DCED
Donor Committee for Enterprise Development

How to use Impact Management Project's 5 dimensions of impact with the DCED Standard

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Businesses can make important contributions to our world. They can create jobs, develop products and services that meet the needs of the poor, and integrate small and growing businesses into global supply chains. As businesses seek to create positive impacts for their employees, customers and communities that reduce poverty the demand for better evidence of that impact is increasing.

This note explains how two tools – the DCED Standard for Results Measurement (the Standard) and the Impact Management Project's impact dimensions can be used to develop impact management systems[1]. Each tool originated in different communities - the Standard in international development community, specifically related private sector development, and the Impact Management Project for investers and with input from a wide range of organisations Both communities seek to learn and share experiences with others to continually improve impact.

The **DCED Standard for Results Measurement (Standard) is a comprehensive practical framework to manage for impact**. Since 2008, more than 150 development programmes have used it to design and implement systems to collect, analyse and use information about progress towards and the achievement of impact. Using information for improvement is a fundamental principle underlying the Standard. The DCED developed the Standard to increase the quality, credibility and practicality of measuring and managing for impact.

The **Impact Management Project** (IMP) is developing the practice of impact management through the creation of measurement standards and guidelines for all types of investors, fund managers and enterprises globally. In 2017, the IMP brought together over 2000 organisations to define the **5 dimensions of impact – WHO, WHAT, HOW MUCH, CONTRIBUTION and RISK.** Enterprises, investors and fund managers are beginning to apply the dimensions to better understand their impacts, as well as portfolio and individual investment performance.

The note is primarily for development practitioners who use the DCED Standard and are implementing interventions with investments (e.g. equity, debt, guarantees) from public and private investors and who want to use the five dimensions. Fund managers and businesses receiving support from bilateral and multilateral agencies who support the Standard may also find the note useful.

The Linkages

The IMP's 5-dimensions of impact principally relate to the Standard's component 1 and 2.

1. **Articulating the results chain**
2. **Defining indicators of change and other information needs**
3. Measuring attributable change
4. Capturing wider changes in the system or market
5. Tracking costs and impact
6. Reporting costs and results
7. Managing the system for results measurement.

Articulating the results chain

Who and what

The Standard's first component, *Articulating the Results Chain*, asks people to clearly 1) identify the

[1] The term impact management system covers results measurement, impact measurement, monitoring and evaluation.

short to long term positive changes they would like to see and who experiences them; 2) describe the actions they will implement to trigger these changes, and 3) explain how and why the actions are expected to lead to the positive changes. This information is used to create a **results chain** diagram that describes each change, and shows the relationship between actions and changes. Results chains are also called *impact maps, impact logics, change pathways or theories of change*.

The IMP's WHO and WHAT dimensions directly relate to the first step – identifying the changes that an investor and/or business would like to see:

- WHO experiences the effect and were they previously underserved in relation to the outcome?
- WHAT outcome, positive or negative, does the effect drive? Is that outcome important to the people experiencing the effect, or to the planet?

Enterprises and investors face 9 types of impact risks

	IMPACT RISK	DEFINITION
1	Evidence risk	The probability that insufficient high-quality data exists to know what impact is occurring (or will occur) across the other four dimensions of impact, for all stakeholders.
2	External risk	The probability that external factors disrupt our ability to deliver the expected impact.
3	Stakeholder participation risk	The probability that the expectations and/or experience of stakeholders are misunderstood or not taken into account.
4	Drop-off risk	The probability that the expected positive impact does not endure and/or that negative impact is no longer mitigated.
5	Efficiency risk	The probability that the expected impact could have been achieved with fewer resources or at a lower cost.
6	Execution risk	The probability that the activities are not delivered as planned and do not result in the desired outcomes.
7	Alignment risk	The probability that impact is not locked into the enterprise model, making mission-drift more likely.
8	Endurance risk	The probability that the required activities are not delivered for a long enough period.
9	Unexpected impact risk	The probability that significant unexpected positive and negative impact is experienced by people and the planet.

Source: Impact Management Project analysis.

The **WHAT** dimension concerns important positive and negative outcomes, and their importance to the people being impacted, that is the extent to which a desired outcome meets industry standards and benchmarks. Outcomes may be short, medium or long-term.

Understanding negative effects are important to the Standard and IMP. For example, seed retailers selling better quality seed may increase their share of the market, but this may mean that other seed retailers' sales and income decreases. The Standard sets a minimum benchmark to identify and measure positive short, medium and long-term changes. It recommends that programmes also identify and measure the negative changes. For the IMP impact is net impact, that is the positive changes minus negative changes.

If the 5 dimensions of impact are used with the Standard, then negative changes need to be measured to estimate net impact.

Risks

When *Articulating Results Chains*, **critical external assumptions and RISKS** that may affect the achievement of changes are to be identified and documented. This is a key step (the third described above) to developing a robust clear chain and based on an analysis of target beneficiary needs, constraints, feasibility, stakeholders, incentives, entry points, business models and the implementers' influence. The IMP asks: Which risk factors are material and how likely is the outcome different from the expectation?

The Standard focuses on external risks.[2] It assumes programmes have the capacity to mitigate internal risks, so they are not critical. The IMP identifies different types of risks - external risks and eight others. The Standard considers some of these eight risks to be internal, e.g.

[2] The Standard explicitly mentions two other risks – displacement risks and overlap risks. Displacement risks are negative changes that may occur due to a programme's activities. They may be expected or unexpected. Overlap risk is when two different interventions reach the same target group and there is a risk that double-counting may occur when assessing impact e.g. one person who benefits from two interventions is counted twice when estimating 'how many'. This is an aspect of evidence risk.

evidence risk concerns insufficient high-quality data to understand whether impact is occurring. However, most programmes and organisations using the Standard have a separate risk management system to manage internal and external risks.

The IMP emphasises risk in its definition of impact more than the Standard. The inclusion of risk in the IMP dimensions reflects the business and finance sectors focus on financial risks. Investors adjust financial returns based on an assessment of how much risk is involved in producing the financial return. This is referred to as risk-adjusted return. Basically, if two investments had the same financial return over a specific period, the less risky asset would have a better risk-adjusted return. This idea of risk-adjusted returns has been integrated into the IMP's thinking about impact returns. Another DCED brief will look more deeply at the issue of risk.

If the 5 dimensions of impact are used with the Standard, then internal and external risks should be assessed when *Articulating Results Chains* and monitoring and mitigating material internal risks should be built into the impact management system.

Defining indicators of success

How much

The Standard's second component, *Defining Indicators of Change*, asks people to define quantitative and qualitative indicators that are SMART – specific, measurable, achievable, relevant and timebound. It is at this stage, that people need to think about how much change they would like to see.

The IMP includes 'how much' as a dimension of defining impact. It combines concepts of depth, scale and duration. The IMP asks:

- **How much** of the effect occurs? Does the effect occur for many people and/or does it drive the outcome deeply? Does it last for a long time?

The Standard refers to 'how much' as projections, that is reasonable estimates of quantitative future-results informed by evidence (e.g. research, evaluations, expert knowledge) about the current situation (the baseline) and factors likely to positively and negatively influence change trajectories.

The Standard defines **scale** as the number of members of the target group who realise an outcome, i.e. financial benefit, as a result of the programme's activities per year and cumulatively. This is the breadth of change.[3]

The Standard does not explicitly ask for indicators that capture the **depth of change**. However, many programmes using the Standard include depth e.g. at least 10% increase in net income. The IMP refers to 'thresholds' found in industry standards and benchmarks. These are spelled out when first defining WHAT. Secondly, actual results are compared to the standards and benchmarks as part of measuring the depth of change.

The Standard refers to sustainability. The IMP refers to **duration**. Sustainability is the continuation of benefits that are expected to or continue after major support has been completed. The Standard requires indicators related to assessing the sustainability of changes at each level of the results chain; and that programmes measure sustainability for at least two years after the major support has been completed. The two-year limit was devised because it was felt that it was feasible to assess a programme's contribution for up to two years but after this time too many external factors would effect changes and assessing contribution would not be practical.

If the 5 dimensions of impact are used with the Standard, then programmes need to ensure their indicators are relevant to the changes they would like to see and cover scale, depth and duration.

[3] For some private sector development programmes, such as those focused on business environment reforms, scale, or at least financial benefits, may not be a relevant measure. For instance, policy and regulatory changes that take many years to be implemented may mean it is not feasible to measure actual financial benefits realised during the standard five-year life cycle of a development programme.

Contribution

Most DCED members are public agencies concerned that public money is used well and does not support activities that businesses could and would have undertaken anyway. Private investors are also interested in this issue. The IMP asks: How does the effect compare and **contribute** to what the market would likely do anyway?

The DCED refers to this as additionality. The IMP calls this enterprise contribution, that is whether the change in outcome (who, what and how much) is likely to be better than what would have occurred without the enterprise. The two concepts are closely related, along with other concepts like attribution and counterfactuals. [4] Programmes normally assess additionality when screening potential interventions and partners are screened against their contribution to a programme's objectives and strategy. The Standard does not explicitly ask that people estimate what and how much will be additional when developing the results chain, indicators or projections. However, projections, developed in Component 2 - *Defining Indicators of Change,* are expected to be based on analysis of the current situation and likely future situation with and without the programme. An assessment of additionality, or 'how much MORE', is implied. During and after implementation, the DCED Standard (Component 3) requires that programmes not only measure how much change has occurred but whether the change is attributable to the programme. The IMP also distinguish between investors' and enterprises' contribution. Investor contribution refers to the investor's actions to try and improve the enterprise's impact[5].

If the 5 dimensions of impact are used with the Standard, then programmes should ensure they assess and record their comparisons to what the market would likely do anyway and how much more impact they are expecting to achieve.

Conclusion

A key foundation for a good impact management system is a clear description of the changes that businesses aim to create. The Standard and 5 dimensions of impact can assist businesses to better understand the impacts they want to create. There are many similarities and a few differences. It is important to be aware of slight differences in language and perspectives to ensure integrating them is harmonious and strengthens programmes' impact management.

Other components of the Standard can help businesses develop and manage impact management systems.

The **Donor Committee for Enterprise Development** is a forum for learning about the most effective ways to promote economic growth and reduce poverty in developing countries through building private enterprises. Strategies to build private enterprises include working with businesses directly, with membership organisations that represent businesses, or advocating and developing policy and regulatory change to stimulate functioning, competitive markets that create benefits for all people. These strategies are generically referred by the international development industry as 'private sector development'. DCED members are public, private and multilateral organisations, which fund and support private sector development.

For more information about the Standard, click here.
For resources or email us.

[4] The Standard and IMP refer to the OECD DAC's definition of attribution: the ascription of a causal link between observed (or expected to be observed) changes and a specific intervention. The IMP also highlight how attribution is understood by fund managers. For fund manager, attribution means the mathematical breakdown of an investment portfolio's return compared to the benchmark return. The positive or negative difference between two is called the 'active return'. Active fund managers seek to understand the level of 'active return' and the reason for the difference e.g. portfolio selection and/or market timing.

[5] More on strategies to influence enterprises' impact can be found here.