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Inclusive Growth & Sustainable Finance Hub in Malaysia

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NOVEMBER 2023

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Impact Monitoring of Social Finance

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1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org

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Acronyms

AIMM	Anticipated Impact Measurement and Monitoring
ADB	Asian Development Bank
ADER	Annual Development Effectiveness Report, Islamic Development Bank
AICB	Asian Institute of Chartered Bankers
ALNAP	Active Learning Network for Accountability and Performance in Humanitarian Action
APIF	Awqaf Property Investment Fund
AUM	Assets Under Management
BAZNAS	Badan Zakat Nasional Indonesia
BNM	Bank Negara Malaysia
BPS	Central Bureau of Statistics, Indonesia
CAGR	Compound Annual Growth Rate
DEG	German Investment Corporation
DFI	Development Financial Institutions
EP	Equator Principles
ESG	Environment, Social, Governance
EY	Ernst & Young
FCAT	FINCA Client Assessment Tool
FINCA	Foundation for International Community Assistance
FMO	Dutch Entrepreneurial Development Bank
FOW	Future of Work
FSP	Financial Service Provider
GAA	General Authority of Awqaf
GIIN	Global Impact Investing Network
GRI	Global Reporting Initiatives
GSS	Green, Social and Sustainability
HIPSO	Harmonized Indicators for Private Sector Operations
IAIA	International Association of Impact Assessment
ICD	Islamic Corporation for the Development of the Private Sector
ICMA	International Capital Market Association
ICRC	International Committee of the Red Cross
IFC	International Finance Corporation
IFI	International Financial Institutions
IFRC	International Federation of Red Cross and Red Crescent Societies, Kenya
IFRS	International Financial Reporting Standards

IRIS	Impact Reporting and Investment Standards
IsDB	Islamic Development Bank
ISSB	International Sustainability Standards Board
KPI	Key Performance Indicator
LSMS	Living Standards Measurement Survey
M-CRIL	Micro-Credit Ratings International Limited
MECD	Ministry of Entrepreneur and Cooperatives Development
MFI	Multilateral Financial Institutions
M&E	Monitoring and Evaluation
NGO	Non-Governmental Organization
OECD	Organisation for Economic Co-operation and Development
PLI	Poverty Line Index
PMF	Performance Measurement Framework by BNM
PPI	Poverty Probability Index or Progress Out of Poverty Index
PRI	Principles for Responsible Investment
PwC	PricewaterhouseCoopers
RCT	Randomized Controlled Trial
RM	Malaysian Ringgit
SASB	Sustainability Accounting Standards Board
SC	Securities Commission Malaysia
SDGs	Sustainable Development Goals
SMART	Specific, Measurable, Achievable, Relevant, and Time-Bound
SME	Small Medium Enterprise
SPIRIT	Social Performance Impact Reporting and Intelligence Tool
SL	Sustainability-linked
SLB	Sustainability-linked bonds
SLL	Sustainability-linked loans
SPM	Social Performance Management
SROI	Social Return on Investment
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNEP FI	United Nations Environment Programme Finance Initiative
USSPM	Universal Standards for Social Performance Management
UOP	Use of Proceeds

Glossary of Terms

Vocabulary of Impact Monitoring and Evaluation

Inputs: Resources at the disposal of the project, including staff and budget.

Impact indicator: Data on outputs and outcomes that can be used to conduct impact evaluation.

Impact evaluation: An objective assessment of program effectiveness that uses specialized methods such as randomized controlled trials to determine whether a program meets its objectives, i.e. impact attributable to the program, to estimate its net results or impact, and/or to identify whether the benefits the program generate outweigh its costs.

Impact monitoring: A continuous process of collecting and analyzing information to better understand how well a program is operating against expected outputs.

Monitoring and Evaluation (M&E): A process set up by impact-seeking organizations to enhance program effectiveness, making projects accountable to the public, and helping government better allocate budget resources.

Output: The tangible goods and services that the project activities produce; these are directly under the control of the implementing agency.

Outcomes: Results likely to be achieved once the beneficiary population uses the project outputs; these are usually achieved in the short to medium term and are usually not directly under the control of the implementing agency.

Vocabulary of Islamic Finance

Asnaf: Zakat beneficiaries that include the hardcore poor and destitute, the poor, and the oppressed Muslims

Maqasid: Intent, objective, and purpose of public good to create harmony for welfare of the society.

Awqaf or ***Waqf:*** Assets that are donated, bequeathed, or purchased to be held in perpetual trust for general or specific charitable causes that are socially beneficial.

Sadaqah: Recommended contributions.

Qard hassan: Benevolent loan free of any charge.

Zakat: An obligatory financial contribution disbursed to specified recipients that is prescribed by the Shariah for those who possess a minimum amount of wealth that is maintained in their possession for one lunar year.

Executive Summary

Overview

In recent years, the concept of social finance has gained prominence in Malaysia's policy and financial circles, particularly with respect to providing support to the underprivileged. Bank Negara Malaysia (BNM) has defined social finance as all financial services that mobilize philanthropic capital using instruments such as donations, endowments (including cash *waqf*), or alms (*zakat*) to deliver tangible social outcomes.[1] The interest in social finance became even more acute in the wake of the COVID-19 pandemic, which impacted millions of vulnerable people. Indeed, BNM has included social finance in its Financial Sector Blueprint 2022-2026, and its long-term vision is for social finance to become an integral component of the overall financial system particularly the Islamic finance system.[2]

This report provides an overview of global good practices and provide specific recommendations for Malaysia to develop the necessary architecture for disclosure of social finance and impact monitoring by banks, insurance companies and other financial institutions (FIs).[3] This report also examines key issues and opportunities related to impact monitoring and reporting of social finance in Malaysia, and aims to provide guidance to Malaysian FIs through self-benchmarking vis-à-vis global good practices to improve the outcomes from their social finance projects.

The report is structured as follows: Chapter 1 presents an overview of global and local trends in impact and social impact investing, definitions of social finance, and the concepts of impact monitoring and evaluation. Chapter 2 explores the common principles of impact monitoring, evaluation and disclosure established by international standard-setting bodies and applications by Environment, Social, Governance (ESG) and impact investors. Chapter 3 presents case studies on impact monitoring, evaluation and reporting by global social finance entities and impact investors. Chapter 4 examines the current practices and challenges of impact monitoring and reporting in Malaysia. Finally, Chapter 5 offers recommendations to policymakers to enhance the Malaysian social finance and impact monitoring framework and tools.

1 This definition can be broadened to include all financial flows that directly or indirectly create a social impact. It differs from impact investing as social finance in Malaysia does not focus on environmental impact. In addition, impact investing does not typically include donor and philanthropic funding. See Bank Negara Malaysia. (2021, March 31). *Annual Report 2020*. p. 38.

2 Bank Negara Malaysia. (2022, March 30). *Annual Report 2021*. p. 33, 43, 47, 50.

3 This report is the outcome of a technical assistance request by BNM.

Trends in Social Finance and Impact Investing

Social finance can play a catalytic role in channeling resources to address social challenges, thus complementing government funding and programs. The social finance ecosystem includes funding from donors (typically in the form of grants), impact investments, venture philanthropy, and strategic philanthropy for social enterprises and underserved communities. Social finance providers aim at achieving social and environmental impact with some providers expecting financial returns from their investments.

The global social finance and impact investing marketspace is large and rapidly growing. The Global Impact Investing Network (GIIN) estimates that the assets under management (AUM) of global impact investing was almost US$1.2 trillion as of December 2021.[4]

The Malaysian social finance ecosystem is still at an early stage of development, despite significant investment opportunities. Malaysian FIs have expanded social finance offerings to, and adopted, a blended social finance (i.e. blend of donations, social impact investment, zakat, cash waqf and microfinance facilities) approach over the last decade.[5] One notable example is the iTEKAD social finance program offered by 12 FIs (see Appendix 1) which grew significantly to RM9.8 million in 2022 from RM0.8 million in 2021 and benefited more than 3,000 microentrepreneurs in May 2023.[6] In August 2023, Prime Minister and Minister of Finance, Dato' Seri Anwar Ibrahim announced an increase of the Ministry of Finance's iTEKAD fund allocation from RM4 million to RM10 million in 2023 and RM25 million in 2024 to help scale up the iTEKAD social finance to support the government's MADANI policy to eliminate hardcore poverty and reduce the income gap.[7,8]

The findings and recommendations of this study are aligned with those of the Malaysia's Ministry of Entrepreneur and Cooperatives Development (MECD) *Social Entrepreneurship Blueprint 2030*. Recommendations of this study supports some of the key objectives of the blueprint, such as mainstream and elevate impact reporting practices by social enterprises to increase visibility and access to funds.

Concept of Impact Monitoring and Evaluation

Impact monitoring and evaluation are important tools for social enterprises, beneficiaries, investors, and authorities to plan, monitor, prioritize, and make decisions on the use of limited resources to ensure scalability and sustainability of the social program. The World Bank defines impact monitoring as a continuous process that tracks inputs, activities, outputs, and occasionally, outcomes to inform program implementation and day-to-day management and decision.[9] Impact evaluation is defined as periodic, objective assessments of a planned, ongoing, or completed projects or policies focused on specific questions related to design, implementation, and results.[10] Impact evaluation typically focuses on whether there are material changes to the beneficiaries. Guided by the theory of change, impact evaluation includes collection of data on outputs and outcomes based on inputs and activities within the program.[11]

4 Hand, D. Ringel, B. Danel, A. (2022) *Sizing the Impact Investing Market: 2022*. The Global Impact Investing Network (GIIN).

5 Bank Negara Malaysia. (2022, January 24). *Financial Sector Blueprint 2022-2026*.

6 Bank Negara Malaysia. (n.d.). *Social Finance*. Accessed on October 19, 2023 https://www.bnm.gov.my/social-finance

7 Malay Mail. (August 22, 2023). *Govt to boost iTekad grant allocation by RM6m to assist micro entrepreneurs, says PM Anwar*. https://www.malaymail.com/news/malaysia/2023/08/22/govt-to-boost-itekad-grant-allocation-by-rm6m-to-assist-micro-entrepreneurs-says-pm-anwar/86531

8 Ministry of Finance. (2023). *Belanjawan 2024 Malaysia Madani*. https://belanjawan.mof.gov.my/en/

9 Gertler et al. (2016). *Impact Evaluation in Practice. Second Edition*. The World Bank. p. 7.

10 Ibid.

11 Theory of change describes the causal logic of how and why a particular program, program modality, or design innovation will reach its intended outcomes. See Gertler et al. (2016). *Impact Evaluation in Practice. Second Edition*. The World Bank.

Several international organizations and impact investing organizations have developed impact monitoring framework and disclosure standards to guide and standardize impact monitoring, evaluation, and reporting. Examples of these standards are *Principles for Responsible Banking* by the United Nations Environment Programme Finance Initiative (UNEP FI), *Universal Standards for Social and Environmental Performance Management (USSPM)*, the *Equator Principles*, the Sustainability Accounting Standards Board (SASB) Standards, GIIN's *Impact Measurement and Management System (IRIS+)*, *Global Reporting Initiative (GRI) Standards*. In addition, impact evaluation frameworks have been developed and more commonly implemented by international financial institutions (IFIs) such as the World Bank, International Finance Corporation (IFC), and Asian Development Bank (ADB) to promote accountability and ensure evidence-based policy making.

Common principles of international standards on impact monitoring, evaluation, and reporting established by the above organizations are:

- Establishment of targets on outcomes of programs.
- Frequent monitoring of outputs and outcomes of programs based on selected metrics or indicators.
- Impact evaluation conducted to evaluate the direct impact of policy or program through comparisons with counterfactual outcomes.
- Publication of annual reports on the activities and impact of the programs to facilitate decision-making and benchmarking by investors and other stakeholders.
- Impact monitoring and evaluation should be independently validated to prevent "*impact washing.*"
- Impact reports act as an important tool for learning and feedback. Programs can be enhanced to ensure better value for money and better impact to target beneficiaries, or paused or even cancelled if targets are not achieved.

Global Practices of Impact Monitoring, Evaluation, and Reporting

Globally, impact monitoring, evaluation, and reporting are widely practiced among several categories of institutions—more so than is currently prevalent in Malaysia. This report reviews the practices of impact monitoring, evaluation, and reporting by three types of institutions. First, the report analyzed the impact monitoring and evaluation methodologies of international financial institutions specifically the World Bank, the IFC, ADB, Islamic Development Bank, and Islamic Corporation for the Development of the Private Sector. Second, this report examines the practices by a number of impact investors and microfinance institutions—specifically, BlueOrchard Finance Ltd, Leapfrog Investment, the International Red Cross and Red Crescent Movement, VisionFund, FINCA International, Grameen Bank, Opportunity International, Triodos Investment Management, and Nuveen. Third, this report also reviews the practices of Islamic social finance providers specifically Akhuwat Islamic Microfinance, the General Authority Awqaf, and Badan Zakat Nasional.

Among the institutions, common themes emerged in their impact monitoring of impact investments and social finance. The analyzed institutions tend to combine established international standards on impact monitoring, such as USSPM, IRIS+, and GRI, with customized tools. However, the practices of each institution differ in terms of their scope, implementation methods, and resource requirements, based on their specific needs, program objective, and client-segment.

Practice of Impact Monitoring, Evaluation, and Reporting in Malaysia

The practice of impact monitoring and evaluation of social finance in Malaysia lags behind global practices. Among FIs, iTEKAD participating banks monitor the outcome indicators but there is limited disclosure of results. No impact evaluation has been conducted by authorities, FIs and social enterprises to assess the effectiveness of social finance programs. The monitoring and reporting of outcome indicators by iTEKAD participating banks are guided by BNM's reporting requirement which focuses on business growth, employment, financial resilience, and digital upskilling.[12] Impact evaluations are not conducted by iTEKAD participating banks as they are a costly exercise, particularly for social finance programs that focus on financial inclusion and capacity building rather than financial returns.

Similarly, patterns on impact monitoring emerge for social enterprises. A survey conducted by the British Council in 2017 found that more than 60% of surveyed social enterprises in Malaysia monitored their social impact based on metrics set by funders and support organizations.[13] However, there was limited capacity to conduct impact monitoring and there was lack of standardized approach among funders and support organizations.[14] Sample analysis of two social enterprises found that impact monitoring was conducted but most social enterprises only reported it to the funders as a condition for support.

Recommendations to improve impact monitoring, evaluation, and reporting of social finance in Malaysia

The table below summarizes the key recommendations for policymakers in Malaysia, specifically BNM, MECD, Zakat authorities, and state governments, as well as financial institutions that emerge from the assessment in this report. In pursuing the practical application of these elements, policymakers must be careful to balance the costs and benefits.

12 BNM. (2023). *Annual Report 2022*. p. 39

13 The British Council. (2018). *The State of Social Enterprise in Malaysia 2018*. p. 68.

14 Ibid.

Summary of Recommendations for Stakeholders in Malaysia

Recommendations	Description	Stakeholders to Implement	Timeframe
Clarify the principles of social finance in Malaysia.	Social finance can be further **clarified and adopt the Maqasid principles**, which refers to the intent, objective, and purpose of public good to create harmony for the welfare of the society.[15] The principles should include the prevention of harm and exploitation of any individual and the society, as well as transparency in revenue sources.	Financial regulators and MECD	Short term
Identify the impact domains for social finance in Malaysia.	**Identify specific impact domains on what social finance aims to address** to ensure that resources and efforts can be prioritized effectively. Impact domains can be established based on most pressing issues or regulators' priorities such as building the capacity of micro-entrepreneurs and digitizing micro and SMEs operations.	Financial regulators and MECD	Short term
Consult stakeholders and beneficiaries on the development of a social finance framework and proposed impact reporting guidelines.	**Obtain buy-in and feedback** on the initiatives from social finance participants (FIs, funders, and beneficiaries) which are key to the successful implementation of strategies to mainstream social finance and social finance impact monitoring and reporting in Malaysia.	Financial regulators, MECD, financial institutions, social finance providers/ investors, beneficiaries, Zakat authorities, and state governments.	Short term

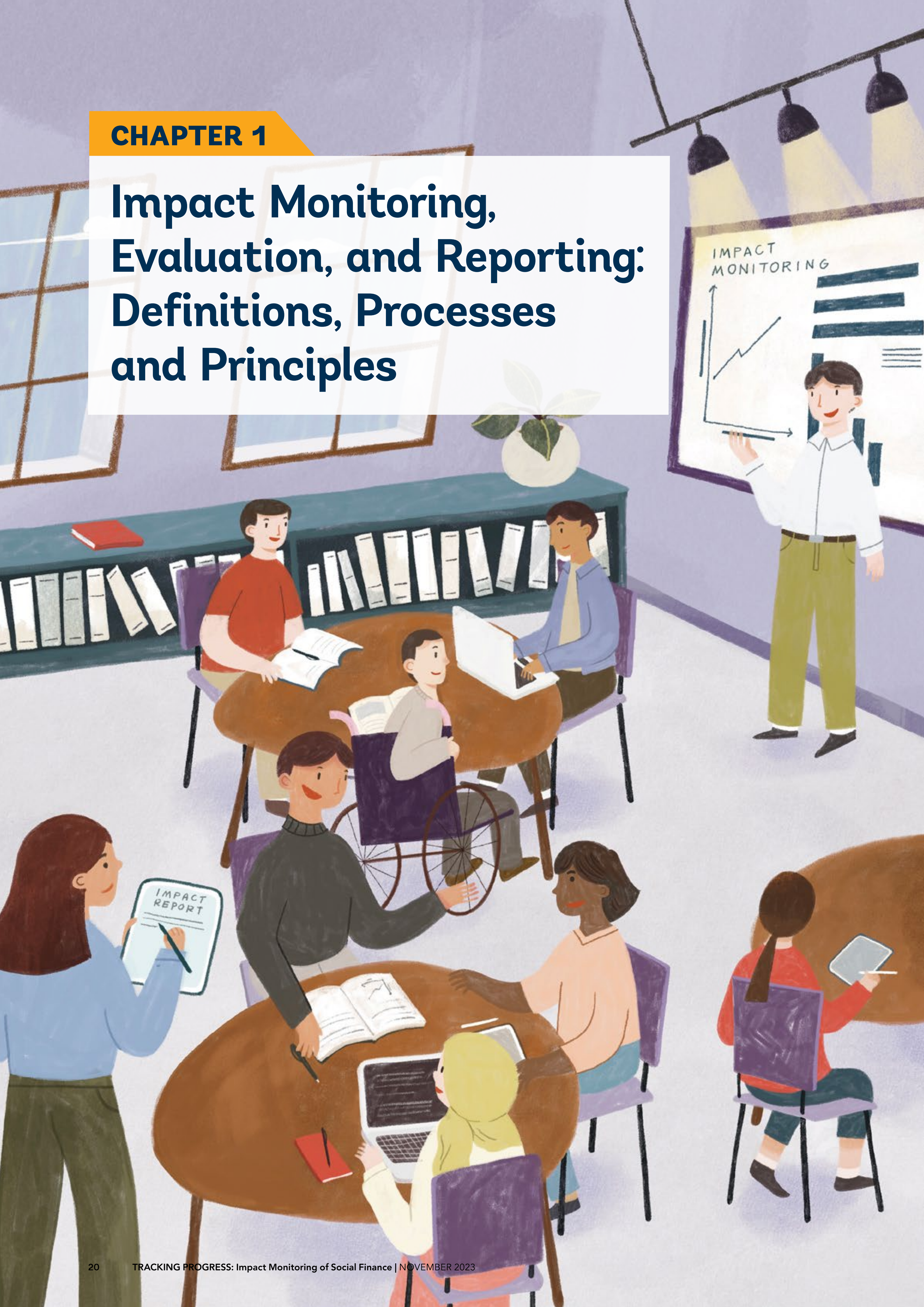
15 Institute of Islamic Banking and Insurance. (n.d.). *Maqasid Al-Shariah*. Accessed on June 17, 2023 https://www.islamic-banking.com/moral-oath/maqasid-al-shariah

Recommendations	Description	Stakeholders to Implement	Timeframe
Improve structural support for social finance.	**Regulatory Environment** — Create a regulatory environment that is conducive for social finance to foster continuation, scaling up, and enhancements to the impact monitoring and reporting practices. This includes requirements for annual publication of social impact reports by social finance providers and recipients.	Financial regulators and MECD.	Short term
	Institutional Structure — Develop a social finance governance framework for the financial industry to define the roles and responsibilities of various stakeholders engaged in the process of social impact monitoring and evaluation.	Financial regulators and MECD.	Short term
	Human Capital Development — Cultivate technical capability to conduct impact monitoring and evaluation through comprehensive and esteemed training programs that offer certification in impact monitoring and evaluation.	Financial regulators, MECD, and financial institutions.	Short and medium term
	Technological Infrastructure — Establish a centralized database for FIs and implementation partners to report the social finance impact indicators and outcomes to regulators. Reporting to this database can generate comprehensive data and information that can be consolidated to aid regulators to effectively monitor the trajectory of social finance within the country and evaluate its overall impact.	Financial regulators, MECD, Zakat authorities, and state governments.	Long term

Recommendations	Description	Stakeholders to Implement	Timeframe
Provide guidance for the financial industry on impact monitoring and reporting of social finance and assess the impact of social finance programs.	Develop a **guideline for impact monitoring of social finance** to facilitate more effective target setting, data collection, monitoring, and impact monitoring methodology amongst FIs.	Financial regulators and MECD.	Short term
	To ensure consistent and transparent reporting of social impact, develop a **standardized impact reporting framework** for the industry.	Financial regulators and MECD.	Short term
	Encourage independent validation of impact reports to ensure an unbiased view of the social finance program and prevent impact washing.	Financial institutions and financial service providers.	Medium term
	Establish **a rating system to assess and compare the performance of social finance programs** based on their social impact outcomes.	Financial regulators and MECD.	Long term
Customize social finance framework and impact monitoring, evaluation, and reporting guidelines for Islamic financial institutions (Islamic FIs).	**Conduct institution-centered, recipient-centered and funding source gap analysis** on application of conventional social impact monitoring frameworks by Islamic FIs offering social finance to ensure that the unique attributes of Islamic FIs and Shariah standards are addressed. The analysis can facilitate identification of KPIs, impact indicators and outcomes relevant to Islamic social finance.	Financial regulators and Islamic FIs.	Medium term

CHAPTER 1

Impact Monitoring, Evaluation, and Reporting: Definitions, Processes and Principles



1.1 Trends in Impact and Social Impact Investments

Impact investment is a rapidly growing phenomenon worldwide, driven by the need to address pressing global challenges such as environmental degradation, inequality, and urbanization. While initially intended as a means to complement the efforts of government or authority to meet societal demands, the complexity of these challenges requires a coordinated and structured framework to make a positive contribution to social and environmental impact. Impact investors make investment decisions based on their expectations of the social and environmental impact, on top of financial returns. Thus, the growth of impact investing has augmented the need to develop mechanisms to establish evidence on the contribution of their investments to social and environmental impacts. A key driver of impact investment is the ESG segment where market participants are willing to pay a premium on positive social change by requiring both financial returns and moral values in their investment decisions.

The ESG segment is large and growing rapidly. The consulting firm PwC conducted a survey of 250 institutional investors and wealth managers that together account for approximately 50% of global AUM in 2022.[16] The ensuing study estimates that, in the base case, the share of global AUM (debt and equity) managed according to ESG principles will expand from 14.4% in 2021 to 21.5% in 2026, at which time ESG-managed assets would amount to almost US$34 trillion, having grown at a five-year Compound Annual Growth Rate (CAGR) of 12.9%.[17] The study has a low-case forecast of over US$24 trillion, still over one-sixth of global AUM, and a best-case forecast of almost US$48 trillion, representing nearly 30% of global AUM. Under any scenario, these are significant sums and market shares.[18]

ESG investors that positively screen for social impact are deemed "impact investors." The impact investment industry, though nascent in comparison to the broader ESG sector and in less widespread use than the negative screening approach, is growing rapidly. One estimate for the amount of assets managed under positive screening guidelines was US$1.8 trillion in 2018.[19] Another estimate of the "impact investing" market size was produced by the Global Impact Investing Network (GIIN), a nonprofit organization based in New York that aims to increase the prevalence of impact investing which estimates that global impact investing AUM was almost US$1.2 trillion as of December 2021.[20] This figure was dominated by Europe, with over half of impact AUM, and the U.S. and Canada, with 37%.[21] For an organization to be considered to practice impact investing for purposes of the GIIN's estimate it must "attest to clear intent to create positive environmental or social impact, actively measure the impact results of their investments, and seek a financial return."[22]

A broad range of investors practice impact investing, but average allocations remain small. The range of impact investors included in the GIIN analysis includes fund managers, foundations, development finance institutions, diversified financial institutions (including banks), family offices, pension and retirement funds, and other market participants. In its examination of 1,289 organizations practicing impact investing, the GIIN found the average investment portfolio to have impact AUM of US$485 million, while the median figure was US$62.5 million.[23] The GIIN concluded that 34 outlier organizations had a significant amount of impact AUM, averaging over US$10 billion each, which skewed the average upward, and that most of the organizations studied had

16 PwC. (2022). *Asset and Wealth Management Revolution 2022. Exponential Expectations for ESG.*

17 Ibid.

18 Ibid.

19 Principles for Responsible Investing. (May 29, 2020). Introductory Guides to Responsible Investment.

20 Hand, D., Ringel, B., Danel, A. (2022) *Sizing the Impact Investing Market: 2022.* The Global Impact Investing Network (GIIN). New York.

21 Ibid.

22 Ibid.

23 Ibid.

a small allocation to impact investing strategies.[24] This data suggests that the impact investing industry has considerable scope for growth within existing organizations that have small allocations to impact strategies, in addition to potential adoption of impact investing by organizations that do not currently practice it.

1.2 Social Finance in Malaysia

Social Finance is a growing activity in Malaysia. BNM reports that several financial institutions have expanded social finance offerings and adopted a blended social finance approach (i.e. blend of donations, social impact investment, zakat, cash waqf and microfinance facilities) over the last decade.[25] In the Financial Sector Blueprint 2022-2026, BNM envisions elevating social finance as part of the Islamic finance ecosystem. One notable example is the iTEKAD social finance program offered by 12 FIs (see Appendix 1). In 2022, social finance mobilized through iTEKAD grew significantly to RM9.8 million from RM0.8 million in 2021 which benefited more than 3,000 microentrepreneurs in May 2023.[26] In August 2023, the Prime Minister and Minister of Finance, Dato' Seri Anwar Ibrahim increased the Ministry of Finance's iTEKAD fund allocation from RM4 million to RM10 million in 2023 and RM25 million in 2024 to help scale up the iTEKAD social finance to support the government's MADANI policy to eliminate hardcore poverty and reduce the income gap.[27, 28]

The SC has also developed taxonomy and guidelines on social investing to support the advancement of social finance under the Islamic finance agenda. In terms of social finance opportunities, an SDG report on Malaysia by Standard Chartered highlighted investment opportunities of US$3.9 billion to provide greater access to clean water and sanitation, US$14.7 billion to maintain digital access, and US$73.7 billion to significantly improve transport infrastructure by 2030.[29]

The need for social finance in Malaysia has expanded with the establishment of the Malaysia Social Entrepreneurship Blueprint 2030 developed by MECD. The ministry has defined social enterprise as "a registered entity under a written law in Malaysia, purpose-driven and has a financially viable business model that addresses social and/or environmental challenges, aiming to achieve positive impacts to its beneficiaries and the economy."[30] Under MECD's Social Enterprise Accreditation program, there are 414 registered social enterprises and 48 accredited social enterprises as of December 2021 but the actual number could be higher. [31]

In 2018, the British Council estimated that there were 20,749 firms that could qualify as social enterprises in Malaysia comprising micro and SMEs (0.8%), cooperatives (79%), and NGOs (3.47%).[32] These social enterprises were mainly funded through personal funds, donations, and grants.[33] Less than 10% of surveyed social enterprises received funding through bank financing.[34] Figure 1.1 below illustrates the sources of funding received by social enterprises in 2017. However, there is a growing trend of social financing by

24 Ibid.

25 Bank Negara Malaysia. (2022, January 24). *Financial Sector Blueprint 2022-2026*.

26 Bank Negara Malaysia. (n.d.). *Social Finance*. Accessed on October 19, 2023 https://www.bnm.gov.my/social-finance

27 Malay Mail. (August 22, 2023). *Govt to boost iTekad grant allocation by RM6m to assist micro entrepreneurs, says PM Anwar*. https://www.malaymail.com/news/malaysia/2023/08/22/govt-to-boost-itekad-grant-allocation-by-rm6m-to-assist-micro-entrepreneurs-says-pm-anwar/86531

28 Ministry of Finance. (2023). *Belanjawan 2024 Malaysia Madani*. https://belanjawan.mof.gov.my/en/

29 Standard Chartered. (2020, January 16). *Opportunity 2030: The Standard Chartered SDG Investment Map*.

30 Ministry of Entrepreneur and Cooperatives Development. (2022, April 23). *Malaysia Social Entrepreneurship Blueprint 2030*.

31 Ibid.

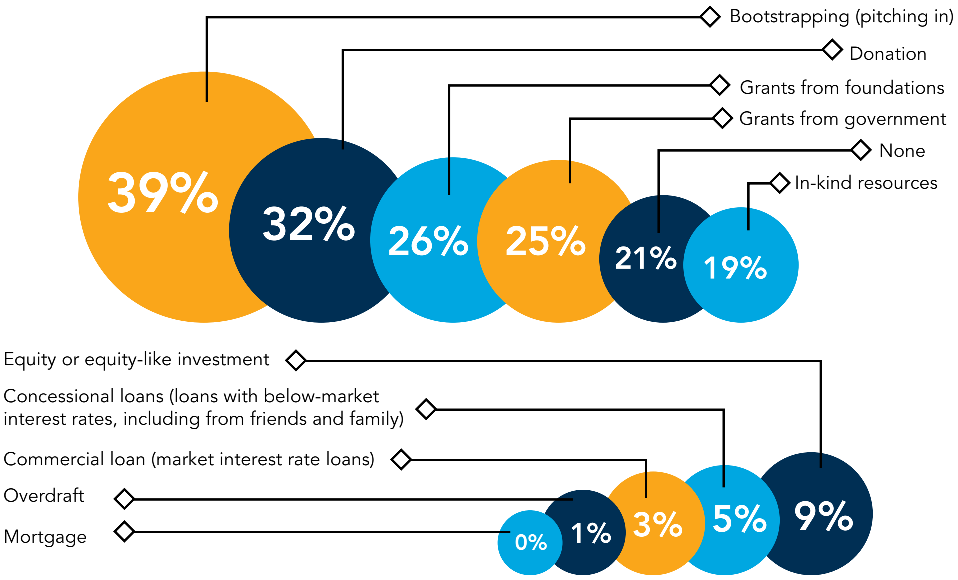
32 The British Council. (2018). *The State of Social Enterprise in Malaysia 2018*.

33 Ibid.

34 Ibid.

banks such as the iTEKAD program, Bank Islam's BangKIT microfinance, and Bank Rakyat's Entrepreneurship Leadership Series. Some insurance companies have established impact investment funds for social enterprises such as Allianz Group's Investment Ready Program and Etiqa Insurance's Accelerator Program. MECD has identified strategies to improve access to financial support for social enterprises including private financing such as microfinancing schemes, alternative financing, and impact investments.[35] This reinforces the need to expand social finance by financial institutions in Malaysia.

FIGURE 1.1
Forms of Finance and Funding of Surveyed Social Enterprises in 2017



Source: British Council. (2018). *The State of Social Enterprises in Malaysia 2018*.

1.3 Definitions of Social Investment and Social Finance

"Impact investing" is defined as a broad range of investments that deliver social, environmental, and financial returns.[36] Impact investing, which includes social impact investments and social finance is intended to offer social organizations access to suitable financing to deliver positive impact to the society and the environment.

1.3.1 Social Finance Definition for Malaysian Banks

In Malaysia, financial institutions are guided by BNM's definition of social finance. **BNM has defined social finance as all financial services that mobilize philanthropic capital using instruments such as donations, endowments (including cash *waqf*), or alms (zakat) to deliver tangible social outcomes.**[37] It differs from

35 Ministry of Entrepreneur and Cooperatives Development. (2022, April 23). *Malaysia Social Entrepreneurship Blueprint 2030*

36 Murray, S. and Arrillaga-Andreessen, L. (2017, February 16). *The Rockefeller Foundation: Innovations in Social Finance*. Stanford Graduate School of Business.

37 Bank Negara Malaysia. (2021, March 31). *Annual Report 2020*. p. 38

impact investing as social finance in Malaysia focuses on social impact, not including environmental impact. In addition, impact investing does not typically include donor and philanthropic funding. Thus, this report will focus on social impact monitoring and reporting. BNM's iTEKAD social finance pilot program consists of the following elements:

i. Flexible instruments that offer repayment terms with minimal or no financing cost. There may even be no repayment obligations if it is funded by donations or zakat. Source of funds may be a blend of philanthropic capital (for example donations, endowment, alms, CSR funds, government grants), social impact investments, and financing facilities such as the iTEKAD program;
ii. Funding is supplemented with structured programs by implementation partners to upskill beneficiaries in financial management, business acumen, digital capabilities, and other key areas; and
iii. Integrates a "pay-it-forward" mechanism where past beneficiaries provide mentoring support for current beneficiaries.

Since 2020, several Islamic financial institutions have been participating in BNM's iTEKAD social finance pilot program. The iTEKAD is a social finance pilot program providing beneficiaries with capital funds through microfinance, social impact investment, donations, zakat or waqf, and structured training to upskill their financial and business acumen.[38] A list of participating banks, funding features, value-added propositions, and target beneficiaries is outlined in Appendix 1.

Prior to the launch of iTEKAD, a small number of banks such as Bank Islam and Bank Rakyat have developed their own social finance programs, which are now part of the iTEKAD program. Other banks use the term social finance in their Sustainability Reports for Corporate Socially Responsible (CSR) activities such as donations to non-government organizations (NGOs) to improve the well-being of low-income and underprivileged groups in education, health, food, or sanitation.

1.3.2 Social Investment Definition for Malaysian Capital Market Participants

The Malaysian capital market is mainly guided by Securities Commission (SC)'s definition of social investments in its Sustainable and Responsible Investment (SRI) taxonomy.[39] Social investment is defined as an economic activity that meets the following criteria:

i. Substantially contribute to at least one of the social objectives, i.e. enhanced conduct towards workers, enhanced conduct towards consumers and end-users, and/or enhanced conduct towards affected communities and wider society; and
ii. Does not cause significant harm to any of the other social objectives.

The SC also outlines more detailed criteria and procedures for the classification of socially responsible economic activities to promote growth and greater transparency on social investments by Malaysian capital market participants. The adoption of the guideline is voluntary and aims to improve the standardization and comparability of sustainable investment assets in the Malaysian capital market.

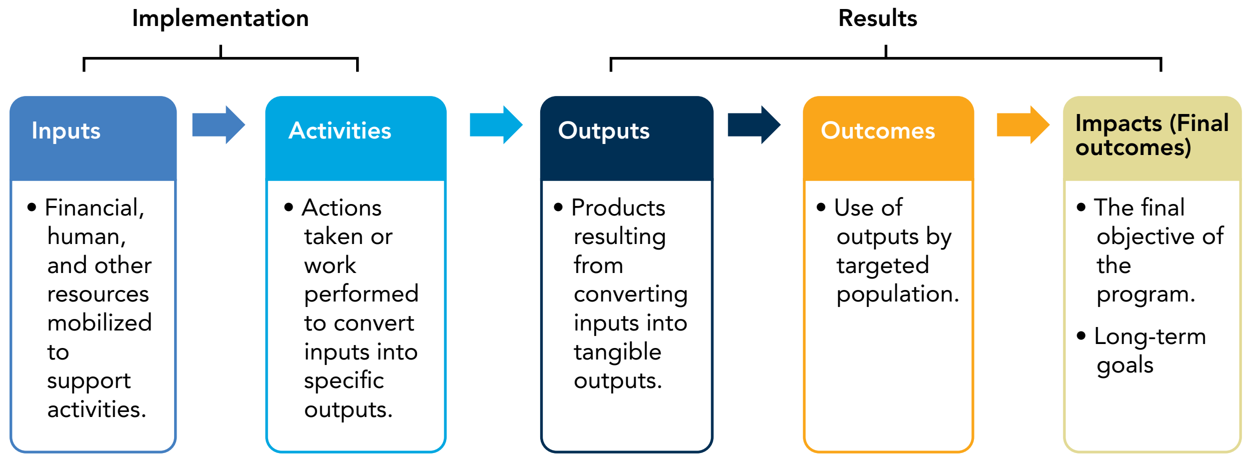
38 Bank Negara Malaysia. *Social Finance*. Accessed June 2, 2023. https://www.bnm.gov.my/social-finance

39 Securities Commission. (2022, December 12). *Principles-Based Sustainable and Responsible Investment Taxonomy for the Malaysian Capital Market.*

1.4 Definitions of Impact Monitoring and Evaluation

The World Bank provides definitions of "monitoring" and "impact evaluation" which are helpful to contrast and understand the concepts involved. The World Bank defines **monitoring** is a continuous process of collecting and analyzing information to better understand how well a program is operating against expected outputs.[40] **Impact evaluation** is an objective assessment of program effectiveness that uses specialized methods to determine whether a program meets its objectives, to estimate its net results or impact, and/or to identify whether the benefits the program generates outweigh its costs.[41] **Monitoring and Evaluation (M&E)** is defined as a process set up by impact-seeking organizations to "enhance program effectiveness, making projects accountable to the public, and helping government better allocate budget resources."[42] The **theory of change** and **results framework** help to identify the causal links of the program through a results chain consisting of inputs, activities, outputs, outcomes, and impact (final outcomes) (see Figure 1.2). Inputs, outputs, and expected outcomes are expressed and reported using specific indicators so that progress and results can be tracked.

FIGURE 1.2
Program Result Chain



Source: Gertler et al. (2016). *Impact Evaluation in Practice. Second Edition.* World Bank, and author's illustration.

A well-recognized definition also comes from the **International Association of Impact Assessment (IAIA)[43] which defines impact assessment or evaluation as "the process of identifying the future consequences of a current or proposed action" and defines impact as "the difference between what would happen with the action and what would happen without it**."[44] The IAIA notes that impact monitoring has roots in environmental legislation, where the impact of a proposed policy or project on such factors as air and water quality would be examined. In more contemporary usage, the "environment" relevant to impact monitoring more broadly includes the cultural and socioeconomic components of human societies residing

40 Gertler et al. (2016). *Impact Evaluation in Practice. Second Edition.* World Bank. 7.

41 Ibid.

42 Ibid.

43 The IAIA is a global, multidisciplinary network of 1100 members from 110 nations dedicated to identifying, developing, and disseminating best practices in the field of impact monitoring, with a goal of improving global sustainability.

44 IAIA. (n.d.) *What Is Impact Assessment?*. https://www.iaia.org/uploads/pdf/What_is_IA_web.pdf.

in the natural environment. Since impact monitoring can consider a broad range of consequences and outcomes on the social, economic, and physical environment, the term "total environment" has been used to capture the breadth of impacts that can be measured when conceiving, undertaking, or assessing a proposed course of action and its alternatives.[45]

This definition means that we can identify the use of monitoring and evaluation in a wide variety of settings, especially in segments that are directly relevant to social finance, such as ESG (environment, social, and governance) investment, development finance, and philanthropic grantmaking. Other segments, such as government policy making, urban and rural planning, real estate development and construction, and private investments can also incorporate this concept into their activities. In addition, impact monitoring and evaluation is a field of study in many colleges and universities, several academic journals are devoted to the topic, and there exist professional accreditation bodies such as Institute of Development Studies, the Evaluators Institute at Claremont Graduate University, and European Evaluation Society for competency in impact evaluation methods.

1.5 Value of Impact Monitoring and Evaluation

Impact monitoring and evaluation are important tools in social finance (and impact investment more broadly) for reporting, ensuring accountability, and approving financing. Impact monitoring and evaluation also provide useful learning and feedback loops to ensure value for money of programs, and ensuring right beneficiaries are targeted. Impact monitoring and evaluation are not only used to secure additional funding but also to make appropriate and timely changes or cancellation of programs. It is part of an overall system to provide evidence for decision making. Impact evaluations can also be of great value to the government in deciding where to invest, what policy changes to undertake, and where to partner with others.

Impact monitoring and evaluation are also important tools that can be used to assess the success of a pilot that can be replicated or scaled up in the future, though it can't always be generalized for other programs. This is especially true for social impact financing where many new approaches and programs are being tested for the first time, or investors are possibly approaching beneficiaries for the first time, among other reasons. Before the impact of a program is evaluated, assessment on evaluability needs to be done to ensure no excess of impact evaluations, and ensure that they are more valuable when evaluations take place. It is important to note that although impact evaluation is not always necessary as it is resource intensive, program results can be obtained through regular monitoring of indicators and targets to gauge the direction of the program. Impact evaluations can be conducted for similar programs to show the different pathways to achieve the same impact.

45 Ibid.

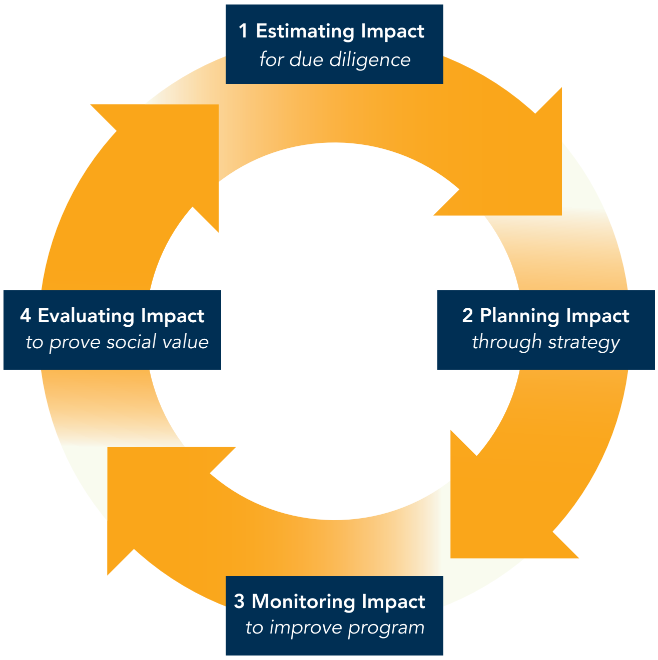
1.6 Process of Impact Monitoring, Evaluation, and Reporting

A 2015 study[46] of practices and methodologies used by established impact investors to measure the social impact of investments found four key assessment objectives:

1. *Estimating impact*: Conducting due diligence pre-investment.
2. *Planning impact*: Deriving metrics and data collection methods to monitor impact.
3. *Monitoring impact*: Measuring and analyzing impact to ensure mission alignment and performance.
4. *Evaluating impact*: Understanding post-investment social impact of an intervention or investment.

These objectives feed into one another, as described in Figure 1.3 below:

FIGURE 1.3
Continuous Cycle of Measurement Objectives Program Result Chain



Source: So, I., Staskevicius, A. (2015). *Measuring the "impact" in impact investing.* Harvard Business School.

Impact monitoring, evaluation, and reporting takes place in four core stages: i) the identification of the impacts that are sought or that will be measured; ii) the selection of metrics to gauge impact; iii) the application of these metrics in monitoring and reporting; and iv) a feedback loop whereby monitoring of results affect future actions. Table 1.1 below presents these stages.

46 So, I., Staskevicius, A. (2015). *Measuring the "impact" in impact investing.* Harvard Business School.

TABLE 1.1
Stages of Impact Monitoring, Evaluation, and Reporting

Stage	Key Questions	Illustrative Examples
Impact identification	What positive change do we intend to enable? What population do we intend to serve?	We seek to enhance the livelihood of agricultural business owners in three specific villages.
Metrics selection	How will we measure the outcomes? Over what period of time will measurement occur?	We will measure the number of business owners supported and the change in their monthly income over the three years from the inception of the project.
Monitoring and reporting	How will relevant data be collected? What results were achieved?	Through bank and local farmer's market data and interviews with recipients, we found that the project supported 400 business owners and increased their monthly income by an average of US$60.
Feedback loop	How will the impact inform future action?	The impact achieved gives us confidence to scale the project to ten more villages over the next two years. We also found aspects of the existing program that could be improved.

Source: World Bank analysis based on impact monitoring and evaluation frameworks across sectors.

Effective impact evaluation minimizes, if not completely removes, adverse impacts of interventions. Impact evaluation should also be used to assess risks associated with certain programs, how they were mitigated, and what harm could come through in certain programs. Results should be assessed beyond indicators monitored. **Feedback loops should also provide avenue for grievance mechanisms where those who are unfairly affected by a program can submit complaints.** This could be a good balancing aspect to impact evaluations that are focused on reporting and would only focus on positive results defined by a couple of indicators.

The impact monitoring, evaluation, and reporting process is often guided by globally established principles and frameworks (see Appendix 1). The role of these principles and frameworks is to conceptually articulate the desired outcomes. This is an essential first step before identifying specific metrics. In addition, the public nature of such global frameworks facilitates their adoption by a variety of impact investors, which in turn allows for meaningful comparisons between various investors of the impacts achieved.

1.7 Models of Impact Monitoring of Social Finance

If we look specifically at impact monitoring in the realm of social finance, two main models are typically applied:

1. ***Direct models:*** These include frameworks which enable a comprehensive measure of results at entity or project level. This model is highly customized and involve direct assessment of results and a more deterministic approach to impact, including having a unique sustainable development agenda and strategic allocation of funds to impact areas. This model is very resource intensive to develop and implement, and therefore, is more appropriate for financial institutions dedicated to social finance (impact investors, multilateral DFIs, foundations).
2. ***Indirect models:*** These are typically used at the market level for impact monitoring and include standards for social finance products, taxonomies and ESG reporting frameworks. These are "off-the-shelf" solutions that can be used without a dedicated internal impact management capability since they are based on pre-established impact monitoring frameworks (standards, taxonomies, reporting guidance). This approach is less deterministic in terms of development objectives (may not be allowed) and allocated funds, instead relying on standards development goals (e.g., SDGs, Paris Agreement).

Regardless of the approach, all frameworks for impact monitoring have the following common elements:

1. Impact thesis (theory of change) and strategic priorities (ex-ante);
2. Setting goals, targets, and KPIs to track progress;
3. Monitoring and measuring progress; and
4. Reporting and verification (ex-post).

CHAPTER 2

Global Applications of Impact Monitoring and Reporting

This chapter explores the common principles of international standards on impact monitoring and reporting, and practices by investors, which includes ESG investors, FIs, IFIs and philanthropic organizations (see Appendix 2 on comparisons of commonly adopted impact standards).

2.1 Common Principles of Impact Monitoring and Reporting

The global growth of impact and ESG investing has prompted development of common standards on impact monitoring and evaluation to facilitate comparison of impact achievements by stakeholders including investors, program managers, and authorities. International standards that are widely adopted by impact and ESG investors are the Universal Standards for Social and Environmental Performance Management (USSPM), UNEP FI's Principles for Responsible Banking, the Equator Principles, Global Impact Investing Network (GIIN)'s Impact Measurement and Management System (IRIS+), the Sustainability Accounting Standards Board (SASB) Standards, and *Global Reporting Initiative (GRI) Standards*. The following are the common principles for impact monitoring and reporting.

2.1.1 Goal and Target Setting

The USSPM and GIIN's IRIS+ outlined several common principles of social finance program goal and target setting, as follows:

i. The goals and target should consider the **positive and negative effects** of social finance on the community while balancing investors' expectations for risk, return, liquidity, and impact. An example of a strategic goal developed by GIIN is improving financial health for financial inclusion programs.[47]

ii. **Strategies** to achieve social goals and mitigate negative effects on the community should be established. Strategies will identify inputs and activities such as resources to be invested, development of appropriate product or financing solutions, and capacity building.

iii. Targets on outputs and outcomes should be **measurable** and **linked to evidence** that lead to the achievement of goals. To guide members in the selection of targets, GIIN has developed targets that are linked to evidence of successful achievement of goals (see Appendix 2 for samples of IRIS+ metrics relevant to SDGs).

iv. Goals and targets should be **time-bound** to ensure the achievement of goals that are aligned with stakeholders' expectations.

2.1.2 Impact Indicators, Monitoring, and Evaluation

Impact indicators are important data to demonstrate program results to influence project planning, management, and reporting. Impact evaluation provides more concrete evidence of the targeted changes attributable to the social finance program. There are several guidelines and references on indicators, monitoring and evaluation methodologies such as GIIN's IRIS+, the World Bank's Impact Evaluation methodology,[48] the International Finance Corporation (IFC)'s Anticipated Impact Measurement and

47 Nova et al. (October, 2020). Understanding Impact Performance: Financial Inclusion Investments. GIIN.

48 Gertler et al. (2016). *Impact evaluation in practice. Second Edition*. The World Bank.

Monitoring (AIMM) Framework,[49] the World Bank Result's Framework[50] and OECD's Principles of Impact Evaluation. Based on these methodologies, we find that the common principles for monitoring of indicators and impact evaluation are as follows:

i. The indicators should follow the **Specific, Measurable, Achievable, Relevant, and Time-Bound (SMART) principle** and be **minimal** to avoid burdensome data collection and monitoring. The World Bank's Results Framework requires stakeholders to select indicators that are necessary to measure the progress of the program without creating additional burdens on respondents or staff.[51] GIIN also recommends that the indicators selected to be **backed by evidence** and based on best practices of the industry.[52]

ii. Impact evaluation should **consider the counterfactual** of what the outcomes would have been without the social finance program within a realistic timeline. This can be measured by comparing the outcomes of social finance beneficiaries versus non-beneficiaries with similar characteristics. There are many databases of metrics developed to support impact reporting such as GIIN's IRIS+, SPI4, B Analytics, and UN SDGs.

iii. Impact evaluation is **verified by independent reviewers** to ensure an unbiased view and prevent impact washing.

2.1.3 Indicator and Results Reporting

The reporting of impact indicators and results are important to ensure transparency and accountability on resources utilized, activities, and achievement of the desired outcomes. Most importantly, impact report provides a learning and feedback loop to ensure that programs are enhanced to improve its value for money and increase positive impact to target beneficiaries, or paused or cancelled if the desired outcomes are not achieved. A robust report can also help to secure additional funding from investors as it allows them to conduct risk-reward decisions. Common practices on reporting of indicators and impact adopted by national and international organizations as well as global FIs include the following:

i. Publication of annual impact reports that are **separate** from sustainability or ESG reports. The separation of social finance impact reports from sustainability or ESG reports provides clearer and broader information on the activities and indicators related to the social finance programs.

ii. **Regular reporting** to the management, and the Board. This is important to ensure prudent use of funding, risk management, and strategic decision on social finance programs.

iii. Report is **validated** by qualified social impact auditors. This process is particularly important for social finance with financial returns to ensure an unbiased view of the social finance program and prevents impact washing.

49 IFC. *Anticipated Impact Measurement and Monitoring (AIMM).* Accessed June 12, 2023 https://www.ifc.org/en/our-impact/measuring-and-monitoring

50 Independent Evaluation Group. (2012). *Designing a Results Framework for Achieving Results: A How-To Guide.* The World Bank.

51 Independent Evaluation Group. (2012). *Designing a Results Framework for Achieving Results: A How-To Guide.* The World Bank. 38.

52 GIIN. *An Introduction to Impact Measurement and Management.* Accessed June 12, 2023 https://iris.thegiin.org/introduction/#b2

2.2 Impact Monitoring Practices in ESG Investing

The term ESG includes a spectrum of approaches which range from exclusionary screens (negative screens) to actively applying ESG concepts to achieve desired impact. Screening can consist of negative screening, norms-based screening, and positive screening. Negative screening is perhaps the most prevalent practice in ESG investing (81% of FIs in frontier countries)[53] and refers to "excluding certain sectors, issuers, or securities for poor ESG performance" or based on criteria such as avoiding certain activities or geographies. Norms-based screening involves examining potential investments against internationally recognized business practice standards, such as those embodied in UN treaties, OECD guidelines, or international agreements on particular topics (for example, climate change or labor standards). Finally, positive screening in some ways seeks to achieve the opposite of negative screening: include those sectors or issuers that score the best on ESG metrics.

ESG investors that positively screen for social impact are deemed "impact investors." Impact investors usually conduct impact monitoring, guided by international impact measurement framework such as the GIIN IRIS+. The impact investment industry, though nascent in comparison to the broader ESG sector and in less widespread use than the negative screening approach, is growing rapidly. The GIIN estimates that global impact investing AUM was almost US$1.2 trillion as of December 2021.[54] This figure was dominated by Europe, with over half of impact AUM, and the U.S. and Canada, with 37%.[55] For an organization to be considered to practice impact investing for purposes of the GIIN's estimate it must "attest to clear intent to create positive environmental or social impact, actively measure the impact of their investments, and seek a financial return."[56]

Impact monitoring, evaluation, and reporting have some, though limited, relevance for ESG investments that solely apply negative screening. Because negative screening reflects the intent of investors to avoid causing harm, ESG investments based solely on negative screens have less need to measure their impact, as they make no representations about positive impact and only make representations about avoiding investments that *ex-ante* fail at certain criteria. However, ESG investments that solely apply negative screens may still engage in impact monitoring. Islamic investment funds, for example, often undertake a "purification" process by which they measure the impermissible portion of the revenue, income, dividends, or gains (depending on the methodology) attributable to their stakes in investee companies in order to offset such portion with charitable giving.[57] This can be deemed a form of impact monitoring.

53 World Bank and Institute of Finance and Sustainability. (2022, November). *Unleashing Sustainable Finance in Southeast Asia*. https://www.worldbank.org/en/country/malaysia/publication/SFSEAreport

54 Hand, D., Ringel, B., Danel, A. (2022) *Sizing the Impact Investing Market: 2022*. The Global Impact Investing Network (GIIN).

55 Ibid.

56 Hand, D., Ringel, B., Danel, A. (2022) *Sizing the Impact Investing Market: 2022*. The Global Impact Investing Network (GIIN). New York.

57 Franklin Templeton Investments. (2018, January-March). *Implementing Purification in Shariah-Compliant Equity Funds*. Shariah Quarterly.

2.3 Impact Monitoring on ESG Investments by Financial Institutions and Financial Markets

Frameworks for ESG management and reporting by financial institutions reflect the unique nature of these organizations and the powerful role they play as financial intermediaries in promoting social finance and generating social impact. This includes:

1. Monitoring and mitigating negative social impact of financial products and services.
2. Expanding access to essential financial products and services to underserved segments of the population.
3. Raising and allocating capital for activities and investments deemed socially beneficial.

Frameworks for ESG management by financial institutions reflect an entity-level approach to impact monitoring, focusing on the same core elements of traditional social impact monitoring frameworks (M&E, impact investments), including setting goals and expectations, defining strategies, selecting metrics and targets, and monitoring and reporting impact. For example, the UNEP Finance Initiative's *Principles for Responsible Banking* is a unique framework for ensuring that signatory banks' strategy and practices align with the vision society has set out for its future in the Sustainable Development Goals and the Paris Climate Agreement (see Figure 2.1).

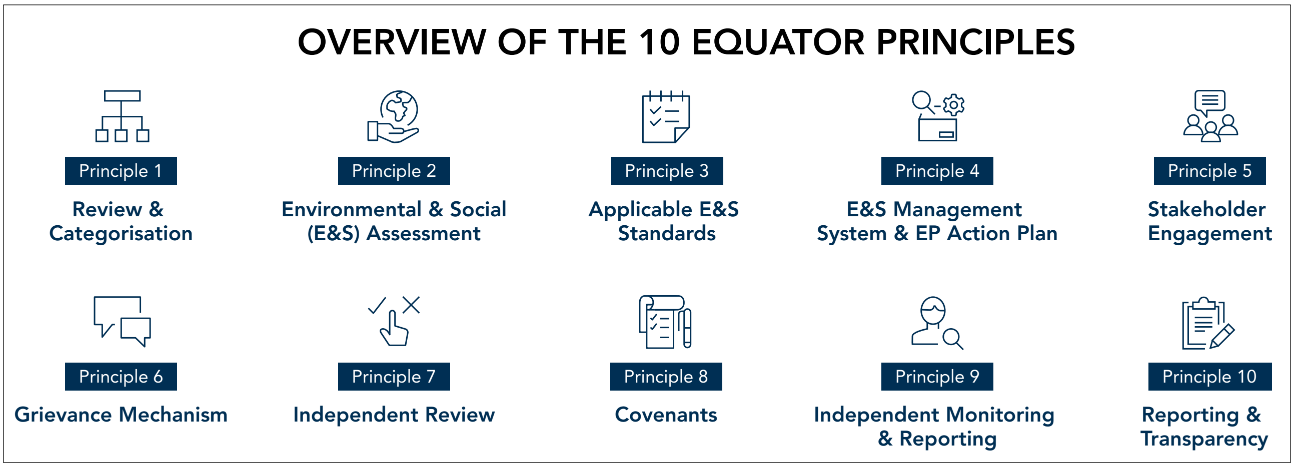
FIGURE 2.1
Principles for Responsible Banking

PRINCIPLE 1: **ALIGNMENT** We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.	PRINCIPLE 2: **IMPACT & TARGET SETTING** We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.	PRINCIPLE 3: **CLIENTS & CUSTOMERS** We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.
PRINCIPLE 4: **STAKEHOLDERS** We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.	PRINCIPLE 5: **GOVERNANCE & CULTURE** We will implement our commitment to these Principles through effective governance and a culture of responsible banking.	PRINCIPLE 6: **TRANSPARENCY & ACCOUNTABILITY** We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.

Source: UNEP-FI. (n.d.) About the Principles. The 6 Principles for Responsible Banking. Accessed on June 18, 2023 https://www.unepfi.org/banking/more-about-the-principles/

In addition, many financial institutions also use the *Equator Principles (EP)* as a risk management framework to identify, assess, and manage environmental and social risks when financing projects (see Figure 2.2). The goal is to minimize the adverse impacts that large infrastructure and industrial projects can have on people and on the environment.

FIGURE 2.2
Equator Principles



Source: Equator Principles. (n.d.) *About the Equator Principles. Overview of the 10 Equator Principles.* Accessed on June 18, 2023 at https://equator-principles.com/about-the-equator-principles/

In terms of ESG reporting by FIs, the relevant frameworks are based on a traditional approach to impact monitoring and reporting, adapted to the assessment of results at the entity-level, focusing on strategy, risk management, governance, and metrics and targets. They also provide guidance on social issues that are likely to be material for FIs, and therefore that should be included in sustainability reporting. In March 2022, the International Sustainability Standards Board (ISSB) published Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information, proposing overall requirements for an entity to disclose sustainability-related financial information about its sustainability-related risks and opportunities (see Figure 2.3).

FIGURE 2.3
IFRS S1 Disclosure of Sustainability-related Financial Information

Governance
- A company's governance processes, controls and procedures used to monitor and manage significant sustainability- related risks and opportunities.

Strategy
- A company's strategy for addressing significant sustainability-related risks and opportunities;
- Whether these risks and opportunities are incorporated into its strategic planning, including financial planning;
- Whether these risks and opportunities are core to the company's strategy.

Risk management
- The process by which a company identifies, assesses and manages current and anticipated sustainability-related risks and opportunities;
- Whether that process is integrated into its overall risk management processes.

Metrics and targets
- How a company measures, monitors and manages significant sustainability-related risks and opportunities and assesses its performance, including progress towards the targets it has set.

Source: *Miotech.*

The SASB Standards — under the responsibility of ISSB — enable organizations to provide industry-based sustainability disclosures about risks and opportunities that affect enterprise value. They identify a subset of environmental, social, and governance issues most relevant to financial performance and enterprise value for 77 industries. The financial sector within the SASB includes 7 areas: wealth management, commercial banks, retail banks, insurance, investment banks, mortgage banks and the securities market. Below is an example of the SASB Standards for Commercial Banks. Many of the issues that are recommended for disclosure by banks and financial institutions focus on social impact through employees, access to finance, and impact management in financial intermediation. Table 2.1 below provides a description of material social impact of banks and financial institutions, based on the SASB standards.

TABLE 2.1
Common Social Issues Reported by Banks and Financial Institutions

Topics	KPIs
Employees	• Efforts to maximize the health, safety, and economic well-being of employees, to ensure equal treatment and avoid gender, ethnic, or other discrimination. • Focus on diversity in the workforce and professional integrity to ensure ethical compliance.
Ethics	• Efforts to ensure ethical conduct, including legal compliance, paying a fair share of taxes, transparency in political contributions. • Efforts to avoid corruption and bribery, especially for operations in countries with high corruption. • Focus on fraud, anti-competitive practices, money-laundering, prohibited activities, confidential information, insider dealing, and market manipulation.
Financial Inclusion	• Efforts towards financial inclusion of underbanked population and small businesses. • This includes lower-income individuals, youth, women and women-led businesses, small farmers and landholders, and SMEs.
Responsible Lending and Financial Products	• Efforts to maximize the social utility of products and services and reduce social and environmental impacts on consumers during the use-phase. • Focus should be on responsible lending and data privacy and security.
Management of ESG in Lending and Investment Activities	• How ESG factors are integrated into the lending and investment process. • Risk to the loan portfolio presented by climate change, natural resource constraints, human rights concerns, or other broad sustainability trends. • Significant concentrations of credit exposure to ESG risks and credit exposure by industry. • Approach to managing risks of human rights violation in investments and lending portfolio.

Source: Study team

In practical terms, banks and other FIs provide social finance in a wide range of ways and develop corresponding monitoring methods and frameworks. Table 2.2 below presents a summary of the typology of social finance channels and the relevant methods and frameworks.

TABLE 2.2
Social Finance Offerings and Monitoring Methods

Items	Description	Monitoring Method	Benchmark / framework
Bank portfolio management	Monitor and mitigate negative social impact of financial products and services.	• % of portfolio monitored. • Amount of capital exposed to socially damaging activities.	ESG Reporting
Expand access of traditional finance	Provide access to essential financial products and services to underserved population.	• Number of financial services provided.	ESG Reporting
Sustainable Finance	Raise capital for activities and investments deemed environmentally and socially beneficial.	• Amount of capital linked to sustainability goal. • Amount of capital allocated to social areas. • Commitment to social targets and allocation of capital.	Sustainability Bond Guidelines
Use-of-proceeds lending	Provide capital for borrower's activities and investments deemed socially beneficial.	• Amount of capital deployed ear-marked for qualified activities (UOP). • Breakdown by issue areas.	Green, Social and Sustainability (GSS) Bonds Standards, Social Loan Principles
Sustainability-linked lending	Provide capital tied to borrower performance on social metrics (SL Loans tied to social targets of borrower).	• Amount of capital deployed to incentivize social goals. • Aggregate loan portfolio performance on social metrics.	SDGs / SLL Standards
Impact investing	Provide capital for programs dedicated to solving social issues, at commercial or subsidized rates.	• Full scale M&E with outcome/impact.	DFI, Investing

In addition, the use of new instruments such as sustainability-linked bonds and loans has allowed structures that make the monitoring of impact more transparent and accountable, with interest rates tied to ambitious targets in key sustainability areas for the issuer. These sustainable finance instruments approach impact monitoring and reporting as follows:

1. ***Ex-ante.*** Selection of impactful areas of investments (UOP), or material issues to be addressed and ambitious targets (SLB/SLL) pre-issuance.
2. ***Monitoring.*** Process for project evaluation and selection (UOP), or investments made to support performance on the target.
3. ***Reporting.*** Annual reporting of use of proceeds (UOP), or performance on KPIs (SLB/SLL). For capital market transactions, UOP and SLB structures also require independent and external verification.

2.4 Impact Monitoring and Evaluation by International Financial Institutions

Impact monitoring and evaluation is a key part of the process of International Financial Institutions (IFIs), which inherently seeks to achieve positive impact and advance policy goals. IFIs consist of multilateral financial institutions, such as the World Bank, the International Finance Corporation, the Asian Development Bank, and the Islamic Development Bank, or bilateral IFIs, the largest of which are Dutch Entrepreneurial Development Bank (FMO) of the Netherlands, and German Investment Corporation (DEG), a subsidiary of KFW in Germany.[58]

IFIs are, by mandate, committed to positive impact. Thus, impact monitoring and evaluation are important tools to provide learning and feedback loop to ensure that the programs are enhanced to improve value for money and increase positive impact to target beneficiaries. The results of the impact monitoring could also help program managers decide to pause or cancel the program if the desired outcomes are not achieved. Impact monitoring and evaluation are thus integrated into numerous steps of the financing process, including project identification, the monitoring of outcomes, and reporting to various stakeholders. For example, there is some indication that IFIs are putting increasing emphasis on goals 5 (gender equality), 8 (decent work and economic growth), and 13 (climate action) of the SDGs.[59] In addition, IFIs employ a variety of impact monitoring and management methods, providing a variety of examples to learn from.[60] At the same time, IFIs have some characteristics of private investors, especially commercial banks, taking financial returns and risks into account when evaluating potential funding projects.[61] Consequently, the experience of IFIs with impact monitoring and evaluation can be relevant to private sector investors seeking to incorporate social impact criteria into their investment approaches, as well as to those that have already done so and are seeking to refine their processes.[62]

IFIs offer a number of impact monitoring and reporting practices that are not always found in private sector impact investing. These practices include: (a) annual impact reporting for the organization as a whole in addition to reporting on individual funds and projects; (b) the creation and support of departments committed specifically to monitoring and effectiveness; and (c) the engagement of beneficiaries and stakeholders in impact monitoring and evaluation, including through surveys and stakeholder consultation.

In October 2015, IFIs joined forces to harmonize development impact metrics, through the Harmonized Indicators for Private Sector Operations (HIPSO). HIPSO is a set of common indicators developed by a group of IFIs to bring consistency in reporting impact of the private sector and to facilitate learning from each other. Indicators organized around important sectors for economic and social impact, reflect the impact priorities of IFIs. Figure 2.4 below illustrates the HIPSO indicators for financial intermediation. In 2021, HIPSO and IRIS+ established a Joint Impact Indicator in topics common across investments, including gender, jobs, and climate. It aims to reduce reporting burden on investees and provide comparable impact data to facilitate decision-making. [63]

FIGURE 2.4
HIPSO Indicators for Financial Intermediation

FINANCIAL INTERMEDIATION

FI-01 — Number of Loans Outstanding
FI-02 — Value of Loans Outstanding
FI-03 — Number of Active Borrowers/Clients
FI-04 — Average Tenor of Loans Outstanding
FI-05 — Number of Deposit Transaction Accounts
FI-06 — Number of Merchant Acceptance Points (POS)
FI-07 — Access to Digital Payment Services
FI-08 — Value of Non-Cash Transactions
FI-09 — Number of Active Female and Women-Owned/Led Enterprise Clients served through a Financial Institution
FI-10 — Number of Loans Outstanding to Female and Women-Owned/Led Enterprise Clients served through a financial institution
FI-11 — Value of Loans Outstanding to Female and Women-Owned/Led Enterprise Clients served through a financial institution
FI-12 — Number of deposit transaction accounts to Female and Women Owned/Led Enterprise Clients served through a financial institution
FI-13 — Access to digital payment services to Female and Women-Owned/Led Enterprise Clients served through a financial institution

Source: Harmonized Indicators for Private Sector Operation (HIPSO). *Financial Intermediation.* Accessed on June 12, 2023 https://indicators.ifipartnership.org/financial-intermediation/

2.5 Impact Monitoring in Philanthropic Organizations

Philanthropic grantmaking, for the purposes of this report, includes grantmaking undertaken by foundations and other private sector organizations. It is estimated that, in the United States alone, over US$140 billion per year is granted by foundations, corporations, and donor-advised funds. These large sums have led some makers of grants to request recipients to measure the outcomes of the grants.[64]

Grantees (the recipients of grants) are required to engage in impact reporting at multiple stages of the process. During the proposal stage, they are required to identify key metrics and measures of success that they plan to achieve. For example, a school applying for an educational grant from a foundation will be required to propose how many students will benefit and how much their learning will improve (and how this will be measured). After the grant is given and the project is completed (and sometimes during an ongoing project), the school will be required to report on the actual impact achieved and how it varied from the goals. If grantees do not provide information on the impact achieved, foundations may at times withhold part of the grant. For example, some foundations specify in their grant approval communications that they

64 Schreiber, J. and Jackson-Ward, E. (2022, July 7). *How Philanthropists Can Diversify Their Grantmaking Portfolios.* Harvard Business Review.

will withhold a portion (often 5 to 10%) of the grant and make its disbursement contingent on certain impact reporting requirements.[65]

The philanthropic grantmaking sector offers impact monitoring and reporting practices that may contrast with the practices prevalent in private-sector impact investing and IFIs. The differences between the two sets of approaches include:

a. The grantmaking approach **invites grant applicants to propose the impact metrics and outcomes of projects** as part of the proposal process. This is a stark contrast from other "top-down" approaches that first identify the metrics and then look for projects to support them. The grantmaking approach may in some ways be more inclusive and "bottom-up" and may also produce fresh ideas on potential impact.

b. The grantmaking approach **uses data from impact monitoring to inform future strategy**. While such feedback loops are also found in private-sector impact investing, and in IFIs, the philanthropic grantmaking sector is noteworthy in this area.

c. Philanthropic institutions **often convene grant recipients to collaborate and share best practices**. Such convening may be relevant in social finance contexts where knowledge sharing and fostering community are important.

65 Ibid. at 43, 59.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CHAPTER 3

Case Studies of Impact Monitoring, Evaluation, and Reporting by Global Social Finance Providers

This chapter presents case studies on impact monitoring, evaluation and reporting by selected global social finance providers and impact investors including IFIs, conventional and Islamic FIs, and authorities. The objective of the case studies is to identify common practices and compare the practices against international standards on impact monitoring and reporting. For IFIs, we examine the practices of the World Bank, IFC, Asian Development Bank, Islamic Development Bank, and Islamic Corporation for the Development of the Private Sector. For conventional social finance providers, we examine the practices of BlueOrchard Finance Ltd., LeapFrog Investment, the International Red Cross and Red Crescent Movement, VisionFund, FINCA International, Grameen Bank, Opportunity International, Triodos Investment Management, and Nuveen. For Islamic social finance providers and authorities, we examine Akhuwat Islamic Microfinance, the General Authority of Awqaf, and Badan Zakat Nasional.

3.1 Common practices of impact monitoring, evaluation and reporting by global social finance providers

Based our case studies, we found that international standards on impact monitoring is mainly adopted by conventional impact investors. For example, the GIIN's IRIS+ is adopted by Leapfrog Investment, Triodos Investment Management, and Nuveen. The USSPM is adopted in the customized impact monitoring tools of BlueOrchard and FINCA International. The International Red Cross and Red Crescent Movement adopts the Global Reporting Initiative (GRI). The Poverty Probability Index (PPI) is measured by VisionFund and Grameen Bank. Additionally, several impact investors have developed their own impact monitoring tools based on the international standards on impact monitoring such as BlueOrchard's B.Impact framework, FINCA International's FINCA Client Assessment Tool, and Triodos Investment Management's Sustainability Management System. Islamic FIs and Islamic social finance providers and authorities tend to establish their own impact monitoring methodologies. Impact evaluation is mainly conducted by IFIs and conventional impact investors. Generally, results are disclosed and published by global social finance and impact investors. (See Appendix 3 to 6 for summaries of impact monitoring practices by these institutions).

3.2 International Financial Institutions (IFIs)

1. The World Bank[66]

All lending operations supported by the World Bank are required to have results frameworks and monitoring systems. Results frameworks are based upon a theory of change and include indicators at outcome and intermediate results (output) levels with baselines and targets agreed with clients. The results framework is drafted at the beginning of the project cycle. A results framework that is properly developed and of good

66 The World Bank. *Measuring and Reporting Results in the World Bank. Factsheets.*

quality will help clients to manage the project effectively and efficiently, and demonstrate achievements clearly. Measuring and monitoring the results of projects is crucial for accountability, transparency, and continuous learning for timely corrections to achieve the development goals.

Corporate Results Indicators (CRIs) on sustainable development, human development, and economic, finance, and institutions across sectors are reported to support the collection of reliable, consistent data for corporate reporting (see Figure 3.1). Task teams are required to use CRIs in their project monitoring and results frameworks when the indicators are relevant to expected outcomes and outputs. CRIs enable results to be aggregated across regions and practices at the corporate level and are a sub-set of Tier 2 (Client Results) indicators of the Corporate Scorecards and IDA Results Management System.

FIGURE 3.1
World Bank Corporate Result Indicators

Corporate Results Indicators

Sustainable Development

Agriculture, Fishing, and Forestry
- Farmers reached with agricultural assets or services
- Farmers adopting improved agricultural technology
- Area provided with new/improved irrigation or drainage services
- Land area under sustainable landscape management practices
- Forest area brought under management plans
- Fisheries management plans implemented

Energy and Extractives
- Generation capacity of energy constructed or rehabilitated
- Projected energy or fuel savings
- People provided with new or improved electricity service

Information and Communication Technologies
- People provided with access to the Internet

Water, Sanitation, and Waste Management
- People provided with access to improved water sources
- People provided with access to improved sanitation services

Transportation
- Roads constructed or rehabilitated

Multisector/Urban
- People provided with improved urban living conditions
- Cities with improved livability, sustainability, and/or management

Multisector/Climate
- Net greenhouse gas emissions

Human Development

Health
- People who have received essential health, nutrition, and population (HNP) services

Social Protection
- Beneficiaries of labor market programs
- Beneficiaries of social safety net programs

Education
- Teachers recruited or trained
- Students benefiting from direct interventions to enhance learning

Multisector/Jobs
- Beneficiaries of job-focused interventions

Economic, Finance, and Institutions

Industry, Trade, and Services
- Implemented reforms supporting private sector development
- Firms benefiting from private sector initiatives

Financial
- Beneficiaries reached with financial services

Source: The World Bank. *Measuring and Reporting Results in the World Bank. Factsheets.*

Progress on results achieved through projects are reported regularly. During implementation, staff report on the results framework indicators through the project monitoring and reporting tool, the Implementation Status and Results Report. At completion, staff present a complete and systematic account of the performance and results of the project with an Implementation Completion and Results Report (ICR). The ICR assesses the extent to which the project achieved its objectives and documents the linkage of the project's inputs and outputs to the desired outcomes. World Bank's Independent Evaluation Group (IEG) will then review the ICR and validate the ratings of the project outcome. ICRs are available externally and are 100 percent validated by IEG.

2. International Finance Corporation (IFC)[67]

The IFC developed an ex-ante impact monitoring tool in 2017 — the Anticipated Impact Measurement and Monitoring (AIMM) system to better define, measure, and monitor the development impact of each project. The measurement framework assesses both (i) the development gap that an investment is designed to fill, and (ii) the intensity of impact. It builds upon DOTS, IFC's previous impact measurement system.

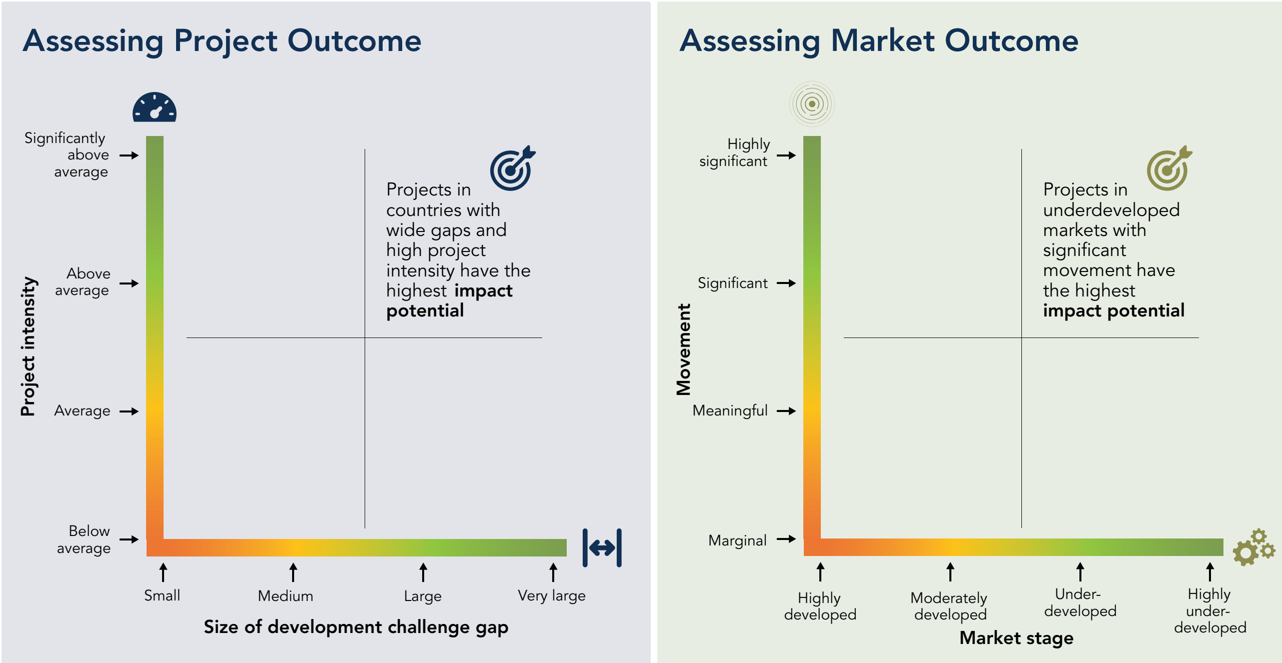
The AIMM system incorporates several innovative approaches to assess development impact along two dimensions – project and market outcomes (see Figure 3.2). For the project outcome dimension, AIMM assesses effects on the stakeholder, economy, environment, and society. For market outcome dimension, AIMM assesses the degree to which an intervention improves the structure and functioning of markets by promoting one or more of the following objectives: (i) competitiveness, (ii) resilience, (iii) integration, (iv) inclusiveness, and (v) sustainability. AIMM assesses project intensity/efficiency sector-specific development gap assessments and project design features, drawing on a reservoir of 200 gap indicators and 600 intensity indicators across 30 sector frameworks developed to date. Sector frameworks help assess desired effects by assigning ratings in four areas:

- Gap: How big is the problem IFC is seeking to address?
- Intensity: How much does the project contribute to the solution?
- Impact potential: Based on the problem and contribution, what is the potential to deliver desired effects?
- Likelihood: What is the likelihood that the project will deliver the desired effects?

For each of these definitions, normalization (as possible) and benchmarks have been created, using available data, evidence, and technical expertise within IFC, the World Bank, and other recognized external sources, including partner development finance institutions.

67 International Finance Corporation. (n.d.) *Anticipated Impact Measurement and Monitoring (AIMM).* Accessed August 14, 2023. https://www.ifc.org/en/our-impact/measuring-and-monitoring

FIGURE 3.2
IFC's Anticipated Impact Measurement and Monitoring (AIMM)

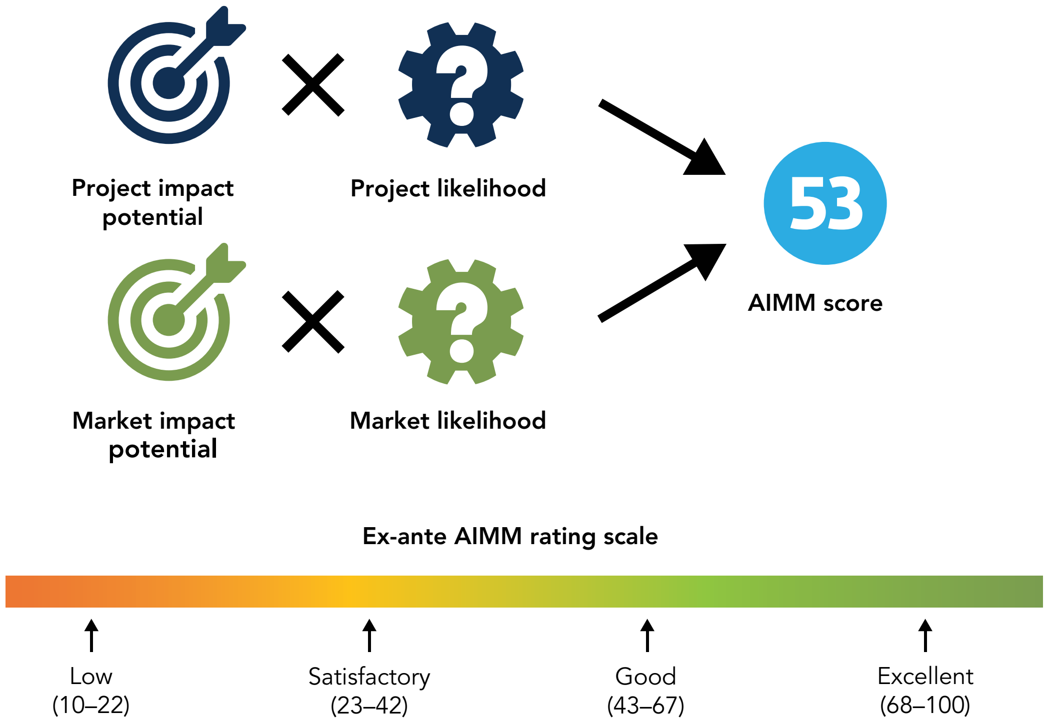


Source: IFC. (n.d.) *How IFC Measures the Development Impact of Its Interventions.* https://www.ifc.org/content/dam/ifc/doc/2022/202012-ifc-aimm-brochure.pdf

Since January 2018, IFC has rated all new investment projects, providing a numeric score for each investment that represents ex-ante the project's expected quantum of development impact (see Figure 3.3). IFC has assessed over 1,400 investment projects (committed and uncommitted) for their expected development impact and assigned ex-ante. The AIMM system is now fully integrated into IFC's operations, allowing development impact considerations to be weighed against a range of strategic objectives, including volume, financial return, risk, and thematic priorities.

The monitoring of outcomes is an essential component of the AIMM system as it links ex-ante assessments with the learning and accountability function embedded in IFC's existing results measurement system. Each development outcome claim in IFC projects is explicitly tied to one or more monitoring indicators and regularly tracked during portfolio supervision. By tracking these indicators, the AIMM system links project ratings with real-time results measurement findings.

FIGURE 3.3
AIMM Rating Score



Source: IFC. (n.d.) *How IFC Measures the Development Impact of Its Interventions.* https://www.ifc.org/content/dam/ifc/doc/2022/202012-ifc-aimm-brochure.pdf

3. Asian Development Bank

The Asian Development Bank (ADB) publishes an Annual Development Effectiveness Review assessing its overall impact and identifying areas for further improvement. The ADB currently evaluates its performance in four broad categories: (1) development progress in Asia and the Pacific, (2) results from ADB's completed operations, (3) ADB's operational management, and (4) ADB's organizational effectiveness. The ADB measures its progress in these four areas through 60 "results framework indicators," which in many cases are tied to the SDGs; with an additional 156 "tracking indicators" to provide further information.[68] In addition to rating how performance compares to target, the ADB's report indicates whether performance has improved, deteriorated, or remained constant over the previous year (for example, on a given metric performance could be below target but improving). The ADB also publishes complementary reports on its operational performance and on the performance of its portfolio of active projects.[69]

68 Asian Development Bank. *Results Framework Indicators.* https://www.adb.org/multimedia/defr2021/src/pages/grid-table.html.

69 Asian Development Bank. (2022, May). *2021 Development Effectiveness Review.*

The ADB also engages independent consultants to undertake impact monitoring and evaluation of ADB projects. As of this writing, the ADB had 923 reports assessing completed projects in its archive, going back to 2007.[70] An example of such an impact evaluation is of the Technical Education Project the ADB conducted in Malaysia in the early 2000s to improve the quality of the country's secondary technical schools, such as through revising the curriculum, training teachers, and renovating educational facilities. The ensuing impact evaluation report, published after the completion of the project, examined the project's costs and design, the impact of the project on the quality and capacity of the technical education system, issues that arose during the implementation of the project, the performance of various parties involved in the project (such as agencies under the Malaysian government and the ADB), the sustainability of the project, and lessons learned.[71]

4. Islamic Development Bank

The Islamic Development Bank (IsDB) similarly issues an Annual Development Effectiveness Report (ADER). The approach of the IsDB's report mirrors that of the ADB's report in some respects, as the IsDB examines development progress in its member countries, the developmental results of its project operations, and its own organizational performance. For example, the IsDB's current goals are to advance sustainable infrastructure and human capital in IsDB member countries, and the ADER organizes its discussion of the development effectiveness of the IsDB's projects around these two overarching goals. The ADER also weaves the SDGs into its monitoring of projects, pointing out which SDGs are being advanced in IsDB member countries and the current status of progress toward various SDGs. The ADER examines both results expected from development projects that have been approved, and results actually achieved from development projects that have been completed, in each case using numerical indicators. The IsDB also tracks its "portfolio aging trends" with indicators such as the percentage of projects that are signed within six months of being approved, and the average number of years from a project's approval to its completion. Finally, the IsDB's annual report reviews lessons learned from its Project Completion Reports, which are akin to the independent impact evaluation conducted by the ADB discussed above.[72]

5. Islamic Corporation for the Development of the Private Sector

The Islamic Corporation for the Development of the Private Sector (ICD), a member of the IsDB Group, also publishes an Annual Development Effectiveness Report specific to its private sector financing. The ICD's report is based on a survey of the enterprises in which the ICD has invested. It communicates impact through metrics such as the number of clients gaining access to Islamic finance (and the female number thereof), the number of people opening new Islamic finance accounts, the number of small and medium-sized enterprises supported through ICD financing projects, the dollar amount of export sales or government revenues generated, and the amount of energy produced. The ICD has a Development Effectiveness Department whose duty is to spread best practices and improve systems and processes so that the ICD can better assess and report on the impact of its development projects.[73]

70 Asian Development Bank. *Validations of Project Completion Reports*.

71 Asian Development Bank. (2009, May 31). *Malaysia: Technical Education Project*.

72 Islamic Development Bank. *Development Effectiveness Report 2021*.

73 Islamic Corporation for the Development of the Private Sector. (2022, May). *Annual Development Effectiveness Report 2021*.

3.3 Conventional Social Finance Providers and Impact Investors

1. BlueOrchard Finance Ltd.

BlueOrchard, which is a globally-operating impact investment management company and a part of the Schroders Group, is committed to generating sustainable and enduring positive impacts for communities and the environment while providing profitable returns for investors. In 2001, BlueOrchard was established as the world's first manager of microfinance debt investments, and it currently manages the world's largest microfinance fund, the BlueOrchard Microfinance Fund. By 2021, BlueOrchard had supported 28,881,062 micro, small, and medium-sized enterprises and lent micro-loans averaging US$ 2,019.[74]

To systematically assess and improve the impact of its investments, BlueOrchard has developed its own B.Impact framework. This framework includes expanding the Social Performance Impact Reporting and Intelligence (SPIRIT) tool, which was developed in-house and has been in use for a long time, into dedicated SPIRIT ESG and SPIRIT Impact scorecards. SPIRIT encompasses various dimensions, including strategic intent, maintaining a balance between financial and impact returns, evaluating the investee's contribution towards achieving impact objectives, a systematic evaluation of impact objectives, monitoring impact risks and performance, managing potential negative effects, ex-post impact monitoring, disclosing impact results publicly, and validating relevant impact in-line with ESG policies.[75] These scorecards are essential components of BlueOrchard's systematic approach to evaluating and improving the impact of its investments.

The SPIRIT tool was originally launched in 2009 to evaluate the social performance management policies and processes of financial institutions, such as microfinance institutions, that were funded by BlueOrchard. The tool was aligned with the six dimensions of the Universal Standards for Social Performance Management, which represented the best practices for microfinance at that time. BlueOrchard incorporated an additional dimension focusing on the environmental aspects under the collective umbrella of ESG performance to better reflect its offerings in social, environmental, and governance domains through SPIRIT ESG. The SPIRIT ESG Scorecard evaluates the ESG risks associated with potential portfolio companies and generates a rating that plays a critical role in the monitoring and management of investments.

2. LeapFrog Investments

In 2017, LeapFrog Investments achieved a noteworthy milestone by becoming the world's first impact investor to conduct an independent evaluation of its impact based on the Operating Principles for Impact Management.[76] LeapFrog Investments is an impact investing company that provides funds ranging from US$10 million to US$50 million to support the growth of financial services and healthcare companies that are driven by a strong sense of purpose and are based in emerging markets located in Asia and Africa.[77] LeapFrog Investments uses IRIS+ as a tool and research source to guide its investments from fund inception to exit. During the fund inception stage, the firm employs IRIS+ in two primary ways: first, to confirm the alignment between LeapFrog's objectives and the SDGs, and second, to leverage the evidence base and Core Metrics sets to reduce the amount of time and effort required for research.[78]

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74 BlueOrchard. (2021). *Disclosure Statement: Operating Principles for Impact Management.*

75 Ibid.

76 Mirchandani, B. (2019, December 9). *Finally a Way to Assure Sustainability and Impact! Vornado, Etsy, and LeapFrog Lead the Charge.* Forbes.

77 GIIN. (2020). *IRIS+ USE CASE: LEAPFROG.* https://s3.amazonaws.com/giin-web-assets/iris/assets/files/iris-use-cases/IRIS-LeapFrog_6-25-20.pdf.

78 Ibid.

3. The International Red Cross and Red Crescent Movement

The International Red Cross and Red Crescent (ICRC) Movement is a global humanitarian network supported by millions of volunteers. The Movement is unified by seven Fundamental Principles, including impartiality and universality. The ICRC aims to protect the lives and dignity of victims of violence and provide assistance, while the International Federation coordinates humanitarian activities among its members, and National Societies offer various services like disaster relief.[79]

The ICRC conducts monitoring, review, and evaluation throughout the programme and project cycle using the Results Monitoring Framework, and Activity and Resource Plan tools.[80] Review and evaluation are conducted at specific points or at the end of the project by the Ecosec unit in the headquarters or the Ecosec coordinator in the field.[81] The results of the review by Ecosec are used to identify corrective actions and sharing of lessons learnt.[82] The Institutional Performance Management Unit performs evaluation using qualitative and quantitative methods such as systematic or non-probability sampling methods. The result of the evaluation is used to provide guidance throughout phases of execution to achieve better outcomes.[83]

4. VisionFund

VisionFund, which is the microfinance network of World Vision — a humanitarian organization that is guided by Christian values — is committed to eradicating poverty and injustices. It is present in more than 20 countries, and extends a range of financial services like loans, savings, and insurance to its clients, with a focus on women and rural farmers. As of 2022, VisionFund has disbursed 1.1 million loan agreements worth US$706 million to 1 million clients worldwide.[84]

VisionFund uses the Progress out of Poverty Index (PPI) as an impact measurement framework to track and improve its social performance and outcomes.[85] VisionFund's use of PPI is aligned with its mission to empower families to create income and jobs and unlock economic potential for their children. By using the PPI, VisionFund can ensure that its services are relevant, effective, and impactful for its clients and their communities.

The approach of VisionFund to assessing its social impact is exhaustive and meticulous, as it encompasses both quantitative and qualitative factors in measuring the impact. Additionally, it is consistent with the established norms and optimal practices for managing social performance, such as the USSPM.[86] By implementing this approach, VisionFund seeks to demonstrate its responsibility to its stakeholders, enhance its products and services based on the demands and preferences of its clients, and articulate its social value proposition to its contributors and investors.

5. FINCA International

The Foundation for International Community Assistance (FINCA International) is a non-profit organization that aims to combat poverty through microfinance and social enterprise. With a presence in more than 40 countries, FINCA provides financial services such as loans, savings, and insurance to over six million

79 International Committee of the Red Cross. (n.d.) *The Movement*. Accessed on June 12, 2023 https://www.icrc.org/en/movement.

80 ICRC. (2009, August). *Measuring Results*.

81 Ibid.

82 Ibid.

83 ICRC. (2022, February). *ICRC Evaluation Strategy 2022-2024*. https://www.icrc.org/en/download/file/240718/icrc_evaluation_strategy_2022-2024.pdf

84 VisionFund. (2022). *VisionFund*. https://www.visionfund.org/.

85 VisionFund. (2023). *Evaluating the Impact of Our Work*.

86 VisionFund Myanmar. (2019). *VFM Annual Report*.

clients with low incomes, focusing on women and rural entrepreneurs.[87] FINCA extends its reach beyond microfinance by supporting social enterprises that offer fundamental products and services in domains like energy, water and sanitation, health, education, agriculture, and fintech.

FINCA International uses the FINCA Client Assessment Tool (FCAT), a household survey based on the Living Standards Measurement Survey (LSMS), to measure the poverty level and living conditions of its clients. The FCAT collects data on the family's income, education, health, housing, and access to basic services.[88] The FCAT is adapted to each country's context and consumption habits and cross-referenced with the national poverty lines. The FCAT helps FINCA report on its social performance and mission alignment and is in line with the USSPM. To ensure the quality and reliability of the FCAT data, FINCA also uses ValiData, a proprietary research platform that uses op machine-learning functions to collect, analyze, and validate survey data from its clients in real time. ValiData enables FINCA to produce high-quality data sets that can generate meaningful insights for social impact monitoring.

6. Grameen Bank

Grameen Bank, established in 1983 by Muhammad Yunus, is a community development bank and microfinance organization in Bangladesh. Its services comprise the provision of small loans to the poor without collateral, particularly to women and rural entrepreneurs, to assist them in initiating or expanding their businesses and enhancing their living standards. The organization is committed to fulfilling its mission of creating a world free of poverty and social injustice. Grameen Bank has emerged as one of the most extensive and successful microfinance institutions globally, benefiting more than 10 million borrowers in nearly all of Bangladesh's villages and serving approximately 45 million individuals, including family members.[89]

Grameen Bank uses a methodology similar to that of PPI to target, segment, track, and transform its clients by measuring their poverty likelihood relative to the national or international poverty lines. Grameen Foundation — a non-profit organization closely linked with Grameen Bank — also participates in the PPI Alliance, a collective governance and funding structure that supports the development and innovation of the PPI. By using the framework, Grameen Bank can demonstrate its social performance and impact on reducing poverty and improving the well-being of its clients and their families.

7. Opportunity International

Opportunity International is a non-governmental organization that has a worldwide presence in more than 20 countries in Africa, Asia, Latin America, and Eastern Europe. The organization offers financial services, training, and assistance to individuals living in impoverished conditions, primarily women, farmers, refugees, young people, and school proprietors. Its primary objective is to provide individuals with the opportunities required to enhance their financial standing, build long-lasting livelihoods, and access quality education for their children.

Opportunity International seeks to measure its social impact by using a combination of human-centered research, client data capture, and comparative impact studies. These methods allow the organization to understand the clients' experience, report against project targets, and demonstrate the impact of services on target clients.[90] Opportunity International uses the PPI to collect data on the poverty levels of its clients and track their progress over time. The PPI helps the organization to target its services to those who need them most, and to measure its social impact on poverty reduction. Meanwhile, Opportunity International

87 FINCA International. (2023). *About FINCA*. https://finca.org/about-finca/.

88 FINCA International. (2023). *Social Performance Management*.

89 Grameen Bank. (2023). *Grameen Bank*. Grameenbank.org.

90 Opportunity International. (2023). *Measurement Approach*. https://opportunity.org/our-impact/measurement-approach.

places a significant emphasis on Social Performance Management (SPM) and its approach towards SPM has shown significant alignment with USSPM.[91] In addition, the organization has conducted pilot tests of the Social Return on Investment (SROI) approach in India and the Philippines.

8. Triodos Investment Management

Triodos Investment Management is an active global impact investor that focuses on sustainability. Triodos Investment Management offers Article 9 funds and investment strategies across all asset classes that aim to generate social and environmental impact alongside a healthy financial return. It focuses its investment activities across several overarching themes: Impact Equities and Bonds, Financial Inclusion, Sustainable Food and Agriculture, Energy and Climate.[92] As of 2022, Triodos Investment Management had EUR 5.5 billion assets under management and more than 750 direct investments across the globe.[93] Its mission is to leverage money as a catalyst for a society that is humane, environmentally sustainable, and serves the common good.

Triodos Investment Management employs a multifaceted approach to assess and disclose the social and environmental impact of its investments using Impact Reporting and Investment Standards (IRIS) metrics to monitor the performance of its portfolios focused on inclusive finance and trade finance in emerging markets. Additionally, Triodos Investment Management employs its Sustainability Management System to evaluate how its invested financial institutions and trade organizations align their operations with their social mission and objectives.[94] Notably, the organization recognizes the importance of engaging in dialogue with its investees, as data alone cannot convey the complete impact story.

9. Nuveen

Nuveen is an investment management firm that offers investment products across different asset classes, including equities, fixed income, private capital, real estate, and alternatives. As of the end of 2022, the firm had a significant asset under management value of over US$1.1 trillion, and serves individual and institutional investors in over 20 countries globally.[95]

Nuveen employs IRIS+ as a standardized tool for impact monitoring and management to evaluate the social and environmental effects of its affordable housing investments.[96] IRIS+ provides Nuveen with a structured approach to align its impact objectives with common strategic goals, validate its theory of change with evidence, select, and report on key indicators, and compare and analyze data across its portfolio. In addition to facilitating Nuveen's impact monitoring process, IRIS+ allows the firm to contribute to the advancement of impact investing by utilizing common frameworks and standards such as the Core Characteristics of Impact Investing. Nuveen also promotes industry knowledge sharing by disseminating its findings and data with other industry players.

Through its use of IRIS+, Nuveen can effectively define, measure, and manage its impact in a clear, consistent, and comparable manner. It also enables Nuveen to communicate the social and environmental benefits of its investments to stakeholders while illustrating how it contributes to positive outcomes for low-income families in the United States.[97] By integrating IRIS+ into its investment management approach, Nuveen aspires to not only achieve financial success but also create long-lasting impact in society.

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91 Opportunity International. (2023). *Our Response.* https://spm.opportunity.org/our-response.

92 Triodos Investment Management. (2023). *About Us.* https://www.triodos-im.com/about-us.

93 Triodos Investment Management. (2023). *2022 in Numbers.* https://www.triodos-im.com/impact-report/2022.

94 The GIIN. (2016). *Triodos Investment Management.* https://iris.thegiin.org/impact-report/triodos-investment-management/.

95 Nuveen. (2023). *Nuveen by the Numbers.* https://www.nuveen.com/en-us/about-us/about-nuveen/nuveen-by-the-numbers.

96 The GIIN. (2020). *IRIS+ Use Case: Nuveen.* https://iris.thegiin.org/document/iris-use-case-nuveen/

97 Ibid.

3.4 Islamic Social Finance Providers

The issue of poverty and livelihoods in the Muslim world remains a crucial concern, prompting a primary focus on making a social impact through Islamic social finance. This emphasis is particularly pressing given the prevalence of conflicts resulting from geopolitical and political instability in many Muslim-majority countries, as well as the early stages of economic development and low quality of living in some areas. These circumstances have contributed to limited access to fundamental resources such as education, healthcare, and the opportunity to earn a decent wage for a large segment of society. There has also been a growing movement towards integrating environmental considerations.

In comparison to conventional models of social finance that rely primarily on impact investing and voluntary contributions, Islamic social finance relies on obligatory religious contributions through zakat as well as voluntary donations through waqf and sadaqah to generate funds. This complementary approach has been in existence for many centuries, with a historical emphasis on compliance. However, the application of these concepts appears to be limited and implemented on a small scale. As a result, there is a need to assess the efficacy of diverse Islamic social finance practices by developing a practical framework. Although some believe that Islamic FSPs can also leverage USSPM to improve their social performance due to the alignment of Islamic finance objectives and values with the standard, some aspects of Islamic finance may not be fully captured or measured by the existing indicators and tools of USSPM, and considerable gaps and challenges exist in such application. This sub-section section investigates several of these practices that operate on a global level.

1. Akhuwat Islamic Microfinance

Established in 2001, this initiative was founded as a non-profit organization to provide support to the underprivileged community in Pakistan. The primary source of funding for Akhuwat is through donations made to the trust fund that was established by the company. The company offers cash financing through the *Qard Hasan* structure to the impoverished community for various purposes, such as providing funds to establish and expand business ventures, facilitating borrowing for small farmers to purchase agriculture inputs and meet ancillary expenses, and providing loans to build and renovate houses for households. Additionally, the company provides education loans to deserving students who come from poor backgrounds, health loans for individuals suffering from severe illnesses, marriage loans for parents arranging daughter marriages, and emergency loans for impoverished families that face unfortunate events and emergencies.

Akhuwat specializes in providing financing to micro-entrepreneurs who face significant obstacles in securing traditional bank loans to establish their businesses. While there are other organizations in Pakistan that support micro-entrepreneurs, Akhuwat's focuses on providing interest-free loans to low-income individuals, its specifically tailored repayment structure based on its borrowers' financial capabilities, and its use of a community-based model. Moreover, Akhuwat provides an array of support services to assist micro-entrepreneurs in expanding their businesses.

Akhuwat Islamic Microfinance uses these Key Performance Indicators (KPIs) to assess and monitor its social performance for several reasons:[98]

- ***Measuring poverty outreach:*** Akhuwat uses a poverty scorecard to identify clients who are most in need of its services.
- ***Assessing client satisfaction and retention:*** The organization conducts regular client satisfaction surveys to assess the satisfaction levels of its clients with its services.

98 Akhuwat. (2022). *Impact*. https://www.akhuwat.org.pk/impact/.

- ***Monitoring financial inclusion:*** Akhuwat measures its contribution to financial inclusion by computing the percentage of clients who are accessing formal financial services for the first time.
- ***Promoting gender inclusion:*** The institution measures its efforts to promote gender inclusion by computing the percentage of female clients and the extent to which its services are tailored to meet the specific needs of women.

2. The General Authority of Awqaf (GAA)

In 2016, the GAA based in Saudi Arabia was established with the objective of organizing, managing, and advancing the *Waqf* to cater to its necessities and enhance economic and social progress. The above objectives, necessitate managing a *Waqf* initiative through the development of:

1. ***Legal Framework:*** The initiative should have a clear legal framework that defines the scope, purpose, and governance of the *Waqf*. The framework should be compliant with Islamic law and local regulations.
2. ***Transparency and Accountability:*** The initiative should be transparent in its operations and accountable to its stakeholders. It should have clear procedures for financial management, reporting, and monitoring.
3. ***Effective Management:*** The initiative should have a competent and dedicated management team that can manage the *Waqf*'s resources effectively, identify potential investment opportunities, and mitigate risks.
4. ***Community Participation:*** The initiative should involve the local community and stakeholders in the decision-making process to ensure that the *Waqf* is aligned with their needs and priorities.
5. ***Impact Monitoring:*** The initiative should regularly assess its impact on the community and evaluate the effectiveness of its strategies and interventions. This will help the initiative to refine its approach and improve its outcomes over time.
6. ***Collaboration and Partnerships:*** The initiative should collaborate with other organizations, stakeholders, and government agencies to leverage resources and expertise, share best practices, and enhance the impact of the *Waqf* initiative.

In this regard, the GAA is responsible for not only managing the *Waqf* but also for developing legislative and governance frameworks for *Awqaf*. The GAA has introduced various initiatives such as investment fund licensing instructions, online platforms for financing, and the creation of the Kingdom's knowledge base for *Awqaf* through its Awqaf Property Inventory Project and the National Center for Awqaf Studies and Research.[99]

GAA *Waqf* relies primarily on donations from individuals and entities as their primary source of revenue. These funds are allocated towards the management of the mosques — i.e., The Two Holy Mosques and other mosques in the kingdom — addressing concerns related to the COVID-19 pandemic, and providing aid to the underprivileged communities in areas such as education and housing. Furthermore, GAA *Waqf* funds are utilized to provide food, medical care, and support to farmers, and in the form of financial transfers to the less privileged.

The priorities of the GAA are centered on poverty, education, healthcare, and social welfare, which are imperative for community well-being and access to essential services. In line with these priorities, the GAA is committed to promoting economic diversification, entrepreneurship, and job creation, which have a positive impact on the local economy and the success of businesses and individuals. Notwithstanding,

99 Islamic Development Bank. (2020). *Islamic Social Finance Report.*

GAA also prioritizes environmental sustainability and conservation, which involve the implementation of programs that aim to reduce waste, promote the use of renewable energy, and safeguard natural resources.

The success of GAA *Waqf* can be attributed to the establishment of a robust regulatory framework by the authority, which serves to promote transparency, accountability, and best practices in the management and investment of *Awqaf*. This framework also facilitates interaction between the GAA and other pertinent government departments and stakeholders, thereby contributing to the development of a more integrated and cohesive system for the management of *Awqaf*, as well as the promotion of charitable and philanthropic endeavors. Nevertheless, the absence of robust impact management tools limits the ability to gauge the success of *Awqaf* in Saudi Arabia.

The GAA uses specific performance indicators to track progress and measure the impact of its initiatives as they provide a standardized and objective way to evaluate the effectiveness of its programs. Indicators that the GAA in Saudi Arabia uses to track progress and measure the impact of its initiatives include, but are not limited to:

1. Number of *Awqaf* properties registered and managed by the authority
2. Amount of revenues generated from *Awqaf* properties and investments
3. Number of beneficiaries of *Awqaf* initiatives and programs
4. Amount of financial assistance provided to beneficiaries
5. Number of partnerships established with other government agencies, private sector entities, and NGOs to support *Awqaf* initiatives
6. Level of transparency and accountability in the management of *Awqaf*
7. Degree of compliance with regulatory frameworks and best practices in *Awqaf* management and investment
8. Effectiveness of outreach and awareness-raising efforts to promote charitable and philanthropic activities in society
9. Impact on local communities and society as a whole in terms of social and economic development.

These indicators provide a standardized and objective way to evaluate the effectiveness of GAA's programs and initiatives, and to monitor progress over time. There are several reasons why the GAA uses these indicators:

- ***Focus on specific goals and objectives:*** The GAA uses performance indicators that are designed to assess the achievement of specific goals and objectives, such as the number of beneficiaries served, the level of satisfaction among beneficiaries, or the impact on the community. By focusing on specific goals and objectives, the GAA can ensure that its programs are aligned with its missions and are achieving intended outcomes.
- ***Standardization and comparability:*** The use of standardized performance indicators allows the GAA to compare the effectiveness of different initiatives and programs. This allows the GAA to identify best practices and allocate resources to initiatives that are most effective in achieving desired outcomes.
- ***Objectivity:*** Performance indicators provide an objective way to measure progress and assess the effectiveness of initiatives. This allows the GAA to make informed decisions based on data and evidence rather than relying on subjective assessments.
- ***Accountability and transparency:*** The use of performance indicators allows the GAA to be accountable to stakeholders, including beneficiaries, partners, and the wider community. By

publishing data on the impact of its initiatives, the GAA can demonstrate its commitment to transparency and accountability.

- ***Counting:*** For performance indicators related to the number of beneficiaries or the amount of funds disbursed, the GAA may use a simple counting method to track progress. For example, the GAA may count the number of individuals who receive healthcare services or the amount of funds disbursed for a specific initiative.
- ***Rating scales:*** For performance indicators related to satisfaction levels or efficiency, the GAA may use rating scales to measure progress. For example, the GAA may ask beneficiaries to rate their satisfaction with a service on a scale of 1 to 5 or track the percentage of funds disbursed that go towards administrative costs.
- ***Time-based scales:*** For performance indicators related to sustainability or impact on the community, the GAA may use time-based scales to measure progress over a specific period of time. For example, the GAA may track improvements in health outcomes over a five-year period or assess the long-term viability of a project over ten years.
- ***Economic scales:*** For performance indicators related to economic impact, such as job creation or income generation, the GAA may use economic scales to measure progress. For example, the GAA may assess the total value of economic activity generated by an initiative or track the number of jobs created as a result of a specific project.

Despite these efforts, the GAA recognizes that there is still room for improvement in the monitoring of the success of its *Waqf* initiatives. For example, the GAA has identified the need to develop more robust impact monitoring tools that can provide a more comprehensive and accurate results on the social and economic impact of *Waqf* projects. The GAA is also working to improve its data collection and analysis processes to ensure that its KPIs accurately reflect the performance of its *Waqf* initiatives.

3. Badan Zakat Nasional Indonesia (BAZNAS Indonesia)

BAZNAS Indonesia primarily focuses on social aspects, particularly poverty alleviation, disaster relief, education, health care, and other social welfare programs.[100] While BAZNAS Indonesia recognizes the importance of environmental sustainability and has launched some environmental programs, such as eco-mosque initiatives, its primary focus remains on social welfare programs.

The impact indicators used by BAZNAS Indonesia were developed based on the specific needs and characteristics of the target communities and the goals of zakat programs. BAZNAS Indonesia identified the impact areas where zakat programs can make the most significant difference and developed indicators that are specific, measurable, and relevant to those areas. For example, poverty reduction is one of the most critical impact areas for zakat programs. Therefore, BAZNAS Indonesia developed indicators such as household income and poverty rates to measure the impact of its zakat programs on poverty reduction. Similarly, health care, education, job creation, and social empowerment are other impact areas where zakat programs can make a significant difference.[101]

BAZNAS key performance indicators include:

- ***Household income:*** For household income, a scale is used to measure the percentage increase in income before and after receiving zakat assistance.

100 BAZNAS. (2021). *What We Do.* https://baznas.go.id/profil#section-one/.

101 BAZNAS. (2020). *An analysis of social investment impact of Baznas microfinance program using social return on investment (SROI) method.* BAZNAS Center of Strategic Studies.

- ***Poverty rates:*** Poverty rates are measured using the Poverty Line Index (PLI) to track the percentage decrease in poverty rates in the target communities. The PLI is commonly used by governments and organizations to measure poverty and determine poverty reduction targets. In Indonesia, the Central Bureau of Statistics (BPS) is responsible for collecting and analyzing data related to poverty and developing poverty measures, including the PLI.
- ***Medical treatment:*** The number of beneficiaries who receive medical treatment through zakat assistance.
- ***Health outcomes:*** Health outcomes of beneficiaries are measured by tracking the percentage who report improvement after receiving zakat assistance.
- ***Access to education:*** It is measured by tracking the number of beneficiaries who receive education through zakat assistance.
- ***Completion rates:*** BAZNAS completion rates are measured by tracking the percentage of beneficiaries who have completed their education after receiving zakat assistance.
- ***Employment:*** This is measured by tracking the number of beneficiaries who gain employment through zakat assistance.
- ***Self-employment:*** This indicator is measured by tracking the percentage of beneficiaries who increase their income through self-employment after receiving zakat assistance.
- ***Access to social services:*** The number of beneficiaries who have been able to access social services through zakat assistance.
- ***Social status:*** Measured using a scale that measures the percentage of beneficiaries who have reported an increase in their social status after receiving zakat assistance.

It is noteworthy that the indicators used by BAZNAS Indonesia are consistent with the international development goals, such as the Sustainable Development Goals (SDGs). BAZNAS Indonesia has aligned its impact indicators with the SDGs to ensure that its zakat programs are contributing to global development goals.

CHAPTER 4

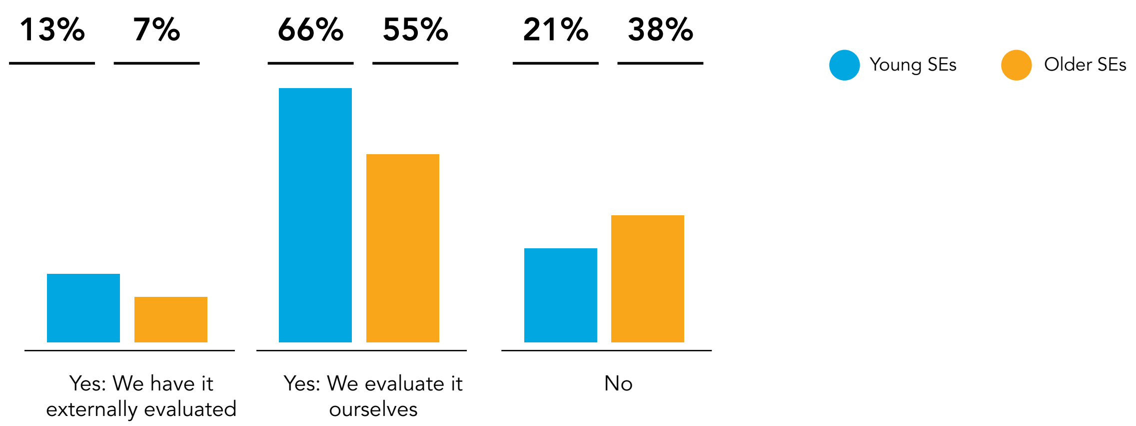
Impact Monitoring and Reporting of Social Finance in Malaysia

This chapter explores impact monitoring and reporting practices by Malaysian social finance participants, specifically FIs offering social finance and social enterprises. Case studies on selected FIs offering iTEKAD social finance is conducted on Bank Islam and Bank Rakyat's impact monitoring and reporting practices. Case studies on impact monitoring and reporting were also conducted on social enterprises, specifically PichaEats and Mereka. This chapter concludes with comparison of impact monitoring and reporting practices by Malaysian social finance participants and relevant international and national standards.

4.1 Impact Monitoring and Reporting by Malaysian Social Enterprises

Impact monitoring and reporting practices by Malaysian financial institutions and social enterprises vary in granularity and transparency. MECD reported that there is no consistent reporting of outcomes or impact of activities by social enterprises in Malaysia.[102] A survey conducted by the British Council in 2017 found that more than 60% of surveyed social enterprises in Malaysia monitor their social impact based on metrics set by funders and support organizations.[103] However, the survey also found that there was limited capacity to conduct impact monitoring and there was a lack of standardized approach among funders and support organizations.[104] As impact monitoring and reporting are essential tools for business planning and funding decisions by stakeholders, MECD has identified strategies to improve the monitoring mechanism for social enterprises through a standard monitoring to gauge the impact on beneficiaries.[105]

FIGURE 4.1
Impact Monitoring by Surveyed Social Enterprises



Source: The British Council. (2018). *The State of Social Enterprise in Malaysia 2018.*

The next section examines the impact monitoring and reporting by selected Malaysian banks and social enterprises. The impact indicators monitored by the selected banks and social enterprises are summarized in Appendix 7 of this report.

4.2 Impact Monitoring and Reporting by Malaysian Financial Institutions (FIs)

Besides iTEKAD participating banks, most banks do not report financing activities that are aligned to BNM's social finance objectives such as microSME financing, and financing for SME digitalization. The indicators reported are based on statistical reporting to BNM such as financing disbursed to SMEs, and the bank's portfolio monitoring such as the number of approved loans under the bank's SME Digital Financing product. Indicators measured and reported by selected banks in their annual report or sustainability report are listed in Table 4.1 below.

TABLE 4.1
Indicators Reported for Financing Aligned to Social Finance Objectives by Selected Banks

Banks	Financing of SMEs and Micro SMEs	Financing of SME Digitalization
Maybank[106]	i. Financing disbursed to SMEs ii. Number of SMEs hosted on its digital business platform iii. Number of financial literacy program	i. Percentage of approved SME Digital Financing product comprising of startup and microenterprises ii. Financing disbursed for digitization of business iii. Number of businesses registered and transactions conducted on its business banking app iv. Number of merchants onboarded on QRPay
CIMB[107]	i. Financing disbursed to SMEs ii. Number of participants and improvement in financial literacy awareness	No specific indicators
Bank Islam	i. Financing disbursed to SMEs[108] ii. Sadaqa fund indicators: beneficiaries impacted, income before and after, demography of recipients, value-added benefits[109]	No specific indicators
MBSB[110]	Financing disbursed to SMEs	No indicators reported although BNM's SME Fund for Automation and Digitalisation Facility is offered.
RHB Bank[111]	Financing disbursed to SMEs	No indicators

Source: World Bank's analysis of banks' annual reports and sustainability reports

106 Maybank. (2022, May 18). *Sustainability Report 2021.*
107 CIMB. (2023, March 16). *Integrated Annual Report 2022.*
108 Bank Islam. (2023). *Bank Islam Integrated Report 2022.*
109 Bank Islam Sadaqa House. (2022). *2021 Impact Report. Bank Islam.*
110 MBSB. (2023). *Sustainability Report 2022.*
111 RHB Bank. (2023). *Integrated Report 2022.*

4.3 Impact Monitoring and Reporting of iTEKAD Social Finance Program by Malaysian Banks

Impact indicators by iTEKAD participating banks are collected and reported to BNM to monitor the outcomes of their contributions to social finance recipients. iTEKAD participating banks (see Appendix 1 for a list of iTEKAD participating banks) report bi-annually to BNM the following indicators to ensure that the program delivers a positive impact to the recipients[112]:

i. *Segmental reporting*: Number of microentrepreneurs financed, business sectors financed, total financing disbursed, total philanthropic capital mobilized, gender composition of recipients, distribution by states, and percentage of recipients that completed training;

ii. *Business growth indicators:* Percentage of recipients generating an average monthly sale of more than RM4000, and percentage of recipients with asset value above RM10,000;

iii. *Employment indicators*: Percentage of employee retention;

iv. *Financial resilience indicators*: Percentage of business income saved in deposits and other investments; and

v. *Digital upskilling indicators*: Percentage of recipients adopting online sales and e-wallet payment for business transactions, and number of businesses running official websites with secured payment gateway.

The indicators monitored and reported to BNM are used to measure changes in the beneficiaries' business operations and financial wealth to indicate positive improvements from the program. The data for indicators are collected and captured by implementation partners through surveys of the beneficiaries. However, impact evaluation which identifies changes directly attributable to the program is not measured. An ex-ante or ex-post impact evaluation would require a comparison of changes in indicators between program beneficiaries and non-beneficiaries. A meaningful impact may only be captured some months or years after the program. Although this methodology can provide evidence on program performance, it is a costly exercise that is resource intensive since the data would be collected through surveys from the beneficiaries. For example, the International Initiative for Impact Evaluation (3ie) reported an average cost of US$334,000 to evaluate impact of its development programs[113]. Imposing impact evaluation on banks could hamper BNM's goal to scale up iTEKAD program, especially with the absence of immediate financial returns. Nevertheless, outsourcing of this exercise is possible as several global advisory firms are offering impact evaluation on ESG aspects (example: Deloitte, EY, KPMG and PwC).

112 Bank Negara Malaysia. (2022, March 30). *Annual Report 2021.*

113 Puri, J., and Rathinam, F. (2019, July 16). *Often late and costs a pretty penny: do impact evaluations meet the opportunity window?* Green Climate Fund.

4.4 BNM's Guideline on Impact Measurement, Monitoring, and Reporting for Development Financial Institutions (DFIs)

DFIs are guided by BNM's *Performance Measurement Framework Implementation Guide* (PMF), issued in 2021, to measure, monitor and report the impact of their operations in relation to each institution's mandate for specific sectors and customer segments.[114] An example of a mandate is SME Bank's role to drive SME growth through financing assistance and expertise development. The PMF was developed with reference to international standards on impact reporting such as the World Bank's Results Framework and Impact Evaluation methodologies, the International Finance Corporation's Anticipated Impact Measurement and Monitoring (AIMM), and the African Development Bank's Results Management Framework. The PMF outlines key components of impact monitoring and reporting, as follows:[115]

a. Desired additionalities from the DFI's financial, design, demonstration, and policy activities;
b. Social and cost-benefit measured by subsidy dependence index, output index, and net subsidy cost; and
c. Operational efficiency measured by cost-to-income and turnaround time.

In developing the socio-economic impact of their activities, the PMF describes the use of the theory of change or logic model to design programs for a development challenge, as illustrated in Figure 4.2.[116] In addition, the PMF emphasizes the importance of reporting impacts that are attributable to the outputs and outcomes of the activities to eliminate "impact washing."[117] Nevertheless, BNM acknowledges that this process is complex, timely, and costly. When selecting and defining key performance indicators prior to project execution, DFIs are recommended to ensure that it is SMART.[118] The indicators can be aggregated at an institutional level (example: number of jobs created, increase in customer's income) or project-specific (example: length of highway constructed, acres of farming land developed).[119] DFIs should also establish specific baselines and targets for the indicators.[120]

114 BNM. (May 27, 2021). *Performance Measurement Framework. Implementation Guide.*
115 Ibid.
116 Ibid.
117 Ibid.
118 Ibid.
119 Ibid.
120 Ibid.

FIGURE 4.2
BNM's Illustration of the Logic Model in the PMF

Input	Output	Outcome	Impact
• What are the resources needed for the proposed solutions? (e.g. capital, talent, process) • Is the solution to be developed in-house or require collaboration?	• What interventions/ solutions can result in the desired change? (e.g. financing, advisory, technical assistance) • Who is currently serving the same targeted segment? Are there any overlaps in role?	• What does medium term change look like? (e.g. increase in revenue, job creation, increase in savings)	• What is the desired long term economic or social change? • Who is the targeted group/beneficiary?

Source: Bank Negara Malaysia. (2021, May 27). *Performance Measurement Framework. Implementation Guide.*

The PMF also recommends a periodic independent evaluation of the impact reports to ensure an unbiased view of the actual impact of DFIs' activities, although this could also be costly and complex.[121] Currently, no DFIs have published or submitted reports to BNM based on the PMF. Implementation of the PMF may take some time as it requires a deeper analysis of DFIs' operations and data gathering. Thus, the effectiveness of the PMF as a guide for impact monitoring and reporting for DFIs cannot be assessed yet.

4.5 Case Studies on Impact Monitoring and Reporting by iTEKAD Participating Banks

1. Bank Islam's Sadaqa House and BangKIT Microfinance Programs[122]

Bank Islam launched the Sadaqa House social finance program in 2018 to deliver positive and sustainable impact to the underprivileged, facilitated by implementation partners such as NGOs. The Sadaqa House social finance program has been included as part of the iTEKAD initiative. Bank Islam as the intermediary and fund manager established the Sadaqa House as a crowdfunding platform for potential donors and charity projects. The funds are sourced from Bank Islam's purification fund and donation, a portion collected from donations during Friday prayers, as well as donations from individuals, institutions and companies. The funds are segregated into three buckets as follows:

121 Ibid.

122 Mohd Shairy, M.Z. (2023, March 6). *Interview on Bank Islam's Impact Reporting Practices*, by Soraya Azhar and Bank Islam Sadaqa House. (2022). *2021 Impact Report*. Bank Islam.

i. A *direct fund* which is channeled to *Asnafs*[123] and underprivileged communities in four main sectors – Community Empowerment, Healthcare, Education, and Environment through implementation partners.

ii. The *perpetual fund* received from institutional donors is distributed to underbanked B40[124] microentrepreneurs via the BangKIT microfinance program which is based on Qard (benevolent loan) contract. The principal from the BangKIT microfinance program will be returned to the perpetual fund. The amount of BangKIT microfinance ranges from RM3,000 to RM20,000 per recipient.

iii. Money from the *general fund* is disbursed to other beneficiaries such as flood victims, university entrepreneurship program, and rural development projects.

The strategies, processes and activities of Sadaqa House are overseen by the Sadaqa House and Zakat Committee, guided by Sadaqa House Management Guideline approved by Bank Islam's Management Risk Control Committee and Shariah Supervisory Council. Bank Islam is also guided by BNM's Corporate Governance Policy issued in 2016 to manage the public donations for Sadaqa House. Bank Islam has also referred to various international frameworks for the management of charitable contributions such as the UK Charity Commission's guidance and the Australian Charities and Not-for-profits Commission's guides to develop the Sadaqa House Management Guideline.

Bank Islam publishes the Sadaqa House Impact Report annually which discloses the governance structure, impact, and financial position of Sadaqa House. For the donations to NGOs through direct fund, the indicators reported include: the amount distributed to each implementation partner, and the number and type of beneficiaries for the respective target sectors. Narratives of inputs and outputs by each of the implementation partners are elaborated to show the use and benefits of the donation.

More impact indicators are monitored to measure the success of the BangKIT microfinance program. BangKIT microfinance provides underbanked micro-entrepreneurs with affordable microfinancing at zero financing rate, improve their business acumen, create perpetual social impact, and enhance their capacity to access commercial banking facilities at the end of the program. The indicators are reported by the beneficiaries for the bank, to evaluate the financial, business growth and utilization of Bank Islam's facilities and solutions, as illustrated in Figure 4.3. Demographic, financing distribution, and business sectors of the beneficiaries are also reported to analyze the utilization and distribution of BangKIT microfinance. Additional financial indicators such as repayment rate and non-performing financing are also monitored if required by institutional donors. Bank Islam has engaged a Fintech partner, MesinKira, to develop a digital solution to facilitate recipients' business transactions (i.e. via point-of-sales, cashflow, and financial records features) and the bank's impact indicator monitoring. This digital solution will help to minimize the cost of recipients' business operations and the bank's monitoring to support the growing number of underbanked entrepreneurs under Bank Islam's purview.

123 Asnaf are zakat beneficiaries that include the hardcore poor and destitute, the poor, and the oppressed Muslims.

124 B40 refers to Malaysian citizens in the bottom 40% of the household income range.

FIGURE 4.3
BangKIT Microfinance Indicators Monitored by Bank Islam

No.	Aspects	Dimension
1.	Financial	i. Average sales/revenue ii. Business assets iii. Average savings from business revenue iv. Zakat payment (if any)
2.	Business Growth	i. Number of employees ii. Types of savings made from business revenue iii. Use of ICT and gadgets in business iv. Use of e-commerce platform in business v. Use of e-wallet of digital payment solution in business
3.	Utilisation of BIMB facilities and solutions	i. Internet banking (e-Banker) in business ii. BIMB GoBiz app in business iii. BIMB SMEXpert in business iv. BIMB current account as main business account v. BIMB merchant payment terminal

Source: Bank Islam Sadaqa House. (2022). *2021 Impact Report.* Bank Islam.

Based on feedback from Bank Islam, it is challenging to collect accurate and timely data from the direct fund beneficiaries as it depends on the willingness of the beneficiaries to respond to surveys by implementation partners. Some implementation partners charge fees of between RM2,000 and RM3,000 to train, coach and collect data from participants over a period of 12 to 36 months. For the BangKIT microfinance program, Bank Islam gathers feedback directly from selected recipients to evaluate the need for larger funding for business expansion and impact on society. The data and impact evaluation process are resource-intensive, and expansion of the program will require a higher headcount. Impact evaluation that identifies changes directly attributable to the program will require allowance for management fees to compensate for the resource requirements.

2. Bank Rakyat's Entrepreneurship Leadership Series[125]

Bank Rakyat's Entrepreneurship Leadership Series consists of the RAKYATpreneur and Bank Rakyat UNIpreneur social finance programs. The RAKYATpreneur is a philanthropic initiative to provide seed funding for potential *Asnaf* micro-enterpreneurs, sourced from Zakat contributions. Besides financial assistance, the program also helps to nurture entrepreneurship skills with the goal of enhancing their bankability via access to business banking facilities at the end of a six-month program. The recipients are selected based on a list of eligible *Asnaf* micro-entrepreneurs provided by the state Zakat authorities or Lembaga Zakat Negeri. Seed funding of between RM5,000 to RM10,000 is provided to *Asnaf* micro businesses. Recipients are required to attend structured coaching and mentoring sessions by Universiti Teknologi MARA (UiTM)

125 Kamarulzaman, A. (2023, March 16). *Interview on Bank Rakyat's Impact Reporting Practices*, by Soraya Azhar

lecturers and successful former recipients of the program for six months. Successful and qualified graduates will be identified for access to further financing facilities.

The Bank Rakyat UNIpreneur program is a philanthropic initiative to assist potential young student entrepreneurs from *Asnaf* families with initial capital using zakat funding, and the development of entrepreneurial skills for six months. Bank Rakyat collaborates with selected universities to identify and provide seed funding of RM3,000 to *Asnaf* student entrepreneurs with low monthly revenue. Bank Rakyat also provides RM5,000 to the universities to coach and evaluate the progress of the recipients. At the end of the six-month program, the mentors will evaluate participants' communication skills, critical thinking, creativity in problem-solving, time management, and public speaking.

Impact indicator data from participants are collected and reported by the trainers and mentors. Implementation partners of RAKYATpreneur utilize online communication to receive feedback on the non-financial impact of the program to indicate the improvements in survival and economic needs of the participant's family, self-competency skills, the support system to *Asnaf* entrepreneurs, and compatibility of training modules. However, data collection is challenging, particularly in securing the commitment of participants to provide progress updates every three months. On the other hand, data collection for Bank Rakyat UNIpreneur program is less challenging since there is more frequent and closer communication between the lecturers and student participants. Financial indicators of the Bank Rakyat UNIpreneur program focus on the utilization of funds by participants such as upgrading of equipment, product restocking, rental, and debt settlement. The performance and impact of the programs are then reported to Bank Rakyat's management for close oversight and strategy deliberation. However, the performance indicators are not published. Impact evaluation to measure impact attributable to the programs is not evaluated as it is costly. The cost is not commensurate with the size of funding of between RM3,000 and RM10,000 per participant.

Moving forward, Bank Rakyat aims to measure and report the performance and impact of the programs based on BNM's PMF to capture improvements in monthly sales revenue, the number of employees retained and hired, and average monthly savings. Bank Rakyat is also exploring the use of Fintech to facilitate the collection of data and monitor the savings behavior of participants for better performance and impact monitoring.

4.6 Case Study on Impact Monitoring and Reporting by Malaysian Social Enterprises

1. PichaEats[126]

PichaEats is a social enterprise that provides platform for refugees in Malaysia to sell food cooked by them to the public. PichaEats monitor and report impact indicators guided by Asian Development Bank's Sustainable Livelihoods Approach which monitors the following livelihoods assets[127]:

126 Lim, Y.K. (2023, May 18). *Interview on PichaEats' Impact Reporting Practices,* by Soraya Azhar and PichaEats. (2023). *PichaEats 2022 Impact Report.*

127 Serrat, O. (2008, November). *The Sustainable Livelihoods Approach.*

a. Human capital such as health, nutrition, education, knowledge and skills, capacity to work, capacity to adapt.
b. Social capital such as networks and connections (patronage, neighborhoods, kinship), relations of trust and mutual understanding and support, formal and informal groups, shared values and behaviors, common rules and sanctions, collective representation, mechanisms for participation in decision-making, and leadership.
c. Natural capital such as land and produce, water and aquatic resources, trees and forest products, wildlife, wild foods and fibers, biodiversity, and environmental services.
d. Physical capital such as infrastructure (transport, roads, vehicles, secure shelter and buildings, water supply and sanitation, energy, communications), tools and technology (tools and equipment for production, seed, fertilizer, pesticides, traditional technology).
e. Financial capital such as savings, credit and debt (formal, informal), remittances, pensions, wages.

PichaEats measures and report the impact indicators on the livelihood of the chefs and their families' overall well-being and business growth. These are measured based on financial, physical, human, and social capital indicators as illustrated in Figure 4.4.

FIGURE 4.4
Impact Indicators Reported by PichaEats

FINANCIAL CAPITAL

RM1,000,000
given back to Picha Chefs

17 Active Kitchens
22 Picha Chefs

PHYSICAL CAPITAL

79% Chefs
are able to cover monthly rental fully from income made with PichaEats alone

100% Chefs are able to cover utilities bills monthly (water, electricity, WiFi)

HUMAN CAPITAL

87.5%
of Picha Chefs' children of schooling age (6-17) are in school

Bi-annual up-skilling training for chefs to learn new menu

Health checkup & quarterly hangout for all Picha Chefs

SOCIAL CAPITAL

Monthly
Town Halls to involve Picha Chefs in business discussion & decision making

Quarterly 1:1 Check-Ins for Picha Chefs' & their families' personal well-being

Source: PichaEats. (2023). *PichaEats 2022 Impact Report.*

PichaEats conducts surveys on the Chefs to evaluate the following financial, health and livelihood indicators to indicate the impact of PichaEats:

i. Financial well-being: Average income and ability to pay for medical fees before and with PichaEats;
ii. Improvements in livelihood: Rating of 1-5 to indicate life improvements since joining PichaEats, skills and confidence gained after joining PichaEats; and
iii. Health improvements: Rating of 1-5 to indicate the state of mental health after joining PichaEats.

PichaEats also assess and report on impact indicators beyond Picha Chefs such as job creation, waste management, reducing hunger of refugee children, and upskilling Picha Chefs. Data collection on the indicators is relatively easy and not time consuming due to low number of Chefs and close communications with its Chefs through monthly check-ins and quarterly gathering. However, impact evaluation that identifies changes directly attributable to PichaEats activities is not conducted as it is a costly exercise and not a standard practice in Malaysia. Additionally, targets on indicators are not established as it is hard to achieve them as some of the refugee chefs resettles elsewhere. Although PichaEats do not rely on external investors or grants to operate its business, PichaEats plans to continue publishing its impact report to ensure transparency of its work and awareness on the impact of its program.

2. Mereka[128]

Mereka is a talent development ecosystem for creatives talents, professionals and entrepreneurs to unleash their potential in the creative and digital economy. Mereka's ecosystem consists of exclusive access to the learning community, application-based training programs, industry experts and a regional network of creative hubs. For this case study, we examined the Future of Work (FOW) program, an employability development program training youths to find jobs either as a freelancer or a full-time employee. Mereka receives funding from its impact partners with the objective to increase employability of unemployed and underemployed B40 youths. The program is managed using the theory of change model. **Mereka monitors and reports indicators against targets to its funders. The choice of indicators and the reporting frequency is dependent on the funders' reporting requirements**. The indicators monitored and reported intend to capture output, outcome and impact of the Future of Work, as follows:

i. Output: Number of youths trained
ii. Outcome: Number of trained youths that are employment ready
iii. Impact: (a) Number of trained youths employed after the program; (b) Change in monthly income earned by trained youths pre- and post-program; and (c) Number of trained youths remaining in employment after six months

The ability to perform impact evaluation to measure the impact attributable to the program depends largely on the length of the training program, including time allocated for data collection and impact monitoring. Employability-related impact indicators take time to materialize depending on the job market. Hence, a follow-up period of at least one year is needed after the training program to collect meaningful impact indicator data for employability-related programs. Currently, Mereka's impact partners engage Mereka for programs lasting one year or longer, allocating the necessary timeline and budget for collecting impact indicators. Mereka allocates dedicated resources to collect data through emails, WhatsApp, telephone calls, and as pre-requirement for participating in events. Mereka allocates approximately 10 percent of its project cost for data collection on impact indicators.

128 Sangaran, A. (2023, April 19). *Interview on Mereka's Impact Reporting Practices*, by Soraya Azhar

However, these impact data collected, analyzed and measured still only measures the program within a timeframe of one to two years. The longer-term impacts (i.e. three years, five years, ten years) of the FOW program on their participants have not been evaluated as the program has only reached its third year, and studying the long-term effects of the program requires costly and resource consuming effort. The monitoring of the output, outcome, and impact above vis-à-vis targets is already challenging, particularly in getting a timely and quality response from participants.

The impact indicators are currently not published but is shared with funders during reporting cycles. Mereka plans to publish impact indicators of the FOW program on its website and impact reports by the end of the year. Mereka is also considering conducting a Social Return on Investment (SROI) analysis on the FOW program.

4.7 Comparing Impact Monitoring and Reporting Practices by Malaysian and Global Social Finance Participants

4.7.1 Goal and Target Setting

National and international guidelines on social finance and investment management such as BNM's PMF, BNM's VBI Guideline, the USSPM, and GIIN's IRIS+ outlined several common principles on social finance program goal and target setting, as follows:

i. The goals and target should consider the **positive and negative effects** of social finance on the community while balancing investors' expectations for risk, return, liquidity, and impact. An example of a strategic goal developed by GIIN is improving financial health for financial inclusion programs.[129]

ii. **Strategies** to achieve social goals and mitigate negative effects on the community should be established. Strategies will identify inputs and activities such as resources to be invested, development of appropriate product or financing solutions, and capacity building.

iii. Targets on outputs and outcomes should be **measurable** and **linked to evidence** that leads to the achievement of goals. BNM's VBI guideline cautioned against the use of process-oriented indicators such as the number of engagement sessions, but encourage indicators that indicate impact such as the number of jobs created in new growth areas.[130] To guide members in the selection of targets, GIIN has developed targets that are linked to evidence of successful achievement of goals.

iv. Goals and targets should be **time-bound** to ensure the achievement of goals that are aligned with stakeholders' expectations. For example, BNM's PMF requires that indicators be established based on the SMART principles which include the principle of timeliness.[131]

129 GIIN. *IRIS+ System. Data. Impact Performance Benchmarks.* Accessed on June 12, 2023 https://iris.thegiin.org/performance-analytics/

130 BNM. (October 3, 2018). *Implementation Guide for Value-based Intermediation*. p. 9.

131 BNM. (May 27, 2021). *Performance Measurement Framework. Implementation Guide.* p. 8.

When comparing the practices of Malaysian social finance participants against the principles listed above, several aspects of goal and target settings cannot be determined since it is not published. In the case of Bank Islam[132], the bank established annual targets on specific indicators for BangKIT microfinance such as target disbursement, target reach, and target upward mobility. Bank Islam also outlined strategies and targets for several Sadaqa House programs funded through the direct fund. However, monitoring of the negative effects, evidence-based targets, and non-process-based indicators are not evident in Bank Islam's published Impact Report.

4.7.2 Impact Indicators, Monitoring, and Evaluation

Indicators are important data to demonstrate program results to influence project planning, management, and reporting. Impact evaluation provides more concrete evidence of the targeted changes attributable to the social finance program. There are several guidelines and references on indicators, monitoring and impact evaluation methodologies such as BNM's PMF and VBI guidelines, GIIN's IRIS+, the World Bank's Results Framework and Impact Evaluation methodologies, IFC's AIMM, and OECD's Principles of Impact Evaluation. The common principles for impact monitoring of indicators and results are as follows:

i. The indicators should follow the **SMART principle** and be **minimal** to avoid burdensome data collection and monitoring. The World Bank's Results Framework requires stakeholders to select indicators that are necessary to measure the progress of the program without creating additional burdens on respondents or staff.[133] GIIN also recommends that the indicators selected to be **backed by evidence** and based on best practices of the industry.[134] GIIN has established a short list of key indicators for each strategic goal for members' reference. In addition, BNM requires that indicators focus on the impact created rather than being process oriented.[135]

ii. Impact evaluation should **consider the counterfactual** of what the outcomes would have been without the social finance program within a realistic timeline. This can be measured by comparing the outcomes of social finance beneficiaries versus non-beneficiaries with similar characteristics. There are many databases of metrics developed to support impact reporting such as GIIN's IRIS+, SPI4, B Analytics, and UN SDGs.

iii. Impact monitoring and evaluation is **independently assessed** to ensure an unbiased view and prevent impact washing.

In Malaysia, FIs and social enterprises report selected impact indicators on social finance programs. The common indicators are the demographic of beneficiaries and the improvement on the financial wealth of beneficiaries. For instance, Bank Islam measures positive outcomes from its BangKIT microfinance by monitoring the savings accumulation and income growth of participants. However, no impact evaluation has not been conducted nor reported. This is partly due to the limitation in financial and manpower resources to conduct a proper impact evaluation, particularly since the social finance programs do not generate financial returns for the bank. This is also the case for Bank Rakyat's Entrepreneurship Leadership Series. The collection of data for indicators from beneficiaries and implementation partners is already challenging due to the large number of participants that gives rise to communication and reachability issues.

132 Bank Islam Sadaqa House. (2022). *2021 Impact Report*. Bank Islam.

133 Independent Evaluation Group. (2012). *Designing a Results Framework for Achieving Results: A How-To Guide*. The World Bank.

134 GIIN. *An Introduction to Impact Measurement and Management*. Accessed June 12, 2023 https://iris.thegiin.org/introduction/#b2

135 Bank Negara Malaysia. (October 3, 2018). *Implementation Guide for Value-based Intermediation*. p. 9.

4.7.3 Indicator and Impact Reporting

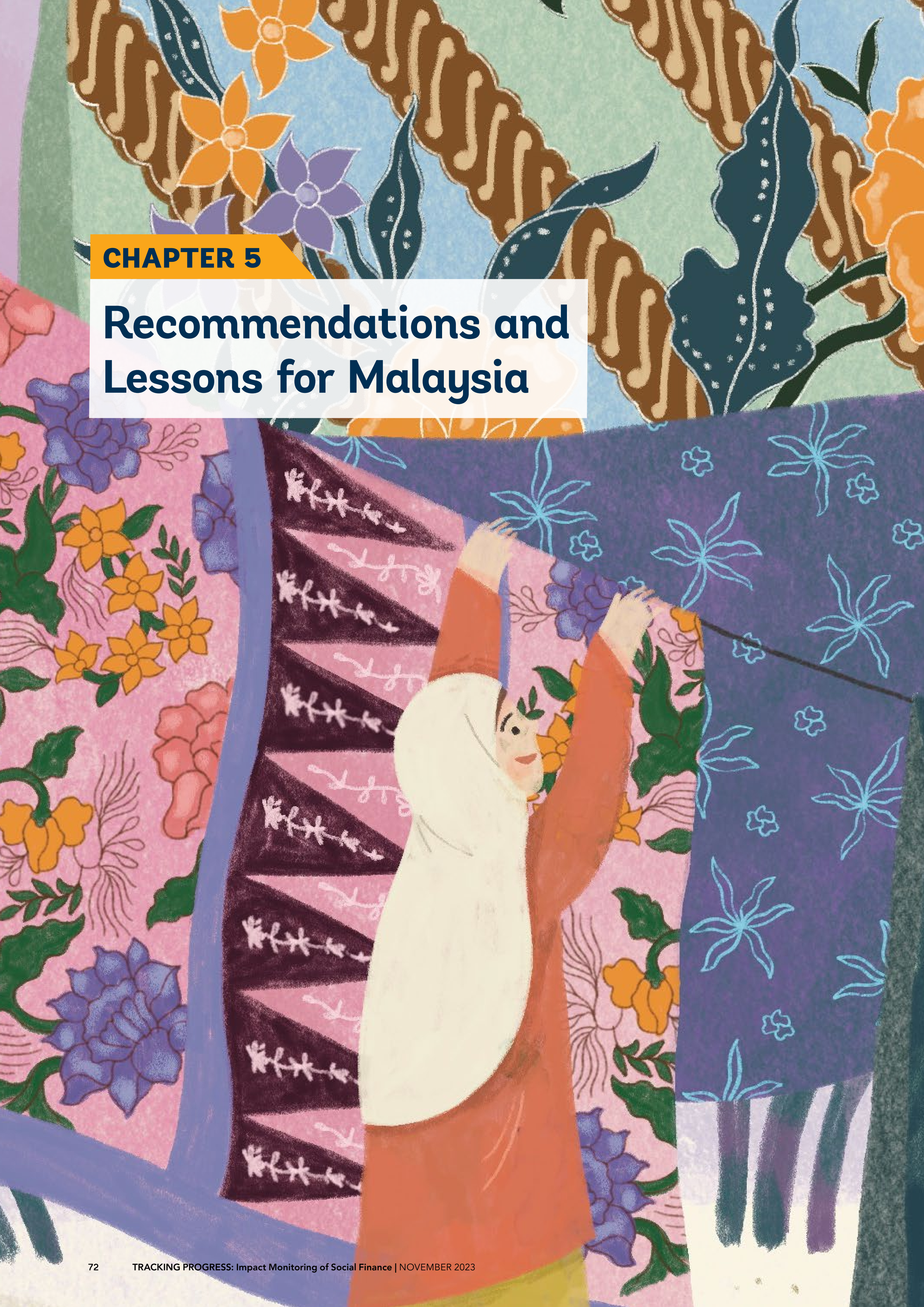
The reporting of social finance indicators and impact is important to ensure transparency and accountability on resources utilized, activities, and achievement of the desired outcomes. A robust report can also help to secure additional funding from investors as it allows them to conduct risk-reward decisions. Common practices on reporting of indicators and impact adopted by national and international organizations as well as global FIs include the following:

i. Publication of annual impact reports that are **separate** from sustainability or ESG reports. The separation of social finance impact report from sustainability or ESG reports provides clearer and larger information on the activities and indicators related to the social finance programs.

ii. **Regular reporting** to the management, and the Board. This is important to ensure prudent use of funding, risk management, and strategic decision on social finance programs.

iii. Report is **validated** by qualified social impact auditors. This process is particularly important for social finance with financial returns to ensure an unbiased view of the social finance program and prevents impact washing.

Most Malaysian FIs report social finance as part of the annual sustainability or ESG report. This would include CSR programs. iTEKAD participating banks report the required indicators to BNM on bi-annual basis. Several FIs and social enterprises such as Bank Islam and PichaEats publish annual impact reports. Others do not publish but report to the management and Board of the FI or company. In addition, the impact reports are validated by internal auditors as it can be costly to engage external auditors to validate impact reports and may not be proportionate with the cost and scale of social finance programs.



CHAPTER 5

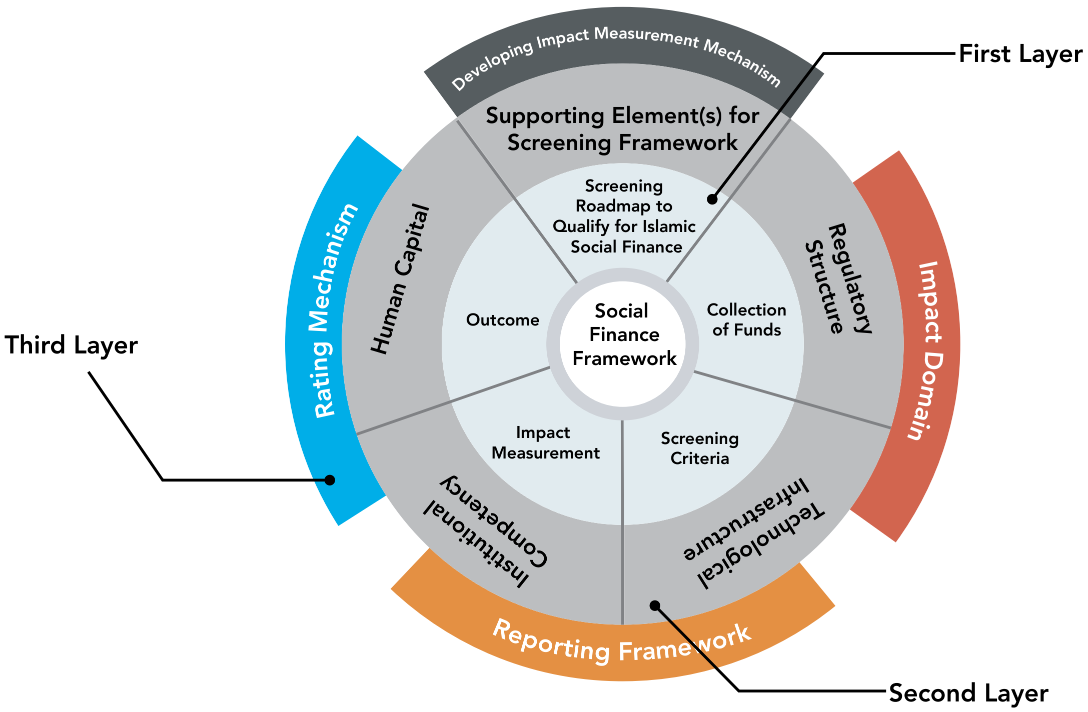
Recommendations and Lessons for Malaysia

Given the growing importance of social finance in Malaysia and the declared objective in the Financial Sector Blueprint 2022-2026 to mainstream it into the financial system, there is a need for concerted efforts on various fronts to strengthen the framework for social finance impact monitoring and reporting in Malaysia. Based on the review of principles, standards and practices described herewith, this chapter offers a set of recommendations to serve as input into the ongoing efforts to develop a more robust framework for impact monitoring and reporting of social finance in Malaysia. A well-defined framework would enable effective evaluation of social impact within Islamic social finance practices and identify strengths and weaknesses in the current practices. By gaining insights into areas where current practices excel or fall short, targeted strategies for improvement can be developed, leading to enhanced overall effectiveness of social finance offerings by Malaysian financial institutions. This is also to ensure a coherent and sustained effort to strengthen the framework for impact monitoring and reporting.

The recommendations will be structured based on the Roadmap for Social Finance in Malaysia (Roadmap) which identifies a series of complementary tools and incentives to further the financial regulator's and MECD's goals in social finance, incorporating existing tools (such as social taxonomy, sustainable finance standards, BNM's Performance Measurement Framework, and SC's SRI Taxonomy) and new ones (guidance for project, and entity-level impact monitoring) (see Figure 5.1). This Roadmap should encompass four key layers of action: 1) Clarify the principles of social finance; 2) Structural support; 3) Impact domains; and 4) Impact monitoring and reporting.

Financial regulators and MECD could spearhead the implementation of the Roadmap, leveraging on its prudential and market organizing role, with the involvement of all stakeholders (financial institutions, social finance organizations, etc). For guidance, the roadmaps for the future of impact investing, developed by the GIIN represent a significant effort to advance the scale and effectiveness of impact investing in the conventional social finance environment. It could be regarded as good practices, covering the identification of key areas of action to the introduction of an impact monitoring tool.

FIGURE 5.1
Roadmap for Social Finance in Malaysia



Recommendation 1: Clarify the Principles of Social Finance in Malaysia

Social finance principles can be further clarified based on the Maqasid principles, both for conventional and Islamic social finance. *Maqasid* refers to the intent, objective and purpose of public good to create harmony with welfare of the society.[136] The fundamental principles of Islamic social finance, which serve as the guiding objectives, such as social justice, equity, and sustainable development. Islamic FIs providing social finance are not only guided by general principles of social finance, such as creating positive social and environmental impact, promoting financial inclusion and empowerment, and addressing market failures and inequalities, but should also be governed by *Maqasid Shariah*, which are the higher objectives and purposes of Islamic law. This process involves a comprehensive examination of the distinctive characteristics of prevalent Islamic funding channels and the corresponding *Maqasid Shariah* principles that govern them. BNM and SC should collaborate to establish the principles for Maqasid al-Shariah to ensure standardized guide for Islamic social finance participants in the financial system.

For example, the Maqasid al-Shariah principles can be adopted from the Institute of Islamic Banking and Insurance (IIBI) principles of Islamic finance that aligns with Maqasid Shariah, such as:[137]

i. Stakeholders must individually and collectively be willing to decline transactions that are prohibited and can have harmful consequences for individuals and society as a whole; they have to uphold the highest professional standards of honesty and justice.

ii. Funders and recipients must disclose all information and records that primarily show where the revenues will come from and be judged for their intentions and actions in distinguishing transactions or investments from what is halal, or permissible, and haram, or prohibited.

The objective for the establishment of social finance principles is to identify specific domains of impact relevant to each funding channel, establish appropriate roles for Shariah supervision, and devise key performance indicators (KPIs) that encompass both the Shariah aspect and the desired social outcomes. For instance, when guided by the principles above, negative additionality should be evaluated and disclosed by social finance providers to ensure no harmful consequences of transactions. Materiality of issues and factors that are significant to Islamic social finance operations and their social impact can be determined to optimize resource allocation and identify key domains of impact, including income, education, health, and the environment. This analysis enables them to assess whether their impact aligns with the principles of *Maqasid Shariah* and Islamic economics, which represent the ultimate objectives of Islamic social finance. Through this analysis, they can ensure and advance social cohesion, justice, and equitable distribution in their operational areas and beyond.

An example of a materiality analysis in Islamic social finance is using a standardized *Maqasid Shariah* index tailored to address the common domains of impact targeted by Islamic social finance institutions. This index serves as a comprehensive framework to evaluate social impact initiatives based on the principles of *Maqasid Shariah*. The development of a standardized *Maqasid Shariah* index promotes consistency, comparability, and transparency in social impact monitoring within the Islamic finance industry. It provides stakeholders with a shared language and criteria to assess the effectiveness and alignment of different initiatives. By utilizing this index, stakeholders can ensure that their activities are in line with *Maqasid Shariah* and contribute to the broader objectives of Islamic social finance.

136 Institute of Islamic Banking and Insurance. (n.d.). *Maqasid Al-Shariah*. Accessed on June 17, 2023 https://www.islamic-banking.com/moral-oath/maqasid-al-shariah

137 Ibid.

Recommendation 2: Identify the Impact Domains for Social Finance in Malaysia

Identifying specific impact domains that social finance aims to address, such as building the capacity of micro-entrepreneurs to sustain and scale up their businesses, and other key social issues plays a vital role in effectively measuring and managing social impact. It brings clarity to the objectives, outcomes, and indicators that guide impact management activities. This identification offers several valuable benefits to social finance actors. It ensures alignment between their impact vision, mission, and core values and capabilities. By focusing on the most significant and relevant impact areas, resources and efforts can be prioritized effectively. Furthermore, it facilitates clear communication and reporting of impact performance and contributions to stakeholders and society. Learning and comparing within the same or similar impact domains becomes simpler, allowing for knowledge sharing. Moreover, impact domain identification aids in continuous improvement and optimization of impact strategies and practices over time.

To illustrate, IRIS+ has defined its impact domains based on seven dimensions, including the nature of impact, target beneficiaries, scale, depth, duration, contribution depth, and risk, along with the 16 SDGs. Similarly, the USSPM framework identifies seven areas, such as social strategy, committed leadership, client-centered products and services, client protection, responsible human resource development, responsible growth and returns, and environmental performance management. Organizations can also define their own domains of impact at an organizational level, such as Opportunity International's focus on poverty alleviation, women empowerment, education, agriculture, and vulnerable populations. For Malaysia, BNM could clarify that the impact domain for social finance by FIs is on building the capacity of micro-entrepreneurs to sustain and skill up their businesses. Additionally, MECD could establish their own impact domains based on most pressing issues in the country that aligns to the government's priorities in the 12th Malaysia Plan that would improve the standards of living of the underprivileged such as reducing hardcore poverty, digitizing micro and SMEs operations, and increasing highly skilled Malaysian workforce.[138] The clarification on priority impact domains by authorities will guide the funding activities of social finance providers and facilitate achievement of the desired social outcomes.

Recommendation 3: Consult Stakeholders and Beneficiaries to Get Feedback on the Development of a Social Finance Framework and Impact Reporting.

The development of a social finance framework and guideline on impact monitoring and reporting of social finance will require the involvement of a broad ecosystem of actors along the entire investment value chain, including authorities, issuers of financial products (companies, cities, countries), financial intermediaries, providers of capital (banks and credit institutions), investors (private investors, institutional investors, insurance companies, and development finance) and beneficiaries. While financial regulators and MECD can play a central role in the design and dissemination of the social finance framework and impact monitoring and reporting guideline, financial institutions and social organizations have to adopt and implement the framework in carrying out their social finance activities. Obtaining buy-in and feedback are therefore a key success factor.

To ensure that practices of impact monitoring and reporting percolates throughout the social finance ecosystem, it is important to sensitize and educate potential beneficiaries on the importance of tracking results. A key best practice in the philanthropic grantmaking sector is to announce intended areas of impact and seek grant applications that articulate envisioned impact. It is recommended that social finance providers consider (1) soliciting applications that include commitments to impact and (2) requiring, where appropriate, recipients to regularly report on outcomes. Such reporting should protect the privacy of data of participants and the identities of beneficiaries should not be disclosed. It may not be appropriate for the social finance organizations themselves to solicit grant applications from ultimate beneficiaries (for

138 Ministry of Economy. (2021, September). *Twelfth Malaysia Plan 2021-2025*.

reasons related to privacy and practicality), but social finance organizations can proactively follow up with beneficiaries to report on impact. Further, financial institutions making grants to social finance organizations, should be encouraged to engage with and convene social finance recipients as a means for feedback, knowledge-sharing, and strategy refinement. The social finance providers themselves may also consider such convenings of beneficiaries where appropriate.[139]

For Islamic social finance, it is important to address the different policies by state-level Islamic authorities and federal-level regulatory bodies in Malaysia which may create a complex landscape for the governance of Islamic social finance. This can result in conflicting interpretations and regulatory inconsistencies, thereby posing a challenge to the seamless implementation of a standardized framework for Islamic social finance. Addressing this challenge necessitates a harmonized effort to delineate responsibilities and promoting cooperation among relevant authorities to ensure the effective and uniform application within the Malaysian context.

Recommendation 4: Improve the Structural Support for Social Finance.

Financial regulators and MECD should continue to enhance the regulatory environment for social finance, establish infrastructure for human capital development, technological and institutional structures to support the social finance ecosystem, which are explained in the next points.

1. Regulatory Environment

A regulatory environment that is conducive for social finance can foster continuation, scaling up, and enhancements to the social finance impact monitoring and reporting practices. The current regulatory environment for Malaysian FIs already provides funding incentives such as iTEKAD and requires impact indicator reporting to BNM on iTEKAD utilization. **For financial institutions, the requirements by BNM can be further expanded to include annual publication of the impact indicators of iTEKAD program, both positive and negative, by respective FIs**. This could facilitate consistency and coherence in measuring, monitoring, and reporting social impact, fostering transparency and accountability to stakeholders. This regulation method is also adopted by the European Union through the EU Sustainable Finance Disclosure Regulation (SFDR) 2019/2088 that mandates financial market participants and advisers to disclose how they incorporate sustainability risks and adverse sustainability impacts into their investment decisions and advice.[140] Other regulatory environment reforms proposed by the GIIN Roadmap for the Future of Impact Investing for policymakers to facilitate impact investing are clarifying fiduciary duty, establishing tax incentives for impact investments, and develop regulations that incentivizes product development, impact monitoring and reporting, and the provision of capacity-building support.[141]

2. Human Capital Development

Promoting the new approach within social finance requires cultivating awareness among diverse stakeholders and developing a capable human capital pool. As such, there exists a need to invest in education and capacity-building programs aimed at equipping individuals with the required skills to accurately measure, report, and audit. This can be achieved through comprehensive and esteemed training programs that offer certification in social impact monitoring and evaluation. Programs such as the International Training Centre's Monitoring and Evaluation Certification Program, and certification by the Evaluator's Institute at Claremont Graduate University provide individuals with the knowledge, skills, and expertise required to effectively assess and report on social impact outcomes. By successfully

139 Convenings need not gather all beneficiaries. Sampling methods can be used to efficiently gather data.

140 Eurosif. *Sustainable Finance Disclosure Regulation (SFDR).* Accessed on June 12, 2023 https://www.eurosif.org/policies/sfdr/

141 GIIN. (March, 2018). *Roadmap for the Future of Impact Investing: Reshaping Financial Markets.* p. 7.

completing rigorous training and examinations, professionals can obtain the necessary credentials to ensure accuracy, consistency, and credibility of social impact auditing. This commitment to professional development contributes to the establishment of a skilled workforce capable of upholding the highest standards in measuring and reporting social impact, ultimately enhancing the credibility and effectiveness of the entire process. In order for an impact approach to work effectively, the training programs should also emphasize on results as evidence for decision-making across the board.

Based on our study, we found that there is a need for training and certification on impact monitoring and evaluation skills by financial institutions offering social finance in Malaysia. Financial regulators could coordinate with the Asian Institute of Chartered Bankers (AICB) or other training providers to develop a capacity building module on impact monitoring and evaluation. The training programs should be designed to facilitate units making lending decision, units evaluating the impact of social finance programs, and independent validator of the impact evaluations. The training programs could be beneficial even for DFIs to implement the BNM Performance Measurement Framework which requires monitoring on additionality, social cost and benefit, and operational efficiency.

It is important to enhance the capability of social finance providers to carry out reliable impact evaluation and reporting. This would also support financial regulators' and MECD's vision to enhance impact monitoring by financial institutions and social enterprises. Financial regulators and MECD could promote the development of monitoring and evaluation (M&E) capabilities within financial institutions and social enterprises in order to create a central focal point for building and maintaining such capabilities. It is not expected that FIs would create entire M&E departments, rather, they can allocate staff time to M&E and engage external experts to support in monitoring and evaluation. The roles and responsibilities of such M&E function should be made clear to ensure focus on the results. External expertise could be obtained from other development organizations with a long history of monitoring and evaluation, as well as from private advisory firms with relevant expertise.

3. Technological Infrastructure

Reporting to a centralized database can facilitate the documentation and analysis of social finance practices, along with their corresponding impacts. A primary function of this database is to generate comprehensive data and information that can be consolidated to aid the central bank to effectively monitor the trajectory of social finance within the country and evaluate its overall impact. The data will help authorities to coordinate effort in terms of what areas or beneficiaries to be targeted, the role of implementation partners, avoid overlaps, and reduce financial waste. For instance, a database like IRIS+ which offers a user-friendly central web platform as part of its features, would simplify data collection and reporting of social finance activities. The platform could provide easy access to a range of resources, including core metric sets, thematic taxonomies, evidence base, and alignment guides, allowing users to leverage impact metrics effectively. Moreover, the web platform allows users to tailor their own impact monitoring and reporting frameworks according to their unique impact goals and strategies. For the iTEKAD social finance program, BNM, Zakat authorities, and the state government can collaborate to establish this database to facilitate monitoring of zakat fund utilization for the program and impact of the iTEKAD social finance program.

In addition to these capabilities, the web platform could serve as a gateway to other useful tools and platforms that support data collection, analysis, and reporting of social and environmental impact. For instance, in IRIS+, users have the option to connect their IRIS+ frameworks with platforms like Impact Cloud or SoPact, enabling them to consolidate and visualize data from multiple sources. Moreover, users of IRIS+ can seamlessly export their IRIS+ frameworks to widely recognized reporting platforms like the GRI or the Sustainability Accounting Standards Board (SASB), which facilitates effective communication of their impact performance to diverse stakeholders.

Provision of this technological infrastructure such as IRIS+ aims to democratize and standardize social and environmental impact monitoring and management for both impact investors and investees. The central web platform enhances accountability, accessibility, comparability, and streamlines the process, ultimately facilitating better decision-making and promoting greater transparency in the field of impact monitoring and management. This will also foster enhanced collaboration and evidence-based policy development. However, the main obstacle lies in incentivizing and regulating social finance institutions to consistently report their impact data in a standardized format to this central repository. Achieving this objective demands a harmonized approach that aligns incentives to encourage compliance.

4. Institutional Structure

A social finance governance framework for the financial industry is vital for defining the roles and responsibilities of various stakeholders engaged in the process of social impact monitoring and program management. Furthermore, the institutional infrastructure plays a crucial role in shaping policies, procedures, systems, and standards that govern the institution's social impact activities and practices. These frameworks provide essential guidance and regulation, ensuring that social impact efforts align with the overall mission and desired outcomes. For instance, financial regulators and MECD could introduce social finance governance framework to guide FIs on sourcing of funds, funding utilization, monitoring and governance. Such framework has been established by several financial institutions such as Bank Islam and Bank Rakyat to ensure clear strategy to scale up social finance while ensuring prudent management of funds and achievement of desired outcomes.

Recommendation 5: Provide Guidance on Impact Monitoring and Reporting of Social Finance and Assess the Impact of Social Finance Programs.

1. Develop a Guideline for Impact Monitoring of Social Finance.

Drawing on global lessons of experience and guided by the *Theory of Change* model, we recommend that the guidelines for impact monitoring and evaluation of social finance should contain the following components:

- ***a. Identify targets or goals*:** Identification of long-term goal of the social finance program will guide the direction of program activities and funding decisions. The targets should be measurable and linked to evidence that ensures achievement of the desired impact.
- ***b. Input:*** Tracking the resources and efforts directed towards social impact, including investments and initiatives. These measures can include financial contributions, technical support, and staff time.
- ***c. Output:*** Focusing on direct results, or the quantity of output of SDG investments or strategic initiatives, for example, the number of essential goods and services provided. Output assessments consider the activities undertaken.
- ***d. Outcome:*** Focusing on the ultimate result of social investments or initiatives, beyond their direct output. Examples of outcomes are increased youth employment, growth in income of vulnerable households, increased digitalization of micro and SME customers, and increased access to financial services of underserved segments. Outcome assessments can incorporate relevant metrics that are rooted in widely adopted global frameworks such as the UN Sustainable Development Goals and IRIS+ metrics for increased relevance, robustness and comparability with other jurisdictions.
- ***e. Ex-ante and ex-post monitoring:*** Impact monitoring include both the assessment of development outcomes (ex-ante), as well as the monitoring, supervision, and reporting of the development

outcomes (ex-post). Reporting can be at the project or initiative level and at the overall organizational level (as is the norm for multilateral development financial institutions).

f. ***Impact evaluation or additionality:*** Evaluation of impact attributable to the social program is important to provide evidence of the impact achieved and avoid 'impact washing'. Impact evaluation identifies the causal effect where the change in outcomes is quantitatively and qualitatively ascertained to be directly attributable to the program, program modality, or design innovation. It refers to positive impact or outcome that would not have otherwise occurred without additional resources or investment provided by social finance. However, impact may take several years after the program completion to materialize. There are several methodologies to quantitatively assess impact and a common method is the *randomized controlled trial (RCT)* where change in outcomes is measured for social finance beneficiaries (known as *treatment* group) and non-beneficiaries (known as *comparison* group) with the same conditions and environment. The impact of the program will be the difference between outcomes of the *treatment* and *comparison* groups. Data for qualitative assessment can be collected through surveys and interviews of beneficiaries on the impact of the program. Depending on the program, impact evaluation can be sufficiently conducted after three to five years from the start of the program to determine the long-term outcomes. Data collection as well as technical and financial resources are crucial at each step of the way. A handbook on impact evaluation produced by the World Bank can be used to guide impact evaluation implementation.

In pursuing the practical application of these elements, policymakers must be careful to balance the costs and benefits. For example, there are concerns that costly impact evaluation required of social finance providers may be a disincentive for FIs to continue offering social finance that is accessible to the underserved segments. It is important to ensure that the expectations on impact evaluation are commensurate with the size and stage of the social finance programs so as to not deter continuity and scaling up of the programs. For example, expecting FIs to conduct impact evaluation to show that the social finance programs are directly responsible for the impact is costly and may discourage programs with high volume and low returns from continuing. Thus, implementation of good global practices in impact evaluation could be adopted in stages, starting with indicator monitoring. It is important to monitor intermediate results along the theory of change that can be reported on to make sure the program is heading in the right direction. The theory of change model is an important tool to help program managers adjust and course correct during the lifetime of a program.

2. Standardized Reporting Framework

Establishing a standardized reporting framework ensures consistent and transparent reporting of social impact data. The reporting of social finance activities and impact should also be separate from sustainability and ESG reports to allow stakeholders to easily identify and assess social finance programs. The standardized reporting framework could also be complemented with the development of guidance on impact indicator monitoring including a library of common impact indicators for lending to different sectors that are aligned to international best practice. For instance, the common indicators identified by HIPSO for lending to education sector are number of students enrolled and number of female students enrolled.[142] This would help create a standardized indicator reporting approach that would be useful for comparison by investors and decision-makers. To ensure adherence to these standards, financial regulators and MECD could establish a requirement on social finance providers and social enterprises to disclose their social impact results using standardized monitoring and reporting frameworks. This proactive role by the government reinforces accountability, fosters trust among stakeholders, and paves the way for a more robust and effective social finance system.

142 Harmonized Indicators for Private Sector Operations. (n.d.). *Joint Impact Indicators: Education*. Access on June 16, 2023 https://indicators.ifipartnership.org/education/

3. Independent Impact Validation

Independent validation of impact reports by internal audit or external verifiers can be established as a requirement to ensure an unbiased view of the social finance program and prevents impact washing. Independent validation of social impact reports is a common principle adopted by international impact standard setting organizations, global impact investors and social organizations. This principle is also recommended by BNM in its Performance Measurement Framework for DFIs. Independent validation can be conducted by the organization's internal auditors or by qualified external social impact auditors. For example, the impact evaluation for the World Bank lending programs is conducted by the Independent Evaluation Group which reports on the results to the Board of the World Bank.

4. Rating Mechanism

When social finance in Malaysia is mainstream and evolved, it may be useful to implement a rating system to assess and compare the performance of social finance initiatives based on their social impact outcomes. The Micro-Credit Ratings International Limited (M-CRIL), a microfinance rating and assessment agency based in India, offers rating assessment based on the USSPM to independently rate microfinance institutions' achievements of social performance management and governance, social responsibility to staff and clients, depth of outreach, and quality of services.[143] The rating could be conducted by financial regulators and MECD, considering the importance of evaluating the performance of agencies and institutions engaged in social finance. The viability of the rating mechanism is contingent upon the successful implementation of impact monitoring guideline, scorecard, and reporting framework as explained above. Nevertheless, due care is required when implementing rating mechanism so as to avoid sole incentives to achieve high rating rather at the expense of target beneficiaries.

Recommendation 6: Customize Social Finance Framework and Impact Monitoring and Reporting Guidelines for Islamic Financial Institutions (Islamic FIs).

Despite the overall alignment of Islamic Finance values with that of conventional finance, the gaps in applying the conventional social impact monitoring frameworks to Islamic FIs offering social finance should be analyzed. The analysis can be conducted on institution, recipient, and funding source levels to ensure that the unique attributes of Islamic social finance particularly the *Maqasid Shariah* is preserved. **Implementing the recommendations for Islamic social finance in Malaysia poses challenges, predominantly rooted in the diversity of Islamic financial instruments.** In comparison to the conventional social finance ecosystem, where the establishment of universal standards is a more streamlined process, harmonizing principles within Islamic social finance could be challenging. One of the central challenges in taking a standardized approach towards Islamic social finance is the inherent heterogeneity of the underlying financial instruments. For example, *Zakat, Sadaqah,* and *Waqf* each embodies distinct characteristics and operational details and attempting to merge these differing mechanisms under a single impact measurement framework requires a novel approach. When implementing the recommendations above, the following analysis for Islamic finance institutions should also be conducted by financial regulators and Islamic FIs:

1. Institution centered gap analysis

The institution-centric gap analysis can concentrate on the unique attributes of Islamic FIs offering social finance and the disparities that exist between their operations and the commonly utilized framework in the conventional sphere. This approach is vital to avoid duplicating efforts and to establish compatibility in terms of best practices. The gap analysis should center around five key elements:

143 Micro-Credit Ratings International Limited. (n.d.) *Ratings – inclusive financial service providers (FSPs): Social Ratings.* Accessed on June 18, 2023 at https://www.m-cril.com/services-2/ratings-certifications/ratings-inclusive-financial-service-providersfsps/social-rating/

KPI setting, governance, talent development, monitoring and evaluation processes, and reporting standards. This approach entails conducting a comprehensive examination of the operations of Islamic FIs and pinpointing any discrepancies that may arise when comparing them to existing conventional social impact monitoring frameworks. For instance, conventional social impact monitoring prioritizes comparability, allowing stakeholders to evaluate and communicate the effectiveness of interventions. In contrast, Islamic social impact monitoring lacks standardization, hindering comparability and limiting stakeholders' ability to assess and demonstrate their social impact. Nonetheless, conventional social impact monitoring often focuses on numbers and quantitative metrics, neglecting the values and principles guiding social finance. In contrast, Islamic social impact monitoring considers the qualitative aspects and is driven by religious considerations, aiming to enhance well-being and be in alignment with the objectives of Islamic law. Thus, there is a need to develop a comprehensive understanding of social impact, incorporating ethical and spiritual dimensions.

It is important to prioritize the identified gaps by considering factors such as urgency, feasibility, and impact, and to formulate specific strategies to tackle them. To facilitate this process, an action group comprising representatives from Islamic FIs, financial regulators, Shariah advisors, government authorities, and researchers could be established. This group would be responsible for conducting the gap analysis and reporting its findings to financial regulators.

2. Recipient centered gap analysis

A client-centric approach in measuring social impact within the domain of Islamic social finance can also be analyzed. Presently, IFIs tend to adopt an institution-centric approach, which may not adequately recognize the distinct characteristics and diverse profiles of clients associated with Islamic social finance recipients. The significance of the clientele effect should not be overlooked, as the profiles of *zakat* and *awqaf* recipients can vary significantly. To assess the compatibility of social impact monitoring frameworks with the unique features of a financial institution, a client-focused approach can be adopted. This involves developing a comprehensive client profile that describes the characteristics, needs, preferences, and expectations of the institution's target customers or beneficiaries. By creating this profile, the institution can gain valuable insights into the impact objectives and outcomes it seeks to achieve. Additionally, it allows for the identification of relevant indicators and data sources necessary for measuring and reporting on social impact.

During this process, any gaps between the client-based set of KPIs in conventional social finance frameworks and the specific client profiles can be identified. These gaps serve as areas of improvement, prompting the development of new and relevant KPIs that align with the unique features of the financial institution's clientele. By bridging these gaps, the institution can ensure that the social impact monitoring frameworks accurately capture the desired outcomes and effectively reflect the needs and expectations of its clients. This process, too, can be performed by the aforementioned action group reporting to financial regulators.

3. Funding source-centered gap analysis

An analysis on the funding source gap ensures optimization of the collection process within Islamic social finance institutions, which encompass activities such as *Zakat*, *Sadaqah*, and *Waqf*. There exists a significant gap between the potential and actual collection rates in this domain. Regulatory constraints and scalability issues are two main obstacles that hinder the improvement of collections for Islamic social finance.

Drawing from the principles of Shariah and common Islamic practices, funding sources within Islamic social finance institutions are intricately linked to specific client profiles. For instance, the recipients of *Zakat* differ significantly from those of *Waqaf*. Recognizing this unique characteristic is crucial, recipients should be funded in accordance with *Shariah*-based priorities and specific domains of impact aligned with each fund source. Conducting a thorough gap analysis enables a comprehensive understanding of the distinct requirements and objectives associated with different funding sources. It allows for the identification of gaps that may arise in aligning recipients with their corresponding fund channels, ensuring adherence to *Shariah* principles and optimizing the intended social impact outcomes. By addressing these gaps, Islamic social finance institutions can ensure that funds are allocated in a manner that aligns with the priorities set forth by *Shariah* and the specific objectives of each fund source. The funding source-centered gap analysis is as well performed by the action group specified earlier.

In addition, as part of customizing for Islamic finance, it is useful to develop industry benchmarks for Islamic FIs to compare and evaluate their performance against other players in the market. Indicators should be developed to compare an institution's performance in three dimensions: i) through time; ii) against peers; and iii) against benchmarks. Evaluating performance through time allows the institutions to track their performance as well as the impact of relevant variables, enforced policies, and institutional changes. Moreover, performance assessment against peers of the same group enables IFIs to not only compare their performance with other players, but also balance their priorities with that of their peers. Finally, benchmark-based evaluation allows the Islamic FIs to set benchmarks for their KPIs of concern, and compare their performance in each period to their projected benchmarks. A benchmark analysis allows for a benchmark development among peers of the same group and allows Islamic FIs to compare their performance against group benchmarks, as well.

Appendix 1: List of iTEKAD Participating Banks and Program Features

iTEKAD

Financial Institutions	Program Name	Funding Features	Value-added Propositions	Target Beneficiaries
AmBank Islamic	AmBank Islamic's iTEKAD Programme	Returned zakat and access to microfinancing facility.	Zakat-funded grants with support for enhancement of business digital capability	*Asnaf* entrepreneurs.
Bank Islam	iTEKAD Maju Microfinance	Returned zakat and microfinancing facility.	Zakat-funded purchase of business equipment for business expansion.	B40 and *Asnaf* microentrepreneurs
	iTEKAD BangKIT Microfinance	Donations-funded microfinancing facility.	Benevolent loan for business start-up and business expansion.	Microentrepeneurs who are ineligible for ordinary banking financing facilities.
Bank Muamalat	iTEKAD Mawaddah	Returned zakat and two-tier Mudarabah investment.	Facilitation of halal certification process.	Halal microentrepreneurs
	iTEKAD Mahabbah	Return zakat and microfinancing facility.	Benevolent loan to support businesses in food and beverage, and gig economy sectors.	Microentrepreneurs in food and beverage, and gig economy.
CIMB Islamic Bank	CIMB Islamic Rider Entrepreneur Asnaf Programme	CSR grant, cash waqf, zakat fund and microfinancing facility	CSR- and waqf-funded motorcycles and entrepreneurship training program for beneficiaries, with prospective opportunity for business financing if required	Individuals from B40 and *Asnaf* categories.
RHB Islamic Bank	BEST-BYOB (B40 Empowerment Strategy – Be Your Own Boss)	Returned zakat and access to SME financing facility.	Zakat-funded grants and/or benevolent loans for start-up of franchise business.	*Asnaf* venturing in pre-franchise business.

Financial Institutions	Program Name	Funding Features	Value-added Propositions	Target Beneficiaries
Bank Simpanan Nasional	BSN MulaNiaga	Returned zakat with graduation to microfinancing facility	Zakat-funded grants and/or graduation to microfinancing for business expansion	*Asnaf* and graduated *Asnaf*, who may not be eligible for zakat assistance nor ordinary banking financing faciilities.
Bank Rakyat	RAKYATpreneur	Returned zakat and access to microfinancing facility	Zakat-funded grants for expansion of new business	Microentrepreneurs at early stage of their business.
	Bank Rakyat UNIpreneur			Aspiring youth venturing into entrepreneurship
Agrobank	Hijrah Asnaf Tanaman Nanas Berkelompok	Returned zakat and access to microfinancing facility	Zakat-funded grants paired with microfinancing to support ventures into agricultural project	*Asnaf* who are committed to become agripreneur.
	Inkubator Usahawan Tanaman Rock Melon			*Asnaf* / students from B40 or *asnaf* background, who are committed to become agripreneurs.
	Program Hijrah Asnaf Ayam Kampung, Program Hijrah Asnaf Ruminan, Program Hijrah Asnaf Tanaman Cili Fertigasi, Program Hijrah Asnaf Tanaman Hidroponik Meja and Program Hijrah Asnaf Tanaman Cendawan			
SME Bank	SME Bank iTEKAD Penjana Komuniti	Returned zakat, CSR contributions and access to microfinancing facility	Zakat- and/or CSR-funded grants for business start-up or expansion	B40 microentrepreneurs inclusive of *asnaf* and single mothers
	SME Bank iTEKAD Ishraf			*Asnaf* entrepreneurs.

Financial Institutions	Program Name	Funding Features	Value-added Propositions	Target Beneficiaries
Public Islamic Bank	iTEKAD Micro Entrepreneurs Development Programme	Returned zakat and access to microfinancing facility	Entrepreneurship development through funding support and training in digital marketing and operations.	*Asnaf* entrepreneurs.
Maybank Islamic Bank	Aspirasi Wanita	Zakat and access to microfinancing facilities.	Funding and training to support start-up of business or gig career.	Aspiring microentrepreneurs or gig workers from *Asnaf* categories.
Hong Leong Islamic Bank	Business Foundation Program	Benevolent financing funded by CSR funds with subsequent access to financing facility.	Funding and training to support start-up of business, enhanced with digital onboarding methods.	B40 with focus on: 1. Single parents 2. Housewives 3. People with disabilities 4. Unemployed youth 5. Women entrepreneurs
	Marginalized *Asnaf* Empowerment Program	Zakat-funded grants with access to financing facility.	Technical training and funding for business assets to instil tailoring and entrepreneurship skills.	Women *Asnaf*

Source: Bank Negara Malaysia. (n.d.) *Social Finance*. Accessed October 19, 2023. https://www.bnm.gov.my/social-finance.

Appendix 2: Comparisons of Commonly Adopted Impact Monitoring Standards

Aspect	Universal Standards for Social and Environmental Performance Management (USSPM)	Global Reporting Initiative (GRI)[144]	Impact Reporting and Investment Standards (IRIS)
Overview	The Universal Standards are a comprehensive manual designed to help financial service providers to put the end client and the environment at the center of their activities.	GRI developed standards to guide any organization on reporting of impacts on the economy, environment and people in a comparable and credible way.	IRIS is a comprehensive framework that provides guidance on how investors can effectively measure and manage the social and environmental performance of their investments.

144 Global Reporting Initiative. *The GRI Standards A Guide for Policy Makers*. Accessed on June 20, 2023 at https://www.globalreporting.org/

Aspect	Universal Standards for Social and Environmental Performance Management (USSPM)	Global Reporting Initiative (GRI)[145]	Impact Reporting and Investment Standards (IRIS)
Scope	A comprehensive framework that covers multiple dimensions of social and environmental performance, including social strategy, leadership, client-centered products and services, client protection, responsible human resource development, responsible growth and returns, and environmental performance management.	• GRI Universal Standards on human rights and environmental due diligence. • GRI Sector Standards for 40 sectors. So far, standards have been developed for Oil & Gas, Coal, and Agriculture sectors. • GRI Topic Standards on waste, occupational health and safety, and tax.	IRIS covers a broad range of social and environmental performance areas, including poverty, health, education, gender equality, water and sanitation, energy, climate change, and biodiversity.
Indicators	Includes 20 universal standards that are further broken down into more than 180 indicators.	Over 100 standards by sector and topics with relevant indicators.	IRIS includes over 500 indicators for measuring the financial, social and environmental performance of investments.
Implementation	Requires Financial Service Providers to undergo an audit process to assess their social and environmental performance against the 20 universal standards and their respective indicators. The audit is carried out by qualified social and environmental auditors, using SPI4 tools.	GRI provides free access to the standards by any organization. External validation of sustainability reports is recommended but not required. GRI does not provide services to verify or certify sustainability reports.	IRIS provides a set of standardized indicators and guidance for investors to measure and report on the social and environmental performance of their investments.
Flexibility	A flexible framework that can be adapted to the specific context and needs of each MFI. The framework allows for MFIs to set their own targets and indicators, as long as they align with the 20 universal standards.	Users can customize their sustainability report based on stakeholder information requirements. Users can use a variety of approaches to enhance credibility of the report.	IRIS is flexible and allows for customization to fit the specific context and investment strategy of the investor.

145 Global Reporting Initiative. *The GRI Standards A Guide for Policy Makers*. Accessed on June 20, 2023 at https://www.globalreporting.org/

Appendix 3: Summary of Global Practices by Conventional Microfinance Institutions

MFI	Focus Groups	Primary Principle	Secondary Principles	Countries of Focus	Social Impact Monitoring
FINCA International	Women, small business owners, farmers	Poverty Alleviation.	Provide financial inclusion, income & employment, women's empowerment.	40+ countries across Africa, Eurasia, Latin America and the Middle East.	ValiData (In-house method) / Universal Standards. FINCA Client Assessment Tool.
Grameen Bank	Poor women in rural areas	Empowerment of the marginalized poor / Poverty alleviation.	Provide access to credit for income-generating activities, promote banking services to the poor, promote social development, empower women.	Bangladesh	10-point system similar to PPI.
Opportunity International	Women, farmers, small business owners	Empowerment of the poor.	Provide financial inclusion, education, women empowerment, and livelihood development.	22 countries across Africa, Asia, Europe, Latin America, and the Middle East.	USSPM, PPI.
VisionFund	Children, youth, women, small farmers, small business owners	End intergenerational poverty	Promote economic development, financial inclusion, women empowerment, rural agriculture, and poverty reduction.	Over 20 countries across Africa, Asia, Latin America, and Eastern Europe	USSPM, PPI.

Appendix 4: Summary of Global Practices by Charities

Charity	Focus Areas	Primary Principle	Secondary Principles	Countries of Focus	Social Impact Monitoring
International Committee of the Red Cross (ICRC)	Preventing and alleviating human suffering wherever it may be found.	Protect life and health and ensure respect for human beings.	Offering a range of essential services to those impacted by disasters, including shelter, food, healthcare, and mental health support, as well as the distribution of necessary supplies to fulfil their basic needs.	192 countries.	Results Monitoring Framework, and Activity and Resource Plan tools. Disclosure using GRI Standards.

Appendix 5: Summary of Global Practices by Conventional Impact Investors

Impact Investor	Focus Areas	Primary Principle	Secondary Principles	Countries of Focus	Social Impact Monitoring
Nuveen	Charities, Family offices, Pension funds, Asset managers, Banks, Sovereign wealth funds.	Inclusion, diversity and equity.	Investing in the growth of businesses, real estate, infrastructure, farmland and forests while building long-term relationships with clients from all over the globe.	United States, Latin America, Europe, Asia.	IRIS.
Triodos Investment Management	Energy & Climate, Financial Inclusion, Agriculture.	Sustainability, Transparency, Excellence, and Entrepreneurship.	Supporting the transition towards a sustainable society.	Europe, Latin America, Asia.	GIIRS, IRIS.

Impact Investor	Focus Areas	Primary Principle	Secondary Principles	Countries of Focus	Social Impact Monitoring
BlueOrchard Finance S.A.	Microfinance, Climate & Environment, Sustainable Infrastructure.	Alleviating poverty; Increasing access to financial services; Increasing access to healthcare services and improving health; Addressing climate change and environmental issues; Alleviating poverty; Conserving land, ecosystems and natural resources; Creating jobs; Increasing access to education and improving educational outcomes; Increasing access to financial services; Addressing Gender Inequality.	Small/ Medium Business Development; Microfinance, financial services to the low-income & micro-insurance.	Africa, Asia, Latin America, Eastern Europe.	GIIRS, IRIS, SPIRIT (in-house impact monitoring scorecard).
LeapFrog	Financial inclusion, Healthcare, Education, Insurance.	Alleviating poverty.	Microfinance, financial services to the low-income; micro-insurance.	Africa, Asia, Latin America.	IRIS, GIIRS.

Appendix 6: Summary of Global Practices of Islamic Social Finance Providers

Institution/ program	Focus Groups	Primary Principle	Secondary Principles	Countries of Focus	Social Impact Monitoring
Akhuwat Islamic Microfinance	Underprivileged community, business start-ups, farmers, home builders, students, unmarried woman.	Provide cash financing support for business ventures, agriculture, and accommodation.	Provide education, health, marriage, and emergency loans.	Pakistan.	In-house Performance Indicators.
The General Authority of Awqaf (GAA)	Community well-being and access to essential services.	Develop legislative and governance framework.	Organize, manage, and advance the Waqf - economy, healthcare and social welfare; prioritize environmental sustainability and conservation; preserve and develop community culture; promote innovation and technology advancement.	Saudi Arabia.	In-house Performance Indicators.
Badan Zakat Nasional (BAZNAS)	Underprivileged community.	Focus on social aspects such as poverty alleviation, disaster relief, education, health care, and other social welfare programs.	Recognize the importance of environmental sustainability.	Indonesia.	In-house Performance Indicators.

Appendix 7: List of Social Impact Indicators Monitored by Selected Malaysian Banks and Social Enterprises

Company	Program	Impact indicators
Bank Islam[146]	Sadaqa House: Charity crowdfunding platform for potential donors and charity projects.	1. Amount distributed 2. Beneficiaries impacted
	BangKIT Microfinance: Zero percent financing facility for underbanked micro-enterpreneurs.	Financial 1. Average sales/ revenue 2. Business assets 3. Average savings from business revenue 4. Zakat payment (if any) Business growth 1. Number of employees 2. Types of savings made from business revenue 3. Use of ICT and gadgets in business 4. Use of e-commerce platform in business 5. Use of e-wallet of digital payment solution in business Utilisation of BIMB facilities and solutions 1. Internet banking (e-Banker) in business 2. BIMB GoBiz app in business 3. BIMB SMEXpert in business 4. BIMB current account as main business account 5. BIMB merchant payment terminal Profile of BangKIT microfinance 1. Applications approved 2. Fund disbursed 3. Amount range 4. Age range 5. Gender 6. Location 7. Business sector 8. Race
Bank Rakyat[147]	RAKYATpreneur: Capital seed funding and coaching for potential *Asnaf* micro entrepreneurs.	Indicators on number of beneficiaries and improvements on livelihood.
	Bank Rakyat UNIpreneur: Capital seed funding and coaching for *Asnaf* student entrepreneurs.	Indicators on demographic distribution, improvement in business income and wealth.

146 Bank Islam Sadaqa House. (2022). *2021 Impact Report*. Bank Islam. https://www.sadaqahouse.com.my/wp-content/uploads/2022/04/SadaqaIR21.pdf
147 Kamarulzaman, A. (2023, March 16). *Interview on Bank Rakyat's Impact Reporting Practices*, by Soraya Azhar

Company	Program	Impact indicators
PichaEats[148]	PichaEats platform for refugees in Malaysia to sell food cooked by them to the public.	Financial impact: 1. Number of active kitchens and Chefs 2. Amount of capital given back to Picha Chefs 3. Average income before and with PichaEats Physical impact: 1. Percentage of Chefs able to cover monthly rental fully from income made with PichaEats alone 2. Percentage of Chefs able to cover monthly utilities bills Human Capital: 1. Percentage of Picha Chefs' children of schooling age (6-17 years old) in school 2. Bi-annual upskilling training for Chefs to learn new menu 3. Health checkup and quarterly hangout for all Picha Chefs 4. Skills gained since joining PichaEats 5. Confidence level in cooking 6. Number of refugees trained and training hours in F&B and culinary knowledge. Social Capital: 1. Monthly townhalls to involve Picha Chefs in business decisions 2. Quarterly 1:1 check-in with Picha Chefs and their families to assess their personal well-being. 3. Life improvement since joining PichaEats 4. Ability to pay for medical fees before and after PichaEats 5. Mental health after joining PichaEats 6. Part-time employment for refugee community
Mereka[149]	Future of Work: An employability development program training B40 youths to find jobs.	1. Output: Number of youths trained 2. Outcome: Number of trained youths that are employment ready 3. Impact: Number of trained youths employed after the program; Change in monthly income earned by trained youths pre- and post-program, Number of trained youths remaining in employment after six months.

148 PichaEats. (2023). *PichaEats 2022 Impact Report*.

149 Sangaran, A. (2023, April 19). *Interview on Mereka's Impact Reporting Practices*, by Soraya Azhar

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