Positioning Exemplary Practices in Impact Investments: Which Standards?

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Abstract

After many years of Donor support to developing countries; poverty, HIV/AIDS pandemic, corruption and many other problems are still rampant. Little has been achieved by donor aid in as far as eliminating or alleviating the foregoing problems is concerned. Impact Investments are one emerging solution to addressing those problems in developing countries.

The case in point is Incluvest BV, an Impact Investment organisation (with a focus on financing agribusinesses) established by the Christian Foundation, Woord en Daad. Incluvest BV is confronted by many challenges in the world of investment and poverty alleviation. Some of the main challenges include creating value or meeting the needs of shareholders and stakeholders, a search for possible internationally acclaimed standards to comply with in its various activities.

Looking at the needs and expectations of stakeholders from the operations of Incluvest BV and also at the duty endowed on Impact Investments as a new hope to the woes in developing countries, it becomes necessary to set baselines of exemplarity around such efforts. These include credibility in reporting results (effects and impacts), job creation (income generation for target group), capacity building, exhibition of organisational values and compliance with local regulations in developing countries.

At the confluence of exemplarity baselines, the internationally acclaimed development frameworks and the reality in developing countries lies the model that Incluvest BV can use in its activities to strike a balance between its Northern and its Southern Stakeholders. The model together with the confluence is tantamount, and not limited, to the following main conclusions:-

- Impact Investment presents new hope in alleviating poverty and in the flow of development aid to third world countries.
- Attaching business economic effectiveness to handling of development aid moneys and also in carrying out investments is a more dependable way of attaining economic and environmental sustainability in developing areas.
- Standards especially those of results (effects of an intervention, programme or project) measurement and reporting and collectively agreed on rules of engagement are a necessity in Impact Investments.
- Impact Investments have a duty beyond ordinary Investments and that is why they have to comply with certain standards, rules and/or practices.
- Using standard, frameworks and practices collectively agreed on in Impact Investments makes the fight against poverty more meaningful.
- There is a real need for Impact Investments to develop or comply with concerted standards to make poverty alleviation more meaningful.
- A bottom-up approach to Impact Investments is more likely to yield the needed impact and substantial poverty alleviation levels
- Impact Investments that firstly focus on pressing societal concerns (Direct Impact Investments) accompanied by a bottom-up approach will yield similar results as stated previously.

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List of Acronyms

AD	Agri-business Development
AED	Agri-business and Enterprise Development
BDO	Business Development Organisation
BDS	Business Development Services
DCED	Donor Committee for Enterprise Development
ED	Enterprise Development
FAO	Food & Agricultural Organisation
IFAD	International Fund for Agricultural Development
ILO	International Labour Organisation
M (SMEs)	Micro, Small and Medium Enterprise(s)
M (FIs)	(Micro) Finance Institution(s)
UN	United Nations
W&D	Woord en Daad
PSD	Private Sector Development
PPP	Public-Private Partnership(s)
M&E	Monitoring & Evaluation
MDGs	Millennium Development Goals

1.0 Introduction

Developing countries till this day face a number of problems including poverty, food insecurity, HIV/AIDS pandemic, inadequate health facilities, and corruption and leadership problems. The truth on one hand is that many of these problems would not be as severe as they are if governments in those areas performed their duties efficiently in terms of good governance, redistribution of wealth, social security and the provision of public goods.

That aside, the international community through agencies has responded to and tried to address the governments' inefficiencies through supplementing developing countries with resources, mainly financial resources. In that process, two proponents have become prevalent. One (the pro-aid i.e. humanitarian, Systematic and charity based aid[1]) argues that pumping resources lacking into poor areas will help bridge the third-world and developed-world gap. To that end, this group has gone as far as prioritising[2] some of the problems in developing regions owing to their negative impact in those regions. The group contends that that poverty[3] is the mother of problems in those regions. As a result, many developmental programmes by this group have been focussed on alleviating if not eliminating poverty in third world countries. This stems from the view that if people have decent incomes and livelihoods, they cannot engage themselves in immoral, illegal or any unethical activities in the name of trying to earn a living. As bare as this seems, they further contend that if people have dependable sources of incomes (jobs) they can contribute substantially to economic, social and environmental development in their areas e.g. ensuring food security to rid themselves of droughts or ensuring sanity in their environments.

Conversely, Dambisa Moyo[4] and Stephen Ellis[5], postulate that developing regions have entered a new paradigm, different from the post-colonial period that is still in the minds of Europeans and Western countries (where many current policies, standards, frameworks and models for addressing the poverty problem are developed). Some of the problems in developing regions like lack of labour that were commonplace in the early stages of the post-colonial period have now changed to lack of employment.[6] Developing regions have made strides in development as is, for instance, evident in the number of professionals or graduates leaving these regions seeking better lives in developed countries.[7] Zambia, for instance in 1970 had only ninety students graduating from its only university then, the University of Zambia.[8] But today the country, as well as many other developing countries, produces hundreds of graduates every year.

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[1] As classified by Dambisa Moyo (2009), *Dead Aid: Why Aid is not working and How there is another way for Africa*

[2] E.g. The Millennium Development Goals-2015http://www.undp.org/content/undp/en/home/mdgoverview.html

[3] "living on less than $1 a day," As defined by Jeffrey D. Sachs in *The End of Poverty Economic: Possibilities for Our Time*

[4] Dambisa Moyo (2011), *How the West was Lost: Fifty Years of Economic Folly- and the Stark Choices ahead.*

[5] Stephen Ellis (2011), *Season of Rains Africa in the world*

[6] Ibid

[7] Ibid

[8] Dambisa Moyo (2009), *Dead Aid: Why Aid is not working and How there is another way for Africa*

This group also acknowledges the negative effects that poverty has in those areas but point out that the way in which resource assistance has been done is the major contributor to the poverty problem. They suggest a business economic approach in giving that assistance. In other words, they advance that assistance should at all times avoid disturbing local market systems but encourage entrepreneurial endeavours, more so use the current professionals in those countries to fight poverty. William Easterly[9], a preliminary proponent of this group accuses the pro-aid side of being "planners" rather than "searchers". Planners apply global blueprints in addressing poverty problems (top down) while Searchers adapt to local conditions and find out what the bottom needs (bottom up).

Midway the above proponents are efforts seeking to create both financial and social impact in the fight against poverty. These efforts are called Impact Investments. They are defined by The Global Impact Investing Network[10] (GIIN) as investments that aim to solve social or environmental challenges while generating financial profit; they include investments that range from producing a return on principal capital to offering market-rate or even market-beating financial returns. Jigar Shah[11] in his article "*Impact Investment defined*" argues that Impact Investment must aim to: make an impact in solving a **pressing social problem** of our time; generate compelling returns for investors; generate growth for economies, and generate prosperity for developed and developing nations.

Impact Investments fall in between the two sides elucidated above because some of them firstly and purely seek social returns (humanitarian deeds, like the pro-aid) which in most instances lack an entrepreneurial backbone resulting in attacks to local market systems in developing countries. On the other hand, some Impact Investments in the first place seek to create a financial return and then later look into societal concerns. The latter seems to advocate for a business economic approach in meliorating poverty. See Figure 1.0 below.

One of the moot issues in Impact Investments is how to make sure that, after withdrawal of assistance; developing countries have ample capacity to sustain themselves, their economy and environment with little or no reliance on external material assistance.

However, with the arrival of extensive and robust investments from the major emerging countries, especially China, the poverty alleviation (investment) arena has become complex. This is because China solely defined its investment and poverty alleviation policies. China has at most times isolated itself from the poverty alleviation policies of the western economies.[12] As a result, scepticism about the western models used in developmental efforts has intensified because of the successes attained by Chinese investments which have a unique and different approach in fighting poverty altogether. This has constituted a necessity to scrutinise the western developed tools by bringing into context the reality on the ground in developing countries.

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[9] William Easterly (2006) Planners vs. Searchers in Foreign Aid
[10] http://www.huffingtonpost.com/jigar-shah/impact-investing-defined_b_941916.html
[11] Ibid
[12] Stephen Ellis (2011), *Season of Rains Africa in the world*

Additionally, as a step in that process it is also imperative to determine the true **position of** any organisation (Impact Investment) using or attempting to use those tools by gauging its mission, values and theory of change against the realities of the external environment. Brian Walsh,[13] as shown in the figure below, has provided clear-cut ways of looking at organisations carrying out Private Sector Development (PSD) programmes i.e. a check spectrum of the identity of any such organisation.

However, with particular attention paid to Impact Investments, there are a couple of possibilities when it comes to their true institutional identity as this ranges between the two extremes i.e. Direct and Indirect Impact Investment. Furthermore, that true identity is that which comes after examining an organisation in terms of its intervention strategies and what is expected of the organisation in narrowing the gap between the developed world and third world. What binds all impact investors whether they are impact first, finance first, or somewhere in between is a disciplined, investor approach to measuring the potential social, environmental, and financial returns.[14]

	Donating			Impact Investing		Investing		
Donors/Investors	Charitable Donor	Strategic Philanthropy Donor	Venture Philanthropy Donor	Direct Impact Investor	Indirect Impact Investor	Sustainable Investor	Socially Responsible Investor	Financial Investor
Screening	Basic compliance	High impact organization	Organizations with potential to scale	Social impact first, then seek a positive financial result	Financial first, then seeking positive social impact	Financial + positive screen for ESG	Financial + Negative screen	Financial only (besides basic regulatory compliance)
Expected Financial Returns	-100%	Negative	Negative	Flat to Market	Close to Market	(Almost) Market	(Almost) Market	Market (risk adjusted)
Expected Impact Intent	Full	Full with leverage	Full with leverage	Significant	Some	Modest	Neutral	None
Donors/Investors Seeking	Organizations with a mission they believe in	Well-run organizations in donor's theory of change	High-impact and scalable	High social impact with below market rate financial return	High rate return with some social/ environmental impact	Market-rate returns that are socially targeted	Maximize profit without provoking conscience	Maximize profit with no regard to social impact

Figure 1.0 Donor/Investor Categories, Brian Walsh (2010)

In this regard, the research seeks to explore and bring to light (i.e. position) what will be deemed as exemplary practices in fighting poverty in developing countries by using a case of an Impact Investment organisation that:

- Assumes the central position (i.e. between investors and investees) in fighting poverty in developing regions.

[13] Profile http://2010.netimpact.org/profiles/101981 and presentations http://rossmedia.bus.umich.edu/rossmedia/SilverlightPlayer/Default.aspx?peid=f8315543e0214e658a8650d8ef18b49b1d

[14] http://agorapartnerships.org/accelerator-2/impact-investing

- Attempts to comply with internationally acceptable standards (particularly those of capturing, measuring and reporting its activities) and
- Strives to find a way forward through the realities of developing countries whilst seeking to ensure responsibility for its stakeholders.

1.1 Background Information

1.1.1 Woord en Daad/Incluvest BV

Woord and Daad (W&D) Foundation is a Christian development organisation legally established in 1973, and headquartered in Netherlands. Its main objective is to fight poverty in Africa, Asia, South and Central America from a Christian perspective. Throughout the years of its operations in these regions, W&D has focused on are education, vocational education and training, job mediation, enterprise development, basic facilities (health, agriculture, water) and emergency aid[15] in its quest to fight poverty.

A recent move by W&D Foundation to further fight poverty and empower the main strategic actors in southern economies has led to the establishment of Incluvest BV. Incluvest BV is an impact investment company that will be investing in Agribusinesses and Finance Institutions (FIs): The following are the countries covered its maiden activities.

- Latin America: Colombia, Guatemala, Haiti, Nicaragua.
- Asia: Bangladesh, the Philippines.
- Africa: Benin, Burkina Faso, Ethiopia, Sierra Leone, Uganda, Zambia and South Africa.

Appendix 1 shows the proposed outline of what W&D/Incluvest is going to be, whom and what it is going to involve in its activities and how it will relate to its parent organisation, W&D.

1.1.2 W&D AED Programme and Strategies

Agri-Business and Enterprise Development (AED) is a programme under W&D whose concern is stimulating economic development by providing access to credit and financial services, knowledge and networks for SMEs. The programme aims at creating income and employment opportunities thereby contributing to W&D's overall mission of poverty alleviation. W&D's programs in emerging economies are executed with the engagement of business partners. These partners include Business Development Organizations (BDOs) i.e. Non-Governmental Organizations (NGOs), Banks, Financial Institutions, Business Development Service (BDS) providers. This is done to develop enterprises that empower different economic actors (suppliers, producers, buyers, traders, etc.) thereby stimulating economic growth and ultimately reducing poverty.[16] By the same token, a threefold strategy approach[17] is followed to reach that end as elucidated below:-

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[15] www.woordendaad.nl
[16] W&D AD White Paper, February 2011.
[17] W&D ED White Paper, February 2011

1.1.2.1 Improving Access to Finance/Financial Services: W&D/Incluvest believes that the supply side of finance needs to be strengthened through product design and innovation to match the needs of SMEs and specific micro client groups, if this strategy is to be executed.

1.1.2.2 Improve access to BDS and improve quality of those services: W&D/Incluvest maintains that finance without access to BDS reduces the purported impact and increases the risk of the services provided to SMEs.

1.1.2.3 Strengthening Chain organization: This involves stimulating suppliers to engage in sustainable relationships in order to be a competitive and reliable business partner in the value chain with the aim of keeping national or international clients satisfied.

1.1.3 Current Practices in AED Activities

W&D has over the years of its operations and collaboration with the partner network gathered or developed practices in its activities. Chief of these practices, based on the organisation's founding principles and strategies, are set out as follows:[18]

- **Sustainability:** Reaching the target group has to, continuously, be traded off with the sustainability of the implementing organization.
- **Market Conditions:** Implementation of ED intervention strategies need to take into account market conditions e.g. demand & supply, quality standards, costs and benefits of investments.
- **Position of Entrepreneurs:** An entrepreneur is an autonomous and independent actor e.g. the entrepreneur is free in choosing suppliers of raw materials, staff, and salaries.
- **Nature of Interventions:** Interventions should have a catalytic function and/or create possibilities for economies of scale (Scalable).
- **Values:** Assistance to enterprises (and Enterprise Development in general) should take into account Christian values in order to transform existing business practices and to create an ethically sound business framework.
- **Financing Interventions:** Financing should not be a standalone intervention but need to be linked to BDS and Chain organization.

1.2 Problem Statement

Incluvest BV needs a set of investment principles to guide and complement its intervention strategies. It is apparent that the ever dynamic investment arena demands organisations to keep up with contemporary global standards of practice. Thus, organisations (Impact Investments) aiming at creating both social and financial good seek some sort of certification or endorsement from the external environment, investors and the people in general. That acts as credible evidence of their practices even as they adapt to various global changes. In the case of Incluvest BV, this calls for developing principles which should (i) uphold responsible Impact Investment (ii) ensure appropriate compliance with key international standards in

[18] Ibid

PSD and (iii) give the position of exemplary practices in Impact Investments in developing regions. The problem is hinged on two things:

- Measuring impact in PSD – The leading standards here are the Donor Committee for Enterprise Development standard and the Social Return on Investment framework.
- Principles to apply in the W&D/Incluvest interventions, as partly drawn from the relevant standards identified, to ensure that responsibility in different areas is taken into account and can be based on practice.

1.3 Research Objective

The objective of this research then is to determine the basic set of principles or practices that W&D/Incluvest can look to before and after Impact Investing in SMEs. This also includes how the principles can be applied and which standards to engage so that its key stakeholders benefit accordingly. That set will be determined through the process of positioning exemplary practices in Impact Investment.

1.4 Research Focus (Scope)

Although other standards shall be referred to, the research focuses on The Donor Committee for Enterprise Development framework for PSD, The Triple Bottom Line (TBL), The Social Return on Investment (SROI) and the Environmental, Social and Governance model (ESG). Furthermore, the paper seeks also to point out only the possible or potential pertinent issues surrounding W&D/Incluvest's investment interventions in developing countries i.e. developing a **basic set** of principles or exemplary practices.

1.5 Sub Questions

In line with the objective of the research, some of the specific underlying questions are:

1. Which other standards should come beside those identified? What are strengths and weaknesses of the identified standards?
2. What constitutes exemplary practices in Impact investments targeting SMEs (Do's and don'ts, best practices)?
    a. Taking into account the standards identified; the Christian values of W&D and central position that W&D/Incluvest assumes (standing between Northern and Southern Stakeholders); the responsibility it owes the prime stakeholders.
3. Who are W&D/Incluvest's key stakeholders, and what do they expect? What are their stakes in the standards? Which stakeholder interests are critical in W&D/Incluvest's interventions?
4. Which areas in Impact Investment and/or PSD need particular attention by W&D/Incluvest? What could W&D/Incluvest do in those areas, where and how? How does the proposed set of principles deliver value for W&D/Incluvest and stakeholders? What are the advantages and disadvantages of this set?

5. What would the societies in developing countries expect from such investments and are the expectations realistic or achievable in the face of W&D/Incluvest? How are W&D/Incluvest's investments in SMEs expected to impact the lives and economic status of people in such regions if the suggested portfolio was to be consulted (in brief and realistically)?

1.6 Methodology

1.6.1 Research Design

This research is descriptive in nature. The aim is to identify and get an insight into relevant standards identified in Impact Investment, PSD and ED, applicable in the W&D/Incluvest's central position. The lessons drawn, with regard to the regions in which W&D operates, are used to come up with a basic set of principles and points of consideration for use in W&D/Incluvest interventions.

1.6.2 Data Sources

Desk research, W&D AED documented data and other similar published sources, comprise the larger part of this paper.

The research also benefits from personal interviews, discussions and email exchanges with the Netherlands based network of (social) investors, entrepreneurs, consultants and the W&D AED department. A snow balling approach is followed throughout the data collection process i.e. from secondary sources (both physical and electronic) and primary sources (personal interviews and online discussions).

1.6.3 Limitations

The anticipated limitations are;

- There's no opportunity to test, in a practical setting, the workability of the set of principles after it has been developed.
- Limited scope of the research study. However, the research ensures that the sought-after set of principles is useful in W&D/Incluvest's programmes.

2.0 W&D/Incluvest: Stakeholders

This section identifies and discusses Incluvest's key stakeholders. For the purpose of this research these will be classified into two groups, Northern and Southern as follows:

2.1 Key Northern Stakeholders

2.1.1 The Ministry of Foreign Affairs: Netherlands[19]

As one of its main policies, the Dutch Ministry of Foreign Affairs seeks to promote the commercial and economic interests of the Netherlands and Dutch businesses in foreign regions. Therefore, the main role of the ministry in W&D/Incluvest's activities is to provide incentives and assistance (both financial and non-financial) and serve as the channel or access to the vast network of PSD organisations.

2.1.2 Investors

2.1.2.1 Venture Capital Funds: The focus of this group is to seek high risk investments in nascent enterprises for a commensurate return on their investment.

2.1.2.2 Institutional Funds: These will provide funds to supplement subsidies. Subsidies are a tool used to cushion the operational losses of start-up enterprises.

2.1.2.3 W&D and other Investors (Foundations): Foundations sharing similar grounds of PSD and Impact Investment with W&D fall in this group. The group brings loans, equity, guarantees and subsidies to the investment portfolio of Incluvest.

2.1.2.4 Enterprises: These are the most diversified investors in terms of contributions to the investment portfolio. They provide donations, equity, loans, subsidies, guarantees and knowledge and skills. This group consists of those enterprises that believe in getting in on changing the livelihoods of W&D/Incluvest's target groups or want to change something in any of its areas of operations.

2.1.2.5 Donors: this group comprises W&D, Enterprises and any outside donors.

2.1.3 European Network of Philanthropic Organisations

Other organisations within Europe and working in developing countries for a similar cause as W&D/Incluvest also stand as key stakeholders especially where knowledge, skills and experience sharing in PSD is concerned.

2.2 Key Southern Stakeholders

2.2.1 Agribusiness Enterprises and Finance Institutions (FIs)

These are the destinations of the W&D/Incluvest's investment portfolio. Their motives or reasons for seeking funding vary greatly. Ideally some of the reasons are: desire to grow or

[19] Partly adapted from www.minbuza.nl

expand (increase capacity e.g. through new technologies), risk and responsibility sharing, survival and desire to improve product or service offering.

2.2.2 Business Development Organisations (BDOs)

BDOs are one important channel through which W&D/Incluvest reaches its target groups in the host regions. These include Non-Governmental Organizations, Banks, Financial Institutions and Business Service Providers. BDOs play a crucial role in providing technical assistance, network development and training, education and governance to SMEs.

2.2.3 General Society and Institutions

This is the actual target group of W&D/Incluvest's interventions in the alleviation of poverty through PSD. The main players in this group include consumers, employees, trade unions, and civil society organisations.

2.2.4 Host Country Governments

Governments in host countries lay down their own policies on PSD and Foreign Direct Investment (FDI) to which foreign investors have to comply.

3.0 What is needed to achieve exemplarity

It is generally accepted that it is government's duty to ensure fair distribution of wealth or the social, economic and environmental wellbeing of its people. Conversely, Michael Porter and Mark Krammer[20] in *The Big Idea: Creating Shared Value* provide that solving social and environmental problems has been ceded solely to governments; and if organisations do so it is seen as by many, including investors, as an irresponsible use of shareholders' money. They further suggest that there is need for organisations to create economic value in a way that also creates value for society by addressing its needs and challenges.[21]

Meanwhile, Meir Statman[22] asserts that investors seek two types of benefits from investments: firstly, the traditional low risk and high financial return in the first instance, and then expressive emoluments which communicate their beliefs, values, principles, objectives or status to the world. This then means that whether or not organisations get in on supplementing governments efforts in delivering to the people depends on the expressive emoluments of the investor. For W&D/Incluvest, the emoluments are embedded in W&D's values. These are Co-creation (creature of God, both equal and unique), Compassion (close by and next to people who are in poverty), Co-responsibility (responsible for yourself, your fellow human being and creation), Stewardship (carefully dealing with people, resources and the environment) and Interdependence (Independent in choices, dependent in collaboration).[23] It is said that the real power of an impact investment is manifest in activities leading to improved well-being and environmental sustainability.[24]

Consequently, being exemplary or exceptional must be based on two things: firstly, honouring the interests of stakeholders on both sides, as W&D/Incluvest takes the central position in fighting poverty by channelling funds from investors to enterprises in developing countries; and secondly, ensuring that organisational values and founding principles complement the efforts in that pursuit. With that in mind all efforts must then address, and not limited to, the following:

3.1 Compliance with local and natural regulations in host countries

This must involve non-interference with local norms, values or beliefs in developing countries and above all complying with available government regulations. The Chinese serve as a perfect example of this attribute; their distinct style of dealing with Africa[25][26], for instance, is characterised by elaborate expressions of respect for economic, social and leadership systems. This approach can succinctly be stated as influencing and impacting the

[20] Michael E. Porter and Mark R. Kramer (2011), The Big Idea: Creating Shared Value http://hbr.org/2011/01/the-big-idea-creating-shared-value/ar/pr
[21] Ibid
[22] What do investors want? Leavey School of Business, Santa Clara, CA 95053 http://www.simonemariotti.com/downloads/Papers%20finanziari/Statman.pdf
[23] Woord en Daad, Annual Report, 2011
[24] Newsbrief — June 2010: When is an investment an impact investment? The Rockefeller Foundation
[25] Stephen Ellis (2011), *Season of Rains Africa in the world*.
[26] Padraig Carmody, The New Scramble for Africa (2011)

local systems in developing countries without actually changing the structure of the systems. Compliance extends also to both local labour laws and global laws like the International Labour Organisation (ILO) principles of decent work, human rights (including children's and women's rights) and trade laws.

3.2 Creating Employment

Employment is at the epicentre of development in developing regions. Recent years have seen the rise of a considerable number of skilled elites in developing countries.[27] However, the main problem still remains unemployment. Some of the skilled or innovative people in developing countries have been noticed to be moving to developing countries for employment purposes.[28] This (unemployment) is also true in the SME sector as: "too often micro and small enterprise development is seen as a feasible solution to the lack of labour opportunities. Many micro and small entrepreneurs are not born to run a business but are in business because there are no other opportunities."[29]

On the other hand, and to sum up, Georgina Gomez[30] echoes these sentiments by stating that small increases in employment spread over a large number of enterprises create a very large impact at an aggregate level and growth in this way improves equity and fights poverty along creating jobs.

One other moot issue as regards employment is the advocacy for and creation of decent work. The International Labour Organisation[31] (ILO) spearheads this cause and provides three ways of looking at decent work. These are (i) a goal: to give all men and women real opportunities to acquire productive and decent work in conditions of freedom, equity, security and human dignity (ii) a policy agenda: with four pillars i.e. productive and freely chosen employment; Rights at work; Social protection; Social dialogue; and the mainstreaming of gender and poverty reduction concerns and finally (iii) as a strategy: to put productive employment and decent work at the heart of economic and social policies, including policies for poverty eradication.

It is reasonable for many to perceive that where there is abject poverty what the poor people need the most is just jobs (or incomes) as ILO[32] points out that joblessness and the poverty associated with it cause people to feel useless and excluded from their family and community. But when human rights, social norms and even local labour laws come into play decent work becomes the resolution to put those factors into agreement. In addition, considering the need to attain capacity building and sustainable job creation, decent work becomes a factor that Impact Investments should enshrine at heart.

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[27] Stephen Ellis (2011), *Season of Rains Africa in the world.*
[28] Ibid
[29] W&D ED Position Paper, June 2010.
[30] Georgina M. Gomez, 2008
[31] ILO Decent Work Agenda: Labour Standards and Poverty Reduction Forum, 14th November, 2007. http://www.gsdrc.org/docs/open/CON51.pdf
[32] The Decent Work Agenda in Africa: 2007–2015

3.3 Capacity building and sustainaibility

A significant number of new enterprises (about 75%) in developing do not survive the first two years and of those that do survive, just about 20% grow at all.[33] True to this fact is Zambia, where the government run Farmers' Input Support Programme (FISP) reports the failure to graduate farmers from the programme.[34] The programme is designed in such a way that, every after two years beneficiaries should graduate but this has not been the case. These findings substantiate the urgency to promote capacity building in investments. Building that capacity also extends to job creation in that there is need to not just create jobs but also ensure that the jobs will exist for substantial period of time. The stability of the jobs in return brings about improved standards of living anchored on sustainability and the household incomes generated from the jobs give rise to a vast amount of economic activities. Achieving this must involve efforts by all the nodes in the value chain aimed at making it possible for enterprises to proceed to the next level in a move to one day becoming completely self-sustainable.

3.4 Strengthening partnership ties and subsequent relations

This is partly in line with capacity building. This must include mobilising all the key actors in the value or business model through framing policies that will result in strengthening the ties between them all.

3.5 Credibility in reporting results

While a common global standard for measuring and reporting results remains elusive (i.e. data on development outcomes remains bleak, and often various stakeholders have multiple methods for measuring different results[35]), the benefits of having such a standard cannot be overemphasised. A common global standard increases the credibility of the impact investment sector and strengthens the relationship between the investor and the investee, allowing more consistent discussion around performance.[36] Therefore, a thorough acquaintance with some of the presently recognised standards promoting credibility in measuring and reporting results is the way to go about this.

3.6 Exhibiting and promoting organisational values in activities

Donors (both institutional and individual), certain enterprises and investors render their finances to organisations with which they share common beliefs and values. The onus is then on the latter to inculcate and exhibit values by which they are identified with by the outside world, in all their endeavours. W&D/Incluvest benefits from the Christian oriented values of W&D described above.

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[33] Ibid

[34] An Assessment of the Implementation and Viability of the Farmer Input Support Program in Zambia. http://www.csprzambia.org/index.php?option=com_phocadownload&view=category&id=3:p&Itemid=34

[35] http://one.org/c/us/policybrief/4128/

[36] Impact Investing – Special Report, the Rockefeller Foundation. http://www.thegiin.org/binary-data/RESOURCE/download_file/000/000/154-1.pdf

4.0 Building Profound Relationships in the North to South Chain

This chapter will provide answers to some of the sub questions not attended to in the previous sections. It builds on the previous chapter and attempts to find a way of achieving exemplarity through a thorough analysis of the North-South chain.

The chapter brings to discussion the interaction between various relevant internationally acclaimed standards and the realities of developing countries, with cases drawn from Latin America, Africa and Asia in countries where W&D/Incluvest is set to operate. The main control points in carrying out Impact Investments in the cases will also be highlighted. A matrix of the standards taking centre stage in this section is provided in Appendix 4.

4.1 Structure: from tracking activities to reporting results

The Social Return on Investment (SROI) analysis is one of the concepts in this area. SROI is project specific and an SROI analysis can be done in form of a forecast or an evaluation. Its main argument is that: the traditional Return on Investment (ROI) fails to incorporate other returns like the social, environmental or cultural changes (collectively referred to as social impact) that come with any investment intervention.

CASE 1: Shinyanga Rural Water Supply and Sanitation Programme (SRWSSP), Tanzania, 2009

In order to demonstrate the added value of the SROI methodology in international cooperation, Consultants for development Programs (CDP) chose to apply it on a programme that was known to the researchers and had recently been evaluated in the conventional way. SRWSSP was an obvious choice. The programme was executed and thoroughly evaluated by the Policy and Operations Evaluation Department (IOB) of the Netherlands Ministry of Foreign Affairs. Applying SROI in this case could demonstrate its added value.

The results of the SROI-based study of SRWSSP correspond fully with the elaborate IOB evaluation of the same. However, the SROI study, by focusing strongly on the programme beneficiaries, was able to reveal additional insight on the exact impact of the programme within a short period of only three weeks.
This additional information, gathered through SROI methodology, shows that:

- In the perspective of the water user groups a most important impact is harmony in the family allowing that the time gained can be used productively;
- Investments in drinking water projects can be viewed as productive investments as they create the production factor time;
- In future, the design of water programmes could take this into account when discussing issues like group contribution and maintenance of the water schemes.

Adapted from http://www.cdp-online.nl/Applying%20SROI%20-%20Tanzania.pdf

The main aim of the SROI is to capture and put in money terms (like ROI) the social impact of individual projects at an enterprise level. However, capturing SME activities in developing regions is not easy. The SME sector is largely dominated by numerous very small enterprises.[37] For instance, findings of the Zambia Business Survey (ZBS) 2010 show that the majority of Zambian SMEs are tiny, microenterprises that are mostly informal, owner-operated businesses.[38] Most of them have no paid employees and are more like home-based,

[37] Georgina M. Gomez, 2008.
[38] Zambia Business Survey, 2010

income-generating activities than clearly structured businesses.[39] This now presents two problems to organisations carrying out PSD programmes in those areas. The first one is difficulty in tracking SMEs' economic activities in these regions and the second is articulating structures to achieve the foregoing. This is because each of the numerous SMEs presents its own unique interests, needs and challenges to the investor or PSD organisation.

Also, taking the example of Agribusinesses in developing countries, a great deal of diversity is exhibited in the sub-sectors. On top of existing or staple sectors, there are numerous upcoming and exotic sectors. For instance, rice production and processing in western Zambia;[40] exotic Asian vegetable farming in Nicaragua, specifically for export[41] and the cashew nut production in Benin. All these are exotic sectors in those countries. This in the end creates webs consisting of SMEs, their activities and above all the various sectors in which these units exist.

Consequently, for W&D and many other organisations with investment portfolios across those areas, it is hard to obtain structured information about the sectors or the organisation's performance. This reduces accuracy levels and increases doubts about credibility in results to be presented to shareholders and other top stakeholders. ZBS[42] confirms the further effects of the foregoing problem. It states that there is little information about MSMEs available and this information gap has made it difficult for policy makers, businesses and donors to design policies, services and programs that can help these MSMEs improve their productivity and growth.

However, it should be noted that it is not only the policy makers (or the policy making process itself) that are affected by the flaws in information tracking structures, but that in the end the whole problem severely hits SMEs especially those operating in rural areas. They cannot get access to finance because there is less or unstructured information to provide evidence of their activities. These challenges are confirmed in a 2010 publication by the Royal Tropical Institute[43] that states that:

> *In rural areas information to assess a borrower's ability and willingness to repay a loan is difficult and expensive to obtain. Although group-based systems in rural areas work well in assessing a client's character, it is difficult to do the same for the agricultural risks involved. Products are often perishable, and it is hard to forecast price movements accurately. Key lending techniques, such as regular repayments and savings, are less suitable for agriculture, where cash flows are generally very irregular throughout the year.*

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[39] ibid
[40] *Rice Production and Marketing in Western Province*. Civil Society for Poverty Reduction Western Province http://www.csprzambia.org/index.php?option=com_phocadownload&view=category&id=3:p&Itemid=34#
[41] Woord en Daad, New Value Chain Papers
[42] Zambia Business Survey, 2010
[43] *Value Chain Finance: Beyond microfinance for rural entrepreneurs, 2010.*

Some organisations, including W&D[44], have ended up choosing to only empower certain actors whom they believe will ripple out positive spill overs to communities even in the remotest of rural areas. However, Impact investors can possibly create further and even more cordial impact by instigating reforms in information tracking structures. To some extent this implies designing such structures in a way that will enable organisations access the often expensive-to-obtain information from developing areas cheaply. This facilitates designing financial tools and policies (to ensure utmost social and environmental responsibility) that are suited to specific regions. A number of problems like corruption or gender equality that are usually generalised about developing countries may not carry the same level of emergency or severity as we move from one region to the other. Therefore, idiosyncratic tools and policies designed for interventions can reveal the exact prevalent problems in communities of developing regions. Moreover, being exemplary to societies is also about solving problems that those societies deem as the most pressing at any particular time.

CASE 2: The DCED Standard

The DCED standard was created by a nexus of Donors, Investors, Charities, the Dutch Ministry of foreign affairs and various PSD organisations owing to the resolutions of the Accra Agenda for Action (2008). It was resolved that developing countries and donors will work to develop cost-effective results management instruments to assess the impact of development policies and adjust them as necessary. Therefore, the DCED framework was designed with **three primary metrics** through which to report progress or achievements of PSD programmes. These compulsory metrics are; **number of jobs created, net income generated and scale of intervention.** PSD programmes can then introduce their own metrics to suit their needs. The standard conceptualises and distinguishes the activities of one organisation from those of others in reaching the same goals into a model called Results Chain.

That aside, the SROI operates on a lower level (enterprise level) of the Impact Investment value chain due to it being project-specific. Therefore, this creates a gap between the results achieved by the SROI and the Investors at the upper end of the chain. Dealing with this gap takes us to another model – the Donor Committee for Enterprise Development[45] (DCED) model. This model was created by a nexus of Donors, Investors, Charities, the Dutch Ministry of foreign affairs and various PSD organisations owing to the resolutions of the Accra Agenda for Action[46]. In this convention it was held that: developing countries and donors will work to develop cost-effective results management instruments to assess the impact of development policies and adjust them as necessary.[47] The aim was to have a means (common) to ease summation of all the achievements of partner organisations in the fight

[44] Stated in W&D ED position paper that: Enterprise development functions rather as a stone thrown in a lake, expanding from centres of economic activity, than from areas of few activity, dealing with higher production costs due to lack of scale advantages.
[45] DCED is an organisation promoting PSD. It operates, among other things, a forum in which donors, UN agencies and philanthropists share their practical experiences in PSD, and agree guidance on good practice. It is also the leading source of knowledge about PSD. Website: www.enterprise-development.org/
[46] This was convened to on 4 September 2008 to accelerate and deepen implementation of an earlier convention, the Paris Declaration Aid Effectiveness of 2 March 2005.
[47] Accra Agenda for Action) http://siteresources.worldbank.org/ACCRAEXT/Resources/4700790-1217425866038/AAA-4-SEPTEMBER-FINAL-16h00.pdf

against poverty, hence the use of three universal indicators of change namely Scale, Number of Jobs created and Income generated.

Both the DCED and SROI standards share one often acclaimed strong characteristic: that is, they try to distinguish between what an enterprise is doing to create impact and what others in the system are also doing to reach the same outcome ("Copying" and "Crowding"[48]). This characteristic is conceptualised and depicted in a model called Results Chain (or impact model) as shown in the generic sample for SMEs below. The results chain forms the focal point of both standards.

The DCED standard is credited for its focus on the three Universal Indicators. Apparently, these indicators or factors are inherent in any Impact Investment programme.

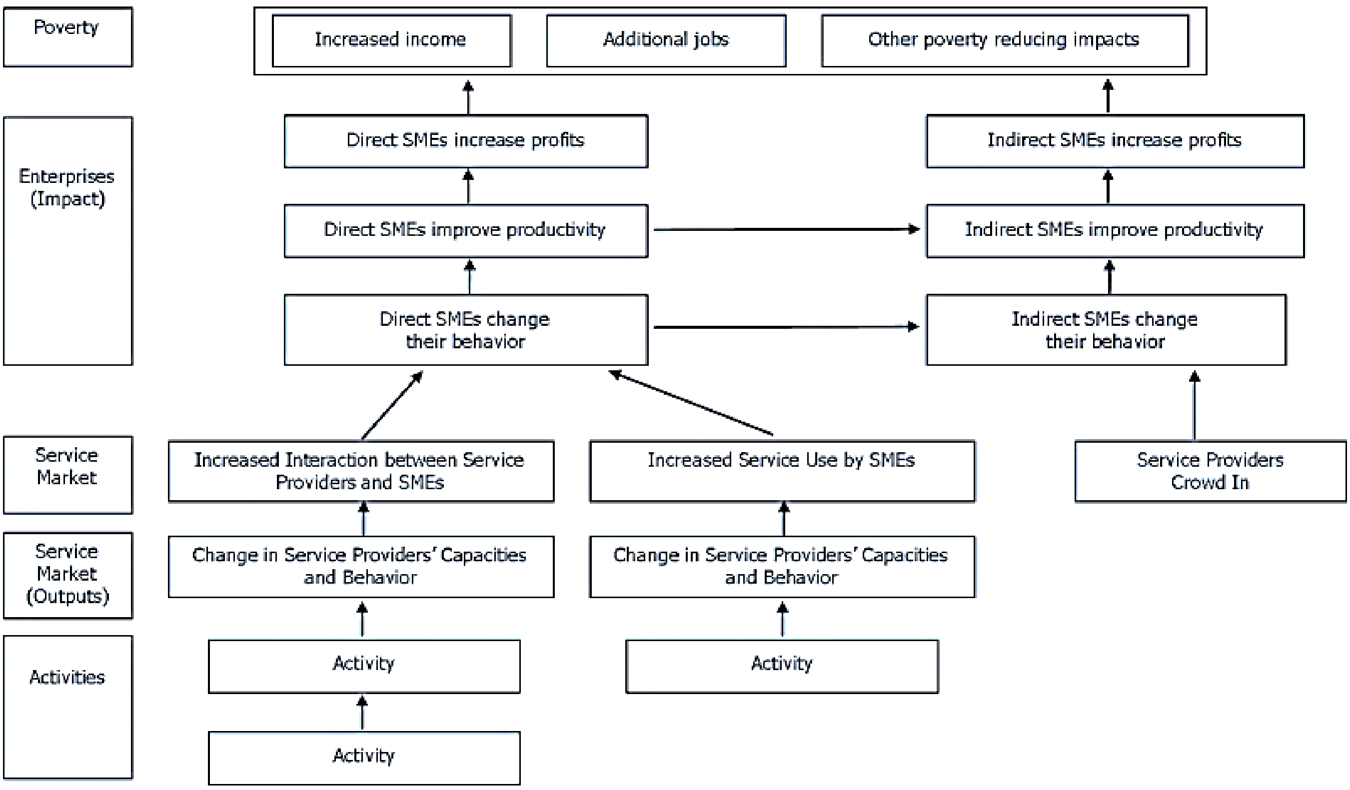

Figure 2.0 Generic Service - Provider SME Results Chain. DCED: Measuring & Reporting Results, Results Chains, June 2009.

They are a means agreed on, through which activities in PSD programmes in developing countries can be reported to donors, investors and organisations which are members of the DCED.

[48] **Copying** : other target enterprises copying behaviours that those affected directly by the programme's activities have adopted. **Crowding in**: others entering the sector or value chain as a result of improved incentives and environment created (at least partly) by the programme. DCED in "*Control Points and Compliance Criteria*," Version V, pages 12&13, 13 January 2010.

CASE 3: Maize production in Bangladesh with Katalyst

Katalyst is a multi-donor market development programme in Bangladesh, currently active in the maize, vegetable, fish, prawn, furniture, jute, tourism and potato industries. In its first phase (2003-2008), Katalyst estimates that its interventions led to the creation of around 200,000 jobs and increased the income of 700,000 farmers and small businesses. In its second phase (2008-2013), Katalyst aims to boost the income and competitiveness of 2.3 million farmers and small businesses. Katalyst was among the first programmes to complete a DCED (preliminary) mock audit. In October 2010, Katalyst completed its second mock audit. Staff conducted a full audit in 2011.

Results measurement forms an important part of programme management at Katalyst. Money spent on results measurement is therefore not recorded as a separate item. According to one estimate, around 10% of the programme's budget is spent on results measurement.

Katalyst employs M&E specialists. Initially, each M&E specialist held a different function (one prepared intervention reports, another prepared results chains, etc.) However, the team found that results measurement was best done by having a holistic picture of what is happening in the market, rather than scattered information by working in few things. Thus instead of carrying out one individual function and being involved in all sectors, each M&E specialist was reassigned to work with implementation teams in specific sectors. Katalyst's results measurement experts now work closer with implementation staff, supporting them in designing and carrying out their M&E activities. While previously each M&E specialist needed to know something about all the markets Katalyst engages with, they can now focus their attention on one. Katalyst's M&E specialists, known collectively as the Monitoring and Results Measurement (MRM) team, regularly train programme staff and co-facilitators on results measurement. The MRM team also undertakes thematic studies on topics such as poverty analysis, labour mobility, and the link between additional income and job creation. Preparing for a mock audit has helped Katalyst to better organise its 'paper trail', and to ensure that staff use a common approach to results measurement.

Katalyst's Work towards each Component of the DCED Standard

1. Articulating the Results Chains: Results chains are drafted at the start of each intervention. Each intervention's results chain is drafted by the people responsible for implementing the intervention. They are supported by Katalyst's M&E specialists. Katalyst staff also draw results chains showing all the programme's interventions in a given sector.

Katalyst team members have found that drafting results chains helps them to clarify how they should intervene in their target market. Staff regularly use the results chains to explain the story behind their interventions. They also use the results chains in internal meetings, to track their work. Where Katalyst jointly implements an intervention, it trains its partners in how to draw results chains. This helps to ensure consistency across Katalyst's interventions.

2. Defining Indicators of Change: Katalyst sets both qualitative and quantitative indicators for each box in its results chains and reports against two universal impact indicators: 'outreach' and 'additional income generated.' Using results chains has helped programme staff to narrow down the range of indicators they use. As the results chains are regularly updated, they present a clear picture of the programme's impact. With this in mind, staff has revised Katalyst's logframe to keep it in line with the results chains. When staff make projections for quantitative indicators, they record any relevant calculations. This allows others to understand how projections were made. Field experience is vital to making good projections. Projections are verified during impact assessment. In line with the Standard, Katalyst makes projections of its results up to two years after the end of an intervention.

3. Measuring Changes in Indicators: Before the start of an intervention, Katalyst collects baseline information from both primary and secondary sources. All results chains are accompanied by a measurement plan which outlines the methodology that will be used to collect data. Sector teams work together with results measurement specialists during the actual measuring of results. This way, both gain practical and technical expertise. Using a fairly small sample size, Katalyst often uses in-depth interviews to assess its impact. This enables staff to better understand how much their work has benefited the target group. Findings are verified using shorter validation surveys. Once the results have been validated, the project staff and M&E specialists meet to discuss them. Together they update the relevant results chain to include the new information they have gathered.

4. Measuring Attributable Change: Katalyst aims to measure attribution by: Verifying changes at each level of the results chain, starting with the results of programme activities. This helps to demonstrate that changes at the goal level are caused by changes that happened due to Katalyst's activities. Comparing, for each intervention, beneficiaries' performance before Katalyst intervenes with beneficiaries' performance after the intervention. Katalyst sometimes monitors control groups (a sample of people with similar socio-economic backgrounds to Katalyst's beneficiaries, but who are unaffected by the programme). This allows Katalyst to see how its interventions have changed what would have otherwise happened. Staff measure the difference in performance between programme beneficiaries and the control group. The difference between the two groups is the programme's impact. Katalyst also keeps track of relevant interventions by other programmes and by the government, to prevent duplication of effort and to avoid taking credit for changes caused by other programmes.

5. Capturing Wider Changes in the System or Market: Katalyst measures two types of systemic change: changes in commercial partners' business models, and 'copying in'. To capture 'copying in', Katalyst would also monitor whether retailers and distributors of other companies which it hasn't partnered with adopt similar practices, benefiting more farmers.

6. Tracking Programme Cost: All programme-related costs are tracked. Programme costs are disaggregated by sector. These costs are tracked for internal use only.

7. ***Reporting Results:*** Katalyst uses Intervention Plans to report its results. Intervention Plans include the story of the intervention, results chains and the measurement plan together with its associated calculations. Katalyst also maintains a programme-wide impact sheet, which managers use to monitor each intervention's impact, to adjust for overlap and to report on gender impact.

Adapted (and edited) from "Case Study in using the DCED Standard Maize production in Bangladesh with Katalyst". Available here http://www.enterprise-development.org/page/search?query=katalyst

4.2 Putting the Bottom of the Pyramid (BoP) into perspective

W&D/Incluvest provides loans, BDS and seeks equity in SMEs in developing countries through partners. For this reason, it can argue that stretching its responsibility to those SMEs or the end beneficiaries is rather strenuous, costly and out of scope. In as much as this appears reasonable for many rational investors, exhibiting responsibility towards SMEs and the end beneficiaries becomes a prerequisite if such an organisation is to make Impact Investments. Impact Investment stands on two solid grounds i.e. ensuring financial return and social return. The Rockefeller Foundation[49] point out that "impact investing aims at making investments that proactively intend to create positive impact beyond financial return, in addition to upholding strict Environmental, Social and Governance (ESG[50]) policies." This is put into assertion by recent research[51][52] that, from the ESG responsibilities in investment programs the social segment has for years remained the least standardised and neglected. Similarly, a publication by UNEP FI and the World Business Council for Sustainable Development cements these assertions and gives a caution to organisations about the social segment by stating that[53]:-

> *ESG factors can have long-term consequences on a company's financial performance, either for better or for worse. There is widespread acknowledgement among organisations that ESG factors can have a material impact on their intrinsic value, and that ESG factors should have a corresponding impact on their market capitalization. However, many investors continue to think that ESG is narrowly concerned with only corporate governance matters.*

This then imposes an obligation on investors, principally Impact Investors, to bend down to social issues. That in itself demands Impact Investors to apply a "door-step" approach either directly or indirectly in framing investment principles more especially those concerning social issues. Reaching the "door step" starts by, doing away with the fallacy of pooling social and environmental factors (and also avoiding reliance on governance matters) into a broad and one dimensional factor like simply child labour, gender issues or poverty but rather percolate through somehow to fighting the causes of all these problems. This is made explicit by King Report on Corporate Governance for South Africa III[54] that "success in the world in the 21st century requires companies to adopt an inclusive and not exclusive approach. The

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[49] The Rockefeller foundation, *Impact Investments: An emerging asset class*, Global Research 29 November 2010

[50] The ESG movement is advanced by the UN under the Principles for Responsible Investment (PRI). It. currently has over 1013 signatories worldwide ranging from asset owners, investment managers and to professional service partners. http://www.unpri.org/ . The ESG movement stems from the Triple Bottom Line (TBL) framework. The TBL emphasises People (Social), Planet (Environment) and Profit (Economic) considerations in business operations.

[51] *Environmental, Social and Governance (ESG) Issues in Institutional Investor Decision Making* - The Canadian Institute of Chartered Accountants, 2010

[52] Fred Robins, 2006. *The Challenge of TBL: A Responsibility to Whom?* Business and Society Review

[53] UNEP FI and World Business Council for Sustainable Development: Translating ESG into Sustainable Business Value. March 2010, Page 7

[54] http://www.library.up.ac.za/law/docs/king111report.pdf King Report on Corporate Governance for South Africa (III) 2009.

company must be open to institutional activism and there must be greater emphasis on the sustainable or non-financial aspects of its performance."

The need to trickle down and offer long term solutions to such problems is further demonstrated by Colombia. Colombia's many social problems including drug trafficking (fuelled by youth unemployment), violence and civil conflicts have increased foreign investor uncertainty about the country's business environment.[55] A similar demonstration is given by China; despite that its investments in emerging economies are ever increasing and coming with vast impact in terms of job creation and infrastructure development, the investments in most cases have been void of sound governance and social responsibility. There have been reports of extreme controversial labour relations and social concerns in Chinese investments all over the world. For instance, in 2005 in Chambeshi, Zambia forty-nine workers (all Zambians) were killed at a Chinese owned explosives factory.[56] There have been shootings and repeated strikes over poor wages (as low as $52 dollars per month for miners in Zambia[57]), safety standards negligence and pollution.[58][59]

However, while foreign investors are not per say expected to delve into all the society's deep concerns in these regions, as that would to some extent demean the focus of their investments; it is those concerns' long term effects that make them more than a huge problem for businesses and society today, henceforth. As Elkington, J.[60] puts it, there is need to attain development which meets the needs of the present without compromising the ability of future generations to meet their own needs. This calls for coming up with policies and operating practices that enhance the competitiveness of an organisation while simultaneously advancing the economic and social conditions in the communities in which it operates.[61]

It is evident that Chinese and the West's investments in emerging economies are in competition, with the former proving to be more powerful in the coming years. This, as Padraig Carmody,[62] provides is because the Chinese have relaxed conditions on their interventions, more especially the so called 'governance conditions' which are common with western interventions. But the Achilles' heel (the lag in social, labour and environmental responsibility) of Chinese interventions is still open for capitalising on by the West. Therefore, W&D/Incluvest as an Impact Investor from the West can equally 'take on' the Chinese interventions by proving to be a remedy to the negative effects brought about by Chinese interventions.

[55] Paula Andrea Rossiasco, *Colombia: The Economic Survivor* - July 2, 2000. http://colombiajournal.org/colombia16.htm
[56] Padraig Carmody, The New Scramble for Africa (2011)
[57] Muneku, A. and G. Koyi (2007), *The Social Impact of Asian FDI in Zambia: A case of Chinese and Indian Investment in the extractive industry in Zambia.*
[58] Padraig Carmody, The New Scramble for Africa (2011)
[59] Dambisa Moyo (2009), *Dead Aid: Why Aid is not working and How there is another way for Africa*
[60] Used in Fred Robins, 2006. *The Challenge of TBL: A Responsibility to Whom?* Business and Society Review
[61] Michael E. Porter, 2012. Creating Shared Value, Harvard Business Review. http://hbr.org/2011/01/the-big-idea-creating-shared-value/ar/pr
[62] Padraig Carmody, The New Scramble for Africa (2011)

Putting beneficiaries, principally society, into perspective by Impact investors is also about these investors prioritising sectors that will generate the greatest desired impact. A research by Small Enterprise Development Fund[63] (SEAF) reveals that investors in SMEs could have an even greater impact on economic growth and poverty reduction by investing in enterprises with high growth potential, adding that targeting investments to the types of SMEs that can achieve specific development goals through focusing funds on the types of investments can have a particularly profound impact. The aforesaid notwithstanding, those sectors or investments as well must be something that society will deem as a tangible solution to its concerns. This is one step towards respecting local systems and policies in those developing countries as enunciated in section 3.0 of this paper.

This argument can be attested by Africa where rain-fed agriculture accounts for 96% of the continents cropland, leaving 4% to irrigated cropland.[64] Climate change is also a major threat: if global average temperatures rise by 3°C, yields from rain-fed agriculture could be reduced by up to 50% in Africa.[65] The dependency on rain fed agriculture and poor management of water resources has been the main cause of food insecurity in Africa. In 2010, Ethiopia was the most affected by that dependency with reports of 4.8 million people severely hit; leading to even relatively medium term shocks in the economy such as high cereal prices sustained because of negative expectations over the outcome of the 2011 main season harvests and high international prices of wheat and staple foodstuffs.[66][67] It is reported that poor families in developing countries spend between 50% and 80% of their incomes on food.[68]

With this in mind it can be noted that sectors such as SME water management equipment, SME irrigation fund and equipment are attractive to agribusinesses aiming at fighting food insecurity and poverty in drought prone areas like most of Africa (Sub Saharan Africa). Such sectors serve as the long lasting solution or at least mitigation mechanisms against natural catastrophes like droughts and effects of climate change. Furthermore, it is apparent that societies or farmers in particular will embrace such innovative efforts of combating food insecurity because they (efforts) are clearly tangible.

4.3 Dealing with local systems in developing countries

There are various entities in local systems in developing countries such as civil society, religious groups and generally, local beliefs or customs institutions. By and large these entities influence foreign investment in a number of ways and have stakes of varying strengths in the investments altogether. They represent important segments of the population in a manner distinct from government as they directly reflect and respond to the needs of a broad range of communities. Civil society organisations, for instance, have often been pioneers in addressing issues that governments deem too sensitive to address publicly or

[63] SEAF (2007) - *From Poverty to Prosperity: Understanding the Impact of Investing in Small and Medium Enterprises.* SEAF, 2007
[64] Africa Agriculture: from meeting needs to creating wealth. Mo Ibrahim Foundation, 2011.
[65] Ibid
[66] Ibid
[67] W&D Annual Report, 2011
[68] Quoting IMF, 2011 - Africa Agriculture: from meeting needs to creating wealth. Mo Ibrahim Foundation

directly, and in many countries they have emerged as a first line of defence in addressing issues such as child labour, HIV/AIDS and gender equality.[69]

As alluded to in the previous section (4.2), it is common practice for organisations like W&D, operating in developing countries through intermediaries to "focus on things that count, not the things that can be counted" though "what they cannot measure or count they are likely to find hard to manage."[70] This opens up a spectrum of the need for investment policies, where intermediaries are involved, to somehow percolate through to the entities at the end of the delivery model as far as being exemplary and creating impact is concerned.

Building on the foregoing, if in the beginning what counts for an investment is the financial return, then seeping through to environmental and social variables will create even greater impact for such an investment. This then brings us to another consideration; what are the most pressing issues (social or environmental) in the systems in developing countries? It has been generally agreed that corruption is one of the pertinent issues that affects many entities in developing countries including governments. Worse still, SMEs have not been spared by the scourge. In Philippines, as is a similar case in many other developing countries, recent information from the Department of Trade and Industry show that SMEs make up 99.9% of all businesses, employ 63.2% of the labour force, and account for the total sales and value added in the country.[71] Furthermore, a research by the World Economic Forum points out that is the most problematic factor in doing business in the Philippines.[72] In an economy with this reality, it can be arbitrarily concluded that SMEs are the most affected by if not the major contributors to corruption in Philippines.

Coming to organisations depending on intermediaries to identify and select candidate SMEs for possible funding; there is a huge possibility for corruption (mostly in the form of bribes and kickbacks) to befall the selection process. Clear evidence of this is provided by Zambia where the local body of the government, the Citizen's Economic Empowerment Commission (CEEC), providing funds (mostly loans) to deserving enterprises is under investigation for alleged corruption in the management of the fund and approval of loan requests.[73] This therefore attests the severity of corruption in some areas and how SMEs are affected and later on spill overs intensely hitting the general public. Furthermore, it is clear that foreign investors need not leave the task of fighting such problems to the local entities because in the first place the ultimate responsibility is theirs i.e. looking at it from this angle - there could not have been that kind of corruption (i.e. selecting enterprises for possible funding by partner organisations in developing countries) had it not been for the Impact investors' efforts.

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[69] http://www.unmillenniumproject.org/documents/MainReportComplete-lowres.pdf
[70] Michael Mitchell, Allan Curtis & Penny Davidson (2008), *Evaluating the process of Triple Bottom Line (TBL) reporting: Increasing the potential for change*. This paper presents the importance of whole set of values, issues and processes that organisations must address in order to minimise any harm resulting from their activities and to create economic.
[71] Ramon V. del Rosario, Sr. – C.V. Starr (2011). Anti-corruption manual for SMEs
[72] Ibid
[73] http://www.icacnews.com/tag/citizens-economic-empowerment-commission/ accessed 24/04/2012

Mitchell et al warn that the potential for organisational change may be strengthened when internal stakeholders align their aspirations with those of external social movements committed to environmentalism and/or social justice.[74] Suffice to say foreign Investors must get in on joining local entities on a number of issues affecting SMEs and society (of which corruption, sighted here is just one of them), either directly or indirectly. The indirect approach can be taken up by the foreign investors operating through partner organisations in the developing countries. This calls for policy framing that will have influence towards addressing societal matters such as land and resource rights, social sustainability, food security, transparency, civil society consultation and environmental sustainability,[75] all impacting SMEs.

4.4 Sustaining the Relationship

One area of interest is seeing to it that the North-South chain and the relationships thereon see the light of the future, with a diminishing intake of resources but escalating outputs and positive outcomes. As for the South the desirable situation in the first instance is to have SMEs graduate from the start-up phase into fully sustainable entities by providing them with financial and social safety nets. In other words, it must involve empowering SMEs with the necessary capacity, finance, and regulation to increase their productivity, production, and competitiveness, job offering and in turn to contribute to food security thereby suppressing poverty.

In the second place, there is need to have more inflows of financial services and BDS to new start-ups; and to realise tangible outcomes of the foregoing through the empowerment of the local people, civil society and relevant societal entities to tap into the social and environmental realms of exemplary Impact Investment. As for the north, accountability coupled with responsibility must underlie all the efforts to reach out to developing countries. This must be complemented by a reflection of the actual or true picture of developing countries. Effective execution of the foregoing results in dependable influence on policy making; which further gives rise to addressing concerns exactly as the developing countries present or dictate.

[74] Michael Mitchell, Allan Curtis & Penny Davidson (2008).
[75] The seven principles set out in *Principles for Responsible Agricultural Investment that Respects Rights, Livelihoods and Resources.* A discussion note prepared by FAO, IFAD, the UNCTAD Secretariat and the World Bank Group to contribute to an on-going global dialogue. http://siteresources.worldbank.org/INTARD/214574-1111138388661/22453321/Principles_Extended.pdf

5.0 Demystifying the principles: Which way to go?

This chapter brings the sought after principles into a clear picture or makes them easier to understand. It starts by presenting a dummy model and later lays out a possible exemplary framework for W&D/Incluvest BV and also the trade-offs in using the model. The chapter ends by gathering lessons in all the findings put down to that end and presenting recommendations to W&D.

5.1 The Example Model

A classic example model by the Rockefeller Foundation[76], promising potential to take into account what has been discussed in the chapters 3.0 and 4.0 and also what an impact investment should be is presented below.

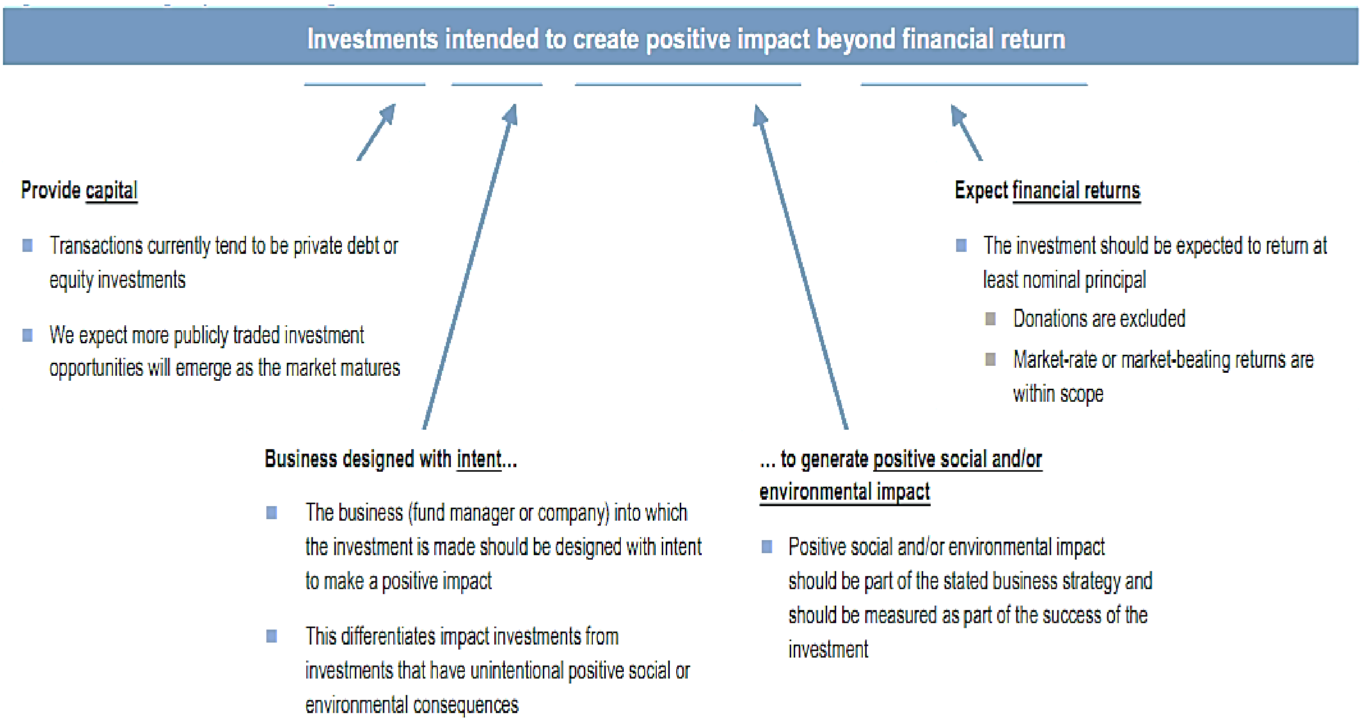

Figure 3.0 Example Model, the Rockefeller Foundation (2010)

The model in the first instance calls for "designing business with **intent** to generate positive social and/or environmental impact". This is what Michael Porter[77] referred to as "creating shared value". He suggests that businesses should design their investments by on the spot and simultaneously (unlike the common level by level; corporate strategy, corporate governance and corporate social responsibility) taking into consideration both financial and social concerns surrounding those particular investments. The argument is that business houses will all have a corporate strategy from inception but tapping substantially into the other two levels will be out of legal obligation or social pressure or sometimes guilt of exploitation of resources rather than initial intent.[78]

[76] Impact Investments: An emerging asset class, The Rockefeller Foundation, 2010
[77] Michael E. Porter and Mark R. Kramer (2011), The Big Idea: Creating Shared Value http://hbr.org/2011/01/the-big-idea-creating-shared-value/ar/pr
[78] Ibid

Creating shared value in Impact Investments carries the potency of paving way for: sustainable employment or employment created on the basis of an understanding of concerns in the societies and the environment from which labour is derived (sub-section 3.3 above); strengthening partnership ties and other relationships in the delivery chain (sub-section 3.5); an informed platform of dealing with local systems and governments in developing countries (sub-section 3.6) and above all, putting the BoP and their interests into the investment picture Meanwhile it is generally argued that any investment regardless of size, initial capital or sector has some level of social impact attached i.e. people get jobs, (idle) resources are tapped into and income is generated for both society and the government. On the other hand, for Impact Investments and W&D/Incluvest in particular, creating impact implies more than that. This is because of its Christian background and values _ Co-responsibility, Co-creation, Compassion, Stewardship and Interdependence _ all point to according utmost regard to social concerns. Therefore, exemplarity can be exhibited in part by making sure these values underlie Incluvest's activities (section 3.2 above).

Implied in the above model, is a mechanism for acquiring grass root information from the societies and environment in the south. These mechanisms or means must suit Incluvest's mode of structural operation i.e. through partners in developing countries. In the end Incluvest should have captured that information from the field; used it to frame policies that will result in promotion of capacity building among SMEs and reported the results to the northern stakeholders in a credible manner. The following section presents a possible exemplary model for W&D/Incluvest which in part, benefits from the example model presented here and from the factors highlighted in the other sections of this paper.

5.2 Possible Exemplary Model for W&D Incluvest

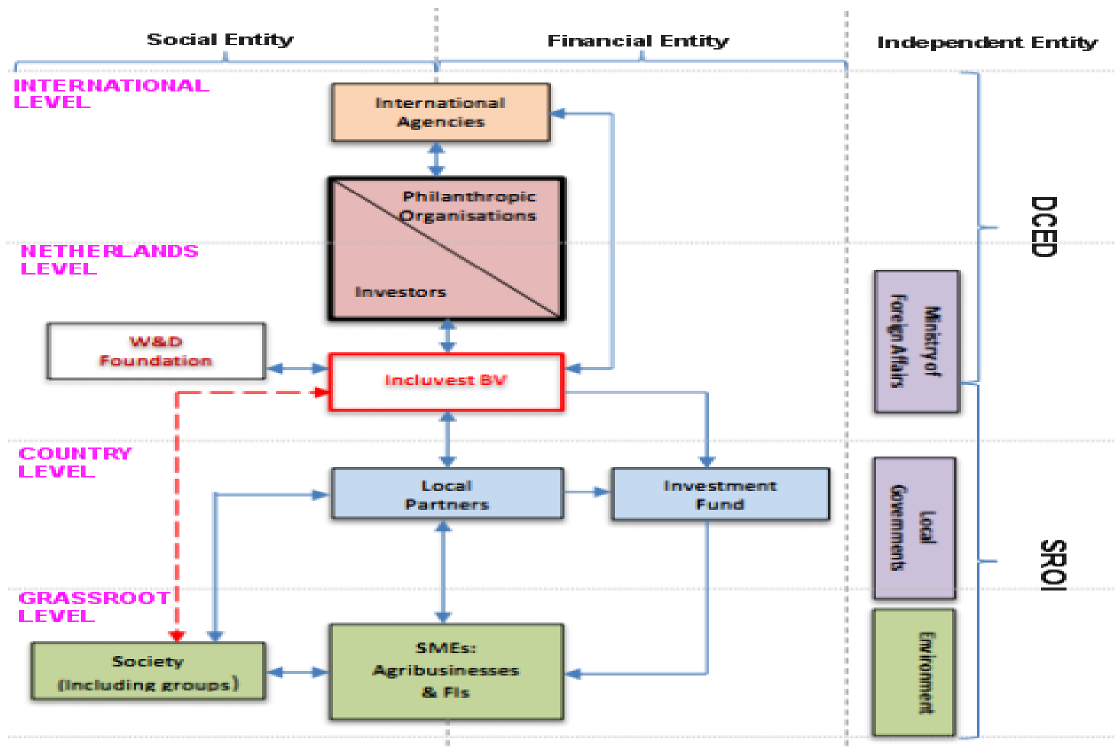

Figure 4.0 Possible Exemplary Model: W&D/Incluvest

1. The model introduces the SROI as the cornerstone and pushes the current surveys, research and all other grass root information collection means used by W&D into supplementary means. This is to be conducted by the Local Southern Partners and SMEs.
2. The DCED framework replaces the current Results framework for W&D (see Sub-section 5.2.1 below).
3. The model introduces or rather emphasises the implied relationship between W&D/Incluvest and Society and the Environment. (See the Red dashed line in the figure 4.0).

5.2.1 DCED Main Considerations

1. Scoping W&D/Incluvest's possible areas of operation, followed by segmenting that scope into a convenient number of segments based on any applicable or suitable classification.
2. Developing one generic results chain for each segment above. This is a slight abrogation of the DCED provisions that a results chain be set for each intervention or project[79][80] because the structure (working through Partnerships) of W&D/ Incluvest does not fully support this DCED provision.
3. SROI analyses to be based on appropriate results chains developed from specific segments.
4. Following Three Phases in the adoption of the DCED Framework[81] i.e.
   - ***Phase one (Fusion):*** In this phase all the other W&D M&E activities remain the same except the inclusion of the results chains and the review of the current W&D indicators (See Appendix 3) to determine which ones match the three universal indicators required in the DCED model.
   - ***Phase two (Intermediate):*** This must involve M&E staff training and familiarization with the standard paying particular attention to the control points as well as searching for DCED experts (See subsection 5.2.3). All the paperwork relating to the adoption of the DCED model should be done in this phase.
   - ***Phase three (Full Adoption):*** W&D/Incluvest at this point must have acquainted itself fully with standard. This stage involves auditing by DCED certified experts to further asses the credibility of the results.

Prior to the limitations of this research, the duration of each of the above stated phases cannot be determined and W&D/Incluvest must rely on its experience to determine when to move to the next phase.

5.2.2 Possible benefits of the Model

1. The use of internationally recognised standards (SROI and DCED) assures the Northern stakeholders of credibility in the results presented to them. Thus, strengthening the relationship between W&D/Incluvest and these stakeholders.

[79] DCED in "*Control Points and Compliance Criteria*," Version V, pages 12&13, 13 January 2010.
[80] Spark Interview with Nick van der Jagt
[81] A similar approach was followed by Katalyst of Bangladesh http://www.katalyst.com.bd/. It is the one of the first organisations to have ever been successful with the DCED standard. Katalyst case studies available here http://www.enterprise-development.org/

2. The use of results chains alone yields the following:
   - A structure that promotes less use of assumptions[82] from tracking activities (SROI) through to reporting results (DCED). The DCED and SROI are "two sides of a sheet of paper".
   - Ease of identifying significant niches or points of concern in southern activities also due to the segmentation of the scope of operations. This in turn facilitates easy inclusion of new measurement points (variables).
   - Enables organisations to[83]: have a complete spectrum of each of its specific interventions, plan projects better and a make adjustments easily without major structural and policy changes i.e. flexibility.
3. Exposure to an emerging community of practice, offering the opportunity to interact with other programmes, agencies, donors and consultants, for exchange and learning in key skills areas and experiences required for results measurement. Put outright by the DCED that the standard represents a shared, inter-agency understanding of good practice around the essential elements in the estimation of results.[84]
4. The use of the DCED and SROI principles has no direct or indirect cost on either the BoP or the Northern Stakeholders. All cost involved are normal project implementation costs.[85][86]

5.2.3 Possible costs and hurdles of the Model

> *The DCED standard serves its true usefulness when applied to large, multi-donor (investor) standalone and self-implementing projects e.g. projects of more than 10 million Euros investment; covering about three years of operations, with a project management team in place (usually international experts), operating with various entrepreneurs in particular value chains and with one to three dedicated M&E professionals.*[87]

1. From this statement we can derive the following:
   - W&D/Incluvest as well as other Impact Investors should expect to face some coercion in scaling down the use of the DCED framework to fit its interventions which are much less than 10 million Euros initial investment.
   - W&D/Incluvest needs well trained staff starting from DCED experts to internal M&E staff. However, DCED certified experts are very scarce and obviously come at a high hire cost.[88]

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[82] Spark Interview with Nick van der Jagt
[83] Ibid, and also DCED in "*Control Points and Compliance Criteria*," Version V, pages 12&13, 13 January 2010
[84] Jim Tanburn and Nabanita Sen (2011) *Why have a Standard for Measuring results? Progress and plans of the Donor Committee for Enterprise Development*, page 11 Available here: http://www.enterprise-development.org/download.aspx?id=503
[85] Spark Interview with Nick van der Jagt
[86] Interviews with Eric Roetman, ICS http://www.ics.nl/ and Evert Ludding, d.o.b. Foundation http://www.dobfoundation.nl/eng
[87] Spark Interview with Nick van der Jagt
[88] Ibid, for instance in Netherlands there are only two known DCED certified experts

2. The switching costs i.e. changes in the M&E and reporting framework which investors down the chain to partner organisations have to understand.

5.2.4 How it shall deliver value for W&D/Incluvest and Impact Investments

5.2.4.1 Structure: The model presents a structure that untangles the mesh of sectors (both existing and, leaves room for, new ones), SME activities, value chains and actors that W&D/Incluvest encounters due to the nature of its activities (as described in Section 4.1 above). The DCED framework is Enterprise Development focussed[89] and this fits it perfectly with W&D/Incluvest's core business.

5.2.4.2 Tailor Made BDS: The segmentation of the activities coupled with the use of the SROI provides actual information from the specific cases in developing areas which plays a pivotal role in designing tailor made BDS.

5.2.4.3 Environment and Society: These form the other half on Impact Investments' objectives. The model demonstrates the power to capture social and environmental concerns and further translating (monetising) this often hard to get information into meaningful figures. Thus, enabling W&D/Incluvest to report credibly and sum[90] together the social and environmental Impacts brought about by its interventions.

5.2.4.4 Policy Influencing[91]: The model puts W&D in a better position to enhance policy influencing owing largely to the credibility promised by the DCED and SROI. Policy Influencing is set out in W&D annual report 2011 as activities of social organisations focused on furthering new or revised government policy on themes that are in the interest of the (legal position of) the poor.

5.2.4.5 Room for other frameworks*:* The Impact Reporting and Investment System (IRIS[92]) attests to the power of the SROI that the tool reaps bagful information from the field; information that the IRIS has not yet found use for.[93] Therefore, the model lays a platform for incorporation of other frameworks and standards like the Global Impact Investing Rating System (GIIRS[94]), the TBL and the ESG into Impact investors set of practices complied with.

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[89] This has been raised as a criticism against the model by many organisations claiming that it does not match the nature of their interventions. Some of them are Spark (http://www.spark-online.org/) and SNV in "Comparability of DCED and MfR SNV". The paper presents a summary of reasons why SNV did not adopt the DCED standard as intended in the first place. Company website: http://www.snvworld.org/

[90] Going regional and pooling resources by wide geographic outreach can lead to minimized transaction costs and eased fund management – Finding from Edson Chilala (2011) The role of Micro-equity financing in Enterprise Development: Zambia, Research for Woord en Daad

[91] As one of the three main methods defining W&D's activities – W&D Annual Report, 2011

[92] IRIS is a growing community of impact investors. It is a move to standardize Impact Investing reporting. http://iris.thegiin.org/about-iris

[93] What is the Relationship Between IRIS and SROI? Available here http://iris.thegiin.org/files/iris/IRIS%20and%20SROI%20Overview.pdf

[94] The GIIRS gauges organisations Impact investing activities and gives certification based on predetermined metrics. http://www.thegiin.org/cgi-bin/iowa/home/index.html

CASE 4: Mkombozi: Moshi, Tanzania

Mkombozi (meaning "liberator, emancipator" in Swahili) supports Tanzania's children and youth, including those at risk of vulnerability, through housing, education, research, advocacy, and outreach. Initially established in 1997 as a live-in residential centre and safe haven for children living on the streets, Mkombozi has expanded its vision over the years. In addition to working with children already living/working on the streets, Mkombozi works to end the abuse and neglect of children, to ensure that children's rights are recognised, and to identify opportunities for intervention before a child migrates to the street. Today, Mkombozi is one of the leading child-focused agencies in northern Tanzania, working with over 1,000 children and families a year in Kilimanjaro and Arusha Regions.

Mkombozi's M&E system consists of three main approaches; namely Result Based Management (RBM), the Most Significant Change (MSC) Technique and the Social Return on Investment (SROI) approach. The aim is for these approaches to complement each other in enabling Mkombozi to assess its progress and impact on a regular basis and in enhancing organisational learning, as we acknowledge that one approach by itself will not give us the full range of data we require to achieve this goal.

Mkombozi recently conducted SROI Analysis (pilot) of health services it delivered on the Streets of Moshi, Tanzania. This was done in conjunction with Context International Cooperation (CIC) of Netherlands. Mr Turid Misje, the M&E Technical Advisor shares the experience:-

(…)SROI is designed in such a way that it includes different data types, such as narrative, qualitative, quantitative, monetisable and financial information (…)it provides us with tools to put a fiscal value on our impact (…)an SROI ratio can provide both our stakeholders, the organisation and our donors with a meaningful way of capturing and understanding the actual results of our work because it is so tangible.

Similarly the SROI Seminar conducted by CIC world on 16th March 2009 with delegates carrying out SROI pilots from around the world reveals that:

SROI increases the clarity in type of benefit (…) SROI creates a lot of discussion which gives more insight in what you are doing (…) Monetising allows for a quick assessment of a project/programme (…) Process of monetizing brings out the creativity in people (…) SROI creates a learning environment for people (…) SROI links the community with the actual project: stronger linkage, common languages (…) SROI allows to have social budgets as well, not only financial budgets (…) SROI gives new possibilities to discuss assumptions (…) SROI allows to combine quantitative and qualitative data (…) SROI enhances the responsiveness of certain stakeholders: conscious decisions are being made (…) The SROI process allows people to identify indicators which they themselves can measure. It also allows discussion between stakeholders in the decision process (…) SROI allows you to capture the different perspectives of different people (…) The theory of change becomes more explicit (…) SROI forces you to discuss attribution issues (…) SROI makes you more organized

Adapted from *Social Return on Investment (SROI): SROI Analysis of Health Services delivered on the Streets of Moshi, Tanzania* *http://www.mkombozi.org/publications/think_piece/2011_02_06_think_piece_sroi.pdf* *and also Context International Cooperation SROI Seminar Report 2009* *http://sroiseminar2009.files.wordpress.com/2009/04/90401-report-sroi-seminar-march-16-2009.pdf*

5.3 Gathering Lessons (Recommendations) for W&D/Incluvest

This section will appraise lessons or recommendations resulting from the material presented in the course the research.

5.3.1 First Follow specific prevalent concerns/sectors for greater and faster impact: W&D/Incluvest must first target strategic concerns or sectors based on urgency and prospects as pointed out in the above sections, then drop down to SME level. Research shows that investors in SMEs could have an even greater impact on economic growth and poverty reduction by investing in enterprises with high growth potential i.e. focusing funds on the types of SMEs that can achieve specific development goals have a particularly profound impact.

5.3.2 Invariably aim (and account) for impact rather than contribution: This must be part and parcel of the W&D/Incluvest's intervention strategies, activities or compliance with existing and emerging standards. It must involve making use of other impact-maximising practices e.g. gender sensitivity in financing and creating employment, creating quality and sustainable jobs etc.

5.3.3 SROI Adoption a Must: The SROI compels southern enterprises to work out all the idiosyncrasies surrounding their businesses. This process has a great potential of revealing information (especially the social matters and impact) not usually found in business plans thereby facilitating a new and even greater synergy between W&D/Incluvest and the enterprises. Adoption of SROI has no hidden costs for both W&D/Incluvest and its stakeholders.

5.3.4 Critically consider the DCED standard: Three phases have been prescribed for the adoption of the DCED model in an order of reducing flexibility. Phase one demand only manipulating the current M&E indicators to see which ones can form part of the three minimum indicators required by the DCED framework. This phase also calls for use of results chains (SROI is also based on Results Chain schematics) whose added value has been highlighted above. This phase alone should be able to tell whether the framework is worth adopting fully. The phases proposed have no specified duration. Therefore, W&D/Incluvest BV has enough time to carefully scrutinize working with the DCED framework and strike a comparison between the situation before and after adopting a few elements of it.

5.3.5 Integrate the Creating Shared Value Model: W&D/Incluvest must consider integrating this model into its interventions so as to strike a balance between social impact and financial impact. The model advocates for an initial one off integration or combination of corporate strategy, corporate governance and social responsibility into one synergy.

5.3.6 Caution with Christian principles: W&D's Christian principles (which also filter down somehow to W&D/Incluvest) put W&D/Incluvest in a highly fiduciary and ethical position. Therefore, caution must be exercised to make sure the image of W&D is not dented considering that Incluvest will be involved in a pursuit with a business or profit motive component attached i.e. Impact Investment.

6.0 Conclusions

The main conclusions drawn from this study are, and of course not limited to, as follows:

- Impact Investment presents new hope in alleviating poverty, addressing pressing social concerns and strategies in the flow of development aid to third world countries.
- Attaching business economic effectiveness to handling of development aid moneys and also in carrying out investments is a more dependable way of attaining economic and environmental sustainability in developing areas.
- Standards especially those of results (effects of an intervention, programme or project) measurement and reporting and collectively agreed on rules of engagement are a necessity in Impact Investments because:-
- Impact Investments have a duty beyond ordinary Investments and that is why they have to comply with certain standards or practices.
- Using standards, frameworks and practices, rules or principles collectively agreed on in Impact Investments makes the fight against poverty more meaningful.
- There is a real need for Impact Investments to develop or comply with concerted standards to make poverty alleviation more meaningful.
- A bottom-up approach to Impact Investments is more likely to yield the needed impact and substantial poverty alleviation levels.
- Impact Investments that firstly focus on pressing societal concerns (Direct Impact Investments) accompanied by a bottom-up approach will yield similar results as stated previously.
- Overall, Impact Investments can better blossom with increased dialogue between development aid houses, the donor community and the Bottom of the Pyramid (BoP) and confluent tools or frameworks to tell what is being achieved in addressing the deep concerns in developing countries.

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8.0 Glossary

List of the main terms explained in the context used in the report

Aid: any material support given to a party in need. The aid looked at in this report is charity-based aid which, according to Dambisa Moyo's classification[95], is that type of aid disbursed to and/or by charitable organisations to institutions or people in need. Within this framework we narrow down to Development aid, which is aimed at supporting development in general (which can be economic development or social development in developing countries) and alleviating poverty in the long run.

Donor: an individual or institution which gives material support for a cause usually without requiring the receiver to pay back (gift) or if required to pay back, the receiver is given very flexible terms on which to do that (soft loan).

Environmental, Social and Governance Model (ESG): This model is put forth by the United Nations Environmental Program – Finance Initiative (UNEP-FI), UN Global Impact and various organisations (partners) through a network forum, the Principle of Responsible Investment (PRI- http://www.unpri.org/). The standard unlike the TBL focuses only on the ethical dimensions of businesses. It serves to remind organisations about human rights, labour standards, the environment, corruption and various concerns in communities where organisations operate.

Impact Investment: refers to any investment which seeks to create both positive financial and social (also environmental) returns. This goes beyond the social returns inherent in any kind of investment and this is what distinguishes Impact Investments from other types of investments.

Investment: an undertaking to which resources are committed for an expected return or reward.

Investor: an individual or institution committing resources (mainly funds) to an undertaking for an expected return (e.g. social or environmental impact, profit and ego satisfaction).

Stakeholder: an individual or party negatively or positively affected by another person's or party's activities. Key stakeholders in this report have been classified into two groups:

> **Northern:** Including Dutch Ministry of Foreign Affairs, investors, donors and other organisations carrying out similar programs in developing areas
>
> **Southern:** the receiving end of Investor or donor flows in developing countries e.g. Partner organisations, local governments, general society and environmental entities

Standard: anything used as a measure, normal or model in comparative evaluations. In this research, the words "standard", "framework" and "model" are used interchangeably to refer to the same thing.

Sustainability: the ability to bear or keep something going overtime or continuously in a desirable state mainly with one's own resources. In investments sustainability refers to that which is achieved when the social, economic and environmental factors are well balanced or put into consideration.

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[95] Dambisa Moyo (2009), *Dead Aid: Why Aid is not working and How there is another way for Africa*

The Donor Committee for Enterprise development Standard (DCED): This standard was created by a nexus of Donors, Investors, Charities, the Dutch Ministry of foreign affairs and various PSD organisations. It stems from the provisions of the Accra Agenda for Action of 2008 i.e. "We will be judged by the impacts that our collective efforts have on the lives of poor people."[96] The aim was to have a means (common) to ease summation of all the achievements of partner organisations in the fight against poverty, hence the use of three universal indicators of change namely Scale, Number of Jobs created and Income generated. The use and trial of the standard has grown rapidly over the years. The standard introduces to organisations its own monitoring and evaluation structure and requirements for compliance. The framework at a glance involves the following processes[97]: *Articulating the Results Chain; Defining indicators of change; Measuring changes in indicators; Estimating attributable changes; Capturing wider changes in the system or market; Tracking programme costs; Reporting results and Managing the system for results measurement.*

The Social Return on Investment (SROI): SROI is a framework created to help organisations manage and understand the social, economic and environmental outcomes created by their activities. The standard translates the outcomes (or impact) in money terms although there is criticism that not all social and environmental factors can be put in money terms (e.g. the confidence in entrepreneurs after an external intervention). Unlike the DCED model this framework operates on the ground level i.e. it is project specific.

Triple Bottom Line (TBL): This is not a standard per se but looked at as a way of thinking that organisations should have in conducting their business. It calls for organisations have a three dimensional view of their business activities i.e. Economic (Profit), Social (People) and Environmental (Planet). This comes about because of the accusations that organisations tend to focus on their economic objectives at the expense of social and environmental responsibilities. Observance of this thinking takes the organisation closer to its stakeholders apart from shareholders (Investors) thus promoting a better understanding of social and environmental concerns and generating solutions as is acceptable.

Impact Reporting and Investment Standards (IRIS): is an emerging results or impact measurement standard specifically for Impact Investors. The framework consists of a series of predetermined indicators designed across the sectors: Education, Agriculture, Energy, Environment, Financial Services, Health, Water and Housing/Community facilities. The indicators and other parts of this framework are updated every year and the latest version of IRIS is Version 2.2, released in November 2011. The main sections of this standard and its indicators are: *Organisation Description*, *Product Description*, *Financial Performance, Operational Impact*, *Product Impact and Glossary.*

Global Impact Investment Rating System: is also an emerging framework specifically for impact investors. It is a system of giving certification to organisations for their activities and achievements in Impact Investments based on a predetermined criteria and metrics (similar to the format of the IRIS above).

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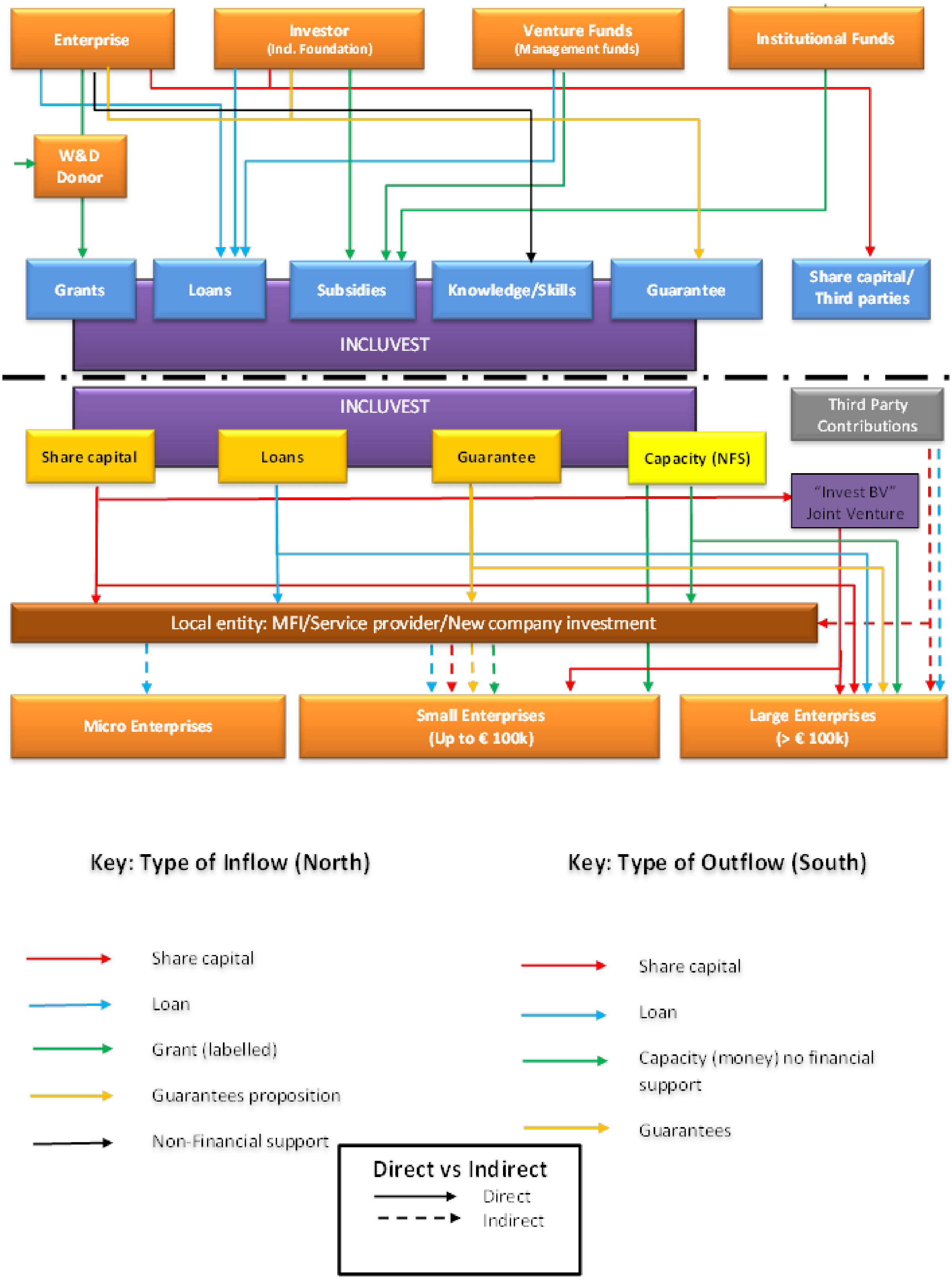
[96] Accra Agenda for Action (2008) http://siteresources.worldbank.org/ACCRAEXT/Resources/4700790-1217425866038/AAA-4-SEPTEMBER-FINAL-16h00.pdf
[97] DCED Standard for Measuring Results in Private Sector Development PDF available here www.enterprise-development.org/

9.0 Appendices

Appendix 1: W&D-Incluvest Linkage



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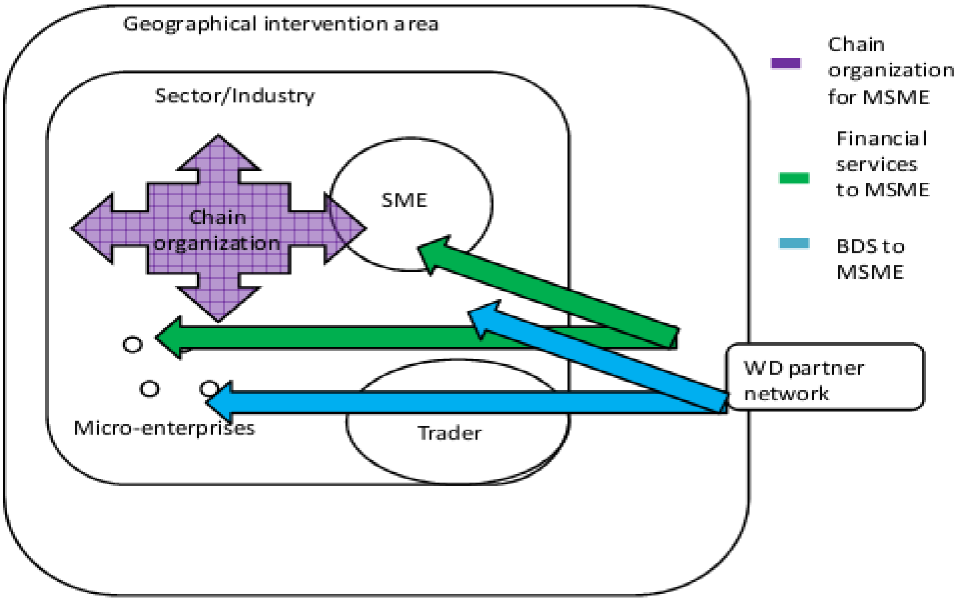
Appendix 2: Pictorial View of AED Intervention Strategies



Appendix 3: List of Woord en Daad's Indicators

Name	Level	Measure
1. IRS AD 1.	Outcome	General – Access to services and resources
2. IRS AD 2.	Outcome	General – Increase in turnover and profit of the enterprise
3. IRS AD 3.	Outcome	General – Number of jobs created
4. IRS AD 4.	Outcome	FS – Assets of the enterprise
5. IRS AD 5.	Outcome	General – Social Capital Score
6. IRS AD 6.	Outcome	BDS – Score for BDS implementation by enterprises
7. IRS AD 7.	Outcome	General – Operational and financial self-sustainability
8. IRS AD 8.	Output	FS – Number of enterprises supported
9. IRS AD 9.	Output	BDS – Number of enterprises trained
10. IRS AD 10.	Output	CO – Number of linkages facilitated
11. IRS AD 11.	Output	Civil Society Strengthening: Networking
12. IRS AD 12.	Output	General – Advocacy

Appendix 4: List of people Involved in Discussions and interviews

Name	Organisation	Position	Type	Contact Details
Mr Nic van der Jagt	Spark www.spark-online.org/	Monitoring & Evaluation Manager, DCED Consultant	Interview	n.jagt@spark-online.org
Mr Eric Roetman	ICS www.ics.nl/	Planning, Monitoring and Evaluations Officer	Interview	eric.roetman@ics.nl
Mr Evert Ludding	d.o.b foundation http://www.dobfoundation.nl/	Investment Manager & Legal Counsel	Interview	evert@dobfoundation.nl
Ms Marlene Roefs	SNV world www.snvworld.org/	Planning, Monitoring and Evaluation Officer	E-exchange Discussion	mroefs@snvworld.org
Mr Wouter Rijneveld	W&D Foundation	Monitoring & Evaluation Officer,	Regular Discussions	w.rijneveld@woordendaad.nl
Mr Marten van Middelkoop	W&D Foundation	Director-AED	Regular Discussions	m.middelkoop@woordendaad.nl
Mr Marc de Leeuw	W&D Foundation	Consultant - AED	Regular Discussions	m.deleeuw@woordendaad.nl

Appendix 5: Standards Matrix

Model	Brief Description	Objective	Advantages (Strengths)	Criticisms (Weaknesses)	Focus Area
Donor Committee for Enterprise Development (DCED)	The model emphasises the use of three Universal Indicators i.e. Scale, Jobs and Income created in measuring results of PSD programs. It is identifies activities, inputs, outputs and outcomes for each project. These are conceptualised into a diagram called **Results Chain.**	- To ensure credibility in reporting performance of PSD programs especially through the use of external auditors. - To ease summation of results and achievements of various programs through the use of Universal Indicators	- Gives an overview of the program; main actors, activities, responsibilities, outputs and outcomes. - Results chains reduce the use of "rules of thumb" - Takes account of what others are doing towards achieving project objectives. - Eases planning of projects	- Centred on Enterprise Development & Works appropriately with huge capital projects (over 10million Euros) - Very few consultants recognised by the DCED - Rigour of the standard not yet clear. - No direct contact with the interests of end beneficiaries of projects.	Results Measurement in PSD programs
Social Return on Investment (SROI) & Analysis	The model seeks to take account of social impacts (returns) that come with investments other than just financial returns. Centred on the **Results Chain**.	- To determine social impacts of an investment - To incorporate environmental and social issues in investments.	- Project specific and versatile - Incorporates direct interests of stakeholders into investments - Quantifies social variables (monetises).	- Not all social variables can be monetised e.g. increased self esteem - Monetisation process erodes rigour of the analysis	Impact Determination and Measurement
Triple Bottom Line (TBL) or Profit, Planet & People (3P)	The model provides that an organisation's commitment to social responsibility lies in stakeholders and not only in investors.	- To capture an expanded spectrum of values and criteria for measuring both organizational and societal success in terms of economic, ecological, and social realms.	- It succinctly describes sustainability in three areas i.e. 3Ps - potential to identify financially profitable niches - farfetched benefits reaching even undeserving groups	- Can be costly to execute - Organisations need to focus on what they do best to contribute substantially to society. - In poverty stricken areas environmental issues matter less than food.	Organisational, Social and Environmental Sustainability Stakeholder Engagement
Environmental, Social and Governance (ESG)	ESG issues if neglected affect the performance of investment portfolios. The model is advanced by the Principles of Responsible Investment (PRI) initiative. http://www.unpri.org/	- To provide checks and balances (or a benchmark) to organisations as regards to coping with ESG dynamics.	- Reduces reputational risk and potential for litigation. - Avoid or minimise environmental and social liabilities - Remind organisations about human rights, labour standards, the environment and anticorruption.	- general view of concerns in governance, society and the environment makes it cumbersome for SMEs to apply	Organisational, Social and Environmental Sustainability

Appendix 6: SROI Operationalised Interview Guide/Questions

1. What is SROI in your own words?
    - What is it about?
    - Who should use it?
    - Which gap does it aim to bridge particularly in
        - In measurement and reporting of results in PSD programs

2. What should organisations put in place before adoption of the SROI model?
    - M&E Staff
    - Structure of M&E system
    - Stakeholders

3. What are the costs that come with the adoption of the SROI concept?
    - For the organisation in general
    - For the beneficiaries of the program intervention
    - Investors or people to whom results are presented to
    - Investees
    - Partners or intermediaries

4. How flexible is the SROI analysis?
    - Are organisations free to abrogate some steps?
    - And to what extent should that be?
    - Any serious pitfalls

5. There is an argument that some social and environmental variables cannot be monetised.
    - How can that be rectified?
    - How rigorous then is the SROI analysis?

6. What benefits or value of the SROI can you attach to:-
    - For the organisation in general
    - For the beneficiaries of the program intervention
    - Investors or people to whom results are presented to
    - Investees
    - Partners or intermediaries

7. All in all would you recommend the use of the SROI analysis?
    - What is your biggest reason for that?

Appendix 7: DCED Operationalised Interview Guide/Questions

Introduction

1. In your own words,
    - What is DCED standard for results measurement in PSD?
    - What is it about?
    - What gap does it seek to bridge in PSD results measurement?
    - Which institutions is it designed for?

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2. Apart from time, which costs are involved in its adoption for each of the following?
    - Bottom of the Pyramid (BoP)
    - Investors
    - The Implementing organisation
    - Any other stakeholder

3. The DCED is said to be a "minimum set of standards" for PSD; what therefore should organisations consider in applying discretion when working with the standard? And to what extent should that discretion be applied? Any serious pitfalls?
4. DCED standard is mainly quantitative; in all does that rule out the importance of qualitative reporting?
5. Roughly how many organisations are using the DCED standard? Which sectors do they range across?
6. To what extent does the standard guarantee measurement of attribution? (Or how rigorous is it?)
7. Do organisations need any specialized staff before and after adoption of the standard? What do organisations need to put in place the adoption?
8. It is reported that organisations normally go through three stages i.e. frustration, setting priorities and full integration? Is this order solid or do all organisations have to go through that order? What can they do to avoid especially the first step?
9. All in all, would you recommend the DCED standard to organisations? Why and when