

DEFINING, MEASURING AND EVALUATING SOCIAL VALUE WITHIN THE CONTEXT OF MICROCREDIT

INTRODUCTION

This summarised report presents the findings of the Microcredit focus group in response to the challenge of developing a working definition of 'social value' set by the University of Cambridge Beyond Profit Think Tank, a student-led society promoting social organisations. There has been a push across all sectors (public, private and the third-sector) for greater consideration of social value, driven by the increased prevalence of CSR schemes (ISO-26000, 2010), donors demanding higher transparency and new legislation such as the Public Services (Social Value) Act 2012. This bill increases the emphasis on social value in government procurement, requiring public bodies to report upon the economic, social and environmental well-being impact of their commissioning. Focussing upon local social organisations providing credit services, we have considered what social value may mean to different stakeholders and evaluated the issues encountered in defining and measuring social value.

CREDIT UNIONS: OVERVIEW

A credit union is a cooperative financial institution that is owned and controlled by its members and operated for the purpose of promoting thrift, providing credit at reasonable rates, and providing other financial services to its members. The primary objective is not to maximise profits, but rather to provide valuable financial services within communities, which are often not available commercially. Credit Unions are designed to operate on the principles of trust and integrity, leveraging the social dimension to promote the common interest. We have considered two Credit Unions operating in the Cambridge area, Cambridge City Credit Union (CCCU) and Rainbow Saver Anglia Credit Union (Rainbow Saver).

Rainbow Saver is a credit union headquartered in Lowestoft, with regional coverage throughout East Anglia. As a financial cooperative, it is registered under the Industrial and Provident society act and owned and managed by its members (customers). It is FSA regulated, covered by the FSCS (protecting deposits up to £85k) and has already satisfied new FSA capital requirements, which many other credit unions are struggling to achieve by 2014. It operates branches and collection points in 8 locations, serving 4,400 members. Rainbow Saver is run mainly by volunteers and has three salaried staff. Dividends are paid instead of interest (1% in two of the past four years).

Rainbow Saver started in its current form in c.2006 when a local council and charity approached the committee with an identified local need to protect citizens from unscrupulous lending practices, often by doorstep lenders (loan sharks) charging usurious rates. Initial capital was provided by a local charity. Although other grants have been received, it remains self-sustaining. It has ambitious plans to attract more members through marketing and expansion in Peterborough and Ipswich and is working to accommodate corporate deposits and the new Universal Credit benefits system.

The aims of the organisation are to:

- Help members to save regularly
- Lend to members at a low rate of interest
- Provide advice and support to help members to look after their money
- Help everyone in the community benefit from our services.

Rainbow Saver provides a range of financial services including savings accounts, loans, cheque processing, rent and benefits processing, prepaid Visa cards, Jam-Jar accounts and financial training. It attracts members as a provider of “financial services to people in the local area: people helping people through fair treatment and access to services that the high street banks can’t be bothered with”. Membership is open to all local residents and workers, as well as employees of participating public-sector employers for a one-off fee of £2 and initial deposit of £1, including free life insurance. It specialises in assisting members with financial discipline, allowing them to segregate and manage separate accounts, automatically processing regular payments and access to small loans at more affordable rates (up to 26.8% APR).

Cambridge Credit Union shares the same corporate structure as Rainbow Saver but is smaller with 150 members and is even more locally focussed, operating only in the Cambridge area. Run entirely by volunteers, it operates a weekly collection point in addition to an advice desk. CCCU originated in Northern Ireland 15 years ago. The 8-member committee meets monthly to set the organisation’s strategy including interest rate levels and dividend payments. The buy line is “Banking on the community” – run by members for the members. There are no group meetings, however the volunteers have a very social focus (for example they are happy to take calls at 7pm at night and drop cheques off to loan recipients houses).

The organisation is financially sustainable on the basis of the interest rate on loans, raised in 2012 from 1% to 1.5% in line with a government recommendation. Whilst they have benefited from grants from RAG and a local solicitor firm for specific events they are not reliant on any on-going funding. At the end of each year any surplus is distributed amongst members – last year a dividend was paid out.

Members have to save for 13 weeks before they can take out a first two loans, which can each be up to twice the savings. The third loans can be up to three times the savings amount. No penalty for early payments – IR stays at 1.5%. Before the first loan, there is a home visit (done by the treasurer or another committee member). CCCU’s long-term goal is to expand their operation and membership so as to lower their average costs.

OUR DEFINITION OF SOCIAL VALUE

We came together as a focus group in order to arrive at a working definition of social value. Starting with our individual views (included in appendix A) it became obvious that we had widely differing opinions on what social value is on both a macro and a credit-union specific level. Concluding that social value is a highly subjective concept, we agreed upon the following definition, which is separated into three levels, a broad, policy-level and Credit Union definition.

Academic Definition

Social value is the change in the *net well-being* of all people, who are *directly or indirectly* affected by the action(s) being assessed. An increase in well-being is understood as a favourable change in *measurable* metrics; selected, weighted and aggregated on an *individual* basis.

While the measurement of metrics is objective, their selection and weighting is subjective according to individual preferences. Social value does not explicitly consider the equitable distribution of well-being nor does it its diminishing marginal utility; however, these are implicitly considered through the *social value orientation* of individuals and reflected in the metrics

measured. Social value assumes that individuals can accurately select and weight the metrics that determine their well-being.

Policy-Making Definition

Individuals and organisations can create positive or negative social value. In practice, individuals or organisations will act to create social value through *bounded rational* actions, evaluated against *relevant* weighted metrics. Social value is thus measured in terms changes in *economic, social and environmental* metrics, resulting from the *objective, process and outcome* of any action. These metrics are determined in collaboration with primary stakeholders, defined as those who are significantly *impacted* by, or have a significant *influence* on, the assessed action(s). Individuals or organisations can increase social value by thinking “Beyond Profit” and acting to improve one or more of these metrics to achieve a higher cause than just business as usual.

Credit Union Definition

Within the context of microfinance institutions (MFIs), social value is measured in terms of an improvement in: economic security; access to financial services; empowerment through financial independence; financial education and discipline; local economic activity; community building; and, protection of the financially vulnerable. An MFI will add social value by being financially sustainable, ethically managed and responsibly regulated.

THE ORGANISATIONS’ VIEW OF SOCIAL VALUE

Both organisations expressed the difficulty in providing a definition of social value, even within their specific market. During interviews it was clear to us that the staff are passionate about providing services for the community and possessed a large degree of local knowledge, which is vital for running a successful credit union. A key advantage of their localised structure is that they are adaptable, and able to respond quickly to changing local needs. Neither organisation was keen on additional centrally imposed regulations and definitions, which will not necessarily help them ‘do what they do’ and will impose further costs on their limited resources.

Arn Dekker, the chairman on CCCU provided his personal definition of social value as; “provided by Credit Unions in general and the Cambridge City Credit Union in particular, as the building of community spirit, working for the common good of people in Cambridge.”

The loan collector who works for CCCU, defined social value as “Partly sustainable, with the profits channelled to something that assists the local area”. This demonstrates, how even within the same organisation, stakeholders hold different views of social value.

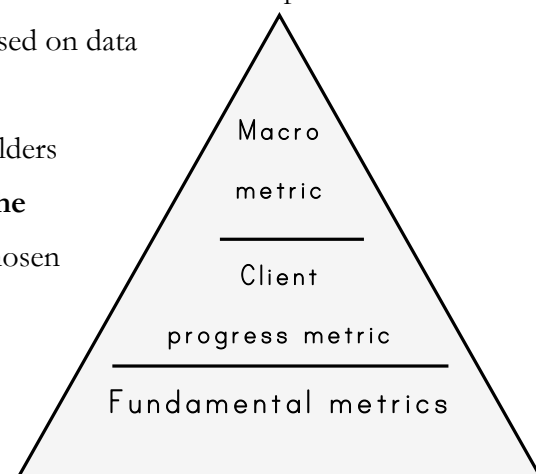
We believe that this definition really encompasses the spirit for which Credit Unions are renowned, a focus upon the local community and a broad aim of working for the common good. This allows Credit Unions to be flexible and responsive in their services, providing a significant competitive advantage in comparison to commercial banks. However, this definition does not lend itself easily to assessment via quantifiable, measureable metrics, which are being sought for effective reporting to stakeholders.

MEASURING SOCIAL VALUE

In order to make a definition of social value applicable to real world microcredit institutions a framework of measuring social values is needed.

Guiding principles

- The metric has to **operationalize and contextualise** the definition of **social value** adopted and the assumptions behind the definition
- The metric is **a tool not an end** in itself, the framework of the metric is more important than the specific metrics chosen which can be adjusted based on data availability and contextual relevance
- The metric has to be **relevant** and **valuable** to all stakeholders
- Data collection **cannot be costly** and should be **part of the operating procedure** of any organisation adopting the chosen definition of social value
- The metric has to be **neutral**, i.e. capture positive and negative effects, as well as **sensitive to unexpected spillover effects**
- The **construction** of the metric has to be **transparent**
- The metric has to balance a need for **quantitative, comparable results** with an appreciation for **informal, qualitative narratives** – the metric has to be **multilayered**



Framework

Fundamental metrics:

Capture the eight aspects of social value identified by our definition (see appendix for list of metrics)

- ‘Organisation internal’ metrics – social value generation in operation of organisation
- ‘Organisation external’ metrics – social value generation in output
- *Optional:* Organisations can *choose* to become accountable to regional/national statistics related to poverty, nutrition, employment, etc.

Data collection: Organisation internal surveys and accounting documents alongside basic community level data collection (optional: government statistics)

“Client progress” metric:

Captures the subjectivity of social value according to individuals’ preferences

- New clients have to state their aims (e.g. setting up a business, investing in children’s education, guaranteeing nutritional security). The organisation’s performance is assessed in terms of clients’ self-reported achievement of their *self-defined* objectives.

Data collection: Adaptation of text message based ‘instantaneous happiness survey techniques’ and frontline SMS whereby (a sample of) clients are at random times messaged and asked to evaluate how well they are doing in terms of their own objective (e.g. for a client aiming for economic security: “have you been worried about being able to access money recently?”)

Macro metrics:

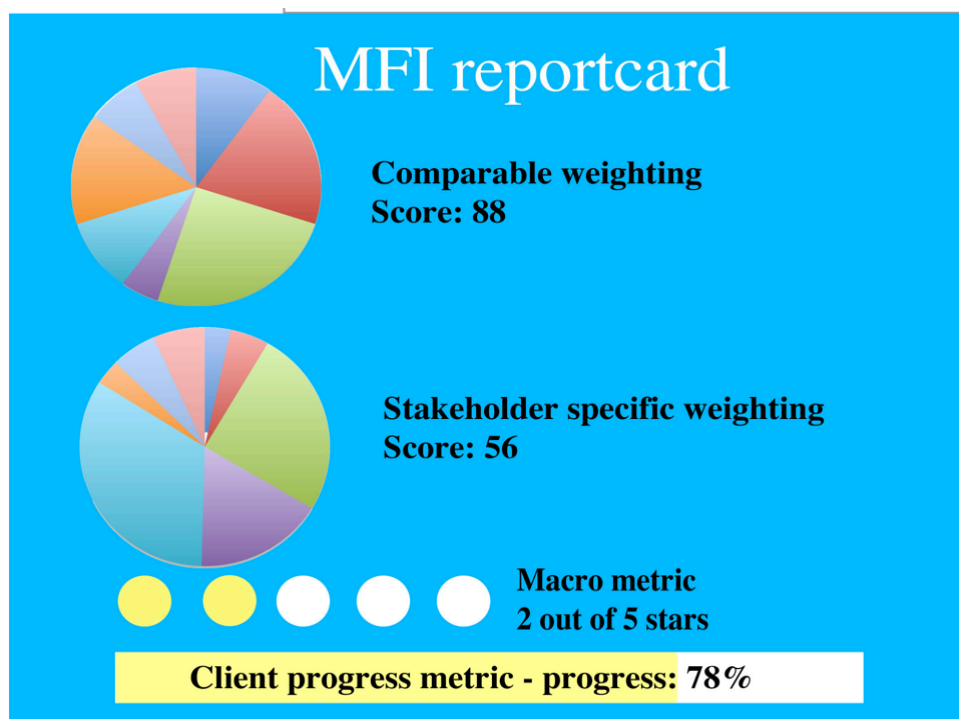
Captures the contribution towards long term capacity and institution building thereby capturing the effect on indirect stakeholders

- Alignment with national objectives – government rating system
- Cooperation with other development organisations in area of operation

Data collection: Government rating and ratings by other development organisations

Presentation of metrics

- Aggregated metric based on ‘fundamental metrics’ accompanied by qualitative narrative – weighting of index follows two levelled structure: (1) *Level* of weights determined by *international/donor standards* which can be used for comparison across MFIs (2) Level of weights determined by a specific MFI’s stakeholders
- Aggregated ‘client progress metric’ accompanied by case studies (success stories *and* ‘failures’)
- Starr ratings for ‘macro metrics’



Summary of *quantitative metrics*

STAKEHOLDER MAPPING

We completed a stakeholder mapping exercise, considering the relative influence and impact of each stakeholder for CCCU based upon the organisation's identification of their key stakeholders (table 1). We then completed the same exercise using a broader range of stakeholders identified by our group (table 2). Appendix A includes an additional mapping exercise which defines their circle of influence on society and the union's operations.

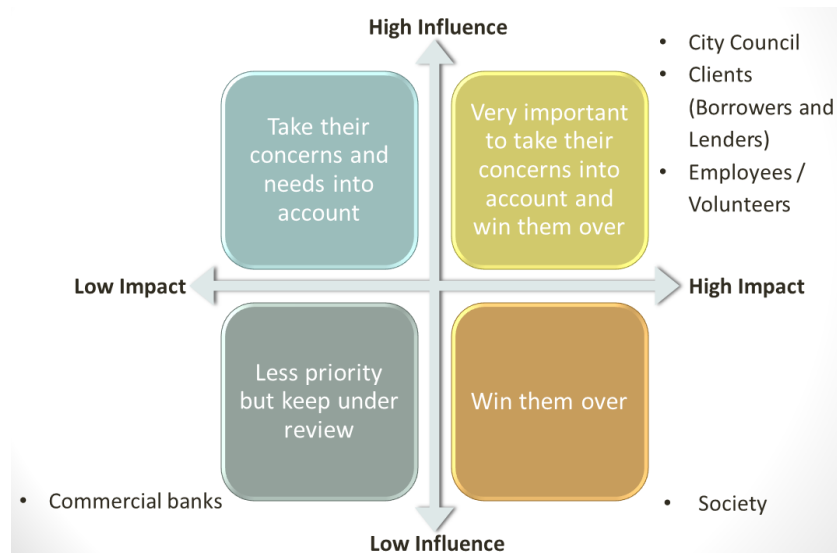


Figure 1

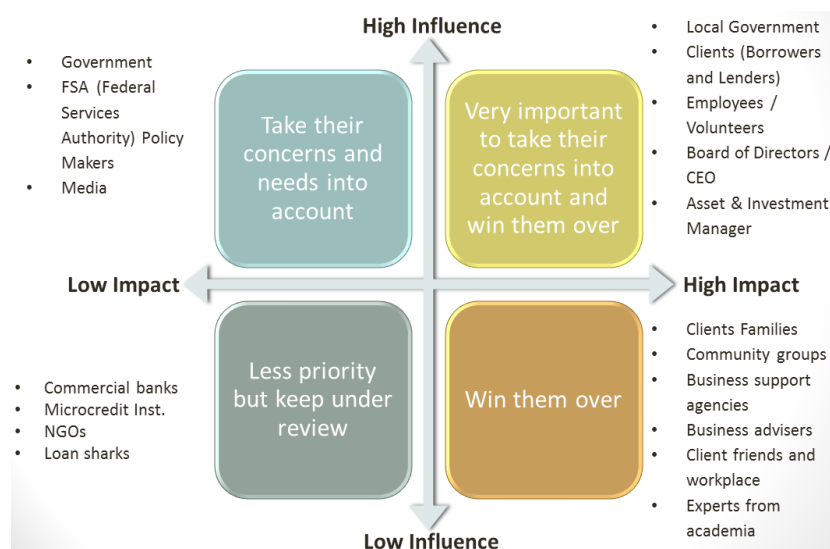


Figure 2

CONCLUSION

Social Value is a highly subjective concept, which means different things:

- to different stakeholders
- at different times
- in addressing different needs
- at different levels

Any static, all-encompassing working definition of social value must be very broad in order to apply to all people at all times. However, such a broad definition will be uselessly vague for reporting because it is impossible to assess with measureable metrics. We arrived at one broad, one policy-focussed and one more specific definition of social value for credit unions. However, even at the most specific level, we see that there are large differences in the focus and operations of the two credit unions that we have studied, so it is extremely challenging to produce a one-size-fits-all scorecard. Given these constraints, we have developed a possible set of indicators that could be used for measuring social value, as long as the long-term benefits to society outweigh the reporting costs to the organisations. The scorecard is based around a core 'client progress' metric, asking new members to state their own objective, then assessing credit unions in helping them achieve it.

Credit Unions deliver Social Value in many different ways. Their local-focus and flexibility allows them to be responsive to their member's needs. We feel that a commonly adopted system of metrics for social value would help improve transparency, competition and ultimately, growth of credit unions in the UK but we stop short of recommending the implementation. This is because it is not clear what resource costs would be imposed from such a system and how this may erode the core competencies of credit unions in their responsiveness and adaptability.

APPENDIX A

Individual social value definitions provided by the focus group:

Dara Leyden

Value-plus. Going beyond a profit-motive to address social-needs that the market does not satisfy. Delivering commercial value, plus. Making a sustainable, positive contribution to the lives of people who may not otherwise have been able to achieve this.

For a Credit Union: Addressing the social-needs, negative externalities and deficiencies that mainstream financial sector fails to satisfy. Providing access to financial services for those who are excluded. Providing empowerment through financial independence, education and discipline. Protecting individuals from lending abuse. Providing freedom to those who have become (or are vulnerable to becoming) financially enslaved. Providing a safe, regulated last-resort option to borrowers.

Faran Mahmood

The value a business delivers to change the society in a positive way, directly or indirectly, through participation of stakeholders and optimal resource usage, towards a higher cause (than just business as usual).

Sheela and John Last

For a Credit Union: Social Value (SV) can be described as a mechanism giving stakeholder's financial empowerment in determining how their contribution (savings) can be managed ethically and responsibly.

Clara Marquardt

Social value is created where the needs of all stakeholders are considered, i.e. the needs of clients, the needs of the environment, etc. While financial sustainability is needed it is not sufficient to ensure that an institutions' social goals are transformed into practice in line with accepted social values. Social value is by definition contextual as agents define their own needs and preferences. Social value is determined by 'social needs' which are held by individuals, social/community organisations and political institutions (if representative).

APPENDIX B

List of metrics:

Economic security	<ul style="list-style-type: none"> • Progress out of Poverty index (country level poverty indicator which use small set of easily observable variables) • Number of days without food • Number of unforeseen illnesses in family which led to reductions in consumption
Access to finance to 'excluded individuals'	<ul style="list-style-type: none"> • Interest rate • Number of clients • Principle-value of loans • Demographics of clients (education level, etc.) • How long it takes for loan to be granted (bureaucracy)
Empowerment through financial independence	<ul style="list-style-type: none"> • Degree to which MFI helps clients become sustainable, e.g. build credit history • Effect of credit on social status of clients (e.g. involvement with community committee, self-reported social status) • Value of monthly of savings / deposits • Number of new savings accounts opened. • Number of jam-jar accounts set-up and pre-top up cards issued per year.
Financial education and discipline	<ul style="list-style-type: none"> • Number of members that have received training • Number of money management training courses offered
Local economic activity	<ul style="list-style-type: none"> • <i>Local Multiplier</i> metric • Number of business started using loan
Community building	<ul style="list-style-type: none"> • Number of meetings, timing of meetings and attendance
Protection of the financially vulnerable	<ul style="list-style-type: none"> • Loan repayment rates (number of defaulters and value) • Procedure for dealing with clients in arrear • Number of re-financed high-interest loans per year
MFI's financial sustainability ethical management and responsible regulation	<ul style="list-style-type: none"> • Involvement of clients in operation and decision making • Transparency and accessibility of information for clients • Level to which staff incentives are conditioned on social objectives • Results of regulatory tests for meeting requirements • Safety of MFI's funding, i.e. risk management

- *Where applicable all metrics are evaluated relative to the sample, e.g. "number of clients who have received training out of total number of clients"*
- *Some metrics listed can capture several dimension of social value – in this case they are listed under the most relevant dimension*

APPENDIX C

An additional mapping exercise, defining CCCU's circle of influence on society and their operations.

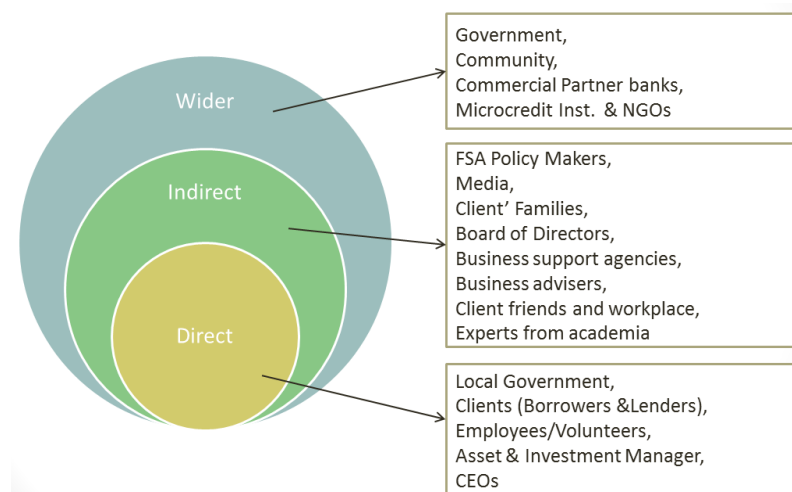


Figure 1

	Power	Urgency	Legitimacy
Direct	Local Government 1	Clients (Borrowers) 2	Employees, Asset & Investment Manager, CEO, Volunteers 3
Indirect	FSA Policy Makers Media 2	Client' Families 3	Board of Directors, Business support agencies, Business advisers, Client friends and workplace, Experts from academia 4
Wider	Government 3	Community 4	Commercial Partner banks Microcredit Inst. NGOs 5

Figure 2