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Guidelines Towards Implementation Strategies of an Impact Investing Portfolio

The cases of Incofin, BIO & SI ² Fund

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Abbreviations

GIIN	Global Impact Investing Network
USD	United States Dollar
SRI	Socially Responsible Investing
UN	United Nations
UNCED	United Nations Conference on Environmental and Development
ESG	Environmental, Social and Governance
SROI	Social Return on Investment
ToC	Theory of Change
GSIA	Global Sustainable Investment Alliance
EUR	Euro
CAGR	Compound Annual Growth Rate
CBA	Cost Benefit Analysis
NPV	Net Present Value
CBR	Cost Benefit Ratio
IRR	Internal Rate of Return
BSC	Balanced Scorecards
MSC	Most Significant Change
SDG	Sustainable Development Goals
MDG	Millennium Development Goals
IRIS	Impact Reporting and Investment Standards
GIIRS	Global Impact Investing Rating System
NV	Public limited company
VZW	Non-profit association
FSMA	Financial Services and Market Authority
MSME	Micro, Small and Medium Enterprises
KDI	Key Development Indicators
KEG	Deutsche Investitions - und Entwicklungsgesellschaft
GPR	Corporate-Policy Project Rating
SPM	Social Performance Management
REDF	Roberts Enterprise Development Funds
SER	Social and Environmental Return
ALINUS	ALigning INvestors due diligence with Universal Standards

ABSTRACT

With more than 10 % of the population still living in extreme poverty, 2 billion people exposed to the risk of reduced access to freshwater resources, and roughly half the world's population still living with about USD 2 a day, many initiatives for change have been undertaken around the globe. The financial sector is not different. An increasing number of investors engage in a more sustainable approach as regards to their investments' strategies. Emerging from Socially Responsible Investments (SRI), a new strategy, ***'Impact Investing'***, has been developing to better meet the increasing demand for social positive impacts from investments. Nevertheless, Impact Investing suffers from the lack of agreements on key performance indicators that could be standardized across investments within a specific sector – or even across all sectors – to measure intentional social changes and positive impacts resulting from an organization's activities. Investing firms and investors are not properly harnessed in terms of strategies and methodologies to meet the expectations of all stakeholders concerning impact, risk, and financial return.

Consequently, this thesis offers a starting point to thoroughly understand the evolution of Impact Investing and its concepts that need to be considered to align objectives and maximize both financial and social return at a given level of risk when building an Impact Investing portfolio.

The thesis first describes the contextualization of Impact Investing and its evolution over time, and then explore funds available in the Belgian and international markets as well as the different types of investors. Currently, Impact Investing only accounts for USD 444.26 billion worth of assets, less than 1 % of total investments in Socially Responsible Investments at a worldwide level. However, its growth has been significant over the past few years, and this trend is expected to continue further. Impact investors' decision to inject capital into an organization is based on a three-dimensional spectrum composed of social impact, risk, and financial return. What matters the most is social impact to some investors but financial return to others.

The second part of the thesis aims at better understanding the different methodologies that could be used to measure the social impact resulting from a specific organization's activities as investors and stakeholders genuinely want to know the difference they make by investing in social projects.

Each social-oriented firm is expected to provide clear information about its social impact based on the theory of change. Therefore, it must implement a methodology to collect data on outputs and outcomes resulting from its activities. To do so, there are numerous measurement frameworks (SROI, SDGs, Most Significant Change, Social Enterprises Balanced Scorecards to name just a few) allowing firms to assess and report the most relevant indicators of their social activities; yet, there is no consensus on a method suited for all types of organizations assessing the same indicators. Some methodologies consider WHAT to measure, and others HOW to measure impact. Understanding and selecting the right one for your institution is crucial. This tool will allow you to effectively communicate with all stakeholders about your effectiveness and the positive changes generated by the changes in the company's social value chain without wasting resources on incompatible and unfitted methodologies. In addition, as traditional investments, impact investing funds are also exposed to risks. However, beyond the traditional risks, an additional spectrum leading to greater risk is to be considered. The performance of the portfolio will therefore highly depend on the risk tolerance, on the financial expectations, as well as on the level of impact expected by investors. This is explained based on the Markowitz model with the addition of the impact axis.

The last part presents an exploratory research on three Belgian impact investing firms supporting social projects in Belgium and abroad: Belgian Investment Company for Developing Countries (BIO); Incofin; and SI ² Fund. Even though they share the same overall objectives to create social changes towards a fairer and more sustainable world, these companies were selected because of the nature of their investments; the differences in investments' sizes; the market they target; differences in investors' expectations; and, their corporate structure. Strategies are dissimilar, and all organizations have implemented multiple impact measurement methodologies to collect data about their deals and assess them to report to stakeholders. The exploratory analysis through internal documents, official publications or third-party database, among others, shows that building an impact investing portfolio is complex and multidimensional. It requires a full understanding of key theoretical concepts. It also highlights the challenges faced, the lack of common methodology for all social businesses and social investors and raise questions for further analysis.

INTRODUCTION

"I am proposing to create a new kind of business.
Business based on the selfness that is in all of us.
I am calling this, Social Business."
– Professor Muhammad Yunus

Over the past decade, social and environmental impact investing as an activity as well as a concept has grown in recognition on a truly global scale through growing media coverage. Impact investing and its investments in social businesses have gained significant momentum as both an investment strategy and an approach to address pressing social and environmental challenges affecting communities around the globe. Through impact investments, investors seek to generate both a financial return and a positive, measurable social and environmental impact.

Yet, although we hear about many success stories, the impact investing field is a very complex interplay between agents, instruments and regulations (Brandstetter, & Lehner, 2015). Additionally, despite this increasing media coverage, there still exists a widespread misconception that impact investing does not financially perform as well as traditional investments. In addition, another misconception relies on the fact that impact investing is a single type of investing and not a broad approach. Impact investing was labeled as an emerging asset class and therefore couldn't be achieved across all asset class (Emerson, & Smalling, 2015). However, this term describes investments across many asset classes, sectors and regions underlying the diversity of the market and its many types of investors (Mudaliar, & Dithrich, 2019).

Regardless of all these misconceptions, socially responsible investment assets are continuing to climb globally over time. Worldwide, socially responsible investments account for USD 30.68 trillion of assets being professionally managed. Impact investing is an extension of Socially Responsible Investing. The Global Impact Investing Network (GIIN) in its annual report estimates the current size of the global impact investing market to be USD 502 billion and its market has also been growing worldwide by more than 55 % from 2013 to 2015 and by more than 33 % from

2015 to 2017 (Mudaliar, & Dithrich, 2019). Both the supply and the demand side of impact investing have been accelerating rapidly.

Indeed, on the demand side, social businesses are increasingly becoming market-based, and offer more and more socially motivated services. On the other hand, on the supply side, the growth of the impact investing market has already convinced many investors to rethink the way they professionally manage their investment decisions. Certainly, a broadening range of investors is beginning to engage with the idea of combining financial and social returns (Barby, & Gan, 2014). To do so, investors set up new strategies and processes in order to meet their expectations in terms of risk tolerance, social impact, and financial return. Acquiring new skills and getting familiar with non-financial measurement concepts is a must for control and adaptation. Many tools are available on the market to measure impact, set goals of social and environmental performance and apply data to activities like due diligence and investment management (Gelfand, & al., 2012). Nevertheless, debates and concerns exist as regards to impact measurement, corporate communication and evaluation of strategies to measure the effectiveness of those funds, generating an abundance of costly and complex measurement tools and other metrics that, unfortunately, do not appear to suit all types of organizations and programs. In this first part of the thesis, all those characteristics will be analyzed in depth.

According to the Rockefeller Philanthropy Advisors, developing an impact investing strategy and taking subsequent action steps to build an efficient portfolio can be organized into three main stages, as follows:

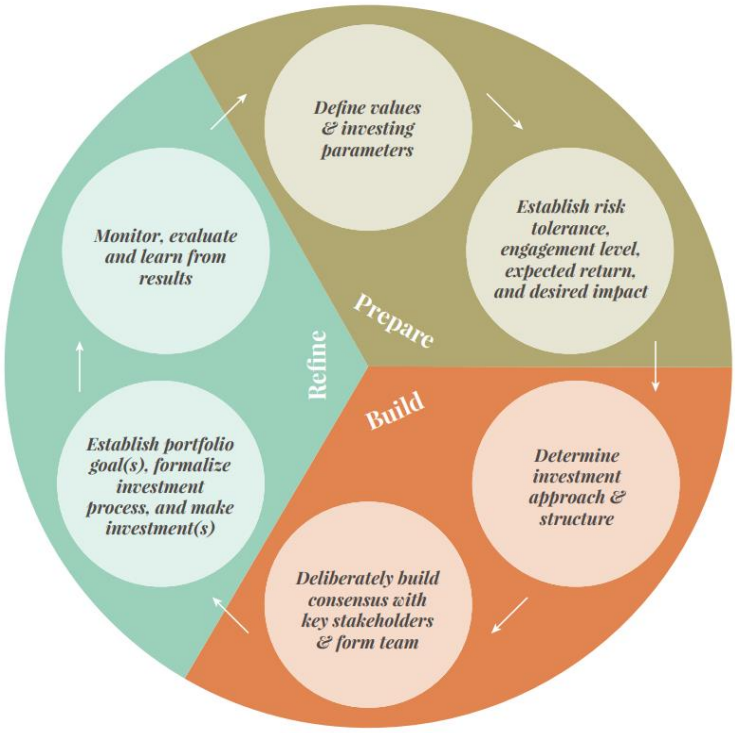
- ***Prepare:*** define values and investing parameters, as well as establish the risk tolerance, the expected financial returns and the desired level of impact. Importance of clarifying the motivations guiding your actions.

- ***Build:*** determine the investment structure and approach, and build a consensus with key stakeholders and team members. Each organization must put in place a methodology to collect data about its outputs and outcomes and analyze these results.

- ***Refine:*** establish portfolio goals, formalize investment process and make investments. After some time, it is important to monitor, evaluate and learn from results to learn from mistakes, and then, adapt and improve processes for better portfolio performance.

Those steps will be described more in-depth throughout the thesis. The Rockefeller Philanthropy Advisors finish by reminding us that *"as you grow, you can be a source of encouragement and knowledge for others,"* which I think is really important to keep in mind for any decisions and actions made.

Table 1: Action steps to build an efficient portfolio



Source: The Rockefeller Philanthropy Advisors, 2019.

Finally, in its structure, this thesis follows the three steps of a qualitative analysis defined by Miles and Huberman (1994) by first developing the theoretical framework based on clear and well-defined research questions, and finishing by exploring three real-life examples in the form of case studies to analyze the phenomenon and draw conclusions.

PART I : CONTEXTUALIZATION OF IMPACT INVESTING

Before analyzing different models, it is critical to thoroughly understand the concept of ***Impact Investing*** and its evolution within the field of ***Socially Responsible Investing*** (SRI) practices. The aim of this chapter is to introduce the different concepts that will be used throughout this thesis.

1.1 Definition & Concepts

1.1.1 Historic Evolution of Impact Investing

Sustainable Investing has been around for centuries and, thanks to the injection of new and innovative ideas as well as a broader range of stakeholders, it has also known a continuous evolution in practices when it comes to building an investment strategy in social projects (Mitchell, 2016). As a result, its terminology itself has also evolved throughout the years. The development of sustainable investing can be divided into four main currents of thoughts (Combs, 2014) (Demoustiez, 2007) (Fulton, Kahn, & Sharples, 2012).

The first signs of sustainable investing began in the 1500s. The earliest form of sustainable investing was based on an investment process called ***Ethical Investing*** guided by moral or religious beliefs aligning with investors' faiths. The investment decisions were founded on personal values influencing investors to deliberately opting not to invest in companies and industries going against their values. Ethical investing therefore relied on the theory of negative screening (Fulton, Kahn, & Sharples, 2012). The practices of ethical investing became more popular in the 19th century under the influence of American Quakers who refused to invest in the most profitable industries at the time, namely slavery and the arms industry. Ethical investing continued to develop itself under the influence of religious order among others (Demoustiez, 2007). Investors excluded from their investments policies other companies having a certain percentage of revenue derived from gambling, tobacco, alcohol, adult entertainment and genetically modified organisms (Mahn, 2016).

In the 1970s, the movement became increasingly globalized through the *"Sullivan Principles,"* two corporate codes of conduct promoting corporate social responsibility (Fulton, Kahn, & Sharples, 2012). *Socially Responsible Investing (SRI)* emerged from the foundations of ethical investing. This new concept refers to a values-based or exclusionary investment approach that primarily takes notice of corporate social, ethical and environmental behaviors. Instead of excluding enterprises based on their activities, investors are more concerned about management practices and about the companies' commitments towards society. They select the ones showing true social responsibilities. SRI is therefore an investment style that uses both positive and negative screening to include and exclude companies in a portfolio based on social, moral, ethical, and religious criteria (Mahn, 2016). SRI gained momentum following the UN's 1992 Conference on Environmental and Development (UNCED).

Following this momentum, in the 2000s, Socially Responsible Investing shifted to ***Sustainable Investment*** through the incorporation of Environmental, Social and Corporate Governance factors (ESG factors) into investment decisions. The ESG criteria can be described as *"a set of standards that social investors use to screen potential investments"* (Fulton, Kahn, & Sharples, 2012). This new concept associates negative (values) and positive (risk / return spectrum) screenings to align the investment strategy with the combination of the maximization of financial returns with the thriving idea of a sustainable world eliminating unethical companies. To do so, firms realized the importance of better corporate governance in a company's risk and return profile. This new development allows shareholders to build a robust portfolio expressing their personal and social values without compromising portfolio diversification and long-term performances (Fulton, Kahn, & Sharples, 2012).

Impact investing is considered as the next step in the evolution of ethical investment. Impact investing offers a more dynamic approach. Indeed, it involves a more positive, proactive, and comprehensive review of a company to provide a more robust picture of the company's operations and social, as well as economic impact (Mahn, 2016). Impact investing differentiates itself from sustainable investment by focusing on the quality of the research and the evaluation method.

1.1.2 Impact Investing and its Stakeholders

It is undeniable that the notion of Impact Investing has evolved and will continue to evolve over time. It went from Ethical Investing to Socially Responsible Investing to finally become Impact Investing.

2017 marked the 10th anniversary of the term Impact Investing. Impact Investing was initially introduced at the Bellagio Summit organized by the *Rockefeller Foundation* (a philanthropic organization) when representatives from the world of finance, philanthropy and development met to reflect on the furtherance of investments having positive social and environmental impacts. It defined impact investing as: *"(…) capital that is placed outside of public equities markets and generates social and environmental value in addition to financial return"* (Niggemann, & Brägger, 2011).

Over the past decade and since its emergence from the Socially Responsible Investment field, impact investing has seen a huge increase in popularity among investors throughout the world. The *Global Impact Investing Network* is a group of professionals from around the world dedicated to increase the scale and effectiveness of impact investing by facilitating knowledge exchange, highlighting innovative investment approaches, and producing valuable tools and resources. The GIIN depicts impact investing as follows: *"Impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. (...) The growing impact investment market provides capital to address the world's most pressing challenges (...)"* (GIIN, 2018). Impact investing is thus based on the idea of making money while influencing positive change (Combs, 2012).

Despite the various proposed definitions, there remain incoherence and confusion in terminology among authors, but many agree on broad parameters (Mitchell, 2016). Höchstädter and Scheck (2015) focused on clarifying the definition of social impact investing based on a large number of reviews from academic articles and professional documents.

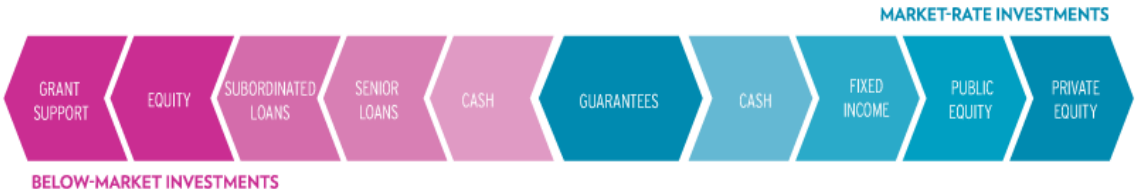
It has been analyzed that whatever the proposed definition, two dimensions are always brought forward in impact investing reviews: the financial dimension and the non-financial dimension. Indeed, impact investing seeks to achieve a positive social, cultural or environmental benefit as well as a measure of financial return (Addis, McLoed, & Raine, 2013).

The requirement of a minimal financial return distinguishes impact investing from grant funding and philanthropy. However, the minimal financial return is not properly defined as it can go from the simple preservation of capital with enough rate of return to cover inflation (Ashta, 2012) to an expected return higher than the benchmark (Best, & Harji, 2013). The expected return always depends on the nature of the investment, the investors' profile and its strategy (Viviani, 2018).

The non-financial aspect can be very diverse. It can include social, environmental, cultural, economic, governance or development aspects. The investor is committed to identify, measure and report on social and environmental performance and progress to ensure transparency and accountability (GIIN, 2018). However, the measurement of the social and environmental return (SER) can be problematic and will be analyzed more in-depth further. This is primarily due to the fact the list of non-financial outcomes whose goal is to improve society, or the environment is potentially boundless (Reeder, & Colantonio 2013). The panel of social and environmental returns encompass benefits granted to beneficiaries who may not have connections with the investor.

Beyond the financial and non-financial dimensions, authors and the GIIN agree that there are two other characteristics of impact investing. First of all, the investor's willingness to generate a positive impact must be intentional. It cannot be the unexpected consequence of a commercial activity. This characteristic displays the importance of measuring the value creation and the non-financial impact of an investment to report to all stakeholders. In addition, impact investments can be made across asset classes, including but not limited to cash equivalents, fixed income, venture capital, and private equity. The investor's choice to invest in a specific project depends on his/her expected return (table 2).

Table 2: Impact investing asset class/return rate spectrum



Source: The GIIN, 2018.

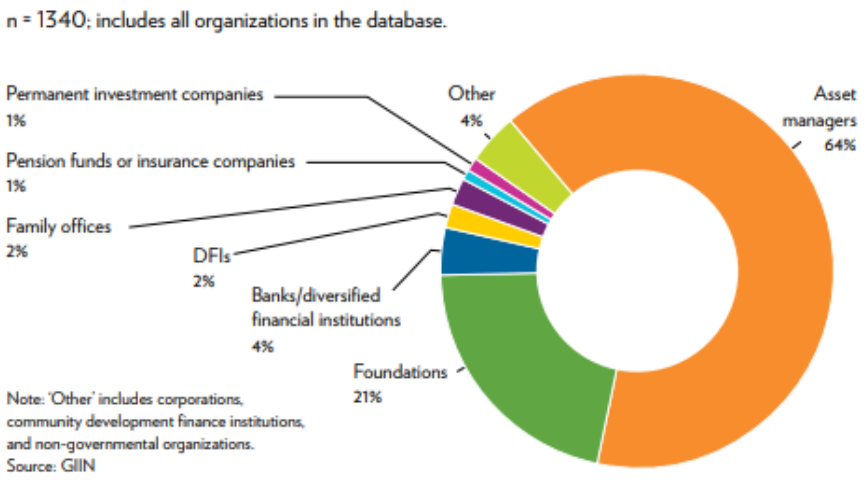
In the context of impact investing, many stakeholders are involved. Stakeholders are broadly defined as: "*those groups or individuals: (a) that can reasonably be expected to be significantly affected by the organization's activities, products, and/or services; or (b) whose actions can reasonably be expected to affect the ability of the organization to successfully implement its strategies and achieve its objectives (adapted from Freeman (1984)"* (Maas, 2019).

There are four main stakeholders in the environment of sustainable and responsible investment, as follows:

- ***The funds:*** intermediaries receiving capital before redistributing it to social enterprises, social projects as well as any other impact investing recipients.

- ***The investors:*** providing the capital. Impact investors attract a wide variety of investors, both individual and institutional. In the white paper describing the size of the impact investing market, Mudaliar and Dithrich (2019) captured the different types of investors. Those range from development finance institutions (asset managers – 64 %), NGOs, and diversified financial institutions/banks to family offices, private foundations and individual investors, among others.

Table 3: Types of Investors



Source: Mudaliar & Dithrich, 2019.

Those organizations are also spread around the world with the majority of them headquartered in developed countries, with 58 % based in North America (United States & Canada) and 21 % located in Europe.

- ***The investees:*** defined under different structure models, investees all have a specific goal. Investees types range from charities (non-profit) to benefit corporation (for-profit) – startups, SMEs and also public company –.

- ***Communities:*** are the populations impacted by the projects and goals carried out by the investees. Investors can focus on different types of communities (depending on sex, age, ethnicity, places) or on the whole community in general.

1.1.3 Social Impact

Social impact and social value are created by social entrepreneurs with social missions undertaking actions to solve social issues by the means of social innovation (Hadad, & Gauca, 2014). Social impact benefits many stakeholders. Indeed, on the one hand, it is beneficial for businesses and investors, on the other hand, it is profitable for the society as a whole as social impact projects aim at solving social and environmental challenges locally as well as internationally. By social impact, it is understood that there is a significant, positive change in the well-being of people affected by a social project that would not have happened otherwise. It is the total outcome that occurred due to the activity of an organization. In theory, social impact can be positive or negative, intentional or unintentional, immediate or indirect and can last for a different amount of time.

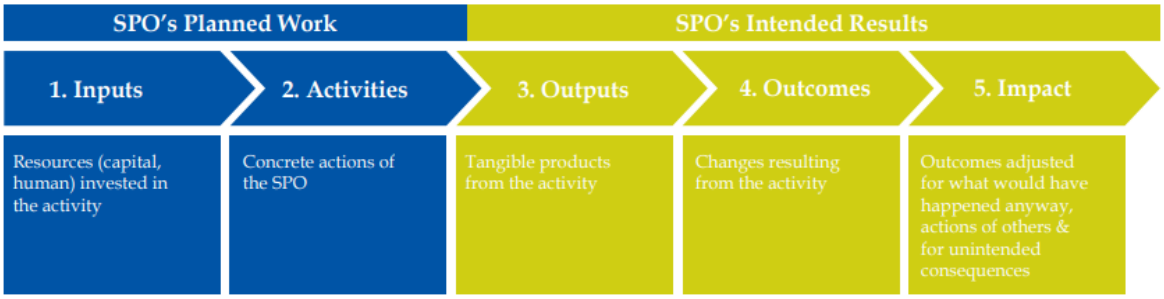
When setting goals of certain impact projects, it is important to measure the impact and the performance of such projects to monitor processes to reach the objectives but also to report and communicate to all stakeholders. A wide range of methods and tools are available and recommended to assist Impact Organization and Social Investors in setting their own objectives. The Theory of Change and the Impact Value Chain are most of the time on the basis of every impact measurement and performance frameworks (Hehenberger, Harling, & Scholten, 2013) (Grieco, 2015). Indeed, SROI or Social Enterprises Balanced Scorecard, for instance, is based on the theory of change. It is therefore important to understand these two basic models in order to thoroughly understand how social impact is defined within each organization as well as how companies discern change. With knowledge of these two models, other performances and measurement frameworks will be able to be tackled.

1.1.3.1 The impact Value Chain

The ***Impact Value Chain Model*** is a tool used to show an organization's activities to achieve its targeted impact objectives (Global Social Venture, n.d.). It links the organization to its activities and the activities to outputs, outcomes and impacts (Hehenberger & al., 2013). The impact value chain model is the starting point in defining social impact. The key aspect of this model is to differentiate outcomes from outputs.

The Impact Value Chain, as well as the definition, has been identified by Hehenberger & al., (2013), as follows:

Table 4: The Impact Value Chain



Source: Hehenberger, & al., 2013.

- ***Inputs*:** *"all resources, whether capital or human, invested in the activities of the organization."* These inputs can, therefore, be tangible or intangible resources. It represents all the resources needed to run the organization, going from staff's expertise to buildings and financial assets.

- ***Activities*:** *"the concrete actions, tasks and work carried out by the organization to create its outputs and outcomes and achieve its objectives."* The main goal of these activities is to create change for the society and improve the well-being of the community.

- ***Outputs*:** *"tangible products and services that result from the organization's activities."* Those results can be directly measured by the management.

- ***Outcomes*:** *"the changes, benefits, learnings or other effects to social systems (both long and short-term) that result from the organization's activities."*

- ***Social Impact*:** *"the contribution of an organization's activities to broader and longer-term sustainable objectives".* From the Impact Value Chain, the social impact can be defined as the mathematical difference between the outcomes (that is: all changes to social systems) and all changes that would have happened anyway, without an organization's

operations. Clark & al., (2004) therefore defines impact as *"the portion of the total outcome that happened as a result of the activity of the venture, above and beyond what would have happened anyway."*

Some authors such as Clark & al., (2004) add a sixth step to the impact value chain:

- ***Goal Alignment*****:** *"It allows management to evaluate whether the organization has reached the desired objectives as well as what could be done to improve operations."*

1.1.3.2 Theory of Change

The ***Theory of Change*** is a tool used by organizations to plan future operations by setting desired impact goals and targets. It allows an organization to show the process pursued to all stakeholders (from resources to outcomes) to achieve those desired impact goals and targets. This link from activity to impact is called the social enterprise's theory of change (GECES, 2014). The theory of change is closely related to the impact value chain. An impact value chain is a common form for outlining the theory of change of an organization (So, & Staskevicius, 2015). It lays out the connection between the five (5) steps of the impact value chain namely (inputs, activities, outputs, outcomes and impact). The ultimate goal of these two models is therefore similar. It emphasizes the understanding by stakeholders of the actions process within an organization. Indeed, the processes interpreting planned social changes are explained and described by the theory of change. It designs the short-term assumptions to reach the long-term goals the company seeks to achieve (Amott, & Mackinnon, 2006).

To do so, the organization must define its long-term goals. It has to define the core mission of its activities. Then, the organization works backwards to identify what outputs and initial outcomes need to be performed to ensure the achievement of its social mission. All requirements to reach the objectives must, therefore, be identified. It helps the social enterprise to identify constraints in resources which can be addressed before undertaking the project (So, & Staskevicius, 2015). The outcomes pathway is built through a causal chain. As a matter of fact, each step of the impact value chain is mapped out in causal pathways (Taplin & al., 2013). It is often built in a diagram to show

the causal link between all the steps (Kail, & Lumley, 2012). Different hypotheses and assumptions must also be tested and evaluated to determine a successful roadmap to the objectives. Assumptions are extremely important in the development of a theory of change models. Indeed, they can be analyzed and sometimes tested. If any key assumptions are hard to support, actions can be put in place to overcome those difficulties. In addition, the organization must set and develop indicators such as key performance indicators and/or impact measurement methods to measure the outcomes in order to assess the activities on the long-term as well as on a daily basis (So, & Staskevicius, 2015). This will allow the organization to report, monitor and learn from its mistakes. The acknowledgment of those mistakes will help improve their internal processes by implementing learnings within the construction of the theory of change of other projects (Center for Theory of Change, 2017). This framework represents a basis for any decision as it has analyzed all the steps to cause a desired change. It sets the relationship between the problems they are addressing, and the strategies used to resolve those issues (Amott, & Mackinnon, 2006).

As a planning tool, the Theory of Change can reveal important information about processes. It can strengthen partnerships, support organizational development and facilitate communication (Taplin, & al., 2012). The theory of change provides impact investors with a framework that allows them to conduct due diligence when selecting investments. Indeed, they can understand the process to the desired outcomes. They can also assess assumptions to determine if they are, according to them, feasible and decide whether they want to be involved in the undertaking of the project (So, & Staskevicius, 2015). It shows according to Kail and Lumley (2012) whether the organization's activities are adequately designed to achieve goals as well as the internal (resources, etc.) and external (stakeholders, etc.) environment in which the organization is operating. In addition, it strengthens the decision-making process and sharpens interventions. Indeed, when an organization considers different or new actions and/or activities, or even when considering to attract new investors, the organization maps the latter in the theory of change. It allows the organization to understand and analyze where (in the impact value chain) and how they will bring value and hence, if they are in line with its operational process to help them reach the desired impact goals (Hehenberger & al., 2013). Based on the theory of change, it will be easier to accept or not the development of activities within the organization while keeping in mind the primary objectives. The clarity of purposes, results and strategies at each step makes the Theory of Change one of the

most relevant models in terms of selecting projects, setting goals and necessary resources, tracking and monitoring and finally reporting and communicating to all stakeholders (So, & Staskevicius, 2015).

1.2 Size of the Impact Investing Market

It is now important to understand the current trends across Belgium, Europe and Worldwide of Socially Responsible Investment funds including the specifics of impact investing funds in order to build an efficient investment strategy. This analysis will be carried out thanks to report undertaken by three international associations: The 2018 Annual Report of the *Global Sustainable Investment Alliance* (GSIA), *Eurosif's* report – carried out every two (2) years – and the 2018 Annual Report of *The Global Impact Investing Network (GIIN)*.

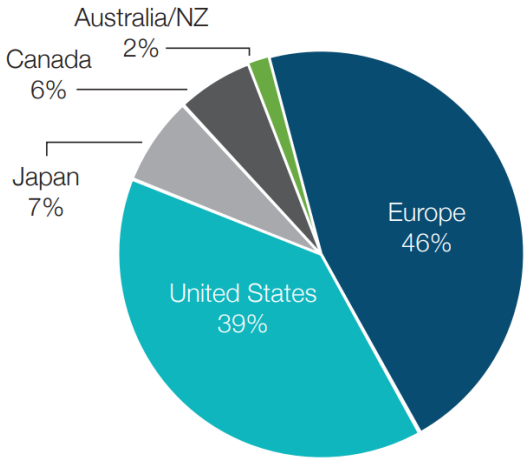
The Global Sustainable Investment Alliance is *"a collaboration of membership-based sustainable investment organizations around the world. The GSIA's mission is to deepen the impact and visibility of sustainable investment organizations at the global level."* Eurosif, on the other hand, is *"a European association that promotes and report on the advancement of sustainable and responsible investment across Europe."*

1.2.1 Market Structure

Sustainable investment assets are continuing to climb globally overtime. Worldwide, socially responsible investments account for USD 30.68 trillion of assets being professionally managed under responsible investment strategies which represent an increase of 34 % since 2016 (USD 22.89 trillion). In Europe only, those investments improved by 14.5 % to reach USD 14.075 trillion in the same period. Belgium, for its part, accounts EUR 421.6 billion of assets being professionally managed in 2016 compared to the amount of EUR 378.175 billion in 2014 which represents an 11.5 % increase (Eurosif, 2018) (GSIA, 2016) (GSIA, 2018).

Looking at the proportion of total managed assets worldwide (see pie chart below), it can be analyzed that Europe has more than half of total managed assets (52.6 % - USD 14.075 trillion) whereas the United States falls second with 38.1 % - USD 11.995 trillion.

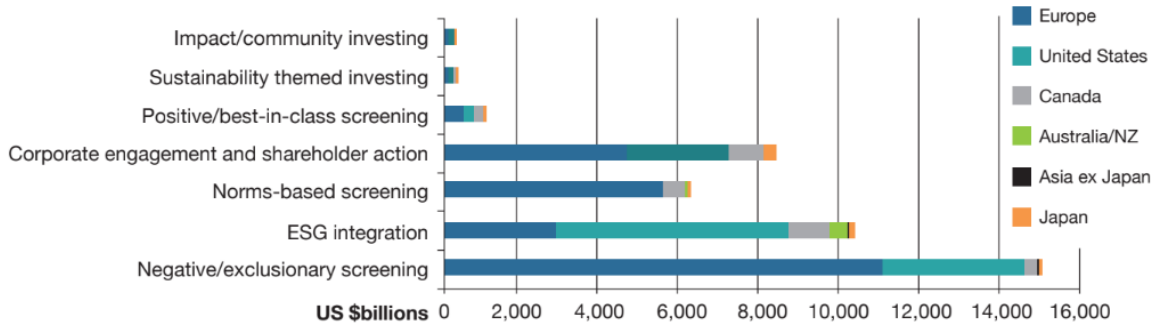
Table 5: Portion of total managed assets by region



Source: Global Sustainable Investment Alliance, 2018.

The Global Sustainable Investment Alliance also published (GSIA, 2018) seven (7) characteristics to sustainable investment strategies used around the world that have since emerged as a global standard of classification. It is noteworthy to notice that impact investing is one of the seven characteristics and is subsequently part of sustainable investment narrowed down. The seven characteristics are the following, and defined by GSIA (2018):

Table 6: Sustainable investment Strategies



Source: Global Sustainable Investment Alliance, 2018.

1. ***Negative/exclusionary screening***: as explained above, negative screening excludes unethical companies or projects from a portfolio based on specific ESG criteria (social, moral, ethical, and religious criteria among others).

2. ***Positive/best-in-class screening***: *"investment in sectors, companies or projects selected for positive ESG performance."*

3. ***Norms-based screening***: *"screening of investments against minimum standards of business practice based on international norms."*

4. ***ESG integration***: *"the systematic and explicit inclusion by investment managers of environmental, social and governance factors into financial analysis."*

5. ***Sustainability-themed investing***: *"investment in themes or assets specifically related to sustainability (for example clean energy, green technology or sustainable agriculture)."*

6. ***Impact investing***: impact investing is the extension of SRI. Impact investments are *"targeted investments, typically made in private markets, aimed at solving social or environmental problems, and including community investing, where capital is specifically directed to traditionally underserved individuals or communities, as well as financing that is provided to businesses with a clear social or environmental purpose."* Impact Investing therefore goes further than SRI as it actively seeks for greater significant positive social impact and does not simply avoid investing in perceived as harmful companies (Maverick, 2019).

7. ***Corporate engagement and shareholder action***: *"the use of shareholder power to influence corporate behavior, including through direct corporate engagement (i.e., communicating with senior management and/or boards of companies), filing or co-filing shareholder proposals, and proxy voting that is guided by comprehensive ESG guidelines."*

It is important to notice that those strategies can be combined to screen funds. Some socially responsible funds are subjected to several strategies. The largest sustainable investment strategy globally is negative/exclusionary screening (USD 19.77 trillion), followed by ESG integration (USD 17.543 trillion) and corporate engagement/shareholder action (USD 9.834 trillion). Negative screening is the largest strategy in Europe, while ESG integration now dominates in the United States, Canada, Australia/New Zealand and Asia in asset-weighted terms. Corporate engagement and shareholder action are the dominant strategies in Japan.

In addition, from those reports, it can be analyzed that impact investing is represented by only USD 444.26 billion worth of assets which still represents a 79 % growth compared to two years ago. Indeed, impact investing accounts for less than 1 % of the total strategies at a worldwide level. However, if we look at the CAGR (Compound Annual Growth Rate) which represents, according to Wayman, on the Investopedia's website, *"the mean annual growth rate of an investment over a specified period of time longer than one year"* (Wayman, 2018). Impact investing continues its growth with a high CAGR at 33.7 % since 2015 at a worldwide level, a decrease compared to the 56.80 % CAGR increase from 2013 to 2015.

Table 7: Growth and volume of sustainable investment strategies

	Impact/ community investing	Sustainability themed investing	Positive/ best-in-class-screening	Norms-based screening	Corporate engagement and shareholder action	ESG integration	Negative/ exclusionary screening
2018	$444.26	$1,017.66	$1,841.87	$4,679.44	$9,834.59	$17,543.81	$19,770.96
2016	$248.47	$276.16	$818.01	$6,195.40	$8,385.17	$10,353.20	$15,063.57
Growth 2016–18	79%	269%	125%	-24%	17%	69%	31%
CAGR	33.7%	92.0%	50.1%	-13.1%	8.3%	30.2%	14.6%

Source: Global Sustainable Investment Alliance, 2018.

At the beginning of 2019, the GIIN analyzed that the estimated impact investing market size was USD 502 billion, with a very fluctuating size of portfolio. The median investor has about USD 29 million worth of assets under management while the average being USD 452 million. This means that while most organizations are relatively small, several investors manage very large impact investing portfolios (Mudaliar, & Dithrich, 2019).

1.3 Investors

1.3.1 Investors' Type & Their Characteristics

To some extent, all financial investors are impact investors as every single company around the globe shapes the world at its image, locally and sometimes internationally. Nevertheless, financial investors investing in non-social companies are not concerned about the positive social impact. They only give importance to the maximization of their financial return. Impact and social investors differentiate themselves in their strategic approach. Indeed, they tend to adopt a *"double bottom line"* approach to their capital (in some cases, a *"triple bottom line"* approach) and assign real value to social and environmental return in their decision-making when building an investment strategy (Trelstad, 2009). When using the double bottom line approach, investors want to generate a financial return (the conventional bottom line) as well as a positive social impact on the community (Morris, 2016). Going in the same direction, the triple bottom line approach seeks to broaden the double bottom line. Indeed, when using the triple bottom line approach, investors want to generate, besides the financial return, a positive social and environmental impact. Investors measure the company's social responsibility, its economic value and its environmental impact (Kenton, 2019).

The Monitor Institute (2009) classified impact investors in two major categories: *'Impact first investors'* and *'Financial first investors'*, depending on their interest of putting a priority on financial returns or non-financial returns which maximize the social and environmental impact (Reeder, & Colantonio, 2013) (Viviani, 2018).

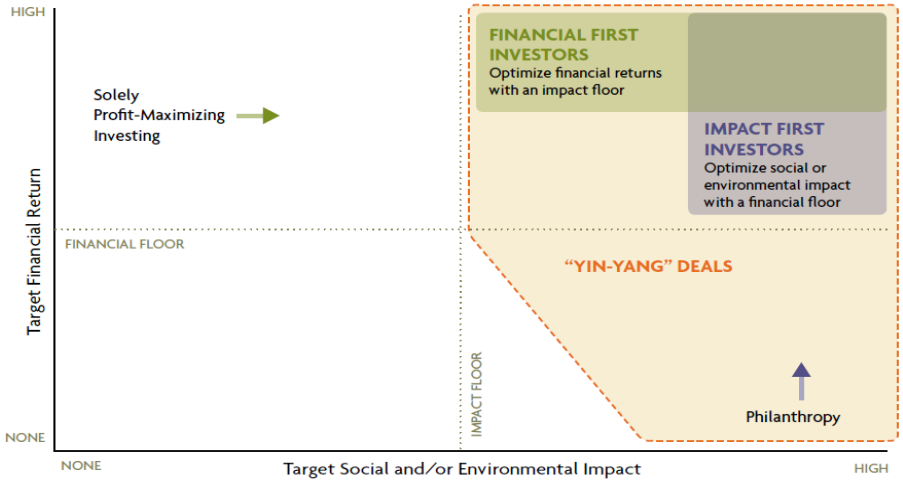
Indeed, impact first investors seek to maximize the social and/or environmental impact with a minimum level of financial return, generally covering their initial investment as well as the inflation. Those investors would under certain circumstances give up some of their financial return if they have to. Their strategy is driven by their mission to increase the collective well-being of the community. Their satisfaction comes from this social improvement. The motivation of those responsible investors does not rely on the financial gain as it is not the main concern. They would rather invest in a company with a lower rate of return that aligns with their personal mission and

values (Viviani 2018). They are value-driven investors. Typically, they are experienced and get really active within the company they invest in (Monitor Institute, 2009).

Financial first investors are the opposite. They maximize the financial profitability with a certain level of social and/or environmental impact. They seek market-rate returns while achieving some social and environmental impact. They primarily want both their portfolio and conscience to feel good. Financial first investors do this by integrating social and environmental value drivers in their investment strategy.

Sometimes, impact first investors and financial first investors work together towards 'yin-yang' deals. Those deals combine capital from impact first and financial first investors and sometimes add philanthropy as well that can be complementary when working together. Those deal structures could not happen without the requirements and motivation of the different types of capital and investors. The downside of those types of deals is that they are quite difficult to organize. However, the yin-yang approach is used to leverage synergies and gather greater networks to create higher social and environmental outcomes as well as higher financial returns (Monitor Institute, 2009).

Table 8: Segments of Impact Investors



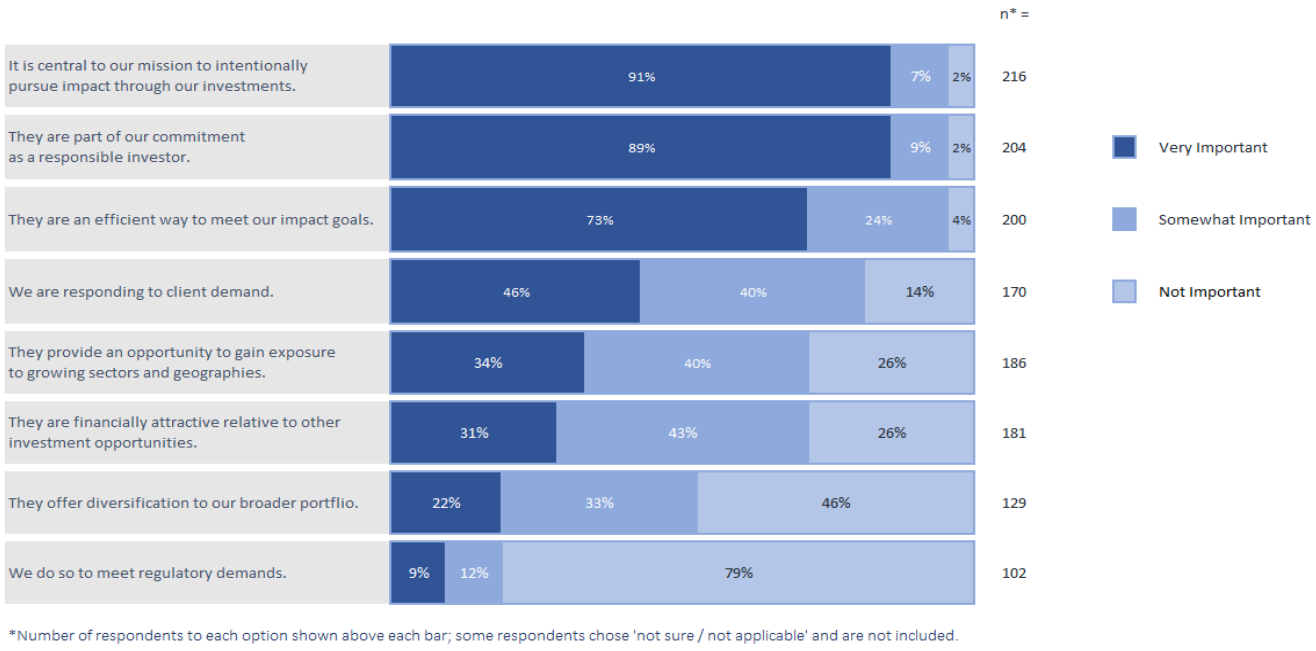
Source: Monitor Institute, 2009.

1.3.2 Motivation, Challenges & Expectations

Mudaliar, Bass, & Dithrich (2018) conducted an Annual Impact Investor survey through the Global Impact Investing Network to provide a detailed look at a diverse, dynamic and growing impact investing market. This survey was conducted on 229 organizations managing USD 228 billion in impact investing assets. This report shares the investors' motivation to invest in social impact organizations. Here are the learnings from this survey.

The mission of the investor (98 %), the commitment as a responsible investor (98 %) and the efficiency to meet their impact goals (96 %) are the principal investors' motivations for making impact investments. The social value brought by the impact investment market is, therefore, one of the most important aspects. However, many investors are also motivated by the financially driven factors. Indeed, 74 % of respondents find the investing market interesting in terms of financially attractive investment opportunities as it also offers diversification to a broader portfolio (55 %) (Mudaliar, Bass, & Dithrich, 2018).

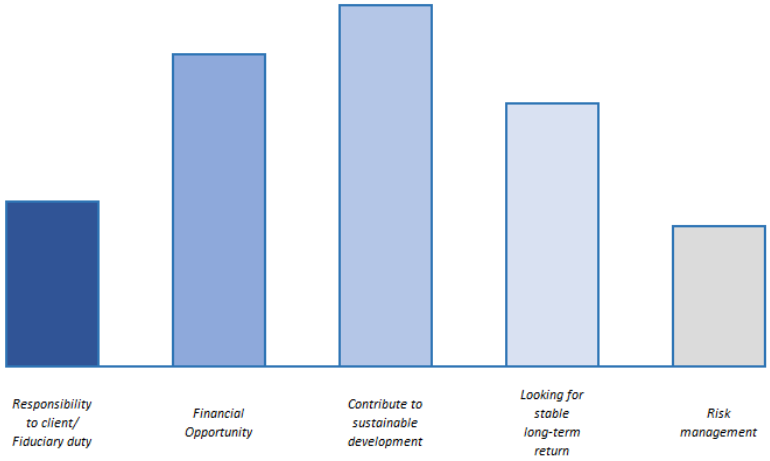
Table 9: Investors' motivation for making impact investments



Source: Adapted from: Mudaliar, Bass, & Dithrich, 2018.

Here is another table explaining the incentives to invest in social projects.

Table 10: Incentive for Impact Investing



Source: Adapted from: Eurosif, 2016.

PART II : IMPACT MEASUREMENT, PERFORMANCE & RISKS

2.1 Impact Measurement & Investments Performance Frameworks

When building an investment portfolio, it is essential to measure the performance of your investments. This includes impact measurements that are measuring the true social and environmental impact achieved through impact investing. The assessment of social and environmental return outlines the outcomes of what an organization is trying to achieve, but also what it has achieved thanks to invested capital.

Measuring the social impact of a company naturally requires the ability to comprehend and measure in one way or another its externalities. Otherwise, the risk is high, and only limited to macroeconomic impacts and measurable impacts on individuals, giving a truncated view of the company's real contribution to communities. Given their nature, externalities slip through any market process and cannot be announced at a price. They fall within the ‘non-trading’ dimension of the company's production, and its measurement which is sometimes irreducible to any monetary valuation comes down to the valuation of goods that do not transit by the market (Cayrol, & al., 2016).

In addition, the performance of a fund also takes into account the financial return from an investment. All in all, more than 40 approaches have been developed for measuring social impact (Maier, & al., 2015). Choosing between different measurement methods depends on the investors’ approaches to impact measurement that vary based on their objectives and capacities, as well as its goals and intentions (GIIN, 2018). When developing an impact report, the key principle is the ability to report on the social and environmental outcomes of investments. However, comparable methods across projects and companies remain a challenge to tackle (Menou, & Nishikawa, 2016).

2.1.1 Objectives

Assessing social impact projects is critical not only to monitor the financial and social performance of the funds, but also to learn from them and ultimately improve their quality. It allows the firm to better manage its resources and get a better grasp of what needs to be acquired in terms of resources to improve the social and financial performance. It is also important to correctly recognize the intended social value resulting from a social organization's activities to draw conclusions to reinforce the mission statement and take all stakeholders accountable for their actions (Pathak, & Dattani, 2014). Social impact assessment is considered according to Pathak, & Dattani (2014) important for three (3) principal reasons which is in agreement with other authors:

1. Monitor performance
2. Attract external funding
3. Consolidate the missions of social ventures

As shown before, the social impact market has been evolving and growing for the past decade. Frameworks and methodologies on the way to measure and assess social impacts are evolving with it. At this time, there is no consensus on a 'golden rule', even though a framework could be relevant for a specific company, it might not be for another one.

The importance of measuring impact and financial return in all social organization is indisputably essential for all stakeholders. Each aspect mentioned above falls back into four (4) main objectives to build an efficient impact portfolio (So, & Staskevicius, 2015):

Table 11: Objectives of impact measurements

1. Estimating Impact *for due diligent*	Pre-investment or as a part of their due diligence process, impact investing organizations are interested in estimating the impact that a potential investment may create. This understanding helps the investor prioritize where to invest its resources to create its intended impact.
2. Planning Impact *through strategy*	During deal negotiation and/or shortly post-investment, impact investors use tools and methodologies to devise a plan to measure impact. For example, developing a data collection plan to monitor and evaluate impact during the life of the investment.
3. Monitoring Impact *to improve program*	Some impact measurement methodologies are used to monitor progress. This may supplement financial data to inform whether the investee's performance is on track, and may compare target vs. actuals on specified impact metrics. This may be done on a continuous cycle throughout the life of the investment.
4. Evaluating Impact *to prove social value*	At the end of an investment cycle, investors may be interested in evaluating the impact created by the entire investment.

Source: Adapted from So, & Staskevicius, 2015.

Beyond those four (4) main objectives of impact measurement, there is a fifth objective: Reporting Impact. Reporting impact uses the same measurement frameworks than the other objectives with the main goal to communicate impact results and discoveries with all stakeholders which includes, depending on the fund, investors, investees, end clients, and the government among others. As represented on Table 12, impact measurement is an interactive and continuous cycle allowing all stakeholders to speak the same language and be up to date on progress at all times.

Table 12: Continuous Cycle of Measurement Objectives

Source: So & Staskevicius, 2015.

2.1.2 Social Return on Investment (SROI)

The American venture philanthropic organization, the Roberts Enterprise Development Funds (REDF) initially developed the ***Social Return on Investment*** (SROI). This methodology aims at computing non-financial benefits from an investment (Grieco, 2015). Social Return on Investment shows the way change is created while assessing the social, economic and environmental impacts of an investment. It expresses the results and values in monetary terms in order to compute the cost-benefit ratio (Nicholls & al., 2009). The ratio compares the total created value (economic and monetized social value) to the total amount of financial investment. Nevertheless, The SROI framework is an outcome-focused framework (Leck & al., 2014).

Indeed, it is more significant than a simple ratio. SROI focuses more on the value of the outcome than on the monetary aspect. Social Return on Investment Social analysis is part of the most widespread measuring method used in impact investing.

SROI method is used to evaluate and value social impact programs, organizations or organization networks (Maier, & al., 2015). Its objective is to help in the financial investment decision, to guide strategies, to mobilize all projects' stakeholders or even to promote an organization's value to attract investors. It can encompass the social value created by an organization as a whole, or focus on a specific aspect of the work of this same organization (Nicholls & al., 2009). All organizations must therefore establish clear social objectives as the value can only be given to measurable objectives defined by the well-established tool namely 'S.M.A.R.T.' criteria goals. For an objective to be S.M.A.R.T., it needs to conform to the following criteria: specific, measurable, attainable, relevant and timed based (Annex 1).

The SROI framework stands on seven important principles introduced by Nicholls & al. in "A guide to social return on investment" published by the cabinet office. The seven standards are the following:

- ***Involve stakeholders*:** Prior to involve all stakeholders impacted by a social project, it is crucial to identify them properly without leaving anyone out. The organization must then inform all of them on the way impact is measured and valued and the scope of this analysis in order to speak the same language throughout the consultation, monitoring, evaluating and reporting processes.

- ***Understand what changes*:** Changes can be categorized as intentional or accidental due to external factors and can also be positive or negative. In impact investing, it is important that all impacts are intentional to assess through gather evidence the true added value of a specific investment. It is essential to grasp the way value is created by and for different stakeholders thanks to a specific investment.

- ***Value what matters*:** An investment can have many impacts on communities. Not only outcomes are monetary for investors, but outcomes also create changes for the society in general. Methodologies are built to recognize the value of all outcomes and give the opportunity to monitor and evaluate changes that happen to those who are excluded from markets but who are also affected by activities.

- ***Include only what is material*:** To allow investors and stakeholders draw valuable conclusions about impact and to help them improve their portfolio social performance, institutions should give a true and fair picture of the changes done thanks to impact investing. Reports must, therefore, include essential information and gather robust evidence.

- ***Avoid over-claiming*:** Organizations must only claim the value for which creation they are responsible. All impacts organizations can take credit for must be intentional and shouldn't be resulting from unpredictable events.

- ***Be transparent*:** Transparency is key for a healthy business model. Sharing and discussing reports with stakeholders is required for an efficient process. Each decision must therefore be communicated, explained and documented to stakeholders.

- ***Verify the result*:** Despite the fact that SROI is a strong methodology for a thorough understanding of the value created, it is important to triangulate the information to assess results as they are sometimes subject to the subjectivity of an individual.

Nicholls and al. (2012), developed a framework to conduct a successful SROI analysis. The table (12) gives an overview of the 6 different stages.

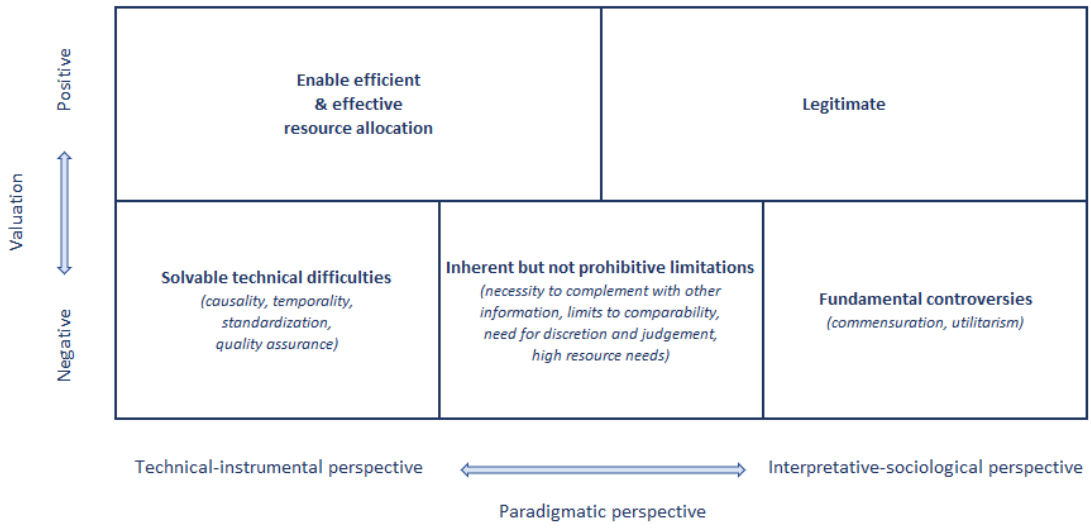
1.	Establish scope and key stakeholders
2.	Map outcomes
3.	Evidence and value outcomes
4.	Establish impact
5.	Calculate the SROI
6.	Report, use and embed

When performing a SROI analysis, it is important to identify the key stakeholders who have an impact or are impacted by the activities of impact investing. Continuous re-evaluations should be executed to ensure an up-to-date list of stakeholders throughout the process (Nicholls & al., 2010). Also, the scope of the SROI sets the activities, the time and the type of analysis (step 1) (Leck & al., 2014). The outcomes map embeds all in and outputs to compute the SROI (step 2). The critical step of such analysis is determining the true value of each outcome whether tangible or intangible. Indeed, SROI relies on a cost-benefit analysis which is an economic analysis in which all costs and benefits are quantified and compared (Arvidson & al., 2010). The costs and benefits, whether they are tangible or intangible, need to be expressed in financial terms or, in other words, in monetary value. Numerous methods have been developed to facilitate the measurement of intangible costs and benefits. The most common approach is to use financial proxies to value outcomes (step 3) (Nicholls & al., 2010). This analysis sums up all the costs and benefits to determine whether the project had a positive or negative impact on stakeholders. To ensure a credible representation of your social impact and therefore an accurate SROI, all outcomes must be the result of your activity. Other outcomes should be excluded from consideration (step 4). Once all costs and benefits are well identified and measured, all the information is gathered to compute the SROI (step 5). The final step involves sharing findings with stakeholders in order to discuss results with them (step 6).

SROI analysis has many qualities and benefits. The most recognized attribute is its efficiency to communicate the results and the values of social impact to key stakeholders (Maier, & al., 2015). The introduction of SROI aims at encouraging the development of various important aspects of impact assessment. Indeed, an emphasis is put on aspects such as transparency, accountability, communication and a better understanding of impact among stakeholder groups (Arvidson & al., 2010). SROI legitimizes and enables an efficient and effective resource allocation. It helps social projects to attract funding. Yet, its power to attract funding should not be overestimated. Also, a SROI analysis allows organizations to make quicker governance decisions and enables companies to interpret their impact.

Even though many authors have worked on the SROI framework, its application can lead to challenges and misconceptions. SROI has indeed raised various points of criticism. The most noticeable challenge relies on demonstrating that intangible outcomes have been valued properly. Other challenges such as valuing inputs when volunteers are involved are problematic. In addition, obtaining the needed data to provide an accurate picture of the social impact generated through social activities is time consuming, costly and goes with high risk.

Table 13: Merits and limitations of SROI



Source: Maier & al., 2015.

2.1.3 Cost Benefit Analysis (CBA)

The ***Cost - Benefit Analysis*** is an analysis process that evaluates the worthiness of a social project (Pollock, n.d.). All costs and all benefits (including social and environmental benefits) resulting from the organization's activities must be expressed in monetary terms (Reeder, & Colantonio, 2013). They are then assessed according to one or more of the following three measures (Clark, & al., 2004):

1. ***The Net Present Value*** (NPV) *"which is the aggregate value of all costs, revenues, and social impacts, discounted to reflect the same accounting period".*

2. ***Cost - Benefit Ratio*** (CBR) *"that is the discounted value of revenues and positive impacts divided by the discounted value of costs and negative impacts".*

3. ***Internal Rate of Return*** (IRR), *"the addition of the net value of revenues and impacts expressed as an annual percentage return on the total cost of the investment."*

In the CBA assessment method, it is essential to consider all the costs and benefits. Those can occur thanks to, or because of a set of people at any point in time on different services. It remains the most challenging aspect of this framework as every cost and social impact must be well identified and quantified (Pollock, n.d.).

Cost-Benefit Analysis is designed to measure the social return on an investment. CBA and SROI, therefore, have the same ultimate goal. However, there are some clear differences between the two measurement techniques. First, the CBA aims for more objectivity (Reeder, & Colantonio, 2013). Second, the CBA can also be used to estimate the returns of particular groups of stakeholders even though it is less participatory (Clark, & al., 2004). Nevertheless, the CBA is not used for regular basis decision-making whereas the SROI is a practical management tool that enables informed decision-making on a regular basis (Grieco, 2015).

The Cost-Benefit Analysis has been designed to continuously and periodically outline the least expensive way to provide benefits and/or reduce negative impacts on stakeholders. Also, it is framed as trade-offs. As a result, planning and prioritization of some aspects to optimize both financial and social value creation are therefore limited (Grieco, 2015).

CBA can be carried out both before and after the undertaking of the social project. It can be carried out to determine whether an investment is likely to generate benefits or to understand whether the investment was worthwhile (Grieco, 2015). It is a tool used to compute the final value of a project.

2.1.4 SDG Frameworks

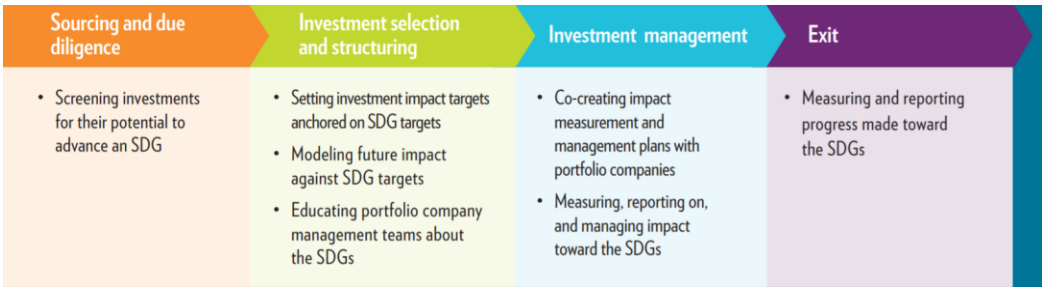
The Sustainable Development Goals (SDGs) provides impact investors with a solid framework to attain long-term social impact results. On September 25th, 2015, built on the Millennium Development Goals (MDGs), the General Assembly of the member states of the United Nations gathered to adopt a resolution about the agenda of sustainable development for 2030 (United Nations, 2015). More concretely, this agenda is composed of 17 Sustainable Development Goals (SDGs), 169 targets and 304 indicators to measure them. The elaboration of those goals *"is based on the conviction that the elimination of poverty and sustainable development are strictly interconnected and mutually reinforcing. For these reasons, SDGs are focused on three dimensions: social, economic, and ecological"* (Wysokińska, 2017).

The SDG framework is one of the most common and credible external systems used to measure social impact. Through their annual impact investor survey 2019 (Mudaliar, & al., 2019), the GIIN has analyzed that 62 % of the respondent organizations aim to be aligned with the UN SDGs and track the performance of their portfolio, an increase of 7 % compared to 2018 (Mudaliar, & al., 2018). Another 15 % plan to do so in the near future, which leaves 23 % of respondents with no foreseeable plans to look after SDGs. According to the same study, investors have the tendency to support some SDGs more than others.

Indeed, they are putting more interest on ***SDG #8*** (decent work and economic growth) with 73 %; ***SDG #1*** (no poverty) with 61 %; ***SDG #10*** (reduced inequalities) with 59 % and finally ***SDG #3*** (good health and well-being) with 58 %. Investors following the sustainable development goals are claiming that it helps them communicate about the impact and value the different programs offered by companies worldwide, among others.

The GIIN proposed a plan to integrate the SDGs in their strategies throughout an investment cycle, table 14:

Table 14: SDG Integration throughout the investment cycle



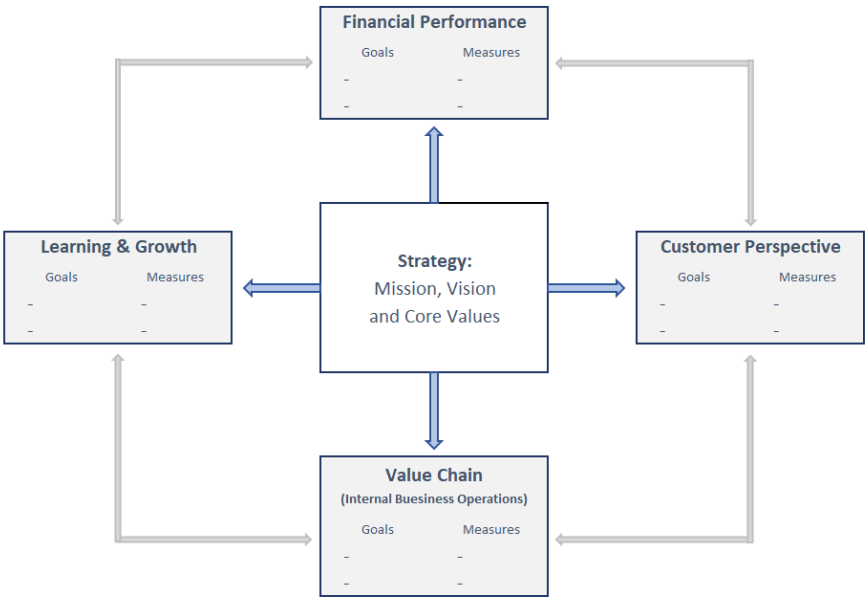
Source: GIIN, 2019.

2.1.5 Social Enterprises Balanced Scorecards

Originally designed by Robert Kaplan and David Norton in 1992 (Clark & al., 2004), the Balanced Scorecard is a managing tool that supports the successful implementation of corporate strategies (Figge & al., 2002). Indeed, the Balanced Scorecard (BSC) translates a company's vision and strategies into a consistent and directional set of performance and quantitative indices that would lead to undertaking concrete actions (Yoeng-Taak, & Jae-Young, 2008) (Bagdoniene, & al., 2011). The BSC was primarily designed for-profit organizations and is defined as *"a multidimensional system meant for measuring operational performance in terms of financial, customer, business process, and learning-and-growth outcomes, rather than exclusively by financial measures, to arrive at a more powerful view of near-term and future performance."* Those four operational performances are interconnected in a cause-and-effect manner derived from the organizational strategy (Bull, Crompton, 2006) (Houck, & al., 2012). Now used by various businesses,

governments and non-profit organizations worldwide, thanks to its metrics, the BSC ensures that the organization meets its vision and strategy (Houck & al., 2012). This performance and management tool allows companies to measure *"where we are now"* and "*where to aim for next"* (Yoeng-Taak, & Jae-Young, 2008).

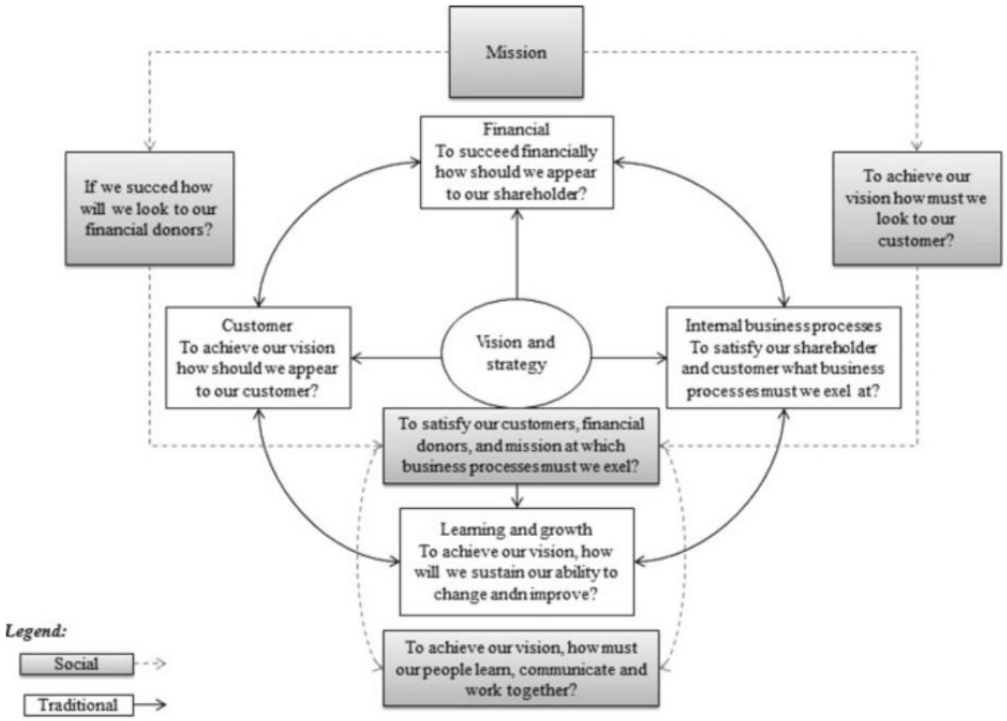
Table 15: The Balanced Scorecard



Source: Adapted from Yoeng-Taak, & Jae-Young, 2008 & Gireco, 2015 based on Kaplan, & Norton, 1996

Thus, a BSC is a management system about strategy. It describes financial and non-financial outcomes, sets target goals for each of the four perspectives, and reviews them to evaluate the current practices to ensure they meet all the expectations. In addition, the BSC can be applied to any organizations including social enterprises. The aims of Social Enterprise Balanced Scorecards are the same than for the "regular" BSC as it assesses whether operational activities are aligned with broader strategic objectives. Nevertheless, some adaptations need to be conveyed to ensure an efficient implementation of BSC within social enterprises as the model does not include considerations about the non-economic impact of activities on society. For social enterprises, even though the financial aspect is also critical, the need for impact measurement is part of its long-term objectives and must therefore be incorporated into the performance analysis framework (Grieco, 2015). Hence, the social enterprises BSC incorporates environmental and social aspects under its model. The new model proposed is the following (Grieco, 2015):

Table 16: From traditional to social BSC



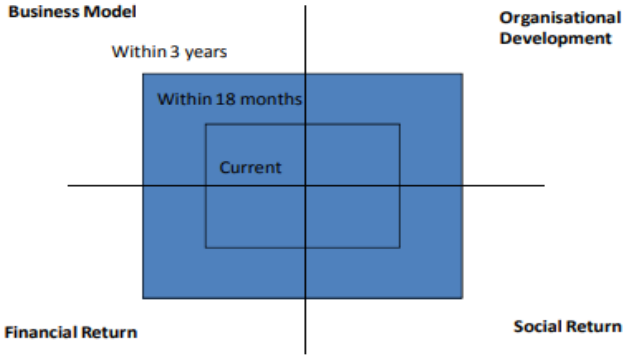
Source: Grieco, 2015, based on Kaplan, & Norton, 2001.

The starting point of each social enterprise is the global pursued mission and should, therefore, be incorporated on top of the scorecard as it best reflects the long-term objective of the firm. Also, a close look at the customer is required. Indeed, in social enterprises, those who pay and those who receive are not necessarily the same group of stakeholders. It is therefore important to identify and separate all stakeholders to include them properly in the process as they will greatly contribute to the fulfillment of the global mission and will impact all other operational performance indices (financial, learning and growth, etc.). It is important to also mention that the BSC is a continuous measurement framework setting targets on the short, middle and long-term.

Going a step further, Meadows and Pike (2010) adapted the performance indices to increase the relevance of the model. Indeed, business and financial perspective were adapted to respectively *Business Model* and *Financial Return* which stayed closed to the initial terms. Nevertheless, *Organizational Development* and *Social Return on Investment* were concepts judged as more

relevant for social enterprises and their stakeholders. The reason for this change was the following: "*Organizational Development seeks to identify the increases in organizational capacity that are taking place within a social enterprise. The Social Return on Investment seeks to capture the value of the benefits that accrue to a wider constituency as a consequence of the existence and interventions of a particular social enterprise"* (Meadows & Pike, 2010).

Table 17: Balanced Scorecard: Social enterprise model



Source: Meadows & Pike, 2010.

Social Enterprises Balanced Scorecards have many advantages. Its most recognized attribute is its potential to communicate performance and build credibility among investors, funders, customers, and all stakeholders whether they are internal or external, donors or receivers (Meadows & Pike, 2010). In addition, this framework is useful as it can be used and followed by all business as it is considered easy to implement and interpret and it ensures a comprehensive view of the business. Only the most meaningful financial objectives, as well as other social and non-financial objectives, are taken into account. It ensures continuous improvements in the organizational strategies and changes in the environment and, at the same time, satisfies all stakeholders' information needs (Rahman & Hussain, 2012). Another benefit relies on the fact that social enterprises BSC is tied to the enterprise's mission. It leads the firm to strive for continuous improvement of standards and practices.

Regardless of its many advantages, social enterprises BSC faces some criticism. Even though it focuses on the main objectives, its scope is limited. It does not go in-depth into particular programs and managers could choose to filter and decide on which specific impact to report (Nef Consulting,

n.d.). Also, some authors argue that some companies require more than four operational performance indices because of the complexity of the organization. The BSC is therefore considered as too simplistic and could quickly become obsolete as all aspects of the company's activities would not be covered (Christesen, 2008).

2.1.6 Most Significant Change (MSC)

In their book: The "Most Significant Change" (MSC) Technique: A Guide to Its Use; in 2007, Rick Davies & Jess Dart define the ***Most Significant Change (MSC)*** Technique as a *"form of participatory monitoring and evaluation. It is participatory because many project stakeholders are involved both in deciding the sorts of change to be recorded and in analyzing the data. It is a form of monitoring because it occurs throughout the program cycle and provides information to help people manage the program. It contributes to evaluation because it provides data on impact and outcomes that can be used to help assess the performance of the program as a whole."*

The MSC does not rely on predefined indicators and measurement tools but relies on stories told by a wide range of stakeholders. To implement the MSC as an impact measurement strategy, the company should follow this 10-Step Guide to fully grasp the implementation process:

1. Introduce MSC, raise interest and get commitments to participate.
2. Define the domains of changes that need to be monitored.
3. Define the reporting period in each domain.
4. Collect SC stories from the stakeholders directly involved.
5. Select the most significant of the stories through the levels of authority within the organization or program.
6. Record and share feedback on the selection criteria as well as the results of the selection process to all interested stakeholders, then select the stories the higher hierarchy wishes to fund.
7. Verify the stories by visiting the site where the events took place, for instance, to assure that the stories have been reported accurately and honestly and gather more information about the significant change.

8. Quantification over a certain period of time. Quantification can also be qualitative information. Repercussion to other locations or on other communities must also be taken into account.
9. Secondary analysis and meta-monitoring to better understand who participated and how they affected the contents and also analyze the unexpected changes.
10. Revise the design of the system to improve the results.

The MSC monitoring is better suited for certain projects than others. It is a good technique to point out unexpected changes. It also has other advantages such as clear identification of organizational values, participation from all layers of the company and it does not require any specific skill set, encourage data collection, promote initiative and monitoring, increase staff capacity to visualize data and conceptualize impact, to name a few (Davies, & Dart, 2015).

2.1.7 Social Reporting Standards (SRS)

The social reporting standards (SRS) is an internationally recognized collaboration methodology allowing businesses to apply scientific standards to measure the impact of an investment on a community. Those standards were created by academics and experts. The main objective of social reporting standards is to assess on a regular basis the real changes made within the business community but also to external communities around the world. The social report is a stand-alone document providing qualitative and quantitative information on the way impacts and operations should be gathered and analyzed. The drawn conclusions must be made public. For successful and meaningful results, the SRS should be prepared by all companies on a regular basis at a minimum of one report per year. Hadad & Gauca (2014) describe the benefits of the report as *"strong calculation of the added value and a so-called social account which presents a qualitative and quantitative description of the company's results in relation to its commitments and the impact on each individual stakeholder."*

2.1.8 Social Footprint

The ***Social Footprint*** method focuses primarily on the measurement and reporting of social sustainability performance (McElroy, 2014). It measures the gap between the resources people need and the resources produced by an organization (Grieco, 2015). This method is quantitative context-based which means that it takes into account actual human capital and social conditions as a basis for measuring the social sustainability performance of corporations. To assess the sustainability performance of an investment, comparisons are made between non-financial impacts (triple bottom line) resulting from an organization's activities, and its financial standards of performance (Haddad, & Gauca, 2014).

Table 18: Sustainability Performance

$$\text{Sustainability Performance} = \frac{\text{A measure of impact on the carrying capacity of a vital capital}}{\text{A standard or norm for what the impact on the same carrying capacity of vital capital would have to be in order to be sustainable}}$$

Source: Haddad, & Gauca, 2014.

If the result is greater than 1.0, then it is unsustainable. However, if it is smaller or equal to 1.0, it is sustainable. Following the same logic, this ratio can be adapted and then applied to all the bottom lines (McElroy, 2014).

2.1.9 Conclusion

It can be analyzed that there are many available and evolving frameworks to measure the impact and the performance of social investments. Nevertheless, not all models fit all organizations, in terms of logistics, mission, values and monetary aspects as some methodologies are more expensive to embed in an institution's strategies than others. The choice of the models must therefore be well thought of and adapted to the practices of the organization to target the right

social companies. Each methodology has its own set of benefits and weaknesses that ones need to take into account when building their impact investment portfolio aligned with their specific expectations. There are no 'golden rules' for all organizations, yet. But leaders and influencers are working towards a standardized methodology that would potentially fit all institutions.

2.2 Monitoring, Evaluating & Reporting

Despite a growing number of impact-focused funds across geographies, asset classes and sectors, impact investing is still evolving. The Global Impact Investment Network developed an online search tool to connect investors, advisors and social organizations through a single platform called ***ImpactBase***. With this platform, the impact investing community has an efficient networking tool and communication channel to reduce search and transaction costs across the impact investing industry (ImpactBase, n.d.).

Furthermore, the GIIN recognized that establishing effective impact measurement programs caused issues among investors. In response, the GIIN designed a tool called ***Impact Reporting and Investment Standards (IRIS)*** that provides a set of standard metrics used by impact investors to measure and manage their return on investments. Those metrics are used to describe and compare social, environmental and financial performance of their investment in order to increase efficiency in the decision-making process when investing in impact funds (IRIS, n.d.) (Gelfand, & al., 2012). Those metrics establish credibility and legitimacy for impact investing but it also enables data driven evaluation of portfolios (Gelfand, & al., 2012).

Finally, using the Impact Reporting and Investments Standards, the ***Global Impact Investing Rating System*** (GIIRS) provides a comprehensive and transparent system for assessing the social and environmental performance (Combs, 2014). The GIIRS provides developed and emerging market companies and funds with a rating that includes three major rating areas: first, the overall impact business model rating (how specific the design is to create social & environmental impact), then, the overall operations ratings (impactful policies and practices related to the governance, the workers, the community and the environment) and finally, the fund manager assessment measures

the impact purpose of the fund in terms of impact target, investment criteria and portfolio management (B Analytics, n.d.). Investment firms can get a GIIRS Rating and there are some requirements to receive one. A fund must have deployed at least 25 % of its committed capital and have 75 % of that committed capital goes through the GIIRS rating process. If a fund does not meet those requirements because it hasn't sent out the percentage of the amount of capital committed, it can still receive a Fund-in-Formation GIIRS Impact Rating. This rating does not include an aggregated portfolio-level rating. It is only a rating on a specific fund. B Analytics is a customizable platform for measuring, benchmarking and reporting on impact.

2.3 Performance of Impact Investments

2.3.1 Optimal Portfolio Performance

As a foreword, it is important to mention that the performance of a social impact investment portfolio mostly depends on investors' expectations. And, each investor has completely different expectations. Nevertheless, investment performance is largely influenced by the risks as well as the measurement and evaluation methodologies of social projects, as described before.

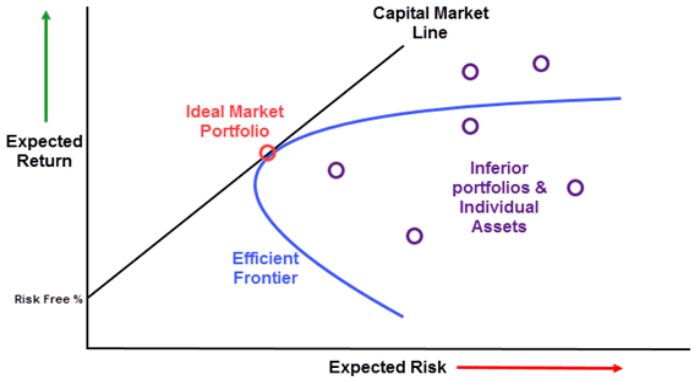
There exists a misconception when it comes to impact investing and its financial returns. Many believe that impact investing leads to lower profits and returns than the traditional way to invest in impact investing (Merricks, 2011).

In traditional investing, creating the optimal portfolio managing risks and returns is computed through the efficient frontier, a theorem proposed by Markowitz, which explains the optimal technique to construct a diversified and optimal portfolio that takes into account the trade-off of the expected return and the standard deviation of a portfolio, or also known as the risk (Maier-Paape & Zhu, 2018).

The goal being to find the optimal portfolio, the efficient frontier is the set of optimal portfolios that offer the highest expected return for a defined level of risk measured by the standard deviation of a security, or the lowest risk for a given level of expected return (Ganti, 2019). Portfolios that

are gathered to the right or below the efficient frontier are suboptimal because they do not provide enough return for the level of risk. In other words, they have a higher level of risk for a predefined rate of return. Misestimation of the attitude of the risk also leads to suboptimal portfolios. There is therefore a loss for choosing the wrong portfolio in the efficient frontier (Das, & al., 2011) (Markowitz, & al., 1999). Returns are dependent on the investment combinations that make up the portfolio. Ideally, an investor seeks to populate the portfolio with securities offering exceptional returns but whose combined standard deviation is lower than the standard deviation of the individual securities. Investors enjoy the Markowitz for its logic and practical application. The overall risk of the portfolio is reduced when investments with divergent price fluctuation are put together (The efficient frontier, 2006).

Table 19: The efficient frontier graphically represents portfolios that maximize returns for the risk assumed

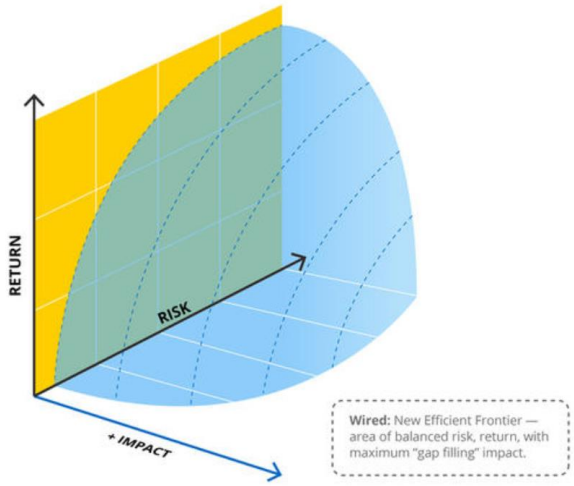


Source: The efficient frontier, 2006.

After reviewing briefly the importance of the risk - return trade-off for traditional investors, sustainable and responsible investors assess and find the right balance of their portfolio through three criteria: the risk, the return and the impact. Investors are therefore moving from a two-dimensional framework to a more challenging three-dimensional framework (same risk-return trade-off framework with the addition of a third dimension, namely the dimension of impact). The new efficient frontier is now spherical, whole and more complete (Emerson, n.d.).

A portfolio of investments that lies on the *'efficient impact-financial frontier'* offers the highest level of overall impact, relative to the cumulative risk-adjusted financial return of those investments (IMP, 2017). The overall portfolio performance will depend on the assemblage of individual holdings and, of course, the ultimate return-impact-risk performance expectations from the specific investor or venture capital firm.

Table 20: The New Efficient Frontier (Risk, Return & Impact)



Source: Future Learn, n.d.

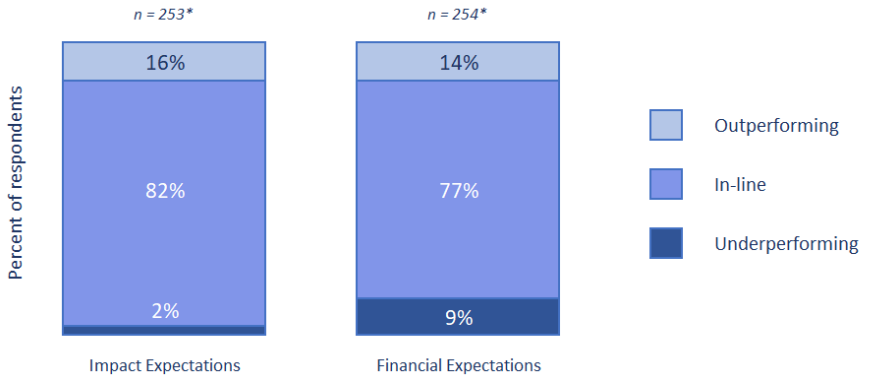
There are two options:

- ***Strategic placement***: the strategic placement builds a portfolio of impact investments based on the anticipated risk, return and impact of each investment. The expected overall performance depending on the trade-off of each criterion must fit within the global strategy of the organization.

- ***Performance Placement***: performance placement assesses the actual impact and financial return performance relative to the specific risk of an investment carried prior of making this investment. The level and type of social impact created depend on that specific level of risk.

The performance of your portfolio, and therefore the underperformance or outperformance of your portfolio, highly depends on your strategic objectives. However, a survey done by The GIIN shows that out of the 254 respondents, 82 % said their portfolio performance was in-line with their strategic objectives in terms of impact expectations while 16 % of respondents said that it was outperforming their initial expectations. The trend goes in the same direction in terms of financial expectations. Indeed, 77 % of the respondents said that the performance of their portfolio was in-line with their expectations and 14 % of them said that it was outperforming. Only 9 % of the respondents were unsatisfied with the financial results of their sustainable portfolio.

Table 21: Performance relative to expectations



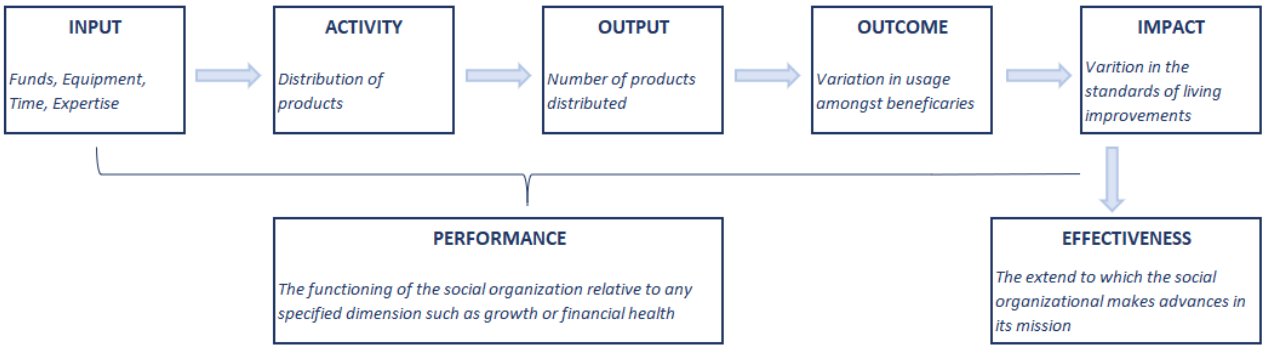
*Number of respondents shown above each bar; some respondents chose 'not sure' and are not included.

Source: Adapted from; The GIIN, 2018.

It can be concluded that the *"portfolio performance overwhelmingly meets or exceeds investor expectations for both social and environmental impact as well as financial returns, in investments spanning emerging markets, developed markets, and the market as a whole"* (GIIN, 2018).

As analyzed by Liket, & al., (2014), there is a difference between the performance of the portfolio and its effectiveness. The authors show this difference in relation with the social impact value chain, as shown in table 24. Effectiveness is defined as *"the extent to which the non-profit makes advances in its mission"* (Liket, & al., 2014). To reach this effectiveness, the portfolio must therefore show high performance on intermediate steps of the social impact value chain, from input to output and outcome.

Table 22: Social Impact Value Chain to differentiate Performance from Effectiveness



Source: Liket, & al., 2014.

To conclude, it is important to mention that the investment performance is largely influenced by the investors' expectations, as described before, and these expectations highly depend on the risks related to each specific project as well as the measurement and evaluation methodologies of those social projects. Hence the reasons we need to analyze those risks in depth, which will be the focus of this next section.

2.4 Risks

Investment risk is defined by The Economic Times (n.d.) as *"the probability or likelihood of occurrence of losses relative to the expected return on any particular investment."* It, therefore, measures the level of uncertainty of achieving the returns as per the expectation of the investor. Risk is a very important component in the assessment of the prospects of an investment.

2.4.1 Traditional Risk

In general, when investing in a startup or companies, many risks need to be taken into account. Risks can be linked to the market because of economic developments or other events that affect the overall performance of the entire financial market and therefore, the industry you're involved in as well. Market risk is also called systematic risks.

There are several types of risks within the systematic risk. These are mainly related to monetary policies and fluctuation. Indeed, there are, among these systematic risks, the following ones:

- ***Equity risk****: "Applies to an investment in shares. The market price of shares varies all the time depending on demand and supply. Equity risk is the risk of loss because of a drop in the market price of shares. It is the risk of changing prices of stock investment"* (Ontario Securities Commission, 2019).

- ***Interest Rate Risk:*** *"The interest rate risk, or market risk, refers to the chance that debt investments such as bonds – also known as fixed-income securities – will suffer as the result of unexpected interest rate changes. For instance, if the interest rate goes up, the market value of bonds will go down"* (Chen, 2019). Nevertheless, it is possible for investors to mitigate this risk by diversifying their portfolios to include different bonds that have different maturation schedules. Investors could also use hedging instruments – such as swaps, for instance – to alienate the interest rate risk.

- ***Currency Risk, also called Exchange Rate Risk:*** *"arises from the change in the price of one currency in relation to another. Investors or companies that have assets or business operations across national borders are exposed to currency risk that may create unpredictable profits and losses"* (Chen, 2018).

In addition to these traditional risks, there are some risks that are more linked to investing in social projects. The next section will explain few risks that must also be taken into account when building an impact investing portfolio.

2.4.2 Capital Risk

Capital risk on an asset is the risk of losing the full or partial monetary amount of an original investment. When considering impact investing, investors are often more afraid about the monetary loss of the investment, also called downside risk, than not making any money out of the investment (upside risk). In this case, risk and return are lower in market-rate investments, whereas

investors looking for a high impact might accept a lower yield if their principal is wholly or largely protected. 'Impact-first' investors have therefore a higher tolerance for the upside risk. Small-scale investment programs with lower impact have been launched in some major financial groups based on the conviction that their ability to protect the capital is the most important factor for clients or prospects.

2.4.3 Exit Risk

'Patient capital' is an approach in which investors know that the creation of business models with social impact takes more time in many cases and accept a delayed return.

This is most important as it can be very challenging to sell or transfer assets in investments in case of private equity or debt structures. For many investors, the right to sell the security is a prerequisite, even if they don't expect to exercise it, because 'patient capital' is critical to achieving some kind of impact. Other investors prefer having the opportunity to sell investments, if they need to, for cash flow reasons. The problem with impact investments with right to sell is that many investors fear that if they need to sell, the price might be well under market value, as new products are not well known and/or might not be attractive.

2.4.4 Unquantifiable Risk

According to many economists, risk is 'quantifiable' meaning that it is possible to assess it on the basis of different indicators, such as volatility or standard deviation of returns. Indeed, investors interested in a product make a range of checks to assess risk and return (past performance, current context and potential evolution, and human behaviors), but part of this risk is not quantifiable, as some risk factors might be unknown or perceived as irrelevant. Impact investment can be very difficult to assess for investors: risk is inherent to every single investment, but it is not quantifiable when indicators are missing. This is the case for impact investments as programs are not yet well established.

2.4.5 Impact Risk

In investments, risk is diverse, and it is important to assess not only its impact component, but also its return component. For the first component, the challenge is to measure all factors: for example, as indicators might be missing about similar projects, it is not possible to know for sure if an investment will have the intended effect and even if it has, less net return or no net return at all is a probability. If an investment has the intended positive effect, but also unintended, adverse effects, its impact will be reduced. In fact, in impact investment, risk is also linked to reputation. For investors, impact investment must have proven results which are at least equal to the ones of other approaches likely to produce the same impact.

2.4.6 Transaction Cost Risk

Investors know that they will incur costs in each investment operation, as due diligence processes, financial arrangements and performance monitoring take time and are costly to set up. It is an extremely important aspect in the impact investing framework. This ‘transaction cost’ risk is thus to choose an investment with a return insufficient to offset these costs. On the other side, many investors might be reluctant if an investment is disproportionately large in the portfolio, as other investors bring additional guarantees in due diligence process and can share the costs if the return is not as high as expected.

2.4.7 Mitigating Impact Investing Risks

Table 23: De-Risk Impact Investing

Risk factor	←	De-risking feature
Capital risk	←	Downside protection
	←	Bundling
Exit risk	←	Liquidity
Transaction cost risk	←	Bundling
Unquantifiable risk	←	Track record
	←	Placement & distribution
	←	Technical assistance
Impact risk	←	Impact evidence

Source: Barby & Gan, 2014.

1. ***Downside protection*** is defined as *"a feature that limits the potential loss for an investor in the event of poor investment performance"* (Barby & Gan, 2014). This strategy adjusts the exposure to market limiting the loss due to market downturns. It prevents the decrease in value of the investment. This strategy is particularly efficient for impact first investors. It also helps social organizations to attract more investors with lower risk tolerance.

2. ***Bundling*** is a diversification tool to avoid putting all your eggs in the same basket. When bundling, investors can place capital in a single product that incorporates several underlying investments spreading the risk to all those underlying investments. Barby & Gan (2014) defines it as *"as the deliberate aggregation of product that is sufficiently dissimilar in profile in order to provide diversification."*

3. ***Liquidity*** is defined as the ability to quickly convert assets into cash. Liquidity is highly influenced by legal documentation, transaction costs and overall market transparency among others.

4. ***Track Record*** is considered as the most challenging de-risk tool because of the lack of information and data available. Some products have already proven to be efficient, other innovative ones from small-scale and niche industries have not. Many investors therefore fall back on the founding team, the business model, the corporate structure and the synergies to assess the opportunity of investing.

5. ***Placement & Distribution*** relies on experienced advisors and partners who have wide distribution networks to communicate and educate the market on the new type of products.

6. ***Technical Assistance*** takes various forms such as international networks (GIIN, GSIA, etc.), advisors or even partners that allow the social institutions to improve corporate governance, information system, etc. On the investor's side, they have a technical assistance from different organizations to build stronger impact measurement methodologies, financial controls, etc.

7. ***Impact Evidence*** emphasizes the importance of building an impact strategy with all stakeholders and works collaboratively. It shows the importance of selecting the right methodologies to measure, assess and report impact to meet the predetermined social and financial objectives.

2.4.8 Conclusion on Impact Investing Risks

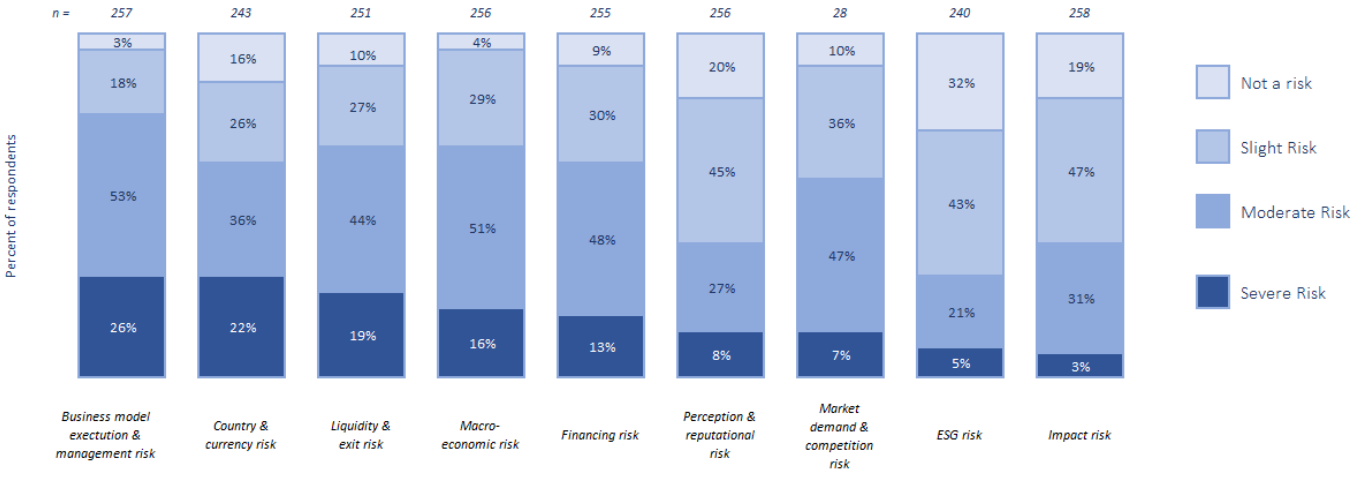
The overall risk highly influences the performance of your portfolio. Risk represents the probability that the performance of an investment will be different than expected. As a general rule, higher investment risk translates into a higher financial return and vice versa: the lower the risk, the lower the return on investment. Impact investing takes into account three variables (risk, impact and return). Therefore, in the assemblage of an impact investing portfolio, it gets trickier because of the impact spectrum. It means that beyond the traditional risks, there is an additional range of risk factors included in the social entrepreneurship landscape. Throughout an investment process, risks must be reviewed and reassessed continuously because not all the information is available at once. New information could come up at any time and tip the equilibrium towards safer or riskier investments as those new factors are becoming available. This way, investors can manage their funds more efficiently. On a side note, it is also important to realize that the risk is extremely different for each individual as everyone has different expectations as regards to the performance of their portfolio. Indeed, 'impact-first' investors will have significant differences strategies in terms of risk management than 'finance-first' investors, as they share different risk appetites and financial returns.

Additionally, it is often misunderstood that impact investments are too risky as they sometimes take place in emerging countries, in risky sectors, etc.; however, there are strategies (and extra-financial data) for managing and mitigating risk in impact investing. More and more standardized assessment methodologies are becoming available on the market for a more efficient way to recognize and deal with each risk factor.

Finally, it is also important to mention that not all risk factors have been acknowledged such as market risk or operational risk among others. However, this is out of the scope of this study but need to be taken into account when building an impact investing portfolio.

Finally, although very few investors report significant risk events in their impact investing portfolios, business model execution (management risk) is by far the most often cited contributor to risk, as it is shown in the table below.

Table 24: Evaluation of risks by impact investors



*Number of respondents to each option shown above each bar; some respondents chose 'not sure / not applicable' and are not included.

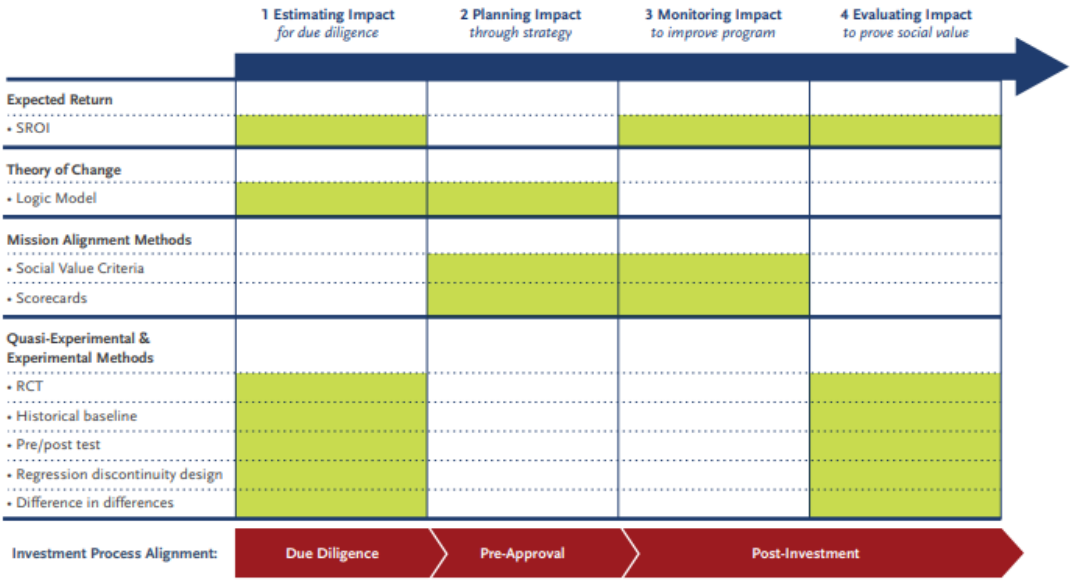
Source: Adapted from; The GIIN, 2018.

2.5 Conclusion on the Literature

After the contextualization of Impact Investing and its evolution over time through its emergence from Socially Responsible Investments, it can be analyzed that currently, Impact Investing only accounts for USD 444.26 billion worth of assets, less than 1 % of total investments in SRI at a worldwide level. It has known an incredible growth over the past few years and is expected to grow even further in the upcoming ones. Impact investors' decision to inject capital into an organization is based on a three-dimensional spectrum composed of social impact, risk and financial return. Some give more importance to social impact than others and some, more importance to their financial return. Firms develop internally and collectively with all stakeholders their own Social Impact Value Chain based on the Theory of change. The needs for assessment methodologies to communicate the key performance indicators to raise awareness is crucial. And each social-oriented enterprise is expected to provide clear information about their social impact.

As it can be analyzed in the sections above, there are many measurement tools and frameworks to evaluate the effectiveness of social projects such as SROI, SDGs, Most Significant Change, Social Enterprises Balanced Scorecards to name a few (Rahman, & Hussain, 2012). However, not all of them suit all types of companies and investors, for different reasons. Some methodologies consider WHAT to measure and others HOW to measure impact. In addition, some of them are used at different stages: due diligence; planning impact; monitoring the impact or evaluating the impact. These frameworks can also be used for more than one stage, decreasing costs and logistics. Understanding and selecting the right one for your institution is therefore crucial to avoid spending resources on unfitted frameworks. Hereunder is a table summarizing the use of measurement methodologies to measure the social impact resulting from an organization's activities while meeting the preset objectives.

Table 25: Map of Measurement Methodologies to Measurement Objectives



Source: Rahman, & Huberman, 2012.

In addition, such as traditional investments, impact investing funds are also exposed to risks. However, beyond the traditional risks, an additional spectrum is to be considered which leads to a greater risk. The performance of the portfolio will therefore highly depend on the risk tolerance, the financial expectations as well as the level of impact wanted and expected by the investor. This was explained based on the Markowitz model with the addition of the impact axis.

Now that we have set up the theory frameworks and methodologies to better understand and select the right tools to build an impact investing portfolio, we'd like to analyze how impact investing firms do it in real-life in the impact investing landscape. Through internal documentation, official documents or third-party databases, this exploratory research will answer the following questions: What are their strategies? What model do they use and why this specific model is better than another one? Do they use different models at different stages? All those questions will be answered in the next sections by exploring the strategies of three Belgian companies (Incofin, The Belgian Investment Company for Developing Countries (BIO), and SI ^{2} Fund) investing in developing countries but also in developed countries. Even though they all share the same overall objectives to create social changes towards a fairer and more sustainable world dissimilarities exist in terms of strategies when deciding to inject capital in a social project and to track the evolution of that project and its outcomes on communities.

PART III: EXPLORING THE CASES OF INCOFIN, BIO & SI ^{2} FUND

Over the past decade, social and environmental impact investing as an activity as well as a concept has grown in recognition on a truly global scale. Impact investing and its investment in social businesses has gained significant momentum as both an investment strategy and an approach to addressing pressing social and environmental challenges affecting communities around the globe. In Belgium only, impact investing accounts for around 421.6 billion EUR of assets being professionally managed in 2016 compared to around 378.175 billion EUR in 2014 which represents an 11.5 % increase (Eurosif, 2018) (GSIA, 2016) (GSIA, 2018). In Belgium, still, no less than 380 projects through social companies were supported by Belgian impact investing funds.

As it can be analyzed in the first two sections of this thesis, there are many continuously evolving theoretical frameworks to measure impact and implement strategies in different organizations. Nevertheless, as described before, every model does not fit all organizations and the choice of the right framework is critical, as some are costlier and more appropriate than others. It is, therefore, important to explore which models are used to build and monitor a social impact portfolio and the corresponding investments in a specific country, Belgium, in one of the fast-growing countries with impact funds investing locally and internationally. What are the main drivers when building a social impact investment portfolio in Belgian organizations? What measuring and monitoring tools are used by those organizations to achieve their goals and expectations?

When doing a case study, we, as researchers, do not have any control over facts and we're studying a modern phenomenon in its specific context. Yin, in 2008, explains that qualitative data analysis explores, cares about the 'how' and the 'why', which is what will be done in this next section. There are different ways to use a case study: explain; describe; illustrate; explore. Our case study will explore the different techniques and strategies used to build an impact investing portfolio in Belgian organizations.

3.1 Methodology

Qualitative data analysis focuses on naturally occurring, ordinary events in natural settings, so we can really comprehend how it works in real-life. It will also allow us to grasp the complexity of building a well-balanced portfolio through impact investing funds. By dint of professional experiences and company's reviews and articles, we will better perceive the structures and processes connecting the theory and the companies' practices.

To better understand the frameworks explained in the first sections, this thesis will study and explore real-life examples with the cases of Incofin, Belgian Investment Company for Developing Countries (BIO) and SI ^{2} Fund. These three companies were selected based on their very different approaches of impact investing. Miles & Huberman (1994) describe the qualitative data analysis in three specific yet interconnected flows of activity, as follows:

3.1.1 Data Condensation

This first flow of activity is composed of two parts. The first part is the collection of necessary data through written-up field notes, interview transcripts, documents and other empirical materials. Patton (2002) and De Ketele & Rogiers (1996) both recognize three kinds of qualitative data:

- ***Interviews***: can be directive, semi-directive or non-directive. It consists of open-ended questions to receive in-depth responses to capture people's experiences, opinions, knowledge and perception. There exist many techniques to conduct successful interviews with their counterparts. The objectives are to analyze a specific theory, events or challenge to better understand a phenomenon (Quivy & Van Campenhoudt, 2006).

- ***Observations***: can be participative or non-participative. It consists of field notes including detailed descriptions in the context within which the observations were made. The challenge is to formalize observations while setting aside all subjectivity.

- ***Documents***: consists of written materials issued by the company or a tier party. It could, for instance, be press releases, official publications and reports, among others. Those documents are gathered in a non-interactive way.

De Ketele & Rogiers (1996) recognize a fourth kind of qualitative data:

- ***Questionnaires***: via online surveys and questionnaires, researchers are now allowed to reach a broader audience faster with open-ended questions to find out more about individuals' perceptions and underlying reasoning.

Each of these methods provides different access to information in terms of time and space. This means that, for instance, an interview is at a certain moment in time, with a certain person in a specific location, while documents can be retrieved at any time from anywhere.

For this thesis, the source of the information will be retrieved from online documents. Indeed, data collection was done via online documents released by the company, via official press releases and governmental documents as well as third-parties documents. The goal is to better understand the process of building a portfolio within Incofin, BIO & SI ^{2} Fund, and the tools those companies use while taking the impact-risk-return spectrum into account. This methodology is designed to offer data triangulation by getting data through different sources (documents from the company, third-party databases and official publications, etc.), to verify this information as well as create meaning between those different sources.

The second part is to make sense of the collected data which is part of the analysis of an exploratory case study. Data condensation is defined as *"the process of selecting, focusing, simplifying, abstracting, and/or transforming the data that appears in the full corpus of written-up field notes, interview transcripts, documents and other empirical materials collected"* (Miles, & Huberman, 1994). By condensation, the author makes the data collected stronger. There exist different ways to transform data. Coding could be an example of a transformation tool. Most importantly, it is very important to find a model that makes sense to the case we're studying. In a similar manner, to condensate and display the retrieved data, long descriptive texts as well as well-summarized

comparisons will be used to show, compare and explain the differences and similarities between each strategy within each company.

3.1.2 Data Display

The second major flow of activity is presenting the data collected in the documents to draw conclusions. This data will be presented in extended long text and tables crossing information from different sources. It will help us highlight some parts of the data (Miles & Huberman, 1994). Miles & Huberman pointed out the importance of showing the data and knowing the data: *"You know what you display."* They are convinced that *"good displays are a major avenue to robust qualitative analysis."* The use of tables will help summarize the information retrieved but will also help the triangulation from different sources of information.

3.1.3 Conclusion Drawing & Verification

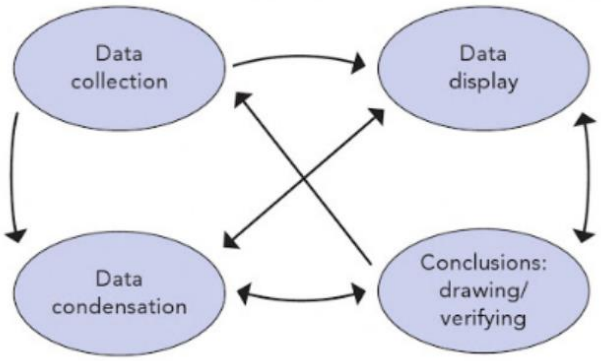
The third major flow of activity is drawing conclusions and verifying them. Miles & Huberman, 1994, define this third stream as *"the interpretation of what things mean by noting patterns, explanations, casual flows and propositions."* Conclusions are also verified through the whole process. Verification can have different forms, ranging from crossing references to lengthy argumentation and review among colleagues to develop an *'intersubjective consensus'* (Miles & Huberman, 1994).

3.1.4 Conclusion on Methodology

Three flows of activities were presented to complete a thorough analysis. It is important to also understand that these components of the data analysis are all interconnected. Qualitative data analysis is, therefore, a continuous and interactive model. Mobility and interactivity between these three streams are extremely important. The coding of data leads to new ideas, and conclusions can be drawn early to be subsequently adapted when more information is available or when verification shows that the conclusion needs to be adapted.

It is also important to point out the importance of objectivity while conducting qualitative data analysis to ensure quality in data collection and data analysis and to increase credibility. Therefore, the interactivity of the model and its back and forth between steps provide an extra caution towards objectivity. This methodology is designed to offer data triangulation by getting data through different sources (documents from the company, third-party database and official documents – press releases; governmental documents – etc.).

Table 26: Components of Data Analysis: Interactive Model



Source: Miles & Huberman, 1994.

3.2 Impact Investing in Belgium

Before getting into details about Incofin, BIO-Invest & SI ^{2} Fund, it is very important to understand their market and their industry. As we said before, impact investing in Belgium has been growing over the past decades even though the sector lacks visibility and now accounts for around EUR 421.6 billion of assets being professionally managed in 2016 (Eurosif, 2018) (GSIA, 2018). A report realized by the Belgian organization, King Baudouin Foundation (2017), shows that a total of 381 projects were supported. They also pointed out that many Belgian organizations were involved in impact investing in 2015, representing all or part of their activity. The funds provided for international aid to less developed countries were made by the private sector, alongside donations made by philanthropic organizations and public cooperation programs. Impact investors in Belgium come in all shapes and sizes investing very diverse industries. There is considerable diversity in legal structures, the size of portfolios and the origin of their capital (King Baudouin

Foundation, 2019). But, all of them have the same final objective: achieve financial returns while having an impact on communities in developed or developing countries. It is, however, very complicated to segregate impact first investors and finance first investors as traditional profit-oriented organizations working on corporate social responsibility are not impact investors. According to the King Baudouin Foundation (2019), Belgian impact investors often focus on writing checks to firms in the growth stage and have a higher tolerance to the risk.

In its report, the King Baudouin Foundation (2019) identifies the 4 following obstacles impact investors face in Belgium when building their portfolio:

- ***No exit strategy***: it can be challenging for investors to invest capital in startups and organizations when they know it will not be easy to withdraw themselves from that business.

- ***Excessively small transactions***: no matter the type and size of the investment, books must be kept and reviewed in the same thorough way. In the corresponding line of thought, small transactions and therefore small deals are perceived as financially unattractive to investors as a lot of work will have to be put into it, even though the impact on society and communities is significant. The trade-off impact - return is therefore not worthy.

- ***Lack of information***: as part of the due diligence, investors must control the story and the data provided by the social companies. There is often a lot of missing information and data is often incomplete. Geographic and language barriers are also sometimes an issue as it is hard to connect with the investees for impact measuring and monitoring.

- ***Legal Structure***: according to the Belgian impact investors surveyed by the King Baudouin Foundation, there is in Belgium a lack of hybrid legal structures that are tailored to suit impact investments. Belgium currently only has the SA (public limited company), which is geared towards maximizing profits, or the ASBL (non-profit association) which excludes any profit. The compulsory rules for crowdfunding – small or large – applied by the FSMA (Financial Services and Market Authority) make it difficult for companies to attract small investors.

3.3 Companies analysis: Incofin, BIO, & SI ^{2} Fund

3.3.1 Incofin

3.3.1.1 Company's Profile

"We invest in hardworking people
who seek to improve their lives".

– Loïc De Cannière, Founder & Managing Partner at Incofin

Founded in 2001 by Loïc De Cannière with headquarters in Antwerp, Belgium and offices in Colombia, Kenya, India and Cambodia, and employing 45 people, Incofin is a global independent impact investment management company. Incofin manages impact-oriented funds worldwide amounting for USD 750 million. Their investments focus on microfinance in emerging/developing countries worldwide and fair-trade cooperatives in Latin America. So far, they have had more than 30 equity investments, over 10 exits, and in excess of 110 debt investees.

In short, Incofin is committed to the highest professional standards and ethics valuing diversity, entrepreneurship and respect. It promotes solutions based on inclusion in communities around the globe and provides opportunities for less privileged people to improve their lives while creating value for every stakeholder. Their investments focus on achieving impact among communities without compromising overall financial returns.

Their portfolio is composed of active (Agrif, Fairtrade Access Fund, etc.), advised (Invest in Visions, BRS Microfinance Coop Fund, etc.) and exited (Rural Impulse I, Impulse) funds. Incofin's types of funds are going from equity funds to agri-finance funds passing by debt-finance funds. Through the equity funds, Incofin is a hands-on investor fully involved in projects, sharing its expertise directly on the field. As regards to debt finance, the total amount invested in social projects amounts to USD 1.6 billion (current portfolio equals to USD 583 million) invested in 110 investees across 39 countries. Seventy-four percent of these had women as end clients (Incofin, n.d.). Finally, with reference to agri-finance funds, Incofin has diversified its portfolio across 14

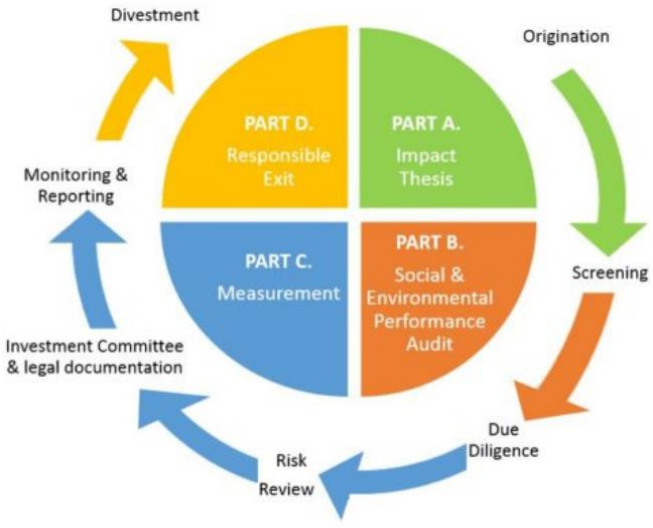
countries and 10 different crops with USD 48 million in financing farmers. Incofin claims agri-finance to be part of their long-term vision because of the fact that *"70 % of smallholders represent 80 % of the total food production worldwide, and the market is financially underserved due to market breakdowns and challenges in the value chain structures of those smallholders"* (Incofin, n.d.).

Their portfolio is exposed to various types of risks and the investment firm seeks to minimize these risks through a combination of portfolio diversification, hedging instruments, insurance policies and strict due diligence processes.

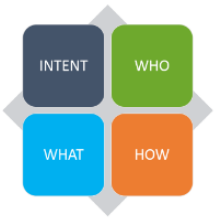
3.3.1.2 Incofin's Strategy

Incofin bases its strategy on the double bottom line of value creation through simultaneous financial returns and complex social and environmental objectives (Perera, 2013). While getting a return for their investors, the firm first advises and implements strong environmental and governance practices into sustainable companies that then turns into a positive impact on local communities strengthening the economic growth of the country and successfully delivering the expected outcomes to end clients. Incofin is not afraid to take financial risks to implement business ideas and ensure they become long-term success stories.

Table 27: Impact Methodology & Investment Process



Source: Incofin, 2019.



Part A: Impact Thesis. The goal of this section is to define if the potential investment meets the values of Incofin, while defining whom it will benefit from what, the predetermined intents, the tools that will be used to do so. This first part is all about selecting the right projects for the company.

PART B: Performance management of the investee. Incofin uses a couple of different due diligence tools to select what they believe to be performing deals. To select its deals, in 2015, Incofin integrated a proactive implementation of the Client Principle Protection for all loans. In addition, since 2017 with the establishment of the United Nations Sustainable Development Goals for 2030, every deal must be aligned to meet those goals, and Incofin enhanced all its internal social and environmental performance audit tools to be aligned with the SDGs as well (Pineiro, 2018). To complete the due diligence, Incofin has developed an in-house audit tool called ECHOS 2.0 (Annex 4) which is an online platform hosting a full set of social and environmental due diligence parameters used to take investments decisions with questionnaires that can be adapted and customized for each individual deal, depending on the business line. The cloud-based platform allows stakeholders to measure the key development indicators all in one place and facilitate the monitoring and tracking of those indicators overtime, improving investment decisions.

The firm also uses the Universal Standards for Social Performance Management and its related social audit tool SPI4 & SPI4 Alinus (extension of SPI4) created in 2012 by an external company called Cerise (Annex 5) (Incofin, 2019), an application of the BSC theory. This software is currently being used by many impact investing firms in Europe and it somewhat standardized the impact measurement. Wardle (2017) and the SPTF (n.d.) describe the implementation of the Universal Standards in five (5) distinct steps:

Table 28: Implementation steps of the Universal Standards

Source: SPTF, n.d.

However, those steps have already been taken into account when building the SPI4 Alinus. The SPI4 Alinus follows closely the Universal Standards for Social Performance Management and its six (6) steps:

1. Define and monitor social goals
2. Ensure commitment to social goals from all stakeholders
3. Products designs meet clients' needs
4. Treat clients responsibly
5. Treat employees responsibly
6. Right balance between financial and social performances

To these six (6) universal standards, more key performance can be added, depending on the line of activity and the need for monitoring.

PART C: Measurement. When deciding whether to invest in a project, Incofin sets up the outcomes indicators and SPM indicators aligned with the SDGs as described in Part B. SPM indicators allow investors to link strategy and sustainability and are tracked at the level of the end clients throughout the life of the investment via the tools described in Part B. It shows Incofin's commitment to measure the outcome of its investment both at a fund and an investee level to improve practices and measure the real impact of the firm. Here are some of the areas of

measurement: increase of customers; increase in sustainable production of products and services; number of jobs created or maintained; higher standards of living; economic growth; financial inclusion; increasing access to green energy; etc. As explained above, indicators are specific to each fund. All tools used in Part C are just an extension of the tools used in part B. Indeed, step 4 and step 5 of the implementation plan include the creation of action plans and review of the progress regularly, which can be done after analysis of the results. Indeed, this SPI 4 software is a great evaluation and communication tool between all stakeholders using the same language. It is an easy-to-use framework to allow all asset owners to compare their performances to a benchmark scores against the CERISE - SPI 4 database to then improve their practices (Cerise, n.d.).

PART D: Responsible Exit. At the time of exit, Incofin clearly communicates with stakeholders the indicators reached and the impact created towards the SDGs. It is important to protect the investees' social mission (Schiff, & al., 2018). According to the Art of the Responsible Exit written by Rozas (2014), responsible exit is done taking into consideration four (4) factors:

- ***When****:* the plan to exit should have been decided even before you sign a deal. It is sometimes challenging because it can sometimes not be decided before. In impact investing, you want to make sure the market has proven to be viable on its own, make sure the ownership is stable, etc.

- ***To whom****:* every stakeholder should by then have somewhat similar goals and social commitments. Investees must also have gained (sector) experiences and the right expertise, etc.

- ***How****:* the consideration of systems to legally enshrine the mission.

- ***How much**:* the price at which investors would sell their shares, or their ownership and screening buyers first on non-financial aspects of the bid and then on the financial returns. And then choose between those different combinations.

3.3.2 Belgian Investment Company for Developing Countries (BIO)

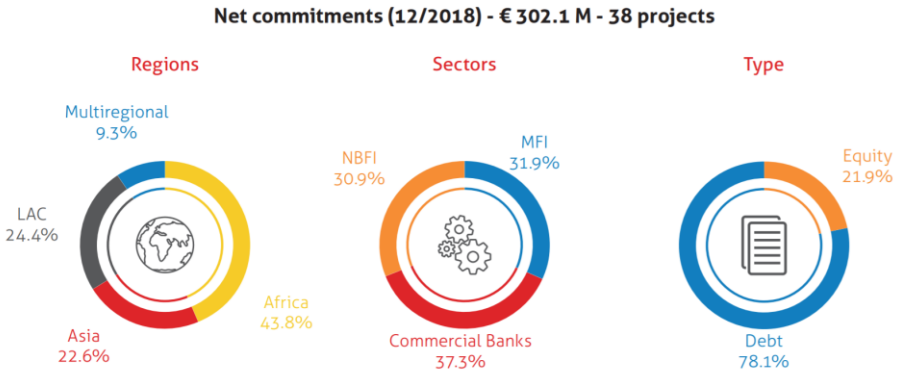
3.3.2.1 Company's Profile

Founded in 2001, The Belgian Investment Company for Developing Countries (BIO), is a private company based in Brussels, Belgium, and, as of 2018, is employing 67 people. The investment firm was created out of a public-private partnership between the Belgian state and the Belgian Cooperation for International Investment (Foreign Affairs, Foreign Trade and Development Cooperation 2016). In 2018, BIO managed impact-oriented funds worldwide accounting for USD 937.7 million and the company is constantly growing. BIO has invested in more than 50 countries from Asia to Latin America with about 35 % of its assets under management located in African countries. Its early-stage capital amounts to EUR 5 million and it makes investments using additional equity granted by the Belgian State (The Belgian Investment Company for Developing Countries, 2019).

BIO's mission is *"to support a strong private sector in developing and/or emerging countries, to enable them to gain access to growth and sustainable development within the framework of the Sustainable Development Goals."* They mainly support investment in private sector projects with the objective to develop the economic growth of developing countries. Their investments organize themselves in four (4) main categories:

- ***Financial sector*** supporting microfinance institutions, commercial banks, non-financial bank institutions using debt or equity to enhance local enterprises to get access to long-term investments and provide market knowledge, distribution channels, processes and much more;

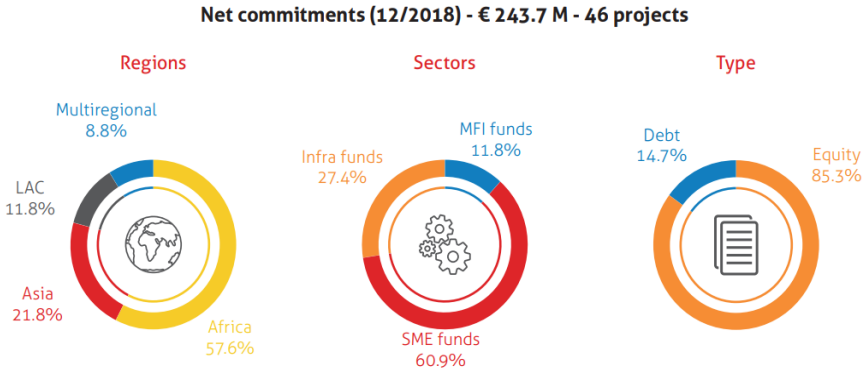
Table 29: BIO's investments in the financial sector in figures



Source: BIO, 2019.

- ***Investment companies and funds*** to build a diversified portfolio providing capital (equity type of investments) to impactful micro, small and medium-sized enterprises (MSMEs) around the world contributing to the development of their communities while improving standards of living;

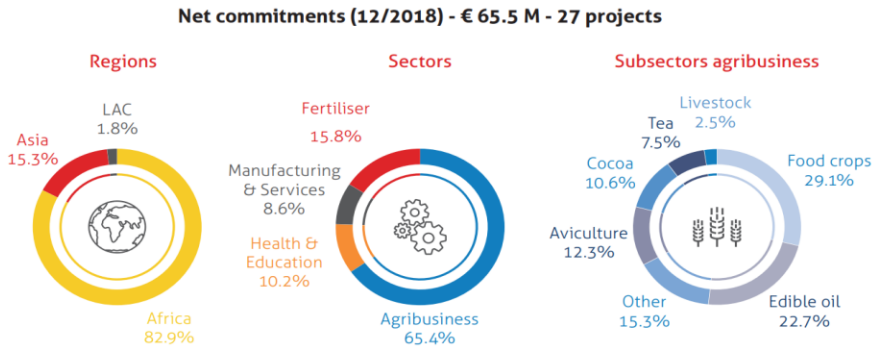
Table 30: BIO's investments in "Investment companies and funds" in figures



Source: BIO, 2019.

- Financing (loans as investment type) and supporting existing ***private enterprises*** competing in the field of health, education, and agribusiness among others to support directly or indirectly communities to gain access to growth and sustainable development while improving their local value chains. Those companies are key to improving the economic growth in developing countries;

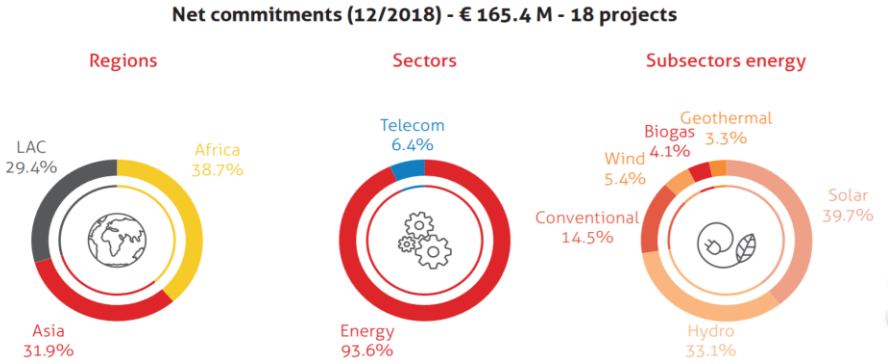
Table 31: BIO's investments in "Private enterprises" in figures



Source: BIO, 2019.

- And finally, investing in the sector of ***infrastructure*** (private or public companies) focusing on projects providing basic services to the population in terms of renewable energy (reducing CO2), telecommunication and transport infrastructures to support local development.

Table 32: BIO's investments in "Infrastructure" in figures



Source: BIO, 2019.

Their portfolio is exposed to various types of risks, but the investment firm seeks to minimize these risks through a combination of portfolio diversification (different types of investments in different sectors), hedging instruments, insurance policies and strict due diligence processes. BIO also has strict criteria in terms of geographical localization of the project (countries eligible to funding can only be located in Latin America, Africa and Asia), the financing tools as well as the impact of the projects on the economic development of the countries and, therefore, the positive impact on local communities.

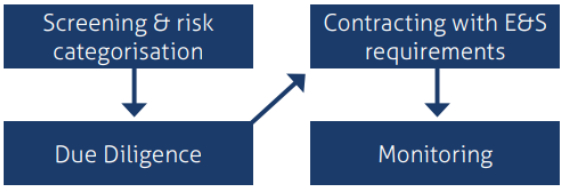
In short, *"all projects must demonstrate long-term financial viability and have a lasting impact on the development of the country in question, whether in terms of employment, the environment or economic and social growth"* (BIO, 2019).

3.3.2.2 BIO's Strategy

Now that we have a better understanding of the mission of the company and the goals, risk tolerance and performance goals of its portfolio, a thorough analysis will be conducted to better grasp the tools used for due diligence, impact measurement and evaluation / monitoring to learn from the results and improve future performance.

Here is BIO's decision-making process prior to making an investment:

Table 33: BIO's decision-making process



Source: BIO, 2019. p. 36.

When screening for projects, they link a certain level of risk to each project. Those risks are categorized and assessed during the due diligence activities. Once they comply with the requirements set by the company, improvements in terms of economic goals are contractually agreed upon with the investees to assure the well performance of the investment and to allow monitoring. Because of BIO's mission *"to support a strong private sector in developing and emerging countries to enable them to gain access to growth and sustainable development,"* it should be no surprise that BIO, therefore, follows existing frameworks to achieve its goals and set the requirement for a specific project. Indeed, the investing firm relies on the *Sustainable Development Goals* (SDGs) set up by the General Assembly of the member states of the United Nations in 2015 as goals for 2030 (United Nations, 2015). It provides impact investors with a solid

framework to attain long-term social impact results. More concretely, this agenda is composed of 17 Sustainable Development Goals (SDGs), 169 targets and 304 indicators to measure them. The elaboration of those goals *"is based on the conviction that the elimination of poverty and sustainable development are strictly interconnected and mutually reinforcing. For these reasons, SDGs are focused on three dimensions: social, economic, and ecological"* (Wysokińska, 2017). At company level, BIO uses this framework to set its priority on specific goals; ***SDG # 1 (no poverty)***, investing in project contributing to the socio-economic growth creating sustainable jobs and promoting equality throughout the community; ***SDG # 7 (affordable and clean energy)***, guaranteeing access to clean and sustainable energy while increasing energy efficiency and reducing the level of air pollution; ***SDG # 8 (decent work and economic growth)***, micro, small and medium-sized enterprises in the private sector are a main target for BIO as they play a crucial role in the development of emerging countries; ***SDG # 9 (industry, innovation and infrastructure)***, as said above, BIO invests in mostly private but also public companies focusing on projects promoting sustainable industrialization and innovation providing basic services to the population in terms of renewable energy (reducing CO2), telecommunication and transport infrastructures to support local development while integrating them into their chain value; ***SDG # 10 (reduced inequalities)***, investments made in microfinance institutions in order to promote social and economic inclusion and reduce inequalities within and between countries (BIO, 2019).

Not only BIO focuses on the sustainable development goals, it has also created its own development goals, called ***BIO Development Goals***, a tool to evaluate its financial and non-financial goals linked to each project, assessing them with a grade (primary, secondary, or not relevant). These development goals are the following:

Table 34: BIO Development Goals

Local Economic Growth: contributes to job creation, SME growth and import/ export-effects

Private Sector Consolidation/ Innovation: brings know-how or new technologies; consolidates or structures the local market by creating upstream or downstream linkages between companies; contributes to the creation of new types of institutions or the availability of new or improved products

Financial Inclusion: provides financial, credit, savings, payment; transfer and insurance services to financially excluded segments of the population, including micro-entrepreneurs

Food Security & Rural Development: improves economic opportunities for smallholders, creates formal employment in rural areas and contributes to the availability of food in local markets

Access to Basic Services & Goods: provides basic services and goods for the population. These include energy, housing, water, health, education and communications, but not food and financial services

Fight Against Climate Change & Preservation of Natural Resources: improves energy efficiency and creates a supply of and access to renewable energy; preserves natural resources, in particular forests and water

Promotion of ESG Best Practices: provides opportunities to improve standards; or - if the investees already dispose of excellent practices - to showcase them to peers

Gender: empowers and creates business opportunities for women

Financial: refers to additionality to the local market, through, e.g., tenor availability, type of collateral, gap financing, or stamp of approval

Non-Financial: refers to services beyond financial ones, such as improving ESG-practices, previously defined needs, or the provision of technical assistance

Source: BIO Invest, 2019.

This framework allows them to measure the social impact and set clear goals prior to their investment when setting up their strategy. It can, for instance, be analyzed that more than 95 % of BIO's portfolio has an impact on *Local Economic Growth* and *Private Sector Consolidation and Innovation*. For other results, please refer to Annex 2.

The development of economic growth being one of BIO's priorities, its team completes and refines a list of key development indicators (KDIs) to be collected at the level of each investee. Each project is expected to inform BIO Development and Sustainability team on these KDIs; the ***number of jobs*** (men / women) maintained or created, the ***tax payments***, the ***energy production*** and the ***greenhouse gas emissions avoided***. Besides, depending on the investment category of the project, other indicators are required. For instance; for financial institutions, the number of loans allocated must be provided; for agricultural projects, the number of farmers reached; for health-oriented project, the number of patients; etc. When looking at the 2017 figures from the 2018

Annual Report, it can be analyzed that BIO contributed directly or indirectly to the creation of more than 184.000 jobs, 65.000 of which being filled by female employees. Many more figures are available at Annex 3 (BIO, 2019). Monitoring can be done through those numbers and the methodology is defined before the investment in a project.

Furthermore, mandated as part of the agreement with the Belgian Government, every year, BIO must conduct an annual evaluation of a fairly large sample of its investments for results assessment and monitoring methodologies. This evaluation is being done thanks to an ***external consultant*** assessing ongoing investments, and / or recently exited deals (Van de Poel, 2014) (BIO, 2019).

Another monitoring and transparency methodology used by BIO is the Corporate-Policy Project Rating (GPR) instituted by Deutsche Investitions - und Entwicklungsgesellschaft (DEG) in 2002. This framework is applied throughout the whole process, during the due diligence and after, to evaluate the advancement of the project and how the investment will have an impact on the final results of the project compared to what was predicted. It uses a system of grades attributed to the four (4) benchmarks it relies on (Lemma, 2015) (Maliepaard, 2013):

- ***The long-term profitability of the project:*** measures the financial sustainability of the project.
- ***The Special Role of DEG:*** looks at the ability to bring more outcomes from DEG and how the investing firm actually fulfill its role.
- ***Return on Equity of DEG:*** measures the return on equity of the project and measures the performance of the fund.
- ***Development Effects & Sustainability:*** looks at quantitative and qualitative aspects of the projects and analyzes if the long-term requirements are on the right track to be met.

Nevertheless, this methodology does not always reach conclusive results and grasp all insights and the complexity of the problem. It is therefore not always applied as they have other monitoring tools, as already explained (Kingdom of Belgium, 2018).

Finally, the company also applies the so-called Most Significant Change (MSC) methodology analyzed in the theory but call it ***"Grievance Mechanism."*** The MSC does not rely on pre-defined indicators and measurement tools but relies on stories told by a wide range of stakeholders. Indeed, BIO's Grievance Mechanism is *"a citizen-driven accountability mechanism that responds to grievances and demands for redress by people affected or potentially affected by projects financed by BIO. This promotes more inclusive and sustainable development by giving affected people a greater voice in projects that impact them"* (BIO, 2019). It has been set up to manage risks and monitor impact while involving communities affected by BIO's investments. However, for a story to be taken into account, it must fall between two categories: *environmental & social* or *governance & business integrity*.

3.3.3 SI [2] Fund

3.3.3.1 Company's Profile

"I want to build a better world by investing while placing the social impact above the financial return. We can create awareness for social impact by showing the public, the medium between philanthropy and business as usual."

– Piet Colruyt, Founder of SI [2] Fund

Founded in 2012 by Piet Colruyt, with headquarters in Brussels, Belgium, employing just a bit more than 10 people, SI [2] Fund is a European social impact investment fund supporting innovative and scalable businesses with integrated impact business model solving societal and pressing problems. Their portfolio is composed of early stage (non-seed) or growth-stage businesses going from health management information system to civic crowdfunding platform, and with their latest investment (dated July 30th, 2019) in a peer-to-peer platform (Helpper) for home assistance helping elderly and people with disabilities looking for a helping hand. SI ² Fund is associated with the Oksigen Group, a group of companies such as i-propeller or Oksigen Lab among others. Oksigen Group provides services promoting societal impact. It allows SI ² Fund to leverage and benefit from Oksigen Group's network and knowledge, providing the best service to its investees.

SI ² Fund's mission is aligned with the 17 United Nations Sustainable Development Goals (SDGs) while *"generating high social impact in combination with a fair financial return for their investors through sustainable investments in social enterprises"* (SI ² Fund, 2019). They certainly make sure they provide a fair financial return to their investors, but SI ² Fund considers itself as a 'social first' type of investment fund and will always prioritize the impact over the return.

3.3.3.2 SI ² Fund's Strategy

Focusing on social impact over financial returns, SI ² Fund has put a lot of resources in the implementation of robust impact measurement methodologies and in integrating impact management at the core of their business processes. A continuous improvement of methods and practices is therefore expected and required. To measure impact, SI ² Fund adheres to the internationally recognized Social Return on Investment (SROI) framework which empowers any institution to calculate and manage the net social value it produces resulting from its activities for each stakeholder. All the changes experienced and contributed by all stakeholders are taken into account. The SROI adopted by SI ² Fund was developed on the basis of social accounting and the cost-benefit analysis. They follow the framework introduced by Social Value International. The main objective of SROI is to account, define and measure the broad concept value by incorporating environmental, social and economic costs and benefits. The methodology applies the same steps stated in the theory. Social Value International provides a full step-by-step guide explaining the way of a successful implementation.

SI ² Fund also organizes networking and informational events to share knowledge, findings and practices with other stakeholders. Those events are usually open to the public and take place throughout the year in different locations around the globe. Raising awareness about sustainable investing and more precisely impact investing seems to be a focal point for them.

3.4 Comparisons, Discussions & Findings

In this section, we will analyze and discuss the similarities and differences found between the theory and the case studies but also between the different companies. By comparing the theory from the literature with real-life examples, we will be able to suggest recommendations to improve processes within the different companies but also highlight and draw conclusions.

First of all, all three impact investing funds have very elaborated and multidimensional social impact measurement tools, meaning that many different actors are involved, and different purposes are sought. Here is a chart comparing the impact method characteristics of the three (3) investment management funds:

Table 35: Strategies' characteristics comparison

	BIO-Invest	***Incofin***	***Si 2 Fund***
Purpose	> Monitor > Evaluate > Report	> Monitor > Evaluate > Report	> Monitor > Evaluate > Report
Perspective	Macroeconomic	Macroeconomic	Macroeconomic
Who	> Investors > Investees > Consultants > Any End-Clients	> Investors > Investees	> Investors > Investees
For who	> Investors > Investees > Government > End-Clients	> Investors > Investees > End-Clients	> Investors > Investees > End-Clients
Time Frame	> Ongoing & Annually > Restrospective > Short & Long-Term	> Ongoing > Restrospective > Short & Long-Term	> Ongoing > Restrospective > Short & Long-Term

BIO-Invest, Incofin and SI ² Fund are three impact investing organizations whose mission is to have a positive impact on communities through the theory of change and the modification of the impact value chain of the institutions with a social project behind it. They have implemented social impact methodologies for three main reasons: ***monitor*** and ***evaluate*** the performance of their funds to learn from mistakes and ultimately take more efficient governance decisions in order to

coordinate and cooperate more effectively, improve productivity and, hence, increase their social impact; and, ***report.*** Reporting allows the firms to raise awareness, share knowledge governance practices and show the impact of such funds on communities in developing and developed countries. This way, the firms hope to inspire others to invest in social projects as well. The whole purpose of those funds is ultimately to build a fairer and more sustainable world.

Furthermore, impact measurement methodologies are conducted on a regular basis and are therefore defined as ongoing. Thanks to its partnership with the government, BIO-Invest relies on additional evaluation methods to prove how efficiently the money received is invested by the Belgian Cooperation for International Investment. BIO-Invest invites every stakeholder to take part in this process through the Most Significant Change framework, also called Grievance Mechanism. In addition, BIO-Invest also has to commission external consultants to establish annual reports. At Incofin, the SPI 4 software allows investees to compare their results with benchmark scores of the CERISE-SPI 4 database and with previous year results hence the retrospectivity of the impact measurement. As previously mentioned, processes are developed around continuous short-term (annual reports for the Belgium Cooperation, etc.) and long-term (grievance mechanism, regular basis evaluation through SPI4 or SROI, etc.) timeframes.

Besides, all firms are assessing the outcomes of their investments and are therefore more output oriented. Their vision and mission are to transform the way business is done and to participate in the economic growth for all communities around the world. It seems that all stakeholders collectively build the Social Impact Value Chain through the Theory of Change and ensure a full and common understanding of the ecosystem, the social mission and the causal links between business activity and expected outcomes stated and expected.

Now, if we look at the deal specificities within each organization, we can see many similarities but also some differences. Here is an overview:

Table 36: Companies' risk tolerance, impact vs return & eligibility comparison

	BIO-Invest	Incofin	Si 2 Fund
Risk Tolerance	**High** Investing in very risky countries; risky sectors or niche	**Medium**	**Medium to High** Risky approach
Impact vs Return	**50 - 50** Both Equally Important	**Financial Return First** Return can not be compromised	**Social Impact First** Fair return expected
Eligibility	> Type of Investment > Country (Asia, Africa, L. America) > From 4 Categories > Align with SDGs and BIO Goals	> Emerging Countries > Aligned with SDG > Striving Teams	> Innovative and Scalable Businesses > Early to Growth-stages > Align with SDGs > Long-term perspectives

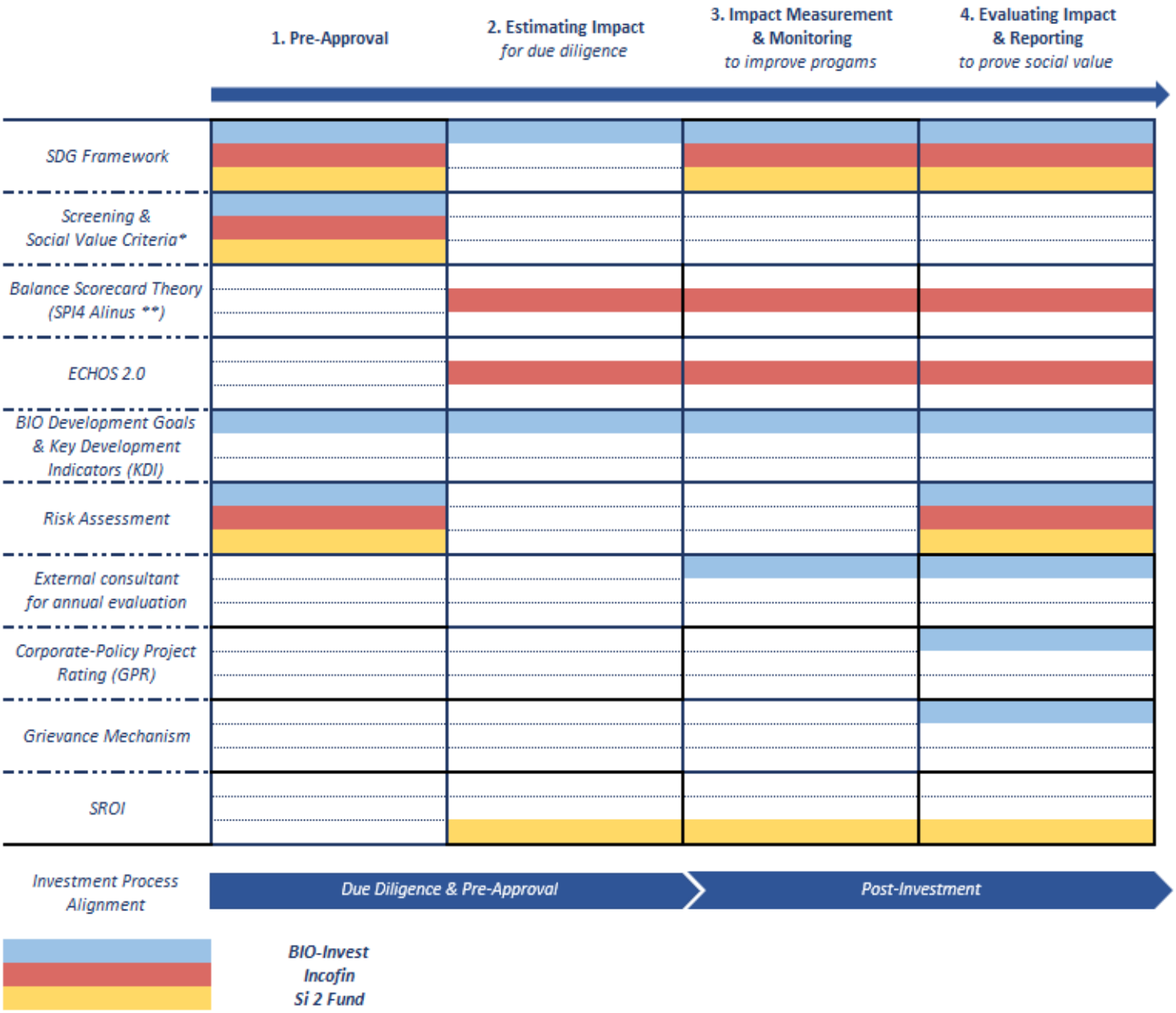
First of all, we can see that even though BIO-Invest, Incofin and SI ² Fund are three impact investing firms, their criteria of eligibility to invest in a firm are very different. One point of similarity is that they all agree and align their objectives with the Sustainable Development Goals for 2030 developed by the United Nations in 2017. It is one of the frameworks they all use to measure their impact. However, Incofin invests exclusively in Africa, Latin America and Asia while SI ² Fund has investments across Europe and beyond. SI ² Fund believes changes can occur anywhere and not only in developing countries.

It can be agreed that impact investing is fairly risky for any investor as they invest in risky countries and sectors but these three firms differentiate themselves when it comes to the expectation of the financial return. Indeed, Incofin gradually invests in social projects where the financial return for investors cannot be compromised, while in BIO both impact and return are equally important and, finally, in SI ² Fund, impact is more important than return even though a fair financial return is still expected. It can be concluded that SI ² Fund is more of a philanthropic nature for wealthy private investors.

As we can see from the sections above, there are many measurement tools and frameworks to evaluate the effectiveness of social projects (Rahman, & Hussain, 2012). Incofin, in fact, is continuously trying to improve its methodology when it realizes one is becoming obsolete given the trends and development of the industry. To this end, they have adopted SPI 4 developed by

CERISE and have created and implemented internally their own platform. Implementing an internationally recognized software also has its benefits as you can compare your funds to thousands of other projects and see areas that need improvements. Here is an overview of the methodologies used by the different companies:

Table 37: Methodologies comparison



* Screening includes the analysis of the business plan;
Social Value Criteria: Eligibility of a fund depending on alignments of activities with the missions and values of the company
** Alinus: Aligning Investors due diligence with Universal Standards

As shown in the table above and throughout this thesis, there are numerous ways to apprehend the data collection, measure the relevant indicators and report an organization's social impact on society. All of them have their complexity, their advantages and drawbacks. And because of the nature of impact investing, the commitment and integration of many stakeholders are essential and indisputable and imply multidimensional and complex challenges. In fact, the company tries to achieve organizational objectives, but it also has to balance the different stakeholders and their degree of satisfaction. Identifying them and work together towards the objectives and the stakeholders' expectations considerably increase the chances of success. This is also one of the reasons why impact investing firms generate more than one report, so they can communicate effectively to each collaborator on aspects of the deals that concern them the most.

While conducting this real-life analysis, even though there are many frameworks available on the market, one recurrent challenge stood out. Except the Sustainable Development Goals framework that everyone seems to be aligned with, there is no consensus between impact investing institutions on the software or the methodology that should be used to measure impact. Each firm uses internationally recognized frameworks to draw conclusions. At first, it makes sense since each firm needs to answer to different stakeholders and consequently the firms use the methods that make the most sense to them. Nevertheless, when evaluating their portfolio and their different social projects, institutions compare them to specific benchmark scores that may be biased, as they only are a comparison between a certain number of firms that may have completely different scopes and objectives. Also, it becomes more complicated for new incoming firms to select the right methodology when they are faced for the first time with the complex challenge of measuring impact. The affiliation to international organizations providing frameworks and having a deep network is extremely important for new players. Partnerships are important as they allow them to be surrounded by experts while having access to a lot of documentation and resources to build the best governance structure in terms of strategies to invest in the right organization while investing in the right measurement, report and evaluation methodologies to ensure transparency and success.

If we look at the strategies adopted by the different companies, many agree that the SROI used by SI ² Fund is a more complete and efficient method than the social Balance Scorecard, used by Incofin. The BSC has many advantages such as the easy and comprehensive way data are

organized, all strategies are clear and tied to the core mission and value of the organization, etc. However, the social BSC is very limited and the scope doesn't cover all aspects linked to the activities of an institution. It is a bit too simplistic. Thus, even if the BSC has its benefits, it may be interesting to re-evaluate and implement more adequate methodologies. BIO-Invest also has implemented a very effective tool that none of the other companies has: The Grievance Mechanism. This method is a very efficient data collection tool as it encourages the involvement of all stakeholders irrespectively of their skill set. It is also extremely efficient to point out unexpected changes. It would maybe be interesting for the others to implement this inexpensive yet time-consuming method.

We can acknowledge that impact measurement is not a linear process but more an interactive and continuous improvement of the methodology, the practices and the strategies implemented. Once strategies are implemented in an organization, they are often reviewed in order to stay on the cutting edge of business practices. When taking the example of Incofin, we can see the evolution of the tools adopted as well as the use of new standards within their strategy. They developed their own software (ECHOS 2.0) while, at the same time, using SPI 4 developed by CERISE. They also implemented within these audit tools the Universal Standards for Social Performance Management in 2012, the Client Protection Principles in 2015 and the UN Sustainable Development Goals in 2017.

To sum up, each impact investor and investee uses its own references but, at the end, there is no common ground for everyone, except the SDGs that seem to be accepted by all. They all pursue the same mission, but they compare and assess differently.

It is also important to highlight the limitations of the case studies. First of all, we only studied these three companies at a specific moment in time, not overtime. Secondly, only three companies were studied, more similarities and/or differences could potentially be withdrawn from a larger group of firms. Also note that, despite the fact that I had access to a large amount of documentation, I might not have had access to all the relevant documentation due to confidentiality issues. Finally, recommendations and generalities are made for Belgian impact investing firms regardless of their specificities, structures or even their maturity in the market. Some generalizations should be

studied more in-depth for more conclusive results. Readers must hold these conclusions lightly, maintaining openness and skepticism.

The results show that the context in which the firm does business highly influences its choices in terms of impact measurement, evaluation and reporting. We can see that once the government is involved, practices are a bit more complex and more control is needed. As a matter of fact, Incofin and SI ² Fund are composed of private investors and their strategy relies on two or three evaluation methods while BIO-Invest has more than five (5) report and evaluation methodologies to communicate impact with stakeholders.

We can also wonder if some companies investing in impact investing are not simply trying to make money in the name of sustainable development. And wealthy investors are trying to enhance their personal branding by giving back to communities by funding almost philanthropic firms while their return is not a priority.

As demonstrated throughout this thesis, building an impact investing portfolio is a complex and multidimensional exercise that requires a full understanding of all key theoretical concepts, the impact investing landscape, the Social Impact Value Chain and the Theory of Change. To achieve a successful implementation of an impact investing portfolio, it is important to follow these three steps: ***Prepare*** by defining the values, the target goals for all perspectives, the risk tolerance, the expectations as regards to financial return and by identifying all the stakeholders; ***Build*** by determining the investment structure, and the methodologies to collect data, outputs and outcomes in order to measure, communicate and evaluate social impact resulting from the organization's activity; finally, ***Refine*** by formalizing the investment processes, the agile improvement of those strategies for bettering current and future investment strategies. The lack of legal structures and the lack of information do not prevent impact investments to perform as well as traditional investments because impact investing includes a broad range of financial tools, projects, etc. even though it is riskier.

To conclude, it would be interesting to have another thesis explore a larger number of private funds and impact investing firms with public funds and compare the performance of each portfolio, exploring the similarities and differences between these two types of funds. If the impact is considerably more important, should the government allocate a more important part of the budget to social investments to improve standards of living around the world? Also, there are no 'golden rule' in this industry as each structure and each organization is completely different and define its own specific methodologies. More research is necessary to provide institutions with well-defined and robust methodologies for successful implementations. Should the authorities give more guidelines and implement legislations to help impact investing firms to overcome these complex but essential challenges?

PART IV: REFERENCES

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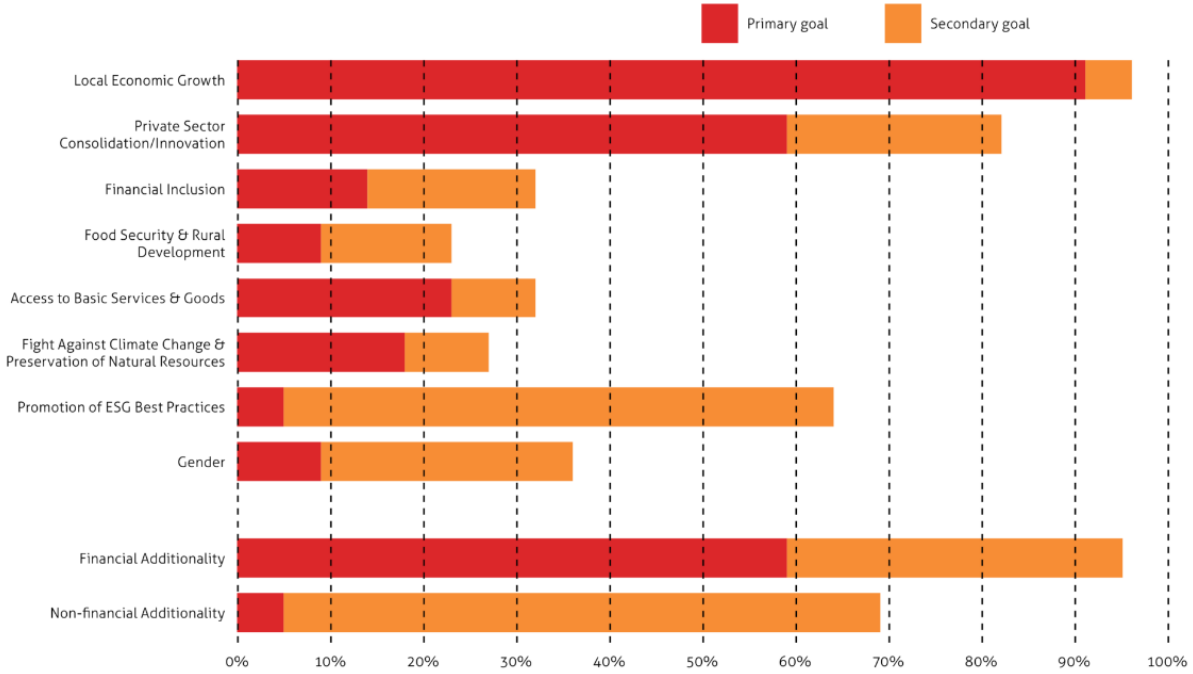
PART V: ANNEXES

Annex 1: S.M.A.R.T. Goals

Source: Handrick, L., 2019, retrieved from: https://fitsmallbusiness.com/smart-goals-examples/

Annex 2: BIO's impact in 2018



Source: BIO Invest, 2019, retrieved from: https://www.bio-invest.be/en/how-we-measure-our-impact

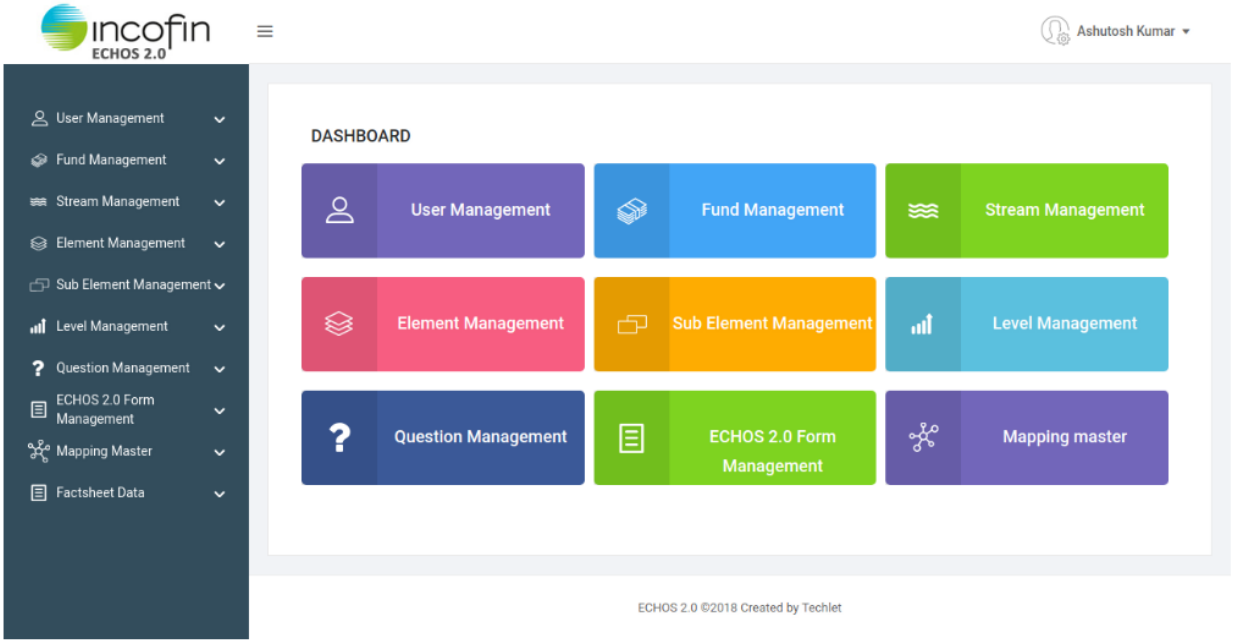
Annex 3: Key Development Indicators figures from 2018 Annual Report

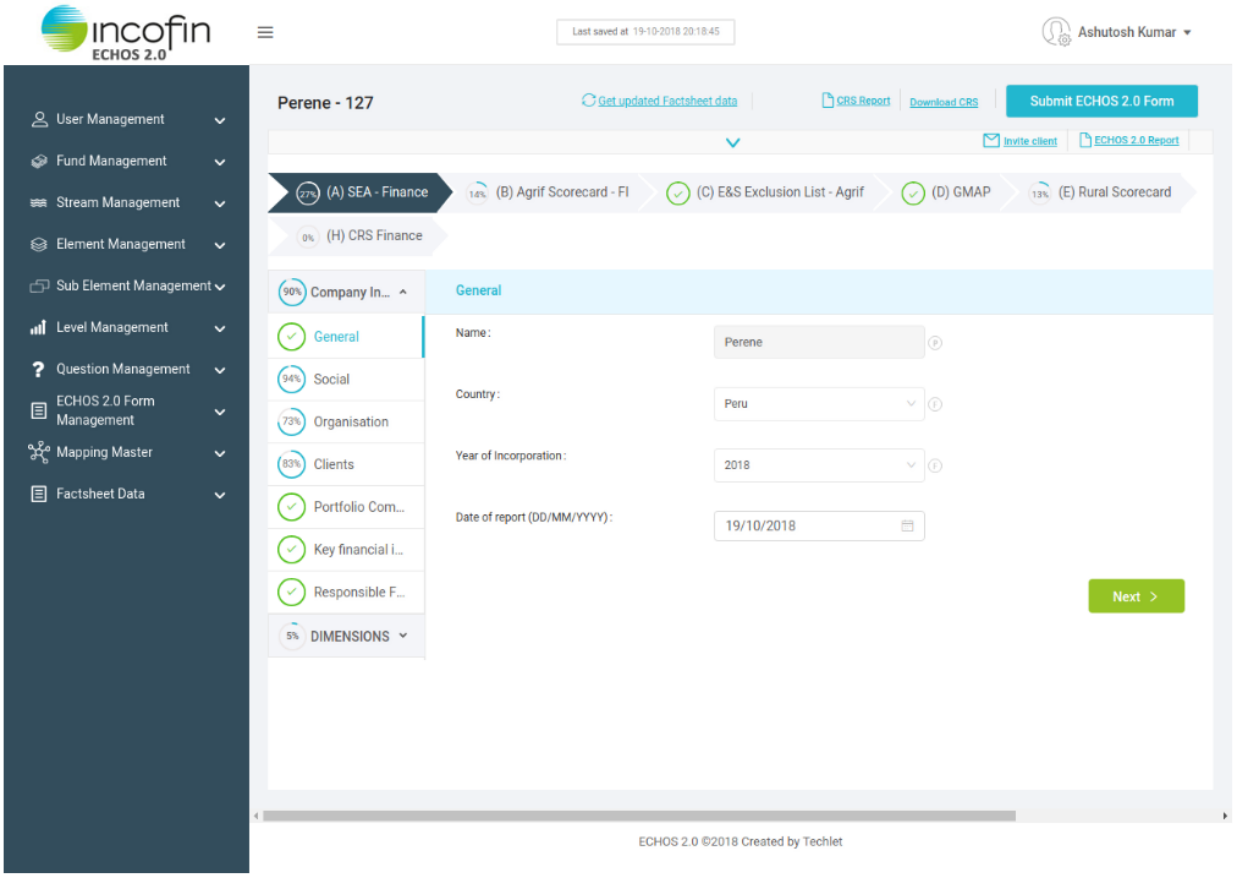
	Direct Impact Investee Level	Indirect Impact
	Enterprises *Financial institutions* *Infrastructure*	*SME Funds* *MFI Funds* *Infrastructure Funds*
Employees (# Jobs)	***89910***	***94716***
Female Employees (# Jobs)	***34102***	***31250***
Energy production (GWh)	***12580***	***1465***
CO2 Avoided (Tonnes)	***2.1 M***	***669000***

DATA from 12/2017

Source: BIO, 2019, retrieved from: https://www.bio-invest.be/files/News/Annual-Report/BIO_AnnualReport2018_EN_LR.pdf

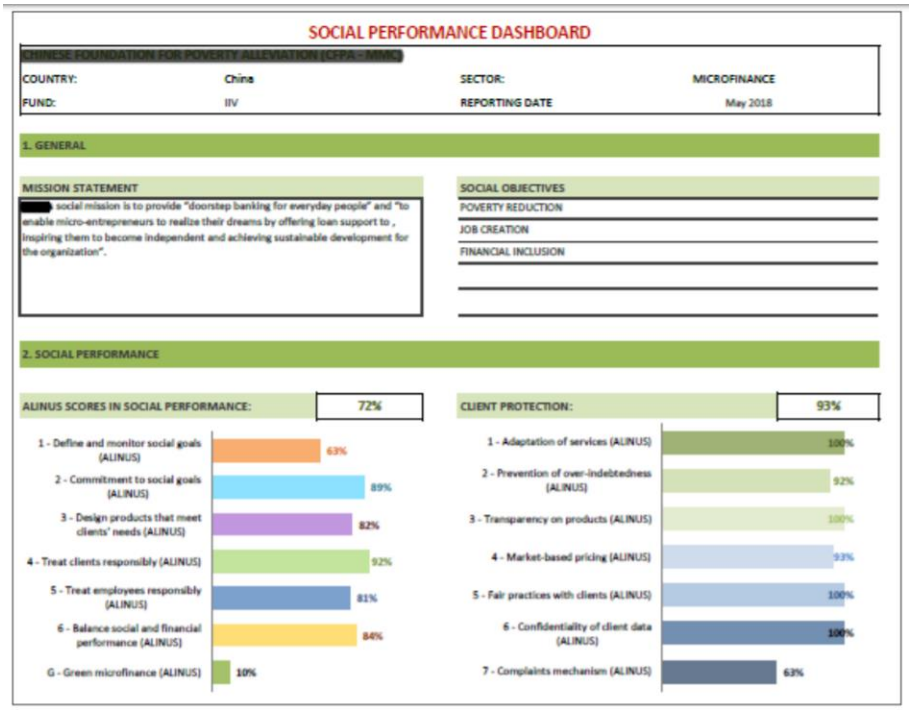
Annex 4: Interface of Incofin's ECHOS 2.0





Source: Techlet Solutions, 2018, retrieved from: https://techletsolutions.com/content/echos-20

Annex 5: Example of a social performance dashboard of an Incofin investee



Source: Incofin, 2018, retrieved from: http://www.incofin.com/wp-content/uploads/190116_INC_Impact-Newsletter.pdf