

The additional social benefit of projects - a case study from Mongolia of the Social Return on Investment

Introduction

World Vision, through its work, contributes to changing living conditions of people, especially children, who live in poverty in different countries across the globe. Though the measures undertaken in various sectors (e.g. education, health) have an impact on the families living in a given project area, it can be very challenging to measure this. Against this background, World Vision Germany tested an analysis method originating from the private sector, which attempts to express the impact of social measures in monetary terms: Social Return on Investment (SROI). With pro bono support from the Boston Consulting Group a SROI analysis was carried out between August and October 2016. The evaluation focused on economic development interventions carried out in the multi-sectoral, sponsorship-financed regional area development program Bayankhoshuu, Mongolia.

The overall goals of the SROI analysis were (1) to gain an impression of the effectivity and efficiency of the economic development and (2) to develop World Vision's competencies in the application of SROI evaluation methodology.

What is SROI?

Social Return on Invest is an approach by which a broad concept of value encompassing economic, environmental and social outcomes is calculated and set against the cost of contributing to these changes. This enables a benefit-cost ratio to be calculated which expresses the value of the created impact in relation to the costs in monetary terms. For instance, a SROI ratio of 5:1 indicates that for every \$1 invested \$5 of impact is created.

In general, money is simply a common unit and as such is a useful and widely accepted way of conveying value. Nevertheless, it needs to be mentioned that the SROI is about value, rather than money and much more than just a number. It is a story about change, on which to base decisions, that includes case studies and qualitative, quantitative and financial information.

In comparison to traditional cost-benefit analyses, the SROI ratio will differ due to the consideration of non-economic factors. For instance, someone is given a sewing machine with which that person is able to produce and sell clothes. As a result, that person generates an increased income. At the same time, the individual may now be able to buy better food and, send the children to school or may derive a higher self-esteem from owning a small business. Thus, the created value may be higher than the mere economic outcome. Due to this monetary valuation of non-economic factors in an SROI assessment, it is particularly important to analyze the SROI ratio in connection with the larger context. The ratio itself is an indication of the value of the evaluated measures, expressed in the common unit of money to facilitate communication.

Project Description – Economic Development Project of Bayankhoshuu ADP

Bayankhoshuu is a situated in the the Songino-Khairkhan district of Mongolia's capital Ulaanbaatar. The poverty-stricken area is rapidly growing due to rural-urban migration and is home to around 76,000 people, including more than 30,000 children. World Vision has been supporting an Area Development Program (ADP) since 2000, in which around 2000 children are registered for Sponsorship. The ADP entails 4 sectoral projects through which it seeks to

contribute to child well-being, namely education, health, sponsorship and economic development. For this case study we concentrated on the economic development project, which aims to enhance the resilience of families and communities to environmental and economic shocks. The overall goal of the activities is the graduation out of poverty. This included two outcomes with the following activities:

- 1) Diversification of income generation opportunities for most vulnerable families
 - Financial management training for households.
 - Establish saving group
 - Gardening training, seed and small tools support
- 2) Improved access to economic development opportunity at local level
 - Business training
 - Vocational training (sewing, felt, shoes, handicraft)
 - Support of business group



Beneficiaries with their products.

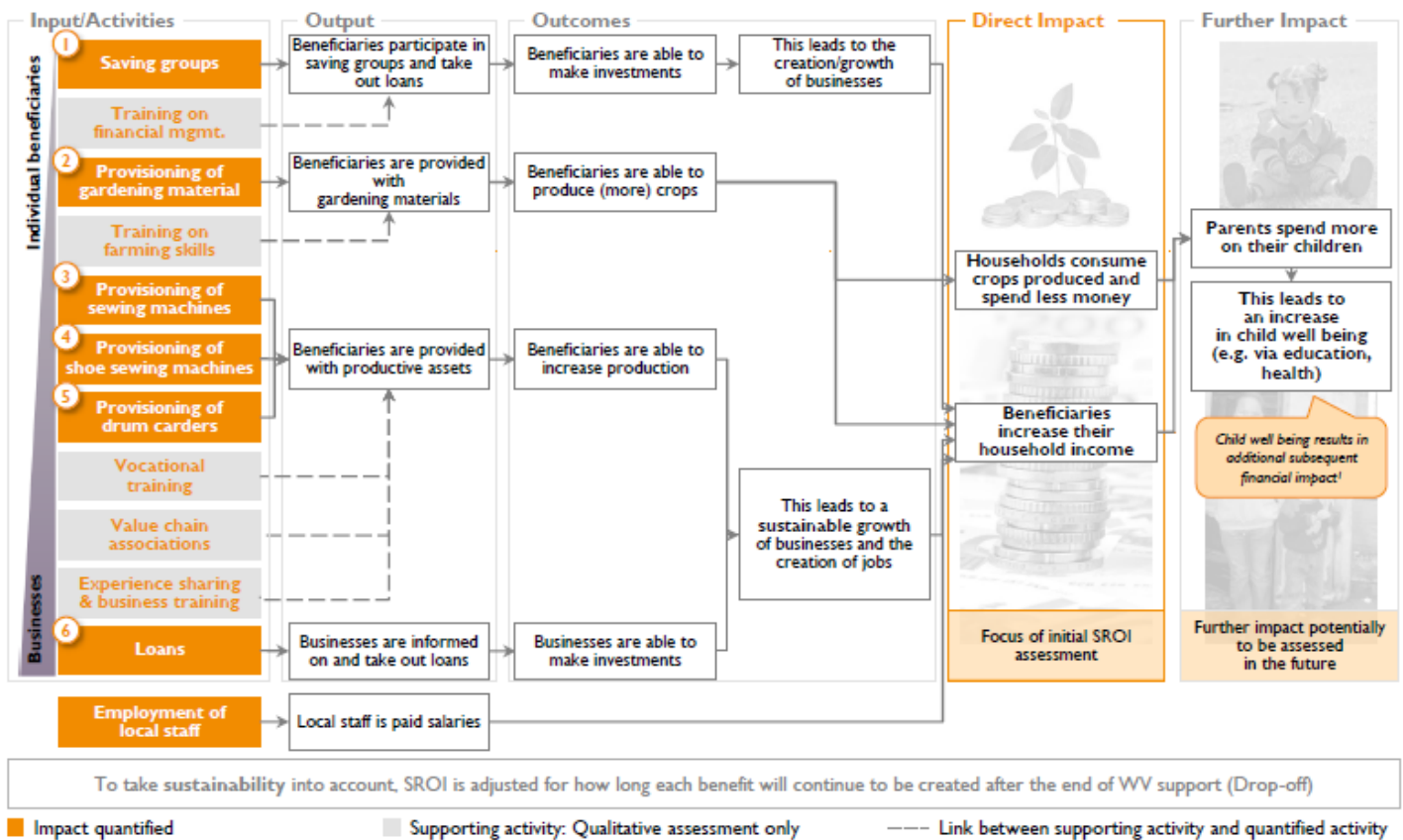
SROI Analysis in Bayankhoshuu ADP

According to best practices, this SROI analysis was carried out in six main steps.

1. Establishing scope and identifying key stakeholders: After receiving the offer of support from BCG, several ongoing projects across various World Vision project countries were taken into consideration for the SROI analysis. Given the limited time, financial and human resources, it was of crucial importance for the selected project to have a solid monitoring system from which relevant data could be drawn. This was the case for Bayankhoshuu ADP implemented by World Vision Mongolia, whose staff were keenly interested in carrying out the SROI analysis. For simplification purposes, and given the mentioned limitations, it was agreed upon that this initial analysis would focus on the economic development project of the ADP. The activities of the economic project have a more direct link to household income and would therefore be easier to monetarize for the purpose of the SROI calculation. Existing data from the project's current life cycle (2014-2019), would be considered.

2. Mapping outcomes: According to World Vision programming standards, all projects have a documented theory of change for each life cycle of 5 years. It includes a project goal, outcomes, outputs and key activities in form a logical framework. The present theory of change was used for the SROI analysis (graph 1).

Overview World Vision activities quantified for SROI assessment



Graph 1: Theory of Change Source SROI-Assessment for Economic development project Bayankhoshuu, Report 19 October 2016, Slide 19.

3. Evidencing outcomes and giving them a value: In a next step, the influence of the project activities on the outcomes were identified and the direct impacts in the ToC valued and expressed in monetary terms. This was achieved by drawing on data captured in the project’s monitoring system such as Base Line Surveys and Mid-term evaluations. Additionally, further qualitative data was collected through 22 interviews with project stakeholders. These were conducted by WVG and BCG during a 2-week period in Bayankhoshuu. The stakeholders included beneficiaries of WVM activities, government representatives as well as beneficiaries who had received microloans from Vision Fund¹.

4. Establishing Impact: After having monetized the impacts, additional factors were considered in order to determine the actual impact created as a result of the various project activities. Key factors were deadweight, drop-off and attribution. **Deadweight** refers to the impact which would have happened even if project activities had not taken place. For example, a beneficiary may have had access to a microcredit which could have led to investment and increased income, even in the absence of World Vision and Vision Fund. **Drop-off** is used to account for the future reduction of outcomes which last for several years. For instance, a

¹Vision Fund International is a Microfinance Institution which offers micro financial services for the poor.

beneficiary receiving a sewing machine and initial input materials would, ideally, be able to produce and sell clothes in future years. However, the sewing machine would slowly depreciate and become less productive and at some point, for a number of possible reasons, be of no further use to the producer. Attribution is a proportional factor which indicates the extent to which the observed impact is influenced by WV project activities as opposed to external factors or activities/initiatives of other organizations. For instance, while beneficiaries participate in vocational training and receive productive assets from WV, they may also be benefitting from additional business training offered by the government which also contributes to the outcome of increased household outcome.

Values for deadweight, drop-off and attribution were estimated based on information gathered through interviews with project stakeholders including beneficiaries, government representatives and WVM staff, as well as WVM's previous experience with similar project activities.

5. Calculating the SROI: After having calculated the program impact, the respective impacts were accumulated and set in relation to the accumulated costs of project implementation in order to calculate the SROI. The costs were taken from the project budget, which includes all costs related to the project. This includes direct project costs (e.g. sewing machines and farm equipment), program support costs (e.g. rent in ADP office and vehicle operating costs shared by all 4 projects) as well as technical support costs (e.g. costs of external trainers and consultants). In addition to using the total costs to calculate the overall SROI, where possible, the costs were allocated to the various activities which enabled the SROI to be calculated at activity level. This allowed for more detailed programmatic analysis.

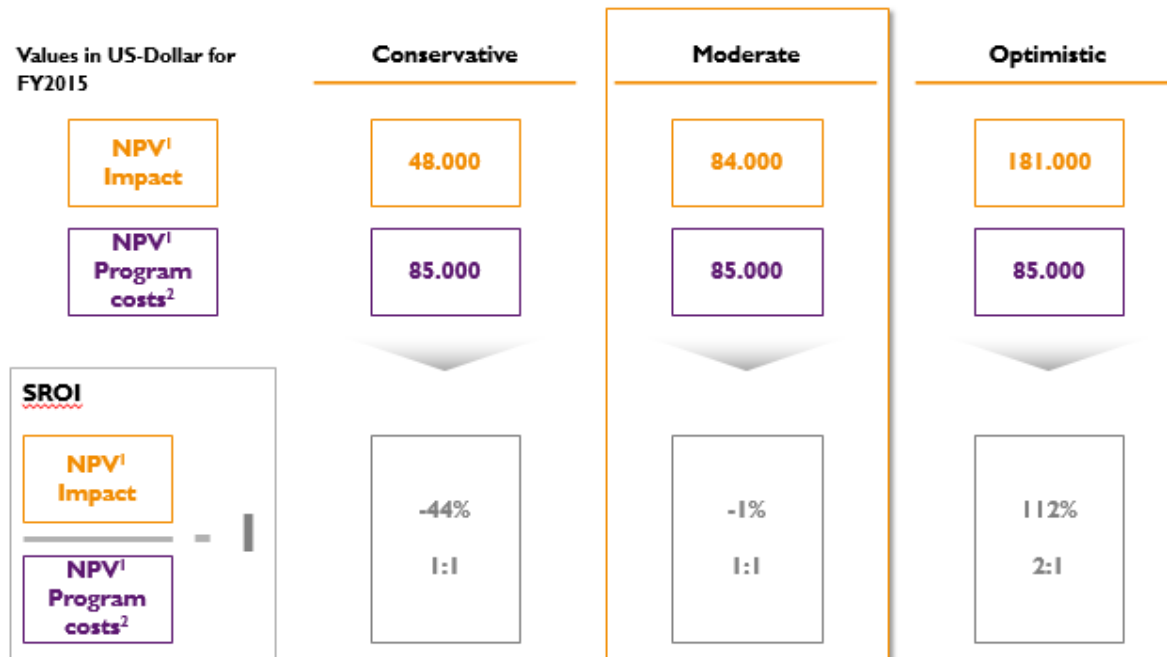
6. Reporting, using and embedding: Dissemination of the findings of this SROI analysis within the World Vision partnership continues to be an ongoing process. Senior representatives from the economic development community of World Vision International and Vision Fund International had formed a steering committee which was regularly informed during and after the process of carrying out the analysis.

Results and Findings

In the process of calculating the SROI, a wide range of data related to the various outcomes was used as well as estimations and assumptions made. In order to account for this range of information the SROI was calculated in 3 scenarios; optimistic, moderate and conservative. While the optimistic scenario considered data based on favourable approximations of deadweight, drop-off, attribution and financial proxy values, the conservative used unfavourable ones. This reflected a range between best- and worst-case scenarios within which the most likely scenario, the moderate one, is contained. All results described in the following are based on the moderate scenario calculations.

With an overall monetized impact of \$84,000 and total costs of \$85,000 in the moderate scenario, the overall SROI value was calculated to be 1:1 (-1%) (graph 2). This basically translates to \$1 in household income per \$1 invested in the project. This neutral SROI indicates that the interventions of the economic development project of Bayankhoshuu ADP are having a positive impact on household income. At the same time, it is an aspiration of World Vision to achieve as much of a positive impact as possible, making it important to understand the reasons for this SROI and especially, ways to improve it. An analysis of the SROI values resulting from the various activities offers explanations for the value.

Based on assumptions overall SROI ranges between -44% and +112%



Graph 2: Total SROI with 3 scenarios values, conservative, moderate, optimistic. Source: SROI-Assessment for Economic development project Bayankhoshuu, Report 19 October 2016, Slide 22.

Saving groups and provisioning of gardening materials: The activities saving groups and gardening materials have a neutral SROI of 1:1 in the moderate scenario. Given that these activities, within the Bayankhoshuu context, do not chiefly aim to increase household income, this result is not bad. It indicates that the costs of implementation are more or less equivalent to the created impact on household income. Rather than aiming to increase income, the saving groups aim to increase families' economic resilience through promotion of savings culture and access to emergency loans. Though savings and savings group loans are occasionally used to invest in economic activities, the funds are mainly used to cover specific expenses such as school fees or medical costs. Likewise, members of the gardening groups consume most of the crops themselves, thus diversifying their diets, rather than selling them for additional income. This of course implies other outcomes, for instance various health and nutrition benefits. Additional outcomes mentioned by participants of both activities include increased self-esteem and improved networking opportunities. Given that such aspects were not monetarized in this SROI assessment, it is strongly assumed that the actual impact of these activities, considering broader factors, will be even higher than the calculated 1:1 SROI ratio.

Information on and access to loans: The dissemination of information on loans and facilitation of access to microloans from Vision Fund has a positive SROI of 2:1 in the moderate scenario. After receiving business and vocational training, beneficiaries received microloans from Vision Fund on an individual basis. These loans are invested into existing small businesses or used to create new ones, from which increased revenues are generated with which they are able to repay the loans and make further investments. Though individual microcredit recipients experience and utilize improved access to microcredits, larger groups expressed continued challenges in accessing credits. This is the case for a local value chain association in the

Bayankhoshuu ADP area (formed with World Vision support), which aims to improve linkages between its 300 small business owners (including WV beneficiaries) and input/consumer markets. Enabling this Value Chain Association to intensify its operations through access to credit would in turn enable the microcredit recipients to increase their incomes even more, thus improving the SROI.

Provisioning of sewing machines, shoe sewing machines and drum carders:



Beneficiaries with sewing machines provided by World Vision.

The distribution of sewing machines, shoe sewing machines and drum carders have negative SROIs of 1:1, 0:1 and 0:1 respectively in the moderate scenario. The inefficiency of these activities is the main reason of the calculated overall SROI. The corresponding SROI values indicate that through productive asset recipients are not able to sufficiently increase their incomes to outweigh the relatively high costs of procurement and distribution. Several factors influencing this condition were identified during the analysis.

Low utilization rates were observed among the productive asset users, i.e. the machines were not used to full capacity. This is due to a number of factors including seasonal demand (for traditional clothing), lack of input materials, and limited access to output markets. Furthermore, the locally produced products face strong competition from imported products, particularly from neighboring China and Russia. Additional competition between beneficiary and non-beneficiary producers further drives down the selling price of the products and makes it difficult to connect to buyers in an increasingly saturated market. The deteriorating macroeconomic situation affecting Mongolia further exacerbates these effects.

Despite the current negative SROI related to these activities, there is potential to significantly increase their impact. A slight increase in the number of products produced by the productive asset recipients would result in a 1:1 SROI where the impact equals the activity-related costs. In order to enable this, beneficiaries' access to output markets needs to be increased. Increased promotion of more formalized business groups, for instance through membership in the value chain association, could significantly contribute to this. Supporting the value chain association board through capacity building (e.g. marketing training) and access to financial resources would enable it to develop business partnerships with buyers, thus establishing more reliable sales channels for its members. At the same time, individuals' access to microcredits could be improved in order to enable them to access loans to purchase sufficient input materials. In addition to the business training provided before assets are distributed, ongoing business counselling visits are recommended to further advise the small business owners and monitor the asset utilization. In the phase between selection of project beneficiaries and distribution of productive assets, they should be supported to develop business plans on the basis of which the decision on the provision of a productive asset should be determined. In order to avoid the high competition resulting from production of products already numerous in the market, product diversification and innovation could be further promoted. WVM has a relationship with a local innovation hub, which could be further developed to facilitate this.

Conclusion

Though the neutral SROI result of 1:1 is not particularly impressive, the analysis revealed high upward potential of the SROI as well. Through adjustments in programming which would require relatively low additional investment of resources, improvements could be realized which would have a significant positive effect on the SROI. Low utilization of distributed productive assets was identified as the key negative driver. Promoting formalized business groups, building capacity and supporting the value chain association, improving beneficiaries' access to microcredits and offering ongoing business counselling were acknowledged as potential improvement measures. WVM has begun realizing such measures in the interest of further supporting beneficiaries to independently improve their living conditions. Although the SROI conveniently expresses the impact-cost ratio in monetary terms, it can never capture the full value and must therefore always be interpreted in combination with an understanding of the project context. This SROI analysis focused on the impact of the economic development project activities on household income of the beneficiaries and must be understood in its scope and with its limitations. For instance, given the time restrictions combined with data availability, the calculation of the SROI was done under consideration of mainly economic factors. Social and environmental factors typically considered in SROI analyses were observed qualitatively but were not monetized for the calculation. Therefore, impacts mentioned by beneficiaries such as increased self-esteem, diversified diets and reduced burden of elderly beneficiaries on their children couldn't be fully monetized. Furthermore, the impact of increased household income on the well-being of the beneficiaries' children was not monetized. There is however strong evidence that the increased income leads to further investments in children's education and health, which in turn increases children's chances of obtaining decent work and allows them to be more productive citizens. Such factors are to be considered in future SROI analyses carried out in Mongolia or supported by WVG, building on the experiences gathered during this one.

For further information on the case study, please contact:

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