

# Impact Capital Measurement

Approaches to Measuring the Social Impact  
of Program-Related Investments

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Robert Wood Johnson Foundation

# Impact Capital Measurement:

## Approaches to Measuring the Social Impact of Program-Related Investments

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Content from the leading practitioners who have made substantial contributions to this report, especially appearing in Chapters 3 and 4 and in Appendices D–G, is presented here with permission.

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*Melinda T. Tuan is solely responsible for the content and conclusions of this report. References to individual entities' approaches to measuring the social impact of program-related investments are intended to provide general examples of ongoing work in this area and do not constitute endorsement by the Robert Wood Johnson Foundation of these programs or approaches.*

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# Chapter 1

## Overview

### 1.1 Introduction

*Evidence suggests that many thousands of people and institutions around the globe believe our era needs a new type of investing...Using profit-seeking investment to generate social and environmental good is moving from a periphery of activist investors to the core of mainstream financial institutions.<sup>i</sup>*

– THE MONITOR INSTITUTE, 2009

*If we can't measure the social impact of our investments, then how do we know we're having impact?*

– LISA KLEISSNER, CO-FOUNDER, KL FELICITAS FOUNDATION

The authors of the Monitor Institute's 2009 report on the state of the impact investing field believe that in the next five to 10 years, the total amount of assets under management invested for impact could grow to be \$500 billion. This would represent almost twice the total philanthropic dollars (including corporate, individual, foundation, and bequest philanthropy) given away annually in the United States.<sup>ii</sup>

Within the philanthropic sector, which represents assets of over \$583 billion<sup>iii</sup>, this growing interest in impact investing is evidenced by the number of foundations exploring and executing both program-related investments (PRIs) and mission-related investments (MRIs). The PRI Makers Network, an association of

grantmakers that use program-related and other investments to accomplish their philanthropic goals, has a growing membership of more than 150 foundations and social investing organization members from all over the United States, representing a wide range of asset sizes and programmatic goals.<sup>iv</sup>

The most recent data from the Foundation Center cites PRIs from 2006–2007 totaled \$742 million.<sup>v</sup> A 2007 report by FSG Social Impact Advisors states: “Over the past decade, the number of foundations engaged in mission investing has doubled and the amount of new funds invested annually has tripled.”<sup>vi</sup> Mark Kramer, Managing Director of FSG, believes the growth in mission investing has accelerated dramatically beyond the date of this research—that mission investing by U.S. foundations has grown more than 10 times over the last decade. “We estimate new foundation dollars going into PRIs and MRIs totaled about \$150 million per year in 2005. We think it is well over \$1 billion by now.”<sup>vii</sup>

Philanthropic institutions are increasingly interested in measuring the social impact of their investments. As the philanthropic sector considers how to measure the social impact of its mission investments and especially PRIs, it may be helpful to do three things:

1. Identify and review the leading and promising approaches to measuring the social impact of PRIs;
2. Analyze the relative strengths and weaknesses of these approaches and identify any cross-cutting issues;
3. Understand how these examples and insights can inform the philanthropic sector’s explorations about measuring the social impact of PRIs.

To these ends, this paper describes five different foundations’ approaches to measuring the social impact of PRIs. In addition, it reviews three other approaches to measuring the social impact of other impact investments that may be relevant to foundations. The purpose of profiling and analyzing these approaches is not to choose the right one, for there is no perfect methodology. Rather, it is to present some possibilities for thinking about measuring the social impact of program-related investments. These approaches provide different perspectives on how to measure social impact and illustrate the limitations related to measurement efforts and the big picture challenges for the field.

These possibilities and limitations can serve as a reference point for those in the philanthropic sector who are considering whether and how to craft their own approaches to measuring the social impact of their program-related investments.

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## 1.2 Purpose

This paper was commissioned by the Impact Capital committee at the Robert Wood Johnson Foundation (RWJF) to share some of the leading examples of measuring the social impact of program-related investments in the social sector. The paper and companion appendices are structured to provide the larger context for and generate further discussion among philanthropic and other leaders in the social sector.

To aid in this effort, the paper provides a common language (Appendix A) and examples of a few of the methodologies (Appendices D, E, F, G) for leading practitioners to examine as they consider whether and how to provide the most appropriate method of measuring the social impact of PRIs.

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## 1.3 Scope

In this paper, we will primarily address the measurement issues associated with PRIs and, to a lesser extent, MRIs. This paper does not profile the leading approaches or challenges associated with measuring the social impact of impact investments made by non-foundation investors (e.g., corporations and multi-laterals). Additionally, while there are other interesting experiments under way regarding social impact measurement investments such as social impact bonds<sup>1</sup>, these will be subjects for future research.

This paper *does not* represent a comprehensive scan of all the social impact measurement activities regarding PRIs in the social sector. This paper *does*, however, illustrate some different methods that are currently being used or contemplated by leading philanthropic and social sector organizations. The paper includes a high-level view of several different approaches, big picture issues represented by these collective practices, and the implications for the social sector. The appendices cover a few of the methodologies in greater detail.

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<sup>1</sup> According to Social Finance, social impact bonds are based on a commitment from government to use a proportion of the savings that result from improved social outcomes to reward non-government investors that fund the early intervention activities.

## 1.4 Methodology

This paper is based on more than three dozen interviews<sup>2</sup> with leading practitioners and experts in making and measuring the social impact of program-related investments and other impact investments (Appendix B); a brief literature review (Appendix C); and ongoing communications with Ed Ghisu, senior counsel; David Colby, vice president of Research and Evaluation; and Nancy Barrand, senior adviser for Program Development at the Robert Wood Johnson Foundation.

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## 1.5 A Word on Language

The individuals and organizations interviewed for this paper often use different words to describe the same thing or use the same word to describe different things. To provide greater clarity in the use of terms, Appendix A: Glossary of Terms, defines a number of the key terms mentioned in this paper.

The term “impact investing” is used in many different ways across the private, public and nonprofit sectors. In this paper, we will use “impact investing” to describe the practice of actively placing capital in businesses and funds that generate social and/or environmental good and at least return nominal principal to any type of entity (e.g., private corporations, public funds, foundations). We will use the term “mission investing” to describe the overall type of investing that for foundations, advances their social mission and recovers the investment principal or earns a financial return.

“Program-related investment” (PRI) refers to a specific type of mission investment only foundations can make as defined under the U.S. tax code (Appendix A). We will use the term “social impact” throughout the paper to refer to the general concept and practice of measuring social impacts, outcomes, and outputs. When appropriate, we will footnote terms that are defined differently in the various methodologies and explain, to the best of our knowledge, what they really mean.

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<sup>2</sup>The Robert Wood Johnson Foundation would like to thank the Bill & Melinda Gates Foundation for supporting earlier interviews with leading practitioners and experts that informed this work.



## Chapter 2

# Current State of Approaches to Measuring the Social Impact of Program-Related Investments

### 2.1 Lack of Maturity in Mission-Investing Evaluation

The social sector has only begun to measure the social outcomes of programs and grantmaking in the last few decades, much less the social outcomes or social outputs of PRIs and other mission investments. Given the lack of maturity in social program evaluation in the social sector, including efforts by funders, nonprofit organizations and the government, it is not surprising that efforts to evaluate the impact of PRIs are at a nascent stage. A recent paper published by the Bill & Melinda Gates Foundation found that “the field of social program evaluation—the process of collecting social impact and social outcome data—are not very well developed or established in the social sector.”<sup>viii</sup> In many ways, the challenges associated with measuring the social impact of PRIs are similar to those for measuring the social impact of charitable grants. These overlapping challenges include interdependencies, inconsistent use of language, lack of common measures in the social sector, and lack of quality data on impacts, outcomes, and outputs.<sup>3</sup>

Based on interviews with leading foundations engaged in mission investing, including program-related investments and mission-related investments, experts in making PRIs, and a scan of the literature, the practice of measuring the social impact of PRIs is at the earliest stage of development.<sup>4</sup>

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<sup>3</sup>For a more in-depth discussion of these common issues in measurement, please see the paper “Measuring and/or Estimating Social Value Creation: Insights Into Eight Integrated Cost Approaches” by Melinda T. Tuan.

<sup>4</sup>Based on the small sample of foundations engaged in MRIs, there appears to be little difference between foundation approaches to measuring the social impact of program-related investments vs. mission-related investments; both are at early stages of development.

## 2.2 A Variety of Purposes

There are a variety of reasons leading PRI makers and other impact investors are measuring the social impact of their investments. In general, there are seven primary rationales for measuring:

### 1. **To demonstrate the value of an individual investment post-investment**

Every foundation interviewed for this report is measuring or planning to measure the social impact of its individual investments. This is not surprising given the legal requirements surrounding PRIs in particular. For example, the California HealthCare Foundation began making PRIs in October of 2010. Margaret Laws, director, Innovations for the Underserved, plans to measure the impact of individual PRIs by tracking the ability of funded innovations “to spread and demonstrate penetration across a population of interest and generate significant cost savings.”<sup>ix</sup> Only a few of the foundations interviewed for this report are actively measuring the social impact of their PRIs for the purpose of comparing one PRI to another in their portfolio.

### 2. **To inform foundation resource allocations pre-investment**

The F.B. Heron Foundation has developed an internal rating system to aid in its PRI resource allocation decision-making. This rating system incorporates social impact factors such as innovation, scale, and leverage with projected credit risk ratings, which allows Heron to make relative comparisons between new and existing PRI opportunities (see 3.2).

### 3. **To demonstrate the value of PRIs as a valid foundation investment strategy**

Several leading national foundations, including the Bill & Melinda Gates Foundation, have recently launched a multiyear, largely experimental, PRI portfolio investment strategy. These pilot programs are designed to test whether the foundation can successfully make PRIs that will complement and ideally help accelerate or scale the outcomes of their grantmaking priorities.

For these foundations, their primary purpose in measurement is to demonstrate the financial, operational and social value of making PRIs, with the hope that foundation leadership will commit additional funds and support for PRIs once the pilot is complete. Julie Sunderland, senior program investment officer at the Bill & Melinda Gates Foundation described one of the foundation’s major goals for measuring the social impact of their PRIs: “to mainstream PRIs as a tool for the foundation.”<sup>x</sup>

#### 4. To enable comparisons between PRIs and charitable grants

A couple of foundations interviewed for this report are trying to measure or track the impact of using grant dollars versus PRIs or the benefits of combining the two financial instruments. In these cases, the “but/for” test of whether the social impact could only have been achieved by making a PRI (as opposed to a charitable grant) is the most commonly used measure. As Susan Phinney Silver, program-related investment officer at the David and Lucile Packard Foundation explained, “(At Packard), we’re assessing what would happen if the (impact) capital was not there.”<sup>xi</sup> The Acumen Fund (which is not a foundation) uses its BACO Ratio measurement methodology (see 4.2) specifically to compare the projected social impact<sup>5</sup> of a prospective for-profit investment to a similar sized grant made to a charitable organization.

#### 5. To demonstrate the value of PRIs as a proof of concept for the philanthropic field

The F.B. Heron Foundation and in particular Luther Ragin Jr., former vice president, Investments, has been an eloquent voice encouraging other foundations to invest their assets in what they call mission-related investments (MRIs).<sup>6</sup> Heron’s MRIs are proactive investments with substantial benefits to low-income families and communities (see 3.2). By investing an increasing percentage of the foundation’s assets in MRIs over time, and publishing the strong financial returns of their mission-related portfolio, Heron is conveying the question to other foundations across the sector: “*Should a private foundation be more than a private investment company that uses some of its excess cash flow for charitable purposes?*”<sup>xii</sup> Similarly, Charly and Lisa Kleissner, co-founders of the KL Felicitas Foundation, are purposefully tracking and sharing the results of their mission investing in order to “demonstrate this is totally feasible for big and small players alike.”<sup>xiii</sup>

#### 6. To assess whether PRIs are promoting desired policy changes at the systemic level

Only one foundation interviewed for the project is explicitly trying to measure the social impact of its PRIs to determine whether policy change and systems change is occurring as a result. Debra Schwartz, director of

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<sup>5</sup> Acumen Fund’s BACO methodology uses the term “social impact” to describe “social outputs” (e.g., they describe person years of malaria protection as a “social impact”).

<sup>6</sup> F.B. Heron Foundation includes PRIs and a wide spectrum of financial first and impact first investments under the umbrella of “mission-related investments.”

Program-Related Investments at the John D. and Catherine T. MacArthur Foundation described their efforts, saying, “We have a field transformation objective. While we do survey our PRI recipients annually and take stock of the number of preserved affordable housing units we have funded, ultimately this is a means to a larger end: creating real-world results that raise the visibility of a specific problem, generating insight into potential solutions and building the credibility and voice of champions who work to change policy and markets at a systemic level (see 3.4).”<sup>xiv</sup>

**7. To increase dollars invested in impact investments by creating measurement standards for the entire impact investing field**

There are several different efforts to create standards for the impact investing field. The one that appears to have achieved the most traction to date is the Global Impact Investing Network’s (GIIN) efforts to develop Impact Reporting and Investment Standards (IRIS) (see 4.3). The Rockefeller Foundation has been instrumental in supporting the creation of GIIN and IRIS in the hope that IRIS will become the common standard for impact investment measurement across the spectrum of impact investors. They believe the increased transparency and credibility in how to define, track, and report on the social and environmental performance of impact investments will lead to significant growth of the impact investing industry.

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## **2.3 No Single Methodology**

The impact investing field is in its early stages of development, and as such, there are numerous approaches to and methodologies for measuring the social impact of these investments, including PRIs. However, many methodologies are not available to the general practitioner community. Lisa Kleissner observed, “there are many tools that one can use to measure impact—impact measurement is a ‘green field’ with a few players who share their approaches with others, some with proprietary methodologies, but mostly foundations seem to be reticent to talk about how they measure impact.”<sup>xv</sup> While IRIS (see 4.3) has formal adoption partnerships with a handful of non-foundation aggregator organizations, it is too early to tell whether IRIS will achieve the widespread approval and adoption necessary to become the standard for measurement in the impact investing industry. Additionally, it is unclear whether foundations in particular will adopt IRIS to measure the results of their PRIs.

## 2.4 Additional Research Opportunities

Foundations' efforts to measure the social impact of PRIs are clearly at an early stage. Given this reality, it may be useful to commission updated research on social impact measurement practices in the broader impact investing field. In their 2006 report "Investing for Impact: Managing and Measuring Proactive Social Investments," Kramer and Cooch discuss how some foundations, corporations, and multilateral organizations measure the financial, social, and environmental benefits that they produce. Kramer commented on this earlier research, saying, "We found that corporations and multilaterals were more sophisticated at measuring the results of their impact investments than foundations." <sup>xvi</sup> It would be interesting to learn more about how non-foundation entities are measuring the social impact of their impact investments and delve more deeply into the more advanced practices through current case examples.

## Chapter 3

# Examples of Foundation Approaches to Measuring the Social Impact of Program-Related Investments

The following are examples of how several leading foundations approach measuring the social impact of their program-related and other mission investments. The featured foundations offer distinct approaches to measurement that are available to the public.

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### 3.1 David and Lucile Packard Foundation

The David and Lucile Packard Foundation was created in 1964 by David Packard, the co-founder of the Hewlett-Packard Company, and Lucile Salter Packard. Throughout their lives in business and philanthropy, the Packards sought to use private funds for the public good, giving back to a society which enabled them to prosper. Guided by the business philosophy and values of its founders, the Foundation invests in and takes smart risks with innovative people and organizations to improve the lives of children, enable the creative pursuit of science, advance reproductive health, and conserve and restore earth's natural systems.

Since the mid-1980s, in addition to making grants, the Foundation has invested in a variety of program-related investments to support its overall goals and objectives to support transformational impacts and innovation, and to help its grantees grow into financially sustainable organizations and borrowers. Investment types include loans, equity and guaranties. These investment strategies are typically employed when a traditional grant is not the most appropriate use of funds, and where a loan or investment enables the organization to seize larger-scale and time-sensitive opportunities than would otherwise be possible. According to Mary Anne Rodgers, general counsel, as of 2010, Packard has invested over \$450 million in over 200 PRIs. As of 2011, the Foundation has a \$180 million allocation from the endowment for PRIs and MRIs with an expectation that between \$15–\$30 million of that will be deployed on an annual basis.

Rodgers and Susan Phinney Silver, program-related investment officer, commented that Packard’s approach to measuring the results of its PRIs has progressed from an initial perspective that “success was repayment” to realizing that a lot more can and should be measured. Today, the Foundation measures social impact in several ways:

- Counting social outputs, e.g., acres of land conserved, clinics constructed on a portfolio-wide basis
- Agreeing, for each PRI, on specific impact benchmarks or metrics against which that PRI will be measured, and incorporating these into each loan agreement
- Collecting anecdotes, e.g., how an organization or market changed as a result of using a PRI
- Conducting “but/for” analyses—but/for Packard’s PRI, would the social outputs—such as number of micro-loans made, jobs saved, jobs created, people served—have been achieved?

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### 3.2 F.B. Heron Foundation

The F.B. Heron Foundation (Heron) is a New York City-based private, grantmaking institution dedicated to supporting organizations with a track record of building wealth within low-income communities. The Foundation was created in 1992 with the mission of helping people and communities to help themselves. Toward this end, Heron provides grants to and investments in organizations that promote wealth-creation strategies for low-income families in urban and rural communities in the United States and philanthropic practices that support those strategies. These strategies include home ownership, enterprise development, access to capital, and effective practices in philanthropy.

Since the late 1990s, in addition to making grants, Heron has made investments from its endowment to support its mission. These mission-related investments include PRIs to nonprofit or for-profit organizations whose work closely corresponds with the Foundation’s programmatic interests (a majority of PRIs are made to its grantees); market-rate insured deposits in low-income designated credit unions or community development funds; and other mission-related investments with substantial social benefits to low-income families and communities.



Over time, Heron has steadily increased the level of its assets invested in mission-related efforts with strong financial and social returns. At the end of 2009, over 45 percent of Heron's assets were deployed in mission-related investments. Including grants, over 50 percent of its assets in 2009 were deployed in service of its mission.<sup>xvii</sup> In 2010, about two-thirds of Heron's PRIs were made to current or former grantee organizations.

Heron's goal for measuring the impact of its mission-oriented investing activity is to assess whether the Foundation is able to demonstrably achieve more social impact than if it used grantmaking alone. Heron tracks the social impact of its PRIs by using an internal rating system called the "PRI Impact Rating Tool." This tool is used by Heron in PRI resource allocation decision-making whereby PRIs are graded on a scale of A-B-C with a forced distribution of 25 percent A, 50 percent B, and 25 percent C. The factors considered in deciding on a grade include: innovation, scale, leverage, and other qualitative performance data. In addition, each PRI has its own distinct social metrics which are part of a negotiated performance contract with the Foundation and also receives a credit risk rating ranging from 1–5. The PRI Impact Rating Tool includes the scores for both social impact and credit risk rating to give a combined score (e.g., 3C or 4A) and these scores are used to make relative comparisons among PRI opportunities (new and existing) in an effort to better allocate scarce PRI resources. The PRI Impact Rating Tool does not attempt to aggregate data.

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### 3.3 Annie E. Casey Foundation

Founded in 1948, the primary mission of the Baltimore, Maryland-based Annie E. Casey Foundation (AECF) is to foster public policies, human-service reforms, and community supports that more effectively meet the needs of today's vulnerable children and families. In pursuit of this goal, AECF makes grants that help states, cities, and neighborhoods fashion more innovative, cost-effective responses to these needs. In general, the Foundation's grantmaking is limited to initiatives in the United States that have significant potential to demonstrate innovative policy, service delivery, and community supports for disadvantaged children and families.

AECF began investigating using its endowment investments to strengthen its grantmaking in 1998. By 2002, AECF established a formal Social Investments portfolio which has a \$125 million investment allocation, representing



approximately 5 percent of the endowment. AECF makes three types of social investments: PRIs, mission-related deposits, and mission-related investments—in support of the Foundation’s mission and programmatic objectives.

The Foundation measures the impact of its social investments on two levels <sup>xviii</sup>:

1. Population-level impact—which includes increased access to services, reductions in poverty, public policy that responds to the needs of families, improved infrastructure, increases in jobs, homeownership, earnings, etc. The Social Investment program utilizes research already conducted by other AECF programs or partners that collect objective data on macro-level outcomes in targeted neighborhoods.
2. Deal-specific impact—which are established on a case-by-case basis and written into the covenants of the individual investment agreements. Quantifiable impact targets may include specific numbers of affordable housing units developed, small businesses financed, jobs created, etc. These impacts are measured on an ongoing basis as part of each organization’s reporting requirements.

AECF created a dashboard to track the financial and social impact of its PRI portfolio at a glance (see Appendix D). This dashboard has proved useful in tracking the overall performance of the PRI portfolio on a monthly basis. The following is an excerpt of the social outputs tracking portion of AECF’s dashboard.

	Total Projected	Actual to date (12/31/09)	% achieved to date		Projections Through
Charter school slots	6,300	2,065	33%		2016
Child care slots	175	329	188%		2011
Commercial space developed (sq ft)	2,174,082	472,982	22%		2039
Jobs created	3,909	4,964	127%		2039
Housing units developed	12,075	2,292	19%		2039
Affordable housing units developed	7,599	2,684	35%		2039
Small businesses financed	301	100	33%		2017

\*Social Impact reports are generally due 120 days after the end of the fiscal year.

Source: Annie E. Casey Foundation

The W.K. Kellogg Foundation, with the assistance of Imprint Capital Advisors, has also developed a social metrics dashboard. Kellogg’s dashboard includes basic social outputs, such as the number of children reached, number of families reached, jobs created, financial services offered, and high-quality education slots created.

AECF has been wondering recently whether tracking the individual outputs of their investments is sufficient. Christa Velasquez, former director of Social Investments stated, “We will still track outputs, but our money is in so early, who knows by the time the housing units are built who is actually living there, what their income level is, and whether they have a savings account?” In many ways, given AECF’s focus on achieving influence and leverage in its grantmaking, it may make more sense for the Foundation to measure the impact of its PRIs based on their ability to influence other players to invest, leverage new dollars, and potentially change the landscape of a market.

Tom Kelly, associate director for Evaluation recalled, “We had a meeting of the minds after staring at our dashboard. An ‘Aha!’ moment when we suddenly realized that whether we developed 100 versus 200 housing units did not matter as much as whether we attracted CitiBank to invest in the affordable housing market and now 500 poor families are living in a community which now has access to capital over the long-term.”<sup>xix</sup> Tracy Kartye, associate director of Social Investments added, “We are beginning to see that PRIs are about making the capital markets work for the benefit of the foundation’s mission.”<sup>xx</sup>

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### 3.4 John D. and Catherine T. MacArthur Foundation

The John D. and Catherine T. MacArthur Foundation (MacArthur) supports creative people and effective institutions committed to building a more just, verdant, and peaceful world. Since the mid-1980s, MacArthur has invested in PRIs across a variety of fields, most notably community development finance and affordable housing.

The Foundation is using PRIs as a means to drive policy change through its Window of Opportunity initiative to preserve affordable rental housing across the country. Of the \$150 million invested in this initiative since 2000, \$100 million is in the form of PRIs. Through complementary grants, MacArthur also funds policy analysis, data collection, and technical assistance to encourage investment in rental housing and to promote sound policies at federal, state, and local levels.

MacArthur sets measurement goals such as units of affordable housing preserved and capital leveraged, but ultimately considers those measures as simply outputs and outcomes and not the impact of the initiative. Debra Schwartz, director of

Program-Related Investments explained, “At the end of the day, if we preserve 300,000 units of housing and nothing has changed in the policy world, we would not consider the initiative a success.” Schwartz added, “Even though that would mean 600,000–800,000 people having better living conditions plus more people going in and out over the next 15 years...this would not be a success if we did not also transform the politics around this issue and stimulate the policies needed to keep our affordable rental housing stock in good shape over the long run.” <sup>xxi</sup>

In order to assess the outcomes and impact of the Windows of Opportunity initiative, MacArthur gathers data, including the number of housing units preserved and total capital leveraged, from all of its PRI recipients through an annual survey conducted by PolicyMap, which posts the information on its public website. MacArthur also requires each PRI recipient to submit a detailed annual report. In addition to tracking the PRI recipients’ preservation activity, the PolicyMap survey collects data about the organizations’ other housing development activity (e.g., new construction projects), which helps inform analysis of the cost-effectiveness of preserving affordable rental housing. MacArthur began with the hypothesis that it is less expensive to preserve than build new rental housing units and the data have verified that this is generally true.

These findings are now being tested and built upon through a rigorous academic study funded by MacArthur’s housing program. By disseminating these types of data, MacArthur aims to help all of the organizations funded through the Window of Opportunity initiative (grantees and PRI recipients) make a more persuasive and effective case for preservation among policy-makers. Through other forms of reporting and evaluation, MacArthur is tracking policies regarding preservation across the country over time to assess whether and how systems change is occurring.

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### 3.5 KL Felicitas Foundation <sup>xxii</sup>

The KL Felicitas Foundation (KLF) was created in 2000 by Charly and Lisa Kleissner to enable social entrepreneurs and enterprises worldwide to develop and grow sustainably, with an emphasis on rural communities and families. KLF uses a wide range of investment vehicles to support social enterprises, including grants, social loans, loan guarantees, and private equity. Whereas most foundations make mission investments to complement their grantmaking strategies, KLF makes charitable grants to complement its active mission investing portfolio.

KLF has a policy whereby they will only use grants to further mission investments and will commit, where it makes sense, to a multiyear grant to signal the importance of this type of support over the critical first years of a fund or enterprise. As of December 31, 2010, over 65 percent of KLF's \$10.4 million in assets were invested in mission investments, including PRIs and mission-related investments. By 2013, KLF plans to have over 90 percent of its assets placed in mission investments.<sup>xxiii</sup>

KLF uses a disciplined approach to evaluating potential mission investment opportunities and ensures that each investment is aligned with its values, mission and programs. Due to this rigorous approach, Lisa Kleissner, KLF's co-founder, states, "We know that these investments provide social and environmental impact through our due diligence. So the purpose of social impact measurement is more about sustaining it."<sup>xxiv</sup> In order to measure the social impact of its investments, KLF collects three different types of information on its investment portfolio:

1. Since 2010, KLF has been using the Impact Reporting and Investment Standards (IRIS) taxonomy, a common language for describing the social and environmental performance of an organization, to monitor and evaluate the impact of its investments over time (see 4.3 for more information about IRIS). KLF collects IRIS data from investees at a regular interval and compiles the information to render the overall impact of the investment portfolio. KLF evaluates its impact by monitoring seven "core indicators" including: 1) total number of clients, 2) jobs created, 3) direct investment—number of investments, 4) new investment capital (\$), 5) contributed revenue, 6) earned revenue, and 7) net income. The following is an excerpt of the IRIS indicators KLF tracks related to social impact (see Appendix E for a complete list of all indicators).

**Figure 1:** Identified Core IRIS Indicators for KL Felicitas Foundation

	IRIS Indicator	Definition
Product Impact	<b>Number of Clients</b> (PI7094)	The number of individual consumers served by the organization.
	<b>Jobs Created in Financed Enterprise</b> (PI3687)	Net number of new FTE jobs at financed enterprise (including self-employed individuals and owners of businesses).

Source: KL Felicitas Foundation

2. The Foundation collects qualitative indicators, many of which are anecdotal, which, combined with the hard IRIS data, provide KLF with a fuller understanding of the impact of its investment activities. In particular, these data help the Foundation see how and whether KLF's investment helped an organization achieve greater scale. Kleissner commented: "Easily measured indicators like 'units sold' don't tell a very compelling story by themselves... but when combined over time with qualitative indicators, they enable us to understand impact and render outcomes." <sup>xxv</sup> Over the long term (> five years), KLF plans to compare the IRIS data with the qualitative indicators to determine whether there is any correlation or causal relationship between the two results. The following chart summarizes the qualitative indicators KLF tracks.

**Figure 2** Qualitative Indicators Used by KL Felicitas Foundation

KLF Qualitative Impact Indicators	Description
Catalytic Investment (Stage I)	An investment that causes or accelerates impact beyond the investment itself.
Business Model Innovation	Identify, nurture and share innovative business models.
Investment Combined with Grant Funding—Blended Capital	Equity investment or loan combined with grant capital provided by KLF.
Investment Combined with Public Support	Investment support alongside sizable publicly-sourced investment (e.g., public health care).
Alignment with Foundation Core Values	Close alignment with one or more of the Foundation's core values regarding sustainability, rural communities, and scaling innovation for high social impact.
Connect Beneficiaries with Capacity-Building Tools	Provide various technical assistance and capacity-building tools to the recipients of loans or investment support.

Source: KL Felicitas Foundation

3. KLF also collects sector-specific IRIS indicators. In late 2009, the KLF investment portfolio contained more than 30 different holdings in three major different clusters of activity. These clusters include health/sanitation/potable water, energy and environmental restoration, and conservation. Starting in early 2011, KLF will begin collecting sector-specific IRIS data for each of these impact clusters in its portfolio per Figure 3.

**Figure 3** KLF Supporting IRIS Indicators

Impact Cluster	KLF Supporting IRIS Indicators	Description
Health, Energy and Water	<b>Clients provided new access to energy, health care, water</b> PI2822	Number of clients, individuals or households who were served by the organization and provided access to products or services they were previously unable to access.
	<b>Energy Produced</b> PI8706	Energy produced during the reporting period (MWh).
	<b>Potable Water Produced</b> PI8043	Amount of potable water produced (l).
Land Conservation and Restoration	<b>Land Reforested</b> PI4907	Hectares of land reforested during the reporting period.
	<b>Land Preserved</b> PI2012	Hectares of land designated as a nature reserve.
	<b>Sustainable Cultivated Land Area</b> OI2605	Hectares under sustainable cultivation.

Source: KL Felicitas Foundation

The following table summarizes these five foundation approaches to measuring the social impact of PRIs for ease of reference.

**Table 1** Summary of Foundation Approaches to Measuring the Social Impact of Program-Related Investments

	Outputs	Anecdotes	But/For Outputs	But/For \$ Leverage	Impact vs. Grant	Innovation	Scale	Population Impact	Cost-Effectiveness	Change in Policy	IRIS
David and Lucile Packard Foundation	●	●	●								
F.B. Heron Foundation	●			●	●	●	●				
Annie E. Casey Foundation	●	●						●			
John D. and Catherine T. MacArthur Foundation	●	●							●	●	
KL Felicitas Foundation	●	●									●

## Chapter 4

# Other Relevant Approaches to Measuring Social Impact

Over the course of interviews with over three dozen leading PRI practitioners and experts in making and measuring the social impact of PRIs and other impact investments, key informants recommended several non-foundation examples of social impact measurement efforts as highly relevant to foundations.

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### 4.1 Pacific Community Ventures (Appendix F)

Founded in 1999, Pacific Community Ventures (PCV) is a community development venture capital fund that provides resources and capital to businesses that have the potential to bring significant economic gains to low/moderate income communities. PCV helps companies throughout California, and particularly in the Bay Area, Los Angeles, San Diego, and the Central Valley, gain access to capital, business advice, and critical business resources that will accelerate company growth.

PCV measures the impact of its investments across a variety of measures, including job creation, wages paid, diversity in employees, and benefits provided. Beth Sirull, executive director of PCV emphasized, “At PCV, we talk about impacts, but we’re aware that academics would say these are outcomes. We’re looking for indicators and proxies that can be measured and that we can see improve and that we believe we are influencing.” She added, “For our funds and advisory work, we want to see we’re creating jobs and economic opportunity in low-income communities...We’ve created competitive benchmarks, so others can look at our outcomes in comparison and make the leap of faith as small as possible.”<sup>xxvi</sup> The following is an excerpt from PCV’s annual report that highlights the social impact of PCV-financed and PCV-advised companies.



Pacific Community Ventures 2010 Summary			
	PCV Financed Companies	PCV Advised Companies	TOTAL
Number of companies supported in 2010	10	166	176
Job creation in 2010	5%	11%	9%
Low- and moderate-income employees as a percentage of the total workforce	58%	75%	63%
Percentage of companies offering health insurance to hourly employees	89%	62%	70%
Percentage of companies offering retirement benefits to hourly employees	78%	24%	40%

Source: Pacific Community Ventures

PCV's social impact measurement work has become a standard for a number of other institutions, including CalPERS. Through its consulting service, InSight, PCV offers consultative advice and services to help other institutions measure the social impact of their investments. InSight evaluates the non-financial performance of investment and philanthropic institutions in the United States, including 40 private equity funds, totaling \$1.2 billion investments. In 2010 InSight evaluated the social impact of over 260 companies, leveraging data on 70,000 of their employees.<sup>xxvii</sup>

## 4.2 Acumen Fund (Acumen) BACO Ratio (Appendix G)

Acumen Fund is a nonprofit global venture fund founded in 2001 in New York City. Acumen provides capital investments ranging from \$300,000 to \$2,000,000 in primarily debt or equity to a variety of institutions including nonprofit organizations and small, medium and large companies. These funds support business models with a payback or exit in roughly eight to 15 years that can be effective in reaching the “base of the pyramid” (BOP)—or the billions of poor. Acumen invests globally in five areas: water, health, housing, agriculture, and energy. Acumen developed its Best Available Charitable Option (BACO) Ratio methodology in 2004 to quantify a potential investment's social impact<sup>7</sup> and compare it to the universe of existing charitable options for that explicit social issue.

<sup>7</sup> Acumen Fund's BACO methodology uses the term “social impact” to describe “social outputs” (e.g., they describe person years of malaria protection as a “social impact”).



The following tables are excerpts from Acumen's sample BACO Ratio analysis comparing a loan investment to A to Z Textile Mills in Tanzania to manufacture long-lasting bed nets with making a grant to UNICEF to distribute traditional bed nets to protect people from malaria. In Table 3, the net cost of the investment and charitable grant are divided by the total projected social impact defined as person years of malaria protection. The resulting \$ cost per person year protected from malaria for the grant is divided by the resulting \$ cost per person year for the loan, producing the cost-effectiveness multiple, or BACO Ratio.

**Table 3: BACO Ratio**

		<b>BACO (ITNs)</b>	<b>Acumen Fund investment</b>
Net cost	[cost – return]	\$390,000	\$32,500
Total social impact	person years of malaria protection	464,286	200,000
<b>Net cost / Unit of social impact</b>	<b>\$ / person year</b>	<b>\$0.839</b>	<b>\$0.016</b>
<b>BACO RATIO</b>	cost-effectiveness multiple		<b>52</b>

Source: Tuan Melinda T. "Measuring and/or Estimating Social Value Creation: Insights Into Eight Integrated Cost Approaches." Bill & Melinda Gates Foundation, December 2008.

In Table 4, Acumen performs a sensitivity analysis using various scenarios for the projected financial return and social impact to select the BACO ratio deemed most likely for the investment. A more detailed explanation of the methodology can be found in Appendix G.

**Table 4: Scenario Analysis**

<b>SUMMARY of BACO Ratio Results</b>				
<b>Social Output</b>		<b>Financial Return</b>		
		(1) Return of principal + interest	(2) Return of principal only	(3) Complete loss
	(A) Initial projections, 2003	90	23	6
	(B) Conservative projections, 2004	<b>52</b>	16	4
	(C) Revised projections, 2006	28	7	2

Source: Tuan Melinda T. "Measuring and/or Estimating Social Value Creation: Insights Into Eight Integrated Cost Approaches." Bill & Melinda Gates Foundation, December 2008.

Acumen Fund pioneered the BACO Ratio methodology to help portfolio managers assess the prospective merit of an individual impact investment opportunity versus making a charitable grant. To date, Acumen portfolio managers have calculated BACO Ratios for all of their portfolio companies (some

retrospectively, some as part of the due diligence process) and there are about 34 active investments. While Acumen uses the BACO Ratio to make decisions about whether to make a particular social investment, it is possible foundations could use the BACO Ratio to make decisions about whether to make a PRI versus a grant in a particular situation. According to Brian Trelstad, chief investment officer at Acumen Fund, to the best of his knowledge, there are no other methodologies in existence that use the charitable grant as the benchmark for making a mission investment decision.<sup>xxviii</sup>

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### 4.3 Global Impact Investing Network and Impact Reporting and Investment Standards

The Global Impact Investing Network (GIIN) is a not-for-profit organization, conceived in 2007, which is dedicated to increasing the scale and effectiveness of impact investments—investments which aim to solve social or environmental challenges while generating financial profit. The GIIN supports collaboration, develops industry infrastructure, and undertakes research and advocacy to foster a coherent impact investing industry. The GIIN is developing financial, operational, environmental and social indicators that can ideally be used by all types of impact investors including foundations. The GIIN hopes that over time, by aggregating results across a multitude of investments, across multiple sectors, investors can compare investment performance on an apples-to-apples basis.

The Impact Reporting and Investment Standards (IRIS), an initiative of the GIIN, is a significant attempt to create measurement standards for the impact investing field. IRIS is a common language for describing the social and environmental performance of an investment, providing an independent and credible set of metrics for organizations to use when reporting on their impact. The IRIS indicators span an array of performance objectives including financial, operational, environmental and social metrics.<sup>xxix</sup>

A majority of the efforts to create standard indicators have focused on investments in emerging markets and sectors such as agriculture, energy, and micro-finance. The GIIN plans to develop specialized IRIS indicators for a wide range of sectors, incorporating existing standards where possible [e.g., the microfinance metrics developed by the social performance task force that are also used by MIX (Microfinance Information Exchange)] and ensuring a cross-section of each sector is represented in the taxonomy development process.

The Rockefeller Foundation has been instrumental in incubating and supporting the GIIN from its inception. Rockefeller, along with other key investors, launched IRIS in early 2009. According to Justina Lai, associate, the Rockefeller Foundation requires all of its PRIs to be IRIS compliant, which “allows the foundation to look across its investments in order to think more systematically about how we are achieving social impact.” Rockefeller is promoting use of IRIS as an industry standard, in the hope that as more people use IRIS and report up to the data aggregator, it will, as Lai emphasized, “make sure we’re all asking for the same metrics and not creating an onerous reporting burden.”<sup>xxx</sup>

## Chapter 5

# Big Picture Issues

There are a number of big picture issues involved with measuring the social impact of program-related investments, namely, the:

1. inconsistent use of language
2. lack of common measures
3. lack of systems integration
4. applicability of common social output measures across emerging markets and U.S. markets
5. cost/benefit of measurement
6. systems change as the social impact
7. ultimate outcome of measurement

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### 5.1 Inconsistent Use of Language

The field of impact investing, including PRIs, is relatively new. As such, many terms are being used throughout the field to describe the various methods and types of investing and much of the language used in reference to “impact investing” is confusing. The Monitor Institute described the variety of terms currently being used as “a Tower of Babel,” including: socially responsible investing, social investing, mission-driven investing, sustainable and responsible investing, blended value, value-based investing, mission-related investing, ethical investing, responsible investing, impact investing, program-related investing, triple-bottom line, and environmental, social and governance screening.

A few different organizations, including the Annie E. Casey Foundation and PRI Makers Network, have published a variety of definitions of terms. However, many of these are inconsistent with each other and subject to individual institutional interpretation. Grantmakers In Health included a comprehensive glossary of

terms as part of their 2011 publication “Grantmakers In Health Guide to Impact Investing.” According to Lisa Richter, principal of GPS Capital Partners and author of the guide and glossary, “Our goal is not to have our glossary adopted by everyone, but to help anyone better navigate the Tower (of Babel)...We tried hard to reconcile some of the babel so funders could figure out where they were in it.”<sup>xxxix</sup> In the absence of a standard lexicon for the impact investing field, it is difficult to clearly describe even what type of investment is being measured and evaluated. As Steven Godeke, principal of Godeke Consulting concluded, “‘Program-related investment’ is a legal definition but all the others are still up for grabs.”<sup>xxxix</sup>

In addition to the lack of standard language regarding impact investing, there is a lack of consensus in the social sector regarding the language of social impact. In particular, most organizations use the word “social impact” to describe what they are measuring, although they are most likely talking about social outputs, or less often, social outcomes. “Social impact” is more accurately defined as “the long-term sustainable and sometimes attributable change due to a specific intervention or set of interventions,”<sup>xxxix</sup> whereas social outputs are defined as the direct and tangible products from the activity (e.g., the number of people trained). Social outcomes are defined as the changes that occur over time following an intervention or set of interventions.<sup>xxxix</sup>

Kleissner of KLF observed, “There hasn’t been a serious effort to standardize the language we’re talking about. Other foundations are doing similar work, but our definitions vary so widely.” For example, a job created or an increase in income can mean different things for different people. Kleissner suggested “(Developing and) using a common language would be a hugely useful tool for the sector.”<sup>xxxv</sup> In the absence of a common language regarding impact investing and social impact, it will be challenging to effectively discuss the various approaches to measuring the social impact of PRIs and other impact investments.

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## 5.2 **Lack of Common Measures**

Outside of Pacific Community Venture’s InSight efforts and the GIIN’s work with IRIS, very few common measures are currently being used to evaluate the social impact of PRIs and other impact investments. The issues related to the lack of common measures for impact investing are directly resulting from the variety of purposes for measurement and the lack of common language for impact investing

itself. For example, until the field defines exactly what “one job created” means (e.g., a full-time job with benefits or a part-time position), it will be difficult to measure how many jobs were created and speak to the quality of those jobs and their impact on the individuals in those positions.

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### 5.3 Lack of Systems Integration

Historically, a firewall has stood between the investment side and program side of most foundations. The investment staff typically works to maximize financial returns for the foundation endowment to ensure the corpus generates income for grantmaking into perpetuity and uses standard financial management systems to track their investments. The program staff focuses on making charitable grants to maximize social return and often develop their own tracking systems to measure social outputs, outcomes and impact.

Some foundations are finding it difficult to integrate their disparate financial management and social output/outcome tracking systems to generate a single report for PRIs that captures both financial and social performance results. For example, one major foundation designed an ambitious measurement plan for its PRIs, incorporating financial and social metrics, but found it could not implement the plan until the program side had completed its social outcome measurement system redesign. However, the foundation soon realized the redesigned systems could not capture the financial metrics necessary to track PRI repayments and they already knew the financial management system was not designed to capture social outputs or outcomes. Caught between these two systems, the PRI investment staff resorted to using excel spreadsheets to track their results, recognizing this was not a long-term solution for its growing PRI portfolio.

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### 5.4 Applicability of Common Social Output Measures Across Emerging Markets and U.S. Markets

To date, a majority of the GIIN’s work through IRIS to standardize measures for impact investing has focused on investments in emerging markets. A number of foundations have expressed concerns about the applicability of the IRIS indicators to its portfolio of domestic PRIs. In addition, some foundations

are questioning whether the types of measures that can be standardized into common indicators (e.g., acres of land, number of seats in schools) are sufficient to demonstrate social impact.

Trelstad of the Acumen Fund commented, “While there is a common indicator in health care, namely the disability-adjusted life year (DALY), which is a universal standard for measuring the impact of all health interventions: global, domestic, rich diseases, poor diseases; it would be hard to create a DALY-like metric in other sectors such as energy, sanitation, or education that would allow you to compare across developed and developing markets, not to mention across sectors.” <sup>xxxvi</sup>

In order to help answer this question of whether common measures can be applied across emerging markets and U.S. markets, and be useful to foundations interested in PRIs in particular, the Packard Foundation is embarking on a pilot project to use the IRIS indicators for its PRI portfolio. This pilot will involve running a subset of the Packard PRI portfolio (primarily international investments) through IRIS to see how/if it works for its measurement needs. Packard aims to share its findings with the PRI Makers Network and hopes to answer the question of whether, how, and under what conditions foundations should be encouraged to use IRIS.

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## 5.5 Cost/Benefit of Measurement

Measuring the social impact of PRIs requires resources. Collecting and analyzing financial, operational, and social performance data can be very expensive and time consuming. There is a cost/benefit to implementing any methodology for measuring the social impact of mission investments. The cost of collecting social impact data largely rests on the funded entities, and this can be a significant burden on organizations, especially if the types of data required by the investor are not inherent to the investee’s information collection systems. These costs, while not insignificant for collecting social output data, will be significantly higher if there is an expectation for measuring social outcome data. In most cases, foundations and other impact investors have decided to forego measuring social outcomes and are focusing their efforts instead on collecting social outputs as a proxy for social change. However, without tracking social outcomes or social impact, it may be difficult to demonstrate that positive change has occurred, or whether that change can be attributed at least in part to the investment.

## 5.6 Systems Change as the Social Impact

The most significant and lasting social impact of PRIs may be their unique role in creating systems change—to create financial markets which did not previously exist. For example, to develop a market for products and services that would otherwise not reach the underserved, or to create demand for well-paying jobs which offer health benefits and ownership opportunities.

According to Eric Hallstein, director, Investments at Omidyar Network (ON), while ON disburses roughly half of its funds through grants, ON explicitly chooses to make PRIs instead of grants when they believe that a vibrant, liquid market can exist for a product or service that will create opportunities for people to improve their lives. “We are hesitant to provide a grant when we think it could distort the sector” explains Hallstein. ON wants its mission investing to encourage commercial investors to enter these markets in the future. For this reason, Hallstein explained, “PRIs are a really important and meaningful tool for this kind of market-creating situation...the scale of commercial capital available is so much greater than the total grant capital in the world.” <sup>xxxvii</sup>

If the true social impact of PRIs is systems change, foundations and other impact investors will need to surmount significant challenges related to the measurement of systems change, including the long-time horizons required to measure most systems change efforts; the issue of attribution and counterfactuals (e.g., did the systems change happen because of the PRI? Would the change have happened if the PRI investment was not made?); the lack of sophistication in the evaluation field regarding systems change measurement; and the resistance within many foundations to talk explicitly about systems change as a goal or strategy of the foundation. Julie Sunderland, senior program investment officer at the Bill & Melinda Gates Foundation, reflected on these challenges, “It’s so hard to get systems to change and people are uncomfortable with the concept of moving the field...And (even) if we did successfully open up a capital market, while I’d love to take credit for it, I don’t know how we’d tease that out.” <sup>xxxviii</sup> Debra Schwartz of the MacArthur Foundation, added, “And what is the right metric to judge whether a larger system has changed?” <sup>xxxix</sup>



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## 5.7 Ultimate Outcome of Measurement

Even if the sector is able to produce standardized, high-quality methods for measuring the social impact of PRIs and other impact investments, the question remains whether this will drive greater adoption by the philanthropic field and more investment dollars to PRIs and impact investing overall. Luther Ragin Jr., summed it up in this way: “I have yet to see an impact assessment of any of these impact measurement systems. At the end of the day, the value in measurement lies in the answer to this question: ‘Does it move capital?’” <sup>xl</sup>

## Chapter 6

# Summary of Issues and Implications for the Robert Wood Johnson Foundation and the Field

The following are seven summary points regarding the various approaches to measuring the social impact of program-related investments:

1. Social impact measurement of PRIs is in the early stages of development.
2. The leading approaches profiled represent a variety of purposes for measuring the impact of PRIs and other impact investments.
3. There is no single methodology or common standard for measuring the social impact of PRIs or other impact investments at this time, although there are some promising practices.
4. There are many unresolved big picture issues inherent to the nascent impact investing industry which may affect the overall progress toward, and utilization of, measurement methodologies for PRIs and other impact investments.
5. The lack of a common language for both impact investing and social impact measurement is a significant barrier to the adoption of any standardized approach to measurement.
6. It is possible that one of the fundamental social impacts of PRIs is systems change, which is inherently challenging to achieve and measure.
7. Even if the field is able to produce standardized, high-quality social impact measurement methods, it is unclear whether this will drive greater adoption of mission investing by foundations and increased dollars to PRIs and other impact investments.

In moving forward toward better social impact measurement practices in the PRI and greater impact investing field, it is essential for those engaged in this work to keep these points and limitations in mind. As RWJF and other foundations increase their efforts to measure the social impact of PRIs and other impact investments, it may be helpful to heed the following consensus recommendations from individuals interviewed for this report.

## 6.1 Clarify Purpose(s) for Measurement

A foundation's goals for making PRIs and measuring the social impact of PRIs should drive its measurement methodology. If, for example, the primary goal is to demonstrate that a pilot PRI program is worth continuing and funding at a higher level in the future, Susan Phinney Silver at the Packard Foundation suggests "it might not be the metrics that get you there faster." In Packard's case, a combination of simple metrics and speakers with anecdotes achieved ultimate board support for PRIs. Packard was able to show how a foundation PRI saved acres of land larger than the size of Delaware and Yosemite combined, helped transform PRI recipient organizations and build the land trust industry. Silver recommended to foundations and to RWJF in particular, "Think through to what extent metrics will provide measurement of impact versus individualized stories."

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## 6.2 Set Appropriate Expectations for Measurement

The PRI and impact investing field and especially the social impact measurement field for PRIs and other impact investments are fairly new, and therefore, expectations for the quality and depth of measurement should be set accordingly. Luther Ragin Jr. commented that whereas there is an opportunity to improve how foundations look at the impact of their investments, "to expect that PRIs are going to be a 7 or 8 on a 10-point scale for measurement, while grantmaking measurement hovers at a 3, there's dissonance there." He added, "Don't expect a level of achievement with PRIs that we haven't achieved with grantmaking in terms of measurement." <sup>xli</sup>

Regarding measurement of systems change or an individual PRI's contribution to policy change, Debra Schwartz cautioned foundations to have reasonable expectations: public policy will not change because of one foundation's efforts, "It's too big." Schwartz went on to say, "That's one of the challenges of PRIs. People become very idealistic about how they're going to change the market trajectory with a single PRI. While it's philanthropy's job to be bold and seek to achieve meaningful change, we also have to be realistic and humble. We need to set standards and goals that make sense, especially when thinking about a single investment in isolation." <sup>xlii</sup>

## 6.3 Keep it Simple

Tony Berkley, director of Mission Driven Investments at the W.K. Kellogg Foundation, warned, “Foundations are likely to make social impact measurement too complicated...they get bogged down in issues of causality and who measures what and this will get in the way.”<sup>xliii</sup> Matt HoganBruen, managing director at BAML Capital Access Funds, suggested, “It is possible to have too many social metrics...come up with four to five metrics that mean the most to you.”<sup>xliv</sup>

While the MacArthur Foundation collects a lot of quantitative data on its PRIs using a mix of tools (e.g., CDFI data, CARS data, third party evaluations), Debra Schwartz commented, “We are always looking for videos, news clips, photos and other qualitative information about our PRIs, to bring their impact to life. You always want to have data and hard numbers when making the case for a PRI strategy or investment. But knowing the numbers and the leverage you expect can only take you so far. Our Foundation tripled its level of PRI activity over the past decade—and I doubt we could have done this without telling the human side of the story in a compelling way.” She emphasized, “Don’t underestimate the power of simple examples and stories.”<sup>xlv</sup>

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## 6.4 Lead by Example

The most recent data show the percentage of all foundation PRI dollars invested in health range from 3 percent to 5 percent of total investments.<sup>xlvi</sup> RWJF, in particular, has a significant opportunity, and some have suggested an obligation, to lead in not only making PRIs, but in developing appropriate measures for health care impact investments to hopefully attract more investment in this space. Trelstad noted there are few organizations with measurement experience in health investing. HoganBruen commented, “The Robert Wood Johnson Foundation has a great opportunity to put together a well-designed, meaningful tool to measure the health outcomes of impact investments and provide an infrastructure for how to measure those outcomes. RWJF has the pedigree to impact the health care impact investing industry; to bring in more capital and influence policy. It is good for the field that RWJF is pursuing this.”<sup>xlvii</sup>

In addition, RWJF has the opportunity to coordinate the measurement efforts of other health PRI investors. Jackie Khor, senior advisor, Imprint Capital Advisors, suggested, “It would be helpful for the sake of the investees for the foundation to

make sure they caucus with other investors to make sure you're all on the same page. Create one set of indicators for everybody to use on an annual basis rather than five indicators for five different investors.”<sup>xlvi</sup> As potentially one of the largest investors in the health PRI space, RWJF can and should play the role of convener to ensure a more rational social impact measurement system is put in place and avoid re-inventing the wheel.

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## 6.5 Conclusion

In closing, the following quotes from individuals interviewed for this report summarize the Robert Wood Johnson Foundation's opportunity regarding measuring the social impact of PRIs and other impact investments in the field of health and health care:

*The Robert Wood Johnson Foundation has an important role to play in measuring the impact of social investing. RWJF has a deserved reputation for outcome-based funding, and I would look for the same out of their PRI platform. If bigger funders (such as RWJF) are able to track and quantify outcomes, and insist this is a core part of the field, we could shift the rhetoric and practice and get to something much more specific and concrete.*<sup>xlvi</sup>

*I would love for the Robert Wood Johnson Foundation to convene some work on measurement of impact investments in health and move this work forward.*<sup>1</sup>

*The Robert Wood Johnson Foundation has the opportunity to own this area.*<sup>li</sup>

## Chapter 7

# Authorship and Research Credits

This report was written and researched by Melinda T. Tuan.

Melinda is an independent consultant who works with the senior leadership of philanthropic organizations to research and create content regarding strategies for thoughtful and effective philanthropy. In addition to her current work with the Robert Wood Johnson Foundation, Melinda has served as a senior fellow with Rockefeller Philanthropy Advisors and a special advisor to Bridgestar/The Bridgespan Group. Other clients include the Edna McConnell Clark Foundation, the Bill & Melinda Gates Foundation, Grantmakers for Effective Organizations and the Eagles Youth Partnership, the philanthropic arm of the Philadelphia Eagles Football Team.

Previously, Melinda co-founded and managed REDF (formerly The Roberts Enterprise Development Fund) with Jed Emerson and George Roberts of KKR. REDF is a social venture capital fund that works with a portfolio of nonprofit organizations employing formerly homeless and low-income individuals in market-based business ventures. While at REDF, Melinda invested in a portfolio of 15 nonprofit organizations, running over 30 different businesses employing over 2,000 formerly homeless and low-income individuals over a seven-year period. In addition, she coordinated the design and development process for REDF's social return on investment (SROI) framework, and managed the development of REDF's ongoing assessment of social impacts (OASIS).

Prior to REDF, Melinda was a manager at a national health care nonprofit and a management consultant specializing in growth strategies for Fortune 500 companies. Melinda has volunteered with numerous community-based organizations in Honolulu, Boston, and the San Francisco Bay Area that serve homeless and very low-income populations. Additionally, she co-founded Boston Cares,

a nonprofit volunteer service organization, and was involved in the start-up of a social-mission driven company called Dayspring Technologies in San Francisco.

Melinda is recognized nationally for her work in high-engagement philanthropy, foundation effectiveness, evaluation, nonprofit capacity-building, and social enterprise. She has lectured at leading business schools in the country, including Stanford and Wharton, and published articles, business school cases, and a book chapter entitled “Cultivating a Culture of Measurement” in *Funding Effectiveness by Grantmakers for Effective Organizations*. Melinda currently serves on the Board of Managers for Evergreen Lodge, a social-purpose destination resort located just outside Yosemite National Park, and the Advisory Council for REDF.

Melinda graduated from Harvard University *magna cum laude* with a BA in Social Studies focusing on urban poverty and homelessness and she holds an MBA and certificate in nonprofit management from the Stanford Graduate School of Business. She resides in Narberth, Pennsylvania with her husband and three children.

## Appendix A

# Glossary of Terms<sup>lii</sup>

**Aligned Investing:** Using screening, shareholder activism, and proactive investing to engage all of a foundation's financial resources in achieving its mission goals.<sup>liii</sup>

**Community Investing:** Investments in communities underserved by traditional financial services. Such investments provide access to credit, equity capital, and basic banking products that otherwise would be unavailable. Globally, community investing enables local organizations to provide financial services to low-income individuals and households; capital to small businesses; and capital for vital community services, such as child care, affordable housing, and health care.<sup>liv</sup>

**Creative Capitalism:** A term publicized by Bill Gates, which advocates for a new form of capitalism in which companies harness market forces to generate profits while addressing social and environmental problems.<sup>lv</sup>

**Double-Bottom-Line (DBL)/Triple-Bottom-Line (TBL) Investing:** Investing that incorporates social and financial criteria (double-bottom-line) or social, financial, and environmental criteria (triple-bottom-line) into investment decision-making.<sup>lvi</sup>

**Environmental, Social, and Corporate Governance Investing (ESG):** An investing approach that takes into account the impacts of environmental and social considerations on financial performance. It is based on the idea that environmental, social, and corporate governance issues can affect the performance of investment portfolios to varying degrees across companies, sectors, regions, asset classes, and time.<sup>lvii</sup>

**Financial First Investors:** Investors who seek to optimize financial returns with a floor for social or environmental impact. These are typically commercial investors who seek out subsectors that offer market-rate returns while achieving some social or environmental good. They may do this by integrating social and environmental drivers into investment decisions, by looking for outsized returns in a way that leads them to create some social value (e.g., clean technology), or in response to regulations or tax policy (e.g., the Green Funds Scheme in the Netherlands or affordable housing in the United States).<sup>lviii</sup>

**Impact First Investors:** Investors who seek to optimize social or environmental impact with a floor for financial returns. These investors primarily aim to generate social or environmental good, and are often willing to give up some financial return if necessary. Impact first investors are typically experimenting



with diversifying their social change approach, seeking to harness market mechanisms to create impact.<sup>lix</sup>

**Impact Investing:** The practice of actively placing capital in businesses and funds that generate social and/or environmental good and at least return nominal principal to the investor.<sup>lx</sup> For foundations, this type of investing advances their mission and recovers the investment principal or earns a financial return. It includes investments by any private or community foundation, in any asset class, and for market-rate or below-market-rate returns on a risk-adjusted basis. The term also refers to investments by a broad range of investors for the purpose of generating social or environmental, as well as financial, returns.<sup>lxi</sup>

**Impacts:** The long-term sustainable and sometimes attributable change due to a specific intervention or set of interventions.<sup>lxii</sup>

**Inclusive Business:** Refers to sustainable business opportunities that are profitable and benefit low-income communities. These companies may also be considered social purpose businesses or social enterprises. Examples include direct employment of the poor, often through targeted development of supply chains, and the provision of affordable goods and services to them.<sup>lxiii</sup>

**Mission Investing:** Financial investments that seek to further a foundation's mission and recover the principal invested or earn financial returns.<sup>lxiv</sup>

**Mission-Related Investment (MRI):** Mission-Related Investments are investments that generate market-rate returns and also have a programmatic and/or social benefit.<sup>lxv</sup> Generally, mission-related investments are investments by any private or community foundation in any asset class that offer an expected market-rate financial return on a risk-adjusted basis as well as a social and/or environmental return related to the organization's mission. Some foundations use the term interchangeably with "mission investing" or "impact investing," even though these include both market-rate and below-market-rate investments.<sup>lxvi</sup>

**Outcomes:** The changes that occur over time following an intervention or set of interventions. Outcomes can be measured at a variety of levels: individual, organizational, community, system, funding stream, etc. Outcomes may be direct or indirect. Direct outcomes follow from the outputs (e.g., getting a job) and

indirect outcomes follow from the direct outcomes (e.g., increase in income due to the job gained).<sup>lxvii</sup>

**Outputs:** The direct and tangible products from the activity (e.g., the number of people trained).<sup>lxviii</sup>

**Program-Related Investment (PRI):** A special category of impact investments defined for private foundations in the Tax Code of 1969 as investments for which the primary purpose is to accomplish one or more of the foundation's exempt purposes, no significant purpose is the production of income or appreciation of property, and no purpose is influencing legislation or taking part in political campaigns on behalf of candidates (Internal Revenue Service 2010a). Foundations of all types use this term to refer to investments in any asset class that offer an expected below-market-rate return on a risk-adjusted basis.<sup>lxix</sup>

**Social Impacts:** See "Impacts."

**Social Investing:** Any type of investing that incorporates social or environmental, as well as financial, criteria into investment decision-making. Impact investing by foundations is a subset of social investing, as are shareholder activism and screening.<sup>lxx</sup>

**Social Sector:** A sector comprising organizations for which the primary mission is to create social rather than economic value for their owners or employees, or consumption value for their customers. Social sector organizations may be structured as not-for-profits, for-profits, hybrids, or cooperatives.<sup>lxxi</sup>

**Socially Responsible Investing:** A term often used to refer to screening of publicly traded stock portfolios. The Social Investment Forum (2010) defines it more broadly as an investment discipline incorporating social and environmental factors into portfolio management through a range of strategies, such as screening, shareholder advocacy, community investing, and venture capital that generates both social and financial returns.<sup>lxxii</sup>

**Triple-Bottom-Line Investing:** See "Double-Bottom-Line Investing."

## Appendix B

# Interview List

Brian Trelstad  
Chief Investment Officer  
**Acumen Fund**

C. Sted Garber, Investment Analyst  
Tracy Kartye, Associate Director of Social Investments  
Tom Kelly, Associate Director for Evaluation  
Christa Velasquez, former Director of Social Investments  
**Annie E. Casey Foundation**

Matt HoganBruen, Managing Director  
**BAML Capital Access Funds**

Julie Sunderland  
Senior Program Investment Officer  
**Bill & Melinda Gates Foundation**

Jed Emerson, Founder  
**Blended Value Group**

Tina Castro  
Director, Mission-Related Investments  
**The California Endowment**

Margaret Laws  
Director, Innovations for the Underserved  
**California Healthcare Foundation**

Shari Berenbach  
Former President and CEO  
**Calvert Foundation**

Arjan Schütte, Managing Partner  
**Core Innovation Capital**

Mary Anne Rodgers, General Counsel  
Susan Phinney Silver, Program-Related Investment Officer  
**David and Lucile Packard Foundation**

Nancy Roob, President and CEO  
**Edna McConnell Clark Foundation**

Luther Ragin Jr.  
Former Vice President, Investments  
**F. B. Heron Foundation**

Christine Looney  
Program Investment Officer  
**Ford Foundation**

Steve Godeke, Principal  
**Godeke Consulting**

Lisa Richter, Principal  
**GPS Capital Partners**

John Goldstein, Co-Founder  
Jackie Khor, Senior Advisor  
**Imprint Capital Advisors**

Debra Schwartz  
Director of Program-Related Investments  
**John D. and Catherine T. MacArthur Foundation**

Keecha Harris, President  
**KHA & Associates**

Lisa Kleissner, Co-Founder  
Will Morgan, Consultant  
**KL Felicitas Foundation**

Stuart Davidson, General Partner

**Labrador Ventures**

Jim Bunch, Director, Investments

Will Fitzpatrick, Former Director, Legal Affairs

Tie Kim, Controller

Eric Hallstein, Director, Investments

**Omidyar Network**

Beth Sirull, Executive Director

Ben Thornley, Director, Insight

**Pacific Community Ventures**

Peter Berliner, Managing Director

**PRI Makers Network**

Margot Brandenburg, Associate Director

Justina Lai, Associate

**Rockefeller Foundation**

Lakshmi Karan

Director of Impact Assessment

**Skoll Foundation**

Tony Berkley, Director of Mission-Driven

Investments

Huilan Krenn, Program Officer

**W.K. Kellogg Foundation**

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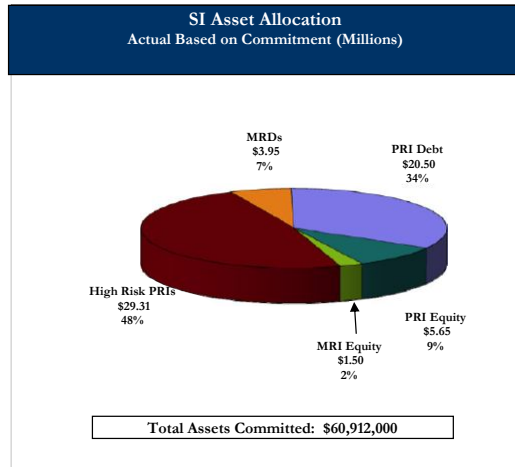


# Appendix D

## Annie E. Casey Foundation Dashboard



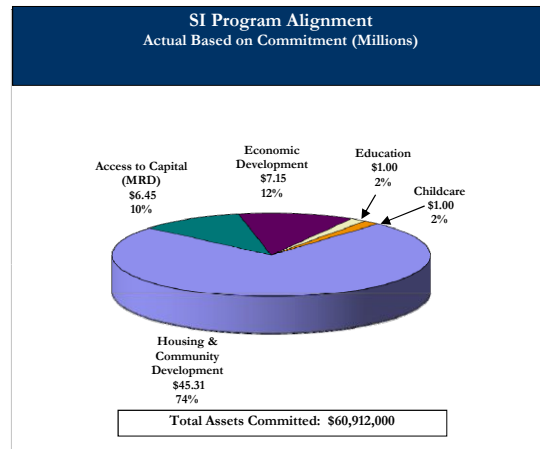
### The Annie E. Casey Foundation Social Investment Program As of December 31, 2010



Social Investments	#	Amount
Total Social Investments Approved	39	\$ 60,912,000
Social Investments Pending Approval	0	-
New Investments Approved in 2010	2	1,000,000
Total Investments Outstanding	38	51,446,243
Target Commitment		125,000,000
Amount Remaining to be Committed		64,088,000
Total Actual 1 Yr. Return	3.0%	

Target Allocation	Target	Actual
PRI	\$ 60,000,000	\$ 26,150,000
High-Risk PRI	\$ 35,000,000	\$ 29,313,000
MRI	\$ 20,000,000	\$ 1,500,000
MRD	\$ 10,000,000	\$ 3,949,000
Total	\$ 125,000,000	\$ 60,912,000
Guarantee	\$ 50,000,000	\$ 43,755,343

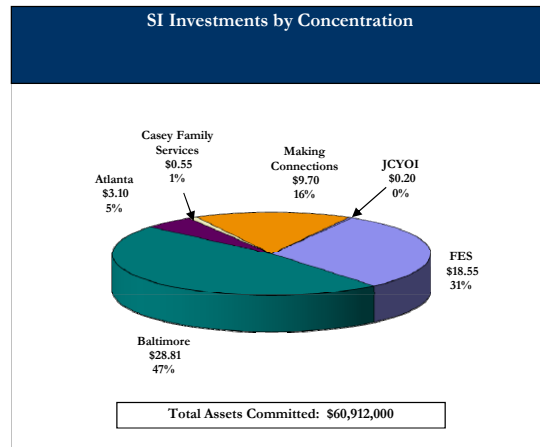
PRI & MRI Investments	#	Amount
PRI Commitments	14	\$ 26,150,000
MRI Commitments	1	1,500,000
PRIs Outstanding	14	17,730,913
MRIs Outstanding	1	1,039,736
Total PRI Expected Return	2.8%	
Total MRI Expected Return	15.0%	
PRI/MRI Expected Return	3.4%	
PRI Disbursed to Date	16	22,195,726
MRI Disbursed to Date	1	1,135,747



#### Social Investment Approaches

The social investment team primarily employs five investment approaches to direct a portion of the Foundation's assets in support of programmatic activities that improve outcomes for vulnerable children and families.

1. Mission Related Deposits (MRDs) - made in federally insured depository institutions including traditional banks, community development financial institutions, credit unions, etc. structured as insured certificates of deposit or share certificates.
2. Program Related Investments (PRIs) - support charitable purposes aligned with the Foundation's mission through below-market risk-adjusted loans, loan guarantees, or equity investments.
3. High Risk PRIs - support charitable purposes aligned with the Foundation's mission through below-market risk adjusted loans, loan guarantees, or equity investments with a higher risk profile than traditional PRIs.
4. Mission Related Investments (MRIs) - support charitable purposes aligned with the Foundation's mission and generate market rates of return.
5. Guarantees - support charitable purposes aligned with the Foundation's mission by attracting mainstream capital investors through the promise to repay debt if borrower is unable to do so.



## Appendix D Annie E. Casey Foundation Dashboard (continued)

Debt	#	Amount
Program Related Loan Commitments	12	20,500,000
Loans Outstanding	12	15,132,286
Loans Closed in 2010	1	500,000
Loans Approved, Closing Pending	0	-
Cumulative Loan Interest Earned		1,179,356
Average Maturity for Loans (Months)	77.9	
Loans Interest Rate, Weighted Average	2.5%	
Total Concessionary Rate Loans (PRI)	12	20,500,000
Total Non-Concessionary Rate Loans (MRI)	-	-
Loans Delinquent (%)	0.00%	
Total Write-Offs to Date	-	-
Principal Repayment		2,253,440

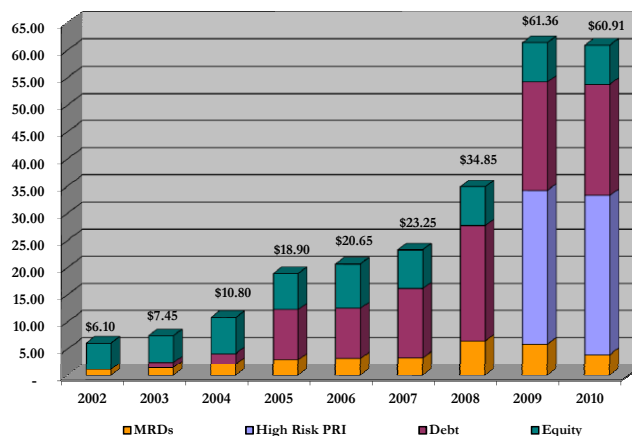
High Risk PRIs	#	Amount
High Risk PRI Commitments	6	\$ 29,313,000
High Risk PRI Outstanding	5	28,726,593
High Risk PRI Closed in 2010	1	500,000
High Risk PRI Disbursed to Date	6	28,813,000

Guarantees	#	Amount
Loan Guarantees	4	\$ 43,755,343
Guarantees Paid	-	-

Private Equity	#	Amount
Partnerships Commitments	3	\$ 7,150,000
Commitment Paid-In	3	5,945,747
Partnerships Closed in 2010	-	-
Valuation	3	3,040,214
Valuation plus Cumulative Distributions	3	5,393,632
Distributions in 2010	3	1,349,167
Cumulative Distributions	11	2,353,418
Total Concessionary Rate (PRI)	2	5,650,000
Total Non-Concessionary Rate (MRI)	1	1,500,000

Mission Related Deposits	#	Amount
MRDs Commitments	18	\$ 3,949,000
MRDs Outstanding	18	3,949,000
MRDs Disbursed to Date	30	8,300,000
MRDs New in 2010	0	-
Cumulative Interest Earned		1,086,554
Average Maturity (Months)	20.3	
Interest Rate, weighted average	1.6%	
Total Actual 1 Yr. Return	1.9%	

SI Portfolio Development  
Based on Commitment Approved (Millions)



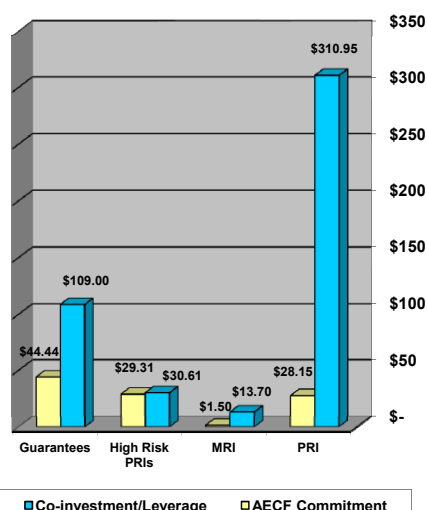
Investments with Early Stage Approval	Amount	Purpose	Status
Boston Community Capital	\$2,000,000	Stabilize Urban Neighborhoods Initiative - Finance purchase of foreclosed homes pre-eviction from mortgage lenders and resell to existing occupants. Focused in Boston.	Due Diligence
Corporation for Supportive Housing	\$2,000,000	Develop permanent supportive housing for homeless and at-risk subpopulations in several high-need AECF markets nationwide.	Due Diligence
New Jersey Community Loan Fund	\$2,000,000	Preserve and stabilize neighborhoods by financing acquisition and rehabilitation of foreclosed properties and acquiring bulk nonperforming residential mortgages.	Due Diligence
TRF East Baltimore Loan Fund	\$5,000,000	Finance high-impact housing, school, supermarket and other commercial real estate projects in Baltimore with a focus on East Baltimore	Due Diligence

Source: Annie E. Casey Foundation

**SI Results**

	Total Projected	Actual to date (12/31/09)	% achieved to date		Projections Through
Charter school slots	6,300	2,065	33%		2016
Child care slots	175	329	188%		2011
Commercial space developed (sq ft)	2,174,082	472,982	22%		2039
Jobs created	3,909	4,964	127%		2039
Housing units developed	12,075	2,292	19%		2039
Affordable housing units developed	7,599	2,684	35%		2039
Small businesses financed	301	100	33%		2017

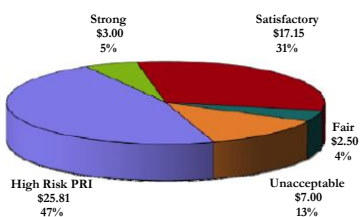
\*Social Impact reports are generally due 120 days after the end of the fiscal year.

**Co-Investment Leverage**  
as of 12/31/10 (Millions)

**Portfolio Highlights**

-On December 27, 2010, Bay Area Equity Fund I made an in-kind distribution of 43,741 shares in portfolio company Tesla Motors, Inc. to the Foundation. This distribution was valued at \$1.3 million, representing 8.7x the cost basis of the Fund's investment in Tesla. With this distribution, BAEF I has achieved full return of capital, and the current valuation of the Foundation's remaining investments in BAEF I is \$1.5 million.

-Kristin Richmond, CEO and co-founder of Revolution Foods was selected by President Obama to join the newly created White House Council for Community Solutions. The council will provide advice to the President on the best ways to mobilize citizens, non-profits, businesses and government to work more effectively together to solve specific community needs. Revolution Foods is a portfolio company in the Bay Area Equity Fund.

-Accion Texas launched a new partnership with Kiva in 2010 allowing Accion Texas clients to be funded by individual lenders through Kiva.org. To date, two Kiva fellows have dedicated multiple months at Accion Texas's San Antonio headquarters, consulting with the organization and its clients to help them take full advantage of the partnership and new source of financing.

**PRI & MRI Risk Analysis**  
Investment Quality  
Actual Based on Commitments (Millions)


Total Commitment Rated: \$55,463,000

**PRI & MRI Risk Analysis**

The PRI and MRI portfolio was risk rated as of 12/31/09 (investees have 120 days from fiscal year end to submit reports). The overall portfolio rating is 3.0, excluding High Risk PRIs which have an overall rating of 4.2. These ratings reflect the quality of the social investment portfolio and likelihood of repayment. The growing number of High Risk PRIs has increased the overall risk profile of the social investment portfolio. Programmatic performance is now rated separately from financial and business risks. Overall the portfolio has a program performance rating of 2.9 while the high risk PRIs have a program rating of 3.0. Combined the weighted average risk rating is 3.6 with a program rating of 3.0. The Mission Related Deposits and Guarantees are not rated.

Investments are uniformly rated on a scale from 1 to 5 based on three risk factors: financial, organizational, and external. Program risk is evaluated separately. After the risk factors are scored, they are averaged to arrive at the following risk rating grid. Loss reserves are based on risk rating and amount outstanding.

Rating	Category	Loss Reserve
1.5 or lower	= Excellent	0%
1.6 to 2.5	= Strong	5%
2.6 to 3.5	= Satisfactory	5% - 10%
3.6 to 4.5	= Fair	25% - 50%
4.6 or greater	= Unacceptable	100%
4 or greater	= High Risk PRI	50% - 100%

Source: Annie E. Casey Foundation

Note: Pages 4–5 of the dashboard detailing individual investments (e.g., recipient name, description, maturity date, \$ committed, \$ outstanding) are not included in this Appendix.

Figure 4: Identified Core IRIS Indicators for KL Felicitas Foundation

	IRIS Indicator	Definition
Product Impact	<b>Number of Clients</b> (PI7094)	The number of individual consumers served by the organization
	<b>Jobs Created in Financed Enterprise</b> (PI3687)	Net number of new FTE jobs at financed enterprise (including self-employed individuals and owners of businesses)
Financial Performance	<b>Direct Investment – Number of Investments</b> (FP4359)	Number of debt and equity investments on balance sheet
	<b>New Investment Capital</b> (FP8293)	Value of cash flows from both loans and investments
	<b>Contributed Revenue</b> (FP3021)	Contributed revenue (operating grants and in-kind donations)
	<b>Earned Revenue</b> (FP5958)	Revenue resulting from all business activities
	<b>Net Income</b> (FP1301)	Net income from all business activities, including all contributed revenue.

Source: KL Felicitas Foundation

Figure 5: Qualitative Indicators used by KL Felicitas Foundation

KLF Qualitative Impact Indicators	Description
Catalytic Investment (Stage I)	An investment that causes or accelerates impact beyond the investment itself.
Business Model Innovation	Identify, nurture and share innovative business models.
Investment Combined with Grant Funding—Blended Capital	Equity investment or loan combined with grant capital provided by KLF.
Investment Combined with Public Support	Investment support alongside sizable publicly-sourced investment (e.g. public healthcare).
Alignment with Foundation Core Values	Close alignment with one or more of the foundation's core values regarding sustainability, rural communities and scaling innovation for high social impact.
Connect Beneficiaries with Capacity Building Tools	Provide various technical assistance and capacity building tools to the recipients of loans or investment support.

Source: KL Felicitas Foundation

**Figure 6: KLF Supporting IRIS Indicators**

<b>Impact Cluster</b>	<b>KLF Supporting IRIS Indicators</b>	<b>Description</b>
Health, Energy and Water	<b>Clients provided new access to energy, healthcare, water</b> PI2822	Number of clients, individuals or households, who were served by the organization and provided access to products or services they were previously unable to access.
	<b>Energy Produced</b> PI8706	Energy produced during the reporting period (MWh)
	<b>Potable Water Produced</b> PI8043	Amount of potable water produced (l)
Land Conservation and Restoration	<b>Land Reforested</b> PI4907	Hectares of land reforested during the reporting period
	<b>Land Preserved</b> PI2012	Hectares of land designated as a nature reserve
	<b>Sustainable Cultivated Land Area</b> OI2605	Hectares under sustainable cultivation

Source: KL Felicitas Foundation

## PACIFIC COMMUNITY VENTURES 2010

## IMPACT

## Driving Economic Recovery

In the wake of the global financial downturn, Pacific Community Ventures (PCV) sought to address the needs of entrepreneurs and small businesses that were struggling to survive. PCV worked with its network of entrepreneurs and small businesses to provide them with the resources and support they needed to survive and thrive. PCV provided over \$10 million in grants and loans to entrepreneurs and small businesses, and provided over \$10 million in grants and loans to entrepreneurs and small businesses.

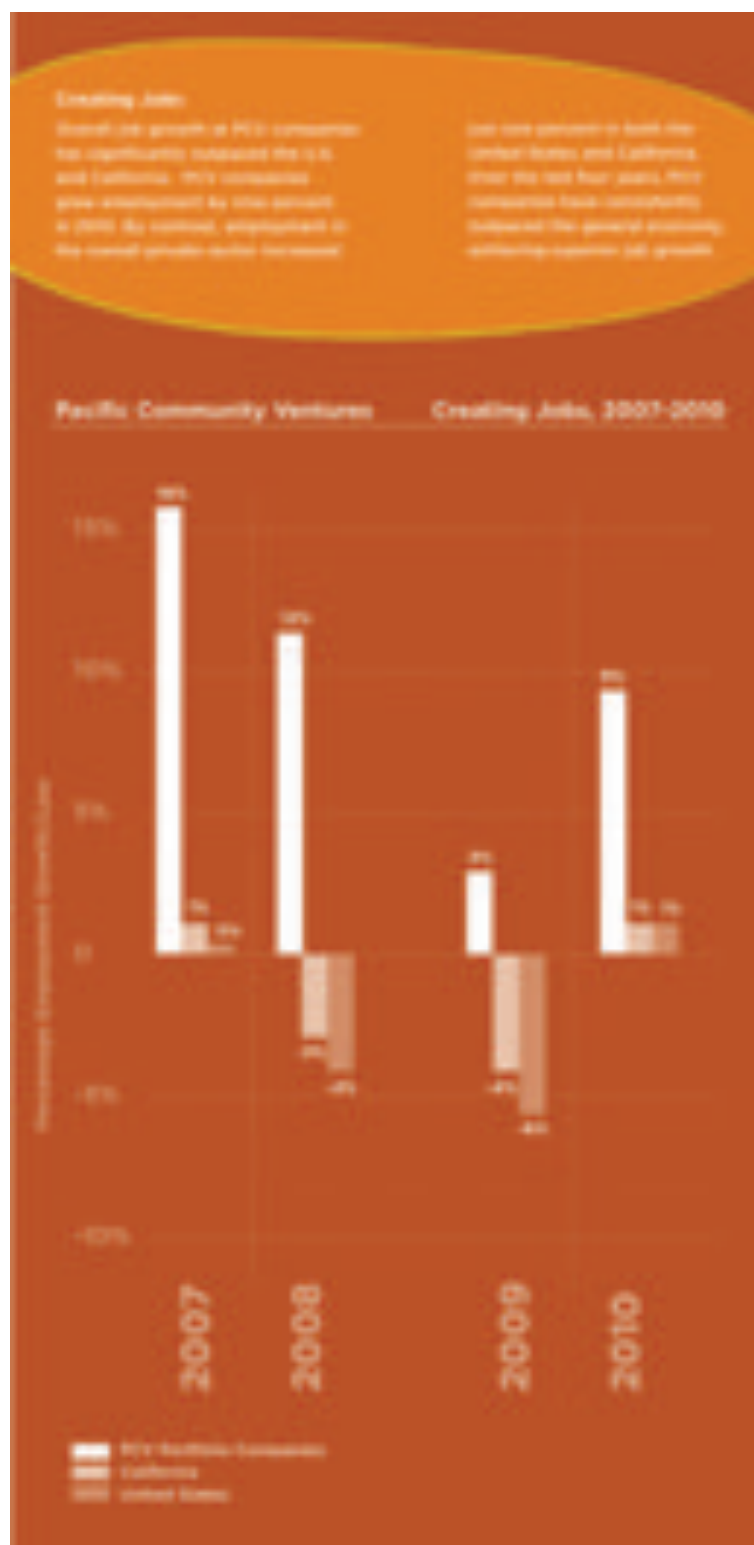
Along with providing grants and loans, PCV also provided technical assistance and training to entrepreneurs and small businesses. PCV provided over \$10 million in grants and loans to entrepreneurs and small businesses, and provided over \$10 million in grants and loans to entrepreneurs and small businesses.

PCV's impact in 2010 is summarized in the following table, which shows the number of entrepreneurs and small businesses that received grants and loans, the amount of grants and loans provided, and the number of jobs created.

Pacific Community Ventures 2010 Summary			
	2010 Program Funds	2010 Grants Funds	Total
Number of entrepreneurs receiving grants	15	15	30
Jobs created	75	75	150
Grants provided (in thousands of dollars)	100	100	200
Loans provided (in thousands of dollars)	100	100	200
Technical assistance provided (in thousands of dollars)	100	100	200
Training provided (in thousands of dollars)	100	100	200

## Supporting Entrepreneurs/Helping Jobs

PCV's impact in 2010 is summarized in the following table, which shows the number of entrepreneurs and small businesses that received grants and loans, the amount of grants and loans provided, and the number of jobs created.



Source: Pacific Community Ventures



Source: Pacific Community Ventures



## ACUMEN FUND BACO RATIO

<b>Overview of Organization</b>	Acumen Fund is a \$50 million nonprofit global venture fund founded in 2001 in New York City. Acumen provides capital investments ranging from \$300,000 to \$2,000,000 in primarily debt or equity. It funds a variety of institutions including nonprofit organizations and small, medium and large companies to support business models with a payback or exit in roughly five to seven years that can be effective in reaching the “base of the pyramid” (BOP)—or the billions of poor. Acumen invests globally in four areas: Water; Health; Housing; and Energy.
<b>Purpose</b>	<ul style="list-style-type: none"> <li>■ To quantify an investment’s estimated social output* and compare it to the universe of existing charitable options for that explicit social issue</li> <li>■ To inform investors where their philanthropic capital will be most effective—answering “For each dollar invested, how much social output will this generate over the life of the investment relative to the best available charitable option (BACO)?”</li> </ul>
<b>Method of Measurement</b> <b>Draws on CEA concepts</b>	Best Available Charitable Option (BACO) Ratio

Sources: Acumen Fund Concept Paper: The Best Available Charitable Option (BACO), (Draft), 1/24/07; Trelstad, Brian. “Re: Acumen Fund Best Available Charitable Options (BACO) and Portfolio Data Management System (PDMS)” to Melinda Tuan, 30 April 2008.

\*Acumen Fund’s BACO methodology uses the term “social impact” to describe “social outputs” (e.g. they describe person years of malaria protection as a “social impact”)

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<p><b>Methodology</b></p>	<ul style="list-style-type: none"> <li>▪ <b>Identify the BACO</b>, based whenever possible on existing charities providing similar goods and services to Acumen's investment. In cases where a viable local comparison does not exist, develop realistic hypothetical options based on other geographies or from plausible "what if" scenarios</li> <li>▪ <b>Calculate the net cost</b> of the BACO and the Acumen Fund investment over 5-7 year investment period</li> <li>▪ <b>Project total social outputs</b> for BACO and Acumen Fund investment over 5-7 year investment period (assumes social outputs are delivered at same rate over 5-7 years). Discount Acumen Fund investment's total social output based on what percentage of the company's social output can be credited specifically to Acumen's financing (assumes scale of impact is roughly proportional to the capital invested as a percentage of the enterprise's total capital base). Discount Acumen Fund investment's total social output based on how effective the solution is at reaching the bottom of the pyramid (BOP) (e.g. what percentage of the customer base is in the BOP)</li> <li>▪ <b>Calculate the net cost per unit of social output</b> for BACO and Acumen Fund investment by dividing net cost by total social output for BACO and Acumen Fund investment. Divide BACO net cost per unit of social output by Acumen Fund investment net cost per unit of social output to calculate the BACO Ratio</li> <li>▪ <b>Qualify the results by creating a Scenario Analysis:</b> calculate the BACO Ratio against a range of three financial scenarios using a 25% discount rate for the Acumen investment (full return on investment—principal plus interest, return of principal only, complete loss) and range of three social output scenarios without discounting social outputs (initial projections from investment plan, conservative projections based on moderate growth plans calculated by Acumen portfolio manager, revised projections updated on a real time basis using actual social output* data)</li> <li>▪ <b>Typically select the conservative "center" value</b> of the resulting BACO Ratio Scenario Analysis as the most appropriate BACO Ratio estimate</li> </ul>
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Sources: Acumen Fund Concept Paper: The Best Available Charitable Option (BACO), (Draft), 1/24/07; Trelstad, Brian. "Re: Acumen Fund Best Available Charitable Options (BACO) and Portfolio Data Management System (PDMS)" to Melinda Tuan, 30 April 2008.

# ACUMEN FUND BACO RATIO

## EXAMPLE:

Acumen Fund investment of a loan to A to Z Textile Mills in Tanzania to manufacture long-lasting bed nets

vs.

the BACO of a grant to UNICEF to distribute traditional bed nets to protect people from malaria

▪ **Acumen Fund considered making a \$325,000 loan to A to Z Textile Mills in Tanzania in order to transfer an innovative technology for long-lasting insecticide treatment bed nets (LLITNs) to the local manufacturer and expand their capacity to produce these nets**

▪ **Identify the BACO:** Acumen Fund identified making a \$325,000 grant to UNICEF to distribute traditional insecticide-treated bed nets (ITNs) as the BACO to the \$325,000 loan to A to Z Textile Mills

▪ **Calculate net cost** of BACO and Acumen Fund investment:

**Table 1: Net Cost Analysis**

	BACO (ITNs)	Acumen Fund investment
Committed funds	\$325,000	\$325,000
Cost of disbursement & mgmt	\$65,000	\$130,000
Expected return	0	6% annually for 5 years
Return [ principle + interest earned = ] (financial leverage)	0	\$422,500
<b>Net revenue (Cost)</b>		
[ return – disbursement – costs = ]	<b>(\$390,000)</b>	<b>(\$32,500)</b>

Sources: Acumen Fund Concept Paper: The Best Available Charitable Option (BACO), (Draft), 1/24/07; Trelstad, Brian. "Re: Acumen Fund Best Available Charitable Options (BACO) and Portfolio Data Management System (PDMS)" to Melinda Tuan, 30 April 2008.

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■ Project total social outputs for BACO and Acumen Fund investment:

Table 2: Social Impact Projections

		BACO (ITNs)	Acumen Fund Investment
Comparable product cost		\$3.50	
Total output	bed nets	92,857	2,000,000
Investor share of output		100%	20%
Investor output (enterprise efficiency)	bed nets	92,857	400,000
Impact factor	persons protected / bed net	2	2
Social impact [ total output * impact factor = ]		185,714	800,000
Bottom Of Pyramid (BOP) Penetration	% customers in BOP	100%	50%
BOP impact [ social impact * BOP Penetration = ]		185,714	400,000
Product efficacy (technology leverage)	# of effective years of malaria protection	2.5	5
Total social impact [ BOP impact * product efficacy = ]	person years of malaria protection	464,286	2,000,000

Sources: Acumen Fund Concept Paper: The Best Available Charitable Option (BACO), (Draft), 1/24/07; Trelstad, Brian. "Re: Acumen Fund Best Available Charitable Options (BACO) and Portfolio Data Management System (PDMS)" to Melinda Tuan, 30 April 2008.

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▪ **Calculate net cost per unit of social output** for BACO and Acumen Fund investment by dividing net cost by total social output for BACO and Acumen Fund investment. Divide BACO net cost per unit of social output by Acumen Fund investment net cost per unit of social output to calculate BACO Ratio:

Table 3: BACO Ratio

		BACO (ITNs)	Acumen Fund investment
Net cost	[cost – return]	\$390,000	\$32,500
Total social impact	person years of malaria protection	464,286	200,000
<b>Net cost / Unit of social impact</b>	<b>\$ / person year</b>	<b>\$0.839</b>	<b>\$0.016</b>
<b>BACO RATIO</b>	cost-effectiveness multiple		<b>52</b>

Sources: Acumen Fund Concept Paper: The Best Available Charitable Option (BACO), (Draft), 1/24/07; Trelstad, Brian. "Re: Acumen Fund Best Available Charitable Options (BACO) and Portfolio Data Management System (PDMS)" to Melinda Tuan, 30 April 2008.

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- **Qualify the results** by creating a Scenario Analysis:

Table 4: Scenario Analysis

		SUMMARY of BACO Ratio Results		
		Financial Return		
Social Output		(1) Return of principal + interest	(2) Return of principal only	(3) Complete loss
	(A) Initial projections, 2003	90	23	6
	(B) Conservative projections, 2004	52	16	4
	(C) Revised projections, 2006	28	7	2

- **Select a value of the Scenario Analysis** as the most appropriate BACO Ratio estimate. In this case, the Acumen team felt confident the enterprise would likely return principal plus interest and achieve conservative projections for social outputs and therefore selected 52 as the most appropriate BACO Ratio estimate. If the BACO Ratio is greater than 1, the Acumen Investment is projected to be more cost-effective per person year of malaria protection than the BACO and therefore a worthwhile investment.

Sources: Acumen Fund Concept Paper: The Best Available Charitable Option (BACO), (Draft), 1/24/07; Trelstad, Brian. "Re: Acumen Fund Best Available Charitable Options (BACO) and Portfolio Data Management System (PDMS)" to Melinda Tuan, 30 April 2008.

# ACUMEN FUND BACO RATIO

<b>Benefits</b>	<ul style="list-style-type: none"> <li>▪ Provides quantitative analysis for Acumen Fund investors to determine whether it is more cost-effective to invest debt or equity into an enterprise than giving a grant to an NGO per desired social output</li> <li>▪ Scenario analysis of various BACO Ratios can provide a reality check for projected results</li> <li>▪ Clearly lays out assumptions in calculations</li> </ul>
<b>Limitations</b>	<ul style="list-style-type: none"> <li>▪ Primarily prospective</li> <li>▪ Only captures social outputs</li> <li>▪ Does not capture social outputs of investment beyond 5-7 year investment period</li> <li>▪ Does not capture the qualitative “system change” that may result from the investment</li> <li>▪ Entire methodology depends on choosing the right charitable alternative</li> <li>▪ Can't compare one investment opportunity to another unless the unit of social output is identical</li> <li>▪ Each BACO Ratio calculation is based on a number of researched assumptions including financial and social output projections</li> </ul>
<b>Utilization</b>	<ul style="list-style-type: none"> <li>▪ Acumen Fund investors and senior management use the BACO Ratio framework to inform their portfolio decision-making. The BACO Ratio provides a quantifiable indication of whether their social investment will “outperform” a plausible alternative, ensuring their philanthropic capital is allocated in the most socially efficient manner</li> <li>▪ Since 2004, Acumen Fund portfolio managers conduct a BACO analysis as part of their due diligence process for all potential new investments, they are encouraged to do the BACO on an annual basis for their current investments but only a couple have done it</li> <li>▪ Acumen has only made 5-6 investments to date where they had calculated a BACO and have now exited—a few of them had retrospective BACOs of less than 1 (e.g. hearing aids investment would have been more effective as a grant to buy hearing aids and send them overseas)</li> </ul>

Sources: Acumen Fund Concept Paper: The Best Available Charitable Option (BACO), (Draft), 1/24/07; Trelstad, Brian. “Re: Acumen Fund Best Available Charitable Options (BACO) and Portfolio Data Management System (PDMS)” to Melinda Tuan, 30 April 2008.

# Endnotes

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- lix. *ibid.*
- lx. Monitor Institute.
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