Charity bank
a bank for good

Measuring social impact: our approach

A brief guide to how and why we measure Impact

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Contents

Cover photo: Rotary & Residential Care Centres renovated its main property with a Charity Bank loan, providing homes for disabled residents.

Executive summary

What drives us isn't profits, but a shared idea about the world we want to live in.

Charity Bank was founded to support charities with loans that they couldn't find elsewhere and to show people how their savings could be invested in positive ways.

We make loans to charities, social enterprises and other organisations where the loan is for a social purpose, using the money that our savers entrust to us. We are a bank run for social purpose organisations and owned by social purpose organisations.

When we talk about social impact we are referring to the benefits that an organisation creates for people, communities and the environment through its work. We are interested in the social impact that our borrowers create with the help of our loans.

Our mission is to support our borrowers' missions. We also want to understand our own social impact and the extent to which we are enabling our borrowers to achieve their goals.

We follow our money and how it is being used so that we can show our savers that their money is working to benefit society. To do this we've developed a process of measuring and reporting social impact that we think works well for us, our borrowers, our savers and shareholders.

This document summarises our approach to social impact. We hope it will be useful to people interested in how we assess the social impact of potential borrowers and measure our own social impact. We also hope that it will provide insights for those developing their own processes for measuring social impact.

In summary...

Five reasons to measure social impact

We measure social impact to:

- decide whether to make a loan;
- see how we're helping organisations improve and grow;
- show our savers and shareholders where their money is going;
- understand what works for our borrowers and make better lending decisions;
- monitor our borrowers' progress against agreed social impact targets.

Social impact and making a loan

On top of the usual credit checks and due diligence any bank would carry out when we are deciding whether to make a loan, we look at the type of organisation, its mission, the services/products it provides, its beneficiaries/service users, the purpose of the loan and the potential of the loan to make a difference. In doing so we consider the difference our loan can make both to the borrower's beneficiaries/service users and to the organisation itself.

We monitor the proportion of our lending that benefits disadvantaged areas or groups.

But it's not all about the numbers. The number of people benefiting is not significant for us in and ofitself: we also fund some very small organisations serving only a few people.

Making sure the loan does its job

We stay in touch with our borrowers throughout the course of their loan with us, carrying out a full review with them on an annual basis. At each annual review, we discuss with the borrower the level of impact the loan has had on the organisation and the extent to which the expected benefits have been achieved.

We also use information gathered from these annual reviews and from our surveys and interviews with our borrowers, to inform our lending activity and processes so that we can ensure our loan finance is making a real difference.

Talk to us

If you have further questions about our approach to assessing social impact, please contact Katie at ktaylor@charitybank.org. To find out more about applying for a Charity Bank loan, you can explore the loans section on our website or call our loans team on 01732 441919.

If you're interested in saving with us, read about our different accounts here.

Banking for good

Our approach to social impact

Charity Bank helps ordinary people do extraordinary things. We are a loans and savings bank that makes savers' money available to charities, social enterprises and other organisations where the loan is for a social purpose.

Our savers, borrowers, investors, staff and directors are all partners in our mission to support charities and social enterprises working to benefit society. We are a social enterprise constituted as a limited liability company and the charitable objects in our constitution hold us to our social mission.

Every single one of our shareholders is either a charity or a social purpose organisation. What drives us isn't profits, but a shared idea about the world we want to live in. This shared vision sits at the heart of our plans for sustainability and growth.

Our approach to banking has earned us B Corporation certification, an accreditation for organisations that use the power of purpose-driven business activities as a force for good. We were the first bank in Europe to achieve this accreditation and wish to encourage further ones to follow suit.

We are also the only UK bank that has been awarded the Social Enterprise Mark. This mark verifies the social value delivered by social enterprises and shows when an organisation puts profits towards social or environmental good.

Defining features of social finance

What is social finance?

Social finance is an approach to lending or investment that deliberately looks to create social benefits. Charity Bank is one of a growing number of banks and investors that take this approach to working with money.

Providers of finance range from high street banks to grant-makers (trusts and foundations and individual donors). The middle ground, where investors look for both social benefit and financial return, is the home of the social investor.

All investment aims, in theory, to generate growth and so in some sense should produce spin-off social returns. But where the investor or lender is not deliberately seeking these social (or environmental) returns at the outset, this would not be classed as social investment.

It is the deliberate intent to create social return, as well as financial return, which sets social finance apart.

Social finance and social issues

Social lenders and social investors can be distinguished by the social issues they take into consideration in their investment or lending decisions.

Individuals and organisations looking to invest for social good through an intermediary institution, an investment fund or a social bank for example, need to be sure the intermediary will provide the financial/ social return balance they desire.

There is a wide range of social investment options to choose from. This range is shown in the diagram on page 6 where Charity Bank's loans fall into the category of 'impact first': a prime focus on addressing society's problems and capacity to generate financial return.

Social finance and measuring social impact

If social finance is about seeking a financial and a social return, both financial return and social impact must be measured. This emphasis on measuring social impact is the second defining feature of social finance.

As a social lender, Charity Bank seeks both social and financial returns and has systems and processes in place to ensure that our decision-making processes help us to achieve both.

Our overarching aim to facilitate social impact is different from mainstream financial firms, so our processes need to be different.

The social finanace spectrum[1]

	SOCIAL AND ENVIRONMENTAL CONSIDERATIONS FOR INVESTORS OR LENDERS						CORE MARKET
	Financial risk/ return	Avoidance of harmful businesses (e.g. tobacco, arms)	ESG[2] opportunities	Social usefulness of the product or service provided	Impact of their specific investment on the service users	Additionality (would the impact happen anyway?)	
TRADITIONAL None; financial return only	✓						Mainstream for-profit company
RESPONSIBLE Focus on risks. Negative screening of harmful investments and/or some ESG[2]	✓	✓					
SUSTAINABLE Focus on ESG[2] opportunities to create added societal value	✓	✓	✓				
THEMATIC Focus on social or environmental need which creates business opportunity, eg clean energy	✓	✓	✓	✓	?		Profit-distributing social business
IMPACT-FIRST Prime focus on solving societal problems. Also capable of generating some financial return	✓	✓	✓	✓	✓	✓	Charity Bank
PHILANTHROPIC Focus on areas where addressing social need is paramount and no financial return is required		✓	✓	✓	✓	✓	Grants-only charity

FINANCE ONLY | BLENDED FINANCIAL AND SOCIAL RETURN | SOCIAL ONLY

[1] "Traditional, Responsible, Sustainable, Thematic, Impact First, Philanthropic" drawn from Bridges Ventures (Bridges Impact Report – 'A spotlight on our methodology')

[2] Environmental, social and governance

Who benefits from social finance?

Some charities and social purpose organisations depend solely on grants and donations. At the other end of the social sector spectrum are businesses which trade, generating profit in order to pursue a social purpose.

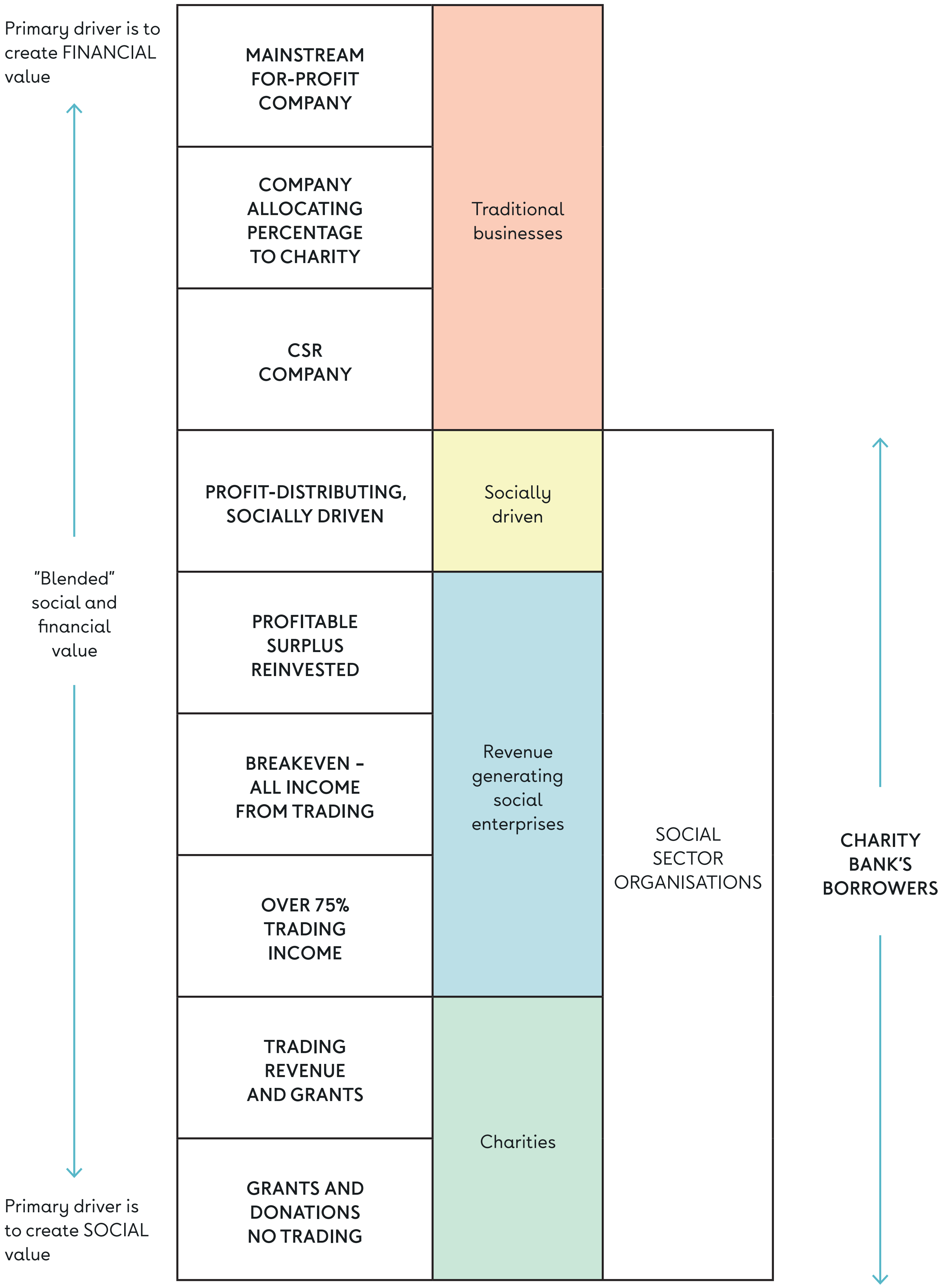
Both types of organisation have the primary aim of creating social value; financial return is seen as a means to an end, rather than an end in and of itself.

The range of organisations that can benefit from a Charity Bank loan is illustrated in the Social Sector Organisations band in the diagram on the next page.

A number of the organisations that we support are shifting to the left of the Social Sector Organisations' band in the diagram, increasing their trading activity to generate revenue and support their missions.

But this is not true of all organisations. Some rely heavily on donations and grants rather than on trading, but are still able to make good use of a loan to further their mission.

Recipients of social investment[3]



[3] Based on EVPA (European Venture Philanthropy Association) chart

A different approach to lending

We finance small but well-established organisations, looking to improve and expand a proven model. These organisations can struggle to obtain funding from high-street banks that may not understand the motivations and funding streams of an organisation working towards a social mission.

We generally make loans to organisations that are tried and tested, even if small: for instance, village halls, youth clubs or scout groups that strengthen the fabric of local communities.

We also make loans to larger organisations such as housing associations as they look to create more subsidised housing and services for the people they support.

In addition we often support organisations that are poised for growth with strong track records and good governance.

But we do not fund start-ups, even if they could have high impacts, because the absence of a track record will generally cause them to have a high risk profile. We view these as the preserve of venture philanthropists (the venture capitalists of the social investment world). Wherever possible, in these circumstances, we will signpost organisations to others who might be able to provide assistance.

Our very low loan loss rate to date is a testament to our ability to lend to our sector successfully.

A different approach to risk

Like traditional providers of finance, different lenders in the social sector have different risk/reward appetites.

Charity Bank looks at two types of risk:

- **financial risk,** which is about understanding an organisation's financial position and its ability to repay a loan, and;

- **social impact risk**, which is about understanding how well placed an organisation is to achieve its mission.

Financial risk and social impact risk do not always correspond (see page 10: 'How a borrower's income helps us to assess impact').

Lending through the lens of social impact

We present information on the social impact of an organisation (see 'Assessing social impact in practice' on page 10 to 11) alongside our analysis of financial risk to our credit committees. Both are taken into consideration when we make decisions on whether or not to lend. Our credit committees make the final decision on whether or not we should make a loan and has members with expertise in both the social sector and in credit risk.

We don't decide on the basis of a simple score

The exercise of good judgement requires good information. So we look at the potential borrower's social impact in the context of our past experience and our understanding of what is happening in the social sector and the wider economy.

We always look at whether the loan and our terms and conditions are appropriate for the borrower: we know the people it supports would not be helped if the loan were to put it under undue stress.

Positive impact and a fair return

As a bank, we charge interest on our loans. This enables us to cover our costs, to pay a fair rate of interest to our savers and, in future, to pay a fair return to our shareholders once we are financially sustainable.

Our shareholders are led by Big Society Capital and the Charities Aid Foundation and include a number of charitable trusts and foundations. They are committed to supporting the social sector and see Charity Bank as a means of helping charities and social enterprises to obtain the loan finance they need.

Our shareholders and savers expect us to have a positive impact on society while generating a fair financial return from our activities.

Our savers that are eligible are covered by the Financial Services Compensation Scheme up to the maximum amounts set under that scheme .

Assessing social impact in practice

Initial assessment

We consider the social impact of the organisations to which we lend, alongside their financial strength, to help us decide whether to make a loan.

We consider the impact our loans will have on two levels; we look to **see how the organisation will benefit and how the people it is working with will benefit.**

We need to be satisfied that the borrower has a social mission (or the project we will be funding is focussed on facilitating social impact) and that its working arrangements and activities fit with its mission.

Unlike many providers of social finance, we don't target specific sectors but respond to demand from borrowers within the social sector. Charity Bank is there to support all kinds of social purpose, from community centres and arts venues to leisure centres and housing providers: we consider they all have their value.

We consider three areas, which we believe are most relevant to our borrowers:

- Mission-focus - does the organisation have a clear idea of what it is trying to achieve?
- Organisational capacity - does the organisation have people with the right expertise and sound systems of governance?
- Financial resources - does the organisation have the finances necessary to service the loan and meet its business plan objectives?

We gather information on all these aspects at the initial application stage and through regular annual reviews, so that we can monitor the impact of our lending.

How a borrower's income helps us to assess impact

For some organisations, for example enterprises selling their services to a particular group, achieving mission and income are intertwined. Income can be a reasonable indicator of success in achieving their mission. In essence **selling more services means the mission is being met, and income rises accordingly**.

For organisations that depend on grants, a stable income isn't enough to indicate that it is providing wanted, useful services to people. It could just be a sign that it is keeping its funders happy. If a funder isn't asking for much information to monitor an organisation's social impact, this is more likely to be the case.

We also need to bear in mind that funders, particularly public sector funders, increasingly want outcome measures in forms that carry value for them and fit their priorities. As a result, as part of our due diligence, we check the extent to which an organisation relying on such funding is capable of producing the data. We might suggest an organisation does more work in this area.

We aim to keep our analysis proportionate to the scale and type of activity carried out by the borrower. It is not in our borrowers', or our shareholders' and depositors' interests, to invest unnecessary time scrutinising the obvious.

Monitoring our borrowers' impact

Loans that build capacity and loans that build homes

Our loans can have a significant impact on the borrower and on the people it works with. Sometimes a loan leads to the creation of new homes or jobs and direct improvements in people's lives and the lives of those around them.

At other times the loan has less immediate and less obvious effects. It may, for example, help a borrower to improve its computer systems or take on better office space to house its volunteers. These improvements may not lead to immediate changes in its provision of services but put the organisation in a stronger position to achieve its mission.

Working with our borrowers to monitor impact

When a loan is agreed we work with borrowers to establish measures which are intended to highlight what the loan will help the organisation to achieve.

This might be, for example, "the number of people helped to manage their physical health better."

We can then aggregate the results across the whole of our loan portfolio to form an overall picture of what our loans have helped to fund.

We ask the borrower to report annually on these measures.

In practice, many outcomes are hard to express in neatly quantifiable terms. Improvements in well-being, for example, are hard to squeeze into simple statistics; and sometimes chasing targets can have unintended adverse consequences. So we use these measures as starting points for the discussion we have with a borrower about its impact. We never use them to impose hard targets on our borrowers.

Learning from our loans

At each annual review we assess the extent to which the expected benefits have been achieved.

We update our records for every borrower each year so that we can track the impact of our loan over time.

We also use borrower surveys and interviews with borrowers to obtain feedback from our customers on our own performance.

By tracking the social impact of our borrowers over time we are able to see what difference we're making and what's working for the social sector, and to make judgements about how we can improve our support.

Reporting on our social impacts

We need to show our savers and shareholders where their money is going and what it has achieved.

We can report to them on the quantified measures to give a picture of what our loans overall have supported, for example "50 new homes".

But to give the full picture we need to back up these numbers with stories and information from our borrowers and the people they help. This is why we produce an annual Loan Portfolio which is full of case studies.

Through our relationship with Big Society Capital Limited, our major shareholder, we are able to share our insights and learn from the experience of others across the social finance sector as a whole. To see the bigger picture visit [here].

It is our borrowers' efforts that enrich society, not ours. Yet our loans can play a vital role. Finance is the oil that helps organisations carry out their work: it is not the wheel itself; but without it, the wheel would often not turn as rapidly. At times our loan can be an essential component; but it is always one component, never sufficient in itself.

Our impact on the financing of the social sector

Many organisations working towards social goals, from promoting social inclusion to eradicating homelessness, lack sufficient resources.

Part of our mission is to serve organisations that are under-served by other lenders.

Unlike mainstream banks we do not set hard financial targets, as we are keen that our people have time to engage fully with our borrowers.

When we make a loan we ask ourselves whether we have reached an organisation that wouldn't have been able to access finance elsewhere or whether the work could have been funded by someone else.

This approach helps us to make sure that we continue to reach the organisations that traditional finance fails to serve, at the same time as we seek to become financially sustainable ourselves by lending to larger organisations.

As we become more sustainable, we will strengthen our community of savers, borrowers and investors that are making money work for the common good. We will move to making Charity Bank a permanent and effective feature within the UK's financial system.

"We're a bank for people who don't just dream of a better world, they are busy building one."

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