Social Return on Investment Project Summary and FAQs for:

Think Small's Ramsey County Early Childhood Academy

Ecotone Analytics Impact Analysis

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Project Summary

Key Message

This analysis is a projected social return on investment for Think Small's Ramsey County Early Childhood Academy (Early Childhood Academy), a strategy designed to incentivize child care providers to progress from licensed care to quality programs. For every $1 dollar spent by Think Small to serve Early Childhood Academy providers, there is a projected social return of $2.46. This value is being realized through improved physical and mental health for child care providers; increased earnings for child care providers, parents, and children; reduced special education placement; and reduced grade retention.

- Projected benefits: $1,746,860
- Total cost of Early Childhood Academy over 3 years: $710,910
- Projected net benefits generated (benefits minus costs): $1,035,950

The largest outcome monetized was the increased lifetime earnings for parents from avoided child care closure ($1,134,750), followed by increased lifetime earnings from increased educational attainment for children ($473,500). Amongst stakeholders, the leading beneficiary are parents and loved ones, followed by taxpayers and children served.

SROI Summary Figures

Table 1. Projected SROI by stakeholder

Total	$2.46	Description
Parents and Loved Ones	$1.17	Avoided lost lifetime income from avoided child care business closure
Children	$0.49	Increased lifetime earnings from kindergarten readiness and participation in quality early care program
Taxpayers - Federal	$0.38	Avoided health care costs and additional taxes paid
Taxpayers - State	$0.18	
Schools	$0.11	Avoided school costs from reduced grade retention and special education placement
Taxpayers - Local	$0.07	Additional taxes paid
Health Insurers	$0.04	Avoided health care costs
Child Care Providers	$0.02	Improved physical health / reduced mortality from incentive payment; Improved mental health from decreased financial stress; and Increased earnings from increased enrollment due to quality rating

Monetized Outcomes

The 10 outcomes monetized include:

- Avoided lost lifetime income for parents from avoided child care business closure
- Increased earnings from children's increased educational attainment (from participation in a quality program)
- Increased earnings from children's increased educational attainment (from increased kindergarten readiness)
- Improved mental health of providers from decreased financial stress
- Reduced grade retention (from participation in a quality program)
- Reduced special education placement (from participation in a quality program)
- Increased earnings for providers from increased enrollment due to quality rating
- Improved physical health / reduced mortality of providers from incentive payment
- Reduced special education placement (from increased kindergarten readiness)
- Reduced grade retention (from increased kindergarten readiness)

Core Assumptions

Below are the core assumptions of this analysis. Additional assumptions are built into the individual outcome estimates and are discussed in the technical document.

Counterfactual: This analysis is assumed to be in comparison to child care providers not otherwise accessing and participating in a business support and incentive program.

Characteristics of family child care providers and children: Given Think Small's focus on serving family, friends, and neighbors (FFN) care, this analysis considers family child care providers that are home-based. While there are differences between the participating child care providers and children reached, we assign an average benefit per person served / reached in alignment with the secondary research or based on Think Small provided data, where possible.

Number of child care providers served: Annually, Think Small estimates reaching 100 child care providers, or a total of 300 child care providers over the course of the 3 year project. Of these, we assume Think Small will serve several child care providers for multiple years and estimate the number of unique individuals served at approximately 170. See outcome estimations in the technical document for more details.

Number of children reached: Licensed family care providers can serve a maximum of 12 children, with 10 under school age. This analysis assumes child care providers are typically operating at 80% capacity based on results from the Parent Aware evaluation (Tout et al., 2011) and a Minneapolis Federal Reserve Bank survey (Tran, 2022).

Duration of impact: Different outcomes have a different projected duration based on the type of outcome and who is receiving the value of the outcome.

Multi-year benefits are discounted to a present value with a 4% discount rate.

General FAQs

What is the purpose of this analysis?

- To accurately account for the social value generated by the Early Childhood Academy and to communicate that value with target stakeholders
- To provide an evidence-based valuation of the impact and identify the people to whom the benefits accrue

What is a Social Return on Investment?

Social Return on Investment (SROI) is an adaptation of the financial ROI metric. It is used to measure social gains (returns) in addition to the standard economic gains, all as a result of a financial investment. It accomplishes this by placing financial value on the social and environmental gains identified. It does not include non-monetizable impacts.

There are two primary definitions of SROI used in the field of impact accounting.

1. A benefit-cost ratio: This is the value generated for every dollar invested. It is calculated as:

$$\frac{\text{Social + Environmental + Economic Benefits}}{\text{Investment}}$$

This is the definition used by Ecotone to communicate value creation. For example, the SROI number shown on the Impact Value Map is the "Estimated Return on Investment" divided by the figure "Total Cost of Ramsey County Early Childhood Academy"

2. A percent return: SROI can also be communicated as a percentage, similar to a typical financial return. The calculation of the SROI in this case is:

$$\frac{\text{(Social + Environmental + Economic Benefits) - Investment}}{\text{Investment}} \text{ X 100\%}$$

When calculating the return as a percentage, the size of the investment is subtracted from the benefits generated so as to isolate the net benefit from the investment. For the Early Childhood Academy, this definition results in an SROI of 146%.

Future development of the field will likely isolate a single definition. We note them both here to clarify our own calculation as well as enable increased understanding of SROI metrics a client may see elsewhere.

How does SROI compare to ROI?

ROI is a purely financial calculation:

$$\frac{\text{(Gain from Investment - Investment)}}{\text{Investment}}$$

ROI alone does not measure the full impact of a program.

General FAQs

How does this valuation differ from an economic impact study?

This analysis is focused on monetizing social impacts. This is distinct from an economic impact study given that we are not including estimations of economic growth, business activity, and indirect employment changes. While social and environmental impacts certainly can influence economic conditions, that is beyond the scope of this analysis.

What is a non-monetized impact?

In addition to SROI, there are impacts that are not monetized due to their intangible nature and/or the lack of quality data to support monetization presently. As future studies are conducted however, certain impacts may become monetizable.

What is a 'good' SROI?

While there is no standard definition of what a 'good' SROI consists of, the first step in noting the cost effectiveness of the investment is simply having a return greater than the costs, i.e. an SROI greater than $1. In some investor communities, an SROI of $2.50 is used as a benchmark for screening potential investments. This benchmark however is not based on evidence that a return below $2.50 is 'bad', but simply that it has served as a tool to limit those investments under consideration. This inherently places greater importance on those interventions that are able to more readily monetize their outcomes, as well as those interventions that have more near-term impacts, being less burdened by discount rates tied to long-term outcomes.

Further, using a single SROI benchmark across all sectors is risky, as different sectors are associated with greater SROIs. Comparing a workforce development SROI to an early childhood program's SROI becomes a comparison of apples and oranges. We recommend comparisons between programs that are as similar as possible - and even then there may be nuance that is important to recognize. This nuance however is that aspect unique to organizations from which they can better manage and maximize their impact, using the SROI as both an external facing communication piece, but also, and equally important, the SROI becomes that internal accounting tool to understand organizational impact, recognize value pathways, improve KPIs, understand key assumptions and seek new learnings over time.

What is Ecotone Analytics GBC?

Ecotone is a Minneapolis-based impact accounting and stakeholder communication firm. Its mission is to help clients scale their social and environmental impact by communicating impact value to stakeholders and investors.

Project Specific FAQs

Understanding the Deliverables

How can the Impact Overview 4-page brochure be used?

This brochure can be used to provide an overview of the various aspects of the Early Childhood Academy impact model to support communication with interested stakeholders such as potential funders, Minnesota counties, child care providers, community members, among other stakeholders.

- The United Nations' Sustainable Development Goals (SDGs) show alignment with global impact areas.
- The logic model displays Think Small's impact strategy for its Early Childhood Academy.
- The Impact Management Project (IMP) 5 dimensions of impact are used for concise impact communication.
- The Key Performance Indicators (KPIs) show the impact tracking and management process in place.
- The SROI shows a rigorous, evidence-informed projection of social impact measurement in commonly understood terms (dollars).
- The letter from the CEO puts this information into context, giving the brochure the voice of leadership, and communicating a message to a target audience of the brochure.

What does this analysis mean for investors/funders?

This analysis serves to create a baseline of the projected social value generated by Think Small and its Early Childhood Academy. The impact value map illustrates the projected impact generated from the total investment, communicating the types of benefits that can accrue from the academy and providing a detailed picture of what funders' dollars support. The analysis also highlights different stakeholder groups who receive value from Think Small's work, illustrating the reach of the Early Childhood Academy beyond the child care providers alone.

What is the 'shelf life' of this analysis?

Generally, if elements in the cost structure change, if there's a new experimental longitudinal study linking business support services or child care provider coaching and mentorship to improved outcomes, if aspects of the Early Childhood Academy program change, or if the target population served by Think Small changes, then the SROI would likely need updating as well. The analysis may also be updated as further data is collected by Think Small, allowing for the estimation of additional monetized outcomes that at present have more limited data.

Project Specific FAQs

Understanding the Analysis

How did Ecotone calculate the SROI?

What was Ecotone's process?

Ecotone's process analyzes and combines external literature of the highest level of evidence of causality with internal organization data where possible to quantify and project the potential value generated by the Early Childhood Academy, while identifying the people and entities to whom the benefits accrue. Where possible, outcomes were monetized. When monetization was not possible, non-monetizable outcomes were noted. This analysis is conservative and transparent in all calculations to ensure nothing is overstated, there is credible evidence, and there is no double counting of value.

What resources were used for this analysis?

Many external resources were used, ranging from rigorous scientific studies to newspaper articles or expert opinions. A full bibliography is included at the end of the technical documentation and is ranked by level of evidence of causality. Whenever possible, resources with higher levels of evidence are utilized over lower levels of evidence.

How were costs estimated?

This analysis uses the total cost for the 3 year program based on the Early Childhood Academy Budget provided by Think Small.

How were outcomes monetized?

The following provides a brief description of the estimation process for each outcome monetized. Additional details on assumptions used and resources referenced are provided in the technical document of this report.

Table 3. Estimation process by outcome

Outcome	Estimation Process
Improved physical health / reduced mortality from incentive payment	We estimate the number of child care providers receiving an incentive and combine it with the increased likelihood of insurance from additional income, which is modified by the scale of the incentive received. This is multiplied by the reduced mortality from health insurance and valued using the annual value of statistical life. *Source: Think Small, 2022; Lenhart, 2019; Golden et al., 2019; and Viscusi & Hersch, 2007*
Avoided lost lifetime income (avoided business closure)	We estimate the number of families reached based on child care providers served and apply this outcome to only 1 parent. We then multiply this with the decreased likelihood of child care closure due to child care providers receiving business support services and the proportion of child care providers at risk of closing. This is valued using the avoided lifetime income loss for a parent out of the workforce for 1 year. *Source: Think Small, 2022; Baker et al., 2019; and Center for American Progress, 2016*
Increased earnings from additional education (increased kindergarten readiness)	We utilize the decreased likelihood of business closure from receipt of business support services as a child's increased access to early care. We apply this to the estimated number of children reached, then multiplying by the improved kindergarten readiness from participation in early care and the increased likelihood of high school graduation from kindergarten readiness scores. This is valued with the additional lifetime earnings from high school graduation. *Source: Think Small, 2022; Laughlin, 2010; Baker et al., 2019; Trent, 2019; Innovations in Community Research and Program Evaluation, 2020; Baum et al., 2013; and Tamborini et al., 2015*
Increased earnings from increased educational attainment (quality program)	We estimate the increased likelihood of a higher Parent Aware rating for a child care provider receiving quality supports. We apply this to the number of children reached by child care providers who are 2-star Parent Aware rated. We then multiply by the increased educational attainment for children from participation in quality early care, modifying the effectiveness based on home- versus center-based care. This is valued with the additional lifetime earnings from high school graduation. *Source: Think Small, 2022; Laughlin, 2010; Baker et al., 2019; Tout et al., 2011;McCoy et al., 2017; Bassok et al., 2016; Baum et al., 2013; and Tamborini et al., 2015*

Outcome	Estimation Process
Reduced special education placement (quality program)	We estimate the increased likelihood of a higher Parent Aware rating for a child care provider receiving quality supports. We apply this to the number of children reached by child care providers who are 2-star Parent Aware rated. We then multiply by the reduced special education placement from participation in quality early care, modifying the effectiveness based on home- versus center-based care. This is valued using the cost of special education. *Source: Think Small, 2022; Laughlin, 2010; Baker et al., 2019; Tout et al., 2011; McCoy et al., 2017; and Bassok et al., 2016*
Reduced grade retention (quality program)	We estimate the increased likelihood of a higher Parent Aware rating for a child care provider receiving quality supports. We apply this to the number of children reached by child care providers who are 2-star Parent Aware rated. We then multiply by the reduced grade retention from participation in quality early care, modifying the effectiveness based on home- versus center-based care. This is valued using the cost of grade retention. *Source: Think Small, 2022; Laughlin, 2010; Baker et al., 2019; Tout et al., 2011; McCoy et al., 2017; and Bassok et al., 2016*
Improved mental health from decreased financial stress	We estimate the number of child care providers who are financially stressed and receive an incentive, multiplied by the proportion of child care providers able to pay off debt due to the incentive, multiplied by the reduction in the likelihood of exhibiting anxiety from having an additional debt paid off. This is valued using the cost of anxiety disorder. *Source: Whitebook, Philips, Howes, 2014; Ong et al., 2019; Bassok et al., 2021; Bennett, 2022; and Marciniak et al., 2005*
Increased earnings from increased enrollment due to quality rating	Using the number of 2-star Parent Aware child care providers reached, we multiply by the increased likelihood of a higher quality rating from participation in the Early Childhood Academy and by the increased enrollment from a higher quality program. This is valued using the additional annual income per child. *Source: Think Small, 2022; Baker et al., 2019; Tout et al., 2011; and Child Aware of Minnesota, 2022*

Project Specific FAQs

Understanding the Analysis

What time period is included in this SROI?

This SROI is a projection of the 3 year Early Childhood Academy. The time period of the projection of each outcome is done in alignment with the existing research, ranging from 1 year to over a lifetime.

Where are the greatest uncertainties in this analysis?

As with any SROI projection, there are uncertainties in the modeling. We note them here for transparency.

- The number of unique child care providers, children, and parents reached
- The total value of incentives each provider receives
- The extent that home-based care outcomes differ from center-based care and how outcomes realized will vary by the child care providers or children reached
- The extent that avoided business closure is solely attributable to the Early Childhood Academy

What would make the SROI higher?

While increasing the SROI is not always the target of an intervention, we identified a few variables that could boost the SROI. These include:

- Increasing the number of unique child care providers served
- Increasing the number of children and families reached
- Working with child care providers at greater risk of business closure
- Increased targeting of child care providers with lower Parent Aware ratings

How would this analysis differ for center-based child care providers?

If this analysis projected outcomes for center-based child care providers instead of family child care providers, the projected SROI would change in several ways. The first change would be a likely large increase in the additional earnings for children and avoided lost income for parents. Assuming no changes in the cost to operate the Early Childhood Academy, the projected SROI would increase due to the many more children being served by center-based programs compared to home-based programs. Center-based child care programs can reach 100 children or more compared to the projected 12 children reached per home-based child care provider used in this analysis.

Shifting the focus to center-based care instead of home-based care would also affect an assumption used. When considering the impact of quality care, much of the research is based on center-based care. Because of this, this analysis incorporates assumptions around the effectiveness of quality home- versus quality center-based care. Our assumption is based on Bassok et al., 2019 and using Environment Rating Scale (ERS) ratings. If Think Small shifted its focus from serving quality home-based child care programs to quality center-based programs, we would not need to include this additional modification, and as a result, the affected quality-based outcome would increase. There is a larger evidence-base to pull from for center-based care, so shifting the types of child care providers served could potentially mean incorporating additional outcomes not monetized in this analysis.

How is this analysis different from other Ecotone analyses?

Each SROI analysis with Ecotone must take a slightly different approach in response to the extent client-specific data and effect sizes are available. While the development of the counterfactual (i.e. what would have otherwise happened were it not for the Early Childhood Academy) varies from analysis to analysis, this estimation as a whole takes a prospective approach - projecting social value created - as opposed to a retrospective approach which would review the value already created.

We do not know the true value generated by Think Small, but are able to estimate the value created by aligning Think Small's model with secondary research. This is a common approach for Ecotone analyses, particularly for growing initiatives that are looking to understand their impact and build out their impact management processes.

Impact Communication

Why identify the United Nations' Sustainable Development Goals?

These are the blueprint, established by the United Nations, to achieve a better and more sustainable future for all and include 17 distinct goals. They serve as an easily recognizable marker of agreed upon impact areas for stakeholders.

How are the relevant SDGs selected?

Ecotone reviews the targets and indicators that make up each SDG and identifies points of alignment with the outcomes identified as a part of the analysis. Alignment is noted for those SDGs that Think Small most directly impacts. Other SDGs may be indirectly affected by the Early Childhood Academy beyond those identified here.

4 QUALITY EDUCATION

Goal 4:

Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

Target 4.2
By 2030, ensure that all girls and boys have access to quality early childhood development, care and pre-primary education so that they are ready for primary education.

Indicator 4.2.1
Proportion of children aged 24-59 months who are developmentally on track in health, learning and psychosocial well-being, by sex

Indicator 4.2.2
Participation rate in organized learning (one year before the official primary entry age), by sex

Target 4.4
By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship.

Target 4.5
By 2030, eliminate gender disparities in education and ensure equal access to all levels of education and vocational training for the vulnerable, including persons with disabilities, indigenous peoples and children in vulnerable situations.

Indicator 4.5.1
Parity indices (female/male, rural/urban, bottom/top wealth quintile and others such as disability status, indigenous peoples and conflict affected, as data become available) for all education indicators on this list that can be disaggregated

Target 4.a
Build and upgrade education facilities that are child, disability and gender sensitive and provide safe, non-violent, inclusive and effective learning environments for all.

Impact Communication

Goal 8:

Promote sustained, inclusive, and sustainable economic growth, full productive employment and decent work for all

Target 8.5
By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.

Indicator 8.5.1
Average hourly earnings of female and male employees, by occupation, age and persons with disabilities

Indicator 8.5.2
Unemployment rate, by sex, age and persons with disabilities

Goal 10:

Reduce inequality within and among countries

Target 10.2
By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status

Indicator 10.2.1
Proportion of people living below 50 per cent of median income, by age, sex and persons with disabilities

Goal 11:

Make cities and human settlements inclusive, safe, resilient and sustainable

Target 11.1
By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums

Impact Management Project Five Dimensions of Impact: Defined

Table 4. Impact Management Project's Five Dimensions of Impact Defined

Impact Dimension	Impact Questions Each Dimension Seeks to Answer
What	What outcome occurs in period? How important is the outcome to the people (or planet) experiencing it?
Who	Who experiences the outcome? How under served are the affected stakeholders in relation to the outcome?
How Much	How much of the outcome occurs--across scale, depth and duration?
Contributions	What is the enterprise's contribution to the outcome accounting for what would have happened anyway?
Impact Risk Mitigation	What is the risk to the people and planet that impact does not occur as expected?

IMPACT MANAGEMENT PROJECT

Impact Communication

What is the Impact Management Project and its Five Dimensions of Impact?

The Impact Management Project (IMP) is a community of 2,000+ organizations building consensus on how to measure, compare and report impact on environmental and social issues. The IMP community has developed a set of 5 dimensions of impact in order to help build consensus and a common language when organizations and investors discuss their impact. This has been a rapidly growing field, and future alignment with the 5 dimensions could help attract additional investment.

Table 5. Think Small's Ramsey County Early Childhood Academy Five Dimensions of Impact

IMPACT MANAGEMENT PROJECT

Impact Management Project: Creative Commons Attribution-NoDerivatives

WHAT: An initiative designed to incentivize early childhood education providers to progress from licensed to quality programs, increasing the availability and quality of early care in Ramsey County.

WHO: Serving Ramsey County early child providers, including those with established programs and those starting their own in Ramsey County. Priority is given to family, friends, and neighbors (FFN) in child care desert areas as well as English Language Learners (ELL) and BIPOC educators.

HOW MUCH: Aiming to reach at least 300 providers over 3 years with a total funding allocation of approximately $710,000. Goals include increasing enrollment capacity by 420, creating 230 new jobs, and preserving 970 enrollment slots and 90 child care jobs.

CONTRIBUTION: The incentive and quality rating strategy is based on growing evidence that shows home-based providers and the children served benefit from the financial support and quality improvements.

IMPACT RISK MITIGATION: Combining incentives with business support, the Early Childhood Academy provides individualized support, adapting to educator survey responses, needs and experience, increasing the likelihood of participation. Access to multiple incentives promotes a culture of continuous learning and improvement, strengthening long-term positive impact for educators and families served.

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