IndiKit

RETURN ON INVESTMENT

Outcome indicator

Indicator Phrasing

English: number or % of [specify the target group] that achieve at least a [specify the %] return on investment within [specify the period] of making the investment

French: nombre ou % de [spécifiez le groupe cible] qui réalisent au moins [spécifiez le %] de retour sur investissement [préciser la période] après l'investissement

Portuguese: número ou % de [especificar o grupo-alvo] que obtêm pelo menos [especificar a %] de retorno do investimento dentro de [especificar o período] após o investimento

Czech: počet nebo % [určete cílovou skupinu], které dosáhnou alespoň [určete %] návratnosti investice během [určete období] od jejího učinění

What is its purpose?

This indicator looks at the proportion of supported businesses which managed to achieve a specific return on investment (ROI). This measure is used to see how cost-effective the set of project-related investments was. Be aware that in order to gain reliable data on ROI you need to accurately assess the net profit, which is not easy. The "% ROI" is used since development projects often do not last long enough to be able to see a full ROI.

How to Collect and Analyse the Required Data

Determine the indicator's value by using the following methodology (keep in mind that the percentage of the return on investments and the time period should already be included in the definition of the indicator and therefore these are not discussed in the guidance below).

1) **Decide on the sampling strategy**: If you supported a smaller number of businesses, involve all of them. Otherwise, use a representative sample of the supported businesses.

2) For each supported business**, calculate the total costs of the investment** (e.g. $ 2,000). This should include all the expenses related to the investment, including the costs of human resources, transport, offices, taxes, costs of interest / fees if a loan was taken, etc.

3) For each supported business**, calculate the net income generated thanks to the investment** during the period that was included in the wording of the indicator (e.g. "within 24 months of making the investment"). The net income is calculated by deducting the costs of the investment from the sales generated thanks to the investment (e.g. $ 3,000 minus $ 2,000). However, it is important that:

- **You only count those gains and costs that directly relate to the investment**. Do not count the total gains and costs of the businesses' operations (the focus is on a specific investment only).

- If before the investment there was an income coming from the supported activity, you will have to ensure that you **do not attribute all the income to the investment**. Remember that you must calculate the income / sales generated thanks to the investment. To do so, you should:

    - calculate the income / sales generated in the monitored period (e.g. 24 months) after the investment was made (e.g. $ 5,000)

    - deduct from this amount the income / sales that was generated in a comparable period (e.g. 24 months) before the investment was made (e.g. $ 2,000)

    - the resulting amount ($ 5,000 - $ 2,000 = $ 3,000) can be taken as the income / sales generated thanks to the investment

4) For each supported business, **calculate the ROI** by dividing the net income generated thanks to the investment by the total costs of the investment (e.g., ($ 3,000 - $ 2,000) divided by $ 2,000 = 50% ROI).

5) To **determine the indicator's value**, count the number of businesses with ROI equal or higher to the percentage stated in your indicator.

If the indicator uses percentages, then divide the number of businesses with ROI equal or higher to the percentage stated in your indicator by the total number of surveyed businesses. Multiply the result by 100 to convert it to a percentage.

Disaggregate by

Disaggregate the data by the type of investment, type of supported businesses and other criteria relevant to the focus of the intervention.

Important Comments

1) **Be realistic about the time needed** to achieve the desired return on investment – it can take several years to recover this, especially in the case of larger investments.

2) **Use this indicator only if you are fairly confident that the businesses will be willing and able to share with you the required data**. This is possible only if:

- the businesses do not try to hide the total amount of their sales (e.g. due to tax-related concerns, safety concerns, fear of losing your assistance if appearing too successful, etc.)

- the businesses will have the capacity and motivation to keep reliable records of their sales and all the expenses related to these sales (you might need to provide additional support)

In order to improve the likelihood of obtaining reliable data on investment and returns:

- From the beginning of your relationship with the target businesses, make clear what data you need and why you need it. If relevant, include your data requirements in your contract or memorandum of understanding with the business.

- Try to understand what data the supported businesses might be willing to share with you (e.g., by conducting an in-depth interview with a few business). For example, some businesses might share the number of goods sold (but not the total revenue). If you can make some assumptions about prices, however, you can estimate the revenue.

Access Additional Guidance

- Miehlbradt, A. and Posthumus, H. (2018) Gathering Information from Businesses

- ROI Formula