

Discussion Document

# The Relationship between Social Value Principles and the Natural Capital Protocol

2017

**SOCIAL VALUE**  

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**INTERNATIONAL**

Approaches to understanding and valuing social and environmental value have evolved considerably in recent years. Two principal frameworks are Social Value International's Social Value Framework, which primarily focuses on social value, and the Natural Capital Coalition's Protocol, which primarily focuses on natural capital. By understanding these two approaches and how they relate to one another, users can more easily understand how to use them together to account for the changes that matter.

*Jeremy Nicholls, Executive Director, Social Value International*

All of the capitals are connected and it is impossible to separate one form of capital from another. There is already significant compatibility between the Social Value International approach and that of natural capital and I look forward to building even closer connections in the future.

*Mark Gough, Executive Director, Natural Capital Coalition*

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## Executive Summary

In response to the dramatic disruption and depletion of natural systems by economic activity, better ways of measuring, valuing, and managing the natural systems upon which our well-being relies are clearly needed. Several frameworks and tools have been developed to address this challenge. Among them, the Natural Capital Protocol (hereafter 'Protocol'), launched in July 2016, has harmonised other approaches to enable businesses to assess the impacts and dependencies of their activities on Natural Capital, and this has gained traction globally. Alongside this, Social Value International's Social Value Principles and methodology, whilst always accounting for both social and environmental change, have focused primarily on social change.

This paper seeks to explore the level of similarity between Social Value Principles and Framework and those of the Protocol. It is hoped that this document will provide a useful point of reference for practitioners who face the challenges of measuring both environmental and social changes.

By articulating the ways in which the two approaches relate to each other and by recognising their differences practitioners can compare and decide whether either approach, or both, makes sense for a given problem or decision-making context.

### **Similarities between the two approaches:**

1. As opposed to rules-based approaches that prescribe specific measures which must be used in all cases, both approaches broaden the types of information considered as part of the decision-making and evaluation processes.
2. The two frameworks take similar positions on value as regards relative importance, worth or usefulness. They both also recognise that this approach can help set out the concept of value as well as addressing some of the issues/need for caution when using techniques to monetise change.
3. Both approaches have conceptual models that rely on similar ways of structuring/assessing the issue being considered, which helps measure the change or establish the impact involved.
4. Both approaches ask practitioners to consider what is material (most important) given the context of their work.
5. The purpose of both frameworks and sets of principles is to improve decision-making relating to resource allocation by taking into account the material outcomes that will result from the allocation of those resources.
6. Both the Protocol and the Social Value Principles and Framework agree that when the reasons for the decisions that have been made are transparent, then the analyses are more credible.
7. Each framework sets out how to determine environmental change and its impact on different stakeholders in similar ways.

### **Differences:**

1. The Social Value Principles and Framework are not business-centric; the Protocol is.
2. The Social Value Principles and Framework promote *the involvement of stakeholders* in the process of defining and valuing the material social outcomes in order to obtain a holistic perspective on value. The Protocol also promotes stakeholder involvement but allows the practitioner to choose the level of involvement based on the objective of the assessment being undertaken.

3. The Protocol sets out the decision-making contexts that a practitioner may be addressing while the Social Value Framework leaves this open.
4. The Social Value Principles and Framework outline the need to identify the dependencies between inputs and outcomes for stakeholders. However, they do not explicitly cover the dependencies between different stakeholder groups in the value chain in the way the Protocol does.
5. The Protocol puts natural capital (the natural stocks that deliver services for the benefit of people) at its centre, whereas Social Value Principles put societal value at their centre. Both approaches recognise the interconnectivity of the different capitals.
6. The Protocol recommends that the audience should be appropriate to the decision being informed, whereas the Social Value Principles and Framework consider all substantially affected stakeholders as an audience – even those without power in a given context.
7. Social Value International offers an assurance regimen to ensure that reports faithfully follow its principles, while the Natural Capital Coalition does not. The Protocol offers practitioners advice on verification, but this is not prescriptive when compared with the detailed and specific Social Value Assurance Criteria.

From July to September 2017 SVI circulated this document for consultation and invited the input of both member groups. Please address any comments you may have to [info@socialvalueint.org](mailto:info@socialvalueint.org) with the subject, “Comments on SVP NCP paper.”

## Purpose

Members of Social Value International (SVI) who work in contexts where both social and environmental value are at issue have come together to produce this document to set out the relationship between the Social Value Principles and Framework (upon which Social Return on Investment methodology is based) and the Natural Capital Protocol. The Natural Capital Coalition reviewed and provided feedback on the document as part of the drafting process. The purpose of the document is to show where the two approaches differ, where they are complementary, and where, when used together, they may enable a more comprehensive understanding of social and environmental value.

Social Value International supports a principles-based framework for accounting for, managing, and optimising social and environmental value. Since 2009, SVI has worked with a network of global members to develop and promote the use of seven basic principles. These are known as the Social Value Principles (see insert). When all of these principles are applied together, they provide an accounting and reporting framework called the Social Value Framework. The Social Value Framework is a principles-based process of analysis, reporting, and embedding that involves six stages.<sup>1</sup>

To date, the majority of the examples created by Social Value International using this framework have focused on social value. Major developments beyond SVI in the realm of environmental impact assessment and valuation have been led by others, including charities, NGOs, governments, and businesses. A leader among these is the Natural Capital Coalition, a collaboration of organisations working in the natural-capital space.

The Coalition has harmonised many existing approaches to natural capital into a single framework that helps organisations to identify, measure, and value their impacts and dependencies on natural capital in order to inform their decision-making.

This report offers a useful comparison as to where the approaches are compatible and discusses some of their differences as an aid to practitioners in both communities. It draws from “The Seven Principles of Social Value” (SVI, 2016) and the “Guide to Social Return on Investment” (SVI, 2012), (the latter being SVI’s primary guidance document or “framework” for implementing the Social Value Principles), and the “Natural Capital Protocol” (Natural Capital Coalition, 2016).

### The Social Value Principles:

1. Involve stakeholders – Inform what gets measured and how this is measured and valued in an account of social value by involving stakeholders.
2. Understand what changes – Articulate how change is created and evaluate this through evidence gathered, recognising positive and negative changes as well as those that are intended and unintended.
3. Value the things that matter – Making decisions about allocating resources between different options needs to recognise the values of stakeholders. Value refers to the relative importance of different outcomes. It is informed by stakeholders’ preferences.
4. Only include what is material – Determine what information and evidence must be included in the accounts to give a true and fair picture, such that stakeholders can draw reasonable conclusions about impact.
5. Do not over-claim – Only claim the value that activities are responsible for creating.
6. Be transparent – Demonstrate the basis on which the analysis may be considered accurate and honest, and show that it will be reported to and discussed with stakeholders.
7. Verify the result – Ensure appropriate independent assurance.

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<sup>1</sup> In 2015 the SROI Network merged with the Social Impact Analysts Association and re-launched as Social Value International (SVI). SVI has not yet published a formal “Social Value Framework” document. However, “A Guide to Social Return on Investment” (2009, updated 2012) and all other technical guidance produced by SVI prior to the merger remains applicable for the Social Value Framework with only a slight alteration to Principle 3: Value What Matters. This sole variation between SROI and Social Value Framework is that SROI requires the use of financial proxies to represent the value of outcomes and inputs in order to generate a ratio, whereas when in the Social Value Framework, principle 3 is applied without monetization e.g. through weighting or ranking.

## Background

In response to the dramatic disruption and depletion of natural systems by economic activity, persistent poverty and growing rates of inequality, we clearly need better ways of measuring, valuing, and managing the natural and social systems upon which our well-being relies. Several developments and reports from public and private perspectives over the past 2-3 years have highlighted the importance of this, including, among others:

- The April 2016 signing and November entering into force of the [“Paris Agreement” of the Conference of the Parties \(COP21\) of the United Nations Framework Convention on Climate Change \(UNFCCC\)](#)<sup>2</sup>. Its objective is *“to stabilize greenhouse gas concentrations in the atmosphere at a level that will prevent dangerous human interference with the climate system.”*
- The Prince’s Accounting for Sustainability (A4S) produced Natural and Social Capital Accounting for Finance Teams.<sup>3</sup>
- The World Wildlife Fund’s [Living Planet Report](#), published by WWF every two years, most recently in 2016, documenting increases in biodiversity loss.<sup>4</sup>
- Studies of potential increased resource scarcity, such as the UK’s [National Ecosystem Assessment](#) (2011, 2014).<sup>5</sup>
- The mapping of different ecosystems services provided across different habitat types (see the US EPA’s proposed [National Ecosystem Services Classification System \(NESCS\)](#) and the Common International Classification of Ecosystem Services (CICES) EEA<sup>6</sup>).
- Impact investments and funds specifically considering environmental factors, e.g. the launch of the [Natural Capital Finance Facility](#)<sup>7</sup> by the EU in 2015. This EUR 6 million loan to Rewilding Europe Capital (signed in April 2017) is its first supported project, which will support over 30 nature-focused businesses across Europe, and represents the first increase in conservation funds since 2014 (Restore the Earth Foundation).
- Around 70 governments have made policy statements to develop country-based resource accounts. The standardised approach for national level accounting follows the UN System of Environmental-Economic Accounting (SEEA). The World Bank has established The Wealth Accounting and Valuation of Ecosystem Services (WAVES) to help developing countries develop natural capital approaches, and some countries, such as the UK, have produced [Natural Capital Accounts](#) (2014).<sup>8</sup>
- In March 2017, the World Business Council For Sustainable Development (WBCSD), a lead partner in developing the Natural Capital Protocol on behalf of the Natural Capital Coalition, released the [Social Capital Protocol](#). This first version of the Protocol is the result of two years of collaborative development involving input from over 50 WBCSD multinational companies, an Advisory Group of 20 expert partners, and four WBCSD Global Network partners. It provides a consistent process to guide companies through the journey of measuring, valuing and better

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<sup>2</sup> <http://newsroom.unfccc.int/paris-agreement/>

<sup>3</sup> <http://naturalcapitalcoalition.org/tag/a4s/>

<sup>4</sup> <http://www.worldwildlife.org/pages/living-planet-report-2016>

<sup>5</sup> <http://uknea.unep-wcmc.org/>

<sup>6</sup> European Environment Agency, link <http://cices.eu/>

<sup>7</sup> <http://www.eib.org/products/blending/ncff/index.htm>

<sup>8</sup> <http://www.naturalcapitalcommittee.org/>

managing social capital, and a framework for collaborative action towards harmonized and standardized approaches. The Social Capital Protocol is aligned with the structure and methodology of the Natural Capital Protocol.<sup>9</sup>

The Natural Capital Protocol was developed by the [Natural Capital Coalition](#)<sup>10</sup>, which brought together NGOs and conservation bodies, science and academia, businesses, associations, standard setters, finance and accountancy, and policy and governments “to harmonize existing best practice and produce a standardised, generally-accepted, global approach” to include natural capital in decision-making<sup>11</sup>. The Protocol development was led by 38 organisations with over 50 businesses taking part in the pilot scheme and hundreds of others participating through a public consultation. This collaborative approach has been recognised by many governments and by the EU Commission<sup>12</sup>.

Given the links between natural and social capital, it is useful to understand the alignment between both frameworks. This document assumes general familiarity with existing guidance on applying the SVI Principles of Social Value, which can be found [here](#),<sup>13</sup> and with the Protocol Framework, which can be found in the [Coalition's Protocol primer](#)<sup>14</sup>.

Figure 1 shows the way the stages in the Social Value Assessment Framework and the Natural Capital Protocol Framework relate to one another and substantially overlap at a high level.

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<sup>9</sup> <http://www.social-capital.org>

<sup>10</sup> <http://naturalcapitalcoalition.org/>

<sup>11</sup> <http://naturalcapitalcoalition.org/the-natural-capital-protocol-recognised-by-the-council-of-the-european-union/>

<sup>12</sup> <http://www.aldersgategroup.org.uk/blog/the-natural-capital-protocol-one-year-later>

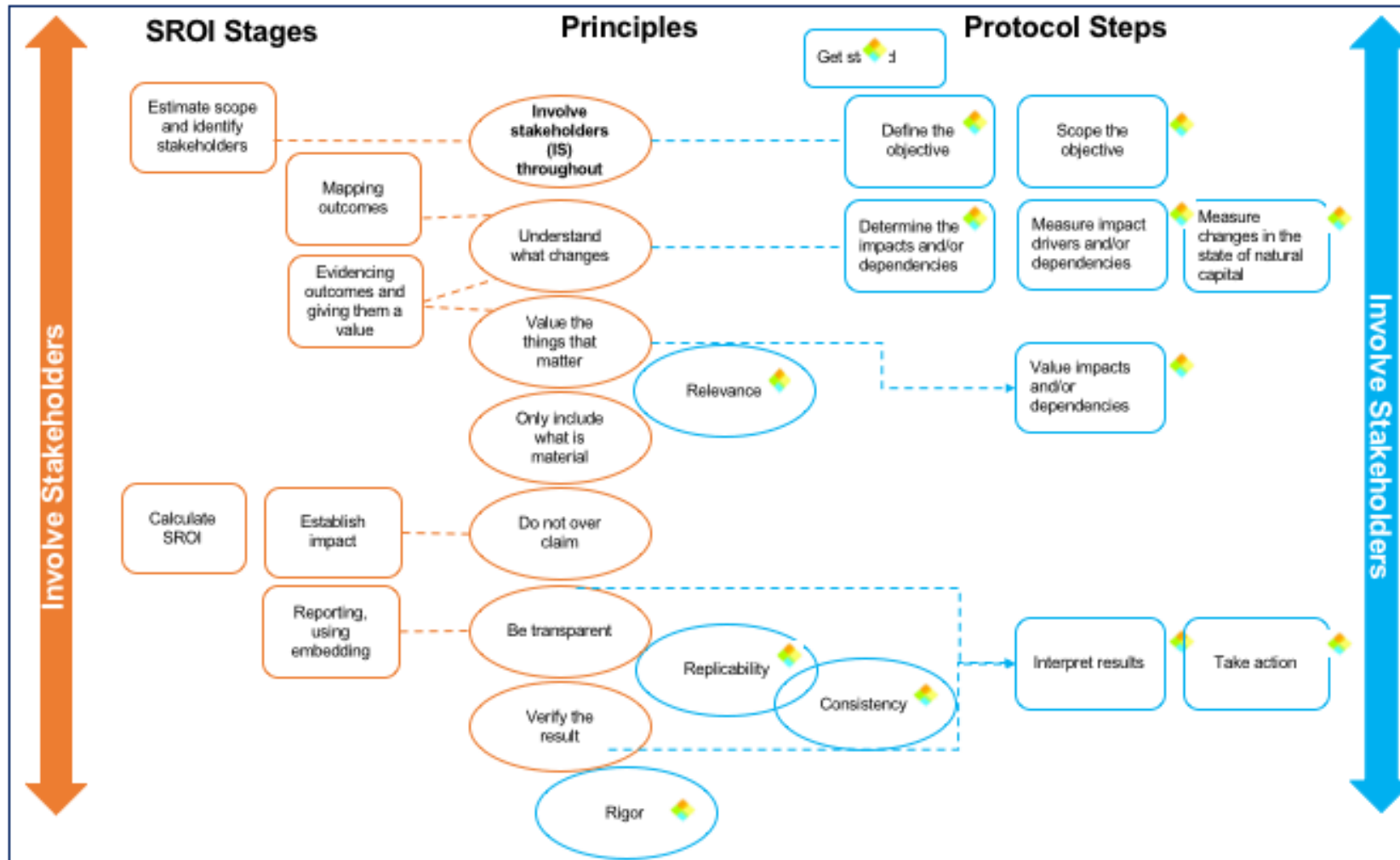
<sup>13</sup> <http://www.socialvalueuk.org/resource/principles-of-social-value/>

<sup>14</sup> <http://naturalcapitalcoalition.org/the-path-towards-the-natural-capital-protocol-a-primer-for-business/>



# Comparison of Stages in the Two Frameworks

Figure 1. Comparison of Stages in Social Value Assessment Framework and Natural Capital Protocol Framework



## Overall positions

### Purpose:

The purpose of both frameworks and sets of Principles is to improve decisions relating to resource allocation by taking into account important social and environmental outcomes that result from the allocation of those resources. This does not mean that application of each framework will automatically make the decision about the best allocation of resources. The aim is to provide more clarity and transparency to inform inherently subjective and context-dependent judgments and decision-making.

The starting point in SVI's framework is its definition of social value:

*“Social value is the quantification of the relative importance that stakeholders place on the changes they experience in their lives. Some, but not all, of this value is captured in market prices.”<sup>15</sup>*

The implication of this is that any social or environmental outcomes that result from an activity are accounted for in relation to how they have an effect on **people's lives**.

The starting point for the Protocol is the definition of natural capital:

*“Natural capital is another term for the stock of renewable and non-renewable natural resources on earth (e.g., plants, animals, air, water, soils, minerals) that combine to yield a flow of benefits or ‘services’ to people.”<sup>16</sup>*

The shared emphasis of the frameworks of both SVI and Coalition is therefore a consideration of any changes that have an **effect on people's lives**. Although the Protocol focuses on outcomes related to changes in natural capital, it highlights that nature underpins all of the other capitals and, without it, we would not have thriving societies and prosperous economies.

### Implementation:

The Social Value Principles and Framework are designed to capture and analyse all of the material outcomes (changes) experienced by all of the material stakeholders (people or groups of people). Wherever possible and reasonable, representatives of each stakeholder group should be involved in identifying and analysing these outcomes. Changes in the natural environment are therefore only captured when they are linked to a change for people. In current practice this means two things:

- When a resulting/subsequent outcome (or potential outcome) for people has been identified, it is captured. For example, changes to people's wellbeing resulting from loss of environmental value
- In instances where the affected stakeholder group is future generations and/or the global population, or outputs leading to change(s) to the environment can be used as a proxy for subsequent effects on people. For example, ‘changes in atmospheric CO2 concentration’ can be used as a proxy for potential changes experienced by the global population and future generations<sup>17</sup>

When implementing the Natural Capital Protocol, two core concepts drive the way changes to the environment are recorded:

- Impacts: the negative or positive effects of business activities on natural capital

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<sup>15</sup> “What is Social Value?” SVI website, June 10, 2017 <http://socialvalueint.org/what-is-social-value/>

<sup>16</sup> Glossary (page 2), “Natural Capital Protocol,” Natural Capital Coalition, 2016.

<sup>17</sup> There may be other instances where the change to the environment can be used as a proxy for changes for specific groups of people; SVI invites readers to share cases that should be specified in future guidance by emailing: [hello@socialvalueint.org](mailto:hello@socialvalueint.org).

- Dependencies: the ways in which businesses rely on natural capital and its associated ecosystem and/or abiotic services, both directly and indirectly. For example, critical production inputs such as land, water, etc.

The next section compares the Social Value Principles and Framework alongside the Principles and steps of the Protocol.

## Comparison of principles, stages and steps

### Principle #1: Involve stakeholders

This SV principle states:

*Inform what gets measured and how this is measured and valued in an account of social value by involving stakeholders.*

#### Purpose:

Stakeholders and their experiences are the cornerstone of the Social Value Principles.

#### Similarities:

Both approaches seek to involve stakeholders in their application.

#### Differences:

When using the Protocol, a practitioner is able to choose the value perspective they wish to apply, whereas, with the Social Value Principles and Framework, stakeholder involvement, in both determining what changes to measure and in reviewing the relative value of those outcomes, is mandated if the analysis is intended to meet the criteria for assurance.<sup>18</sup>

#### Implementation:

According to the Social Value Principles, those affected by a change must be involved in reaching an understanding of the change and its value. This first principle relates back to the definition of social value, “the relative importance that stakeholders place on the changes they experience in their lives,” and means identifying those people who are affected by a change and involving them in understanding the change. It also means understanding how apparently homogeneous stakeholders may experience different outcomes, or value the same outcomes differently to others (meaning that, within a given stakeholder group, it is important to discover any distinct subgroups whose experiences of the change significantly differ).

Some environmental effects will be experienced at a local level, for example factory pollution or flooding, while some, like increasing greenhouse gases, will be both local and global. Where stakeholders can be consulted about how environmental changes affect them, the normal stakeholder involvement process should take place. However, in three cases (and possibly others still to be singled out), the application of Principle 1 allows for other people to speak on behalf of a stakeholder group. The cases are:

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<sup>18</sup> SVI Assurance Criteria, [http://socialvalueint.org/wp-content/uploads/2016/12/Assurance-Criteria-2016\\_17.pdf](http://socialvalueint.org/wp-content/uploads/2016/12/Assurance-Criteria-2016_17.pdf)

- where an environmental change affects a group of stakeholders whom it may not be logistically possible to consult even with a reasonable level of invested effort, such as the global population;
- where stakeholders are unable to articulate their experiences, such as future generations; and
- where stakeholders may not understand the impact, such as in cases where the cause of a birth defect is unknown to the local population but where it is understood by the scientific community to be attributable to a certain toxin.

In turn, the Protocol recommends considering three value perspectives for natural capital assessments:

- The impacts on the business
- The impacts on society
- The businesses' dependencies

The Protocol states that “a complete assessment will include [all three] value perspectives, as they are integrally linked.” However, it also notes that there can be benefit in considering them separately initially.

The Protocol does not include a principle for the involvement of stakeholders. However, its Step 2: “define the objective” includes an action to identify stakeholders and the appropriate level of engagement. The level of engagement is driven by the scope of the assessment, that is, the objective and the business decision being supported by the assessment. Additional stakeholder engagement guidance is found throughout the other steps.

## Principle #2: Understand what changes

This SV principle states:

*Articulate how change is created and evaluate this through evidence gathered, recognising positive and negative changes as well as those that are intended and unintended.*

### Purpose:

Changes to the environment lead to changes in the lives of people. This principle requires that all material outcomes experienced by people, whether positive or negative, should be included.

### Similarities:

Each framework sets out how to determine environmental change and its impact on different stakeholders in similar ways, as illustrated by the example below.

### Differences:

There are some differences summarised as follows:

- The Social Value Framework allows for the inclusion of changes in welfare associated with social-only interventions. The Protocol does not.
- The Protocol includes references to dependencies on natural capital. The Social Value Framework does not consider dependency but instead focuses on all aspects of impact.
- The Protocol's main user group is businesses, thus impacts relate to a business and its activities and the dependencies associated with them. This includes the impact and dependency on society.

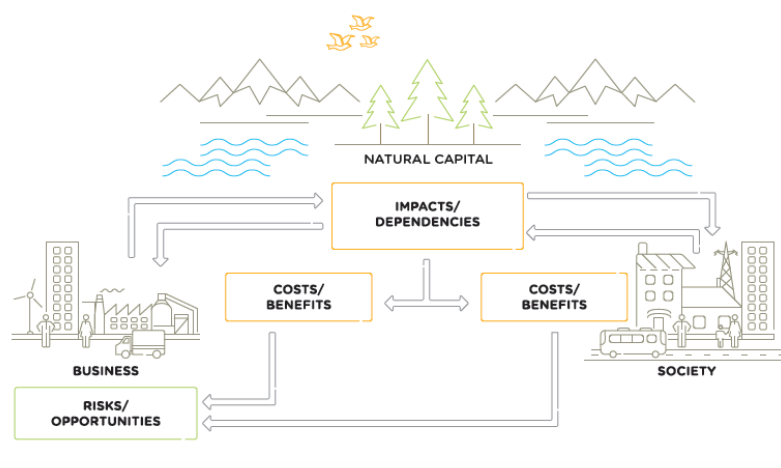
**Implementation:**

The backbone of the Social Value Framework's procedure for analysing the social value of a given entity is an **Impact Map**. This defines the inputs (including natural resources, where they are material), activities, outputs, outcomes, value, and impact associated with a given scope of analysis.

The Social Value Principles emphasise listening to the people who are affected as a starting point. However, this can and should be supplemented by empirical experience and other research in order to make a decision on which outcomes for which groups of people should be included in the account.

In the Natural Capital Protocol, rather than an impact map, the analysis is based upon an **impact and dependency framework**. The purpose of this framework is to help companies set out and understand the drivers of impact associated with company operations and the ways in which the business relies upon natural capital. The Protocol's impact and dependency model is illustrated in Figure 2.<sup>19</sup>

**Figure 2: Natural capital impacts and dependencies: conceptual model**



Source: "Natural Capital Protocol," 2016, page 15.

The SVI impact map, which identifies the resources required to perform the activities and the resulting changes, is partly analogous to the Protocol's impact and dependency framework. However, the impact and dependency framework includes assessment of how the resources utilised and activities performed relate to the businesses' **risks and opportunities** and thus more explicitly places the Protocol's analysis in a decision-making context.<sup>20</sup> This type of user guidance, as to how to use the results of the analysis to inform decisions, is not explicitly part of the Social Value Principles or Framework.

The Protocol does not include a principle for understanding what changes. However, the measurement of environmental change is addressed through Steps 4-6 of the Protocol's framework.

<sup>19</sup> See "Impact and Dependency Framework," Natural Capital Protocol, 2016. Note: many conservation organisations endorse this framework e.g. WWF, International Union for the Conservation of Nature, UN WCMC, Cambridge Institute for Sustainability Leadership, Conservation International, UN Environment Program, and others.

<sup>20</sup> See "Supplementary Guidance for Principle 2: Understand what changes Part One: Creating well defined outcomes," Social Value international, 2016. <http://www.socialvalueuk.org/app/uploads/2016/08/Supplementary-Guidance-for-Principle-2-Understand-hat-changes-Part-one.pdf>

To illustrate the application of the Social Value Principles and Framework impact map and the Protocol's impact and dependency framework, an example is set out in Table 1 below; a second example can be found in the Appendix.

**Table 1. Example application of Social Value Framework's impact map and the Protocol's impact and dependency framework to the case of a power plant**

Social Value Principles and Framework	Natural Capital Protocol Framework
<p><b>Subject of analysis:</b> Power plant</p> <p><b>Scope:</b> impacts resulting from business activities at that plant over a specified period of time (i.e. one year)</p> <p><b>Application of Social Value Framework stages:</b></p> <ul style="list-style-type: none"> <li>• <b>Identify the activity:</b> in this case, business operations</li> <li>• <b>Identify the outputs:</b> in this case, amount of air emissions released e.g. CO<sub>2</sub>, and NOx emissions</li> <li>• <b>Identify the stakeholders (and any sub-groups).</b> The stakeholders whose experiences are considered are the people significantly affected by the plant's activities. In this example there are several stakeholders: <ul style="list-style-type: none"> <li>- Firstly, the '<i>global population</i>' or '<i>future generations</i>';</li> <li>- Then more localised stakeholders e.g. '<i>people living near to the plant</i>';</li> <li>- Lastly, any potential sub-groups (stakeholders who may appear to be from the same group but whose experiences are materially different to the rest of the group). In this case; '<i>people with existing respiratory health problems</i>'.</li> </ul> </li> <li>• Map out what the <b>outcomes</b> are for each stakeholder group so, in this case: <ul style="list-style-type: none"> <li>- For the global population the increase in air emissions (including CO<sub>2</sub>) leads to an increase in climate change which leads to a <i>changed environment and ecosystem to live in</i>.</li> <li>- For the '<i>people living near to the plant</i>' the increase in NOx and CO<sub>2</sub> emissions may lead to increased levels of pollution which may lead to the degradation of local environment which may then lead to reduced recreation in local environment, which may lead to a <i>reduction in wellbeing</i>.</li> <li>- For the '<i>people with existing respiratory health problems</i>' the increase in NOx</li> </ul> </li> </ul>	<p><b>Issue:</b> Company produces an impact on local air quality through emissions from a power plant. The issue is specifically considered from the perspective of the impact of a business on natural capital and society.</p> <p><b>Scope:</b> impacts resulting from business activities</p> <p><b>Application of the Protocol Framework stages:</b></p> <ul style="list-style-type: none"> <li>• <b>Scope the assessment</b> (including stakeholder identification). The Protocol gives examples of the different types of assessment that can be undertaken along with the different value perspectives that an assessor may wish to understand. Which stakeholders are engaged depends on the nature of the assessment; stakeholders can range from individuals at a senior level in the company to build support for the natural capital assessment process along with different external stakeholders.</li> </ul> <p>The scoping phase also includes the identification of the target audience of the assessment outcomes, main objectives and the level of stakeholder engagement required.</p> <ul style="list-style-type: none"> <li>• <b>Determine the impacts and/or dependencies:</b> Depending on the context for the Natural Capital Assessment, the impacts and/or dependencies that are relevant need to be identified. Step 04 in the Protocol sets out how to go about this process and provides examples of impacts and their drivers ("impact drivers"). The process of identifying <b>material</b> impacts is also covered by the Protocol.</li> </ul> <p>In the Protocol, an impact is a change in the quantity or quality of natural capital. For example, in this case a change in air quality that occurs as a consequence of an impact driver (the company's NOx emissions). An impact driver is a measurable quantity of a natural resource that is used as an input to production (e.g., volume of sand and gravel used in construction) or a measurable non-product output of business activity (e.g., in this example a kilogram of NOx emissions released into the atmosphere by the manufacturing facility).</p>

<p>emissions may lead to the worsening of their health condition which leads to <i>reduction in quality of life</i>.</p> <ul style="list-style-type: none"> <li>• <b>Measure the extent of change for each outcome</b> i.e. how much has wellbeing been reduced or has the quality of life changed and for how many people?</li> <li>• Assess the <b>value</b> or importance of these changes as seen by the stakeholders. E.g. for the sub group of the population experiencing a reduction in quality of life, is this more or less important than other changes they may experience? If you want to generate a ratio for an SROI analysis then value in the form of financial proxies needs to be identified for each outcome, within reason. For the stakeholder 'global population' it is often appropriate to use a 'social cost of carbon' proxy to represent the value.</li> <li>• For the time period in question, calculate impact by deducting percentages of the value associated with the following, if it has not already been taken into account in the valuation of the outcome:             <ol style="list-style-type: none"> <li>1. <b>Deadweight</b> (e.g. the likely degradation of stakeholders' health due to other factors such as age or growing consumption of sugary beverages);</li> <li>2. <b>Attribution</b> (e.g. changes in air quality and attendant health issues due to other pollution sources in the area);</li> <li>3. <b>Drop-off</b> (e.g. the decline in the levels of outcomes over time due to the plant improving its technology and thus polluting less as time goes on); and</li> <li>4. <b>Displacement</b> (e.g. improvements in the experience of stakeholders in a place where the plant was previously located)</li> </ol> <p>In the outcomes, valuation and impact calculation, information from existing environmental and health science and/or the input of specific stakeholder groups, e.g. scientists, are likely to be included.</p> </li> </ul>	<ul style="list-style-type: none"> <li>• <b>Measure</b> the impact driver and/or dependencies, in this case, the air emissions (where the impact driver is the emissions of nitrogen dioxide)</li> <li>• <b>Identify and measure the change</b> in natural capital, in this case a decrease in air quality for the affected population (downwind of the plant), placing this in the context of the change in air quality in general.</li> <li>• <b>Value the impacts and dependencies</b> to business/society; e.g. a decrease in health of the affected population. This can be valued either qualitatively, quantitatively or monetized depending on the needs of the assessment. Qualitative research with stakeholders may involve a subjective assessment of decreases in health of high, medium or low as a result of changes in air quality. Quantitative indicators might seek to calculate the number of individuals with specific health concerns as a result of changes in air quality. Alternatively, different options for monetization may exist, including the cost of treatment for specific health conditions, that may help estimate the impact of changes in air quality on the affected population.</li> </ul>
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## Principle #3: Value the things that matter

This principle states:

*Making decisions about allocating resources between different options needs to recognise the values of stakeholders. Value refers to the relative importance of different outcomes. It is informed by stakeholders' preferences.*

### Purpose:

SV Principle 3 focuses on understanding the relative value of the outcomes identified above in order to guide choices between competing options to allocate resource to activities.

### Similarities:

The definition of valuation, range of possible valuation techniques and warnings about the use of monetisation are similar in both frameworks. Both also focus on understanding the issues that are of importance in a given context.

Valuation is not a principle of the Natural Capital Protocol. However, valuation is included as a step in the Protocol framework and its implementation is defined in a similar way to that of the SV principle:

*Valuation is "the process of estimating the relative importance, worth, or usefulness of natural capital to people (or to a business), in a particular context. Valuation may involve qualitative, quantitative or monetary approaches, or a combination of these."<sup>21</sup>*

In both frameworks, valuation can mean monetisation of outcomes but this is not the only way to understand the relative importance of outcomes. The SVI framework proposes several other ways of assigning the importance of a given outcome, for example the importance of an environmental resource to a well-functioning ecosystem and/or dialogue with stakeholders to understand how important a given change is to them. Similarly, the Protocol allows for different ways of measuring value, e.g. multi-criteria analysis techniques.

### Differences:

In the Protocol, the context for valuation is in relation to either business or society and the user decides whether to select one or both. In the Social Value Principles and Framework, all significantly affected stakeholders should be considered every time, to the extent feasible. The Protocol also recommends the need to focus on identifying the specific stakeholders related to the objective of the analysis but does not set defined boundaries around this, whereas the Social Value Principles and Framework do specify the ways stakeholders should be involved.

### Implementation:

Table 2 below shows how the Protocol uses a hypothetical example for Never Sleep Coffee International (NSCI) to demonstrate certain options for valuing different impacts and dependencies. Step 07 in the Protocol, "Value impacts and/or dependencies," sets out a number of different valuation methods (both monetary and non-monetary) for practitioners to consider. The step also shows where expert input may be needed and includes further guidance on discounting and value transfer techniques. The step provides more detail in relation to different valuation techniques than SVI's Guide

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<sup>21</sup> Box 3.1, page 37, "Natural Capital Protocol," 2016



to Social Return on Investment, albeit in an environmental context. SVI has recently (2017) published a discussion document on valuation techniques for social outcomes<sup>22</sup>.

**Table 2: Step 07 Outputs for NSCI: selection of methods (re-produced from Table 7.2, Natural Capital Protocol, 2016)**

Issue	Consequences of impact or dependency on chosen Component (business or society)	Chosen valuation technique
Supply chain impact (on society): water consumption	Health cost to people associated with use of dirty water	The team identified research, published by the WHO, that linked change in prevalence of water-borne disease (diarrheal diseases such as cholera) to clean water availability.  The DALY estimates from the WHO research were valued in monetary terms based on estimates of the value of statistical life (e.g., estimates published by the OECD).  Future costs were estimated based on constant demand, but decreasing availability.
Supply chain dependency: pollination	Cost of reduced yields or setting up mobile pollination services	Mobile pollination services are becoming more widely used in the US, but were not yet available in Kenya. The team estimated the cost of setting up micro-enterprises to provide such services to replace the service in the case of pollinator decline.
Manufacturing impact (on society): air emissions	Health cost to people through inhalation	Pollution dose-response functions, published by the WHO, were used to estimate the potential incidence of health impacts (lung cancer, bronchitis, and cardiovascular disease), which were valued in the same way as those for water consumption.
Manufacturing impact (to the business): air emissions	Cost to the business of tightening regulation as a result of impacts on people (internalization)	The team considered the abatement cost of retrofitting machinery with emission reduction technology to estimate the costs of reducing pollution in line with expected regulatory levels.
Manufacturing dependency: flood risk	Cost to the business of increased flooding risks	The engineering costs of putting in place green and hard infrastructure to combat the rising risk of flooding and keep the risk at an acceptable level were used to estimate the cost to the business over the 10-year period.

In theory, in the Social Value Framework, where the decision has been made to use an environmental outcome as a proxy for subsequent changes to people’s lives, it would be possible to value an outcome based on people’s perception (for example, their perception of the value or cost due to an increase in global temperatures). However, in practice, this is unrealistic. An alternative is to use a proxy value for the effect of, for example, an increase in greenhouse gases (usually expressed as the value (cost) of a tonne of CO<sup>2</sup> per year based on voluntary carbon market prices or on a social cost of carbon (an estimate of the impact on society), e.g. that of the US Environmental Protection Agency, note: these values represent different things and are not directly comparable to one another).

For both Social Value Framework and the Protocol, as with most forms of valuation that are not tied to an explicit business revenue or expenditure figure, there is a risk that such valuations may represent different types of value, or may misstate and probably understate, the loss of value to current and future generations. As one illustration, the proxy for the true social and environmental cost of a tonne of greenhouse gas changes regularly as a result of continuing research and what is included or excluded in a given source’s calculation. Note that the Protocol sets out some of the difficulties associated with the potential to over or under value environmental changes in Box 8.1 (Natural Capital Protocol, 2016).

<sup>22</sup> <http://www.socialvalueuk.org/resource/discussion-document-valuation-social-outcomes/>

Another risk is that valuations used may represent different types of value for different stakeholders. For example, in the example used above; the 'cost of a tonne of CO<sub>2</sub> based on voluntary carbon market prices' is the current market price of carbon representing the value to businesses. However, the social cost of carbon is a different valuation calculated to represent the value of carbon to people in society.

The second part of SV Principle 3 relates to 'what matters'. This is addressed by the Protocol in its relevance principle which is discussed in the next section.

## Principle #4: Only include what is material

This Social Value Principle states:

*'Determine what information and evidence must be included in the accounts to give a true and fair picture, such that stakeholders can draw reasonable conclusions about impact.'*<sup>23</sup>

### Purpose:

Social Value International states:

“Materiality is a process used to help identify the outcomes we need to manage and determine if we are getting the information we need. Any approach to understanding the impact of an organisation or its activities will need to find a way to focus on those outcomes that are relevant and significant. If this is not achieved, the process of understanding and reporting will spend time and energy on issues that are not relevant or are not significant.”<sup>24</sup>

This concept of presenting information that is relevant and significant also suffuses the Protocol which considers both materiality and relevance. In the Protocol, the Relevance principle is articulated as follows:

*“[E]nsure that you consider the most relevant issues throughout your natural capital assessment including the impacts and/or dependencies that are most material for the business and its stakeholders...”*

Materiality is defined in the Protocol as follows:

*“[W]here consideration of an impact and/or dependency and its value, as part of the set of information used for decision-making, have the potential to alter that decision. (Adapted from OECD 2015 and IIRC 2013).”*<sup>25, 26</sup>

### Similarities:

Within both the Protocol and the Social Value Principles and Framework, there are similarities in the treatment of the information that is considered to be important. In the Protocol, the principle of relevance is most aligned with Social Value Principle 4, 'only include what is material,' while the consideration of what is important is most aligned with Social Value Principle 3, “value the things that matter.’

Both frameworks set out the need to report how the materiality of particular elements has been evaluated as part of a transparent reporting process. This is discussed further in Social Value Principle 7, “verify the result,” below. Materiality decisions are always based on judgements and one of the main reasons for SV Principle 7, “verify the result,” is to assess the reasonableness of judgements to include or exclude outcomes.

### Differences:

The main difference is that, in the Social Value Principles, a change is considered material **if a given affected stakeholder group considers it to be important** (relevant and significant) whereas in the

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<sup>23</sup> <http://socialvalueuk.org/what-is-sroi/principles>

<sup>24</sup> “Supplementary Guidance on Materiality,” SVI (2016), <http://socialvalueint.org/wp-content/uploads/2016/12/Supplementary-Guidance-on-Materiality.pdf>

<sup>25</sup> “Ibid.

<sup>26</sup> Page 7, Natural Capital Protocol, 2016.

Protocol, a change is considered material if **for the purposes of the analysis** its stakeholders consider it to be important.

This distinction between the two frameworks is based on the difference in the intended audiences for each of the frameworks with the Protocol, typically, considering the business perspective in particular.

SVI has published “Supplementary Guidance on Materiality”<sup>27</sup> that specifies the following reasons for considering an outcome to be **relevant**:

- The organisation/activity has set out to deliver this particular outcome
- Policies that require the outcome to be included (or perversely block it)
- Stakeholders who express a need for it to be included
- Peers who have achieved the outcome and have demonstrated the value of it
- Social norms that demand the outcome to be included
- Financial impacts that make the outcome’s inclusion desirable

In SVI, the judgement on whether a relevant outcome is **significant** is informed by the relative value, duration and amount of the outcome, the probability that it will occur and the extent to which it was caused by the activity under analysis. Social Value Principles allow an organisation to decide to include and report on a change caused by CO2 emissions, even if it is very low (not significant), when that organisation’s values and policies still require inclusion of the outcome (relevant).

The Protocol sets out the definition of **materiality** and offers examples of things to consider when evaluating different impacts and/or dependencies as material but these are less prescriptive than in SVI. Since policies regarding materiality are being adopted and publicised by an increasing number of organisations, the Protocol does not seek to provide additional detailed guidance on this topic, instead referring to other resources.

#### Implementation:

The fact that the Protocol permits the purpose of the analysis to determine whether a given affected stakeholder group is material to the analysis raises a potential risk in the implementation of the Protocol. There is the potential for a stakeholder to be considered unimportant to a particular issue where they are, in fact, significantly affected. That said, the decision of whether and how to include different stakeholders throughout a natural capital assessment is set out in each step of the Protocol to mitigate this risk. In the Protocol, as in SVI, significantly affected stakeholders are supposed to be considered throughout. However, the Protocol explicitly leaves the extent of their inclusion to the discretion of the business, given the available time and resources and the size of the decision being considered.

(It is worth noting that practitioners using SVI methodology are likely to be doing the same thing, but this is not explicitly acknowledged, nor do they advise that they have done so in the methodology.)

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<sup>27</sup> SVI (2016), <http://socialvalueint.org/wp-content/uploads/2016/12/Supplementary-Guidance-on-Materiality.pdf>

## Principle #5: Do not over-claim

This principle states:

*“Only claim the value that activities are responsible for creating.”*

### Purpose:

Claiming more impact or value to a given activity than is truly due undermines the credibility of the analysis. Efforts should therefore be made to avoid this.

### Similarities:

Both frameworks include guidance to address the issue of over-claiming.

### Differences:

The issue of over-claiming is dealt with in both frameworks, albeit in slightly different ways.

Perhaps because of the intangibility of the issues SVI is most frequently used to assessing, ensuring deliberate attention to the amount of change that is due specifically to the subject entity is one of the defining aspects of the SVI framework. This principle in SVI explicitly includes consideration of what would have happened in the absence of the activities (“deadweight”), how much the outcome persists or declines over time (“drop-off”), whether the change is simply that the problem has moved elsewhere (“displacement”) and the extent to which others contributed to the change (“attribution”).

By contrast, the Protocol typically deals with physical changes that are obviously due to the activities of the entity that is the subject of the assessment. Therefore, **deadweight**, **displacement** and **attribution** are essentially already accounted for by the fact that the activities have taken or will take place.

### Implementation:

In SVI, Principle 5 requires reference to baselines, trends over time, and benchmarks to help to assess the extent to which a change is caused by the activities as opposed to other factors.

The Protocol does not, as such, have a specific principle on over-claiming. It does, however, have a principle of **rigor** that is defined as “using technically robust (from a scientific and economic perspective) information, data and methods that are also fit for purpose.”<sup>28</sup> In addition, the Protocol’s principle on consistency may also help to address over-claiming by requesting that practitioners ensure data and methods used are within the scope of an analysis.

Furthermore, **drop-off** and **attribution** are concepts that are addressed in Step 06 of the Protocol, “measure the changes in the state of Natural Capital.” The purpose of this step is to place changes in natural capital as a result of, for example, a business activity, in the context of overall trends in natural capital. This is essentially similar, in terms of concept, to attribution and deadweight, that is, to consider what has changed as a *result of* this business process (i.e., what is specifically due to its actions compared with the trend in natural capital that would have happened anyway).

Drop-off is less defined as a consideration in the Protocol but again can be considered in terms of the duration of an intervention, e.g. the length of time required to restore an area of natural capital after disturbance. The Protocol framework’s Step 3 considers the need for baselines and the use of scenarios to understand relative change, and Step 6 specifically considers overarching relevant changes and trends in natural capital, i.e. the counterfactual.

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<sup>28</sup> Page 7, “Natural Capital Protocol,” NCC, 2016.

## Principle #6: Be transparent

This SV principle states:

*“Demonstrate the basis on which the analysis may be considered accurate and honest, and show that it will be reported to and discussed with stakeholders.”*

### Purpose:

As with over-claiming, a lack of transparency reduces the credibility and usefulness of the analysis. Transparency surrounding scope, measurement and analytical methods enables users of the analysis to understand, critique, learn from, improve and replicate it.

### Similarities:

Both the Protocol and SVI agree that analyses are more credible when the reasons for the decisions made are transparent. Both in theory and practice, the Protocol's **replicability** principle is essentially synonymous with SVI's **transparency** principle.

### Implementation:

SVI's Principle 6 requires that each decision is explained and documented in relation to stakeholders, outcomes, indicators and benchmarks; the sources and methods of information collection; the different scenarios considered; and the communication of the results to stakeholders.

In the report that summarises the assessment, practitioners are also directed to include an account of how those responsible for the activity will change the activity as a result of the analysis. The Protocol's principle on replicability directs practitioners to “ensure that all assumptions, data, caveats, and methods used are transparent, traceable, fully documented, and repeatable. This allows for eventual verification or audit as required.”<sup>29</sup> In addition, Step 9 includes further considerations relating to transparency in particular when communicating with internal and external stakeholders.<sup>30</sup>

### Differences:

No specific differences.

## Principle #7: Verify the result

This SVI principle states:

*“Ensure appropriate independent assurance.”*

### Purpose:

Any account of value involves judgment and some subjectivity. Thus, this principle has been set out to help assess whether the decisions made were reasonable, based on the information used and approach taken.

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<sup>29</sup> Page 7, “Natural Capital Protocol,” NCC, 2016.

<sup>30</sup> Section 9.2.2b, “Natural Capital Protocol,” 2016.

Similarities:

Both frameworks consider the importance of verification.

Implementation:

SVI asserts that an appropriate independent assurance is required to help stakeholders assess whether or not the decisions made by those responsible for the account were reasonable.

Although verification is neither required nor a fundamental principle of the Protocol, it does consider replicability. The Protocol addresses the utility of verification but leaves the decision as to whether a third party verifies the results to the practitioner.

SVI provides an assurance process whereby, for a fee, reports that adhere to Social Value Principles can be verified as such by SVUK's assurance team. In practice, however, only assessments that are mandated to be so verified by a funder or where a high amount of scrutiny is anticipated, tend to be submitted for this assurance. SVI's very detailed Assurance Criteria are publicly available.

The Protocol's focus is on management decision-making rather than disclosure. As part of Step 09, it refers to verification and provides a set of questions for verifiers who may be internal or external. The Protocol does not mandate assurance and it is not a central principle. However, the principle of replicability does include mention of verification and audit 'as required' with step 9 including a set of example verifying questions/criteria.

Differences:

The Protocol includes verification and audit 'as required' rather than as mandatory.

## Conclusion

There have been significant developments in the field of monitoring environmental change which created a need for harmonisation and prompted the development of the Natural Capital Protocol during 2016.

This document has sought to set out the similarities and differences between the Social Value Principles and framework and the principles of the Protocol. Given the level of similarity between the two frameworks and the cross-cutting nature of many real-world issues in terms of social and environmental impacts and/or dependencies, it is worth ensuring that both communities are familiar with each framework and that their similarities and differences are understood.

## Appendix A

Example illustrating the analysis of the impacts associated with pesticide use by a coffee production plant.

<b>Social Value Principles and Framework</b>	<b>Natural Capital Protocol Assessment</b>
<p>Intervention: Coffee production plant operations</p> <p>Scope: Impacts associated with business activities by a coffee production plant in a given geography and time period</p> <p>For a social value analysis the activity/intervention is the starting point. The activities result in impacts that are set out in the following impact map or chain of events.</p> <ul style="list-style-type: none"> <li>• A coffee production plant grows and harvests coffee and applies pesticides to the crop</li> <li>• Pesticides are applied that kill harmful insects but also harm bee populations</li> <li>• This leads to fewer bees</li> <li>• Other nearby coffee producers that grow and harvest Arabica coffee beans experience less bee pollination</li> <li>• These coffee plants have lower productivity and quality</li> <li>• Local coffee producers harvest and sell less coffee</li> <li>• Coffee producers receive less income</li> <li>• They and their family members experience food insecurity</li> <li>• This results in poorer health among producers and family members</li> <li>• School absenteeism among producers' children increases</li> <li>• These children's learning outcomes decline</li> </ul> <p>Environmental information or the input of specific stakeholder groups e.g. scientists, will likely be needed to establish the causal relationship between pesticide application, pollination and yields.</p>	<p>Issue: Dependency on pollination</p> <p>Scope: Dependency of organisation on pollinators</p> <p>Business activities at a coffee production plant have a dependency on the pollination of coffee plants</p> <p>Change in natural capital causes the bee population to decline due to:</p> <ol style="list-style-type: none"> <li>1. Pesticide use (by the business)</li> <li>2. Natural change</li> <li>3. Other businesses affecting natural capital</li> </ol> <p>For a natural capital assessment, the dependency is the starting point, i.e. pollination, and how this has changed as a result of all identifiable factors (list 1-3 above) and the impact on the business and/or society.</p> <ul style="list-style-type: none"> <li>• The business dependency here is the requirement of pollination of coffee crops</li> <li>• The change in natural capital is defined as a decrease in the number of bees in the context of the overall change in bee populations</li> <li>• Value to business/society is the cost of reduced yields or using alternatives e.g. mobile pollination services</li> </ul> <p>The issue is specifically considered from the perspective of the dependency of a business and/or society on natural capital.</p> <p>Environmental information or the input of specific stakeholder groups e.g. scientists, will likely be needed.</p>



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