

Impact Reporting for Social Investment

A Summary Document

June 2013

Impact Reporting for Social Investment: The Finance Fund

An Overview

Background

Finance Fund investments aim to reflect the Esmée Fairbairn Foundation's mission to enhance the quality of life for people and communities in the UK, specifically through supporting work in our four primary areas of interest: arts, education and learning, the environment, and social change. An additional objective of the Fund has been to help develop the social investment market, which it has done through investments in market building initiatives including social investment intermediaries.

Five years on from the launch of our Finance Fund, the Esmée Fairbairn has been reviewing both the impact achieved to date from the Fund and what can be learnt about how to measure the impact of our social investments.

We commissioned the New Economics Foundation (NEF) to carry out a review for us and below is a summary of their findings and of our emerging approach to reporting impact on social investment.

Measuring impact

The diverse nature of our social investments, in terms of both the breadth of our portfolio and the mix of direct investments and investments made through intermediaries, has meant that to date impact information reported has varied in approach, depth and consistency. In a wish to be flexible and not over-burdensome we have encouraged investees to report to us in their own in-house formats which will generally reflect their own requirements.

The absence of a commonly accepted impact reporting framework for social investment in the UK, or indeed a consistent and systematic approach amongst our investees, makes it challenging for us to construct a picture of the impact achieved across our Finance Fund portfolio or within specific funding priorities.

As part of our work with NEF, we looked at two possible options to address this. Firstly, we reviewed existing impact reporting frameworks to see if any could be reasonably applied to the Finance Fund portfolio. Secondly we considered, whether in the absence of a suitable existing framework, if we should develop an interim reporting approach until such time that an industry standard emerges.

Developing a reporting approach

The NEF review concluded that existing impact reporting frameworks would not readily meet the needs of our Finance Fund without substantial modification and customisation. This is primarily because existing frameworks are metrics-based with a programmatic or developing world bias and do not offer the emphasis on a qualitative overlay that we would prefer. We, therefore, focused with NEF on developing an impact reporting approach which

could adapt to the diversity of our Finance Fund portfolio and include a strong qualitative element that reflects our intent to encourage flexibility and improvement in social outcomes.

We concluded that we would adopt an approach that is consistent with our approach to impact in our grant-making. The impact approach focuses on identifying three key outcomes for each investee in the initial due diligence process, for which they will then report against over the life of our investment. For intermediaries we ask for three key outcomes for the intermediary, as well as three for their investee set. The selection of the key outcomes is done in consultation with the investee to ensure they will provide a meaningful picture of impact which is understood by all parties. It is hoped that this approach will not impose another reporting format on investees; investees can still report to us using their own in-house reporting formats.

Emerging Themes

Although many of our investments are at an early stage of delivery and reporting of their impact, applying the interim reporting approach to our current Finance Fund portfolio has begun to reveal an emerging picture of impact. The review has highlighted that:

- One of the critical roles we can play as a Foundation is in supporting innovation and growth of the social impact investing sector.
- Investments made by the Fund are supporting the organisational capacity of charities and social enterprises, which should help them to access further social investment finance.
- The review highlighted that over the long term those more closely affected by social investment activities should remain integral to developing impact reporting.
- Through our reporting approach we aim to better understand the impact of the Fund on the social investment market as well as on investee organisations and their beneficiaries.

Over the next two to three years we expect a clearer picture of the impact from both our Finance Fund and from our investees to emerge along with a continuing assessment of the effectiveness of our reporting approach.

More details about the Finance Fund can be found at: <http://esmeefairbairn.org.uk/what-we-fund/finance-fund>