zero waste, circular economy? A food producer might be improving its environmental footprint, but is it ready for a switch to healthier diets?

While ESG risk concerns are now becoming increasingly recognised, stakeholders agree on the need to change three key issues:

- **a.** The complexity and burden of ESG reporting.
- **b.** Incomparability of company ESG data. Depending on which rating agency you consult, Tesla is either a very ethical or a very unethical company. Tesla is not an isolated case. That's not ideal.
- **c.** Poor understanding of and interaction between ESG ratings agencies. Most ESG data providers treat their methodologies as proprietary information. As a result those relying on a particular ESG score are "taking on the perspectives" of the data provider without properly understanding how they arrived at those conclusions.

Impact Investment: the Next Step

Impact investment takes ESG a step further, by intentionally investing in creating positive impact rather than just avoiding negative impact.

Secondly, it insists on measuring the impact it creates — in the same way that the investors of the 20th century came to the realisation that it was both necessary and possible to measure risk.

The more information that is available to investors about a company's true performance (risk + return + impact), the better they can tailor investment portfolios to deliver measurable social and environmental impact alongside financial return.

The Main Players

The two largest investors in the impact investment field are pension funds and asset management funds. These mainstream investors are rallying around the UN's Sustainable Development Goals, which require an estimated figure of $30 trillion in financing to achieve by their deadline of 2030.

The huge financial resources of the private sector are necessary to reach this number, because it cannot be supplied by government and philanthropy alone.

Pension funds

In this landscape, the actions of pension fund managers have an outsized impact. These funds hold around 20 per cent of the world's total investment assets. Being designed for long-term commitment rather than rapid return, they are ideally placed to support the steady, committed investment and longer timelines that social and environmental change requires.

These managers are already experiencing a demand from pension savers to invest in companies that reflect their values, and are beginning to reshape their portfolios in response.

Holland is leading the way, having launched the Dutch SDG Investing Agenda in 2016. It represents $3 trillion worth of assets, including some of the leading pension funds in the Netherlands. Pension funds representing the engineering and civil service sector have followed suit.

Other major pension funds in the UK, the EU, and Norway and Denmark, are shifting their assets into "climate aware" investment strategies (e.g., renewable energy companies rather than those with high carbon emissions) in response to demand.

In the UK, HSBC bank has made a climate-tilted fund the standard option for its younger investors, 60 per cent of whom are under 40.

While USA is lagging behind, some large and influential retirement funds in California for public employees (CalPERS) and state teachers (CalSTRS) are using their institutional power to push corporations to change their behaviour and do the right thing.

Asset Management Firms

The concept of risk-return-impact is rapidly becoming "the new normal" for big-name asset management firms, which are introducing new products that respond to their clients' demand for investment that is beneficial to society and the planet while delivering financial returns.

UBS, the world's largest private wealth manager ($2.7 trillion in assets) has stated publicly that sustainability is the cornerstone of its business, and has set a goal of raising $5 billion in impact investing to advance the SDGs.

It has already raised $325 million for the Rise Fund, the TPG-managed impact investment fund co-founded by U2 lead singer Bono, who has become an advocate for the use of impact investment to achieve social progress.

UBS also created Align17, a digital marketplace for impact investment opportunities, to counter the lack of information that can prevent private investors from taking the plunge into impact investing.

3. Impact-Driven Business

There are already many initiatives in place to create new norms of corporate leadership, some of which we discussed earlier.

There are a number of coalitions looking to move forward the agenda including The B Team, the We Mean Business Coalition, the Business Roundtable in the USA, and Business for Inclusive Growth in the EU.

These changes reflect the massive shift in consumer and investor behaviour. Businesses are realising that they need to deliver positive impact if they want to survive. Not only that, but it will give them a competitive advantage in an era of radical visibility. Businesses that lack integrity run the risk of losing customers, investors and talented employees.

A recent study by Unilever found that a third of consumers buy products from brands they believe are doing social and environmental good[iv], and many other surveys have found the same trend.

In addition, this age of corporate transparency and social media allows consumers to align their purchases with their values as never before: for example, the Buycott app lets people “vote with their wallet” and scan any product barcode for information about the company that produces it.

Integrating impact is already proving to be hugely beneficial for businesses.

For example, Unilever’s “Sustainable Living” brands, which include Knorr, Dove and Lipton, are growing 50 per cent faster than its other brands, and delivering 60 per cent of the company’s growth.

Shared and Blended Value

Shared Value is a model for business that is quickly replacing the former philanthropic or CSR (corporate social responsibility) model. Rather than simply "giving back" or minimising the harm business has on society, shared value focuses company leaders on maximising the competitive value of solving social problems.

As a result companies are finding new opportunities to solve social problems by developing business models that have impact at their core.

Blended Value refers to an emerging conceptual framework in which non-profit organizations, businesses, and investments are evaluated based on their ability to generate a blend of financial, social, and environmental value.

Cohen takes a close look at Danone and IKEA, which are endeavouring to integrate impact across their entire companies; and Chobani and Adidas, which strive to deliver impact through a specific aspect of their business.

Impact-Weighted Accounting

In order for investors and consumers to make intelligent choices, there are existing efforts to measure all of the impacts a company creates, put a value on them and reflect this value through their financial accounts.

While until now the prevailing view is that impact cannot be measured reliably, it does not require 100 per cent accuracy. Risk thinking did not require 100 per cent accuracy either — it only required dependable accuracy. And, it is already happening.

Once impact weighted accounts become the norm, there will be plenty of scope to refine impact accounting systems in precisely the same way that financial accounting systems have been refined. This will require framing and implementing Generally Accepted Impact Principles (GAIP) alongside the Generally Accepted Accounting Principles (GAAP) that have themselves taken nearly a century to refine.

Cohen draws a correlation between this transition and the events following the Wall Street Crash of 1929. At the time, each company picked its own accounting firm and accounting policies, and there were no auditors. Some business leaders argued that the introduction of the proposed US Securities Exchange Commission, generally accepted accounting principles and auditors would be the death knell of American capitalism.

"Looking back, we now wonder how previous generations were able to invest for so long without any dependable information about the profitability of companies. The same will one day be true of impact-weighted accounts," says Cohen.

4. Impact Philanthropy

Measurement is also the key to unlocking the full potential of philanthropy. Globally there is increased scrutiny of philanthropy and grantmaking in terms of how it made its money, how it gives it away and who to. Private philanthropy is not accountable to anyone, and there is increased commentary around the importance of community accountability.

Philanthropy has unwittingly kept most non-profits small. The lack of a common system for measuring impact has affected the way in which money has traditionally been given away.

The traditional philanthropic model revolves around gifts and grants. Most foundations feel that the best way to help the disadvantaged is through charity — i.e., giving out grants to fund activities, without measuring the outcomes they create.

However, this has produced unhelpful habits, even as charitable foundations founded by wealthy families have grown and become institutionalised.

Because they rely on qualitative reporting about the outcomes achieved by the grants, many try to spread their money as widely as possible, making small grants for relatively short periods, before moving on to help another organisation.

"If you don't know what you're accomplishing with your money, it's hard to have the conviction to fund a single organisation for a long time."

In the absence of impact measurement, most foundations require their grantees to spend as little as possible on overheads, to ensure as much as possible goes to those in need.

As a result the vast majority of non-profit organisations have remained small and cash-strapped. Struggling organisations can't afford to take risks or be innovative, and are unable to engage in long-term thinking about their growth and performance.

A New Philanthropic Model

Today there is increasing acknowledgement that we need to make careful decisions on where our money goes, its outputs and the outcomes including real world impact it generates. We've become more sophisticated in terms of our thinking around systems change and what makes a difference. Philanthropic funders are increasingly using capital for evidence based impact investment and this trend is also expected to grow.

Social impact bonds, which bring together investors, outcome payers and service providers, are one example of a more effective model for philanthropy and the non-profit organisations it funds.

It is an effective addition to grants because when philanthropists play the role of investor, it pays them back and provides more money for future grant-making. Secondly, when they play the role of outcome-payer, it ties their philanthropic funding to paying for targeted outcomes once they have been achieved — and this generates focus and dynamism among delivery organisations in achieving the desired outcomes.

Following on the from the success of social impact bonds in the UK, the market for SIBs and Development Impact Bonds (DIBs) has attracted more than $400 million in investment, and more than a billion in commitments to pay for successful social outcomes involving children, youth, employment, social welfare, criminal justice, education and healthcare.

"SIBs show that they can deliver a better execution and expansion of social services," says Cohen. "They are also providing something which many have long believed: prevention is better than cure."

The UK is the major centre for SIB innovation, but it is now spreading across the world. The USA is a major hub of activity, with 25 active SIBs; there are 11 in the Netherlands, 10 in Australia, six in France, five in Canada, and a smattering in Japan, Israel, India, Germany, Belgium, Finland, New Zealand and South Korea, and a host of other countries.

As a result, large investors are becoming aware of the programme's potential.

Development Impact Bonds (DIBs)

In the original SIB model, private investors put up the cash and governments pay them for success. However, in most developing countries, governments lack the money to pay.

This led to the development of development impact bonds. Foundations and aid organisations step in to pay for outcomes, alongside the governments of these emerging markets.

Achieving the SDGs by 2030 requires us to find $30 trillion. Traditional philanthropic models cannot supply that. DIBs can plug the SGD funding gap by attracting philanthropy and aid to pay for the outcomes achieved, and to provide investment for the delivery organisations that will achieve them. This creates a similar dynamic to a successful one that exists between venture capitalists and entrepreneurs.

The first DIB, Educate Girls, was put together by Instiglio, the Colombia-founded impact finance advisor, and launched in India in 2015. In Rajasthan, where it was based, forty per cent of girls drop out of school before the age of ten, due to parental and cultural pressure. Only 55 per cent of schools even have washrooms for girls.

It was an outstanding success. It not only encouraged enrolment but intervened by providing remedial education, and working with families as well as teachers.

Its social impact went far beyond its target of 79 per cent student enrolment, to achieve 92 per cent enrolment and 160 per cent of its original learning targets. Financially, the success translated to success for the investor. UBS recouped its initial funding of $270,000 from the outcome payer, the Children's Investment Fund Foundation — plus $144,085 (a 15 per cent annual return) that will be channelled back into further programmes.

There are now a dozen DIBs in operation, including the first humanitarian one — the $25 million International Committee of the Red Cross Programme for Humanitarian Impact Investment. There are many more in development. The Red Cross is seeking to use SIBs and DIBs to reduce its 80 per cent dependency on government grants.

Scaling up for Systems-Level Change

SIBs and DIBs are generally smaller in scale. Outcome Funds are the vehicle that could take them to the scale required to create systemic change for the world.

Outcome Funds are professionally managed vehicles that sign outcome-based contracts with social delivery organisations. Their goal is to scale outcome-based contracts and reduce the time and cost it takes to put them in place.

Scaling up solutions to escalating problems is imperative: making systemic change is crucial if we really want to tackle social and environmental issues.

As money flows in to billion-dollar outcome funds, and they attract large SIB and DIB funds to invest opposite them, impact entrepreneurs leading delivery organisations will be able to raise the funding they need to implement their innovative approaches at scale, bringing systemic change — just as venture capital and tech entrepreneurs brought systemic change through the Tech Revolution.

The New School of Philanthropic Investment

A new type of foundation is emerging, often led by people who have already achieved success in technology and business. They focus on sustainable, long-term funding, rather than short-term gift-giving.

For example, the Omidyar Network, which was launched by eBay founder Pierre Omidyar and his wife Pamela. It is a hybrid model made up of a foundation and an impact investing firm, which makes grants and PRIs through the former and invest in purpose-driven business through the latter.

It brings philanthropy and the private sector together around the same mission — trying to create opportunity for people around the world.

Its non-profit grantees include Refugees International, a web-based platform that helps to reunite displaced people with missing family members, and d.light, which provides affordable solar-powered lights for poor communities in Africa, is a for-profit investee. Both sides work in harmony towards the foundation's mission.

The Omidyar Network is one of a rising number of foundations that aim to achieve systemic change on a global scale through the power of innovation and entrepreneurship — the hallmarks of the new model of impact philanthropy.

Other examples include the Ford, Rockefeller, MacArthur, Kresge and Hewlett Foundations in the USA; and similar organisations in Europe, the UK, Israel and India, all of which have supported the impact movement.

All of these foundations have an outcome-oriented approach to grant-making: instead of asking grantees to report on their activities, they look for ways to measure their results.

"Impact philanthropy is crystallising a moment of reckoning by affirming that we must focus on outcomes over activities, that we can measure outcomes, that we should use pay-for-outcomes in grant-making, and that a foundation's endowment should help achieve its philanthropic mission."[v] — From the 2019 Skoll World Forum, as reported by Forbes.

5. Impact Thinking for Government

"Governments have huge power to initiate change and direct progress. They realised that economic growth has not provided the solutions we hoped for — that our communities need more than just an increase in the standard of living."

Impact investment can help governments do their job better, particularly when it comes to tackling some of the urgent challenges confronting us, such as poverty, under-education, unemployment, an ageing population and environmental destruction. They are already working hard, but they have failed to find solutions — and they are not suited for risky investment, innovation and the occasional failure that comes with it.

Cohen outlines four ways in which impact thinking can positively disrupt and bring transformational forces to help governments solve bigger problems, faster:

1. Impact brings the measurement of social outcomes achieved by government spending, making governments more transparent, accountable and effective.
2. It harnesses private capital and entrepreneurship, in much the same way the Tech Revolution did, to stimulate innovation in tackling social and environmental issues. In doing so it unites investors, charitable organisations, business, philanthropists and governments in the drive to solve big problems.
3. It introduces pay-for-outcomes approaches to public service procurement, and attracts philanthropists to contribute through Outcome Funds, and private investors to provide the upfront money needed through SIB and DIB funds. Government money is then spent effectively, because it only pays for what has been achieved.
4. It can access public money that is not tax money, such as unclaimed assets in banks, insurance companies and investments funds, to develop a strong sector of impact investment managers.

Shifting the mindset of government procurement will create a thriving 'outcomes market' says Cohen. The best chance of finding solutions for government is to encourage the development of impact investment in all its forms, pay-for-outcomes models and impact measurement by companies and investors.

Cohen identifies nine steps governments can take to harness the impact revolution to problem solve and effect change at a systems level:

1. Require companies to measure their impact.
2. Appoint a cabinet-level minister to lead impact policy.
3. Publish the cost of social issues.
4. Shift government focus from inputs to outcomes.
5. Create central Outcome Funds to boost effective service delivery.
6. Integrate impact investment into international development aid.
7. Release unclaimed assets to establish "impact capital wholesalers".
8. Boost the supply of impact capital through changes in regulation and tax incentives.
9. Boost the demand for impact investment from charitable organisations and purpose-driven businesses.

Part 04

Why is Measuring What Matters Important?

If we have the ability to measure what truly 'matters,' it follows that we can then collectively mobilise support to where it's needed most.

Seeing the Whole Picture

As the concept of impact is increasingly accepted, a universal method of consistently evaluating, measuring and comparing data is clearly needed, and is already becoming a cornerstone of the impact movement.

Along with our many other colleagues around the globe, we believe developing the ability to measure system-level impact holds exactly the same potential as measuring and evaluating risk did for the business and technology world last century.

Measurement is the fulcrum that will support a rapidly evolving new model for the global economy that serves people and the planet better, both now and in the future. That is where the Measuring What Matters project comes in.

Measurement for Systems-Level Change

Measuring What Matters is an initiative born out of the acknowledgement that how and what we measure needs to align with our values.

If we have the ability to measure what truly ‘matters,’ it follows that we can then collectively mobilise support to where it’s needed most. Measuring What Matters (MWM) allows us to tilt the table in the direction of achieving meaningful wellbeing outcomes.

MWM will build on, advance, and connect dots around both existing and emerging approaches. We will create new frames of reference for impact measurement. To do this, we seek to understand how different parts of society describe “what matters” and reflect on how our decisions might be better if we redefined how we measure success.

In a nutshell, the current approaches to measuring impact are not working and are making it difficult to:

1. Combat greenwashing/impact washing and account for harm.
2. Highlight and compare the true transformative impact of companies.
3. Reward meaningful acceleration towards meeting the Sustainable Development Goals.

Measuring What Matters seeks to co-create new ways of measurement that:

1. Support us into the long-term.
2. Incorporate an understanding of planetary boundaries and the interrelationships between societies, nature, climate and culture.
3. Take a holistic-systems perspective to value.

Part 05

A Testbed for Measuring What Matters

Aotearoa New Zealand makes an ideal testbed to pilot and develop the Measuring What Matters initiative.

The Ideal Testbed

Aotearoa New Zealand makes an ideal testbed to pilot and develop the Measuring What Matters initiative for a number of reasons:

1. New Zealand's wellbeing approach already provides inspirational platform, supporting a vision of what is possible. A wellbeing lens approach to measurement will consider the needs of New Zealand's people and environment alongside the economy and build on the work that started in the 2019 Wellbeing Budget.

2. There is a natural fit between the culturally embedded principles that underpin the Māori worldview and what are considered contemporary Western concepts of sustainable investment and enterprise. Values such as kaitiakitanga (guardianship/sustainability), manaakitanga (generosity/care) and whanaungatanga (belonging) have therefore found increasing currency in New Zealand society and business.

   i. Te ao Māori, the Māori world view, has long recognised the interconnectedness of all things, and the need to address complex issues in a holistic way. Te ao Māori sits on a foundation of mātauranga Māori (Māori science/knowledge), which takes holistic view of the natural world, valuing deep community knowledge as well as more quantitative approaches. This holistic approach is multigenerational and seeks to understand and value the total system, not just parts of it. From a Māori perspective, everyone including the business community is viewed as belonging to one ecosystem. Encompassing the Māori world view will allow us to take a systems perspective to development and measurement.

3. In New Zealand, there is also a growing ecosystem of players looking to collectively advance the agenda of creating a prosperous, sustainable economy. In this modern economy we are increasingly rewarding activities that create value rather than extract it. Measurement is a key part of enabling this.

Hosted by The Lever Room, the Measuring What Matters project will pilot solutions with philanthropic, business and iwi Māori partners across the country. Our process will include demonstrations of potential solutions developed in collaboration with like-minded partners.

The first initiative to co-create solutions in 2022 will be the Edmund Hillary Fellowship. The Edmund Hillary Fellowship (EHF) is a Fellowship programme and community that provides exceptional entrepreneurs, investors and startup teams with a platform to incubate global impact ventures from Aotearoa New Zealand.

Our aim in doing this work to develop new tools and frameworks to be immediately utilised by partner organisations and when openly shared, will advance the global field of impact measurement for systems-level change.

We invite your support and partnership on ‘Measuring What Matters.’ Please direct further questions or suggestions to support@theleverroom.com or, rebecca@theleverroom.com

The Lever Room is a strategic consultancy based in Aotearoa New Zealand, with global expertise. Our evidence informed approach helps local and international clients focus on what matters most to deliver systems-level impact.

theleverroom.com

i Sir Ronald Cohen, Impact: Reshaping Capitalism to Drive Real Change, Impact Investing Sets the New Normal, Chapter 2, Pg. 85.
ii Sir Ronald Cohen, Impact: Reshaping Capitalism to Drive Real Change, Pg. 13.
iii Sir Ronald Cohen, Impact: Reshaping Capitalism to Drive Real Change, Pg. 109.
iv www.unilever.com
v Questioning Big Philanthropy at the Skoll World Forum, Forbes: https://www.forbes.com/sites/kerryadolan/2019/04/16/questioning-big-philanthropy-at-the-skoll-world-forum-is-it-too-powerful-and-out-of-touch/?sh=68318f896253

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