

Social Return on Investment for Microenterprise Development

A Presentation at the AEO Conference, Portland, May 2005

Elaine Edgcomb
The Aspen Institute/FIELD

Julie Abrams
Women's Initiative for Self Employment



Social Return on Investment



- What is an SROI?
- Why is MicroTest interested in SROI for microenterprise?
- What are the main issues in creating an SROI?
- What's MicroTest proposing as an SROI?
- Reactions and discussion of proposed SROI model.

What is an SROI?

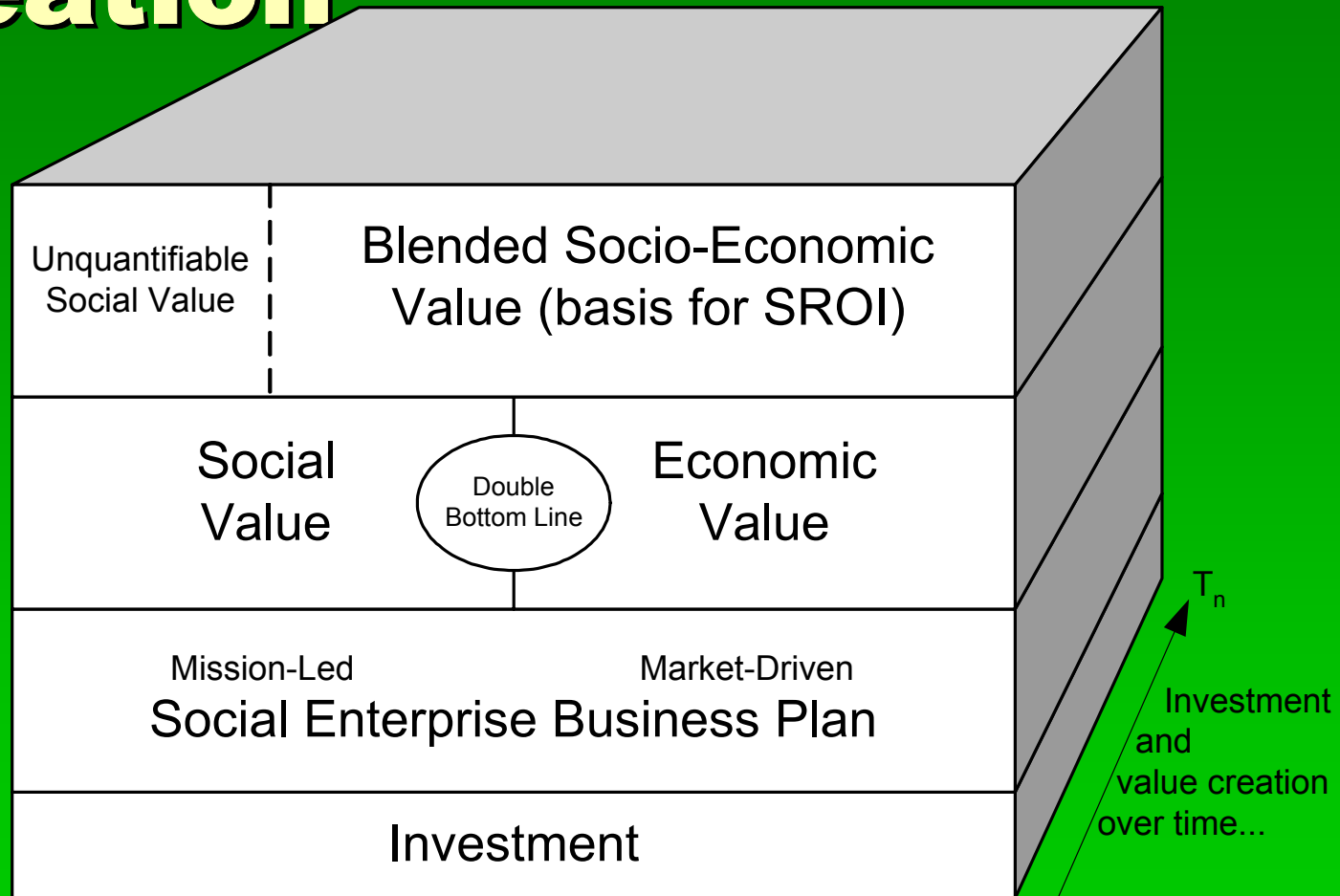


Some Definitions:

- SROI “is the blended value of the net financial return and the net social value divided by the investment costs over that period” – (D.Thys, The Mix)
- SROI “measures the social value the social enterprise creates in financial terms as a ratio of the investment” – (K.Alter, Virture Ventures)
- SROI is a valuation of financial and non-financial returns to an investment (grant, loan, equity) that provides stakeholders an understanding of the “double bottom line” of a social enterprise or development program.

$$\frac{\text{Social Value created}}{\text{Cost of Service}}$$

Understanding Value Creation



From Kim Alter, "Measuring Social Return for Social Enterprise," The SEEP Network, October 2003

© The Aspen Institute/FIELD

How does SROI differ from an ROI?



- A Return on Investment (ROI) is a valuation method that measures corporate performance in terms of a projected return to the investor for each dollar invested.
 - Used to make a financial case for investment.
 - e.g. Disney estimates it should make \$1.25 in extra movie ticket sales for every \$1 it invests in marketing a particular movie.
- An SROI for microenterprise is a valuation method that estimates and projects the personal and public benefits--the social return--a microenterprise program creates for every dollar invested in it:
 - └ **Benefits to microenterprise owners and employees**
 - └ **Benefits to local and state governments**
 - └ **Benefits to the local economy**

Why is MicroTest interested in SROI for microenterprise?



1. It can help make the case that microenterprise is a good investment of scarce philanthropic funds.
2. It speaks the language of social investors and funders.
3. It provides MT members who produce performance and outcomes data with an added tool for advocacy and fundraising.
4. A MicroTest SROI may be viewed as credible and transparent to outsiders.

What are the main issues in creating an SROI for microenterprise?



- Determining what are the social and economic benefits of microenterprise and how to measure them
- Developing the right models for the right purposes
 - ✦ Indepth and rigorous to “make the case” nationally
 - ✦ Simpler, management oriented for practitioners to use internally and for local advocacy
- ◆ Developing a credible model
- ◆ Collecting key pieces of data on clients:
 - ✦ At program intake
 - ✦ From the outcomes surveys

Which measures of benefit?



- Benefits to business owner
 - Change in owners' draw
- Benefits to employees
 - Wages paid
- Benefits to the state
 - ┆ Contributions to tax roles
 - ┆ Benefit reductions



Other possible components of SROI: Economic multipliers—benefits to local economy

- Definition:
 - *Multipliers calculate the rate of quantifiable indirect, direct or induced outputs of specific economic industries or strategies.*
- Examples:
 - *Employment multiplier: 100 jobs created by new business x 1.5 additional jobs created by increased chain of supplies and consumer spending = 150 jobs for the community*
 - *Economic activity multiplier: Revenue multiplier of 3.0 for local spending by local businesses (44% of local business revenue goes to local suppliers, etc. and 14% of chain store revenue is spent locally)*

Other possible components: Financial Returns to Micro Program— Benefits to Funders/Investors



- Interest and fee income paid by borrowers; fees paid by training/ta clients supports program's continued implementation of mission
- Payments reduce required subsidy enabling donors to invest in additional social programs
- Challenge:
 - How address the fact that these payments represent costs to clients for benefits they receive?

Non-Monetized Social Benefits

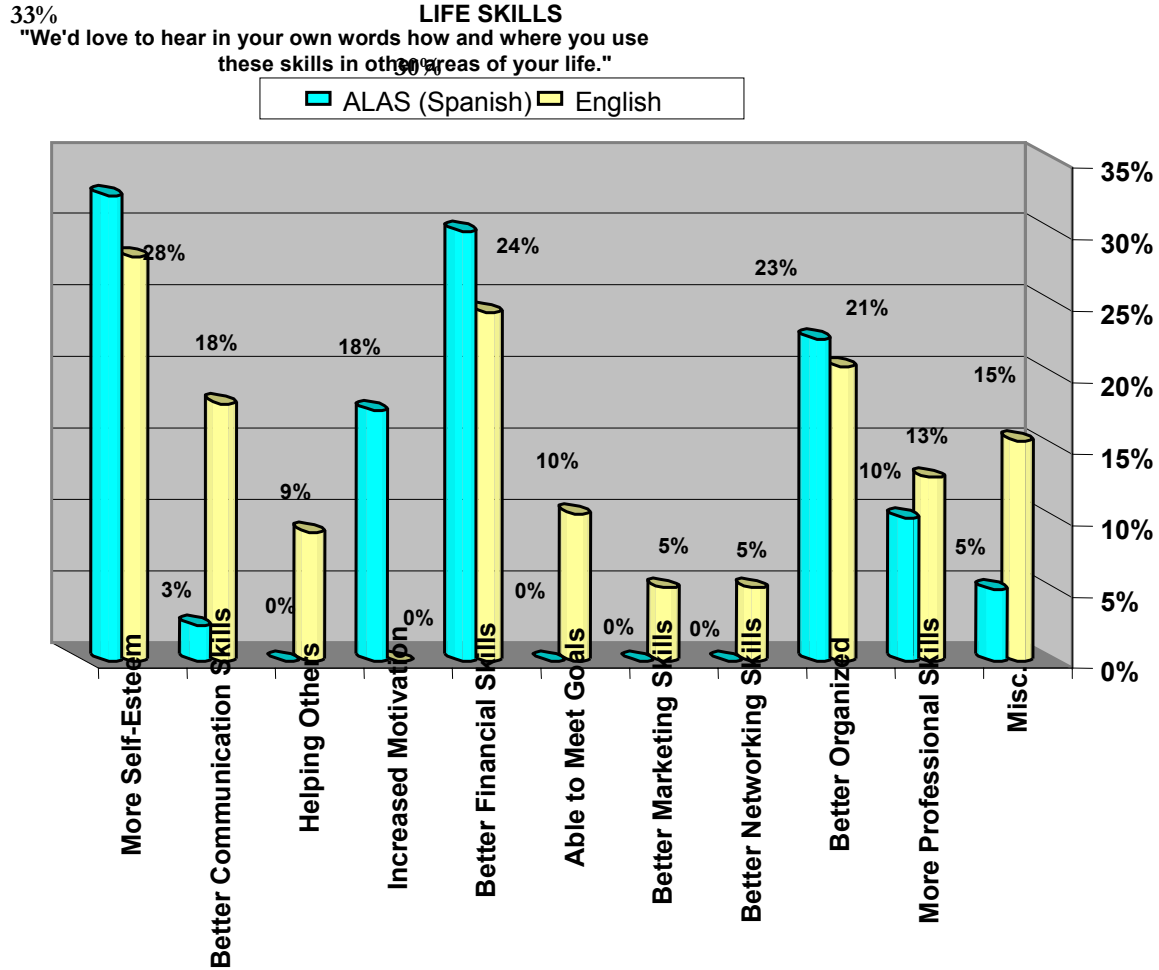
Which ones do we want to capture and how?



e.g., key benefits identified by Women's Initiative:

- Better health and access to health care
- Increased financial literacy
- Pursuit of higher education
- Better employment in a business owned by someone else, i.e. a wage job
- Increased self-esteem
- Increased financial management skills
- Better time management

Other WI Client Social Benefits: Life Skills



Other measures?





Developing the Right Model for the Right Purpose

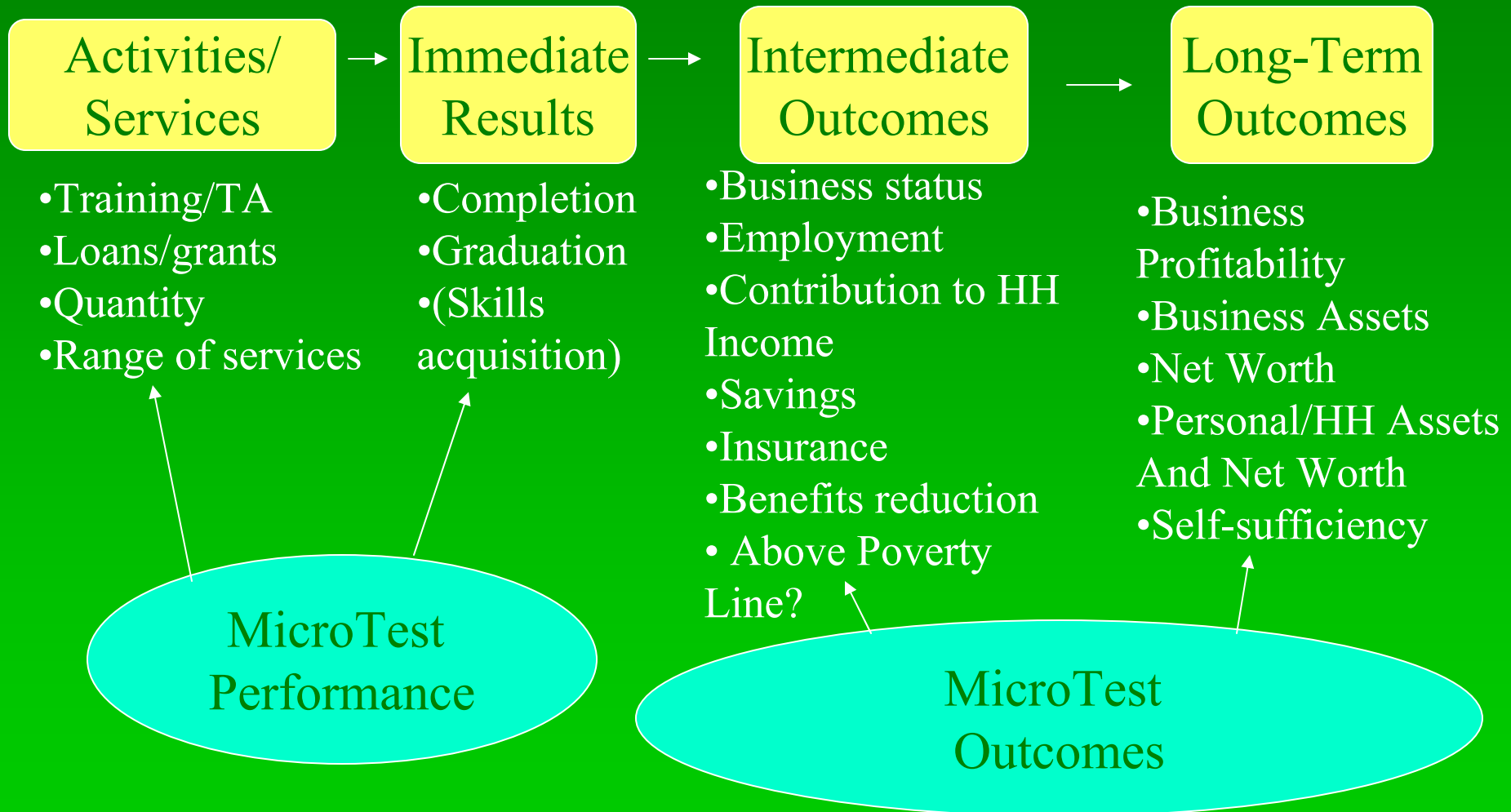
- Demonstrating Impact requires:
 - Rigorous impact or outcomes assessment collecting randomized data on all measures defined as of potential benefit
 - Relating these to detailed cost calculations tracking full investment to support benefits
- Using SROI as a management and simpler advocacy tool requires:
 - ┌ Standard and randomized data collection on key measures
 - ┌ Carefully documented assumptions estimating economic return based on key measures
 - ┌ Standard calculation of costs covering full investment associated with outcomes

Developing a Credible Model



- Indicators meaningful to audience
- Transparent assumptions
- Evidence supporting assumptions must be valid and reliable
- Indicators and methodology comparable to that used in assessments of other economic development/business development strategies
- Calculations accessible and practical for a broad audience

Collecting Key Data



Benefit to the Business Owner



Note: requires good sample of owner's draw data collected at program intake and from outcomes survey

Measure: Change in owner's draw since participating in the program

Definition: The change from intake to survey in the average owners' draw of program clients.

Calculation: (Average owners' draw at survey MINUS average owners' draw at intake) MULTIPLIED by total number of assisted businesses.

Assumptions: Owner's draw is an important measure of the extent to which the business is providing income to the client and the client's household.



Example: Benefits to Business Owner

Average owners' draw at survey	\$14,737	
minus average owners' draw at intake	\$ 6,956	
Equals		\$ 7,781
X Number of assisted businesses	159	
Equals		\$ 1,237,179

Benefit to Employees



Note: requires good sample of jobs data collected at program intake and from outcomes survey

Measure: Change in wages paid to employees of the microenterprise

Definition: The change (from intake to survey) in the average of annual payments to all business employees, excluding the owner.

Calculation:

1. (Total FTEs in sample at survey MINUS total FTEs in sample at intake) DIVIDED by total number of businesses in sample, yields the **ratio of jobs created per business**.
2. MULTIPLY this ratio by total number of assisted businesses yields the estimated **total FTEs created**.
3. MULTIPLY total FTEs created by \$5.15/hour then by 35 hours/week, then by 50 weeks.

Assumptions: 1. Part-time employees = 0.5 FTE. 2. Seasonal employees = 0.5 FTE. 3. Full-time employees (FTEs) work 35 hours/week, 50 weeks/year. 4. All employees make the Federal minimum wage of \$5.15/hour



Example: Benefits to Employees

Total number of FTEs at Survey		
Minus Total number of FTEs at Intake		
Equals		14.5
Total number of businesses in survey	48	
Divided by FTEs equals ratio of jobs to business		.30
Total number of businesses	159	
Times ratio of jobs to business equals total number of jobs		48
Annual minimum wage (\$5.15 * 35 hours * 50 weeks)	\$9,013	
Times number of jobs in assisted businesses		\$432,600

Benefits to State/Local Government



Note: requires good sample of business revenues data collected at program intake and from outcomes survey

Measure: Change in microenterprise sales tax revenue

Definition: The change (from intake to survey) in the average annual gross business sales made by a microenterprise clients multiplied by the state's sales tax rate.

Calculation:

1. (Average Annual Gross Business Sales of sample at survey MINUS Average Annual Gross Business Sales of sample at intake)
2. Change in sales MULTIPLIED by the State's sales tax rate
3. MULTIPLY Total number of assisted businesses by 50 % (the estimated percentage of businesses subject to sales tax)
4. MULTIPLY total taxes by the total number of assisted businesses subject to sales tax.

Assumptions: 1. Using a general state sales tax. 2. All businesses pay the same rate of sales tax. 3. 50% of businesses pay sales tax.



Example: Sales Tax

Average gross sales at survey	\$ 17,771	
minus average gross sales at intake	\$ 8,958	
Equals		\$ 8,813
State sales tax	8.5%	
Times change in gross sales equals		\$749.11
Assisted businesses	159	
X .50 (estimated number of businesses projected to pay sales tax)	79.5	
X Sales tax per business equals		\$ 59,554

Benefits to State/Local Government



Note: requires good sample of TANF data collected at program intake and from outcomes survey; and the average amount of TANF benefit/month.

Measure: Savings to state as a result of moving clients off TANF

Definition: The change in the number of program clients receiving TANF benefits (from intake to survey) multiplied by the average monthly TANF payment amount in the state, multiplied by average number of months clients have been off TANF.

Calculation:

1. TANF clients at intake minus TANF clients at survey = net change in benefit use.
2. Create ratio: divide total number of TANF clients at intake by net change number.
3. MULTIPLY this ratio by the program's total number of TANF clients.
4. MULTIPLY that figure by average monthly TANF payment amount, then MULTIPLY that amount by 6 months.

Assumptions: 1. Using average monthly TANF benefits paid to individuals, not families. 2. For those who are no longer on TANF, the average number of months off TANF over the period is presumed to be 6 months. 3. For those on TANF at intake who do not respond at survey, assume they are still receiving TANF.

Example: Reduction in TANF



TANF clients at intake among surveyed	7	
Minus TANF clients at time of survey	3	
Equals		4
Ratio: TANF leavers at survey time/ total number of TANF leavers in survey at intake	4/7	
Number of TANF clients in total client pool	33	
X ratio equals estimated overall TANF leavers		18.9
Average monthly benefit	\$149	
X total TANF leavers equals total reduction per month		\$2,801
Estimated average time off TANF	6 months	
Monthly reduction times average months		\$16,858



Calculation of Program Costs

- Need to determine the costs incurred in achieving the benefits
 - MT's first model used total program expenses for the fiscal year from which the sample of outcomes clients was drawn, i.e., In this example, FY2002 costs.
 - FIELD's work in looking across a set of programs used the costs associated with the average amount of time all clients had been with program, i.e., 2.3 years of costs
- Issues: how best to determine cost of intervention? when to calculate benefits?

Projecting Benefits Forward



- What makes sense in terms of projecting benefits?
 - Look at one year? Three years? Five years?
 - Benefits projected out to year 3 in original MT model.
- Projections require estimating future benefits:
 - Assume some businesses close, others grow—so owners' draw kept stable
 - Assume payments to employees increases by 5% each year
 - Assumes some business sales drop off, others grow—so sales data stays stable
 - Assumes declining TANF payments over time—ratio of decline in outcomes data applied each year.



Calculating the SROI

- If projecting, find the net present value of 3 years of projected social benefits
- Divide net present value of social benefits by program costs
- Result says what the program returns to society over 3 years for every dollar invested in it.

A MICROTEST Example



	Social Benefit Measure	Year One	Year Two	Year Three
Benefit to the Business Owner	Change in owner's draw from business	\$ 1,236,702	\$ 1,236,702	\$ 1,236,702
Benefit to Employees	Change in wages paid to employees	\$ 433,335	\$ 473,961	\$ 497,659
Benefits to the State	Change in microenterprise sales tax revenue	\$ 59,554	\$ 59,554	\$ 59,554
	Change in state expenditures on clients receiving TANF	\$ 16,858	\$ 7,225	\$ 3,096
Total annual social benefit per MDO		\$ 1,746,450	\$ 1,777,441	\$ 1,797,011
Annual MDO program costs		\$ 1,601,994	\$ -	\$ -
Microenterprise		\$ 144,456	\$ 1,777,441	\$ 1,797,011
Net present value of total social benefit		\$ 3,467,199		
SROI over 3 years for every dollar invested in MDO		\$ 2.16		



Reactions and Discussion

- Do the logic of SROI make sense?
- Which indicators and measures do you think are most important?
- Which assumptions need most refinement?
- What time frame for projections seems appropriate?



For More Information

**FIELD, The Aspen Institute
MicroTest Program**

**One Dupont Circle, NW, Suite 700
Washington, D.C. 20036
(202) 736-1071**

E-mail: fieldus@aspeninst.org

<http://www.fieldus.org>



And

**Women's Initiative for Self-Employment
519 17th Street, Suite 110 Oakland, CA 94612**

510-287-3110

Julie Abrams

jabrams@womensinitiative.org

and/or

Dorice Piraino, Database Associate,

dpiraino@womensinitiative.org



Other Resources

- Microenterprise program example:
www.womensinitiative.org/Publications/WI%20Measures%20Up%20FINAL.pdf
- For other examples and tools, see Roberts Enterprise Development Fund
<http://www.redf.org/results-intro.htm> and
<http://www.redf.org/results-sroi.htm>
- Blended Value Mapping:
<http://www.blendedvalue.org/Papers/51.aspx> and
<http://www.blendedvalue.org/default.aspx>
- Studies of Note:
 - [http://www.civiceconomics.com/Lamar Retail Analysis Executive Summary.pdf](http://www.civiceconomics.com/Lamar_Retail_Analysis_Executive_Summary.pdf)
- Servon, Lisa J. and Jeffrey P. Doshna. (2000). *Microenterprise and the Economic Development Toolkit: A Small Part of the Big Picture*. Journal of Developmental Entrepreneurship: Vol.5, No.3, pp.183-208