Virtual CDFI Symposium – CDFI Impact & Evaluation

May 20, 2020
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Type your question in the text field, then select send.

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Hover over the view icon in the upper right corner of the presentation to expand your options and change view.

Ask your question Live.

Click Raise Hand at the bottom of your participant’s panel.

Click Unmute my microphone when you are called on to speak.
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Community Development

The mission of the Federal Reserve’s community development function is to promote the economic resilience and mobility of low- to moderate-income and underserved individuals and communities.
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Welcome

Agenda for this webinar

Overview of Webinar Series → Present Research Papers on CDFI Impact & Evaluation → Discussants Provide Feedback on Research Papers → Audience Q&A
Helping Entrepreneurs Write Their Own Success Stories

Meredith Medlin
Accion
Helping Entrepreneurs Write Their Own Success Stories

A longitudinal study of the impact of Accion and Opportunity Fund’s services on small business owners across the United States
National Small Business Impact Study

Based on the work of:

Lead funding by:

Additional support from:

Research by:
Study participants were proportionately representative of Accion and Opportunity Fund’s entire client portfolio geographically, demographically, and by industry.
What did we learn?

4 important successes
• Borrowers’ financial stability increased over time
• Borrowers use their businesses to set up long-term financial success
• Borrowers create quality jobs
• Accion and Opportunity Fund’s services impact borrower success

3 key challenges
• Financial emergency preparation
• Volatile cash flow
• Business planning

Diverse goals and journeys in entrepreneurship
How Accion + Opportunity Fund have responded
Borrower Success: Entrepreneurs are increasingly financially stable

Over the course of the study:

- 53% of borrowers reported increased feelings of financial stability.
- 53% reported reduced levels of debt.

By the end of the study:

- 73% of borrowers felt able to handle their financial future.
- 68% of borrowers feel they have adequate information to make financial decisions.

Improved financial stress level and sense of financial control

Increased business and personal saving

Better financial tracking and preparation for emergencies
Borrower Success: Entrepreneurs are experiencing long-term business success

94% of businesses are still open 2–3 years after their loan.

“As a result of the loan, I was able to buy more inventory, which in turn gave me more revenue from different revenue streams, which then meant my cash flow was healthier, which then allowed me to bring on employees. It's a trickling effect.”

“I was able to pay for my daughter to go to college.”

57% Increased their profit
60% Increased their sales
40% of borrowers added jobs during the study period, for a total of 335 new full-time equivalent jobs created.

"Once we got in the new staff, that opened up the whole possibility to us of adding more services into the facility."

Borrowers significantly increase the benefits to their employees:

- 42% offer paid sick time
- 38% offer paid holidays
- 32% offer paid vacation days
- 42% offer development opportunities
- 40% offer flex time
Accion + Opportunity Fund’s services had a lasting impact on entrepreneurs

### Accion or Opportunity Fund had a lot of impact on my:

<table>
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<tr>
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<th>2016</th>
<th>2017</th>
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<tbody>
<tr>
<td>Profit</td>
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<td>52%</td>
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<td>Financial Stability</td>
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<td>Increased Cash Flow</td>
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<td>Improved Credit</td>
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<td>Access To Equipment</td>
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<td>58%</td>
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<td>Increased Sales</td>
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<td>Products + Services</td>
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<td>Confidence</td>
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“The biggest thing has been the confidence that I’ve gained in myself... I’m really proud of it.”
Entrepreneurs still face challenges

- Financial emergency prep
- Volatile cash flow
- Making + sticking to a business plan
Diverse journeys in entrepreneurship
Cluster analysis allows us to group clients based on business outcomes.

<table>
<thead>
<tr>
<th>Increase sales and profit</th>
<th>Take home pay increased</th>
<th>Decreased in sales and profit</th>
<th>Take home pay decreased</th>
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<td>Increase in household savings</td>
<td>Take home pay increased</td>
<td>Decrease in household savings</td>
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<td>Business is financially stable</td>
<td>High level of business and personal financial resources</td>
<td>Low level of business and personal financial resources</td>
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<td>Formal business tracking practices</td>
<td>Very comfortable with level of debt</td>
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<td>Strong personal finances</td>
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<td>Weaker personal finances</td>
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Focused and growing

Borrowers who started strong, wanted to grow, and are on the way to reaching their goals

- 44% of borrowers
- Financially strong at beginning and end of study
- Use influx of capital strategically
- Attribute success to Accion or Opportunity Fund’s services at a higher rate than other clusters
- Use the business as their sole source of income: 13% had another job at the beginning of the study, but none had more than one job by study’s end
Borrowers who prioritize their families’ financial stability and use multiple sources of income to achieve their goals

• **12%** of borrowers
• Seek incremental, safe growth of their businesses
• Use capital strategically for well-planned opportunities
• All have at least one job outside of the business, though most bring home salary from this business
• Some stable & strategic borrowers differ on their goals: some seek to only have one job, while others happily balance multiple income sources
Borrowers who sought capital to help them through a challenging time, but external factors hindered the loan’s impact

- 9% of borrowers
- Decreased business sales and profit from the beginning to end of the study
- Used the loan for payroll or to ease cash flow constraints
- Lower sense of financial stability than the other clusters
- Half of borrowers in this cluster bring home a salary from this business
- Most have a second job outside the business
- Lowest sense of Accion or Opportunity Fund’s positive impact on the business
- No formal financial plan for the business
Borrowers who used their loan to get started, have seen some growth, and are now at a crossroads with the business

- **19%** of borrowers
- Sacrificing personal salary to grow or maintain the business
- Almost all rely on outside sources of income
- Most experienced slight increases in business sales and profit over the study period
- Strong day-to-day financial tracking, but less of a long-term financial plan
- Lower sense of financial stability than other clusters
- The loan’s main impact was increasing confidence that borrowers’ business ideas would become reality
Borrowers who anticipate growth, but haven’t charted their exact course to get there

- 17% of borrowers
- Incremental increases and sales over the study period
- Niche businesses with the most inconsistent cash flow of all the clusters
- Business is the sole source of income for these borrowers
- Mixed attribution of impact from Accion or Opportunity Fund
- Less financial stability in covering expenses
- Trouble planning and saving for financial emergencies
Accion + Opportunity Fund put knowledge into action

Diversify our financial product offerings

Make advising services relevant and easy-to-use

Evaluate, test, and refine our approaches
Thank you!

http://smallbizimpact.org

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A Qualitative Model For the Evaluation of Community Development Financial Institutions

Caroline Loyas
Impact Seven
A Qualitative Model For the Evaluation of Community Development Financial Institutions

Caroline Loyas
Director of Resource Development, Impact Seven, Inc.
Pennsylvania State University
Project Background

• Working question: How do CDFIs impact the social fabric of community?

• Theoretical framework: Interactional field theory

• Evaluation framework: Qualitative applied research

• Objectives:
  o Develop a process to enhance CDFIs’ understanding of their own outcomes and impacts while identifying potential impact indicators for future study; and
  o Keep it low-cost and feasible for small- to mid-sized CDFIs to implement with existing staff.
Step 1: Identify the borrower group to interview

- **Asset class**: Small business
- **Product type**: Term loans for working capital, equipment or real estate
- **Geography type**: Rural Wisconsin
- **Other**: Borrowers involved in daily management of the business
Step 2: Develop a set of interview questions

• In general, questions should be open-ended.

For example:

  o What would be different for your business if you had not obtained your loan?
  o If your business didn’t exist, where else would people go to obtain the goods or services your business provides?
  o Are you/your business better off because of the loan and other services you received? If so, how? If not, why not?

• Consider seeking expert assistance to develop, review and/or revise your questions such as a local university or extension service.
Step 3: Select the sample frame

- A sample frame is the group of borrowers to be interviewed.
- For best results, this number should be as large as possible.
- Include all borrowers in a small portfolio.
- For large portfolios, select a representative sample of a manageable size.
### Step 4: Set up a spreadsheet for tracking contacts and entering responses

<table>
<thead>
<tr>
<th>Borrower</th>
<th>Contact Attempt 1</th>
<th>Contact Attempt 2</th>
<th>Contact Attempt 3</th>
<th>Question 1</th>
<th>Question 2</th>
<th>Question 3</th>
<th>Question 4, etc.</th>
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- Contact information could be included here for convenience
Step 5: Provide borrowers with notice of the survey

• Send a brief notification via mail or email.
• Include:
  o Purpose of the interviews
  o How information will be used
  o Timeframe for contact
  o Mode of contact (phone, in person, mailed paper, etc.)
  o Discuss anonymity or confidentiality policy, if applicable
Step 6: Contact borrowers and conduct interviews

• Record contacts in the tracking spreadsheet.
• Three contact attempts is a good best practice.
• The response rate will very likely be less than 100%.
• Record your notes in the tracking spreadsheet.
## Step 7: Analyze the results

CDFI is filling a gap left by traditional lenders; has a largely word-of-mouth referral network

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Loan would not have been obtained but for Impact Seven</th>
<th>Previous turn-downs by banks</th>
<th>Borrowed from I7 due to relationship with loan officer/staff</th>
<th>Referred by bank</th>
<th>Referred by TA provided such as SCARE or EDC</th>
<th>Have taken out additional loans from TA</th>
<th>Have taken out additional business loans from other lenders</th>
<th>Need additional capital?</th>
<th>7 has provided other services</th>
<th>Provides amenities/products/services not otherwise available</th>
<th>Change in business</th>
<th>Member of trade group</th>
<th>Involved in local economic development efforts</th>
<th>Chamber of commerce</th>
<th>Donates/participates in local fundraising for marketing purposes</th>
<th>Community partnerships</th>
<th>Borrower confidence</th>
<th>Better off because of loan?</th>
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Step 7, con’t: Analyze the results

Results from Impact Seven included:

- 95% of borrowers exhibited self-efficacy through confidence in their abilities to mitigate challenges and achieve success.
- 53% of borrowers reported that their business’ goods or services are not available elsewhere in their communities.
- 40% of borrowers reported “community partnerships,” or involvement in informal social networks with positive purpose.
Step 8: Utilize results to inform action plans

Results may indicate . . .

• Opportunities to improve financial products, services and technical assistance for borrowers.

• Improvement or expansion of data collection and tracking for outcome and impact analysis.

• Promising best practices to continue, refine, or share.

• Data that adds value to fundraising or marketing efforts.

• Potential outcome or impact metrics for further academic study.
Step 9: Disseminate Results

Internal Stakeholders
- Lending staff
- Data collection staff
- Fundraising/grantwriting staff
- Marketing/communications staff
- Strategic planning committees
- Board
- Consultants assisting in the above functions

External Stakeholders
- Funders/investors
- Ratings institutions
- Industry groups
- Potential and current borrowers
- Researchers
- Policy makers
Impact Seven builds the places that build community.
Discussants

Michael Swack
University of New Hampshire

Lance Loethen
Opportunity Finance Network
Participate during the Q&A.

Select the > next to Q&A in the lower right corner of your screen to open the Q&A panel.

Type your question in the text field, then select send.

Q&A
Type your question into the Q&A panel of the webinar.

Ask your question Live.

Click Raise Hand 🙋‍♂️ at the bottom of your participant’s panel.

Click Unmute my microphone 🎤 when you are called on to speak.
Next Steps

• All session materials are available on our web site and in the next few days we will post an audio file of today’s session.

• Information about future sessions will be posted on our website along with archived materials from past sessions: [https://bsr.stlouisfed.org/connectingcommunities](https://bsr.stlouisfed.org/connectingcommunities)

• The second installment of the Virtual CDFI Symposium is next **Wednesday, May 27 at 3 pm ET**. It will focus on research pertaining to CDFIs and Minority-Owned Firms and registration is now open at [stlouisfed.org/events/cd](http://stlouisfed.org/events/cd)