STEP 2:

Integrate

CORE ACTIONS

In this step, investors embed their impact goals throughout the investment process. Core actions include:

2.1 Choosing an approach to screening and selecting investments based on their potential to advance social equity; and

2.2 Putting in place the resources, tools, and processes to assess and manage towards equitable impact.

2.1 Choose an approach to assessing impact potential

Investors assess investment opportunities based on their potential to advance social equity. Key decisions include:

- Where can we find deals which align with our equity-focused goals?
- Which of these deals offer more (or less) expected impact?
- What information do we need to understand the enterprise (and our own) contribution to outcomes?
- Whose perspective informs these assessments?

Having **a process to assess impact on a consistent basis** allows investors to compare the relative merits of different opportunities. A systematically applied process can also help to manage impact performance for the whole portfolio, while recognizing that impact may vary across individual investments.

Table 4 presents three non-exhaustive approaches that investors commonly use:

TABLE 4

Approaches to assessing equitable impacts

APPROACH	DESCRIPTION	SOCIAL EQUITY CONSIDERATIONS	EXAMPLE
Impact ratings and scorecards	A set of indicators that cover different dimensions of impact.	Ratings can incorporate the **five dimensions of impact** to ensure a complete description of intended outcomes. The "**Who**" category explicitly focuses on the extent to which people and communities experience below-threshold outcomes.	Raza Development Fund aims to increase opportunities for Latino and low-income families across the USA. Their impact scorecard comprises 45 indicators across five categories.[45]
Monetization	Calculates the monetary value of the impact of an investment.	Some valuation methodologies weight the dollar value of impact more highly for previously excluded populations.[46] For example, the approach to **Calculating Employment Impact-Weighted Accounts** published by the International Foundation for Valuing Impacts determines the negative cost to the local community using a "Diversity Adjustment," which is based on whether the organization's workforce is representative of the demographics of the local population.	IIX, who created the first gender lens impact investing instrument to be listed on a stock exchange, quantifies the amount of social return generated per dollar of investment using an SROI approach.[47]
Standardized indicator(s)	One or more indicators that are used to assess, compare, and aggregate various aspects of impact performance.	Metric sets such as **IRIS+** include an explicit equity lens – for example a gender theme and racial equity lens with associated indicators, evidence, and resources.	During the screening stage, WaterEquity evaluates potential investees and develops initial impact projections for the "number of people reached," including the portion of end-clients likely to be women.[48]

Investors may use a **combination of approaches at different stages of the investment process**. WaterEquity, for example, also calculates an overall impact score during due diligence to evaluate the potential investee as a fit for the fund's impact profile.[49] This considers multiple dimensions of impact, including "who" the investment reaches — assessing gender, income levels, relative poverty levels, and relative need for water and sanitation in each geographical context.

45 Raza Development Fund. "Impact Scorecard." https://impactfrontiers.org/wpcontent/uploads/2024/01/impact-score-poster-36x48-FINAL-RJ-00271.pdf.

46 And discount the dollar value if those populations are not included.

47 iBAN. "Empowering Women-Focused Businesses by Tying Investment to Impact Assessment." https://www.inclusivebusiness.net/ib-voices/empowering-women-focused-businesses-tying-investment-impactassessment.

48 "Operating Principles for Impact Management Disclosures | WaterEquity." https://waterequity.com/opimdisclosures/#.WaterEquity OPIM Disclosure Statement.

49 WaterEquity OPIM Disclosure Statement.

EMERGING PRACTICE

When developing the approach to assess the expected impact of a potential investment, **craft the assessment criteria to focus on community assets and aspirations** (i.e., a positive scale) rather than challenges and deficits (a negative scale). A metric related to "reduction in maternal mortality rate for low-income women" can be reframed as "number of women accessing safe childbirth." Collab Capital, for example, "decided to not focus on what Black entrepreneurs don't have and how certain capital models don't work for them. Instead, we focus on...what our community of entrepreneurs, executives, and influencers do have." As a result, Collab Capital screens and selects companies that have at least one founder who identifies as Black (this founder must also have a controlling equity stake in the company).[50]

EMERGING PRACTICE

Investors do not need to start designing their assessment approach from scratch. Instead, start with an anchor – such as the IRIS+ racial equity theme from the Global Impact Investing Network – and customize to context. Alterfin, for example, "used the 2X Challenge criteria as a starting point... but realized that it could also go beyond the 2X Challenge criteria based on the team's knowledge about its existing portfolio, and where further gender diversity and inclusion were possible."[51]

Impact investors are often more comfortable collecting, analyzing, and acting on quantitative versus qualitative or non-numerical information. However, efforts to advance social equity typically elevate the **importance of qualitative data**. This is not only because issues such as power imbalances are harder to assign a numerical value, but also because qualitative and mixed-methods offer a more complete understanding of outcomes from the perspective of affected people and communities, highlighting how their experiences differ based on the intersection of various social identities.[52]

EMERGING PRACTICE

Use qualitative data to understand why different social identities are experiencing (or not experiencing) impact. For example, Acumen partnered with 60 decibels to test a variety of research methods for collecting gender-based insights from the customers of their portfolio companies. They found that when measuring changes in complex outcomes such as agency (the ability to determine one's own courses of action in pursuit of their goals), counting the number of women vs men who reported increased agency yielded little actionable insight. 60 decibels shifted to conducting a handful of semi-structured interviews to probe the "why" behind reported changes for women. Collecting qualitative data through open-ended questions helped uncover subtle changes in agency, as in the case of one woman farmer who explained that the training she received from a portfolio company improved her social standing in the community by helping her increase her yield and earn additional income.[53]

50 "Investment Process - View Collab Capital's Investment Process." https://collab.capital/our-process.
51 Root Capital, CSAF, and Value for Women. 2023. "Closing the Gender Gap in Agricultural Investments How Three CSAF Investors Are Turning Gender Intention into Action." https://rootcapital.org/wpcontent/uploads/2023/06/Case-Study_-Closing-the-gender-gap-in-agricultural-investments_Dec-2023.pdf.
52 For guidance on using and interpreting qualitative data, see Analyzing Qualitative Data.
53 Acumen, and Value for Women. "Pathways to Growth: Gender-Smart Business Actions That Work," October 2024. https://www.v4w.org/uploads/documents/Pathways-to-Growth-Gender-Smart-Business-Actions-That-Work.pdf.

By **integrating qualitative data into the screening and selection process**, investors can ground their impact assessment in the lived experience of marginalized communities. For example, introducing a due diligence requirement to validate the importance of outcomes from the perspective of people experiencing them ensures that investees either gather direct lived experience insights or demonstrate that their actions are informed by such insights.[54]

EMERGING PRACTICE

Consider qualitative ratings that can be converted into a numerical scale, and / or combined with quantitative data. For example, The REAL's Racial Equity Assessment Framework evaluates organizational and investment process across a four-stage continuum from color-blind to equity-focused.[55] The Framework is based on qualitative categories but can be converted into a quantified impact score.

EMERGING PRACTICE

Recognize that information and understanding gaps will always exist – so ask "how much data is needed to make a decision." This involves making explicit the limitations and assumptions underpinning the assessment, as well as adopting a pragmatic approach to collecting data inputs from companies. For example, the CDFI BlueHub Capital acknowledges that there are aspects of loans and business practices associated with racial equity that they cannot capture pre-investment. Their **REAPP (Racial Equity Assessment that is Proactive and Practical) survey** seeks to strike a balance between the desire for information and the burden placed on borrowers to provide information, given limited time and resources.

Scorecards, Benchmarks, and Datasets for Social Equity

Investors can use third party ratings and impact scores that provide a more standardized assessment of a company's impact on a particular domain of social equity. For example, Equileap provides **gender ratings and data for listed companies**. These tools can be tailored and integrated into positive and negative screens to filter investment opportunities. Natixis Investment Management, for instance, used research from JUST Capital to develop a strategy for racial equity.[56]

One advantage of third-party research is its ability to draw on larger datasets, allowing investors to compare potential investments against broader market benchmarks. While such benchmarks are mostly available for public companies, some have been developed for private markets as well, like the country-specific gender benchmarks in **60 decibel's Microfinance Index**.

Since inequities are rooted in historical and cultural factors specific to certain regions, investors may need to adapt their tools to fit local contexts. For example, the Pathway Fund collaborated with the Social Investment Consultancy and EIRIS Foundation to create a U.K.-specific Racial Equity Scorecard, informed by similar tools developed in the U.S.

These resources can not only help identify investment opportunities that actively contribute to advancing social equity, but also enable investors to quickly screen out investments that do not align with their mission and commitment to equity.

54 For guidance on assessing the importance of outcomes from the perspective of people experiencing them, see: What - Five Dimensions of Impact | Impact Frontiers

55 "Framework – Racial Equity Asset Lab." https://racialequityassetlab.org/framework/.

56 Croatan Institute. "Capital at a Crossroads: Accelerating Racial Equity Investment across Asset Classes Integrating Racial Equity into Total Portfolio Activation," 2021. https://missioninvestors.org/sites/default/files/resources/10_18_21_REEFS_TPA_Public-Final.pdf.

EMERGING PRACTICE

Apply an equity-focused negative screen to investments to avoid harmful impacts on currently and / or historically marginalized communities. For example, **Adasina Social Capital's Racial Justice Investor Dataset** is an open-source list of companies excluded from Adasina portfolios for failing to meet their racial justice investment criteria. These companies are believed to contribute to systemic racism through practices identified by social justice movements, such as prison involvement, money bail, and surveillance.

2.2 Put in place impact management resources, tools, and processes

Once an initial approach to assessing deals for their potential to advance equity is established, investors focus on implementation. **Optimizing the process of screening and selecting** investments based on both their equitable impact and financial profile is a continuous, iterative journey, customized to the specific goals and needs of each investor.

However, lessons have emerged from investors who have already embedded social equity into their processes, offering insights for others. Table 5 highlights some key lessons to help investors navigate and refine their processes effectively.

TABLE 5

Learnings from screening and selecting investments for equitable impacts

LEARNING	WHY THIS IS IMPORTANT	EXAMPLE
Establish a shared understanding of the language and goals of investing for social equity	Ensure all team members understand the key definitions, terms, and concepts underpinning the impact assessment, the issue(s) being addressed, and the connection to the organization's mission. This enables investors to make decisions that optimize the portfolio's performance against the goals expressed in the impact thesis.	Conversations between the Women in Safe Homes fund and their Senior Board of Advisors revealed that language on gender-lens investment is not always clear and can be a source of confusion – especially among the mainstream investment community when financing women-specific products and services. They therefore shared learnings from and with peers to spread awareness, promote common language, and start to build a community of practice.[57]

Continued on next page...

57 The Curiosity Society. "Social Impact Report: 2021/2022 Women in Safe Homes Fund," 2022. https://resonance.ltd.uk/images/uploads/media/Women_in_Safe_Homes_Social_Impact_Report_2021-22.pdf.

TABLE 5 – CONTINUED

LEARNING	WHY THIS IS IMPORTANT	EXAMPLE
Translate the impact assessment methodology into practical tools that the investment team can actively use	Investment team members are responsible for deal sourcing and are the "gate keepers" of investment offers and opportunities. The effectiveness of an investor's impact scoring and screening tools depends on how well the team uses these tools. Therefore, it may be necessary to simplify and adapt impact methodologies and tools, making them more accessible for investment professionals, including those still gaining expertise in social equity, to ensure they are used effectively.	Cordaid Investment Management (CIM) created and piloted a "question bank" to help their investment team conduct sensitive, nuanced conversations about the role of women in potential investee companies. Importantly, this question bank was designed to be adaptable to each country's context. This helped CIM be more intentional in its origination approach and uncover investment opportunities likely to generate decent and sustainable work opportunities for women. CIM also provided targeted training to investment teams on how to use these new tools - particularly how to have gender-focused conversations with potential investees.[58]
Build a strong bridge between the diligence and value addition phases	Using the impact assessment and selection process to consider opportunities to increase the impact of the investment. Investors can engage with companies on a "diagnose to improve" basis during due diligence to help identify gaps that can be addressed and develop a shared ambition for how investees can strengthen their impact practices.	Each portfolio company of Women's World Banking Capital Partners II fund undergoes a comprehensive Gender Performance Study. This assessment delves into the gender dynamics within the company, its operations, and its client base, enabling the development of a customized Gender Action Plan. The approach is designed to drive meaningful change and maximize the impact of WWB investments on equity.[59]
Focus on "who" gets a voice in decision-making	The pre-investment process primarily involves evaluating and prioritizing investment opportunities. While the tools used in this process are crucial, it is equally important to consider who has a say in designing and utilizing them.	Native Women Lead developed underwriting criteria that reflect core values of Indigenous communities to move beyond traditional lending criteria, which do not account for systemic oppression and economic exclusion. They established a review committee, including Native women entrepreneurs and their representatives, to provide feedback on these criteria.[60]

58 Root Capital, Council on Smallholder Agricultural Finance, and Value for Women. "Closing the Gender Gap in Agricultural Investments: How Three CSAF Investors Are Turning Gender Intention into Action," December 2023. https://www.v4w.org/uploads/documents/Case-Study_-Closing-the-gender-gap-in-agricultural-investments_Dec-2023.pdf.

59 The Gender Performance Study consists of a "Market assessment" (with questions such as "How can the company better leverage its intermediary clients to achieve greater outreach to women?") and a "Workplace assessment" ("How can the company create a workplace environment that attracts, retains, promotes and pays women employees and leaders at the same rate as men?").

60 Gloshay, Jaime, and Vanessa Roanhorse. "Moving beyond the 5 C's of Lending: A New Model of Credit for Indian Country." Non Profit News | Nonprofit Quarterly, October 6, 2021. https://nonprofitquarterly.org/movingbeyond-the-5-cs-of-lending-a-new-model-of-credit-for-indian-country/.

EMERGING PRACTICE

Give potential investees **greater agency in the impact assessment process.** This enables them to articulate goals that matter to them and to the people and communities they serve, while allowing investors to incorporate diverse information into their selection criteria. C4D Partners, for example, developed a Self-Assessment Gender-lens Toolkit for portfolio and pipeline companies to evaluate their existing business processes through a gender lens. The toolkit efficiently enables qualitative analysis of gender-based metrics, and aids in educating and supporting their portfolio in building gender inclusive companies.[61]

EMERGING PRACTICE

Shift decision-making authority to people with firsthand experience of the social equity issues being addressed. **Village Capital**, for example seeks to reverse the traditional model of investment that typically privileges the insights of capital allocators. Instead, they adopted a peer due diligence process, where founders from different startups assess, provide feedback, and collectively decide which companies receive investment.[62]

This approach has demonstrated significant results in promoting gender equity. While women-led startups typically make up only about 15% of portfolios across the broader investment industry, nearly 50% of the over 100 startups selected for investment through Village Capital's model have been women-led.

GUIDANCE ON IDENTIFYING AND MITIGATING IMPACT RISKS

When embedding impact goals throughout the investment process, investors should be aware of the risk of negative or unintended outcomes that may result from traditional investment processes which can unintentionally reinforce existing biases.[63] Emphasizing the importance of the process itself, "It's not just what investors fund, but how they fund it."[64]

SOURCING AND SCREENING:

Risk: Deal sourcing often relies on networks that reflect existing power and influence (e.g., individuals with similar privileged backgrounds), which may make them less likely to identify opportunities that originate from and / or are relevant to marginalized communities.

61 C4D Partners. "Gender Lens Impact Investing." https://c4dpartners.com/gender-lens-investing/.

62 See: Power to the people (who matter most) | Impact Europe

63 For additional guidance on equitable investment management, see the Due Diligence 2.0 Commitment, the Investor Blueprint for Racial and Economic Equity, and Inclusive Capitalism: Seven Strategies for Specific Action in Asset Management.

64 One of the Strategic Goals agreed on by over 180 experts participating in the IRIS+ Racial Equity theme was "Shifting the Perception of Risk through Equitable Deal Sourcing, Due Diligence, and Terms."

Mitigating measures:

- Partner with a wide range of ecosystem players and experts, including those that are connected with and reflect the priorities of marginalized communities.
- Promote diversity and lived experience within the investment team (see **Step 4**).
- Removing identifying information from credit applications from MSMEs and / or consumers, for example, can help lenders overcome unconscious biases.

Example: Kampani, a social impact investment fund working to unlock the potential of entrepreneurial farming in the Global South, works with NGO shareholders and mission-aligned partners help generate deal flow.[65]

DILIGENCE:

Risk: Investors may lack familiarity with leaders from historically and / or currently marginalized communities, resulting in a diligence process that can be disempowering for these leaders.[66]

Mitigating measures:

- Incorporate lived experience into the diligence process, for example by requiring on-site diligence to speak directly with individuals or communities impacted by the investee.
- Standardize processes to decrease opportunity for bias. For example, pre-determine the number of questions to ask each investee about risk and growth and how much to weight each evaluation criterion.[67]
- Value demonstrated progress and learning over past history or credentials (e.g., acquiring new customers or identifying and addressing risks in the business model).[68]
- Review diligence processes in light of the historical and cultural context of marginalization.

Example: Calvert Impact Capital developed a framework to help lenders incorporate gender considerations into their underwriting process. This provides a list of questions for due diligence processes, to be refined and adapted depending on the deal being reviewed, that can serve as a starting point for a deeper conversation with a potential investee about gender.[69]

DEAL STRUCTURING:

Risk: Investment deal terms, legal processes, and documents can contribute to deepening power imbalances between investors and investees.[70]

65 "Frequently Asked Questions – Kampani." https://www.kampani.org/frequently-asked-questions/.

66 Dana Kanze, Laura Huang, Mark A. Conley and E. Tory Higgins, "Male and Female Entrepreneurs Get Asked Different Questions by VCs — and It Affects How Much Funding They Get", Harvard Business Review, June 27, 2017, https://hbr.org/2017/06/male-and-female-entrepreneurs-get-asked-different-questions-by-vcs-and-it- affects-howmuch-funding-they-get.

67 Village Capital, IFC, and Women Entrepreneurs Finance Initiative. 2023. "Smarter Systems: How Tweaking Your Diligence Process Can Unlock Overlooked Opportunities." IFC. 2023. https://www.ifc.org/en/insightsreports/2023/smarter-systems-toolkit.

68 Ibid.

69 Calvert Impact Capital. "Just Good Investing: Why Gender Matters to Your Portfolio and What You Can Do about It," December 2018. https://assets.ctfassets.net/4oaw9man1yeu/2X1gLdNUrUPFhRAJbAXp1q/205876bdd2d7e076fce05d5771183dfe/calvert-impact-capital-gender-report.pdf.

70 The mitigating measures are adapted from the Equality Impact Investing Project. "Tackling Power Imbalance between Funders and the Change-Makers They Support, One Deal Term at a Time." https://equalityimpactinvesting.com/latest-1/edt-principles-launch.

Mitigating measures:

- Introduce measures for more equitable risk-sharing, such as ensuring that the security or collateral provided by a borrower is appropriate and proportional to the amount of the loan.
- Using clear and fair legal documents that minimize complexity, length, and jargon.

Example: In the U.K., voluntary, community, and social enterprises often do not access social investment due to a limited understanding of legal and financial technicalities. The Key Fund sought to break down the barriers caused by legal jargon, technical language, and formality by creating a suite of open access, plain English social investment documents, including loan agreements, valuation instructions, guarantees, and offer letters. Their thesis is that legally compliant and technically correct documents cannot always be short, but they could be much easier to understand and digest for all investees, not just those privileged to have extensive legal support.[71]

71 The Connect Fund. "Key Fund Investments Limited," June 8, 2020. https://www.connectfund.org.uk/funded-project/key-fund-investments-limited/.

IMPACT FRONTIERS

Impact Frontiers is a learning and market-building collaboration for investors seeking to manage their social and environmental impacts and incorporate impact into investment decision-making. We provide resources, space for community discussions, and a cohort model that supports learning by doing.

We create practical tools and peer-learning communities that support investors in building their capabilities for managing impact and integrating impact with financial data, analyses, and processes. We lead with questions and facilitate interactions that help investors come up with their own answers, based on their own strategy, context, and data.

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LEARN MORE AT:

impactfrontiers.org