

Systemic Impact Investment Standard (SIIS)

INTRODUCTION

The Systemic Impact Investment Standards has been jointly developed by Agora Global and the Bertha Centre at the University of Cape Town with the support of Foreign, Commonwealth & Development Office (FCDO)'s flagship programme IMPACT working on strengthening the impact investing ecosystem to catalyse more impactful investments¹.

WHY WAS SIIS DEVELOPED?

Until the last decade, *Impact Investing* was characterised by low levels of integrity of impact and missed opportunities and increased risk as a result. In recent years, there have been several high-profile initiatives to improve transparency and measurement of change in order to separate impact investing from traditional profit-maximising investing, as well as some high-quality guidance on how to integrate an impact mindset throughout the investment lifecycle. This remains a broad coalition seeking to establish principles and guidelines to ensure minimum standards of practice. Despite these improvements, there remains a fundamental gap in how investment decisions are made, affecting the ultimate depth and breadth of impact.

The majority of impact investments remain focused on the portfolio company. Very few draw the link between firm-level outcomes and the needs of the broader system in which the portfolio company is operating - if and how the investment addresses the root causes of underperformance, the risks and opportunities the system poses to the investment's success (and failures) and the effect of these nuances on the end beneficiaries.

This has several consequences. Firstly, it leads to inaccurate measurement of impact (positively and negatively); if an investment in a company leads to its growth and additional employment created in that company *but* this comes at the expense of a competitor who then shrinks and loses employees, then the net effect is actually zero and the subsidised capital has been distortionary and not catalytic. Secondly, it leads to missed opportunities to select investments which have the greatest potential for net impact as investments focus only on analysis of firm-level problems. Thirdly, it leads to incomplete identification and mitigation of risks leading to financial and impact failures. Finally, it misses opportunities to increase aggregate impact through 'beyond the firm' impact value addition. Addressing these consequences of the status quo has huge potential to increase the sustainability and scale of impact resulting from investments. Utilising experience from the development sector across the last two decades, a group of investors have coalesced behind a desire to do just that and drive *systemic impact* through investments.

¹ FCDO has funded the development of SIIS while Agora Global and Bertha Centre at the University of Cape Town holds the intellectual property rights for SIIS.

WHAT IS SYSTEMIC IMPACT?

Systemic impact is rooted in the concept of market system, acknowledging that portfolio companies do not operate in isolation. Any economic, social, and environmental impact is the outcome of the market system in which the company is operating and the interplay of actors, relationships, and transactions. Competitors, suppliers, customers, service providers, rules and regulations, all have an effect on the system and the performance of any individual business model.

The graphic shows an illustrative market system for agricultural goods. It illustrates that the demand and supply of a product or service does not depend only on the supplier and customer, but is influenced by a wide range of support functions and formal and informal rules. Therefore, managing the outcome of investment in an agricultural product or service requires effort to understand the wider market system and the interdependencies within.

This analysis not only improves the quality of individual investments but also creates opportunity to address shared challenges. This is *systemic impact*; when individual investments contribute to improving the efficiency and productivity of the wider system and create opportunities for continued growth and development impact, in aggregate, for the actors involved. *Systemic impact* is inherently catalytic and transformative.

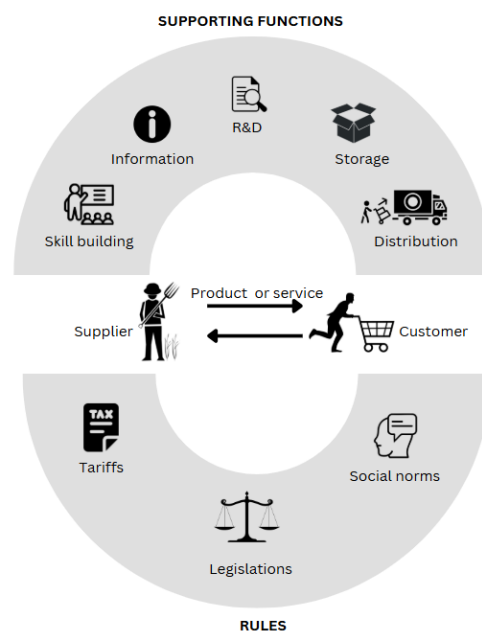
Achieving *systemic impact* starts with asking ‘*what*’ is not working, ‘*how*’, and ‘*why*’, to assess whether and which financial and non-financial investments can address those issues. This is followed by developing targeted investment and business strategies and working alongside the investment to influence the behaviours of the portfolio company, service providers, and regulators, as well as facilitating industry coordination which can broaden the scope of impact. Impact is measured by examining changes within the broader system that have been catalysed by the investment.

Systemic impact delivers results in two ways; addressing firm-level constraints (for the portfolio company) and system-level (beyond the portfolio company) constraints. For firm level results, *systemic impact* considers all changes that occur because of the investment and its management, both positive and negative, including a rigorous assessment of additionality, enabled by a nuanced understanding of the system. The system-level measurement examines behaviour change of other market actors beyond the investee (competitors, upstream and downstream nodes of the value chain, service providers, consumers, regulators etc.) that have occurred as a result of the investment, contributing to improved overall sector performance. These engagements are driven by incentives of the market actors.

SIIS aims to adapt and enhance the existing investment decision making process so that individual investments create *systemic impact*, delivering deeper and lasting impact in the systems into which they invest.

PURPOSE OF THE STANDARD

Fundamentally, the objective of SIIS is to ensure organisations are doing everything they can to maximise a genuine additional impact for as many people as possible. It does so by introducing a practice and performance framework that explicitly recognises the influence of the wider system across the investment lifecycle.



SIIS allows asset owners to differentiate between funds that are working towards or achieving systemic impact through their deployment of capital and value added activities. Interested asset owners should then be able to direct their investments towards those with the greatest likelihood of achieving impact without the need for in-depth technical expertise in the area or excessively lengthy due diligence from an impact perspective.

HOW IS SIIS DIFFERENT?

SIIS is fully aligned with and mapped against broader principles and best practices in impact investment but is unique in several aspects.

- 🌀 **Systemic not simplistic:** SIIS draws a link between the market system and development outcome of the investment and provides a framework for adapting investment processes for beyond-the-firm impact, while the existing impact frameworks and standards are focused on impact at the portfolio company level.
- 🌀 **Incentives not idealism:** The premise of SIIS is not altruistic or idealistic. It realises the political economy of impact investing and works with it to ensure that asset owners, managers, and portfolio companies can achieve their objectives by implementing the approach.
- 🌀 **Pragmatism not panacea:** SIIS is not proposing large-scale investments which are not economically rationalised or imagining a portfolio company has a can change everything. It is about pragmatic actions to maximise the potential impact and minimise risk.
- 🌀 **Auditable not agreeable:** SIIS is not a generalised agreement in principle. Instead it is accredited so that it may be used to differentiate between funds.

HOW WAS SIIS DEVELOPED

The starting point for SIIS is the disconnect between impact capital deployed and the quality of impact generated. Agora Global, with its extensive experience in applying systems lens in emerging markets, and Bertha Centre, with its thought leadership in SSA, coalesced around the recognition that the complexities in emerging markets require a more systemic approach for deploying impact capital. The team drew on two decades of learning and evidence from development programming with a system lens, global successes and failures in financial inclusion, the experiences from the impact investors and impact enterprises as well as the political economy in impact investing, to develop SIIS. Agora Global's *Lean System approach* which has already been implemented with several impact funds and investors since 2018 provided valuable practical insights.

The SIIS has been developed through the following stages:

- 🌀 Extensive research to map existing impact principles, impact management and reporting guidelines, sustainability standards and certification to understand if and how systems lens adds value.
- 🌀 Consultation with over 40 ecosystem players which include investors, catalytic capital providers, fund managers, IMM service providers, standard setting bodies, research organisations, and convening bodies to validate the findings from the secondary research and develop a framework for SIIS.
- 🌀 Disseminated of draft standards for review and comment.
- 🌀 Testing SIIS at the inaugural *Systemic Impact Investing Training* which had 40 investors, funds and ecosystem players in attendance.
- 🌀 Finalisation of SIIS is based on the feedback.

What is the **Lean Systems approach**?

It is a codified approach, developed by Agora Global, for adapting investment processes to maximise opportunities for systemic impact. Agora Global has tested this approach with funds and investors and that hands on learning has been instrumental in developing the SIIS.

WHO CAN USE THIS STANDARD

SIIS is for asset owners and asset managers investing with the explicit intent of creating positive impact.

For *asset owners*, SIIS can help differentiate funds which operate in a way most likely to design for, invest in, and accurately measure systemic change from those that do not.

Asset managers can use SIIS to improve their processes and resourcing and give confidence to current and potential asset owners.

STANDARD CONTENT – WHAT DO WE NEED TO SEE AT EACH STAGE

The table below provides a snapshot of the different stages of SIIS across the investment lifecycle, followed by more detailed expectations from each stage.

	Sourcing	Management	Measurement
PURPOSE	Have started to add these considerations into how they decide where to invest and develop investment pipeline	Have outlined strategy to consider and support beyond the firm impact	Have stated objectives to monitor beyond-the firm impact and improved additionality
PROCESS	Have clear strategies, guidelines, review processes for integration in sourcing and selection.	Have considered in structuring, included in action plan and allocated funds/built into management fees for beyond the firm activities	Have the right metrics, plans, capacity, and budget to measure system-wide additional impact
PROOF	Have invested in businesses according to this process	Have conducted wider activities to create systemic impact	Have measured and reported the systemic impact of investments.

Sourcing

Purpose

Statements: Credit given for statements at the fund level or at the investment level on conducting analysis to understand high-priority market system(s) to identify major constraints, key stakeholders and impactful investment models, selection of investments according to potential impacts within the value chain and the wider market systems, statements on addressing shared issues within the sector/shared barriers to the achievement of development/ environmental objectives.

Process

Strategy: The fund level and the investment specific impact strategies incorporate systemic impact in impact goals and reflect it in the Theory of Change.

Guidelines: Internal guidelines established on how to account for systemic impact in deal sourcing which is reflected in sourcing guidelines, screening criteria and other pre-DD and DD documents.

Capacity: At least one member of the investment team, ideally the impact lead, has technical knowledge on systemic impact and can train others. The wider investment team understands the relevance of systemic impact considerations in sourcing and due diligence.

Templates: The Due Diligence questionnaire and report templates include questions on the market system a portfolio company is operating in, and the relevance and viability of the projected impact in that system and IC memo templates include a section to relay relevant insights.

Proof

Evidence at fund level: Evidence of having made (and rejected) investment proposals based on their potential for ‘beyond the firm’ impact.

Management

Purpose

Statements: Credit given for statements at the fund level or at the investment level recognising that systemic impact is one of the considerations driving deal structure, oversight and governance strategies, engagement and value addition support for the portfolio company.

Resourcing: Commitments to ensure adequate resourcing from the investment fund or a TA facility to implement beyond-the-firm initiatives or engage with stakeholders.

Process

Guidelines: There is internal documentation to articulate potential avenues for systemic impact (at an investee level or sector or country level) following a market analysis and the relevant beyond-the-firm activities, which are reflected in investment agreements, impact action plan and the impact value addition activities planned by the asset manager.

Capacity: One or more investment team members can articulate the rationale for and manage the additional activities and/or there is provision for a technical service provider with the required capacity.

Capacity of investees: Credit given for the portfolio company’s ability to articulate the relevance for systemic impact in the context of their business model and their technical and operational capacity to pursue those activities.

Budget: Evidence of resources committed by the GP for monitoring and supporting beyond-the-firm engagements.

Templates: Impact activity plans and reporting templates include sections on plan and progress related to activities beyond the portfolio company, relevant stakeholders and allocation of responsibilities between GP and the portfolio company.

Proof

Evidence at GP level: Evidence of partnerships, capacity building, facilitation and other beyond-the-firm activities managed or supported by the GP in line with the systemic impact pathways outlined.

Evidence at investee level: Evidence of partnerships, capacity building, facilitation and other beyond-the-firm activities conducted by the investee in line with the systemic impact pathways outlined.

Measurement

Purpose

Statements: Credit given for statements at the fund or at the investment level that shows measurement of beyond-the-firm change and improved assessment of additionality and attribution.

Resourcing: Commitments to ensure adequate resourcing from the investment fund or a TA facility to measure beyond-the-firm impact or outcome of wider engagements.

Process

Guidelines: The impact measurement manual and other IMM documents include a well-developed theory of change, outline the relevance of measuring changes beyond the portfolio company and the approach to measuring additionality and counterfactual.

Capacity: Evidence that one or more team member have received training on good measurement practices and have sufficient understanding of systemic impact to be able to collect the right data from the right sources to develop and verify a system level impact thesis.

Budget: Evidence that there is necessary budget for collecting data from key stakeholders beyond self-reported data from portfolio companies.

Impact Metrics Evidence that there are correct indicators for both firm-level and beyond-the-firm changes at each stage of the theory of change, data points for evaluating additionality, negative externalities, and relevant Key Performance Indicators (KPIs).

Measurement Plan: There is a correct measurement plan for data collection and an aggregation system that allows for rigorous yet nuanced view of the impact at fund and investment level.

Feedback loop: There is a clear process (either documented or intuitive) for using measurement data to inform the management of existing investments and guide the design and structuring of future investments.

External Reporting: The Impact Report present cases/examples of beyond-the-firm initiatives and changes linked to systemic impact ambitions.

Proof

Processes: Evidence of measuring systemic impact (such as impact questionnaire/consultation report/impact report).

Reporting: Good quality impact reporting showing how the investment and associated activities have contributed to systemic impact.

CERTIFICATION PROCESS

The SIIS standard is structured in 3 segments, *sourcing, management and measurement*, following the typical investment process flow. Each segment has 3 stages within– *purpose, process and proof*, demonstrating that the first step to have systemic change is to recognise systemic impact as a key '*purpose*', which requires update of internal '*process*' (guidelines, capacity, budget etc) allowing them to manage investments better, resulting in '*proof*' of systemic impact.

System pre-audit and pre-audit report

The auditor will assess relevant documents, interview staff of the fund, and produce an audit report with indicative scoring and areas of improvement.

This is a light-touch process to highlight areas that need to change if accreditation is to be achieved and act as a basis for discussion with management about which areas are likely to be adapted and how they would go about it.

Final audit and accreditation

Participating organisations follow the recommendations from the system pre-audit and pre-audit report to adopt SIIS standards. Subsequently, the final audit is conducted.

Participant organisations will have the SIIS logo on their website

As parts of the process are audited and accredited, their logo changes to reflect progress as below. Where grey and light green areas indicate further work needs to be done in those areas to achieve full accreditation.

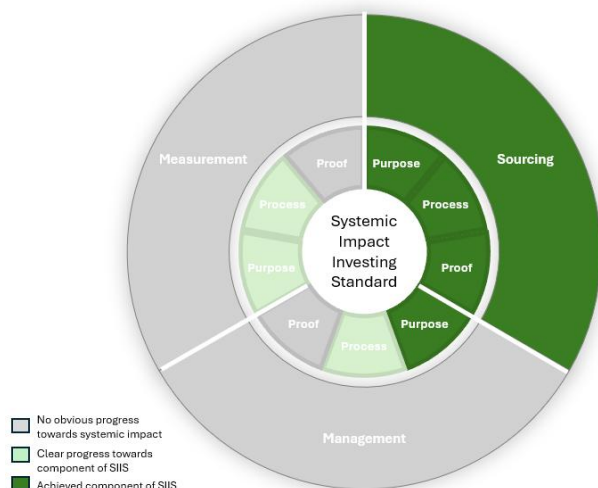


Figure 1: Partial accreditation as funds progress through stages



Figure 2: Full accreditation and achievement of systemic impact investing standard

Reappraisal

All accredited stages will be reaudited every two years. Non-accredited stages can be audited at any time as asset managers aim to attain accreditation for new aspects of the standard.

HOW TO USE THE STANDARD

An organisation can decide to adopt SIIS for all or parts of its portfolio, which needs to be clearly agreed with the auditors. While organisations are scored for each stage separately (Purpose, Process, Proof), one cannot bypass the 'process' stage to get to 'proof', in other words, lasting proof of systemic impact is unlikely if processes are not adapted for better delivery.




Systemic impact is context driven, an asset owner and asset manager can develop their own vision of systemic impact based on their strategic priorities. SIIS does not place any normative requirements on the systemic impact choices or scope of organisations, rather evaluates the integrity and rigor of the analysis, capacity, and process behind mapping those pathways to ensure impact capital is deployed in the most efficient manner possible.

The ambition behind SIIS is not tokenistic inclusion of the world 'systemic' or 'systemic impact', rather critical thinking behind investments. At each stage, SIIS will evaluate how effectively an organisation has understood the system they are investing into, and made deliberate effort during sourcing, structuring, management and measurement to maximise impact, through financial and non-financial resource and support to the portfolio company and other key stakeholders.

ANNEX

Key Consultations

Selected key stakeholders consulted during the development of SIIS are listed below:

-  **Ecosystem players** – Impact Principles, IRIS+, SDG Impact Standards, GSG Impact, Convergence Blended Finance, Catalytic Capital Consortium, CGAP, Kit Institute, Transcap Initiative
-  **Capital Allocators** – SIDA, SDC, Small Foundation, AlphaMundi Foundation, BII
-  **Asset managers** – Apis Partners, LeapFrog Investments, Tshiamo Impact Partners, Goodwell Investments, Gatsby Africa, AV Ventures, Pathway Fund, Aceli Africa,
-  **Service providers** – BlueMark, Chi Impact, Social Value International British Standards International, Ibis consulting

Who we are

Agora Global:

Agora Global is a consulting, training and research social enterprise intended to deliver systemic change for inclusive development. Agora's experts are world leaders in the design, implementation, management, and evaluation of market systems development initiatives in low and middle-income countries. Agora has first-hand implementation experience in over 400 programmes in over 100 countries covering almost every sector – from agriculture to industry, water to healthcare, tech firms to finance. We have a unique understanding of the finance-impact nexus having designed and reviewed a wide range of financial sector development programmes, having advised several donors on their sustainable finance initiatives and been involved in providing technical assistance facilities to impact investment funds. Agora's mission with the Lean Systems Approach is to understand better, do better and measure better so that catalytic impact does not remain a dream, but becomes a reality.

Bertha Center:

The Bertha Centre for Social Innovation and Entrepreneurship was established in 2011, as a Centre of excellence focused on research, teaching, dialogue and the support of innovators and enterprises towards social impact. A key area of Bertha Centre's work revolves around training and convening changemakers. As such, the centre has created an extensive repository of impact investing and systems change training content, which is targeted towards different experience levels.

FCDO's IMPACT Programme

The Foreign, Commonwealth & Development Office (FCDO) IMPACT Programme aims to strengthen the impact investing sector to address the world's social and environmental challenges, as set out by the [UN Sustainable Development Goals](#). Through providing market-building grants, impact investing can strengthen private sector activities in ways that positively impact stakeholders and communities.

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