SROI Evaluation

Peng Jilai
SynTao
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What is Project Evaluation?

Project evaluation is a measure of project design and management.

A project shall be evaluated through project life span, from project design to project implementation, until the end of the project. Project evaluation can be divided into three segments: pre-evaluation (feasibility evaluation), mid-term evaluation (project monitoring) and final evaluation.
Logic Model of A Project

Program Action - Logic Model

- **Inputs**
  - Activities
  - Participation

- **Outputs - Impact**
  - Short Term
  - Medium Term
  - Long Term

- **What we invest**
  - Consider: Mission, Vision, Values, Mandates, Resources, Local dynamics, Collaborators, Competitors

- **What we do**
  - Conduct workshops, meetings, deliver services, develop products, curriculum, resources
  - Train, provide counseling, assess, facilitate, partner, work with media

- **Who we reach**
  - Participants, clients, agencies, decision-makers, customers

- **Assumptions**

- **External Factors**

**Evaluation**
Focus - Collect Data - Analyze and Interpret - Report

**Situation**
- Needs and assets
- Symptoms versus problems
- Stakeholder engagement

**Priorities**
- What we invest
- Staff, volunteers, time, money, research base, materials, equipment, technology, partners

**What the short term results are**
- Learning, awareness, knowledge, attitudes, skills, opinions, aspirations, motivations

**What the medium term results are**
- Action, behavior, practice, decision-making, policies, social action

**What the ultimate impact(s) is**
- Conditions
- Social, economic, civic, environmental
Introduction of SROI

► Monetization of sustainable development

SROI is an assessment method to quantify social and environmental impact. Direct and indirect social value of the project will be measured through scientific calculation formula to quantify the effectiveness of social project.

► Monetization of value - Social Return on Investment (SROI)

SROI is a relatively objective social impact evaluation system based on the stakeholder involvement. SROI finds and combines each stakeholder’s input, activity, output and outcome, and measures changes caused by social investment by finding the appropriate equivalents, summarizing various quantitative and qualitative information and financial data.

Uniqueness of SROI: Price the outcome, and monetize the social value

![Diagram showing monetization of social value in people's livelihood, economy, environment, and culture]
Principles of SROI

- Stakeholders engagement
- Understand the caused-changes
- Only include what is material
- Monetize the outcome
- Do not over-claim
- Be transparent
- Verify the result
### Six Steps of SROI

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Define scope &amp; identify key stakeholders&lt;br&gt;Clear boundaries about what SROI will cover, how to cover, and who to be involved</td>
</tr>
<tr>
<td>2.</td>
<td>Describe outcomes&lt;br&gt;Engage with stakeholders to discuss the impact map with theory of change to show the relationship between program inputs, outputs &amp; outcomes</td>
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<tr>
<td>3.</td>
<td>Prove &amp; monetize the outcomes&lt;br&gt;Develop indicators of outcome and monetize the outcome</td>
</tr>
<tr>
<td>4.</td>
<td>Confirm the influence&lt;br&gt;Determine the scope of the impact but do not over-claim</td>
</tr>
<tr>
<td>5.</td>
<td>SROI calculation&lt;br&gt;Add up all the benefits, subtract any negatives and calculate SROI</td>
</tr>
<tr>
<td>6.</td>
<td>Report &amp; apply&lt;br&gt;Share findings and recommendations with stakeholders, and embed good outcomes processes within your organization</td>
</tr>
</tbody>
</table>
First Step of SROI

Define the scope

- Purpose
- Target audience
- Background context
- Resources available
- Partner
- Timeline

Identify stakeholders

- Identify the relevance of stakeholder participation & program outcome
- Make sure the stakeholders selected doesn’t affect the outcome
- Some unforeseen outcomes may be positive or negative

Stakeholder Involvement

- One-on-one interview
- Workshop
- Questionnaire
- Telephone interview
- Email survey
Second Step of SROI

1. Describe the influence
2. Identify program input
3. Price program input
4. Define program output
5. Describe the outcome
Third Step of SROI

1. Design outcome indicators
   - Invite stakeholder to participate
   - Do not confuse “Output” with “Outcome”
   - Check indicators

2. Collect data
   - Collect data from stakeholders
   - Do not double-count the results

3. Prove & monetize the outcomes
4. Determine outcome duration
   - Determine the duration of each outcome
   - Determine the method
     - Inquire stakeholder directly
     - Expert evaluation

5. SROI calculation
6. Monetize outcome
   - Identify equivalent of outcome
     - Opportunity-cost approach
     - Cost-saving approach
     - Value-creation approach

7. Report & apply
Fourth Step of SROI

Deadweight and Displacement
- Deadweight is the extent to which the outcomes would have happened anyway.
- Displacement refers to negative effects taking place elsewhere as a result of the outcomes, and which offsets the outcomes.

Attribution
- Attribution refers to the contribution of other factors to the outcomes.
- Three methods to analyze attribution:
  - Based on experience
  - Inquire stakeholders
  - Inquire other organizations that are attributive

Leakage
- Leakage refers to the outcomes that are initially observed but do not sustain.

Calculate the impact
- Multiple the equivalent value of outcomes with the amount of outcomes to get total value of the result, then deduct the deadweight & attribution.
- Repeat the above method of each outcome.
- Add up all calculation for total impact.
Fifth Step of SROI

- Predicate future benefit
  - Predicate the leakage and influence of outcome
- Calculate the net present value
  \[
  \text{NPV} = \frac{\text{第一年影响力值}}{(1+r)} + \frac{\text{第二年影响力值}}{(1+r)^2} + \frac{\text{第三年影响力值}}{(1+r)^3} + \frac{\text{第四年影响力值}}{(1+r)^4} + \frac{\text{第五年影响力值}}{(1+r)^5}
  \]

  \* r refers to discount rate, which is 3.5% recommended by the US Treasury
- Calculate the SROI ratio
- Sensitivity analysis
- Payback period
  \[
  \text{投资回收期} = \frac{\text{投入额}}{\text{年影响力}} \times 12
  \]
Fifth Step of SROI

- Sensitivity analysis

  Based on the following changes, check:
  - Deadweight, Attribution and leakage
  - Equivalent
  - Number of outcomes
  - Investment, including non-capital investment
Sixth Step of SROI

- Report to stakeholders
- Use and apply SROI results
- Verify the results
Challenges for SROI in China

- Select the equivalent randomly and may over claim the outcome
- The equivalent of program outcome sometimes is the program output to make it difficult to measure the quality of the outcome
- Lack of baseline data might affect the accuracy of project outcome
Companies that consider to invest in a eco-efficiency project in order to reduce their resource consumption (water, energy, gas).

Possible projects: solar water heating system, rainwater harvesting system, solar photovoltaic panels etc.

CASE STUDY

Company XY considers to invest 10 million RMB for the installation of a new solar water heating system. XY expects that the solar system reduces annual energy costs by 1.5 million RMB. All expenses incur in the first four years of the project duration.
<table>
<thead>
<tr>
<th></th>
<th>Sustainable ROI</th>
<th>Conventional ROI</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present value (PV) of project costs</td>
<td>8.720.000 RMB</td>
<td>8.720.000 RMB</td>
<td>Using 10% as discount rate, project expected to benefit company from the first year</td>
</tr>
<tr>
<td>Annual benefits from energy savings</td>
<td>1.500.000 RMB</td>
<td>1.500.000 RMB</td>
<td>Cash benefit</td>
</tr>
<tr>
<td>Annual benefits from CO2 emission savings</td>
<td>500.000 RMB</td>
<td>Not considered</td>
<td>Non-cash benefit</td>
</tr>
<tr>
<td>PV of savings in 1. year</td>
<td>2.000.000 RMB</td>
<td>1.500.000 RMB</td>
<td></td>
</tr>
<tr>
<td>PV of savings in 2. year</td>
<td>1.820.000 RMB</td>
<td>1.360.000 RMB</td>
<td></td>
</tr>
<tr>
<td>...</td>
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<td>...</td>
<td></td>
</tr>
<tr>
<td>Payback period</td>
<td>5.5 years</td>
<td>8.8 years &gt; 7 years</td>
<td></td>
</tr>
<tr>
<td>Net present value</td>
<td>10.887.000 RMB</td>
<td>8.030.000 RMB</td>
<td></td>
</tr>
<tr>
<td>ROI</td>
<td>2.167.000 RMB</td>
<td>-690.000 RMB</td>
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The Sustainable ROI method results in a return of total investment of 2.167 million. The new solar water heating system is expected to benefit Company XY after 7 years. The conventional ROI method results in a negative project return. It neglects the benefit from the CO2 emission savings.
Thank You!