

Big Society Capital: Social Impact Tests



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About Big Society Capital

Big Society Capital is an independent financial institution. We were established to develop and shape a sustainable social investment market in the UK. This gives organisations tackling major social issues access to new sources of finance to help them thrive and grow.

We invest in social investment finance intermediaries (SIFIs). These are organisations that provide appropriate and affordable finance and support to social sector organisations that are tackling some of our most intractable social problems.

Social sector organisations are driven by a social purpose, rather than the pursuit of profit. These include charities, social enterprises, voluntary

and community organisations, cooperatives and mutuals.

SIFIs connect socially motivated investors with social sector organisations that need finance. This allows social sector organisations to grow and increase their impact.

We invest directly in SIFIs rather than in social sector organisations. We believe that by supporting SIFIs to grow and become more sustainable, they will be able to bring millions more in investment into the social sector than we could bring alone. This means that over the long-term, the social sector will have access to greater and more reliable sources of finance.

Social Impact

Big Society Capital's mission is to grow the social investment market. Our priority is to increase access to social investment for social sector organisations so they can improve the lives of vulnerable and disadvantaged people in the UK. We believe that growing the social investment market will ultimately drive greater impact and positive social change.

In our role as wholesale investor, we need to ensure that social value is delivered both by SIFIs and by charities and social enterprises receiving investment. We also need to ensure that we can evidence that social value so that, in our role as champion, we can increase the confidence and engagement of other investors in the social investment market.

This is the latest version of Big Society Capital's Social Impact Tests, used by the investment team to evaluate proposals for investment. The tests are split into two broad sections: Social Impact, and Risk, Process and Governance. They are based on existing best practice in the social investment market and will continue to be refined based on feedback and learning.

The Social Impact Tests can be applied flexibly to assess different types of investment proposals. We aim to be proportionate in our assessment process based on whether an investment proposal is from a new or existing organisation and on the type of approach and products proposed.

Social Investment Financial Intermediaries (SIFIs) can use the tests in the tables below to evaluate the potential impact of charities and social enterprises which have applied for investment. Please note the italicised text in purple is only applicable when evaluating SIFIs, and should not be used by SIFIs to evaluate charities and social enterprises.

SOCIAL IMPACT COMPONENTS	SPECIFIC TESTS	ASSESSMENT		
		STRONG = 3	MEDIUM = 1	WEAK = 0
A. SOCIAL MISSION What is the intended change?	1. STRATEGY: To what extent does the organisation have a clear vision and understanding of the social change it is trying to make?	<ul style="list-style-type: none"> - Social mission, strategy and theory of change is clearly articulated and defined - Target outcomes are well defined - Very strong impact chain with clear links between the organisation's activities and outputs to positive social outcomes - Risk of not achieving positive social outcomes as intended is clearly articulated and mitigants have been considered - Beneficiaries are clearly defined, targeted and consulted - <i>Social purpose is embedded into the investment strategy and process and follows best practice</i> 	<ul style="list-style-type: none"> - Social strategy is being formulated - Target outcomes are broadly defined - There are some links between the organisation's activities and outputs to positive social outcomes - Risk of not achieving positive social outcomes as intended is broadly understood, no mitigants have been considered - Beneficiary characteristics are articulated but there is not a clear definition, nor are they consulted - <i>There is a commitment to embed social impact into the investment strategy and process and to follow best practice</i> 	<ul style="list-style-type: none"> - Social mission and strategy cannot be clearly articulated and/or is ill defined - Target outcomes are undefined - Weak impact chain with unclear or broken links between the organisation's activities and outputs to positive social outcomes - Risk of not achieving positive social outcomes as intended is not understood or articulated - The organisation has not considered or is unable to identify or elucidate a target beneficiary group - <i>There are no plans to embed Social mission into the investment strategy and process</i>
	2. CONTEXT: To what extent the organisation understands the policy landscape and others operating in the sector?	<ul style="list-style-type: none"> - Comprehensive understanding, informed by stakeholder consultation, research or partnerships, of the social issues, needs and policy landscape - Comprehensive knowledge of other organisations operating in the sector and of best practice 	<ul style="list-style-type: none"> - Some understanding or effort to understand the social issues, need and policy landscape or isolated areas of expertise - Some knowledge of other organisations operating in the sector and of best practice 	<ul style="list-style-type: none"> - The organisation shows no interest in or little understanding of the social issues, needs and policy landscape and has conducted little or no stakeholder consultation, research or formed partnerships - Little or no knowledge of other organisations operating in the sector or best practice

B. IMPACT What is the extent of the change that will be delivered?	1. DEPTH OF IMPACT: To what extent is the organisation aiming to achieve additional outcomes that will make a fundamental difference to people's lives?	<ul style="list-style-type: none"> - Social mission involves making significant difference to lives of target beneficiaries that wouldn't have happened otherwise - A typical beneficiary experiences marked disadvantages in life without taking into account the intervention/activity funded - Capital is used to fund interventions with direct impact on beneficiaries 	<ul style="list-style-type: none"> - Social mission involves making some positive difference to lives of target beneficiaries that may have been displaced from other organisations - A typical beneficiary experiences some disadvantages in life without taking into account the intervention/activity funded - Capital is used to fund interventions with some direct and some indirect impact on beneficiaries 	<ul style="list-style-type: none"> - Social mission involves making a minor difference to the lives of target beneficiaries that they could easily access from other sources - A typical beneficiary is not subject to marked disadvantages in life without taking into account the intervention/activity funded - Capital is used to fund interventions with indirect impact
	2. IMPACT YIELD: Is the amount of change being delivered cost-effective?	<ul style="list-style-type: none"> - BREADTH: Social mission involves making a difference to the lives of many beneficiaries (<i>expressed in number of beneficiaries per £100k invested</i>) - The organisation is achieving outcomes in the most cost-effective way (expressed in £ spent per beneficiary) - Impact is realised over a short timescale 	<ul style="list-style-type: none"> - Social mission involves a making a difference to the lives of some beneficiaries (<i>expressed in number of beneficiaries per £100k invested</i>) - The organisation is achieving its outcomes in a mainly cost-effective way (expressed in £ spent per beneficiary) - Impact is realised over a medium timescale 	<ul style="list-style-type: none"> - Social mission involves making a difference to the lives of few beneficiaries (<i>expressed in number of beneficiaries per £100k invested</i>) - The organisation is achieving its outcomes in a needlessly costly way (expressed in £ spent per beneficiary) - Impact is realised over a long timescale
	3. INNOVATION AND CHANGE: To what extent will systemic impacts be delivered – local economic growth, knowledge sharing, advocacy, replicability, innovation?	<ul style="list-style-type: none"> - Capital is actively being used to address an issue in a new and better way, and take social risk - Organisation encourages disruptive models for social change and has a mission for innovation - Intervention is preventative and addresses root cause of issue - Intervention actively encourages disintermediation 	<ul style="list-style-type: none"> - Capital either improves on an existing model or there is some allocation for high social risk - Intervention is somewhat preventative - Intervention is scalable and replicable in certain areas - Knowledge-sharing is aspirational - The organisation aims to build partnerships 	<ul style="list-style-type: none"> - Capital is used to fund established models only - Intervention is reactive - Intervention adds further intermediation - Intervention is not easily scalable nor replicable - Organisation has protectionist and proprietorial attitude towards knowledge sharing

		<ul style="list-style-type: none"> - Intervention is easily scalable and replicable across the entire UK - Organisation can demonstrate commitment to knowledge-sharing - The organisation has key partnerships to maximise social impact - <i>Investment strategy/risk assessment are congruent with social mission</i> 	<ul style="list-style-type: none"> - <i>Investment strategy/risk appetite are linked to social mission on best effort basis</i> 	<ul style="list-style-type: none"> - The organisation does not plan to build partnerships in the space - <i>There is no link between investment strategy/risk assessment and social mission</i>
	<p>4. FRONTLINE ORGANISATIONAL DEVELOPMENT: To what extent will frontline capability be enhanced (including systems)?</p>	<ul style="list-style-type: none"> - Capital provided will deliver resilient and long-term sustainable outcomes beyond the life of the investment. - <i>The SIFI provides active non-financial support, including setting key impact milestones, measuring progress and helping them embed learning to improve their business models.</i> 	<ul style="list-style-type: none"> - Capital provided will boost capacity and deliver outcomes for the life of the investment. - <i>The SIFI aims to provide certain forms of non-financial support, but does not engage in any impact planning activity.</i> 	<ul style="list-style-type: none"> - Capital provided will have no direct impact capacity and outcomes are not sustainable. - <i>The SIFI does not aim to provide non-financial support or networks</i>

RISK, PROCESS AND GOVERNANCE COMPONENTS	SPECIFIC TESTS	ASSESSMENT		
		STRONG = 3	MEDIUM = 1	WEAK = 0
C. GOVERNANCE What is the management of change?	1. MISSION LOCKS: To what extent are there locks on the social mission – articles & policies, assets, profits, remuneration?	<ul style="list-style-type: none"> - Social mission is locked into the articles <i>and investment terms</i> - Any assets are locked to secure and maintain their benefit for the social sector - Clearly articulated policies aligning profit generation/ distribution and award of remuneration, to long term social performance - Salaries are appropriate within the context that the organisation is operating 	<ul style="list-style-type: none"> - Social mission lock is on the basis of reasonable best efforts - Assets are locked for the duration of the investment but there is no long term lock of assets for social use - Policies on profit distribution and remuneration are on the basis of reasonable best efforts - Salaries are higher than average within the context that the organisation is operating 	<ul style="list-style-type: none"> - Social mission is incidental to the Governance <i>and investment conditions of the SIFI</i> - Assets of organisation are available for sale at any time to an unlimited range of buyers - Profits are available to be directed outside the social mission. - Salaries are very high compared to sector averages and subject to a high level of dispersion within organisation
	2. BOARD/IC: To what extent is/are the Board/IC suitable for operating in the social sector – composition (balance and diversity) and capability?	<ul style="list-style-type: none"> - All governance body members have some relevant experience operating inside or at least with social sector organisations; alternatively some evidenced expertise within a relevant e.g. policy-making/research organisation - There is sufficient diversity on all governance bodies - <i>The IC members are from diverse backgrounds but with common values and significant expertise vested across the members in both finance and the social sector</i> 	<ul style="list-style-type: none"> - Some governance body members' have relevant experience operating inside or with the social sector and other members' commitment to the sector is aspirational rather than evidenced - There is some diversity on all governance bodies - <i>The IC members may not be from sufficiently diverse backgrounds and / or their social sector expertise may be too concentrated in too few individuals.</i> 	<ul style="list-style-type: none"> - No governance body members' have relevant experience operating inside or with social sector organisations - Governance bodies are not diverse - <i>The IC members are not diverse and there is limited or no social sector expertise.</i>
	3. EXIT: To what extent has the organisation considered the	<ul style="list-style-type: none"> - Defined plans that ensure the continuation of the social mission 	<ul style="list-style-type: none"> - Exit plans that ensure the continuation of the social mission 	<ul style="list-style-type: none"> - Exit strategies for investments have either no propensity or no capacity to consider realising financial value

	continuation of the social mission beyond the terms of the invested capital and what is the likelihood of this being achieved?	beyond the terms of the invested capital - The exit plans are very likely to be achieved at the end of the investment term/the infrastructure required to facilitate exit achievement is already in place	beyond the terms of the invested capital - It is likely that the exits will be achievable at the end of the investment term/the infrastructure required to facilitate exit achievement is in development	within the context of a social impact optimisation framework - Alternatively, there are defined exit plans that may ensure the continuation of the social mission but these are unlikely to be achieved
D. ACTIVITIES How will the organisation deliver its social mission?	1. TRACK RECORD: To what extent does the organisation have experience and a record of delivering successful social outcomes in the sector?	- Experience of operating in the specific social context, including working in partnerships, and with a strong track record of delivery evidenced by references and / or results	- Experience of operating in the social sector but not the specific context and with at least a moderate track record of delivery evidenced by references and /or results - Alternatively experience of operating in the specific social context but with a moderate track record of delivery evidenced by references and / or results - Intent on developing partnerships	- No experience of operating in the social sector - Weak track record of delivery in the social sector evidence by references and/or results - No experience of and/or no intention to develop partnerships
	2. MANAGEMENT: Assessment of the propensity (commitment and passion), capability (relevant skills and experience) and capacity of the management team to operate in the social sector.	- Management can demonstrate propensity, capability and capacity to optimally deliver social mission and strategy	- Management can demonstrate some propensity to deliver the social mission and strategy - Management's capacity to deliver the social mission and strategy is achievable but likely to be challenging	- Management has no demonstrable experience or expertise in the sector - Management does not have the capacity to deliver the social mission and strategy
	3. CONGRUENCY AND ALIGNMENT: The extent to which social impact performance is integral to	- Core activities are fundamental to social and financial performance - Products/services are accessible, affordable, inclusive without reliance upon public subsidy	- Core activities are linked to social and financial performance - Products/services are mainly accessible, affordable, inclusive and	- Organisation can perform financially without delivering social outcomes - Products/services are not accessible, affordable, and inclusive

	financial success and vice-versa.		priced and/or require some public subsidy	and/or are mainly or exclusively reliant upon public subsidy
E. IMPACT ASSESSMENT and MEASUREMENT How will the organisation evidence the change it is making and learn from it?	1. IMPACT ASSESSMENT AND SCREENING: <i>Assessment of the integration of impact evaluation in the SIFI's investment processes</i>	<ul style="list-style-type: none"> - <i>Impact evaluation forms an important part of the SIFI's investment screening, decision-making and monitoring processes</i> - <i>The process/plan is well-laid out and resourced</i> - <i>Social impact considerations – both social return and risk – are given as much weight as financial return and risk</i> 	<ul style="list-style-type: none"> - <i>Impact evaluations forms a part of the SIFI's investment process but is not entirely integrated</i> - <i>The process has not been clearly documented in the SIFI's investment policy or resourced up-front</i> - <i>Social impact considerations form a part of the SIFI's investment decision-making process, but are not given as much weight as financial risk/return</i> 	<ul style="list-style-type: none"> - <i>Impact evaluation does not form a part of the SIFI's investment process</i> - <i>The process has not been documented or resourced</i> - <i>Social impact considerations do not influence the SIFI's investment decision-making process</i>
	2. PLANNING & TARGETING: Assessment of the organisation's planning and appetite for impact measurement.	<ul style="list-style-type: none"> - There is a well-designed impact evidence planning and measurement process that has been independently validated and is established and operational - All targets and goals set are realistic and linked to the beneficiaries' needs and expectations of the social mission. - Beneficiaries are consulted and remain actively engaged in intervention design, progress and governance - Management commitment to impact measurement is self-evident from the quality of its impact planning and targeting - All indicators used are established, standardised, specific, practical and 	<ul style="list-style-type: none"> - The organisation has designed an impact evidence planning and measurement process but which could be improved - Some targets and goals set are realistic and/or not all are linked to beneficiaries' needs and expectations of the social mission - Beneficiaries are consulted for the design of the intervention - Management is committed to impact measurement - Some of the indicators used are established, standardised, specific, practical and address things that are important 	<ul style="list-style-type: none"> - There are plans to implement an impact evidence planning and measurement process - All targets and goals are in need of further development - Beneficiaries are not consulted - Management is insufficiently focused on or committed to impact measurement - Few or none of the planned indicators are standardised, specific, practical or address things that are important to the organisation

		address things that are important to the organisation		
	3. MONITORING & REPORTING: Assessment of the organisation's systems for monitoring and reporting its social impact.	<ul style="list-style-type: none"> - Organisation can demonstrate a thoughtful and comprehensive format/template for impact reporting - <i>Format/template allows for comparison and aggregation across investments</i> - Reporting is regular, comprehensive and proportionate to the size and complexity of the organisation - <i>SIFI includes comprehensive requirements to report impact and sets targets within legal documentation</i> 	<ul style="list-style-type: none"> - Organisation has an established impact reporting template for individual investments - <i>Organisation has thought about how to aggregate and compare impact of investments and represent outcomes at the portfolio level</i> - Reporting may be irregular and not always comprehensive or proportionate to the size and complexity of the organisation - <i>SIFI includes some requirements to report impact within legal documentation</i> 	<ul style="list-style-type: none"> - Organisation has no impact reporting template - <i>There is poorly-developed thinking on aggregation or comparison of social impact across investments</i> - Reporting may not occur or, if it occurs, it is sporadic, inconsistent and insufficiently rigorous for the size and complexity of the organisation - <i>SIFI does not include any reference to impact reporting within legal documentation</i>
	4. AUDITING: Assessment of the process for verifying social impact reports	<ul style="list-style-type: none"> - Organisation has identified a third party or established an arm's-length operative which can perform independent auditing and verification of social impact reporting claims 	<ul style="list-style-type: none"> - Organisation undertakes internal reviews of its social performance 	<ul style="list-style-type: none"> - Organisation has not considered the importance of verification and defensibility of social impact reporting claims
	5. LEARNING: To what extent is the organisation likely to improve performance and future strategy by learning from its impact measurement?	<ul style="list-style-type: none"> - Organisation always uses essential information (good and bad) gathered from monitoring and reporting to draw lessons to improve and develop future strategy - Organisation always shares its learning with its investors to improve and develop future strategy 	<ul style="list-style-type: none"> - Organisation often uses essential information (good and bad) gathered from monitoring and reporting to improve and develop future strategy - Organisation may not always share all of its learning with its investors to improve and develop future strategy 	<ul style="list-style-type: none"> - Organisation rarely or does not use essential information gathered from monitoring and reporting to improve and develop future strategy - Organisation rarely or does not share its learning with its investors to improve and develop future strategy