Impact Measurement for CDFI Small Business Lenders

Donna Fabiani | June 11, 2013

Survey of CDFI Small Business Lenders

- Electronic survey: 18 of 21 partners in the Goldman Sachs 10,000 Small Business CDFI Growth Collaborative
- Telephone survey: 5 of 18 survey participants
- Diverse group of CDFI survey participants in terms of mission, geographic focus, asset size, range of products & services
Survey Objectives

- identify types of impact measures already being collected by CDFI small business lenders
- identify other measures that would be useful to such lenders and determine barriers that prevent them from collecting those measures
- understand how CDFI small business lenders use their impact data

Impact Measurement
What Is It?

- Collection and analysis of data which point to level of CDFI’s positive effect on community
- **Output measures:** describe borrower or community at time product/service provided
- **Outcome measures:** gauge positive changes in borrower or community over time.
**Impact Measurement**  
**Why Is It Important?**

- Satisfies external reporting requirements to funders
- Internal tool to assess whether CDFI holding true to mission
- Internal tool to track progress against set of impact goals and objectives → gives management ability to:
  - identify deviations from expectations early on
  - make changes to correct course & better serve constituents

**What Measures Are Lenders Collecting?**

- CDFIs reported 43 different indicators
- Most frequently collected impact measures:
What Measures Are Lenders Collecting?

Groups of data points to understand larger issue:

- Business resiliency (NHCLF)
- Quality of life (PeopleFund)
  - Personal wealth of business owner
  - Business stability
- Local food value chain development (NCIF)
- Job Quality

### Job Quality Measures

<table>
<thead>
<tr>
<th>Measure</th>
<th># of CDFIs using measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job Quality: Benefits</td>
<td>4</td>
</tr>
<tr>
<td>Job Quality: Employee advance</td>
<td>2</td>
</tr>
<tr>
<td>Job Quality: Wages</td>
<td>4</td>
</tr>
<tr>
<td>Job Quality: Working conditions</td>
<td>1</td>
</tr>
</tbody>
</table>

“Wish List” of Indicators

#### Output Measures

- Net Profit
- Debt-to-Worth
- Livable Wage Jobs
- # Requests for Financing
- Business Education / Technical Assistance Tracking
- Customer Satisfaction Reporting
- Comparative Business Performance Data (Peer Comparison)

#### Outcome Measures

- Jobs Created / Retained (Actual)
- Impact of Development Services
- # Businesses Still Operating after 5 Years
- Change in Revenues / Profitability After Loan
- Change in Business Owner Credit Scores After Loan
- State Taxes Paid by Businesses Financed
- Change in Neighborhood Safety
- Change in Quality of Life
- Environmental Outcomes (energy & water use, waste generation, etc.)
- Longitudinal changes on borrowers after from initial contact to repayment
Data Collection Barriers

- Limited staff capacity
- Limited MIS capacity for tracking data
- Inability of MIS to automatically generate reports needed to properly analyze data
- Difficulty collecting data from borrowers post-loan closing

Borrower Data Submission (post-loan closing)

<table>
<thead>
<tr>
<th>Response Rates (% Borrowers who remit impact data after loan closing)</th>
<th># of CDFIs</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 25%</td>
<td>2</td>
</tr>
<tr>
<td>25% to 50%</td>
<td>3</td>
</tr>
<tr>
<td>50% to 75%</td>
<td>7</td>
</tr>
<tr>
<td>75% to 100%</td>
<td>6</td>
</tr>
</tbody>
</table>
Methods for Increasing Borrower Response Rates

- Request reports borrower already produces

- Adopt “best practice” methodology
  - List required data in commitment letter / loan closing documents
  - Discuss CDFI impact measurement policy at loan closing
  - Develop easy methods to collect & input data
  - Determine which measures inappropriate to collect & do not ask for it

- Use intern to manage annual borrower survey

Impact Data Tracking Software

- Choose system with virtually no limit in number of ways it can be customized / modified by internal staff

- Ensure CDFI staff has technical in-house depth to build & modify system

- Key data management person should have strong understanding of CDFI products & services plus some understanding of databases

- Agree to set of stable, codified definitions for each measurement that management agrees to use consistently over time
How Is Impact Data Used?

- External reporting purposes (mostly government agencies and foundations providing loans/grants)
- As a “general barometer of success in mission”
- Share with board and all staff on frequent basis to:
  - Ensure strict focus on mission
  - Create environment in which data used to actively inform decisions about strategies, products & services

- If used intentionally and proactively, impact measurement can serve an important function in ensuring CDFI small business lenders stay true to their mission.
Developing an Impact Model
Case Study - Community First Fund

Daniel Betancourt, President and CEO
June 11, 2013
Ground work - Impact Model

  - Prove mission and vision statement
  - Low Impact Rating

- Strategic Plan Goal

- Background -three stages of CDFI advocacy
  - Loud Voice for Change
  - Focus on Production
  - Finding Voice

- Two Steps for Development our Impact Model
  - Backward Mapping
  - Theory of Change
Generic Mission Statement 2006

Vision Statement Community First envisions a future where opportunities for economic prosperity are available to everyone in the communities we serve.

Mission Statement
Community First creates lasting economic growth for our communities by providing equitable financial services, technical knowledge and advocacy leadership.
Founding Vision Statement

- Reviewed the original mission statement to help determine core purpose of the organization
- Found that current vision statement was generic and sanitized
- Outcomes/Impact-find core purpose of your work to pick outcomes

- Reviewed our original and vision and Mission statement from 1992

**Vision**... promote economic growth and independence.
...promotion of economic and social justice in order to improve the quality of life in low-income communities
...encourage economic empowerment for **disenfranchised** from equitable opportunities.

**Mission**...providing affordable loans and technical assistance to projects that produce good jobs, affordable housing, business ownership
Theory of Change

New Impact Model

Problem Statement

- Poverty exists at extremely high rates across the cities and towns in our current Pennsylvania market area.
- These cities have poverty rates nearly three times higher than their respective Counties.
- As a result, there is a lack of economic opportunities for Persons of Color, Women and low-wealth communities.
- The region also experiences high levels of racial and economic discrimination.
- The region also suffers from a lack of mainstream investment in downtown areas and neighborhoods.

  To combat these problems, Community First provides access to investments for affordable housing, community and social services and business ownership.
Theory of Change

- Community First Fund **Theory of Change**
  - Overcome historic discrimination for people of color and women and low-wealth communities

All loans were scored with priority points
- Number and quality of jobs
- Priority to low income,
- Targeted population/Person of Color or women
- Priority to low income census tracts
**Informed Mission & Vision Statement**

**Vision Statement**
Community First Fund’s vision is a vibrant and diverse community where individuals prosper and are free from poverty and discrimination.

**Mission Statement**
Community First Fund’s mission is to create sustainable prosperity for low wealth communities and individuals, especially Persons of Color and women, by aligning capital, knowledge and advocacy to advance business ownership, housing and community development in the communities we serve.
New Impact Model

- CDFI’s Risk Rate each loan (1-4 scale)
- CDFI’s challenged by limited resources and had to re-focus on Impact
- Impact Rating on all Loans (1-10 scale)
- Use information to measure impact by employee, region, product and level ($) of resources used
- Also use for program evaluation
- Strategy to focus fund raising for priorities (aligning resources with end use)
Impact Model

1-10 Scale

Each Impact measure has a weighted score
- Business Loans
  - Targeted Population
  - Low Income Individuals
  - Located in Low Income Community (LIC) or census tract
  - Wealth/Low Net worth
  - Jobs
## Impact Report Card

### Selected data

<table>
<thead>
<tr>
<th>Impact Scoring Legend</th>
<th>8-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Strong</td>
<td>6-7.99</td>
</tr>
<tr>
<td>Satisfactory</td>
<td>5-5.99</td>
</tr>
<tr>
<td>Limited</td>
<td>3-4.99</td>
</tr>
<tr>
<td>Unsatisfactory</td>
<td>0-2.99</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Impact Rating System</th>
<th>Loans Approved &amp; Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FY 2013</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Loan Amount</th>
<th># of Loans</th>
<th>Avg Impact Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL</td>
<td>86</td>
<td>5.8</td>
</tr>
<tr>
<td>$0 - $50K</td>
<td>53</td>
<td>7.2</td>
</tr>
<tr>
<td>$51K - $99K</td>
<td>11</td>
<td>5.1</td>
</tr>
<tr>
<td>$100K - $249K</td>
<td>15</td>
<td>5.5</td>
</tr>
<tr>
<td>$250K - $499K</td>
<td>4</td>
<td>5.3</td>
</tr>
<tr>
<td>$500K +</td>
<td>3</td>
<td>4.5</td>
</tr>
</tbody>
</table>
# Impact Report Card

<table>
<thead>
<tr>
<th>Income Level of Loan Clients</th>
<th>% of TOTAL # Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low (80% AMI &amp; below)</td>
<td>65%</td>
</tr>
<tr>
<td>Low &amp; Moderate (120% AMI &amp; below)</td>
<td>79%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Race/Ethnicity of Loan Clients</th>
<th>% of TOTAL # Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>White Non Hispanic</td>
<td>49%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>20%</td>
</tr>
<tr>
<td>Black</td>
<td>24%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Gender of Loan Clients</th>
<th>% of TOTAL # Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>30%</td>
</tr>
</tbody>
</table>
Leveraging Impact Model

Leverage CARS™

- Encourage small CDFIs to use CARS to help them focus on their Impact model
- Update Mission/Vision Statement to reflect your TOC
- Track simple outcomes to reflect(prove) your mission statement