



2009 GSVVC Social Impact Assessment Guidelines

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1. Judging Criteria

To fulfill the baseline entry requirements of the 2008-2009 GSVVC, all entrant business plans must include a social impact assessment section. This section can be as detailed as entrants wish, but will be judged according to the following criteria:

1. Clear statement of your social value proposition and the top three indicators of social impact assessment. The most convincing assessment will include:
 - Compelling vision of desired social outcomes and strong evidence of the relationship between the venture's activities and the root cause of systemic social problems
 - Comprehensive mapping of the social impact value chain including social indicators that can assess progress towards the ultimate desired outcomes
 - Explanation of how the venture will monitor the top three indicators on an ongoing basis and manage to these indicators
2. Understandable, consistent use of SROI and other frameworks to monetize social return on investment for this venture, including:
 - Reliable, relevant data in which all outside data sources are documented
 - Reasonable and rational calculations with minimal analytical errors (e.g. double counting)
 - Clear statement of all assumptions
3. Innovative, holistic and pragmatic approach to addressing systemic social problems, including:
 - Assessment of the relative value of the social venture beyond the current state or next best alternative
 - Credible, rigorous social performance measures that are collectable, quantifiable and informative to the broader social venture community
 - Sustainable and scalable business model that strives to achieve the greatest ongoing impact with limited resources
 - Cultural cognizance and in-depth understanding of the target social problem, including recognition of potential risks and negative consequences of the venture

Please reference the [glossary](#) for definitions of unfamiliar terms.



2. GSVC SIA Requirements: Define, Quantify, and Monetize

There are three main components to the Social Impact Assessment section.

- **DEFINE:** A definition of the social value proposition that is core to their venture's desired social outcomes. Entrants must articulate the relationships between actions and intended results (cause and effect) using the Theory of Change and Social Impact Value Chain tools.
- **QUANTIFY:** Quantification of social value by listing top three leading social indicators. Entrants must articulate the three most important measurable social indicators that they believe will most strongly correlate with their desired social outcomes and that can be tracked as part of their normal business operations.
- **MONETIZE:** Explain social value in monetary terms. Entrants must monetize the value of the social impact their venture aims to create over the next 10 years, using tools like SROI analysis (Social Return on Investment).

STEP 1: DEFINE¹

A meaningful social value proposition seeks to convey how a venture is addressing an unmet social need. In order to do so, a social venture must define expected outcomes, account for the effectiveness of the venture's activities, and communicate the mission and impact of the venture to in a way that is amenable to all stakeholders. There are two simple tools that can help venture entrepreneurs in thinking about their value proposition: Theory of Change and the Impact Value Chain.

Theory of Change

Theory of Change is a way of thinking about how the activities of your venture lead to ultimate social outcomes. It is a tool for helping organizations think beyond their familiar framework, understand the full complexity of the change they wish to see, and imagine new solutions in dialogue with others.

Examples of a simple one-sentence Theory of Change (note that in each example the ultimate social outcome is expressed as a change: an increase or a decrease):

- 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 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.

¹ This paper was prepared by the GSVC for the sole purpose of providing educational background to competition entrants. Copyright © GSVC 2008. 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://www.rockfound.org/efforts/impact_investing/RIICatalogLR_v1-1.pdf>.



- If jobs are created in low-income areas, personal well-being will increase and the quality of life in those neighborhoods will increase.

A more detailed Theory of Change analysis challenges you to think through the factors that must be in place for the venture's activities to lead to the ultimate desired outcome.

For example: For poor women in East Africa to decrease the spread of AIDS via access to a microbiodical contraceptive, many sub-assumptions must be true:

- The contraceptive will fight AIDS effectively in a clinical trial setting
- The contraceptive will be equally effective in fighting AIDS outside of the clinical trial conditions
- The contraceptive will be priced at a level that is affordable to poor women in East Africa
- The product can be produced and distributed at a cost that does not prohibit this price point for E. Africa
- Poor women in E. Africa have the purchasing power inside their families to make the purchase
- There are points of sale within their communities where they can make these intimate purchases without embarrassment or social stigma
- If points of sale are limited to men, their male partners or relatives will purchase a contraceptive product made for women
- Their partners will allow them to use the contraceptive product correctly
- Women will be able to get educational advice from doctors or other caretakers about effective use of the product.

A detailed Theory of Change analysis can be a very useful tool for entrepreneurs deciding on key social indicators. Looking at the example above, the entrepreneurs could begin by measuring factors they believe pose the highest risk to their model, in order to gather information about how to build the best model. And these measures could change over time. In the example above, the CEO of this new contraceptive company could decide to measure:

- Drug effectiveness in a clinical trial setting first, then
- Patterns of sale and use in one community, through a small market test.

Once the product is in production, the venture might decide the best leading indicators are:

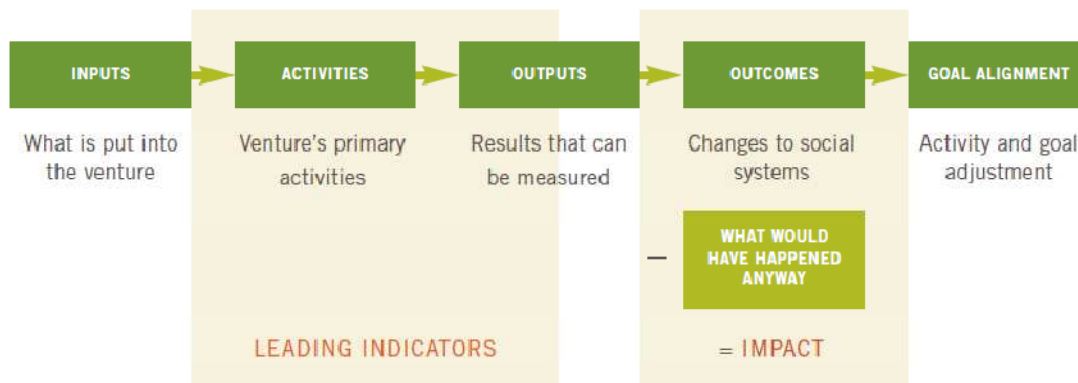
- number and diversity of sales channels across African markets
- number of partnerships set up with local health offices to educate women about the product



Impact Value Chain

The Impact Value Chain is a tool that allows the entrepreneur to think about the venture's ultimate social outcomes and map out the drivers and levers for achieving optimal impact. The most significant part of producing an Impact Value Chain is that it allows you to differentiate between outputs and outcomes. The relationship between leading indicators (generally activities and outputs) and outcomes and impact are summarized in this illustration of impact creation, called the *impact value chain*.

Impact Value Chain



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

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. *Outcomes* are the ultimate changes that one is trying to make 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

² The most common example of this is 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*.



Outcomes can be extremely diverse – across geographies, industries, and focus areas. Below is a sampling of outcomes from past GSVC entrants.

Environment	Health	Human Capital Development	Community Development	Education
<ul style="list-style-type: none"> •Improved quality of air, water, social •Increased protection of endangered habitat and/or species •Increased preservation of biodiversity by responsible product sourcing •Financial savings by eliminating need for future environmental cleanup •Reduction in costs associated with environment-related health problems 	<ul style="list-style-type: none"> •Reduced costs to insurers and patients due to improve disease outcomes •Improved life expectancy due to disease prevention measures •Improved quality of life due to improved disease outcomes or living conditions 	<ul style="list-style-type: none"> •Decreased welfare roles and related cost savings to society •Increased contribution to tax base due to employment •Decreased cost so society related to physical/sexual abuse •Increased wages for low-income population •Decreased cost to society related to drug abuse or crime 	<ul style="list-style-type: none"> •Increased contribution to (real estate) tax based through home ownership •Increased prosperity in a community due to increased commerce and/or safety •Reduced racism resulting from increased interaction among members of a community 	<ul style="list-style-type: none"> •Improved job opportunities resulting from completion of high school / college •Decreased cost to society of crime associated with poor school attendance or poor socialization

STEP 2: QUANTIFY

Social impact indicators, or leading 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 indicators track progress towards improving an unfavorable societal condition.

Any venture can define social impact indicators, and the most sophisticated social ventures track at least some social indicators over time. Some examples include:



Stonyfield Farm, an organic yogurt company in New Hampshire, USA, measures:

- premium paid per gallon of milk to small dairy farmers (social outcome is a regional development goal of supporting small dairy farmers in Northeast US)
- savings in CO2 emissions from production process (social outcome is to improve air and water quality, and related improvements in human and ecosystem health)
- percentage of total yogurt sold that is organic (social outcome is to increase health of consumers by selling a product they believe is inherently healthier than non-organic yogurt, and environmental and health benefits associated with decreased pesticide use)

Pacific Community Ventures, a community development venture capital firm in San Francisco, USA, measures:

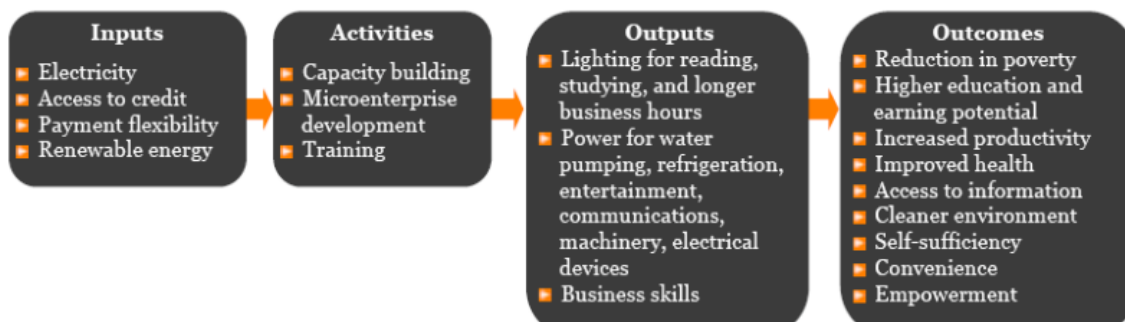
- number of jobs created in low-income zip-codes (social outcome is economic development, namely employment of people previously unemployed or underemployed)
- salaries above a living wage level for those jobs (social outcome is economic stability of workers)
- turnover information and surveys of why employees leave the business (social outcome is not just the current job, but employees prepared to win better jobs after this one)

Some social ventures believe that their product has innate social benefits, where every sale leads to an incremental change that is inherently beneficial for society. A solar panel retailer who believes that deriving energy from solar power is cleaner and less harmful for the environment, might define its social indicators as:

- number of solar panels installed per fiscal year
- percentage of panels installed that replace other forms of energy
- savings in air emissions related to non-solar power energy generation per sale

The key to the Impact Value Chain is to think carefully about the best output measures for the outcomes you desire. 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.

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





Taken together, the Theories of Change and Impact Value Chain can be useful tools to help social venture entrepreneurs think through the kind of value they are trying to create. The competition requires that each plan include a compelling theory of change statement or statements, and three top social indicators (outputs) for the venture.

In addition, plans will be judged on the thoughtfulness and compelling nature of their descriptions of how these indicators relate to the ultimate social outcomes of the venture, and the strength of the plans for how the indicators will actually be measured as part of operations. Plans should also represent a clear and compelling assessment that can be easily absorbed by judges.

STEP 3: MONETIZE

Social Return on Investment (SROI) is a concept developed to account for both traditional financial as well as social value created by an enterprise. It is a way to monetize the non-financial social or environmental value created by an enterprise.³ Given that 'blended value' businesses are still relatively new, methodologies to quantify SROI are still being developed and there is no 'standard' methodology for this field at present. 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, efforts have been made to quantify and monetize the social value created by nonprofit organizations and businesses with a social component.

Teams that enter the GSVc are required to include a monetization analysis in their plans. As mentioned, there is no standard methodology to quantify SROI and teams are highly encouraged to innovate rigorous SROI models and metrics or to build on existing work in this arena.

Why Monetize?

SROI analysis is used to:

- Increase credibility
- Establish metrics to evaluate a venture's effectiveness in achieving desired social impact
- Facilitate planning and communication with socially minded investors
- Stimulate and facilitate capital flow
- Attract a broader range of investors to the market

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.

³ Social Return on Investment as described here is based on work published in 2001 by REDF, <http://www.redf.org>.



SROI Step 1: Define outputs

First, figure out which outputs of your venture are the most important or measurable drivers of social outcomes. Is it units sold? People employed? For your SROI, you might limit your outputs to those that are most important, or for which the best data are available.

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 can significantly enhance the productivity of home businesses or microenterprises. They identified a study in the Philippines that indicated that with electricity, small businesses typically operate two more hours per day compared to businesses without electricity. The main outputs for Developing Power were the numbers of households or businesses to whom they could provide electricity. Now they could also include increases in productivity as one of the tangible benefits of the homes or business being powered.

SROI Step 2: Translate outputs into financial equivalents where possible

Next, you want to find data that allows you to figure out 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'll want to use data from outside sources. We call this data proxy data. Proxy data are published data by NGOs, think tanks, governmental publications and academic journals on subjects similar to those affected by your enterprise. Proxies are the source of benchmark or industry data used to determine impact, where you have not done an experimental study yourself, but can point to other data as a close proxy for what should occur through your venture's activities.

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”

Subtract outcomes that would have happened anyway (refer to proxy data). Calculate the financial metrics of the social benefits and costs (SROI, SNPV, SIRR) using the appropriate discount rate (explain your choice of rate).

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							
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 and how you will know they are happening

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.



3. Hints, Tips & Recommendations

- We recommend using a 10-year time horizon for your projections this year for the sake of comparison among analyses. However, you will want to consider carefully how this time horizon relates to the benefits you're aiming to achieve and discuss why this is appropriate (or not) for your venture.
- Do not measure benefits based solely on the market valuation of the perceived benefit.
 - Example: A manufacturer counted revenue generated from the recovery of waste gas as the social value. Instead, it should try to quantify the environmental value gained from reduced emissions.
 - Example: A coffee producer counted the value of sustainable farming practices to be the extra \$.50 per bag of coffee that consumers were willing to pay. They should have monetized the drivers of social outcomes such as reduced hunger, illness, and increased wages to farmers.
- Include both positive and potential negative outputs.
- In any quantification, include only outputs that are clearly and directly attributable to the venture and easily 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

For further information, resources and examples, please go to www.gsvc.org and visit our SIA page where you can find more information on SIA, SROI, workshops, previous entrant plans, and frequently asked questions.