



European
Commission

Proposed Approaches to Social Impact Measurement



Social Europe

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 2014

European Commission

Directorate-General for Employment, Social Affairs and Inclusion

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Summary

Policy context

The Single Market Act II ⁽¹⁾ 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 Programme for Employment and Social Innovation ⁽²⁾ also foresees, in its third axis (Microfinance and Social Entrepreneurship), that the implementation reports to be sent to the Commission by financial institutions and fund managers also report on the results in terms of social impact. The GECES sub-group on Social Impact Measurement was therefore set up in October 2012 to agree upon a European methodology which could be applied across the European social economy.

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 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.
- Secondly, in the context of the Programme for Employment and Social Innovation (EaSI), that makes more than EUR 86 million available in grants, investment and guarantees in 2014-2020 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. For EuSEF, the measurement standard creates a qualification standard for judging whether a social enterprise qualifies for financial support, and for gathering information and reporting upon it. Under EaSI the need for measurement is in information gathering, to enable the Commission and the agents appointed to manage the funds in Member States to report upon the extent to which the social impact targets of the whole fund are delivered.

The development of a standard for impact measurement goes beyond the needs of the EuSEF and the EaSI, and this is an important additional benefit to this work. Nowhere in the world is there an agreed standard for social impact measurement. To develop one would bring consistency to reporting, form a foundation for performance management within social enterprises of all sizes (hence improving effectiveness) and encourage a more informed engagement with partners, investors, and public sector funders.

⁽¹⁾ http://ec.europa.eu/internal_market/smact/docs/single-market-act2_en.pdf

⁽²⁾ <http://ec.europa.eu/social/main.jsp?catId=89&langId=en&newsId=1093&furtherNews=yes>

Concepts and terminology

Impact measurement has a terminology that is in common use across much of the social sector, although there is some blending of them in some circles. Five key terms exist and are adopted here:

- Inputs: what resources are used in the delivery of the intervention
- Activity: what is being done with those resources by the social enterprise (the intervention)
- Output: how that activity touches the intended beneficiaries
- Outcome: the change arising in the lives of beneficiaries and others
- Impact: the extent to which that change arises from the intervention

In evaluating impact based on outcomes, three more adjustments are taken into account:

- Deadweight: what changes would have happened anyway, regardless of the intervention
- Alternative attribution: deducting the effect achieved by the contribution and activity of others
- Drop-off: allowing for the decreasing effect of an intervention over time

In coming to a set of standards capable of wide application under EuSEF, EaSI and beyond, a distinction is drawn between four elements in producing a meaningful measurement of social impact. 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** – For each major area of social enterprise interventions, a list of the most usual outcomes being targeted, and, for each of these outcomes, a series of sub-outcomes that again appear most regularly. Examples would include, for an intervention relating to supporting ex-prisoners at risk of reoffending, outcomes such as not re-offending over a twelve-month period, and gaining full time employment, with sub-outcomes of engaging in retraining for the workplace, and keeping on a substance abuse support programme, and changing social circle to engage with mentors;
- **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, well-being scores, etc.
- **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.

Analysis and recommendations

The sub-group found that one could not devise a rigid set of indicators in a top-down and ‘one-size-fits-all’ fashion to measure social impact in all cases. This is so because:

- first, the variety of the social impact sought by social enterprises is substantial and it is difficult to capture all kinds of impacts fairly or objectively;
- 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 aspects that underpins it;
- 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;

- 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;
- 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.

The key characteristics of social enterprises enshrined in the Social Business Initiative provide the basis for a handful of basic criteria (see 1.1. below) that can be used as selection criteria for funders of social enterprise. Social impact measurement goes beyond defining whether a social enterprise fulfils these criteria, and this report develops a process of how to measure the impact. Specifically, for a social enterprise, the social impact is the social effect (change), both long-term and short-term, achieved for its target population as a result of its activity undertaken – taking into account both positive and negative changes, and adjusting for alternative attribution, deadweight, displacement and drop-off (see Glossary).

In developing the standard proposed by this report, it has been essential to balance the need of funders, investors and policy-makers for sound information on measureable social impacts with the need for proportionality and practicality. There is little point in setting measurement standards that are excessively costly to meet, or are impractical in requiring so complex an analysis that it cannot be supported by information from the social enterprise and its beneficiaries. The other key aspect of the social business environment across Member States that has been important to address has been the sector's diversity. Whatever standard is set, it must meet the needs of large as well as small social enterprises, those operating across a wide range of social needs and interventions, and Member States with public funding and infrastructure that is experienced in this field, to those where it is new and still being developed and understood.

This standard sets a universal process, and characteristics of reporting, details of which are laid out below. It requires that a framework is developed which is likely to cover perhaps 80% of the measureable outcomes. This would give outcomes and sub-outcomes that are likely to be measurable for most social enterprises. A social enterprise may use others but must explain why they are a better fit than those in the European Commission Framework. This aligns with other reporting methodologies such as financial reporting, which use common processes and disclosures, but which do not necessarily prescribe the calculations that are used in specific cases. As regards indicators the social enterprise must agree with stakeholders (including investors and investment fund managers under EuSEF). Comparability of measurement is achieved through the comparable and consistent process used for measurement, and the consistent reporting of the measurement produced.

The process involves five stages:

- identify objectives: of the various parties in seeking measurement and of the service being measured.
- identify stakeholders: who gains and who gives what and how?
- set relevant measurement: the social enterprise will plan its intervention, and how the activity achieves the outcomes and impacts most needed by its beneficiaries and stakeholders. This link from activity to impact is the social enterprise's theory of change. It will decide this, and establish measurement most appropriate to explaining **the theory of change** and the achieved impacts, and will then agree it with major stakeholders.
- 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.
- 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.

The five-stage Process (from EVPA 2012)



The common process outlined above is relevant at both investor/fund level, and at social enterprise level. At both levels it should consider the risk that the social outcomes are not achieved, that social damage (unplanned negative outcomes) does not arise, and that targeted financial stability is achieved.

Throughout all the five stages, the stakeholders identified in the process will be involved, and the SE and Fund Manager will consider the best way of communicating and engaging with them, and, indeed in explaining how that engagement is achieved. This is dealt with in more detail in the report. It is primarily through the dynamics of the involvement of all stakeholders (from investors to service-users) that the balance is achieved and maintained between the overriding need to deliver measurable social impact as against the need for a profitable operation that can meet investor expectations.

Common disclosure (reporting) of measurement

All reporting of measurement whether privately between a social enterprise and its investors, or in wider public reporting, should include appropriate and proportionate evidence supporting each material point, and specifically:

- an explanation of how the Process has been applied: what has been done in each of the five stages;
- a clearly explained account of the effects of the intervention (outcomes, and identified beneficiaries, also explaining, at least in qualitative terms, deadweight, development and drop-off);
- 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;
- an identification of any third parties having a role in the effective delivery of those outcomes and impacts, explaining how they contributed (alternative attribution);
- an identification of those stakeholders whose interests are being measured, and the nature of the gain to them, categorising them appropriately;
- 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 stakeholders, and how these have been agreed with those stakeholders;
- an explanation of social and financial risk (the risk that social and financial outcomes are not delivered) 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.

Outcomes and impacts must always be described together with how they arise from the activities of the social enterprise. Where possible, and where proportionate (that is when it can be done without cost that is excessive compared to the benefit of having the measurement) both outcomes and impacts will be quantified. Even where aspects of the outcome and impact are not going to be quantified, the reported measurement should identify all outcomes and impacts that are relevant to the audience (remembering proportionality), and explain why they are not being quantified.

The standards contain guidance on measurement, on supporting evidence and validation of it, on proportionality, and on the roles and responsibilities of different parties to the measurement. In the case of the important issue of validation, the report recognises three levels of assurance. The first, validation, which is the normal research-based principle of obtaining evidence to support the statements being made, is to apply in all situations. The second, independent review and comment, and the third, audit assurance resulting in a

formal opinion, should be used where the SE and Fund Manager agree with stakeholders that one or other is necessary and proportionate.

Follow-up

There are seven areas where follow-up is required:

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;
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:
 - i. a source of continually updated guidance in written form;
 - ii. a central repository for copy reports from Social Enterprises and funds within Member States. Filing should be encouraged, but remain optional (not compulsory);
 - iii. an advice line (telephone and email) to support Social Enterprises and Funds in applying the standards.
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;
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.
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 this becomes necessary;
6. **Maintaining and developing a knowledge network at EU level** – the subgroup feels that it is advisable to maintain and develop at EU level a network of experts on social measurement impact. Such a network or group of experts could 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.

7. Finally, **the position in this report** 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 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 a similar group of experts is therefore appropriate.

Brussels, February 2014

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 disclosure)	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 (e.g.: 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, that is financial or other support to or for a social enterprise for fixed capital or working capital, taking some investment risk (which may vary between cases), and expecting a return by way of interest, profit, or capital gain. In this report it is distinguished from a Funder, which is a public sector entity paying for public (social) services to be delivered by a social enterprise. An investor may provide advice, office facilities or other value in kind in addition to financial support. This, too, is 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 chooses to be the recipient of services provided by the social enterprise. 'Service-user' may be a client or customer voluntarily using the service, or may be someone who benefits directly, but does not choose to do so.
Social	Relating to individuals and communities, and the interaction between them; contrasted with economic and environmental.
Social Enterprise (SBI definition)	<p><i>'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 or 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. The Commission uses the term 'social enterprise' to cover the following types of business:</i></p> <ul style="list-style-type: none">• <i>those 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 innovation;</i>• <i>those where profits are mainly reinvested with a view to achieving the social objective;</i>• <i>and where the method of organisation or ownership system reflects their mission, using democratic or participatory principles or focusing on social justice' (Social Business Initiative, COM(2011) 682 final, pp. 2-3).</i>
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 (defined in 'investor' above) 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 (or causal chain) by which activities achieve outcomes, and use resources (inputs) in doing that, taking into account variables in the service delivery and the freedom of service-users to choose. It forms both a plan as to how the outcome is to be achieved, and an explanation of how it has occurred (explained after the event).

Abbreviations

EaSI	Programme for Employment and Social Innovation
EuSEF	European Social Entrepreneurship Fund
ESMA	European Securities and Markets Authority
FI	Financial Intermediary (in the context of EaSI)
GECES	Groupe d'experts de la Commission sur l'entrepreneuriat social (see http://ec.europa.eu/internal_market/social_business/expert-group/index_en.htm)
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

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;
- 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;
 - a standard set of criteria which should be exhibited by all social impact measurement reporting.
- D. The need for 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.

The characteristics defining a 'social enterprise' enshrined in the Social Business Initiative (SBI, see above section 'glossary of terms and abbreviations') constitute the basis for defining social enterprises and the services which they deliver to the EU population. Impact measurement needs to take into account these characteristics in the following way.

The SBI definition⁽³⁾ of social enterprise is comprised of three dimensions:

1. **Social objective** of the common good is the reason for the commercial activity, often in the form of a high level of social innovation;

The SBI mentions 'the social objective of the common good' as being the very reason for social enterprises' commercial activity. Consequently, most social enterprises (defined *as per* the SBI criteria and represented in the GECES and at the Strasbourg Conference 'Social Entrepreneurs, Have Your Say!' - 16-17 January 2014) are characterised by the provision of services of general interest (social services, work integration of disabled and disadvantaged persons, health, education, the environment, local development etc.) to EU citizens. Social impact measurement in the field of social enterprises should thus measure the degree to which social enterprises are achieving

⁽³⁾ Social Business Initiative, COM(2011) 682 final, pp. 2-3. <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0682:FIN:EN:PDF>

their social objectives. The specific social objectives will be different for each social enterprise. The report acknowledges a number of factors that contribute to perpetuating and scaling the impact, thus producing greater and longer-lasting impact in the long-term include the following:

- the geographical coverage and way in which the services are distributed across communities;
- the affordability of the services;
- the number of recipients of the services being attended.

2. **Profits** are mainly **reinvested** with a view to achieving the social objective;

The second dimension of the social enterprise definition deals with the financial sustainability and the alignment of the financial and social objectives of the business model. The report acknowledges the following factors related to financial sustainability and mission alignment as contributing to achieving and sustaining social impact:

- the quality of the services;
- the durability of the services over time;
- their economic sustainability;
- the reinvestment of the profits of the social enterprise in their social mission.

3. Method of **organisation** or **ownership** system reflects their **mission**, using democratic or participatory principles or focusing on social justice;

The third dimension of the social enterprise definition refers to the governance structure, in particular to ensure a participatory and democratic organisation and or ownership system. The factors to take into consideration as contributing to achieving social impact include the following:

- their record in continued control by their owners in order to guarantee the continuity of their core mission;
- the participation of the recipients and providers, and the feedback from the recipients over their constantly changing needs.

Social impact measurement goes beyond measuring the fulfillment of the above basic criteria which can be used as selection criteria to funders and investors. It develops a view of the extent to which the social enterprise is meeting societal and social needs, and achieving outcomes (change) in the lives of those it touches. That impact may be seen directly and indirectly in the lives of individuals and communities served both the beneficiaries, and those staff and others involved in service delivery. It also can be seen in the effects that the social enterprise has on other organisations and people within its ecosystem: it achieves change through being there and undertaking its activities in a socially inclusive and democratic way.

- 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⁽⁴⁾ 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 or 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.

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

It is managed in an open and responsible manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities...'⁽⁵⁾ This is similar to an earlier definition by the OECD.⁽⁶⁾

1.3. The measurement approach or approaches need to balance:

1.3.1. meeting the needs of social enterprises and the recipients of the services of general interests which they deliver (see 1.1. above), 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.

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 one. 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 18th 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.

⁽⁵⁾ Communication from the Commission: Social Business Initiative Creating a favourable climate for social enterprises, key stakeholders in the social economy and innovation. Brussels 2011/682 final, as quoted in Policy Brief on Social Entrepreneurship: Entrepreneurial Activities in Europe.

⁽⁶⁾ '... 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.

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-boundaried to 2015.⁽⁷⁾
- 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.⁽⁸⁾
- 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.

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 EUR 85 million in grants will be made available starting from 2014 to social enterprises who can demonstrate they have a ‘measurable social impact’.

⁽⁷⁾ <http://www.un.org/millenniumgoals/>

⁽⁸⁾ http://ec.europa.eu/internal_market/social_business/index_en.htm#maincontentSec3

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 (QPU) ⁽⁹⁾.’ Those that affect this brief are:

2.6.1. Article 3 1(d) (ii) Definitions: ‘... has the achievement of measurable, positive social impacts as its primary objective.....’

2.6.2. Article 10 1: ‘Managers of a qualifying social entrepreneurship fund (QSEF) 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. Article 13 2 (a): ‘The annual report [for the QSEF] shallinclude...details, as appropriate, of the social outcomes achieved by the investment policy and the method used to measure those outcomes.....’

2.6.4. Article 14 1: ‘Managers of [QSEFs] shallinform 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) ⁽¹⁰⁾ financial support to legal or physical persons engaged in Social Enterprise which is defined in Article 2.

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

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

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

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

There are various conditions attaching to the financial support.

Under Article 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 Article 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 ...’

⁽⁹⁾ EuSEF Regulations Version 15, March 2013. Article 3 1(d).
<http://www.europarl.europa.eu/sides/getDoc.do?type=REPORT&reference=A7-2012-0194&language=EN>

⁽¹⁰⁾ 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.

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;
- 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 scrutiny, 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⁽¹¹⁾ 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.

2.9.2. Market structure for service provision and funding

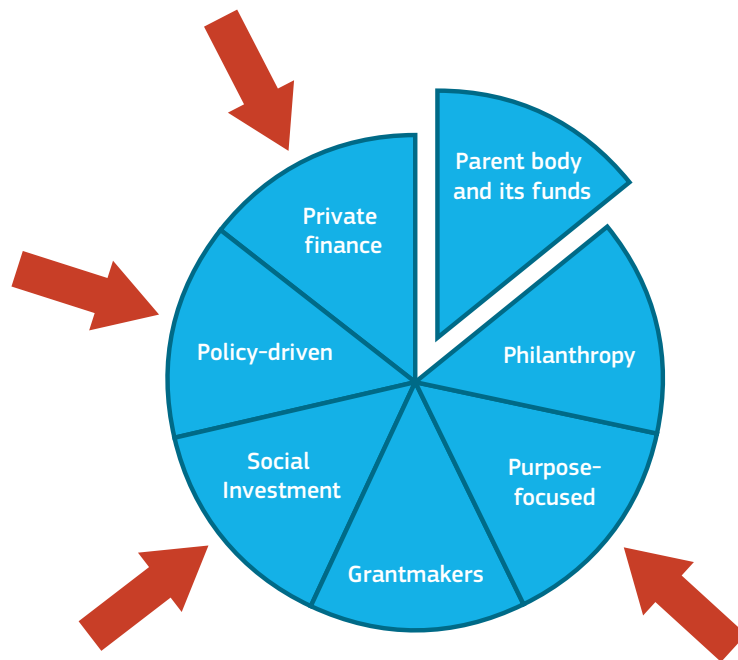
Social Enterprises choose to perform different roles, both in service delivery and in influence and policy, and are perceived differently within their Member States. They also, for the most part, do not act in isolation, but in networks (informal or deliberately collaborative) to deliver effective service. 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 means 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 **Figure 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.

⁽¹¹⁾ 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).

Figure 1: Sources of funding and investment for social enterprise (Clifford 2013)



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 19th 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 *révision 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 factors 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⁽¹²⁾. 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.

⁽¹²⁾ 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

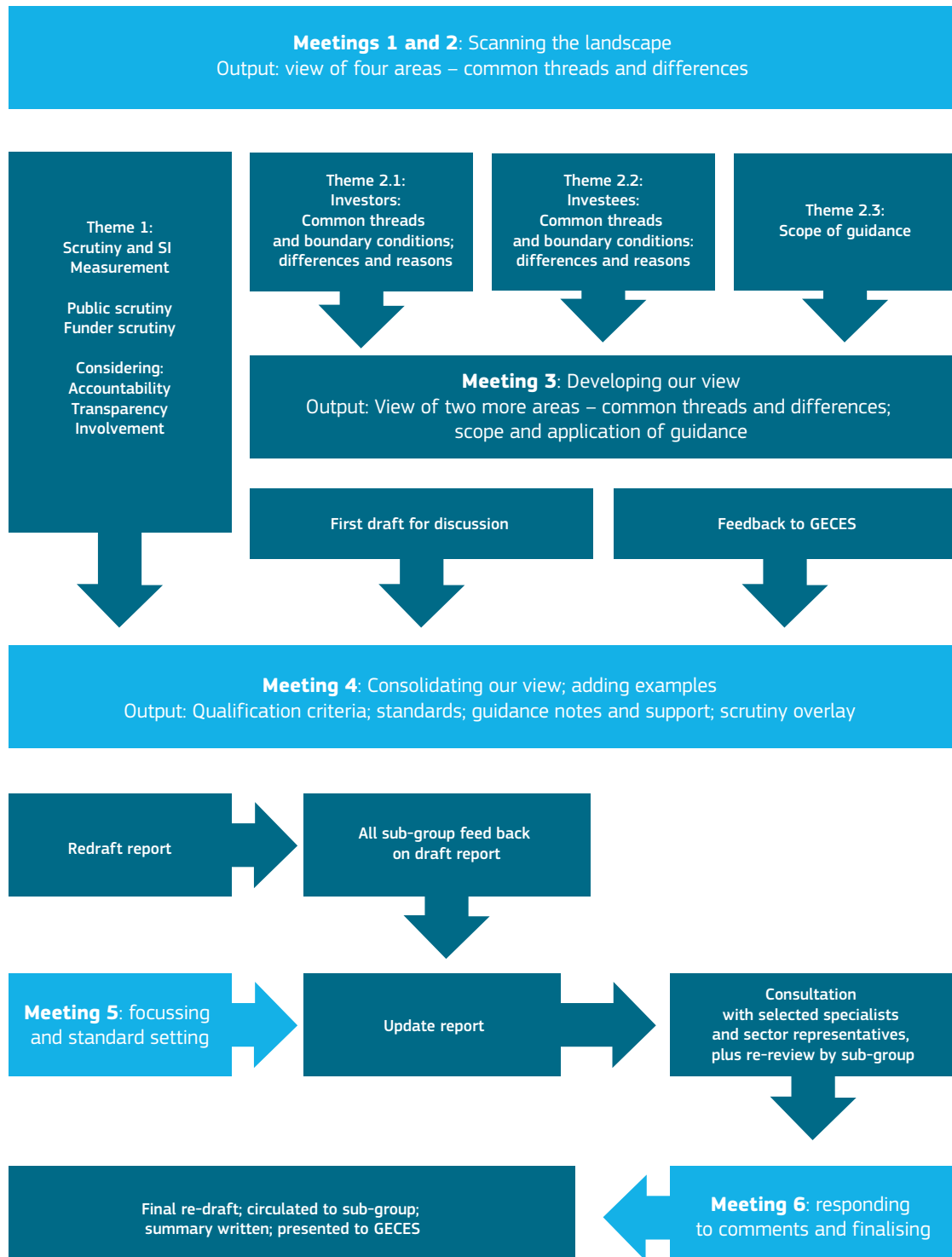
Overall approach to the work and structure of the guidance



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 24th October 2013. The programme of work was as shown in the diagram at **Figure 2**.
- 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. Following the presentation of the findings of the sub-group at the GECES plenary on 28th November 2013, further comments were received. The report was also presented to the G8 Social Impact Investment Taskforce at its meeting in London on 5th December, and again in Workshop 11 at the European Commission's 'Social Entrepreneurs: Have your say' conference in Strasbourg on 16th and 17th January 2014. Further comments were received from both occasions.

Figure 2: Sub-group on Social Impact Measurement working plan



- 3.6. 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 (e.g.: 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

- 3.7. 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.
- 3.8. 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:
- 3.8.1. arises from the services being measured,
 - 3.8.2. 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,
 - 3.8.3. avoids different funders or investors demanding different measurement of the same intervention,
 - 3.8.4. is designed to make the services more effective in meeting service-user need and extends its quality and reach.
- 3.9. 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.⁽¹³⁾
- 3.10. 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.
- 3.11. 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⁽¹⁴⁾, 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.

⁽¹³⁾ Clifford, J., Markey, K., et Malpani, N. (2013), *Measuring Social Impact in Social Enterprise: The state of thought and practice in the UK*, E3M, Londres; Hehenberger, L., Harling, A.-M., et Scholten, P. (2013), *A Practical Guide to Measuring and Managing Impact*, EVPA Knowledge Centre; Ní Ógáin, E., Hedley S., and T. Lumley, (2013) *Mapping Outcomes for Social Investment*. London. NPC. www.thinknpc.org

⁽¹⁴⁾ 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.

- 3.12.** 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.
- 3.13.** 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:
- 3.13.1.** 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;
- 3.13.2.** 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;
- 3.13.3.** 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;
- 3.13.4.** 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
- 3.13.5.** 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.
- 3.14.** 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 from a range of possibles.
- 3.15.** 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.
- 3.16.** 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.
- 3.17.** 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.⁽¹⁵⁾

3.18. 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.

3.19. 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. However such a simplification should not be a goal in itself: it should not lead to over-standardisation of actions.

3.20. 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.⁽¹⁶⁾ 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:

3.20.1. the time period over which the measurement is recognised;

3.20.2. the measure chosen (financial or non-financial⁽¹⁷⁾, and various forms of measurement and presentation within each);

3.20.3. 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

3.20.4. the purview (the field or vision or horizon taken: how wide a knock-on effect is recognised in the core measurement approach).

Measurement Example 1

From Eurodiaconia (member Diakonie Austria).

Social investment is a mode of growth for jobs, life quality, and regional sustainability.

In the last decade in Europe, jobs in social and healthcare systems have increased more than other sectors. Furthermore, investment in these sectors yields more jobs – every one million Euros invested gains 17 new jobs, as compared to 13 jobs in the energy sector, and as few as 11 in others. These services reduce inequality in every country thorough public health, childcare, and education, among other things. Additionally, people working in the health and social sectors are living where the need is greatest, which is usually in disadvantaged regions. This introduces essential new sources of income in these areas.

The impact of investing in social services, especially in early prevention, is huge – the return on investing in children can be anywhere from eight to sixteen Euros for every Euro invested. The benefit is mutual; people get higher income and more jobs, there is increased possibility for disadvantaged regions to improve their infrastructure, and a high return for investors.

⁽¹⁵⁾ 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 were 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.

⁽¹⁶⁾ 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.

⁽¹⁷⁾ E.g.: well-being indicators, or a number of health sector scoring approaches such as BRIEF for cognition and executive functioning.

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

3.21. 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
Process	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.
Framework	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.
Indicators	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.
Characteristics	Clear minimum disclosure standards to maintain transparency.	Disclosure standards apply.	Disclosure standards (maybe) lower for smaller levels of investment or grant.

3.22. 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.

3.23. 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.

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 **Figure 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 in some cases 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.

Figure 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)

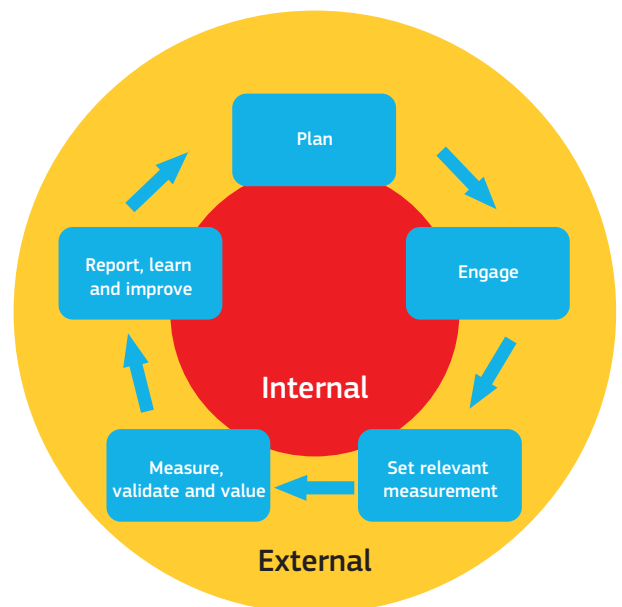
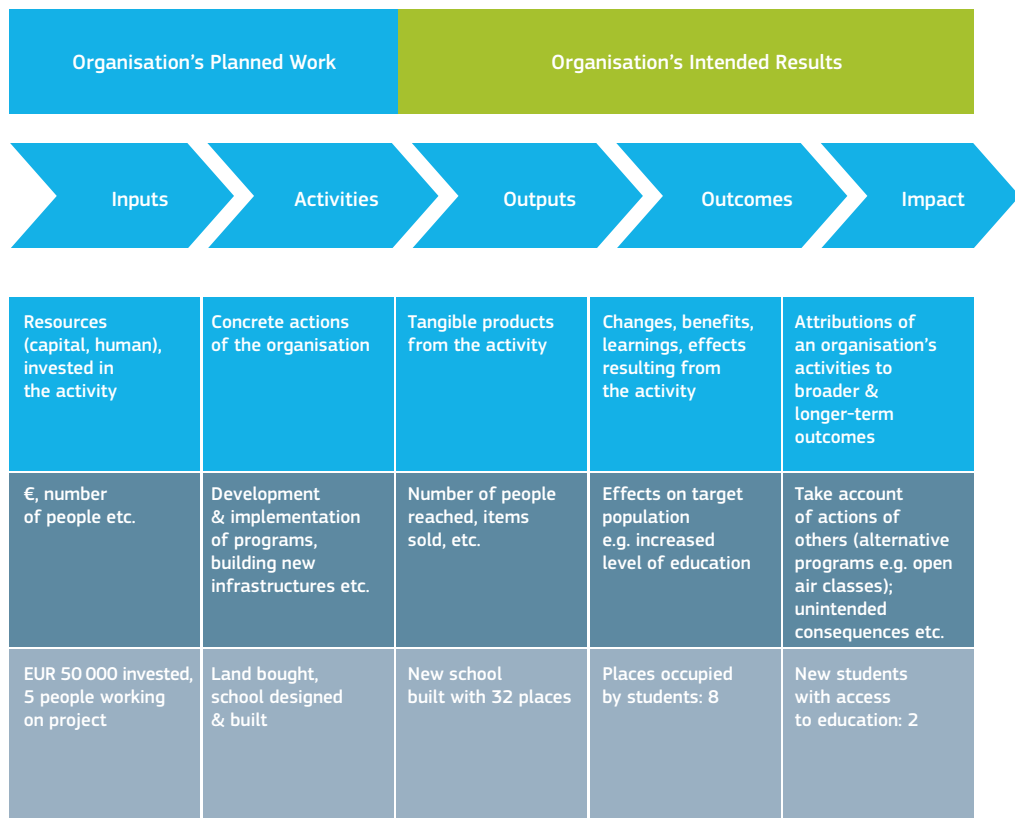


Figure 4: Key Definitions in Impact Measurement (from EVPA (draft) Guide 2012)



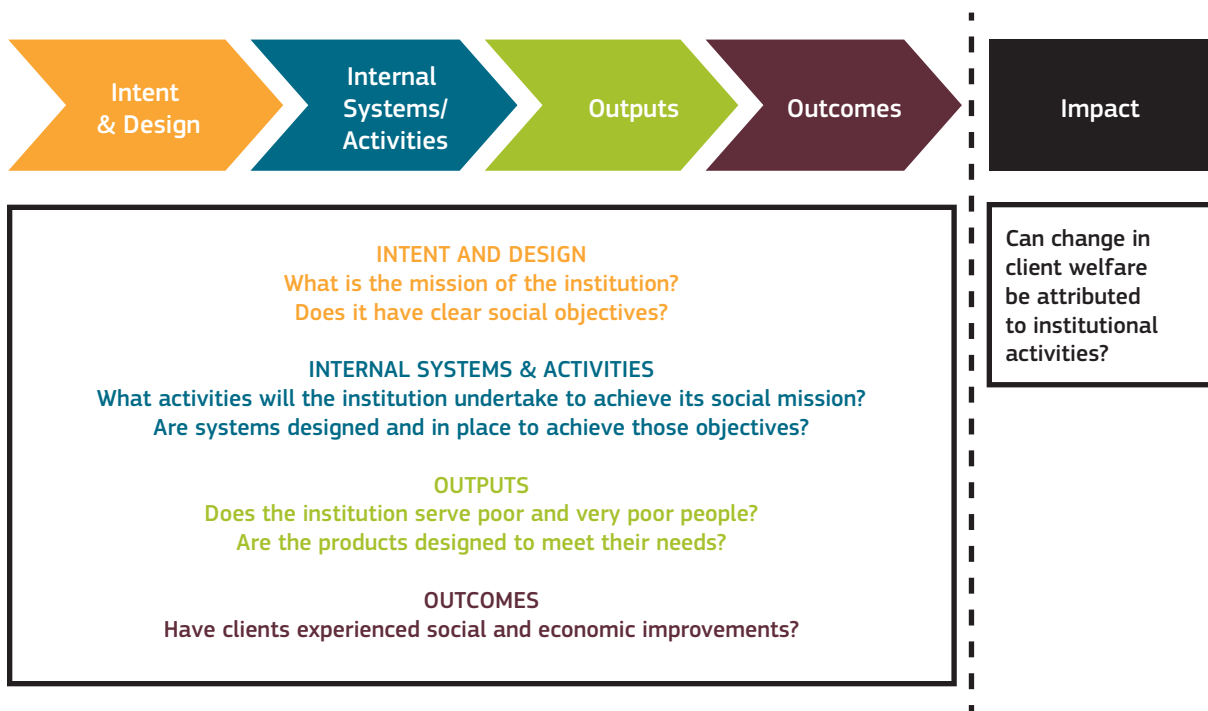
4.2.5. Finally the **report, learn and improve** stage supports outreach, both in reaching more potential partners and service users, but also in uplifting internal service-delivery staff and management as they see how valuable is the work they are doing. It also supports investors and funders in drawing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

4.3. Five key overall points are clear with regard to impact measurement ⁽¹⁸⁾:

- 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.

⁽¹⁸⁾ 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

Figure 5: Dimensions of Social Performance (from SPTF)



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 Figure 4, taken from EVPA Guide.⁽¹⁹⁾ Another helpful presentation of it is shown in the Dimensions of Social Performance from the French SPTF, at **Figure 5** both matching with comments in other guides, including the recent Avise-Essec-Mouves one in France.⁽²⁰⁾

- 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.
- 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 procedure combined with physio- and other therapies to aid full recovery, 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

⁽¹⁹⁾ Hehenberger, L., Harling, A.-M., and Scholten, P. (2013). A Practical Guide to Measuring and Managing Impact. EVPA Knowledge Centre.

⁽²⁰⁾ Leclair, C., Dupon, A., Sibeude, T., and H. Sibille. 2013. Petit Précis de L'évaluation de L'impact social. From www.avise.org.

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).

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.

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 **Figure 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:

	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
Input	<p>What is used:</p> <p>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.</p> <p>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"> ■ Funding (€, \$, £) is required to provide occupational therapists to work with the stroke patient, ■ the premises and tools with which they work, ■ the time and expertise of the therapists and the stroke victim’s friends and family. 	<ul style="list-style-type: none"> ■ Funding (€, £, \$) is required to fund the places on training courses, and the time or training of mentors, ■ premises and other tools are key resources, ■ 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.
Activity	<p>What is done:</p> <p>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.</p> <p>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"> ■ group activity to develop peer group support, ■ core skills development to build confidence and improve access to learning, ■ direct involvement of employers in the programme giving real training and direct access to jobs, and ■ mentoring individuals, from employer-appointed mentors.

<p>Output</p>	<p>How that touches the intended beneficiary:</p> <p>The results of the activity: the points of interface with the direct beneficiary. Indicators that the beneficiaries were reached by the activity.</p> <p>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.</p> <p>How many carers attend with them.</p>	<p>How many young people attend courses; how many start jobs with scheme employers.</p>
<p>(Social) Outcome</p>	<p>The change arising as a result:</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>A negative could be a change in relationships within a family leading to a carer losing their role in leading a care regime.</p> <p>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"> ■ <i>not just gaining, but sustaining, employment (indicator: additional productivity);</i> ■ <i>changed attitudes to employment such that they believe they can attain and sustain gainful employment (indicator: well-being measure);</i> ■ <i>a greater ability to develop further skills, and hence progression, in that employment (indicator: additional productivity potential);</i> ■ <i>savings in State benefits for the unemployed (indicator: state benefits saved over the period).</i> <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"> ■ <i>influencing younger siblings into employment (indicator: additional productivity; well-being);</i> ■ <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> ■ <i>reductions in damage to property from vandalism and theft (lower costs of damage to property; others depending on circumstances).</i>
<p>(Social) Impact</p>	<p>The extent to which the outcomes are attributable to the specific activities delivered by that social enterprise:</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.</p> <p>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>The role of the therapists is helped by that of the carers (friends and family), so some of the gain should be attributed to them. However the carers' support is made more effective by being involved in the therapy: by being trained to assist and support. The split, or attribution, of the outcomes is evaluated by understanding the relative contributions of the various parties, and their costs.</p> <p>In evaluating the impact we also consider the period over which the gain is enjoyed. In some cases the stroke victim becomes more physically able, and less traumatised, by reason of the therapy. This gives a long-term change in what would otherwise have been achieved. In other cases the therapists' work achieves the same ultimate effect but enables the stroke victim to recover more quickly than they would otherwise have done.</p>	<p>Reduce overall outcomes claimed by the effects of:</p> <ul style="list-style-type: none"> ■ <i>those young people attending the programme who would have gained sustainable employment anyway (reduction in indicator for outcome);</i> ■ <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> ■ <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>

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 form the grounds for continuous improvement.
- 4.9.** The principles of SROI ⁽²¹⁾ can, in some cases, 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.
 - 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.

⁽²¹⁾ Nicholls J., Lawlor, E., Neitzert, E., and T. Goodspeed. (2012). A Guide to Social Return on Investment. 2nd Ed. London. SROI Network.

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 chances 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. Work in Spain led by CIRIEC is developing this further in looking at categorising the social needs that are satisfied, and how that is achieved. This looks at 'human development' (the improvement for individuals and communities in, for example, education), 'human values' (such as respect, and sustaining of human dignity), 'satisfied needs' (both basic such as food, leisure time and freedom, and existential, such as the right to own property), and 'satisfiers' (the means by which they are satisfied).⁽²²⁾ Further work on the human development element is highlighting the influence of three key factors in delivering social impact: the existence of the SE and its approach to fulfilling its purpose, the activity and how it delivers social impact, and how that activity develops over time.⁽²³⁾ Additionally, work by Nittúa⁽²⁴⁾ is looking at the impact of the *trabajador acompañante* (co-worker).

Measurement Example 2

According to the local impact studies conducted by the National Council of Integration through Economic Activity (CNIAE) in partnership with the French State and the consulting firm AVISE, the services of work integration through social economy in Aquitaine, Franche-Comté and Pays-de-la-Loire permitted to integrate more than 50% of employees in the labour market and in the same time to save a total of EUR 104 million for the nation.

They provided employment to more than 60 000 employees and offered more than 12 000 full-time jobs for the year of the study. On one side they contribute to the local economy: if they generate a profit of EUR 171 million, they re-inject into the local economy as much as EUR 204 million through their employees' wages (EUR 154 million) and purchases they made from companies of their territory (EUR 50 million). On another side, they save some costs to the nation: if they receive necessary public grants (EUR 80 million) and exemptions (EUR 19 million), they are also tax payers (EUR 45 million). Moreover, they generate direct saving for social and medico-social devices: if we take for reference the commonly advanced EUR 18 300 per unemployed people as a cost to society, these services therefore appear as net contributors to national wealth.

This example, as the first one, belongs to the WISEs case. Here all the positive outcomes on vulnerable groups and on the general communities and local economies are well detailed, also in economic and financial terms. So in this example the WISE managers, the investors and the other stakeholders have found a good level of proportionality.

⁽²²⁾ <http://www.ciriec.ulg.ac.be/>

⁽²³⁾ Marcuello, C. and P. Nachar-Calderón. 2013. La contribución de las organizaciones económicas al desarrollo humano. Un modelo de evaluación. EMES-SOCENT Conference Papers LG 13-38. from www.emes.net and www.iap-socent.be

⁽²⁴⁾ <http://nittua.eu/moodle/course/view.php?id=2>

4.13. Current common themes for measurement in all types of interventions and situations⁽²⁵⁾ are:

- 4.13.1. The measurement must be founded on a clear understanding of the outcomes to be achieved, and the impacts, identifying for whom those arise.
- 4.13.2. 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.
- 4.13.3. 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.
- 4.13.4. 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.
- 4.13.5. 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.
- 4.13.6. Evidencing the measurement must be as needed for (proportionate to) the purpose.
- 4.13.7. 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.
- 4.13.8. 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

4.14. 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 defines 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 **Figure 6**:

- 4.14.1. **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.
- 4.14.2. **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

Figure 6: Five-stage process for social impact measurement from EVPA (2013)



⁽²⁵⁾ 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

comment on assessing the relative importance of different stakeholders and their needs in setting the measurements required. ⁽²⁶⁾

4.14.3. 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.

4.14.4. 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 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.

4.14.5. 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.

4.15. 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.

4.16. The measurement of outcomes, in the sense of changes from the situation that would otherwise have been, requires that measurement is against a benchmark. ⁽²⁷⁾ 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. ⁽²⁸⁾

4.17. The experience in the UK from developing Social Impact Bonds, notably in that developed for adoption of children ⁽²⁹⁾, 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.

⁽²⁶⁾ 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/>

⁽²⁷⁾ 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.

⁽²⁸⁾ 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

⁽²⁹⁾ 'It's All About Me', developed by the Consortium of Voluntary Adoption Agencies (www.iaamadoption.org and http://data.gov.uk/sib_knowledge_box/node/183)

- 4.18.** It is implicit in this process that the measurement includes an awareness of risk. This should include:
- 4.18.1.** the risk surrounding financial viability of the intervention and of the SE that is delivering and promoting it;
 - 4.18.2.** the risk that an intended outcome is not delivered; and
 - 4.18.3.** the risk that an unintended (negative) outcome is delivered.
- 4.19.** 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. In some circumstances it may be possible to measure (for example using probability based on prior studies) whether a given impact is likely to be achieved. It may also be possible to consider qualitatively what blockers could get in the way of achieving the targeted impacts, and perhaps to consider the probability that they may occur. Whether or not it can be measured, social risk should be recognised and discussed in any planning and in the reporting that explains the results of the social intervention.

Validation, independent review or audit assurance

- 4.20.** 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.
- 4.21.** The SE and its stakeholders will choose between three options:
- 4.21.1. 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.
 - 4.21.2. 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.
 - 4.21.3. 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.
- 4.22.** 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. Where the second and third are done, it is essential that those people doing the review or audit understand the intervention and its impacts.


Pitfalls in achieving effective measurement

- 4.23.** The following factors need to be addressed or avoided if measurement of social impact is to be effective:
- 4.23.1. 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).

- 4.23.2. 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'. The measure should not induce the SE to select a target to secure that indicators are met rather than to deliver social impact as intended.
- 4.23.3. 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.
- 4.23.4. 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 paragraph 4.17) as proxies for outcomes, they risk misfocusing attention away from the outcomes themselves.
- 4.23.5. 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.
- 4.23.6. 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.
- 4.23.7. 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).
- 4.23.8. 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

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- 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.
- 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:

	Need for Measurement	Why
SE	<ul style="list-style-type: none"> ■ A clear theory of change, linking activities and inputs to outcomes. ■ The ability to develop informed outputs as milestones on the route to delivering outcomes. ■ Measure that can be used on KPIs <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"> ■ planning the service; ■ improving resource allocation (inputs); ■ engaging with service users and partners; ■ performance management; ■ meeting accountabilities to stakeholders.
Funder (purchaser of services, largely Public Sector)	<p>Needs are as for SE, but focussed upon:</p> <ul style="list-style-type: none"> ■ Measurement of policy deliverables (narrower than the wider social outcomes for SE); ■ Consistency over the term of a funding agreement. <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"> ■ reporting on effectiveness of funding in delivering policy; ■ controlling spending; ■ informing under policy development.
Fund and Investor	<p>Needs are as for SE, but focussed upon:</p> <ul style="list-style-type: none"> ■ full explanation at the time of investment; ■ 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. 	<p>These need to use measurement for:</p> <ul style="list-style-type: none"> ■ evaluating the SE's request for investment at the outset. ■ monitoring the SE's performance; ■ balancing risk and achievement of targets in the Fund; ■ reporting to the investors on: <ul style="list-style-type: none"> ■ the investment ■ the achievement of the SE's outcomes; ■ the overall achievement of the Fund.

5.6. The measurement selected also varies based on the different systems within the social enterprise ⁽³⁰⁾ for its:

- 5.6.1. **finance:** both in terms of controlling finance within the project, and in managing it from a funding and investor relationship position;
- 5.6.2. **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;
- 5.6.3. **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).

⁽³⁰⁾ 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, giving oversight to the systems established by the fund manager to support its 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. That is, has the fund manager properly invested just in qualifying SEs? 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?
- 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: in what legal form is it constituted.
 - 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.

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, and the focus should be on appropriate internal data gathering and analysis standards. 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. Any such external review should be undertaken by those with experience and understanding of the activities and impacts being measured.
- 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 8.22
 - 8.7.6.** Confidentiality, privacy and legality from paragraph 8.23

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 4.14, and is shown in the diagram at **Figure 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 4.18).

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 paragraph 8.14. 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, September 2010).

Some concern has been expressed by commentators at this comparison to IFRS. They are concerned that it might encourage the development of a prescriptive and codified response to the need for consistency and comparability in impact measurement. This could be unhelpful if it loses the nuance of the qualitative in the desire to quantify. This prescriptive approach is not what the sub-group supports. The reference to IFRS is purely to assist in understanding the important issue of proportionality by reference to another arena in which it is important.

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:

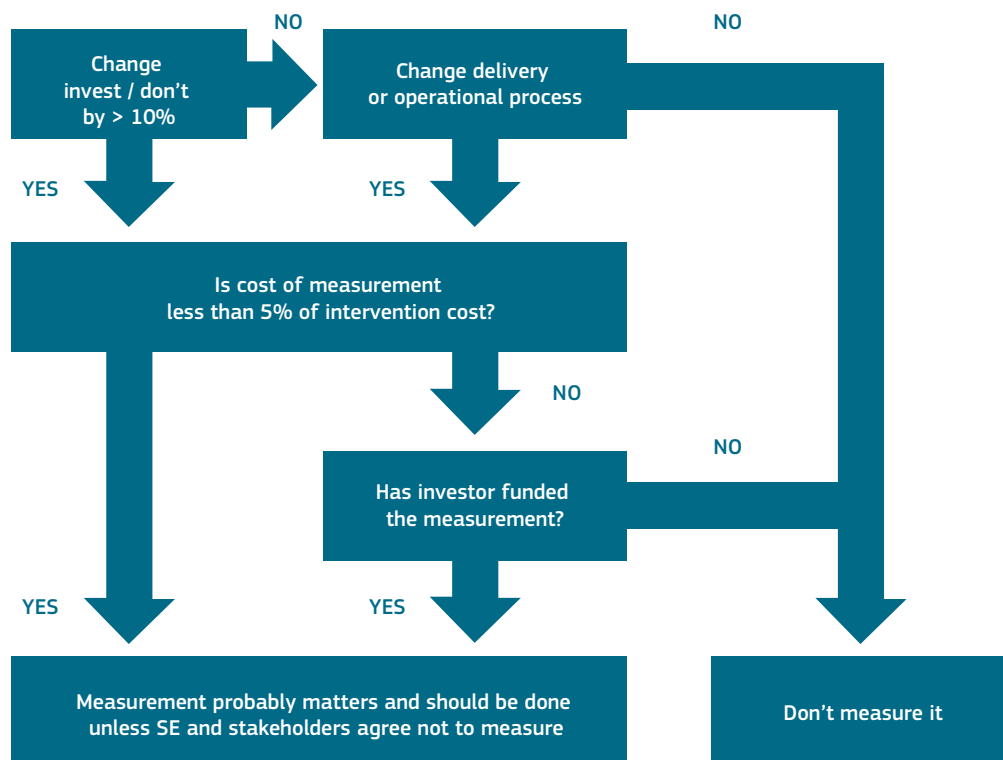
- 8.17.1. what needs to be measured, based on what is likely to be changed as a result of measuring it
- 8.17.2. what needs to be measured, based on whether it relates to a relevant outcome to a stakeholder whose interests and engagement matter
- 8.17.3. how closely the performance of the measure relates 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.

Figure 7: Decision tree for proportionality



This two-stage thought process is as follows (and shown in the flow diagram at **Figure 7**:

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 answer 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. Related to proportionality is the level of accuracy, or detail, achieved in the measurement, as against the time needed to produce it. This relates to when it is useful for stakeholders, so measuring a particular aspect may be dis-proportionate because it takes so long to measure it that the decisions that are based on it (e.g. further investment) may have had to be taken already. This is particularly relevant given that annual investment reporting may be running significantly ahead of the measuring of longer term outcomes relevant to the social impact being targeted and delivered. The point at 4.17 about the use of informed outputs to give relevant shorter term indicators for longer term impacts is one likely solution.

8.21. 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. These are examples of social impact measurement and its process, and do not necessarily relate to measurement for investors. In both cases the full detail of the stakeholder engagement and need has been abbreviated.

Example 1

Work integration social enterprise sector (WISE): Many of social businesses focus on employability i.e. the capacity of an individual to progress towards employment, stay in employment or change employment. Work integration social enterprises (WISE) that generate employment and work experience opportunities for vulnerable groups (homeless people, long term unemployed, low qualified and /or no school certificates, people with personal problems...) exist in a variety of European countries. According to some impact studies, it is proved that investing in the WISE sector provides both qualification and employment for people suffering exclusion (i.e. to be part again of the society) and a relevant economic return to the locality where the company is implanted. Especially, the differential between public money invested + money collected (profits) and costs avoided for the community is mostly positive. Gains are numerous for the locality: profits reinjected into the local economy through employees' wages (i.e. purchasing power) and purchases to local companies, employers' taxes, avoided costs of inactivity (i.e. unemployment allocations) and less social costs (health expenses for instance).

The issue of proportionality here relates to the importance of specific gains in the locality. For some areas jobs created will be key to getting people out of state support, so the focus will be on that, and measuring other aspects is not proportionate. In other areas a more detailed look at the quality and type of jobs created may be relevant as those areas seek to support the recovery or growth of certain industries or skills.

Example 2

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 EUR 200 000 and EUR 300 000.

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 EUR 40 million 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 EUR 300 000 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 $\pm 30\%$ 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 3

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

8.22. Specific standards for **scrutiny** are important too. These standards are that four elements are present in each SE:

- 8.22.1.** A clear, and stated, acceptance of accountability to stakeholders. This needs to be externally, and internally, acknowledged.
- 8.22.2.** 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.
- 8.22.3.** The SE must make available a route for stakeholders to respond (including appropriate public response).
- 8.22.4.** 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

8.23. 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

8.24. 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

8.25. In summary, social impact measurement 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 upon them
- where informed outputs are needed 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 dead-weight, displacement, alternative attribution, and drop-off
- involve stakeholders as laid out in 8.13.

Measurement Example 3

According to the impact study led by the consulting firm McKinsey, the Acta Vista work integration project in Bouches-du-Rhône permitted to 65% of its participants to leave with qualifications and find a 'positive' situation (4 times more than the national rate), generating at the same time a global profit from EUR 1.8 to 2.8 million for the only year 2010. On one side, it recruits 600 people each year on 20 different sites and provided about 300 work integration contracts in 2010, offering on average 980 hours of training per person and per year. On another side, each Acta Vista contract means a net profit from EUR 6 900 to 10 500 for local authorities.

At the end, this social investment has generated economic savings of EUR 8 000 per employee, a 60% return on investment. All of this is before taking into account the reduction of social costs associated with exclusion (health, crime, education, family problems, etc.) and the using of environmentally sensitive and traditional high quality techniques. Moreover, according to the study, an expansion of this device to the whole France would give the opportunity to create over than 5 000 rehabilitation contracts per year and therefore generate annual profits for local authorities from EUR 36 to 54 million.

This example, as the first one, belongs to the WISEs case (example 1 in section 8.21). Here all the positive outcomes on vulnerable groups and on the general communities and local economies are well detailed, also in economic and financial terms. So in this example the WISE managers, the investors and the other stakeholders have found a good level of proportionality.

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 paragraphs 11.6 and 11.7.

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.

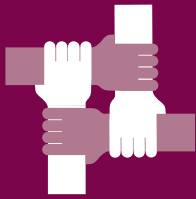
10.1.2. That it provides information specific to the delivery of policy imperatives under the Microfinance and Social Innovation (3rd) stream of EaSI. These are in Article 22.

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.

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 of 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,
 - 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 EUR 460 000 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
Wider group of FIs – limited knowledge and investment in building it	This will place some burden back onto the Commission to: <ul style="list-style-type: none"> ■ <i>guide information gathering by the SE, working through the Bank(s)</i> ■ <i>gather the information back and analyse it itself</i>
Wider group of FIs – 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"> ■ <i>out of EaSI, so restricting the funds available for SE use, which rather defeats the purpose of the funding</i> ■ <i>in addition to the EaSI funding</i> 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.
Narrower group of FIs 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	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.

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:


Key Party	Responsibility
Investor	<ol style="list-style-type: none"> 1. Assessing the investment prospect based on their individual priorities. 2. Agreeing with the Fund Manager any particular needs with regard to social impact reporting.
Fund Manager	<ol style="list-style-type: none"> 1. Setting investment priorities for fund at fundraising stage, and thereafter for onward investment into SEs. 2. Setting policy for reporting requirements on Social Impact on a whole fund basis to Investors. 3. Setting policy for reporting requirements on Social Impact by SEs. 4. Ensuring that SEs have sufficient resource and expertise to measure their social impact, and offer help where needed. 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. 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. 7. Preparing investor reports on social impact achieved.
Social Enterprise	<ol style="list-style-type: none"> 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'). 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). 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. 4. The SE will provide regular reports (at least annually) of outcomes and impact achieved, using the agreed measurement frameworks and indicators. 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.

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.

Key Party	Responsibility
European Commission / EaSI administration	<ol style="list-style-type: none"> Setting the criteria for reporting to EC against the criteria under Article 22, principally: <ol style="list-style-type: none"> increasing access to microfinance building up capacity of microfinance providers support the development of the social investment market. 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. The EaSI Administration will agree those plans, and appropriate measurement criteria to match to them. EaSI will receive quarterly or annual reports from Managing Banks, and will review these against scheme targets.
Financial Intermediary	<ol style="list-style-type: none"> Setting investment/management priorities for delivery of Article 22 criteria in conjunction with relevant Member State policy setters/directly with EaSI administration. Agree measurement requirements to be asked of SEs in which the fund is investing, or to be compiled by the Bank directly. Setting policy for reporting requirements on Social Impact by SEs. Ensuring that SEs have sufficient resource and expertise to measure their social impact, and offer help where needed. 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. 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. Preparing reports to EaSI on social impact achieved in line with the developed Article 22 criteria.
Social Enterprise	<ol style="list-style-type: none"> 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'). In addition the SE will propose to the FI how the achievement of those outcomes and that impact will be measured (framework and indicators) 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. 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. 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.
Footnote	<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>

12

Defining reporting standards: the principles of engagement

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- 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 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. In the social field, comparability should avoid benchmarking or indeed implying comparability between activities and outcomes that are similar at first glance, but are really very different from each other.
- 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.⁽³¹⁾

⁽³¹⁾ <http://www.social-reporting-standard.de/en>

13

Wider guidance

13.1. This covers two areas:

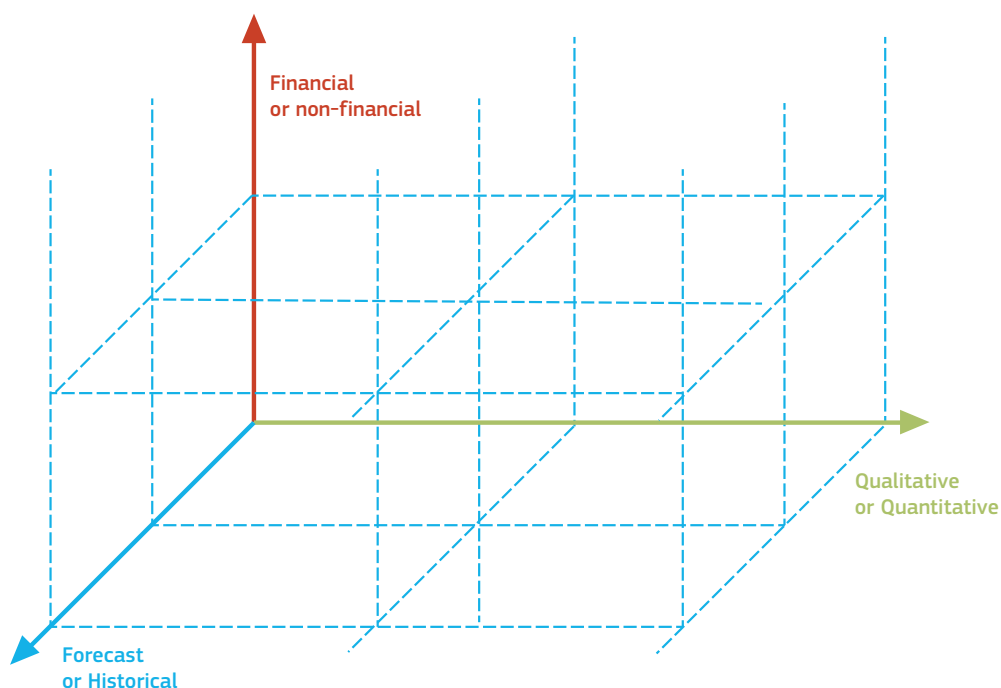
13.1.1. Measurement indicators

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 **Figure 8**. Measurement can be developed to suit the needs of the relevant stakeholders, once the story of the intervention is clear, to:

Figure 8: Three-way categorisation of indicators
(Clifford, from Cass MSc programme 2013)

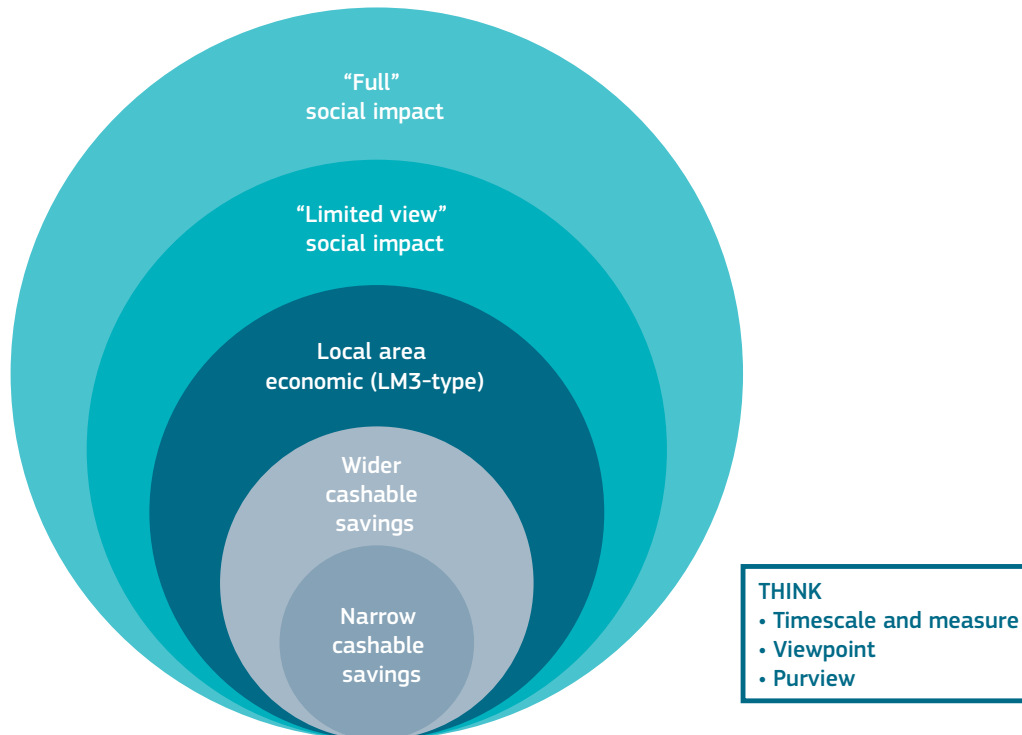


The purpose should define what and how we measure...

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.

**Figure 9: The levels of measurement of social impact
(Clifford 2013 from E3M report and Cass MSc programmes)**



13.3. Within that financial frame the forms of measurement tier into five levels as shown in **Figure 9**. 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
- 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 13.5.5 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 (which may include customers or consumers as individuals or organisations) may 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 8.22 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 ⁽³²⁾

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.
- 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.

⁽³²⁾ <http://www.thinknpc.org/publications/mapping-outcomes-for-social-investment/>

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 Employees Responsibly; and
- Balance Financial and Social Performance.

The original purpose of microfinance was to improve user 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 paragraphs 3.21 and 8.3.

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 γ (gamma) model ⁽³³⁾ 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

⁽³³⁾ U. Grabenwarter/H. Liechtenstein : "In search of gamma – an unconventional perspective on impact investing" (IESE Publishing 2011)

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,⁽³⁴⁾ 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.

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 i 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.

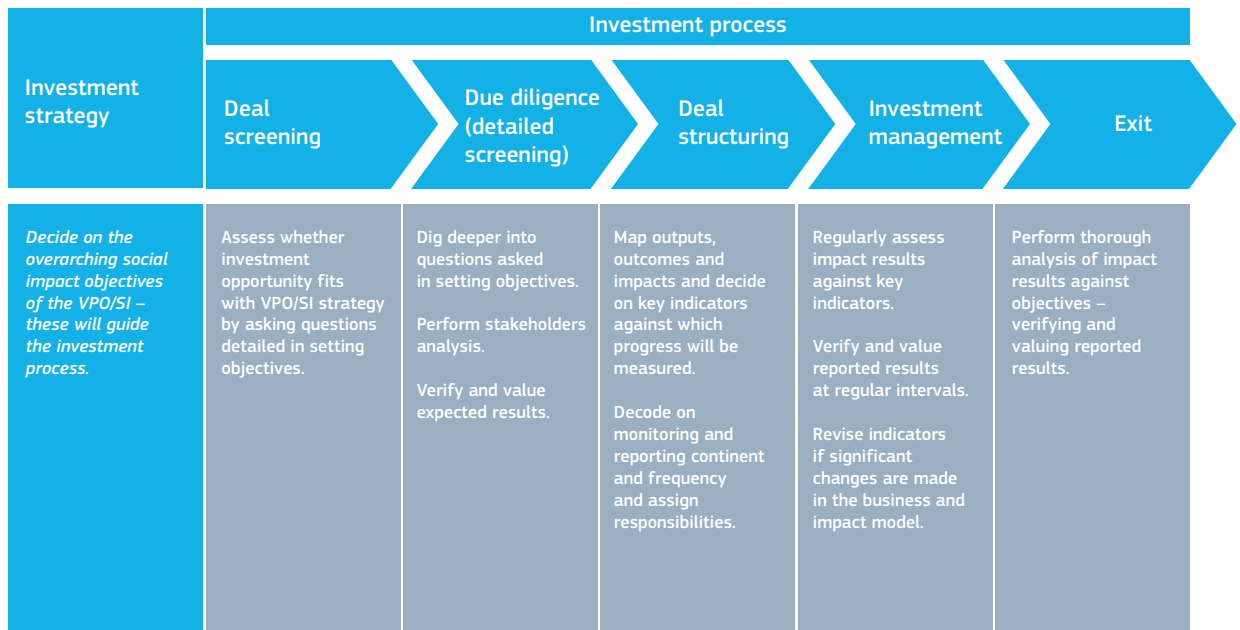
13.10.3. The Social Stock Exchange⁽³⁵⁾ is a UK-based enterprise designed to create a sound information base for, and possibility of social investment trading for social investors. It should not be confused with the regulated financial markets as it does not constitute formal listing of shares or securities, 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

⁽³⁴⁾ <http://www.engagedinvestment.com/engagedx.html> and <http://impliedimpact.org/>

⁽³⁵⁾ www.socialstockexchange.com

Figure 10: Managing impact in the investment process (from EVPA 2013)



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 **Figure 10** ⁽³⁶⁾

13.10.5. 'The Good Investor: A Book of Best Impact Practice'⁽³⁷⁾ 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.

⁽³⁶⁾ 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/>

⁽³⁷⁾ 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>

There is an overall encouragement to be a patient investor: to await the social impacts, and their timescales, and not just the investor's desired returns and timescales.

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?
- 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)⁽³⁸⁾:
 - 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 Social Purpose Organisation (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?

⁽³⁸⁾ 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/>

- 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.

- 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). Examples of useful indicators could also be included here.
 - 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, and indeed updating as organisations and investors and funds begin to apply it. It should develop iteratively, enabling early adopters' feedback to result in improvement. An alternative approach of developing pilot studies and then reconsidering the approach to a standard is not appropriate given the immediate need for guidance under EUSEF and EaSI. Overall 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 continued, or accelerate. An annual review by the sub-group or similar is appropriate. This on-going development and improvement should also further address the question of how in practice the measurement under EaSI and as used by EUSEFS needs to differ.

APPENDICES

1. GECES sub-group members and other participants

Scientific and Technical Chair: Jim Clifford OBE
 European Commission Chair: Marco Fantini
 Rapporteur to GECES: Dr. Lisa Hehenberger
 European Commission secretariat: Ciprian Alionescu and Laura Catana

Sub-Group Members (GECES members and invited experts):

SURNAME	FORENAME	NATIONALITY	EMPLOYER
Augustinsson	Erika	SE	Editor and policy advisor on social innovation of Swedish Social Innovation Forum (University of Malmö)
Barna	Cristina	RO	Professor at the University of Bucharest
Bussi	Patrizia	IT	Coordinator of ENSIE (European Network of Social Integration Enterprises)
Clifford	Jim	UK	National Head of Not-for-Profit Advisory Services at Baker Tilly (UK) subsequently BWB Impact and Visiting Fellow at Cass Business School's Centre for Charity Effectiveness
de Ras	Evelien	BE	SPPDD (Flemish government)
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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:

Nicole Alix	Administratrice déléguée chez Confrontations Europe
Jonathan Bland	CEO, Social Business International; Member GECES
Representatives from:	CIRIEC Spain: International Centre of Research and Information on Public, Social and Cooperative Economy
Alain Coheur	Mutualité Socialiste
Raúl Contreras	Co-founder and director, Nittúa (ES)
Maria Nieves Ramos	FAEDEL president and ENSIE presidency
Jessica Crowe	CEO, Centre for Public Scrutiny (UK)
Catherine Friedrich	Confédération générale des SCOP (FR)
Monika Geppel	Austrian Federal Chancellery, and member of Social Impact User Group, Hamburg University
Hinnerk Hansen	Managing Director of the Impact HUB Global, headquartered in Vienna, http://www.impacthub.net/
Rainer Hoell	Ashoka
Massimo Iacono	Massimo Iacono Partners
Dr. Tobias Jung	Principal Research Fellow, Cass Business School, Centre for Charitable Giving and Philanthropy, City University, London
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Kate Markey	MD, CAN Invest – UK-based Social Enterprise and SE advisor
Dario Marmo	LAMA Development and Cooperation Agency
Luigi Martignetti	General Secretary REVES
Michel Mercadié	Social Platform, GECES member
Caroline Mason	COO, Big Society Capital; incoming CEO, Esmée Fairbairn Foundation
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Other participants:

- Commentators on reports and working papers: James Hopegood (DG MARKT), Timothy Shakesby and Esther Wandel (formerly at DG MARKT).
- 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⁽³⁹⁾ 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.

In addition the report reflects further comment and discussion emerging at the European Commission's conference 'Social Entrepreneurs: Have Your Say' held in Strasbourg on 16th and 17th January 2014. The draft report was presented and discussed at Workshop 11, chaired by James Hopegood of the European Commission, and including Jim Clifford, Lisa Hehenberger, and H el ene Duclos from the sub-group.

Finally the draft findings were presented by Jim Clifford to the G8 Social Impact Investment Taskforce at its meeting in London on 5th December 2013. Comments arising at that meeting, chaired by Sir Ronald Cohen, have also been embodied in this final revision. The G8 group emphasised the need for this work to be embraced by its own work stream on Social Impact Measurement co-chaired by sub-group member Tris Lumley, and on which several others of the sub-group including Chair, Jim Clifford, and Rapporteur, Lisa Hehenberger, are members.

2. Additional case study material illustrating measurement in practice

This is not intended as an exhaustive list of the ways in which impact measurement may be done. Rather it is a limited selection of longer case studies to supplement those in the main body of the text of the report.

1. Ashoka - Innovators for the Public

Ashoka is a global platform for social entrepreneurship. Founded in 1981, the organization supports today over 3000 social entrepreneurs in nearly 80 countries worldwide by providing start-up financing as well as significant professional support services. Its vision sets out to advance an 'everyone-a-changemaker-world', where people can apply the skills and resources they need to collaborate on solving complex social problems. In Germany, Ashoka has been launched in 2006. The three main areas of activities of the organization constitute (1) the venture program, aiming at identifying new members for the Ashoka network of outstanding social entrepreneurs, (2) the fellowship program, tending to the elected fellows and providing financial as well as strategic support, (3) market-building initiatives supporting the development of the social entrepreneurship sector in Germany in general.

Ashoka has been a co-developer of the Social Reporting Standard since the beginning, encouraging and enabling its over 50 German fellows to apply the standard as an internal strategy and organizational learning tool as well as marketing instrument for external stakeholders. In addition, in 2012, Ashoka has for the first time drafted its own annual report according to SRS. Aiming at reflecting on how its vision of creating an 'everyone-a-changemaker' world can be enhanced more effectively, Ashoka intends on using the report for internal learning processes as well as for approaching new supporters.

Besides the common information about the organizational structure, the team and its finances, the core of the reports constitutes the display of outcomes and impacts according to Part B of the SRS guidelines. Firstly, the societal problem, its scale and previous approaches to solving it are explained. Secondly, Ashoka's own problem-solving mechanisms are elaborated on in detail for the three main activities (venture, fellowship, sector-building) focusing on a thorough description of the processes and highlighting the causalities of the interventions with respect to the previously described problems. Thirdly, outputs and outcomes are illustrated for each area by means of depicting the impact value chains. These are all structured consistently for the respective programs as to allow for a certain degree of comparability. First, all inputs are given, followed by outputs and the resulting outcomes. Where quantitative information was available, it was used to specify results; otherwise, qualitative descriptions of achieved social changes were used.

⁽³⁹⁾ 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>

The chart below gives an overview of the impact value chain for Ashoka Germany's sector-building initiatives. Specifically, results for three current programs are given:

- Talents4Good aims at finding the right personnel for social enterprises;
- The Financing Agency for Social Entrepreneurship (FASE) designs tailored financing solutions for social entrepreneurs;
- The Social Reporting Standard (SRS) promotes impact-oriented reporting for social organizations.

Inputs	Approx. 23 % of the working time of the German Ashoka Team
	Roughly EUR 40 000 expenditure
	In-time support for the diffusion of the Social Reporting Standard (SRS)
	Formal and informal partnerships
Outputs	Pro-bono study by MyKinsey & Company consultants (value: EUR 650 000) regarding career options in order to promote an entrepreneurial social sector; in addition, various meetings with decision makers in politics, business and civil society
	Numerous speeches and organized events concerning the topic of social finance
	Co-founding of the temporary employment company 'Talents4Good' for an entrepreneurial social sector
	Support for the SRS steering committee, a standard used by 75 % of all Ashoka fellows
Outcomes	4 newsletter to approx. 7 500 recipients
	Creation of a new co-investment program by the German development bank KfW
	Increased publicity for the debate around financing of social entrepreneurs
	Since 2011, duplication of Ashoka fellows that have a financially viable business model (from 14 % to 32 %) and that can differentiate their funding sources (from 14 % to 29 %)
	19 % of all fellows are now, for the first time, prepared for taking on repayable funding constituting an increase from 11 % since 2011
	Recruitment of co-founders for the establishment of the Financing Agency for Social Entrepreneurship (FASE)
	First placements of skilled personnel from the business sector into social enterprises by the newly founded temp agency Talents4Good
	By now, roughly 80 organizations reporting according to the Social Reporting Standard in Germany
	High profile and recognition of social entrepreneurs by funders as well as decision makers in politics, business and statutory welfare organizations
	Increased public perception of social entrepreneurs: approx. 250 Ashoka press clippings plus own publications, approx. 1 900 facebook and 850 twitter followers

Source: Ashoka (2012): Ashoka Jahresbericht 2012.

<http://germany.ashoka.org> | <https://www.ashoka.org> | www.fa-se.eu | www.talents4good.org

Ashoka (2012) Outcome demonstration for Ashoka Germany's sector -building programs

2. Children for a better world

CHILDREN for a better World E.V. is a non-profit membership organization founded in 1994 by several individuals from a diverse spectrum of professional fields. The founders chose to dedicate their time, money and networks to originate a children's aid organization that would be truly different. CHILDREN for a better World E.V. therefore not only aims to address and improve the living conditions of children in need by charitable work; the children are also actively involved in different activities enabling them to take responsibility for their lives, their future and the society they live in. The organization is involved in three areas: (1) Youth volunteering, (2) child poverty in Germany and (3) different worldwide projects, e.g., in India, Vietnam or Guinea. So far, the NPO has been able to successfully support projects for children worldwide with more than EUR 25 million in donations.

CHILDREN for a better World published its first impact reports ('child poverty in Germany', 'young people help' and 'CHILDREN-India') according to the Social Reporting Standard in 2012 for the reporting season 2011. The impulse for this development was set by the then CEO Felix Dresewski who considered impact reporting an essential tool when managing the impending growth of the organization as well as for attracting additional

donations. The reports aim at providing a transparent and holistic overview of the different programs for supporters and funders, retrospection on set objectives, results as well as on optimization plans. As such, the organization has, for example, adapted its future planning after having drafted and analysed the first reports. The feedback and experiences with this tool have been very promising for the organization: it is used by management as a starting point for more in-depth discussions about strategy with the board and serves as positive signalling towards potential funders who especially appreciate the illustrations and infographics for providing a good overview of the organization's field of activity. Exemplary for the success of these enhanced transparency efforts, CHILDREN for a better world was acknowledged in 2012 with the Transparency Award for small NPOS by the audit and consulting firm PricewaterhouseCoopers.

CHILDREN has not compiled one single report for the entire organization but impact reports for the different program areas according to the specific problem that is being addressed. For example, the program 'child poverty in German' aims at reducing disadvantages for children affected by poverty in terms of their opportunities for personal development and participation in society. In particular, the program focuses on child and youth recreation centres in underprivileged city areas by providing financial support for three kinds of offerings:

- CHILDREN lunch specials providing healthy meals in combination with a variety of day care offers such as homework assistance, sports or excursions;
- CHILDREN discovery funds fostering mobility and thus children's comprehension of the world around them including scholarships for exchange years abroad;
- Strengthening CHILDREN partner facilities in order to increase leverage by establishing strong organizations.

The report begins with describing the current situation of poor children in Germany including the extent of the problem and existing measures to tackle the issue (cf. Part B, chapter 2.2. of the SRS). It then details out the strategy of the program as well as its target groups (cf. Part B, chapter 2.3. of the SRS) before illustrating inputs, outputs and outcomes for each target group (cf. Part B, chapter 3 of the SRS). These different parts of the impact value chain are mentioned separately and not in one single illustration providing additional information on the respective topic. An overview of outputs, for example, is presented as follows:

	2010	2011	2012
CHILDREN lunch specials			
No. of funded partner institutions	35	53	52
No. of children attending the lunch specials	3023	3555	3556
No. of consulting mandates re. healthy lunch specials	9	11	11
CHILDREN discovery funds			
No. of partner facilities using the discovery funds	19	25	44
No. of children participating in discovery activities	641	718	2619
Discovery scholarships		1	2
Strengthening CHILDREN partner facilities			
Percentage of partner facilities participating at CHILDREN meetings	60%	63%	69%
No. of facilities receiving institutional funding of EUR 500	11	52	51
No. of facilities benefitting from audit grants			4
No. of newsletter editions		8	9

Source: CHILDREN for a better World e.v. (2013): Wirkungsorientierter Bericht des CHILDREN-Programmbereichs Hunger in Deutschland <http://www.children.de/english/>

Children for a better World E.V. (2012)

Output demonstration for CHILDREN for a better World - Program child poverty in Germany selection

As the organization didn't feel comfortable and able at the time of drafting the report to provide quantitative impact information, only outputs are displayed with quantitative indicators. The achieved social change in terms of outcomes is portrayed by means of qualitative descriptions. Therefore, the local partners were asked

to assess the success of the three offerings. For example, for the CHILDREN lunch specials, this comprised amongst others questions regarding:

- Sufficient funding for providing meals to all children (60 % approval);
- Increased knowledge about a healthy diet amongst the children (85 % of children);
- Ability to prepare simple and healthy meals (45 % of children);
- Decreased sickness rates (30 % of children).

These figures are complemented by anecdotal evidence and quotes by children participating in the program.

For the descriptive chapters about the mother organization and finances, the report refers largely to the annual report of CHILDREN for a better world, benefitting from synergies in terms of information retrieval and documentation as this has to be provided anyways for German authorities.

3. Discovering hands

Discovering hands is a social enterprise officially founded in 2012 by the gynaecologist Dr. Frank Hoffmann. He set out to fight the problem that breast cancer is the most common cause of death for women between 40 and 44 years of age in Germany. Early detection and treatment significantly increases women's chance of survival, and quality of life for those on treatment. Discovering hands addresses some of these shortcomings by training and deploying visually impaired women with their highly developed sensory skills to detect the early signs of breast cancer. These so-called 'medical tactile examiners' (MTEs) are trained at vocational training centres for people with disabilities and deliver breast examinations at doctors' practices. Thus, discovering hands provides several benefits: By using the extraordinary sensory capabilities of visually impaired women, a perceived handicap is transformed into a capability. Perceived disability is leveraged as a talent using a proven and standardized examination method allowing for more time for prevention and early detection. Preliminary qualitative results show that MTEs detect ~30 % more and ~50 % smaller tissue alterations in the breast than doctors (5-8 mm vs. 10-15 mm).

Discovering hands first introduced the SRS for the report on year 2012. The organization was in the middle of an expansion period resulting in significant changes to the organizational model. Having started with a local initiative, the founder and CEO received funding for expanding the model to 3-4 additional countries in the foreseeable future while establishing a viable business model. The report was therefore mainly used to structure the projected impact value chain and thus provide the basis for analysing expected future target groups, results and income streams.

The report describes first the context of breast cancer prevention and detection in Germany, consequences as well as scale of the problem (cf. chapter 2.2. of the SRS) before explaining the organization's unique approach and operating mode (cf. chapter 2.3.1 and 2.3.2 of the SRS). In a next step, several pages of the report are dedicated to describing the target groups, their potential, their interaction and their possible revenue contributions. As the project is just about to take-up, the reasoning is of a general and theoretical nature distinguishing between direct target groups for which discovering hands offers dedicated activities and indirect target groups who benefit from this offering. Chart 3 illustrates the presentation of these considerations in an impact report:

Target group	activity / product / service	possible revenues	expected outcomes
Direct target groups with ability to pay for services			
Blind and visually impaired women	Apprenticeship as medical tactile examiner (MTE): 9-months theoretical and practical qualification in specialized institution for visually impaired and blind people	Costs (approx. EUR 17000) are assumed by reintegration institutions	(a) Qualified blind and visually impaired women are installed as MTEs in doctor's practices (b) Decrease of unemployment rate for blind women (c) Change of perception – a perceived disability is converted into a talent
Doctors in own practice	(a) Procurement of MTEs (b) Membership in the discovering hands network providing for quality assurance of the examination method (c) Sale of orientation strips used by MTEs for examination purposes	(c) The cost for the orientation strips amount to EUR 10 per examination and are reimbursed by the patient or her health insurance	(a) Participating doctors who employ MTEs and obtain necessary orientation strips from discovering hands (b) Increased satisfaction of patients with their doctor (c) More effective and efficient resource allocation as the doctor disposes of more time for other examinations
Indirect target groups with ability to pay for services			
Female patients		Patient or her health insurance covers EUR 36,50 doctor's fee and EUR 10 expenses for the orientation strips	(a) Better early detection of breast cancer and thus increased chances of survival when affected (b) Decreased diagnostic strains (c) Positive 'human' diagnostic experience
Health insurance funds			(a) Further increase of early detection rates leading to a decreasing mortality rate (b) Decrease of economic costs (e.g., invalidity, pension payments)
Retirement pension institution			Relief of pension funds due to reintegration of blind and visually impaired people into the employment market

Source: Discovering hands (2013): Jahresbericht 2012
<http://www.discovering-hands.de/start/english-version.html>

Discovering hands (2013)

Target groups, activities and expected outcomes – Discovering hands

In a next step, discovering hands aims at further improving and amending its reporting format according to the actual development of the social business. This could comprise, amongst others, the definition of tangible indicators for the expected outcomes to prove the expected causality (so far, only selective evidence is available), track actual development and introduce planning and cost-performance comparisons. Furthermore, a large-scale clinical trial has been started to corroborate the first promising medical results.

4. Oltre investment in PerMicro (summarised from the EVPA guide, with permission from the authors)

Oltre Venture started its activity in 2006 and has been investing in social enterprises since then; bringing capital, managerial skills and knowledge to the social sector. It has invested in PerMicro, a microcredit institution founded in 2007. Its mission is to give the opportunity of social and financial inclusion to ‘non-bankable’ populations through microcredit, providing loans directly to businesses and individuals. Operating initially in the multi-ethnic neighbourhoods of Torino, PerMicro has grown to national level by opening 12 branches throughout Italy. PerMicro’s activity is based on the concept of network credit: the social network of reference is the intermediary between PerMicro and the clients, providing a moral guarantee and supporting them before and after the loan disbursement. PerMicro is the first Italian microcredit provider. Its business model has been recognised and rewarded also at European level and won the *Fondazione Giordano dell’amore* award. Since its inception, PerMicro has screened about 10 700 candidates and distributed more than 2 000 microloans, for a total financing amount of EUR 11.4 million.

The average duration of a loan is 36 months; the average size of a loan is EUR 4 000 for family loans and EUR 7 300 for business loans.

Current approach to measuring results

PerMicro has developed different types of reports and performance screening tools, which address different objectives and are intended for different recipients.

- Ongoing Performance Tracking & Management:** PerMicro produces monthly, quarterly, and annual reports that summarize its activities, which are shared during monthly committee meetings. The indicators in the report include measures of outreach, client satisfaction, and financial performance. These are produced for internal use, as a tool for management to monitor the ongoing progress towards (i) fulfilling the mission and reaching the target population, and (ii) reaching the economic/ financial objectives stated in the business plan (break-even point).

Type of report	Information covered	Purpose
Monthly reports	<ul style="list-style-type: none"> Client information: nationality, gender, civil status, business activity of clients and purpose of the loan. Loan information: disbursed and outstanding portfolio, the number of contracts, the number of opened files, the number of closed files. 	<ul style="list-style-type: none"> Monitor data on new clients and existing clients’ attrition rate Provide detailed information on the monthly activity of PerMicro
Risk reports	<ul style="list-style-type: none"> Bad debt Repayment Other performance measures 	<ul style="list-style-type: none"> Evaluate cost of risk Evaluate quality of portfolio Set benchmarks among branches, evaluate other risks
Dashboard	<ul style="list-style-type: none"> This is a tool under development. It will be a monthly report and will provide information across the following areas: <ul style="list-style-type: none"> administration production and development risk and recovery 	<ul style="list-style-type: none"> Provide a comprehensive view on the social and economic performance of PerMicro

The form, content and frequency of the reporting were agreed between Oltre and PerMicro at the beginning of the investment and focus on the operations of PerMicro, rather than the performance of the investment.

- External reporting:** PerMicro produces a series of different reports for different stakeholders. Equity investors are the stakeholders that are mostly interested in the assessment of the projects, and they need to have information in relation to their expectations (achievement of the break-even point and value created through their investment). Apart from clients and investors of PerMicro, other interested stakeholders are mainly local municipalities and in general public institution working in the nearby environment, which may benefit from a constant update on the evolution of PerMicro’s activities, and other local associations or non-profit organisations.

Target Audience	Information	
Potential clients of PerMicro	<ul style="list-style-type: none"> ■ Social reports 	<ul style="list-style-type: none"> ■ Communication instruments
Investors (e.g. Oltre Venture)	<ul style="list-style-type: none"> ■ Qualitative reports about outreach (monthly) and client satisfaction ■ Reports that monitor portfolio risk ■ Balance sheet and income statement 	<ul style="list-style-type: none"> ■ Business plan ■ Social reports ■ Market research
Other stakeholders (networks, government)	<ul style="list-style-type: none"> ■ Social reports ■ Reports on risk profile of clients 	<ul style="list-style-type: none"> ■ Market research ■ Reports on clients

Indicators

PerMicro has identified a set of objectives and related performance indicators that are summarised in the table below:

	Financial side	Social side
Objectives	Financial objectives: break even point	Social objectives: lending to non-bankable people
Indicators	Financial data: balance sheets, income statement, financial modelling	Client demographics: gender, nationality, education, age Client engagement: account types, pending loans, non-performing loans

Standardised indicators from elsewhere (e.g. IRIS or Wikivois) have not been used because they do not fit well to the organisations or interventions concerned, and because they are not well expressed in Italian.

Impact measurement

Following the social and economic contextualization of the microcredit institution activity, PerMicro goes a step further in the evaluation of impact, focusing on the analysis of changes made in the quality of life of its clients (or their families and local communities) and determining whether there have been any positive, negative or neutral effects.

The definition of impact used by PerMicro stems from two main elements:

- Changes that take place in an individual's life, in its family, its business or its community;
- The extent to which these changes are related to the individual's loan undertaking.

To identify and measure impact, one must prove in a credible manner that changes observable in clients, with reference to the different analysis levels, are directly related to the clients' relationship with the institution.

In the last few years, PerMicro participated in two scientific working groups and identified some potential methodologies to evaluate the impact of its activity. These methodologies, however, presented some hurdles in terms of cost of implementation and of the so-called attribution problem, which is more marked in the western world, where the existence of a more structured public welfare system makes it hard to isolate the effect of micro lending from other types of intervention.

The final decision made by PerMicro was to perform a retrospective impact evaluation focusing on a proxy of Impact: the change in financial inclusion. Below is a summary of the evaluation method showing how it will be implemented in time. As per PerMicro's in-house developed definition, impact occurs and it is positive if a client becomes bankable after taking a microloan.

Timeline	Phase	Actions
June-September 2012	Sample of non-bankable	<ol style="list-style-type: none"> 1. Settle on criteria to define a sample of non-bankable people: <ul style="list-style-type: none"> ■ Absence (or presence for less than 6 months) of a bank account ■ Loans with credit institutions ■ Loans with banks 2. Selection of a sample composed of non-bankable people within PerMicro portfolio who received a loan in 2010
September-December 2012	Interview	<ol style="list-style-type: none"> 3. Phone interview with the client or the bank to understand whether after the disbursement of a microloan the client become bankable i.e. did they start a stable relationship with a bank, open a bank account asked and/or obtain another loan.
January 2013	Elaboration of data	<ol style="list-style-type: none"> 4. Analysis of data. Impact evaluation.

The end of the evaluation period is set to be end of 2014, at which time PerMicro is also expected to reach its financial break-even point.

Oltre commented: ‘As an investor we are fortunate that PerMicro themselves were willing to commit the required resources to these more in depth studies about their impact and it does provide us with further information to communicate to our own stakeholders. However if PerMicro were not keen to perform these impact studies we would not require them to do so as we believe that output measures can sufficiently demonstrate that a business is on the right track (or not) to financial sustainability and therefore achieving social impact.

The rationale of building financially sustainable companies informs Oltre’s approach to impact measurement. For us financial sustainability is the key to achieving social impact so we predominantly use impact measurement as a management tool, focusing on output indicators to understand how the business is progressing vis-à-vis its business plan. This is reinforced by the difficulties that exist in measuring impact in a developed country such as Italy. The strong welfare state and other safety nets means it is very difficult (and expensive) to isolate the longer-term effects of any organisation we are supporting to provide an accurate measure of impact. For example in the case of one of our micro-finance investments, we can accurately measure the number of loans disbursed and number of new businesses created, but to go a step further and consider how that relates to the physical well-being of the family who now has a business would be very difficult. A long term study using randomized control groups would probably be required and then we also have the moral issue of excluding groups of people who could have benefitted from a loan but for the purpose of the study were selected not to so as to have an appropriate control group.’

5. Auridis in Papilio (summarised from the EVPA guide, with the permission of the authors)

This case study considers monitoring & reporting through the lens of Auridis’ (a German charitable limited company) investment in the German non-profit organisation, Papilio e.v. (‘Papilio’).

Auridis GmbH invests in organisations and programmes that sustainably improve opportunities for socially disadvantaged families and their small children. Since 2010 Auridis has been supporting Papilio. Papilio has developed and promotes a kindergarten programme for early childhood prevention of addiction and violence. Substance addiction and violence are widespread, in particular among the juvenile population, with extremely high negative effects on the society and the national economy. The likelihood of young people developing a substance addiction or violent behaviour is to a relevant degree determined by the individual’s capacity to cope with stress and adversity, her or his so-called socio-emotional competencies (resilience). Children develop these competencies in early childhood, i.e. at age 3 to 6. The Papilio programme intends to enhance child educators’ abilities to support young children in developing positive social and emotional competencies.

Papilio integrates as a part of the pedagogic concept in the kindergarten, with elements like the ‘toys-go-on-holiday-day’ or ‘Paula and the trunk pixies’, a puppet play with pixies representing the four main emotions (joy, anger, sadness, and fear). Beyond other programmes offered in German kindergarten, Papilio accompanies the children during their whole kindergarten time (as opposed to a usual short-term intervention or programme). The Papilio programme is disseminated by way of a train-the-trainer model, with headquarters in Augsburg, Germany. Since 2002 close to 5000 child care workers in 11 federal states all over Germany have been trained with the Papilio programme and approximately 100000 children (extrapolated) could be reached. We accompanied Papilio by financing a business planning phase from 2010 to 2011 and are currently supporting the growth phase from 2012 to 2017 (estimated).

Papilio's approach to monitoring and reporting

Papilio commissioned a scientific study on the outcomes of the programme from 2002 to 2005 with 700 children and their families. The results showed positive outcomes for children, kindergarten, and parents, such as reduction of first deviant behaviour of the children and better learning abilities at school, positive effects on cooperation within the kindergarten team, and a better basis for education partnerships with the parents.

As outcomes are not always easy to measure in the short term we decided to use large scale output indicators to serve as proxies for outcome. For example: the number of actively practicing and certified Papilio child care workers; the number of parents ordering Papilio books and DVDs for their children, etc. the underlying assumption is that these indicators are good proxies for the expected long-term outcomes.

Aggregation of impact data

Papilio introduced an online, web-based database system for the Papilio trainers to report their activities to headquarters. Information such as names and contact details of trainers, child care workers, and kindergarten as well as number, date, place, and participants of trainings and supervisions and the progress of the certification process are recorded by the trainers. In addition, Papilio tracks the quantities of materials ordered (books, DVDs, educational material, etc.). The Papilio team gets monthly reports of all aggregated data. The prerequisite for Papilio to introduce such a tool was a German-language, very simple web- log-in system.

Stakeholder presentation of the data

The data collected is presented to different stakeholders in different formats: a monthly dashboard report is produced for the organisation's management, summarising key financial and output indicators. This is the basis for the organisation's day-to-day management. More detailed reports are produced for a variety of funders in accordance with their respective requirements.

In order to streamline reporting and to increase the efficiency of the reporting process, Papilio has started to produce annual reports in accordance with the German Social reporting Standard (SrS). The SrS has been developed by a consortium of German high-impact funders such as Auridis, Bonventure, and Ashoka, in cooperation with experts and researchers. SrS provides a structure to report on the problem to be solved, the contribution of the organisation to the solution and the achieved social impact together with organisational and financial data.

Papilio started to use this during its business planning phase. Many of the elements developed during this phase are being reused for reporting purposes, such as the concise description of Papilio's theory of change.

What has Papilio learned from the development process?

- Usability is the key success factor for the usage of the system. Therefore, simplicity is the most important requirement for the information management system.
- The underlying processes are more important than technology.
- The process should be steered by an experienced IT developer who can, and does, ask the team for input regarding the reporting contents and formats required and translates them into a technical solution.
- The whole team and some of the other (external) users need to be integrated in the development process as they will be the main beneficiaries of the system.
- The development of an information management system needs an iterative process and a lot of end consumer testing and reversing.

Recommendations from Auridis

We believe that investees should be encouraged to allocate substantial money to information management, as it is a key to sustainable growth and stakeholder reporting. Excel is only suitable for the early development stage. In most cases, the necessity to introduce more or less sophisticated monitoring and evaluation systems only becomes apparent once the scaling-up, or dissemination, starts to accelerate following the vpo/

SI's investment. In our experience, the monitoring and evaluation systems used by one organisation can only inspire the development of tailor-made solutions for other organisations with a different business model, but cannot be transferred 'as is'.

Importantly, the investees need external help to implement these systems, which can be facilitated by the vpo/SI. In a number of cases, the organisations in the Auridis portfolio were supported on a pro bono basis by consultants of OC&C Strategy Consulting. Their focus was on asking strategic questions in order to define the expected end product before starting with the 'how to questions'.

Regarding impact measurement, substantial scientific impact studies are usually very expensive (>0.5 million Euros), and such funding is difficult to obtain (if not provided by the vpo/SI). In most cases gut feeling, proxies, and scientific assumptions based on other studies need to be used, especially in prevention work. But be aware to not only count what is countable – soft facts matter more. However, it is important to be transparent about the assumptions and their basis. Gut feeling alone won't do it.

Financing an information management system

The development of an information management system will need significant work by an experienced IT developer. If the service would be purchased in the for-profit market, significant costs would accrue. vpo/SIs should provide cash and encourage their investees to invest in IT infrastructure to streamline processes and strengthen the operational capacities of the investee.

Nevertheless, given the usual shortage of money in Spos, this topic offers the opportunity to fundraise a service grant from a for profit service provider. In combination with a pro bono consultant the development and implementation process can be realised with minimum cash spend. Vpo/SIs can play an active role in connecting their investees to service providers and pro bono resources. Investments in a sound information management system should be written off in many years and maybe shared with other organizations to make the investment worthwhile.

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Social impact measurement

Money invested in a social enterprise should be used efficiently in delivering its social mission. Also, where public funding is used efficient delivery of outcomes, or savings in public spending must be demonstrated. A consistent way of measuring social impact is therefore needed. In October 2012 a Social Impact Measurement expert sub-group was set up by the GECEs (“Groupe d’Experts de la Commission sur l’Entrepreneuriat Social”) in order to advise on a methodology which could be applied across the European social entrepreneurship sector. This helps social fund managers decide whether they will invest in a particular enterprise and will help investors and grant givers see if the enterprises they have backed have achieved their stated social objectives, but is also of wider application, both internally and externally. This publication sets out the proposed approaches to measurement used for assessment and follow-up.

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