Summary of the 13th Annual Financial Innovations Roundtable

April 25-26, 2013
Federal Reserve Bank of Boston

INTRODUCTION

During the past 13 years, the Financial Innovations Roundtable (FIR), part of the Carsey Institute at the University of New Hampshire, has worked with a range of community development and financial institutions, government agencies, foundations, and trade associations to improve access to capital. It does this by tapping the expertise of thought leaders from the institutional investment, banking, philanthropic, and community development industries.

This report summarizes the key points raised in the April 2013 roundtable, and offers strategic next steps to take, including developing common definitions for community development-related social impact.

The 2013 roundtable looked at two specific stakeholder groups: investors in community development financial institutions (CDFIs) and CDFI lenders. The CDFI sector has grown rapidly since the mid-1990s, with approximately 1,000 CDFIs across the country today. Evaluations of their operations, including our own, have generally painted a positive picture of the sector. Yet questions remain. Insufficient data and quality—in part because of the relative newness of the sector—pose particular problems.[1]

More fundamentally, two closely connected issues remain unsolved: (1) current ways of measuring CDFI performance are not guided by a coherent theoretical rationale; and (2) public bodies and private investors therefore have no proper guidelines to direct funds into the sector. There is no single set of performance measures that can be applied to the sector as a whole. Instead, the field must develop a performance measurement framework that can be used as a tool to monitor the individual stakeholder relationships of each CDFI.

Measuring impact or performance is a complicated endeavor because communities are complex systems. They consist of many interrelated structures and activities that, along with external factors, influence the very conditions any community or economic development program, including CDFIs, seeks to affect. It is also the case that most CDFI investments are small relative to both the size and need of the neighborhoods or communities they target. As a result, it is often unrealistic to expect to measure investment or project impacts, such a poverty

[1] See Michael Swack, Jack Northrup, and Eric Hangen, "CDFI Industry Analysis" (Durham, NH: Carsey Institute, 2012), available at: http://carseyinstitute.unh.edu/publications/Report-Swack-CDFI-Industry-Analysis.pdf

levels or property values. Thus, identifying outcomes, determining whether benefits flow to those with greater needs, and sorting out (both short-term and long-term) causes and effects are difficult tasks.

Program-specific evaluation challenges exist as well. For example, the fact that the program provides funds to CDFIs that serve specific communities as well as low-income individuals, whether or not they live in a poor community, means that evaluations must measure the benefit to people as well as places. In addition, individual CDFIs make investment decisions so evaluators must consider as legitimate multiple conceptions of need and impact, as articulated by different CDFIs. Finally, the fact that the program can be used to support a wide array of project or asset types—from housing to financial counseling—means that there is no single outcome metric that applies to all projects.

The 2013 Financial Innovations Roundtable addressed the following questions:

- Are there standard approaches for measuring social benefit, while accounting for the differences in CDFI type and customer base?
- How to balance the need for measures that are meaningful to both lenders and investors with the need that they be simple to collect?
- What can the field learn from international examples of social metrics?
- Is it possible to develop a social impact index for community development lenders in the United States?
- What are the pros and cons of developing an index or series of indices?

The following sections offer a recap of the roundtable.

SETTING THE STAGE

Welcoming participants on the first day of the conference were **Prabal Chakrabarti** and co-organizer **Anna Steiger** of the **Federal Reserve Bank of Boston**'s Community Affairs Office, and co-organizer **Michael Swack** of the Carsey Institute. Swack acknowledged that social impact metrics are neither simple nor new, and argued that the time is right to move forward as a field. He shared the story of a 70-year-old woman living in a manufactured housing community that had just transitioned to cooperative ownership. The woman said that she felt a sense of control because, for the first time in her life, she was part of an institution that made decisions democratically. Is this subjective shift on her part something important to measure, he asked?

David Erickson of the **Federal Reserve Bank of San Francisco** next outlined the state of the CDFI field, drawing on his experience as a research and case study historian. He was initially drawn to the field, he said, because it does so much good, but does such a bad job explaining what it does. The field, for example, is built on affordable housing, but it does not know how many affordable housing units have been built with its funds. Although he has seen improvement, the field is still relying on crude output measures.

Erickson spoke of the field's increased interest in social impact measures, in part because of a threat of being "scooped" by the impact investing world, especially the Global Impact Investment Network (GIIN) created IRIS, a catalogue of recognized performance measures. The Federal Reserve Bank of San Francisco's 2010 issue of *Community Development Investment Review* -Building Scale in Community Impact Investing through Nonfinancial Performance Measurement - Volume 6, Issue 1 - was dedicated to the topic of measuring social impact – a Rosetta Stone moment for community development finance impact measures. What was clear from the issue, said Erikson: there was "universal agreement on the need to measure social impact – and no consensus for how to do it."

Erickson noted that we are still at a "Tower of Babel moment." each institution has a slightly different approach, different motivations, which are not standardized in any significant way. In addition, in their article in that same issue, "Building Scale in Community Impact Investing through Nonfinancial Performance Measurement," Ben Thornley and Colby Dailey found no common willingness to share data among investors. The authors call for a more robust market for innovations that can knit data together. Without it, it will be difficult to make meaningful progress with limited coordination of data collection.

Erickson spoke in depth about his research on "What Works" in complicated interventions that are cross-sector and require multiple parties. They are built on a vision for outcomes around which multiple sectors rally. He quoted Ben Bernanke's speech at the Federal Reserve System Community Affairs Research Conference on April 12, 2013:

> Resilient communities require more than decent housing, important as that is; they require an array of amenities that support the social fabric of the community and build the capabilities of community residents. The movement toward a holistic approach to community development has been long in the making… The holistic approach has the power to transform neighborhoods and, as a result, the lives of their lower-income residents.

A holistic approach rests on the effective use of data, that is, a data environment in which parties can share information in an effective way. Erickson suggested that "we are ships at sea – an affordable housing ship, an education ship, a public safety ship, a health ship – and unless we are using same compass, we can't sail to the same point on the horizon." Data help to define a shared goal, how we communicate with each other, and how the field charts progress toward a goal.

Erickson also reflected on progress in the Pay for Success movement, which they reviewed in the April 2013 issue of the *Community Development Investment Review*. "Pay for Success is the ultimate silo-busting machine," Erickson said. "However, none of that innovation is possible until we figure out our data; we need data to monetize our interventions."

Erickson concluded by describing his new book of essays under development with the Urban Institute. The book will offer ways to improve data-oriented policy decisions in community development. He stressed eight elements that must be present to promote effective policy:

1. A framework for data presentation, such as those modeled in the Urban Indicators partnership;
2. Secure linked databases that flow into that database (schools, clinics, police, etc.);
3. New incentives to share data (carrot or stick? Change in policy or regulation);
4. GIS mapping capability (similar to www.communitycommons.org that hospitals use in community needs assessments and HUD's mapping tool see http://egis.hud.gov/);
5. Composite variables that incorporate many data points into a summary index;
6. A dashboard of indices of community health;
7. A way to tie into wellbeing/health, which is silo-less and grounded in social determinants of health;
8. A way to tie success to resources in a way that creates better outcomes.

ROUNDTABLE DISCUSSION: CONTEXTS for MEASURING SOCIAL IMPACT

Elyse Cherry of **Boston Community Capital** noted that data is the topic of the moment. But, she wondered, why is the nonprofit world so focused on measurement? "The for-profit world is focused on the bottom line. If we are at a Tower of Babel moment, can the market be a universal translator? People vote with their feet."

For example, WegoWise, which Boston Community Capital helped underwrite, is the largest database of multifamily utility outputs. It compiles data to help determine if conservation efforts in low-income housing are working. Everyone wants it. It has been effective because people are voting with their credit cards.

She also asked, whether there was a relationship between the scale and financial success of CDFIs and their impact. Why, she asked, are we going down this road of measuring outcomes when we could look to our for-profit colleagues who use simple surrogate measures?

Cherry also directed participants' attention to the broader economy. Are we tinkering at the margins when perhaps the real issue is creating an economy in which everyone has opportunity? Should we be focusing our efforts on electing a functioning Congress instead?

Cherry agreed that improving neighborhoods and communities means breaking down silos across housing, health, transportation and other needs. However, she cautioned that we often get a false sense of the relationship between what the data show and what the outcomes are. The data might look good at the moment, but what is the link between these indicators and an effective economy or effective institutions or a well- functioning community? Are we measuring what's important? For example, reducing expenses is now important. We could measure increased income, but maybe it's all going to expenses that no one should have to pay. "Measurement by itself doesn't account to a hill of beans," she warned.

Other attendees had varying reactions to the concept on standardized impact measures. Some participants proposed early steps toward developing such measures, including proxies that could tell us what is meaningful and transferrable to others. For example, we know that decent, newly build housing reduces the number of cases of asthma – studies have shown that to be true. We don't need to measure it again in order to show the health benefit.

Other comments included:

- Impact measurement in the field must eventually adopt a portfolio optimization theory (optimize based on risk). Today the field is optimized for financial risk. It should introduce an element of social return, which would be added to financial return, then optimized for risk. The return calculation would vary by investor.
- Stop thinking like economists and start thinking more like engineers. If the goal is to determine needs of particular community, the question should be, is there a structured approach (a counterpart to Total Quality Measurement) to use? The metric then becomes progress in addressing needs. E.g., 75% of the way to address problem x … and then standardize across projects.
- More advanced research methods can evaluate impact in a meaningful and efficient way. It is not necessary to interview every low-income resident to learn that well-designed, safe housing improves outcomes. Research can help develop correlation between housing and the outcome of interest. In other words, one doesn't have to measure Y every time when X is easier to measure. You don't always need new research to tell you the obvious.
- Consider broader policy use for data. It is Congress, after all, that determines funding. The data must be set within the context of a theory about the world that people connect to.
- To move forward with social impact measures, just start using them. Examples include the Progress Out of Poverty index and the Gross National Happiness index.

Others emphasized the potential for technology to make data collection cheaper and widespread, if measures were reframed.

- **Art Stevens** of **Microplace**, a subsidiary of eBay in the PayPal unit, said that, in his industry, the "net promoter score" (NPS) is even more important than earnings per share. NPS captures whether a customer is a promoter, passive, or detractor. It provides a clear measure of performance as seen through customers' eyes. A proxy for the CDFI sector could be, would customers recommend you or not? It is the direct beneficiaries, after all, who should determine whether an intervention is working. Measures could include, Is this a place you want to live? Would you like to continue to live here or not?

Would you recommend this for… (crime, etc.)? This would reveal not just that the organization is growing, but that the communities are thriving as well.

- **Paul Herman** of **HIP Investor** noted that proxies for poverty and social well-being are definable, even in a developed country such as the United States. One could test outcomes using mobile devices, asking, for example, What percentage of income did you spend on X? Participants could keep financial diaries. Some data already exist and the rest can be created by empowering citizens to collect data at the individual level. Make it a game ("gamify" it, in game designer speak); knock on doors to create social capital within community. The goal of eBay and PayPal is to create trust among strangers; CDFIs could use similar approaches to measure trust of neighbors and of elected officials. Technology allows one to update data regularly and to crowd-source it. Impact data would differ by organization and geography but roll up by category. With a database (which could have various forms and standards), hundreds of thousands of Reddit readers could update it.

Still others expressed concern about the motivation for and usefulness of standardized impact measures:

- The whole idea of CDFIs was to *not* be duplicative, said one attendee. We're here to complement each other, not compete. That means there are few common, across-the-board measures because the organizations and groups are all different.
- Impact for whom, one participant asked? Part of the challenge of impact assessment is that there are conflicting impacts across communities.
- Why is OMB holding the CDFI Fund and CDFI sector accountable for impact measurement and not other agencies like HUD, asked another?
- Data gathering is a burden, so if it's important to them, OMB should come up with the 10 boxes we need to calculate.
- The OMB believes measuring "number of units" and "number of jobs" works because they are standardized and can be aggregated, another participant noted. Moving beyond these rudimentary measures is for the practitioners. However, it's not clear that we're talking about data in the same way. Maybe detailed case studies should suffice.
- It's a burden to ask us not only to collect data, but to be consistent and continue to do it for somebody else's purposes. One of our PRI agreements had social impact reporting requirement. They were doing this to make themselves feel better, not us.
- Pay for Success, said a participant, is setting the field up and promising something we cannot deliver. We will save money, but those savings won't be visible to anyone. As soon as you achieve savings, they disappear in Congress's mind. I fear we'll undermine public support for what we're trying to achieve.

Jeannine Jacokes of **Partners for the Common Good** and the **Community Development Bankers Association** spoke for many in the room when she proposed issuing a challenge to the CDFI Fund and OMB to make a major investment to support social impact measure infrastructure development. According to Jacokes, CDFIs are doing a better job than most federal agencies in measuring impact, yet it's a frustration across the field how to do it better.

Internationally, development organizations are funded generously to measure impact. Domestically, that is not the case. Jacokes stated "You get the award, then you have to figure it out by yourself. A common thread in the field is that everyone is wrestling by themselves."

Concluding the first day's session, **Anna Steiger** of the **Federal Reserve Bank of Boston** noted that the conversation had simultaneously addressed three very different contexts for measuring social impact: (1) organizational; (2) cross-sectoral; and (3) Pay-for-Success. She encouraged the group to think expansively. "Who is this for? Both practitioners and investors care." Overthinking motivation distracts the sector from considering how it might reach an effective approach or about the set of actors who can help with this approach. The next innovations in social metrics are common standards, perhaps by sector. She hoped the group would address questions such as, Who can make this happen? What do we want to see happen in the field? How can the CDFI Fund help? What are concrete next steps for this group to take?

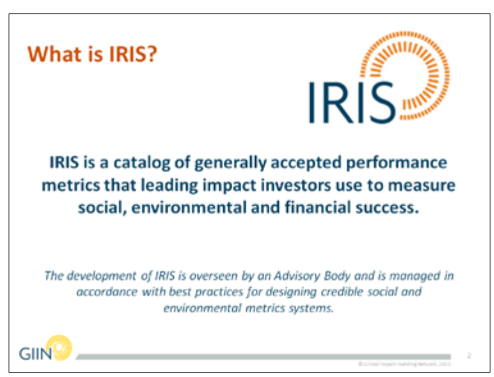
MODELS OF SOCIAL IMPACT

The second day of the Financial Innovations Roundtable examined models of social impact proxies, asking whether there were standard, simple indices that tell us something meaningful about social impact?

Existing Social Metric Indices

Moderator: Michael Swack, Carsey Institute

Mark Schreiner of **Microfinance Risk Management** discussed the Grameen Foundation's Progress out of Poverty Index (PPI). The index was created in response to the need to measure the double bottom line (that is, both social and financial impact). The PPI measures how likely respondents are to live below the poverty threshold. Thus, the PPI quantifies the poverty outreach of organizations with a mission to serve the poor by measuring their success in getting clients out of poverty. The PPI has a standard 10-question format tailored to each country. Penetration is 2% to 3% of organizations internationally. The most important impact, he said, is that "you manage what you measure." Results usually disappoint the stakeholders, he said, in that they frequently reveal that fewer people are in poverty than assumed. He also stressed that scoring says nothing about what causes poverty.



Sara Gelfand of the **Global Impact Investing Network** (GIIN) noted that a social impact measure is critical to the rise of impact investing. She proposed that GIIN's work with IRIS be a guide. In that effort, diverse investors identified commonalities and collective systems and reduced redundant reporting. A key question to ask, she said, is what the field is trying to standardize. It might be common goals, definitions, a methodology, a scorecard, or other item, but it is imperative to understand the ultimate goal. The goal of IRIS, she noted, was to create a catalog of definitions. It did not happen quickly, though. GIIN started first with a Social Performance Task Force, then began to harmonize core metrics through common definitions, before agreeing on core set of metrics.

Gelfand advised CDFI practitioners to ask, Has enough been done in common metrics, or is there more to be done? Output measures, she said, work in many cases as a proxy for impact, particularly when tracking these over time delivers useful information to management. The issue of target audience is core, she said.

Angela Atherton of the **Calvert Foundation** noted that with 60% domestic and 40% international exposure, Calvert invests significantly in intermediaries (including CDFIs and MFIs) in a vast range of sectors, from charter schools to fair trade and sustainable agriculture. Calvert wondered whether "more data" is always the answer. They publish substantive impact reports, but it is the personal stories that resonate with readers. The feedback the Foundation receives on their reports is primarily about the featured profiles or personal stories. "If we had more data, would people pay more attention?"

Prior to 2010, Calvert measured outputs then applied standard industry conversion mechanisms. In 2010, however, they began surveying borrowers. Atherton noted there is still a translation issue and we need a common standard. "What are we trying to do [in community development]? she asked. "If we want to go truly by numbers, it's not that hard: Define data we want to collect, acceptable methods for connecting (who's collecting), convert numbers to ratios, then aggregate."

Respondents

Paige Chapel of **CARS** shared her key takeaways from the panel. From Gelfand, she heard the need for a standardized taxonomy to think about impact metrics. GIIN's work is not a solution in itself, but it's a stone in the foundation. Atherton's portfolio of CDFIs is a micro example of measuring impact of sector overall. This broad and deep portfolio represents range of impact events, and Calvert must boil these down to key metrics that are representative, that is, proxies for outcome-focused impact. And finally, she sees Schreiner's PPI as a metaphor for how a unifying principle can lead to a single index, given that the microfinance world has a common impact objective: reduce poverty.

Chapel also drew from her experience with the CDFI Assessment and Rating System (CARS). Created in 2004 by the Opportunity Finance Network, CARS is a rating and information service that measures impact performance and financial risk for an investor audience. Chapel noted that type of information to collect will depend on the audience and the impact objective

The following are examples of how the audience and objective might affect the type of information collected:

1. If the audience is a CDFI management and board, the objective might be to measure intentionality and effectiveness—are we doing what we say we're trying to do? And if not, what should we change?
2. If the audience is a funder, the objective might be whether the project has met the funder's requirement.
3. If the Audience is an investor, the objective might be to attract more capital.
4. If the audience is policymakers and researchers, then the objective might be to influence policy, showing how CDFIs are lowering the poverty rate or redeveloping distressed communities.

Musing on the charge to develop standard CDFI measurement approaches or tools, Chapel envisioned multiple indices that would be adapted based on factors such as geography, economy, racial and ethnic composition, and politics. Each sector—housing, microfinance, rural, etc.—would require a separate index. Finally, each would have to require outcomes, not output.

Open Discussion

- **Donna Fabiani** of **Opportunity Finance Network** (OFN) noted that measures tend to morph over time. Ten years after creating the Community Investment Impact System (CIIS), the definitions no longer applied. This experience underscores a need for common definitions, even for outputs. Fabiani called for a simple, standardized data collection system that could be shared with funders as top-level data. For more detailed evaluation on individual organizations, funders could look at individual evaluations to understand impact.
- **Frank Altman** of the **Community Reinvestment Fund** pointed to the Body Mass Index (BMI) as a helpful comparison. The BMI is an index that can be measured, is suitable for any height, and is supported by public health experts who believe it to be actuarially significant. However, this index works because many disciplines and organizations are all working on the obesity problem using the same metric. *For a CDFI index to be effective, we need a single bold goal.* Is that goal poverty alleviation? If so, then think about the types of information gathered in the field that we believe causes poverty, and then develop those components. Factors such as educational attainment, crime rates, nutrition, could all go into a "BMI" for community development. The ultimate goal must be, beyond just jobs created, how do we move needle on poverty like we do for weight loss with the BMI?
- Americans need to understand what CDFIs do, said one attendee. A strong brand and a well-told story are the ultimate defense against funding cuts. If the field remains special, small, and unique, no one will know about CDFIs. A better approach would be to tell a "reverse impact" story: what would communities look like without CDFIs?
- I'm a nonprofit; my success benefits my community. What problem is it that we are trying to solve?
- We are addressing a problem of limited data resources in an environment with limited financial resources, said one attendee. In a perfect world with a rich tapestry of data, we

could do a better job at evaluating relative effectiveness. The question is not, are we doing a good job? Rather, are we doing a good job relative to what we could be doing?

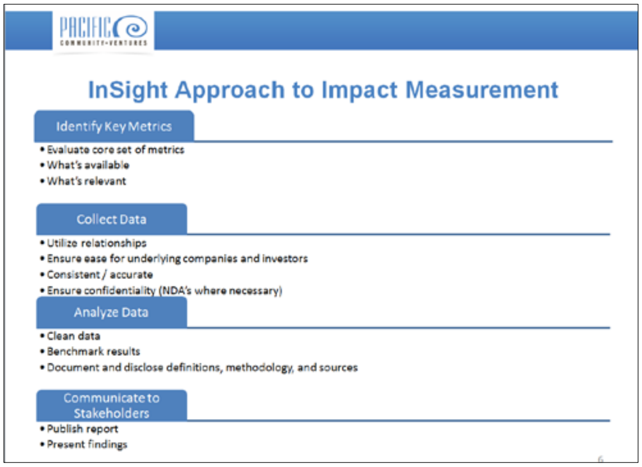
- Another asked, Would our social impact measures accurately measure desired social impact? For example, might it be better if some projects were not in a low-income tract? The Raza Development Fund once used "less use of public services" as an outcome measure. Then someone pointed out that for homeless people, you *want* them to use public services.
- We need common definitions, said one attendee. What is a "unit of housing" for example? We smaller CDFIs are willing to do the reporting but we need common definitions.
- Limited aggregation is also important, said another participant. With that, people can construct their own ratios and results measurement.
- The discussion about developing an index, noted an attendee, is directly related to the "grow, change, or die" discussion in community development.

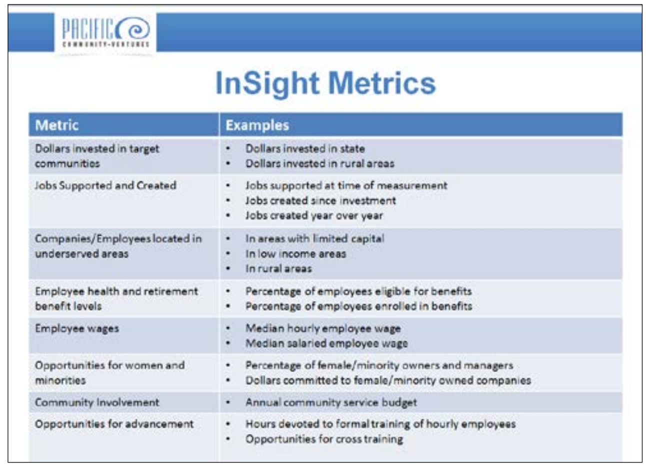
Lenders' Response
Moderator: Yusi Wang Turell, Carsey Institute

Carla Dickstein of **Coastal Enterprises (CEI)** said that CEI has a long history of measuring impact. In the late 1990s, for example, they tracked the outcomes over time of low-income individuals who received funding from CEI. In 2006, they shifted their focus from measurement to predatory. CEI does quarterly reports on their outputs, including jobs created and retained. But they no longer measure outcomes.

Indices, she said, are very complicated. CEI would be interested in using existing academic research, but outcomes and outputs may be different for different sectors or geographies (e.g., city vs. rural). Rather than focusing on outcomes alone, researchers could help develop output proxies. The field should revisit common definitions, especially if it means attracting more money.

Tom Woelfel of **Pacific Community Ventures (PCV)** distinguished between PCV's internal and external measurements. Internally, For PCV assesses its own impact and has dedicated up to half of its initial budget to track impact. For its external measurement, the California Public Employees Retirement System CalPERS was the initial driver. PCV is now tracking CalPERS' investment impact and is a consultant for other entities, including the California Organized Investment Network, the Annie E. Casey Foundation, and several government agencies. PCV does small business advising such as the impact of loan funds and also has a business advising program.





PCV's approach to impact measurement is to evaluate a core set of metrics across projects (including drawing from IRIS, which it strongly supports) and to look at other measures based on what is available and relevant (see figure for an example). In data collection, PCV tries to leverage existing relationships, ensure ease for underlying companies and investors, be consistent and accurate, and ensure confidentiality. In data analysis, PCV cleans data, benchmarks results, and then documents and discloses definitions, methodology, and sources. In data communication, PCV creates a report with findings that might include jobs supported or created, along with the quality of jobs (wages plus health and other benefits).

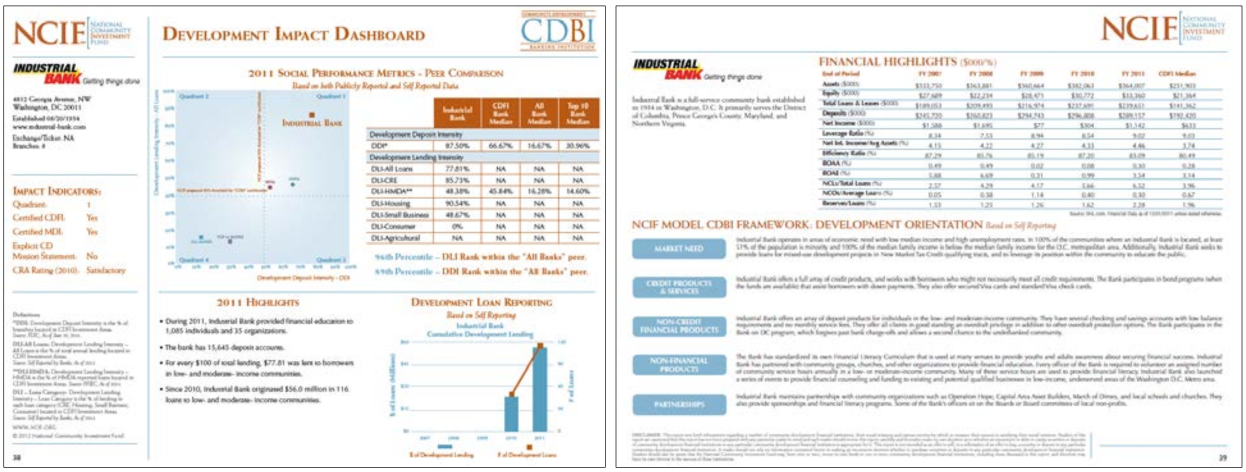
PCV's approach to impact measurement is both rigorous and pragmatic. They draw on a core set of metrics, customized to meet program and client needs. They see a trend toward more available data. They support standardizing measures, but it is important, Woelfel said, to not lose sight of personal stories as well.

Dana Lieberman from **IFF** said that IFF tracks output for all projects they work on. They collect the relevant data before they close their loans and track outputs, not outcomes. IFF issues an annual impact report and the information is also on their website. Lieberman explained that IFF tracks impact as a way to provide future access to funders and to evaluate the effectiveness of their effort. They are focused on being more deliberative at the start of a program and include an internal research component in their project planning. They plan to work with charter schools given the need to track schools performance, including graduation rates.

In their Healthy Food Financing program, to fulfill a community outreach requirement, IFF tracks purchasing data despite lack of funder interest. IFF captures a lot of data and sends it to different entities. IFF measures help them evaluate their programs. Internally, they are trying to standardize their own covenants.

Saurabh Narain of the **National Community Investment Fund** (NCIF) introduced NCIF as a non-profit private equity fund, originally part of ShoreBank. When NCIF tried to increase the number of socially responsible banks, they focused initially on the investment process and developed impact measures based on this. In 2006, they started using public data that measured their accomplishments against original goals. In 2010, they created a dashboard with four aspects (see the Development Impact Dashboard chart for an example).

NCIF's approach has been to 1) help define the community development banking institution industry and set standards, 2) create a scorecard for investors that illustrates the environmental and social impact of CDFI banks and the difference between CDFIs and non-CDFIs, and (3) develop a rating system that draws attention to exemplary CDFI banks that are high-performing and have had an impact. In the future, they will work on their mission ratio and explore indices.



Narain also commented on previous panels. First, he advised caution in saying what one is able to achieve and how one represents what one can do. He believes multiple indices will be needed and supports standardization and common language between and among the different groups measuring it. "With a $60 billion industry, we do ourselves a disfavor by not talking about the impact of our investment."

Respondents

Ellen Seidman of the **Urban Institute** raised a number of questions:

- What is the goal? (Poverty alleviation might not be the goal.)
- Understand the time frame in addition to the goal.
- How could a standard measurement system help clarify and reach that goal?
- How can we take what IFF has done and expand it?
- How do you finance measurement?

Seidman sees potential not just in internal evaluation, but also in changing policy and systems. "If we can tell stories well *and with numbers*, we can move the policy forward." She encouraged open data via a data library to which multiple entities can upload certain information. The more that can be shared, the less individuals must collect. Proxies are very important, she said, as is knowing the research that already exists.

Seidman said the Urban Institute measures what is going on in neighborhoods by pulling together existing data and trying to standardize it. By focusing on what is simple, efficient, and already collected, they avoid making the perfect the enemy of the good.

Using sales terminology, **Yusi Turell** of the **Carsey Institute** asked whether social impact is moving from an "order-qualifying" criterion, in which funders simply assume that all CDFIs are doing some degree of community good, focusing their scrutiny instead on financial health and performance, to an "order-winning" criterion, in which funders weigh the relative social impact of different CDFIs or different investment options.

Open Discussion

Others raised the following issues and questions:

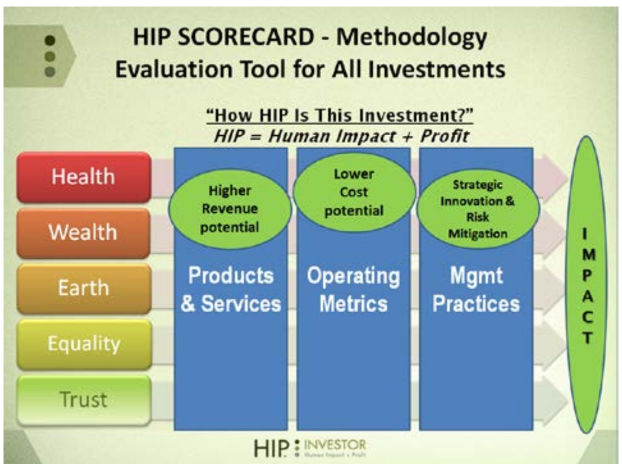
- Remember that what you measure is what you get, said one respondent. Is there a danger that if there are no good measures funders will leave? Another participant noted that this is already happening.
- Another participant reminded the audience that the CDFI industry is still growing. It is worth asking again, How big should we be? because then we have to attract the investors to get there.
- It is not a branding issue, it is a database issue, said another. We need to tell a better story quantitatively and qualitatively. It boils down to creating information in a digestible form for the stakeholders.
- To the question of what impact investors are looking for, **Peter Drasher** from **Altrushare** noted that his investors are interested in investment return and double bottom line, but not the details of the measures.
- Finally, one participant suggested that the field consider a "jobs saved" metric.

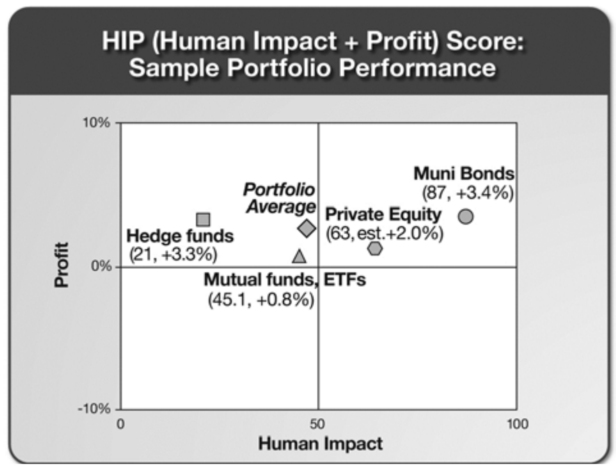
Investors' Response
Moderator: Anna Steiger, Federal Reserve Bank of Boston

Dan Nissenbaum of Goldman Sach's **Urban Investment Group** recalled the old Bank of America tagline, "We know we've succeeded when the flower boxes come back." The Urban Investment Group invests for "return, rating, and reputation," that is (1) rigorous financial return on assets and return on equity; (2) regulatory metrics; and (3) programmatic impact. Its metrics are all about volume and all forward-looking (versus reflective or backward-looking). CDFIs are unrated, making it hard to talk about what a CDFI is to people and to convey the impact of the work they are doing.

Nissenbaum noted that the field appears to be having two conversations at once. The first talks about individual projects or organizations, and there seems to be general agreement that it is good to have data and to make its analysis as simple as possible. The second conversation is more complex: What will happen when we try to integrate the metrics across various organizations? Will we be forced to consider relative value propositions? Who will third-party validators be? How much will that cost? Measuring could bring dividends in terms of the sector raising new capital. Or, if nothing else, measuring could simply refocus and define mission, which itself is worthwhile.

Paul Herman of **HIP Investor** said that, without metrics, the best storyteller will win. Metrics create a level playing field to compete for investor decision. Metrics are also an indicator that the organization knows its mission. Impact is just as important as risk and return. Impact investing is not an asset class – this is too narrow – it is a feature that spans all investment classes (cash, public equity, art). In the HIP Investor approach, described in *The HIP Investor* book, investors can rank their priorities (in health, wealth, earth, equality, and trust) on an investment scorecard (see chart). Investors can view their portfolio's "Impact allocation" and "asset allocation." This allows HIP to "quantify the unquantifiable and score the ambiguous."





Brinda Ganguly from **The Rockefeller Foundation** said that investing for impact is their primary goal, with focus on health, cities, environment, and livelihood. The Foundation has made program-related investments (PRIs) but they tend to be varied in terms of both impact and investing and are made on a deal-by-deal basis. Therefore, she said, it is hard to create an overarching social impact narrative. They do generally look for "management teams that are as interested in generating social impact as we are" with defined social projections and social metrics. This is easier in certain situations that others. For example, it is harder with a private equity pool in an emerging market. Co-developing the metrics and projections with the investee ensures mutual accountability. The Foundation also requires IRIS-compliant metrics and a GIIRS rating in emerging markets. They are commissioning a third-party evaluation of their PRI portfolio.

Ganguly noted that the Foundation uses data to test whether their investments have impact and their hypothesis match reality, and also to feed into the larger policy environment.

Allison Clark of John D. and Catherine T. MacArthur Foundation said that the Foundation aims to have $300 million invested in PRIs at any one time. For the first time in six years, they are getting some of the money back and are in position to deploy "very scarce, very flexible capital to support our mission," she said. Her role includes speaking with different program areas to ask, "How can 'flexible money' help advance your strategies?" She does emphasize, however, that the Foundation expects the money back and that debt can be dangerous.

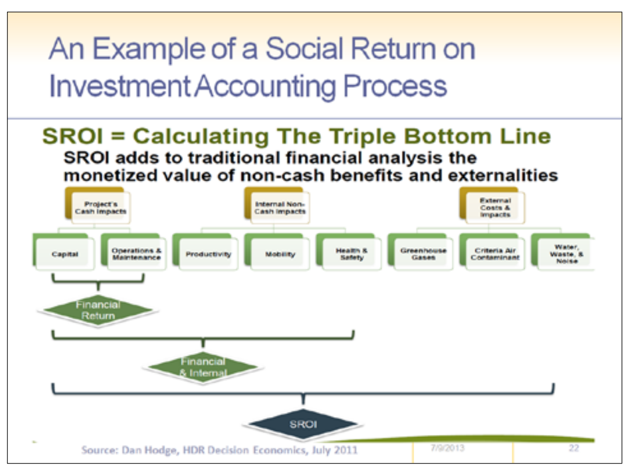
Clark noted that she wrestles with questions of trade-off and looks to data to help her compete internally for resources against other worthwhile causes. Metadata describe and validate the big issues she should be working on. Microdata help her decide, for example, which among all the organizations educating girls, is the best? These are different conversations, but data are essential to both. "One gets me into the field, the other ensure I'm making the most of my money."

Clark observed that foundation money is dwarfed by need and also by what public sources can support. Echoing Ganguly, she said, "Everything I do should empower someone to make an argument that a funding formula should be different or to make a case for investment from the private sector."

Greg Bischak of the **CDFI Fund** at the U.S. Treasury Department pointed to a keen interest social metrics within government. "We hear about it from all policy stakeholders – Congress, OMB, the White House. We need to be able to readily summarize to our public-facing stakeholders the award dollars that flow to the CDFI industry and the impact of the CDFI industry, that is, how it benefits low-income communities." Many perceive that public dollars subsidize risky CDFI investments that the private sector would not take up.

Bischak said the CDFI Fund uses composite measures but acknowledged the difficulty in measuring how CDFIs affect communities. "If we see flowerboxes, we need to ensure it's not because of gentrification." Benchmarking also is important but tricky; for example, we're interested in *incremental* jobs data, but most data is gross data, and there are double-counts and other systematic errors. "There's lots of noise, not a lot of signal in this data."

Bischak alluded to research the Carsey Institute is conducting to measure the net contribution of both public and privately funded CDFI programs. With a nod to CARS for its role in CDFI standardization to date, he was interested in a role that the CDFI Fund could play in supporting further standardization in the vein of standardizing nonprofit finances and accounting—perhaps starting with focus groups. "We want to reduce the burden going forward."



Bischak has publicly opposed a potential requirement for CDFIs to collect social impact measures as "onerous." Yet, he also sees value in calculating a Social Return on Investment (SROI) in a standard way. Bischak said the sector needs to leverage more research dollars and that standardization is a popular topic currently, but acknowledged it is difficult to get more money from Treasury.

In the current CDFI recertification process, he would like to take a recurring portrait of the industry by asset class – something valid that can be tested against other sources, a concise set of summary statistics that both the CDFI Fund and external investors can measure.

Bischak thanked participants for geocoding their work despite challenges. The CDFI Fund gets weekly requests for these data and can generate maps because of CDFI participation.

Respondents

Lisa Davis of the **Ford Foundation** noted the field should think of the broader universe of investors, not just CDFIs. The Environmental-Social-Governance (ESG) rating industry may have relevant infrastructure and could help increase the pie. Davis underscored the importance of categorizing an audience appropriately, since each has different needs and goals in considering impact measures.

For example:

- A public audience wants to justify its investments, link them to policy objectives, and demonstrate that those investments are generating a public good as expected.
- A private audience should be further segmented into CRA-motivated banks, family offices, high-net-worth individuals (who themselves fall into categories), institutional investors, and pension funds. In these cases, both strong impact and financial performance matter. It is also idiosyncratic in that individuals respond to stories in their areas of interest.
- A philanthropic audience also must justify the allocation of scarce resources and demonstrate a policy or a market so that a particular solution can go to scale. This points to systems rather than individuals as more likely to create social change, but this audience is also idiosyncratic.

Simply asking people to report on complex measures can change behavior and change how field operates. Looking ahead, Davis suggested that the field develop clear taxonomies on what it is looking for. Data are not (or will not be) a problem. The issue will be, what do we do with the data? She is encouraged that that definitions of inputs is happening and suggested that we need outcome measures that are both anecdotal and tell the stories of systems-level change. System change will be more complex, though things are moving in the right direction. For example, a measure for housing success should be graduation rates.

Open Discussion

Attendees added to the conversation, raising the following issues.

- Stakeholders are important to helping influence metrics and standards, said one attendee, particularly when talking about poverty and communities. It might be helpful to examine other multi-stakeholder collaboratives, such as the Global Reporting Initiative (GRI), an open, transparent, nonprofit framework for disclosing ESG indicators. The Global Initiative for Sustainability Ratings tries to develop ratings from these measures.
- The Sustainability Accounting Standards Board (SASB), another participant noted, tries to bring sustainability metrics into institutions, like the Financial Accounting Standards Board (FASB) did.
- Paul Herman observed that trust in the banking system is broken. CDFIs are delivering impact that people are looking for. Currently, 95% of money is in the top 20 banks; it's difficult to change your bank, but it's easy to add a separate bank. CDFIs are the good guys who are effecting change. Draw on that, and reveal your hidden stories of good news. The question is not the cost of collecting data; it's the return on investment of collecting data. Your stories/data should feature both the citizens who are benefiting and your broader systems change. The trouble with selling systems change is that it's complex; one must explain the system and then explain the change.
- The Global Alliance for Banking on Values favorably compared the financial performance of its independent banks (four in the United States) against 29 of the largest too-big-to fail banks. Mission Markets and Zillow (for housing) both include a geographic component that could be useful for CDFIs.
- Another participant suggested choosing a single measure of impact. For example, in microfinance, that measure was once number of clients served divided by budget. This led to a rough but useful sense of organizational impact. However, that is no longer sufficient, he noted.
- Responding to Steiger's request to share a "wish list," Greg Bischak said he'd like to improve job creation/retention reporting; to develop metrics for environmental impact that could be used as a building block for triple bottom line analysis; and to explore social metrics in CDFI certification.

NEXT STEPS

Over the course of the Financial Innovations Roundtable, participants expressed interest in a working group to "start with the definitions" of social impact. A definitions working group would be a good starting point because many are already thinking about the topic and definitions are emerging. In addition, there was both broad consensus that standardized definitions are essential before scoring could begin, and also lingering concerns from some about the value and feasibility of basic scoring methodologies, proxies, indices, scales, and other "higher-order" standardization. (Others were bullish on the possibility.) Thus, definitions-setting would be distinct from and predate the development of these other methodologies.

A definitions working group could draw from IRIS, CARS, Pacific Coast Ventures, HIP Investor, IFF, and others to develop standard definitions (probably overlapping with those already used by these leading organizations) and to understand where the collection, aggregation, and reporting of related measures is and is not effective.

Participants also wanted to continue to push the needle on policy in order to increase public, philanthropic, and private investment and expand the size of field. As with former FIR sessions, the specific topics, goals, and participants for working groups tend to emerge organically in the weeks following the event. As of July, 2013, a work group on metrics and definitions has been formed out of the April meeting. We will share updates and look forward to the 14th annual Financial Innovations Roundtable in spring 2014.