Approach to assessing social impact

Venturesome

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CAF

Venturesome is a social investment fund, an initiative of the Charities Aid Foundation (CAF). Venturesome provides capital to civil society organisations, operating in the space between providers of charitable grants and providers of bank loans at market rates. Since its launch in 2002, over £12.5 million has been offered to some 200 organisations. In addition to accumulating practical deal experience, Venturesome has endeavoured to play a central role in building a robust social investment market, adopting an open-book approach to share knowledge and build experience, but also ready to operate in competition so as to raise standards.

For more information, visit *www.venturesome.org* If you wish to receive information from Venturesome, please send your contact details to *venturesome@cafonline.org*

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Approach to assessing social impact

Why we assess social impact

An analysis of social impact is a critical part of the Venturesome model. When assessing potential applicants, we are looking to strike a balance between financial risk and social return[1]. This is because Venturesome aims to achieve a social impact through each investment. We also seek to achieve a financial return, so that our resources can be recycled in order to create more social impact.

When assessing organisations that are looking for capital investment from Venturesome, we first want to know about those organisations' social impact. We understand social impact to mean the bringing about of positive social and/or economic change to people's lives.

We expect organisations that contact us to be able to articulate their social impact. Most organisations are able to articulate the success of their activities. Venturesome seeks to capture this information in our assessment, both at initial assessment and at 'exit' – when the facility lapses or has been fully repaid.

Our approach to assessing social impact

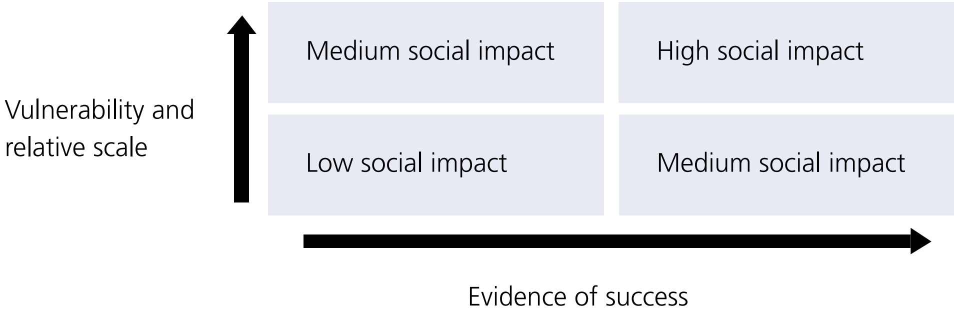
Venturesome invests in a broad range of organisations working in a variety of areas, from health to heritage. We also understand that there are a vast number of ways in which organisations can monitor and evaluate their results. As such, we do not have a set framework detailing the evidence we expect.

Instead we have a workable matrix that we use to help us assess social impact (Figure 1 see over). These indicators inform our decision making. Because we seek to strike a balance between financial risk and social return, the level of financial risk must be commensurate with the level of social impact. In other words, a high social impact commitment would be considered at low, medium or high financial risk. The reverse is not true.

1 For more information, see *"Balancing financial risk and social return "* - available from the Venturesome website: www.venturesome.org

The three key elements of our matrix are vulnerability, relative scale and evidence of success. Each is explained in more detail below.

Figure 1: Venturesome's matrix for assessing social impact:



1 Vulnerability

Assessing the vulnerability of beneficiaries has its roots in ensuring that finite funds are targeted at those most 'in need'. There are a number of ways of assessing 'need', but these commonly revolve around notions of 'exclusion' – poverty, disability and other forms of disadvantage.

Activities which benefit vulnerable individuals would tend, therefore, to be rated more highly on our assessment of social impact than those which are of benefit to the general population and/or which are not targeted at particularly vulnerable sections of society.

2 Relative scale

Venturesome is interested to know the scale of an organisation's work, ie how many people it reaches through its activities. However, there are many examples of excellent work that are restricted to particular localities, or particular sections of a community (for example, Asian women, or lesbian and gay groups).

We therefore seek to understand the *relative* scale of the work – ie the potential target group of the organisation and the proportion it is currently reaching. If, for example, there is a potential 'community' of 500 for a scheme and only 50 are being reached, this may tell us something about the scheme (perhaps it could do more to reach its target audience). If the scheme were reaching 400, then it would score more highly.

3 Evidence of success

Evidence of success is critical to an assessment of social impact. It is perfectly possible to have grand social aims and reach a number of vulnerable people, yet have limited positive impact.

Evidence of success can be evidenced in a wide variety of ways. As noted previously, Venturesome does not have a set framework of assessment. We are open to a broad range of outcomes' assessment tools.

We then make a judgement of the social impact of an organisation, just as we do when assessing financial risk, the capacity of management to achieve social impact and mitigate financial risk, and so forth.

Case study

Organisation A offers training services to unemployed people in a largely rural area of the UK. It works with all ages, but the majority of its clients are aged 18–24.

Vulnerability

Unemployment levels in the area in which Organisation A works are slightly below national average. The range of employment options in the area is limited however, and seasonal. Furthermore, the benefits of employment are considerable and as such Venturesome would assess organisations that work with the unemployed to be working with vulnerable people.

Relative scale

The most recent census suggests there are around 700 people claiming Jobseeker's allowance in Organisation A's area. The charity works with 400 people each year, around 60% of its potential target audience.

Evidence of success

Nearly two thirds of Organisation A's clients gain employment, placing it in the top three providers in its area. Its outcomes have ensured an increase in contracts over the years, and it has a number of repeat contractors.

Venturesome offered the charity a working capital facility at medium risk to enable it to meet cash flow requirements; as such, the potential social impact was deemed to be medium as Organisation A was not looking to extend its change the nature of its activities nor its reach in the foreseeable future.

We recognise that this approach is simplistic; but it has the advantages of being workable and easy to apply. We are clear that this matrix should not be applied mechanistically. Rather, it is used as a framework when initially assessing the social impact an organisation has.

Distinguishing between current and potential social impact

When assessing social impact we distinguish between current and potential impact.

Potential impact is often implicit in the reason why the organisation has got in touch with Venturesome. For example, an organisation may approach us with a desire to grow, and a need for development capital in doing so. The implicit aim may therefore be that the organisation increases its scale. An alternative example is, when providing cash flow support in a turnaround situation, we may be taking the view that without the support the organisation would fold and therefore there would be no future (potential) impact, a situation that both parties are seeking to avoid.

Case study

Organisation B

Organisation B is a national charity that works with the food and drinks industry to distribute quality surplus produce. It partners with a range of community organisation to distribute the food to disadvantaged people.

Vulnerability

The charity seeks to help those suffering ‘food poverty’; people with low or no income with poor access to affordable nutritious food, and who lack the knowledge, skills or equipment to ensure food is safe and prepared properly. It also seeks to reduce the amount of landfill waste created by surplus food, reducing unnecessary CO2 emissions.

Relative scale

The charity works with around 100 businesses and has 420 charitable partners. The charity's trading subsidiary is currently the only UK company that can arrange disposal of surplus food in one seamless process.

Evidence of success

Last year, the charity redistributed in excess of 2,000 tonnes of good quality, surplus food, greatly reducing individual businesses' contributions to landfill waste, helping reduce CO2 emissions by 13,000 tonnes. It is estimated that the charity's partner charities diverted over £5 million into other services for the disadvantaged with the money saved through the charity's free food service.

Venturesome offered the charity a working capital facility, at low financial risk, to enable it to meet cash flow requirements. The social impact was deemed to be high given the charity's twin social objectives and evidence of success, and also to reflect its continuing growth.

Assessing our own social impact

Venturesome's social aims are twofold:

1 By showing that Venturesome's type of risk financing can work, we aim to have a strategic social impact by helping to develop the social investment market. This means an increase in the amount and efficiency of investment available to charities. There is a lack of information regarding the social investment market, so we have sought to track its development since 2002 in a series of snapshot publications, available on our website.

2 By assisting the organisations with which we work to build their capacity, we aim to have a direct social impact. We seek to measure ourselves against the increase in capacity of our investees. Nearly nine out of ten of our investees have met or exceeded the capacity building expectations agreed at outset. We do not claim to have a direct impact on our investees' social impact. However, we believe the two to be linked: strengthening an organisation's capacity should positively affect its social impact. As such, Venturesome captures an assessment of impact at exit (when a facility lapses or has been repaid) as well as at outset.

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