IMPACT FRONTIERS

Advancing Social Equity Through Impact Management

EXECUTIVE SUMMARY

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Impactfrontiers.org

Overview

In 2024, Impact Frontiers developed guidance on emerging impact management practices for investors pursuing social equity.[1] This initiative addresses a critical gap: as more investors adopt strategies to promote social equity, knowledge about how to measure, manage and report on the impact of these efforts has not kept pace.

Taking a multidisciplinary approach, Impact Frontiers began with an in-depth literature review and collaborated with a panel of racial, gender, and data equity experts to integrate best practices from investing and related fields (e.g., civic engagement, philanthropy, and social sciences). Additional feedback was collected through interactive public consultation webinars.

The Four Steps of Impact Management

The resulting guidance document is sequenced following four steps of impact management: 1) Set Strategy; 2) Integrate; 3) Optimize; and 4) Reinforce.[2] Users are encouraged to approach the guidance as a cycle of continuous improvement and may begin at any step. Each section explains actions for measuring and improving performance on social equity (listed below), focusing on areas of impact management where advancing social equity may require distinct processes.

1. Set Strategy

- Define equitable goals that center the priorities of currently and / or historically marginalized communities
- Articulate an impact thesis that addresses structural drivers of inequity
- Embed equitable goals into overall investment objectives, strategies and policies

2. Integrate

- Choose an approach to screening and selecting investments based on their potential to advance social equity
- Put in place the resources, tools, and processes to assess and manage towards equitable impact

3. Optimize

- Use participatory approaches to collect and analyze performance data on social equity
- Build investee and community capacity to assess progress on advancing social equity

4. Reinforce

- Deepen accountability for commitments to equitable impact through inclusive governance
- Equitably frame and distribute information about progress on advancing social equity

[1] Social equity is the condition that would be achieved if social identity (e.g., race, gender, sexuality) no longer influences how one fares in society (adapted from the Investor Blueprint for Racial and Economic Equity.)

[2] The four steps of impact management were originally introduced in the online course "Impact Measurement and Management for the SDGs," taught by Cathy Clark and offered on Coursera.

In addition to practical implementation guidance for the actions above, the full guidance document includes **real-world examples of emerging investor practices** to manage performance on social equity, **risks to be aware of**, and **additional resources** for each step. Users may view individual guidance documents for each step by **clicking the links in the diagram above**.

Step 1: Set Strategy

In this step, investors develop or revise their strategy to advance social equity.

1.1: Define equitable goals
To define equitable goals, investors specify "What" outcomes they aim to influence and "Who" will experience them.[3] Investors aiming to advance social equity typically focus their strategies on one or more **key outcome areas,** which can be primary focus areas or integrated into other impact priorities:[4]

- **Equitable access to capital** (e.g., financial services, credit, or homeownership).
- **Investee workplace equity** (e.g., staff diversity, equitable supply chain practices).
- **Equitable access to products and services,** specifically those that enhance the well-being of marginalized groups (e.g., healthcare, education, or housing).

Centering the priorities and perspectives of marginalized communities when defining impact goals is fundamental to advance equity. Investors can consider three methods to understand the lived experience of marginalized communities:

Method	Considerations
1. Consult third-party literature	• Resources developed by members of marginalized communities (e.g., advocacy agendas) or using participatory methods (e.g., community surveys) are particularly useful. • Literature should be relevant to the geographical and context of the investment strategy.
2. Directly engage with intermediaries	• Intermediaries such as non-profits or grassroots advocates can represent the interests of community members. • The appropriate partner will depend on the focus of the impact strategy (e.g., a tenant union for an affordable housing strategy).
3. Directly engage with marginalized communities	• Investors typically rely on their investees to engage directly with interested / affected communities. • Equitable and representative engagement at the portfolio level can require significant resources, time, and expertise.

[3] "Impact Management for the SDGs" Coursera course based on five dimensions of impact.
[4] The Global Impact Investing Network. "Gender Lens Investing Initiative." https://thegiin.org/gender-lens-investing-initiative/. The Croatan Institute. "Capital at a Crossroads: Accelerating Racial Equity Investment Across Asset Classes". https://croataninstitute.org/wp-content/uploads/2021/10/10_18_21_REEFS_TPA_Public-Final.pdf.

While the appropriate method(s) will depend on an investor's specific context, resources, and focus areas, reviewing third-party literature is generally a useful starting point to understand any needs and priorities that marginalized communities have already expressed publicly.

1.2: Articulate an impact thesis
To create lasting impacts for marginalized communities, investors will need to **account for the underlying causes of inequity in their impact thesis.** An impact thesis (or theory of change) is "an outcomes-based hypothesis of how an enterprise, fund, issuer, investment, or investee is expected to contribute positively to sustainable development and the SDGs."[5]

Inequity is created and sustained by discrimination on the basis of social identity at:

- The **institutional level** (e.g., discriminatory policies, practices, and programs within individual organizations), and;
- The **structural level** (e.g., policies, practices, and norms across institutions and history).[6]

To advance equity, impact theses should focus on changing the institutions and / or structural conditions that are creating and perpetuating inequities, rather than changing the behavior of marginalized people. Approaches such as **root-cause analysis** and **system mapping** can help identify the institutional and structural factors driving inequities.

1.3: Reflect goals in investment strategy
One foundational practice for embedding equitable goals into strategy is **ensuring that impact objectives and overall investment strategies are consistent.** To promote alignment, investors can assess whether their defined asset classes or risk and return priorities disproportionately exclude marginalized communities and consider revising them to align with equity-focused impact goals.

Embedding equitable outcomes into legal and governance documents such as investment beliefs or Investment Policy Statements (IPS) can also increase alignment with investment strategies.

View full guidance on Step 1 here.

Step 2: Integrate

In this step, investors embed their equitable impact goals throughout the investment process.

2.1: Choose an approach to assessing impact potential
Having a **process to consistently assess impact** allows investors to compare the merits of different investment opportunities relative to equity-focused goals. Common approaches that investors use to assess the potential of opportunities to advance social equity include:

- **Impact Ratings and scorecards,** which can incorporate indicators on the extent to which marginalized people and communities will experience positive outcomes.

[5] "Private Finance for the SDGs | SDG Impact Standards Glossary." http://sdgprivatefinance.undp.org/.
[6] For clarification on usage of the terms "institutional" and "structural" in this document, see: "Inner Work: The Heart of Organizational Equity Work." *FSG* (blog), April 4, 2022. https://www.fsg.org/blog/inner-work-the-heart-of-organizational-equity-work/.

- **Monetization,** which can weigh the monetary value of impact more highly for marginalized communities.
- **Standardized indicators** for equity, such as the IRIS+ racial equity and gender themes.

Integrating qualitative data into the screening and selection process can help investors 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.

2.2: Put in place impact management resources, tools, and processes
Implementing and 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, key lessons have emerged from investors who have already embedded social equity into their processes:

1. **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 equips investment decision-makers to optimize portfolio performance against impact goals.
2. **Simplify and adapt impact methodologies and tools** to make them more accessible for investment teams (particularly for members still gaining expertise in social equity) and ensure they are used effectively.
3. **Build a strong bridge between the diligence and value addition phases** by engaging with companies on a "diagnose to improve" basis during due diligence to consider opportunities to increase the impact of the investment.
4. **Focus on "who" gets a voice in decision-making** and consider engaging affected communities in designing and utilizing screening and assessment tools.

View full guidance on Step 2 here.

Step 3: Optimize

In this step, investors monitor the progress of each investment and take actions to maximize impact.

3.1 Use participatory approaches to collect and analyze data
Participatory approaches allow communities to determine whether an investment has achieved its intended social or environmental impact.[7] From the perspective of social equity, **meaningful participation extends beyond mere consultation** to ensure that currently and / or historically excluded groups gain substantial control over the processes and outcomes that affect them.

In practice, this means that affected communities should always have a say in:[8]

[7] Participatory evaluators jointly share control of the evaluation. They encourage participants to become involved in defining the evaluation, developing instruments, collecting and analyzing data, and reporting and disseminating results (Guijt, 2014; Shulha, 2010; Zukoski & Luluquisen, 2002).

[8] Hewlett Foundation. "Data Equity: Six Steps beyond Data Disaggregation." Hewlett Foundation blog, April 1, 2021. https://hewlett.org/data-equity-six-steps-beyond-data-disaggregation/.

- **What data is collected** based on relevance to their experiences and needs.
- **How data is used** to ensure it reflects their perspectives.
- **How their identities and experiences are captured** to avoid misrepresentation or oversight.

Since **investors are often several steps removed from affected communities** and consequently rely on intermediaries (e.g., investee enterprises) for direct engagement, they can have discussions with enterprises to assess:

- Whether they have a shared understanding with affected communities of "good" impact performance.
- Whether they involve affected communities in impact data collection.
- How they are ensuring equitable participation from all affected community members.
- Whether they are engaging communities in decisions about the ownership and use of the data they provide.

3.2: Build investee and community capacity for assessment
With greater capacity to assess impact performance themselves, marginalized communities gain data agency to pursue their own priorities. This occurs by:

- Gaining skills during the data collection process (e.g. learning how to gather community input for future consultations).
- Using collected data for social change (e.g. advocating for community interests).

Typically, investors will need to partner with or support investee enterprises on capacity-building efforts for measuring impact within the communities they serve. Investors can explore the following qualitative measurement approaches from civil society and international development to engage with investee enterprises on issues of impact performance and promote data equity in their processes:

Empowerment evaluation	Democratic evaluation
Most Significant Change	Collaborative Outcomes Reporting

Investors can also **help investee enterprises better utilize data on social equity** to promote equitable business operations (e.g., gathering data from women customers to understand whether their needs are being met by a product or service). Investors can work with enterprises to:

- Clarify how they aim to use the data in their decision-making,
- Identify data gaps; and,
- Determine the resources and processes needed for data collection and analysis.

View full guidance on Step 3 here.

Step 4: Reinforce

In this step, investors reinforce their commitment to social equity by sharing progress towards outcomes and deepening accountability to marginalized communities.

4.1: Deepen accountability in governance
To deepen their commitment to social equity, investors **can explore inclusive governance models** that center the needs of affected communities by giving them a role in making investment decisions, reviewing progress, and providing feedback on strategies. Such approaches build power within marginalized groups and increase the likelihood that decisions will align with community needs. Inclusive governance models can span direct and indirect forms of participation:

INDIRECT	**Democratic Governance** Designating intermediaries (e.g., community nonprofits, grassroots leaders) to appoint or serve as members in governing bodies.	**Ownership by Representatives** Raising capital from mission-aligned partners to align incentives.
DIRECT	**Lived Experience** Prioritizing diversity and people with lived experience of social equity issues within governance structures.	**Community Representation** Including members of communities experiencing impact in governing bodies.

4.2: Equitably frame and distribute information on performance
Investors can strengthen their commitment to equity and increase accountability by **sharing impact performance data with affected communities** as well as with their capital allocators. This can also provide marginalized groups with data they can use for their own purposes (e.g., advocacy). Formats such as online data dashboards, narrated presentations, and interactive reports may be better suited to community needs than the report format investors use to report to their capital providers.

When preparing impact reports and disclosures, three issues are core to social equity:[9]

1. **Structural Lens:** Narrative framing should contextualize impact performance with root causes of inequity. This avoids reinforcing stigma by focusing on historical and structural factors, which explain inequities as the result of systemic forces rather than individual failings.[10]
2. **Asset-Framing:** Focus discussion of impact performance on community strengths and opportunities, rather than deficits. For example, neighborhood redevelopment can be framed as "restoring historic community landmarks" rather than "remediating blighted buildings".
3. **Lived Experience:** Investors can reinforce their commitments to equity by integrating the perspectives of marginalized people in their reporting, e.g., through qualitative data. This ensures the narrative reflects the lived experiences of the people most affected.

View full guidance on Step 4 here.

[9] Adapted from "Framework – Racial Equity Asset Lab." https://racialequityassetlab.org/framework/.
[10] "Framework – Racial Equity Asset Lab." https://racialequityassetlab.org/framework/.

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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.

Learn more at **impactfrontiers.org**

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