MEASUREMENT OF SOCIAL RETURNS

A Brief

1. INTRODUCTION

Measurement of social impact and social returns is not straightforward. The definition of "social impact" is not clear-cut; it depends on context and it is difficult to prove actual extent or depth of the impact. An impact can have many social and economic multipliers, which again are difficult to define and measure. A social project or enterprise can generate both positive and negative impact and the same problems are encountered when attempting to measure both.

Several social and academic organizations have developed different methodologies, which are still being fine-tuned and none has gained industry-wide acceptance as yet. Nevertheless, it is useful to measure, no matter how inexact or tentative. Besides enabling us to progressively learn and improve the measurement methodology, the process helps us to understand the social project or enterprise better, appreciating what works, what doesn't and why.

The measurements, no matter how primitive, act as communication tools among funders, practitioners and beneficiaries to gain some common understanding of the objectives and potential outcomes of the social project or enterprise. These in turn help the parties concerned to evaluate the impact, to find ways to improve performance and to enhance benefits derived.

This paper introduces various current methodologies for measurement of social returns as well as emerging social investment approaches.

2. SOCIAL RETURN ON INVESTMENT[1]

Social Return On Investment (SROI) was introduced in 2000 by REDF (formerly Roberts Enterprise Development Fund) of San Francisco and is now a well regarded methodology, although not widely adopted yet. Basically the method uses financial proxies to monetize social value. This enables ease of understanding of the values and facilitates numerical analysis. It also allows comparisons of differing social projects and outcomes in monetary terms, although criticisms remain on the validity of comparing apples and oranges.

As a simple example for the purpose of illustration, if a nursing home expansion project caters to 50 elderly persons whose support costs the state $4,000 a year per person, the social impact would be $200,000 per year. If $500,000 were required to build the expansion and to support the operations for 5 years, the SROI would be calculated using a cash outflow of $500,000 initially followed by five years of $200,000 per year inflow of benefit. This results in an SROI of 29%.

There are limitations with SROI. There may be important benefits that cannot be monetized. The use of proxies (usually state subsidies or support costs) depends on their availability and similarity to the benefit being evaluated. Even if such data is available in one country, it is not usable in another country (or maybe even another region of the country) due to differences in levels and costs of support.

3. STANFORD EXPECTED RETURN[2]

In the Winter 2009 issue of the Stanford Social Innovation Review, it was suggested that the following formula be used to calculate the Expected Return of social programs, investments and strategic plans:

Expected Return = (Outcome x Probability x Contribution) / Cost

where: Outcome = the impact of the grant or investment
Probability = the probability of the outcome being achieved
Contribution = the portion of the outcome contributed by the funder
Cost = the cost of the grant or investment, adding administrative costs and deducting any financial repayments.

Actually this formulation is a Cost-Benefit Analysis rather than a returns calculation. The numerator is the benefit generated and the denominator is the net cost. Therefore what is calculated is the Benefit to Cost ratio.

On the other hand, the traditional investment return formulation would be:

Return = (Investment Proceeds – Investment Cost) / Investment Cost

It appears that for the Expected Return formulation, the Cost figure does not appear in the numerator, as it could make the numerator negative.

The difficulties encountered in this methodology lie in the measurement of the Outcome, which is the benefit derived by the beneficiaries of the social project or enterprise. Most of the time, the outcomes are qualitative as they relate to changes in attitude, behavior, condition, status, skill or knowledge of the beneficiaries. Outcome-based evaluation methods use indicators as estimates. Alternatively, outputs instead of outcomes are used as measures of impact, which are not satisfactory.

The usefulness of the Stanford formulation is that by adding the probability and contribution aspects, it prevents exaggerated claims of sole contribution to the benefits generated.

4. ACUMEN FUND: PATIENT CAPITAL

Founded in 2001, Acumen Fund is one of the leading investors in social enterprises and contributes much to the philosophy and practices in the industry through its papers and reports. It is interesting to note that a Harvard Business School case[3] says that for Acumen "The financial returns were viewed as part of a broader set of primary investment criteria explicitly articulated by the organization:

- Potential for Significant Social Impact

- Potential for Financial Sustainability
- Potential to Achieve Scale."

Thomas Friedman, New York Times columnist and best-selling author was quoted as referring to Acumen Fund: **"Patient capital has all the discipline of venture capital – demanding a return, and therefore rigor in how it is deployed – but expecting a return that is more in the 5 to 10 percent range."**[4]

5. ACUMEN FUND: BEST ALTERNATIVE CHARITABLE OPTION[5]

In the measurement of social impact, Acumen Fund also uses Cost-Benefit Analysis but it goes a step further by asking whether the Benefit to Cost Ratio of its investment outperforms the Best Alternative Charitable Option (BACO).

Although such comparisons have large margins of error, they help in prompting Acumen's due diligence to include investigation of and comparison with conventional grantmaking alternatives. Acumen's literature often cite its loan to A to Z Textile Mills in Tanzania to produce long-lasting insecticide-treated bed nets that helped to reduce incidence of malaria.

Using the Stanford formulation (accounting for probability and contribution), Acumen calculated that the return from its loan amounted to 30.8 person years of protection per $1 invested. A comparable charitable project using normal insecticide-treated nets would generate 1.3 person years of protection for $1 donated. Acumen concluded that its investment would be 24 times more cost-effective.

Thus Acumen advances from just using Cost-Benefit Analysis to using Cost-Effective Comparisons as indicators of social returns.

6. IMPACT INVESTING

Impact investing is defined as investments intended to create positive social impact beyond financial return. It is different from socially responsible investing, which seeks to minimize negative impact (by avoiding socially undesirable investments).

Impact investing is gaining wide acceptance and is strongly supported by the Rockefeller Foundation and the Global Impact Investing Network (GIIN). JP Morgan even proposes that it should be considered as a separate asset class, arguing that it has "the following characteristics:

- Requires a unique set of investment/risk management skills
- Demands organizational structures to accommodate this skillset
- Serviced by industry organizations, associations and education
- Encourages the development and adoption of standardized metrics, benchmarks, and/or ratings"[6]

JP Morgan surveyed 24 leading impact investors providing data on expected returns for over 1,100 individual investments, and reported that "return expectations vary

dramatically. Some expect to outperform traditional investments, others expect to trade-off financial returns for social impact. Increasingly, entrants to the impact investment market believe they need not sacrifice financial return in exchange for social impact. Indeed, many have a regulated fiduciary duty to generate risk-adjusted returns that compete with traditional investments."[7]

7. IMPACT REPORTING & INVESTMENT STANDARDS[8]

Impact Reporting & Investment Standards (IRIS) is an attempt to standardize measurement and reporting of impact investors. This enables more valid and accurate comparisons of social projects, enterprises and funds. IRIS is promoted by GIIN.

An example quoted in the literature is that a farming cooperative in Argentina claims that its $500,000 investment provides 115 new jobs. Another cooperative in Ecuador claims that its same investment amount resulted in 80 new jobs. However, the jobs in Ecuador are year-round while those in Argentina are seasonal. Thus the social impact in Ecuador is greater. By using IRIS reporting where job creation benchmarks are standardized, valid comparisons can be made.

IRIS provides sets of social and environmental performance metrics as well as standard reporting formats. The aim is to achieve validity and accuracy in social returns comparisons.

8. BLENDED VALUE[9]

Social Enterprises often talk of double bottom line, which means having both financial and social return objectives. Blended Value proponents believe that all organizations, whether for-profit or not, create value that consists of economic, social and environmental components; and that investors (whether charitable or commercial) simultaneously generate all three forms of value by providing capital.

This philosophy is in its early stages and is currently promoting its concepts mainly by bringing related organizations together and mapping them out with resources, standards and metrics, so as to form a body of knowledge upon which the blended value proposition will be formulated and refined.

By promoting the concept of Blended Value, it tries to steer investors and philanthropists away from thinking of themselves as separate silos, but to think that they can leverage economic performance while also creating social value with a unified approach. Hence we should not think of "double bottom line" but "blended economic and social value". Here the aim is to achieve a blended measurement of economic (financial) and social values, but no distinctive measurement method has been developed.

9. VENTURE PHILANTHROPY

For the sake of completeness, mention should be made of the philanthropic venture capital funding model, or venture philanthropy, which brings the disciplines of VC investing to the social sector.

Practitioners believe that “sustainability can be the link between growth and social impact maximization: only if Social Enterprises become self-financially sufficient, can they focus on their social mission. As such, social impact is implicitly created and maximized in the case the SE is able to grow, become self-sustainable and thereby survive in the long term.”[10]

10. CONCLUSION

The concept of a Social Enterprise is relatively new in Singapore, not to mention the measurement of social impact or social return. There are a few measurement methods but there is no consensus on which one is the most useful and practical. The lack of understanding among social funders, enterprises and beneficiaries hampers progress, so there needs to be much effort in promoting awareness and increasing knowledge of social impact measurement. With proper measurement of both social and financial returns, we can then aim to achieve a proper balance and blend of social and financial values in an investment.

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