Advancing Social Impact Investments through Measurement Conference: Summary and Themes

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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

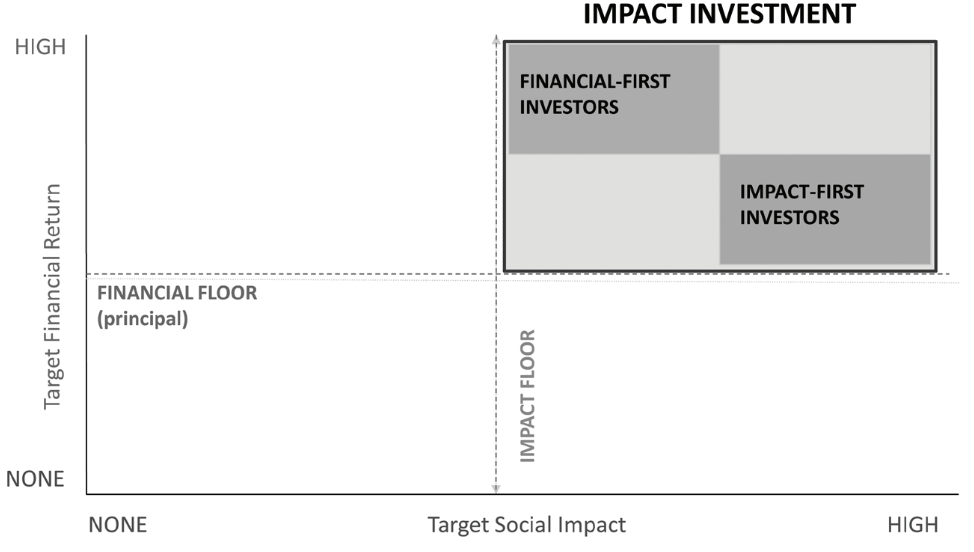
The conference opened with a presentation from Colby Dailey of NCB Capital Impact and Ben Thornley of Pacific Community Ventures on a further elaboration of a multi-year study they did on the nature of social metrics from an investor perspective, whether that was a Community Reinvestment Act-motivated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

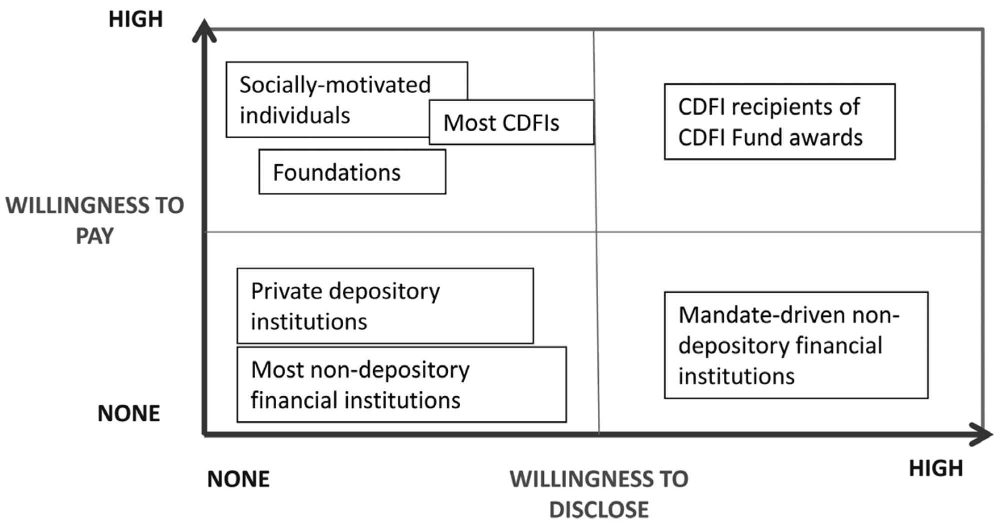


1 Ben Thornley and Colby Dailey, "Building Scale in Community Impact Investing through Nonfinancial Performance Measurement," *Community Development Investment Review,* volume 6, issue 1, 2010.

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.