

**Proposed Approaches to Social Impact Measurement**

**in**

**European Commission legislation**

**and in practice relating to:**

**EuSEFs and the EaSI**

**GECES Sub-group on Impact Measurement**

**21 November 2013**

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**Summary**

**[To Be Inserted]**

## Glossary of terms and abbreviations

### Definitions

The field of impact measurement has developed its own terminology, in some cases differing between Member States, and between applications. The definitions of input, activity, output, outcome and impact are further developed, with examples, in section 4.5 of the report below. The following are the terms key to this report. Whilst there are differences in definition of some of the terms in different contexts (e.g. social enterprise), they have been taken to have the following definitions in this context:

Characteristics (of good measurement)	Those features of the reported measurement of the outcomes and impacts from an intervention or activity that mean that it should be recognised and relied upon as valid.
Co-operative	An autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise ( <i>ILO R 193/2002, art. 2</i> ). All EU member states have legislation regulating cooperatives, although there are some differences between the activity and practical governance in each of them.
Framework	A matrix of expected outcomes and sub-outcomes set within each major area of intervention (eg: education; youth engagement and employment) which list most of those outcomes that a social enterprise might be targeting.
Fund	A collective fund into which more than one investor invests, which makes onward investment into a portfolio of enterprises in such a way as to manage risk, return and the achievement of desired outcomes across a portfolio of such investments.
Fund of funds	A collective fund that invests solely or predominantly in other such funds
Funder (or Commissioner)	A holder of public funds that pays a social enterprise to provide services or products, so (in the context of this report) excluding an investor.
Indicator	A particular way of attaching a value to those outcomes and impacts.
Integrated Reporting	Reporting which blends, or discloses together, reports about social impact, financial or economic effect, and environmental effect.
Intervention or Activity	The work undertaken by a social enterprise that is directed towards the delivery of a social outcome for a given service-user or beneficiary group.
Investor	A provider of investment.
Output	The tangible products or services from the activity (of the social enterprise): effectively the points at which the services delivered enter the lives of those affected by them.
Process	The series of steps or stages by which a Social Enterprise or Fund investigates, understands and presents how its activities achieve change (outcomes) and impact in the lives of service-users and stakeholders.
Service-user	An individual or organisation that is the chooses to be the recipient of services provided by the social enterprise.

## GECES Sub-group on Impact Measurement: Proposed Approaches to Social Impact Measurement in the European Commission legislation and practice relating to: EuSEFs and the EaSI

Social	Relating to individuals and communities, and the interaction between them; contrasted with economic and environmental.
Social Enterprise (SBI definition)	A trading entity (enterprise): <ul style="list-style-type: none"> <li>- for which the social objective of the common good is the reason for the commercial activity, often in the form of a high level of social activity;</li> <li>- for which profits are mainly reinvested with a view to achieving the social objective; and</li> <li>- for which the method of organisation or ownership system reflects their vision, using democratic or participatory principles in focussing on social justice.</li> </ul>
Social Impact	The reflection of social outcomes as measurements, both long-term and short-term, adjusted for the effects achieved by others (alternative attribution), for effects that would have happened anyway (deadweight), for negative consequences (displacement), and for effects declining over time (drop-off).
Social Investment	An investment (an application of resources – generally, but not exclusively, financial resources – for use by another under terms which provide for repayment of that investment at a future date, with or without a return on that investment) specifically to be applied to achieve one or more social outcomes.
Social Outcome	Social effect (change), both long-term and short-term achieved for the target population as a result of the activity undertaken with a view to social change taking into account both positive and negative changes.
Stakeholder	Any party interested, financially or otherwise, in the social enterprise or the outcomes and impacts it achieves.
Theory of Change / Logic Model	The means by which activities achieve outcomes, and use resources (inputs) in doing that.

### Abbreviations

EaSI	Programme for Employment and Social Innovation
EuSEF	European Social Entrepreneurship Fund
ESMA	European Securities and Markets Association
FI	Financial Intermediary (in the context of EaSI)
GECES	Groupe d'experts de la Commission sur l'entrepreneuriat social (see <a href="http://ec.europa.eu/internal_market/social_business/expert-group/index_en.htm">http://ec.europa.eu/internal_market/social_business/expert-group/index_en.htm</a> )
KPI	Key Performance Indicator
SBI	Social Business Initiative of the European Commission
SE	Social Enterprise
SIB	Social Impact Bond
SROI	Social Return on Investment
VCS	Voluntary and Community Sector

## Section A: The brief and its purpose

### 1. Introduction and objectives

- 1.1. This is the report of the sub-group established by GECEs to develop a standard for social impact measurement. This standard will be used:
- as part of the qualification for social enterprises, and for funds under the EuSEF legislation, and
  - as public reporting or information provision for social enterprise supported by EaSI

The report is split into four sections:

- A An explanation of the sub-group's brief and why it is needed.
- B An appraisal of the state of development of social impact measurement with particular regard to the EuSEF and EaSI legislation.
- C The standards developed by this group in response, which show:
  - a minimum standard process for social impact measurement; and
  - a standard set of criteria which should be exhibited by all social impact measurement reporting.
- D Wider guidance and discussion about the application of the process and standards.

It is intended that guidance notes are developed for Social Enterprises, Funders, Fund Managers and other stakeholders based on this report. These will be based on the summary, and section C, but will require rewording in some parts to suit their audience.

- 1.2. The objects of this review are to establish an approach to measurement of social impact that will support the development of practice with or without tier 2 legislation under the EuSEF and EaSI<sup>1</sup> programmes of the European Commission. Both programmes come under the Social Business Initiative, and are focused on supporting the development of Social Enterprise within EU Member States. In this context a "social enterprise" is ".an operator in the social economy whose main objective is to have a social impact rather than make a profit for their owners of shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities..."<sup>2</sup> This is similar to an earlier definition by the OECD.<sup>3</sup>
- 1.3. The measurement approach or approaches need to balance:
- 1.3.1. Meeting the needs of social enterprises, investors, fund managers and other stakeholders under the two programmes.
  - 1.3.2. The desire to achieve comparability in reporting and monitoring.
  - 1.3.3. The costs of measurement against its benefits.
  - 1.3.4. The diversity of need, services provided, geography and demography, balance between State and voluntary and community sector ("VCS") provision, and State and other funding across the Member States.
  - 1.3.5. Setting a clear and certain approach, but one which can cope with change and improvement.

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<sup>1</sup> <http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=1093&furtherNews=yes>

<sup>2</sup> *Communication from the Commission: Social Business Initiative Creating a favourable climate for social enterprises, key stakeholder in the social economy and innovation. Brussels 2011/682 final, as quoted in Policy Brief on Social Entrepreneurship: Entrepreneurial Activities in Europe*

<sup>3</sup> "...any private activity conducted in the public interest, organised with entrepreneurial strategy, but whose main purpose is not the maximisation of profit but the attainment of certain economic and social goals, and which has the capacity for bringing innovative solutions to the problems of social exclusion and unemployment." OECD (1999). *Social Enterprises*. Paris. OECD.

- 1.4. In the case of all stakeholders, a key need for social impact measurement can be seen in decision-making. The investor needs to evaluate the advantages of the impact achieved against the risks of investing. The fund manager needs to consider whether a given investment delivers both acceptable social and financial returns, as well as whether it meets policy and fund focus objectives. The service-user needs to understand the nature of the intervention, and the gains to be enjoyed by engaging with the service. The funder of the service, be it a public body, a service-user, or another party, needs to understand the value it gains and for which it is paying. The needs of all such stakeholders should be recognised, and should be balanced. All are aiming, to draw a parallel with accounting principles, to obtain all reliable (with all that that means in terms of objectivity and consistency as between persons and across time frames) information relevant for decision-making.
- 1.5. The subsequent guidance needs to draw together the views of experts from across the EU, and find as much common ground as possible. Avoiding unnecessary work, it should draw together existing knowledge and approaches, and, wherever possible, not invent new solutions.
- 1.6. In developing solutions to this, it has been recognised that knowledge is not at the same level across Member States, either between different states or between different organisations within each. Social impact measurement is arguably not a new field. As a facet of economic evaluation of impact, it can trace its roots back to the development of modern economic thought in the 18<sup>th</sup> Century. In its present form it started to emerge as many as twenty-five years ago, earlier than any of the present financial accounting standards. However it has developed and changed rapidly over the last five to ten years to meet changing social, policy and investment needs, and to deliver crucial knowledge in the post-2008 social and market economy.

## **2. Context and legislative requirements**

### **General Context**

- 2.1. In September 2000 the UN brought world leaders together in New York to agree and sign the Millennium Declaration. From this was derived a series of eight Millennium Development Goals that form the focus for a concerted drive to improve the living conditions and future hope for all people in all countries. They are time-bound to 2015.<sup>4</sup>
- 2.2. Related to this is the recognition across the EU of the importance of social enterprise, and more broadly social business, to Member States. This is relevant to their ability to achieve the Millennium Goals, but also to their economies, significant parts of which exist in these sectors.<sup>5</sup>
- 2.3. In order to develop consistency and effectiveness, and focus resources (notably finance) in the most appropriate way, various programmes of activity have been developed. Amongst these are two programmes specifically designed to make it easier for social enterprises to access investment funding from a wider range of sources, and for those sources to select their investments more effectively. The first addresses the structure and operation of funds designed for portfolio investment in social enterprise enabling this to operate across international borders. The second, a grant, investment and guarantee fund, supports social enterprises in readying themselves for raising and receiving that investment. In each case the legislation requires the establishment of systems to measure and demonstrate the social impact of that investment. They also place a requirement on investor funds both to invest in those social enterprises that are going to do so, and to measure and report on how they have achieved their social impacts.

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<sup>4</sup> <http://www.un.org/millenniumgoals/>

<sup>5</sup> [http://ec.europa.eu/internal\\_market/social\\_business/index\\_en.htm#maincontentSec3](http://ec.europa.eu/internal_market/social_business/index_en.htm#maincontentSec3)

## The EU Legislation

- 2.4. The Single Market Act II states that “the Commission will develop a methodology to measure the socio-economic benefits created by social enterprises. The development of rigorous and systematic measurements of social enterprises’ impact on the community ... is essential to demonstrate that the money invested in social enterprises yields high savings and income”. The GECEs sub-group was therefore set up in October 2012 to agree upon a European methodology which could be applied across the European social economy.
- 2.5. The sub-group has the mandate to develop a methodology for measuring the social impact of activities by social enterprises by the end of 2013. This methodology is most needed in two contexts : firstly, for of the development of European Social Entrepreneurship Funds (“EuSEFs”), where additional criteria may be needed for better coordinating how social fund managers decide whether they can invest in a particular enterprise and monitor and report the results of these investments, and in enabling those fund managers to be properly accountable to investors and the wider public for those. Secondly, in the context of the EaSI, as €85 million in grants will be made available starting from 2014 to social enterprises who can demonstrate they have a ‘measurable social impact’. EuSEF and EaSI differ in their needs, focus and application and the GECEs sub-group has been aware that they might require different solutions.
- 2.6. For EuSEFs the key provisions underpin the question of whether a EuSEF can invest in a given Social Enterprise as a “qualifying portfolio undertaking<sup>6</sup>.” Those that affect this brief are:
- 2.6.1. **Art 3 1(d) (ii) Definitions:** “...has the achievement of measurable, positive social impacts as its primary objective.....”
- 2.6.2. **Art 10 1:** “Managers of a qualifying social entrepreneurship fund shall employ for each....procedures to measure the extent to which the QPUs...achieve the positive social impact to which they are committed.....”
- 2.6.3. **Art 13 2 (a):** “The annual report [for the QSEF] shall ....include...details, as appropriate, of the social outcomes achieved by the investment policy and the method used to measure those outcomes.....”
- 2.6.4. **Art 14 1:** “Managers of [QSEFs] shall .....inform their investors, prior to the investment decision of the latter: the types of QPUs in which it intends to invest.....the positive social impact being targeted by the investment policy of the QSEF including, where relevant, projections of such outcomes as may be reasonable.....[and] the methodologies to be used to measure social impacts.”
- 2.7. For the programme for Employment and Social Innovation, this offers, in the third of its three axes for development (Microfinance and Social Entrepreneurship)<sup>7</sup> financial support to legal or physical persons engaged in Social Enterprise which is defined in Art 2.

The objectives of the Microfinance and Social Entrepreneurship axis shall be to (Art 22):

- i. Increase access to microfinance (including guarantees, microcredit loans up to €25,000) equity and quasi-equity for those that have difficulty accessing credit;
- ii. Build up the institutional capacity of microcredit providers;
- iii. Support the development of the social investment market ... by making available equity, quasi-equity, loan instruments and grants of up to €500,000 to Social Enterprises.

<sup>6</sup> EuSEF Regulations Version 15, March 2013. Art 3 1(d). <http://www.europarl.europa.eu/sides/getDoc.do?type=REPORT&reference=A7-2012-0194&language=EN>

<sup>7</sup> Proposal for a Regulation of the European Parliament and of the Council on the European Union Programme for Social Change and Innovation 11757/13 Brussels 9 July 2013.



For the third heading, the Social Enterprises are those which:

- are not a collective investment undertaking (effectively a multi-party pooled fund); and
- have turnover not exceeding €30m; or
- have an annual balance sheet total not exceeding €30m.

There are various conditions attaching to the financial support.

Under Art 25, EaSI funding may be applied directly by the Commission, or through regulated financial intermediaries. Fund managers may be used as well, or instead of, such financial intermediaries. In either case (per Art 26) the social enterprise will be required to supply information needed to compile reports on “...the actions funded and the results, including in terms of ... social impact, employment creation and sustainability ...”.

Realistically the requirements for social impact measurement under EaSI are likely to be less than those for EuSEF. This is because:

- the requirements are not qualifications for funding, but broader information requirements to enable the funders to report overall effectiveness, and
- the sums funded may well be (perhaps significantly) lower, so proportionality suggests lower measurement and reporting standards.

## **Environment in which the legislation will operate**

2.8. The Member States will each seek to apply both the EuSEF and EaSI legislation, but also social impact measurement in general in the context of their own situations. As their markets and social functions interact, so it is anticipated that this legislation will not operate in isolation within each Member State. Social Enterprises will be included that operate across State borders, and funds are expected to be established that will not be restricted to investing in social enterprises within their own Member State. The social impact measurement envisaged needs to embrace these factors.

2.9. The diversity between the Member States, as affects the application of this legislation, can be categorised into in four areas: geographic/demographic context; market structure for service provision and funding; legislative and regulatory context; and governance and accountability. Each is described further below:

### **2.9.1. Geographic and demographic context**

This may be sub-categorised into four areas of similarity and difference between Member States, between regions within each member states, and between communities<sup>8</sup> within them:

- Social Need, which varies in nature, in depth, and in which solution is likely to achieve what effects.
- Available provision to meet that need, and the means of access to it for those that need it.
- Degree to which State provision is expected to, or does, meet that need, either directly, or by funding others to meet it.
- Locations, concentrations, and types of populations, and communications between them.

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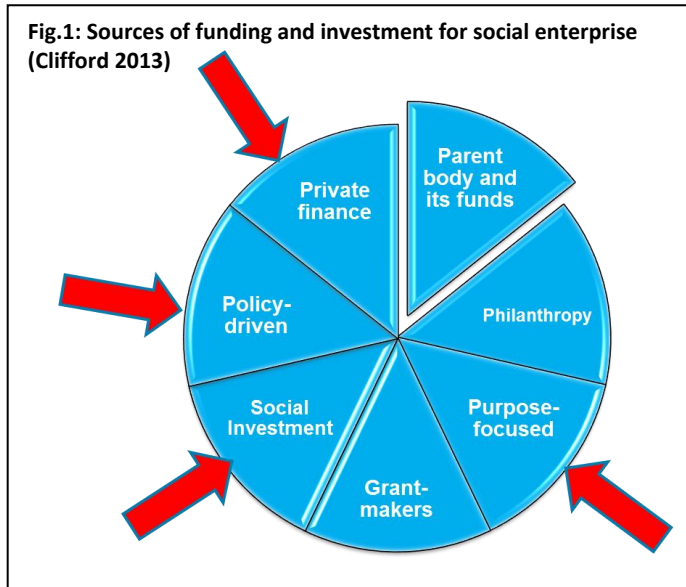
<sup>8</sup> A community can be real (in the sense of people living within a given area), socio-demographic (drawn together to a common need by a shared or similar need, but which does not give them a social interaction), or virtual (communities such as industries, or on-line communities which share common needs, purpose and varying degrees of interaction without their regularly meeting in the physical sense).

### 2.9.2. Market structure for service provision and funding

Social Enterprises choose to perform different roles, both in service delivery and in influence and policy, and are perceived differently within their Member States. They also, for the most part, do not act in isolation, but in networks (informal or deliberately collaborative) to deliver effective service. The involvement within those networks may be as service leader, as a co-provider, or as the leader who influences or controls others in their collective achievement of social change.

Looking at funding models, many Member States are seeing changes as traditional markets for funding of, or investment in, services develop, and new sources emerge. Across the whole, these may be categorised into seven broad areas as shown in Fig.1. Policy-driven and purpose-focused funding generally come from public sources, and may be in the form of investment, but are more usually as payment for services delivered. As such they span:

- the core grant (a grant of funding for establishing and maintaining a service-provider which is not a service-specific grant),
- a funding for direct costs of delivery, or
- a payment for results or success delivered.



Grant makers have traditionally fulfilled a similar range of non-investment funding provision, but are now moving into investment as well. Social investment providers are standing alongside these and private finance sources, which have for many years backed Voluntary and Community Sector ("VCS") public service provision in a number of Member States, as well as providing finance for public service providers.

### 2.9.3. Legislative and regulatory context

In different Member States social enterprises have different forms of incorporation, and are bound by different legislative and regulatory environments. New forms of incorporation are emerging to meet the developing needs of the social enterprise markets (e.g. the UK's Charitable Incorporated Organisations and Community Interest Companies, and Luxembourg's Société d'Impact Sociétal). Others are being given new purpose and developing in different contexts (e.g. the use, again in the UK, of Industrial and Provident Societies for community investment in renewables, a far cry from their 19<sup>th</sup> Century origins in collective co-operative investment in local industry and mutuals).

In certain member states there already exist SE social impact measurement practices which have been successfully tested and used for one or two decades on a substantial scale (hundreds or thousands of enterprises). These include the French "*rivision coopérative*", which is binding for all SCIC (Sociétés Coopératives d'Intérêt Collectif, the French version of social cooperatives) and the Italian "*bilancio sociale*" which is binding for the SE under the social enterprise law and for the social cooperatives in regions characterised by a high concentration of social cooperatives such as Lombardy and Friuli Venezia Giulia.

#### **2.9.4. Scrutiny, governance and accountability**

With public money being used, and with the benefit of larger or smaller numbers of the public being targeted as beneficiaries, governance and accountability are key. In this paper the term “scrutiny” is used to embrace:

- the obligation on service providers to be accountable (and acknowledge that accountability) for the public money they spend and the services they deliver;
- the need for them to be transparent in explaining how they are spending those funds, and delivering services that meet public needs, including the outcomes they are achieving;
- the need for those organisations to encourage and facilitate the involvement of the public, both service-users and others, in expressing their needs and engaging with how they are met; and
- the need to structure governance within the organisations and networks involved to deliver effectively against the first three of these.

Against this framework, there are different statutory and extra-statutory requirements in different Member States as regards:

- reporting of social impact measurement: where few member states (principally France and Italy, as mentioned above) have formal requirements;
- the methods by which providers are held publicly accountable for their spending of public funds;
- the corporate structures within which publicly-funded bodies can be embodied; and
- public scrutiny and validation or audit standards and how they link to policy-making bodies and governments,

- 2.10. It is very important that neither the scope of any tier 2 legislation or regulation nor the practice guidance under it is structured in such a way as to preclude certain social enterprises because of their legal form, or other factors which are appropriate to their mission and effective operation<sup>9</sup>. One particular area where care is needed is the legal form of the organisations. Any limitation on this should only be driven by the demands of accountability and governance, and since this can be achieved through a wide variety of structures, it is unlikely to be appropriate to limit availability of EuSEF investment or EaSI support by reason of corporate structure. Rather social enterprise needs to be defined, and qualified, by way of function, principle and primary purpose, and the impact measurement should be based upon and emerge from this.

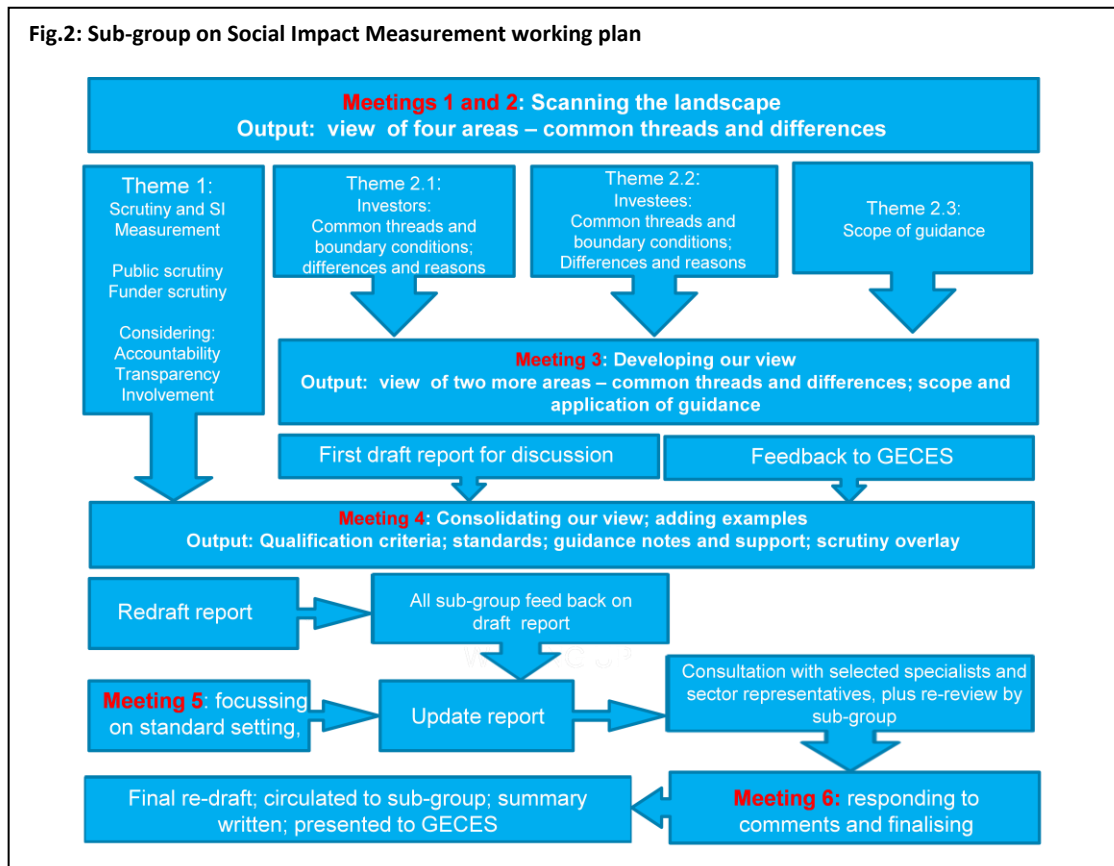
### **3. Overall approach to the work and structure of the guidance**

#### **Work programme of the sub-group**

- 3.1. The sub-group has met six times, on the following dates: 26 November 2012, 1st March 2013, 19 April 2013, 5 June 2013, 27 September 2013 and 24<sup>th</sup> October 2013. The programme of work was as shown in the diagram at **Fig.2**.

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<sup>9</sup> In the UK, by way of example, social enterprise (being broadly trade (enterprise) carried on with a primary purpose being to generate social value or change) can exist within a wide variety of legal and constitutional forms. A recent seminar on social enterprise at Coventry University suggested over a dozen, when the “charity or not charity” distinction is overlaid upon the strict corporate structures. There are then a range of unincorporated structures that are nevertheless validly social enterprises.



- 3.2. The review was split into a series of work-streams as shown in the diagram. The first meeting was mainly dedicated to explaining to the participating experts the aims and needs of the Commission in this context and notably the requirements for EuSEF and the EaSI. It also set out the basic organisation and timetable of the sub-group (four to six whole-day meetings of the subgroup were expected, reporting in late 2013). In the second meeting, the sub-group took stock of what approaches to social impact measurement were most widely adopted across sectors and across countries. It covered the most significant ones of these in a series of presentations in the second and third meetings. In addition, at the second meeting thematic working groups were set up, which worked between meetings and reported the results of their reflection in the third meeting. Between the third and fourth meetings sub-group members liaised to clarify key aspects and the first working draft of this report was produced. A fourth work-stream, looking at scrutiny aspects, reported to the fourth meeting.
- 3.3. Initial findings were referred for discussion to the GECES and comments fed back to the sub-group. Between the fourth and fifth meetings the group members were asked to comment on specific issues raised by discussion at the fourth meeting and in the GECES feedback, and a revised draft was circulated for discussion at the fifth meeting.
- 3.4. In the fifth meeting the draft report was reviewed with the subgroup, and all contributed both verbal and written comments. Between the fifth and sixth meetings:
- the report was updated in response to comments received;
  - the updated report was reviewed by;
    - the sub-group members, and
    - a wider-group of experts (social enterprises, funders, fund managers and others) suggested by subgroup members. (see Appendix 1).

- 3.5. In this report, and in the standards that are proposed within it and outlined in section C below, a distinction is drawn between four elements in producing a meaningful measurement of social impact. We have chosen a word for each that describes and distinguishes them. They are as follows:

**PROCESS** - The series of steps or stages by which a Social Enterprise or Fund investigates, understands and presents how its activities achieve change (outcomes) and impact in the lives of service-users and stakeholders.

**FRAMEWORK** - A matrix of expected outcomes and sub-outcomes set within each major area of intervention (eg: education; youth engagement and employment) which list most of those outcomes that a social enterprise might be targeting.

**INDICATOR** - A particular way of attaching a value or measure to those outcomes and impacts. Examples include financial measures of savings in State funding, or productivity gains, as well as well-being scores and various intervention-specific ones.

**CHARACTERISTICS** (of good measurement) - Those features of the reported measurement of the outcomes and impacts from an intervention or activity that mean that it should be recognised and relied upon as valid.

### **Existing state of the art of social impact measurement.**

- 3.6. There has been a significant increase in interest in measuring social impact. This is due partly to the global financial crisis and the resulting heightened desire of funders and investors (public or private), to concentrate scarce resources on initiatives with an impact that can be demonstrated. In addition, and, in the view of the sub-group, more importantly, it is recognised that clear measurement of impact enables the service provider and commissioner to seek improved effectiveness in delivery and better focus their effort to meeting social enterprises' needs.
- 3.7. In addition funders and investors are, both at their own instigation and at that of those involved in service delivery, increasingly being encouraged to work with measurement that:
- 3.7.1. arises from the services being measured,
  - 3.7.2. where possible aligns one funder's needs with another's, and one investor's with another's, so avoiding multiple, and divergent, measurement requirements, and helps comparability between funders or investors,
  - 3.7.3. avoids different funders or investors demanding different measurement of the same intervention,
  - 3.7.4. is designed to make the services more effective in meeting service-user need and extends its quality and reach.
- 3.8. There is a clear move in several member states for Investors and public sector funders to align and coordinate their practice with those involved in service delivery, so that impact measurement can effectively suit both sets of needs.<sup>10</sup>

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<sup>10</sup> Clifford, Markey and Malpani (2013); Hehenberger, Harling and Scholten (2013); Ní Ógáin, E., Hedley S., and T. Lumley, (2013) *Mapping Outcomes for Social Investment*. London. NPC. [www.thinknpc.org](http://www.thinknpc.org)

- 3.9. The sub-group agrees that there is a range of approaches to measuring social impact, each of which promotes particular types of indicators, but that none of these has yet reached the state of a 'gold standard'. Whilst some of these are becoming more widely used than others, it is unlikely that any will become such a 'gold standard' since diversity of social need, intervention, scale, and stakeholder interest demand different information and presentation of it. In addition, the sub-group shares a strong scepticism towards the idea that social impacts might be summarised in one single measure capable of supporting fair and objective comparisons between different types of enterprise and different types of social impact.
- 3.10. In contrast, there seems to be a basic convergence between the different approaches on the main steps in the process that should constitute the groundwork for any measurement of social impact. These steps involve, broadly, identifying clearly the social impact sought, the stakeholders impacted, a "theory of change" for social impact<sup>11</sup>, putting in place a precise and transparent procedure for measuring and reporting on **inputs, outputs, outcomes** and for assessing thereby the **impact** actually achieved, followed by a 'learning' step to improve impacts and refine the process. This is recognised as an iterative process.
- 3.11. The "change" made - the outcome;
- is between what would have happened without the intervention and what actually happened; and
  - may therefore be a conservation of resources or a situation rather than a change.
- 3.12. It is widely held that no single set of indicators can be devised top-down to measure social impact in all cases. This is so for a number of reasons:
- 3.12.1. first, the variety of the social impact sought by social enterprises is very great and no single methodology can capture all kinds of impacts fairly or objectively;
- 3.12.2. second, while there are some quantitative indicators that are commonly used, these often fail to capture some essential qualitative aspects, or, in their emphasis on the quantitative, can misrepresent, or undervalue the qualitative that underpins it;
- 3.12.3. third, because, owing to the work and data-intensive nature of measuring impact, obtaining a precise evaluation is often at odds with the key need for proportionality. The amount of time spent and the degree of accuracy sought and achieved in any measurement exercise must be proportionate to the size of the enterprise and the risk and scope for the intervention being delivered;
- 3.12.4. fourth, because in an area characterised by wide variety in the nature and aims of activities, and the types of SE delivering them, there is a clear trade-off between achieving comparability between activities through using common indicators and utilising indicators that are useful and relevant for the management of the social enterprise; increasing (artificial) comparability can lead to a loss of relevance; and
- 3.12.5. fifth, because impact measurement and indeed, the world of social enterprise has been evolving very rapidly, making it difficult to stick to any one standard over a number of years.
- 3.13. We should distinguish here between a single indicator (a calculation and evaluation system) which is not recommended, and a framework for indicators, which is. The latter gives a broad structure into which the majority of cases should fit, showing differences between different types of intervention, but recognising that for each such type, indicators are likely to be selected under a range of indicators.

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<sup>11</sup> i.e. a detailed analysis of and description of how and why the initiative considered can have an impact on stakeholders so that its objectives are achieved.

- 3.14. Overall, it is strongly felt by practitioners, fund managers and SEs that any attempt to impose ‘from the top’ a pre-determined, closed set of quantitative indicators risks being highly counterproductive. This is because it is believed that the indicators chosen would be, in many cases, misaligned with the needs and objectives of the social enterprises. The imposition of an unsuitable indicator could become a purely ‘bureaucratic’ requirement with little value in itself for the social enterprise, imposing costs that do not add to the social enterprises achievement of its social goals, indeed draining funds that should properly be applied to delivery of the social impact. Worse still it could prove a perverse incentive, driving behaviours in the wrong direction and away from the effective delivery of valuable outcomes. It could also lead to enterprises ‘gaming the system’ – organising themselves so as to maximise their achievements against measure, rather than to achieve the greatest social impact in their own eyes.
- 3.15. Where funder payments are based on performance indicators derived from social impact evaluations and theory of change, the risk of perverse incentives is considerable. This happens, for example, in payment by results instruments such as social impact bonds. It is important in such circumstances that appropriate measures are taken to keep the measurement true to the outcomes and impacts sought, and that it does not become focused instead solely on the funder payment triggers.
- 3.16. There is concern amongst practitioners (and providers and fund managers) that the Commission might impose a burdensome and costly procedure that is ultimately foreign to the needs of SEs and the interests of their beneficiaries. To some extent this might reflect a tendency amongst existing funders sometimes to impose measurement requirements for their own supposed requirements without being clear as to how they will be used, nor actually using them once produced. This is in a context where in practice many organisations currently face difficulties tracking *outcomes*, let alone quantifying impacts - when the latter can be a very sophisticated exercise requiring expert knowledge.<sup>12</sup>
- 3.17. For the measurement of social impact to be of durable value, the act of measuring should visibly contribute to good management of the SE. It is notable that this reflects both the views of the SEs themselves, and the social investors who fund them. If this is achieved, the measurement of social impact is not only an instrument for accessing funding, but also for helping the organisation perform better and learn. This is an important condition for achieving real buy-in by SEs. SEs, particularly smaller ones, may still have much to learn from adopting better standards in management and reporting; the Commission’s initiative therefore should be seen from a development of ‘know-how’ perspective, rather than as a selection tool.
- 3.18. Another important benefit of the Commission’s initiative could be that, if a standard could be developed that is widely accepted, it would have the advantage of simplifying the landscape. This could offer the potential to cut reporting costs, as currently each funder, and many an investor, imposes its own, often different, reporting and funding requirements, so wasting SE resources in reporting under several. It could also speed up adoption of better reporting by social enterprises, as currently SEs are often confused about which approach to adopt if any and are therefore wary of investing in the know-how needed to acquire proficiency in one particular measurement approach.

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<sup>12</sup> *The main difficulties in quantifying impact lie in defining the theory of change and a developing a strategy to measure its outcomes and impacts. In most cases the conscious theory of change is largely qualitative. In addition, while measuring inputs and outputs mainly requires just good organisation (e.g. good tracking of expenditure, how many interventions where realised, etc.) it may be more difficult in some cases to track outcomes, as this often requires chasing down recipients of aid who may easily not have been seen by the SE for a long time. Greater analytical difficulties may show up in (financially) quantifying impact as this inevitably requires estimating hard-to-measure factors such as ‘deadweight’, ‘attribution’, ‘displacement’, and ‘duration’ of the impacts. However an understanding of who is contributing what to delivering outcomes is likely to be achievable in most cases.*



**GECEs Sub-group on Impact Measurement: Proposed Approaches to Social Impact Measurement in the European Commission legislation and practice relating to: EuSEFs and the EaSI**

**Section A: The Brief and its purpose**

3.19. Notwithstanding these concerns there remains common ground, which holds good across the member states, that the fundamentals of good measurement of social impact lie in the account (story) of the intervention and the lives changed by it<sup>13</sup>. If this is well researched and explained, validated, and used as a foundation, then a quantification can be chosen that suits the needs of the audience, be it internal or external. Even though the intervention and its outcomes are determined, the measurement of them may vary based on:

- 3.19.1. the time period over which the measurement is recognised;
- 3.19.2. the measure chosen (financial or non-financial<sup>14</sup>, and various forms of measurement and presentation within each);
- 3.19.3. the viewpoint (from whose perspective is the measurement considered; e.g. public funder of services looking for a combination of cashable savings and outcomes; or the service user looking for effectiveness of the intervention in engaging with them and their families and changing lives); and/or
- 3.19.4. the purview (the field or vision or horizon taken: how wide a knock-on effect is recognised in the core measurement approach)

Of paramount importance is that the measurement must fit the intervention, and the purpose for which the measurement is being made.

3.20. Responding to the demands of the EuSEF and EaSI legislation, but also reflecting the realities of measurement in a very diversely populated arena, the recommendations from the sub-group cover the four elements outlined in 3.5 above, as follows:

4 ELEMENTS	PROPOSED STANDARD	EuSEF	EaSI
<b>Process</b>	Clear five-stage process to apply to all SI measurements. Appropriate endorsing and validation of these steps.	Five stage process applies.	Five stage process applies.
<b>Framework</b>	Development of a matrix of expected outcomes and sub-outcomes giving likely indicators within each. SE may choose to use others but must explain why they are more suited to the circumstances.	Expected use of framework or explain why another outcome indicator is better.	Expected use of framework or explain why another outcome indicator is better.
<b>Indicators</b>	Freedom as to which indicator to use, in order that the measurement remains appropriate to the intervention and stakeholders' needs	Whilst financial measurement indicators may find favour in part, investors do not appear to insist on these, preferring a range of indicators. Fund Managers will work with SEs to select appropriate indicators.	The indicator, again, needs to be intervention-specific, but is there to support EC-reporting of effectiveness of the funding in achieving EC policy. The indicator therefore is selected based on the interaction between the intervention and the policy deliverables of EaSI microfinance and social innovation.
<b>Characteristics</b>	Clear minimum disclosure standards to maintain transparency.	Disclosure standards apply.	Disclosure standards (maybe) lower for smaller levels of investment or grant.

<sup>13</sup> Some social and management researchers would refer to this as the 'story' of the intervention; how its activities touch the lives of service users, and what happens to them as a result.

<sup>14</sup> E.g.: well-being indicators, or a number of health sector scoring approaches such as BRIEF for cognition and executive functioning.



- 3.21. This approach will give certainty as to whether measurement is being done to acceptable standards, but will remain flexible to the nuances and differences between the interventions being measured.
- 3.22. To be clear, this imposes a minimum standard that all social impact measurement must investigate and explain:
- the outcomes it achieves;
  - for whom (which stakeholders);
  - how it achieves them; and
  - their impact, taking into account attribution, displacement, deadweight and drop-off.

A SE or fund manager must evidence these, and will generally focus on outcomes and indicators within a framework, but is not obliged to use a particular indicator.

## Section B: Social impact measurement: the current position

### 4. Measurement principles and definitions

#### The benefits of measurement

4.1. Benefits arise from an organisation measuring its impact against its intentions, both for the organisation itself (internal) and in its engagement with stakeholders (external). These benefits arise at each of five stages of impact measurement, as indicated in Fig.3.

4.2. Looking at each in turn:

4.2.1. At the **planning** stage external stakeholders can understand and decide to support the proposed service, and service users can decide how they will use the service to maximum effect. Internally, the planning enables resources (swelled by effective external engagement in the planning stage) to be managed and applied more effectively to what is most likely to deliver the desired outcomes.

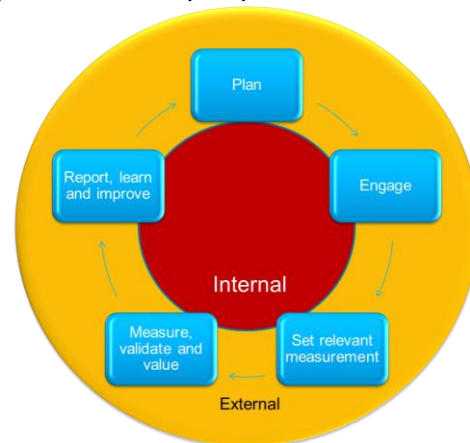
4.2.2. At the **engaging** stage, benefiting stakeholders are identified, the nature of the benefit to them is recognised, and a response is requested from them. In part this is achieved through developing the idea that working together has potential benefits. Similarly the internal stakeholders – employees, management, volunteers and trustees, present and past – learn together about the proposed intervention and share in the expectation of the value it can bring.

4.2.3. At the stage of **setting relevant measures** the planned intervention and the outcomes and impacts it can deliver, matched to the stakeholders which will benefit, can be re-examined to develop measures. That process becomes a uniting and learning experience. It also enables planning of the measurement exercise as well as improving the development of the service as it is measured. This provides a sound foundation for resource allocation and investment decisions.

4.2.4. The **measuring, validating and valuing** stage helps internal and external parties focus their efforts on what will deliver the desired outcomes. It will enable the services and engagement with them to be continually improved, and will draw parties together to support each other.

4.2.5. Finally the **report, learn and improve** stage supports outreach, both in reaching more potential partners and service users, but also in uplifting internal service-delivery staff and management as they see how valuable is the work they are doing. It also supports investors and funders in drawing lessons of wider usefulness, and can also develop useful partnership at service deliverer level.

Fig.3: Stages of impact measurement, and the benefits to stakeholders, from Clifford (2013) at Bulgaria ITC and Ministry of Labour International seminar on value in social enterprise (April 2013), updated from EVPA (2013)

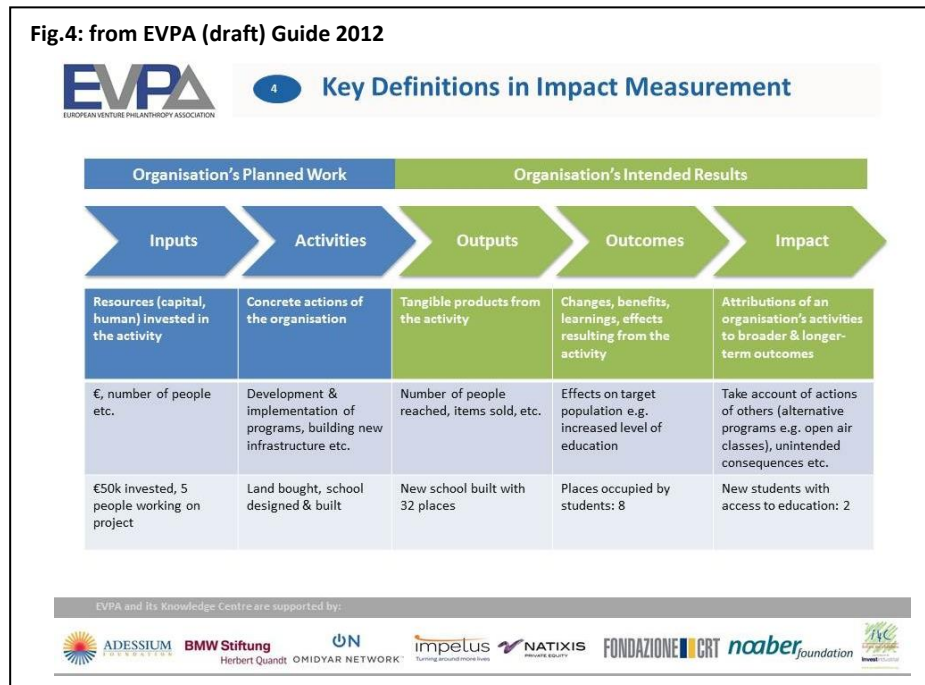


Section B: Social Impact Measurement: the state of development

- 4.3. Five key overall points are clear with regard to impact measurement<sup>15</sup>:
- 4.3.1. Measurement should be driven by the account (“story”) of the intervention and by the needs of the organisations that deliver it: hence that the primary relevance of impact metrics are at the level of the SE;
  - 4.3.2. Measurement exists in a real world defined by market context and policy dynamics, by culture and by social context;
  - 4.3.3. Measurement varies to meet differing commissioning arenas, but should be sensitive to, and not driven by them;
  - 4.3.4. Investor views are developing and affect how measurement can and should be done in future, but are focused upon how the SE achieves against its intended targets and objectives; and
  - 4.3.5. Measurement needs of Investors need also to be balanced with the needs and expectations of other stakeholders, including the SE itself and its beneficiaries.

The basic principles of social impact

- 4.4. The measurement of impact is based on a widely recognised flow, variously known as the Impact Value Chain, Theory of Change or Logic Model. The flow of this is shown in Fig.4, taken from EVPA Guide<sup>16</sup>. Another helpful presentation of it is shown in the Dimensions of Social Performance from the French SPTF, at Fig.5. In both of these:
- 4.4.1. A social enterprise, or a project within it, has a supply of resources, known as **inputs**. These may be financial, intellectual, human, premises, or others.
  - 4.4.2. With these it undertakes **activities**. Developed to a balanced and appropriately funded financial model, these are primarily focused on creating improvements – changes – in the lives of beneficiaries.



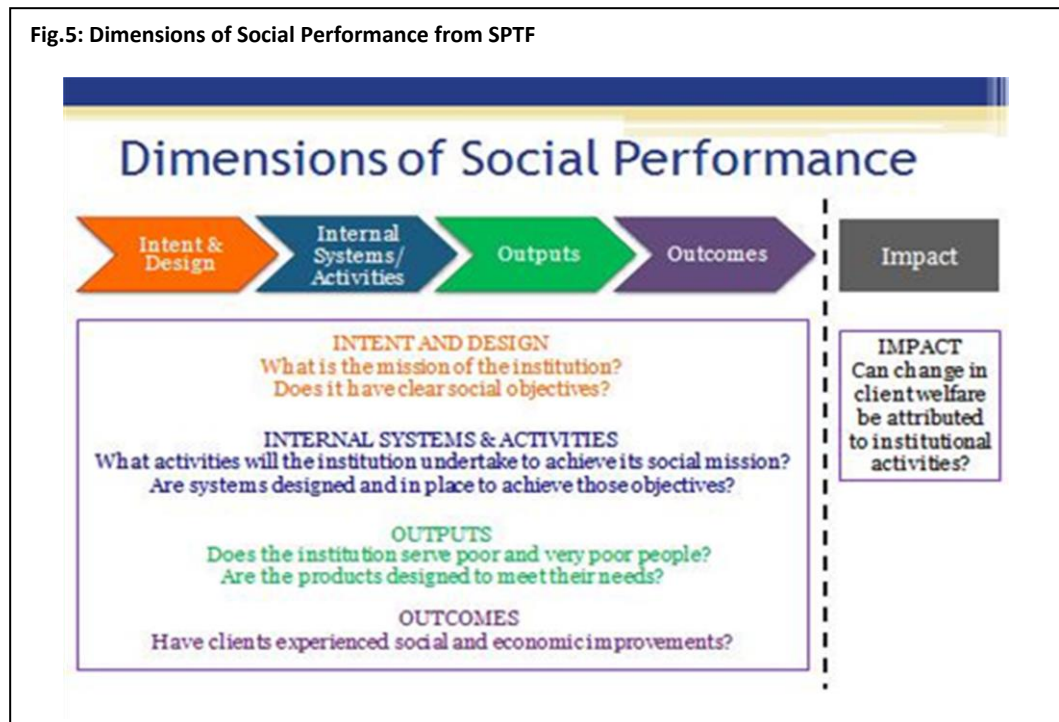
<sup>15</sup> Clifford J., Markey K., and N. Malpani. (2013). *Measuring Social Impact in Social Enterprise: The state of thought and practice in the UK*. London. E3M

<sup>16</sup> Hehenberger, L., Harling, A-M., and Scholten, P. (2013). *A Practical Guide to Measuring and Managing Impact*. EVPA Knowledge Centre.

Section B: Social Impact Measurement: the state of development

- 4.4.3. These activities have points of contact with those beneficiaries, known as **outputs**. These may be the attendance of a service-user on a course or programme, the delivery of a product for their future use, the development of a social interaction – a community – to support them, or a life-changing process such as a medical transplant or a chemotherapy course, for example. In each case the output is the means to achieving the outcome and the impact, not the outcome itself.
- 4.4.4. Through the activities and outputs, changes are achieved in the lives of beneficiaries (both the direct service-users, and other stakeholders such as their families, communities, employers, and State and other service providers). These changes are the **outcomes**, and are stated as the difference in situation between what would have happened but for the service or product concerned, and what was actually achieved with it. Those outcomes may be short- or long-term, to match the need being met, and the service or product being delivered. Customarily outcomes are usually described as **primary** (in the lives of the direct service-user, and as a reasonably direct consequence of the service or product) or **secondary** (a consequential effect in the life of the service-user – “...and so they were able to...”, or in the lives of others).

Fig.5: Dimensions of Social Performance from SPTF



- 4.4.5. The outcomes may then be evaluated in terms of the **impacts** on that person’s life in terms of the value achieved for a given stakeholder (person) by reason of the service or product supplied. This is net of the gain contributed by the intervention of others, and takes into account both positive and negative effects (known as displacement), as well as:
- attribution: the extent to which the social enterprise is responsible for the outcome, as opposed to its being due to the intervention of others;
  - deadweight: outcomes that would have arisen anyway, regardless of the intervention;
  - drop-off: the tendency of the effects of an intervention at a particular time to become less over time.

**Section B: Social Impact Measurement: the state of development**

- 4.5. The logical flow that links the five is known as **theory of change**. This is fundamental. It shows and explains the causative link between the activities being undertaken and their targeted outcomes and impact. The rationale behind this must always be understood and explained. It must always be underpinned with proportionate evidence as to why it is believed that those outcomes arise from that activity.
- 4.6. It should be noted that some practitioners merge, and do not differentiate between outcomes and impact. These apply alternative attribution and the other adjustments as outlined in **Fig.3, 4** and indeed **6**, but do not identify outcomes and impact as meaning different things. The other confusion in terminology is in the tendency of some to identify outputs, but call them outcomes. This is perhaps most frequently done by Public Sector Funders. In both cases this report follows the most widespread interpretations and use of the words.
- 4.7. The five stages that build up to the theory of change may be defined and illustrated in the tables on the following pages:

	<b>Definition</b>	<b>Illustration 1: care in the home support for those recovering from a stroke (cerebrovascular accident, or CVA)</b>	<b>Illustration 2: getting young people into employment using support and mentoring</b>
<b>Input</b>	<p><b>What is used:</b> The resources invested in the activity, which can include money, expertise and time of individuals and organisations, buildings, and other fixed assets such as equipment. Within the resources used there may also be outcomes, - in cases where staff or volunteers gain from their volunteering. An example could be a rehabilitation programme for alcoholics using mentors who help keep themselves dry by their mentoring responsibilities.</p>	<ul style="list-style-type: none"> <li>• <i>Funding (€, \$, £) is required to provide occupational therapists to work with the stroke patient,</i></li> <li>• <i>the premises and tools with which they work,</i></li> <li>• <i>the time and expertise of the therapists and the stroke victim's friends and family.</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>Funding (€, £, \$) is required to fund the places on training courses, and the time or training of mentors,</i></li> <li>• <i>premises and other tools are key resources,</i></li> <li>• <i>the time and expertise of the trainers and mentors, some of whom may be volunteers. Where there are volunteers involved stakeholders may prefer to use a notional value for their time to reflect the fact that they could otherwise be volunteering for another useful activity.</i></li> </ul>
<b>Activity</b>	<p><b>What is done:</b> The work undertaken using those resources with the purpose of delivering the outcome intended.</p>	<p>Therapists work in the home, and in local sports facilities to support the stroke victim in developing coping strategies, and exercise regimes that aid quicker recovery. They work with friends and family of the victim to enable them to understand what is required, so that they can be involved and assist that is they help to build support networks around the stroke victim, extending the reach of care.</p>	<p>A combination programme of:</p> <ul style="list-style-type: none"> <li>• <i>group activity to develop peer group support,</i></li> <li>• <i>core skills development to build confidence and improve access to learning,</i></li> <li>• <i>direct involvement of employers in the programme giving real training and direct access to jobs, and</i></li> <li>• <i>mentoring individuals, from employer-appointed mentors.</i></li> </ul>

Section B: Social Impact Measurement: the state of development

	Definition	Illustration 1: care in the home support for those recovering from a stroke (cerebrovascular accident, or CVA)	Illustration 2: getting young people into employment using support and mentoring
<b>Output</b>	<p><b>How that touches the intended beneficiary:</b> The results of the activity: the points of interface with the direct beneficiary. Indicators that the beneficiaries were reached by the activity. This does not, however, extend to the effectiveness of the intervention. That is covered in outcome and impact.</p>	<p>How many stroke victims are seen, and how many courses or sessions they attend. How many carers attend with them.</p>	<p>How many young people attend courses; how many start jobs with scheme employers.</p>
<b>(Social) Outcome</b>	<p><b>The change arising as a result:</b> Social effect (change), both long-term and short-term arising as a result of the activity undertaken with a view to social change taking into account both positive and negative changes, and both intended and unintended consequences, and both effects upon the intended beneficiaries and on others. The outcome may be achieved from delivery of services or products, or from involvement of people as inputs in the delivery of those services.</p>	<p>How the stroke victims are able to change their behaviours as a result of the activity so that they can recover more quickly, or cope better with any residual disability. The outcome is a changed lifestyle, with different activities, and different, lesser, support burdens put on carers. This may mean less likelihood of depression, less burden on State financial support for their care. It may mean they can get back to work, or do so more quickly than they otherwise would have done. Also it may mean changes in lifestyle for carers and family as they are freed to get back to work, or care for others, such as children, in the family. A negative could be a change in relationships within a family leading to a carer losing their role in leading a care regime. Indicators here could focus on relevant measures of the costs and effects of alternative health and mental health care avoided. They might also include measures of productivity of the stroke victim or their carers. Additional indicators might include appropriate measures of improvement in school engagement for children, or indeed mental health measures for them.</p>	<p>The changes achieved by individuals in:</p> <ul style="list-style-type: none"> <li>• <i>not just gaining, but sustaining, employment (indicator: additional productivity);</i></li> <li>• <i>changed attitudes to employment such that they believe they can attain and sustain gainful employment (indicator: well-being measure);</i></li> <li>• <i>a greater ability to develop further skills, and hence progression, in that employment (indicator: additional productivity potential);</i></li> <li>• <i>savings in State benefits for the unemployed (indicator: state benefits saved over the period).</i></li> </ul> <p>The effects on their families and communities, both at home and at work, in such areas as:</p> <ul style="list-style-type: none"> <li>• <i>influencing younger siblings into employment (indicator: additional productivity; well-being);</i></li> <li>• <i>reduced anti-social behaviours from the individual, by reason of achieving gainful employment and changed attitudes leading to... reduced engagement with police and similar public services (indicators: reduced costs of services);</i></li> <li>• <i>reductions in damage to property from vandalism and theft (lower costs of damage to property; others depending on circumstances).</i></li> </ul>



Section B: Social Impact Measurement: the state of development

Definition	Illustration 1: care in the home support for those recovering from a stroke (cerebrovascular accident, or CVA)	Illustration 2: getting young people into employment using support and mentoring
<b>(Social) Impact</b>	<p><b>The extent to which the outcomes are attributable to the specific activities delivered by that social enterprise:</b></p> <p>Outcomes adjusted to remove what would have happened anyway, the effect of the involvement of others, and any reduction of the effect over time. This enables the stakeholders to evaluate the contribution of the activities to achieve the identified outcomes, and for how long that effect may last.</p>	<p>Reduce overall outcomes claimed by the effects of:</p> <ul style="list-style-type: none"> <li>• <i>those young people attending the programme who would have gained sustainable employment anyway (reduction in indicator for outcome);</i></li> <li>• <i>the effect of the support of families, friends, and other key parties such as the employers who are offering guaranteed employment and mentoring, However we recognise that the scheme was the instigator of the support of these others, so this is reflected in a slightly higher attribution of the gain to the scheme (reduction in indicator for outcome);</i></li> <li>• <i>The gain is recognised over an extended period as it offers, for those whose lives are deeply changed, an exit from the cycle of unemployment and deprivation.</i></li> </ul>

### The characteristics of effective measurement

4.8. For measurement to be effective it must be:

- 4.8.1. **relevant:** related to, and arise from the outcomes it is measuring;
- 4.8.2. **helpful:** in meeting the needs of stakeholders', both internal and external;
- 4.8.3. **simple:** both in how the measurement is made, and in how it is presented;
- 4.8.4. **natural:** arising from the normal flow of activity to outcome;
- 4.8.5. **certain:** both in how it is derived, and in how it is presented;
- 4.8.6. **understood and accepted:** by all relevant stakeholders;
- 4.8.7. **transparent and well-explained:** so that the method by which the measurement is made, and how that relates to the services and outcomes concerned are clear;
- 4.8.8. **founded on evidence:** so that it can be tested, validated, and from the grounds for continuous improvement.

4.9. The principles of SROI<sup>17</sup> also serve as a useful set of foundation principles for social impact measurement to other indicators. They are (with the group's interpretation in brackets):

- 4.9.1. Involve stakeholders.
- 4.9.2. Understand what changes.

<sup>17</sup> Nicholls J., Lawlor, E., Neitzert, E., and T. Goodspeed. (2012). *A Guide to Social Return on Investment*. 2<sup>nd</sup> Ed. London. SROI Network.

**Section B: Social Impact Measurement: the state of development**

- 4.9.3. Value the things that matter (to stakeholders).
  - 4.9.4. Only include what is material (that makes a difference to stakeholders' view).
  - 4.9.5. Do not over-claim.
  - 4.9.6. Be transparent (explain clearly how you arrived at the answer, and any uncertainties in your evidence or assumptions).
  - 4.9.7. Verify the results (based on good research principles).
- 4.10. In addition it is essential if a full and useful picture of an SE's impact is to be formed for the measurement to cover, and quantify:
- 4.10.1. the social impact on communities as much as on individuals;
  - 4.10.2. the long term social impact rather than solely the short-term one;
  - 4.10.3. the width or reach of the social impact in terms of geographical coverage and its depth, the intensity or extent of impact in a small area, in particular in terms of coverage of specific groups of the population (e.g. disadvantaged, vulnerable, at risk);
  - 4.10.4. the direct social impact separately from the indirect one, making clear how the indirect one happens.
- 4.11. These key aspects of the social impact make it necessary to measure not only the social impact of the intervention but also some aspects of the SE itself which are instrumental in making them deliverable. These are:
- 4.11.1. the extent to which the social impact sits within the SE's predefined core mission as enshrined in its statutes or bye-laws (which can, in turn, be defined by binding legislation or not);
  - 4.11.2. the extent to which the SE includes in its governance the various stakeholders involved (providers, users, representatives of local communities, associations, etc.):
    - because the involvement of the stakeholders is what will make it possible to regularly re-define the needs of the community, and thus regularly readjust the SE's outputs in function of these needs, and thus also regularly reformulate the social impact being sought;
    - because this is what provides its full potential to the cognitive (capacity-building) component of the social impact measurement process;
    - because it generates an inclusion dynamic which substantially increases the changes that the social impact will be accurately known, analysed and measured;
  - 4.11.3. the extent to which the SE is part of a larger horizontal entrepreneurial network or consortium or group of SE;
  - 4.11.4. the economic health of the SE, according to conventional entrepreneurial parameters (in terms of turnover, profit, employment, leverage (debt/equity ratio), labour productivity, diversity of clients, etc.).
- 4.12. Current common themes for measurement in all types of interventions and situations<sup>18</sup> are:
- 4.12.1. The measurement must be founded on a clear understanding of the outcomes to be achieved, and the impacts, identifying for whom those arise
  - 4.12.2. It must speak for the intervention, and be embedded within it. It should be based on the service and products being provided, and encourage their effectiveness and improvement
  - 4.12.3. How those impacts arise must be clearly explained by giving the account of the intervention and the lives changed by it: a clear theory of change

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<sup>18</sup> Clifford J., Markey K., and N. Malpani. (2013). *Measuring Social Impact in Social Enterprise: The state of thought and practice in the UK*. London. E3M

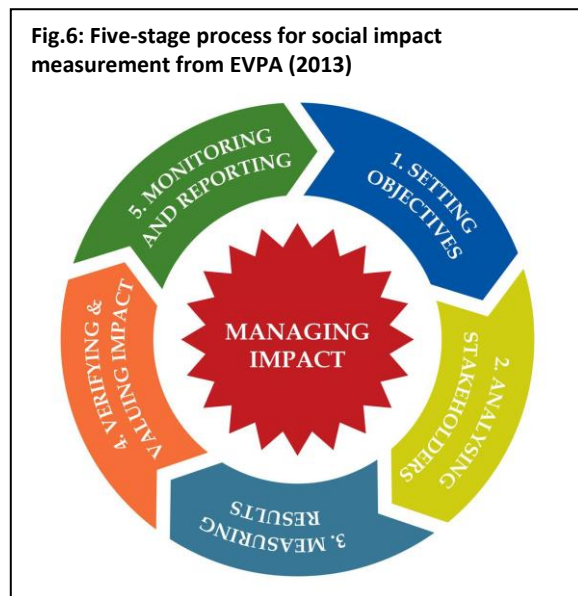


Section B: Social Impact Measurement: the state of development

- 4.12.4. Informed outputs can be used as milestone measures, provided they are derived from a clear understanding of how activities create outputs and hence outcomes and impact. This is possible if there are point on the route to the outcome at which it becomes reasonably certain that the outcome will be achieved
- 4.12.5. Measurement must be set in the context of, and to support, the decisions to be made, and the learning expected to be gained from it
- 4.12.6. Evidencing the measurement must be as needed for (proportionate to) the purpose.
- 4.12.7. The measurement must be suited to the use to which it is to be put: it must be developed to meet a need, and used for it.
- 4.12.8. Financial proxies and financial indicators for measurement (such as those frequently used in SROI) should only be used if they add value to the key stakeholders' viewpoint.

A common process

4.13. All Social Impact Measurement should arise from a common process, which follows the same five stages in paragraph 4.2, which talks about their internal and external benefits. This, and certain common characteristics of the outputs, are what define good measurement. The steps in that process should be apparent to any reader of the measurement published from it. This common process is as follows, and is shown in the diagram at Fig.6:



- 4.13.1. **Identify objectives:** of the various parties in seeking measurement, and of the service being measured – what is it intended to do and how? This will establish target beneficiaries, outcomes, activities and theory of change.
- 4.13.2. **Identify stakeholders:** who gains and who gives what and how? What is their level of engagement with, control over, and contribution to achieving the desired objectives and the outcomes and impacts that come with them. The guidance from EVPA gives helpful comment on assessing the relative importance of different stakeholders and their needs in setting the measurements required.<sup>19</sup>
- 4.13.3. **Set relevant measurement:** From this story of change, and identified outcomes, develop a series of measures that fairly and helpfully reflect what is being achieved and establish how they should be presented simply and clearly to meet stakeholders' needs. Can these be simplified, whilst still being relevant and proportionate reflections of the outcomes and impact to be measured. This follows the three steps of defining the outcomes; selecting the relevant ones, and attaching measures to them that are meaningful indicators of the outcomes being achieved.
- 4.13.4. **Measure, validate and value:** This requires assessing whether the targeted outcomes are actually achieved in practice, whether they are apparent to the stakeholder intended to benefit, and whether they are valuable to that stakeholder. Value is the net gain to the stakeholder: that is the gains achieved, net of the costs or sacrifices made to achieve

<sup>19</sup> Hehenberger, L. , Harling, A-M. & Scholten, P. (2013). "A Practical Guide to Measuring and Managing Impact". EVPA Knowledge Centre report. <http://evpa.eu.com/knowledge-centre/publications/evpa-publications/>

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them. The underpinning evidence for that needs to be relevant to the measurement, transparent to the stakeholders interested in it, and proportionate (in terms of cost/accuracy/detail balance) to the use to which it is put. This is a continuous process to be undertaken over the life of the delivery of a social intervention, and needs to be set into the normal operational systems of the social enterprise. The drive for measurement must not be allowed to overshadow the point that it is essential that it emerges from the story of the activity and the outcomes achieved – the lives changed – by it.

- 4.13.5. **Report, learn and improve:** As the services are delivered and the measurements of their effectiveness emerge, so these results are reported regularly and meaningfully to internal and external audiences. This enables each stakeholder, and most importantly those most directly concerned with service delivery, to learn, and to revisit, refocus and improve the services. The reporting needs to be appropriate to the audience, and needs to be presented in such a way as both to be transparent and useful, and to encourage the future behaviours most useful to making the service effective in delivering desired outcomes. The reporting should be alive to the point that it may demonstrate that the targeted outcomes, as well as the means by which they are achieved, are not appropriate and need changing.
- 4.14. Further details of these stages and how they are effected are given in the EVPA Practical Guide to Measuring and Managing Impact. These align with the principal stages advocated by other published guides, and by studies produced by leading practitioners and SEs.
- 4.15. The measurement of outcomes, in the sense of changes from the situation that would otherwise have been, requires that measurement is against a benchmark<sup>20</sup>. This may be achieved by using parallel measurement for a control group, or by looking at the trajectory of beneficiaries before they encountered the SE's intervention. The issue is considered further in the E3M report.<sup>21</sup>
- 4.16. The experience in the UK from developing Social Impact Bonds, notably in that developed for adoption of children<sup>22</sup>, highlights the need to use what the adoption bond's designers term "informed outputs". These are milestones derived from an understanding of the process by which social impact is delivered, which show a high likelihood that the service or product is on track to produce the targeted outcomes and impacts.
- 4.17. It is implicit in this process that the measurement includes an awareness of risk. This should include:
- 4.17.1. the risk surrounding financial viability of the intervention and of the SE that is delivering and promoting it;
  - 4.17.2. the risk that an intended outcome is not delivered; and
  - 4.17.3. the risk that an unintended (negative) outcome is delivered.
- 4.18. All three elements have a bearing on investment risk, with the first underpinning conventional financial investment risk, and the latter two the social risk that SE, Fund and Investor objectives are not achieved.

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<sup>20</sup> Maas K & K Liket. *Do We Know What We are Talking About? Measurement Validity in Social Impact Research*. Conference paper at ARNOVA 2011. Rotterdam, Erasmus Univ.

<sup>21</sup> Clifford J., Markey K., and N. Malpani. (2013). *Measuring Social Impact in Social Enterprise: The state of thought and practice in the UK*. London. E3M

<sup>22</sup> "It's All About Me", developed by the Consortium of Voluntary Adoption Agencies ([www.iaamadooption.org](http://www.iaamadooption.org) and <http://www.bakertilly.co.uk/publications/Pages/Its-All-About-Me.aspx>)

### Validation, independent review or audit assurance

- 4.19. Evidential underpinning is important. With a form of measurement that is based upon social and management research principles, this is implicit. How this is done is a matter of balancing the needs of stakeholders, the use to which the measurement is to be put, and the costs.
- 4.20. The SE and its stakeholders will choose between three options:
- 4.20.1. **Validation:** This is part of the normal research process. Either completed internally within the SE or Fund, or as part of an externally-sourced piece of research, it demands that appropriate supporting evidence is sought and disclosed for all materials matters.
  - 4.20.2. **Independent review:** This requires an independent party reviewing the measurement process and findings and commenting upon their completeness and the underlying logic for the conclusions. It is essentially a report on method and evidence: on process and documentation of findings.
  - 4.20.3. **Audit assurance:** This is a more formalised approach requiring the issuing of a pre-worded opinion similar to a “true and fair” opinion on financial accounts. It requires the reviewer to consider not just whether the researched findings are sound in themselves, but also whether they give a complete and accurate view, appropriate to their purpose. It generally requires the reviewer to consider the purpose to which the reported information will be put by relevant stakeholders.
- 4.21. The first is most widely used, since it is implicit in all social impact measurement. Coupled with proper disclosure of the evidential underpinning for the measurement, it may be both necessary in all, and sufficient in many, situations, as is the case in much good quality research. The second and third are in use to varying degrees, and in each case will be sought by one or more stakeholders, possibly when the researchers are less experienced, or when the measurement may have less credibility because they are insiders.

### Pitfalls in achieving effective measurement

- 4.22. The following factors need to be addressed or avoided if measurement of social impact is to be effective:
- 4.22.1. **Measurement drives behaviours:** failing to recognise that measurement does, and should, drive behaviours amongst stakeholders, including service-users. Behaviours are driven by the activity of measuring, by the publication of the measurement, and by the discussion of the result, co-developing learning and change from it. If this is understood, and the measurement built around it, it can be used to drive convergent, supportive behaviours (e.g. a service-user that better understands how to use a service and how it benefits them will improve its effectiveness).
  - 4.22.2. **Perverse incentives:** with a natural tendency to associate measurement with the setting of targets, and then to drive various parties to achieve that, there are wide concerns that those parties may be inclined to achieve the target regardless of whether the intended outcome follows. Particular concern arises with the risk that measured targets drive the social enterprise to select easier cohorts of beneficiaries with which to deliver the services, so achieving targets whilst underachieving outcomes (variously referred-to as “creaming-off” or “cherry-picking”).
  - 4.22.3. **Manipulation or “gaming”:** with any measurement there are those that will try to play the system to enable targets to be shown to be achieved. This risk always exists, and the only wrong system is one which ignores that risk, and does not build in checks and balances to manage it. These need to be specific to the SE and project concerned.

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- 4.22.4. **Outputs being treated as outcomes or impacts:** whilst a service delivery organisation may be focused on delivering outputs, these are not the objective in themselves, but a means to achieving that. Whilst they can be used (with care – see para 4.16 above) as proxies for outcomes, they risk mis-focusing attention away from the outcomes themselves.
- 4.22.5. **Inflexibility:** as intended social outcomes are achieved, or fail, so the space in which they operate changes. Social needs naturally move on. Any measurement system must embrace this need to change and improve. Such revision can be expected to be needed over three to five years for most measurements, and over a shorter period for some.
- 4.22.6. **Quantification at the expense of understanding:** It is now widely accepted that, notwithstanding the development of a number of useful approaches to quantification of outcomes and impacts, these are always only reflections of the deeper and more nuanced reality in the stories of the intervention and the change it achieves. The story of the changing of lives, of attitudes and outlooks must always come first, and never be omitted from a sound explanation of outcomes and impacts.
- 4.22.7. **Maintaining proportionality:** the effort that goes into measurement, and the degree of accuracy achieved, needs to be proportional to the use to which that measurement is being put. This is an exact parallel with the widely accepted concept of materiality in accounting (further explained at 8.16).
- 4.22.8. **Excessive bureaucracy:** measurement should help, not take up scarce resources, and slow down decision-making for social enterprises which should be quick to react and flexible to developing social need.

## **5. Stakeholders and their needs**

- 5.1. Stakeholders are different from social enterprise to social enterprise. They vary according to:
  - 5.1.1. The political, environmental and social setting in which they work (including variation between member states, demography, and human and natural geography);
  - 5.1.2. The purpose of the intervention and how it achieves its purpose;
  - 5.1.3. The degree of service user engagement required for effectiveness, and how easily that is achieved;
  - 5.1.4. The income which pays for the work done, and any incentivisation or risk-sharing built into it ;
  - 5.1.5. The time when measurement is taken (stakeholders, and the nature of their interest, vary over time); and
  - 5.1.6. The decisions they can take, and the behaviours that are required of them, as a result of the measurement.
- 5.2. Stakeholders' needs for measurement are driven by the nature of their interest in, and engagement with the social enterprise delivering the intervention, and the beneficiaries of it, They fall principally into the following headings:
  - 5.2.1. Effectiveness of the intervention and improvement that can be achieved in that (internal service delivery focus and effectiveness).
  - 5.2.2. Investor measurement and focus of support.
  - 5.2.3. Contractual control in delivery contracts for publicly-commissioned services.
  - 5.2.4. Policy effectiveness, including supporting activity such as grant funds and regional initiatives.
  - 5.2.5. Prioritisation of application of resources.
  - 5.2.6. In public scrutiny.

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- 5.3. Stakeholders are decision-makers. They decide to engage with the service, to fund it, or to invest in it for example. The measurement needs to support that decision-making in a meaningful way. Hence the first stage in building any measurement is to understand the objects of the service or product, and the positions and viewpoints of all relevant stakeholders.
- 5.4. Arriving at that understanding demands that the social enterprise engages with stakeholders to test and challenge their understanding. This engagement needs to be not just at the planning stage, but throughout the whole measurement process.
- 5.5. The needs of the SE, the Fund Manager, the Funder, and the Investor differ. They can be summarised as follows:

	<b>Need for Measurement</b>	<b>Why</b>
<b>SE</b>	<ul style="list-style-type: none"> <li>• <i>A clear theory of change, linking activities and inputs to outcomes.</i></li> <li>• <i>The ability to develop informed outputs as milestones on the route to delivering outcomes.</i></li> <li>• <i>Measure that can be used on KPIs</i></li> </ul> <p>All of these balancing needs of all stakeholders; and certainty/consistency with flexibility to changing circumstances. Reporting cycle/regularity needs to be continuous.</p>	<p>The SE needs to use this for:</p> <ul style="list-style-type: none"> <li>• <i>planning the service;</i></li> <li>• <i>improving resource allocation (inputs);</i></li> <li>• <i>engaging with service users and partners ;</i></li> <li>• <i>performance management;</i></li> <li>• <i>meeting accountabilities to stakeholders.</i></li> </ul>
<b>Funder (purchaser of services, largely Public Sector)</b>	<p>Needs are as for SE, but focussed upon:</p> <ul style="list-style-type: none"> <li>• <i>Measurement of policy deliverables (narrower than the wider social outcomes for SE);</i></li> <li>• <i>Consistency over the term of a funding agreement.</i></li> </ul> <p>Reporting needs to be based on terms of funding; monthly payment requires monthly or quarterly reporting.</p>	<p>The Funder needs to use this for:</p> <ul style="list-style-type: none"> <li>• <i>reporting on effectiveness of funding in delivering policy;</i></li> <li>• <i>controlling spending;</i></li> <li>• <i>informing under policy development.</i></li> </ul>
<b>Fund and Investor</b>	<p>Needs are as for SE, but focussed upon:</p> <ul style="list-style-type: none"> <li>• <i>full explanation at the time of investment;</i></li> <li>• <i>focussed on KPIs and other information to support the Fund Manager’s chosen Investor reporting and monitoring. These are related to the interests of the Investors.</i></li> </ul>	<p>These need to use measurement for:</p> <ul style="list-style-type: none"> <li>• <i>evaluating the SE’s request for investment at the outset.</i></li> <li>• <i>monitoring the SE’s performance;</i></li> <li>• <i>balancing risk and achievement of targets in the Fund;</i></li> <li>• <i>reporting to the investors on:</i> <ul style="list-style-type: none"> <li>= <i>the investment</i></li> <li>= <i>the achievement of the SE’s outcomes;</i></li> <li>= <i>the overall achievement of the Fund.</i></li> </ul> </li> </ul>

- 5.5.1. The measurement selected also varies based on the different systems within the social enterprise<sup>23</sup> for its:
- **finance:** both in terms of controlling finance within the project, and in managing it from a funding and investor relationship position;
  - **governance:** how does the organisation’s governance work to the measurement, when different interventions have very different degrees of public accountability and funder and service-user engagement;
  - **decision-making:** embracing both the decision-making within the organisation, and the decision-making of outside stakeholders including the decision of service-users whether or not to engage with the service. In different interventions their level of choice regarding both attendance and active engagement may work very differently (e.g. high levels of voluntary engagement within care interventions, contrasted with high compulsion to attend, if not necessarily to engage in offender management).

<sup>23</sup> Clifford J., Markey K., and N. Malpani. (2013). *Measuring Social Impact in Social Enterprise: The state of thought and practice in the UK.* London. E3M

## 6. Scrutiny aspects

- 6.1. The measurement of Social Impact affects the use of public funds, and the delivery of public services. As such it needs to be capable of withstanding appropriate degrees of public scrutiny. That needs to embrace:
- 6.1.1. **Accountability:** the recognition of the duty to be accountable to the public that are served.
  - 6.1.2. **Transparency:** how that accountability is addressed by the provision of information with clarity and explanation.
  - 6.1.3. **Involvement:** how information provided, and the way in which it is provided demands a response from the public in terms of engagement and behaviour.
- 6.2. Public scrutiny is an essential part of ensuring that government remains effective and accountable. Public scrutiny can be defined as the activity by one elected or appointed organisation or office examining and monitoring all or part of the activity of a public sector body with the aim of improving the quality of public services. A public sector body is one that carries out public functions or spends public money. Scrutiny ensures that executives are held accountable for their decisions, that their decision-making process is clear and accessible to the public and that there are opportunities for the public and their representatives to influence and improve public policy.
- 6.3. Now more than ever principles of accountability, transparency and involvement are crucial to the way people who plan and deliver services approach the challenges we face as a society. Principles of good scrutiny remain firm foundations around which people who use services and the public can come together with professionals and political leaders to solve problems.
- 6.4. Public scrutiny therefore provides a unique perspective on how well public services are being delivered and how they could be improved, from the point of view of those receiving and using those services.
- 6.5. Good scrutiny and accountability involves different people in different ways e.g., private citizens, service users, elected representatives, inspectors, regulators etc. Four mutually reinforcing principles, leading to improved public services, need to be embedded at every level:
- Providing constructive challenge;
  - Amplifying the voices and concerns of the public;
  - Led by independent people who take responsibility for their role;
  - Driving improvement in public services.
- 6.6. With a shift in many member states towards a delivery model for public services that involves provision by VCS or private sector organisations, scrutiny needs to develop to embrace these organisations' service delivery. It also needs to cover social impact measurement as well as conventional financial and decision-based scrutiny aspects.
- 6.7. Scrutiny arises within the EuSEF response from the subgroup at three key stages:
- 6.7.1. Regulatory scrutiny by the securities and markets regulatory authorities within each Member State, overseeing the funder's decision to fund, and whether that constitutes a valid and appropriate use of funds, subject to the appropriate controls, so as to maintain the fund within the limits of EuSEF defined requirements. It also considers information to investors to inform their decision to invest: whether that information has been developed within acceptable standards, fit for their purpose.
  - 6.7.2. EuSEF internal scrutiny over decisions to invest in specific social enterprises. Have these decisions been reached on appropriate criteria, based on sound and relevant evidence, and was the decision-making subject to fair and open processes?

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- 6.7.3. EuSEF monitoring of investee performance and delivery of targeted outcomes (financial environmental and social). This requires a review and monitoring of the social enterprise's processes for control of its activity and the measurement of the outcomes achieved. It can embrace and use the social enterprise's own systems, information, and indeed internal scrutiny, in assessing what is proportionate within the EuSEF.
- 6.8. Scrutiny within the EaSI processes focuses on the third element above. It requires grants to be allocated to enterprises focused on achieving measurable social impact. That is being defined, or at least bounded, by the work of the sub-group. As such the sub-group's guidance needs to facilitate measurement by EaSI in its grant allocation at two stages:
  - 6.8.1. is the enterprise focused on delivering a measurable social impact (a forward-looking test)?
  - 6.8.2. has it actually delivered measured social impact (a review after the event)?

## **7. The scope of SEs requiring measurement**

- 7.1. The range of SEs across the EU is wide. From the smallest of local collectives (such as a community-owned hall or inn) to the largest of cooperatives embodying many hundreds of millions of Euros of annual State spend, all fit within the broad definition. A detailed typology of these is beyond the scope of this sub-group's work, and so is not included here. However the sub-group has in its proposals thought about how they can work well for this wide range of subjects.
- 7.2. The diversity is not just in the size of SE. It is also in:
  - 7.2.1. The SE's corporate or non-corporate structure.
  - 7.2.2. Its area of operation.
  - 7.2.3. The outcomes it is pursuing and the beneficiary group for which they are pursued.
  - 7.2.4. Its capital structure and needs, and the types of investor that support it.
  - 7.2.5. Its intended and actual lifetime.
  - 7.2.6. Its mixture of State and non-State funding.
  - 7.2.7. the legislative context within which it is formed and in which it operates.



## Section C: Standards for Social Impact Measurement

### 8. Defining good measurement

#### In general

- 8.1. In order to attain a standard that is equally applicable to large and small, to a full range of types of SE and the interventions they deliver, and to all EU territories, the sub-group is agreed that this must focus on:
- 8.1.1. a common **Process** of measurement designed to give the account of the intervention, its outcomes and how it achieves them, and
  - 8.1.2. certain common **Characteristics** that define measurement disclosure (reporting) that is of acceptable quality
- These are to be universal and mandatory.
- 8.2. The choice of **Frameworks** and **Indicators** is not to be mandatory. They will be needed, but the requirement under these standards is that they are:
- 8.2.1. selected by the SE for their appropriateness in relation to the intervention concerned, the outcomes targeted to arise from it, and the stakeholders affected by it;
  - 8.2.2. agreed between the SE and the Fund Manager;
  - 8.2.3. reported against and communicated effectively and regularly to stakeholders; and
  - 8.2.4. regularly reviewed for appropriateness and updated or changed as needed.
- 8.3. With regard to Frameworks, one should be established, drawing from other frameworks already developed or being developed within the member states, that covers most of the areas of targeted outcomes likely to be encountered across the SEs in all member states. It is not to be mandatory, but:
- 8.3.1. should be used by SEs and Fund Managers where it meets the needs of stakeholders for measurement.
  - 8.3.2. where it is not used:
    - this should be agreed with principal stakeholders, and
    - any reporting of the outcomes and impact should include an explanation of why outcomes and indicators not in the framework are more appropriate.
- 8.4. The need for **comparability** is met by the common Process, which all measurement must follow, rather than a common set of frameworks and indicators. It is clear that the latter would at best be meaningless as it would impose indicators to interventions and outcomes to which they do not fit. At worst it would give an impression of comparability between truly incomparable interventions, and so be misleading.
- 8.5. In terms of validation, independent review or audit assurance, all measurement should include validation which is proportionate. Where material, supporting evidence should be reported with the measurement. The SE, and the Fund, should agree with any stakeholders with material interests whether independent review or audit is required, and if so the scope of this or the form of opinion to be given.



- 8.6. These standards should apply:
- 8.6.1. At intervention or activity level, supporting the SE's decision to invest in a particular intervention;
  - 8.6.2. At SE level to assist SE management, Funder and Investor in determining the overall impact and effectiveness of the SE;
  - 8.6.3. At Fund Manager level, to enable them to balance outcomes delivery, financial sustainability and risk within the fund;
  - 8.6.4. At Fund of Funds and Investor level to support meaningful reporting on the effectiveness with which investor's capital is being used.
- 8.7. The sections below explain the detail for the mandatory standards for:
- 8.7.1. Process from paragraph 8.9
  - 8.7.2. Characteristics from paragraph 8.11
  - 8.7.3. Stakeholder engagement paragraph 8.13
  - 8.7.4. Proportionality from paragraph 8.14
  - 8.7.5. Scrutiny from paragraph 8.21
  - 8.7.6. Confidentiality, privacy and legality from paragraph 8.22

### **An over-riding consideration**

- 8.8. Notwithstanding the importance of gaining a common process for measurement, and a recognition of what is good measurement, there is an over-riding consideration. The funders, and the investors, and indeed the managers of the social enterprises, should allow sufficient funding to enable measurement to be carried out consistently and properly. Where, as is discussed later in the report, it is necessary to develop more detailed evidential sources, or to verify those internally or externally, there is a cost associated with doing this. Proportionality comes in here as well.

### **A common process**

- 8.9. All Social Impact Measurement should be produced following the same common process. The steps in that process should be apparent to any reader of the measurement published from it. This common process is as described at 4.13, and is shown in the diagram at **Fig.6**. It comprises the following steps:
- 8.9.1. **Identify objectives:** of the various parties in seeking measurement, and of the service being measured.
  - 8.9.2. **Identify stakeholders:** who gains and who gives what and how?
  - 8.9.3. **Set relevant measurement:** from ascertaining the theory of change, and identified outcomes, develop a series of measures that fairly and helpfully reflect what is being achieved and establish how they should be presented simply and clearly to meet stakeholders' needs.
  - 8.9.4. **Measure, validate and value:** assessing whether the targeted outcomes are actually achieved in practice, whether they are apparent to the stakeholder intended to benefit, and whether they are valuable to that stakeholder.
  - 8.9.5. **Report, learn and improve:** as the services are delivered and the measurements of their effectiveness emerge, so these results are reported regularly and meaningfully to internal and external audiences.
- 8.10. The common process outlined above is relevant at both investor/fund level, and at social enterprise level. At both levels it should consider risk, both social and financial (see paragraph 4.17).

### **Common characteristics: standards for measurement reporting**

- 8.11. All reporting of measurement should include:
- 8.11.1. an explanation of how the Process has been applied;
  - 8.11.2. a clearly explained account of the effects of the intervention (outcomes, and identified beneficiaries, also explaining deadweight, displacement, attribution and drop-off);
  - 8.11.3. an explanation as to how that happened: what activity achieved those outcomes and their impacts, and the Social Enterprise's logic model (theory of change, or hypothesis) as to why the activity caused or contributed to the outcome;
  - 8.11.4. an identification of any third parties having a role in the effective delivery of those outcomes and impacts, explaining how they contributed (alternative attribution);
  - 8.11.5. each with appropriate and proportionate evidential underpinning;
  - 8.11.6. an identification of those stakeholders whose interests are being measured, and the nature of the gain to them, categorising them appropriately;
  - 8.11.7. a well-explained, proportionate, selection of indicators for the identified impacts for those stakeholders, identifying how the indicator relates both to the impact, and the needs and interests of the stakeholder;
  - 8.11.8. an explanation of social and financial risk quantified, where helpful and proportionate, with an evaluation of likelihood and impact, and with a sensitivity analysis showing the effect on targeted outcomes, impact, and financial results if the risks arise.
- 8.12. Even where aspects of the outcome and impact are not going to be quantified, the account should identify all outcomes and impacts that are relevant to the audience (remembering proportionality), and explain why they are not being quantified.

### **Stakeholder engagement**

- 8.13. Whilst the identification of stakeholders is implicit in the second stage of the process, stakeholders should be involved to some degree in all stages of impact measurement. This involvement must follow the guidance on proportionality in para 8.148.14 below. Subject to that, it is expected to involve:
- 8.13.1. Identifying stakeholders.
  - 8.13.2. Understanding the nature of their interest and confirming that with them, either prior to investment, or at another suitable date.
  - 8.13.3. Agreeing the Framework and/or Indicator suitable to those needs and notifying them (individually or as a class) of how measurement will be provided. This can be by information on a website, by live presentation or written notification, or by other suitable means.
  - 8.13.4. Providing a suitable means for stakeholders to raise queries or comments, and advise them of how to do it.
  - 8.13.5. Summarising, at least annually, or at shorter intervals suitable to stakeholder need:
    - who are the key stakeholders or key classes of stakeholders;
    - the measurement produced for them (which does not need to be repeated if common to several groups);
    - how that has been communicated to them ;
    - feedback received from them;
    - any planned changes to measurement in future.

## **Proportionality**

- 8.14. It is fundamental to good measurement that it balances:
- the needs of stakeholders with
  - the obligation not to waste resources on measurement which does not matter.
- 8.15. Whilst it is certainly the case that social impact reporting need not use financial indicators, it is nevertheless a gathering and communicating of measurement information which the reader-stakeholder is intended to use in its decision-making. Consequently there may be some useful parallels drawn from proportionality in financial reporting under IFRS, or “materiality” as it is more usually known in that context.
- 8.16. Two definitions are helpful, although other explanations of the same concept appear in IFRS:
- 8.16.1. Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor. (IAS 1.7, IAS 8.5)
- 8.16.2. Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report. Consequently, the Board cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation (QC11, Conceptual Framework for Financial Reporting, Sept 2010).
- 8.17. So measurement matters if it significantly affects the views and actions of stakeholders to the extent that they would act differently if they knew. This general principle applies to the external stakeholder receiving information about the social impact targeted or achieved. It also applies to the SE itself since it will make decisions based on what social impact it is achieving through its work. In both senses the SE must consider whether to measure a particular aspect of its work, the measurement Framework and Indicators to be used, and the level of detail required. It should consult appropriately with relevant stakeholders before making that decision (see section 8.13). The level of that consultation is itself subject to the SE’s judgment on proportionality. The SE needs to consider:
- 8.17.1. what needs to be measured, based on what is likely to be changed as a result of measuring it
- 8.17.2. what needs to be measured, based on whether it relates to a relevant outcome to a stakeholder whose interests and engagement matter
- 8.17.3. how closely the performance of the measure relates to the performance of the outcome
- 8.17.4. whether it can be measured with reasonable certainty, and how much certainty is reasonable in relation to the action to be taken as a result
- 8.17.5. the relevant timescales for measurement, and for the sustained interest of the stakeholders
- 8.18. This judgment is one for the SE, in conjunction with its stakeholders. It is difficult to give benchmarks for when measuring at all, or adding a further layer of detail to that measurement, will be material. If benchmarks are given, they will tend to become fixed cut-off points. Either measurement will only be done if it meets the criteria, or measurement will be insisted-upon with no real benefit if the criteria are met. Both are wrong results, the first tending to deny stakeholders important information, and the second being wasteful of scarce resources.

- 8.19. With this general warning (not to let these become fixed rules, rather than guiding principles), a simple two-stage process can be set out to help SEs and their funders to decide whether:
- it matters to measure a particular outcome or impact
  - it matters to take that measurement to a greater level of detail.

This two-stage thought process is as follows:

- 8.19.1. If the SE, Funder or Investor know this, would it change either or both of:
- Its invest/don't invest decision the amount of that investment by more than 10%,
  - Its delivery or operational process: the way in which its activity is delivered

If the answers to either of these is "yes", then two further questions are asked:

- 8.19.2. Is the cost of measurement less than 5% of the funded costs of the intervention, or  
8.19.3. If the Funder or Investor needs the measurement for its own reporting purposes, has it funded the costs of obtaining it without reducing funding for the intervention?

If any of the answers to either of these is also "yes", then the measurement probably matters and should be undertaken unless the SE and principal stakeholders agree to the contrary.

- 8.20. It is useful to give examples of when measurement (or the next layer of detail) matters, and an illustration of when taking it to a deeper level of detail does not. In both cases the full detail of the stakeholder engagement and need has been abbreviated.

#### **Example 1**

Alana House is a UK based social enterprise providing wide-ranging one-to-one and practical support to women at risk of offending. Some are women who have already been in prison, and are facing the prospect of serving a second term. Others are caught in a cycle of abusive relationships, acquisitive crime, drug abuse, or are sex workers. In most cases they need support to remove the chaos in their lives, take back control and make positive decisions for themselves. The annual cost of running the project for two hundred or so women is between €200k and €300k.

The outcomes are seen in the lives of the women, their children, their families, communities, and prospective employers. Mapping and understanding the wide-ranging impacts from the programme shows these effects. Where successful the women can get into stable housing; they can avoid going to prison; they can parent their children and remove them from State care; they can gain employment. This is of considerable interest to stakeholders, who include the courts and prison systems (regarding reoffending), the health authorities (regarding non-accidental injuries, and the effects of self-neglect, sex-trade and drug-related conditions), the care authorities (regarding care for the children), and housing and other community agencies (regarding housing and community stability).

A financial evaluation of the impacts on these stakeholders, whilst not essential to explaining them, emphasises how valuable is this work. Showing gains to the various agencies of over €40m from a year's activity, of which around half is in the courts and prison system, it is clear that the SE justifies on-going funding. Whilst this impact evaluation does consider alternative attribution, deadweight, drop-off, and displacement (negative as well as positive effects), a very large error in the value of impacts would not change the funding stakeholders' view that this is worth funding at up to €300k a year. So proportionality says that whilst it is important to understand which other agencies contribute what to delivering these impacts, it is not worth spending significant time and money valuing the relative contributions in financial terms. The alternative attribution is estimated to a reasonable degree, but the variation could be ±30% or more, and the conclusion about on-going

funding would be unchanged. This view applies both to ex ante and ex post measurement in this case.

**Example 2**

In many EU Member States social enterprises operate supporting former military personnel invalidated out with physical or mental injuries. Some of these operate workshops, cafés garden centres and other trading ventures where staff may develop new skills whilst re-integrating into civilian society. Many involve working alongside civilian staff, who are inevitably affected by the experiences of their ex-military colleagues. Positive outcomes are achieved in the lives of the ex-military staff, and also in the lives of their civilian colleagues. For them encountering and working with the trauma of the recovering ex-military may bring negative emotional effects of secondary trauma. However it can also bring a deeper learning about themselves and others, and so develop skills which can be useful elsewhere.

Which aspect of this complex and interactive web of recovery and development is important depends upon which stakeholder is interested, and what decision they are to make. A charitable foundation or philanthropist supporting the development or running of such a facility will wish to understand who is affected and how. The SE itself will also want to understand this. Impact, with its understanding of who else helps to achieve the outcomes, is likely to be essential to understand. They will want to know how many ex-military are helped, over what period, and achieving what change (outcome) in their lives. How sustainable is that effect (how long does it last)? To enable management emotionally to support non-military staff and counsellors they must understand how the co-working and counselling roles affect them. However there may be little value in knowing the financial effect of not supporting them since they will support them anyway. So the financial effects of the work, either on the ex-military or on the support staff may not be worth quantifying in financial terms.

**Scrutiny**

- 8.21. Specific standards for **scrutiny** are important too. These are that four elements are present in each SE:
  - 8.21.1. A clear, and stated, acceptance of accountability to stakeholders. This needs to be externally, and internally, acknowledged.
  - 8.21.2. Meaningful information needs to be produced, based on relevant data but including a commentary expressed in a way as to be accessible to stakeholders, and to encourage them to respond.
  - 8.21.3. The SE must make available a route for stakeholders to respond (including appropriate public response).
  - 8.21.4. The SE must, within a reasonable time, explain to its public how it has, or intends to, respond to that feedback.

All of this needs to be **proportionate**. It is unnecessary for excessive resources to be squandered on it. However a focused, proportionate engagement with its community may bring value in terms of public support, additional resources, and footfall which should mean income.

In **reporting standards**, this should probably best be covered by good standards of transparency and clarity. Information provided needs to be proportionate, and presented in a way that helps the audience to engage with it and the reporting entity.

**Principles of Confidentiality, Privacy and Legality**

- 8.22. Nothing in these standards shall oblige an SE, Funder or Fund Manager to:
  - breach privacy laws, including human rights;

- breach contracted confidentiality obligations; or
  - breach the law at Member State or EU level
- 8.23. Where specific measurement obligations arise under Member State laws, or contractual obligations apply to the SE, Funder or Fund Managers, these standards shall not replace them. The SE, or Fund Manager shall follow this standard and add any extra matters required by the specific Measurement obligations and explain what they have done. If it is more expedient or cost-effective to follow the local requirement and show additional matters relating to this standard, then that can be done, but the reporting organisation must explain why.

## **Summary**

- 8.24. **In summary**, social impact measure should:
- be based on a five stage process of
    - identify objectives
    - identify stakeholders
    - set relevant measurement
    - measure validate and value
    - report learn and improve
  - disclose, and justify, how it has been developed based up them
  - where informed outputs are needs as KPIs, to explain how these arise from the process
  - explain clearly
    - outcomes achieved or targeted
    - the impacts of these
    - how it takes into account deadweight, displacement, alternative attribution, and drop-off
  - involve stakeholders as laid out in 8.13.

## **9. EuSEF-specific**

- 9.1. Additional specific aspects of measurement relevant to the EuSEF requirements are in the following areas.
- 9.1.1. The evaluation of compliance with the legislation is undertaken at the level of the fund, rather than at the social enterprise, but relying upon the social enterprise's own evaluation parameters
- 9.1.2. The range of stakeholders interested in the SE's evaluation is widened by the addition of the investors in the fund of funds, and the regulators of it and the markets in which its investments are issued. It may also bring a different level of engagement from policy-makers, as there is a more overt focus on systemic change in drawing additional investment into the social investment arena, and developing the market from established Social Investors to drawing in capital from private investors, and non-SI-focused institutions.
- 9.1.3. The EuSEF itself provides a key element of scrutiny as to whether appropriate measurement is being done, and that this is embodied into the reporting function to its investors, and any investor-specific governance.
- 9.2. Any EuSEF, in setting and agreeing measurement requirements with investee SEs, should make available sufficient additional funding to support that measurement process and the information-gathering that underpins it.
- 9.3. Further details of the roles and responsibilities of the SE and the Fund Manager are shown at paragraph 11.6 and 11.7 below.

## **10. EaSI-specific**

- 10.1. Additional specific aspects of measurement relevant to the EaSI requirements are:
- 10.1.1. The social enterprise will need to demonstrate that it is focusing upon delivering social impact in the future, and will not necessarily (notably in the case of new services or products) be delivering what it has delivered and measured in the past. Hence its forward plans will need to exhibit appropriate (proportionate) indicators that the services are built with the five elements of measurement process (see 8.9) at their foundation.
  - 10.1.2. That it provides information specific to the delivery of policy imperatives under the Microfinance and Social Innovation (3rd) stream of EaSI. These are in Art. 22.
  - 10.1.3. EaSI Fund Managers, in deciding upon fund allocation, should allow sufficient additional funding to cover the costs of the measurement process and the information-gathering that underpins it. This should cover the costs of establishing or updating measurement systems and the costs of maintaining them, as relevant in the area of EaSI funding. Measurement costs should not be budgeted to reduce over a period unless the actual work involved in measurement reduces.
- 10.2. Further details of respective roles and responsibilities of the key operating parties under the EaSI grant and investment programmes are outlined in paragraph 11.7 below.

## **11. Roles and responsibilities of the different parties**

- 11.1. The responsibilities of the parties differ between the two programmes (EuSEF and EaSI). For EuSEF the responsibility for measurement falls partly on the Social Enterprise and partly on the fund manager. In both cases, being specialists, they have both the duty to measure and the means and knowledge with which to do it. For EaSI the management of grants is expected to be an entrusted entity and for the investments through a financial intermediary. Guarantees are expected to be administered directly by the Commission. The responsibility of the financial intermediary or entrusted entity to report to the Commission is clear, and is in terms of the contribution of the investments and other support provided to the achievement of the overall EaSI objectives in market and behavioural change (“EaSI-specific reporting”). Whilst the SE needs in both EuSEF and EaSI to report on the achievement of targeted social outcomes and impact, it also needs to be required to produce the information necessary to support the reporting to EaSI by the financial intermediary or entrusted entity.
- 11.2. Before outlining the relative measurement responsibilities of the key parties in each of EuSEF and EaSI, it is useful to comment on the measurement requirements being placed on financial intermediary or entrusted entity under EaSI and what that says about who might take on those contracts. Furthermore we should recognise that there may be different measurement requirements arising where the support offered is by way of guarantee than in those cases where it is by way of investment.
- 11.3. It is likely that EaSI will be delivered into the market place and to benefiting SEs through general or specialist financial intermediaries in member states. At the heart to the effectiveness with which the EaSI-specific reporting is delivered by these FIs is their:
- understanding of the reporting of social outcomes and impacts
  - understanding of how to furnish that through:
    - requesting the right information from the SEs
    - gathering and validating information as appropriate



**Section C: Standards for Social Impact Measurement**

- digesting and analysing it to be able to pass finalised answers to EaSI about the impact of the programme, rather than just passing on raw data.

11.4. It is likely that existing specialised Social Investment sector banks or other financial intermediaries within the member states would have the knowledge to be able to fulfil this role. There would be a cost to doing it, but that is a delivery cost rather than a cost to build capacity. It is equally likely that general banks would not be able to do this without investing in increasing capacity to do so: principally this requires them to build knowledge and the systems to deliver this measurement. It is understood that EaSI may be seeking to increase the amount of funding available by the development of co-investments and sub-funds at member state level. With a total allocation of EaSI funds per Member State unlikely to average more than €460k a year, it is in some doubt as to whether it would be cost-effective to fund non-specialist banks to build up the expertise necessary to manage these funds effectively. It is also unclear whether this learning should be funded by EaSI, directly by the Commission, or by the Banks themselves. If this learning is not centrally funded or funded by Member States' Governments, it may not happen, which could leave some Member States without the Financial Intermediaries able to run the EaSI scheme. However, to obtain an even opportunity to SEs across the EU, whilst offering similar support to Banks regardless of the Member State within which they are based poses problems of its own since:

- it is likely that some member states have no Banks with a social impact and investment focus and experience
- if funds are allocated to rectifying this situation out of EaSI this poses difficulties since public funds are used to build private sector capacity.

11.5. It appears that there are three strategies from which policy-makers may choose in this respect:

Engagement option with Financial Intermediary fund managers	Comments / Effects
<b>Wider group of FIs</b> – limited knowledge and investment in building it	This will place some burden back onto the Commission to: <ul style="list-style-type: none"> <li>• <i>guide information gathering by the SE, working through the Bank(s)</i></li> <li>• <i>gather the information back and analyse it itself</i></li> </ul>
<b>Wider group of FIs</b> – investment made into building knowledge and capacity for social impact analysis and reporting	This will achieve a widening of the market of informed providers, but any knowledge that is built may be quickly forgotten if it is not regularly used on other lending programmes. It may therefore not achieve sustainable change. Furthermore, for the development of learning to be cost-effective for the banks, to encourage them to participate, this would have to be funded: <ul style="list-style-type: none"> <li>• <i>out of EaSI, so restricting the funds available for SE use, which rather defeats the purpose of the funding</i></li> <li>• <i>in addition to the EaSI funding</i></li> </ul>
<b>Narrower group of FIs</b> in some or all Member States – relying and focusing on those Banks which already have the knowledge to be able to manage the EaSI funds and the required reporting	In either case there are difficult questions around whether it is appropriate for public funds to be used to build social investment capacity in private sector entities, notably when the social sector banks have not had similar support in building theirs. Whilst it does not develop a wider market capacity to support social investment, it may be more effective in terms of use of funds, and the extent to which the funds can be applied directly to SE service delivery.



**Section C: Standards for Social Impact Measurement**

11.6. Turning to the relative roles of the parties in social impact measurement, and looking at **EuSEF** first, the key roles and responsibilities are as follows:

<b>Key Party</b>	<b>Responsibility</b>
<b>Investor</b>	<ol style="list-style-type: none"> <li>1. Assessing the investment prospect based on their own individual priorities.</li> <li>2. Agreeing with the Fund Manager any particular needs with regard to social impact reporting.</li> </ol>
<b>Fund Manager</b>	<ol style="list-style-type: none"> <li>1. Setting investment priorities for fund at fundraising stage, and thereafter for onward investment into SEs.</li> <li>2. Setting policy for reporting requirements on Social Impact on a whole fund basis to Investors.</li> <li>3. Setting policy for reporting requirements on Social Impact by SEs.</li> <li>4. Ensuring that SEs have sufficient resource and expertise to measure their social impact, and offer help where needed.</li> <li>5. Looking at and evaluating proposals for funding by SEs, including agreeing measurement proposed by the SE to be applied at the time of investment, and in on-going measurement.</li> <li>6. Gathering the information from the SE on a regular basis to enable performance to be monitored and reported as part of the fund’s duty to report to investors.</li> <li>7. Preparing investor reports on social impact achieved.</li> </ol>
<b>Social Enterprise</b>	<ol style="list-style-type: none"> <li>1. As part of their proposal for funding to present an explanation of outcomes and impact being targeted, for whom, and how they will be achieved (“theory of change”).</li> <li>2. in addition the SE will propose to the Fund Manager how the achievement of those outcomes and that impact will be measured (framework and indicators).</li> <li>3. The SE and Fund Manager will agree the measurement (framework and indicators) to be used, to match the outcomes and impact being targeted, but also to reflect fund manager need.</li> <li>4. The SE will provide regular reports (at least annually) of outcomes and impact achieved, using the agreed measurement frameworks and indicators.</li> <li>5. The SE will reconsider, at least annually, whether the measurement framework and indicators are appropriate, and whether outcomes and impact targeted is achievable or needs updating. Any changes will be discussed and agreed with the Fund Manager.</li> </ol>

11.7. Under **EaSI** the responsibilities may be varied depending upon the policy position taken with regard to which banks are to be used as intermediaries. The likely split, assuming that the Bank intermediaries are the narrower group already skilled in impact measurement

<b>Key Party</b>	<b>Responsibility</b>
<b>European Commission / EaSI administration</b>	<ol style="list-style-type: none"> <li>1. Setting the criteria for reporting to EC against the criteria under Art 22, principally:</li> <li>2. increasing access to microfinance</li> <li>3. building up capacity of microfinance providers</li> <li>4. support the development of the social investment market.</li> <li>5. These are set in the process of agreeing plans for promoting the scheme through local agents (administering Financial Intermediaries in Member States). The FIs, will set proposals for how the three criteria will be met, adapted to that State’s own needs.</li> <li>6. The EaSI Administration will agree those plans, and appropriate measurement criteria to match to them.</li> <li>7. EaSI will receive quarterly or annual reports from Managing Banks, and will review these against scheme targets.</li> </ol>
<b>Financial Intermediary</b>	<ol style="list-style-type: none"> <li>1. Setting investment/management priorities for delivery of Art 22 criteria in conjunction with relevant Member State policy setters/directly with EaSI administration.</li> <li>2. Agree measurement requirements to be asked of SEs in which the fund is investing, or to be compiled by the Bank directly.</li> <li>3. Setting policy for reporting requirements on Social Impact by SEs.</li> <li>4. Ensuring that SEs have sufficient resource and expertise to measure their social impact, and offer help where needed.</li> <li>5. Looking at and evaluating proposals for funding by SEs, including agreeing measurement proposed by the SE to be applied at the time of investment, and in on-going measurement.</li> <li>6. Gathering the information from the SE on a regular basis to enable performance to be monitored and reported as part of the fund’s duty to report to investors.</li> <li>7. Preparing reports to EaSI on social impact achieved in line with the developed Art 22 criteria.</li> </ol>

Key Party	Responsibility
<b>Social Enterprise</b>	<ol style="list-style-type: none"> <li>1. As part of their proposal for funding to present an explanation of outcomes and impact being targeted, for whom, and how they will be achieved (“theory of change”).</li> <li>2. in addition the SE will propose to the FI how the achievement of those outcomes and that impact will be measured (framework and indicators)</li> <li>3. The SE and FI will agree the measurement (framework and indicators) to be used, to match the outcomes and impact being targeted, but also to reflect fund manager need.</li> <li>4. The SE will provide regular reports (at least annually) of outcomes and impact achieved, using the agreed measurement frameworks and indicators. In addition the SE will provide he additional information required to be able to meet EaSI reporting requirements.</li> <li>5. The SE will reconsider, at least annually, whether the measurement framework and indicators are appropriate, and whether outcomes and impact targeted is achievable or needs updating. Any changes will be discussed and agreed with the Fund Manager.</li> </ol>
<b>Footnote:</b>	<p>The requirements for general social impact measurement must be proportionate to the overall level of investment, grant or guarantee. This is likely to meet the explanatory requirements in section C, but is unlikely to be needed to the same level of detail and measurement exactness as for EuSEF investments since the level of financial commitment per SE or investment is lower for EaSI.</p>

## Section D: Wider guidance for discretionary elements

### 12. Defining reporting standards: the principles of engagement

- 12.1. The production of information is important in planning interventions, businesses and investments; engaging with stakeholders, including service users and wider markets; controlling performance; and developing and embedding improvement. However it is also important in wider accountability and in engaging a wider public in the account of the intervention and its effectiveness.
- 12.2. The form of reporting of information needs to be such as to convey, simply and accurately, the information that the audience wants and needs to know. The group considers that this can be defined according to certain basic reporting standards, by way of a general framework, and explained with examples of practice to suit various different circumstances.
- 12.3. **Basic reporting standards** include the following key elements:
  - 12.3.1. **Principle of relevance:** All information necessary for stakeholders in their decision-making should be included. In the case of social impact, this comprises information about effectiveness (what impact has been achieved), efficiency (with which resources has this impact been achieved) as well as organizational capacity (does the organization dispose of sufficient competencies in order to achieve this impact in the future).
  - 12.3.2. **Principle of reliability:** Information given should be accurate, true and fair meaning it is supposed to be as objective as possible. Hence, only information that can be verified with objective evidence is to be included. Data sources and underlying assumptions underlying should be specified (fair presentation). Relevance and reliability are both important for the quality of social impact reporting, but both are related in such a way that an emphasis on one will hurt the other and vice versa. Hence, there will always be a trade-off between them.
  - 12.3.3. **Comparability:** Information on social impact should be reported always using the same structure, should relate to the same base period as the prior year's report, cover the same organisations and activities and the same means of measurement in order to achieve a certain comparability. Taking into account the difficulties in assessing (see chapter 5.5), the focus of social impact reporting is to be set rather on the comparison of the process (see chapter 5.2) than on the actual calculation in the indicator. Comparability is, however, improved by using the Framework of outcomes and indicators as a preferred list.
  - 12.3.4. **Comply or explain:** Given proportionality, not every social enterprise is able to obtain and report all relevant information. In practice, some of the information or data requested might not be available and sometimes only rough estimates can be provided. Nevertheless, these limitations should be mentioned and be commented on.
- 12.4. **Examples of good practice** are many, across many member states. The sub-group recommends in paragraph 15 on further development points that a number of these are collected together and made available on-line as reference resources. Care should be taken to include a range of possible approaches and formats of reporting so that choice and necessary diversity are maintained.
- 12.5. In terms of **presentational, or reporting standards** these fall into three broad types:
  - 12.5.1. Research report styles, which follow research layouts, with literature reviews leading into methodology, results, discussion and conclusions.
  - 12.5.2. Tailored, diagrammatic reporting styles, usually designed for specific decision-makers e.g. the reporting for Esmée Fairbairn, Bridges Ventures, or the gamma model referred-to later in this section.

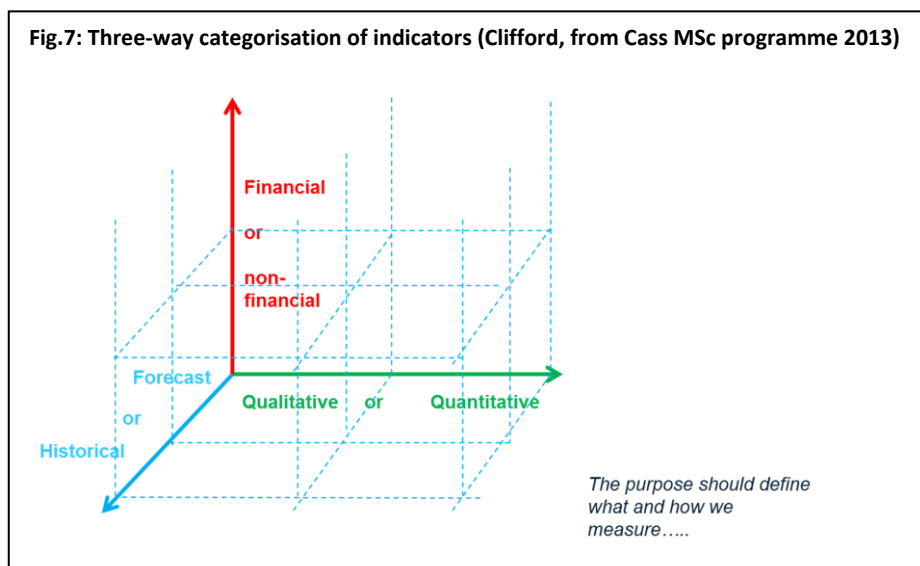
- 12.5.3. Accounting report styles, which tend towards summary financial tables with supporting notes.
- 12.6. There are many good examples of the first, and the second. Amongst the good examples of the last is the Social Reporting Standard developed by the University of Hamburg<sup>24</sup>

## 13. Wider guidance

- 13.1. This covers two areas:
- 13.1.1. Measurement indicators
  - 13.1.2. Measurement frameworks

### Measurement indicators

- 13.2. The measurement indicators that may be considered can be categorised in a three-way grid as shown at Fig.7. Measurement can be developed to suit the needs of the relevant stakeholders, once the story of the intervention is clear, to:



- 13.2.1. Look at forecast measurement (for planning and for target-setting) or historical measurement (in evaluating the success of given programmes);
- 13.2.2. Consider qualitative or quantitative measurement, although any evidence-based evaluation is arguably quantitative at some level. This would tend to be interpreted as more focused on the nuances within and stories of the interventions and the lifestyle changes arising, as opposed to a tendency to quantify how many service-users and others in their communities have been affected to a given degree (e.g. finding a job at a given level of salary);
- 13.2.3. Reflect those accounts of intervention, outcomes and impacts in financial terms or not.

<sup>24</sup> <http://www.social-reporting-standard.de/en>

Section D: Wider guidance for discretionary elements

13.3. Within that financial frame the forms of measurement tier into five levels as shown in Fig.8. The actual outcomes may give rise to effects at any or all of these levels, which fit each within the next in terms of total evaluated. The five levels are:

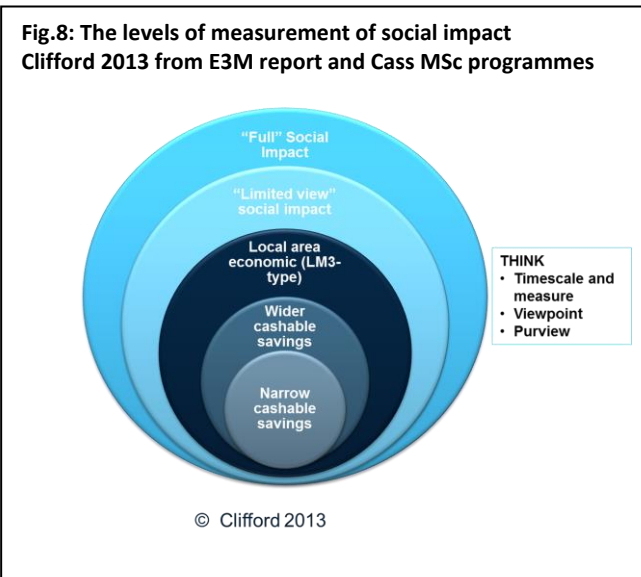
13.3.1. Narrow range cashable savings: where a public funder or similar body achieves savings in costs of service delivery, for example within a given ward of a hospital or within a single offender management area.

13.3.2. Wider range cashable savings: which starts to take into account cross-departmental savings, e.g. educational savings arising from improved family stability through housing provision.

13.3.3. Local area economic benefit: so enhancing the economic trade and activity within an area (e.g. more local jobs; local shops programmes).

13.3.4. Narrower range social impact: considering the wider social gains, but still not following through in full to secondary benefits, or necessarily picking up all the stakeholders standing to gain from the intervention.

13.3.5. Full range social impact: which picks up the social as well as economic gains, but looks at these across a full, or substantially full range of stakeholders and types of gain.



13.4. In addition to selecting the level of financial **measure** , three further factors must be determined based on the needs of stakeholders:

- **viewpoint:** from whose perspective is the measurement taken, perhaps a funder, an investor, or a service user
- **timescales:** over what period are the effects (outcomes and impacts) expected to last and over what period are they relevant to given stakeholders?
- **purview:** taking account of the viewpoint, how wide a view is to be taken? Where is the horizon, and what areas of measurement are to be excluded as being irrelevant to the decisions being taken?

13.5. Acceptable measurement indicators within these formats are many, with each being useful in certain contexts and for certain stakeholders. Some are more widely used, and useful, than others, and these are discussed at length in published reports on impact of interventions in each area of activity across the member states and beyond. Key factors that influence the choice of measurement indicator are:

- 13.5.1. that the form of measurement must follow and respond to the needs of the user of that measurement;
- 13.5.2. it is rarely possible to measure everything (cost-effectively), but frequently possible to measure sufficient to meet the needs of the decisions to be taken based upon that measurement;
- 13.5.3. finding financial reflections of social outcomes and impacts is not only possible, it is frequently not difficult once the story is known with clarity
- 13.5.4. the measurement envisaged here sits between financial reporting and social research, and has attributes drawn from both fields

**Section D: Wider guidance for discretionary elements**

- 13.5.5. the auditing or validation of the social impact measurement should focus on four key questions:
- was the process for measurement in 8.9 followed?
  - is the answer reasonable as against comparable measurements (essentially analytical review in the sense used in financial auditing)?
  - are the results fairly presented to enable users to meet their need?
  - does it include all information material to the user's decision-making?
- 13.6. There should not be an absolute requirement for external independent review of all social impact evaluation. This would cut across the need for proportionality and also unreasonably ignore the independent review in accordance with good research standards built into many evaluations. Rather there should be appropriate test and challenge, by someone who is objective to an acceptable degree (bearing in mind proportionality), of whether the measurement meets the four criteria in 13.3.5 above, and an explanation of how that test and challenge has been achieved and the results of it.
- 13.7. The users of the results of social impact measurement are frequently in a position to request further enquiry or validation if useful, and each generally has appropriate means to secure that that is done. Funders (e.g. in Payment by Results contracts) and investors (through their investment agreements) have contractual and economic powers. Providers (SEs) have executive powers. Service-users generally have market powers, although where the level of their political or economic power is weak, these need to be supported by ensuring that appropriate scrutiny systems are in place and enforced. Any regulatory or public review process should focus on this public scrutiny area, rather than on re-enforcing scrutiny in areas already well covered by contractual powers. In determining that, regard should be had to whether the four factors in 8.21 above are clear and present.

**Using Frameworks for Measurement**

- 13.8. Several frameworks have been developed that seek to give structure to measurement. These are useful in finding commonality of measurement, but should not be treated as prescriptive. Two key ones emerge as particularly useful:

**13.8.1. That developed and sponsored by the UK Big Society Capital<sup>25</sup>**

Big Society Capital commissioned a team comprising NPC, the SROI Network and Investing for Good to develop a new suite of tools to help social investors, and those seeking social investment, to embed a robust approach to impact in their work.

These tools provide a view of which outcomes social purpose organisations are working towards, and how they can be measured.

The tools described here are:

- An outcomes matrix, which segments outcomes within the social welfare and environment arenas into 13 outcome areas.
- Outcomes maps, which drill into the detail of the outcomes matrix, providing overviews of the key outcomes, indicators and data sources commonly used in each of the 13 areas.

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<sup>25</sup> <http://www.thinknpc.org/publications/mapping-outcomes-for-social-investment/>

**Section D: Wider guidance for discretionary elements**

- The outcomes matrix and outcomes maps are not intended to be exhaustive—rather they represent a first attempt to map the territory in each area. They are also not meant to be prescriptive, but rather to support social investors and potential investees in thinking through the structure of their impact approach.
  - Housing and essential needs
  - Education and learning
  - Employment and training
  - Physical health
  - Substance use and addiction
  - Mental health
  - Personal and social well-being
  - Politics, influence and participation
  - Finance and legal matters
  - Arts and culture
  - Crime and public safety
  - Local area and getting around
  - Conservation of the natural environment and climate change

This content is also available in wikiVOIS, a database containing information on outcomes and indicators.

**13.8.2. The French microfinance measurement**

The Universal Standards for Social Performance Management to guide Microfinance Institutions towards a double bottom-line. Developed through broad industry consultation, the SPTF Universal Standards for Social Performance Management (“Universal Standards”) are a set of management standards and practices that apply to all microfinance institutions pursuing a double bottom line. Meeting the standards signifies that an institution has “strong” social performance management (SPM) practices.

To achieve this, institutions must:

- Define and Monitor Social Goals;
- Ensure Board, Management, and Employee Commitment to Social Goals;
- Design Products, Services, Delivery Models and Channels That Meet Clients’ Needs and Preferences;
- Treat Clients Responsibly;
- Treat Employees Responsibly; and
- Balance Financial and Social Performance.

The original purpose of microfinance was to improve client welfare, but for the last two decades many institutions have focused more on financial sustainability than on the needs of clients. We now understand that institutions that manage only their financial performance will almost certainly be driven only by financial outcomes, so institutions that also have a social purpose must also manage their social performance. By defining and promoting strong SPM, the Universal Standards contribute to refocusing institutions on the client.

- 13.9. The subgroup recommends that further work is done to develop these into a guiding framework as described at para 3.20 and 8.3 above.



## Impact measurement for fund managers and investors

13.10. In addition there are emerging formats for measurement by funders, or fund-of-funds models. These include:

13.10.1. **The  $\Upsilon$  (gamma) model**<sup>26</sup> for combining measurement across whole funds of funds brings an innovative approach to comparability. This faces up to the challenge of balancing the interests of a large number of diverse stakeholders, a variety of needs, and the interventions that deliver against them, and the desires of the investors and investment markets in which they operate.

Recognising that social enterprises need to measure the effectiveness of interventions at service-user level, the gamma model seeks to use this to inform investors, who are instead interested in how efficiently their capital is being used (as well as its sustainability and financial return). The authors maintain that investors are more interested in this than in absolute measures of impact delivered, blended across sectors of service delivery which have little in common. The evaluation of a fund manager's performance by the investor, as part of his or her due diligence, is seen as falling into two areas:

- the evaluation of the investment in a social enterprise, which is grounded in the ambition of the enterprise's manager, the intervention it chooses, and the effectiveness with which it uses the capital provided, and other resources, to deliver it.
- the success with which that enterprise then delivers against the targets set when it was approved as an investment.

As an on-going measurement of impact the second of these can be expressed as a percentage achievement against those agreed (and intervention-specific) impact targets upon which the decision to invest was made. These percentages can then be taken as they are, or blended by weighting them according to the capital invested. So the profile of the fund may emerge as €xm achieving 80% effectiveness, and €ym achieving 110%, giving a blend for the whole fund of z%.

13.10.2. Engaged Investment, under the Engaged X project,<sup>27</sup> has been developing the research into **Implied Impact** (i). It is based on the premise that all investment activity shows both social and financial returns, and that the investor to a greater or lesser extent takes both into account in deciding to invest. The aggregate of the two (social and financial) is the total blended return. Just as the conventional financial markets consider a balance of desired return matched to acceptable risk, giving a curve of acceptable investment for any investor or group of them, so we can overlay social return and risk onto this, and relate the two (financial to social). Implied Impact is defined as the spread of implied capital value from the standard risk adjusted financial return-based capital value. It adds an adjusting factor to the more familiar models for financial markets, effectively reflecting the desirability of the perceived social impact. The advantage of researching, and knowing, this is in being able to predict more effectively capital availability for the social enterprise seeking investment, and for the investor to give more structure to its decisions and the comparability of investment opportunities.

<sup>26</sup> U. Grabenwarter/H. Liechtenstein : « In search of gamma – an unconventional perspective on impact investing » (IESE Publishing 2011)

<sup>27</sup> <http://www.engagedinvestment.com/engagedx.html> and <http://impliedimpact.org/>

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The Engaged X index, would also support the development of an informed market for a new asset class of social investment (impact investment) giving:

- aggregated financial data showing for a full asset class how the market behaves (a fundamental for an effective alternative investment market)
- a structure for achieving a degree of comparability in a market populated by almost impossibly diverse investment instruments
- a sound analysis of existing investment portfolios amongst impact investors
- a foundation for a pricing consistency in a new and growing market

Essentially the ĩ enables the knowledge of informed leading institutions and others in the social investment market to be translated into a structure in which wider market participants can get involved.

13.10.3. **The Social Stock Exchange**<sup>28</sup> is a UK-based enterprise designed to create a sound information base for, and possibility of social investment trading for social investors. It should not be confused with the regulated financial markets as it does not constitute formal listing of shares or securities, but is an additional information source for securities listed on a recognised exchange. Whilst its members do not therefore constitute bodies eligible for EuSEF, it is set to become a key part of the social impact measurement arena, and a key driver behind the need for consistent information. It addresses concerns about inconsistency or inadequacy in information available for social investors about their potential investments, specifically addressing five key aspects:

- The social or environmental purpose of the company and the impact it will deliver
- Who benefits as a result of the company's social impact
- How a company's products, services, and operations deliver that social impact
- How a company involves and consults with all its stakeholders
- What evidence a company has of its social impact and how that is collected, measured and reported

Like a conventional exchange it has an admissions panel that examines this evidence in the form of an impact report, and imposes a requirement annually to update that report in order to maintain membership.

The form and approach to impact reporting is such as would match to the approach and standards outlined in this group's proposals.

13.10.4. The models for approval of investment prospects.

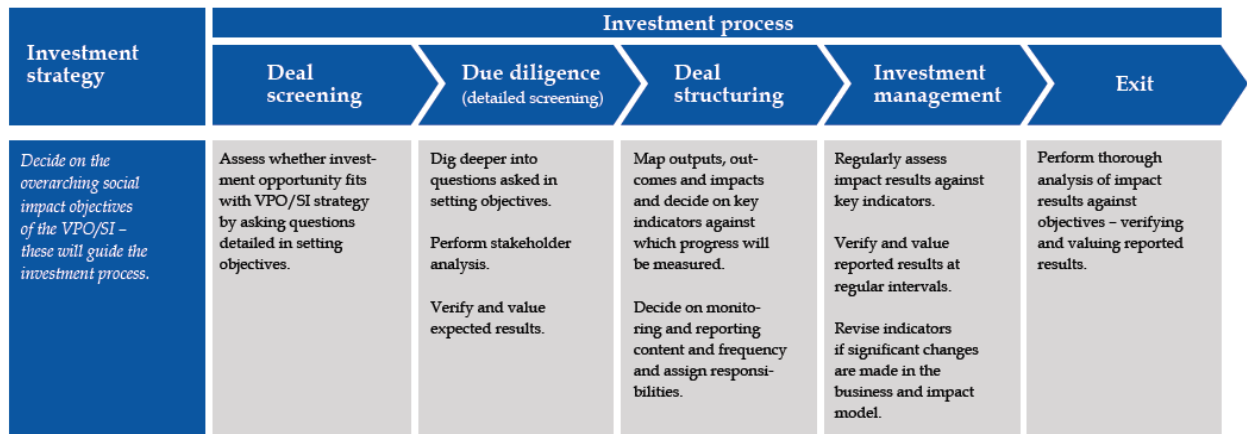
Funders, such as EuSEF fund managers, that invest in social enterprises have a strong interest in generating social impact. Therefore, social investors are increasingly integrating impact into their overall investment process as detailed in **Fig.9**<sup>29</sup>.

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<sup>28</sup> [www.socialstockexchange.com](http://www.socialstockexchange.com)

<sup>29</sup> Hehenberger, L. , Harling, A-M. & Scholten, P. (2013). "A Practical Guide to Measuring and Managing Impact". EVPA Knowledge Centre report. <http://evpa.eu.com/knowledge-centre/publications/evpa-publications/>

Figure 9: Managing impact in the investment process (from EVPA 2013)



Source: EVPA

13.10.5. **“The Good Investor: A Book of Best Impact Practice”**<sup>30</sup> focuses on integrating impact measurement into the investment process. The guide recommends investors to include the following functions to make impact measurement an integral part of the investment process:

- An investment team that understands the essentials of impact measurement
- Some in-house expertise regarding impact analysis (either within the investment team, or active in supporting it)
- A person with a Head of impact role (if not a full time position, this responsibility is clearly assigned to someone, and included in their job description)
- An investment committee with diverse membership, including social and investment expertise, with members who are able to read impact reports, understand the key parameters at play, and integrate impact into the making of reasoned investment decisions.

13.10.6. **The EVPA guide** identifies the parts of the investment process that are particularly relevant for approval of investment prospects as follows:

- Investment strategy: The funder needs to have a clear investment strategy that includes a definition of the overarching social problem or issue that the funder is trying to solve through investment in social enterprises. A clearly articulated response is necessary to be able to choose investments that can contribute to solving the social issue that the funder is addressing. Detailed questions include:
  - What changes does the funder wish to achieve as opposed to the base case social issue previously identified?
  - How can the funder achieve those changes by investing in social enterprises whose work is aligned with the objectives of the funder?

<sup>30</sup> Hornsby, A. & Blumberg, G. (2013). “The Good Investor: A Book of Best Impact Practice”. Investing for Good. <http://cdn.goodinvestor.co.uk/wp-content/uploads/2013/01/thegoodinvestor.pdf>

**Section D: Wider guidance for discretionary elements**

- Deal screening: Once the funder is clear about the type of social enterprises that it needs to invest in to achieve its own impact objectives, more specific criteria can be established to assist deal screening. Social investors use various channels to proactively identify relevant social enterprises including (in order of importance)<sup>31</sup>:
  - Professional networking and intermediaries
  - Referrals from existing portfolio organisations
  - Desk research
  - Conferences and organised events
  - Business plan competitions or social prizes

They also identify social enterprises through application processes (either open or gated).

In some cases, the social enterprise may have a clearly defined mission that is aligned with the impact objectives of the funder. However, considering that many social enterprises are young and inexperienced, it may be necessary for the funder to ask some questions to better understand the objectives of the social enterprise.

The following questions can be used to determine the objectives of the social enterprise and hence decide whether they are aligned with the investment strategy of the funder:

- What is the social problem or issue that the social enterprise is trying to solve?
- What activities is the social enterprise undertaking to solve the social problem or issue?
- What resources or inputs, as per the impact value chain, does the SPO have and need to undertake its activities?
- What are the expected outcomes?

In addition to the impact objectives, funders may use additional criteria to screen potential investments, including the following from The Good Investor:

- Use of investment capital: does the investment support the organisation and its generation of impact?
- Governance: does the organisation have a governance structure that supports its mission and generation of impact?
- Profit and assets: is there assurance that the profits and assets will be in line with the mission?
- Impact evidence and transparency: is the mission being demonstrably achieved, and is there regular and transparent report on impact performance?

As an example, Bridges Ventures in the UK selects investment opportunities according to potential contribution to impact objectives (thematic impact), additionality (whether the investment can generate positive change beyond what would have happened anyway), and Environmental, Social and Governance (ESG) factors signalling both risks and opportunities that may either decrease or increase the overall potential impact.

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<sup>31</sup> Hehenberger, L. & Harling, A-M. (2013). "European Venture Philanthropy and Social Investment – The EVPA Survey". EVPA Knowledge Centre report. <http://evpa.eu.com/knowledge-centre/publications/evpa-publications/>

**Section D: Wider guidance for discretionary elements**

- Due diligence (detailed screening): Once investment prospects have passed the initial screening, funders will conduct a more detailed analysis to decide whether to proceed with the investment. The funder will dig deeper into the questions asked at the screening level. In particular, it is vital to gain a detailed understanding of the current and expected social impact of the social enterprise. It not only reduces the risk of making the wrong investment, but also creates a common understanding of the impact of an organisation among all stakeholders.

Stakeholder analysis should be an integral part of the due diligence phase. To avoid wasting resources, it is advisable for funders to increase the intensity (i.e. more stakeholders, more involvement from the same stakeholders and higher numbers involved from each group (up to the number required for a non-biased and random sample)) of the analysis as it becomes more likely that the investment will be realised.

If an investment prospect is claiming a certain outcome then it has to be verified. If the social enterprise cannot deliver the data then the funder must consider whether they will bring in the expertise and provide the necessary support or question whether it is an appropriate investment at all. It is useful as part of the due diligence phase to check whether the impact monitoring system the social enterprise already works with is sufficient to meet the requirements of the funder. Otherwise, the funder may need to contribute to improving it through pro-bono partners or other resources – and those costs should be factored in before making an investment decision.

## **14. The link to ESMA**

- 14.1. During the course of the sub-group's work the EC and Scientific Chairs, supported by the EC Secretariat, met informally with a representative from ESMA. The purpose of this was to:
- 14.1.1. outline the direction of travel and likely conclusions from the sub-group's work; and
  - 14.1.2. give ESMA an opportunity informally to comment upon this.
- 14.2. The meeting happened during October 2013. ESMA has raised no points of concern, and, on an informal basis, indicated support for proscribing Process and Characteristics and not Framework and Indicators.
- 14.3. It is the sub-group's view that regulations may not be necessary at this stage. Rather, the sub-group's recommendations should be published as accepted standards, and EUSEFs following registration, as well as FIs and entrusted entities under EaSI should be encouraged to use it. Publishing guides to assist SEs in applying the standards will also help voluntary adoption as an EU-wide code.

## **15. Further Development Points**

This report lays out the standards for social impact measurement which will underpin the requirements of EuSEF and EaSI. Seven areas arise for further development:

- 15.1. **Guidance notes** from this report for the GECES and the European Commission, drawing a series of short guidance papers or pamphlets to assist Social Enterprises, Funders, Fund Managers and Investors in complying with these standards. These guidance papers or pamphlets will be most useful if they are produced with specific sections or adaptations for different sectors or Member States.
- 15.2. **A knowledge centre**, accessible advice, but not just a web-based facility for passively making knowledge available. This needs to be a permanently staffed facility which offers:
  - a source of continually updated guidance in written form
  - a central repository for copy reports from Social Enterprises and funds within Member States. Filing should be encouraged, but remain optional (not compulsory)
  - an advice line (telephone and email) to support Social Enterprises and Funds in applying the standards
- 15.3. **Development and consolidation of measurement frameworks** to form one that gives a suitable set of headings and subheadings to form a preferred set for Europe-wide measurements. Any measurement will be expected to fit within this framework or to include an explanation of why an alternative heading fits better to the intervention and outcomes concerned in that particular case.
- 15.4. **Reporting formats** should be developed around the standards proposed in this report. These should include:
  - a series of alternative layouts (built around existing examples of good practice) giving a choice of presentational formats for the main disclosures
  - a series of guiding headings for the supporting explanations for the main disclosures
  - indicative guidance on Integrated Reporting, where the Social Enterprise chooses to do this.

They will be different for reporting intended for different stakeholders.
- 15.5. **EuSEF (and perhaps EaSI) follow-up**, in assisting such Commission agencies and others that require it, effectively to embed Social Impact Measurement appropriately in any developed process if and when his becomes necessary.
- 15.6. **Continuation of this sub-group**. Having gathered the group together to produce this review and proposals, we have the nucleus of a supporting network to assist with the Europe-wide roll-out of standards. It can support with:
  - Further thought and development
  - Dissemination of findings and policies
  - Guiding, as a steering group, the other proposed activities noted above
  - Being a reference point for the Commission and its agencies as they respond to the standards proposed.
- 15.7. Finally, **the position in this paper** requires regular review and update. This is an area which is fast developing, both in its science and in the purposes to which it is applied. With the pan-global focus on social investment, which must be founded on social impact measurement (at the planning, the investment, the interim monitoring, and the reporting and learning stages), the drive to develop measurement further is likely to continue, or accelerate. An annual review by the sub-group or similar is appropriate.

## Appendices

### 1. GECES sub-group members and other participants

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**The following people, selected by the Secretariat based on recommendations from the members of the sub-group, responded to specific invitation to comment on a draft of this document:**

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**Other participants:**

- a) Commentators on reports and working papers: Timothy Shakesby and James Hopegood (DG MARKT), Esther Wandel (formerly at DG MARKT),
- b) Contributors to the scrutiny stream: Jessica Crowe, CEO, Centre for Public Scrutiny (co-opted); Emma Tomkinson, Social Impact Analyst, formerly UK Cabinet Office, and NSW Treasury (co-opted); Erika Augustinsson; Patrizia Bussi; Jim Clifford OBE; Prof. Dr. Barbara Scheck.

**Further valuable input** came from the research programme undertaken in January and February 2013 by a group meeting in the UK and led by E3M, CAN Invest, Big Society Capital and Baker Tilly. It produced a report<sup>32</sup> which considered the common threads and differences in impact measurement between different types of intervention, and how these were affected by the differing needs of funders (public sector commissioners), policy-makers, investors, providers and beneficiaries. This raised and clarified a number of the views and conclusions that agreed with the experience of other sub-group members.

<sup>32</sup> Clifford J., Markey K., and N. Malpani. (2013). *Measuring Social Impact in Social Enterprise: The state of thought and practice in the UK*. London. E3M. <http://socialbusinessint.com/wp-content/uploads/Measuring-Social-Impact-in-Social-Enterprise.pdf>

**2. Bibliography**

**[To Be Inserted]**