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Assessing the Impact of Social Enterprises: An Exploration of the Methods and Criteria used by Impact Investors and Philanthropists in Asia

Social Entrepreneurship in Asia: Working Paper No. 6

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acsep: knowledge for good

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ACSEP

Established in April 2011, the Asia Centre for Social Entrepreneurship and Philanthropy (ACSEP) is an academic research centre at the National University of Singapore Business School.

ACSEP aims to advance the understanding and impactful practice of social entrepreneurship and philanthropy in Asia, through research and education. The centre's research, comprising an international multi-disciplinary research team spans 34 nations and special administrative regions across Asia. Its working papers are authored by in-house researchers, providing thought leadership and insights into the key issues and concerns confronting socially driven organisations.

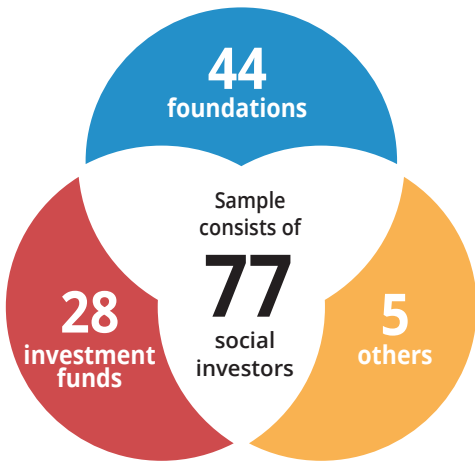
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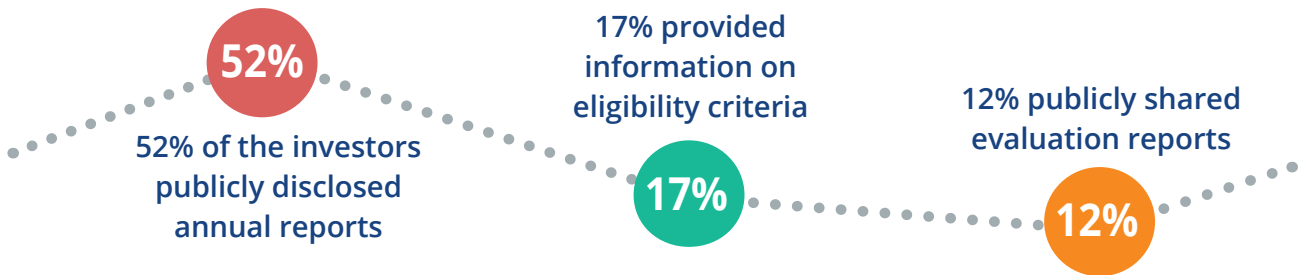


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All funds and foundations in the sample have a portfolio that at least partially consists of social enterprises operating in countries in South, South-East or East Asia.

Transparency among investors is not optimal



Social reporting is mainly done on output level

35 out of 36

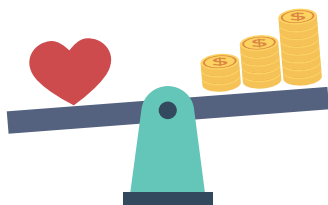
performance reports contain measures on output level



7 out of 36

contain some level of outcome/impact measures

Reporting standards between foundations and investments funds differ



Foundations tend to emphasise social reporting, whereas investment funds emphasise financial reporting.

Having social goals is an important eligibility criterion

All of the **13** investors that reported on eligibility criteria on their website, mentioned social goals and a viable business model.



EXECUTIVE SUMMARY

This study explores how social investors in Asia measure the social impact of their investments. It contains two main sections. The first section provides an overview of the literature on social impact measurement, with a specific focus on impact assessment for social enterprises. The second section explores how investors and foundations measure and report on their social impact. Relying on publicly disclosed data, like corporate websites, evaluation reports and annual reports, I analysed the standards and practices of 77 investors and foundations. The organisations in this sample all make decisions about the allocation of funds — whether these are grants, equity or loans — to social-purpose organisations. The organisations are either grant-making foundations or impact investors that invest in social enterprises, and are operating in Asia. The major conclusions are the following:

Transparency among social investors is not optimal

Many of the social investors operating in Asia lack transparency in their social investments. Only 40 of the 77 investors publicly disclosed their annual reports and only 13 provided information on their eligibility criteria and assessment process. Only 9 of 13 social investors publicly shared their evaluation reports. Foundations, particularly those that (partially) rely on external funding, appear to be more transparent than investment funds.

Social reporting is mainly done on output level

Most social investors require a certain level of social accounting from their grantees/investees, but no real impact assessments. Most annual reports show results on output level only, for an example, the number of clients and disbursed products of the social enterprise. The majority of the investors do not report whether the activities of the enterprise actually made a difference in people's lives. The main reason is likely that reporting on the level of output or outreach is a lighter burden for a social enterprise than conducting a thorough impact assessment.

Reporting standards between foundations and investments funds differ

When it comes to reporting on the impact of social enterprises, there is a big difference between foundations and investment funds. The traditionally more profit-oriented investment funds place more emphasis on the financial performance of their grantees/investees, whereas the more social-oriented foundations emphasise the social performance of their grantees/investees. In fact, only 3.7% of the foundations reported on the financial performance of their investments, against 55.5% of the investment funds. On the other hand, the foundations are more likely than investment funds to have explicit social goals and missions and to report on social performance. The reason for this difference is likely that a social enterprise is still a relatively new phenomenon for both types of investors. Sticking to their original reporting and assessment criteria, the investment funds approach them as businesses with social goals, whereas the foundations regard them as charities with a business plan.

Having social goals is an important eligibility criterion

For many investors, a key feature of social enterprises — differentiating them from traditional enterprises — is having social goals. Although only a fraction of the organisations in the sample were explicit about the eligibility criteria for funding, having an innovative and viable solution to a social problem is what differentiates the social from the traditional enterprise for most of them. It is surprising that addressing market failures was never mentioned as a key feature. However, since social goals are important to investors, it is very likely that impact assessment will play an increasingly important role for social enterprises in the future. Eventually impact assessments will be necessary to show that the organisations' social goals were actually obtained.

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1. Introduction

With the number of social enterprises in Asia rapidly expanding, there is a growing interest in determining their impact on society (Ang, Lam & Zhang 2016). Social enterprises distinguish themselves from traditional enterprises in that they aim to achieve social objectives while also having a viable business model. This leads to the expectation that social enterprises can make an impact on society that the traditional — profit-oriented — enterprise cannot (Lam, Prakash & Tan 2014; Ang et al. 2016; Zahra 2009; Seelos & Mair 2005; Santos 2012). However, investigating whether these social goals are being obtained requires impact assessment. There are different perceptions of what social impact is and what an assessment of it should include. Some refer to the regular monitoring of social objectives using particular metrics as social impact assessment (e.g., Bertotti, Sheridan, Tobi, Renton & Leahy 2011). In this field, social impact assessment is considered similar to “social accounting” (Gibbon & Affleck 2008; Gibbon & Dey 2011; Darby & Jenkins 2006) or “social performance management” (Luke 2016; Arvidson & Lyon 2013; McWilliams & Shrader 2012). The focus of this field of research is on establishing what social impact is relevant to measure, what indicators should be used to measure them, and what data are necessary to monitor these impacts on a regular basis. For others, a social impact assessment refers only to a post- or mid-project evaluation of the causal effects of the intervention on society (Gertler, Martinez, Premand, Rawlings, & Vermeersch 2017; Hulme 2000; Roche 1999). The focus in this field of study is less on what and more on how to measure social effects, in particular estimating the causal link between the intervention and observed social changes. Most academics agree that for a valid impact assessment both questions — what to measure and how to measure — need to be addressed. Each aspect bring its own methodological difficulties.

This study explores what impact investors and philanthropic and charitable foundations operating in Asia require from their investees and grantees regarding impact reporting and evaluation. I examine how they distinguish social from traditional investments and what they require from their investees and grantees regarding their social impact reporting and evaluations. I also analyse how they evaluate and report on their own social impact.

The first section of the paper is a literature review on the topic of social impact assessment. I explore the concept of social impact from a variety of perspectives, using literature from the fields of management, accounting, economics and econometrics. This review provides both a framework and a set of different approaches to social impact assessments. The second section analyses how impact investors in Asia assess their social impact and what types of impact data they require from their investees. For this analysis, I relied on publicly disclosed data collected from websites and annual reports. Although these organisations do not disclose all information in those documents, they do provide information on the requirements that enterprises must comply with in order to receive funding.

2. Literature Review

2.1. Why Impact Assessment Matters for Social Enterprise

Social enterprises are enterprises that apply business concepts in their effort to attain social goals (Zahra 2009; Seelos & Mair 2005). One of those goals is to generate a profit — or at least have a sustainable business model; another is to create value for society (Austin, Stevenson & Weiskillern 2006; Santos 2012). This is in contrast to traditional charity organisations, which do not have an underlying business model, but mainly rely on voluntary donations or government support. One strong advantage that social enterprises have over charitable organisations is that their beneficiaries are often their primary clients. A charitable organisation receives funding from one party, a donor, that should benefit another party, a beneficiary. In social enterprises, where the providing party is different from the receiving party, the creation of social value will be more efficient than in charitable organisations. In practice, however, most social enterprises receive funding or grants from external parties. These parties usually hope to create both financial and social returns on their investment. Impact investors are one of the main funders of social enterprises. The whole idea behind impact investing is that investors can pursue social — and environmental — goals while also pursuing financial returns (Bugg-Levine & Emerson 2011), which is similar to the objectives of social enterprises. In recent years, philanthropic foundations have also become more interested in social enterprises.

According to Santos (2012), the impact of a social enterprise is the social value brought by an activity that happens when the aggregate utility of society's members increases after accounting for the opportunity cost of all the resources used in that activity. In other words, the social impact of a social enterprise is the value of the activity for society that could not have

been obtained by a traditional enterprise. To predict in which fields a social enterprise can actually make an impact, one then needs to look at where traditional enterprises fail. According to the First Theorem of Welfare Economics, a market will tend toward an equilibrium that is Pareto efficient (a situation in which no individual can be made better off without making at least one other worse off) if the market is complete and competitive. This assumption no longer holds in the case of market failure, which is what happens in the case of externalities, public goods or asymmetric information. In the event of market failure, the allocation of goods provided by the market is sub-optimal and social welfare can be improved by a government intervention (see, e.g., Stiglitz 1989 on this topic). When governments are unable to improve these market outcomes — e.g., in cases of high corruption or high administrative costs — it is referred to as government failure (Datta-Chaudhuri 1990). In these situations, non-profit actors can play a major role in improving social welfare. If a social enterprise were operating in a market without a defined market failure, its performance will be similar to that of a traditional enterprise. For instance, a bakery might decide to identify its social impact as “the proportion of clients that have been nourished.” Since there is no apparent market failure in the market for bread, this should not be defined as a social goal because it will not provide an additional benefit for society. A microfinance institution, on the other hand, might be able to solve market failures related to moral hazard and adverse selection that a traditional bank fails to address because of the high cost of monitoring small loans (Banerjee & Duflo 2011). In the 1970s, Mohammad Yunus, founder of the Grameen Bank, saw a growing demand among the poor for financial services but no realistic supply. He realized that banks were unwilling to provide small loans, because of the relatively high screening and administration costs associated with them. These high monitoring and screening costs are however neces-

sary ---from the banks perspective--- since the risk that the client defaults on the loan is high. This is typical market failure related to moral hazard: If there are low risks involved on defaulting on repaying a loan, a client is likely to do that. The Grameen Bank 'solved' this market failure by introducing group loans. The Grameen Bank distributed small loans only to groups of clients. All group members were then held responsible for the repayment of each individual member's loans. The group thus served as a collateral, and it shifted the responsibility for monitoring and screening clients to the individual group members. This significantly reduced the costs for small loans, which enabled the bank to reduce interest rates. The Grameen Bank became one of the most famous social enterprises, and microfinance became widely adopted as a feasible strategy for poverty alleviation.

The ballooning of the microfinance industry also had negative effects. Critics claimed that microfinance would make the poor even poorer by increasing their dependence on loans. Also, high interest rates — with annualized rates from 40% to 200% — were criticized (Hulme 2006). Combined with the fact that micro-banking became quite a lucrative business, it raised the question whether microcredit could indeed still be considered a social investment. Proponents of microfinance claimed that because there was a wide variety of microfinance institutions, ranging from the profit-driven micro-banks to social microfinance institutions that function more as charities, microfinance constituted only a small fraction of the aid that was provided to the poor (Hulme 2006; Dichter 2006). Hence there was a need to distinguish microfinance institutions that could be regarded as social enterprises from the microfinance institutions that were mainly profit-driven. This led to independent certification and rating agencies that use a mix of organisational, social and financial indicators to rate microfinance institutions (Pischke 2006). Similar certification and rating frameworks are now also available for other types

of social enterprises. For example, B Corps offer a framework that claims to assess the social impact of a business based on a set of organisational indicators. Although these rating frameworks can be useful in determining the social intentions of businesses, one should be careful in interpreting them as social impact measures. There is limited evidence of a causal connection between these organisational indicators and the impact a business has on society.

2.2. What to measure?

Despite the increasing emphasis on social impact over the past two decades, there is a lack of consensus on its definition (Liket & Maas 2011). Not only is there disagreement between academic fields, but practitioners and investors also use the term in different ways. One source of confusion is the fact that the academic literature uses the term "impact evaluation" in two very different senses: one referring to the methodology being used, the other referring to the results of the intervention (Gunning 2006). Economists, econometricists and statisticians use the term "impact evaluation" when referring to a method for statistical inference to estimate causal effects. The other definition refers to the results that are measured: the long-term effects of the intervention on society. When social impact is discussed in this sense, it refers to the potential results of an intervention, —and to the tools to predict, monitor and evaluate them. The confusion is caused by the fact that the approach used to evaluate impact as a method is also widely used to evaluate impact as a result (Gertler et al. 2016). In this study I use the term "social impact" to refer to the results of an intervention; I use the term "rigorous impact evaluation" to refer to the methods for statistical inference to estimate causal effects.

Although many definitions of social impact exist, here I use the preferred definition of Liket & Maas (2011): "Social impact is the portion of the total outcome that happened as a result of the

activity of an organisation, above and beyond what would have happened anyway.” The terms “social value” and “social return on investment” are also used to describe the same concept (Emerson et al. 2003). Three characteristics of social impact are included in most definitions. The first is that social impact is a value for society as whole instead of a value for the company alone. For social enterprises, impact is thus the additional value of the activity of the enterprise that would not have been produced by a merely financially driven enterprise, as explained above. Second, social impact refers to the long-term (rather than short-term) results of an intervention. —Third, social impact refers to a change in society caused by the organisation or intervention. An impact assessment should therefore focus on evaluating whether the observed social changes are actually the result of the activities of the organisation.

When the term “impact” is used in the context of social performance management, it usually refers to the long-term result of an intervention. This result is beyond the direct control of the implementing organisation. The objective of this type of monitoring is to track program performance against expected results, thereby fueling management decision making. The idea of social impact as a long-term result comes from the concept of a logic model that is the basis for the social performance monitoring of many philanthropic interventions. One of the earliest widely adopted logic models was the Logical Framework Approach (LFA), first applied by the U.S. Agency for International Development (USAID) in 1969. LFA was an instrument for strategic planning and monitoring of development programs, in which the results of an intervention were divided into three different categories: short-, medium- and long-term results.

Short-term results are the immediate results expected at the end of an activity; medium- and long-term results, outcomes and impacts respec-

tively, are the effects of the activity on society. Many aspects of the LFA are applied in contemporary instruments for social performance measurement (Aune 2000; Bakewell 2006). The main idea behind most logic models is that a specific input (money, resources) will result (through activities) in a specific output, which will in turn lead to a particular outcome and then have a certain (positive) impact on society. Impact is the effect expected to happen at the end of the impact chain. The further one goes up the chain, the more the results are affected by external social, political and economic influences, and the greater the risk is that the desired results will not be realized. In sum, the organisation has less control over its impact than over its outputs. Although it is relatively easy to gather reliable data on the results that are within the sphere of control of the organisation, it is much harder to collect data on results beyond this sphere of control. It is also worth noting that the formulation of a social impact metric as a long-term result of the organisations should focus on the ultimate beneficiaries of the intervention (Roche 1999; Hulme 2000).

2.3. How to measure?

Social impact assessments are about measuring the changes that are beyond the full control of the organisations but still a result of the intervention. Whereas monitoring data might indicate that a social change is occurring in society over a given period, this doesn't necessarily mean that the change is caused by the intervention. In order to estimate this, one needs to determine what would have happened if the intervention had not taken place. Although this sounds straightforward, it raises an immediate problem. In order to understand what happened to an individual who “benefited” from an intervention, one needs to understand what would have happened if the individual had not received it. This is considered to be one of the core challenges in impact evaluation and is often referred to as the counterfactual problem (Duflo & Kremer 2005; Angrist & Pischke

2008; Blundell & Dias 2008).

A core element of an impact assessment is the construction of a credible control group: a group of individuals who, in the absence of the intervention, could have had outcomes similar to those of the group that received the benefits of the intervention. However, simply comparing the group of beneficiaries with a group of individuals that did not receive the treatment may also lead to biased results. This is a result of the selection problem: individuals that receive the services of an organisation may be inherently different from the individuals that do not. This might be because of the kind of participants the social enterprise targets or the geographic regions in which it is active. Besides this, self-selection of the beneficiaries plays an important role. Since participation is voluntary, those who participate may be inherently different from those that do not participate. The customers of a microfinance institution may, for example, be less risk-averse than the non-customers. Simply comparing a group of beneficiaries with a group of non-beneficiaries will likely result in endogeneity bias. This is why “matching techniques”, even when they include a large number of covariates to control for characteristics between the two groups, often give biased results, since one cannot control for unobserved characteristics (Angrist & Pischke 2008).

The most valid method for avoiding selection bias is to randomise the treatment. In a randomised control trial (Duflo & Kremer 2005) or a field experiment (List 2007, 2008) participants are randomly selected to participate in a programme (or to become clients). After randomisation, the group that receives the services is statistically the same as the group that did not receive them. Differences in outcomes between the two groups can then be confidently attributed to the programme (Angrist and Pischke 2008). Randomised experiments have the high-

est validity of all the techniques mentioned here and are therefore often referred to as the “gold standard”. The advantage of randomised field experiments over randomised lab experiments is the external validity (List 2007). In practice, owing to logistic and financial restrictions, randomised field experiments are not always feasible.

The second-best option is to find a natural experiment: a circumstance in which an exogenous shock caused one group of individuals to receive an intervention but did not affect another group. This evaluation approach makes use of a regression model containing instrumental variables. An instrumental variable is correlated with the independent variable (whether or not the individual received the benefits) but unrelated to any other endogenous characteristics of the individual (Angrist and Pischke 2008; Heckman 1979). A strategy based on the instrumental variable approach and often applicable to activities of social enterprises is the regression discontinuity (RD) design. An RD design can be applied when the organisation maintains strict conditions on the participation of participants. The idea of the RD design is to compare the group that is just above a certain cut-off point (applicants that were accepted for the programme) with a group that was just below that cut-off (applicants that were not accepted). The assumption is that the individuals on each side of the cut-off point are very similar. Comparing the two groups thus provides a reliable estimate of the impact of the programme (Imbens & Lemieux 2008; Duflo & Kremer 2005; Thistlethwaite & Campbell 1960).

A strategy more commonly applied for non-profit interventions is the difference-in-differences (DD) design. In a DD design, groups of individuals are compared over time. Groups that received the treatment are measured before and after they receive the treatment and compared with a control group at the same moments in time. Notably, the common trend assumption is crucial: the

DD model assumes that the group of individuals that received the treatment would have followed a similar time trend as the control group. This is a strong assumption to make, for which the DD strategy is often criticised (Bertrand et al. 2004).

An alternative approach to social impact assessment is using qualitative methods. Although these are popular among practitioners, they have lower validity and are less reliable than the quantitative approaches mentioned above. Qualitative techniques find their origin in the humanities tradition. Its main features are: an inductive approach, a focus on key informants, use of non-standardized interviews and story-telling, and a data analyst usually directly involved in data collection (Hulme 2000). The beneficiaries interviewed are rarely randomly selected and there is no control group. Although these techniques lack the rigour needed to make any valid statements about cause and effect, they are widely applied strategies for impact assessments because of their relatively low costs and easy application. An interesting category among the qualitative techniques are the Participatory Impact Assessments. First introduced by Robert Chambers, these methods do not estimate causal links between observed outcomes and the intervention, but instead focuses on bringing the reality of the beneficiaries directly to the attention of the management of the implementing organisation through different story-telling techniques. The goal is not to provide management with accounting data, but to gauge client satisfaction by having beneficiaries bring their experiences to the attention of the management of the implementing organisation (see e.g. Chambers 1994, 1997, 2007).

3. Data and Methodology

3.1. Data Collection

The objective of this study is to provide an overview of how social investors that are operating in Asia allocate social funding, and how they monitor and evaluate the social performance of their grantees, in particular social enterprises. This study uses publicly disclosed data, collected from the corporate websites and annual reports of the social investors. The sample was selected from the network of the Asian Venture Philanthropy Network (AVPN). AVPN is a Singapore-based network for philanthropy and social investment institutions operating across Asia. Using their network as my point of departure, I selected all organisations that are relevant for this study. Relevant organisations are those that make decisions about the allocation of funds — whether these are grants, equity investments or loans — to social-purpose organisations. From the current 328 AVPN members¹, I selected the organisations that met the following criteria:

- The organisation is a philanthropic foundation or an investment fund interested in impact investing.
- If it is a philanthropic foundation, it makes grants: It deals with the allocation of funding to investees or grantees. Moreover, it funds charitable organisations and invests in social enterprises.
- At least part of its portfolio consists of social enterprise organisations operating in countries in South, South-East or East Asia.
- The organisation provides equity/debt financing. Organisations that provide only technical know-how, support, contacts or consulting are excluded from the sample.
- The organisation has a corporate website.

These criteria produced a sample of 77 social investment organisations. Using the criteria for impact assessment from the theoretical framework in Section 2, we analysed the information publicly disclosed by these organisations to assess how they apply impact assessment in practice and how this affects their investees, in particular social enterprises. Two researchers independently searched each corporate website for information about their reporting standards, eligibility requirements for funding, and evaluation- and annual reports. The data were then coded and analysed. To ensure the reliability and exhaustiveness of the data, we used two different researchers to analyse the public information.

Since this study relies only on publicly disclosed data, conclusions cannot necessarily be generalized. However, they do provide insight into the current practices and level of transparency of social investors in Asia.

3.2. Summary Statistics

Table 1 shows the summary statistics of the sample. Column 1 shows the variable of interest, Columns 2 to 4 show, respectively, the frequency, percentage and number of observations. Our sample consists of a total of 77 organisations.

As shown in Table 1, I have classified the organisations into three broad categories: *foundation*, *investment fund* or *other*. This categorisation is based on how each organisation identified itself on its website and in its annual reports. Organisations that referred to themselves mainly as impact investors, angel investors, seed investors and venture capital funds are categorized as investment funds. Organisations that referred to themselves as trust funds or philanthropic, charitable or corporate foundations are categorized as foundations. Organisations that did not fit into those two groups — either because of strong hybridization or lack of public information — are

¹Based on the AVPN website, www.avpn.sg, visited on 1 May 2017.

Table 1: Summary Statistics

VARIABLE	FREQ	%	N
TYPE OF ORGANISATION:			
FOUNDATION	44	57.1	
INVESTMENT FUNDS	28	36.4	
OTHER	5	6.5	
			77
TYPE OF FUNDING PROVIDED			
GRANTS	53	68.8	77
EQUITY	42	54.5	77
DEBT	22	28.6	77
GEOGRAPHICAL REGION ACTIVE			
SOUTH ASIA	40	51.9	77
SOUTHEAST ASIA	34	44.2	77
EAST ASIA	33	42.9	77
BASED IN (HQ):			
CAMBODIA	1	1.3	
CHINA	4	5.2	
HONG KONG	8	10.4	
INDIA	17	22.1	
INDONESIA	3	3.9	
JAPAN	4	5.2	
MALAYSIA	2	2.6	
MYANMAR	1	1.3	
SINGAPORE	8	10.4	
SOUTH KOREA	4	5.2	
TAIWAN	1	1.3	
THAILAND	4	5.2	
VIETNAM	1	1.3	
OUTSIDE ASIA	19	24.6	
			77

categorized as “other.” In our sample, 57.1% are foundations, 36.4% are investors and the remaining 6.5% are classified as other. It should be noted that most of these organisations use a variety of funding strategies, which made it hard to classify them. Foundations increasingly give out equity and loans, while some investors also give out grants. In our sample, grants are still the most common funding strategy; 68.8% of the organisations offer grants. Note that the three different funding strategies are not mutually exclusive. In fact, most social investors use a combination of them.

Although all of the social investors in our sample are operating in Asia, only 75% are based in an Asian country. Of those, the largest percentages are located in India (22.1%), Singapore (10.4%) and Hong Kong (10.4%). The impact investors that are not located in Asia are mainly in the United States and Europe. The average age

of the organisations in our sample is 19.4 years (with a standard deviation of 21.7). The median age is 12.5 years. These statistics are based on the founding year disclosed on the organisations’ websites. Only 52 of the organisations disclosed this information.

4. Findings

This section discusses the main findings on how social investors operating in Asia apply impact assessment in practice and how this affects their investees, in particular social enterprises.

4.1. Social vision, mission and objectives

This first analysis provides an overview of the social goals of the investors, in particular whether they have a clearly stated vision and mission. A vision statement is usually formulated as a utopian objective: the ideal world that the investor aims to achieve. A mission statement should display the investor's own role in contributing to this social vision. The social mission and vision play an important role in formulating indicators on a social impact level. Without a social mission, it is unclear how to set long-term social objectives, and hence difficult to monitor social impact indicators. Monitoring social impact starts with setting social objectives.

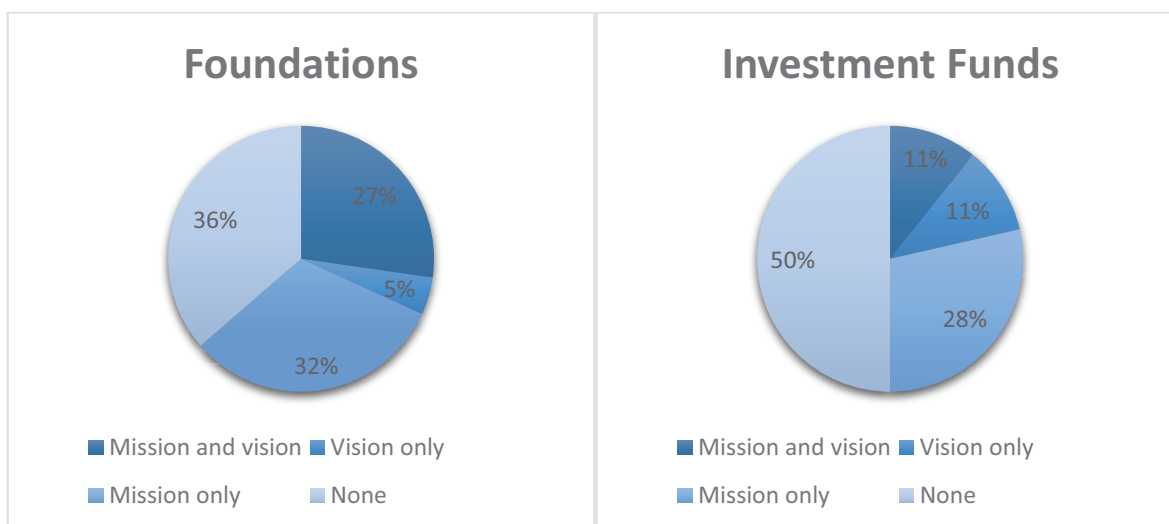
Of the 77 social investors, 42 have a clearly stated social mission (54.6% of the sample), 22 have a clearly stated social vision (28.6% of the sample) and 17 have both (22.1% of the sample). Thirty social investors have no stated social vision or mis-

sion (36.4% of the sample), at least in their publicly accessible documents. However, of the 30 social investors without a mission or vision statement, 28 present at least some social goals or statements on their website. Only 2 of the 77 social investors do not state or publicly disclose a social vision, mission or goals (2.5% of the sample).

Although social investors may have identified a mission, it is not always clear who their ultimate beneficiaries are, or to what social goals their investments contribute. Some of the social missions are in fact very vague, containing phrases such as "profit with purpose" or "to make a positive impact on the world" or "impacting lives for a brighter future." The missions do not always describe the social changes that the investments are intended to make in the lives of their beneficiaries. Many social missions instead focus on the effects on enterprises they are funding, and not on the ultimate beneficiaries.

Figure 1 shows the occurrence of missions and visions by organisation type (the category "other" has been left out of this analysis). It shows that foundations are more likely to display their social mission and vision than investment funds are. Of the foundations, 16 out of 44 do not have a mission or vision statement (36.3%) against 14 of the 28 investment funds (50%).

Figure 1: Mission and vision statement per organisation type



4.2. Reporting on social performance

Looking at the social reporting of social investors not only provides an understanding of their rationale for investing in particular social enterprises but also reveals what kind of reporting data they require from their grantees. Forty of the 77 social investors in the sample publicly disclosed annual reports. The other 37 did not disclose their annual reports online. I analysed the most recent annual reports that were publicly available for each organisation.² For 14 organisations this was 2016, for 18 organisations this was 2015, for 7 organisations the annual reports were older. Of the 40 reports, 4 were not available in English and therefore could not be analysed. In general, foundations appear to be more transparent than investment funds in their annual reports: 27 of the 44 foundations in our sample (61.4%) made their annual reports publicly available, whereas only 9 of the 28 investment funds (32.1%) did.

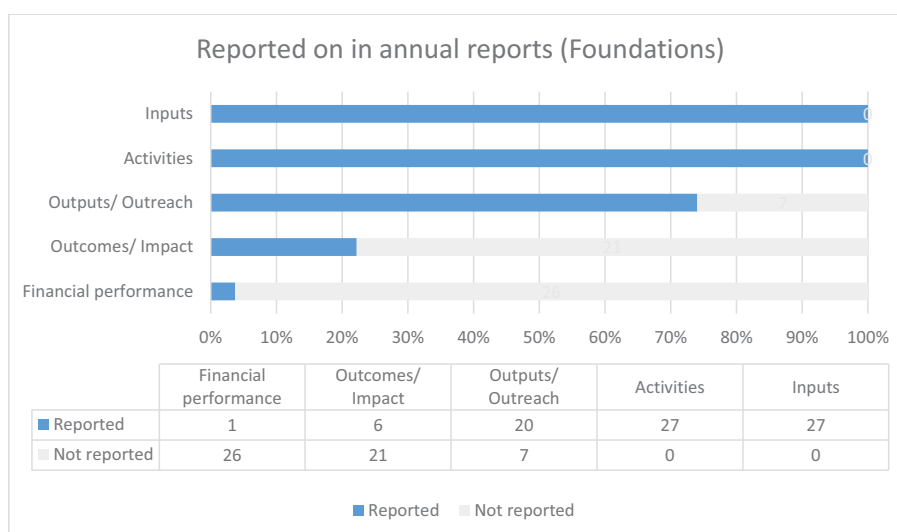
For each organisation, I analysed how they reported on the social performance of their grantees in terms of input, activities, output and outcome/impact. Figures 2 and 3 show the results.

Almost all of the annual reports disclose information on the input as well as the activities of their grantees and investees (97.2%). Informa-

tion regarding their input is usually displayed as a portfolio, containing information on the type of funding, short descriptions of their investees/grantees, and the amount of funding and other types of support their grantees or investees have received during that year. Comparing the reports of the investment funds with the foundations, one notices that the annual reports of foundations generally contain more extensive descriptions of the activities of their grantees and investees than of the investors.

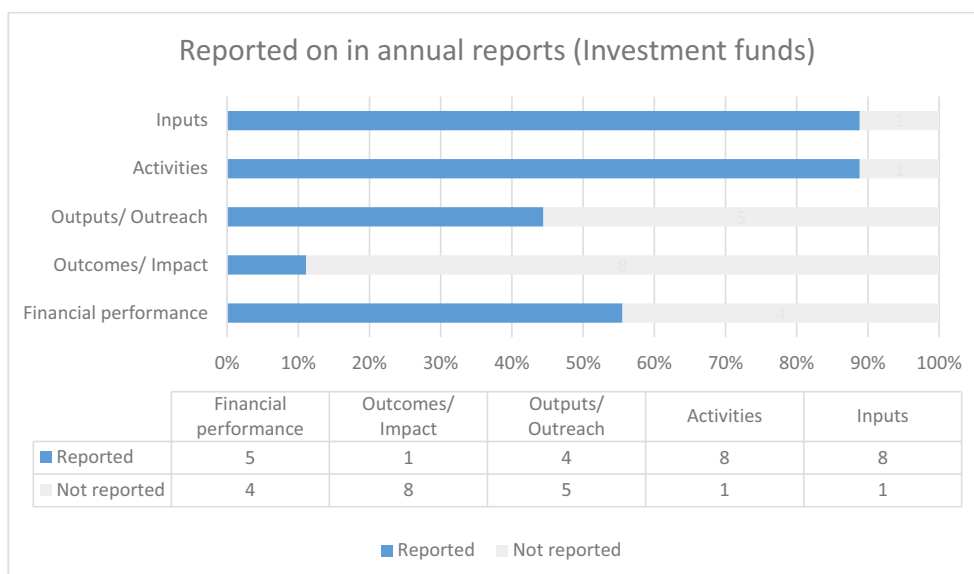
Most of the social investors in the sample report the outputs of their investees, sometimes on an aggregated level, but often as individual enterprises. Commonly used indicators describe the outreach of the enterprise (e.g., number of clients; number of people reached/affected) or their direct results (e.g., number of loans disbursed). Often the investors refer to these outputs as the social impact of the enterprise, but according to our framework in Section 2, they are not. Only a small proportion of our sample reports on outcome indicators: 7 of the 36 annual reports contain outcome indicators that refer to the changes in the lives of the clients or beneficiaries of the social enterprises. Although these are still technically not reports on social impact, reporting on outcome indicators should provide insight into

Figure 2: Type of indicators used by foundations in their annual reporting



² The reports that were published online by 1 May 2017.

Figure 3: Type of indicators used by investment funds in their annual reporting



the social performance of the investments. Only 1 of the 9 of the investment funds reports on outcome level (11.1%), whereas 6 of the 27 foundations report on outcome level (22.2%).

None of the organisations in our sample actually reports on the impact level of their investments. Although some of them use outcome indicators, it is not clear if or how they deal with the counterfactual bias. Instead, those who report on their social impact, mostly use case studies as anecdotal evidence. Some investors mention that they use instruments to assist in impact assessment; examples that are mentioned are IRIS metrics, B-Analytics and Social Return on Investment. Others have constructed their own instruments (e.g., Global Funds for Children, Abraaj Sustainability Index and FIRM) or their own social indicators. All of these instruments, however, are mainly concerned with construct validity — focusing on what to measure (e.g., what indicators are used to measure economic empowerment), instead of how to deal with the counterfactual bias. Nine of the organisations distribute evaluation reports of their investments that are publicly available. Most of these were process evaluations — focusing on what can be improved in the implementation of the services of the social enterprise and which outputs were achieved, of which 4 organisations included an impact assessment. The data for these

evaluations were all gathered by external evaluators using participatory or qualitative methods. Of the 9 available evaluation reports, only 1 was from an impact investment fund. The four evaluations containing impact assessments were all conducted by foundations.

One of the most remarkable differences between the two types of organisations — the foundations and the investment funds — is in the reporting on the financial performance of social enterprises. Overall, only 6 of the 36 annual reports contain data on the financial performance of the grantees and investees, but those data are almost completely missing in the reports of foundations. For example, only 1 of the 27 annual reports of foundations reports on the financial performance of the social enterprises they invested in (3.7%) against 5 of 9 (55.6%) of the investment funds. It hence appears that the investment funds are still more focused on the financial objectives and the foundations are more interested in the social performance of the enterprises they invest in. This is confirmed when we look at the social performance indicators. For example, 20 of 27 (74.0%) of the foundations report on the social outputs of their investees and grantees, while only 4 of 9 (44.4%) of the investments funds do.

4.3. Eligibility for social funding

This subsection shows my findings regarding the eligibility criteria for enterprises to receive funding from social investors. I was particularly interested in looking at how social investors aim to distinguish between the social and the traditional enterprise so as to maximize their social impact. I did this by analysing the information on websites and reports that explicitly inform enterprises whether they are eligible for funding and which criteria they need to satisfy if they want to become eligible. Only 13 of the 77 social investors disclose (some of) their eligibility criteria for social enterprises.

There appears to be a few criteria that all of these enterprises have in common. For example, almost all of them require from potential investees a target social problem with a viable business solution that is innovative. Three terms — “social problem”, “business solution” and “innovative” — appear to be key elements for most social investors. However, it is not always clear what kind of assessment framework is used to determine whether a business solution to a social problem is viable. Some of the social investors mention that interviews are conducted with the potential grantees/investees to assess the legitimacy of their social objectives as well as the quality and viability of their business model.

Approximately half of the social investors in this sample (7 of 13) mention that social enterprises can be eligible for funding only if they work on *specific* social objectives that are in line with the social objective of the investors or in specific geographic locations. Overall, most investors require that the potential grantee/investee have clear social objectives. Only 4 of the 13 investors, however, specifically require an enterprise to assess its impact and/or report regularly on its social performance. Most of the investors mention that an organisational assessment is part of the pre-assessment of eligibility for funding. The criteria that are disclosed are standard for traditional investment, including a risk assessment, criteria for government structures and viability of business potential. Some require a track record on financial performance, where others also require a track record of *social* performance (2 of the 13 social investors). This implies that impact assessment is a precondition for eligibility.

In sum, based on the eligibility criteria in this sample, most of the social investors differentiate social from traditional enterprises by analysing whether they have both social and financial goals. Social enterprises that receive funding are often also expected to report on their social performance. Surprisingly, none of the of the eligibility requirements specifically includes anything about targeting market failures, which one might expect for a social enterprise intervention.

5. Discussion and Conclusion

Using data from publicly disclosed sources, this study explores how impact investors in Asia assess their social impact. However, this study is not comprehensive: conclusions about impact investors in our sample cannot necessarily be generalised to all impact investors active in Asia. Nonetheless, it provides valuable insight into the contemporary practices and attitudes of Asian impact investors towards social impact assessment.

The first section of this study contains an overview of the literature on social impact and what should be enhanced in the context of a social enterprise. In the second section, I explore how impact investors that are active in Asia measure their social impact, using publicly disclosed data from 77 social investors. All organisations in the sample make decisions about the allocation of funds — whether these are grants, equity or loans — to social-purpose organisations. The organisations in this sample are all either grant-making foundations or impact investors that invest (part of their funding) in social enterprises, and are operating in Asia. The major conclusions are the following:

1) Transparency among social investors is not optimal

Many of the social investors operating in Asia lack transparency in their social investments. Only 40 of the 77 investors publicly disclosed their annual reports and only 13 provided information on their eligibility criteria and assessment process. Only 9 of 13 social investors publicly shared their evaluation reports. Foundations — particularly those that partially rely on external funding — appear to be more transparent than investment funds.

2) Social reporting happens mainly on the output level

Most annual reports disclose whether, for example, the number of clients and disbursed products of the social enterprise has increased, but not whether the activities of the enterprise actually made a difference in people's lives. Most social investors require a certain level of social accounting from their grantees/investees, but no real impact assessments. The main reason is likely that reporting on the level of output or outreach is a lighter burden for the social enterprise than conducting a thorough impact assessment.

3) Reporting standards between foundations and investments funds differ

When it comes to reporting on the impact of social enterprises, there is a big difference between foundations and investment funds. The traditionally more profit-oriented investment funds place more emphasis on the financial performance of their grantees/investees, whereas the more social-oriented foundations emphasise the social performance of their grantees/investees. In fact, only 3.7% of the foundations reported on the financial performance of their investments, against 55.5% of the investment funds. On the other hand, the foundations are more likely than investment funds to have explicit social goals and missions and to report on social performance. The reason for this difference is likely that a social enterprise is still a relatively new phenomenon for both types of investors. Sticking to their original reporting and assessment criteria, the investment funds approach them as businesses with social goals, whereas the foundations regard them as charities with a business plan.

4) Having social goals is an important eligibility criterion

For many investors, a key feature of social enterprises — differentiating them from traditional enterprises — is having social goals. Although only a fraction of the organisations in the sample were explicit about the eligibility criteria for funding, having an innovative and viable solution to a social problem is what differentiates the social from the traditional enterprise for most of them. It is surprising that addressing market failures was never mentioned as a key feature. However, since social goals are important to investors, it is very likely that impact assessment will play an increasingly important role for social enterprises in the future. Eventually impact assessments will be necessary to show that the organisations' social goals were actually obtained.

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Assessing the Impact of Social Enterprises: An Exploration of the Methods and Criteria used by Impact Investors and Philanthropists in Asia

Social Entrepreneurship in Asia: Working Paper No. 6

This study explores how social investors that are active in Asia assess the impact of their investments. Relying on publicly disclosed data from a sample of 77 impact investors and foundations that operate in Asia, I have analysed their social objectives, evaluation reports, annual reports and eligibility criteria. I found that neither foundations nor impact investment funds measure the actual impact of social enterprises with adequate methodologies. Most of them report on the social performance of their grantees, but focus mainly on results on output level. Foundations and impact investment funds emphasize different outputs in their reporting: Impact investment funds emphasize the financial performance of their investees, whereas foundations emphasize the social performance. A last finding is that only a small fraction of social investors disclose eligibility criteria on their website (approx. 22%). Based on these findings, I find that for investors the main difference between a social and a traditional enterprise is its social goals. Reporting on social performance will hence become of increased importance for social enterprises.



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