

Classifying a fund's impacts using the IMP+ACT Classification System

Case Study
Acumen



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About the IMP+ACT Alliance

The IMP+ACT Alliance is a technology initiative for the public good. Together with over 150 organisations, the IMP+ACT Alliance has developed the IMP+ACT Classification System. This digital platform aims to provide asset owners with comparable information that helps them segment their portfolio by impact. The IMP+ACT Alliance is sponsored by the City of London Corporation, Deutsche Bank and the IMP, and is supported by a network of strategic partners including the UK Impact Investing Institute, Toniic Impact Capital Managers and the Make My Money Matter campaign.

About Acumen

Acumen is changing the way the world tackles poverty by investing in companies, leaders and ideas. They invest patient capital in businesses whose products and services are enabling the poor to transform their lives. Founded by Jacqueline Novogratz in 2001, Acumen has invested more than \$131 million in 131 companies across Africa, Latin America, South Asia and the United States. They are also developing a global community of emerging leaders with the knowledge, skills and determination to create a more inclusive world. In 2015, Acumen was named one of Fast Company's Top 10 Most Innovative Not-for-Profit Companies. Learn more at www.acumen.org and on Twitter @Acumen.

Introduction

The **IMP+ACT Alliance** is a field-building technology initiative which, in consultation with over 150 organisations, has developed the IMP+ACT Classification System (ICS).

This digital tool:

- aims to scale a consistent format and logic to categorise social and environmental impacts of investments (using “impact classes” that were developed through the Impact Management Project’s consensus-building efforts);
- highlights existing measurement approaches, metrics sets, and assurance mechanisms used to measure, manage and classify impacts;
- allows asset managers to self-report information in an Impact Classification Statement that is listed on a public directory.

The ICS aims to provide asset owners with comparable information that helps them better understand impacts across asset classes. It does this by fostering transparency among asset managers regarding the variety of impact measurement approaches and rating techniques that these they use.

Acumen was founded in 2001 to create a new kind of institution, one that would bridge the gap between the social impact of pure philanthropy and the efficiency and scale of market-based approaches. They had seen unbridled capitalism exploit or exclude low-income communities and watched top-down philanthropy distort the dynamism and efficiency of markets, too often creating a cycle of dependency. Acumen believed there had to be a better way to tackle the pervasive problems of poverty. They call it patient capital: capital backed by philanthropy and invested in purpose-driven entrepreneurs and social enterprises across the globe. To date, they have invested \$131 million in 131 companies, impacting 309 million lives. Acumen’s vision is to create a world based on dignity, where every human being has an opportunity to thrive.²

Acumen was part of the initial tester community during the ICS roll-out and joins a growing number of practitioners that recognise the benefits of using a common language to describe social and environmental impact.

This case study has been co-authored by Acumen and the IMP+ACT Alliance team. Please direct any feedback or further enquiries to team@impactalliance.co.uk

¹ For more information on the Impact Management Project (IMP) or the concept of Impact Classification visit the IMP website.

² Acumen has a for-profit subsidiary called Acumen Capital Partners that manages funds supporting established, high-potential companies to catalyse scalable solutions that deliver social and financial returns. This case study, however, only focuses on their non-profit, philanthropically backed pool of capital.



Practice

Acumen invests in promising early-stage companies that are building long-term solutions for social and economic problems facing poor communities globally.

Few impact investors are willing to invest in the early stages of companies serving the poor, a challenge that's been identified as the pioneer gap, because companies at this stage of development are high risk and have limited potential for significant financial returns. Social impacts are the primary measure of success for Acumen, not financial returns. Philanthropy enables Acumen to take outsized risk over extended periods of time. Profits are a means to the financial sustainability of the innovations that it supports and, eventually, to ensuring that Acumen can also cover the costs of its evergreen model in the long term.³

Acumen has six investment offices in East and West Africa, Latin America, India, Pakistan, and the United States. It focuses on cross-regional sectors including agriculture, clean energy, and workforce development - and global lenses like gender and investing for peace. Whilst Acumen's teams regularly exchange ideas and insights, each investment office's strategies are tailored to tackling problems of poverty based on local context.

Table 1: Acumen's regional investment strategies

Sustainability

	Agriculture	Clean Energy	Education	Financial Inclusion	Healthcare	Workforce Development
India	X	X				X
East Africa	X	X	X			
West Africa	X	X				X
Latin America	X	X				X
United States				X	X	X
Pakistan	X			X		X

Tackling problems of poverty while building a financially sustainable enterprise is difficult, and Acumen supports its portfolio companies with deep accompaniment.

The business models of Acumen's portfolio companies are often untested. Many are in new and unstable markets and can face challenges in accessing customers. Acumen dedicates support to its entrepreneurs with a relationship manager, board representative, technical assistance grants, impact measurement and management guidance and customer insights through Lean Data^{SM4}, and pro- or low-bono assistance from its network of experts and consultants such as Bain & Company.

³ Acumen re-invests all returns into its work.

⁴ Acumen developed the Lean DataSM approach to communicate directly with people, leveraging low-cost technology when relevant, to understand social or economic impact by hearing about their lived experience. It is now housed at 60 Decibels, which is an impact measurement firm that Acumen spun off in 2019.



Acumen has eight Investment Principles that drive its investment decision making:

1. “We use the power of investments to change systems and catalyse markets to provide choice and opportunity for people living in poverty.
2. We strive to understand the complex problems of poverty and structure our capital to enable innovative solutions.
3. We deploy patient capital to fill a funding gap in the capital markets (the pioneer gap), investing in early-stage, high-risk models that are led by values-aligned entrepreneurs.
4. We accompany investees with strategic support and hold them and ourselves accountable to values, impact and business objectives.
5. We believe that impact must be measured and actively managed to create the change that we seek.
6. We define success based on all stakeholders and not just shareholders, prioritising impact and long-term financial sustainability over financial returns.
7. We build partnerships that seek to catalyse systemic change.
8. We share our insights and lessons to accelerate the scaling or replication of entrepreneurial solutions to poverty.”






How the fund selects its investments

Acumen starts by seeking to understand the problems facing people living in poverty before developing regional investment strategies to tackle these problems based on local context. In the United States, for example, it invests in healthcare, workforce development, and financial inclusion, three sectors they believe are interconnected and critical to helping low-income Americans move out of poverty. Meanwhile, in East Africa, it invests in off-grid energy for low-income communities, which provides light after sunset and opportunities to do business and participate in the global economy. It also invests in agriculture to help smallholder farmers get access to markets and fair prices. Once its developed an investment strategy, Acumen finds values-aligned entrepreneurs building purpose-driven business models and invests the appropriate capital to support them.



The table below shows how Acumen's criteria align with the IMP's five dimensions of impact.

Table 2: Acumen's impact measurement approach based on the five dimensions of impact

Dimension of impact	Acumen's framework criteria
What 	Is the product or service contributing to an important positive outcome(s)? Acumen invests regionally in agriculture, clean energy, education, financial inclusion, healthcare, and workforce development. Acumen's work targets SDGs 1 (no poverty), 2 (zero hunger), 3 (good health and wellbeing), 4 (quality education), 5 (gender equality), 6 (clean water and sanitation), 7 (affordable and clean energy), 8 (decent work and economic growth), 10 (reduced inequalities), 11 (sustainable cities and communities), 13 (climate action), and 17 (partnerships for the goals).
Who 	What's the share of poor people experiencing the positive outcome(s) from product and/or service? Acumen invests to tackle problems of poverty, so it's important that it understands what share of people living in poverty comprise an enterprise's customers or suppliers. To do this, Acumen partners with 60 Decibels to use the Poverty Probability Index® in due diligence and after investing.
How Much 	How much impact is being created, looking at both the depth and breadth of impact? It's also important for Acumen to understand the significance of the impact, which it measures by using Lean Data SM , in partnership with 60 decibels, to hear directly from people about their lived experience of impact, in due diligence and after investing.
Contribution 	What's the contribution of the product or service to the outcome, relative to what would have happened anyway? Acumen seeks to understand the enterprise's contribution to impact by using Lean Data SM to ask stakeholders about or whether there are a good alternatives to the enterprise's product or service that deliver the life improvements that a customer or supplier needs. It also asks whether anything else, apart from the product or service, contributed to the changes mentioned in survey responses.
Risk 	What's the risk that positive impact does not occur and/or the negative impact also occurs? Deal teams are required to provide an explicit consideration of different kinds of potential risk, the level of those risks (high, medium, or low) and mitigants. To lower unexpected impact risk, Acumen identifies values-aligned entrepreneurs and management teams that have an explicit intention for impact. It believes that this intentionally informs the entrepreneur and management teams decision-making based on their understanding of their underserved stakeholders, which is crucial in times of tension between profit or growth and impact.



Performance

Acumen's approach to impact measurement and management is based on building accountability to the people that they seek to serve, by gathering data that will help them make informed investment decisions and adding value to portfolio companies.

Acumen's impact framework has three dimensions: poverty focus, or the share of people reached who live below international poverty lines; breadth, or number of people reached; and depth, or the change in people's wellbeing.

To understand poverty focus, Acumen partners with 60 Decibels to use the Poverty Probability Index®.⁵ In 2019, 40% of stakeholders surveyed lived below \$3.10 per day and 65% lived below \$5.50 per day on average. Based on data that Acumen has measured in partnership with 60 Decibels since 2014, they are contributing to **sector-wide benchmarks** that focus on poverty, to help similar investors better allocate capital toward achieving their impact goals.

To calculate breadth of impact, Acumen uses operational metrics like units sold, a household multiplier, and appropriate discounts and/or considerations for repeat customers or suppliers. In 2019, Acumen's portfolio companies impacted 46 million lives. Since 2001, they've impacted a total of 309 million lives.

To understand depth of impact, Acumen uses Lean DataSM and 60 Decibels' modules⁶ (see Figure 1 below), which incorporate a selection of IRIS+ and other industry metrics. Acumen developed the Lean DataSM approach to impact measurement, which starts by listening to people to understand their lived experience, in 2014.⁷ Lean DataSM, which is now housed at 60 Decibels, seeks to shift impact measurement away from being a compliance exercise, or an investor/donor accountability tool, to a system that creates accountability toward people as well as value for investors and enterprises. Before Lean DataSM, investors primarily gathered high-level data (such as the number of people reached) or used existing research to approximate impact. Many still do. While this information may seem useful to investors or donors, it is detached from the lived experiences of the people whom they're trying to benefit. It's also not useful for investors wanting to actively engage with companies or entrepreneurs regarding impact management and operational decision-making.

Acumen collects data on quality of life changes and access to alternatives, which it considers core depth indicators, for all portfolio companies.

Table 3: Acumen's social impact indicators across its portfolios

Social Impact Indicators	2019 Aggregate Portfolio Performance
Poverty Focus (below \$3.1/day)	40%
Poverty Focus (below \$5.5/day)	65%
Quality of life changes	45%
Access to alternatives	68%

⁵ Ibid.

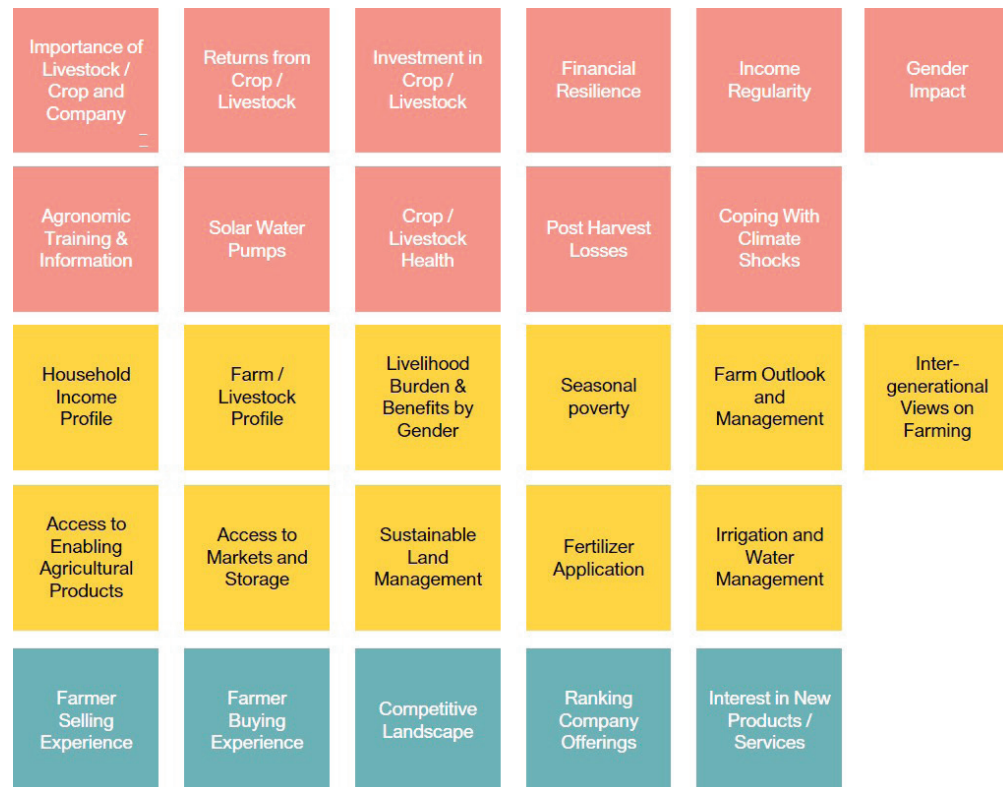
⁶ Modules are collections of metrics

⁷ Early on, Acumen co-developed PULSE, a framework and data management tool to track impact data with Google and Salesforce, and later helped create the Impact Reporting and Investing Standards, playing an important role in shaping performance metrics for impact investing.



Acumen also gathers data for depth indicators based on its theories of change by sector (such as agriculture) and lens (such as gender). For example, the peach modules in Figure 1 show the 60 Decibels depth modules for agriculture. The yellow modules are for supplier profile and the teal modules are for business insights in agriculture. These are valuable to companies, and Acumen often selects a few of these modules as part of its impact measurement projects. Through its work with 60 Decibels, Acumen is contributing to [creating sector-wide benchmarks for these areas](#) as well.

Figure 1: Acumen's agriculture depth modules



Acumen understands poverty to be multidimensional and dynamic and believes that achieving long-term outcomes will fundamentally require altering how current systems are organized. As a result, it is increasingly striving to understand system level impact and how to measure it.



Impact of underlying assets

Acumen recognises that social and economic impacts, even within the same sector or area of focus, are diverse.

Acumen uses its capital to tackle problems of poverty, and, as a result, all its portfolio companies are expected to contribute to solutions for underserved people.

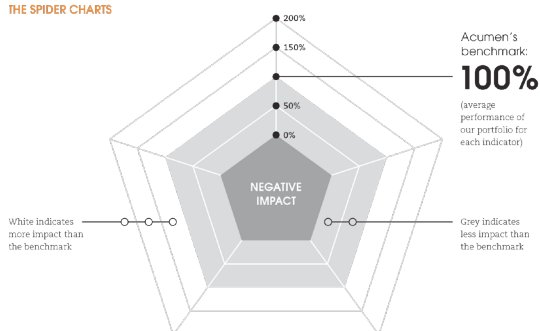
The significance of impact will vary according to the differing business models, products or services, and local contexts of Acumen's portfolio companies. For example, until recently, India's government used to subsidise kerosene. The significance of the impact created by providing access to solar energy is therefore different to providing solar energy in Uganda, where kerosene is not subsidised, making it costlier. In Uganda, access to solar energy often results in significant reductions in kerosene use; however, in India, families would often have an incentive to keep using kerosene for lighting due to affordability and the opportunity to sell on the black market.

In Acumen's 2017 Energy Impact Report, it illustrated the differences in depth of impact for its portfolio companies by using spider charts to compare against internal benchmarks (illustrated in Figures 2-4 below).

Acumen uses the benchmarks that it is building, with the nuance of local context, to inform due diligence and to set targets for certain indicators like poverty profile. Benchmarks also help Acumen identify areas where it can work with portfolio companies to improve their impact through Acumen's accompaniment strategy. In addition to focusing on how portfolio companies are contributing to solutions for poor communities, Acumen's relationship manager and board representative help identify and mitigate potential negative impacts and improve positive impacts for all stakeholders, including employees.

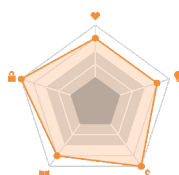
Figures 2-4: Acumen's internal benchmarking

HOW TO READ
THE SPIDER CHARTS



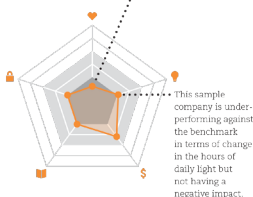
Example of
Large Impact

This sample company is outperforming the benchmark for all indicators.

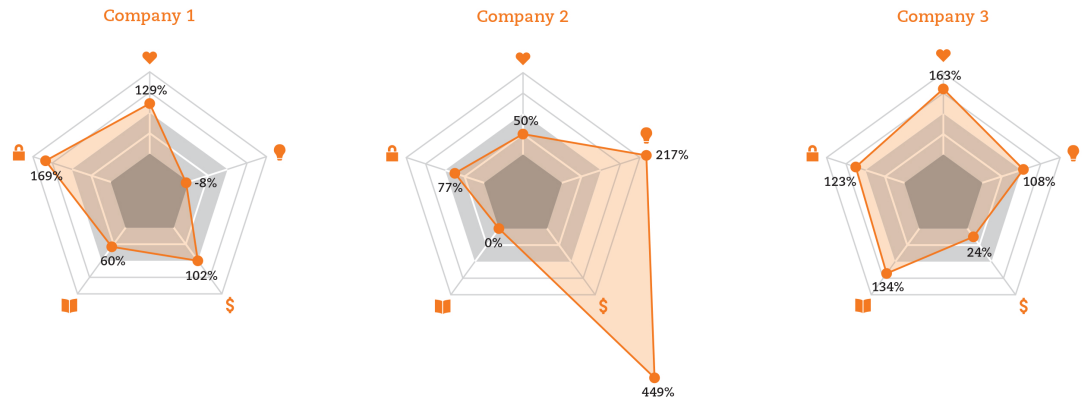


Example of
Small Impact

This sample company is having negative impact in terms of quality of life.



Indicators	Acumen 2017 Benchmark
♥ Improvements in quality of life	60%
💡 Increased hours of daily light	1.2 hours
\$ Proportion of customers using product or service for income generation	20%
📖 Change in hours of daily study	0.7 hours
🔒 Improved safety (perception)	50%



Acumen also recognises that social and economic impacts between different sectors or areas of focus are diverse

Some portfolio companies, especially in sectors such as clean energy, will scale to reach tens of millions of people, dramatically improving the way that people access lighting and power. For example, d.light was started with a relentless focus on eradicating kerosene, which is currently the primary source of light for more than a billion poor customers worldwide but causes negative health impacts. d.light wanted to create a better solution and, together with Acumen, built the largest and most successful company, by revenue and lives impacted, in Acumen's energy portfolio. Since Acumen first invested in 2007, d.light has grown to illuminate households for 100 million people, while displacing more than 22 million CO₂e emissions with over 20 million solar light and power products sold across 70 countries. d.light started with simple solar lanterns that cost as little as \$5 and later introduced solar home systems to better meet the needs of customers. As a pioneer and one of the first off-grid energy companies to gain serious traction, d.light has played key role in accelerating the growth of the market, which is now serving 420 million users globally.

Some portfolio companies will not scale to reach tens of millions of people; however, they will have deep, localised impact. For example, in 2016, Acumen partnered with Asociación de Cafeteros Desarrollo (Association of Coffee Growers Development) to invest Gigante Central Wet Mill as part of its strategy to invest in grassroots communities. Colombia is one of the world's major coffee exporters. Despite its popularity, coffee farming has not translated into stable incomes for these farmers, and most of the country's coffee farmers do not break even. Gigante serves to combat this issue of supply chain inequality by purchasing smallholder farmers' raw coffee cherries, processing those cherries into high-quality AAA-standard coffee beans, and selling them to Nespresso at a premium price. Run by and for the local coffee farmers, Gigante stabilises and increases smallholder farmers' incomes by up to 35% by eliminating their need to process coffee manually or sell unprocessed beans for lower prices.

Acumen invested in Gigante not only to improve social and economic outcomes for coffee farmers, but to reimagine how business can create impact for smallholder farmers on a national level. Acumen's investment is structured such that the farmers' association maintains majority ownership and will repurchase Acumen's equity stake over time. This means that the community in Gigante is not just benefitting from an innovative business model, but they have control over the business model and can direct how profits are used. Despite facing some challenges since Acumen's investment, Gigante's community-based ownership and management model is proving successful, and the association and its members are shaping the development of their own community. Once its impact potential and financial



sustainability are proven, the Gigante model can be replicated across 1,000 similar mills across Colombia, and become the catalyst for benefitting hundreds of thousands of farmers whilst increasing the competitiveness of the Colombian coffee industry overall.

Acumen values and pursues both types of impact—one that is scaled, and another that is deep and localised—through its investment strategies, as both are needed to tackle problems of poverty over the long term.



Investor Contribution

Acumen actively contributes to the impact of portfolio companies.

Acumen invests in **new and/or undersupplied capital markets** and **actively engages** with its portfolio companies to measure and manage their impact, thus **signalling that impact matters**. Acumen also seeks to **provide flexible capital** that is long-term and structured to meet the company's needs and maximise positive impact.

For example, Acumen first invested in Ansaar Management Company (AMC), which provides affordable housing to low-income communities, in Pakistan in 2009. AMC pioneered a number of innovations in the housing space: an incremental housing scheme in which customers could easily buy a simple home and upgrade it slowly when they had the means; the first low-income housing loans in Pakistan; and being unequivocal about maintaining a strong sense of community to keep housing developments safe. Today, it's the first successful large-scale, for-profit housing company serving low-income customers in Pakistan. AMC has proven that it is possible to create a financially viable solution to Pakistan's housing shortage and build vibrant, non-slum communities that are accessible to the poor. Acumen exited the company in 2018, nine years after they had first invested. Patient capital gave AMC the space to navigate a challenging regulatory and funding environment, pivot its business model, and generate positive impact that might not have otherwise occurred.

As Acumen incorporates systems thinking into its strategies, it seeks to nurture a community to contribute to its portfolio companies' impact.

Acumen identifies leverage points within the ecosystem where it can play a role, either through another investment or partnership, to reshape how the system operates and enable portfolio companies to create greater impact. These leverage points include the role that governments, corporations, and other organisations can play in building a supportive infrastructure and community for Acumen's social enterprises. For example, its portfolio company, Siembra Viva, is committed to changing the lives of smallholder farmers in Colombia by selling their organic produce to urban customers via an e-commerce platform. Acumen introduced the company to Crepes and Waffles, a Colombian restaurant chain, and leading supermarket chain Éxito, which is owned by Groupe Casino in France. Crepes and Waffles and Éxito now purchase produce from Siembra Viva, which helped the company to reach financial breakeven in 2019 and build a sustainable model to benefit smallholder farmers over the long term.



Impact Class Allocation

Acumen's analysis of the impact of its underlying assets and its investor contribution places their investments in the following impact class:

		Impact of underlying assets / enterprises		
		A _{ct to avoid harm}	B _{enefit stakeholders}	C _{ontribute to solutions}
Investor's contribution	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexibility on risk-adjusted return	1		
	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexibility on risk-adjusted return	2		
	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexibility on risk-adjusted return	3		
	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexibility on risk-adjusted return	4		
	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexibility on risk-adjusted return	5		
	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexibility on risk-adjusted return	6		100%

Conclusion

Esha Mufti, Insights Lead at Acumen

“As we went through the ICS and wrote this case study, we recognised three lessons:

1. Sharing our impact performance against benchmarks is important. This information is not only useful to Acumen as we carry out due diligence or develop an accompaniment strategy, but also for our peers to learn more about the kind of impact that is possible in different contexts, and also distinguish between low- and high- impact companies and funds. We did this in clean energy in 2017, after 10 years of investing, and are committed to continuing to share rich impact data across all our sectors and areas of focus.
2. Sharing lessons from our accompaniment, or contribution, strategies, is important, especially in terms of resources required, best practices, successes, and failures. This information is useful to our peers and new impact investors seeking to identify and develop their own strategies. Likewise, we want to learn more about what our peers have learned from their contribution strategies.
3. All our portfolio is classified as “contributing to solutions” because our companies serve people living in poverty, usually as customers and suppliers. However, we also seek to invest in companies that are treating other stakeholders, especially employees, well. We have done one-off employee-focused Lean DataSM projects and started measuring certain indicators like whether a company has a policy or program - beyond those required for compliance - addressing barriers to women’s quality employment. However, as we mapped our portfolio, we recognised the need to adopt a more standardised approach to understanding how our portfolio companies are benefiting employees as stakeholders.

We also discussed our increasing focus on how we invest as a driver of impact as well as systems thinking in this case study, and are hoping to share further ideas and insights on these soon.

Acumen is excited about the future of impact measurement and management. In partnership with organisations like the Impact Management Project, IMP+ACT Alliance, and 60 Decibels, we hope to elevate impact to the forefront of decision making and define success in investing. The ICS is a significant milestone toward this goal, and we hope all impact investors use it to map their portfolio.”

Please note: This case study is for information purposes only and does not in any way amount to financial, investment, legal or tax advice or any other investment engagement, whether by you or by anyone else on your behalf. You should take professional financial or investment advice in connection with, or independently research and verify, any information contained in the case study, whether for the purpose of making an investment decision, or otherwise.



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