



Measuring Impacts Toolkit



The Community Development Venture Capital Alliance
Return on Investment Project

Funded by The F.B. Heron Foundation
and The Rockefeller Foundation



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A LETTER FROM THE PRESIDENT

March 2005

I am pleased to present this Measuring Impacts Toolkit, a product of the Community Development Venture Capital Alliance (CDVCA) Return on Investment (ROI) Project, funded by the F.B. Heron and Rockefeller Foundations. It represents a major advance in the practice of measuring social impact, not only for community development venture capital (CDVC), but also for practitioners of economic development more generally.

The field of impact assessment has taken center stage recently, as investors increasingly demand that their social returns be measured with rigor similar to that applied to financial returns. And just as important, practitioners need useful measures of the social impacts they produce in order to improve their practice. A widget factory that has no effective way of gauging the quantity or quality of the widgets it produces probably will not be very good at making widgets.

It is with these audiences in mind—investors and practitioners—that the ROI Project set out to create a rigorous but practical methodology for measuring social impacts. It brought together five CDVC fund management groups: CEI Ventures, Inc. and its not-for-profit parent, Coastal Enterprises, Inc.; Northeast Ventures Corporation; Pacific Community Ventures; SJF Ventures and its affiliated not-for-profit, SJF Advisory Services; and the Small Enterprise Assistance Funds.

These organizations were chosen in a competitive process from among a number of applicants for the project because they are pioneers and leaders in developing effective methods to measure their own social impact, and also because several had lengthy records of investment that allowed us to look at data over time. They were represented by individuals who collectively, and in some cases individually, had decades of experience in designing impact measures, not in theory for publication, but in practice in real operating organizations. They came together in an 18-month process of two face-to-face meetings and innumerable conference calls and round robin e-mails. The discussion was rich and the product represents insightful collective thinking—as well as the practicality of individuals who have to use the methods they espouse.

While the methods described in this toolkit represent a major step forward in the practice of measuring impact, a caveat is warranted about proper use of the data

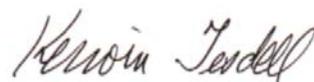
they produce. These methods do not produce apples to apples numbers that investors should use, in isolation, to make investment decisions among competing social investment opportunities. At best, they produce very useful data that investors and practitioners can combine with other information to build a full picture of the social benefits an investment creates. There are several reasons for this, of which I will mention just two.

First, these methods do not deal adequately with the problem that assessment professionals refer to as the counterfactual, or “but for” question. That is, if the investment had not been made, what would have happened anyway? The CDVC model is particularly strong in relation to other economic development strategies with respect to “but for” causality. It is likely that a provider of flexible equity capital financing at an early stage of a company's development, along with extensive entrepreneurial and managerial assistance offered through participation on the company's board of directors, will have a very strong “but for” effect on the success of the company and the resulting social impact. In fact, perhaps the greatest strength of the CDVC model is that it is a powerful tool to make things happen in markets and economies that otherwise would not have happened. This important result is not captured by the impact measurements in the toolkit, and it is probably impossible to design a practical method to do so.

A second limitation is that the toolkit does not fully measure the social benefits created after an investment is exited or beyond the direct impact of the company in which an investment is made. But venture-backed companies tend to have rapid growth trajectories, even after exit, and often have major impacts on local economies. Consider the picture of the impact of Apple Computer if viewed solely at the time Apple's initial venture investors exited the young company.

Despite these caveats, this Measuring Impacts Toolkit represents the state of the art in impact measurement. We hope that CDVC funds find it useful in demonstrating the concrete successes that equity investment can have in benefiting low-income people and communities, while providing competitive financial returns to investors. We also hope that it provides an important contribution to advancing the field of impact measurement more generally.

Sincerely

A handwritten signature in black ink that reads "Kerwin Tesdell". The signature is written in a cursive, slightly slanted style.

Kerwin Tesdell

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THE RETURN ON INVESTMENT PROJECT

CDVC funds use the tools of venture capital—equity capital and business management expertise—to pursue financial returns for their investors and social impacts that focus on improving the lives of low-income people and communities.

The Return on Investment (ROI) Project represents the first collective, practitioner-lead effort to create a standard methodology for measuring the social impacts of developmental venture capital (VC) investing. Five community development venture capital (CDVC) organizations, representing seven domestic CDVC funds and thirteen international funds, participated as expert practitioners. The organizations were selected through a competitive application process and were chosen based on their extensive work in the area of social impact analysis. The participating organizations were: Coastal Ventures, Inc., Northeast Ventures Corporation, Pacific Community Ventures, Inc., SJF Advisory Services, and the Small Enterprise Assistance Fund (SEAF), a manager of international developmental VC funds based in Washington, DC. The Community Development Venture Capital Alliance (CDVCA) acted as the project manager. The F. B. Heron and Rockefeller Foundations funded the Project, and provided important guidance and technical support.

During the 18-month project participants met in two face-to-face meetings, held regular conference calls, and shared extensive amounts of materials on each of their social impact measurement programs. Individual fund’s social impact surveys were amalgamated into a single comprehensive list of data points (grouped into various modules) that then acted as a starting point for a series of discussions about how best to measure social impacts.

The goal of the Project was to create an efficient and practical social impact assessment program that funds could adopt “off the shelf.” As such, the participants were guided by two important principles. First, standardization across the industry will help to improve practice and promote understanding for both practitioners and funders. Second, a social impact assessment program will only succeed if it is workable and practical. Given the limited resources

available to funds for collecting social impact data and for portfolio companies to provide such data, the Measuring Impacts Toolkit (MIT) methodology emphasizes getting correct answers to the right questions, rather than a lot of information that might be impossible to collect. The practitioners believe that fewer questions means better, more accurate answers. In addition, by focusing on a few good data points and accurately collecting those data, CDVC practitioners will be better situated to publish aggregate data on the industry and make meaningful comparisons between funds, across sectors, and over time.

Defining the Goals of CDVC Investing

CDVC funds use the tools of venture capital—equity capital and business management expertise—to pursue financial returns for their investors and social impacts that focus on improving the lives of low-income people and communities. These social impacts can be summarized as creating good jobs for people who would otherwise have limited employment opportunities. These two sets of outcomes are often referred to as CDVC industry’s double bottom line. In contrast, the traditional VC industry exclusively pursues financial returns.

CDVC funds are interested in creating employment opportunities for people who are too often left behind by mainstream economic growth. These include people with limited job skills or educational attainment, people who are transitioning off of welfare or public assistance, people seeking work through state or local employment agencies, and people living in low- or moderate-income areas. In almost all cases these people are low- or moderate-income—defined as someone whose income is at or below 80 percent of area median income (AMI). AMI is defined in terms of the metropolitan statistical area’s (MSA) median family income or, in the case of rural areas, as the statewide non-MSA median family income.

CDVC funds define “good employment opportunities” in a variety of ways, including jobs that pay good wages, provide benefits, and offer wealth-building opportunities. Good jobs also offer training and opportunities for advancement, either through a formal career ladder at the company or through skills development.

Thus the CDVC investment model concentrates on a certain population and on creating certain types of job opportunities. CDVC funds will tend to avoid investing in companies that offer poor wages and no benefits to their entry-level workers. They also tend not to invest in companies where the entry-level employment opportunities require extensive education: for example, biotechnology.

However, an exclusive emphasis on the quality of job created may be less compelling in highly economically distressed rural areas. In areas, with high rates of unemployment, even a mini-

mum wage job without benefits may be important for the local population. In addition, attracting high-tech or biotechnology companies, which may not provide large numbers of lower skilled jobs, may still have important positive impacts on the lives and economic opportunities of the local low-income population by diversifying the economy, slowing out-migration, and generally increasing the economic vitality of the area.

Implementing the Measuring Impacts Toolkit

This Users' Manual introduces the concepts and describes the reasoning behind the Measuring Impacts Toolkit (MIT). The MIT is an electronic (Microsoft Excel) survey with associated information. Specifically, the MIT consists of:

- The Core Survey that includes detailed instructions and a data map, which allows funds to easily and accurately extract data from the electronic survey.
- An Excel spreadsheet containing income definitions for “target employees” (defined below) for counties in the United States, based on area median income.
- The Enhanced Modules, which add additional modules and extend some of the questions in the Core Survey, and includes a separate instruction page.

Implementing the MIT should prove beneficial to both fund managers and staff, and to investors in the industry. First and foremost, the MIT is designed to respond to the needs of CDVC fund managers and their staff in helping them to better understand their social impacts. In this way, the MIT is designed to function as a management information system for practicing CDVC funds.

Second, funds can implement the MIT in order to improve their social impacts reporting to investors and funders. Foundations, banks with affirmative CRA obligations, policymakers, individuals, and all double-bottom line investors are increasingly demanding quantitative information about social impacts in addition to knowing financial returns.

