Social Impact Measurement and Investment: Methods, Limitations and Challenges

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Abstract: "As long as humanity is there, charity will be there." This quote by my professor echoes in my mind whenever I think about different types of business models. Broadly, business models can be divided into three categories: grant-based with the complete focus on Social Good, profit-based with the entire focus on multiplying shareholders value, and a blend of both, which is a Social Enterprise.

The classical grant-based model, also known as 'developmental aid' did more harm than good, argues economist Dambisa Mayo in her book "Dead Aid: Why Aid is not working and How there is a Better Way for Africa". In another book, "Aid Dependence in Cambodia: How Foreign Assistance Undermines Democracy", Sophal Ear goes to the extent of saying that "A post-conflict state unable to refuse aid, Cambodia is rife with trial-and-error donor experiments and their unintended consequences, such as bad governance and poor domestic and tax revenue performance—a major factor curbing sustainable, nationally owned growth." Over-dependency on aid disturbs the financial discipline of countries and exacerbates inequality while undermining democracy. It doesn't stop there, additionally, it disrupts entrepreneurship and homegrown innovation.

The second model where businesses are on the pursuit of profit (multiplying shareholders value) didn't work either. The concentration of wealth with few can't be ignored anymore argues Thomas Piketty in "Capital in the Twenty-first Century". The Oxfam report on wealth inequality estimates that the richest 1 percent bagged 82% of the wealth created last year (2018). However, this concentration of wealth is much worse than it seems. More than 99.9 percent of the world population does not own any means that can be used as capital, even if they own goods or money, argue Boike Rehbein and Jesse Souza in their book "Inequality in Economics and Sociology: New Perspectives". Like the first model, the problem doesn't stop there as impact on the environment is constantly ignored to create more wealth.

This takes me to the third category, Social Enterprises, which tries to balance triple bottom line: People, Planet and Profit. The term social enterprise (SE) has multiple definitions across the world but there are three common themes: A SE has a revenue-generating model, its primary purpose is in delivering social and environmental good and reinvest the profit into the cause for which the enterprise is existing. For the past two decades, this third type of business has picked up around the globe. The legal form of it is yet to be universal but it's evolving and getting better. Mohammad Yunus likes to call them Social Businesses.

Unlike traditional businesses, social businesses are struggling to find investors. Social businesses are not lucrative for traditional investors as they might not generate a market rate of return. However, in the UK the vision of political leaders and commitment

of social impact crusaders has led to the creation of the Social Impact Investment Task Force in the year 2000. Later, first Social Impact Bond was created in the year 2010. In the year 2012, Big Society Capital, the first wholesale Impact Investment institution was established. David Cameron, the then Prime Minister of UK and president of G8, established Social Impact Investment Taskforce – G8 to catalyze a global market in Impact investment from G8 member countries. In the same year, UK National Advisory Board (UKNAB) was set up to represent the UK's voice in the Social Impact Investment Task Force. The effect of advisory board was seen in the next year 2014 when first investor-based tax relief was announced for social investments in the UK. In 2015, Global Impact Investment steering group superseded G8 – Social Impact Investment Taskforce incorporating G7 countries (G8 became G7 in 2014 after Russia was suspended) plus Australia, India, Brazil, Israel, Mexico and Portugal.

The results of advocacy by numerous organizations and academic institutions to create awareness about Impact investment can be seen now. According to UNDP: The Global Impact Investing Network (GIIN) estimates a market of US$228.1 billion in impact investing assets, of which US$35.5 billion was committed in 2017. The expected growth in commitment in 2018 is 8 percent. The supply of impact capital is expected to rise but, as yet, impact investment's share in global financial markets is estimated to be around only 0.1 percent of global wealth. If this share rises to 2 percent, it could mean over US$5.6 trillion invested in impact-driven assets. Larger definitions of sustainable or responsible investment (including ESG compliance and managers applying investment exclusion lists) encompass an estimated total of US$22.9 trillion.

Introduction

Every programme or project either by Government, Business or International Non-Governmental Organisations (INGOs) running across continents creates either positive/ negative or both values (or impact). Intermittently, several attempts have been made to capture that value in different terms like Financial, Social and/or Environmental, separately or collectively.

Impact in simple terms can be understood through an example: To increase employment, government invested X amount of money for Y years (Inputs) to conduct vocational training (activities) for enhancing the employability of Z number of people (output) resulting into rise in income by K% (Outcome). Now Impact goes beyond that. It is what the person is doing with that new or surplus income. Is she/he focusing on better education/health services for her/his family or started buying drugs for himself? Impact could be either intentional or unintentional or both. In the first part of the paper, I am discussing about various prevalent methods of Impact Measurement.

In the second part of the paper, I am focusing on Impact Investment which is a new and upcoming field. At the end, I am presenting my findings on how businesses can be more responsible through reporting of non-financial performance.

Identifying financial returns from an investment (or portfolio of investments) is generally a straight-forward process. This can be done by assessing the gain or loss on an investment over a specified period of time, expressed as a percentage increase over the initial investment cost. This process includes the examination of such elements as the amount of money invested in a given asset, the date when the investment was made, the date when the asset matures if applicable (such as a fixed term company loan), and its current or estimated market value. By contrast, identifying and measuring social and environmental return (SER) is often problematic. This is because the list of ‘non-Financial outcomes’ linked to an investment, initiative or project, whose primary purpose is to ‘do good’ for society or the environment is potentially vast and is challenging to estimate in quantitative terms. For example, investment in a chain of medical clinics in India is likely to generate multidimensional effects in the local area, which may include, for instance, the promotion of improved health among under-treated ethnic groups; new training opportunities for staff entering the jobs market; and an improved local environment as a result of a new machine to improve the disposal of medical waste. More generally, Colantonio and Dixon (2009) outlined an array of potential areas covered by the social side of SER: education and skills; employment; health and safety; housing; identity, sense of place and culture; participation, empowerment and access; social capital; social mixing and cohesion; and well-being, happiness and quality of life.

Indeed, as late as 2011, the PUMA sports goods company became one of the first enterprises in the world to publish an estimate, in monetary terms, of the social cost of the water use, greenhouse gas emissions and other environmental effects of its activities and those of its supply chain. Some important aspects are, however, common to both returns. In particular, both sets of investors take an interest in data that can reveal the extent to which there is a change in the issues that they care about. In the case of a financial investor, the main issue is whether their portfolio is worth more or less money. In the case of a socially conscious investor, the issue in respect of SER is whether there are improvements in beneficial outcomes (such as a healthier population), and reductions in negative outcomes (such as use of scarce water supplies).

What is a Social Enterprise?

Teasdale (2012) describes how the social enterprise discourse has been used to describe voluntary organizations delivering public services, democratically controlled organizations blending social and economic goals, profit-orientated businesses with a social conscience and community enterprises addressing social problems. Although this wide variety has rendered conceptualization problematic (Simmons, 2008), the defining characteristics of social enterprises rest on the primacy of social aims, the centrality of trading and the degree of democratic control and ownership (Peattie and Morley, 2008).

A Social Enterprise Unit by the Department of Trade and Industry, UK in 2002 developed a definition of social enterprise as “business [es] with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximize profit for shareholders and owners (DTI, UK 2002).”

The term social enterprise (SE) has multiple definitions across the world but there are three common themes: A SE has a revenue generating model, its primary purpose is social and environmental good (not multiplying profits) and third reinvest the profit into the cause for which the enterprise is existing. The social good and sustainability of the enterprise are interrelated and interdependent and must co-exist to create social impact.

Like defining SEs, understanding Impact is also difficult and doesn’t have a universal definition. Adding to the confusion there are various methods to measure impact around the globe, however none of them are universal in nature.

What is Impact Measurement?

Impact measurement has progressed over the last few years and is still evolving. Hence, there is no universally accepted definition of it. According to Clifford, Markey, and Malpani (2013) "the measurement of the impact of changes (outcomes) intentionally achieved in the lives of beneficiaries as a result of services and products, delivered by an organization, for which the beneficiary does not give full economic value".

At which stages of a project impact is measured?

The diagram is inspired by a report by Ivy So and Alina Staskevicius (2015), Harvard Business School with slight modification. It depicts that impact measurement is necessary and important at all stages of the programme from estimating impact, planning impact, monitoring impact, evaluating impact to reporting impact.

Theory of Change

Theory of change (ToC) is the most used word these days in International Development Organisations. According to the Care an International NGO,

> a theory of change clearly articulates the intended activity (the 'if' part), and the expected change it will bring about (the 'then' part or parts). Articulating a theory of change offers a clearer picture of the intended result from an action, and explains how programme activities and results are connected with each other and contribute to achieving results at different levels.

Additionally, according to ActKnowledge a New York based NGO,

> although the term is somewhat ubiquitous in the international development arena, there can be some confusion as to what it means and what constitutes its essential components. In its simplest definition, a theory of change is a theory about how and why a time - bound intervention in a prevailing situation or context is likely to work.

Theory of Change can be designed separately or together, by investors, intermediaries and implementing agencies. Theory of change is the vision of investors, intermediaries and implementing agencies towards their narrative to bring about a positive change in the society and in the organisations. It could also be designed by taking into the account – beneficiaries and/or, social problems and/or, organisations. The KL Felicitas Foundation puts this from the investor's perspective in the table below:

Focus on Single Goal

Funder Engagement

No Theory of Change	Theory of Change for Impact on: • Beneficiaries and/or • Social Problems
Theory of Change for Impact on: • Organisations	Theory of Change for Impact on: • Beneficiaries and/or • Social Problems and • Organisations

Source: ***https://www.thinknpc.org/wp-content/uploads/2018/07/Theory-of-change-for-funders2.pdf***

The application of different types of theory of change will depend on the priorities of an Investor. Investors could be interested in having an impact on beneficiary or tackling a social problem or developing organisations. The more impact an investor aims to have on organisations through picking certain types of charities, or through investor plus activities, the more useful a theory of change would be looking at organisational development. Those investors who both have a focused aim, and are trying to improve the efficiency of organisations they support, should try to include both elements in their theory of change. If an investor supports a broad range of outcomes but does not offer anything other than funding, the theory of change would not be very effective.

Ironically, one of the challenges of international development is investors (including government) mostly invest in projects but desist to invest in organisations. Organisations also require investment to improve their capacity, train their staff, but it is very hard to find funding for that. However, for the last few years the situation is improving. Investors have realised that if they wish to achieve a larger impact on the ground they must also invest in the organisations.

There are not many organisations which started as traditional business and have now gone on to transform itself and commit to sustainable development. Ambuja Cement Limited (India), is one such organisation which produces a sustainability report every year.

The case of Ambuja Cement Limited (ACL)

Ambuja Cement Limited (ACL) in India produces Sustainable Development Report every year and sets an example before the other businesses. The report states "ACL sharpens its strategy on six C's – Cost, Consumer, Community, Competition, Capability and Conduct". Further they publish a detailed report on value created for all Stakeholders: Investors, Customers, Employees and Communities. They have also clearly defined sustainability goals for 2020, short term and 2030, long term for climate, circular economy, water and nature, people and communities.

Source: Ambuja Cement Sustainable Development Report (2017)

Theory of change tells us about the importance of understanding the goals, whether it is to tackle a societal problem or to invest in an organisation. Therefore, there is a need to evaluate the impact of projects and programmes. There are several methods to measure the impact. In the table below JPAL summarises these methods in a simpler way.

Impact Measurement Methods

	Methodology	Description	Who is in the comparison group	The methodology is only valid if...
Quasi-Experimental Method	Pre-Post (Before-and-after)	Measure how program participants improved (or changed) over time.	Program participants themselves—before participating in the program.	The program was the only factor influencing changes in the outcome over time. If the program did not exist, outcomes would be the same before and after the study period.
	Simple Difference	Measure the difference between program participants and non-participants after the program is completed.	Individuals who did not participate in the program (for any reason), but for whom data were collected after the program.	Non-participants and participants were equally likely to enter the program before it started. Non-participants are identical to participants, except they did not participate in the program.
	Differences in Differences	Measure the before-and-after change in outcomes for the program participants, then subtract the before-and-after change in outcomes of the non-participants to find the *relative* change in outcomes for program participants.	Individuals who did not participate in the program (for any reason), but for whom data were collected both before and after the program.	If the program had not existed, the participants and non-participants would have experienced identical trajectories during the study period. Any differences in characteristics between the treatment and control group do not have more or less of an effect over time on outcomes.
	Multiple Linear Regression	Compare participants to non-participants, and estimate the effects of the program by adjusting for observed characteristics (income, age, gender) that might explain differences in outcomes between participants and non-participants.	Individuals who did not participate in the program (for any reason), but for whom data were collected both before and after the program.	The characteristics that were *not included* (because they are unobservable/or have not been measured) either do not affect the outcome or do not differ between participants and non-participants.
	Statistical Matching	Individuals who received a program are compared to similar individuals who did not receive it.	Exact matching: For each participant, at least one non-participant who is identical *along a selected list of known characteristics.* Propensity score matching: For each participant, a non-participant with the same likelihood of participating, as predicted by known characteristics such as age, gender, and occupation.	The characteristics that were *not included* (because they are unobservable or have not been measured) either do not affect outcomes or do not differ between participants and non-participants.
	Regression Discontinuity Design	Individuals are ranked or assigned a score based on specific, measureable criteria. A cut-off determines whether an individual is eligible to participate in the program. Participants who are just above the cut-off are compared to non-participants who are just below the cut-off.	Individuals who are close to the cut-off, but fall on the "wrong" side of that cut-off, and therefore do not get the program.	After adjusting for the eligibility criteria (and other observed characteristics), the individuals directly below and directly above the cut-off score are statistically identical. The cut-off criteria must have been strictly adhered to. The cut-off must not have been manipulated to ensure that certain individuals qualify for the program.
	Instrumental Variables	Participation can be predicted by an almost random factor. This "instrumental" factor only affects the outcome by way of predicting whether an individual participates in the program (and participation affects the outcome).	Individuals who, because of this "instrumental" factor, are predicted not to participate and (possibly as a result) did not participate.	The "instrumental" factor predicts the outcome, and if it weren't for the "instrumental" factor's ability to predict participation, this "instrumental" factor would otherwise have no effect on the outcome.
Experimental Method	Randomized Evaluation	Random assignment (e.g. a coin toss or random number generator) determines who may participate in the program so that those assigned to participate in the program are, on average, the same as those who are not, in both observable and unobservable ways. Since the participants and nonparticipants are comparable, except that one group received the program, any differences in outcomes result from the causal effect of the program.	Participants who are randomly assigned to not participate in the program. This is often called the "control" group.	Randomization "worked" and the two groups are statistically identical (on observed and unobserved factors). The effects of the treatment do not spill over to the control group. Any behavioural changes are driven by the program— not by the evaluation itself, or by the fact that the participants or non-participants are being studied. If outcome data are missing, data for the same types of individuals are missing from both the control and treatment groups.

Source: Abdul Lateef Jamil Poverty Action Lab, MIT, USA

The table above divides impact measurement methodologies into three broad categories: Experimental designs, Quasi experimental designs and non-experimental designs.

Experimental designs: A study in which an intervention is deliberately introduced to observe its effects but that's not the case with non-experimental designs.

Randomized experiment: An experiment in which units are assigned to receive the treatment or an alternative condition by a random process such as the toss of a coin or a table of random numbers.

Quasi-Experiment: An experiment in which units are not assigned to conditions randomly.

	Planning Impact (Through Strategy)	Estimating Impact (For Due Diligence)	Monitoring Impact (Improvement during Implementation)	Evaluating Impact (To prove Social Value)	Reporting Impact (To communicate with Stakeholders)
Expected Return					
SROI					
Social Cost Benefit Analysis					
Theory of Change					
Logic Model					
Mission Allignment Methods					
Social Value Criteria					
Scorecards					
Quasi Experimental and Experimental Methods					
Randomised Control Trial Method					
Baseline Assessment Method					
Pre-Post Assessment					
Regression Dscontinuity Design					
Difference in Differences					

Source: Ivy So and Alina Staskevicius Harvard Business School (2015)

The progress and popularity of randomised designs can be attributed to Sir Ronald Fisher (1925 - 1926) who first discussed it. Its distinguishing feature is clear and important that the various treatments being contrasted (including no treatment at all) are assigned to experimental units by chance, for example, by coin toss or use of a table of random numbers. If implemented correctly, random assignment creates two or more groups of units that are probabilistically similar to each other. In other words, probability distribution functions of the two sample groups are identical. Hence, any outcome differences that are observed between those groups at the end of a study are likely to be due to the treatment and not due to differences between the groups that already existed at the start of the study. (Shadish, Cook and Campbell 2002).

In the table above various Impact measurement methods are clubbed based on type of methodology and at what stage of impact it could be used. The table is inspired by: Ivy So & Alina Staskevicius Harvard Business School (2015) and this study has included some modifications.

The Logic Model: Input – Output – Outcome and Impact (IOOI)

The history of logic model goes back to 1970's when Carol Weiss, Joseph Wholey and others conceptualised this. Since then, many theorists and practitioners refined and added to this concept. Several different versions of logic models set out a series of outcomes/impacts, explaining in more detail the logic of how an intervention contributes to any intended or observed impacts. This will often include distinguishing between short-term, medium-term and long-term impacts, and between direct and indirect impacts.

The Logic Model				
Input	Activities	Output	Outcome	Impact
Intended				Intended + Unintended
Investment		Returns		

Source: Own tabulation

- **Input:** Inputs are the resources invested into achieving any intended result. Resources can be categorised into two parts: Financial and Non-Financial. Financial resources are those resources which involve money directly or indirectly but Non-financial resources involve all resources other than money i.e. human, community, organisational, intellectual etc.
- **Activities:** Actions or logical sequence of actions intended to achieve desired results.
- **Output:** Outputs are measurement of activities or targets set to achieve in every activity.
- **Outcome:** Outcomes are one step beyond achieving the targets and measures various intended consequences of the programme or project.
- **Impact:** Impact are long term intended and unintended consequences of all the inputs and activities. The logic model is also regarded as logical framework and used by various international development agencies like UNDP, World Bank etc.

The W.K. Kellogg Foundation in its logic model guide further divides it into three approaches, first **theory approach model**, second **outcome approach model** and third **activity approach model**. The theory approach model emphasises on theory of change as design and planning of programmes, outcome approach model focuses on the early aspects of the program planning and attempt to connect the resources and/or activities with the desired results in a workable program and thirdly activity approach model pays the most attention to the implementation process. However, there is a very thin line between these three approaches and often it is difficult differentiate. A detailed research on various social enterprises reveals that IOOI is the most balanced approach and can be applied at various stages of the programme. Here, I would like to mention a Logic model for one of the projects that I did in India without actual numbers.

Input	Activities	Output	Outcome	Impact
Human resources to implement the project	Advertisement, interviews and recruitment of team	X no of project officers to be recruited, Y no. of technical advisors to be recruited, MIS executives to be recruited	No. of trainees wage employed after the training	Increase in income and living standards of the family
Physical Infrastructure for Office, Training etc.	Designing of Key Responsibility Areas (KRAs) of Team	All the KRAs to prepared and approved		Improvement of services in project area
Communication material for awareness and mobilization (pamphlets, banners etc.)	Training of team	One orientation programme of the team and 3 trainings to conducted	No. of trainees took up self-employment	
Communication material for trainings (charts, banners, videos etc.)	Conducting awareness programmes in project area through various methodologies	Four awareness programmes to be conducted every month	No. of trainees became entrepreneurs	
Designing training methodology, curriculum, exposure visits, organizing training of trainers etc.	Conducting mobilization meetings in project area	One mobilization meeting to be conducted every month		
Stakeholder engagement (Local government, village health workers etc.)	Counselling of women for training and commencement of trainings	Selection of XX no of trainees for training		
Post training assessment	Conduct trainings	Conduct XX no. of training programmes every year		
Follow-up for 2 years	Post training assessment	Conduct 6 Follow-up visits in 2 years, after 1 month, 3 months, 3 months, 3 months, 6 months and 6 months		
	Follow-up of trained candidates			

Source: Own Tabulation

The logic model is the basis of all other evaluation methods and covers comprehensively all aspects of programme.

Carol Weiss in her book "New Approaches to Evaluating Comprehensive Community Initiatives" (1999) argues that the methods to evaluate complex programs are difficult because the assumptions are poorly articulated. She argues that stakeholders of complex community initiatives are typically unclear about how the change process will unfold and therefore place little attention on the early and midterm changes that need to happen in order for a longer-term goal to be achieved. The lack of clarity about the "mini-steps" that must be taken to reach a long-term outcome not only makes the task of evaluating a complex initiative challenging, but reduces the likelihood that all of the important factors related to the long term goal will be addressed.

The Aspen Institute in its report (TOC as a tool for Strategic planning, Anderson, 2004) recommends working backwards while implementing the TOC i.e., defining long term outcomes first, then intermediary or medium term outcomes and lastly coming to immediate outcomes of the project. However, the approach fails to suggest what is to be done when project is not being implemented as planned. Carol Weiss in her book (1999) emphasises on importance of

assumptions before designing Theory of Change. Besides, she misses two important points: there is no scope for feedback and correction and no discussion about what the project can't do i.e. limitations. Addition of "feedback and correction" at two stages of evaluation – Immediate and Intermediary/Short term impact will give us a more realistic picture of long term impact. Understanding the assumptions and limitations and updating at both stages will be very important in realising desired impact or shifting the goal post. Often organisations do not understand the inherent assumptions and external factors responsible for achieving what is planned. Therefore, feedback and review will play a pivotal role.
The section is heavily drawn from W.K. Kellog Foundation: Logic Model Development Guide.

Social Return on Investment (SROI)

SROI is one of the most illustrious work in the impact measurement space and it's based on seven principles (Ref. Social Value UK website):

1. **Involve stakeholders** – Inform what gets measured and how this is measured and valued in an account of social value by involving stakeholders.
2. **Understand what changes** – Articulate how change is created and evaluate this through the evidence gathered, recognising positive and negative changes as well as those that are intended and unintended.
3. **Value the things that matter** – Making decisions about allocating resources between different options needs to recognise the values of stakeholders. Value refers to the relative importance of different outcomes. It is informed by stakeholder's preferences.
4. **Only include what is material** – Determine what information and evidence must be included in the accounts to give a true and fair picture, such that stakeholders can draw reasonable conclusions about impact.
5. **Do not over-claim** – Only claim the value that activities are responsible for creating.
6. **Be transparent** – Demonstrate the basis on which the analysis may be considered accurate and honest, and show that it will be reported to and discussed with stakeholders.
7. **Verify the result** – Ensure appropriate independent assurance.

Social Value UK (2012) gives the following definition of SROI in "A guide to SROI":

> SROI measures change in ways that are relevant to the people or organisations that experience or contribute to it. It tells the story of how change is being created by measuring social, environmental and economic outcomes and uses monetary values to represent them. This enables a ratio of benefits to costs to be calculated. For example, a ratio of 3:1 indicates that an investment of £1 delivers £3 of social value. SROI is about value, rather than money. Money is simply a common unit and as such is a useful and widely accepted way of conveying value.

SROI uses elements of cost-benefit analysis (CBA). Costs and benefits are quantified and compared to evaluate the desirability of a given intervention expressed in monetary units (Layard and Glaister 1994).

$SROI = \frac{NetPresentValueofBenefits}{NetPresentValueofInvestment}$

SROI can be evaluative, conducted retrospectively and based on actual outcomes that have already taken place; or a forecast, which predicts how much social value will be created if the activities meet their intended outcomes (Department of Health, UK, 2010).

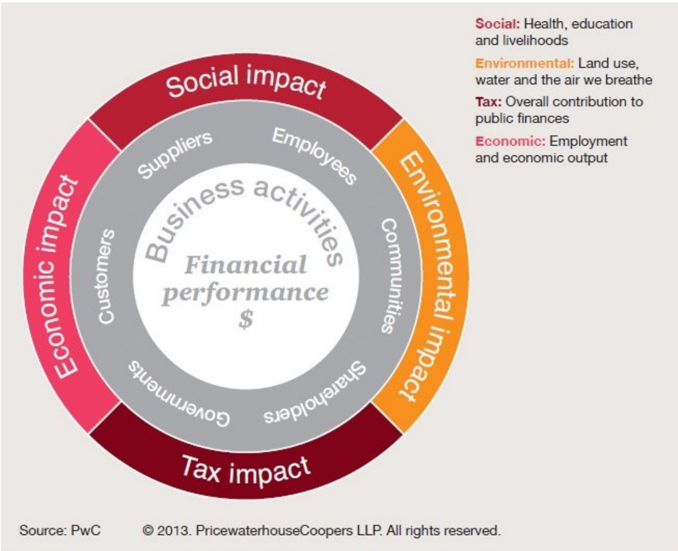
To understand SROI, it is very important to understand its guiding principles. Often, organizations that measure impact do not take into account the stories and experiences of the intervention group. Usually, impact is measured from the perspective of the organisation and mostly without consulting the real stakeholders. There could arise a case when an issue is significant for philanthropists or donors or investors but need not be to the people who are being affected by it. The SROI principles tries to build a bridge between investors/philanthropists and target group. Factoring in the voice of people who are getting affected by it helps to prioritise the interventions and maximise the value. Often the case is, programmes are designed and priorities are decided without consulting the community which either leads to failure or creates less impact.

As discussed earlier, Ambuja Cement is one of the few companies in India which publishes a sustainable development report. The report states: "At Ambuja we are committed to pursuing goals beyond financial gain. We aim to be the best sustainable company in our industry and so each of our practices and processes align with environmental and social goals. But it is the *I can* spirit that drives our people to continually improve them." So, the thing which makes them unique is not only they publish the impact report but also share the processes and practices adopted to achieve impact and their commitment to improve in future. The KPMG True Value Case Study on Ambuja Cement (2015) concludes "for every rupee spent in 2012, 8.5 rupees of socio-environmental value were created".
"An SROI analysis makes it possible to compare financial investments with the expected effects. Therefore, the central research question is: what are the long-term overall benefits to society that result from one euro being invested in Balu und Du?" asks Value for Good, an organisation based in Berlin in their publication "SROI Report on Balu and Du mentoring programme". Precisely, SROI is an extension of RoI and gives more comprehensive picture, calculates returns not only in financial terms but also in non-financial terms.

One of the limitations of SROI method is it's very difficult to quantify soft impacts e.g. confidence, self-esteem, and acceptance in community etc. Another limitation is that value of one indicator can be different for different stakeholders. It also doesn't account for unintended consequences. Many SEs (in India, UK and Germany) reported that the cost of SROI measurement is very high and with their limited resources they couldn't afford it. There is a need to create awareness about importance of impact measurement so that investors/donors agree to allocate resources for the same. It will improve the effectiveness and efficiency of the programme as well as the organisation.

Total Impact Measurement and Management – PwC (TIMM)

PwC's TIMM adds another dimension of the Impact–tax. Multi Nationals find loopholes in taxation system for tax avoidance. The addition makes complete sense because according to a The Economist report Amazon's British subsidiary paid £ 1.7m in tax last year (2017-18) on profits of £ 72m and revenues of £ 11.4b. The report says approx. 40% of multinational profits are shifted to low tax countries each year. PwC proposes to bring more transparency in tax payments by big multinational corporations and adds it in its impact measurement framework.

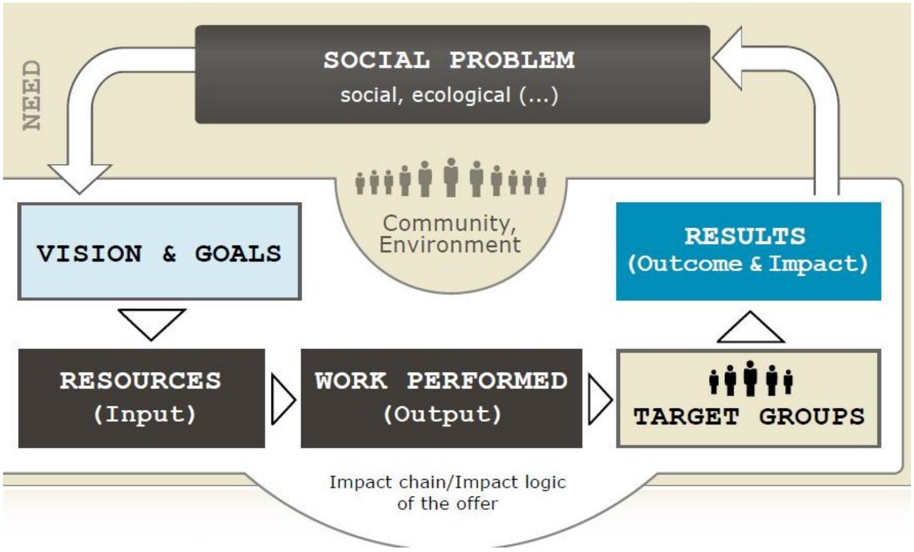


Social Reporting Standard (SRS)

The SRS is a joint project of Ashoka Germany gGmbH, Auridis gGmbH, BonVenture Management GmbH, PHINEO gAG, Vodafone Foundation Deutschland, Schwab Foundation, University of Hamburg and the Technical University of Munich with support from Federal Ministry for Family Affairs, Senior Citizens, Women and Youth. In 2011, the Social Reporting Initiative e.V. (SRI) association was founded. The Social Reporting Standard is divided into three parts - A, B and C. The part A, briefly describes the vision of the organisation and offer for target groups. Part B – the most detailed section of offer – forms the core of results-based reporting. The term "offer" refers to what the organisation does to solve a social or environmental problem – such as programs, projects or related services. The representation of organisation is set out in part C.

The model is aimed to offer more comprehensive framework but it is an extension of logic model (IOOI). It also doesn't clearly differentiate between outcome and impact.

Circuit of results (SRS report 2014):



IRIS Metrics – Impact Reporting and Investment Standards Metrics

As per the IRIS metrics catalogue (2014), it is a generally accepted performance metrics that leading impact investors use to measure and manage social, environmental, and financial performance of their investments, to evaluate deals, and to grow the credibility of the impact investing industry. In addition to financial metrics, it also covers metrics for measuring both the operational performance (i.e., "doing things well") and the product/service performance (i.e., "doing good things") of investments spanning different parts of the business value chain. It can also be viewed through a sector lens, including "cross-sector" metrics (i.e. those that may be relevant for organizations regardless of sector) as well as "sector-specific" metrics (i.e. those that may be relevant to organizations with sector specific focus).
The IRIS metrics are organized in a framework that includes 5 core sections:

- Organization description: Metrics that focusses on the organization's mission, operational model, and location
- Product description: Metrics that describes the organization's products and services, and target markets
- Financial performance: Commonly reported financial metrics
- Operational impact: Metrics that describes the organization's policies, employees, and environmental performance
- Product impact: Metrics that describes the performance and reach of the organization's products and services

The metric is very intensive and covers ten sectors: Agriculture, Education, Energy, Environment, Financial Services, Land Conservation, Health, Housing/Community Facilities, Water and Cross-Sector.

Social Cost Benefit Analysis (SCBA)

The Social Cost Benefit Analysis is another Impact Measurement method used by Governments and International Development Organisations across the world. The method is an extension of Cost Benefit Analysis (CBA) in finance with the addition of social and environmental costs - benefits. Following are the main steps for doing SCBA:

Step 1: Define policy alternatives and counterfactual

Step 2: Identify the people who gain and those who lose

Step 3: Identify the benefits and costs; allocate to time periods

Step 4: Quantify the benefits and costs within ranges

Step 5: Discount to a common period, compare benefits with costs

Step 6: Is the result clear enough? If not, consider whether it is worth investing in more research, and repeat above steps

Step 7: Write report

> **Example: Bridge over river**
> Suppose that the bridge costs \$20 million, and that it will save travelers \$25 million worth of travel time and vehicle operating costs, in present value terms. The bridge would appear to have benefits that exceed the costs. The net present value (NPV) of the bridge is \$5 million. But suppose that in the absence of a bridge being built, there is every expectation that a private ferry operator will start business. The cost is \$10 million in present value terms, and the social benefits are \$20 million in present value terms. The ferry operation has an NPV of \$10 million. Compared with the ferry operation, a bridge would cost \$10 million more, and would produce \$5 million more benefits. Against this counterfactual, the bridge has an NPV of –\$5 million. Against the "no bridge, no ferry" counterfactual, the bridge would seem worthwhile. But against the "ferry" counterfactual, the bridge is not. Equivalently, the ferry could be presented to decision-makers as an alternative to the bridge. This would still show the ferry to be the better option, despite the fact that the bridge has greater total benefits.

It is very important for decision makers to evaluate all possible options before making a decision. SCBA method is a great tool to compare various options. However, the biggest remedy of SCBA is it would be most beneficial during the planning phase.
This sections is heavily drawn from: Cost Benefit Analysis Guide Published by – The Treasury, Government of New Zealand (2015).

Randomised Control Trial Method (RCTM)

Initially randomised control trial methods were mostly used in medical science and health care but in the recent years it has become popular in social sciences as well. “The strength of the randomized trial is based on the aspects of design that eliminate various types of bias. Randomization ensures that each patient has an equal chance of receiving any of the treatments under study. This creates groups that are alike in all aspects except for the intervention that each group receives” (Thiruvenkatachari B 2015). The group which receives intervention is the treatment group and the group which doesn’t is the control group or comparison group.

In simple words, RCTM answers the question – “What would have happened if the programme or project had not been implemented?”, a key component of this method is a counterfactual analysis: a group given the treatment is compared to a similar group that is isolated from the intervention. This enables the evaluator to answer the cause-and-effect question; “What are the changes in outcome directly attributable to the implemented intervention or program?” Ivy So & Alina Staskevicius, Harvard Business School (2015). However, some scholars and practitioners think that RCTM is unethical, as some people are not given any treatment, and are randomly excluded. But, one of the strong advantages of RCTM is that when executed correctly, it clearly articulates cause and effect relationship. Additionally, RCTM would be most effective when it is performed by independent evaluators and it requires high sample size which may not be very cost effective for organisations.

Example RCTM – Adapted from JPAL’s study on assessing the effectiveness of alternative text messages to improve collection of delinquent fines in the United Kingdom

Issue:

The collection of delinquent fines (e.g. unpaid taxes, traffic tickets, and fines for criminal charges) is a massive public administration challenge. In the UK, for instance, unpaid court fines amounted to more than £600 million (US$960 million) in 2011, and the process of recovering such fines—tracking down the debtors, calling them, and collecting fines in person—can be very costly. Text message reminders, which reach a large number of people at a low cost, offer a potentially cost-effective strategy to encourage payment of outstanding fines. Researchers, led by the UK Cabinet Office’s Behavioural Insights Team, used a randomized evaluation to test the effectiveness of mobile phone text messaging to induce people to pay their outstanding fees, and compare the relative effectiveness of different messages.

Solution:

Researchers rolled out the evaluation in two phases. Phase 1 examined the overall effectiveness of text messaging by comparing the average payment of debtors who received one of several alternative text messages to that of debtors who did not receive any text message. At the beginning of each week from January to early February 2012, researchers compiled a list of individuals whose cases had reached distress warrant status in the previous week and randomly assigned each individual to either the comparison group that received no text or one of the following four treatment groups:

- Standard: a standard message reminding the recipients about their unpaid fines and warning them that failure to pay would result in a warrant. The text also instructed the recipients to call a payment hotline number.
- Personalized name: the standard message personalized by mentioning the recipient's name.
- Personalized amount: the standard message personalized by reminding the recipient of the total value of the outstanding fine.
- Personalized name and amount: the standard message personalized by mentioning both the recipient's name and the amount the recipient owed.

In the week following the text message, researchers tracked payment of participants using HMCTS records. Recipients who failed to pay within seven days of receiving the text had their cases referred to a bailiff. After Phase 1 results showed that sending text messages was more effective than not sending messages, in Phase 2, researchers eliminated the comparison group to improve the efficiency of the evaluation. Participants were subsequently randomly assigned to one of the four alternative text messages.

Results:

Overall, sending text messages significantly increased average payment of delinquent fines. On average across the alternative messaging content in Phase 1, sending a text message increased the amount paid in fines from £4.46 to £10.94, a 145 percent increase.

In Phase 2, researchers found that the personalized message that mentioned the recipient's name was the most effective among the four messages. The personalized messages produced the largest compliance rate as well as the highest average repayment amount. Receiving the personalized message prompted the debtor to pay on average £5.20 more than receiving the standard message. The average payment among debtors who received the personalized message was £20.87, compared to £14.73 among those who received the standard message.

The RCTM method is very accurate, provides evidence of the results but on the other hand, is time consuming and expensive. Organisations with limited resources cannot afford it. But big ticket programmes run by Government and International NGOs with plenty of resources at disposal, can make use of this method for better planning as well as evaluation.

Lean Data Approach – Pioneered by ACUMEN

ACUMEN which aims to eradicate poverty through supporting social businesses with innovative solutions pioneered the lean data approach. The approach is also cost effective and uses low cost technology like SMS, interactive voice response (IVR) or direct call. The approach incorporates two main features: first, a shift in mind-set away from reporting and compliance and towards creating value for a company and its customers; and second, the use of methods and technologies for data collection that favours efficiency and speed while maintaining rigour. (Dichter, Adams, Ebrahim and SSIR 2016).

Impact Management Project (IMP)

Impact Management Project is the most recent work (started in 2016) in the impact measurement space when scholars and practitioners replaced the word "measurement" with "management". The description on the website is: "Everything we do affects people and the planet. Managing impact means figuring out which effects matter - and then trying to prevent the negative and increase the positive". Interestingly, IMP acknowledges the fact that impact could also be negative. IMP is a collaborative call to action by over 1000 organisations and leading philanthropists. IMP digs deeper into the question of who, what, how and how much, as in, what matters for whom and how much, which are often not accounted for in other impact measurement methodologies. The latter mostly, operate from the perspective of investors, implementing agencies or independent evaluators and often neglect the need of the community. Consider a case when a community in Africa needs assistance to enhance productivity in agriculture so that they could come out of subsistence farming but organisations choose to implement projects on financial inclusion. This disconnect between what is required and what is given leads to low/no impact. Therefore, it is very important to understand the needs of the community and learn what matters to them most. Additionally, some impact indicators may not be important to the community but it could be important to the investors. In various measurement methods the voice of the community is neglected and they often have very little or no say on what matters to them.

The impact management project covers five dimensions:
What outcome(s) an effect relates to and how important the outcome is to the people (or the planet) experiencing it.
How significant an effect is in a given time period? How deep is it? How many people are impacted? How long does it last and how quickly does it occur?
Who experiences an effect and how underserved are they in relation to the outcome that it relates to?
Contribution: how the effect compares and makes a contribution to what is likely to occur anyway.
Risk: which risk factors are significant and how likely is it that the actual outcome is different from the expected outcome.
A careful study of these dimensions depicts that IMP is the most comprehensive and integrated method. It takes elements from Theory of Change, Logic Model, RCTM, SROI and IRIS. However as suggested earlier IMP also doesn't clearly mention feedback mechanism. The second phase of the IMP is yet to be released and would be interesting to see how it has evolved since it was formed.

Critical Reflection on Impact Measurement

There are several methods available to measure impact but still there persist several challenges. Some of them are:

1. Most of the impact reports (by development organisations) focus on output and outcome but they still do not capture the impact.

2. Impact reports mostly consist of no. of lives reached but how their lives changed is not being captured.

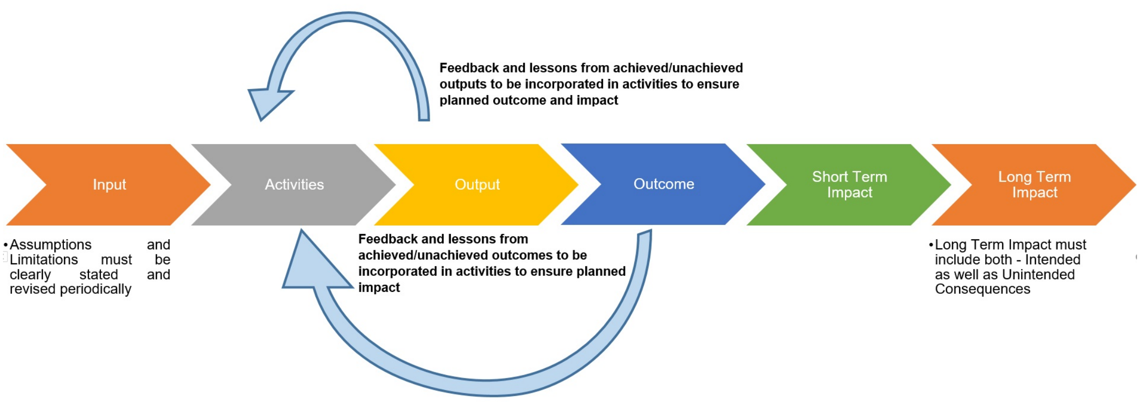
3. Measuring impact is costly and should be done independently, but unfortunately, social enterprises and NGOs are unable to find resources for this.

4. Investors and grantees need to reflect on this strategy and should consider funding impact measurement and learning from the results to design better projects in the future.

5. There are several impact measurements methods but logic model is the best among all available options and should be promoted through a more coordinated effort by international community. This will help to make impact measurement more standardised and more universal.

6. Like financial performance measurement is coordinated and standardised internationally through International Financial Reporting Standards Board, non-financial performance measurement needs standardisation and uniformity.

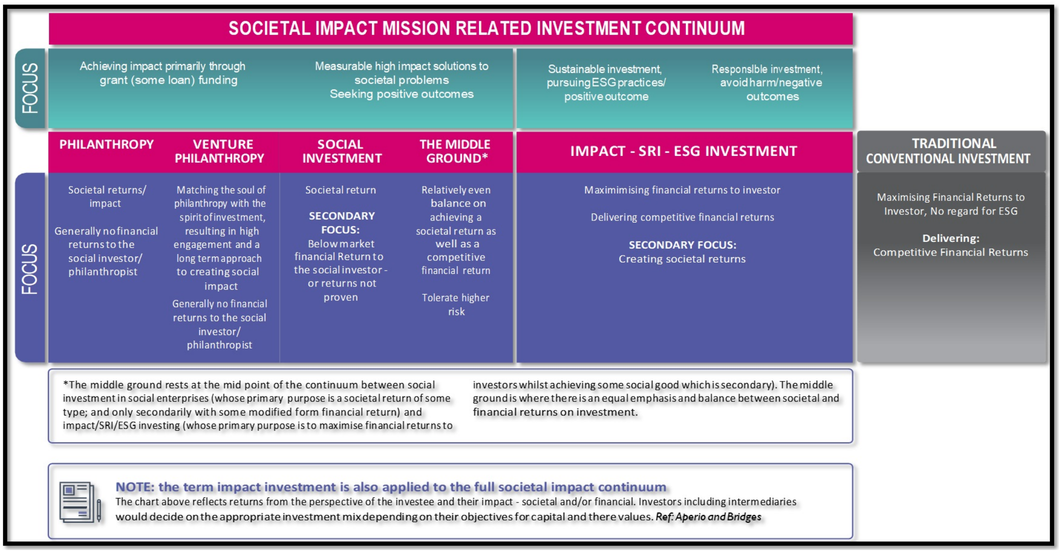
Integrated Impact Management Framework (IIMF)



Source: Author's own visualization

The Impact management framework, I am proposing is an extension of logic model but it is different on three aspects. First, it has a feedback and correction mechanism. Secondly, it clearly articulates assumptions and limitations (or what project can't do) and finally, reporting of unintended consequences is clear. The indicators may vary depending upon the sector but it is very important to evolve the programme through robust feedback mechanism and understanding unintended consequences.

Investment Return Continuum or Investment Models



Source: Philanthropy Impact, London

Investments can be broadly divided in to four categories:

1. **Traditional Business Investments** in which goal is to maximise shareholders value/financial returns and not talk about impact on society or environment (positive or negative)
2. **Sustainable/Responsible Investment** in which financial returns are still at the forefront but societal returns are also accounted
3. **Social Impact Investments** in which societal return are at the forefront but some financial returns are expected and desirable.
4. **Traditional Philanthropy** in which societal return is the only goal and no financial return is expected or desirable.

Sustainable/responsible investments can be further classified into two. First, when there is a definite societal return and second, where organisations try to avoid negative impact but doesn't pledge for positive societal impact.

Secondly, in the fourth category, traditional philanthropy can be divided into philanthropy which is plain donation and venture philanthropy which incorporates philanthropy with the spirit of investment i.e. monitor and evaluate the impact.

Since the financial crisis of 2008 and rise in environmental consciousness across the globe, traditional profit-oriented investments are shifting towards responsible investments. Ernst F Schumacher in his book Small is Beautiful: Economics as if People Mattered (1973) wrote, "an attitude to life which seeks fulfillment in the single-minded pursuit of wealth – in short, materialism – does not fit into this world, because it contains within itself no limiting principle, while the environment in which it is placed is strictly limited". Businesses in pursuit of profit maximisation as their short-term goal failed to balance the long-term triple bottom line – people, planet and profit.

Banking and financial institutions, which should have been responsible institutions, unfortunately, followed the same path of realising short-term goal.

GLS Bank (Gemeinschaftsbank für Leihen und Schenken, which translates as "community bank for loans and gifts"), founded in 1974, headquartered in Bochum, Germany is one of the world's first social – ecological banks. Socially and environmentally responsible banking is at the core of their business model. GLS Bank is a cooperative and has 48,398 members as of December 2017. Since the financial crisis of 2008, the bank has witnessed double-digit growth rate in saving deposit and recently its balance sheet has recorded assets of 5b euros. The growth of bank after 2008 suggests that people in Germany are gradually relying more on this alternate model of banking. Similarly, Triodos Bank, headquartered in Netherland, has responsible investments at the core of its business model.

To promote responsible investment in Europe, in 2004, European Venture Philanthropy Association was launched in London by five co-founders who shared a background in private equity. Today, EVPA has around 210 members from over 25 countries who connect through events and activities, to share their best practices and work towards a common vision. The Asian Venture Philanthropy Network (AVPN), the sister organisation of EVPA brings together high net worth individuals, impact investors with investment seeking organisations through networking events. The AVPN also has 370 members across 28 countries.

The European Venture Philanthropy Association (EVPA) has evolved the Investment continuum even further and it looks like this.

<table>
<tr><td colspan="6">Primary driver is to create Social Impact</td><td colspan="3">Primary driver is to create Financial Return</td></tr>
<tr><td colspan="6">Social Purpose Organisations (SPOs)</td><td colspan="3"></td></tr>
<tr><td colspan="2">Charities</td><td colspan="3">Revenue Generating Social Enterprises</td><td>Socially Driven Businesses</td><td colspan="3">Traditional Businesses</td></tr>
<tr><td>Grant Only, No Trading</td><td>Trading Revenue and Grants</td><td>Potentially Sustainable > 75% trading revenue</td><td>Break-even all income from trading</td><td>Profitable Surplus reinvested</td><td>Profit distribution Socially Driven</td><td>CSR Company</td><td>Company allocating percentage to charity</td><td>Mainstream Market company</td></tr>
<tr><td colspan="2">Impact Only</td><td colspan="4">Impact First</td><td colspan="3">Finance First</td></tr>
<tr><td colspan="2">Grant Making</td><td colspan="4">Social Investment</td><td colspan="3"></td></tr>
</table>

Source: European Venture Philanthropy Network

Impact Investment

Impact investment is described (and differentiated from other forms of investment) by three guiding principles:

1. The expectation of a financial return: Impact investors expect to earn a financial return on the capital invested, below the prevailing market rate, at the market rate or even above it.
2. The intention to tackle social or environmental challenges (i.e. the impact or intentionality): In addition to a financial return, impact investors aim to achieve a positive impact on society and/or the environment.
3. A commitment to measuring and reporting against the intended social and environmental impact: Impact investors commit to measure performance using standardized metrics.
   Source: UNDP, Financing Solutions for Sustainable Development

Investment with a purpose that goes above and beyond making more money can be traced back to many centuries. In the 1600s, for example, it is recorded that Quakers in the US decided that they could not reconcile investing in slaves with their belief in the equality of individuals before God (Louche et al 2011). More recently, in 1928, the US pioneer fund became the first investment fund to formally avoid "unethical investments"; in 1982 Calvert Social Investment Fund was the first fund with screening of issues and set-aside for selected below-market rates investees; and in 1983 the Microfinance Grameen Bank was formally founded, although the project actually took off in 1976. (Neil Reeder and Andrea Colantonio, LSE, 2013). Later, banks like Triodos Bank in Netherlands and GLS Bank in Germany emerged as successful business models since 1970s.

The social sector has been historically grant-funded. This means that based on the impact and social work that the entrepreneurs perform, philanthropic individuals have been giving them money and support, often not expecting any returns other than just evidence of impact. This sort of funding has been extremely beneficial in areas where commercial models are challenging or the solutions are risky and require a high degree of experimentation or innovation. Besides, very early stage enterprises also gain from these grant funds as they can utilize it to ameliorate their business model and sharpen their offerings. Over the past few years, probably since the late nineties, there has been a tacit understanding that in some cases "grant" or "free" funds might not be the best way to have a social impact and might not be able to create a growth-based ecosystem. This realization might have also come from the lack of sustainable results and a high amount of pilferage that some social organizations have unfortunately shown. Also, the argument has been that the "social"mind-set and "free funds" have also retarded professional behaviour and innovation often leading to heavy wastage and high resource drain. Finally, the no. of economic recessions in the recent years and the drying up of grant-funding sources have also reduced the popularity of pure philanthropic capital as many large donors have been forced to reduce their development spending significantly. Additionally, the international laws to scrutinise the foreign aid and the significant rise in protectionism also forced international organisations to revise their business models and try to balance triple bottom line People, Planet and Profit.

David Carrington, one of the most significant voices in Impact Investment puts it across differently "Grants are OK! I'm a champion wall spraying graffiti artist for this campaign. I despair of the assertions that we hear so often about "grant dependency". Grants are an absolutely essential and completely legitimate art of the funding menu for almost every organisation at various points in its life and for specific situations and purposes. But grant finance from every source is limited and precious. If such resources are scarce, it seems self - evident that grants should only be used where no other form of funding (whether it be learned, borrowed or self - generated) can be used as effectively. Charities that need funds, and the philanthropists (or the state) that can fund them, would be wasting money if they used grants where other forms of finance could achieve the same result. The types of finance that I'm talking about, forms of social impact investing, are additional items on the funding menu–but most of them are only relevant when grant income is also judiciously and appropriately used alongside them or in advance".

We need both – grants as well as investments. Enterprises which are fully dependent on grants must shift towards generating some revenues as grants are shrinking. Generating revenues also increases accountability and transparency and for the organisations with fully revenue generating model, grants do no harm. It can be invested into systemic changes in the organisation if not in the ongoing programmes. Investors/Grantees should not only invest in the project but also invest the organisations for their capacity building and systemic change. More funding for knowledge management, exposure, capacity building will only help the organisation to deliver their services efficiently and effectively.

For last few years, after the emergence of impact investment, investors have called for more transparency in measuring impact. Impact measurement can be done at three stages of investment: pre, during and post. Pre measurement helps to determine the intended impact of programme and helps investors in decision making. During investment also it can be used to assess if it is moving in the right direction. This also gives an opportunity for any course correction in the middle of the programme, if required. Post investment impact measurement helps to assess the impact of the programme after completion of the programme/investment.

The impact investing market is growing. The recent figures from the Global Impact Investing Network estimates the market to be at least $228 billion in 2018. With impact gaining traction amongst wealth, asset, and investment managers, what constitutes high-quality investments is a critical challenge for the industry and these new entrants. A recent report launched by Intellecap titled "The Indian Impact Investing Story" shows that US$1.6 billion of capital has been invested in 220+ impact enterprises across India since the year 2000.

The UK is at a very advanced stage in impact investment space. The vision of political leaders and commitment of impact investors has led to the creation of Social Impact Investment Task Force in year 2000. Later, first Social Impact Bond was created in the year 2010. In the year 2012, Big Society Capital, the first wholesale Impact Investment institution was established. David Cameron, the then Prime Minister of UK and President of G8, established Social Impact Investment Taskforce – G8 to catalyse a global market in Impact investment from G8 member countries. In the same year, UK National Advisory Board (UKNAB) was set up to represent the UK's voice in the Social Impact Investment Task Force. The effect of advisory board was seen in the next year 2014 when first investor-based tax relief was announced for social investments in UK. In 2015, Global Impact Investment steering group superseded G8 – Social Impact Investment Taskforce incorporating G7 countries (G8 became G7 in 2014 after Russia was suspended) plus Australia, India, Brazil, Israel, Mexico and Portugal. The immense progress made in eight years since the first SIB was launched in 2010, speaks a lot about the commitment of UK towards making investments more responsible.

Social Impact Bond

"Social Impact bonds (SIBs) have attracted much attention in the aftermath of the financial crisis. They have been implemented in a number of countries as they seem to be an attractive proposition for financing the delivery of social services." Writes Stellina Galitopoulou and Antonella Noya, Understanding Social Impact Bonds (2016), OECD.

A SIB is an innovative financing mechanism in which governments or commissioners enter into agreements with social service providers, such as social enterprises or non–profit organisations, and investors to pay for the delivery of pre-defined social outcomes (Social Financ 2011, OECD 2015). More precisely, a bond- issuing organisation raises funds from private - sector investors, charities or foundations. These funds are distributed to service providers to cover their operating costs. If the measurable outcomes agreed upfront are achieved, the government or the commissioner proceeds with payments to the bond-issuing organisation or the investors. In reality, the term "bond" here is a misnomer. In financial terms, SIBs are not real bonds but rather future contracts on social outcomes. They are also known as Payment -for- Success bonds (USA) or Pay -for-Benefits bonds (Australia) (OECD 2015, Brookings 2015).

As public resources are not always made available to adequately fund public and social services, SIBs leverage private investment to finance such services so that providers do not have to front the cost of delivery. Investors are rewarded if providers meet agreed-upon outcomes but lose their investment if providers do not meet those outcomes. On the face of it, SIBs might seem like a win-win for everyone involved (Michael et al. 2018, SSIR).

Social Impact Bonds in simple steps:

1. Government/civil society/policy makers/community identify a problem which needs to be addressed.
2. Government has not commissioned the budget to implement the programme but is willing to pay for it in the next few years.
3. There is an intermediary who comes up with an innovative solution to this problem. Finds an investor who is willing to fund the programme. Identifies an implementing agency which has already worked on similar programmes or is willing to implement the programme in the given location.
4. Intermediaries, works to bring Government, implementing agency and investor on the same table and finalise deliverables, payment terms etc.
5. Investor makes payment to implementing agency/intermediary and the project begins.
6. An independent evaluator evaluates the project against agreed deliverables.
7. If successful, Government makes payment to intermediary/implementing agency and intermediary/implementing agency pays back to the investor.
8. If not successful, investor loses its investment

The first SIB was introduced in 2010 and since then 32 SIBs have been set up thus far in the United Kingdom, addressing diverse policy areas such as homelessness, mental health services, education, and unemployment. There are at least 10 SIBs operating in the United States and

19 more, across 14 other countries, with Goldman Sachs also investing in the model. The UK Government Cabinet Office has established a centre for social impact bonds. The UK Government also allocated more than $28 million of public funding to a Social Outcomes Fund in 2012 for the development of SIBs, and augmented this with an additional amount of $113.4 million from the UK Government's Life Chances Fund in 2016. However, it is too early to assess the performance of SIBs.

Example of Successful and Failed SIBs (Source: UNDP – Financing Solutions for Sustainable Development)

The first SIB was launched in the UK to fund the rehabilitation of ex-prisoners from Peterborough jail and reduce recidivism. Social Finance—the intermediary/sponsor—raised approximately US$8 million from 17 investors, which was invested in the prison's re-entry service programme. The focus was on offering support to respond to the immediate needs of an offender and family before and after release from prison, including accommodation, medical services, family support, employment and training, benefits and financial advice. The investors are paid back with an interest ranging from 2.5 to 13 per cent by the Ministry of Justice and the Big Lottery Fund if the re-entry service programme reduces recidivism by at least 7.5 per cent. The results for the first cohort of prisoners showed an 8.4 per cent reduction in reconviction. Two years later a similar instrument was launched to fund youth rehabilitation in the Rikers Island prison of New York City. This intervention was financed with a US$9.6 million loan by the Goldman Sachs urban investment group accompanied by a US$7.2 million guarantee by Bloomberg Philanthropies. The bond was supposed to be repaid by New York City if recidivism had been reduced by at least 10 per cent. However, the project failed and thus the city did not pay back the investors. The SIB model offers financial incentives and a structured approach to assess projects and measure results. However, the achievement of the impact still depends on the design of the projects financed.

In September 2018, The British Asian Trust, the Michael and Susan Dell Foundation, the UBS Optimus Foundation, and Tata Trusts, together with Comic Relief, the UK Department for International Development (DFID), the Mittal Foundation, and British Telecom, have launched a development impact bond in support of quality education in India. The largest education development impact bond to date has raised $11 million in its first phase and, if successful, will support efforts to improve literacy and numeracy skills for more than three hundred thousand children.

Critical reflection on Impact Investment and SIB

If we reflect critically on Social Impact Investment and Social Impact Bonds, then we find out some downsides of it. Some of them are listed below:

1. Impact investors often expect a market rate of return, which is not possible in the case of social business.

2. Impact investment and SIB were both aimed at generating social innovation, out of the box thinking and to increase efficiency. But, my research has led me to believe that most of the solutions are not innovative and are tilted more towards spirit of investment rather than creating social good.

3. Different layers to create SIB adds heavily to the transaction cost of funds.

4. Outcome based funding makes SIBs investor driven. Although it would take some more time to assess the social cost benefit analysis of SIBs VS Impact investment VS traditional funding but, it can be said that it is more investor driven than community driven.

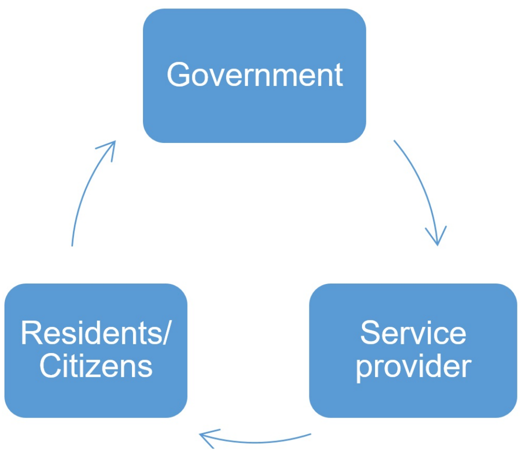
5. Another serious problem with Impact investment and SIB is that both are not home grown or developed within the country. The trend being global north is funding global south and net profit is going back to global north. If we encourage more home grown investments net profit will remain in the ecosystem and will be reinvested and could create a large impact.

6. SIB is a lengthy and time-consuming process as lots of stakeholders have to come to mutual agreements.

German Welfare System

In Germany, the social security system features the implementation of various statutory social insurance and tax -financed social welfare schemes to provide comprehensive support to its citizens. Germany's social insurance schemes comprise five major schemes, namely (a) unemployment insurance, (b) pension insurance, (c) health insurance, (d) long-term care insurance, and (e) occupational accident.

The German welfare system operates on four principles: first is that it is made mandatory for everybody, second is Solidarity, third is funding by fees and fourth is self-administration. (Mishra 2018). This is different from what we see in India where people access private hospital services or government hospital services based on their financial capability, with the more well-off class preferring to access private medical care. But in Germany, irrespective of a person's financial capability, everybody in the welfare system is entitled to the same kind of services. The system operates like this – citizens/residents pay their social security contribution through tax to the government, and the government through service providers, provides five services which cover the basic necessities of its residents and citizens.



Source: Author's own visualization

There are six institutions based on various faiths and beliefs

1) The Deutsche Caritasverband
2) The Arbeiterwohlfahrt (Workers Welfare Association)
3) The Deutsche Rote Kreuz (German Red Cross)
4) The Deutsche Paritatische Wohlfahrtsverband
5) The Diakonische Werk
6) The Zentralwohlfahrtssstelle

The six welfare organisations are represented by an umbrella organisation BAGFW – Federal Association of Non-Statutory Welfare. The BAGFW is the collective voice and represents six welfare organisation before federal government of Germany as well as European Union. All six welfare organisations have representation on the board of BAGFW and decisions are taken on consensus. The welfare organisations, together, have 105,295 facilities and services and employ 1,673,861 (1.6M) full time employees. They are the biggest employers in Germany. The BAGFW is funded through Public grants (EU, Federal government, the state, district and Municipality), Social Insurance (contribution by people in tax), donations, contributions and church tax (in case of faith based welfare organisation).

The system is benefiting the citizens and residents of Germany but there are some criticisms too. The foundation of welfare system is solidarity which means one pays a certain percentage of his/her income towards the social security system and receives the same services irrespective of the income. The young generation often criticise the system and feel that it is unfair to them when they are made to divert a sizeable portion of their incomes towards elderly care. The second criticism is that it prevents social innovation which occur in other countries. Welfare organisations cover almost everything which leaves little or no room for innovation. Social Enterprises find it difficult to find funding and investments because, culturally, people in Germany think these services should be provided by welfare organisations. Organisations like "Discovering hands" are an exception. The third issue is that welfare organisations do not perform impact evaluation, even though carrying out such exercises are likely to improve the efficiency and effectiveness of its programmes.

Political Foundations in Germany

In Germany, every political party which has certain percentage of representation in parliament has a political foundation.

1. Christian Democratic Union – Konrad Adenauer Foundation
2. Social Democratic Party – Friedrich Ebert Foundation
3. Free Democratic Party – Friedrich Naumann Foundation
4. The Left Party – Rosa Luxemburg Foundation
5. The Green Party – Heinrich Böll Foundation
6. Christian Social Union – Hanns Seidel Foundation

The political foundations work to promote people's civic participation, support young academic talents with scholarships and support the development of democracies abroad. Most have headquarters in Berlin with branch offices in Germany's federal states as well as in other parts of the world. The foundations are tasked with offering socio-political and democratic education, providing information and policy analysis at home and abroad. They seek to build on the principles of liberal democracy and adhere to the basic tenets of solidarity, subsidiarity and tolerance in all their activities. The political foundations are mostly funded by public funds.

Unlike other countries where political parties and associated foundations promote their own agenda, German political foundations promote democratic values and civic participation.

Legislating Non-Financial Performance and its impact on reducing inequality

The extreme concentration of economic capital since the 1970s in all capitalist societies and on a global scale can no longer be denied (Piketty 2014). The Oxfam report on wealth inequality estimates that richest 1 percent bagged 82% of wealth created last year (2018). However, this concentration of wealth is much worse than it seems. More than 99.9 percent of the world population do not own any means that can be used as capital, even if they own goods or money. The overwhelming majority of human beings own very little and those who do own a few assets, consume what they own, such as car, house, clothes luxury goods. Vitali, Glattfelder and Battiston (2011) have studied the network of transnational corporations (TNC) and their ownership. They identified 43,000 TNCs, 295 of which form the core group of a global network. Within the core group three questers of the corporation's shares are held by other TNCs of the core. The hundred forty-seven of them own 40% of all TNC shares. This means that Global economy is controlled by fewer than 200 private companies and a smaller number of large nation states. (Rehbein and Souza, 2017).

The global inequality is increasing every year due to two reasons. One is distribution of profit among classes especially owners and workers and second, businesses quest for maximizing profit without accounting its impact on people and planet.

Legislating Reporting of Non-Financial Performance could be one such big step in this. The accounting system to report financial performance was a revolutionary method and adapted by all states and nations. Similarly, a global call for devising the method to report non-financial performance and implementing it through legislation will bring about a systemic change. If we start measuring the impact of business on People, Planet and Profit or in other words Environment, Society and Governance (ESG) it will make businesses more accountable and in the long run is likely to reduce inequality. However, though one can surmise that this will not make societies equal, it will certainly be one step towards it.

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Notes

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