2012 GSVC Social Impact Assessment Guidance[1]

I. Social Impact Assessment and GSVC

All plans entering the 2012 Global Social Venture Competition will be evaluated against three equally weighted sets of criteria: business potential, **social impact potential**, and **likelihood of success**.

Just as the financial model quantifies a venture's business potential, the Social Impact Assessment quantifies a venture's social impact potential. Similarly, just as tracking key performance indicators enables a venture to measure progress towards its business goals, impact assessment is necessary to measure progress on its social impact goals. Therefore, the Social Impact Assessment is a key tool for determining both **social impact potential** of a

[1] This paper was prepared by the GSVC for the sole purpose of providing educational background to competition entrants. Copyright © GSVC 2012. Publications referenced in this document include:

- Clark, Rosenzweig, Long, and Olsen. "Double Bottom Line Project Report: Assessing Social Impact in Double Bottom Line Ventures." Rockefeller Foundation. Jan 2004. 25 Sept 2008 <http://www.riseproject.org/DBL_Methods_Catalog.pdf>.
- Olsen and Galimidi. "Catalog of Approaches to Impact Measurement: Assessing social impact in private ventures." Rockefeller Foundation. May 2008. 25 Sept 2008 <http://svtgroup.net/sites/default/files/publication/download/SROI_approaches_0.pdf>
- Nichols, Lawlor, Neitzert, and Godspeed. "A Guide to Social Return on Investment." The SROI Network. Apr 2009 <http://www.thesroinetwork.org/component/option,com_docman/task,cat_view/gid,29/Itemid,38/>

venture and the **likelihood of** its **success** in achieving impact goals. In recognition of this important tool to the field of social enterprise, GSVC will award a special prize for Outstanding Social Impact Assessment to one of the Global Finalists.

This document was prepared to help an entrant team define and quantify the social impact potential of their venture, and provides detailed instructions on preparing a Social Impact Assessment.

II. Judging Criteria

Starting in 2012, the social impact potential of a venture accounts for 33% of its overall score. To credibly communicate its impact potential to judges, an entrant team must quantify it based on credible assumptions and research data. Therefore, it is imperative that the teams spend adequate time preparing their Social Impact Assessment.

The Social Impact Assessment directly bears on all the judging criteria highlighted below:

1. Business potential (33%)

2. Social impact potential (33%)

Social Value Proposition

- Business has a clearly-identified social value proposition that is supported by a well-articulated theory of change
- Business generates social value above and beyond current state and/or next best available option

Quantification of Potential Social Impact

- Potential Social Impact projections are based on reasonable assumptions and credible data
- Plan has identified operational metrics ("social indicators") that strongly relate to desired social outcomes
- Plan recognizes potential unintended and/or negative consequences of the business

<u>**3. Likelihood of success (33%)**</u>

Implementation

- Clearly defined vision and growth objectives
- Roadmap for implementation, including necessary connections/partnerships, customer acquisition strategy and demonstrated proof of concept
- Basic scenario planning to show adaptability in the face of hurdles or challenges
- Clear and feasible plan for impact measurement and evaluation, including ongoing monitoring of unintended and/or negative consequences of the business

Organizational Fit

- Social value proposition is central to the business model; impact scales as business scales
- Business has a comparative advantage to existing players addressing the same need

Quality of management team

III. How to Evaluate Social Impact Potential

To evaluate the social impact potential of a venture, the entrant team must prepare a Social Impact Assessment. The Social Impact Assessment should be submitted with the business plan. There are three steps to the Social Impact Assessment.

- **DEFINE**: Define the venture's social value proposition. Use the Theory of Change methodology to describe *why* the ventures activities will lead to the ultimate desired outcomes. Use the Impact Value Chain to describe *how* the venture's activities will lead to the desired outcomes.
- **QUANTIFY**: Identify three measurable social impact indicators that will most strongly correlate with the desired social outcomes. You must select indicators that you can track as part of the venture's ongoing business operations. Provide calculations for these indicators and incorporate them into Impact Value Chain.
- **TRACK:** Explain how the social impact indicators will be tracked as part of the venture's ongoing business operations. Outline a clear and feasible plan for impact measurement

and evaluation, including ongoing monitoring of unintended and/or negative consequences of the business.

STEP 1: DEFINE

Define the venture's social value proposition. A social value proposition is a statement that describes the unique benefit that the venture creates for society. A typical value proposition often follows the following format: [name of venture] provides [products or services], which are [statement of key differentiation] for [target customer or beneficiary], creating [statement of social value or impact]. For example, World of Good's social value proposition was: World of Good brings ethically sourced handcrafts into the mainstream retail market and aims to generate sustainable livelihoods for thousands of artisans around the world.

There are two simple tools that can support a venture's value proposition: Theory of Change and the Impact Value Chain.

Theory of Change

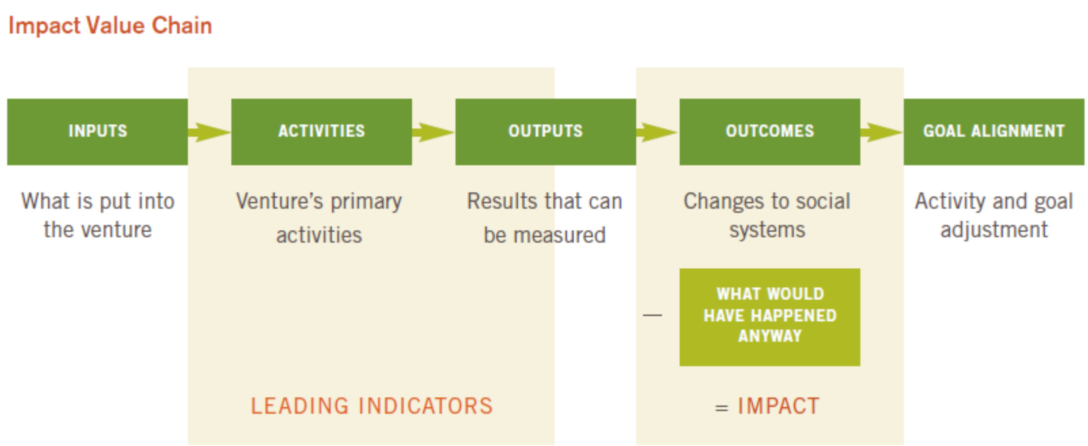
A Theory of Change describes *why* the activities of a venture lead to the desired social outcomes. A Theory of Change can often be summarized in an "If…then" statement and the change in the ultimate social outcome is expressed as an increase or decrease. For example:

- If low-income, marginalized teenagers have first-hand experience running a business, they will be more successful in their later careers.
- If customers' water usage is metered and they have to pay for it, they will use less water.
- If poor women in Africa have access to and control over personal contraceptives, AIDS will spread less.

- If people buy organic yogurt instead of non-organic yogurt that may be full of pesticides, their health will improve.
- If jobs are created in low-income areas, personal well-being will increase and the quality of life in those neighborhoods will increase.

Impact Value Chain

The Impact Value Chain is a tool that illustrates *how* the venture's activities lead to the venture's ultimate desired outcome and impact. The Impact Value Chain builds on your Theory of Change by articulating the relationship between the venture's activities, outputs, outcomes, and impact. The steps involved in impact creation are illustrated in the impact value chain below.



Based on the Impact Value Chain in *The Double Bottom Line Methods Catalog*, Clark, Rosenzweig, Long and Olsen and The Rockefeller Foundation, 2003.

One of the greatest benefits of mapping the Impact Value Chain is that it allows you to differentiate between outputs and outcomes.

Outputs are results that a company, nonprofit or project manager can measure or assess directly. Outputs for a health clinic, for example, could include the number of patients treated and the percent that return with recurring symptoms. Social impact indicators are specific operational outputs that a venture can measure to ascertain whether they are on track to meeting their social benefit objectives. Social impact indicators are discussed more fully in the next section.

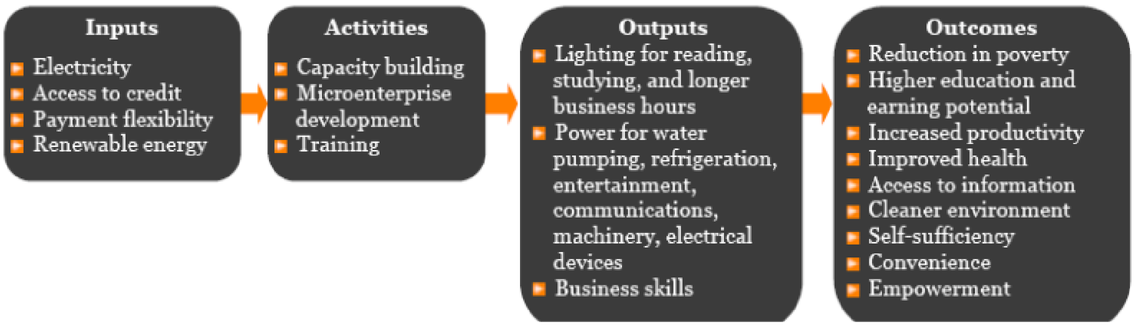
Outcomes are the ultimate changes that one is trying to create in society. For the health clinic, desired outcomes could be increasing the patient life-years or decreasing the mortality rate. Commonly the organization running the program may not have the expertise or resources to evaluate whether an outcome has been achieved, but it is just as important for the organization to define the desired outcomes and determine which output measures are most likely to be correlated with these outcomes.

Impact refers to the portion of the total outcome that happened as a result of the company's activity, above and beyond what would have happened anyway or the next best alternative solution. In social science, one needs what is called a "counterfactual" to compare to the experimental state in order to discern the effect of the dependent variable from among all other factors that could be causing a change.[2]

One example of an Impact Value Chain from Developing Power, a 2003 GSVC winner, is below. Developing Power, based in Brazil, provides electricity in rural, low-income areas.

[2] The most common example of this approach is seen in clinical drug trials. The control group exists so that the difference in outcomes of the subject or experimental group can be compared to it. A drug is effective where there is statistically significant improvement in outcomes between the two groups. Social scientists call this control group the "counterfactual," and measure all social impacts as those that occur over and above a counterfactual. For most early-stage ventures, the construction of a real counterfactual may be impossible, and in any case is prohibitively expensive. Still, we ask entrants to think about the value they are creating *relative to the next best alternative*.

Figure 1: Potential Outcomes of Improved Energy Services in Alleviating Poverty



Taken together, the Theory of Change and Impact Value Chain are useful tools that help social venture entrepreneurs support their value proposition.

Appendix A at the end of this document provides a framework for the different dimensions of social impact that a venture may employ. Teams are encouraged to consult it for more depth on how a social venture drives social impact through its activities.

STEP 2: QUANTIFY

The key to the Impact Value Chain is to think carefully about the social impact indicators (output measures) that most strongly correlate to the desired outcome. Entrants are required to select three social impact indicators and describe how these social impact indicators will be measured as part of operations. Plans will be judged based on how strongly the social impact indicators relate to the social outcomes of the venture; how feasible they are to measure and track; and how credible the underlying assumptions are.

Once the indicators are selected, the next step is to conduct secondary research which will inform impact projections. Drawing on credible research sources and clearly articulated assumptions, the team should now be ready to build a model of its projected social impact.

Assumptions in the model should be consistent with projected business performance. In particular, teams should use the same time horizon for their impact and financial projections.

Entrants are strongly encouraged to discuss the qualitative outcomes of their venture. Although they will not be able to quantify all outcomes, it is important to demonstrate understanding of the full range of the venture's impact. The Theory of Change and the Impact Value Chain should provide the framework for this discussion.

Finally, teams must cite all sources and clearly articulate assumptions, providing detailed references.

Social Impact Indicators

Social impact indicators are specific operational metrics that a venture can utilize to assess whether they are progressing towards their social benefit objectives. A social impact indicator should distinguish between a measure that is easy to count but unrelated to actual impact, and one that is both quantifiable and is in fact a valid proxy for impact. These are very similar to financial indicators that all ventures measure to track financial performance; however, social impact indicators track progress towards improving an unfavorable societal condition. Entrants are encouraged to consult the Impact Reporting & Investment Standards (IRIS) library of social impact indicators (see next page for more information). Where appropriate, entrants are encouraged to use key business performance indicators.

Impact Reporting & Investment Standards (IRIS)

The Impact Reporting & Investment Standards, or IRIS, is a framework for describing the social and environmental performance of an organization. IRIS provides a library of indicators, with standard definitions, that enable comparison and communication across the breadth of organizations that have social or environmental impact as a primary driver. IRIS indicators span an array of performance objectives and include specialized metrics for a range of sectors including education, financial services, agriculture, and energy.

Please visit the following link to see the IRIS indicators: http://iris.thegiin.org/iris-standards. To find indicators specifically for your sector, select "Filter by Sector" on the top left-hand menu. You can also download a list of IRIS indicators from http://iris.thegiin.org/indicator/downloads (download the IRIS Taxonomy 2.0.xls.) The indicators you will find most helpful will be on the Product Description, Operational Impact and Product Impact tabs.

Social Return on Investment (SROI)

Social Return on Investment (SROI) is a way to monetize the non-financial social or environmental value created by an enterprise.[3] GSVC no longer requires entrants to prepare an SROI calculation. However, if SROI is best suited to convey the social impact potential of the venture, entrants are encouraged to incorporate it into their Social Impact Assessment. For step-by-step instructions on preparing an SROI analysis, please consult Appendix B.

STEP 3: TRACK

For a venture to determine its progress towards stated impact goals, it must track how its social impact indicators change over time. Therefore, entrant teams will need to explain how their chosen indicators will be tracked as part of the venture's ongoing business operations. Outline a clear and feasible plan for impact measurement and evaluation, including ongoing monitoring of unintended and/or negative consequences of the business. Where appropriate, teams should use key business performance indicators to minimize data collection burden and ensure alignment between business and impact goals.

[3] Social Return on Investment as described here is based on work published in 2001 by REDF, http://www.redf.org and updated using The SROI Network's Guide to SROI, http://www.thesroinetwork.org/content/view/100/101/.

III. Hints, Tips & Recommendations

- Use the same time horizon for your impact projections as you do for your financial projections.
- Include both positive and potential negative outputs.
- In any quantification, include only outputs that are clearly and directly attributable to the venture and quantifiable.
- Make sure the impact your venture hopes to achieve is truly addressable by your activities.
- Realistic ongoing tracking plans are important.
- We encourage you to consider the next best alternative to your venture and the value that you can provide above and beyond this option.
- We encourage you to consult the IRIS library of indicators.

Appendix A: Dimensions of Social Impact

There are multiple dimensions of social impact. A venture may choose to focus its activities on selling to millions of customers (reach); providing a life-changing solution to a target population (lift); or acting as a catalyst for a new market (catalytic effect). The possible dimensions of a venture's social impact are outlined below:

Dimension	**Definition**
Reach	Number of individuals directly impacted by the venture.
Lift	Margin of improvement in target variable (i.e. income, health, food security, etc.) for each individual.
Sustainability	Longevity of reach and lift.
Scalability	Incremental cost of increasing reach or lift decreases as the venture grows.
Replicability	Change in lift achieved for other population segments.
Unintended consequences	Unforeseen damage done to intended beneficiaries, another relevant population segment, or the ecosystem by the venture.
Catalytic effect	Additional investments inspired by the venture, even if the venture is not involved in the new program.

The following example illustrates these concepts when applied to an agriculture cooperative which provides farmers with greater market access for their goods:

Dimension	**Impact**
Reach	Number of farmers impacted by program
Lift	Average increase in farmer income
Sustainability	Number of years increase in farmer income is maintained

Scalability	Cost of generating every incremental unit of income
Replicability	Average increase in farmer income in another geography
Unintended consequences	Effect on farmers outside the cooperative, but in the same community
Catalytic effect	Number of other ventures providing market access to the target population

Appendix B: Social Return on Investment (SROI)

Social Return on Investment (SROI) is a way to monetize the non-financial social or environmental value created by an enterprise.[4] Admittedly the determination of social value may not always be easy. The social value created may be more qualitative in nature making the impact difficult to monetize, or there may be a lack of agreement on how to assess the actual value created. Despite these issues, some nonprofit organizations and social enterprises choose to express their impact in dollar terms because of the ease of communicating it to investors.

How to Calculate SROI

There are 5 main steps to calculate SROI. We have illustrated most of them here through selected portions of the SROI Analysis of Developing Power, the 2003 GSVC SIA Winner.

Example: Developing Power

Developing Power's value proposition is to break the cycle of poverty through electricity and capacity building. The primary benefits from access to electricity include improved education, human health, communication and entertainment, comfort, protection, convenience, and productivity.

SROI Step 1: Define social impact indicators (outputs)

Using the Impact Value Chain, select the social impact indicators (outputs) that most strongly correlate to the desired outcomes. Is it units sold? People employed? Energy produced? See previous discussion of social impact indicators above for more considerations.

[4] Social Return on Investment as described here is based on work published in 2001 by REDF, http://www.redf.org and updated using The SROI Network's Guide to SROI, http://www.thesroinetwork.org/content/view/100/101/.

One of Developing Power's desired outcomes was an increase in productivity. Approximately 20% to 30% of people in the developing world operate a business from their homes, and the use of electricity for electric lighting and mechanical devices could significantly enhance the productivity of home businesses or microenterprises. Developing power identified a study in the Philippines that indicated that with electricity, small businesses could typically operate two more hours per day compared to businesses without electricity. Consequently, an important social impact indicator (output) for Developing Power was the number of households or businesses to whom it could provide electricity. As the number of households or businesses to whom Developing Power provided electricity increased, Developing Power expected productivity to also increase.

SROI Step 2: Translate outputs into financial equivalents where possible

Next, find data that enables you to estimate a dollar value for each of those outputs. What is the value of a solar panel in terms of energy saved? What is the value to society of a person newly employed, in terms of savings to governments such as reductions of tax payments and increases in tax revenues?

To determine these values, you will want to use outside data that is a close proxy for what should occur through your venture's activities. Proxy data are published by NGOs, think tanks, governmental publications and academic journals on subjects similar to those affected by your enterprise.

Developing Power used a World Bank study on the benefits of electricity on rural households in the Philippines as a proxy when assessing the benefits of access to electricity for the community of Bahia, Brazil. To determine the monetary benefit of productivity increases caused by electricity, Developing Power took the information from the World Bank study on the Philippines, adjusted it for Bahia, Brazil and estimated a business in a non-electrified household could potentially increase its income by $34 per month per household with access to electricity.

SROI Step 3: Develop social cash flow "pro forma"

In order to determine your impact, subtract outcomes that would have happened anyway (based on your research and proxy data) from the outcomes directly attributable to your venture. Calculate the financial metrics of the social benefits and costs (SROI, SNPV, SIRR) using the appropriate discount rate (explain your choice of rate). Perform a sensitivity analysis to determine which changes have a significant impact on the overall ratio.

Social Return on Investment
(in $1,000 USD)

	Year 1	Year 2	Year 3	Year 4	Year 5	...	Year 15
Number of Projects	1	2	3	5	8	...	85
Cumulative Number of Projects	1	3	6	11	19	...	456
Cumulative Number of Households Served	200	600	1,200	2,200	3,800	...	91,200
Social and Environmental Benefits							
Education and earning potential	$0	$0	$0	$0	$62	...	$11,294
Communication and entertainment	$12	$36	$72	$132	$228	...	$5,472
Productivity in home business	$15	$45	$91	$166	$287	...	$6,895
Productivity in households	$34	$101	$202	$370	$638	...	$15,322
Human health benefits	$0	$0	$180	$540	$1,080	...	$53,460
Environmental benefits	$0	$0	$1	$2	$3	...	$68
Total Social and Environmental Benefits	$61	$182	$544	$1,208	$2,296	...	$92,443
Operating and Capital Costs	$0	$0	$0	$0	$0	...	$0
Total operating expenses	($143)	($190)	($240)	($314)	($413)	...	($15,328)
Capital expenditures	($175)	($350)	($446)	($744)	($1,050)	...	($11,156)
Total Operating and Capital Costs	($318)	($540)	($687)	($1,058)	($1,463)	...	($26,484)
Social Purpose Benefit Flow	($257)	($358)	($143)	$150	$833		$65,959
Discount rate	11.71%						
NPV of Social and Environmental Benefits	$93,454,572						
NPV of Project Costs	$29,164,411						
Benefit-Cost Ratio	3.2						
Social Purpose Value	$64,290,161						

Developing Power used their productivity data for both residential and business customers in the analysis above. They also included data for several other desired outcomes, including education, communication, health and environmental benefits. Taken together and multiplied over the 91,000 businesses and households Developing Power expects to electrify over 15 years, the resulting SNPV is $93 million and the SROI is $3.20 for each dollar invested in Developing Power.

SROI Step 4: Discuss qualitative outcomes

Although you will not be able to quantify all outcomes, it is important to demonstrate your understanding of the full range of your impact. Your Theory of Change and the Impact Value Chain should provide the framework for this discussion.

Developing Power also wrote:
Other benefits of electricity, which are more difficult to quantify but result from rural electrification projects, include greater levels of comfort, protection, and convenience. Access to credit through microfinance institutions has also shown to improve knowledge of health and nutrition, empower women, and institute financial skills among customers. Whether realized within the home or in the community, these qualitative benefits may result in higher levels of confidence and peace and should not be disregarded.

SROI Step 5: Cite sources and articulate assumptions clearly

All sources should be referenced in detail as part of your SROI analysis.