



microStart

microStart Social Return on Investment (SROI) analysis

Final report

September 2017

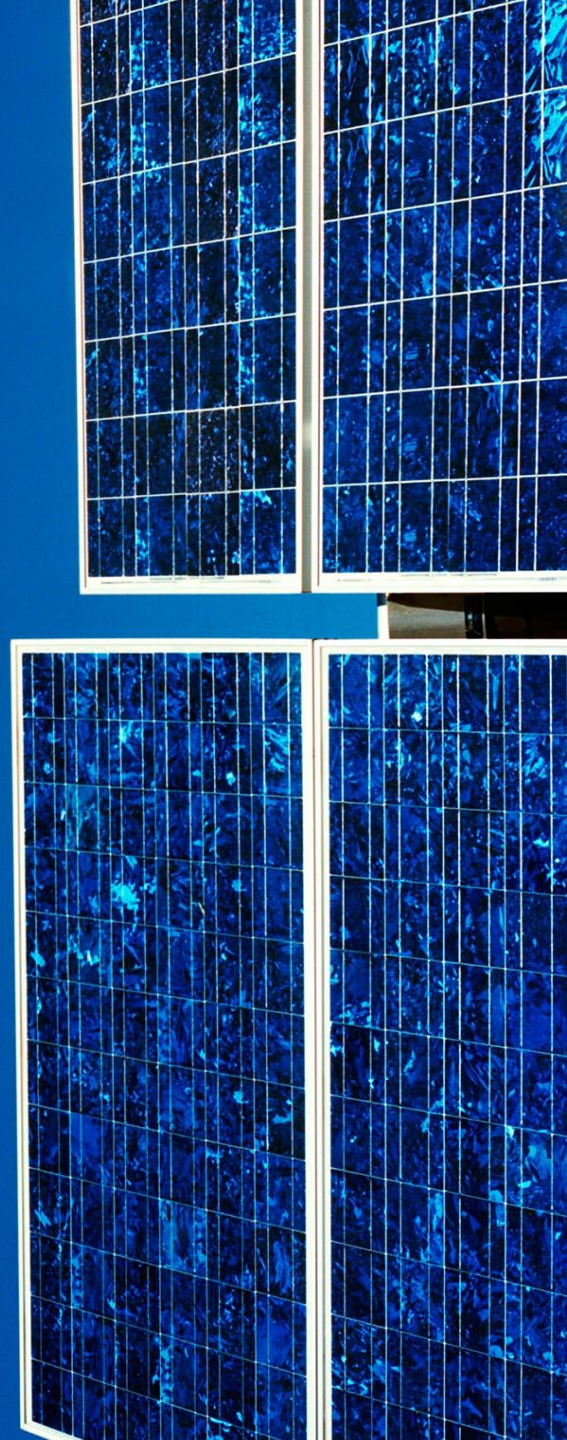


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Measuring the economic impact: Synthesis

Synthesis

microStart

microStart offers microcredit and guidance to entrepreneurs who are unable to receive financing from the traditional banking system. In addition, microStart seeks to break the barriers to economic initiative.

The vision and the mission of microStart are respectively:

- Each human being regardless of its educational background, income, economic position or geographical origin has a right to economic initiative and a right to choose its destiny in our society
- microStart helps people with more ideas than money

microStart has financed 2.770 entrepreneurs since its creation in 2010, of which 716 in 2016. Of these 716 clients, 40% was unemployed, 44% was self-employed and 16% was employed. The number of active clients at the end of 2016 amounts to 1.664. Since 2010 microStart has disbursed loans for a total amount of € 20.044.573, of which € 6.088.795 was disbursed in 2016.

Method

- $\text{Social Return on Investment} = (\text{revenue generated} + \text{costs avoided for the community}) - 1$ year investment in microStart (e.g. 1 year operating cost)
- Analysis of data from the association's accounts, its information system and the annual reports.
- Analysis of the social impact survey executed by Vlerick Business School with the aim of analysing the current target group and the effects of microStart's support for their activity and well-being.
- The contributions of 175 Microstart volunteers has not been taken into account

Economic impact

€1 invested in microStart pays €4,04 to the community after 2 years of activity.



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Working method

Monthly economic value

The performed social economic impact study is based on a sample of surveyed clients of microStart. A total of **171 clients responded** to the survey that is used as a sample. This sample will serve as the cornerstone of the social impact calculations. As this sample is the result of a social impact survey executed by Vlerick Business School, it is necessary to draw a couple of side notes to this:

- The survey was created by Vlerick Business School students, without the possibility for intervention nor revision from KPMG advisors
- Therefore our conclusions **do not** apply, in any way, to the social impact created

Below we summarised the steps of the method:

- After the data output Excel file was provided by Vlerick, we restructured this Excel to be more 'workable' and more clearly linked to the used questionnaire
- Then we identified the possible potential different trajectories that microStart clients go through
- There were 11 different trajectories examined with 4 different starting situations and 3 different ending situations
 - The **4 possible starting situations** are: employed, inactive, independent and unemployed
 - The **3 possible ending situations** are: working for the microStart business, working for another employer and being unemployed
 - *The names of the situations are adopted from the Vlerick database*
- Based on these trajectories we estimated the different monthly value for the community*
- This was calculated as follows:

$$\begin{array}{c} \text{Monthly economic value} \\ = \\ \text{revenue generated for the community (taxes/contributions + avoided costs) – costs for the community} \end{array}$$

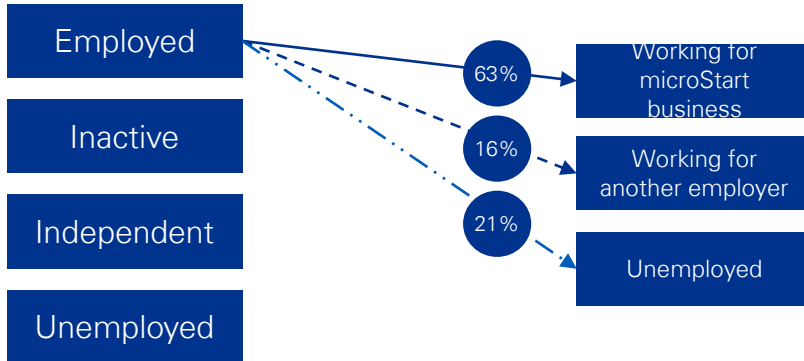
For our calculations we only took into consideration economy-related items. Therefore our study **doesn't elaborate on social items such as well-being, autonomy, trust, skills, etc.. These social items are necessary components to provide a comprehensive view on microStart's performance.*

Working method

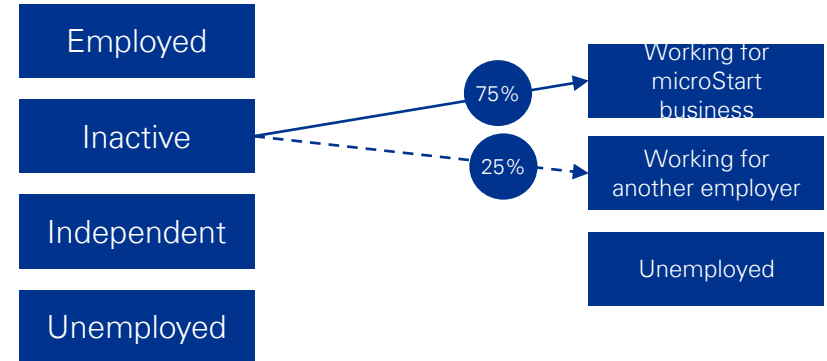
Average value per person

The different trajectories examined are summarized below:

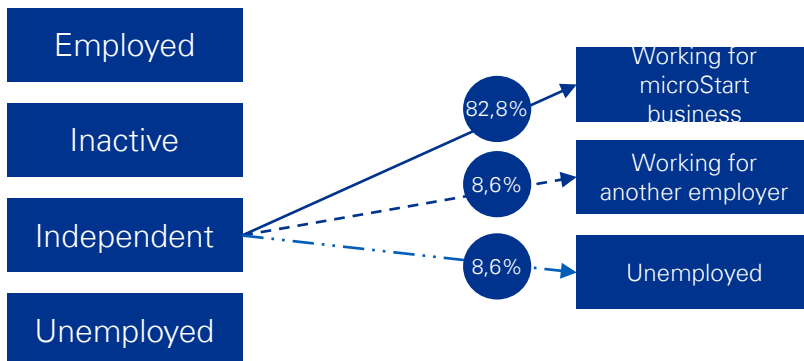
19 respondents previously employed



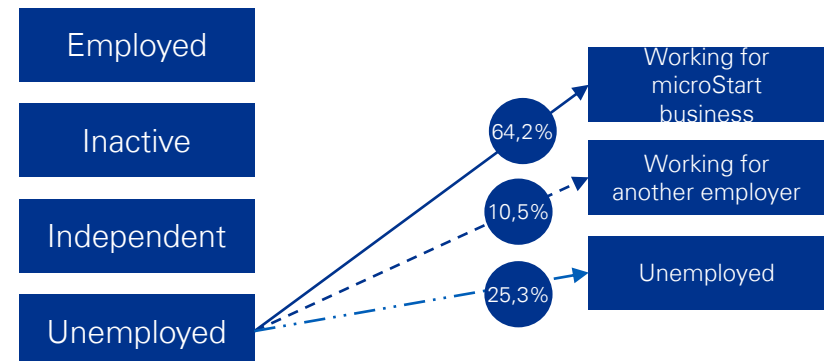
4 respondents previously unemployed



81 respondents previously independent



67 respondents previously unemployed



Source: Vlerick Database

Working method

Value and cost for the community per employment category

In calculating the economic value per trajectory we based the analysis on the gains and costs of each category on the community. The gains for the community entail the paid taxes, social contributions and new employment created. The costs cover the unemployment / inactivity benefits paid by the community (government).

Occupation category	Value categories for the community	Cost categories for the community
Employed	<ul style="list-style-type: none"> Income tax on personal income 	/
Working for another company		
Independent	<ul style="list-style-type: none"> Corporation tax on the business income Social contributions paid Income tax on personal income <i>If new employment created:</i> <ul style="list-style-type: none"> Taxes paid by the newly employed employees Patronal contributions paid by employer 	/
Working for microStart business		
Inactive	/	<ul style="list-style-type: none"> Inactivity benefits
Unemployed	/	<ul style="list-style-type: none"> Unemployment benefits

The calculations of the amount of income tax as well as corporation tax are based upon the Belgian progressive tax schemes. Furthermore if no information was provided on the salary earned by the interviewed clients, an assumption has been made based upon the Belgian minimum wage, which amounts to €1.531,93 (gross) in July 2017. The minimum wage is assumed for the wages of the newly employed employees to calculate the income tax and patronal contributions paid. The Belgian living wage (leefloon) is used for the approximation of the unemployment benefits, information on the different amounts are provided in the appendix.

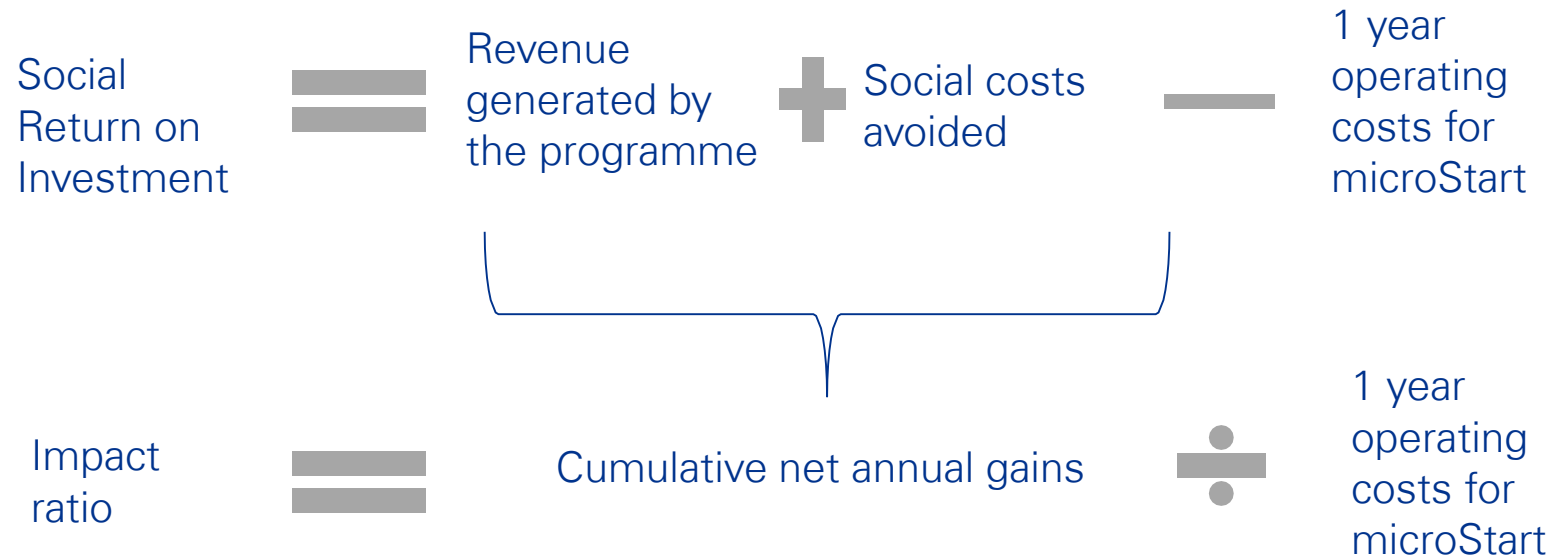


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Avoided Costs and Economic Gains

Method used

The method used is the cost-benefit analysis:



Avoided Costs and Economic Gains

Revenue from employment created

The revenue for the community relates to the following factors of which **the last two specifically are generated by the intervention of microStart:**



- Income tax on personal income
- Corporation tax on business income
- Payment of social contribution
- **Income taxes paid by employees that were previously unemployed**
- **Patronal contribution paid by the employer running the business he started with the help of microStart for his newly hired employees**

These different factors are specific to the person's employment status.

For the revenue generated specifically through the intervention of microStart we looked at the **employment created** by people from the sample that are operating their own business (*"working for microStart business"*).

The following figures are derived from the 125 people of our sample that belong to the aforementioned group:

- Average employment created per individual who works for the company that received a microStart loan: **0,40 employees**.
 - Who pay an average of **€ 410,73 income taxes/month**
 - For whom the employer pays an average of **€413,06 in patronal contributions/month**
- When calculated based on all the different situations per employer and the numbers they provided concerning salary, we found that an extra **economic value** of €823,79 is generated for the community per employment position created or in other terms, **€ 332,81** is generated for the community per individual who operates a microStart financed business.

Avoided Costs and Economic Gains

Social costs

Of the sample of 171 clients interviewed in the social impact survey executed by Vlerick Business School in June 2016, **more than 40%** received unemployment or inactivity benefits **before** obtaining loans, whereas **16%** is still receiving unemployment benefits **after** receiving the microStart loan.

The average amount of unemployment/inactivity benefits reported by beneficiaries of the sample **before** obtaining their loans in 2016 was **€792/month** (sample size n=71), whereas the average amount of unemployment/inactivity benefits reported beneficiaries of the sample **after** receiving their loan in 2016 is **€929,71/month** (sample size n=28).

Avoided Costs and Economic Gains

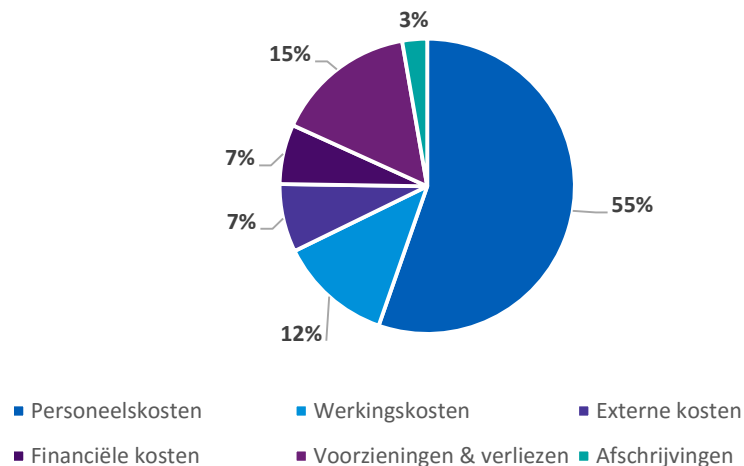
Operating cost / person

microStart's internal functioning incorporates two entities: the AWLP (vzw) and the CCLL (cvba). Their respective activities cover two different phases of the workings of microStart:

- Preparation of application for funding and distribution of the funds (CCLL);
- Accompaniment and follow-up of the entrepreneur during the period of the loan (AWLP).

In total the operational cost for both entities combined amounts €2.572.269,72. The number of clients benefited from a loan in 2016 was 716. This results in an average cost of a loan file of €3592,55

EXPENSES (combined)



➤ Or a cost of **€ 3,59K¹** for each beneficiary

¹ Cost per beneficiary: €2.572.269,72 / 716 clients = €3592,55/beneficiary



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Return on investment (SROI) of microStart's microfinancing

Average value per person per month

The results of the executed calculations, are summarized below. It stands out that people who are unemployed or inactive entail a large monthly cost for the community, whereas employed or independent people actually earn money for the community in terms of taxes and contributions paid as well as the employment created.

Occupation category (before microStart loan)	Value	Narrative
Employed	€566,12	Prior microStart's financing an employed person's value for the community was on average €566,12 per month
Inactive	€-574,50	Prior microStart's financing an inactive person's value for the community was on average €-574,50 per month (=cost).
Independent	€925,77	Prior microStart's financing an independent person's value for the community was on average €925,77 per month
Unemployed	€-792,03	Prior microStart's financing an unemployed person's value for the community was on average €-792,03 per month (=cost).
Occupation category (after microStart loan)	Value	Narrative
Working for microStart business	€1.228,29	After microStart's financing a person who is still working for the financed business , its value for the community is on average €1.228,29 per month
Working for another employer	€548,09	After microStart's financing a person who is working for another employer , its value for the community is on average €548,09 per month
Unemployed	€-929,71	After microStart's financing an unemployed person's value for the community is on average €-929,71 per month (=cost).

Average monthly economic value per employment group

=

revenue generated for the community (taxes/contributions paid + avoided costs) – costs for the community

Return on investment (SROI) of microStart's microfinancing

NPV per capita

For the calculation of the 2 year NPV of individuals, we considered the following working method:

1. The generally accepted time frame for measuring effects of employment is **two years** so we took into account 24 months value creation for the 7 different starting- and ending situations*
2. As a standard actualisation rate we used the Belgian inflation rate for 2017 (**2,27%**)
3. Based on this rate we calculated the NPV per capita of each of the seven situations as previously described

Occupation category (before microStart loan)	2 year NPV/person	Narrative
Employed	€13.137,86	Prior microStart's financing an employed person's 2 year net present value for the community was on average €13.137,86
Inactive	€-13.332,33	Prior microStart's financing an inactive person's 2 year net present value for the community was on average €-13.332,33 (=cost).
Independent	€21.488,82	Prior microStart's financing an independent person's 2 year net present value for the community was on average €21.488,82
Unemployed	€-18.380,52	Prior microStart's financing an unemployed person's 2 year net present value for the community was on average €-18.380,52 (=cost).
Occupation category (after microStart loan)	2 year NPV/person	Narrative
Working for microStart business	€28.504,77	After microStart's financing a person who is still working for the financed business , its 2 year net present value for the community is on average €28.504,77
Working for another employer	€12.719,43	After microStart's financing a person who is working for another employer , its 2 year net present value for the community is on average €12.719,43
Unemployed**	€-21575,73	After microStart's financing an unemployed person's 2 year net present value for the community is on average €-21575,73 (=cost).

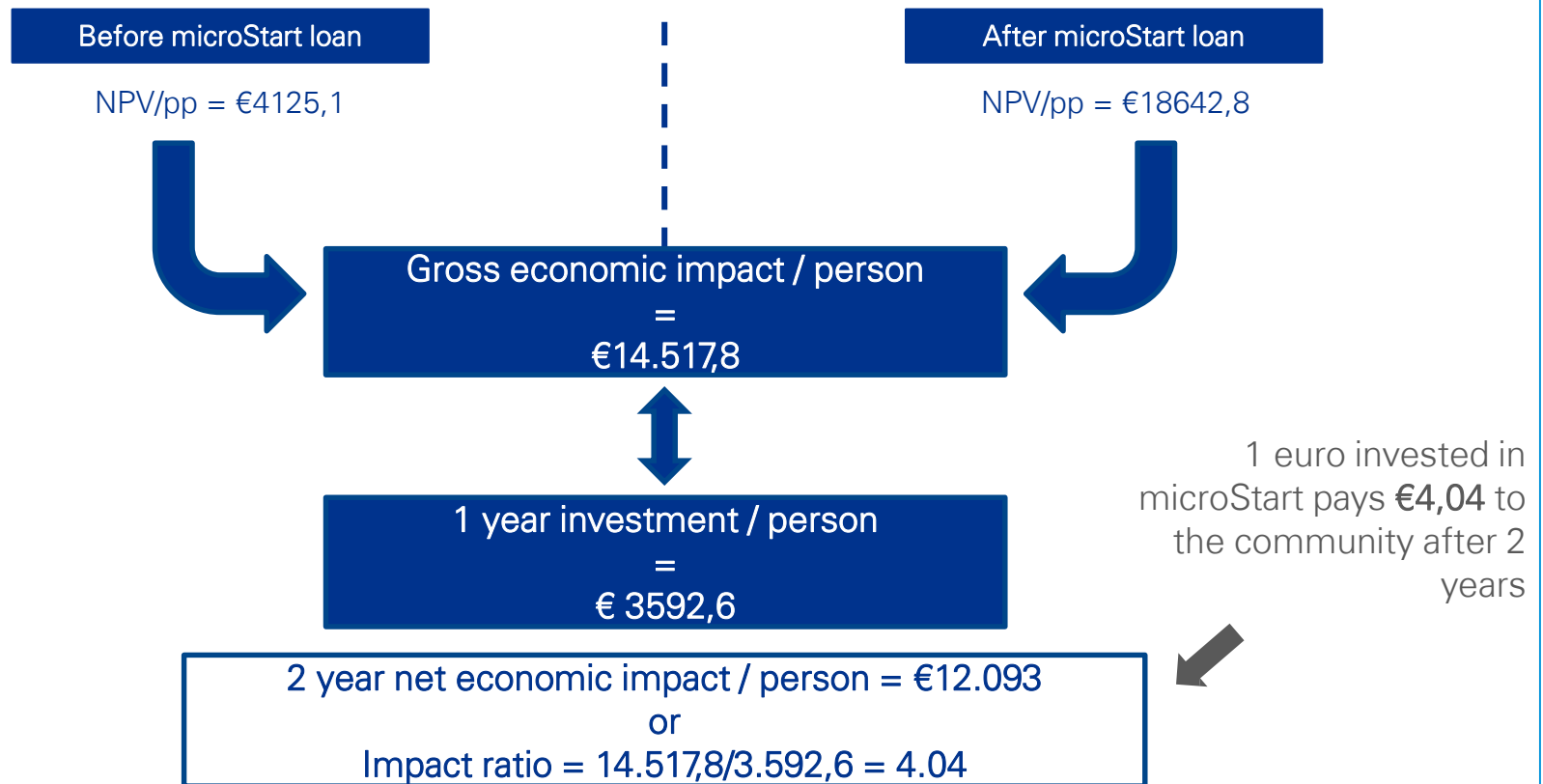
*Helping someone back into a stable job provides effects for the community for a period of two years, after which it becomes unclear whether these effects are attributable to microStart or not.

**The difference in average value between unemployed before and after can be attributed to the shift in the sample size of this group.

Return on investment (SROI) of microStart's microfinancing

Economic impact / person

As explained earlier the main concept is to compare a 1 year investment to the Net Present Value of the two years following the investment (including the year the investment has been made). In order to achieve this, we compared the population's employment status before becoming client of microStart to the population's current employment status. Based on the distribution of the population, we calculated the NPV per person who received a microStart loan by summing the NPV of each of the 4 starting situations, multiplied by the number of people in these situations and subsequently divided by the sample size.





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Appendix

Assumptions

In calculating the Social Return on Investment of Microstart's financing, several assumptions had to be made in order to achieve reliable results. The calculation of the SROI is entirely based on data retrieved from a survey that has been conducted by Vlerick Business School. The questionnaire for this survey had not been validated by KPMG. The key shortcoming of this survey were the lack of comparability between the financial situation of the respondent before and after receiving a Microstart loan due to missing information. A list of key assumptions that have been made, is listed below:

1) Data quality

Following assumptions have been made in order to increase the data quality:

- Information related to the financial situation prior to receiving a Microstart loan has been added from Microstart's database where possible;
- Missing information related to unemployed benefits/inactivity benefits has been added based on the minimum wage & living wage. Following amounts have been taken into account:
 - Living wage: Living together: €589,82 / Single: €884,74 / Burden of a family: €1.179,65
 - Minimum wage: €1.531,93 gross
- Missing information related to taxes has been calculated based on the available income data
 - If no corporation tax or income tax has been reported, calculations have been made based on the applicable rates
 - For the calculation of the tax paid on business income we used the Belgian corporate tax rate. For incomes lower than 322 500 a year this results in the following progressive scheme:
 - €1 - €25.000: 24,25% / €25.000 - €90.000: 31% / €90.000 - €322.500: 34,5%
 - If no personal income or personal taxes had been reported we have considered the minimum wage as a basis for income tax.
 - For the calculation of the taxes paid on personal income we used the Belgian progressive tax rate. This results in the following scheme:
 - €0 - €10.860: 25% / €10.860 - €12.470: 30% / €12.470 - €20.780: 40% / 20.780 - €38.080: 45% / More than €38.080: 50%
- Information on the income / salary information often was provided in the format of an interval (e.g. between €1.100 & €1.400). We therefore hypothesized that for the lowest and the highest boundary, the only provided value should be used. For all other intervals with upper and lower boundaries the lowest value was taken (= pessimistic assumption)

Appendix

Assumptions

2) Calculation of employment created

- For the employment created by a person with the status independent/working for microStart business we assumed the following.
 - Information is provided on the previous employment status of these employees as well as the salary paid. We only assumed that the employment created is attributable to microStart in the situations indicated in the table below

		After		
		Occasional	Part-time	Full-time
Before	Unemployed	0,5	0,5	1
	Occasional			0,5
	Part-time			0,5
	Full-time			

3) Unemployment benefits

The unemployment benefits that have been taken into account in the calculation of social costs are based on declarative information from respondents as well as information added based on assumptions (see assumption 1). We consider a different social cost for unemployed respondents prior Microstart financing and post Microstart financing. This difference is due to a significant difference in sample size of unemployed/inactive prior and post financing. As the figures that have been used represent a pessimistic assumption (social costs are higher for a smaller group of people, post Microstart financing), it has been assumed that these reflect the reality.

4) Economic impact calculation

The economic impact calculation is based on a two-year timeframe. We assume that the economic impact can still be addressed to the financing within 2 years. After two years the probability increases that this impact can be due to other reasons than the financing. To calculate the economic impact we therefore calculated the 2 year net present value of 1 person for each of the start & end situations.



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