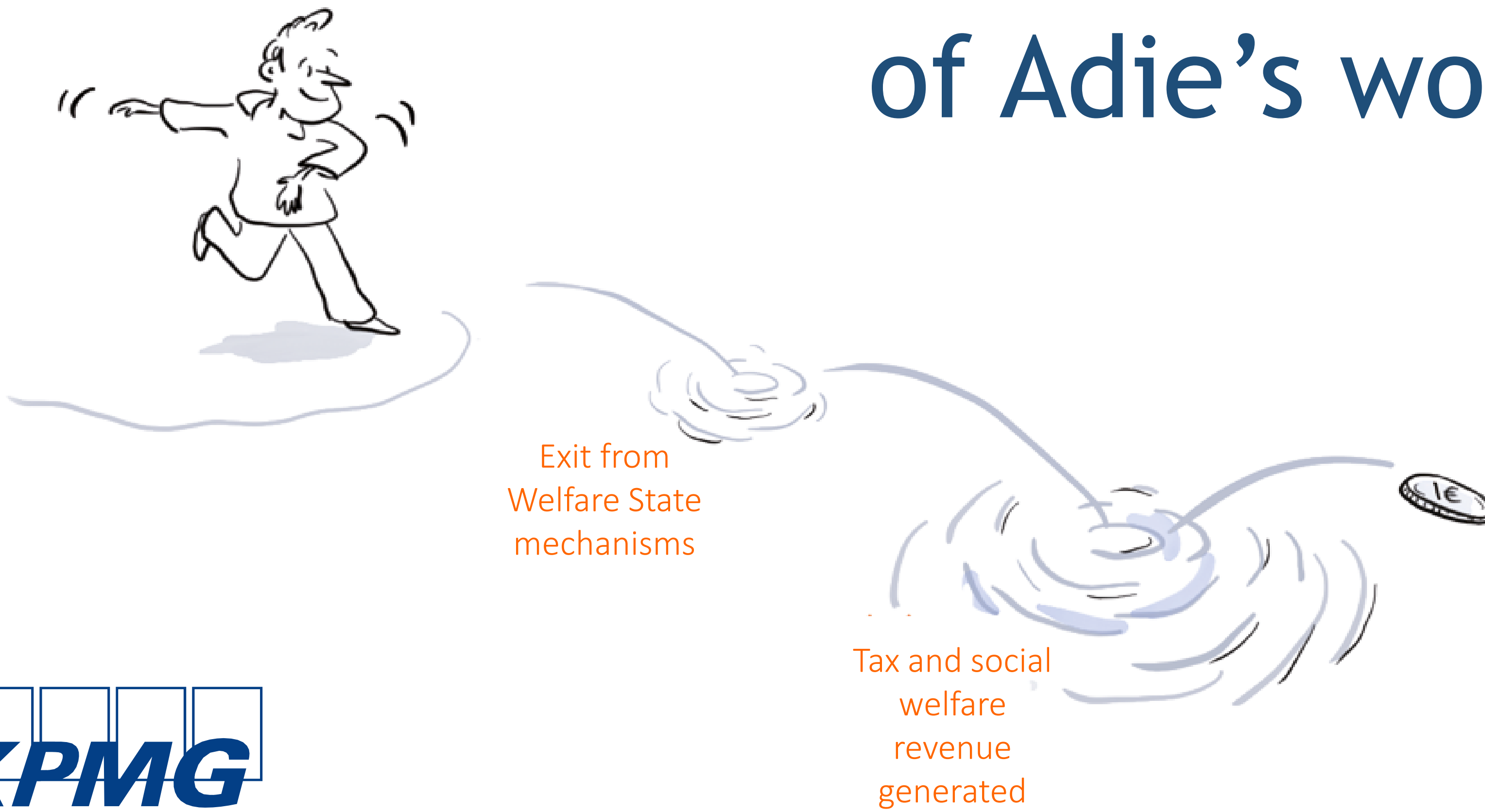
Summary of the 2016 survey on Adie's Social Return on Investment (SROI)

The economic impact of Adie's work

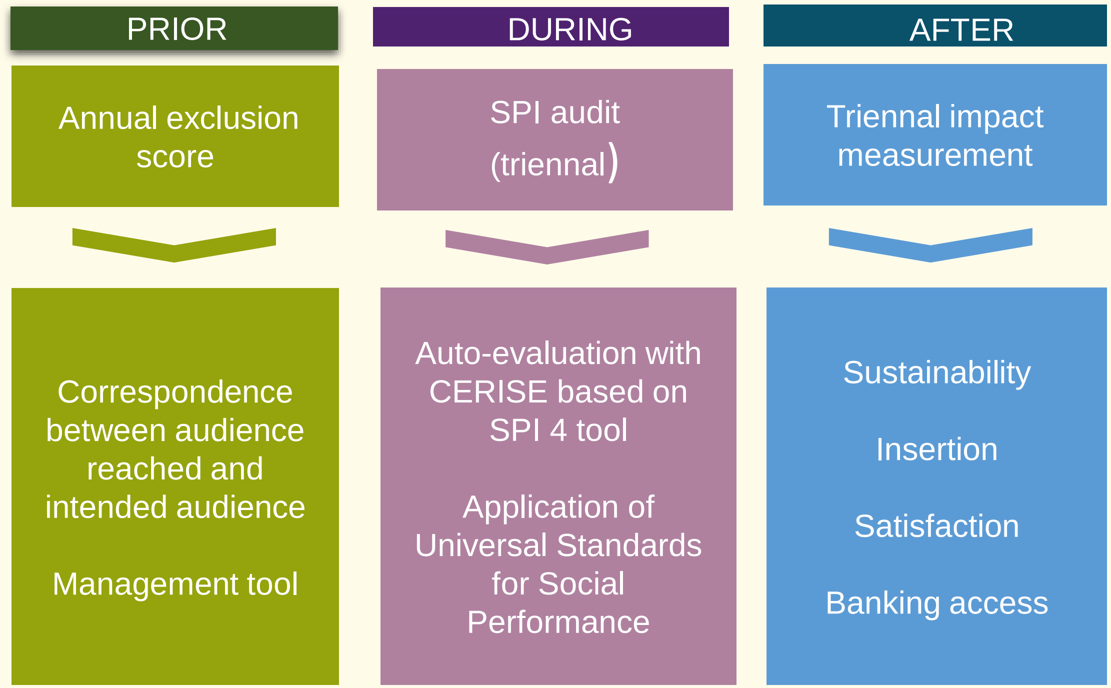


KPMG

adie
ASSOCIATION POUR LE DROIT À L'INITIATIVE ÉCONOMIQUE
Le microcrédit pour créer sa boîte.

Summary of the 2016 survey on Adie's Social Return on Investment (SROI)

THE STRUCTURE OF ADIE'S SOCIAL PERFORMANCE FOLLOW-UP



A combination of three complementary tools :

- **Social and financial exclusion scores** which aim to check, on an annual basis, that the audience reached is the intended audience and that the activity's growth is accompanied by loyalty from the intended audience;
- **Impact surveys** such as the one conducted on MCES or the triennial professional microcredit impact survey;
- **A social performance audit conducted** with the organisation CERISE using SPI (Social Performance Indicators), the reference tool for the evaluating microfinance institutions' social performance. The aim is to examine the association's performance (governance, organisation, system, processes, procedures etc.). The evaluation incorporates checkpoints based on the Universal Standards for Social Performance Management, a set of standards which the industry's stakeholders have agreed on internationally.

A word from the president
Catherine Barbaroux

For over 25 years Adie has funded and supported entrepreneurs who do not have access to bank credit. In doing so, Adie continues to contribute to the fight for employment and social inclusion.

From the beginning, the association had tools to evaluate the impact of its work and has continued to develop these tools but there was not yet one specific project to measure the extent of the financial impact of its work for society.
Adie's mission involves contributing to public employment policy, which is why it needed to provide its public and private partners with a measure of the financial return on their investment; they have a right to expect this in return for their commitment to our association.

The SROI (Social Return on Investment) created with KPMG now completes the data provided by the impact measurement tools created by Adie (exclusion scores, social performance audit, triennial impact survey).
Knowing how much our work costs per year can be measured precisely, yet accounting for the economic profit by monetising it, is far more complex and requires an appropriate methodological framework.

This framework sets out the SROI method which allows us to cost costs avoided and revenue generated and, by comparing them with the costs funders shoulder, to measure the economic impact of Adie's professional microcredit programme.

This survey's results show that Adie's work with the most vulnerable people (45% of those funded live below the poverty line) quickly generates significant revenue for society, allowing society to reduce social welfare expenditure.

Given the economic and social urgency, especially in rural neighbourhoods and vulnerable areas which are the most acutely affected by unemployment, it is clear that there is everything to gain from investing in microcredit, a pathway back to employment which creates over 225 new jobs every week.

There is also everything to gain from fostering, funding and supporting these entrepreneurs' projects, however modest they may be. These projects clearly generate wealth, social ties and optimism.

KPMG'S EDITORAL

For several years now, evaluating the economic and social impact of social projects has been a key issue. New methods are being developed and more people are using them to show the value these projects create, thus responding to investors and funders' new demands. Be it an individual donor or a public body, everyone now expects social programmes to have the utmost transparency regarding their professional practice and the subsequent changes recipients experience.

Thanks to its flagship professional microcredit programme every day Adie has an impact on the lives and employment of men and women who want to launch their own business – an impact KPMG measured at the end of 2015. The results are in: €1 invested in the programme generated €2.38 after 2 years. Above and beyond its ability to provide men and women who were excluded from bank credit and employment with new confidence, Adie is economically and socially beneficial.

Every day KPMG witnesses the outstanding drive, creativity, and innovation of those who work in the social economy and strive to foster better social cohesion. The economic and social impact evaluation is a significant tool for all of these people in order to remain flexible and resilient.

More than just being a fashionable trend, this practice is extremely beneficial for the associations themselves; it helps them develop strong and sustainable economic and social models. Evaluations are a good way of appraising ongoing projects and rallying stakeholders around one key question: does our work fit the expectations of our recipients as best it can?

As assessors, our aim is to provide an external, frank and independent view on the project and to support the association. We provide a tailored approach, created with teams from the association and its recipients, which takes into account what makes Adie's social mission so special and which aims to provide a clear idea of the programme's impact.

All our expertise has been fed into this report..

We hope you enjoy reading it,

Bernard Bazillon,
Associate Director, Social Economy

MAIN POINTS OF THE SROI

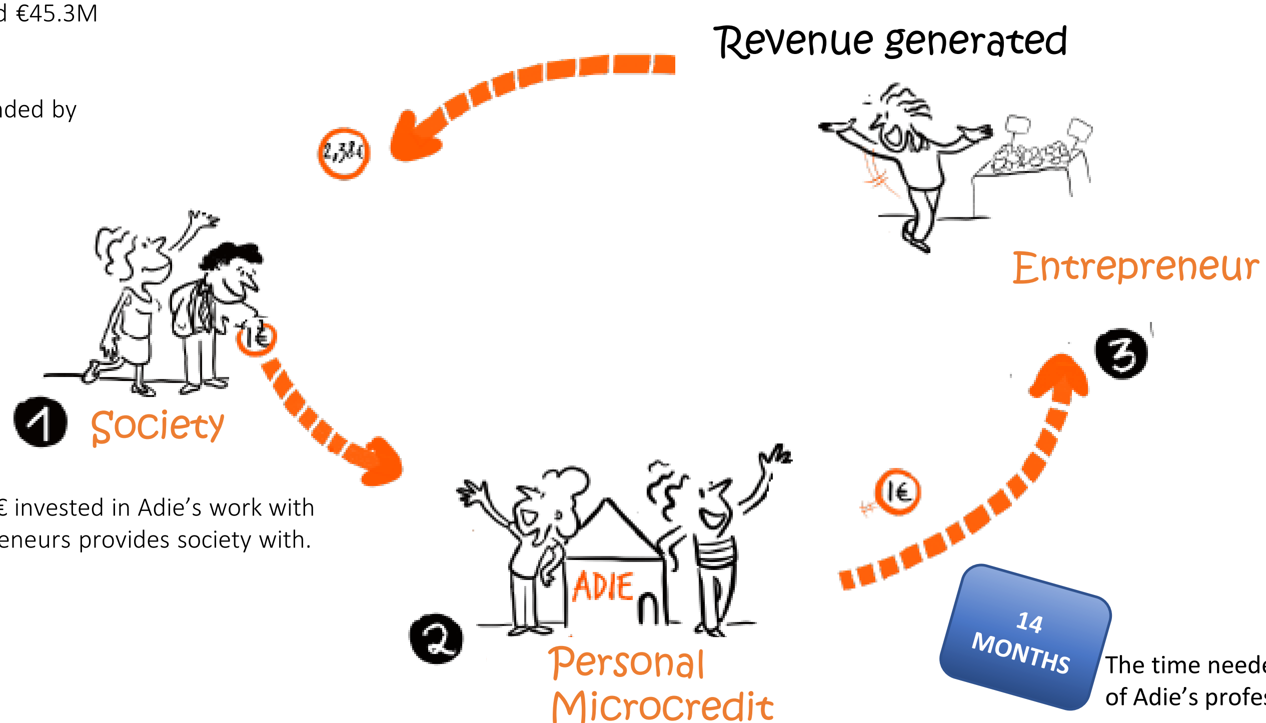
Key results

- For the time and aim examined (1), the non-self-funded part of Adie’s microcredit professional activity cost €24.4 M.
- Social costs avoided: €16.7M in year 2.
- Professional microcredit generated €45.3M revenue in year 2.

(1) New clients, i.e. entrepreneurs funded by Adie for the first time in 2014.

24 MONTHS

The time needed for 1€ invested in Adie’s professional microcredit programme to yield 2.38€ for society.



2,38 €

What 1€ invested in Adie’s work with entrepreneurs provides society with.

14 MONTHS

The time needed to amortise the cost of Adie’s professional microcredit programme.

SURVEY'S METHODOLOGY AND AIMS

What is the SROI method?

Adie's work is an investment for society (2) and this investment comes at a cost. The return on investment is, in short, revenue generated and costs avoided thanks to Adie's work.
Using the SROI method (Social Return on Investment) allows us to put a number on the revenue generated and costs avoided. It allows us to compare these figures with the cost borne by funders and, in turn, measure how economically efficient Adie's professional microcredit for self-employment is.
The economic impact is the difference between the profit created by professional microcredit (revenue generated and costs avoided) and its cost.
Although this principle seems simple it requires detailed calculations, especially for costing the avoided costs and the revenue generated. It also requires defining the scope of the analysis.

The data used for the calculations

Professional microcredit (3) was used, as was the most recent complete set of data available, i.e. from 2014. For the socio-economic scope Adie and KPMG based their choice on one principle: only monetisable, de facto already monetised, effects were taken into account. Direct recipients of Adie's work (individuals whose business was created or developed thanks to Adie's funding), as well as public and private funders, are considered stakeholders.

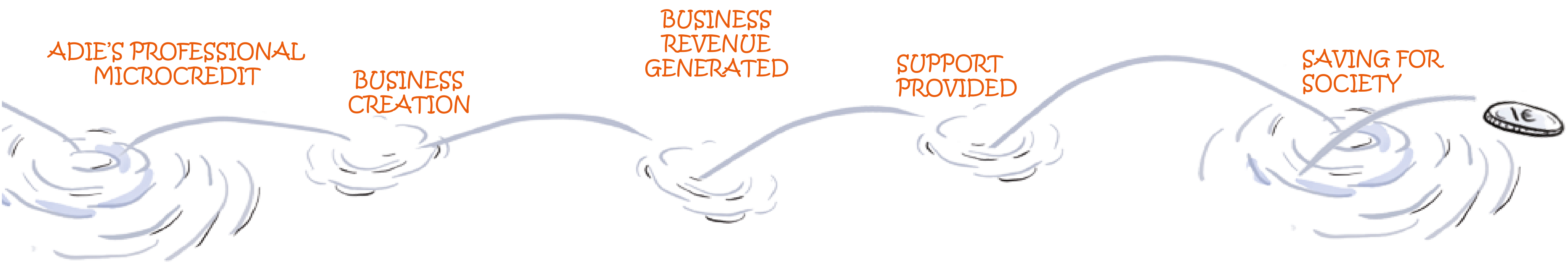
Although we are aware that a wider scope could be taken into account in a more extensive analysis in the future, at the current time the survey excluded the following:

- Monetising indirect or intangible social or individual benefits
- Taking into account economic revenue which is not directly linked to Adie's mission (for instance the wages generated by the association's employees).

The calculations mainly focused on four sources:

- Adie's financial accounts
- Data from its information system
- Public statistics (Insee, CAF etc.)
- The last professional microcredit impact survey conducted by Adie in 2013 with Institut CSA.

2) In the broad sense of the term: country, Europe, local authorities, public institutions, and businesses.
3) Only new clients, i.e. entrepreneurs funded by Adie for the first time.



WHAT WAS TAKEN INTO ACCOUNT

- Public and private funders
- Entrepreneurs funded by Adie
- All costs from Adie's work shouldered by public and private partners, i.e. not self-funded
- Economic gain generated: social security contributions and taxes linked to the businesses activity, entrepreneurs' income, jobs created, while taking into account existing exonerations (in particular ACCRE and the Fillon low-income reduction), income-related direct and indirect taxation etc.
- Costs avoided: less minimum social benefits paid out (especially RSA) (1), less 'back-to-work' allowance (ARE) etc.)…

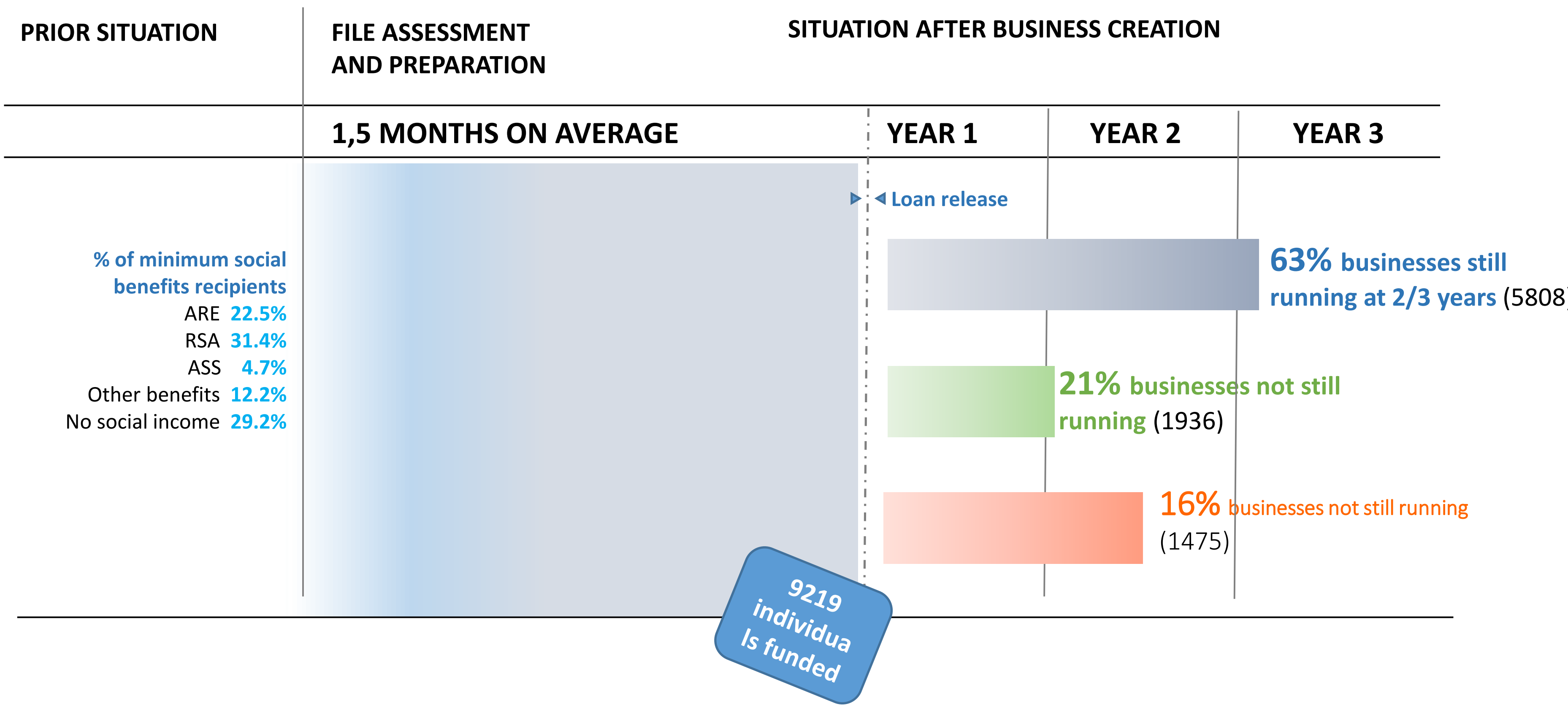
WHAT WASN'T TAKEN INTO ACCOUNT

- The impact on some stakeholders:
  Adie employees and volunteers, entrepreneurs' families etc.,
- Similarly, revenue arising from the employment and income of Adie's 500-strong employees (employer contributions, direct and indirect taxation) was not taken into account
- Indirect social benefits which are hard to monetise, for example, social cohesion, economic development in neighborhoods, strengthening the local economy, creating jobs which cannot be outsourced etc…
- Intangible benefits, for the same reason, such as well-being, independence, self-esteem, positive impact on family life etc.

Summary of the 2016 survey on Adie's Social Return on Investment (SROI)

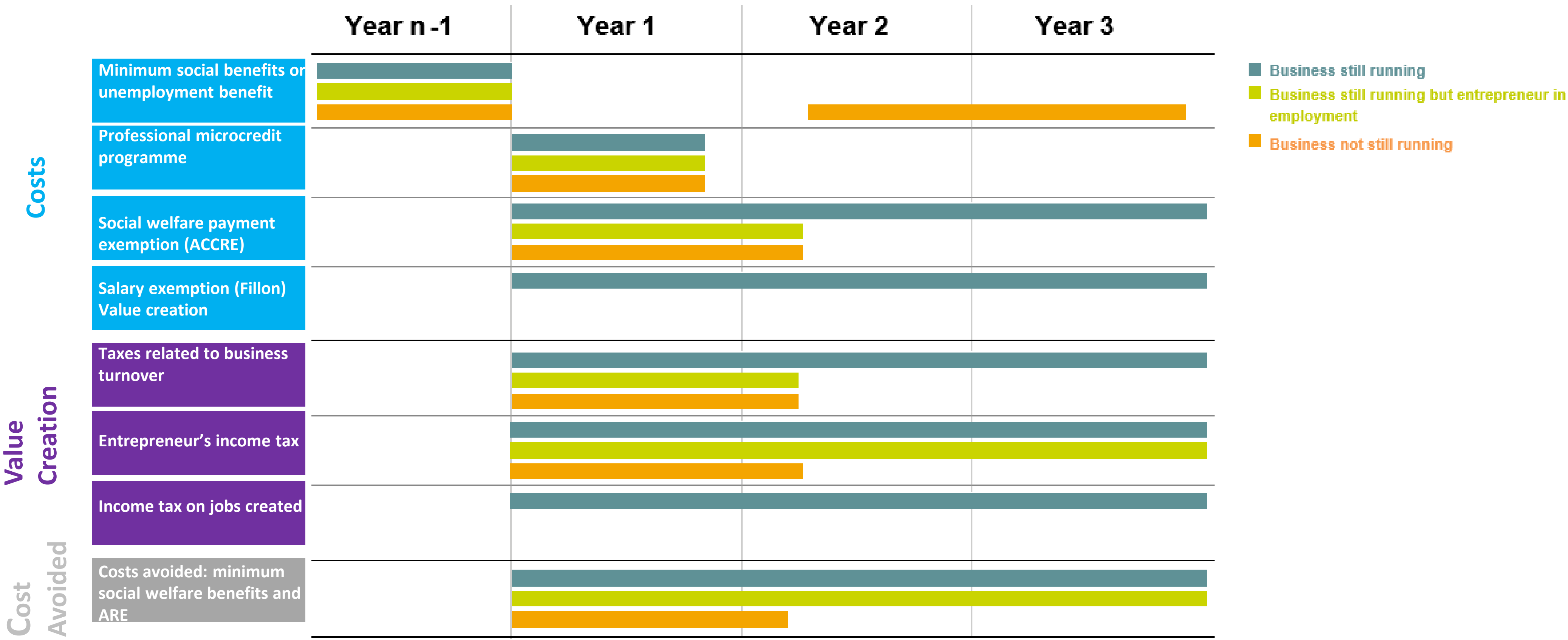
SURVEY'S METHODOLOGY AND AIMS

This survey provides information about business survival rate, their founders ' employment rate, the amount of RSA received, the number of jobs created, the average lifespan of businesses following the termination of the scheme, etc. which allow us to see what typically happens for an entrepreneur funded by a professional microcredit for self-employment.



This outline allows us to measure the following for each year and for each of the three average situations quantified by the impact survey (business still running/business not still running which creates new jobs/business not still running which creates unemployment):

– Social costs incurred
– Costs avoided
– Economic benefits generated (value creation)



Summary of the 2016 survey on Adie's Social Return on Investment (SROI)

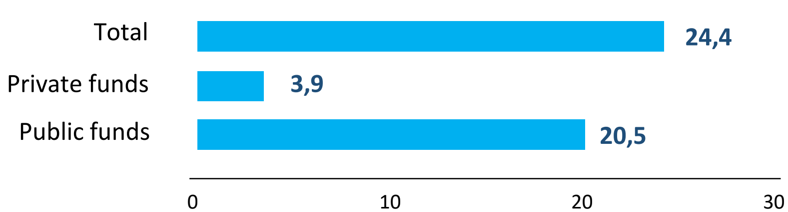
PROFESSIONAL MICROCREDIT: AN INITIAL INVESTMENT WHICH AVOIDS COSTS FOR SOCIETY

The cost of professional microcredit

By taking into account not only Adie's partners' contributions but also the actual mobilisation of public and private guarantees on outstanding loans, in 2014 the cost was €2600 per entrepreneur, excluding self-funding.

This cost includes all funding received by Adie (excluding specific funding allocated to microcredit staff for paid employment). Part of this funding was however allocated to aim to grant a microcredit or to create a business (support work for freelance workers, training prior to business creation, supporting business development etc.). Taking into account this funding would have reduced the cost per recipient but was not factored in due to the complexity of this kind of calculation and the fact that a significant part of the relevant conventions covers several types of intervention.

COST OF PROGRAMME €M



Cost per recipient €2.6K

Costs avoided thanks to professional microcredit

In 2014 over 70% of entrepreneurs supported by Adie received social welfare payments (ARE, RSA, ASS or other social welfare revenue) prior to obtaining the loan and launching their business. In total the average social welfare revenue for entrepreneurs amounted to €487 per month in 2014..

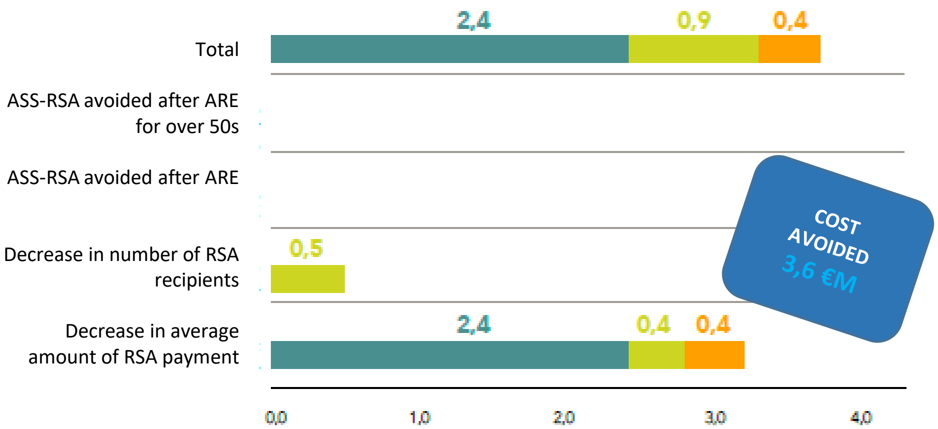
This means avoiding two types of costs: on the one hand, Adie's work helps avoid a significant number of entrepreneurs moving on to RSA or ASS welfare after exhausting their right to ARE, on the other hand, the business revenue generated brings down the average amount of social welfare payments, in particular RSA..

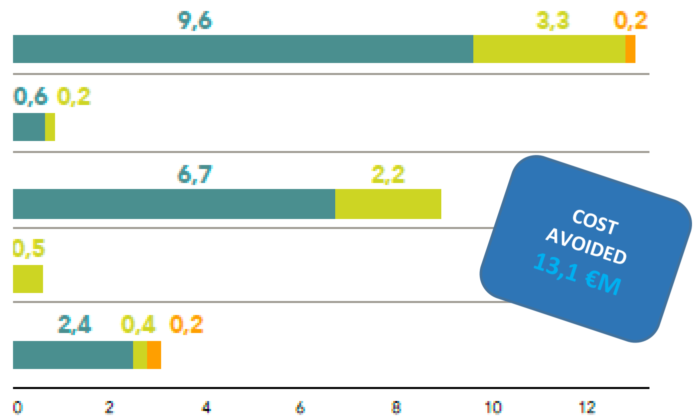
Year 1

Due to relatively low business revenue in year 1 many entrepreneurs still receive the minimum social welfare benefits (base RSA/business) or ARE is maintained yet the amount decreased. Nevertheless, the number of individuals receiving social welfare benefits decreases.

Year 1

In year 2 ARE comes to an end and the number of social welfare costs avoided increases significantly.





Business still running
Business not still running but entrepreneur in employment
Business not still running

Summary of the 2016 survey on Adie's Social Return on Investment (SROI)

Business revenue generated

PROFESSIONAL MICROCREDIT GENERATES REVENUE FOR SOCIETY

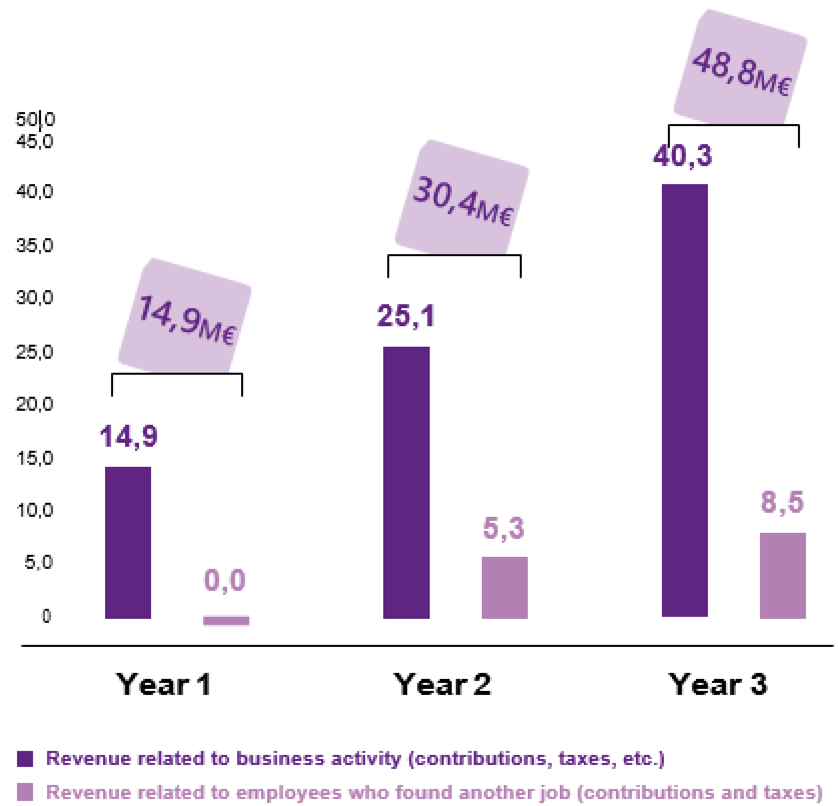
The economic profit generated

Is strongly related to tax and social welfare revenue:

- Profit from the activity of the business created, including tax on turnover and contributions on jobs created (the employer and the employees they recruit)
- Profit from social security contributions and tax payments on entrepreneurs who have terminated their professional activity but who are employed (who have found other paid employment)

Aside from direct taxation, all salaries and revenue lead to indirect taxation which is also taken into account in the calculations.

AMOUNT OF TAX PAYMENTS AND SOCIAL SECURITY CONTRIBUTIONS GENERATED BY ADIE'S WORK (in €M)



Revenue related to business activity

The 2013 impact survey shows that the average turnover [4] is €32,000 after an average of 2 years [5].

In order to be aware of the gradual increase in business prior to reaching a buoyant turnover, a valuation haircut was applied to the average turnover. For year 1 the haircut was 40%, for year 2 20%. The calculation has also been applied for each of the four main business sectors supported by Adie: non-itinerant trade, itinerant trade, services, other sectors. The contributions paid were calculated on the turnover according to rates and location where they were undertaken (mainland France or French overseas territories).

Due to the valuation haircut, business-related revenue is relatively low in year 1 and gradually increases to reach €25.1M in year 2.

Revenue related to entrepreneurs' income remains relatively low – the majority still receive RSA in year 1 and 2.

The jobs created (0.26 on average) generate income for the government: salary-based tax payments and social security contributions and indirect salary-based taxation.

In total the economic benefits related to business activity amount to €14.9M in year 1 and €25.1M in year 2.

[4] Average turnover compared with all Adie-funded entrepreneurs
[5] Average duration per creation date differentials in the sample

Revenue related to salaries of entrepreneurs who created businesses which have terminated but are in employment

They depend on : salary-based tax payments and social security contributions and indirect salary-based taxation.

A 48% attrition rate has been selected in order to determine this revenue; this corresponds to the proportion of respondents who said, in the impact survey, that creating a business was useful experience for finding a job.

In total, this revenue which was inexistent in year 1 (the average lifespan of terminated businesses is 18 months, so we consider that all were 'alive' at the end of year 1) amounted to €5.3M in year 2.
Generation of tax and social welfare revenue

PROFESSIONAL MICROCREDIT IS A WORTHWHILE INVESTMENT FOR SOCIETY

In the end, the cost of professional microcredit is amortised within 14 months.
At the end of the second year, €1 invested in Adie's professional microcredit programme yields €2.38 for society

CALCULATING THE RETURN ON INVESTMENT FOR PROFESSIONAL MICROCREDIT

All elements are known so the basic SROI formula can be applied :

Economic impact = Revenue generated by the programme + Social costs avoided - Costs of the professional microcredit programme

Impact ratio = Annual net earnings ÷ Costs of the professional microcredit programme

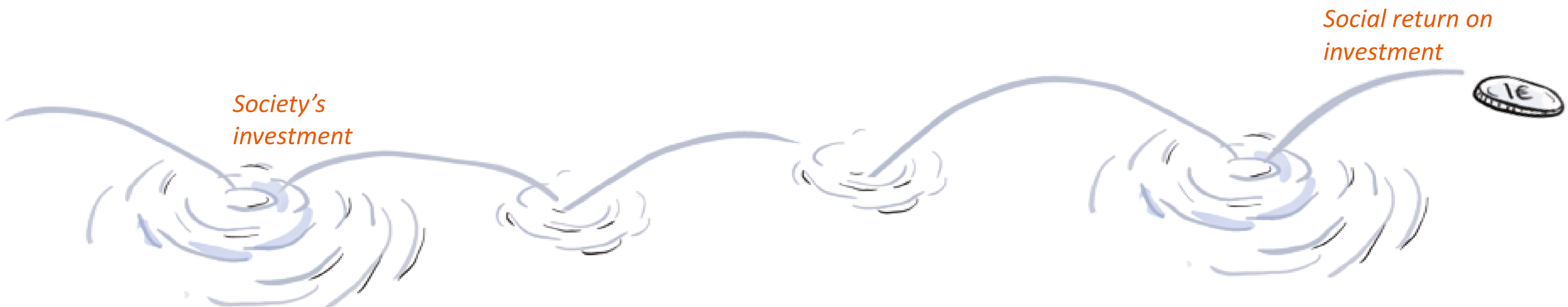
THE METHOD ALSO ADDS A PRESENT-VALUE FACTOR

This factor is based on the idea that it is best to be more rigorous in terms of future cash flows than previous cash flows because, on the contrary to a current flow, future cash flows cannot be invested or consumed immediately. The present-value factor allows us to update cash flows which will be received in the future to the current day value.

The tax impact occurs after the initial investment; it is logical to add a present-value factor for cash flows which will be generated in year 1 and 2.

The present-value rate is 4%, this being the rate considered representative for rates used to measure social work.

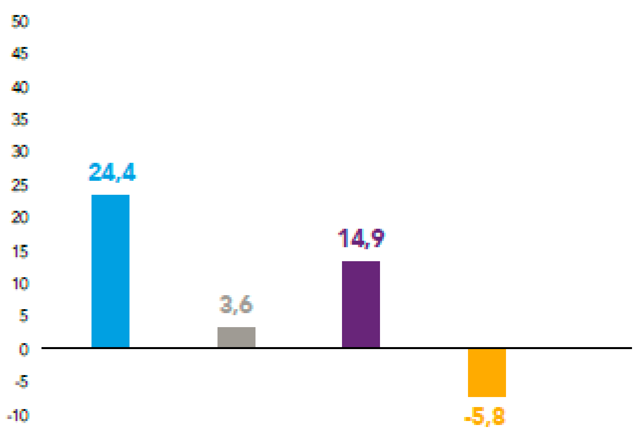
in €m	Year 1	Year 2
Programme cost	24,4	
Social cost avoided (inactivity)	3, 6	13,1
Total tax and social welfare revenue generated	14,9	30,4
Annual net earnings	**18,6**	**43,5**
Present-value rate	0,04	0,04
Present-value annual net earnings	17,9	40,2
Cumulative present-value annual net earnings	**17,9**	**58,1**
ratio	0,73	2,38



Year 1 (in €M)

Slightly negative economic impact

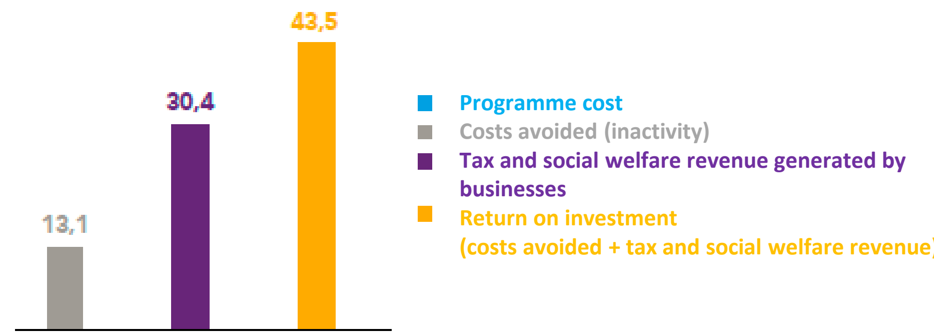
- Weak costs avoided
- Importance of tax and social welfare exemptions related to business development
- Allocation of the whole of the cost of the programme in year 1

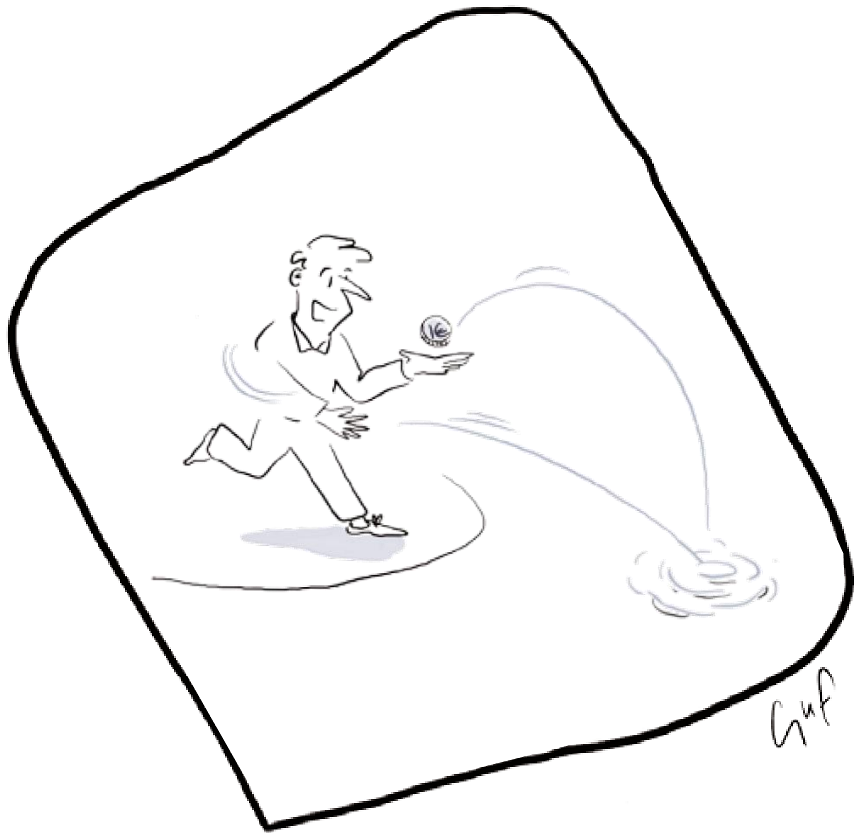


Year 2 (in €M)

Positive return on investment reaching €43.5M

- Minimum social benefits stopped completely or reduced
- Increase in tax and social welfare revenues





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