Briefing

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Measuring social impact in the EU

SUMMARY

Austerity measures in the wake of the financial crisis, coupled with fragile economic growth, have triggered a shift in the focus of EU policy-makers towards deepening the economic and monetary union and achieving greater social convergence across Member States. In addition, due to growing inequalities and changing labour markets, discussions on investing in human capital have also come to the fore. In this context, it has become all the more important to understand and assess the social impact of policies and investments. Moreover, both public and private investors want to gain a better understanding of the social outcomes that are achieved by their investments.

There is no clear consensual definition of the concept of social impact: while the social sciences look at the impact of policies and programmes, often in terms of social progress, social investors tend to look for the non-financial (that is, social and environmental) returns on their investments, which they tend to quantify and/or express in monetary terms, if possible. Metrics and methodologies to carry out the measurement of social impact are numerous but incoherent. The European Commission and European Parliament have their own mechanisms for impact assessment, in which they also assess social impact. In addition, several initiatives aim at measuring the social dimension of growth beyond GDP, arguing that GDP in itself does not hold enough information on social progress. The third sector has developed several methodologies to measure social impact as well, due to its interest in investing in social causes. Unlike outputs, it is often difficult to quantify outcomes and impacts. Moreover, it is debated whether quantification, no matter how comprehensive it is, can express the intricate nature of the issues at hand. Finally, developing a coherent framework that would help to effectively link strategic thinking with policy-making and policy implementation, including investment, remains a policy challenge.

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Background

Against the backdrop of the recent financial crisis and unsteady comeback, employment and social considerations have been given greater prominence in the EU's political agenda. The current European Commission has named promoting policies that support social convergence among EU Member States as one of its priorities. Encouraging more investment in the social field has also been of major concern, particularly since the issuing of the 2013 social investment package. The idea of a more 'social' Europe has been further reinforced by the 2015 Five Presidents' Report, which promised to earn a social triple A for Europe. Last but not least, in April 2017 the Commission brought forward the European Pillar of Social Rights. All these efforts have triggered wider discussion on the future of the EU and, within this context, of a Social Europe. The main thrust of the discussion has focused on putting social and economic policies on a more equal footing. Throughout the years, the European Parliament has been active in promoting and strengthening the social aspects of the EU through supporting policies and the exchange of good practices, so as to encourage change in the Member States.

However, as the EU has limited competence in the social sector (Title X of the Treaty on the Functioning of the European Union (TFEU)), it is all the more important to see which policies have more added value than others, as far as societal impact is concerned, so as to build a solid evidence base for policy-making and implementation.

Social Europe

There has been no clear-cut definition of the concept of Social Europe: whether this refers only to social policies that facilitate the free movement of workers, such as measures concerning social security, or to Article 3(3) of the Treaty on European Union and the horizontal social clause (Article 9 TFEU) that reaffirms the EU's commitment to social cohesion. A recently published Commission reflection paper on the social dimension of the EU also emphasises the highly diverse views on the meaning of the term.

Under Europe 2020, the inclusive growth agenda has put investment in human capital at the centre of policy discussions, and has focused on finding solutions to problems such as growing inequalities, a shrinking workforce and high youth unemployment. Some, who would like to link economic and social policies more effectively and achieve real inclusive growth, argue in favour of focusing on the quality of growth and participatory approaches instead of developing economic policies. In this context, understanding and measuring how policies impact on societies and individuals is essential.

Measuring social impact

What is the issue at hand?

Due to the financial crisis, funders and investors (both public and private) have an ever-increasing desire to concentrate their resources on measures that have an impact. For policies to be effective, measurement is considered to be critically important. Appropriate measurement informs improvements in diagnosis and design. Yet, particularly in the social sector, there is a lack of market feedback mechanisms and of a clear, objective impact assessment process. The latter is often – at least in part – due to the absence of clarity regarding the actual goal sought to be achieved through measurement. The Organisation for Economic Co-operation and Development (OECD) distinguishes three approaches to measurement: a positivist one, where a picture of the real world is built by adopting rational and objective value measurements; a critical one, where measurement is based on the principles of democracy and accountability, since measurement plays a role both between (and within) organisations and society, stakeholders play an important role in it; and an interpretative one, where measurement serves as a 'symbolic mediator' between various social groups and as a tool for dialogue between companies and their stakeholders to encourage social change.

Different definitions of 'social impact'

As basically all studies on the topic point out, there is no clear universally accepted definition of the term 'social impact', and it is often used interchangeably with the terms 'social value creation' and 'social return'.[1] Social impact is also related to the theory of change, which studies the mechanisms driving change. According to a 2015 paper on social impact assessment in the EU, published by the International Association for Impact Assessment (IAIA), it is necessary to draw a distinction between 'social change' and 'social impact'. Social impact is something that is experienced or felt at the level of an individual, an economic unit (family/household), a social group, or a community/society. Social change processes lead to social impacts. These change processes can be of a demographic, economic, geographical, institutional and legal, emancipatory, empowering or sociocultural nature.

According to the report and glossary prepared by the expert group on social entrepreneurship (GECES) at the Commission, social impact entails 'the reflection of social outcomes as measurements, both long-term and short-term, adjusted for the effects achieved by others (alternative attribution); for effects that would have happened anyway (deadweight); for negative consequences (displacement); and for effects declining over time (drop-off)'. Social outcomes stand for the social effect (change), both short- and long-term, influencing the target population. Across the social field, five elements of impact measurement are most frequently used: inputs (what resources are used in the delivery of the intervention); activity (what is being done with the resources in the course of the intervention); output (how the activity affects the intended beneficiaries); outcome (the change that has taken place in the life of the beneficiaries and others); and impact (the extent to which change has resulted from the intervention).

Due to the wide variety of public and private entities involved in making investments aimed at achieving a social and/or an environmental impact, over the years several terms have appeared in business and the third sector to describe such investments. The idea of social impact investment has drawn more attention to impact, to non-financial returns and their measurement. In addition to risk and returns, funders and investors have also started to look at the impact of investments. In this context, it is important to understand what drives impact and how it can be measured. This approach mainly focuses on the quantification of social and environmental performance before and after the investment is made. By contrast, social and environmental sciences, with more traditional ways of measuring impact, are more concerned with looking into the impact of policies, projects and programmes.

Approaches to measuring impact in the EU

Impact assessment

In EU policies, the need for measuring social impact has come up in two contexts. The first, impact assessment, part of the Commission's better regulation agenda, examines whether there is a need for EU action and analyses the possible impacts of the available solutions before a proposal is put forward. It is required in the case of initiatives – mainly of a legislative nature – that are likely to have a significant economic, environmental and social impact. The methodology used for making an impact assessment involves a number of steps, as laid out in a 2009 Commission guidance paper. The paper identifies the main areas in which impact assessment is carried out and the issues that need to be addressed, including what evidence and techniques can be used to measure potential impact. It also recommends to start by examining whether there are any systematic impacts on well-defined groups. In 2015, the better regulation guidelines – a revised version of the above document – did not introduce many changes, but provided further instructions on how impact should be assessed and presented. The new guidelines were accompanied by a toolbox containing 59 tools, coupled with practical advice. Several tools were presented to facilitate the identification of specific social impacts, among other things, on employment and working conditions; income distribution and social inclusion; social protection, education, culture and youth; as well as health and safety.

A 2011 own-initiative resolution by Parliament called for guaranteeing independent impact assessment (both ex ante and ex post), and argued for its application throughout the policy cycle, from the design of legislation to its implementation, evaluation and eventual revision. The Parliament regularly carries out initial appraisals of the quality and methodological strengths and weaknesses of the impact assessment reports accompanying legislative proposals that the Commission submits. These take into consideration the Commission's own guidelines, as well as other quality criteria, and are provided to the parliamentary committees to assist them in their work. The Parliament's impact assessment handbook sets requirements, inter alia, for more detailed consultation with stakeholders before impact assessments are prepared, to offset any lack of methodology or data; a balanced analysis of the impact on the economic, social and environmental pillars and on public health; impact on SMEs and micro-enterprises; regional and local impacts; and as far as possible, qualitative criteria, such as the impact on vulnerable social groups (social benchmarking), and gender equality.

As a rule, the Council of the EU does not carry out systematic impact assessments. However, following a number of pilot projects, working parties at the Council should now use an indicative check list to consider the Commission's impact assessment for a specific legislative proposal at an early stage in the debate.

Beyond GDP and social investment

The second context in which social impact and its measurement appeared at the European level, was the follow-up of the conference 'Beyond GDP' in 2007. The objectives included to identify appropriate indices to measure progress/change as well as think about ways to integrate these into the decision-making process and subject to public debate. The conference concluded that GDP – although the best known measure of macroeconomic activity – did not hold enough information on social progress and environmental issues, or on human capital, including wealth and well-being, and thus needs to be complemented with additional indicators. Further input to this work was given in 2009 by the Commission's report on the measurement of economic performance and social progress, dedicated to developing indicators beyond GDP. The report (known as the 'Stiglitz' report) pointed out that GDP or any other aggregate computed *per capita* may not provide an accurate assessment of the situation in which most people find themselves. Moreover, it argued that the GDP measure might be good in itself, but could be wrongly interpreted, and that it does not take into account well-being, particularly its economic, environmental and social dimensions. Consequently, in addition to economic performance, quality of life and sustainability should also be part of the assessment. In the same year, the Commission adopted a communication on 'GDP and beyond', which put forward five key actions to develop indicators for progress.

The five headline targets set out in the Europe 2020 strategy reflected in part these considerations. These were comprehensive targets with complex social and environmental dimensions. Eurostat monitors progress towards them in the context of the European Semester process using nine headline indicators and additional sub-indicators. A 2013 Commission staff working document on 'Progress on 'GDP and beyond' actions' and its annexes explain how the actions identified in the 2009 communication have been followed up. It identifies some new indicators that describe social circumstances. Among them are the 'at risk of poverty and social exclusion' (AROPE) headline indicator, the consumer conditions index, and the indicators on the quality of life and well-being. The document also points out that over time, data have become more timely and the reporting on the distribution of inequalities between regions and social groups has become more accurate. In this context, national accounts have been extended to include environmental and social issues; European statistics on the System of Health Accounts (SHA) have been collected; and European statistics have been published on the 'annual adjusted disposable income in purchasing power standards' and on the quarterly 'real disposable income of households'.

In its 'Employment and social developments in Europe 2013' review, the Commission proposed a list of potential indicators to supplement GDP. A 2013 Commission communication on 'Strengthening the social dimension of the Economic and Monetary Union' drew the attention of policy-makers to the fact that a deterioration in the employment and social conditions in one Member State can hamper economic growth and well-being not only in the country concerned, but throughout the euro area. The Commission therefore proposed a scoreboard of key employment and social indicators that allows for better and earlier identification of major employment and social issues, especially those which run the risk of generating effects extending beyond national borders. The scoreboard is now fully integrated into the EU economic governance framework and was used for the first time during the 2014 European Semester process. In November 2015, the Commission decided to add three labour market adjustment-related indicators to the macroeconomic imbalance procedure (MIP) scoreboard.[2] Thus, in 2016, work on the scoreboard was done with the inclusion of four relevant indicators, including the original three-year backward moving average of unemployment rate.

At a 2014 conference during the Italian Council Presidency, it was highlighted that there were measures available to gauge inclusive growth, that is, to correct GDP according to wealth distribution; the challenge remained, however, to make it really part of the policy cycle. It was also stressed that inclusive growth needed to be systematically used in policy assessment and evaluation, as well as in the impact assessment of legislative proposals.

Making progress on the social investment agenda set out in the social investment package also necessitated measuring the impact of social investment. For this purpose, the package included a set of relevant key facts and figures. Moreover, the Commission's 2013 recommendation on 'Investing in children: breaking the cycle of disadvantage' was followed up by the development of a set of primary, secondary and context indicators related to child poverty, employment, education and health. In 2015, the European social policy network (ESPN) prepared a report on the implementation of the recommendation. It concluded that it was very difficult to give a comprehensive view of social investment-related policies, as there are very varied notions and approaches to social investment in the different countries.

A 2017 research project made an attempt to assess social investment synergies. While the project aimed to give a more theoretical insight into the productive functions of the social investment approach, it also proposed a methodology that should help in understanding which social investment policies can be fiscally robust. Moreover, it aimed at developing an analytical framework together with a toolkit to measure the (positive) cumulative effects of social investment policies so as to contribute to methodological progress in the field.

Throughout the years, the Parliament has emphasised the importance of developing proper methodologies for measuring the social impact of policies. The issue of measuring social impact has very often come up in the context of resolutions linked to the European Semester process. For example, the resolution on the economic and social aspects of the Commission's 2016 annual growth survey emphasised that the social impact of structural reforms should be assessed before they enter into force, and that in the particular case of the European Fund for Strategic Investment (EFSI) 'a report should be published to audit and measure the economic and social impact of the investment concerned in real terms'. An earlier resolution called on the Commission 'to carry out social impact assessments prior to imposing major reforms in the programme countries and to consider the spill-over effects of these measures, such as the effect on poverty, social exclusion, crime rates and xenophobia'. An even earlier resolution on 'Strengthening the social dimension of the EMU' called for more transparency concerning the social impact of policies and reforms through ex-ante and ex-post impact evaluation. Furthermore, a resolution on the European Progress Microfinance Facility and another on the European Voluntary Service pointed to the lack of a proper methodology for measuring social impact. In addition, in a 2011 report the Parliament also fully supported the Commission's 'beyond GDP' agenda and stressed the need to develop clear and measurable indicators for measuring medium- and long-term economic and social progress. Currently under negotiation, a draft report on establishing a common framework for European statistics relating to persons and households, which strongly supports the Commission's proposal to create a statistical framework for better-quality social statistics, reiterates the importance of quality data for getting a clearer picture of the well-being of households.

Third sector

The above-mentioned GECES sub-group report on impact measurement proposed a common approach to measuring social impact, in response to the Single Market Act II.[3] The report was specifically focused on the social enterprise sector, with the aim of providing information to support the work of the European social entrepreneurship funds (EuSEF), the Employment and Social Innovation (EaSI) programme and the Social impact accelerator (SIA).[4] The latter, created to measure the social impact of targeted social enterprises, is a framework for quantifying and reporting on impact metrics at all levels of the SIA investment chain.

Another context in which a thorough review of social impact measurement has come up, is that of ethical banks.[5] A 2015 study, commissioned by the European Federation of Ethical and Alternative Banks (FEBEA), summarised and analysed the impact assessment tools most commonly used by ethical banks, from the most comprehensive quantitative social return on investment (SROI), to qualitative storytelling. It concluded that no comprehensive methodology is available to measure the social impact of ethical banks' activities, and referred to the existing tension between having meaningful indicators at the institutional level, which cannot be compared to those of other institutions because of a lack of standardised metrics. Another 2015 study, prepared by the European Venture

Philanthropy Association, (EVPA), tried to establish common ground for impact measurement for venture philanthropist and social entrepreneurs, and emphasised the importance of managing the impact along the whole investment process. A 2015 article focusing on work integration social enterprises (WISEs) gives a full list of existing tools and methodologies for measuring their social impact.

There are also mechanisms that attempt to create transparency among companies. One such example is sustainability reporting, which helps companies to make their social impact more transparent. There are several methodologies for reporting; among these, the GRI standards are the first global standards for sustainability reporting. Being the most widely used in the world, they support reporting on a range of economic, environmental and social impacts. Moreover, companies are also increasingly reporting on governance – the procedural aspects of their work – to understand how they are managed. However, due to a lack of resources, it is much more difficult for SMEs to participate in sustainability reporting.

Outlook

Social impact is approached very differently by the social sciences and by social impact investors. This makes it all the more difficult to make the results of their reporting and measurement useful in policy-making and implementation processes. One reason for these differing approaches that experts in the field often point out, is the lack of comprehensive methodology and metrics that can be used across territories and reflect all the complexities and uncertainties of the multidimensional circumstances. Latest research (for instance, the Brainpool project) identifies some major barriers to the use of the 'beyond GDP' indicators, such as the lack of cooperation between relevant policy departments, in addition to budget constraints, data availability and a shortage of expertise in the use of indicators.

There are, however, some projects that are already trying to unify growth, well-being and wealth indicators into one coherent framework, and thus support strategic thinking and policy-making. The OECD's Better Life initiative, which focuses on households and people, looks much more at outcomes, rather than at inputs and outputs. That is, it wants to show, for instance, whether people are in good health or they have the competences they need, by presenting the information in a holistic manner. Moreover, the initiative aims to apply a combination of objective and subjective indicators. Furthermore, another ongoing OECD-wide initiative – 'New approaches to economic challenges' (NAEC) – is aimed at upgrading the organisation's analytical frameworks and strengthening its policy advice. As part of NAEC, OECD has developed the concept of 'inclusive growth' and is elaborating a conceptual and measurement framework that brings together average household income, health status, unemployment, as well as inequalities in these areas. This breaks down the silo approach to data at the OECD and explains how certain things happen, besides looking at what happens and why. Thus it can help to find better policy solutions.

The World Economic Forum also has an inclusive growth and development framework, which contains seven principal domains (pillars) and 15 sub-domains (sub-pillars). These 'describe the spectrum of structural factors that influence social participation in the process and benefits of economic growth'. The additional key performance indicators (KPIs) built into this framework capture performance beyond GDP, and provide information about sustained long-term growth and living standards. Finally, the combined KPIs are brought together in an Inclusive development index.

Lastly, while impact measurement is performed in both quantitative and qualitative terms, there is still a tendency towards measurement-meaning quantification, that is, to provide numerical values associated with certain outputs and outcomes. This in turn leads to the question as to what extent numerical values, however complex and comprehensive they are, can express the intricate nature of the issues at hand.

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[2] The activity rate, the long-term unemployment rate and the youth unemployment rate.

[3] The act states that 'the development of rigorous and systematic measurements ... is essential to demonstrate that money invested in social enterprises yields high savings and income'.

[4] The SIA is the first pan-European public-private partnership addressing the growing need for equity finance to support social enterprises, operating since 2015. SIA operates as a fund-of-funds managed by the European Investment Fund (EIF) and it invests in financial institutions that target social enterprises around the EU. The portfolio companies, in coordination with the fund manager, need to define from one to five social impact indicators and to set a pre-investment target value for each one of them. The impact multiple is calculated at least once a year as the comparison between the pre-investment target and the realised value.

[5] They are often referred to as 'ethical', 'solidarity-based', 'social', 'alternative' or 'responsible', according to the local operating context. These institutions aim at achieving positive impact on communities through the collection and use of money. They generally invest into activities that are not supported by the traditional banking sector, such as renewable energy and organic farming.

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