



NO DATA, NO DEAL? IMPACT MEASUREMENT AND CAPITAL FLOWS TO ACHIEVE CLIMATE- COMPATIBLE GROWTH

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"The views expressed in this material do not necessarily reflect the UK government's official policies."

Abstract

Impact measurement and management (IMM) is increasingly being adopted as a method to bring integrity and transparency to the impact investment industry, motivated by claims that ‘impact-washing’ is common amongst organisations adopting this emerging investment strategy. With limited literature to date addressing this phenomenon, this working paper asks how impact measurement is defining investor decision making, and what the implications of this are for the supply of impact capital, especially in emerging markets. Qualitative semi-structured interviews were undertaken with impact investors and impact intermediary organisations, revealing that approaches to impact measurement are driven by underlying investor motivations between different organisation types. A general trend towards increasing impact

measurement is clear, characterised by little cross-industry consistency and a slow movement towards increasing standardisation and sophistication of approaches. The core finding of this study is that the shift towards increasing IMM risks entrenching existing inequalities in access to capital. Investees in emerging markets need support in measuring and managing impact, with a dialogue between investors and investees being required to ensure that the goals and methods of IMM are co-defined towards optimal outcomes. Options to address these challenges through public policy are offered; and the case of Zambia’s Constituency Development Fund is explored as a prototypical example of how impact measurement could unlock investment towards a large group of climate-compatible growth projects and ventures.

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About

CCG

This material has been produced with support from the Climate Compatible Growth (CCG) programme, which is led out of the STEER centre, Loughborough University, and brings together a consortium of leading universities: the University of Oxford, University of Cambridge, University College London, Imperial College, Strathclyde University, and the Royal Institute of Technology (KTH), Sweden, Open University, as well the Climate Parliament organisation.

The programme works in partnership with governments, local researchers, development finance institutions, and other international organisations to identify appropriate low-carbon development pathways, with an initial focus on energy and transport. This includes assessing the most fit-for-purpose policy and market models and developing open-source tools and datasets that will be global public goods available to all countries.

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1 INTRODUCTION

Amongst a broad push to align financial markets with societal goals, impact investing has become one of the most rapidly growing investment strategies in the global financial system. With the total market comprising an estimated US\$ 1.1 trillion at the end of 2022 and forecast to grow at an annual rate of 18.6% to 2030 [1, 2], an increasing focus is being placed on the effectiveness of this investment strategy to meet its stated goals.

There is significant definitional uncertainty within the impact investing market, with a wide array of ‘impact investors’ taking very different approaches to impact generation [3]. This has led to concerns over ‘impact-washing’, and a number of high-profile recent studies have argued that impact investors frequently overstate the social outcomes their investments actually generate [4, 5].

In order to build integrity in the impact investment market, impact investors are increasingly beginning to explore and implement impact measurement and management (IMM) strategies. These strategies involve investees and investors setting impact metrics and publicly reporting on them. Mirroring the similar, but distinct, environmental, social, and governance (ESG) investing market, regulators are beginning to apply standards on impact investing which mandate IMM-related disclosures. The Financial Conduct Authority, for example, recently announced the UK’s first regulated impact ‘investment label’ [6], with investors expecting metric disclosure regulations to follow [7].

Despite this apparent practice shift, there has been little academic investigation of what impact measurement actually involves and how it is

defined by different types of investor. Notably, there has also been no work questioning the implications of IMM for capital flows towards impact-generating projects, despite concerns that impact measurement may burden those already struggling to meet investability requirements [8, 9]. The stated aims of the impact investment market involve generating social impacts in areas left behind by existing capital markets – there is a risk that impact measurement restricts capital for those who need it most, especially in emerging markets, undermining this aim.

This qualitative study looks to address the IMM evidence gap by investigating the following research questions:



“A number of high-profile recent studies have argued that impact investors frequently overstate the social outcomes their investments actually generate”

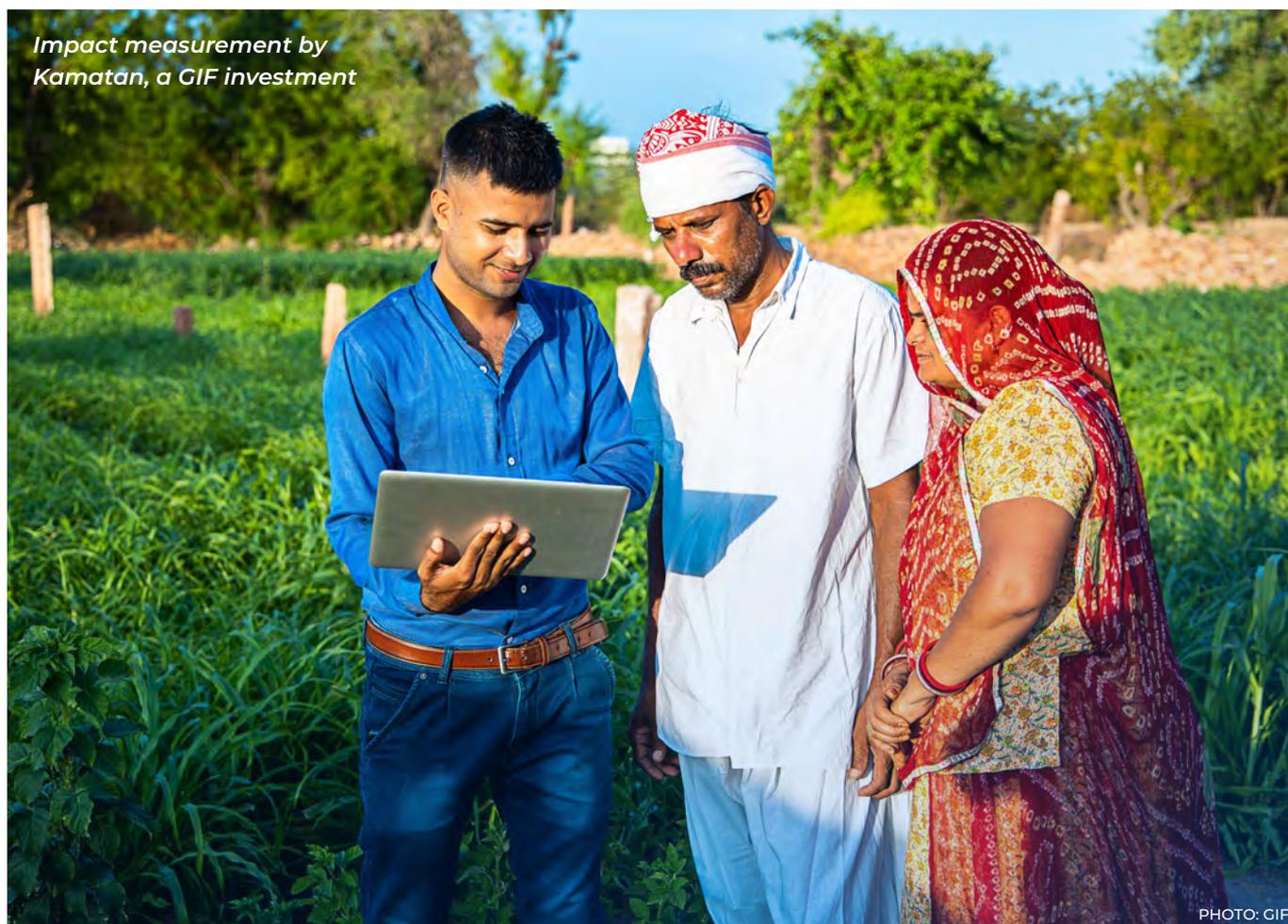
RQ1 – How does impact measurement define investor decision making currently?

RQ2 – What are the implications of this for the supply of impact capital, particularly in the case of emerging markets?

The structure of the report begins with a presentation of its methodological approach, before the current theory and practice of impact measurement and management is characterised. The perspectives of investors are presented through four key findings, and options are provided for policymakers to address the challenges identified. To situate these learnings in a concrete context, the findings are applied to the case study of Zambia’s Constituency Development Fund. The case study builds on a Climate Compatible Growth programme & Smith

School of Enterprise and Environment report on the potential of the Fund to mobilise climate finance into Zambia, published in June 2023 [10]. A conclusion reflects on the implications of this work and flags emerging opportunities for further research.

As well as feeding into the emerging academic and practical literature on impact measurement and being targeted at investors, this report is also intended to be of use to stakeholder partners in the Zambian Government as they look to generate a comprehensive monitoring and evaluation system for the Constituency Development Fund with the aim of attracting impact-driven investment. This reflects the objective of the Climate Compatible Growth programme to generate demand-led research.



2 APPROACHES AND METHODS

In order to answer the research questions on impact measurement practice and implications, the research team undertook a series of key stakeholder interviews and a targeted literature review. From this analysis, we present three outputs: 'Pioneer examples' of leading impact measurement approaches, findings from the investor interviews, and a case study situating these findings in the context of a real-world investment instrument.

Over a 4-month period in late 2023 and early 2024, semi-structured qualitative interviews were delivered with 12 impact investors and 8 intermediary organisations. In each interview the research team fielded views on impact measurement and financial decision making processes, the likely development of this field, and the implications of this for investees in emerging markets. Interviews took place online and in Lusaka, Zambia, with interviewees based across 8 countries. Investors were selected to represent a cross section of organisations from exclusion and engagement-based secondary investors, direct venture capital investors, venture philanthropy investors, and government-backed development innovation investors. Intermediaries included impact investment industry bodies, impact measurement organisations, investor impact initiatives, incubators supporting venture

business development, and financial advisory firms. Whilst most organisations chosen had a global scope, some focussed only on Zambia due to the research team's desire to situate the findings in an emerging market context. Zambia was chosen specifically due to the research team's prior engagement with Zambian decision makers who are interested in the modalities of impact investment, under the Climate Compatible Growth Programme. This report responds to this interest, but it may have a Southern African bias in its findings as a result.

A targeted literature review surveyed key academic and practice-based publications on impact investment over the past 20 years. Taking place during and after interviews were completed. From this analysis, three '**Pioneer Examples**' of advanced impact measurement and management approaches emerged, which were investigated in more detail. These were selected on the basis of how frequently they were independently cited in the literature and our interviews, and they are provided in order to illustrate in detail the complexity of impact measurement approaches.

After a presentation of **core findings** from our key stakeholder interviews and the **policy implications** of these findings, a **Case Study** of Zambia's Constituency Development Fund is provided in order to demonstrate the dynamics of impact measurement in a specific developing market public investment fund. This not only reveals the practical ramifications of the interview findings, but also responds to demand from Zambian stakeholders for decision-useful options for ensuring policy is aligned with current investor expectations.

“This responds to demand from Zambian stakeholders for decision-useful options for ensuring policy is aligned with current investor expectations”

3 IMPACT MEASUREMENT AND MANAGEMENT

Defining a growing field

The Global Impact Investing Network's 2nd impact measurement and management survey [11], released in 2020, shows a clear path of growth for IMM. The report found that 99% of surveyed investors considered impact measurement to be important for tracking progress towards impact goals and for reporting on impact to key stakeholders, such as limited partners (LPs) investing in impact funds. Meanwhile, 90% reported a general trend of growth in IMM guidance and tools, whilst 87% stated that they use impact data to assess their 'impact performance': the relationship between money invested and perceived social returns.

Concurrent with this growth in IMM, investors also reported concerns over the quality of the practice. Transparency and comparability were cited as a 'significant' or 'moderate' challenge for 89% of investors. And perhaps most importantly, 84% of investors reported uncertainty as to how IMM results were best integrated into financial decision making. All these results speak to a wider concern within the impact investment market: whilst investors are increasingly interested in evidencing the 'good' being done by their investments, there is no significant agreement on how that should be best done or how results should be handled.

In order to understand IMM it is important to first understand what is meant by 'impact'. Impact investment as an investor strategy differs from traditional investment in two ways:

1. **Financial return:** Some types of impact investor have lower expectations of financial returns

than traditional investors. Carroux *et al.* [12], in a study on the motivations of high net worth impact financiers, argue that this point should not be overstated, and that for most impact investors their profit expectations in terms of rates of return over certain time horizons do not differ significantly from traditional investors. It is broadly true that in evaluating potential investments they adopt very similar techniques for analysing bankability – through assessing key financials and risks. But with emerging investor types such as venture philanthropists or development innovation agencies, financial returns are sometimes offset versus expectations of impact returns [13].

2. **Social and environmental return:** This derives from some type of social or environmental benefit resulting from financial allocation. This is the crucial determinant of 'impact' for these investors, and it is achieved by a variety of tactics depending upon the investor type.

Approaches to IMM, therefore, can be understood as a function of how each investor approaches the generation of impact. There is a wide body of scholarship emerging on impact investment tactics. The Global Impact Investing Network (GIIN), through their Impact Reporting and

“With emerging investor types such as venture philanthropists or development innovation agencies, financial returns are sometimes offset versus expectations of impact returns”

Investment Standards (IRIS+), tool argue that all impact investment should begin with a ‘theory of change’ – a statement of the problem you are trying to solve as an investor, why you believe that is worth solving, and how you consider yourself fit to solve that challenge [14]. A theory

of change is necessary but not sufficient – there must also be a method by which the investor believes they are creating the impact they conceptualise in their theory of change. **Table 1** presents the main different tactics of impact investment, based upon a literature review.

Table 1: Types of impact investment approaches

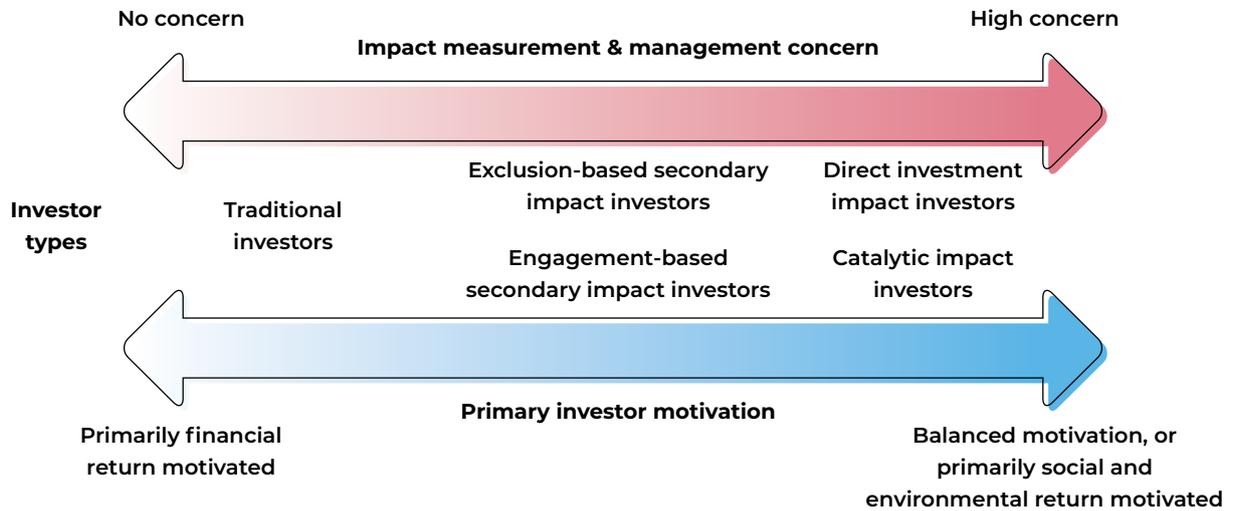
Impact Tactic	Relative prevalence	Financial market	Common asset classes or instrument types	Source
Capital allocation: direct investment	Common	Primary	Venture capital, private equity, government-backed development innovation funders	Agrawal & Hockerts (2023) [15]; Busch et al. (2021) [16]
Catalytic investment	Not common, emerging	Primary	Blended finance, venture philanthropy	Convergence (2024) [17]
Capital allocation: exclusion or divestment	Very common	Secondary	Exchange-Traded Funds, fixed income, actively managed portfolios	Kolbel et al. (2020) [3]
Active ownership: engagement-based investment	Common	Secondary	ESG funds	Heeb and Kölbel (2024) [18]; Kölbel et al. (2020) [2]

The literature reveals differences in approach between primary and secondary market investors. Primary markets concern the direct issuance of new securities, for example by businesses during an initial public offering or private sale of shares; whereas secondary markets involve trading of already issued securities amongst investors.

Whilst all types of impact investors are increasingly concerned with impact measurement [11], there is evidence that those who place a larger primacy on social and environmental returns are more motivated to move towards IMM. This may seem self evident, but it is a crucial delineation given that different types of impact investors are often conflated. Vionnet [5] argues that high profile cases of impact funds being shown to overestimate their social or environmental returns affects the entire impact investment industry. An example of such an event was the recent European Securities and Markets Authority (ESMA) evaluation of

187 Sustainable Development Goal (SDG) funds which found no significantly increased alignment with the SDGs when compared with 14,446 non-SDG labelled funds [4]. This is despite the fact that it is secondary market impact investors that tend to be more prone to over-emphasising their concern for measured and verifiable impact outcomes [5]. Heeb et al. [19], for example, demonstrated in a framed field experiment that secondary market impact investors had no substantial willingness to pay more for impactful outcomes. This, they argue, constituted an “emotional rather than a calculative valuation of impact”, reflecting tactics seen commonly where impact investors proclaim impactful outcomes on the basis of a theory of change that they believe deeply in, without that being reflected in verified and measured impact results. Based upon literature findings and investor interviews for this research, **Figure 1** outlines a model for how different impact investor types approach IMM:

Figure 1: a conceptual correlation between impact prioritisation and IMM (Source: Authors)



This model shows that concern for social and environmental returns correlates positively with concern for IMM, and that primary market investors tend to fall towards the higher end of concern compared with secondary market investors. Little difference between exclusion and engagement-based investors is seen amongst the literature to date with respect to IMM, and there is no evidence of secondary funds existing that prioritise social and environmental returns over financial returns. Conversely for primary investors, there are some examples (such as government-backed development innovation funders or venture philanthropies) that do prioritise social and environmental returns and are focussing more on IMM as a result.

This matters as retail investors are highly sensitive to perceptions of ‘impact-washing’, potentially restricting the ability of impact investors to raise capital in cases where impact generation cannot be demonstrated via robust IMM strategies. This is what predominantly drives the push towards greater IMM within impact investment, along with a general trend towards data-driven management in multiple industries, as new technology allows for data collection and analysis at scales and low prices

not possible before [20]. Without market integrity, the impact investment market risks falling out of fashion as an investor strategy, as is beginning to be seen for ESG investment [21]. Accountability and verification are therefore core motivators for impact investors leading on IMM development.

In order to understand the approaches being pursued by those investors who care more deeply about IMM, three pioneer examples are presented here: two relevant to the primary market and one relevant to the secondary market.

Pioneer Example 1 – Development Innovation Ventures

Development Innovation Ventures (DIV) was established in 2010 by Michael Kremer as an experimental approach to development spending, which targets cost-effective and rapid scaling of impactful enterprises in order to generate social returns in emerging economies [22]. DIV states that it looks for “solutions that demonstrate rigorous evidence of impact”, and the programme is an early example of IMM being placed front and centre in investment decision making.

Funded by USAID, DIV provides scale-up grants to enterprises and has supported organisations such as Dimagi CommCare, which is now used by frontline health workers for patient case management in 130 countries, and ZOLA Electric which provides off-grid solar electricity to 1.1 million people in East and West Africa [23]. DIV is not strictly speaking an example of impact investment (or impact *finance*). Instead, it is impact *funding*, and is representative of wider moves by aid donors to align spending with impactful outcomes. This is a push motivated by similar factors to the increase of IMM amongst impact investors: the need to demonstrate value for money and accountability for public spending in an era of data-driven management. The UK's Foreign, Commonwealth and Development Office, for example, published a list of climate finance-related Key Performance Indicators (KPIs) in 2019 which outlines clearly the criteria against which spend is appraised, and the list is now used for assessing the impact of all of the UK's international climate finance (ICF) [24]. Given the pressing need to respond to taxpayer concerns about efficacy, it could be fairly argued that development funders are amongst those leading the shift towards IMM in impact-generating spending in emerging and developing economies.

DIV is not just interesting as an example of IMM being integrated into public funding; it also stands as a useful case of methodological evolution in IMM. Michael Kremer jointly won the 2019 Nobel Prize in economics for his approach to development innovation, and he argues that this type of impact spending can be justified through two measures [13]:

1. **Benefit-cost ratio** – the “ratio of discounted value of net benefits to the discounted value of innovation cost”.
2. **Social rate of return (SROR)** – the “discount rate below which the innovation investment is socially beneficial”, a modified internal rate of return metric which measures a net social return rather than a net financial return.

“Retail investors are highly sensitive to perceptions of ‘impact-washing’, potentially restricting the ability of impact investors to raise capital”

Each of these calculations relies on data being collected on social benefits, for example jobs created or disability adjusted life years (DALYs) created, with financial values being assigned to these social benefits. Such an approach faces challenges with accurately defining metrics (eg what counts as a substantial job) and rigorous data collection – but these issues are anticipated by DIV and they allocate dedicated funding and peer-review resources to methodological development.

DIV applied these measures to their early portfolio in a 2021 paper [25], finding a social return on investment (SROI) of 1,700%. The authors argue that their approach captures the true impact benefits of funding innovative ventures, and that calculating these figures opens up opportunities “not open to profit-seeking investors” that should be funded through donor aid. DIV's approach to IMM serves as a powerful example of how methodological rigour can be used to argue for increased capital flows for emerging and developing market growth.

Pioneer Example 2 – Global Innovation Fund: Practical Impact

The Global Innovation Fund (GIF) is a non-profit, ‘impact-first’ investment fund based in London, which primarily provides debt, equity, and grant finance to evidence-based innovations helping those living on less than US\$ 5/day. Established in 2014, again using funds from global north government donor aid, GIF has developed a specific method for IMM which it calls ‘Practical Impact’.



GIF differs from DIV (Pioneer Example 1) in that it offers equity and debt finance as well as grant funding. This means that the fund must take into account financial sustainability and potential for financial return as key criteria in evaluating potential investees; yet its mandate to focus on solutions helping the poorest in low-income countries also requires an equal focus on potential impact when taking capital allocation decisions. This is reflected in the Practical Impact approach in 4 key ways:

1. Full cycle impact assessments – GIF uses impact metrics at three stages of the investment cycle: identification/selection, execution, and post-completion. Impact

data are therefore not just being used to retrospectively demonstrate social returns, they are also applied to ‘identify projects with the greatest potential’ and to direct capital towards them. After project completion, GIF utilises current impact metrics to forecast the long-term impacts of the enterprises that it has invested in, which is unusual within existing IMM approaches.

2. Practicality – GIF provides frameworks to investees to report on their impacts and allow for analysis, but it rarely deals with raw data centrally. A responsibility is therefore placed on investees to rigorously collect and report data, and to ensure that process does not become overly burdensome GIF focusses

on 'practicality'. Three core criteria are used: the breadth of impact (the number of low-income people who will benefit at year 10), the depth of impact (benefit per person relative to annual income), and probability of success (the likelihood that innovation will be successful in 10 years). Behind these key criteria are a number of metrics which differ depending on the intervention – such as SROI, economic rate of return, and DALYs – combined to an overall metric of 'person-year of income-equivalent', termed the 'Practical Impact unit'. This ambitious method builds on, and is inspired by, DIV's approach, and a 2019 note transparently outlines the rationale behind the selection of these core criteria [26].

- 3. Flexible data requirements** – as well as measuring impact across different stages of the investment cycle, GIF also alters its approach based on how mature the investee organisation is. Pilot enterprises which may receive grants in the US\$ 50k range have lower requirements for data provision than mature enterprises (investments of up to US\$ 15m+). This tailored approach avoids overwhelming small organisations that have lower capacity to understand and undertake impact measurement.
- 4. Portfolio-level assessment** – as a fund, GIF recognises that impact risk will be pooled across the portfolio, just as financial risk is. GIF therefore accounts for uncertainties in the forecasting of impact performance by using randomised simulation to generate figures on 'overall portfolio impact' over time. This approach avoids 'excessive risk aversion' in GIF's investment decision making [26].

The Practical Impact approach can be considered industry leading. It is a clear example of how pioneer organisations are allocating impact-focussed capital on the basis of quantified impact metrics, and this is indicative of the direction of travel for both public and private impact funds

investing in emerging and developing markets. It is not without its challenges, however. How 'practical' or burdensome ventures find this approach may differ across contexts, and evidence on how different types of organisations adapt to implementing 'Practical Impact' is not yet available.

Pioneer Example 3 – Carbon metrics

The previous two pioneer examples have descriptively outlined metrics used for IMM without considering the trade-offs behind metric choice and the issues of standardisation that these pose. One area in which this has been well covered is in financial portfolio-level carbon metrics.

Used by investors for climate-related financial disclosure and investment decision making (particularly amongst ESG investors), carbon metrics aim to quantify the CO₂ exposure of investment portfolios. There are three core metrics in use [27]:

- 1. Weighted Average Carbon Intensity (WACI)** – a relative metric which is calculated by stating the carbon intensity of a company as total annual emissions divided by annual revenue, before accounting for the proportion of a portfolio made up by those different companies to produce a weighted average intensity figure [28].
- 2. Financed Emissions** – an absolute metric which assumes that the fraction of a company's CO₂ the investor is responsible for is directly proportional to the percentage of a company's

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Enterprise Value including Cash (EVIC) owned by the investor (ie owning 30% of EVIC means the investor is responsible for 30% of the company's CO₂).

3. Implied Temperature Rise (ITR) – offered by providers including MSCI Inc. and Bloomberg, ITRs show a ‘temperature rise’ contribution of companies and funds expressed as a degree Celsius figure to 1 decimal point. This is calculated by projecting companies’ future emissions based on their decarbonisation targets, comparing this to an ‘allocation’ of the remaining carbon budget to stay within 1.5 or 2 degrees below preindustrial global temperatures (based on existing emissions), and then converting to an ITR figure based on whether they overperform or underperform the budget [29].

These metrics all attempt to convey the same thing: the ‘carbon impact’ of investments. But their different approaches make comparison difficult. Abrdn compares WACI and Financed Emissions, showing that as WACI is based

on revenue and Financed Emissions on EVIC, the metrics have limited correlation [27]. This is because changes are primarily driven by the denominator (revenue or EVIC) rather than absolute or relative carbon emissions. Additionally, where different methods exist for calculation of the same metric, as is the case with ITR, comparability between providers can be low. ABN AMRO show that ITR figures vary widely across scores from Bloomberg, MSCI, and Morningstar (Sustainalytics) for 8 companies, differing by as much as three degrees for the same company [30].

This example is a cautionary tale for impact metrics. Where detailed methods are not disclosed or standardised, stakeholders cannot compare between metrics which may claim to be showing the same thing, or between metrics which appear to be similar but which actually have very different assumptions behind them. With many emerging market investees now having to report on carbon intensity, especially when funded by development finance classed as ‘international climate finance’, this example holds even more relevance [24].



4 INVESTOR PERSPECTIVES

The previous section has highlighted the growth of impact measurement and management, with three pioneer examples showing the increasing sophistication of IMM approaches and tools as well as the difficulties of applying these in the real world. This is especially testing as stakeholders start paying more attention to impact data and attempt to integrate them into their decision making.

A question remains as to what the increase in the use of varying IMM approaches means for the flow of impact capital, particularly in emerging and developing market settings. The key contribution of this report is to attempt to answer this question. Examples like the Global Innovation Fund indicate how impact metrics are being used to direct capital towards certain preferred projects, but information on this at a macro-level is scarce. Limited literature to date has engaged on this question despite its crucial importance for attempts to align the finance industry with social objectives.

What is at stake here? Whilst it may be assumed as self-evident that a growth in impact investment will increase the flow of capital to the communities and markets with highest needs, no studies have shown this to be the case. And if this proves to not be true, a key assumption behind the goals of the impact investment industry is brought into question. It is therefore crucial to understand how impact metrics enhance or restrict the ability of impact investment to reach communities most in need.

To investigate this, 20 semi-structured interviews were undertaken with impact

investors and impact intermediary organisations over a four-month period from December 2023 to March 2024. Four core findings emerged from these interviews:

1. Little cross-industry consistency in impact measurement and management exists; but a move towards standardisation is likely

Across all investor and intermediary types interviewed, each recognised an increasing implementation of impact measurement and management – tallying with findings from the GIIN's 2nd IMM survey in 2020 [11]. Whilst there were some perceptions that requirements for impact data are advancing more quickly in primary compared with secondary markets, appetites for quantified impact data are clearly growing across the board as those providing capital to impact funds (including retail investors, LPs, and governments) demand approaches that go beyond theories of change alone. One interviewee stated: “monitoring and reporting is the next area where people are really trying to make progress... but right now it's a real wild west” (*GIInt1*).

This reflects a near consensus view that there is little methodological consensus between organisations at present. Shared definitions are uncommon and bespoke approaches dominate. As a result, interviewees shared frustration with inconsistencies in how impact metrics in particular are used, with a large variation between organisations sharing sophisticated and publicly disclosed methodologies versus those with under-developed, opaque methods.

Two specific impact metrics related to primary investments appeared regularly in interviews: number of people helped, and jobs created through interventions. Both of these were cited as metrics generally applied simplistically without transparency on methods. Each contains definitional uncertainty – what counts as ‘helping’ a person, and what is a substantial job created? An ideal job may be one created by an enterprise that did not exist before (ie it is ‘additional’), employing someone on a full salary for a period of at least a year. But these additionality, economic, and temporal considerations are addressed differently across the impact investment industry, according to research participants.

Interviewee *GIIInv 5* felt that the practice of IMM is close to approaching a “transparency crisis”. In this context, standardisation was seen as not only the right thing for the industry, but also as an inevitable result of stakeholder pressure to avoid ‘impact-washing’. An “impact standard” is one possible avenue for standardisation, and interviewees claimed that such a standard must address the following areas:

- **Baselining** – comparison against initial conditions allows the calculation of social and environmental change over time. Whether with primary or secondary investment, participant *ZIIInv2* argued that baseline conditions are not being adequately disclosed currently.
- **Attribution** – once change over time has been calculated, a next step involves attributing that change to impact capital invested. Attribution

“Standardisation was seen as not only the right thing for the industry, but also as an inevitable result of stakeholder pressure to avoid ‘impact-washing’”

claims were felt to lack rigour, partially due to the poor sophistication and transparency of methods used to calculate metrics, but also due to investors rarely engaging with counterfactual scenarios. The gold standard for attribution is a randomised control trial (RCT), which is rarely practical to undertake at scale due to the heavy time and cost requirements for these studies. Participants did not demand RCTs, instead calling for “humble claims” (*ZIIInt2*) by investors that recognised uncertainty, transparently disclosed baselines, and demonstrated logical causal reasoning for assuming that positive impacts are attributable to the investments made.

- **Auditing** – external assurance is one obvious way to add rigour to the impact measurement and management process. A growing number of organisations offer this service, some taking advantage of progress in artificial intelligence and open ‘big data’ sources to enable lower cost analysis. Whilst there are costs involved in these services, interviewees (*GIIInt3; GIIInv1*) argued they may be essential to adding rigour in impact attribution.

2. There is disagreement on who should define the goals and methods of impact measurement and management

Standardisation in IMM may be needed, but there is disagreement on who is best placed to define the direction of this. Research participant views fell on a spectrum: from those who felt it was an investor prerogative to those who felt investees were best placed to determine the future of IMM. Whilst investors face large pressure from stakeholders to disclose impact data, participants felt that investees held the best understanding of the impact that capital was generating (*ZIIInt1; GIIInv1*). One participant (*ZIIInv1*) argued in relation to emerging and developing markets in particular that “the impact community sits far away”. This was seen to result in unrealistic

impact measurement frameworks being placed on investees, requiring data that they did not find relevant or did not have the capacity to collect and which is often unused by investors for anything more than compliance-based disclosure. This tallies with findings shared by Mensink (2024) [9].

Concerns were also raised on incentives. Growth in the impact investing industry without rigour in IMM suits profit-seeking investors. Under these status quo conditions to date, the risk of reputational damage from claims of ‘impact-washing’ has been low (albeit growing), and many retail investors and LPs have been satisfied by non-rigorous claims over impacts generated, especially from secondary market investors [19]. Such an incentive does not hold for all investors – government or philanthropy-backed impact investors often have limited requirements for above parity returns on investment. Interviewees (*GIIInt2; GIIInt3; GIIInv6*) raised these differing incentives as a challenge for cross-industry collaboration on IMM. Private impact investors and the development industry were in particular seen to be wide apart, hampering early moves towards standardisation.

It seems important, therefore, that the voice of investees and different investor types should all be brought to the table when defining impact standards. On a more micro-scale, when defining metrics investors should have honest conversations on the capacity of target investees and the expectations of stakeholders, ideally in direct dialogue with these groups.

3. The shift towards increasing IMM risks entrenching existing inequalities

Where impact measurement requirements are imposed on investees without them having the capacity to undertake IMM, it can restrict impact capital reaching those investees. This

“It seems important ... that the voice of investees and different investor types should all be brought to the table when defining impact standards”

was a view held by the majority of stakeholders interviewed for this research. Not only may it scupper direct investment deals, but the increasing demand for impact data in project identification may make it more difficult for enterprises to secure follow-on funding if they are unable to demonstrate the impacts generated from initial investments.

It is likely the case that those who are most in need have the least capacity to undertake additional impact measurement when accessing capital. Investors in this research recognised that IMM practice therefore risks entrenching existing inequalities within countries and regions. One investor (*GIIInv5*) stated that they had faced push back from investees in the past who felt impact measurement requirements were too stringent. In this case, the investor reflected on the power imbalances that exist when a global north impact investor is financing an emerging market enterprise, with there being a risk that IMM is seen as a neocolonial barrier to capital access for the global south. Multiple participants (*GIIInv3; GIIInv4; GIIInv7*) also flagged that impact and ESG investment in Africa had tended to favour Nigeria, Kenya, Egypt, and South Africa – areas that are perceived to have thriving startup hubs and in which entrepreneurs are able to adapt to funder-determined demands for sophisticated IMM.

4. Investees in emerging and developing markets need support in measuring and managing impact

Given participant belief that impact measurement is becoming another hurdle to

accessing capital for those most in need, interviewees also felt that this could be overcome by provisioning investees with support to measure impact (*GIIInv8; ZIIInt4; GIIInt4*). Organisations like GIF already provide technical assistance grants to select investees for impact measurement [31], and of those interviewed some investors even provide grants for RCTs to be undertaken in order to improve the investability of viable development ventures. Impact intermediary organisations have been developing open source tools to aid impact measurement, such as the Global Impact Investing Network’s IRIS+ platform [14], which lower the burden on those new to IMM.

The provision of technical support in this manner shifts the responsibility of impact measurement from the investee to the investor. This can also act to build knowledge economies within areas receiving impact capital – impact data do not only exist to show stakeholders the results of impact investment, but they also act as important social trend information which can be used by local decision makers for resource allocation, for example. As more developing market governments embrace digitisation, positive multiplier effects can be generated from IMM technical support for potential investees, and this was seen as a large area of opportunity by most research participants.

“Investors are not blind to the need for change and the need to bring investees along with them on the journey. Saying this is one thing, and acting is another, however”



Africa GreenCo, an impact investment success story

PHOTO: JEREMY BEZANGER / UNSPLASH

5 POLICY RELEVANCE

These four findings each detail a different complexity in the evolving landscape of impact measurement. The perspectives presented above show a clear awareness from investors of how they are being perceived and the impacts of IMM on the actors around them. This is fundamentally encouraging – whilst the approaches differ by investor type often to quite a large degree, investors are not blind to the need for change and the need to bring investees along with them on the journey. Saying this is one thing, and acting is another, however.

In this landscape, public policy has a significant role to play. Emerging from the findings above, this report considers that there are three areas in which public policymakers can play a role in addressing specific challenges when it comes to impact measurement.

1. Set the boundaries of impact standard development

With the emergence of new industries such as impact investment and impact measurement, there are multiple reasons why governments and regulators can gain a competitive advantage by acting early in setting acceptable guardrails on those industries [32]. This does not mean that strict regulation should be set to exactly dictate corporate behaviour – instead, principles can be defined which outline the conditions under which an optimal outcome can be reached for multiple stakeholders involved.

For impact investment, governments can lead by establishing standardised regulatory principles under which the measurement of impact

should take place: (i) recognising the capacity of vulnerable investees and ensuring they are not excluded by impact measurement requirements; (ii) involving the consideration of baselines to allow attribution; (iii) mandating auditing and assurance of methods; and (iv) requiring methodological transparency. This should not be interpreted as state over-reach – given that retail investors and citizens are providing money to private and public impact investors on the basis of claims that investment money will yield social returns, there is a consumer protection prerogative to establish such guidelines within regulation. The UK's Financial Conduct Authority has already established a 'Sustainability Impact' investment label under the 2023 Sustainability Disclosure Requirements in order to protect consumers and to provide them with annual updates on progress towards the fund's impact investment goals [6]. Extending this regulation to account for impact measurement would be a good next step.

As argued by Mensink [9], it is also crucial that such a standard goes beyond data disclosure alone. For IMM to have any meaningful use, the measurement of impact needs to inform strategies towards generating greater impact through enterprises. In setting a standard, governments should also consider how investors can learn from investees to determine what

“ For IMM to have any meaningful use, the measurement of impact needs to inform strategies towards generating greater impact through enterprises ”

the most appropriate local conditions are for collecting data in a way that incentivises positive action and fills gaps in existing action. In this way, IMM can be truly additional.

2. Leverage private capital by investing in impact measurement education

Another tool open to governments is incentivising the development of impact measurement by building the capacity of vulnerable investees who lack the knowledge and skills to undertake the practice at present. Ensuring that vulnerable investees are not left out is a lot easier said than done – it requires detailed and often resource intensive work to educate investees on investor requirements. Whilst the previous section has outlined that some investors are funding and undertaking technical assistance work in this area, there is a role for the state here too. Ultimately, by providing this help to their citizens, governments will be helping to leverage private investment into their economies.

There are multiple forms that this can take, from the provision of direct technical training via workshops or accelerator programmes, to competitive grant processes which allow investees to fund impact measurement work. The robust measurement of impact from government funded programmes also can offer a blueprint for private entrepreneurs and project developers to learn from, as is demonstrated with the Constituency Development Fund example from Zambia in Section 6.

3. Learn from the lessons of ESG investing

In considering the future of impact investing, many participants interviewed for this research referenced ESG investing – a similar but distinct area of investment that is focussed on exclusion and risk management and tends to be more climate-dominated [33]. The ESG investment

“The progression of the ESG investment industry is in some respects a roadmap for the development of impact investing”



industry is significantly more advanced than the impact investment industry when it comes to market size, regulation, and practice [1, 34], and it has faced similar calls for rigour to avoid ‘greenwashing’. The progression of the ESG investment industry is in some respects a roadmap for the development of impact investing, and participants referenced complaints from African stakeholders that complicated ESG regulation is restricting access to capital for the continent (*ZIIInv1*; *ZIIInv2*) [35]. Significant steps are being taken to address this, however. Nigeria’s Securities and Exchange Commission approved ESG Disclosure Guidelines for companies in 2018, for example [36]. ESG investing often targets larger, already listed equities, and so is not a perfect allegory for impact investing. But similar regulatory processes may soon be required for impact investing, and governments should thus reflect on what they have learned in the process of regulating ESG investment to produce quick and inclusive guidance relevant to impact investment.

6 CASE STUDY: IMPLICATIONS FOR ZAMBIA'S CONSTITUENCY DEVELOPMENT FUND

The findings of this report on the evolving use of impact measurement and management have important practical relevance, and this will be evidenced through the case of Zambia's Constituency Development Fund (CDF).

What is the CDF?

Zambia's CDF is a publicly funded programme of decentralised growth projects. Since its large expansion in 2021 to become a US\$ 200m fund, the CDF has become the Government's flagship programme for impactful community development. The fund is currently composed entirely of public finance, with the money allocated evenly to each of Zambia's 156 parliamentary constituencies in an annual budget. Impactful growth projects are proposed by citizens and Ward Development Committees to a local Constituency Development Committee, which then decides which projects to select each year. Common projects include the construction of schools and health centres, the purchase of road building equipment, and the installation of solar powered boreholes as a climate adaptive measure. There is also a skills development bursary fund and a start up seed capital grant and loan fund within the CDF, with each of these being prioritised for women and young people [37].

A 2023 report [10] by the CCG programme, led by the same authors as this report, investigated the CDF in detail, aiming to shed light on whether the fund could act as a vehicle to mobilise external capital into green growth in Zambia. The report had the following findings:

- The fund has a **strong existing architecture** which enables it to reach communities most in need. In this respect, it is a successful scheme

for resourcing community-identified solutions to community-identified challenges.

- Multiple opportunities exist to **reform** the CDF process to make it more efficient at allowing quick community project implementation – these are summarised in the 22 recommendations of the report.
- The CDF has great potential to act as an **'aggregator'** of impactful, community-led growth projects. Given it is often difficult for investors to access impactful projects of this size due to high transaction costs, aggregators play a crucial role in mediating between those wishing to finance impactful community development projects and the project developers themselves.
- In order to act as such an aggregator, there is an urgent need to establish an **effective monitoring and evaluation system for the CDF** so that the impact of the fund can be demonstrated.

What is the relationship between impact measurement and the CDF?

The 2023 CCG report on Zambia's CDF did not go into detail on how an effective monitoring and evaluation system might be used by investors, as the data collection did not involve investor surveys. This report provides those investor perspectives on impact measurement, and the following findings outline the implications of these perspectives for Zambia's CDF:

“There is an urgent need to establish an effective monitoring and evaluation system for the CDF so that the impact of the fund can be demonstrated”

1. Identification of investment opportunities through project-level data

Numerous reports have argued that the lack of 'bankable' investment opportunities is a key constraint to the deployment of climate finance in emerging and developing markets at both an international level [38] and specific to Zambia [39]. This finding was supported by investor interviewees in Zambia – the pipeline of viable projects was perceived to be “extremely small” given the high ambitions that the Government has set for mobilising finance into Zambia to support its green growth. It was also argued that this pipeline was dominated by the real estate and renewable energy sectors.

Investors may consider enterprises and projects to be non-investable for a variety of complex reasons [40], but one of these is a lack of data on what projects are available and what their impacts are. In this respect, impact measurement and management can be seen as both a way of identifying new projects and as a threat to future funding if data are not supplied. As demonstrated by the Pioneer Example 2 (the Global Innovation Fund), investors are using IMM at all stages of the investment cycle, including project identification. Without sufficient information on what CDF projects and enterprises are being supported by public funding, a very large pipeline of potentially bankable projects for impact investors are inaccessible to private capital. As more impact funders look to identify and appraise potential ventures on the basis of pre-existing and quantified impact data, Zambia faces missing out on an opportunity to capture this investment.

To remedy this, decision makers governing the CDF can act by implementing a database of funded projects and enterprises, making it clear what the project types are, their size and location, and their target outcomes. These data will allow investors to understand the potential for project

aggregation as well as possible sources of individual impact opportunities.

2. Need for post-monitoring impact management

Beyond the identification of opportunities, interviewees in this research also mentioned the importance of demonstrating the impacts generated by the CDF public funding, with a focus on benchmarking and attribution. One interviewee (*ZInt4*) claimed that “for the CDF, there is currently no mechanism for capturing baselines”, which they said makes it difficult for the Government to prove the impact that the CDF has achieved in communities across the country. With Section 4 showing that the impact investment industry is likely to move towards requiring additional information on baselines and impact attribution, and that some development-focussed investors such as Development Innovation Ventures (DIV) already require this, it will be important for those governing the CDF to collect the correct data at the right time.

Monitoring pre-existing conditions to make a basis to compare against when calculating the changes created by a project is, in theory, quite simple. This is practically difficult, however, for reasons outlined in detail in the 2023 CCG report on the CDF. Local authorities do not have sufficient capacity to prioritise monitoring and evaluation over their other responsibilities, such as project due diligence and technical evaluation. In addition, a basis to attribute impacts to projects must be designed. Simple Key Performance Indicators (KPIs) on the number and type of jobs

“ IMM can be seen as both a way of identifying new projects and as a threat to future funding if data are not supplied ”

created by an enterprise or the number of school children educated in a new classroom block are often sufficient for impact investors, so long as methodologies are transparently disclosed and there is some assurance to ensure they are being applied rigorously. This is practice that is within reach of those implementing CDF projects, and this process would be a good basis for employing increasingly sophisticated methods over time.

3. Building momentum on impact measurement within Zambia

Again, when investigating how impact measurement can be deployed, the question of who burdens the responsibility comes to the fore. A local awareness about the issue of impact measurement is growing in Zambia. A workshop hosted by UN Trade and Development (UNCTAD) in March 2023 aimed to upskill attendees on SDG reporting, which is increasingly being required by predominantly Western investors, with workshop organisers noting that a failure to understand such requirements may restrict capital access by Zambians [8]. The same impetus is required for impact measurement, management, and public disclosure when it comes to the CDF.

That being said, CDF implementers also require technical help in impact measurement. Reports like this are a start in raising the issue up the agenda, but a responsibility also sits on the shoulders of investors to make clear how entrepreneurs and project-implementers can collect the right data to improve their chances of being further funded. IMM can be a complex and technical process. The dominant feeling amongst investor and investor intermediary interviewees in Zambia was that there are few organisations that do impact measurement well in the country at present. Where technical assistance can be provided by investors, such as through grants to help enterprises to set up impact monitoring processes like those provided by DIV and GIF, it should be.

What are the possible next steps in this context?

For both the identification of investable opportunities and the development of investment cases for those opportunities, impact measurement has a role to play in Zambia's CDF. More monitoring and evaluation of the fund and the projects it finances is needed, and the requirements of impact investors as outlined in this report should be kept in mind when designing monitoring and evaluation frameworks.

This finding is of practical use to those who govern the CDF in Zambia. A great opportunity exists to attract additional capital into the country through the CDF, helping the Government of the Republic of Zambia to meet its ambitious climate goals. The 2023 NDC Implementation Framework [41] called for US\$ 17.2bn of capital to be mobilised to meet Zambia's Nationally Determined Contribution (NDC) by 2030, and the recently published National Green Growth Strategy [42] similarly called for US\$ 10.4bn by the same date. Detailed resourcing strategies were not provided alongside these plans, and as such novel routes to unlocking finance must urgently be identified [43]. Impact investment is still a relatively small method of financing, as was flagged by interviewees in Zambia, but it is growing across a variety of investor types, and with the increasingly strategic use of public funding to leverage private finance towards climate transitions, demand for impact data will only grow.

When it comes to pipelines of investable projects, the CDF is a unique development instrument. In terms of the relative scale of the fund and the sophistication of community-driven decision making, there is no developing market fund like it in the world. Thus, the action of Zambian decision makers could serve as a model for progressive impact measurement in emerging and developing markets globally, leveraging the impact investment that is so needed.

7 CONCLUSION

A delicate balance exists in the current practice of impact measurement and management – whilst it is clearly needed in order to increase the credibility and transparency of the industry, this **cannot come at the expense of investees who lack the current capacity to measure impact**. If a rise in IMM were to exclude emerging or developing market investment opportunities from being funded or financed, then the entire investment strategy will fail to drive the systemic gains that it seeks to create.

Through an exploration of existing literature and practice, and interviews with impact investors and impact intermediary organisations, this report has charted a seemingly clear direction of travel: IMM is increasing and will continue to increase in use by impact investors. This is creating **a contested environment in which limited shared industry standards are prevailing**, despite there being a number of examples of good practice from organisations like the Global Innovation Fund. With a move towards standardisation highly likely, the question remains as to who will define the dominant modes of operation and what role government policy will play in this. Investors want impact data, and these data are in higher supply in areas of existing high resource. For finance and funding that is targeting climate and social impacts in developing markets, examples like Zambia's Constituency Development Fund (CDF) show clearly that there needs to be more work to align the evolving expectations of funders with the capacity of investees. **A number of options already exist for policymakers, and reports like this will hopefully incentivise them to act**.

Amongst the risk of this growing class of capital failing to connect with those who need the finance

most, there is also significant opportunity. The falling cost of digital technology makes remote project monitoring and reporting possible in a way that was impossible in prior decades, and cheap online project-level databases offer the potential to present large volumes of impact investment opportunities to capital holders. Public funds such as Zambia's CDF, which act as project and venture aggregators, can create investment opportunities in projects that were considered previously to have too small a ticket size. By providing impact data alongside these, investors are able to make decisions on investments that may offer a sub-market level of financial return, but a large impact return. **This is potentially a very large class of investments, with few investors serving it currently due in part to the difficulty in 'proving' impact**. The implementation of digitised impact measurement and management by decision makers in developing countries offers an answer to those who claim there is a lack of 'bankable' investment opportunities in these markets.

Whilst this report presents findings from a cross section of investor types, the sample size of interviews is still relatively small and is skewed towards Zambia. A number of opportunities for further research emerge from these limitations: **more work is needed surveying stakeholders**

“With a move towards standardisation highly likely, the question remains as to who will define the dominant modes of operation and what role government policy will play”

to determine how an impact measurement standard can be co-created between these groups; and work is warranted to determine how practical support can be delivered to entrepreneurs and project developers to embed impact measurement practice, both by investors and governments. Additionally, theoretical development is required to understand the most effective routes to impact benchmarking and attribution. A key facilitator of this work would be increased transparency in practice across the impact investment industry.

Interviewees for this paper were keen to point out that there are **multiple structural factors and**

colonial legacies that explain why capital is restricted to developing markets. This report is not here to provide another hoop for emerging and developing market entrepreneurs to jump through if they are to access the finance they desperately need for development. Instead, this report flags the risks of a shift towards impact measurement and management as it occurs, with an aim to promote a dialogue within and between impact investors and emerging market impactful venture developers. The benefits of an improved dialogue to mitigate this risk are clear: impactful entrepreneurs gain access to the resources needed to scale their ventures; impact investors gain access to a large pipeline of projects to generate genuine impacts.



PHOTO: GOOD NATURE AGRO

Good Nature Agro, Africa's 44th fastest growing company (FT, 2024)

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Appendix 1 – Interviewee Participants

Interviewee Identifier	Interviewee Type
GIIInv1	Global Impact Investor
GIIInv2	Global Impact Investor
GIIInv3	Global Impact Investor
GIIInv4	Global Impact Investor
GIIInv5	Global Impact Investor
GIIInv6	Global Impact Investor
GIIInv7	Global Impact Investor
GIIInv8	Global Impact Investor
GIIInv9	Global Impact Investor
ZIIInv1	Zambia Impact Investor
ZIIInv2	Zambia Impact Investor
GIIInt1	Global Impact Intermediary
GIIInt2	Global Impact Intermediary
GIIInt3	Global Impact Intermediary
GIIInt4	Global Impact Intermediary
ZIIInt1	Zambia Impact Intermediary
ZIIInt2	Zambia Impact Intermediary
ZIIInt3	Zambia Impact Intermediary
ZIIInt4	Zambia Impact Intermediary

Appendix 2 – Abbreviations

DALY	Disability adjusted life years	ITR	Implied Temperature Rise
DIV	Development Innovation Ventures	KPI	Key Performance Indicators
ESG	Environmental, social, and governance	LP	Limited partner
ESMA	European Securities and Markets Authority	NDC	Nationally Determined Contribution
EVIC	Enterprise value including cash	RCT	Randomised control trial
GIF	Global Innovation Fund	SDG	Sustainable Development Goals
GIIN	Global Impact Investing Network	SROI	Social return on investment
ICT	International climate finance	UK	United Kingdom
IIM	Impact measurement and management	UNCTAD	United Nations Trade and Development
IRIS+	Impact Reporting and Investment Standards	USAID	United States Agency for International Development
		WACI	Weighted Average Carbon Intensity

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