

USING IRIS+ FOR IMPACT DUE DILIGENCE

Developed in partnership with Pacific Community Ventures

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HOW-TO

PURPOSE

This document provides guidance on how to use IRIS+ within impact due diligence to inform investment decision-making and enhance investors' ability to achieve their impact and financial goals.

AUDIENCE

Impact investors. May also be useful to enterprises and intermediaries or service providers working with impact investors.

LEVEL: FAMILIAR

REFERENCE

Use this document with

FUNDAMENTALS
[IRIS+ and the Five Dimensions of Impact](#)
[IRIS+ Core Metrics Sets](#)
[IRIS+ and the SDGs](#)

HOW-TO
[Using IRIS+ to Incorporate Stakeholder Voice](#)
[Using IRIS+ for Decision-Making](#)

IRIS METRICS
[IRIS Catalog of Metrics](#)

BACKGROUND

IRIS+ provides a solid foundation for investors to integrate impact performance into decision-making across the investment cycle, including the due diligence process. Adopting IRIS+ strengthens the integrity of investment decisions, leading to social, environmental, and financial benefits. This guidance document, intended for impact investors seeking to use IRIS+ when performing due diligence on prospective investments, covers the following topics:

- What impact due diligence is, and why it is important.
- How to use IRIS+ for impact due diligence.
- What impact due diligence with IRIS+ looks like in practice, as illustrated by a hypothetical example.

What is impact due diligence?

Performing due diligence on potential investees is a crucial part of the investment process. Impact due diligence specifically refers to the assessment of anticipated impact before an investment decision.

While the exact nature of impact due diligence varies widely by sector and asset class, there are three main approaches: narratives of expected impact, due diligence questionnaires, and quantitative tools. These approaches are not mutually exclusive; many investors employ two or even all three.

1. Narratives of expected impact

Written descriptions of anticipated impact consistently document investors' impact-related expectations. Typically covered by a paragraph in an investment memorandum, narratives of expected impact are often the first formalized approach investors employ to evaluate their impact expectations.

2. Due diligence questionnaires

Impact-focused due diligence questionnaires (DDQs) are sets of questions about prospective investees' impact that all potential investees are usually required to answer. Impact DDQs may stand alone or be integrated into 'traditional' DDQs designed to assess investments' expected financial risk and return. Refer to [page 4](#) for an example of an impact-focused DDQ.

3. Quantitative tools

Quantitative tools help investors translate both qualitative and quantitative information about prospective investees into standardized, numeric scores that facilitate comparison across a portfolio and between prospective investment opportunities.

ABOUT THE GIIN

The Global Impact Investing Network (GIIN) is the global champion of impact investing, dedicated to increasing its scale and effectiveness around the world. The GIIN builds critical market infrastructure and supports activities, education, and research that help to accelerate the development of a coherent impact investing industry. IRIS+ is managed as a public good by the GIIN.

ABOUT PCV

[Pacific Community Ventures](#) (PCV), a nonprofit social enterprise and community development financial institution (CDFI) based in Oakland, California, envision a world of thriving communities where everyone has a fair shake. PCV's mission is to invest in small businesses, create good jobs for working people, and make markets work for social good. They achieve their mission through a combination of fair lending, free mentorship, skilled volunteerism, impact investing consulting services, and field-building research. PCV's research and consulting services seek to foster the growth and increase the efficacy of the impact investing field.

Why is impact due diligence important?

Integrating impact measurement and management (IMM) into the due diligence process helps investors more closely align their investments with their impact objectives. Key benefits of impact due diligence include:

- Aligning internally around intended impacts and priorities;
- Assessing and managing impact risk;
- Constructing more impactful portfolios through improved investment selection;
- Identifying and communicating an enterprise's intended social or environmental impact;
- Identifying ways to add value to and improve an investee's impact; and
- Attracting additional capital to both investment funds and enterprises by demonstrating the increasing sophistication by which impact capital is deployed and utilized.

While the practice of IMM has recently become increasingly sophisticated and widespread, many investors focus primarily on what happens after rather than before investment. Several barriers prevent the wider adoption of impact due diligence practice:

- Lack of consensus regarding what constitutes systematic assessment of expected impact.
- Misperception of the magnitude of resources required (such as time and human capital).
- Investors' belief that certain aspects of impact cannot be assessed in advance.
- Little demand by limited partners (LPs) for impact data.¹

How to use IRIS+ for impact due diligence

IRIS+ provides impact investors with a pathway to translate their intentions into real impact results, including by incorporating IRIS+ into impact due diligence to better align their capital placement with their impact goals. IRIS+ helps investors to:

1. Frame their goals in a common way, following generally accepted investment themes (such as Financial Inclusion or Clean Energy Access), the UN Sustainable Development Goals (SDGs), or both;
2. Review existing research and an evidence base that connect common investment goals with outcomes and results;
3. Identify key indicators to track in order to assess progress towards their goals (IRIS+ Core Metrics Sets and IRIS Catalog of Metrics); and
4. Access best-in-class resources and practical “how-to” guidance to improve their IMM.

Investors can integrate IRIS+ into the following components of effective impact due diligence:

- **Identify impact goals and develop impact strategies.** A concrete impact strategy is critical to both effective impact management and thorough impact due diligence, whether qualitative or quantitative. Impact strategies must begin from the identification of impact goals. What is the main problem the investment is meant to address? What long-term goals should the investment accomplish? Impact goals may be documented and visualized in several formats, including logic models and theories of change.

To help frame the problem investors seek to solve, IRIS+ references the UN SDGs or generally accepted Impact Themes (such as Financial Inclusion, Quality Education, Gender Lens Investing, and Clean Energy), as well as common investment goals investors pursue for each theme or SDG. For example, “improving financial health” is a common goal of some investors operating within the Impact Theme of Financial Inclusion, and “improving access to medical diagnostics” is a common goal for some investors focused on Health.

To learn more about
IRIS+ Taxonomy and
IRIS+ Core Metrics
Sets refer to
IRIS+ Thematic
Taxonomy and IRIS+
Core Metrics Sets.

¹ “What Can Impact Due Diligence Tools Do for You?” ImpactAlpha, November 21, 2017, <https://impactalpha.com/what-can-impact-due-diligence-tools-do-for-you-daec923a733d/>.

In developing impact goals, investors must ensure that sufficient evidence links their strategies to their desired outcomes. IRIS+ provides an evidence base underlying a wide number of common investment goals and strategies, helping to demonstrate the relationship between investors' and investees' activities and targeted social and environmental outcomes.

- **Understand the importance of the intended outcome to affected stakeholders.** Understanding the importance of the expected outcomes for those whom the investment seeks to benefit is an essential element of assessing anticipated impact.

To help investors integrate this element into their decision-making, IRIS+ Core Metrics Sets include specific IRIS metrics designed to allow investors to ensure their outcomes are backed by evidence and calibrated to their importance to key stakeholders: Importance of Outcome to Stakeholder (OI5495) and Stakeholder Engagement (OI7914). These metrics respectively define how affected stakeholders value the target outcome and whether stakeholders are involved in the design, development, and delivery of the provided product or service.

- **Identify key metrics to inform impact-focused DDQs.** As a consistent set of questions asked of potential investees to help investors understand and assess the expected impact of an investment, DDQs should address the five dimensions of impact: (1) What is the goal? (2) Who is affected? (3) How is change happening? (4) What is the contribution? and (5) What is the impact risk? Additional questions should examine the Environmental, Social, and Governance (ESG) factors within the assessment of expected impact.

To help these questions clearly and consistently align with common investment themes and SDGs, investors can refer to IRIS+ Core Metrics Sets when developing their DDQs. These represent generally accepted sets of key indicators across a wide variety of impact themes.

Example: Using IRIS+ to inform the development of an Impact Due Diligence Questionnaire and to assess expected impact

For clarity and simplicity, this example refers to a hypothetical investor, investment, and investee.

Identify goals and develop impact strategies. Impact Invest Global (IIG), a newly launched fund manager based in Central Asia, believes that marginalized communities in their region are especially vulnerable due to their lack of access to formal and responsible financial services. At the same time, IIG staff recognize that they must develop specific impact goals—and an investment strategy to achieve them—to meaningfully help address this challenge. Upon review of the IRIS+ Impact Theme of Financial Inclusion and its corresponding Strategic Goals, IIG staff identify the “Improving Financial Health” goal as well-aligned with their objectives. The IIG team recognizes a strong need in the market for financial service providers offering savings programs, and IRIS+ helps them to validate the SDGs that are directly and indirectly linked to this goal.

 **IRIS+ Impact Theme:**
Financial Inclusion

IRIS+ Strategic Goal: Improving Financial Health

SDGs: Most direct link:   




SDGs: Also linked to:   

Understand the evidence base. Before committing to this impact strategy, IIG seeks to understand whether access to savings programs actually improves stakeholders' financial health. Without evidence, their well-intentioned strategy may prove ineffective in achieving their impact goals. Reviewing the evidence base curated by IRIS+, the team verifies the link between increased savings and improved financial health, establishing confidently that their investments in savings-focused financial service providers are likely to increase communities' financial capability. One study in particular, done in Nepal and published in 2013 by Silvia Prina, strongly establishes the connection between IIG's goals and their proposed investment strategy (“[Banking the Poor via Savings Accounts: Evidence from Field Experiments](#)”). This research offers evidence that there is untapped demand for savings accounts and that households in poverty save more if provided access to savings programs.

Review relevant resources. Next, the IIG team reviews the IRIS+ curated set of resources for investors committed to improving financial health. This review deepens IIG's understanding of what financial health actually means for people in the developing world and helps define how they might measure it. According to a report by the Financial Health Network² suggested as one of the recommended Resources by IRIS+ and also available in [the Impact Toolkit](#), a financially healthy consumer in the developing world balances income and expenses, builds and maintains reserves, manages existing debts and can access potential resources, plans and prioritizes, manages and recovers from financial shocks, and uses an effective range of financial tools. Although the report acknowledges that many of these indicators are difficult for financial service providers to collect, the IIG team decides to incorporate certain proxies of these indicators into their impact DDQ. This allows them to assess how well potential investees understand their customers' financial health, in addition to applying the IRIS+ Core Metric Set used to measure increased savings for clients (see below).

² Beyond Financial Inclusion: Financial Health as a Global Framework, Financial Health Network, <https://financialhealthnetwork.org/research/global-financial-health-framework>

Assess a potential investment. After developing their impact goals and strategy, IIG begins to conduct due diligence on their first potential investee: SaveBank, a financial services provider with the mission to improve the financial health of the working poor in Central Asia by expanding their ability to save through voluntary savings accounts. IIG is considering an investment of USD 1 million in equity to expand the company's reach and strengthen its customers' ability to build assets. The table below maps the guidance provided in the IRIS+ Core Metrics Set for Improving Financial Health with corresponding impact due diligence questions and hypothetical investee responses.

Key Indicators in IRIS+ Core Metrics Set	Sample Impact Due Diligence Question	Sample Investee Response
<p> WHAT is the goal?</p> <p>Strategic Goal: Improving financial health</p> <p>Outcome: Increased savings, measured through Value of Voluntary Savings Accounts (PI3240)</p> <p>Importance of outcome to stakeholder: Importance of Outcome to Stakeholders (OI5495)</p>	<p>What is the total value of the voluntary savings accounts held by the organization?</p> <p>What value of savings accounts would the organization like to achieve?</p> <p>How important are savings for target stakeholders?</p>	<p>Baseline Value of Voluntary Savings Accounts (PI3240) = USD 200,000</p> <p>Projected Value of Voluntary Savings Accounts (PI3240) = USD 300,000</p> <p>Very important</p>
<p> WHO is affected?</p> <p>Stakeholder type: Target stakeholders (OD7212)</p> <p>Stakeholder characteristics:</p> <ul style="list-style-type: none"> Target stakeholder demographics (PD5752) Target stakeholder socioeconomics (PD2541) Target stakeholder settings (PD6384) Target stakeholder geography (PD6424) 	<p>Who are the target stakeholders that will benefit from your activities (e.g., suppliers, employees, clients/customers)?</p> <p>What are their socioeconomic and demographic characteristics?</p> <p>Where are they located?</p>	<p>Holders of voluntary savings accounts are clients/customers</p> <p>80% are low-income</p> <p>60% are female</p> <p>75% live in rural areas in Central Asia</p>
<p> HOW MUCH change is happening?</p> <p>Scale: Number of clients experiencing increased voluntary savings accounts</p> <ul style="list-style-type: none"> Client Individuals: Total (PI4060) Number of Voluntary Savings Accounts (PI6439) Value of Voluntary Savings Accounts (PI3240) <p>Depth: Percent change in voluntary savings accounts</p>	<p>Scale: How many clients are experiencing increases in their voluntary savings accounts? How significant is that increase? And how does that increase compare to your overall number of clients?</p> <p>Depth: How much change do clients with savings account experience?</p>	<p>In total, we serve 5,000 individuals</p> <p>Number of Voluntary Savings Accounts (PI6439): 1,000. We allow only one savings account per client, which means that 1,000 clients have savings accounts.</p> <p>Of those 1,000 accounts, 500 showed an increased balance in the last year (with 10% showing only a marginal increase of less than USD 100 annually).</p> <p>Of those 450 clients with a significant increase in their savings, the average increase was USD 200 in the past year. We believe this average will also hold for future clients.</p>

Key Indicators in IRIS+ Core Metrics Set	Sample Impact Due Diligence Question	Sample Investee Response
<p>+ What is the ENTERPRISE CONTRIBUTION?³</p>	<p>What is the likelihood that clients would open savings accounts with other financial institutions if you did not exist?</p> <p>How much money would clients save anyway without a savings account?</p> <p>For how long would clients save in the absence of a savings account?</p>	<p>Customers have no other nearby options to open savings accounts.</p> <p>Using evidence-based research and focus groups, SaveBank estimates that clients with savings accounts save 25% more than they would otherwise.</p> <p>Drawing from evidence-based research and stakeholder feedback, SaveBank estimates that clients with savings accounts save for 18 months longer than they would otherwise.</p>
<p>△ What is the impact RISK?</p> <p>Based on evidence, IRIS+ identifies the following impact risks as typically material for this strategic goal:</p> <ul style="list-style-type: none"> • Stakeholder Participation Risk • External Risk • Execution Risk • Contribution Risk • Dropoff Risk 	<p>What is the likelihood that clients actively use their voluntary savings accounts?</p> <p>What is the likelihood that new laws and regulation could affect the provision of voluntary savings accounts?</p> <p>What is the likelihood that management will be able to effectively market to and win new clients?</p> <p>What is the likelihood that clients will save more than they would have had they not opened a savings account with the investee?</p> <p>How likely are clients to stop using their accounts?</p>	<p><i>Stakeholder Participation Risk, Medium:</i> Half of clients' account values increased over one year, with 90% of them experiencing significant average increases of USD 200.</p> <p><i>External Risk, Low.</i> SaveBank's local market has a supportive regulatory framework.</p> <p><i>Execution Risk, Low.</i> Marketing spend of USD 100,000 over three years has yielded 500 new clients. Future investment of USD 1 million in market and team development could attract an additional 5,000 new customers.</p> <p><i>Contribution Risk, Low.</i> Evidence-based research and focus groups show that clients save 25% more on average with access to the savings program.</p> <p><i>Dropoff Risk, Medium.</i> 15% of clients over the last three years closed their accounts; 10% of clients with increased savings only saved a marginal amount (less than USD 100 annually).</p>
<p>HOW is change happening? (*not exhaustive)</p> <p>Range of financial products or services used: Product/Service Description (PD7899) + Client Individuals: Active (PI9327)</p> <p>Client engagement in design, development, and delivery: Stakeholder Engagement (OI7914)</p> <p>Non-financial support offered to clients: Non-Financial Support Offered (PD9681) + Client Individuals: Total (PI4060)</p>	<p>What range of financial products and services do your clients use actively?</p> <p>What mechanisms do you have in place to gather input from stakeholders during the design, development, and delivery of savings products?</p> <p>Do you provide non-financial support to your clients (e.g., health programs, literacy education)? If so, how many clients receive these services?</p>	<p>Products most actively used include a 0.01% yield voluntary savings account and USD 1,000, 2,000, and 5,000 loan products at 40% APR.</p> <p>SaveBank collects feedback from borrowers during loan officer site visits; through this feedback, SaveBank learned of the significant demand for a savings product. SaveBank held focus groups with clients to learn how they would use savings accounts and to identify the features they most valued.</p> <p>SaveBank does not currently provide non-financial support to clients.</p>
<p>ADDITIONAL metrics (*not exhaustive)</p> <p>Operational Certifications (OI1120)</p>	<p>Do you have any of the following certifications or assessments: Social Rating, Smart Campaign Certification, SPI4 audit?</p>	<p>SaveBank has no third-party certifications but is in the process of conducting an SPI4 assessment.</p>

³ This section pertains only to enterprise contribution. See Appendix A for a set of investor contribution questions related to this example.

Investment Decision-Making

Alongside impact due diligence, the IIG team engaged in financial due diligence, concluding that the investment has a moderate but acceptable level of financial risk. IIG must now decide: is this investment sufficiently likely to improve the financial health of marginalized communities in Central Asia, given the impact-related and financial risks? Since this is IIG's first potential investment, they cannot use data from their other investments to benchmark the anticipated impact.

However, IIG can still evaluate the impact potential and risks on its own merits. The primary positive anticipated impacts are that SaveBank primarily serve marginalized populations (low-income, female, rural) and have a promising track record of clients contributing to savings accounts. The investment, by significantly increasing SaveBank's available capital, would likely enable SaveBank to offer savings accounts to more people in need. Impact risks include a discouragingly high percentage of customers not using their accounts and a segment of customers who close their accounts, potentially exacerbated by the fact that SaveBank do not provide training in financial literacy.

Drawing on the evidence base offered by IRIS+ that suggests low-income consumers will likely save more when they have access to savings programs, IIG decide the investment's impact potential is sufficiently aligned with their goals. The IIG team also sees an opportunity to add value by helping SaveBank to develop a financial literacy training pilot.

IIG and SaveBank agree to use many of the indicators collected during due diligence to set several goals over the course of the investment:

- double the number of voluntary savings accounts from 1,000 to 2,000 over three years;
- maintain the proportion of clients who are low-income, women, and rural; and
- provide financial literacy training to all clients who want it within two years.

IIG will track the other IRIS+ metrics in the aligned Core Metrics Set over the life of the investment in order to inform both SaveBank and IIG's understanding of impact performance, but IIG will not use these metrics as impact targets in order to avoid burdening the investee. Subsequent investments by IIG in SaveBank will be made based on performance towards these impact-related goals (as well as financial goals), and the results will help clarify IIG's assessment of anticipated impact for investments in other financial service providers.

In the example above, IIG use IRIS+ from the outset to frame their goals, understand the evidence base that underpins their strategy, review relevant resources, and develop their impact DDQ to examine their first prospective investment.

IRIS+ can help inform impact due diligence in several different ways. Some investors may begin from the IRIS+ Core Metrics Sets to develop questions and gather data. Others currently utilizing a proprietary DDQ to gather information related to investees' potential impact can use these gathered responses to identify the corresponding IRIS+ Core Metrics Sets and IRIS metrics. These investors can then translate the gathered data into a standardized form for all investees both during due diligence and after capital deployment in ongoing IMM. By aligning data to IRIS+, investors can gather data that are clear and consistent across investments in similar themes, enabling comparison of performance over time. Furthermore, alignment with agreed-upon indicators in a theme helps to reduce the reporting burden on investees.

Conclusion

Impact due diligence generates value for investors by enhancing their decision-making processes and increasing the impact of their portfolios. A thorough, systematic examination of impact should therefore be prioritized as part of due diligence alongside an assessment of financial risk and return. Investors otherwise may miss crucial, material information regarding the ultimate impact or financial performance of prospective investments.

Investors can utilize IRIS+ in conjunction with all three common impact due diligence approaches described in this document: narratives of expected impact, due diligence questionnaires, and quantitative tools. By incorporating IRIS+ Core Metrics Sets and IRIS metrics consistently across the investment process, including during due diligence, investors position themselves to engage in effective impact management and ensure their capital achieves their desired financial and impact objectives.

Helpful Resources for Conducting Impact Due Diligence

[Impact Due Diligence: Emerging Best Practices](#). A synthesis of due diligence practices employed by leading impact investors that systematically assess investments' anticipated impact.

[The Impact Due Diligence Guide](#). Detailed, practical guidance regarding the design and implementation of approaches to impact due diligence.

APPENDIX A:

Investor Contribution Questions for Impact Due Diligence

As the Impact Management Project has noted, investors can use a range of strategies to contribute to impact, often in combination:

- Signal that measurable impact matters.
- Engage actively.
- Grow new or undersupplied capital markets.
- Provide flexibility on risk-adjusted financial return.

Taking the hypothetical example of impact investor IIG exploring an investment in SaveBank, IIG would want to internally answer the following questions to determine their investor contribution based on the potential terms of the investment and the role it perceives its capital will play in supporting SaveBank.

Signal that measurable impact matters.

Q: Is the investor basing the decision to invest not only on final return considerations but also on the potential impact of the investment?

A: Yes, IIG have a clear impact strategy that aligns with a potential investment in SaveBank.

Engage actively.

Q: Will the investor use its expertise and networks to improve the environmental or social performance of the investee?

A: Yes, IIG plan to help SaveBank introduce a financial literacy training program that will help boost client savings.

Growing new or undersupplied capital markets.

Q: Would the investment be critical to the investees' financial viability?

A: IIG's investment is not essential to SaveBank's ongoing financial viability.

Q: Would the investment expand access to capital for an investee without comparable alternatives?

A: Yes, SaveBank have no access to other sources of equity capital on similar terms.

Flexibility on risk-adjusted financial return.

Q: Is the investment expected to de-risk the investment round so that mainstream investors can participate?

A: No, IIG's investment is not expected to attract further investment from mainstream investors.



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