CDFI Impact Measurement & Reporting: Challenges and Solutions White Paper

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1. Introduction

CDFIs (Community Development Finance Institutions) seek to create social and economic impact in the communities they work in through the provision of affordable and accessible finance to individuals, businesses and social enterprises.

CDFIs (Community Development Finance Institutions) are asset-locked organisations that operate as social enterprises and seek to create social and economic impact in the communities they work in through the provision of affordable and accessible finance to individuals, businesses and social enterprises.

Being able to measure and report these impacts is therefore critical to evidence their success in delivering against their mission and their contribution to social and economic change. But impact measurement and reporting are challenging for CDFIs due to their diverse missions, data collection practices and limited organisational resources.

This white paper explores the key challenges that CDFIs face in impact measurement and reporting, as well as providing solutions for addressing these challenges, with specific recommendations for CDFIs that lend to individuals, businesses, and social enterprises.

2. The challenges of impact measurement and reporting for CDFIs

Internal challenges for CDFIs

Defining impact: One of the most significant challenges that CDFIs face is defining what they mean by "impact." Impact can mean different things to different stakeholders, and CDFIs need to have a clear understanding of what they are trying to achieve and how they plan to measure it, given that impact can be social, economic or environmental – which require different approaches to measurement.

Data collection: Collecting accurate data is essential for measuring impact, but it can be a challenge for CDFIs that operate in low-income communities with limited resources. CDFIs need to develop systems to collect and track data efficiently and effectively, as well as having the staff expertise to support the collection, analysis and continual learning from impact data. An over-reliance on self-reported customer data may result in unreliable findings. Data is required from external sources which is usually time consuming to obtain unless external partners and stakeholders are engaged and committed to participating in the data collection process.

Attribution: Measuring impact is challenging because it is often difficult to attribute impact to a specific intervention or investment. CDFIs need to develop methods to isolate the impact of their investments from other factors that have influenced the outcomes.

2. The challenges of impact measurement and reporting for CDFIs

Measuring outcomes versus outputs: CDFIs often do not distinguish between outcomes and outputs. Measuring outputs such as the number of loans or the amount of capital deployed does not evidence impact. CDFIs need to develop methods for measuring the actual impact of their investments.

Cost and Time Constraints: Measuring impact can be costly and time consuming, and many CDFIs do not have the resources to invest in impact measurement resulting in a lack of accurate impact data. Being able to find a balance between the costs of measuring impact and the benefits of demonstrating the impact of their work to investors, funders, and other stakeholders is essential. Investing in impact measurement tools requires a commitment to long-term impact and continuous improvement that may not show results or benefits for several years.

Communication and Reporting: Communicating impact and reporting to stakeholders can also be a challenge for CDFIs. CDFIs have diverse stakeholders with different information needs and communication preferences, such as investors, funders, borrowers, and community partners.

External challenges for CDFIs

Lack of standardised metrics: Different CDFIs use different metrics to measure their impact. These differences can be between borrowers as well as between CDFIs, making it difficult to compare impact across different investments and organisations.

Stakeholder expectations: CDFIs are accountable to a range of stakeholders, including funders, investors, and community members. These stakeholders may have different expectations regarding impact measurement and reporting, making it challenging for CDFIs to capture sufficient information to communicate their impact effectively to all these groups.

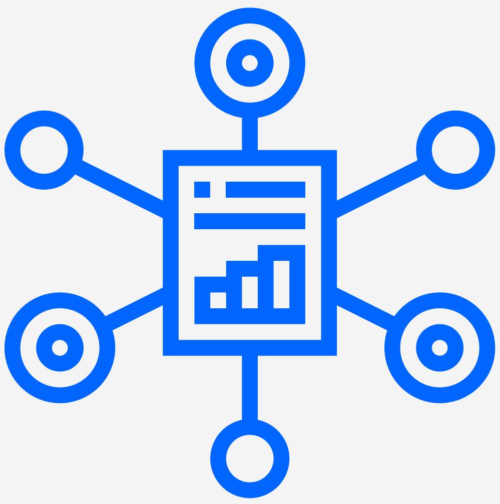
Regulatory requirements for ESG reporting for CDFIs: ESG (Environmental, Social, and Governance) reporting has become increasingly important for companies and financial institutions, including CDFIs, as stakeholders demand more transparency and accountability around the social and environmental impacts of their investments. CDFIs may also be subject to ESG reporting requirements from their investors or funders, who may demand more comprehensive reporting on the social and environmental impact of their investments, which often adds an additional layer to the CDFI's reporting requirements.

3. Best practice for impact measurement and reporting for CDFIs

The following section covers frameworks that CDFIs can use and practical steps for establishing an impact measurement system.

Frameworks that can be used to improve CDFIs' impact measurement and reporting

The use of existing frameworks can help CDFIs who are uncertain about where to start with their impact measurement and reporting, as well as helping them to save time developing their own system and to support with increasing standardisation of measures within and between CDFIs. This section highlights a few of the existing frameworks that are available.



Impact Frontiers provides impact resources for investors. This includes the work completed by the Impact Management Project (IMP) which concluded in 2021. They consider five dimensions of impact, with investor contribution treated separately.

The Global Impact Investing Network (GIIN) offers a range of resources and tools to help CDFIs measure and manage their impact. The GIIN's IRIS+ system provides a standardised set of metrics for impact measurement and management, while the Impact Reporting and Investment Standards (IRIS) catalogue offers guidance on how to use these metrics.

The B Impact Assessment is a free online tool designed for organisations to measure their impact in five areas: workers, community, environment, governance and customers. While the B Impact Assessment is designed for B Corporations and not specifically for CDFIs, it is a useful tool for organisations that want to improve their impact measurement and management practices.

The Sustainable Development Goals (SDGs) are 17 global goals focused on ending poverty, protecting the planet and improving peoples' lives by 2030. The 17 goals have specific targets and indicators to measure achievement of those targets. Section 5 identifies specific goals, targets and indicators that may be relevant for CDFIs.

3. Best practice for impact measurement and reporting for CDFIs

Practical steps for setting up an impact measurement system

Whilst the above frameworks can be beneficial as a starting point, each CDFI should identify what the most appropriate impacts are for themselves, and design effective systems to measure and report on those impact. Using our Lean Social Impact Approach, there are five steps to establishing a CDFI's impact measurement system:

01 Define

02 Plan

03 Measure

04 Analyse

05 Learn

3. Best practice for impact measurement and reporting for CDFIs

01 Define

Define: The first step is to define the priorities for the impact measurement system and the outcomes that the CDFI wants to achieve. This will help to ensure that the system is aligned with the CDFI's mission and goals and that they are measuring the outcomes that matter most to their stakeholders. This involves developing a theory of change that shows how the CDFI's activities lead to their desired social and economic outcomes.

02 Plan

Plan: This step is vitally important and should not be ignored. By planning properly the CDFI can effectively collect their data.

Identify the stakeholders who will be impacted by the CDFI's activities, such as borrowers, investors, regulators, and community members and involve them in identifying the priority impacts that will be measured. This will help to ensure that the impact measurement system captures the perspectives of all relevant stakeholders and that it is cost effective as the CDFI will be measuring priority outcomes rather than all outcomes.

Next, select the metrics that will be used to measure the outcomes. These metrics relevant to the stakeholders. For example, if the CDFI is focused on reducing poverty, metrics such as job creation, income growth, and access to basic services could be used.

Then decide the data collection methods that will be used to collect the metrics. This could include surveys, interviews, focus groups etc.

3. Best practice for impact measurement and reporting for CDFIs

03 Measure

Measure: Agree how the impact data will be captured, who will be responsible for the data collection and how it can be integrated and embedded into the CDFI's current operational practices, using automation and technology where possible to reduce cost and time requirements. Having staff who are trained in impact measurement and will enable data to be collected more efficiently. Other factors that can reduce staff costs and time requirements are using existing data sources, seeking external support with data collection or partnering with other CDFIs to share the cost of impact measurement tools.

04 Analyse

Analyse: Once the data is collected, it is important to establish a data management system that will allow the CDFI to store, analyse, and report on the data. This could include using technology to capture and analyse the data, as well as a data visualisation tool.

05 Learn

Learn: The final step is to develop a reporting framework for the CDFI to communicate the impact of their activities. This involves developing clear impact messages that are relevant to the needs of different stakeholders, such as funders, investors, and community members. This could include developing an impact report, creating visualisations or presentations of the data, and deciding how the data is shared internally for continuous improvement, innovation, strategic development and maximisation of impacts. CDFIs can also explore opportunities to integrate impact reporting into their existing management and reporting systems to reduce the overall burden of reporting.

4. Outputs, Outcomes and Impacts – where to focus

Five general impact areas that CDFIs can consider measuring

Impact Area	Outputs & Outcomes	Impacts
Financial Inclusion	Outputs: Measuring the number of loans or investments made in low-income communities, or the number of people served by these loans or investments including the un-banked, those who have been rejected by mainstream lenders, and those with loans from high-cost lenders and multiple buy now pay later loans. Outcomes: Increased financial literacy among low-income individuals and families.	Impacts: Increased financial stability and reduced reliance on predatory lending, improved financial literacy, reduced poverty, increased income due to reduced debt/interest payments, ability to access mainstream finance and increased savings.
Job Creation	Outputs: Measuring the number of jobs created. Outcomes: Increased workforce development and job training opportunities for residents in low-income communities.	Impacts: increased income, reduced benefits receipts, ability to manage and budget finances, reduced poverty, increased economic mobility and increased business revenue, increased employment/reduced unemployment.
Community Development	Outputs: the number of affordable housing units created, the number of community facilities supported, or the number of small businesses financed. Outcomes: Improved access to healthy food options and green spaces in low-income communities.	Impacts: improved well-being and economic mobility of the residents, the impact of those facilities on community health or social cohesion.
Environmental Impact	Outputs: Measuring the amount of renewable energy generated or the amount of greenhouse gas emissions avoided through their investments. Outcomes: Increased use of renewable energy and energy-efficient technologies in low-income communities.	Impacts: Reduced greenhouse gas emissions and improved air quality in the community.
Social Impact	Outputs: measuring the number of people who have gained access to education, healthcare, or other basic services due to CDFI investments. Outcomes: Increased access to education and workforce development opportunities for marginalised communities.	Impacts: Increased economic mobility and reduced poverty rates in the community.

4. Outputs, Outcomes and Impacts – where to focus

Attribution: Identifying the CDFI's contribution to outcomes and impacts

Care must be taken to ensure that the CDFI does not over-claim or over-state the outcomes and impacts that have been achieved. Some outcomes and impacts would have been achieved anyway regardless of the CDFI's investment; some will not be sustained; some will displace what other agencies would have delivered and some will be contributed to by other factors/support. As part of any impact data collection it is essential to ask borrowers to identify how much the CDFI contributed to each outcome and impact (using a scale from 0% to 100%).

Specific outputs, outcomes and impacts for CDFIs that lend to individuals, businesses and social enterprises

In this section there are examples of some of the outputs, outcomes and impacts CDFIs could measure based on the type of borrower they have.

CDFIs that lend to individuals:

Outputs

- Number of loans disbursed to individuals in underserved communities
- Amount of capital invested in underserved communities
- Average loan size and duration
- Interest rates and fees charged to borrowers
- Number of financial education and counselling sessions provided to borrowers

Outcomes

- Improved credit scores and credit history for borrowers
- Increased savings and asset accumulation for borrowers
- Reduced debt burden and improved debt-to-income ratios for borrowers
- Increased access to affordable and stable housing for borrowers
- Improved employability and earnings potential for borrowers

Impacts

- Reduced poverty and financial insecurity in underserved communities
- Increased civic engagement and community involvement among borrowers
- Improved health and well-being for borrowers and their families
- Increased social mobility and economic opportunity for borrowers
- Enhanced economic vitality and resilience in underserved communities
- Improved financial wellbeing

4. Outputs, Outcomes and Impacts – where to focus

Specific outputs, outcomes and impacts for CDFIs that lend to individuals, businesses and social enterprises

CDFIs that lend to businesses:

Outputs

- Number of loans disbursed to small and medium-sized businesses in underserved communities
- Amount of capital invested in underserved communities through business loans
- Average loan size and duration for business loans
- Interest rates and fees charged to business borrowers
- Number of technical assistance and training sessions provided to business borrowers

Outcomes: Small Business Development

- Increased access to capital and business support services for small business owners in underserved communities.
- Increased business revenue and profitability for borrowers.
- Increased employment and job creation in underserved communities.
- Improved business credit scores and access to traditional capital for borrowers.
- Improved financial management and operations for business borrowers.
- Increased business ownership and entrepreneurship in underserved communities.

Impacts: Small Business Development

- Increased job creation, economic development, and local wealth-building in the community.
- Enhanced economic development and revitalisation in underserved communities.
- Increased economic opportunity and social mobility for business owners and their employees.
- Improved access to goods and services for residents of underserved communities.
- Increased civic engagement and community involvement among business owners.

Outcomes: Community Development

- Increased investment in commercial properties and community facilities in low-income areas.

Impacts: Community Development

- Improved quality of life, increased community pride, and enhanced social cohesion in the community.

Outcomes: Industry Specific

- Increased investment in industries that create positive social or environmental impact (such as clean energy or sustainable agriculture).

Impacts: Industry Specific

- Improved environmental sustainability, reduced social inequalities, and increased economic development in the community..

4. Outputs, Outcomes and Impacts – where to focus

Specific outputs, outcomes and impacts for CDFIs that lend to individuals, businesses and social enterprises

CDFIs that lend to businesses (continued):

Outcomes: Innovation and Technology

- Increased investment in businesses and entrepreneurs that are using innovation and technology to address social or environmental challenges.
- Improved sustainability practices.

Impacts: Innovation and Technology

- Increased innovation and technological development, improved social or environmental outcomes, and increased economic growth.
- Reduced environmental impact.
- Carbon neutral or negative business operations.

Outcomes: Supply Chain

- Increased investment in businesses that support local supply chains and promote economic development in underserved areas.

Impacts: Supply Chain

- Increased local job creation, reduced poverty, and improved economic resilience in the community.
- Strengthened local supply chains and networks of support for small and medium-sized businesses in underserved communities.

4. Outputs, Outcomes and Impacts – where to focus

Specific outputs, outcomes and impacts for CDFIs that lend to individuals, businesses and social enterprises

CDFIs that lend to social enterprises:

Outputs

- Number of loans disbursed to social enterprises in underserved communities
- Amount of capital invested in underserved communities through social enterprise loans
- Average loan size and duration for social enterprise loans
- Interest rates and fees charged to social enterprise borrowers
- Number of technical assistance and training sessions provided to social enterprise borrowers

Outcomes: Social Enterprise Development

- Increased access to capital and business support services for social entrepreneurs and enterprises in underserved communities.
- Increased revenue and profitability for social enterprises.
- Increased employment and job creation in underserved communities.
- Improved access to affordable goods and services for underserved communities.
- Improved social and environmental impact of social enterprises.

Impacts: Small Business Development

- Increased social impact, job creation, and local wealth-building in the community.
- Enhanced economic development and revitalisation in underserved communities.
- Increased social and environmental sustainability in underserved communities.
- Improved access to goods and services for residents of underserved communities.
- Increased civic engagement and community involvement among social enterprise owners.

Outcomes: Community Development

- Increased investment in community-based social enterprises that provide goods and services to underserved populations.

Impacts: Community Development

- Improved quality of life, increased community pride, and enhanced social cohesion in the community.

Outcomes: Environmental

- Increased investment in social enterprises that prioritise environmental sustainability and promote a circular economy.

Impacts: Environmental

- Reduced waste and carbon footprint, improved environmental outcomes, and increased economic growth.
- Carbon neutral or negative business operations.

4. Outputs, Outcomes and Impacts – where to focus

Specific outputs, outcomes and impacts for CDFIs that lend to individuals, businesses and social enterprises

CDFIs that lend to social enterprises (continued):

Outcomes: Innovation and Technology

- Increased investment in social enterprises and entrepreneurs that use innovative technologies to address social and environmental challenges.

Impacts: Innovation and Technology

- Increased innovation and technological development, improved social or environmental outcomes, and increased economic growth.

Outcomes: Impact Measurement and Reporting

- Improved impact measurement and reporting practices among social enterprises, with the support of CDFIs.

Impacts: Impact Measurement and Reporting

- Increased transparency and accountability, improved understanding of social impact, and increased collaboration among stakeholders in the social enterprise ecosystem.

Outcomes: Supply Chain

- Increased investment in social enterprises, ethical and local business in supply chains.

Impacts: Supply Chain

- Strengthened local supply chains and networks of support for social enterprises in underserved communities.

Other outcome and impact areas

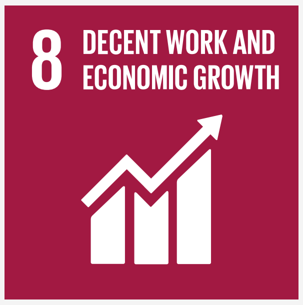
Reducing geographical inequalities

Low-income and minoritised communities have been historically excluded from mainstream financial institutions. CDFIs help to fill this gap by providing loans and other support to these communities which results in a reduction in the economic and social inequalities between different geographical locations. Measuring these impacts requires the usage of local datasets such as the Index of Multiple Deprivation data and quality of life data.

5. SDG targets and indicators that are relevant to CDFIs

The SDGs provide a framework for measuring the impacts CDFIs achieve that align with and contribute to global targets. Here are some examples of SDG targets and indicators that are relevant to CDFIs:

Target 1.5: By 2030, build the resilience of the poor and those in vulnerable situations and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters.
Indicator 1.5.2: Direct disaster economic loss attributed to climate-related disasters as a proportion of global gross domestic product (GDP).



Target 8.3: Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalisation and growth of micro-, small- and medium-sized enterprises, including through access to financial services.
Indicator 8.3.1: Proportion of informal employment in non-agriculture employment, by sex.

Target 9.3: Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets.
Indicator 9.3.2: Proportion of small-scale industries in total industry value added, by country and by sector.

Target 10.1: By 2030, progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average.
Indicator 10.1.1: Growth rates of household expenditure or income per capita among the bottom 40 per cent of the population and the total population, by country, region and globally.

Target 11.1: By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums.
Indicator 11.1.1: Proportion of urban population living in slums, informal settlements or inadequate housing.

CDFIs that decide to measure their impact against the SDGs should be aware that not all impact areas are covered by the 17 SDGs and that it is essential to show how your activities are directly contributing to particular targets by measuring and capturing data for specific indicators.

6. Trends and developments in impact measurement and reporting for CDFIs

Increasing emphasis on impact: There is a growing interest in how organisations create impact, and this will require all CDFIs to have in place robust systems for measuring, reporting and communicating their impacts. Don't be left behind – start to take action now.

Standardisation: There is growing standardisation within impact measurement and management, with common frameworks and metrics to enable greater comparability across different sectors and regions. However, CDFIs should still seek to focus on the impacts that their stakeholders prioritise, rather than measuring against a framework that does not align with their stakeholders' needs.

Technology: Technology will continue to play an important role in impact measurement and management, particularly in data collection, analysis, and reporting. This will require a focus on building impact measurement processes within existing systems, and exploring how AI can be used improve analysis and learnings from impact data.

Collaboration: Building and sharing impact data insights across the CDFI sector and wider community will support a focus on maximising impact and collective learning.

Focus on Long-Term Impact: There is a shift from measuring outputs and short-term outcomes to fully understanding the long-term impacts CDFIs deliver. This requires a focus on data collection that extends over several years, with co-operation from borrowers, investors and other stakeholders in providing and sharing impact data, alongside a commitment to developing strategies that are focused on long-term impact.

7. Conclusion

Impact measurement and reporting are critical components of CDFI operations. Failure to build impact measurement and reporting into operations and strategic decision-making results in an inability to assess the effectiveness of their investments and difficulty in demonstrating their contribution to social and economic change.

Impact measurement can be challenging for CDFIs, particularly those that operate in diverse communities with complex needs. To address these challenges, CDFIs can explore existing frameworks as a starting point, focus on measuring their priority impacts, collaborate with other CDFIs to develop their impact measurement processes, invest in impact measurement tools, develop staff expertise, and establish clear and concise ways of communicating and reporting their impacts.

CDFIs that lend to individuals, businesses, and social enterprises can also focus on measuring impact areas that reflect the needs and priorities of their borrowers and communities. By taking a proactive approach to impact measurement and reporting, CDFIs can maximise their impact and contribute to positive social and economic change in underserved communities.

By taking a proactive approach to impact measurement and reporting, CDFIs can maximise their impact and contribute to positive social and economic change in underserved communities.

8. Next Steps

Contact

If you need help with your impact measurement, reporting or communication get in touch with Heidi Fisher:
Email: Heidi@makeanimpactcic.co.uk

Contact via LinkedIn:
https://www.linkedin.com/in/heidiLFisher

Book a free initial chat:
https://makeanimpactcic.as.me/chatwithHeidi

Explore the website: https://www.makeanimpactcic.co.uk

This White Paper was written by Heidi Fisher MBE, the founder of Make an Impact CIC.

About Us

Make an Impact CIC supports organisations to better measure, report and communicate their impact. We work with social enterprises, housing associations, CDFIs and the public sector, have over 20 years' experience and are multi-award winning. Our purpose is to make impact matter. For everyone, everywhere, every time.

We can help you with:

- Designing your impact measurement system.
- Implementing technology/systems to capture and analyse your data (using our Social Impact Insight tool).
- Capturing your impact data for you.
- Social Return on Investment calculations.
- Analysing your data and producing a summary impact report, infographics or other materials.
- Anything else you need help with around impact measurement and reporting.

Who we've worked with

whg
Responsible Finance
CPotential we do
NCS
The Wrekin Housing Group
The Parenting Apart Programme
school for social entrepreneurs
NHS England
Walsall Council
oakleaf MAKING LIFE WORK WITH MENTAL ILLNESS
ethicalproperty
chime NHS partner the trusted hearing experts
The Restoration Trust