

METHODS OF EVALUATING THE EFFECTIVENESS OF INVESTMENTS IN SOCIAL AND ECONOMIC PROJECTS

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The evaluation and analysis of effectiveness of social and social and political projects is one of the important components of the management system of such projects. Presently, no convincing methods for the evaluation of the social effectiveness of investment projects have been elaborated, both in theory and in practice. In the article the methods, which might supplement the traditional approaches to the evaluation of the effectiveness of social projects, are proposed.

There is a widespread problem connected with the insufficiency of using the methodical tools for valuation and analysis in project management, in order to estimate the effectiveness of social and economic investments. Naturally, due to the fact that the main results of the projects are public benefits not limited just to financial or economic benefits of the participants of the projects, and it is not correct to apply such indices of effectiveness as, for example, net discounted income or internal profitability norm to them. In commercial projects the measure of success is financial effectiveness. In non-commercial, social and political projects most often a certain economic result is created, but it is not the main and determinant outcome. Nevertheless, in order to realize a social and political project, one needs monetary and other material means. The question is how to determine the effectiveness of using the resources and provide such a system of project evaluation and selection, which would help in appropriate distribution of resources by projects and social and political problems.

Within the framework of this article the author offers not to withdraw from the traditional indices of investment attractiveness of projects, but to supplement them with the indices of social effectiveness of investments. He proposes to later substitute the traditional indices with new ones completely. However, in the majority of cases financial institutions consider the projects (including social and political ones) on the basis of traditional indices. Besides, unfortunately, nowadays there are no generally adopted methods for evaluation of the social effectiveness of projects, which have proved its reliability in practice and which have been approved

by the majority of participants of social and political activities. Therefore, the author proposes to supplement traditional methods with new indices relating solely to social effectiveness.

As a theoretical foundation of such additional methods the author proposes to use one of the concepts, which have presently gained certain popularity in the theory and practice of determining social results of various kinds of projects, first of all, of the projects directly aimed at the creation of social and ecological benefits for large groups of population. The selected concept is the analysis of the social effectiveness of investments (SROI - Social Return on Investment). It is worth mentioning that this concept has some relation to other theoretical and practical approaches to the evaluation of non-economic results, such as the Double Bottom Line, Blended Value and (Triple Bottom Line - TBL, 3BL, or 3P - People, Planet, Profit). The comparative analysis of various approaches is presented in the final part of this paragraph.

The concept of social effectiveness of investments sets as its goal the elaboration of clear methods of investigating, measuring and declaring the social, political, ecological and other non-economic results, which are created by projects and organizations. The basis for the analysis of social effectiveness is the survey on costs and benefits and social audit aimed at finding the social value created by the project, by means of finding some material, financial and non-financial equivalents for social results. SROI analysis enables to measure the value of benefits created and the costs for the creation of these benefits. Formally, social effectiveness

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of investments represents the ratio of net added value of benefits to net added value of investments. For example, the ratio 3 to 1 means that one ruble of investments creates social output for three rubles. However, the analysis of social return on investment should not be limited to the determination of only one figure. Just the opposite, the essence of SROI analysis as such is that one or even several indices, no matter how valuable they may be, cannot reveal any social results of the project, because these results are of quite a complex nature. Thus, the analysis of social return on investment should represent the methods for investigating the chain for the creation of social and political value, and thereby the so-called 'monetization' plays a significant role, but it is not the only role and by no means the key role. The analysis of social return on investment presupposes an opportunity to do without any quantitative indices at all, because one of the purposes of these methods is the creation of the necessary common information space enabling to discuss socially significant results with various interested parties of the social and political project.

The main principles of SROI analysis can be summarized as follows:

1. Attention to stakeholders.
2. Use of the impact map, which enables to determine precisely, how social and political results and changes are created.
3. Attention to the most important elements
4. Elimination of results, which would occur even without the project, or 'deadweights'.

One of the key tools to analyze social effectiveness is monetization. The matter concerning the fact how various people and communities compare the value of various services and benefits is attracting attention of a large number of philosophers, psychologists, sociologists and economists. In spite of various approaches to this problem, we have to admit that in practical life there is an opportunity to use the price only as the index of how this or that society values different things. Therefore, it is the price that is a practical tool for the determination of the value of both tangible and intangible benefits. Within the framework of SROI analysis the price acts as a monetary equivalent of value (though, certainly, it is not a full-scale expression of social benefits. There

are some practical advantages of such an approach:

- ◆ enables to coordinate the evaluation of all the results of the project with the systems of managing commercial and non-commercial enterprises, in particular, with the systems of accounting and finance management;
- ◆ helps to organize interactions with external stakeholders, in particular, with those who are in charge of resources distribution, including financial resources, and, therefore, prefer to operate quantitative information;
- ◆ enables comparison of benefits diverse by nature, created by the project;
- ◆ enables conducting the analysis of project susceptibility and other sorts of the analysis;
- ◆ helps to determine the most important sources of creating the value and to carry out the optimization of activities.

The main advantages of using the social return on investment are connected with the fact that all the participants of any project may look at their activities from a different viewpoint, and namely - from the social and political standpoint. The information, which is generated in the course of the analysis, creates the basis for the comprehension of a new role of both commercial and non-commercial organizations in modern reality, for the improvement of the organizations' activities and increase in the indices of the projects, not only of formal and financial indices, but social and political ones as well. The investors will also be able to determine those social benefits, which are created with the help of their resources, as well as to define the effectiveness of using these resources. The main advantages can be summarized as follows:

- ◆ creation of reporting;
- ◆ submission of more qualitative information for the adoption of managerial resolutions;
- ◆ increase in the effectiveness of using financial and time resources;
- ◆ assimilation of the investment way of thinking.

On the basis of modern concept of analyzing social return on investment projects the author of this article has adapted the methods, which transfer this concept onto the level of a practically applied algorithm. Thus, the author sets full-scale methods of analyzing the effectiveness of social and political projects, which

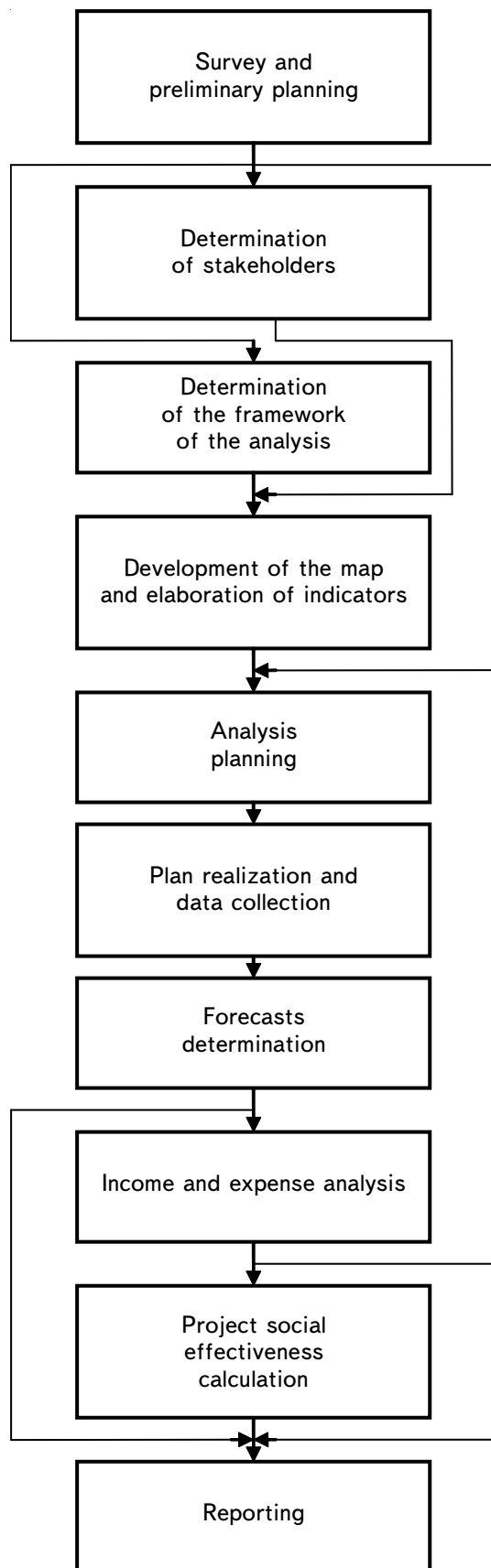


Fig. Algorithm for applying the methods of analyzing the social return on investment for the analysis and evaluation of effectiveness of social and political projects

are to a great extent based on general provisions of the already known concept of the SROI analysis, but which are also supplemented with some certain tools and set forth in the form of a sequence of tasks and clear indices.

In order to conduct the analysis of effectiveness of social and political projects, it is necessary to carry out ten procedures:

1. Investigation and preliminary planning..
2. Determination of stakeholders.
3. Determination of the analysis framework.
4. Development of the impact map and elaboration of indicators.
5. Analysis planning.
6. Analysis planning realization and data collection.
7. Forecast determination.
8. Income and expense analysis.
9. Calculation of the social return on investment.
10. Elaboration of reporting.

The logical scheme of the algorithm for analyzing the effectiveness of social and political projects is given in figure.

While conducting the procedures specified in Figure 1, it is necessary to keep in mind the availability of a certain number of through key tasks. During the realization of the analysis for the effectiveness of a social and political project, it is necessary to complete the following key tasks:

- ◆ establishment of effective communications with all the stakeholders of the project and permanent discussing social and political results being of significance to them;
- ◆ creation of common understanding of the way social benefits are created within the framework of the project and the way they are transferred to use by interested social groups and population strata;
- ◆ finding suitable indicators adequately reflecting the created social and political results of the program;
- ◆ establishment of correct correspondences between financial equivalents and stated indicators;
- ◆ correct comparison of the value (equivalent to financial value) of social results, changes and impacts with the cost for their creation.

Recognizing all the positive aspects of the analysis of the social return on investment, it is also necessary to point at its restrictions relat-

ed first of all to the following theoretical and practical aspects of its use:

◆ many social and political benefits cannot be precisely valued with the help of the monetization mechanism. When using the financial equivalents for those benefits, the economic value of which does not very much correspond to the value of their real utility, one should allow for it during the analysis of social effectiveness;

◆ excessive focus on monetization. In order to mitigate the negative consequences of this aspect, the analysis of social return on investment should be first of all considered as the method of analyzing the process of creating social and political benefits as such, and not as the methods of calculating any quantitative indices;

◆ absence of external accreditation. Presently the methods of SROI analysis, in spite of its quite broad distribution, officially have no accreditations and formally are not supported by any associations, state or professional organizations. The results of analyzing the social effectiveness cannot be treated as official in case of adopting investment resolutions by state authorities or financial institutions;

◆ introduction of the methods for the analysis of the social return on investment requires substantial expenses on personnel training and

changing the current systems of economic and social reporting. Therefore, the first attempts on the conduct of the analysis will lead to a lot of outlay, both from the point of view of money and time. From this the question arises concerning the expediency of analyzing the social effectiveness of a certain project.

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