EXECUTIVE SUMMARY

Social investment or impact investing—call it what you will—is designed to achieve social impact through financial investment. We want to capture capital so that efforts to help young people get jobs, enable the vulnerable to live in good quality housing, or rehabilitate offenders, can be developed and expanded. But the pressure is on to prove that these results are achieved. Large-scale investors will increasingly seek clarity on impact, preferably in simple, accessible formats that make decision-making easy. The Social Impact Investment Taskforce established by the G8 has now issued its report stressing the need for impact to be articulated clearly.

But the reality of social investment is complex. The market is wide-ranging and varied, involving a mixed economy of intention, depth of impact, product and sectors. The way social investment achieves impact is not direct—with each step in the chain between investor and final beneficiary there is a reduction of control and attribution. In the middle of the chain we have investee organisations that will want to collect data that is useful to their work, while also needing to satisfy investors. The greater the alignment between investor and investee, the better—having irrelevant measures forced upon investees will not help to increase impact.

Somehow we have to make sense of the complexity and tensions inherent in measuring impact in a way that is authentic, and will also support the market to grow.

The good news is that expertise in the social sector and social investment market is abundant and growing. However not all impact measurement initiatives are consistent, and not every social investment finance intermediary (SIFI) reports impact transparently and comprehensively. We think SFIs that report impact only selectively should emulate others that are convincingly comprehensive. We have valuable methodologies and tools to build on.

This brief paper attempts to bring out NPC’s lessons learnt thus far. It is not a comprehensive mapping of all measurement taking place—although we think this would be a very useful exercise, as from it we could derive common conventions or even a universal framework.

In the meantime, below are pointers for how we might achieve better impact measurement in the future, and how impact can be best articulated now.

- **Segmenting the market** will help to overcome the challenge of reconciling diverse objectives with the need to find common indicators.

- **A two-tier approach to evidence** would be useful here: firstly assessing the (direct) effect of social investment on the investee (eg, its capacity, governance and so on); secondly the (indirect) effect of the social investment on the final beneficiaries (eg, jobs taken up, new housing occupied, offenders rehabilitated).

- **Good measurement practices** such as the use of theory of change should be applied to funds, as well as investees.

- **The additionality of social investment** is a vital component of impact. Understanding the counterfactual should be part of the investment decision and articulation of impact. Investors should avoid over-claiming their impact.

- **Assessing the effect of the deal structure**—terms and exit—on impact should be routine.
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INTRODUCTION

Pressure to evidence social value in the growing social investment and impact investing markets is mounting. These markets claim to achieve social impact through investment activity, but proof of this remains patchy. The market needs to articulate what is meant by social impact and demonstrate more convincingly and publicly that it is being achieved.

Some social investment finance intermediaries (SIFIs) are articulating their impact persuasively, and have developed valuable methods to do so—but not all. We need good approaches to demonstrating impact to be put in place now; we do not want to try to introduce them retrospectively. Sound habits and a culture of data collection are best embedded early on.

Increasing market credibility

Getting to grips with measuring social impact will increase the social investment market’s credibility. Investors in Big Society Capital (BSC) have committed £600m to develop the social investment market by funding SIFIs—they will want to understand what social value that money achieves. BSC itself is keen to ensure sensible and robust measurement methodologies are adopted by funds, intermediaries and investees, and is supporting the development of tools to help address the challenges of impact measurement. Government and a wide range of other stakeholders are also expecting the market to give a good account of BSC’s own social progress.

The degree to which investors care about the precise social impact their investment achieves varies. Some care a great deal: BSC, Big Lottery Fund, philanthropists, and the UK foundations that have invested in the early growth of the social investment market, for example. The jury is out as to whether the more mainstream investors that BSC hopes to attract to the market—big asset managers and their clients—care as much. But if these mainstream investors are expected to tolerate increased risk or lower financial returns on their social investments, they are likely to want something to compensate.

The social investment market should be able to offer a reasonable articulation of the social value that increased risks or lower returns have bought. Investors should seek data that is useful to investees, practical to provide, and authentic—not burdensome or misaligned. If SIFIs proactively drive the development of measures that meet both needs, they will avoid the hijacking of the agenda by investors who may not understand social impact.

The challenge of common measurement

The market has not settled on a common method of measuring the social impact of investments. BSC, some SIFIs, and groups such as the European Venture Philanthropy Association (EVPA) have developed useful methodologies, but no single approach is being adopted. The challenges of impact measurement are many: a vast range of outcomes are being sought; common data is absent; aggregating different data sets is difficult; data is not comparable; and organisations lack the capacity to measure. These challenges will not be overcome easily.

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1 In this paper we will use the term social investment to cover social investment in its various definitions in the UK, and impact investing. Definitions of the two terms can be found in the box on page 5.
In an ideal world the market would adopt common frameworks that would enable comparability between individual investments and funds. In reality, intermediaries and funds are developing a variety of frameworks and processes, driven by the varying missions, motivations, and values of fund managers. The architects of market growth are seeking indicators of social value that can be compared and aggregated, and which would attract investors wanting quick answers. This paper outlines some promising steps being taken to support common methodologies. Some stakeholders are also discussing whether the market should go a step further and agree on a common reporting card or independent ratings system, and how feasible this might be.

**Where we are now**

Transparency about how intermediaries and funds measure impact is vital—but publicly available material can be selective and is not always systematic. What is publicly available online varies: some intermediaries have informative impact reports, including discussions of methodology and lessons from qualitative analysis; others just post a sample of juicy case studies that does not equate to systematic reporting.

More information is made available to those attending the right conferences and talking to the right people—but this is not always accessible to the public. Most players, when asked, are helpful and forthcoming about how they measure impact and the challenges they face. But others can be coy about detailed methodology and processes behind the social impact results they publish. Ideally NPC would like to see systematic reporting, including a clear explanation of methodologies for data collection and analysis. We want more candour and openness about what is being achieved, and the challenges to achieving it.

The government is keen to help develop the social investment market, announcing the Social Impact Investment Taskforce at the G8 Forum in June 2013. The Taskforce includes an Impact Measurement Working Group, jointly chaired by NPC and the Global Impact Investing Network (GIIN), which has produced guidelines to encourage more consistent impact measurement practice in the short term.

Formally mapping all the different measurement initiatives and methodologies would be a great starting point in discovering what’s working well, where they overlap, and approaches that could be widely adopted. We could see how they fit together, and what approach can be used for which purpose.

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**Box 1: Social investment and impact investing: definitions**

**Social investment**: Definitions vary. NPC defines social investment as ‘the provision and use of repayable finance to generate social as well as financial returns’. UK government’s definition specifies that social investment is for ‘social sector organisations’.

**Impact investing**: The Global Impact Investing Network defines impact investments as ‘investments made into companies, organisations, and funds with the intention to generate social and environmental impact alongside a financial return’. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending upon the circumstances.

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This paper

This paper shares NPC’s views on understanding the impact of social investment, and how this may best be evidenced. It does not set out to be the last word on the topic: each time we work with social investors, SIFIs, funds and investees to think about outcomes measurement, we find a new set of conundrums. We also acknowledge the continuing work of colleagues in the sector to develop their measurement systems which we have not comprehensively mapped. Over time we will adapt and update our position. But we want to share our observations thus far while the social investment market’s methods for evidencing social impact are still fluid.

This paper is mainly addressed to those who are, or intend to be, active in the social investment and impact investing space. We hope investors, intermediaries, advisers and investees will find it helpful. Although we try to use terms that will be understandable to a wider audience, we cannot guarantee an easy read for those unfamiliar with investment terminology. However we are here to help.

Our findings

These are the main observations of this paper:

1. **Segmenting this varied and heterogeneous market**, with its wide range of investors, will help focus measurement approaches around the aims of investors with different objectives.

2. **Leveraging the experience of social and charity sectors**, rather than reinventing wheels, would be mutually beneficial.

3. **Explicitly using of theory of change** to determine the impact of investment on investees and beneficiaries would help the market to determine:
   - what to measure and how;
   - what additional impact the social investment is creating; and
   - who is responsible for what in achieving social change.

   Over-claiming the impact of investment undermines the credibility of social investment.

4. **Identifying the effect of repayments and exit on impact** is important. Deal structure is often overlooked in social impact assessments—the implications should be considered carefully.

5. **Thinking about outcomes at a portfolio level** is as valuable as considering individual investments—the whole may be greater than the parts. NPC will explore this in more detail once we have gained more experience of this area.

This paper does not get into the thorny issue of potential ratings systems, and how they might work. NPC is cautious about relying on ratings systems to understand social impact—we have yet to see an independent ratings system for the social impact of charities that we truly admire. In NPC’s view, the independent ratings systems currently available to social investors do not tell the full impact story—for instance *Moody’s Social Performance Assessment (SPA)* for microfinance organisations focuses on how organisations run themselves, rather than their impact on beneficiaries.

Instead ratings systems such as Moody’s SPA can be useful as a quality mark to reassure investors. This should not be confused with actual impact. Some individual SIFIs have developed ratings methods for their own portfolios, which could be applied to others; but not all SIFIs see ratings as the answer.

We do recognise that a ratings system might attract more mainstream funding, and would be eager to contribute to the development of something that would work.

We are grateful to those who have discussed impact measurement issues with us openly and candidly. We would welcome commentary and debate on this topic—collectively we can benefit from each other’s wisdom.
MARKET SEGMENTATION TO HELP MEASUREMENT

We believe that the social investment market will naturally segment, according to the preferences and interests of investors and how these match with investment opportunities. This market segmentation can help to establish measurement objectives. At present, we are seeing a constellation of different investor interests, requirements and risk appetites.

Investors often share similar tastes for certain sectors, financial risk, social objectives and values. Clustering these investors or funds could make the development of coherent measurement frameworks and indicators easier, as well as aiding determination of what is appropriate and proportional.

Segmenting the market

The market could be sliced in many different ways—for example by beneficiary group, outcome area, revenue model, size of investment, type of product, or whether impact is broad or deep.

We see segmentation as likely to cluster along the following lines, each discussed in more depth below:

- **Investment risk and terms**: the level of social impact demanded, and the evidence required to demonstrate this, should reflect the financial sacrifice in terms of risk and return. This varies widely. An alternative might be to segment by product type.

- **Social problem or beneficiary groups**: an investor or group of investors may be tackling a defined social problem, or targeting a group of beneficiaries, and so be seeking evidence that their investment is contributing to solutions.

- **Organisational development, market building and other objectives**: investors might have objectives such as capacity building (e.g., improving financial stability or effectiveness of investees), or increasing market liquidity, so the focus of their funds will be on achieving these aims.

**Investment risk and terms**

A short-term, secured, low-risk loan, priced at similar rates to the commercial market, should not require onerous evidence of social impact. Instead, the lender may simply want to be satisfied that their investment has a positive effect on the investee. Articulating additionality in this situation may also be useful—seemingly near-commercial loans may be valuable if the commercial market is unwilling to provide them.

Longer-term, unsecured, high-risk investment, where the pricing and return of capital depends on uncertain success, should be accompanied by a thorough understanding of the social good to be achieved. The investor would be justified in wanting an analysis of the potential social impact to be included both in the due diligence undertaken prior to investment, and to be monitored during the life of the investment. If social impact is falling short, the investor would want to know how this could be mitigated through covenants or other means.
Social problem or beneficiary groups

The social investment market is offering finance to help find solutions to problems as diverse as reoffending, employment, children’s social care, and housing. In some sectors efforts are being made to develop common methods to help frontline organisations measure their impact. An example would be *The Journey to Employment (JET) framework*,\(^3\) and accompanying *JET Pack*,\(^4\) developed by NPC under the *Inspiring Impact programme*,\(^5\) and currently being adopted by many employment charities. In other sectors, such as housing and mental health, NPC has mapped commonly-accepted measures for Big Society Capital (discussed below). Such efforts will help the social investment market to understand what investees, and the approaches they use, are achieving.

However, the purpose of this paper is not to repeat the various initiatives in these sectors, but to put them into context and highlight how they might be used.

Clustering investments by sector will help streamline measurement efforts—with the caveat that even within the same sector, not all social impact is comparable. In housing, for example, a fund that invests in and owns affordable housing will achieve a different type of impact to a fund that invests in a social enterprise providing services to tenants with complex needs entering the affordable housing market. Both approaches are valuable and complementary to solve the housing crisis. But their intermediate goals and how they achieve them, as well as the outcomes over which they have control, may differ; therefore their measurement priorities may not be the same. We explore these differences, using housing as an example, later in the paper.

We are increasingly interested in collective action. The social investment market, in clustering investments around a particular social problem, may help to develop solutions that cover the whole breadth of a sector. Our later example will show how this could work in practice.

Organisational development, market building and other objectives

We need to understand the impact of social investment on organisations’ management, governance and capacity, and how this affects their impact on beneficiaries.

*Caf Venturesome*, an early social investment intermediary set up in 2001, explicitly declares one of its aims as ‘to help you achieve a more secure footing for the long-term sustainability of your organisation.’ In all its investments, *Caf Venturesome* is interested in the impact of social investment on improving the investee’s organisational effectiveness and sustainability—governance, processes, and financial management. Many of its investments are short-term and (in its view) low-risk, so its assessment of social impact reflects this and is proportional. During the due diligence phase, *Caf Venturesome* judges whether an organisation is achieving good, but does not necessarily try to quantify this. *Caf Venturesome* also segments the risk of its portfolio, and where the risk and commitment is higher, will go deeper in assessing social impact. This can include tracking its investment's effect on what an investee is trying to achieve with its beneficiaries, that is, whether a service has improved or reach has increased. However where the risk is low, *Caf Venturesome* limits its focus to the impact of its investment on the investee.\(^6\)

If an investor is convinced that improved organisational effectiveness and increased sustainability directly leads to greater social impact, then it is reasonable to have objectives and measures about organisational effectiveness. This assumes that effective organisations do the ‘right thing in the right way’—focusing purely on organisational

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\(^5\) *Inspiring Impact* is a ten-year collaborative programme involving many partners in the charity sector aimed at improving impact measurement.

\(^6\) Personal communication between author and Isabel Newman 2013.
effectiveness may not prove this, but good governance, processes, and systems lessen the risk of doing the wrong thing well.

Another investor might have a macro-economic or market-building objective, for example to increase the liquidity of the market for charities and social purpose organisations. Investors in, say, Charity Bank may recognise this objective, and want to measure it in terms of successful lending (quantity and quality) to build a market for social purpose organisations where the market was previously weak.

This type of variation of interest and segmentation is not unique to the social investment market. In grant-making, trusts and foundations, corporates and philanthropists also have varying objectives.

How segmentation affects measurement focus

How might segmentation along any of these lines affect a fund’s measurement focus? This depends on the fund’s objectives, which should preferably be supported by a high-level theory of change to identify overarching goals and steps to achieving them using the financial tools at the fund’s disposal. Having a clear framework at a portfolio level helps the fund to test investments against its overall aims.

Figure 1 below illustrates the varying interests of investors and how they may affect measurement focus.

Figure 1: Interests of investors and measurement focus

<table>
<thead>
<tr>
<th>Investor interest</th>
<th>Measurement focus</th>
<th>Examples of what measured</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specialised fund seeking to solve particular problem, eg, homelessness</td>
<td>• Impact on beneficiaries—get investees to use common measures</td>
<td>• Numbers of people housed</td>
</tr>
<tr>
<td></td>
<td>• Potentially aggregate results</td>
<td>• Sustained tenancies</td>
</tr>
<tr>
<td></td>
<td>• Impact on capacity of investees</td>
<td>• Quality of housing indicators</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Improvements in investee capacity</td>
</tr>
<tr>
<td>Generalist fund with objectives in organisational development</td>
<td>• Improvements in capacity, effectiveness and governance</td>
<td>• Ability to win contracts</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Ability to increase capacity/effectiveness of activity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Improvements in operational efficiency</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Improvements in management</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Improvements in leadership and governance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Big change in business model</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Step change in capacity</td>
</tr>
<tr>
<td>Specialist fund with expertise in particular products eg, property finance</td>
<td>• Physical output of funding ie, property built; standards; environmental performance</td>
<td>• Numbers of units</td>
</tr>
<tr>
<td></td>
<td>• Impact of property on tenants/residents</td>
<td>• Quality indicators eg, environment ratings, accessibility</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Tenant surveys regarding effect of building on them</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Economic multiplier effect (if appropriate)</td>
</tr>
<tr>
<td>Specialist fund with expertise in particular products eg, working capital</td>
<td>• Improvements in capacity</td>
<td>• Ability to win contracts</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• More services delivered short-term</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Improved liquidity in investee</td>
</tr>
</tbody>
</table>
NPC has worked with charities and funders for over a decade; for much of this time our focus has been to support them in their efforts to assess impact. Our vision is for all organisations delivering social good to evidence their impact as a matter of course. It has been a steep learning curve for us as well as the charities and funders we work with; we want social investors to learn from this experience, and adopt measurement approaches that work best. In this chapter we discuss some of our observations about how impact measurement has developed in the past ten years, and outline some key lessons from the charity sector.

How evidence has evolved

The primary purpose of impact measurement is, in NPC’s view, to use data to learn, improve and hone performance. Data such as surveys of beneficiaries, research into what works and evaluations help managers learn and reflect on activities, adapt services, allocate resources and review strategies. Good social purpose organisations should be doing this across their activities. Demonstrating impact to a wider audience is the secondary purpose, and valuable in attracting more resources. Where possible the two purposes should align, but in reality tensions often arise. In the first purpose there is a need to unpick and learn, warts and all; in the second, a tendency to show the fruits of activities in their best light.

In a perfect impact measurement approach, data gathered is useful for the frontline organisation and also meets the need of a funder or investor. In our experience, measurement systems developed by the organisation directly delivering the impact are more effective and authentic than those developed by funders. In practice, we have found that foundations, trusts and donors tend not to prescribe measurement requirements, but rely on grantees to come up with a method. Government funders tend to be more prescriptive, and NPC hears a lot of frustration from service providers about relevance of the outputs and outcomes they are required to report on. The now defunct Supporting People was a rare example of a government programme where, after initial resistance, participants found the measurement framework very helpful, and many lament its demise.

What about comparability? Should social investors prescribe common indicators that investees must measure? Gathering consistent impact data is challenging: the scale, range, complexity and diversity of social issues covered make it difficult to find measures to fit all organisations. Indicators prescribed from the top down arguably may not be appropriate or meaningful for frontline organisations. In this case the usefulness of the information for the investee is restricted, and it may only be helpful to the investor.

Social investors are not too different from grant funders in their desire to understand impact. Grant funders have long wrestled with measurement challenges, and shied away from aggregation and top-down prescription. Social investors seem to be deviating from the traditional funders’ more devolved approach to measurement. Here we may find a trade-off between developing prescriptive measurement practices that may attract larger pools of capital, and developing investee-driven measurement practices that may be fragmented and less attractive to investors used to metrics and ratings. Where possible, NPC aims to bridge the two.

The good news is that efforts of practitioners, social scientists, economists, and charity experts have spawned many tools, measures and systems to help quantify social impact, and within the social investment market itself

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various methodologies exist. These are discussed later in the chapter. But whilst the methodologies may suit some forms of investment they may not suit others—and they do need to suit investees as well as investors.

Quantitative or qualitative measurement?

Early in NPC’s formation many new philanthropists looked for simplified metrics by which to measure social progress; we tried to respond to this through our own research. However we were quickly disenchanted by the notion that progress in solving complex social problems could be measured with a single metric. Quantitative measures alone rarely told the full story: we found social progress to be much more nuanced, requiring a tapestry of evidence gathered in different ways. This experience makes us wary of the social investment market going down a measurement cul-de-sac.

What we have learnt working with funders and charities could just as well be applied to social investment. The debate about qualitative versus quantitative measurement is also present in this market. Both are important, and will vary depending on circumstances, resources, and what is being achieved. At NPC we have a saying: ‘no stories without numbers, no numbers without stories.’

For instance, if an investor wants to expand services to disabled people, he or she will want to know not only that more people are helped, but that the service results in genuine improvement in quality of life. One of our colleagues in the sector voiced concern that too much focus on measures of quantity and cost can mean the importance of quality gets lost: ‘If all investors want is for us to expand capacity for the cheapest price, what we will get is the social equivalent of more battery hens. But I don’t want to farm battery hens. I want hens that are responsibly and sustainably farmed, with due respect to animal welfare and human health safety.’

Understanding the costs of key outputs, and the potential savings if costly situations are avoided, is one approach to monetising value. The Cabinet Office recently published the costs of key outputs, such as attendance at Accident and Emergency Services, and the potential for savings if costly incidents were avoided. This toolkit is a helpful step for investors seeking more of this type of data, allowing them to benchmark the costs of an intervention, for example. However, calculating potential savings should not be confused with assessing outcomes, as it rarely takes into consideration improvements in well-being or quality of life. This cost-based approach does not consider all the social benefits of a particular action; nor does it help to understand the drivers of performance. Some players in the market are concerned that a purely cost-based approach might prove irresistible to some investors, and skew the market away from investments that might have an important qualitative impact.

Lessons from the charity sector

From our observations in the charity sector, we can draw out some key lessons for social investment:

- Measurement is better if it is useful to the frontline organisations collecting the data: funder-driven indicators do not always meet this criterion.
- Connecting measurement to a sound strategy, backed by a theory of change, helps to make it valuable.

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8 Shamez Alibhai, Cheyne Capital
9 See data.gov.uk/sib_knowledge_box/toolkit
• Using the measurement findings in a feedback loop to inform future strategy is vital, but needs to be embedded within organisations.  

• Measurement must be proportional and appropriate to different groups, outcomes and activities.  

• Engagement works better than coercion.  

Several initiatives have been developed in the charity sector to help charities measure their impact. Some of them could helpfully tie in with social investment efforts; two of these are profiled below.

### Inspiring Impact

The UK charity sector’s Inspiring Impact programme is one response to the impact assessment challenge. It includes important work to develop shared measurement—where organisations pursuing similar outcomes in specialist sectors gather to develop tools and systems that they can collectively subscribe to. NPC’s Blueprint for shared measurement initially analysed the ingredients for such an approach, drawing on the experiences of case studies such as Citizens Advice and CAADA.

The Journey to Employment (JET) Framework, a shared measurement tool designed to help providers measure employability, is one of Inspiring Impact’s latest initiatives. Collectively developing the outcomes for JET, as well as agreeing on tools, was valuable in creating common purpose. But it also showed how hard it can be to come up with a single outcome and a single metric. Developing of the framework resulted in 35-40 outcomes relevant to participants, and the appendix to the report covering the tools and measures available ran to 40 pages.

Participation by the social investment sector in this important initiative is essential. It brings together the best methodologies and shares learning about what works in measurement.

**Box 2: What is Inspiring Impact?**

NPC coordinates Inspiring Impact (inspiringimpact.org), a ten-year collaborative programme that aims to make high-quality impact measurement the norm for charities and social enterprises. Inspiring Impact is delivered by a consortium of eight partners: NCVO, ACEVO, Building Change Trust and ACF, along with measurement and evaluation experts CES, ESS, Substance and NPC.

In its second year Inspiring Impact developed a digital platform with the launch of two innovative new tools. Measuring Up! helps charities assess and develop their impact practice, while the Inspiring Impact Hub gathers the resources and tools charities need to improve it. Inspiring Impact continues to promote guidance produced in its first year, the Code of Good Impact Practice, the Funders’ Principles and Drivers of Good Impact Practice, and the Blueprint for Shared Measurement.

**References**


NPC’s four pillar approach

We recently published *NPC’s four pillar approach*, a practical and proportional guide to help organisations measure their impact. It can be applied to investees, should investors want to point investees to guidance, and to investors themselves. Figure 2 below shows how this approach works.

**Figure 2: NPC’s four pillar approach to measurement**

Emphasising the importance of a solid foundation of vision, leadership, and a strong case for measurement, the approach works through each of the four ‘pillars’ to help organisations achieve the end goal of an effective measurement framework. This approach is valid for any situation—much of this paper focuses on the first pillar, theory of change, because it helps support the analysis of what a particular social investment achieves.

**Initiatives in the social investment market**

A number of tools have been developed specifically for the social investment market. But the use of a theory of change approach in understanding the actual impact of the social investment is confined to a smaller group, and is often not explicit. We believe theory of change could contribute to the analysis of social impact—we explain what this means in the next section. Below, we profile some impact measurement approaches developed specifically for social investment.

There is demand for this expertise: the outcomes maps NPC created for Big Society Capital’s suite of tools (discussed later) have been downloaded over 18,000 times on NPC’s own website. But many of the guides are lengthy, which can put off organisations starting out on their impact journey. Shorter summary versions would help the market attract more organisations to good measurement practice. Where possible, reconciliation of these different standards and guides would reduce confusion within the market.

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G8 Social Impact Investment Taskforce and the Impact Measurement Working Group

The Social Impact Investment Taskforce was established by the G8 in June 2013. The taskforce believes that impact measurement has the ability to generate value for all stakeholders, improve transparency and accountability and mobilise more capital into the field. The taskforce’s Impact Measurement Working Group has developed a set of measurement guidelines for social investment, published in a 2014 report.\(^\text{16}\)

The report provides guidelines on the basics of impact measurement that investors can implement immediately and demonstrates their application through case studies. It also describes the characteristics of future impact measurement convention and makes recommendations on how this might be achieved. The report’s seven dynamic guidelines involve four broad phases—plan, do, assess and review—and provide participants with a model for the effective definition, collection, and analysis of impact data. Figure 3 illustrates these seven key guidelines and how they interact with the investing process.

Figure 3: G8 Social Impact Investment Taskforce guidelines for good impact practice

Big Society Capital Outcomes Matrix

Big Society Capital (BSC) worked with impact experts including NPC, Triangle Consulting, The SROI Network and the Good Analyst to develop an Outcomes Matrix in 2013. Behind the Matrix are a series of outcomes maps\(^\text{17}\), which identify key outcomes in many of the sectors where charities and social organisations work, and list tools available for organisations to assess these outcomes, together with commentary on the best applications of each tool. Ideally these maps should be used in combination with a theory of change, so that the best measures can be selected. The matrix is designed to provide social investment market participants access to readily available tools and measures, saving them shopping around or reinventing the wheel.

BSC tells us that its approach to measurement is flexible: if SIFIs and frontline organisations are already gathering useful impact data, it would not want them to have to do so again for aggregation purposes. Instead, it

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tries to match existing indicators from SIFIs to categories in the outcomes matrix. If organisations do not have any indicators at all then BSC advises them to use the most relevant ones from the matrix. BSC hopes that as more investments are made into organisations dealing with similar issues, they will adopt the same indicators and be able to aggregate results over time.

**EVPA Practical Guide to Measuring and Managing Impact**

The [European Venture Philanthropist Association (EVPA)](http://www.evpa.eu/) *Practical Guide to Measuring and Managing Impact* has been developed by a group of investors and philanthropy organisations including Impetus PEF, Omidyar, and others. It is a comprehensive and useful guide, covering five key steps: 1) setting objectives; 2) analysing stakeholders; 3) measuring results or indicators; 4) verifying and valuing impact; and 5) monitoring and reporting. This guide complements NPC’s *four pillar approach*.

**IRIS**

IRIS describes itself as a catalogue of performance metrics that sits on a platform developed by the Global Impact Investing Network (GIIN). The metrics are useful for projects where the indicators currently listed might be relevant, such as development of education systems in developing countries. Indicators include outputs—ie, the products, services or facilities resulting from activities, such as the number of toilets built per school—and outcomes—ie, the changes, benefits, or learning resulting from activities, such as improved educational attainment. The metrics can be used selectively depending on investee objectives. They are not a prescriptive list—GIIN encourages organisations to develop further indicators which can also sit on the platform.

**GIIRS**

The [Global Impact Investing Rating System (GIIRS)](http://www.giirs.com/) is a tool developed in the US that rates companies according to good corporate behaviour (economic impact, supply chain, governance and so forth). While this is helpful for mainstream investors looking to ensure they are investing in companies that follow good practice, it is not obvious how this tool helps investors to assess the impact of products and services provided by investees.

**SROI**

SROI (Social Return on Investment) is a helpful tool, but it cannot be applied in all situations. Social investors must be wary of two issues. First, not all social good can be monetised in a way that gives a positive SROI. For instance, in the provision of palliative care to people near the end of life, the right thing for the patient may not be the most cost-effective under an SROI calculation. Second, NPC has found in practice that SROI requires a level of sophistication and data collection not always found in social organisations, or even some for-profit organisations. More on our view of SROI can be found in our 2010 paper on the subject.

**The Good Analyst**

The Good Analyst, developed by [Investing for Good](http://www.investingforgood.org/), offers a detailed process for analysing social impact, including coming up with weightings for different objectives.

**Social Stock Exchange (SSE)**

The [SSE](http://www.sse.org.uk/) has produced helpful guidance on the impact reports it expects its listed organisations to produce annually. It holds useful pointers to others wanting to organise their impact reporting.

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NPC’S APPROACH TO ASSESSING IMPACT

In understanding the impact of investment, NPC has gone back to the basics. What is an investment designed to achieve? What effect does it have on investee organisations and their ability to do good? The simplified process shown in Figure 4 illustrates how NPC sees this.

Figure 4: Simplified schematic showing the process and effects of social investment

The dynamic between the investment and the organisation’s social impact is not always well understood, and sometimes needs to be drawn out through asking questions. What does an increase in capacity mean? How does it affect social impact and beneficiaries? What is the counterfactual to no investment?

Organisations starting to measure impact often begin by looking at their outcomes and impact as a whole. Measuring this overall impact is desirable, and helps the organisation improve services and develop strategy. However, the impact of the whole organisation (generated by regular funding streams, management and staff, volunteers, existing assets, stakeholders), should not be confused with impact created through investment. Investment may enable or contribute to the whole impact being achieved, but cannot claim it all for itself.

Measuring impact on two levels

The social impact of investments typically takes place on the following levels:

- **Impact of the investment on the investee**, such as:
  - environmental improvements (often determined by environmental ratings);
  - ability to bid for contracts; scale up good services; generate additional income for the organisation; capacity to manage and deliver; and
  - improvements in financial sustainability, discipline and governance.
We have seen these sorts of impacts grouped by players such as Bridges Ventures into ‘environmental, social and governance’ categories. Assessing this often includes looking at how skills, mainly business related, are developing in an organisation.

- **Direct impact of the investment on beneficiaries**, for example where the investment directly results in more people using a service, or an improved service, or both. These are sometimes referred to as ‘target outcomes’. The investment contribution should be made clear: the social investor cannot necessarily claim the whole impact on beneficiaries. To understand the difference made by the social investment, the organisation must understand what would have happened without it.

An example of this direct association would be where an investor finances a building essential to the delivery of a service, or finances the upfront costs of a contract offering services targeted at a particular group of people. It is especially pertinent in situations where no alternative funding is forthcoming, and where social investment was able to unlock potential in a way that other funding might not.

Our recent experience working with clients has reinforced for us the importance of investee due diligence, and a thorough understanding of who will control what. Quality assurance is often a matter for concern—how can the investor ensure that quality is maintained, if it has no direct control over the service?

We have seen service delivery arrangements involving many parties requiring a complex web of contracts, not all with the investor or even the prime investee. Measurement issues can become sensitive if investees rely on third parties to deliver outcomes, together with the outcomes data that they then pass on to investors. In these situations focusing on what is in the investee’s control will make life easier; if vital outcomes are not directly delivered by the investee, then alignment of objectives between parties, preferably backed up by a contractual arrangement, will help.

### Using theory of change to unpick cause and effect

“A theory of change shows an organisation’s path from needs to activities to outcomes to impact. It describes the change you want to make and the steps involved in making that change happen.”

**Theories of change also depict the assumptions that lie behind your reasoning, and where possible, these assumptions are backed up by evidence.**

A theory of change is a vital component of effective outcomes measurement. It clarifies the steps to achieving goals, and allows discussion of which steps are within an organisation’s control, which links are evidenced, and which are not, allowing a much more authentic measurement plan to be developed. It helps to prioritise the measurement of those outcomes or steps that are most meaningful to the process of change.

In social investment, the investor is several steps removed from the desired social outcome. Outcomes are achieved via intermediate stages involving the investee organisation and possibly other actors. Unpicking the links between investor, investee organisation and beneficiary are vital if the assessment of the social value of an investment is to be authentic. A theory of change approach can help to map these steps. Figure 5 provides a simplified theory of change for investors seeking to achieve impact. Investors may want to develop their own versions, and introduce more complexity or refinement as to how they expect to achieve their social goals.

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Box 3: Theory of change for grant-making trusts and foundations

It is interesting to compare the practices of grant-making trusts and foundations with those of charities. Some foundations have very broad portfolios, ranging from large health charities to tiny community organisations. Such foundations would have no overarching theory of change to solve a specific social problem, but may have a higher-level theory of the benefits of being available to support a wide range of organisations. They may therefore be interested, in their grantee perceptions reports, in how they helped organisations to improve.

The degree to which funders with no theory of change require or encourage grantees to develop their own will vary. Some will want to see strong theories of change in order to improve their own confidence that benefit is being achieved. Others will want a convincing case for funding the grantee, but may not require a formal theory of change.

Focused funders seeking to solve a specific problem can develop a strong theory of change of their own outlining how they will do this. They will select organisations they believe will help them to deliver this change. These funders will be fixated on the impact on beneficiaries, and want grantees to be able report on this. The Fund for Shared Insight, launched in September 2014 by the William and Flora Hewlett Foundation in collaboration with seven other funders, has developed a theory of change to increase impact through improved philanthropic practices.

NPC will be publishing a report on funder theory of change in late 2014.

Figure 5: Simplified theory of change for investors

Below are some definitions relating to theory of change:

- **The goal** is what the agent (in this case the investor) is trying to achieve.
- **Outcomes** are the changes that need to happen in order to achieve this goal.
- **Outputs** are what the activity or service provide.
- **Activities** are the agent’s (ie, investor’s) services/actions.
- **Enabling factors** are things that need to exist for the theory of change to happen.
- **Assumptions** express why you think one outcome or output will lead to another outcome. Ideally these assumptions are backed by evidence.
An investee organisation may or may not have its own theory of change explicitly expressed. It is likely to be more complex than the investor’s own theory of change. But the two theories of change should be aligned, particularly as to ultimate goal and how this may be practically achieved.

Implicit in some SIFI due diligence processes is the use of theory of change to focus on what is most important.

**Articulating additionality**

Articulating the additionality of an investor’s funding needs to happen more if the market is to be persuasive as to its impact. What is the ‘counterfactual’—what would have happened without the social investment, and what value does the investment add?

To fully understand their impact, investors need to ask themselves questions such as these:

- What would have happened if investment was not made available? How bleak is the counterfactual? Would people not have received services at all?
- Are there other options? Are they as good, nearly as good, or no good? When a repayable offer is the only option on the table, is this better than no funding at all?
- Does a social investment instrument achieve more than a grant? Does it unlock extra potential or leverage by expanding funding options?
- Does the discipline required of social investment enhance organisational performance? Does market participation enhance profile?

Intermediaries such as Bridges Ventures ask whether the actual investment itself provides additional benefits, such as saving jobs or saving buildings from dereliction. Bridges Ventures also consider unintended consequences of investment, such as whether the regeneration of a key community site pushes up house prices to levels beyond the reach of residents.

In considering these questions, investors will get a clearer sense of their own objectives, and therefore what they need to measure.

**Investment exit, structure and long-term impact**

The effect of exits on impact has received little commentary in the social investment market. The exit is the means by which the investor gets the investment back and ceases its involvement. How does an investor ensure the social purpose is maintained beyond its investment?

Received wisdom is that social investment represents a golden opportunity to recycle social impact. In receiving repayment, the investor can recycle the funds into something else. NPC went some way to debunk this notion by questioning in *Best to invest*,


whether taking cash from the investee to repay the investor might diminish future impact? Who is best placed to recycle cash and reinvest in social impact: investee (in which case the investment should be converted to a grant) or investor? This goes to the heart of which achieves more: a grant or a social investment. This will depend on the circumstances of both investee and investor, and is worth examining by asking:

- How does the repatriation of cash to the investor, away from the investee, affect the investee’s ability to generate future social impact? Will it even undermine services provided to the beneficiaries the investor aimed to help, thereby undoing some of the earlier benefit?
Smart money: Understanding the impact of social investment | NPC’s approach to assessing impact

- Does the capacity created remain with the investee and its beneficiaries? Or does it revert to the investor on exit?
- How is impact maintained?

An example of where this last point is relevant might be the comparison of two differently-structured property funds with similar intended social benefits. This is discussed further in the box below.

**Box 4: How exit and structure affects impact**

An example of the effect on impact of different structures is the comparison of two differently-structured property funds with similar intended social benefits. In both scenarios, the investor is helping a tenant that provides some kind of social value to its beneficiaries, to access a property. In this example we assume the rental payments over ten years are less, in aggregate, than interest plus capital repayments required on a loan to purchase the property.

**Fund A** intends to develop and rent the property to its tenant without passing it on. The tenant and its beneficiaries potentially lose the use of the property at the end of, say, a ten-year lease. So benefits accrue to the tenant for a finite period. However, the tenant of properties owned by Fund A only has to pay rent, with no capital repayment, during the life of the tenancy. Rental payments may, in aggregate, be less than interest plus capital repayment.

The tenant may have no appetite to borrow money to buy a property, but this option enables it to provide services to its beneficiaries—arguably more services than if it had to find cash to make repayments. But does this benefit outweigh the risk of having no premises at the end of the term? In a worst case scenario the tenant may find it is unable to operate cost-effectively if forced to move out.

**Fund B** makes a ten-year loan to the investee to buy the property, so that the benefits remain with the investee, who may continue occupy the premises and provide services to beneficiaries in perpetuity. However, the investee of Fund B will carry the burden of capital repayment as well as interest, which may put strain on its cash flows. Will it find itself with less cash to spend on services during the term of the loan? If the investee meets the payments it will gain control over its own property once the loan is repaid.

Although the intended social benefits are similar, the long-term outcomes are different. With Fund B, the tenant retains control at the end. With Fund A, control reverts to the fund. It is not automatic that the former results in greater impact—the tenant’s social impact after Fund B is repaid may diminish. Fund A may have greater social impact ambitions than the tenant. The differences ten years hence need to be understood, assessed and acknowledged when determining long-term impact. How will impact be maintained, or is it enough to have enjoyed ten good years?

Similarly the structure of investments may well affect longer-term impact. Aggressive pricing and repayment of a loan will benefit the investor, but may place financial strain on the investee, thereby affecting other social outcomes being pursued. In contrast, long-term patient capital will benefit the investee, but slow repayment may result in the investor being unable to pursue other opportunities. NPC would not want to make the weighing up of these alternatives too complex—but it is important to understand that every option has a price for someone somewhere.
WORKED EXAMPLES

Options for solving homelessness, and how these may affect investment impact

The best way to explain our thinking is through a worked example. We have chosen a housing example as this is concrete and easy to understand.

A problem needing two solutions

Investor B wants to reduce homelessness. There are two options: 1) support Organisation A to help rough sleepers overcome difficulties such as mental health and substance misuse problems and secure stable tenancies; or 2) build suitable accommodation for this vulnerable group.

Social Landlord C has sought commercial bank funding, but while it does exist, the terms are inflexible, expensive and short-term, so not ideal for the project. Organisation A has failed to find any commercial lender willing to take the risk on funding government contracts upfront. Grant funders are baulking at subsidising or financially supporting statutory services.

Figure 6: Rough sleepers needing accommodation: two options

The routes to achieving the same goal are different, and the objectives of Investor B in making the investment may vary depending on the steps needed to achieve the end goal. Measuring numbers of rough sleepers accommodated for a stable year will tell the investor whether he is achieving his goal. However, the organisations involved may say they are not in control of this ultimate goal—it is too dependent on external factors controlled by others. So they may not want to be held to account on outcomes they cannot control, but very willing to be judged on outcomes within their sphere. Organisation A will therefore actively measure its ability to help with difficulties,
and its skills in finding tenancies where they exist. Social Landlord C will actively measure the suitable units it has successfully developed or acquired for accommodating vulnerable tenants.

A fund focused on reducing homelessness may decide that a mixed portfolio, investing in both social landlords and support organisations, may be the best way to achieve overall results, as one cannot operate without the other.

**A theory of change illustrates steps to achieving the end goal**

**Option 1: Investment in services for rough sleepers**

The theory of change below shows how Organisation A intends to get rough sleepers housed. By investing in Organisation A, the investor ensures that the enabling factors of funding are met. Note that the other key enabling factor is that accommodation exists for tenants to take up.

**Figure 7: Theory of change for Option 1.**
Option 2: Investment in accommodation for rough sleepers

This theory of change is much simpler. It shows how Social Landlord C’s investment in more accommodation leads to more rough sleepers being housed. Note the enabling factor relating to the need for support services for rough sleepers.

Figure 8: Theory of change for Option 2.

Analysing who is responsible for what

Analysing who is responsible for what is a vital component of the due diligence. It highlights where the risks of achieving the outcomes lie, and who is control of which outcome or step in the change.

Below we detail the steps in each investment. We also identify who takes the main credit for each step. It is not a full theory of change—we might recommend doing one to test assumptions between the steps, and identify what needs to happen to realise objectives.

Issues of control, attribution and contribution are similar whether you are a grant funder or a social investor. The method of funding (grant or investment) may affect the relationship, and these issues. The social investment market needs to understand such effects, so we have set them out below.

The tables may seem somewhat daunting to the reader. In reality, when an investor is involved in this type of transaction, they need to unpick these stages to provide clarity on who is responsible for what, and who therefore measures what. We sometimes add a column to express a contractual relationship and where the control may lie.

Option 1: Investment in services for rough sleepers

Organisation A wants to take on a 12-month contract (paid in arrears by a local authority) to deliver services to 100 rough sleepers to help them overcome difficulties such as mental health and substance misuse problems and so secure stable tenancies. It has an excellent track record in doing this successfully. Investor B is keen to help.
Organisation A has prepared itself to be ‘investment ready’ through accessing one of the investment ready funds available from government and the Big Lottery Fund and managed by Social Investment Business.\(^{23}\)

**Figure 9: responsibilities in Option 1**

<table>
<thead>
<tr>
<th>Step</th>
<th>Action</th>
<th>Who provides solution</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Organisation A needs support to improve governance, management (financial and operational) and systems so that it is comfortable borrowing money and doubling capacity.</td>
<td>Provider D</td>
<td>Organisation A is able to take on investment.</td>
</tr>
<tr>
<td>2</td>
<td>Organisation A looks for a loan to fund a contract it wants to tender for. Investor B is found; a deal is agreed where Investor B provides a short term loan to Organisation A.</td>
<td>Investor B</td>
<td>The costs of delivering services to 100 people are covered for 12 months.</td>
</tr>
<tr>
<td>3</td>
<td>Organisation A bids for the government contract to serve the extra 100 people.</td>
<td>Organisation A</td>
<td>Government awards the contract to Organisation A.</td>
</tr>
<tr>
<td>4</td>
<td>Organisation A receives cash from Investor B and hires staff.</td>
<td>Investor B</td>
<td>Organisation A ready to get to work.</td>
</tr>
<tr>
<td>5</td>
<td>Organisation A’s staff work for 12 months with the 100 targeted people.</td>
<td>Organisation A (thanks to Investor B)</td>
<td>100 people are helped with mental health and substance abuse difficulties.</td>
</tr>
<tr>
<td>6</td>
<td>Staff look for appropriate tenancies and find Landlord C. They help to negotiate terms, such as security of tenure and costs. Not everyone is housed.</td>
<td>Organisation A and Landlord C</td>
<td>80% of the people find tenancies.</td>
</tr>
<tr>
<td>7</td>
<td>Rough sleepers move into the accommodation offered by Landlord C. A few more tenants fail to make the move.</td>
<td>Organisation A and Landlord C</td>
<td>75% move into accommodation.</td>
</tr>
<tr>
<td>8</td>
<td>Government pays Organisation A for its services, which in turn repays the loan from Investor B.</td>
<td>Government</td>
<td>Loan is repaid to Investor B.</td>
</tr>
<tr>
<td>9</td>
<td>Staff follow up with tenants to ensure health and tenancies are maintained.</td>
<td>Organisation A</td>
<td>Tenants stay housed.</td>
</tr>
<tr>
<td>10</td>
<td>Homelessness is reduced long term.</td>
<td>Everyone</td>
<td>Goal achieved.</td>
</tr>
</tbody>
</table>

In this scenario Investor B has a direct bearing over Steps 2, 4 and 8, and can claim credit accordingly. It has a vital role in enabling Step 3. It has almost no control over Steps 6 and 7 because this relies on the existence of Landlord C and its willingness to house former rough sleepers—but without Steps 3, 4 and 5, Steps 6 and 7 would be miles from the goal. Mapping these steps helps answer the challenge of understanding the impact of a particular social investment on a particular organisation, problem or group of beneficiaries. It identifies actors vital to the process—for example, without Step 1 and Provider D, would Organisation A have got this far? Without Landlord C, staff may still be hunting for accommodation.

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Option 2: Investment in accommodation for rough sleepers

Experienced Social Landlord C has learnt from the local authority that there is inadequate accommodation available for rough sleepers and wants to develop appropriate units. Tenants will be able to pay rent using their housing benefit. However Social Landlord C has no spare cash to invest in the units; nor is the local authority able to spare the sums required for development. Investor B is keen to help.

**Figure 10: Responsibilities in Option 2**

<table>
<thead>
<tr>
<th>Step</th>
<th>Action</th>
<th>Who provides solution</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Social Landlord C looks for a loan to fund units for 100 people. Investor B is found, and a deal is agreed.</td>
<td>Investor B</td>
<td>The costs of developing the units are covered.</td>
</tr>
<tr>
<td>2</td>
<td>Social Landlord C develops the accommodation over 12 months.</td>
<td>Social Landlord C</td>
<td>100 units are completed and ready for occupancy.</td>
</tr>
<tr>
<td>3</td>
<td>Organisation A identifies 100 potential tenants (whose difficulties are under control) for Social Landlord C and helps to negotiate tenancies with an 80% success rate.</td>
<td>Organisation A with Landlord C</td>
<td>80 rough sleepers get ready to occupy accommodation.</td>
</tr>
<tr>
<td>4</td>
<td>Tenants move in—there is attrition on a further 5% of tenants successfully moving.</td>
<td>Organisation A with Landlord C</td>
<td>75 tenants take up accommodation.</td>
</tr>
<tr>
<td>5</td>
<td>Tenants claim housing benefit and pay rent to Social Landlord C supported by Organisation A.</td>
<td>Organisation A</td>
<td>75 tenants now accommodated and stable at present. Loan repayment to Investor B begins.</td>
</tr>
<tr>
<td>8</td>
<td>Homelessness is reduced long term.</td>
<td>Everyone</td>
<td>Goal achieved.</td>
</tr>
</tbody>
</table>

In this scenario Investor B helps with Step 1, without which nothing further would happen—unless there was an alternative property (there is none) or funding source. But in order to achieve the reduction in homelessness, Social Landlord C needs Organisation A to provide tenants and continue to support them. This vulnerable group will fail to maintain tenancies without this support.

**How this process clarifies roles, contribution and additionality**

At the start of the process it was established that Option 1 was totally dependent on social investment in order for anything to happen. So the additionality of the investment is high. For Option 2, other alternatives exist but are unattractive—so the additionality of the investment would be medium.

By understanding this additionality, and the steps and roles involved, the temptation to take credit for everything that occurs is reduced. His process also highlights the importance of the actions of third parties. Identifying and measuring outcomes closely within an organisation’s control may also be easier than measuring those dependent on third parties. So in Option 1 Organisation A may suggest to Investor B that progress on mental health and substance misuse are valuable to measure, as well the move into accommodation about which it is less certain. In Option 2 the key indicator is whether good quality units are built.

But Investor B can claim a contribution to achieving the ultimate goal, a reduction in homelessness, in both instances. So measuring this ultimate goal would be desirable.
This process also helps to test whether the objectives of the investor are aligned with those of the investee. It also shows the investor that by pursuing both options they are more likely to achieve the overall objective. It is very difficult for either Organisation A, or Social Landlord C, to function effectively without the other.

**Box 5: Live example: Affordable housing for disabled people**

Golden Lane Housing (GLH) provides affordable and attractive housing to people with learning disabilities. It has recently issued a social impact bond. GLH is a partner of the charity Mencap and many of its occupants are customers of Mencap’s services.

Good quality housing for people with disabilities is in short supply. Mencap finds that if its customers do not live in appropriate housing, it is difficult to achieve the intended outcomes of its support services (independence, confidence, participation in society and fulfilling lives), no matter how intensive the service. Customers living in appropriate housing fare much better and Mencap’s own services are more successful.

The bond provides finance to GLH to develop suitable housing units. The bond is repaid from housing benefit received by tenants and paid to GLH as rent. Figure 11 illustrates how the bond works.

**Figure 11: Golden Lane Housing property bond**

The impact of the bond is two-fold:

1. X individuals are housed in appropriate housing, which is a social good in itself regardless of whether Mencap provides further services.
2. Mencap is enabled to provide services to this group of customers, with a greater likelihood of success in achieving the social outcomes desired.

GLH is not responsible for the second group of social outcomes—these are down to the efforts of management, staff, and funders of Mencap. However, without GLH’s actions, the social outcomes may not occur.

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24 Taken from publicly available information and information shared in presentations.
GLH is developing a social impact assessment framework in partnership with Mencap and Bangor University to understand the impact of the bond on individuals, families, and finances over a 12-month period. GLH expresses the impact of the housing bond in these terms:

- **Impact on individual**
  - People moving into their own home and making real choices about how they lead their lives
  - Progress in achieving personal goals relating to well-being, lifestyle, skills, finances and social environment/community activity can be assessed, using Mencap’s ‘What Matters to me’ tool to assess this
- **Impact on families**
  - Research with Bangor is intended to assess how family members’ well-being and health is affected.
- **Financial impact on public purse**

GLH also regularly surveys tenants about the services they receive, so it can develop and improve services, and has a quality framework for each tenancy.

**What are investors to make of this? And what should they measure or take credit for?**

Investors want their investment to result in a group of disabled customers living in a pleasant environment and enjoying independence, confidence, participation in society and fulfilling lives. In this instance, NPC would recommend a simple approach to due diligence and measurement when investing in the GLH bond.

1. Investors satisfy themselves up front that Mencap delivers services that improve the independence and confidence of customers, and support them to participate in society and enjoy fulfilling lives. Mencap uses a ‘What matters to me’ progress tool, providing investors with continued assurance that it is committed to maintaining the quality and impact of its services and that customers make progress in their personal goals. However investors can only claim to have contributed to these outcomes, and arguably have little control over whether they are achieved.

2. Investors should expect GLH to report on how many people are housed in the new units. This is a vital step to achieving greater well-being, and investors can claim much of the credit for this occurring. However, GLH’s own efforts to use the money effectively to develop the units should be recognised and it should share credit for the impact. The physical development of units, together with their quality and occupancy, are the outcomes over which the investor has most control, and should track closely.

3. Investors will also be interested to know whether the people housed receive Mencap’s services, and if not, what services they do receive. These services are a vital enabling factor to ensuring the outcomes the investors are seeking to achieve. However who provides the services may be beyond investor control, eg, if local authorities tender services for disabled people and another bidder wins.
MAKING SENSE OF A PORTFOLIO

So far we have used individual investments to illustrate impact measurement, because this is concrete. However, funds may well want to take a higher-level view of their investments. The diagram below, adapted from a similar diagram we developed for the more general funder market\(^{25}\), helps to illustrate different motivations at different levels in the market.

An investor may want to think how the sum of its portfolio might achieve a greater impact than just its parts. For instance, has it helped to increase liquidity to a capital-starved sector?

Figure 12: What funders and social investors want to understand

The diagram shows the motivations of different stakeholders within the investment ecosystem. Social investors might want to understand the aggregate impact of the fund. Social investment funds or intermediaries could be interested in how their investments impact the investees. Investees themselves might want to see how their services benefit beneficiaries, who in turn might want to see the social problem addressed.

The fund will need to work out how to aggregate the data collected in Figure 1 earlier in the paper. Not everything can be aggregated, but there may be some fundamental outcomes that are comparable across all deals that can. For instance, if a fund’s objective is to develop housing, tracking the total number of people housed for over a year in a sustained tenancy would be valuable and valid.

If the objective is to provide working capital to help not-for-profit organisations win contracts, the fund may want to aggregate a) the number of contracts won and b) the aggregate value of those contracts. As the contracts are likely to vary in purpose, attempting to aggregate beneficiary data would be misleading—how would you aggregate the data on, say, people benefiting from a mental health service contract and children receiving extra educational support?

However, groups of investments may be measuring similar data on universal benefits such as volunteer time increased, jobs created or carbon saved. Although we would not want these data sets to drive behaviour if it makes investees lose sight of their own core purpose, it may be valuable to participants interested in these macro indicators.

Bridges Ventures’ impact report\textsuperscript{26} shows aggregated data on some portfolios, such as jobs created, funds catalysed, carbon saved and student enrolment. NPC is thinking about a similar approach for current clients; we will report further when we have learnt more lessons.

The financial world has a variety of frameworks and systems to measure performance of entire portfolios. A few simple indicators, such as earnings per share, have been universally adopted. The social sector may not land on anything similar, but if a portfolio can find indicators key to its success, it will help to articulate its story to investors.

\textsuperscript{26} Bridges Ventures (2014) \textit{Bridges impact report: A spotlight on our methodology}, Bridges Ventures.
CONCLUSION

Social investment and impact investing has the potential to catalyse positive social change on a big scale. Unlocking the power of investments to fund social purpose organisations, while offering a social and sometimes financial return for investors, seems like a win-win. But to attract more investors—who are used to standardised data at their fingertips—the social investment market needs to assess and communicate the social side of its investments transparently and comprehensively.

Luckily for investors, much of the groundwork has already been done over the past ten years; we have explored lessons from the charity sector as well as highlighting progress within the social investment market.

From this work, NPC’s recommendations are:

1. **Investors understand their own objectives**, and how their investment is a route to that objective. A theory of change or similar analysis unpicking the steps and different roles played by key actors will help investors understand the route to their goals, and what outcomes should be measured along the way.

2. **Investors understand investee objectives**. These should at least partially align with investors’ own objectives. If they do not align at all, it’s probably not the right investment. But investors need to understand that one investee may be only partially responsible for achieving the ultimate goal.

3. **Investors understand their additionality**. Using a theory of change to unpick cause and effect can clarify who can take credit for what, help prevent investors from over-claiming, and outline how social change has come about.

4. **Investors follow guidance** such as G8 guidance, EVPA Guide and NPC’s four pillar approach so that measurement is proportional and useful.

5. **Investors use the available tools and measures** such as the BSC Outcomes Matrix/outcomes maps and other recognised tools being developed by initiatives such as Inspiring Impact, so that tested and common indicators are used where possible.

6. **Investors/funds publish their impact results**, and explain the methodology for their assessment.

7. **Investors think about collective action** and how it might help enhance social outcomes.

8. **Investors provide resources for investees to measure their impact**.

9. **Investors and investees act on the learning** from impact information that is produced.

This final point is arguably the most important: the focus on measuring impact stems from a desire to continue refining and improving the services social purpose organisations provide to help as many people as possible in the best possible way. Social investors and their investees must be able to use the data they collect to learn from—adapting services, allocating resources and reviewing strategy. Demonstrating this impact to a wider audience should fit alongside this, and can help attract more resources, and more investors, to the market.

It is an exciting time for social investment. The market is growing, along with the demand for evidence of impact. NPC is eager to help build and embed good approaches to impact; we will share our experiences as we continue to work with investors, funds, and investees throughout the sector. Please do get in touch if you would like to discuss anything covered in this paper or have your own experiences to share.
NPC is a charity think tank and consultancy which occupies a unique position at the nexus between charities and funders, helping them achieve the greatest impact. We are driven by the values and mission of the charity sector, to which we bring the rigour, clarity and analysis needed to better achieve the outcomes we all seek. We also share the motivations and passion of funders, to which we bring our expertise, experience and track record of success.

**Increasing the impact of charities:** NPC exists to make charities and social enterprises more successful in achieving their missions. Through rigorous analysis, practical advice and innovative thinking, we make charities’ money and energy go further, and help them to achieve the greatest impact.

**Increasing the impact of funders:** NPC’s role is to make funders more successful too. We share the passion funders have for helping charities and changing people’s lives. We understand their motivations and their objectives, and we know that giving is more rewarding if it achieves the greatest impact it can.

**Strengthening the partnership between charities and funders:** NPC’s mission is also to bring the two sides of the funding equation together, improving understanding and enhancing their combined impact. We can help funders and those they fund to connect and transform the way they work together to achieve their vision.