Volume 7, Issue 2, 2011

Community Development
INVESTMENT REVIEW
www.frbsf.org/cdinvestments

FEDERAL RESERVE BANK OF SAN FRANCISCO

Proceedings of the conference on

Advancing Social Impact Investments Through Measurement

Board of Governors of the Federal Reserve System
March 21, 2011 – Washington, D.C.

Community Development INVESTMENT REVIEW

The Community Development Department of the Federal Reserve Bank of San Francisco created the Center for Community Development Investments to research and disseminate best practices in providing capital to low- and moderate-income communities. Part of this mission is accomplished by publishing the *Community Development Investment Review.* The *Review* brings together experts to write about various community development investment topics including:

Finance—new tools, techniques, or approaches that increase the volume, lower the cost, lower the risk, or in any way make investments in low-income communities more attractive;

Collaborations—ways in which different groups can pool resources and expertise to address the capital needs of low-income communities;

Public Policy—analysis of how government and public policy influence community development finance options;

Best Practices—showcase innovative projects, people, or institutions that are improving the investment opportunities in low-income areas.

The goal of the *Review* is to bridge the gap between theory and practice and to enlist as many viewpoints as possible—government, nonprofits, financial institutions, and beneficiaries. As a leading economist in the community development field describes it, the *Review* provides "ideas for people who get things done." For submission guidelines and themes of upcoming issues, visit our website: www.frbsf.org/cdinvestments. You may also contact David Erickson, Federal Reserve Bank of San Francisco, 101 Market Street, Mailstop 215, San Francisco, California, 94105-1530. (415) 974-3467, David.Erickson@sf.frb.org.

Center for Community Development Investments
Federal Reserve Bank of San Francisco
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Foreword

John Moon*
Living Cities

December 2011

Prior to attending my first SoCap meeting in the Fall of 2009, I had heard a lot of buzz and excitement about this emerging "social impact investing" sector. At the conference, I experienced two distinct phases: overwhelming excitement and then sobriety. The excitement stemmed from the high level of energy at the event–social entrepreneurs pitching intriguing business plans, the young professionals who wanted to apply their skills toward making a positive social impact, and a sense that the world's problems can be addressed while even making a profit. The sobriety came as I realized that much of this field and the related ideas were only at a conceptual stage, and that a significant amount of work around developing infrastructure and market-testing these ideas lay ahead.

Yet I remained optimistic. This sector had legitimate roots from the groundswell sentiment that pressing global and domestic social challenges could not be addressed by government and philanthropy alone, but needed to harness the private markets as well. David Erickson and I had been toiling for many years at the Federal Reserve on this same presumption of expanding community development finance capacity by tapping into the larger capital markets. At that SoCap conference we both concluded that whatever emerged on the capital side of impact investing, it had relevance and potential application for the community development finance field. At the same time, the community development field had been building up its marketplace for over 30 years and likely had insights and lessons to share with the impact investors. The problem was that at that point, these two sectors had little overlap or knowledge of one another.

As David and I discussed the potential nexus between the sectors, data and metrics stood out as an area of natural convergence. On the community development side, particularly in our work on expanding access to the secondary markets for capital, an ongoing hindrance was the lack of industry-wide financial performance metrics and standards. On the impact investment side, validating actual impact to address "green-washing"-type behavior (i.e., marketing oneself as a social impact creator, but not creating any actual impact), to develop benchmarks and standards, and to collect financial performance data to draw in private capital remained a formidable challenge. We saw an opportunity to create a venue where the two worlds of impact investing and community development could begin to engage one another on these issues while building important networks and relationships.

With this, we conceived the idea of a convening at the Federal Reserve Board of Governors to signal to the impact investment field our interest in this emerging sector and to introduce the key institutions and individuals of the community development finance sector to one another. Our aim was to keep the discussion grounded as much as possible and to work on the system-building that needed to happen. The result was a dynamic

conversation focused on various dimensions of data and metrics, including the challenges of developing measurement standards for the wide range of activities taken on by impact investors, lessons learned in related sectors, and the needed steps among participants to move leading efforts forward.

Being new to the impact investment sector, we created an advisory committee to help us design this meeting. Our stellar group of advisors included: Sonal Shah, the Director of the Office of Social Innovation and Civic Participation at the White House; Antony Bugg-Levine and Margot Brandenburg of the Rockefeller Foundation; Sameera Fazili, U.S. Treasury; Lisa Hall, Calvert Foundation; and Georgette Wong of Take Action. The meeting was a success as participants from both worlds began to make meaningful contact and relevant lessons were shared. A new perspective and opportunity emerged as well around the growing role that Government can play in complementing the advancement of the social impact investment sector. We would like to thank our advisory group and the participants for a rich and productive meeting.

** Formerly Community Affairs Team Leader at the Board of Governors of the Federal Reserve System*

Advancing Social Impact Investments through Measurement Conference: Summary and Themes

David Erickson
Federal Reserve Bank of San Francisco

Too much and too long, we seem to have surrendered community excellence and community values in the mere accumulation of material things. Our gross national product–if we should judge America by that–counts air pollution and cigarette advertising, and ambulances to clear our highways of carnage. It counts special locks for our doors and the jails for those who break them. It counts the destruction of our redwoods and the loss of our natural wonder in chaotic sprawl. It counts napalm and the cost of a nuclear warhead, and armored cars for police who fight riots in our streets. It counts Whitman's rifle and Speck's knife, and the television programs which glorify violence in order to sell toys to our children.

Yet the gross national product does not allow for the health of our children, the quality of their education, or the joy of their play. It does not include the beauty of our poetry or the strength of our marriages; the intelligence of our public debate or the integrity of our public officials. It measures neither our wit nor our courage; neither our wisdom nor our learning; neither our compassion nor our devotion to our country; it measures everything, in short, except that which makes life worthwhile. And it tells us everything about America except why we are proud that we are Americans.

–Robert F. Kennedy Address, University of Kansas, Lawrence, Kansas
March 18, 1968

People who work both in community development finance and impact investing–sometimes referred to as socially-motivated investing–would whole-heartedly agree with Robert Kennedy's quote above. Both fields believe that the more inclusive vision for our society–the GDP that incorporates all the currently unmeasured benefits mentioned above–can be partially achieved by using markets (or quasi markets) to motivate nonprofits, for-profits, and hybrids (referred to as social enterprises) to contribute to an America that promotes outcomes beyond the single bottom line of profit. At the same time, both fields are troubled by the fact that traditional market valuation does not capture the social benefits that a well-functioning society needs to thrive–an atmosphere of trust and cooperation, good schools, strong families, justice, a healthy environment, and economic opportunity for all.

If the vision is shared, how it is achieved it is not. Both the community development and impact investing fields are working diligently to find ways to bridge their divides and in many ways they are closer together now than ever. But if we are to make real progress in combining forces, focusing in particular on how we measure social and environmental outcomes holds promise in resolving overarching questions around wise use and targeting of limited resources. Coordination, and even integration, could be hastened if both fields could agree on how to use data and measurement to track progress on social and environmental outcomes.

Encouragingly, in recent years, there have been many advances in measurement on the impact investing side, including the Global Impact Investing Network (GIIN), Impact Reporting and Investment Standards (IRIS), Global Impact Investing Rating System (GIIRS), and Tools and Resources for Assessing Social Impact (TRASI). Community development and government have also been innovating as evidenced by the Opportunity Finance Network's Comprehensive Ratings for CDFI Investments (CARS) and the recent efforts by various government departments to "liberate data" in the words of the Chief Technology Officer for Health and Human Services, Todd Park.

A desire to illuminate activity in these arenas motivated a previous issue of the Federal Reserve Bank of San Francisco's *Community Development Investment Review* and was also the basis of the conference held at the Federal Reserve Board of Governors headquarters in Washington, DC on March 21, 2011. The conference was an attempt to bring both the community development finance and the impact investing communities together to share recent developments in innovation in social metrics; to compare notes and to think more deeply about how the government could play a role in promoting more and better measurement of social and environmental outcomes.

What follows is an attempt to summarize some of the highlights of the rich discussion of that day. This essay does not capture all the good ideas that were shared. To delve deeper into this discussion, please read the additional articles from conference participants that appear in this issue of our journal, and watch the conference video recordings on our website: www.frbsf.org/cdinvestments/conferences/social-impact-investments/index.html.

For even more background, you can read the initial issue of the *Review* that got this conversation started: www.frbsf.org/publications/community/review/vol6_issue1/index.html.

Conference Agenda

Board of Governors of the Federal Reserve System

March 21, 2011

Washington, D.C.

9:00 a.m.	***Welcome and Opening Remarks***
9:15 a.m.	***Survey of the Impact Investment Sector and Overview of Measurements***
10:15 a.m.	***Panel #1: Data Collection and Its Use for Analysis and Measurement*** This panel will address how data can be collected and analyzed to complement measurement efforts and to provide additional layers of transparency. The role of government and researchers in providing data and analysis will also be explored.
11:30 p.m.	***Luncheon and Keynote Address*** Sonal Shah, White House Office of Social Innovation
1:00 p.m.	***Panel #2: Developing and Adopting Measurement Standards*** This panel will address the challenges of organizing a nascent sector. Relevant lessons will be drawn from related fields such as international microfinance and current promising efforts will be discussed.
2:15 p.m.	Break
2:30 p.m.	***Panel #3: The Role and Use of Certifications and Ratings*** This panel will explore the use of certifications and ratings by investors and address questions such as: what characteristics do effective ratings have, are they specific enough to provide sufficient rigor and accountability, can government enable the adoption of ratings?
3:45 p.m.	Break
3:55 p.m.	***Panel #4: Next Steps***
5:25 p.m.	***Wrap-up and Closing Remarks***

Overview Presentation

The conference opened with a presentation from Colby Dailey of NCB Capital Impact and Ben Thornley of Pacific Community Ventures on a further elaboration of a multi-year study they did on the nature of social metrics from an investor perspective, whether that was a Community Reinvestment Act-motivated bank, impact investor, or foundation.

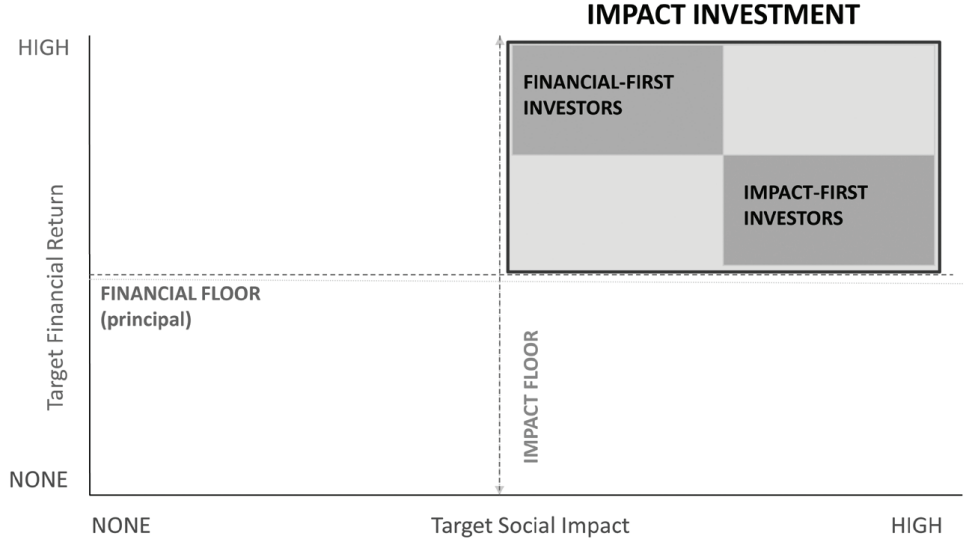
Dailey wasted no time in delivering sobering news: "We set out to find the silver bullet for nonfinancial performance measurement," she said. "And I am sure that it comes as little surprise to those of you in this room that we didn't find one. And actually, we go as far as to say that there isn't one, at least not right now." She emphasized to the audience that there is

a dizzying array of community development investing. Layered on top of that is an equally diverse community of investors, including banks, nondepository institutions, and individuals. However, she and Thornley focused solely on investors in their research for a direct challenge to this point, see Lester Salamon's essay in this issue. She highlighted three main barriers to measuring social impact: 1) the diversity of investor preferences, complicated by the fact that "they themselves are still trying to figure out" what those are; 2) inadequate tools and practices (current tools "cost a lot and it is actually quite a hassle to effectively measure and report our returns"); and 3) lack of accountability ("investors are typically not required and they don't choose on their own to rigorously measure and report nonfinancial measurement or return on investment.").

Thornley spoke next and explored why investors do not overcome the barriers Dailey outlined. He noted that it boiled down two key behaviors or incentives: 1) willingness to pay–a measure of the quantity of time, effort, investment earnings, or other resources that investors are willing to exchange for a preferred value of nonfinancial return, and 2) willingness to disclose–a measure of the quantity and quality of reporting of nonfinancial returns that investors are willing to provide to the stakeholders to which they are accountable.[1]

The starting point of their work on these behaviors is the Monitor Institute report on impact investing, "Investing for Social and Environmental Impact," that usefully categorized investors across interests in financial returns and social returns (see figure below).

Figure 1. Motivations of Impact Investors[2]

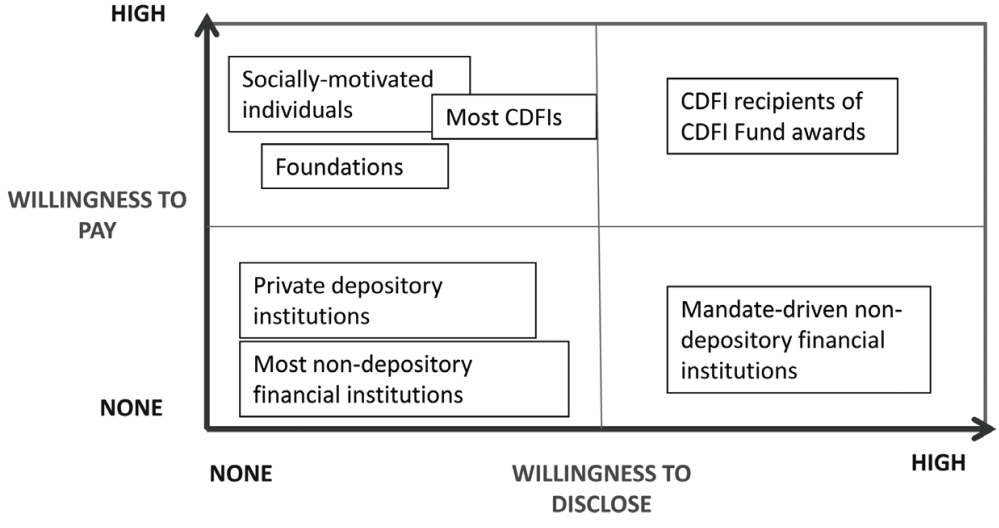


1 Ben Thornley and Colby Dailey, "Building Scale in Community Impact Investing through Nonfinancial Performance Measurement," *Community Development Investment Review,* volume 6, issue 1, 2010.

2 Jessica Freireich and Katherine Fulton, "Investing for Social and Environmental Impact." (New York: Monitor Institute, January 2009).

Thornley and Dailey elaborated on the Monitor model, focusing on the upper right quadrant and providing a more detailed picture of what motivates investors who are trying to generate a social or environmental return in addition to their financial return.

Figure 2. Continua of Investor Preferences



Thornley and Dailey conducted multiple surveys and scores of interviews of investors to inform how they populated the figure above and they came to this conclusion:

> Our research also confirms two interesting patterns. As willingness to pay increases, nonfinancial performance measurement tends to become more widespread and more standardized. Meanwhile, as willingness to disclose increases, nonfinancial performance measurement becomes more robustly benchmarked, more independently verified, and more customized and less costly. For example, investors using Pacific Community Ventures tend to have a high willingness to disclose but a low willingness to pay; investors using the CDFI Data Project generally have a low willingness to disclose but a high willingness to pay.[3]

In essence, Dailey and Thornley's work speaks to how we can create a rich matrix for innovation in the social metrics field. Thornley noted that, "Better measurement practices would make it easier for people to report returns; it is also likely to make investors more demanding of their partners, their co-investors, their clients. So willingness to disclose will actually increase as well." This creates a virtuous cycle where more participants start to create market level data and benchmarks for investors unsure of whether or not to participate. The

3 Thornley and Dailey, 38.

availability of data encourages these fence-sitters to join the market and bring more money for measurement, and so on. "So this was the idea that the sector would grow as a result of measurement." Moreover, he said, "innovation enables people to do measurements more easily and more robustly. Because we do a better job, we move around the circle of evaluating returns, we become more willing to pay for them because we know what we are paying for."

Thornley pointed to concrete next steps the field can take to foster innovation. One example could be that:

> Investors with similar preferences for nonfinancial return can converge around similar performance measurement strategies, thereby increasing standardization within their particular structural categories and asset classes. Working groups can explore what different types of investors are seeking and perhaps shed light on the data already being collected but not disclosed. And public officials can investigate the significant impact government fiat could have on measurement innovation and disclosure.[4]

Two respondents followed Dailey and Thornley. The first was Margot Brandenburg, associate director at the Rockefeller Foundation, and an industry leader when it comes to social metrics. She praised Thornley and Dailey for introducing a more "nuanced discussion" since it helps what she sees as the number one barrier to innovation: heterogeneous and ambiguous investor preferences. In thinking about how to foster the innovation that Dailey and Thornley suggest is necessary, she said, "There is a lot of fragmentation and innovation, so more useful than finding the single best or most effective metric is trying to create consensus around a couple of approaches. Because without that, we are not going to break through this chicken and egg process."

"I also really like the idea that you framed the opportunities to drive demand for social metrics in terms of innovation and accountability," she said. "I think those two concepts really encompass the broad range of activity that we need to see from both private and public sector activity. And I think it really provides a strong framework for thinking about the different roles that government and policy can play…driving accountability through slightly modifying policy and regulation."

Brandenburg drew a distinction between reporting standards and setting minimum thresholds for nonfinancial performance, and posed some questions. "If we are talking about performance thresholds, is it a question of who sets them?" And in light of the many investor types that exist, she asked, "Are we talking about a single performance threshold? Are we talking about different thresholds for different types of investors?"

Sarah Olsen, from SVT Group, was the second respondent, and agreed that the concept of willingness to disclose was important because many investors are collecting jobs and health improvement data linked to specific investments, but that this is not visible to the market in general. In addition to being invisible, she noted that "there is no price right

4 Ibid, pp 41-42.

now for this [social performance] information and therefore investors don't know what they should pay for it." As an example of an entity that has succeeded in resolving this issue, Olsen brought up the Consultative Group to Assist the Poor (CGAP), which is financed by the World Bank. CGAP established the price for credit ratings for microfinance institutions, but it had to subsidize this work for seven years. She noted that they essentially inject this information into the marketplace, which allowed investors to see how they could invest and "to understand the value of credit information on microfinance institutions so that when CGAP and World Bank exited after seven years, the market had essentially taken up that role." She recommended that a similar effort be launched in the community development/impact investing world to augment the efforts of GIIRS and B Lab (which are discussed in greater detail below).

Sonal Shah, the director of the White House Office of Social Innovation and Civic Participation, closed the morning session with a keynote address, in which she discussed the role of the government in convening key stakeholders in the effort to build a new type of investing culture that embraced socially-motivated investors and the social enterprises that can promote the nonfinancial benefits outlined in Kennedy's quote at the start of this essay.

She spoke a great deal on how the government can convene, organize and coordinate measurement efforts across agencies and with non-government actors. A key challenge she raised, though, was the long timeframe required for the emergence of social returns. In the example of the Administration's Pay for Performance program, a funding scheme that is modeled in some ways on the Social Impact Bond, Shah said it is difficult for the government to show the patience that is needed between the time the investment is made and when the benefits occur. "[Sustaining this work over time] is going to be a tough challenge," she said. "I think for government to think in ten year timeframes is really hard because we live in four year political cycles."

Debate and Cross Currents of Discussion

> *Without data, you can't have good policy; you can't have good practice; and you can't have capital. And you need all three to get impact.*
>
> *–Debra Schwartz, MacArthur Foundation*

There was general agreement with Dailey and Thornley on the need to innovate and that creating more expectations from both the demand and supply of social metrics makes good sense. Exactly how that gets done was the subject of disagreement and debate. The conversation was originally organized around three panels that took different perspectives on the problem. Each panel was comprised of organizations or entities that provided data and at least one investor who consumed the data.

The three panels were:

1. Data Collection and Tools: What data are available and how can they be better used as the raw material for any new social metrics tools or innovations?
2. Measurement Standards and Systems: How might we find ways to set agreed-upon standards and build systems that promote the use of social measurements?
3. Certifications and Ratings: If it is too difficult in the near term to develop agreed-upon measurement tools or systems, could there be an intermediate step that utilizes certifications as an "in" or "out" signal of an investment that promoted social and environmental goals?

As the day progressed, however, it was clear that those themes were cross cut by other ideas about how to think about social metrics. While we were trying to focus the conversation about social metrics on how they are used by the investors–whether those investors are individuals, institutions, or the government–what quickly became clear is that it is very hard to limit the conversation this way. Investor preferences are so diverse, we often got confused about what we were talking about, specifically whether:

- A particular program or product generated better outcomes in the long-run for a certain target population, which is the basis for the Social Impact Bond and other pay-for-performance strategies;
- The focus of measurement should be on a particular service provider to assess if it is using all of its resources to effectively serve its mission (essentially as an internal management tool);
- Improvement could be measured at a group, neighborhood, or regional level, as we see with tools like the Human Development Index (see Sarah Burd-Sharps et al. in this issue);
- Focusing on the end user, the beneficiary of a socially-motivated investment, was the best way to get at the real impact of an intervention (see Lester Salamon in this issue).

Part of the confusion here was that there were really multiple conversations happening. And that is not surprising since this topic is so vast and has so many interpretations. But our effort was to wrestle the discussion, as much as possible, into discrete topic areas that might inform some sort of follow-on action. To that end, the following attempts to summarize some highlights from the panels.

Data Collection Panel

The data collection panel was moderated by David Erickson from the Federal Reserve Bank of San Francisco. The panelists were: Steve Lydenberg, Partner, Strategic Vision, Domini Social Investments; Aneesh Chopra, Chief Technology Officer, White House Office of Science and Technology Policy; Todd Park, Chief Technology Officer, Health and Human Services; and Debra Schwartz, Director, Program Related Investments, John D. and Catherine MacArthur Foundation.

Lydenberg opened by giving the audience an overview of the range and quantity of data available:

> Toxic release inventory data on toxic chemicals; Home Mortgage Disclosure Act data on lending by banks; OSHA compliance data on safety records of US companies; National Labor Relation Boards data on union relations. There's a host of SEC data on issues as varied as CEO compensation, and the SEC will be requiring corporations to explain what they're doing on diversity on boards of directors coming up next year. There's the EEOC data on women and minority employment. There is the whole range of data that's being disclosed in corporate CSR reports now, driven in part by the Global Reporting Initiative, which is a worldwide standard for global reporting. There are the B Lab and GIIRS rating systems which are also setting standards for reporting and are aimed a little bit more at the private equity space, small and medium-sized enterprises. There's the CARS data, the NCIF data, the CDFI data on CDFIs that you'll be hearing more about today. My point here is that there is a lot of data out here and it serves a lot of different purposes.

Lydenberg observed that the data "influences consumer choice" with nutrition labels on food and indications of energy efficiency on appliances. And it also raises awareness, "by simply requiring it to disclose this data, you have made them more aware of that and it is true that what gets measured gets managed."

The origins of particular data also matters, according to Lydenberg. If the data are required by the government, such as nutritional data or the Home Mortgage Disclosure Act data, then "you're going to have disclosure that's broadly useful to wide varieties of people; the political process produces that kind of data." Government mandated data "is really aimed at empowering citizens and empowering them locally." By contrast, "the CSR reports, the Global Reporting initiatives, and Ecolabels essentially are voluntary initiatives" and they tend to be more oriented to consumers and investors.

In response to the question of what government can do to make the data more useful, Lydenberg said, "it can facilitate the analysis of the data simply by having it reported out in forms that are easier to use." Government could also support analysis, "treating these data as kind of pure research and therefore needing subsidy from the government." He emphasized that, "there is a tendency to think that once you have the data out there, the problem is solved. I view that data as the starting line, not the finish line."

Chopra spoke next and emphasized the Obama Administration's push to meet Lydenberg's challenge to make the data more useful by putting it in machine-readable formats. With the raw data available, Chopra argues that it will be the creativity of third-party developers who can take the data, understand the social objectives, and build tools—or apps—that can help determine if we are making progress toward those goals. An example of how this works comes from the use of weather data. Chopra met with an entrepreneur at the South by Southwest conference who was investing in a new product of crop insurance to protect against climate change risk. That enterprise is only possible because the National Weather Service makes all its data available for free in machine-readable formats.

This approach, according to Chopra, is "all about fostering innovation ecosystems." And essential to these new ecosystems is "to make sure that we've got the technical foundation that makes us frictionless, so you can participate with very little effort."

Park is doing similar work at the Department of Health and Human Services (HHS). He said his mission is an effort he calls "Data Liberación!" This mission to free up data to the public is made possible by the fact that "we've got a ton of data at HHS, because it's Medicare, Medicaid, NIH, the FDA, the CDC, so on and so forth. Twenty-some agencies. It was just an extraordinary array of incredibly rich data accumulated over the years." He lamented, though, that "taxpayers had literally spent billions of dollars collecting it, and it is used very narrowly today. What can we do to actually free that data up, to get it used by a lot more people, and generate a lot more return?"

He said that the policy at HHS today is "if it's not illegal for us to publish it, we are going to publish it. In fact, we've published a lot already, in machine-readable, downloadable form or via APIs without intellectual property constraint, for free."

Schwartz surveyed the crowd and noticed that there were people there who represented a lot of data projects that she, at the MacArthur Foundation, had supported over the years (the CDFI Data Project, Strength Matters, and now the EnergyScoreCard).[5] That deep background and years of experience prompted Schwartz to say "I think for me it's not about the technology. It's not even about the privacy issues. It's not about the carrot or the stick. It's just the slow, long slog that it takes to bring all the different groups together, because as we noted in the first conversation, we're talking about people who have a lot of different objectives and a lot of different measures of what success looks like."

Schwartz also reminded the audience that as much as it was a big tent exercise in bringing the community development finance field together with the impact investing field, there were a lot more connections than people might realize. "I see our venture fund investees in the room, I see my affordable housing partners, our CDFI partners, Treasury Department partners…this may be the first room I've ever been in where all the parts of our PRI program at MacArthur are in one space." She said, "the data issue and impact connection to capital strategies is a really deep connection across the board."

And Schwartz was clear that making the connection stronger and working on the "slog" of building the data infrastructure we need is going to require a tremendous amount of subsidy from the government.

One specific data tool that MacArthur was promoting involved the EnergyScoreCard, a joint project with the Stewards of Affordable Housing and a for-profit application developer, Bright Power. The EnergyScoreCard helps profile the energy consumption and carbon emission of an apartment building that is subsidized by the government.

Schwartz said they started this project because energy was "one of the few costs they [affordable housing managers] can do anything about." In a large demonstration project

5 More details for the EnergyScoreCard are available at: http://www.energyscorecards.com/.

in Chicago, they found that better energy management and retrofit saved about 20 percent a year on energy costs. The savings across the entire portfolio of multifamily projects the government subsidizes (around 6.5 million units, according to Schwartz) could be sizable. "HUD spends close to $7 billion a year on energy," she said. So the cost savings to HUD alone would be significant, in addition to the environmental impact of preventing many tons of carbon from being spewed into the atmosphere.

In essence, the ScoreCard is a tool that grades buildings on their use of energy based on data available from government sources. "It not only tells the owner how they're doing relative to a relevant peer group of buildings, it also tells them how they're doing on CO_2. It also allows for point-in-time comparisons so you can gauge how well certain interventions worked with before/after comparisons." This is a powerful tool to create "better-informed and more-effective partners" who can use the data to drive improvements and cost savings (that also result in environmental improvements), according to Schwartz.

Developing and Adopting Measurement Standards Panel

John Moon, Senior Community Affairs Analyst, Community Affairs Department at the Federal Reserve System Board of Governors launched his panel by explaining that it consisted of "those who have built systems; those who are currently building systems; and those who are incorporating system-building in their funding models." The panelists were: Shari Berenbach, Director, Microenterprise Development Office, U.S. Agency for International Development and Financial Accounting Standards Board; Sarah Gelfand, Director, Impact Reporting and Investment Standards (IRIS) Global Impact Investing Network; Paige Chapel, Executive Vice President, CARS; and Arjan Schütte, Managing Partner, Core Capital.

Berenbach explored the growth of impact investing and its possible alliance with community development finance by describing the growth of a similarly-oriented finance industry: the international microfinance movement.

"There really was a continual stream of developments that lead to the formalization of microfinance," she said. Berenbach explained that from day one, there was a recognition that to address the overwhelming need for credit worldwide, there would be a need to use commercial capital markets, "otherwise you were never going to be able to reach the billions of households that were looking for these services."

She also mentioned that the institutional landscape was conducive to growth with "a number of large, non-governmental organizations that were receiving support from USAID and the World Bank." The large funders helped foster the community of non-governmental organizations (NGOs) and also funded academics to study this growing network of players. There was a high priority both for developing best practices and "to really be charged with disseminating those best practices around the globe."

The World Bank also housed CGAP in 1995, which spent tens of millions of dollars a year on building the field's infrastructure from creating new regulatory models by convening

regulators, and spreading information through new outlets such as the "microbanking bulletin." The bulletin was an attempt to get hundreds of microfinance institutions (MFIs) to self-report their performance using the same templates to demonstrate how they were performing, which then allowed the creation of some benchmarks. Berenbach noted that it was also important that "there was this whole network of international financial institutions such as International Finance Corporation, or the International Investment Corporation, the IADB, or KFW in Germany, FMO from the Netherlands. And all those institutions became the early investors in this field."

The NGO community prepared itself for growth by establishing a trade association in 1983 that is still around, and as early as 1995 they developed a primer of definitions and some standardized templates for financial statements. Overall, how microfinance lenders discussed their portfolios, and how they described performance and risk, all boiled down to a concerted effort by the whole field to build consistency.

With all this market infrastructure, including due diligence providers, such as Triple Jump and Symbiotics, the very largest investors on Wall Street and around the world began to be attracted to the field.

Gelfand explained that IRIS is "an independent and transparent set of indicators that's being developed by a broad set of stakeholders to support impact investors." It grew out of a collaboration of the Rockefeller Foundation, Acumen Fund, and B Lab. It is designed to be inclusive enough to capture the social impact and financial performance of "a range of investments that span microfinance and CDFIs, affordable housing, energy, and others."

In many ways, IRIS is trying to establish the benchmarks that CGAP was able to foster with its microfinance bulletin. The framework IRIS uses falls into six main categories:

1. ***Organization Description***, including information about the mission, operational model, and location of an investee;
2. ***Product Description***, including descriptions of investees' products, services, and target client base;
3. ***Financial Performance***, including financial performance metrics that are consistent with both the Generally Accepted Accounting Principles (GAAP) and the International Financial Reporting Standards (IFRS);
4. ***Operational Impact***, including descriptions of portfolio companies' policies, employees, and environmental performance;
5. ***Product Impact***, including descriptions and measures of the benefits of an organizations' products and services; and
6. ***Glossary*** of definitions for common terms that are referenced in IRIS.

IRIS tries to incorporate existing sector-specific reporting standards. "In sectors where there are no commonly-accepted performance indicators, the IRIS team works with industry experts to develop new indicators. This process is transparently governed by an advisory committee, which incorporates feedback from metrics and sector specific expert working

groups, as well as from public comment."[6]

Building this new reporting system has required working with partners: Aspen Network of Development Entrepreneurs, Finance Alliance for Sustainable Trade, the Global Impact Investing Rating System (GIIRS), Microfinance Information Exchange, and PULSE. "In addition to supporting the use of IRIS among their members and users, these partners work with their stakeholders to anonymously contribute IRIS performance data from all areas of the impact investing industry to the IRIS initiative, which securely aggregates these data for analyses like those presented in this report."[7]

Chapel is head of CARS, which rates CDFI loan funds in an effort "to augment the due diligence of investors by creating greater transparency, with the end objective being to steer more capital towards the field."

CARS has two ratings. The first measures financial strength and uses standardized data, "which picks up on what Shari was talking about with microlenders." The second measures impact performance and it "is not based on standardized data," according to Chapel. "What we are rating is how well the CDFI does what it says it's trying to do." In essence this measure analyzes the capacity of the institution, assesses its effectiveness in deploying resources and then looks at outputs and outcomes. "So CDFIs who receive our highest impact rating generally are scrubbing their data; they are collecting end outcomes versus just outputs or intermediary outcomes." In addition, "groups that get our highest rating have a formal feedback loop; they're using that data to analyze their effectiveness."

In this regard, CARS operates more as a management tool. "The analysis that we publish is actually more important to the CDFI that we rate than to the investors who use our rating service." The investors, by contrast, often do not take advantage of the impact rating. Chapel said this is for two reasons: 1) they use the CARS rating to "augment their due diligence" to assess overall financial risk; and 2) they "are making an investment in a CDFI loan fund because it's meeting a specific programmatic [goal] that they have established." They are "looking for something much more specific, or broader, than we're actually rating."

Schütte runs Core Innovation Capital, which he said, "was born from ShoreBank." It is affiliated with another ShoreBank legacy institution, the Center for Financial Services Innovation (CFSI), "whose objective was to take some ShoreBank ideas to scale." The motivating idea was not "how do you serve tens of thousands of people, but tens of millions of people," according to Schütte.

Schütte makes "investments in real operating companies to demonstrate that there are ways to positively improve peoples' lives and do so in a way that's profitable." For the past six years, they have been "making investments in financial technology companies serving the un- and underbanked."

The effort got its start with a $500,000 recoverable grant from the Ford Foundation that "led to a number of investments and a number of exits, positive from both a financial

6 "Data Driven: A Performance: Analysis for The Impact Investing Industry," A publication of the Global Impact Investing Network (GIIN) and the Impact Reporting and Investment Standards (IRIS) initiative, 2011, page iv.

7 Ibid.

performance perspective, as well as from a consumer impact perspective." Last year, Core closed on nearly $30 million of socially-motivated investments.

An example of Core's investees is Rent Bureau, which collects data on rent that helps build a credit history for the third of all Americans who pay rent. They make the data available to the three credit score providers and last year, were acquired by one of them (Experian).

Schütte noted that he has a mix of profit-only and socially-motivated investors in his fund, with Goldman Sachs on one end of the spectrum, the Kellogg Foundation on the other end, and a whole array in between. "We've tried to have from the get-go, a mix of type of investors. If we're delivering both commercial and social returns, we want to have toes to the fire, and feel accountability for delivering the best social returns, and the best commercial returns."

Schütte holds his firm accountable to social outcomes by performing an annual social impact audit on all his investments. "We try very much to keep this data relatively simple, so that this is not expensive or difficult to comply with in practice. And we try as much as possible to align the impact-related data to data that the company needs to be successful from any way they look at this. So that kind of alignment we think makes it not so much of an externality, but makes it integral to their business." Core also participates with B Lab and GIIRS in the hopes of growing the whole impact investing field.

Another element of growing the field, according to Schütte, involves government. "We have an interesting and unusual role with government. We're basically a private sector fund. But the government plays an important, secret role in our particular evolution." For example, half of Core's investors are either banks motivated by the Community Reinvestment Act (CRA) or are foundations that are motivated by policies from the IRS, such as the guidelines that stipulate the activity around program related investments (PRIs) and mission related investments (MRI). "I think without CRA, or without PRI, or MRI, it would be very difficult to start a fund exactly like this," he said.

These policies, while beneficial, also have their drawbacks. In the case of CRA, Schütte argues that the focus on making investments in very specific geographies (the bank's assessment areas in the language of the regulation), hampers the work of his organization.

Another role for government, as Lydenberg also recommended, could be to promote innovation in research and development through a group that could be housed in the U.S. Department of the Treasury. It could operate in a similar fashion to the National Science Foundation in catalyzing the work of basic science and research. "I think it's a great branding opportunity for the Treasury to not be considered the bailout entity, but instead, the R&D and financial inclusion entity in terms of its work and efforts in community development," said Schütte.

In the end, the research has to promote scale and get people to think big. "I think it's really, really important that the government find ways to promote innovation that serves tens of millions of people. And I was glad to hear Sonal [Shah] stress that in her comments as well."

Finally, he noted that the investors themselves could help grow the field by being clearer about which metrics are valuable to them. "The only investors who really have a real point of view as to the kind of systems that they want from us–the kind of impact data they want from us–are the PRI investors. Our CRA investors, and other investors who consider themselves double bottom line, much to our chagrin, have offered very little, if anything, in terms of guidance of what they want from an impact perspective. There's no standards, no quality, no reporting expectation," Schütte said.

Certifications and Ratings Panel

Sameera Fazili, Senior Policy Analyst, U.S. Department of the Treasury, moderated the third panel of the day. She said that even if government is successful in providing mountains of data–the subject of the first panel–"we still have the problems of the last panel which is the scale you need to be able to talk about the information and the standardization." Certifications, such as CDFI designation or a designation as a B Corp "create a floor and I think the question a lot of people were asking at the end of the last panel is 'Is that enough?'" Examples of the benefits of certifications are all around–for example, "with LEED and CDFIs you see a whole industry suddenly get identified and everyone can talk about them in a common way and it drives people to invest in them."

Fazili led the discussion with the following panelists: Andrew Kassoy, Co-founder B Lab, B Corp; Saurabh Narain, Chief Fund Advisor, National Community Investment Fund (NCIF); Ellen Seidman, formerly with the New America Foundation, ShoreBank Corporation, and The Office of Thrift Supervision; and Christa Velasquez, Director of Social Investments, Annie E. Casey Foundation.

Kassoy, as one of the co-founders of B Lab, explained that the mission of his company is "to use the power of business to address social and environmental problems." Kassoy was motivated to move beyond that current standard of conveying the social impact a company produces by telling stories about it. "It's a lot easier to tell some good stories both because it doesn't take as much time and because you can decide which stories you're going to tell."

B Lab has three initiatives designed to move beyond storytelling and to build the social and environmental impact standards the industry needs; they include: 1) providing a brand certification, "a certified B Corporation," 2) building a ratings system (the GIIRS system mentioned by Gelfand in the earlier panel), and 3) creating "a new corporate forum for companies that have higher standards of purpose, transparency and accountability and who are willing to have expanded fiduciary duty." Kassoy sees interest from "companies that have given themselves a legal obligation to create public benefit in addition to creating shareholder value."

The B Corporation designation is a signal to say the whole company is doing something good; "think LEED certification for green buildings or Fair Trade certification for coffee, but this is a certification of the whole company." Kassoy continued:

> One of the things we recognized early on was that there are businesses that are doing things in a green space and businesses that are trying to identify community development and poverty issues, and businesses trying to deal with employment issues, and in many ways, while they're doing lots of different things, the people who are running those businesses are motivated by many of the same things.

To be certified as a B Corp, a business must meet a minimum set of standards for social and environmental performance and submit to a rigorous audit and verification process. After nearly four years, there are 400 certified B Corporations in the United States. The certification has many uses for many different stakeholders. It helps consumers "tell the difference between a good company and just good marketing–whether that is a consumer trying to buy products or an investor trying to make a relatively simple decision on the impact side, or whether it's a policymaker that needs an easier way to make a decision about what to try to target or somebody coming out of school deciding where they want to work," according to Kassoy.

In much of Kassoy's remarks, he emphasized the need for transparency. He built on Gelfand's comments on IRIS and reinforced this point: Ratings rely on third-party judgment and in the case of B Labs, they use the accounting firm Deloitte to assess their social and environmental impact. Deloitte "provides a verification process for every company and fund that goes through that rating system so that investors know what they've gotten has been checked."

Narain explained the mission of NCIF, which seeks to promote CDFI banks. According to Narain, NCIF is the largest investor in CDFI banks today, with investments in about 20 institutions, and has also been a leader in helping CDFI banks (and other similarly motivated depository institutions) to tell their story to investors and depositors. One particularly effective way they do this is through the Development Impact Dashboard.

The Development Impact Dashboard format provides detailed information on an individual bank's service to low-income communities by monitoring:

- Publicly available financial performance data;
- The percentage of reported home loan originations and purchases that are directed towards low- and moderate- income communities (using Home Mortgage Disclosure Act data);
- The percentage of branch locations that are located in low- and moderate- income communities. This gives an indication of financial services provided by the banks in these communities; and
- Services that are responsibly priced and are critical to ward off irresponsible providers.

In addition to the core metrics, NCIF created other metrics including measures that analyze a bank's activity in highly distressed census tracts and that analyze the percentage of each bank's total equity that is loaned into lower income communities in a given year.[8]

8 For more information on NCIF's dashboard see NCIF, "Development Impact Dashboards NCIF Social Performance Metrics," available at: http://www.ncif.org/images/uploads/NCIF-CDBI-Dashboard.pdf.

Seidman asked the audience to consider some of the "devil is in the details" questions such as who does the data collection and certification. She also pressed a point that had gotten little attention in the conversation thus far, which was how to incorporate time into all these measures. As an example, Seidman discussed the Perry Preschool study that showed for every dollar spent on pre-school, there was a nearly $17 return in net social benefits. She reminded the audience, that "they had to wait 20 years to actually get the measures. So then you are into the next question of 'Are there earlier proxies that you can use to measure the later result?'"

Velasquez said that the Annie E. Casey Foundation, as an investor, tries "to support the development of industry standards, both through our own investing practices as well as in collaborative field-building efforts." Casey supports IRIS but is not yet using GIIRS. They also are a longtime subscriber to CARS. Velasquez also pays attention to bank CRA ratings and to ratings from NCIF. Velazquez said that she tried to not be too burdensome on her investees with regard to reporting. "We try to utilize reports that the organizations are already generating, both on the financial performance side as well as the social results reporting."

Velasquez said she uses certifications in her work: "We look at some certifications when we're assessing investment opportunities," but ratings are not enough, she said. "The CDFI certification," for example, "is not really meaningful." Some CDFIs are veterans of the field and others "got certified last week, and they don't have any capital, and they've never done this before."

Velasquez last point was to warn that "everybody wants to be an impact investor. It's really trendy." But she said she gets many investments pitched to her as impact investments and then she finds that the real estate project, while in a low-income neighborhood, is more likely to cause gentrification than to provide opportunity to low-income residents.

Next Steps Panel

Georgette Wong, President, Correlation Consulting, moderated the final panel of the day. The presenters on her panel were: Antony Bugg-Levine, Managing Director, Rockefeller Foundation; Mark Pinsky, President and Chief Executive Officer, Opportunity Finance Network; Lester Salamon, Founding Director / Principal Research Scientist, Johns Hopkins Institute for Policy Studies; Mitchell L. Strauss, Special Advisor SRI Finance, Overseas Private Investment Corporation; Aleem Walji, Practice Manager, World Bank Institute.

Wong started by asking the audience what they needed to achieve their next level of performance in their work. Additionally, she asked for one big idea that could move the field forward. Audience responses included:

- Stay focused on the CARS question: How well are you doing what you say you want to do?
- Find a way to have all the government agencies who deal with energy use to influence the utilities to share machine readable data on "one beautiful cyber cloud."
- Take a portfolio of about a half dozen for-profit scalable ventures that do green affordable housing with resident services … [then] measure and prove that they have environmental and social benefit.

- Continue to build industry infrastructure.
- Have the government use its procurement policy to incorporate social equity and sustainability requirements.
- Find ways to show impact "at a societal level and not just at an investment or company level."
- Even as "we resolve longer-term questions of impact investing, we should bring a significant amount of capital to support institutions that have historically created this impact." Specifically CDFI banks.
- In this effort, "put kids first." We "could prioritize our strategies around what will enable our children to be healthier."
- Start to "assemble institutional size pools of pure impact capital, which will then begin making the mistakes needed to start defining the field in a practical way."

Bugg-Levine observed that there was a long history in microfinance, as Berenbach had shared, and that SBA, CRA, and foundation investments (particularly PRIs) were all playing a significant role in providing capital to social and environmental activity for decades, too. But some of the lessons of the past are hard to apply because "we're in the middle of a discontinuous change…a moment in which reasoning from the incremental examples of historical analogs breaks down."

Two developments are driving this revolutionary change in today's market. "The first is that undeniably there are new pools of private capital entering into the space with an appetite to produce impact and make money." In the past, stewards of either public or philanthropic money were more easily able to show they were making a difference with their investments. "The advent of more commercially-oriented private money seeking the same kind of social returns we've been seeking [from government or foundation investments] means the bar is higher for us." Bugg-Levine continued, "Ultimately, I think as the field really grows, the question we always ask is who is going to be the steward of this new industry?"

A second development highlights a potential pitfall in this evolution–new investors entering the market who may lack a dual agenda to make good investments and also build the field as a whole. The pressure to focus on the short-term is wrenching. For the investor, Bugg-Levine said that the mindset is, "I have to do really great deals in the next two years; I can't afford to be distracted by this industry building thing." He noted that each player in the system is under similar pressure to make deals work, which creates a possibility that "short-term interest is going to create a sub-optimal outcomes for the industry as a whole."

In thinking about how to steward the field that uses markets (or quasi markets) to achieve good social and environmental outcomes, Bugg-Levine recommended the short-term use of "existing systems instead of replacing them." He highlighted recent programs at SBA and OPIC, which redeployed existing resources to promote impact investing. He mentioned that something similar could be done with CRA and the CDFI Fund. And although it had been absent from the day's discussion, there was also an opportunity to loop in state and local government programs in this effort as well.

Another key to managing discontinuous change effectively requires new partnerships among those not used to working together, which might challenge the preconceptions held by all entities involved. Furthermore, he said that there is a need to make sure these conversations are more than cross-sector and cross-silo, but bipartisan as well.

Pinsky zeroed in on what he saw as the lack of definition and the overall confusion in the conversation, saying that "half of the time I didn't know whether we were talking about the CDFI industry or the impact investing industry, or some other industry." Pinsky was particularly worried by the lack of detail and clarity about what counted as an impact investment and this was true not only of the day's conversation but a lot of the recent press and reports on the topic. He tried to find some parameters around the industry that allowed for profit maximizing, "profitable but not profit maximizing, it could be PRI…it requires some philanthropic support or government support…. It can be domestic, it can be international. And when I drew up the map–and this is going to be provocative, but I don't really mean it to be–I thought this isn't vast, this is infinite." Without better definitions, Pinsky worried that impact investing could taint the good reputations of other players, including CDFIs.

A couple of policy ideas that Pinsky suggested could be used to both help explore the future of community development finance and the potential connections to impact investing was an "innovation bank" in the Treasury that could underwrite some research and development of new business models and investment approaches. Similarly, he said the CDFI Bond Program has great potential to allow for new approaches to financing activity that has a social purpose.

Salamon mentioned that he was "impressed by the creativity of this field and by the commitment that all of you have already shown to the whole idea of measurement." But, "it's very similar I think to what I heard from Ellen Seidman…and that is that this field at this point in time seems to be very long on metrics and very short on concepts. [What is] missing is the strategic piece, the thinking strategically about exactly what the focus of the whole metrics operation is."

Salamon reminded the group that metrics were not neutral: "They don't only measure impact but they can shape impact and they can easily misshape impact." Having a choice between multiple measures and multiple systems also "make it possible for everyone to get an A." And counting the wrong things could do real harm.

In the end, Salamon said it was important to focus on the "end users," the members of the community we want to serve. The services and products that are designed to help the "end user" are "nonmarket goods so there's not really a market mechanism through which the users express themselves. There's no feedback loop. It seems to me that impact measurement should be used to correct this, to bring the beneficiary voice into the story."

Walji built on Salamon's remarks and told a cautionary tale of how measuring the wrong thing can be a disaster. "I heard that Egypt was doing really well according to all the metrics that we pay attention to at the World Bank and the IFC. Investment was up, returns were good, we were investing in all the right sectors, or so we thought." After the events of Tahrir

Square and the Arab Spring it became clear that the metrics needed to focus on different variables and different measures, like the ones that captured the frustration of many Egyptians. "One of my colleagues talked about the politics of dignity. He talked about the fact that public services were not available to the people. He talked about the fact there was no means to be able to even complain about public services. And he talked about the lack of resources in key public service areas."

Conclusion

It is an exciting time for community development finance and impact investing. Community development finance is playing a bigger role as the coordinator of policy efforts such as financing fresh food options in food deserts, to financing charter school facilities that are tailored to the needs of students are too prone to drop out, in addition to its traditional work of financing the affordable housing development and small business creation that breathe life back into economically struggling communities.

Impact Investing, for its part, is growing rapidly, bringing in new resources to fund investments that promote the holistically-healthy communities that Robert Kennedy so eloquently described in 1968.

But the growth of both fields raises new questions and concerns. Can their approaches be combined for greater effect? How will we show progress on nonfinancial goals? Can we use that data to better coordinate our efforts across disciplines and silos? And can data and measurement help make the case that these community-enhancing investments save the government money in the long run?

The conference at the Federal Reserve Board of Governors was an effort to start answering those questions. But as Colby Dailey said, there are no silver bullets. And Debra Schwartz reminded us that this will be a long slog to get all the interested parties to come together and hammer out solutions and new tools.

That was evidenced in part by the conference discussion. It was at times unclear whether we were talking about social metrics, business models, building the impact investing industry, and integrating impact investing with community development finance. I think our effort to have both producers and consumers of data on each panel added to the confusion as well. But I think overall what this conversation demonstrated is that these ideas are swirling around one another and need continued attention, more rigor, better definitions, and tighter language and standards to move forward in a constructive way.

The conversation could not be more critical. Better measures and data will help us develop better and more effective community improvement investment. It helps steer scarce resources to the programs that work and away from those that do not. But it also does something far more profound: it allows the whole industry to evolve in new ways that will be more effective and more beneficial to low-income communities.

We hope that a series of initiatives, including those that the Federal Reserve System's Community Development Department is trying to foster, will keep this productive conversation going.

Metrics Matter: A Human Development Approach to Measuring Social Impact

Sarah Burd-Sharps, Patrick Guyer, and Kristen Lewis
American Human Development Project

I would not give a fig for the simplicity on this side of complexity, but I would give my life for the simplicity on the other side of complexity.

–Oliver Wendell Holmes

The Community Reinvestment Act of 1977 sprang from the federal government's commitment to end discrimination in lending and redress its enduring effects by requiring that banks support sustainable community revitalization in low-income communities. The bill's sponsors hoped that ending the redlining practices that kept low-income minority communities from enjoying the range of financial services, particularly credit, available to whites and pushing banks to invest in communities of color would bring the American Dream within reach of those historically excluded from its promise.

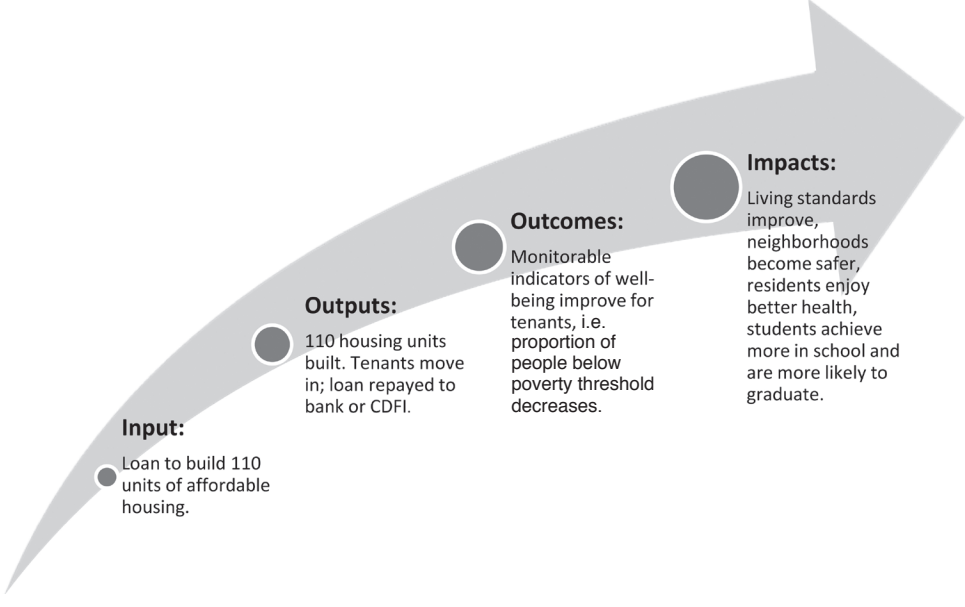
In addition to the federal government, a diverse range of actors–from local governments to faith-based organizations to private equity firms and social entrepreneurs–are engaged in community development financing. These actors have different motivations, use different methods, and focus on different sectors, but on the whole, they seek to contribute to the same broad goal: to reduce poverty and expand economic opportunity in low- and moderate-income neighborhoods.

Recently, members of this varied community have increasingly focused on measuring social impact. Social impact is the end of a process that starts with a loan or grant (input) for an organization or individual to engage in certain activities that result in direct short-term results (outputs). These outputs ideally contribute to observable changes (outcomes) that, in turn, contribute to sustainable improvements in people's lives (impacts). Inputs and outputs relate directly to the specific activities of a project; outcomes and, especially, impacts require a longer time frame and the involvement of other actors. Figure 1 charts this progression for a hypothetical investment in affordable housing.

A review of efforts to measure social impact in the U.S. reveals that little such measuring occurs. At best, those active in community development financing examine inputs and outputs. Tracking information on inputs and outputs is fundamental to assessing the degree to which community development financial institutions (CDFIs) or CRA-motivated banks are meeting their obligations to provide services to people living in low- and moderate-income neighborhoods. But a focus on inputs and outputs, while necessary, is not sufficient for assessing social impact as it leaves unasked and unanswered the most important question: what difference did these discrete actions actually make in people's lives? As a result of loans

made and housing units built, for instance, were fewer families homeless or doubled-up with relatives? Did the improvement in housing quality reduce asthma rates, or did greater housing stability diminish stress and enhance mental health? Did the overall quality of life in a neighborhood improve? These questions cannot be answered by looking only at inputs and outputs. Yet surely they are the questions that must be answered if we are to learn not just whether banks and other lenders are meeting their obligations under the CRA, but also what those services are yielding in terms of human well-being.

Figure 1. Social Impact Progression in Affordable Housing



Knowing which of these impact-related questions to ask also depends on what goals the lender was seeking to advance in making the loan. "Community development" is a broad term, meaning different things to different people. It may mean spurring a viable local economy. It may mean generating greater community solidarity, trust, and social capital. It may mean creating an environment more conducive to good physical health. It may mean supporting residential stability by stemming foreclosures or expanding homeownership. It may mean all, or none, of these things.

In contrast to the U.S. community development industry, the international development field has a long history in measuring impacts. Government aid agencies in affluent democracies have created sophisticated measurement tools to make sure the aid they give to poor countries (using taxpayer dollars) is being used efficiently and effectively. Multilateral organizations, such as the World Bank and the United Nations, are increasingly focused on results to ensure they are moving toward their poverty-reduction goals, and they have developed shared tools and targets all nations can rally around. The most high-profile of these efforts is

the Millennium Development Goals (MDGs), a set of eight goals, each with concrete, time-bound targets, to reduce poverty and hunger, child and maternal deaths, and the prevalence of diseases such as malaria and HIV, and to increase school enrollment, women's equality, and environmental sustainability.

The experience of the international community with the MDGs has been overwhelmingly positive. Despite the significant challenges of data collection in poor countries, where statistical systems are often weak, the MDGs have galvanized resources and aligned the actions of an extremely disparate group of actors. Although not perfect, the goals have focused the international development agenda, improved the process of policymaking, and instituted accountability for human progress that in many cases was previously nonexistent.[1] Although not every country will achieve every MDG goal by 2015, many have a shot, and others are far closer than they would have been without this highly visible campaign of quantifiable targets. Moreover, the theory that these social goals might come at the expense of economic growth has been tested and discarded.

Below we introduce a dashboard of impact indicators derived from a well-honed, internationally accepted methodology: the human development approach. Human development is the process of improving people's well-being and expanding the range of opportunities and choices open to them. It is about the real freedom ordinary people have to decide whom to be, what to do, and how to live.

The dashboard is intended to gauge the degree to which inputs lead to outputs that contribute to impacts, in this case desired community improvements such as better health, increased levels of education, or less crime. Each of these improvements, and particularly several in combination, is a critical ingredient for a more competitive, productive workforce; greater economic security; and increased likelihood that children will grow up to become financially stable adults, active consumers, and contributors to vibrant communities. All of these are critical ingredients for future growth, business productivity, and profit. Though only proxies for a complex reality, the rich conceptual framework and simple measures provided by the human development approach offer the community development sector a deep and tested well from which to draw.

The argument for focusing on human development was initially broached by economists who believed that existing economic measures of human progress, particularly "gross domestic product," failed to account fully for the true purpose of development: to improve people's lives. The United Nations, in its inaugural Human Development Report in 1990, introduced this idea and a way to measure it–the "Human Development Index." The report has been produced annually for two decades, and the model, which has been replicated in more than 160 countries, is now viewed as the global gold standard for assessing the well-being of populations.

1 Sakiko Fukuda-Parr. "Millennium Development Goals: Why They Matter," *Global Governance: A Review of Multilateralism and International Organizations*, 10(4) (2004): pp. 395-402.

We have adapted the U.N. index to create the American Human Development Index and have applied the approach in our Measure of America series.[2] Our research shows that even in the most basic areas of human life, huge disparities exist. While the existence of disparities in income is common knowledge, the size of the income gaps as well as the extent of gaps in other areas are surprising to many. Some Americans have life spans, education levels, and incomes that characterized life in the United States 40 or 50 years ago, while others enjoy some of the highest levels of well-being in the world today. For instance, Asian Americans in New Jersey have a life expectancy 26 years longer than Native Americans in South Dakota.[3] The American Human Development Index allows for apple-to-apples comparisons of well-being, down to the county and even neighborhood levels, and it empowers its users to track progress, or lack thereof, over time.

Central to the human development approach is the capabilities framework, the brainchild of Nobel Laureate and Harvard economist Amartya Sen. Capabilities–which define what people can do and what they can become–are the equipment one has to pursue a life of value. Basic capabilities valued by virtually everyone include good health, access to knowledge, and a decent material standard of living; these are the three areas measured by the Human Development Index. Other capabilities central to a fulfilling life include participating in the decisions that affect one's life, having control over one's living environment, enjoying freedom from violence, having societal respect, and relaxing and having fun.

Individuals' capabilities are expanded (or constrained) by their own efforts and by societal institutions and conditions. People with extensive, well-developed capabilities have the tools they need to make their vision of "a good life" a reality. Those poor in capabilities are less able to chart their own course and to seize opportunities. Without basic capabilities, human potential remains unfulfilled.

We essentially extend this notion to the CRA and to how its goals relate to the larger and longer-term objectives of community development. Much of the discussion about community development sees mortgages for first-time homebuyers or credit counseling for families as ends in themselves (and thus the metrics that have been developed focus on whether those activities have been carried out). Yet these activities are instead a means to an end. The end is to enlarge people's freedoms and opportunities and improve their well-being. Any effort to improve community development must for its own success do its part to contribute to a greater goal of human development progress. In fact, research in housing, education, health, early childhood, and other areas has changed our understanding of poverty and community development's role in alleviating it by investing in people and place, in community, and human development.[4]

2 See http://www.measureofamerica.org/ for more information on the "Measure of America" series and the American Human Development Project.

3 Kristen Lewis and Sarah Burd-Sharps, "A Century Apart: New Measures of Well-being for U.S. Racial and Ethnic Groups." 2010. Available at http://www.measureofamerica.org/acenturyapart.

4 Nancy O. Andrews and Christopher Kramer. "Coming Out as a Human Capitalist: Community Development at the Nexus of People and Place," *Community Development Investment Review*, 5 (3)(2009): 47-65.

Of course, an approach that focuses on outcomes and impacts rather than inputs and outputs can seem daunting, even unrealistic. Inputs and outputs are largely within the control of an executing agency. Outcomes and impacts, on the other hand, are influenced by a host of additional factors outside an organization's control. A CDFI may provide financial counseling to 100 people (input), but the degree to which these 100 people are able to make use of this counseling to better manage their finances is beyond the control of the CDFI. Banks and others are understandably reluctant to be held accountable for outcomes that depend on the actions of others, and indeed no one actor should be held solely accountable for moving the dial on a range of social outcomes; building thriving, viable, healthy communities is not a task for any one organization alone. Nor should lenders abandon their efforts to track inputs and outputs. However, without clear, long-term goals, it is impossible to know if and how the actions of community development actors are making headway on the big problems faced by low-income communities.

The good news is that the international experience in measuring social impact is mature and positive, offering many models for what can work. Experience shows that establishing a baseline and setting targets create a rallying point around which diverse actors can come together. These two actions also assist in mobilizing resources, galvanize public support for action, create a mechanism for prioritizing resources, and introduce accountability.[5] Unlike many parts of the world, the United States is a data-rich country, offering a varied menu of metrics from which to choose. What follows is a possible approach, based in the human development conceptual framework, to place-based measurement of social impact. It requires no major investment or highly skilled statistical expertise because it uses publicly available data sets.

The indicators represented in the "Dashboard of Community Impact" (Figure 2) are those that serve as robust proxies for outcomes in the particular area(s) of community investment under discussion. In the example below, the eight-indicator dashboard is meant as a model for gauging the medium- and long-term impacts of large-scale investments in affordable housing. Ideally, the selection of these indicators would emerge from a collaborative goal-setting process at the community level, and community development actors would align their activities around them. The goal would be to make measurable improvements on these indicators over a period of three to ten years. Values presented for these indicators in the table below present a snapshot of the most recent data available for four metropolitan areas. Were community development actors in these four cities to embark upon a collective effort to improve these indicators, these values would establish a baseline against which to measure future progress.

5 Jeff Waage, Rukmini Banerji, Oona Campbell, Ephraim Chirwa, Guy Collender, Veerle Dieltiens, Andrew Dorward, Peter Godfrey-Faussett, Piya Hanvoravongchai, Geeta Kingdon, Angela Little, Anne Mills, Kim Mulholland, Alwyn Mwinga, Amy North, Walaiporn Patcharanarumol,Colin Poulton, Viroj Tangcharoensathien, Elaine Unterhalter, "The Millennium Development Goals: a cross-sectoral analysis and principles for goal setting after 2015," *Lancet and London International Development Centre Commission,* (September, 2010). Available at: http://download.thelancet.com/flatcontentassets/pdfs/S0140673610611968.pdf.

Figure 2. Dashboard of Community Impact: Housing

IMPACT	PROXY INDICATORS	METROPOLITAN AREAS			
		Austin, TX	Cleveland, OH	Fresno, CA	Philadelphia, PA
Better Living Standards	Poverty Rate (% below federal poverty threshold) 2009[a]	16	18.9	21.5	24.5
Safer Neighborhoods	Violent Crime Rate (per 100,000) 2009[b]	523.3	1,395.5	609.3	1,238.2
	Property Crime Rate (per 100,000) 2009[c]	6,245.5	5,621.1	4,368.8	3,611.3
Better Health	Adult Asthma Rate (%) 2009[d]	12.6	13.6	NA	20.1
	Adult Self-Reported Poor Mental Health Status (avg. days/mo.) 2003-2009[e]	3.2	3.8	3.6	4.4
	Consuming Five or More Servings of Fruits or Vegetables per Day (% of adults) 2009[f]	34.9	22.3	NA	27.0
Improved School Performance	Fourth Grade Reading Levels, (% reading at or above proficient) 2009[g]	32.0	8.1	12.0	11.0
	On-Time High School Graduation Rate (% of freshmen) 2008-2009[h]	68.6	42.3	NA	53.5

a. U.S. Census Bureau, "Small Area Income and Poverty Estimates," available at www.census.gov/did/www/saipe/index.html (accessed August 11, 2011). Statistics are for Travis County, TX; Cuyahoga County, OH; Fresno County, CA; and Philadelphia County, PA.
b. Federal Bureau of Investigation, "Violent Crime and Property Crime Rates: FBI Uniform Crime Reporting Statistics," available at www.ucrdatatool.gov/index.cfm (accessed August 11, 2011). Statistics are based on data reported by the Austin, Cleveland, Fresno, and Philadelphia police departments.
c. Ibid.
d. The asthma rate is the percentage of adults who have ever been told they have asthma. Centers for Disease Control and Prevention, "Behavioral Risk Factor Surveillance System," available at www.cdc.gov/brfss/index.htm (accessed August 11, 2011). Statistics are for Travis County, TX; Cuyahoga County, OH; and Philadelphia County, PA.
e. "County Health Rankings 2011," available at www.countyhealthrankings.org/ (accessed August 11, 2011). Statistics are for Travis County, TX; Cuyahoga County, OH; Fresno County, CA; and Philadelphia County, PA.
f. Centers for Disease Control and Prevention, "Behavioral Risk Factor Surveillance System," available at www.cdc.gov/brfss/index.htm (accessed August 11, 2011).
g. National Center for Education Statistics, "NAEP Data Explorer," available at http://nces.ed.gov/nationsreportcard/naepdata/ (accessed August 11, 2011. Statistics are for fourth graders in the Austin Independent School District, the Cleveland Independent School District, the Fresno United School District, and the School District of Philadelphia.
h. R. Stillwell, A.M. Noel, C. Plotts, and J. Sable, "NCES Common Core of Data Public-Use Local Education Agency Dropout and Completion Data File: School Year 2008–09" (NCES 2011-314) (Washington, DC: U.S. Department of Education, 2011), available at http://nces.ed.gov/pubsearch (accessed August 8, 2011). Statistics are for the Austin Independent School District, Cleveland City School District, and the Philadelphia School District.

What do these indicators measure?

- The **poverty rate** is an intuitive proxy for material and social hardship. While the poverty rate is criticized[1] for being based on outdated assumptions about household purchasing patterns, this indicator remains a widely available, and thus widely used, barometer of economic well-being in communities.
- **Violent and property crime rates** together compose indicators of neighborhood safety; these indicators are relatively sensitive to short-term policy changes and community investments.
- **Asthma rates** track the prevalence of this chronic disease, which is associated with environmental triggers that abound in dilapidated housing (for example, cockroaches, mold, and rodents) and in neighborhoods with a disproportionate share of toxic industries (such as garbage transfer stations, bus depots, etc.)
- The mean number of days per month of **poor mental health** among adults can be influenced by the stress of living in substandard housing, overcrowded conditions, or from moving multiple times in a short period of time.[2]
- **Daily fresh fruit and vegetables** is a proxy indicator for a healthy diet and food security. Families experiencing housing insecurity are often at high risk for food insecurity as well, which has a particularly damaging impact on growing brains and bodies.[3] Inadequate household income can result in an inability to pay for relatively more costly fresh produce. Furthermore, some low-income areas are "food deserts," meaning that they lack full-service grocery stores and have a surfeit of fast food outlets and corner stores, conditions associated with obesity and diabetes.[4]
- An important measure of student achievement is the percentage of fourth graders not demonstrating **reading proficiency** on the National Assessment of Educational Progress test. Reading proficiency is a strong predictor of school success, and housing insecurity in early childhood is associated with inhibited cognitive and social development and poor school performance.[5]
- Students who do not **graduate from high school on time** are at a higher risk of never graduating, not going on to higher education, and neither working nor attending school in early adulthood than those who graduate on time. A lack of housing security during adolescence has been linked to a greater risk of not completing high school.[6]

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1 For an in-depth review of the shortcomings of the current poverty measure and suggestions for its improvement, see Constance F. Citro and Robert T. Michael, eds., *Measuring Poverty: A New Approach.* (Washington, DC: National Research Council, 1995).

2 W.R. Gove, M. Hughes, and O.R. Galle, "Overcrowding in the Home: An Empirical Investigation of Its Possible Pathological Consequences," *American Sociological Review*, 44(1)(1979;):59–80; S.E. Gilman, I. Kawachi, G. M. Fitzmaurice, and L. Buka, "Socio-economic Status, Family Disruption, and Residential Stability in Childhood: Relation to Onset, Recurrence and Remission of Major Depression," *Psychological Medicine,* 33(8) (2003): 1341–55.

3 Mark Nord, "Food Insecurity in Households with Children: Prevalence, Severity, and Household Characteristics" (EIB-56) (Washington, DC: U.S. Department of Agriculture, Economic Research Service, September 2009).

4 Nancy Adler and Ichiro Kawachi, "Reaching for a Healthier Life: Facts on Socioeconomic Status and Health in the U.S." Presentation to the National Health Policy Forum, Washington, DC, March 14, 2008.

5 Cutts et al., US Housing Insecurity and the Health of Very Young Children."

6 R. W. Rumberger, "The Causes and Consequences of Student Mobility," *Journal of Negro Education*, 72(1) (2003):6–21.

For the purposes of this example, we chose a limited set of indicators on the contribution of safe, affordable housing to a range of well-being outcomes, particularly living standards, neighborhood safety, health, and educational achievement. A considerable body of research has demonstrated that the impact of high housing costs on low-income families can be both severe and long-lasting, particularly for young children. High housing costs, for example, can force families to make nearly impossible choices between paying rent or paying for food, medical care, heat, or other essentials. Unaffordable housing can also result in stressful overcrowding, or compel families to remain in areas with poor schools, high crime rates, few healthy food options, and limited transportation. Finally, housing instability can harm children's healthy development, both physical and psychological.[6]

Conclusion

Measuring social impact appears daunting. Many CRA-obligated institutions are trying to comply with regulations that they provide banking services (beyond deposit) to low-and middle-income communities. Few want to be held accountable for outcomes beyond their control when they are contributing just one piece to a larger effort, and most lack the capacity to assess social impacts in a meaningful way on their own. Yet although the reluctance of CRA-obligated institutions to wade into this area is understandable, business as usual–that is, calling lending "impact investing" without targeting or measuring impacts–is not a particularly defensible option.

Fortunately, there is no need to reinvent the wheel when it comes to data collection; reliable data already exist in user-friendly formats. There remains, however, a need for all actors to engage in a more systematic and deliberate multi-stakeholder process of setting goals for community development investing and tracking progress against those goals. Such a collaborative process would address some of CRA-obligated institutions' accountability and capacity concerns.

The rhetoric of "social impact" that pervades the community development conversation is evidence of a widespread agreement that these discrete interventions are in the service of a larger goal; namely, ensuring that all people have the capabilities and conditions they need to invest in themselves and their families and to be productive members of society. If that is indeed the goal, then the field needs processes, targets, and measurements that can identify when we are succeeding.

6 W.R. Gove, M. Hughes, and O.R. Galle, "Overcrowding in the Home: An Empirical Investigation of Its Possible Pathological Consequences," *American Sociological Review,* 44(1)(1979;):59–80; S.E. Gilman, I. Kawachi, G. M. Fitzmaurice, and L. Buka, "Socio-economic Status, Family Disruption, and Residential Stability in Childhood: Relation to Onset, Recurrence and Remission of Major Depression," *Psychological Medicine,* 33(8)(2003): 1341–55.

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Including the Beneficiary Voice: The Success Measures Experience

Margaret Grieve and Deborah Visser
Success Measures, NeighborWorks America

In a timely, cautionary appeal to Federal Reserve conference participants, Aleem Walji of the World Bank Institute warned of the possible consequences when measurement practices fail to adequately incorporate the voices of end users. As a case in point, according to Walji, the World Bank had been carefully following a set of leading indicators about Egypt's economy before the recent pro-democracy events brought stunning regime change and unleashed the Arab Spring. All of those indicators showed that Egypt was doing well. Investment was up and returns were strong. Yet because no one was directly examining the economic, social, and political aspirations of the youth supposedly benefiting from a growing economy, the depth of their frustrations and the diffusion of these feelings across Egyptian society was largely discounted or missed, even by those responsible for assessing the impact of interrelated development strategies. Walji's call to incorporate the "politics of dignity" into the investment equation echoed the comments of Lester Salamon, of the Johns Hopkins Institute for Policy Studies, who also warned of the significant costs of not accurately depicting beneficiary, or end users', voices when crafting and monitoring investment initiatives.

Much of the debate surrounding this issue has focused on whether measuring more textured personal and community change is too challenging or costly, or even possible at all. This point is underscored as comprehensive measures have emerged in recent years that demonstrate the impact of social investments. Yet these new metrics rarely document the experiences and perceptions of program participants, community residents, and other beneficiaries. Data drawn from public sources and program records tell a strong story of program performance and related demographic, economic, and social indicators. But they often fail to provide the full story of actual change in personal and community life. Although many of these new social impact measurement systems may describe the more nuanced effects of various interventions, they have yet to incorporate ways of consistently tracking changes at the client and community level.

As this essay contends, it is not only possible, but essential, to capture the beneficiary voice, the views of informed community stakeholders, and the observed physical changes that are occurring on the ground. These results can be obtained in conjunction with other critical measures rather than as add-ons to be tackled at a later date. As we show, it is possible to do systematic, methodologically sound impact measurement that more fully demonstrates what investors want to know: How are people's lives improving? How are communities changing?

Measuring the "Hard to Measure"

For more than a decade, under the auspices of the Success Measures program based at NeighborWorks America, national, regional, and local nonprofits in the affordable housing and community development field have been demonstrating that it is possible to document "hard to measure" personal, organizational, and community outcomes. They have collaborated with their peers, researchers, and funders to design, test, and deploy tools that elicit beneficiary voice in addition to any observable changes. These shared measures and data collection tools effectively capture the social impacts of a range of both people- and place-based investments and programs.

Success Measures is a specialized community development evaluation resource. Since 2005, this social enterprise has provided services to 340 local community development organizations and funders. It draws on a growing, well-vetted resource library of more than 80 outcome measures and 240 corresponding data collection instruments. These surveys, interview guides, observation checklists, focus group protocols and spreadsheets, used alone or in combination, measure outcomes for a wide range of program areas. These include affordable housing, economic development, neighborhood revitalization, financial capability, and green residential and community energy conservation practices. Practitioners build their own capacity to track results over time, identify emerging trends and opportunities, and use what they learn to better allocate resources. The Success Measures Data System (SMDS) also structures data collection for field work or online delivery, and tabulates, aggregates, and stores the resulting evaluation data for easy retrieval for further analysis.

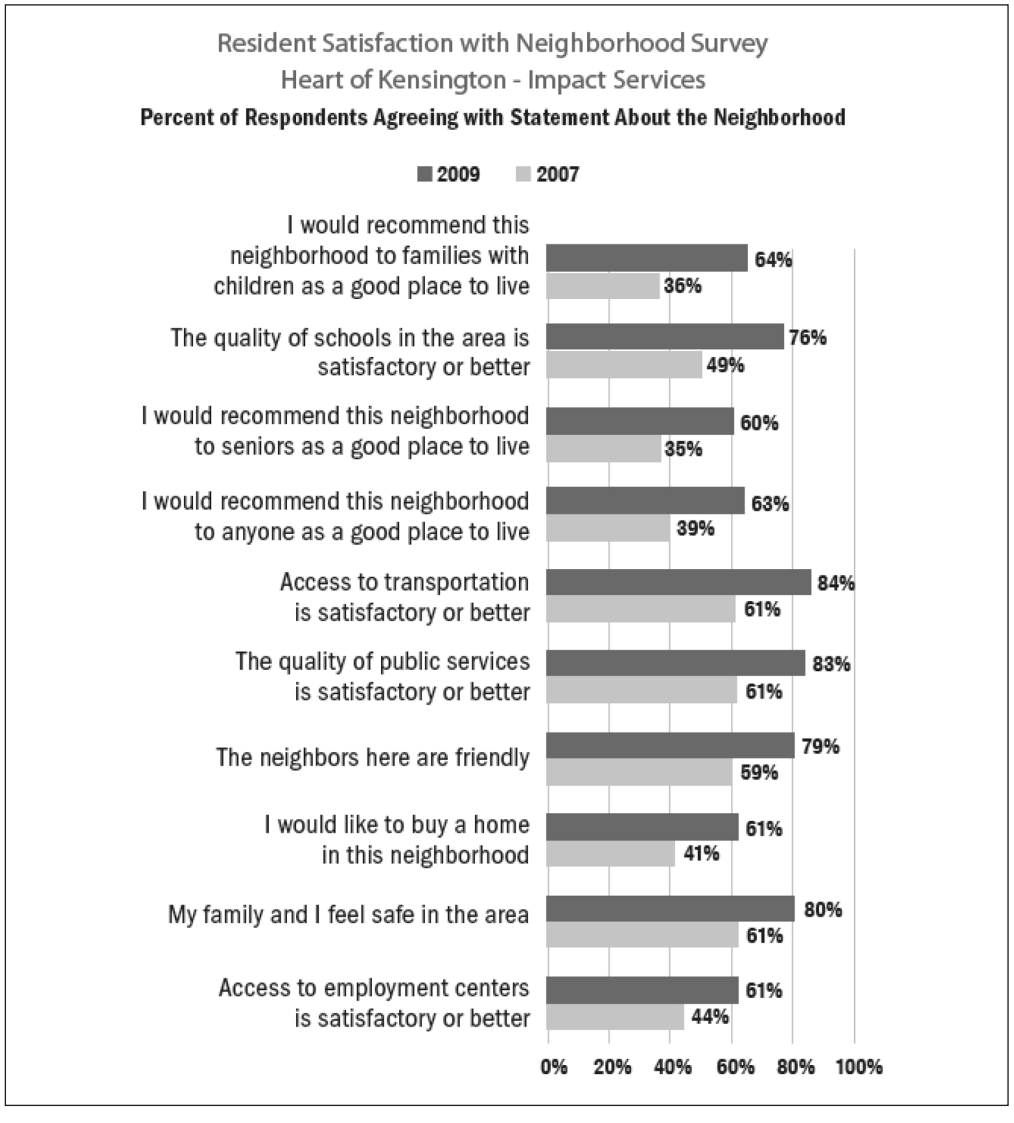
Engaging Beneficiaries

In addition to community-based agencies, investors, foundations, and other funders have used the rich repository of data in the SMDS to better understand the many changes taking place at the community level, promote effective practice, and reassess needs across grant-making portfolios or geographic regions. For example, through an innovative partnership with the Wells Fargo Regional Foundation, 50 organizations serving low- and moderate-income communities in New Jersey, Delaware, and eastern Pennsylvania are using a common Success Measures survey tool to track changes over a multi-year period during intensive neighborhood-directed revitalization efforts. The results combine hard-to-measure factors, such as social capital and a sense of well-being, with observations of physical conditions of neighborhoods and data on market health. The Foundation has used the insights to improve programs, refine its grant-making strategies, and leverage resources for neighborhood planning processes at the state and local levels.

Impact Services, a Philadelphia-based grantee in the Wells Fargo Regional Foundation initiative, was able to better target its ongoing development efforts by gaining a greater understanding of the impact of its commercial revitalization and related community outreach and organizing efforts. The initial stage of this particular project, from 2007 to 2009, centered on community outreach and planning for bricks and mortar development.

Using the Success Measures "Resident Satisfaction with Neighborhood" survey, the organization found increased resident satisfaction in every measure of neighborhood quality of life over the period (see Figure 1). This finding underscored the value of community building as a foundation for the revitalization process. As the cornerstone of these evaluation activities, the process of eliciting feedback from residents who could describe the changes taking place in their neighborhoods proved not only accurate, but an effective method of engaging citizens and developing social capital over the long term.

Figure 1. Excerpt of Impact Services' Success Measures Resident Satisfaction Survey Results 2007 and 2009



The experience of Neighborhood Housing Services (NHS) of Toledo, Ohio, is another illustration of how a veteran neighborhood community development organization used these tools. Since 2007, through support provided by NeighborWorks America for its member organizations, NHS of Toledo has been partnering with Success Measures to develop and implement a comprehensive community-level outcome evaluation of its efforts to stabilize areas hard hit by the foreclosure crisis. Initially, the organization conducted a survey of resident satisfaction and neighborhood security in one designated target area. They also collected "person on the street" interviews regarding community use of public space as well as interviews with key stakeholders on their perception of the neighborhood. These surveys were complemented by direct visual assessments of building conditions by NHS of Toledo and by gathering building permit data for the area. (Figures 2 – 4 illustrate sample data from NHS of Toledo's evaluation of the High Level neighborhood.)

Figure 2. Housing Quality in the High Level Neighborhood, Toledo, OH, 2009

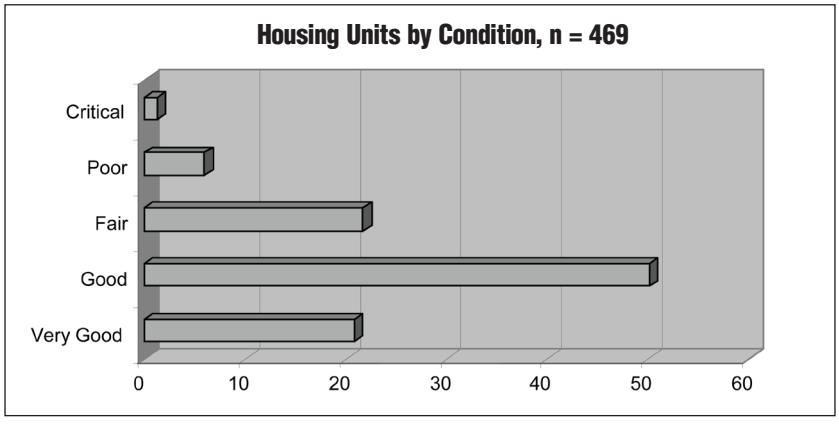


Figure 3. Building Permit Activity in the High Level Neighborhood, Toledo, OH, 2009

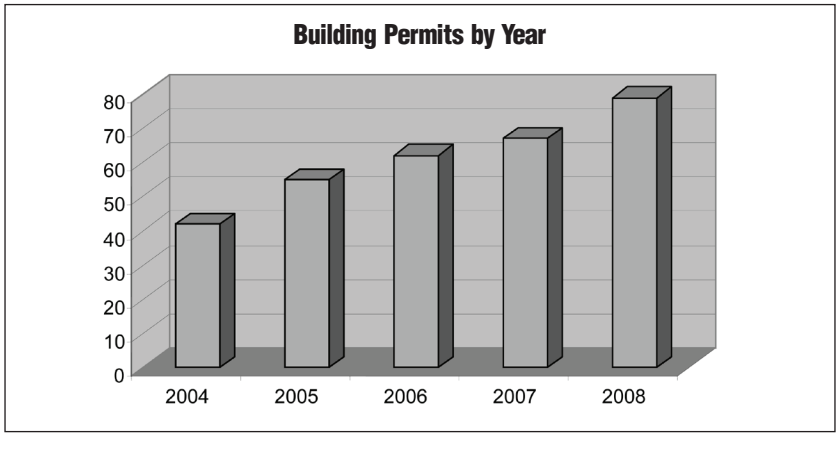
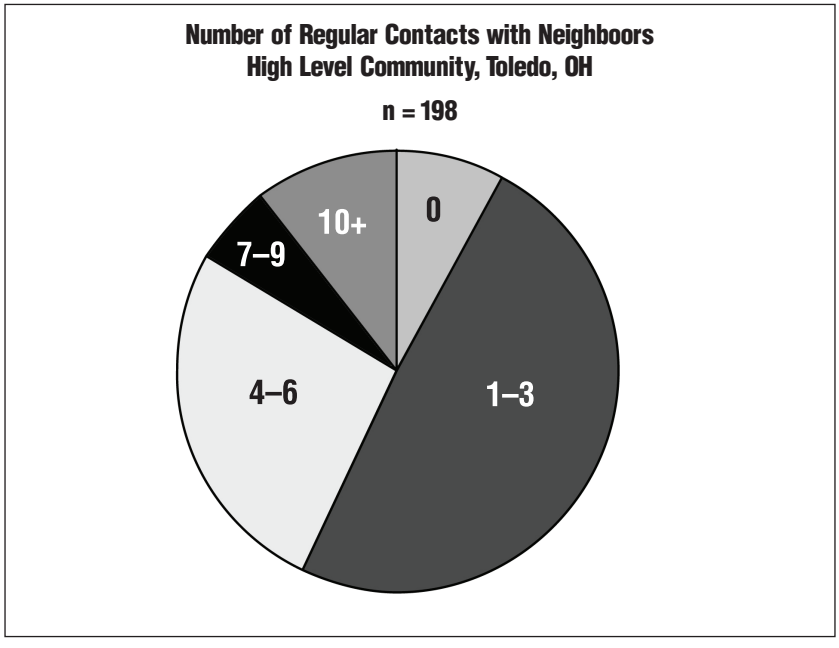


Figure 4. High Level Neighborhood Residents' Sense of Community, Toledo, OH, 2009



In addition to providing valuable "real time" data on the physical conditions of one neighborhood, as well as documenting people's opinions on quality of life in the area, the Toledo evaluation jump-started a series of unanticipated, but related, events. Using information gleaned from the pilot evaluation in its marketing and advocacy efforts, NHS was able to expand evaluation activities to four neighborhoods, including one in which a hospital was an anchor institution. The hospital was interested in using data in a more systematic way to advance its own institutional priorities; prime among these were enhancing safety around the hospital and improving relations with the community. In close collaboration with NHS, the hospital assigned staff to use Success Measures' tools and participatory process to coordinate its internal evaluation strategies with the outcome assessment activities of NHS. These activities helped energize the neighborhood and led to the creation of block watch committees and an expanded community policing program. And, with the major hospital as its partner, NHS of Toledo was able to secure state housing tax credits to further its stabilization efforts. Key aspects of their success were the care they took to develop and select tools and outcome indicators that were appropriate for specific community contexts. The success also sprung from the creative use of data collected to drive programming, and a willingness to use shared measures with a broad group of stakeholders. This is a best-case example of using core elements of participatory evaluation to break out of traditional silos and, by doing so, to attract much-needed additional investors. (See figures 5 and 6)

Figure 5. Sample of Key Findings about Toledo's High Level neighborhood, 2009

- The majority of residents felt that the neighborhood housing stock was good and improving.
- While residents felt relatively safe within their homes, they were concerned about safety during evening hours. This was attributed to suspension of regular police patrols in favor of a "quick response" tactic.
- People were not socially isolated. There was a definite sense of community in the neighborhood, reflected by significant social interaction.
- People were using a new tax-funded library and a bike path in the community.
- People were re-investing in their property as verified by a gradual rise in the number of building permits issued.
- Many people expressed that investments in new and rehabilitated housing have made a significant contribution to improving the built environment of the neighborhood.

Figure 6. Success Measures Data Collection Tools Used by NHS Toledo

Housing Quality – visual assessment of housing units using a standard rating protocol

Neighborhood Security – resident survey

Resident Satisfaction with Neighborhood Quality of Life – resident survey

External Perception of the Community – key informant interviews

Community Use of Public Space – observations at key locations in community during different times of day

Building Permit Activity – review of secondary data from local government

Success Measures also assists organizations like the Primavera Foundation, a multi-service community-based organization serving Tucson and Pima County, Arizona. In this case, the tool helped document the results of the Foundation's financial capability and education programs. Success Measures' Financial Capability data collection tools, which Primavera used, are the product of a multi-year collaborative development process in which more than 80 leading practitioners, researchers, and funders helped frame new measures to document changes in financial status, attitudes, behavior, and resilience. Nineteen organizations then tested these tools, representing a broad array of asset development, financial education, matched savings, volunteer tax preparation, and asset preservation programs. As one of the test sites, the Primavera Foundation helped ground the tools in the cultural conditions of its community. The organization has since incorporated use of the tools into ongoing program delivery and tracking. The tools allowed Primavera to track changes in behavior or attitudes

that were occurring as a result of its work with low-income clients. The Foundation was able to collect and analyze additional client information such as:

- How clients accessed and used formal financial resources;
- The range of options used to make payments;
- Whether clients invested;
- How they accessed and used credit; and
- Whether they budgeted and how they prioritized spending.

According to Primavera CEO Peggy Hutchison, the organization's ability to track clients' behavior and attitude changes over time "put us in the forefront of being able to look at what long-term change we're making in people's lives and in the community. This is what we want to know, and also what funders want to know. People want more than numbers."

Success Measures is grounded by measurement tools that have been tested in a variety of cultural contexts, and reinforced by data collection practices and analyses that are rigorous and credible. It has assisted numerous organizations whose evaluation initiatives all make a compelling case for how a systematic participatory approach can become a core part of their decision-making procedures and provide potential investors with additional layers of information.

In addition, the easily accessible web-based system behind Success Measures tools is integral to the success of this evaluation approach. Openness, precision, and accountability are key elements of the system, allowing it to be used effectively by professionals and non-professionals alike. The Success Measures indicators and survey instruments offer practitioners the opportunity to compile a rich repository of information that can be shared among community-based groups to tell stories of success, advance joint advocacy efforts, and inform effective practice across the field.

Implications for the Field

With origins in the international development arena, "participatory evaluation," also referred to as participatory action research, is recognized as a methodologically sound approach that leads to both more relevant results and self-sustained action in local communities. This type of assessment should not be viewed as a substitute for analyses undertaken by third-party evaluators or certain types of focused research. Rather, it is a valuable addition that can add texture and depth to those efforts. Similarly, the outcome indicators developed by Success Measures are intended to be coupled with, and not serve as a replacement for, the tracking of outputs that define measures of performance. The practitioner-leaders who laid the groundwork for the Success Measures tools were motivated by the need to move beyond simple performance evaluation. They sought to address gaps in the evaluation landscape by producing common outcome measures that could best convey the multi-dimensional aspects of community development.

Over the past decade, much has been learned about how the participatory approach to measuring social impact relates to, and informs, leading efforts that are gaining traction in the field. These include the IRIS/PULSE taxonomy and tools developed by the Acumen Fund, CDFI Common Data Project, B Impact Rating System, CDFI Assessment and Ratings System (CARS), and other initiatives in the areas of financial capability, shared equity homeownership, and charter school reform, to name just a few. Integrating relevant outcome measures into these performance assessments would, in a very concrete way, address the need to fully understand shifts in client attitudes and behaviors in response to a variety of interventions, and help to further identify those subtle triggers that lead to social change.

Maggie Grieve directs Success Measures® and has guided its growth since its inception as a specialized outcome evaluation resource for the community development field. Maggie has more than 35 years of experience in the community development field, and has provided a range of consulting, research, and management services to assist community-based organizations, intermediaries, local governments and foundations in the design and implementation of participatory planning, evaluation, and action research initiatives. She holds a B.A. in American studies from the University of Minnesota and studied Urban Planning at the Graduate School of Fine Arts, University of Pennsylvania.

As Director of Success Measures Investments and Partnerships, Debby Visser is responsible for partner and resource development, and special initiatives that advance the use of outcome evaluation by funders and community-based organizations. She also leads the Success Measures marketing and communications efforts. For more than a decade, Debby was Principal of Visser and Associates, where she advised philanthropies and nonprofits working in the community development arena, and she served as Program Officer for Community Revitalization at the Surdna Foundation. She holds a B.A. from Case Western Reserve University and a Masters Degree in City Planning from the University of Pennsylvania.

What Would Google Do? Designing Appropriate Social Impact Measurement Systems

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No one as concerned as I have been with efforts to bring measurement and analysis to the social sector and civil society could fail to be impressed by the creativity and commitment that was evident at the recent Federal Reserve conference on measuring the nonfinancial impacts of social and environmental interventions, or by the background article by Ben Thornley and Colby Dailey, which provided the basis for it.[1] Yet, at the end of the day, it is also hard to escape the conclusion that the field of nonfinancial impact measurement, while becoming long on metrics, remains somewhat short on concepts. Thornley and Dailey are more charitable in their excellent overview, in which they describe the current state of the nonfinancial performance measurement field as "uncoordinated innovation."[2] But uncoordinated innovation not guided by a clear strategic concept can do more than lose its way: it can do actual harm.

This is so because metrics are not neutral. They not only measure impact, they can also shape it. And if they can shape it, they can also misshape it. They can do so by advantaging certain outcomes because they are easier to measure and disadvantaging others for which measurement is more difficult. In the process, they can incentivize activities and outcomes that maximize results different from the ones actually being sought. To paraphrase Albert Einstein's famous dictum, "Not everything that can most easily be counted counts." In fact, some readily countable things can be counter-productive. For example:

- If we count jobs, when we are really seeking empowerment;
- If we count houses, when we are really trying to build community;
- If we count the production of services, when what really makes a difference is advocacy or community organizing to open opportunities that are currently closed;
- Or if we neglect to recognize the time dimension that real social change often requires, a point that received scant attention at the conference that gave rise to this volume, but that is of special concern to me as the author of a long-term evaluation of a New Deal land reform program that was declared a failure within five years of its initiation, but that ultimately gave rise to the small, black landed middle class that provided the

1 Ben Thornley and Colby Dailey, "Building Scale in Community Impact Investing through Nonfinancial Performance Measurement," *Community Development Investment Review,* 6(1) (2010): 1-46.
2 Ibid, p. 25.

critical backbone for the Southern civil rights movement thirty years later.[3]

Even the number of measures can have unfortunate effects. Too many metrics can lead to "grade inflation," where every intervention gets a pass, or even an A, by having some measures on which to score highly. Just as "green-washing" overstates environmental benefits and impacts, wholesale "impact-washing" may result from such overdose of indicators in social impact measuring systems, potentially discrediting the entire impact investing movement.

The way to minimize these problems is to bring a clear strategic sense not only to the design of the interventions being measured with new impact measurement systems, but also to the design of the measurement systems themselves. To illustrate this point, I want to focus on three strategic questions that need to be tackled in the design of social impact measures, but that seem to have attracted too little explicit attention in the measurement systems that now exist.

Whose Priorities?

In the first place, it is important to be careful about the specification of whose interests and priorities should be the focus of social impact measurement. To their credit, Thornley and Dailey are fairly up-front about their answer to this question, and their answer seems to be driving much of the activity in this field. That answer is: private investors. "Investor demand," they assert "will, and should," determine the form that nonfinancial impact measurement should take. "Whatever the endgame," they suggest, "the process is certain to be investor-centered."[4]

This is a reasonable position, of course. Private investors are clearly crucial stakeholders in the new financing models emerging to support social and environmental innovations.[5] Metrics that deter their participation must therefore be avoided. The problem, however, as Thornley and Dailey show, is that few investors have thus far displayed much inclination to measure or report nonfinancial returns. Left to their own devices, therefore, investors may continue to rely on favorable anecdotes, push for laundry-list measurement systems that provide enough indicators for every investor to claim success, or push for metrics that are easiest to measure even if this fails to incentivize the social returns really needed (e.g. by failing to encourage attention to the most difficult clients or the most challenging fields of endeavor).[6]

What, then, is the alternative? Thornley and Dailey provide a useful clue when they concede that, "To the extent that investors measure and report nonfinancial performance,

3 Lester M. Salamon, "Follow-ups, Let-downs, and Sleepers: The Time Dimension in Policy Evaluation," in *Public Policymaking in a Federal System,* edited by Charles Jones and Robert Thomas (Beverly Hills: Sage Publications, 1976).

4 Thornley and Dailey, "Building Scale," p. 39.

5 Jessica Freireich and Katherine Fulton, *Investing for Social and Environmental Impact* (San Francisco: Monitor Institute, 2009), and Lester M. Salamon, *New Frontiers of Philanthropy: A Guide to the New Tools and Actors that Are Reshaping Global Philanthropy and Social Investing* (San Francisco: Jossey-Bass, 2012).

6 For an illustration of this latter strategy in the context of performance indicators in the welfare reform field, see Peter Frumkin and Alice Andre-Clark, "When Missions, Markets, and Politics Collide: Values and Strategy in the Nonprofit Human Services," *Nonprofit and Voluntary Sector Quarterly* 29 (1) (2000): Supplement: 141-63, esp. 150-152.

they often do so because they are required to."[7] This suggests that the priorities of those requiring reporting from investors should figure at least as prominently in the design of measurement systems as the priorities of the investors themselves. More generally, since social investment often requires special financial or regulatory incentives, such as tax credits, first-tier financing from foundations, or the kind of requirements embodied in the Community Reinvestment Act, a better strategy for the design of nonfinancial measurement systems is to encourage the active involvement of those providing the incentives and requirements in the specification of the metrics. The objective, moreover, should not be to maximize the number of measures, but to reduce them to the fewest considered absolutely necessary. Only in this way will we get finely targeted scorecards rather than grade-inflating grab-bags.

Unit of Analysis

A second crucial strategic issue in the design of social impact metrics concerns the unit of analysis to use. At the end of the day, nonfinancial impact data must be gathered from some entity. What should that entity be?

This choice, too, can have important consequences for the conclusions that are reached, advantaging some outcomes over others, often with little understanding of the basis for the judgments. From the evidence available, this issue has not attracted much attention in the social impact measurement arena. It certainly does not surface as a focus of the Thornley and Dailey overview. Indeed, most of the existing nonfinancial impact measurement systems they analyze take a rather narrow approach to this issue. The dominant approach, evident in GIIN's IRIS system and in the work of organizations such as Pacific Community Ventures, is to use the ventures receiving social investments as the source of the impact data. This places a heavy reporting burden on these ventures, however, and leaves open the possibility of self-serving perceptions, or worse, creaming of potential beneficiaries. A second approach, evident in the CARS system,[8] focuses on the perceptions and levels of satisfaction of the investors. But this approach results in measurements that are two steps removed from the impacts being measured.

Is it possible to imagine a third approach?

What Would Google Do?

This brings me, then, to my third strategic question: What would Google do? While we may not think of it this way, Google has actually created a powerful model for impact measurement. The key to this model is a simple belief: "Focus on the user and all else will follow."[9] Google determines the value of particular organizations by systematically measuring

7 Thornley and Daily, "Building Scale," p. 36.

8 CARS™, the CDFI Assessment and Ratings System, is the only comprehensive, third-party assessment of a CDFI's impact performance and financial strength and performance.. More information is available at: http://www.carsratingsystem.net/

9 Jeff Jarvis, *What Would Google Do?* (New York: HarperCollins, 2009), p. 4.

the web traffic they attract from millions of users. Could it be that this simple belief holds a lesson for the design of an effective system for nonfinancial impact measurement? After all, who knows best about social impact if not the people being served?

Yet, at the present time, beneficiaries have no real say in social investing. Since the products of social investment, unlike the products of market investment, are primarily nonmarket goods and services, there is no true market test for them. There is thus no effective feedback loop, and the dominant social impact measurement systems do little to correct this. There was thus no reference to user perceptions in any of the impact measurement systems that Thornley and Dailey reviewed. Nor was this approach mentioned at the Federal Reserve conference inspired by their article until introduced by the present author during the concluding panel. As noted above, the existing measurement systems look to the ventures or the investors as proxies for the beneficiaries, but as I have suggested, these are imperfect proxies at best. Far better would be to tap the opinions of users more directly.

This is not a new idea, of course. It lies at the root of the emergence of customer satisfaction surveys as a supplement to sales and other financial data on corporations.[10] Such surveys have proven to be an effective predictor of shareholder value. Those designing social impact measurement systems might therefore be wise to follow this lead and move beneficiaries closer to the center of impact metrics.

This is the approach recommended by David Bonbright, founder of Keystone: Accountability for Social Change. Bonbright has created in what he calls "constituent voice" a social-sector counterpart to the market-sector's concept of "customer satisfaction." Constituent voice is tapped through straightforward surveys designed to assess participant perceptions of the social or environmental impacts of programs in which they are involved. As Bonbright argues: "If you want to measure and communicate social impact, ask the people who are meant to benefit from your work."[11] Neither constituent voice nor any other manifestation of user perceptions offers a silver bullet for dispelling the obstacles to effective nonfinancial measurement in the impact investing field, but they certainly deserve to be part of the ammunition that is brought to bear.

Conclusion

In short, enormous progress is being made in the design of metrics to assess the consequences of social interventions. But four considerations could still usefully be given greater salience in the design of social impact measurement systems. In the first place, it is important to recognize that metrics have consequences, and not all of these consequences are benign. Therefore, we must pay more attention not just to the metrics, but also to the strategies and concepts that underlie them. Secondly, this implies greater sensitivity to whose priorities

10 C. Sewell, *Customers for Life: How to Turn that Onetime Buyer into a Lifetime Consumer* (New York: DoubleDay, 1998); and C. Denove and J.D. Power, *Satisfaction: How Every Great Company Listens to the Voice of the Customer* (New York: Penguin Group, 2006).

11 Keystone: Accountability for Social Change, *Prospectus* (2010): 2011-13.

the metrics should serve, and particularly to the relative weight to place on the priorities of private investors and those who are incentivizing their involvement. Third, care needs to be taken to make sure that the unit of analysis used in gathering the needed evidence is capable of providing real insight into the nonfinancial impacts being achieved. Finally, we should follow Google's lead and make more room in the design of measurement systems for the perspectives not just of investors and the ventures they support, but also of the beneficiaries of their actions.

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"Impact Investing": Theory, Meet Practice

Mark Pinsky[1]
Opportunity Finance Network

The loud buzz of excitement about Impact Investing is cause for concern, but not only because the enthusiasm is ahead of the practice. The practice of so-called "impact investing" lacks clarity of purpose, definition, and results. The often-referenced J.P. Morgan research report, "Impact Investments: An Emerging Asset Class," suggests that the potential market for "impact investing" is "vast."[2] I disagree.

As defined and practiced today, "impact investing" is infinite; it is unbounded, requiring only self-determined good intent to qualify (see Table 1). By that standard, Angelo Mozilo, the failed former Countrywide mortgage mogul, and any number of predatory lenders, qualify as impact investors–many believed they were giving underserved people access to the American dream.[3]

"Impact investing" advocates acknowledge that they are selling more sizzle than steak. To my surprise, most seem pleased about that. But the sizzle has also attracted unwanted attention: more than one "impact investing" champion told me they are concerned about investment managers who are appropriating this new brand category in name only to re-package otherwise standard investments to high net worth investors. This may be a case of making a deal with the devil in the details.

It turns out that the "impact investing" brand is easy to appropriate because its best intentions are not rooted in anything in particular. The parameters of "impact investing" practice are up for grabs and seem likely to go to the highest bidder. As the saying goes, in theory there is no difference between theory and practice, but in practice there is. It is easy to get excited about a promise, but it is unwise, at best, to act on that excitement without a clear sense of what happens when theory meets practice.

The tension between the idea of "impact investing" and its current practice has created a dilemma not only for those who choose to align with it but also for those entities–notably community development financial institutions (CDFIs), their partners, and the people they serve–that "impact investing" advocates have decided to associate with.

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1 This commentary is based on comments at the "Advancing Social Impact Investments Through Measurement: New Capital for Community Development" conference held by the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of San Francisco, March 21, 2011, in Washington, DC. Sam Coggeshall provided research assistance on this commentary.

2 J.P. Morgan Global Research, "Impact Investments: An Emerging Asset Class" (New York: J.P. Morgan Global Research, November 29, 2010).

3 Not all, however. In 2006 or 2007, on a flight from Los Angeles to Philadelphia, I sat next to a Countrywide executive, who was returning from a corporate strategy session. Countrywide's strategy, he explained, to my horror, was to "make a lot of money off of poor people."

Table 1. What Isn't Impact Investing?

This table, based on examples given in the still-sparse literature describing "impact investing," is meant as a tool to draw a circle around the idea–to help figure out what is "in" the circle and what is not. Taken together, the table seems to suggest that it is all but impossible to exclude anything from "impact investing" as long as the investor's intent is to create a positive impact.

Yield	Impacts	Investees	Investors	Intermediation	Outcomes
Profit-maximizing	Green Real Estate	For-profit	Individuals	Foundations	Jobs
Profitable but not profit-maximizing	Green businesses (innovation, production, distribution)	Nonprofit	Private Financial & Other For-profit Institutions	CDFIs	Improved Social Program Outcomes
Marginally profitable	Education (early care, charter schools, etc.)	B Corps	Philanthropic Institutions	Banks	Education
Breakeven	Affordable housing	Community Investment Cos.	Governments	MFIs	Environmental Sustainability
Philanthropy (100% loss)	Women & minority owned businesses	Government		Investment Banks	Economic Opportunity & Equality of Opportunity
	Social services	Micro-finance Institutions		Social Investment Funds	New Social Enterprise Business Models
	Social Enterprises			None	New investors & investment opportunities
	Other	International & Domestic			Other

I am concerned about the path that "impact investing" is taking because it poses a risk for CDFIs that, in my view, outweighs potential benefits. Because the small body of "impact investing" literature[4] relies primarily on CDFI examples to credential the theory, "impact investing" practice rests heavily on the track record of CDFI lending and investing. If "impact investing" stumbles, falls, or fails outright, it could compromise or damage the hard-earned standing, credibility, and brand that CDFIs have built over 30 years of disciplined work. The further "impact investing's" reputation gets ahead of actual practice, and the longer it stays there, the greater the risk to CDFIs. This does a disservice to CDFIs for three reasons.

First, the unbounded definition of "impact investing" complicates the comparison of assets or impacts.[5] The international emphasis of "impact investing" is also different than CDFIs' domestic focus. So far, the metrics that "impact investing" advocates are developing to measure the practice emphasize breadth over depth. This is important because what gets measured gets done and thus tends to shape the course of future practice. By contrast, the data set on CDFIs[6] is decades deep and tightly defined.[7]

Second, "impact investing" is positioned primarily for investors who want self-defined impact. In contrast, CDFIs work primarily to benefit low-income, low-wealth, and other disadvantaged people–measured by results–and they ask investors to make concessions to that end.

Third, and most significantly for CDFIs, supporters of "impact investing" have publically minimized CDFIs as poor examples of the future of "impact investing" because they believe there are multiple higher-yield investments. Why make a concession when you can have your cake and eat it, too?

Yet CDFIs are performing well and hold significant promise for the people and places they serve. CDFIs specialize in managing risk in distressed markets, an expertise that has

4 See J. P. Morgan Global Research, "Impact Investments"; Rockefeller Foundation, "Harnessing the Power of Impact Investing" (New York: Rockefeller Foundation, 2011), available at www.rockefellerfoundation.org/what-we-do/current-work/harnessing-power-impact-investing/; Rockefeller Foundation, "When is an Investment an Impact Investment?" Impact Investment News Brief #2 (New York: Rockefeller Foundation, June 2010), available at www.rockefellerfoundation.org/news/publications/when-investment-impact-investment; Monitor Institute, "Investing for Social and Environmental Impact," (San Francisco: Monitor Institute, January, 2009); Insight at Pacific Community Ventures and the Initiative for Responsible Investment at Harvard University, "Impact Investing: A Framework for Policy Design and Analysis," January 2011(with support from the Rockefeller Foundation).

5 The robust global microfinance marketplace might align better with "impact investing" but others are in better position to judge that.

6 CDFIs are private0sector financial institutions that share at least two defining characteristics: (1) they are dedicated to benefitting low-income, low-wealth, and other disadvantaged people and places; (2) they are profitable but not profit-maximizing.

7 For insured depository CDFIs—banks and credit unions—the data are deeper, extremely well defined, and hundreds of data points wide. For CDFI loan funds, the data set that is starting to emerge from the CDFI Assessment and Ratings System™ (CARS™) promises new, deeper opportunities for understanding, definition, and practical applications.

been both tested and proven since the financial downturn started in 2008.[8] As stewards of more than $30 billion of predominantly private investments, CDFIs hold themselves to rigorous standards based on data derived from practice–data that are increasingly public and used by investors, policymakers, and practitioners. No segment of the domestic financial services sector has performed more soundly during the Great Recession than U.S. CDFIs.

For these and other reasons, CDFIs are taking on expanded roles in partnership with mainstream financial institutions and government to maximize the flow of responsible, affordable financing in distressed markets. This work may not sizzle but, in the words of Federal Reserve Chairman Ben Bernanke, "providing responsible credit for individuals and small businesses through community development financial institutions can stimulate economic activity that generates local tax revenues."[9]

With so much riding on their work in urban, rural, and Native markets, CDFIs cannot sit quietly on the sidelines while "impact investing" leans on CDFI performance as it finds its way.

About 25 years ago, a young CDFI grew concerned about a younger CDFI in a neighboring state--in large part because they shared investors, including Orders of Women Religious. "If they screw up," the slightly older CDFI's Executive Director explained, "the nuns are going to pull their investments from both of us." Shared risk suggests, at best, mutual accountability. For the time being, at least, "impact investing" is gambling with someone else's assets: CDFIs'. In this way, it is putting low-income, low-wealth, and other disadvantaged communities at risk.

"Impact investing" poses at least two clear risks to CDFIs. First, guilt by association: if the rush toward it is, at worst, a bubble, the inevitable contraction would likely harm CDFIs, their partners, and the communities they serve. Second, opportunity costs: in a rush to embrace "impact investing," investors, policymakers, and practitioners are already forgoing other, more immediately important opportunities. An "impact investing"-led push for a federal program supporting the Social Impact Bond, for instance, muddied the waters in Washington around the CDFI Bond Program created by Congress in 2010.[10] The CDFI Bond Program has the potential to leverage $3 billion in government-backed, long-term debt for CDFIs to finance charter schools, affordable housing, small businesses, and other assets. The CDFI Bond Program is likely to transform how capital flows to benefit low-income, low-wealth, and other disadvantaged people and places.

For their own sake and for others', "impact investing" practitioners need to establish and

8 The "CDFI Market Conditions Survey," a quarterly data analysis of CDFI challenges and opportunities, tracked a surge in portfolio at risk (PAR) and net charge-offs in late 2008. In hindsight, this rise reflected sound, conservative accounting. Both PAR and charge-offs have declined slowly but steadily since.

9 "Community Development in Challenging Times," speech at the Federal Reserve System's Community Affairs Research Conference, Arlington, Virginia, April 29, 2011.

10 To date, there is a single Social Impact Bond transaction in a single place addressing a single issue. Yet impact investing advocates are pushing the White House and Congress for a substantial federal investment in the idea. That, for many decades, is how bad government programs got started. If the Peterborough Prison experiment (the UK test for the Social Impact Bond) is successful—and we won't know for many years—it should be viewed as a single experiment, not an established practice.

consistently enforce a definition, standards, and data protocols that make clear what "impact investing" is and what it is not. A good place to start is to categorize the growing number of self-described "impact investments" as being either "in" or "out." That would give others a basis for judgment. A second priority is to build a sound information infrastructure based on real practice, rather than on theory. The recent arrival of new leadership at the Global Impact Investing Network (GIIN) opens a window to demonstrate commitment to these, and perhaps other, ways of re-framing the field.

So far, the effort to ensure there is a foundation under "impact investing" is lagging behind the promotional bandwagon. Unless practice is used to inform theory, decades of good work done to attract capital to opportunities that benefit society both directly and indirectly, may go to waste. It's possible that "impact investing" is stretching the bounds of social capital–financial innovation at its best. That is its promise, but as yet it is a promise without proof, a theory in search of a practice.

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Solidifying the Business Case for CDFI Nonfinancial Performance Measurement

Ben Thornley
Pacific Community Ventures

Measuring nonfinancial returns is a cost of doing business for community development financial institutions (CDFIs). Like any other expense, the tracking and reporting of impact must be justified by the contribution it makes to CDFI operational and strategic priorities.

In my and Colby Dailey's article "Building Scale in Community Impact Investing through Nonfinancial Performance Measurement," in the *Community Development Investment Review* and presented to the Federal Reserve Board of Governors conference in March 2011, we conjecture that more rigorous reporting practices will draw new capital into community impact investing. It was an admittedly theoretical argument, but one we hope will be supported by additional evidence over time.

For now, the business case for rigorous impact evaluation as a strategy to attract capital is a relatively weak one, at least at first glance. Because CDFIs deliver impact by statutory definition, most funders are not especially demanding of detailed evidence. Add to that the high costs and other difficulties associated with measuring and reporting, and it is hard to justify collecting and providing more information than is absolutely necessary.

To the extent there is a business case for rigorous impact evaluation, it centers on a number of factors that are more difficult to quantify. These include the four, broad benefits that three CDFIs –Coastal Enterprises, Enterprise Cascadia, and HOPE–identified during research for this article.

1. The first benefit is impact measurement's contribution to operational excellence and internal tracking. As Bill Bynum, CEO of HOPE put it, "Measurement helps us determine whether or not our efforts are achieving the desired results, and we use this to make strategic adjustments." Others concur. Maggie Kirby, development coordinator at Enterprise Cascadia, believes that "what gets measured gets done. We develop a set of important objectives for the coming year and then assess each quarter how we are performing." Likewise, Ellen Golden, managing director of Coastal Enterprises, uses the information they find from evaluation to create a vision for the future.
2. The second benefit of rigorous impact evaluation is its ability to influence the market. Bynum explains, "We use the data and analysis from our work to influence the policies and practices of government officials and agencies, banks, foundations, community development practitioners and others whose actions impact the well-being of low-income people and communities we serve." Coastal Enterprises, on the other hand, needed impact information as a tool to build credibility for their approach to community economic development.

3. The third benefit of measurement is its contribution to regulatory and investor compliance. Groups can use the information gleaned from evaluating impact to maintain certification or meet the needs of existing funders, as Coastal Enterprises does, or they can use the information to meet specific reporting requirements to investors; an Enterprise Cascadia priority.
4. Finally, impact measurement offers a competitive advantage. As Golden from Coastal Enterprises put it, "This is one way for us to distinguish ourselves from potential competitors both [locally] and at the national level."

The contribution impact evaluation makes to operational excellence and internal tracking is particularly evident and widely accepted. CARS, the independent rating system for CDFIs, is a notable example of a more inwardly focused form of impact evaluation. CARS assesses the nonfinancial impacts of the CDFIs it rates by focusing on the alignment of strategies with mission in an institution, the effective use of financing resources in pursuit of its mission, and the processes by which the organization tracks output data on its mission-focused goals. According to an April 2011 press release from the Opportunity Finance Network, which administered CARS at the time, of the 51 CDFIs that have gone through the full CARS ratings cycle (a full rating and at least one annual review), 50 percent received a ratings upgrade for "impact performance" or showed improvement in component measures.[1]

Even as the internal business case for rigorous measurement becomes more evident –ensuring what CARS calls greater "clarity and depth in CDFI decision making."–the "external" business case remains undeveloped. As CARS managers indicated at the Federal Reserve Bank conference, there is very little demand for a more quantitative and standardized method of impact evaluation that would allow greater comparability across CDFIs.

To build an external business case for nonfinancial performance measurement, it is important to ascertain whether the growth in social and impact investing might spur interest in CDFIs. If it does, rigorous impact measurement and reporting could become a factor in unlocking additional capital.

In this article I contribute a number of additional questions and next steps to the conversation about measurement that started well over a decade ago–a conversation that led to the development of CARS, the Community Investment Impact System (CIIS) at the CDFI Fund, and the CDFI Data Project, among other innovations. Colby Dailey and I noted in our initial research that the impact investors most likely to drive widespread innovation in measurement are those who, for whatever reason, care most about impact. We call this their "willingness to pay." The group also includes those most highly motivated to report impact, which we call their "willingness to disclose."[2] CDFIs are the investors that best fit this definition, hence their centrality to the development of nonfinancial performance measurement.

1 "Impact performance" evaluates how well a CDFI loan fund strives to achieve its mission.

2 We define "willingness to pay" as the "quantity of time, effort, investment earnings, or other resources that investors are willing to exchange for a preferred value of nonfinancial return." "Willingness to disclose" is defined as the "quantity and quality of reporting of nonfinancial returns that investors are willing to provide to the stakeholders to whom they are accountable".

The Status Quo

The willingness of CDFIs to measure and disclose nonfinancial performance is primarily a function of accountability. Simply put, CDFIs deliver the information that stakeholders (i.e., investors and regulators) demand. The demands of these stakeholders differ significantly. On the one hand, banks motivated by Community Reinvestment Act (CRA) stipulations are the least demanding capital providers to CDFIs. Most CDFIs demonstrate CRA compliance simply by being registered with the Treasury Department, thereby satisfying the most pressing need for banks. Moreover, banks are primarily financially motivated and are less willing to pay for community impacts than many other investors.

Government entities such as the CDFI Fund are more committed to tracking impact, and demand more information from CDFIs as a result. Recipients of CDFI support, including New Markets Tax Credits, are required to report annually on community impacts to CIIS. However, these metrics are relatively limited–focused only on jobs created, affordable housing units developed, and capacity created in community facilities–and are neither attributable to the reporting entity nor available publicly. Here again, CDFI certification provides the key indicator of mission consistency, and impact evaluation essentially takes place upfront.

Foundations, on the other hand, generally demand the most accountability for their capital. Because foundations strive to deliver focused and deliberate social impacts in their own right, including by force of law in the case of program-related investments, they often expect detailed documentation of related outcomes from CDFIs. For example, all Pacific Community Ventures (PCV) foundation limited partners specify exactly what social impacts are required to be tracked and reported.

New Sources of Capital Might Create New Incentives

Because accountability remains the primary factor in driving non-financial performance measurement practices, the business case for tracking and reporting impact is tied directly to new sources of capital and investors in CDFIs. But their interests are unclear. Do these new investors resemble banks, government entities or foundations in terms of their willingness to pay for non-financial return? What additional data are they likely to demand?

Uncertainty has not stopped a number of CDFIs from experimenting with new, often complex financial mechanisms to attract nontraditional sources of capital. Some of the targets of these activities are socially responsible impact investors, including high-net-worth individuals, family offices, and donor-advised funds. For example, the New Hampshire Community Loan Fund raises $4 million each year from individuals. Coastal Enterprises, in Maine, and Enterprise, a national housing lender, both offer CDFI notes to social investors with the goal of raising more than $10 million. It remains unclear whether these investors are likely to be as demanding of rigorous impact evaluation as foundations.

A second group of prospective new investors, albeit a less immediate target, are financially driven entities such as pension funds. On the face of it, we would expect these organizations to have an interest in impact evaluation more closely aligned with banks. But because those who

invest in community development do so by mandate, they generally demand more rigorous performance tracking and reporting. For example, PCV's third $40 million equity fund includes an allocation from the California Public Employees Retirement System (CalPERS), which rigorously evaluates and measures its performance against three key metrics: investment in businesses in areas with limited access to capital; company ownership or management by women or minorities; and employment of workers from low- and moderate-income (LMI) communities. For CalPERS to fulfill its evaluation and reporting obligations, PCV is required to complete a detailed annual impact survey for each of its portfolio companies.

Investors that are less demanding of nonfinancial performance information will remain as core supporters of CDFIs. However, to attract capital from some of the most promising new providers, it is important to consider–or even anticipate–their potential to require broad disclosure of non-financial performance. Some CDFIs are already taking this leap of faith. Enterprise, for instance, is seeking to expand its investor base beyond traditional CRA-motivated investors through its efforts to attract retail investors to the Enterprise Community Investment Note. To do so, it is gearing up to collect new metrics, comply with the Impact Reporting and Investment Standards, an initiative of the Global Impact Investing Network, and enhance its capacity to tell a more compelling quantitative and qualitative story. Enterprise believes it can better evaluate the ultimate success of its supported projects with a more robust impact assessment program.

Are We In This Together?

Individual CDFIs will need to decide for themselves if the prospect of attracting additional capacity justifies greater investment in impact evaluation and reporting. But presuming at least some new investors are likely to demand more impact data, is the CDFI industry, collectively, interested in developing more standardized, rigorous, and cost-effective measurement tools?

If new investors bring to the table increased demands for accountability, and a higher willingness to pay for impact, then the answer is probably yes. It would be helpful for all CDFIs if they could leverage a "category" story to attract prospective investors–a broader understanding of the entire sector's performance, cultivated through consolidated industry-wide reporting. Smaller CDFIs, in particular, would benefit from the economies of scale a standardized effort at measurement would bring.

Greater standardization would also create more robust industry benchmarks, identify and develop best practices, and provide investors with real choices through greater comparability. Benchmarks would provide CDFIs with a quantitative barometer against which they could measure their impact. An example is the National Community Investment Fund annual report on financial and social performance, which ranks CDFI banks on measures including the proportion of lending in LMI areas. Once we know which CDFIs have the greatest impacts, we can recognize and replicate their efforts, following the lead of the Wachovia Wells Fargo NEXT Awards for Opportunity Finance. And if the field presents quantitative impact data that are standardized, and therefore genuinely comparable, investors can make more informed choices.

Ongoing Challenges

CDFIs face numerous challenges in tracking and reporting performance that must be readily acknowledged and carefully considered moving forward. Although these challenges vary across CDFIs and CDFI sectors, they can be summarized as follows:

1. **Cost:** Cost is a, if not the, principal challenge. Penelope Douglas, the founder of PCV, has spoken publicly of the expense incurred in PCV's early years to develop a capacity to rigorously evaluate impact; $250,000 out of an operating budget of $1 million. Many smaller CDFIs are struggling to survive day to day, and simply don't have resources to spare.
2. **Political and operational realities:** For many CDFIs, the presently weak business case for impact evaluation not only tempers additional effort, but often motivates less reporting. The CDFI industry has grown in the past few years driven not by additional investors, but by new or more generously funded public policies. Why do anything to jeopardize that success, CDFIs ask. What's more, innovations in measurement and reporting must overcome regulatory challenges. For example, The CDFI Fund is working to provide more robust and transparent data to the public, in line with the Transparency Act, yet it also must work within the constraints of the Privacy Act and the regulations of both the U.S. Treasury and the Office of Management and Budget. These sometimes competing mandates make measurement and reporting improvements daunting.
3. **Disparate investor preferences:** Another persistent challenge is the wide diversity of preferences of CDFI investors for nonfinancial return. Not only do certain investors, such as banks and foundations, have a very different willingness to pay for impact, but they invest in a wide variety of issue areas, from education to affordable housing, and seek different types of returns (e.g., number of classrooms built vs. number of students served). These disparate preferences, which also tend to be highly place-based and parochial, complicate the development of consistent and efficient measurement practices.
4. **Lack of standard practices:** Finally, there is no industry standard for measurement and reporting on which to build, and technical challenges persist. As a result, there are no recognized best practices to learn from and few economies of scale to drive down cost.

Next Steps

The traditional investment industry sets a high bar for quality financial performance measurement and disclosure. Reported data should be longitudinal, benchmarked to peer groups, audited by a third party, reported regularly and predictably, and evaluated using a fully disclosed methodology. All of these fundamentals are theoretically achievable when measuring nonfinancial performance. However, the field has a long way to go–not least to close the tremendous gap between this type of rigorous impact evaluation and the generally accepted business case for CDFIs in providing it.

With this in mind, six steps would move the field in the right direction.

Developing a deeper understanding of future new investors. CDFIs should pool their knowledge of and experiences with new investors, as well as with those that are seriously inquiring about the sector. By identifying what attracts these investors to CDFIs, the community impacts they care about, and the nonfinancial performance information they are likely to demand, the field can develop impact evaluation and reporting practices that align with these goals, and that are likely to attract additional capital.

Identifying consistent social impacts across the different types and strategies of CDFIs. If CDFIs focus on similar social impacts–for example, providing access to capital to particular groups, serving the underbanked, lending to mission-oriented organizations, or creating jobs for residents of economically distressed communities–standardization and economies of scale in impact evaluation become more likely. There may be considerable crossover between CDFIs, or very little, depending on the granularity of the impact in question. Regardless, any opportunity for standardization is likely to be beneficial.

Reaching agreement among investors in CDFIs on a more focused and consolidated set of nonfinancial objectives. This would better facilitate standardization, not only between CDFIs, but also within them, where the discrete, inconsistent demands of investors often create inefficiencies. If possible, investors should limit the specificity of their demands for social performance information where this puts an unreasonable burden on CDFIs. And investors should always question whether, as a group, they can agree on a shared set of data that meets all of their needs.

Securing additional support for field-building from foundations and other funders. This could include underwriting initiatives to better understand the fundamental incentives that drive the practice of nonfinancial performance measurement, or support for CDFIs to develop user-friendly tools that enable thorough reporting. Significant and much-needed funding has been directed to the development the infrastructure enabling the evaluation and reporting of impact. The field should now turn its attention to building a critical mass of users, which will ultimately lead to financial sustainability in impact measurement.

Addressing privacy issues. The CDFI Fund is working on a new categorization method that retains privacy as required by law but provides a more standardized way to measure and report impact. More research in this area is needed.

Adopting voluntary principles and practices for CDFIs to encourage a consistent quantity and quality of impact evaluation and reporting. A set of standards would move the industry forward and in part anticipate and diffuse regulatory action mandating more robust reporting. These standards should not require CDFIs to undertake impact evaluation in a prescribed manner, using a single tool. Rather, they should be high-level principals to which CDFIs can adhere in a manner that suits them best. These might include core requirements for consistent reporting of quantitative data over time, in a predictable manner, using a methodology that is fully disclosed.

Conclusion

Impact evaluation is the subject of growing attention, including in this journal, because mainstream investors are increasingly looking for opportunities to achieve both financial and social returns.

To the extent CDFI nonfinancial performance evaluation and reporting strategies remain underdeveloped, there is a need to further investigate whether this is hindering the ability of the industry to capitalize on new investor interest.

If, as I suspect, the business case for impact evaluation as a capital attraction strategy is more robust than currently presumed, CDFIs should work toward improving data integrity and transparency as a way to build the field.

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Opportunity Data: The Other Half of the Information Equation

Laura Sparks[1]

Citi Community Development and Citi Foundation

As a new, larger generation of consumers and investors look for ways to align their values with their purchases, investments and careers, momentum around "impact investing" has soared. This surge in interest has generated significant discussion and an emerging field of impact measurement and evaluation, presumably to generate better information about the societal[2] impact such investments generate. The goal, it seems, of this conversation is to generate information that will help attract vast sums of capital that can leverage or be leveraged to advance positive societal change at significantly higher orders of magnitude than is possible today. Exponents of "impact investment" believe that by systematically standardizing and cataloguing the positive impacts of investments, investors will be better able to discern investment choices and more motivated to invest in strategies deemed successful, resulting in new capital pouring into projects that advance positive change in society.

It is a classic market-based argument–that with more options and with more information about the characteristics and quality of those options, the likelihood of a market (in this case, a proactively impact-oriented capital market), increases. However, the likelihood of a robust and efficient market only increases with enough high quality information and clearly discernable choices, and the role of impact data is only half of the equation. The role of opportunity data is the other half. Data and analytics that inform prospective impact strategies are just as important, if not more important, than the post hoc use of data and analytics to evaluate activities and investments.

A focus on "investment" will inevitably generate a discussion about returns and how they are measured. It makes sense, then, that much of the "impact investing" discussion explores how best to capture and standardize societal return metrics, and the suggestion to proactively emphasize opportunity data is not meant to dismiss the focus on post-hoc evaluation that is dominating the "impact investing" conversation. Developing more standard ways of reporting on impact, if done well, may help simplify messaging and improve visibility among potential investors, bringing more capital to the table. Creating common standards for impact evaluation might create efficiencies that can lower the cost of assessing impact. Consistency of and increases in data collection could allow for more robust and useful research that could illuminate the most effective approaches to generating positive societal

1 With special thanks to the contributions of my colleague Jamie Alderslade, Vice President, National Initiatives, Citi Community Development.

2 I take my lead from Lisa Hall, President and CEO of the Calvert Foundation and the organization's use of the word "societal" to reflect both social and environmental change.

impact over time. There is also certainly an important role for policy makers to evaluate impact (vs. outcomes or outputs)[3] and to use that information to motivate investment in the most effective strategies, prioritizing the most significant need. This could, if done well, help channel more capital into proven strategies to address our greatest societal ills.

But while this discussion around standardizing impact measurement is important, the almost exclusive focus on post hoc impact evaluation may, if we're not careful, distract us from the equally if not more important conversation of up front data analysis. If we fall prey to this distraction and fail to focus on antecedent data analytics, we will miss an opportunity to have higher-level impact.

The quality of an "impact investment" should be evaluated by data that both frames the need and tells us what happened in response to an investment. Impact data only tells us whether we've been successful. Opportunity data is required to inform whether, where, why and how to best target investment in the first place. It is our ability to respond with effective and tested strategies tailored to the specific needs and circumstances of a community that will generate the highest societal impact, and it is data at the beginning of the work that can effectively and efficiently inform such a tailored strategy. While there are increasingly well understood ingredients (e.g., shelter, nutrition, health, education, employment, asset building opportunities) that can be used successfully in alleviating the effects and sources of poverty, they will be most effective if combined and deployed in ways that are uniquely suited to address the specific dynamics that may be at play in a particular community.[4]

The need for opportunity data is greatest when resources are scarce. Fewer government program dollars and a risk-averse investment climate challenge us to target investment in the activities that will generate the highest societal return. As both philanthropists and investors that have put hundreds of millions of dollars into Community Development Financial Institutions (CDFIs) and other funding opportunities that would likely be considered "Impact Investments" in the U.S., we certainly welcome post-investment evaluation of the societal return. However, as we are making our lending, investment and grant-making decisions, we focus even more of our time on understanding how the funding will advance a particular response to a particular challenge in a particular place or set of places. We look for funding opportunities that are informed by an analysis of community need and that represent a smart, efficient and direct response to those needs. By funding and deploying strategies that are not only affirmed by evaluations of prior activities, but also are grounded in upfront data analysis that helps us understand what the specific challenges are and how we might best alleviate them, we are able to prioritize limited resources to support the highest-impact opportunities.

For those of us interested in harnessing investment to address significant public policy concerns, opportunity data is the missing link that distinguishes investments that were profit-

3 The progression from inputs to outputs to outcomes to impact is a helpful framework presented in "Metrics Matter: A Human Development Approach to Measuring Social Impact," Burd-Sharps, Guyer, and Lewis contained herein.

4 I use "community" here to refer to communities defined by a variety of features (e.g., geography, race, ethnicity, culture, age, etc.)

able despite societal challenges and those that were profitable in direct response to those challenges. To corral more capital, direct it to the highest-return opportunities and identify ways to scale tailored strategies, we must focus on more widespread adoption of using data analytics to drive community development and private investment activity in distressed communities. This is why location-based data platforms like PolicyMap are so critical. PolicyMap[5] is a robust data and mapping platform that has democratized access to data that can be used to inform highly responsive community investment strategies. Unfortunately, adoption of this tool or others is not nearly as wide as it should be, and so the nearly exclusive focus in the impact investing conversation on post-activity evaluation seems misplaced. Without using data-driven strategies at the outset, we could easily miss the mark, and the after-the-fact impact measurement will be empty. As the energy increases around the development of societal and financial return metrics for "Impact Investing"–the post-investment evaluation–we would be well served to re-direct some of that energy toward honing and increasing the use of antecedent data analysis that has the power to drive impact-maximizing strategies.

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5 PolicyMap is a fully web-based Geographic Information System developed by The Reinvestment Fund, one of the nation's leading Community Development Financial Institutions (TRF). http://www.policymap.com

The Crisis' Silver Lining: Impact Accounting Penetrates the Mainstream

Sara Olsen
SVT Group

Malcolm Durham, a San Jose, California, native and former Marine, is a successful real estate entrepreneur. Since the recession, he has been purchasing distressed mortgages across the country on the secondary mortgage market from banks eager to be rid of them. While striving to achieve extraordinary financial returns, he also works with homeowners to establish new terms they can afford, proactively striving to reduce the need to evict families. Despite the hassle and declining property value for him and the neighbors that typically ensues from eviction, Durham sympathizes with the disruption that eviction brings for homeowners and their families. "I'm not a social entrepreneur," he told me. "I'm a regular businessman, but I can tell what I'm doing is having an impact on the lives of the people I'm helping."

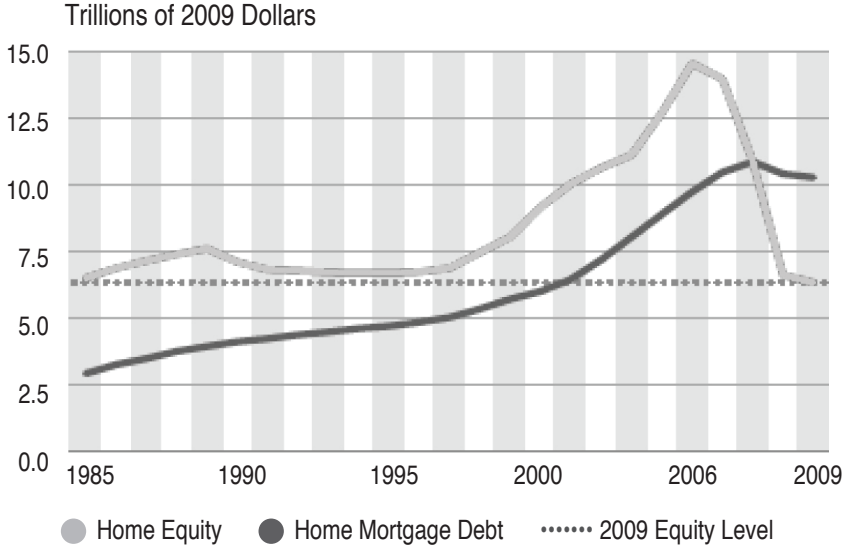
The impact on families and communities that Durham is having is valuable, both inherently, and in terms of its effects on Durham's financial returns. This value should somehow be measured and added to the bottom line. Yet as investors and mortgage holders are currently working out millions of distressed mortgages, many solutions result in manageable new terms for homeowners, but all too often the lives of the distressed homeowners are severely disrupted because affordable terms are not found, even when lenders face far higher costs from evictions. When considering just the short-term cash outlays, banks laden with distressed mortgage assets frequently though inaccurately determine that it is cheaper to not mitigate the economic and psychic costs to the homeowner and the related declines in property value. After all, the bank's urgent priority is getting these devalued assets off the books so everything can move forward. However, financial value, and value in other terms to humans, are intertwined, and there is enough potential financial and social value in doing the extra work that some entrepreneurs, like Durham, are not only paying attention to homeowner outcomes and providing technical assistance, but they are also measuring both the financial and social impact of their efforts–as well as the costs to homeowners and taxpayers of doing nothing. Their objective is to quantify this value so that it is a more explicit part of the overall value proposition of the mortgage, and sell the mortgage to those who recognize this value.

The banking crisis has laid bare something that is often hard to quantify: the social value from homeownership that accrues to people and their communities. According to Building Resilient Regions at the University of California, Berkeley, foreclosures uproot children from their schools when families must move, vacant buildings contribute to an uptick in crime in neighborhoods with high foreclosure rates, and parents suffer the emotional strain of losing the biggest asset they own, not to mention a poor credit score that will shadow them. Even neighbors are affected. Homes within one-eighth of a mile of a foreclosure has been estimated

to lose between .05 and 2 percent of their value.[1] Finally, the individual executing the transaction suffers from being the one who literally puts a family out of their home. Yet these aspects of potential value are systematically discounted by conventional accounting systems.

The result of this is becoming apparent: price and value have been divorced. The unaccounted-for facets of value to buyers that are inherent in goods have too often been stripped out of those goods by financial accounting that is blind to the human costs and benefits, and by capital markets that fail to recognize this value. Buyers are left with only a shell of the good at the original price (before the discovery that it is not so valuable after all, and the ensuing fall in price). As a result, buyers, investors, and the public are at risk.

Figure 1. Real Home Equity has Returned to its 1985 Level and Stands Below Mortgage Debt for the First Time on Record



Note: Values are adjusted for inflation by the CPI-U for All Items.
Source: Federal Reserve Board, Flow of Funds

1 Todd Swanstrom research via Building Resilient Regions, The Institute of Governmental Studies at the University of California, Berkeley; see http://brr.berkeley.edu/2011/08/how-metro-regions-can-prepare-for-housing-markets-of-the-future.

Accounting Badly Needs an Update

In the case of mortgages, the moment this divorce occurred can be pinpointed with astonishing precision in 2005 (see figure 1).[2] But while mortgages are the most vivid example, the same phenomenon plagues many other products laden with externalized hidden costs. These range from personal computers (whose suppliers sometimes resort to unsafe or inhumane manufacturing conditions to deliver lower prices[3]) to conventional strawberries (grown in fields sprayed with carcinogenic pesticides[4]).

So, in our world in which the buyer and seller often never meet one another and goods are produced at a great distance from where they are consumed, how to strengthen the connection between price and value to ensure that buyers and society aren't getting (intentionally or unintentionally) scammed? The answer is simple if not easy: by accounting for the benefits generated by products or investments to people and communities alongside the financial benefits generated for shareholders, and by making this information equally transparent.

This is already happening, and the practice is being catalyzed rapidly by crises such as that in the mortgage industry.

The demand for measuring social as well as environmental impact is going mainstream. When the California Public Employees Retirement System (CalPERS), the largest public pension fund in the United States, established an environmental technology private equity investment initiative, its board knew that "if you don't measure it, you can't manage it." The board established a mechanism to track the net environmental benefits of each investment made. From 2008 to 2010, the board tracked some $600 million invested in more than 200 companies through its private equity partners. When combined with the investments of other investors in the same set of companies, $9 billion in assets were measured for environmental impact, perhaps the largest effort in history to measure net environmental impact among privately held companies.

A number of Fortune 500 corporations have internally piloted social return on investment (SROI) accounting principles within the past two years, although to my knowledge they have not publicized their efforts. The same corporations have not been quite so circumspect about their interest outside the United States. The "Big Four" accounting firms PWC and KPMG have sponsored and participated in projects and conferences designed to promote accounting for SROI, such as Social Evaluator (Netherlands)[5] and the SROI Conference (Australia).[6]

2 Harvard Joint Center for Housing Studies, "State of the Nation's Housing 2010 (Cambridge, MA: Harvard University, 2010), downloadable at www.jchs.harvard.edu/son/index.htm.

3 These conditions have in some cases cost lives. See the MSNBC story, here: http://www.msnbc.msn.com/id/37510167/ns/business-us_business/t/why-apple-nervous-about-foxconn/.

4 Environmental Protection Agency, Pesticides: Topical and Chemical Fact Sheet" (Washington, DC: EPA, March 17, 2011), available at http://www.epa.gov/pesticides/factsheets/iodomethane_fs.htm.

5 Social Evaluator "News Update 20/01/2010" at http://www.socialevaluator.eu/Newsevents.aspx.

6 http://www.csi.edu.au/event/Social_Impact_Measurement_Conference.aspx.

The development of an accounting discipline that captures social or environmental impact for both for-profit and nonprofit entities is not confined to a handful in the private sector. The SROI Network, which began as an informal group of practitioners in the United States, Canada, and Europe, was incorporated in 2008 and today numbers more than 800 members in Europe, Asia, North America, and Africa. The members promote the development and adoption of a principles-based accounting method focused on social value creation. This accounting movement was catalyzed by the U.K. government's adoption of SROI in 2008 as a way to standardize efforts to better enable nonprofit organizations and businesses with a social purpose to account for the social value they create.[7]

When one party generates and accounts for that value, and when another party audits the efforts, a "dialectic between auditor and accountant" occurs that results in "an acceptable norm for how to value the impact," according to a conversation I had with Jeremy Nicholls, economist, chartered public accountant, and director of the UK and International SROI Networks. This dialectic can be engineered, for example, by convening industry experts to design the best method or metrics, such as when the Aspen Network of Development Entrepreneurs' encouraged agreement on standard job-creation and other performance metrics among international sustainable development investors. The dialectic can also emerge from a standing corps of practitioners and auditors, such as SROI Network, equipped with principles that can be applied to assess social value. A third way the dialectic can arise is through in-person relationships that transcend the need for either formal reporting or verification, as individuals use their internal judgment to ascertain what the value is for them to a standard they find personally acceptable. This third approach, though the most ancient and still the most pervasive, is appropriate when only the auditor himself is at risk should his judgment prove incorrect. The future probably looks like a combination of all three.

If the business case for measuring social impact is to be firmly closed, more investments and companies must account for their impact, and document that they have done so. Five factors are causing this to happen and trends suggest that by as early as 2015, accounting for the human impacts of their mortgage investments even on the secondary market will be *de rigueur* for the major banks to stay competitive.

1. ***Visibility.*** The public at large is increasingly aware that the actions of a given business or industry drive specific costs (or benefits) born by the public and the natural environment. Whether it is concerns about cancer posed by the chemicals that companies put in the plastics we drink from and the water we drink; Type II diabetes spurred by the quantities of refined sugar in our staple foods and drinks; poverty-wage, forced or foreign labor used in the manufacture of our clothes or electronics; or the destruction of favorite forests or fisheries due to climate change, people are understanding that these and many other impacts are driven by industry practices. This knowledge creates resentment and friction that hinders

7 See the Scottish Government website on SROI at http://www.scotland.gov.uk/Topics/People/15300/SROI; and Roxanne Clark, "SROI: Government and Third Sector Extend Reach of Measurement Tool," *Philanthropy UK Quarterly*, no. 37 (June 2009), available at http://www.philanthropyuk.org/quarterly/articles/sroi-government-and-third-sector-extend-reach-measurement-tool.

companies' ability to sell and grow. Conversely, those companies that take account of and design their products and processes to mitigate or completely circumvent these problems experience increased goodwill. The banking sector in general, and the mortgage industry in particular, has discovered this most recently. There has been a steady erosion of goodwill toward big banks, signified by the November 5, 2011 "Bank Transfer Day," in which a grassroots campaign on Facebook led hundreds of thousands to close bank accounts and reopen them with competitor community banks and co-ops. Numerous startups are reinforcing the transparency and action loop, from Goodguide.com to B Lab to LaborVoices.com.

While the traditional solution to this problem that banks and other businesses have pursued is marketing campaigns to persuade consumers that they really aren't so bad, by highlighting a few anecdotal cases of good-doing combined with lottery-style chances to win prizes by becoming or staying customers, the widespread availability of social media combined with a more systematic social accounting framework for public evaluation of the costs and benefits of patronizing one business versus another makes it easier than ever for the public to promote best practices and to reveal cases of abuse, and more necessary for businesses to develop a more systematic approach to accounting for their overall value, including in terms of social and environmental impact. The advice to businesses seeking to manage their social media image is: be authentic because the public will call you out if you aren't. Brad Shaw, Home Depot's vice president for corporate communications and external affairs, says, "You can't control the conversation. You have to learn to be comfortable being uncomfortable," and be part of a genuine dialog with the customer.[8] In the past four years Facebook has grown from 50 million to 800 million active members worldwide; within just six months of its launch Google+ boasts 62 million users. Given the global public's newfound interconnectedness, its ability to see the consequences of specific businesses' actions, and to mobilize consumer behavior accordingly, is already huge and will only accelerate as people gain experience doing it in the next three years.

2. ***Technique.*** A method to credibly and practically measure social impact–and one that could be taught in management programs alongside financial accounting–is needed. Because of the nearly infinite diversity of businesses and situations, this method should be based on a set of principles that can guide judgments in any context. In specific sectors or contexts, a consensus on the best particular metrics to use is also valuable. These solutions have come into existence in the past two decades, and within the past three years have seen increasingly rapid development and improvement. The Global Reporting Initiative (GRI) was founded in Boston in 1997 to create "an accountability mechanism to ensure companies were following the CERES Principles for responsible environmental conduct." It has since published three major updates to its guidelines on what and how to report relative to these principles, and has been adopted by more corporations than any other reporting approach to date. The Prince of Wales' Accounting for Sustainability (A4S) Project, instigated in 2004 "to develop

8 Brad Shaw, "Five Social Media Lessons for Business," *Bloomberg Businessweek*, September 20, 2011 (http://www.businessweek.com/management/five-social-media-lessons-for-business-09202011.html#).

practical guidance and tools for embedding sustainability into decision-making and reporting processes,"[9] promotes its own sustainable accounting principles, and in 2010 teamed with the GRI to create the International Integrated Reporting Committee (IIRC), "to create a globally accepted framework for accounting for sustainability."[10] Complementing these solutions primarily designed for publicly-listed companies are SROI and Social Accounting and Audit, as well as efforts to capture the collective intelligence about the best way to measure a given impact such as Impact Reporting and Investing Standards (IRIS), a clearinghouse for metrics initiated in 2008 which now contains both cross-sectoral and 8 sets of sector-specific metrics. Additionally a myriad of sector- and issue-specific measurement certifications complement these standardized principles, reporting systems and metrics, all of which make it far easier to credibly account for and audit environmental and social value than ever before.

3. ***People power.*** A methodology is useless if nobody knows how to use it, but we are witnessing an acceleration in the rate of adoption of accounting methodologies fueled by more coordinated training. It took approximately ten years for the GRI to grow to its current size of over 600 Organizational Stakeholders who fund its work; the SROI Network in just the past three years reached 800 paying members. Both groups offer trainings and train-the-trainer workshops to accelerate adoption of their approaches. A Social Impact Analysts' Association recently formed to implement a set of principles among the nonprofit sector that are nearly identical to SROI Network principles. It too focuses on both methodology development and training. Also encouraging, dozens, if not hundreds, of graduate and undergraduate programs in environmental economics, business, and other disciplines have begun not only teaching courses on social entrepreneurship in the past decade, but more recently have also begun lecturing on impact management. Those who have received some degree of training are more able to evaluate the performance and marketing claims of businesses in any industry; based on just a count of trainings I have provided through SVT Group and those of groups we have worked with, I estimate that at minimum tens of thousands of people worldwide now have a basic framework for evaluating the environmental and social performance of business, and the numbers are growing rapidly.

4. ***Technology.*** To justify the business case for measuring impact, we must radically reduce its cost and complexity. Aside from sheer computing power, the internet and cellular technology among other innovations are making it far easier for people around the globe to help paint the picture of environmental and social impact in real time, to manage and communicate that picture, and to drive consumer behavior (Bank Transfer Day being but one recent example). In addition to the growth in social media cited above, in just the past four years the number of mobile phone subscribers worldwide has grown from 3.4 to 6.0 billion.[11] When

9 Prince of Wales Accounting for Sustainability Project mission statement (http://www.accountingforsustainability.org/about-us).

10 Ibid, press release on the IIRC's launch, August 1, 2010.

11 Worldwide mobile phone subscriptions in 2007 were 3.37 billion and in 2011 were 5.98 billion. "Key ICT indicators for developed and developing countries and the world (totals and penetration rates)," International Telecommunications Union (http://www.itu.int/ITU-D/ict/statistics/at_glance/KeyTelecom.html).

these technologies are combined with more standardized reporting of impact information, businesses that manage impact information will increasingly be able to use those practices to drive bottom line value.

5. ***Investor demand.*** One marquee institutional name like CalPERS is groundbreaking but insufficient to assure others that they aren't sticking their necks out too far when they follow suit. However it won't take many more of the top investors to jump in for the rest to follow, and whereas a few years ago their investment advisors discouraged it, more recently they have actually begun encouraging it. Recently two Harvard scholars published a study of a large sample of publicly traded U.S. firms over 16 years, investigating "the impact of corporate socially responsible (CSR) strategies on security analysts' recommendations." They found that "socially responsible firms received more favorable recommendations in recent years relative to earlier ones, documenting a changing perception of such strategies by the analysts."[12] This would certainly make sense given that 10 years ago the findings of 80 academic studies over the prior 30 years showed that the relationship between social enterprise activities and corporate financial performance was in the majority of cases (53 percent) positive, and in only 5 percent of studies was a negative impact on the bottom line recorded.[13] As author Umair Haque put it:

> The folks that recommend to the world's investors whether to buy or sell your shares just upended their expectations about better and worse--and in which direction prosperity lies. Decode the message inside the logic, and they're issuing a manifesto worthy of an uprising. It says: Want to create shareholder value in the twenty-first century? Tough. Now, it depends first on not destroying real wealth--and better yet, on creating it. Continue to map that trajectory, and here's what you might conclude: we're heading toward a world of human exchange in which hard-nosed measures of a company's impact are as important to a company's vitality and viability as yesterday's weary conceits of 'profit.'

Entrepreneurs, who are the most gifted at sniffing out business opportunities just before everybody else, will help bring these five forces together. Dean Engle is an example. His firm, Park Tree Investments, has recognized that human relationships act as a means of accounting for social value. Park Tree has a customized mortgage management program for low- to moderate-income borrowers, in close partnership with financing entities and a network of innovative nonprofit organizations that provide in-person loan and financial counseling. Since 2005, the firm has acquired 1,300 distressed mortgages from banks in 37 states, and by providing personalized coaching to borrowers they have dramatically boosted portfolio performance while helping borrowers gain mastery over their overall debt. Park Tree works to

12 Quotes are from Georgios Serafeim's faculty profile page on the Harvard Business School website; see http://drfd.hbs.edu/fit/public/facultyInfo.do?facInfo=pub&facId=15705.

13 Interview of Harvard Business School Professor Joshua Margolis referencing his research on the topic, quoted in article by Umair Haque, "Business Isn't as Profitable as Betterness," FastCoExist; see http://www.fastcoexist.com/1679052/business-isnt-as-profitable-as-betterness.

provide borrowers the attention they need when they begin struggling with payments, both in terms of helping them understand how to better manage their financial obligations and, when necessary, restructuring the loans. When a borrower is late in a payment, he immediately receives a call, often from someone he already knows, who asks if there's a problem and how can they help.

Engle told me, "We have cracked the code on delivering on-location mortgage services. It's the relationships that matter. We are working with partners to scale relationships." In other words, he says, "To us, every borrower is a person." He plans to account for his firm's value not only in terms of portfolio financial performance but also in terms of avoided economic and emotional distress to the homeowners who might otherwise have defaulted.

Says Engle, "I want to be able to deliver not only as good or better financial returns to the financial institutions we work with, I want to be able to say they've had 4x the social ROI their competitor has had. Those things actually go together." He plans to establish metrics for the benefits to homeowners and may ultimately have an accredited SROI practitioner verify his reported social impact. His three-year goal? To sell Park Tree's services to Bank of America, Chase or Wells.

The big banks may not view such new impact-accounting entrepreneurs as much of a competitive threat. But the package of financial results driven by social value that these entrepreneurs can deliver will confer a clear competitive advantage on whichever bank implements it first; and when that happens the invisible hand will ensure the others quickly follow suit.

Sara Olsen is the founder of SVT Group, an impact accounting firm; co-founder of the Global Social Venture Competition; author at Socialedge.org; and co-chairs the methodology committee of the International SROI Network.

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