In social investment, it's now about hard evidence and measured impact

Social and impact investors no longer just want to know that they've attempted to change the world for the bette
They want to know if their investment meant something. They want detailed evidence that their investment led t
large-scale, significant impact, whether it contributed to sustainable change, and if there was significant return c
their investment. They are looking for evidence to gain insight in how - and if - they should proceed funding specific organisations or programmes. Impact assessment is therefore a non-negotiable to find that proof.

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“From conducting various impact assessments, ourselves, we established that to attract funding, the social sector needs to give hard and detailed evidence that the investors’ money will deliver impact, return on investment (ROI) and that it is sustainable. Based on these indicators, we could identify the strongest and weakest investment portfolios, the ones who wi get the money, and the ones who will be left behind in years to come,” says Reana Rossouw, director of Next Generation Consultants, after extensive research on the latest trends in the social investment and development sectors. The company’ 2018 research report, Innovation and Impact, has just been released.

Strongest portfolio

Next Generation found that the strongest portfolio, delivering the highest impact by far, currently is **environmental development**. This portfolio includes a wide range of environmental development themes and focus areas such as conservation, combatting the impacts of climate change, rural development, resource management, sustainable agricultur and food or nutrition.

This portfolio delivers everything an investor could dream of – large-scale impact, return on investment, sustainability, improved quality of life, economic freedom and independence, inclusive and equitable development. There’s also clear synergy between this portfolio and economical and social development sectors. This combination, coupled with the ability measure total impact, and because it delivers return on investment for all stakeholders, results in the biggest impact of all investment portfolios.

Weakest portfolios

The weakest investment portfolios (irrespective of popularity), Next Generation found, are the following:

- **Skills development:** The impact of this portfolio is negligible. In more than 80% of interventions, skills development does not lead to employment or contribute to job creation. If programmes do not include workplace and job readines aspects, and if recruitment and placement are not provided, it's unsustainable.

- **Job creation vs employment:** Investors are realising the time, effort and cost to create jobs are long-term solutions that demand more investors. The only impact is often that employment is provided or people are placed, but no new jobs have been created, or they were short-term.

- **Enterprise development:** This is a high-risk portfolio that demands big investment, while the chances of real impac and ROI are less than 50%. It is also very complex, because to show results, various forms of capital, services, acce to markets and a minimum of three years' support are needed. Too many enterprises fail soon after funding and support stop.

- **Youth development:** Funders fall over each other to fund youth development programmes, but there is neither follo through nor reporting on the evidence of impact. This portfolio's lack of clear goals, outputs and outcomes stand in t way of delivering real impact and ROI.

- **Empowerment:** There's hardly any evidence of impact in this portfolio. In most cases, empowerment is not defined implied, and too many assumptions are made about possible outcomes that cannot be measured.

Where does impact assessment feature?

Impact investors have invested heavily in various resources to prove impact and ROI. These include sharing impact measurement experiences, developing impact management practices with their own impact and return indicators, and publishing impact reports. The biggest impact is the combination of environmental, economic and social development aspe and accurately measuring the impact of programmes, delivering an ROI for all stakeholders.

Impact management and measurement are important

As social and impact investors can target so many challenges at once, they need to understand the extent of the impact th made, the lives they've changed and the value thereof. This is where impact management – the process by which investor can understand the effects of their investments on the economy, society and the environment and set goals to adapt processes and improve outcomes – comes in. Impact measurement, in turn, allows investors to integrate the knowledge gained from impact assessment to encourage more effective data-driven decision-making.

Looking back on 2017, several opportunities became evident through impact measurement and management:

- Transparency supports, advances and informs impact measurement and management.
- Developing impact benchmarks and integrating impact data into sustainability, investment and development strategie add shareholder value.
- Better impact certification, verification and standardisation will have a real impact on social and impact investment practice.

The secrets to high impact and ROI

Successful impact investors are showing us how and where to successfully fund and develop, and how to measure it. Wh differentiates these investors from those making less impact and ROI, is their defined processes – from due diligence and funding, to fund management and impact assessment.

Success factors in selecting high-impact programmes based on their guarantees for impact and return include:

- A strict, integrated due diligence process; research; deal making, structuring and leveraging; and extensive risk assessment processes
- Clearly defined strategic objectives and investment intent, as well as governance and compliance guidelines
- Integrated performance measurement and management processes
- The attractiveness of commercial opportunities
- The promise and guarantee of ROI
- Time – evidence of impact requires five to seven years' investment
- Opportunities that are a combination of economic, social, socio-economic and environmental development
- Blended financial models. The combination of seed funding, private or equity finance, grants or donations, and combining financial and development expertise, is proving to be extremely effective.
- Adequate skills, competencies, expertise and knowledge of development practitioners
- Engagement with the people whose lives stand to be impacted
- Deep understanding of what it takes and how much it costs to implement and manage programmes

Conclusion

"Social service providers may have had the best intentions, but years of cash-strapping have resulted in underresourced, underperforming, underskilled, outdated, irrelevant and badly designed programmes with below-average impact," Rossouw says. "Impact investors, however, actively seek to measure, understand and manage their impact to continuously increase their impact and return on investment. Portfolios that can prove high impact, not just suggest it, will get their interest and ultimately the funding."

- For a more in-depth look at these trends, download the full research report: https://nextgeneration.co.za/2018-csi-trends-forecasts-and-impacts-research-report/

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