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Fundación Paraguaya (C): Challenging SROI

At home over the weekend, Martin read an article that substantiated many of his concerns about social impact measurement. The article, in a leading academic publication, was very critical of the entire concept of social impact measurement. The authors highlighted four problems inherent to measuring social impact and social enterprises in general.

Almost all social impact measures use a version of the Net Present Value (NPV) model. Net Present Value is a tool used by financial economists and corporate planners to look at the value of a potential investment over time. While NPV was a valuable tool in the corporate world and a cornerstone of most MBA toolkits, the article noted that NPV may not be appropriate for social impact measurement.

First, calculating NPV requires the ability to accurately, or at least reasonably, project costs and revenues into the future. While this works for new products or efficiency creating equipment, how exactly does one measure the revenues of vaccinations, or infant nutrition programs, for example? If an infant survives and grows to adulthood because of effective nutrition programs, how much of his or her future earnings should be credited back to the program? How much to choices made later in life? The article noted that one could make a reasonable argument for either scenario, with the lifetime earnings of that individual (and their posterity) all discounted back to the present. With those assumptions any social venture produces massive social impacts. Programs serving children would have the greatest social impact because children have the longest time horizon over which to discount earnings.

The second problem deals with the outcomes of the NPV analysis rather than the inputs. Decision makers typically use NPV to decide which projects to fund—with the rule being fund the projects with the highest NPV. While this works great for business investment, social activities may operate on a different logic. For example, if infant nutrition programs have higher NPV's than adult literacy programs, should social philanthropists fund only those projects with the greatest social impact? What happens if some very valuable programs, such as adult literacy, don't make the cut? Subjecting social projects to financial and market-based evaluations may sound great in theory but produce what economists are prone to call "perverse outcomes."

The third problem with the concept is that impact measurement may stifle innovation in the social sector. Innovative programs tend to have very long lead times to bring projects to measurable fruition, and

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