JULY 2022

LISC

Introducing the LISC Impact Matrix

Community development financial institutions (CDFIs) play an important role in generating economic growth and opportunity. By financing nonprofits that provide essential services, lending to underserved for-profit business owners excluded from traditional sources of capital, or providing loans to build or preserve affordable housing, LISC and our peers are dedicated to improving communities that have experienced decades of financial exclusion. For over 40 years, LISC has partnered with local leaders, residents, and stakeholders in communities of color and lower-income urban and rural places to bring community assets from ideation to reality. We have measured our impact in businesses financed, jobs retained, affordable units developed, and students served, paired with rigorous research from LISC's Research and Evaluation team on our positive effects in **urban** and **rural** places, and for **tenants** and **job seekers**.

However, given LISC's approach to comprehensive community development, we did not have a way to compare projects' impact across asset types. How do you compare 100 units of permanent supportive housing in San Diego to a charter school serving 500 low-income students in New York? What is the impact of a new shopping center bringing a full-service grocery store to a food desert in rural Oregon compared to a permanent location for a small, POC-owned business in Chicago? How do we integrate our commitment to racial equity across our lending practice?

In 2021, LISC joined peer organizations in the **Impact Frontiers CDFI Cohort,** a collaborative effort that integrates financial risk and return analysis with impact-management practices, in order to work together on answering these questions, with an explicit focus on racial equity.

Impact Frontiers seeks to answer three primary questions for impact investors:

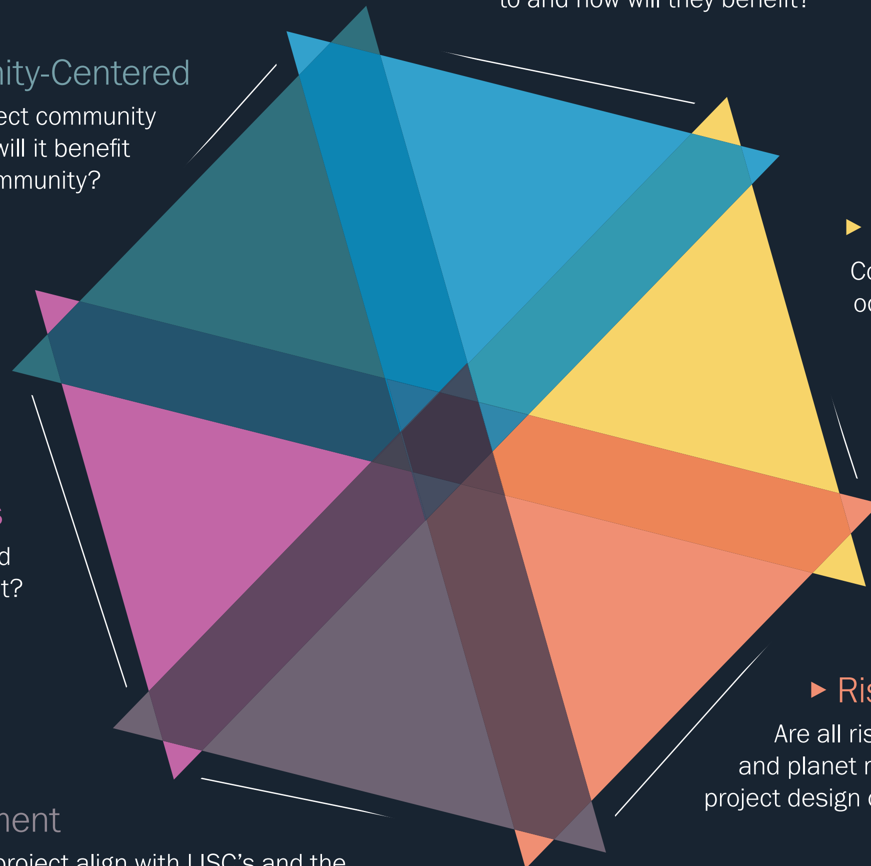
- Which loans make more or less impact, and how do we know?
- Which loans make more or less money?
- How can we use these insights about impact and profitability to inform decision making on individual loans, to improve the impact and/or financial performance of our portfolio as a whole, and to communicate externally about our financial/impact goals and performance?

We set out to answer the first question by building an impact rating tool that allowed us to score each loan in LISC's on-balance-sheet loan fund and assign it a numeric score.

We based our matrix on the **five dimensions of impact put forward by** the **Impact Management Project (IMP)**—What, Who, How Much, Contribution, and Risk—but we also included a sixth, LISC-specific dimension, Community-Centered. As discussed above, community is critically important to LISC's mission and staying true to our roots. Our name, Local Initiatives Support Corporation, reflects our origins and commitment to assisting community-driven development efforts. In designing an impact rating tool, we wanted to combine LISC's local DNA with industry standards that give everyone a common language and toolbox to discuss and measure impact.

LISC's Impact Matrix is the first step in using a data-informed approach to refine how we incorporate impact into LISC's loan process. The matrix leverages existing quantitative and qualitative data collected during the underwriting process. LISC's origination system collects over 250 data points that, through an internal data-review process culminating in 2019, were aligned to industry standards like those promulgated by Aeris's **Community Investing Impact Metric Set**, the Global Impact Investing Network (GIIN) **IRIS + system**, the **CDFI Fund** and other federal regulators, and peer institutions.

Our matrix seeks to answer six questions



▸ Who
Who are we providing the investment to and how will they benefit?

▸ Contribution
Could the project occur without us?

▸ Risk Mitigation
Are all risks to people and planet mitigated through project design or other factors?

▸ Alignment
Does the project align with LISC's and the local LISC office's strategic goals?

▸ Effectiveness
What is the scale, depth, and duration of the intended impact?

▸ Community-Centered
Is the project community supported and will it benefit the existing community?

Each dimension drills down into sub-dimensions to better define and specify the types of impact that a LISC project could have. Within Community-Centered, for example, we have **community influence**—how have local residents been engaged in the planning process?—and **environmental features**—does the project respond to climate change through the inclusion of Green Building Standards, climate-mitigation planning, or climate-resilience features? Each sub-dimension includes one or more indicators—the actual data or questions being measured in the matrix.

Contribution indicators include questions such as:

- Is LISC's capital catalyzing additional public or private investment?
- How many hours of technical assistance have LISC staff provided to the borrower?
- Will this investment increase the ability of the borrower to access traditional capital in the future?

Each dimension has three to nine indicators that measure the project's impact and alignment with LISC priorities for a total of 38 individual indicators.

Dimensions of impact

1. Community-Centered

Is the project community supported and will it benefit the existing community?

Community Influence:	Was the project designed/programmed with input and influence from the community?
Community Access	Is the project located in an area with access to quality community features, or does it expand access to quality services or products?
Community Benefit	Is the project located in an area that was historically redlined or in a majority-people-of-color (POC) community?
Environmental	Does the project contribute to climate mitigation and/or resilience strategies?
Service Expansion	Does the project include community-service elements beyond the basic scope of the project?
Borrower Embeddedness	Is the borrower located within and does it serve the area?
Community Served	Does this initiative or program explicitly target people of color (POC) clientele?

2. Who?

Who are we providing the investment to?

Sponsor Structure:	What type of entity is the sponsor?
Sponsor Leadership	Who leads the sponsor?
Sponsor Board	Who serves on the board of the sponsor?
Staff Composition	What are the demographics of the sponsor's workforce?
Quality Jobs	Does the sponsor offer quality jobs?
Project Team	What are the demographics of the project/ professional-services team?

3. Contribution

Could the project occur without us?

Product Type:	Does LISC's product fill an unmet need in the market?
Borrower Experience	Does the borrower fall outside traditional lending standards?
Catalytic Investment & Leverage	Will LISC's investment induce or arrange additional financing?
Technical Assistance	How many hours of TA has LISC provided to the borrower pre-closing?
Capital Contribution	Is LISC providing additional resources or credit enhancement for this project?
Impact Contribution	Does this investment increase the capacity of the borrower to access traditional capital for future projects?

4. Risk Mitigation

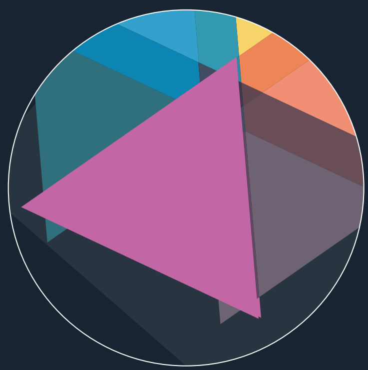
Are all risks to people and planet mitigated through project design or other factors?

- **Borrower Equity Alignment:** Does the borrower consider diversity, equity, inclusion, and justice in its culture and hiring practices?
- **Borrower & Place Alignment:** Do the borrower demographics match the demographics of the intended beneficiaries or community?
- **Environmental Alignment:** Are all risks to the planet mitigated through project design?
- **Anti-Displacement Alignment:** Does the investment support maintaining existing residents in the community?
- **Community Alignment:** Is the project aligned with community design?
- **Programming Implementation Risk:** Is the intended impact likely to be implemented as planned and endure?

3. Alignment

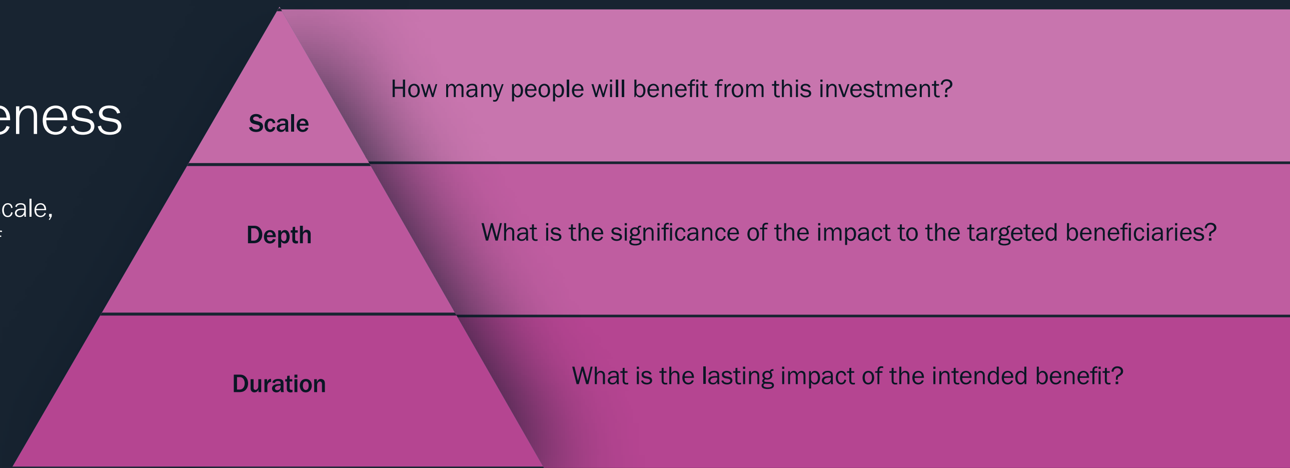
Does the project align with LISC's and the local LISC office's strategic goals?

- **Theory of Change Alignment:** Does the investment align with at least some of LISC's theories of change (empower people, support enterprises, transform places, drive systems transformation)?
- **Local or Program Strategy Alignment:** Does the project advance program or local-office strategy?
- **CDFI Mission Alignment:** Is the project located in a low-income area or is it intended to serve very low-, low-, and moderate-income families?
- **Economic Mobility Alignment:** Does the project actively play a role in increasing economic mobility?
- **10X Alignment:** Does the project actively play a role in reducing the racial health, wealth, and/or opportunity gaps?
- **Equity Alignment:** Does the project transfer wealth from non-POC to POC beneficiaries?



6. Effectiveness

What is the project's scale, depth, and duration of impact?



In the design process, the internal LISC impact team received input from across the organization to refine the data points to ensure they aligned with existing data fields and definitions, as well as to develop scoring guidance to reduce subjectivity or bias in scoring. Internal stakeholders were asked to assign different weights to each dimension and indicator through an anonymous input process.

In the months since we introduced the Impact Matrix, the way impact is discussed during underwriting has already changed. LISC is refining how we ask questions of borrowers to ensure we are capturing a project's complete impact. Local offices are eager to share additional details about project initiatives and community-engagement activities that affect project scores. Just having a tool that measures prospective impact has made the team reach for more and more impactful projects—loans that could transform organizations and lead to more financing options in the future, developments that provide affordable housing and align with Green Building Standards in support of climate-mitigation strategies, and projects that are the vision of local community residents and need LISC's flexible financing to come to fruition. LISC's mission and strategy have not changed, but the Impact Matrix has given us a tool for not only measuring impact but re-centering it as key to our approach to project selection, due-diligence requests, and underwriting. We're also seeing spillover effects like improving our quality control for data collected during underwriting, determining new and best practices in asking for data in ways that are not extractive of our borrowers, and finding new ways to communicate our stories of impact to those unfamiliar with the lending work of CDFI loan funds.

For the remainder of 2022, LISC will set an impact baseline by scoring each loan post-credit approval. We are committed to reviewing, documenting, and improving decisions and processes based on our impact analysis. We recognize that we are early in this new assessment and will solicit input from internal stakeholders, borrowers, and funders at regular intervals to continue to refine our assessments.

Building a tool alongside Impact Frontiers and the other CDFI Cohort members provided numerous benefits—an opportunity to share ideas and challenges with peers, have a field-building organization guide our work, and align with industry standards while staying true to LISC's mission.

As the matrix continues to evolve and grow, we hope to also evolve its uses. How can we direct resources to the most impactful loans? Can we advocate for new sources of funding to support highly impactful work? What are the characteristics of high-impact projects and how do we source more of those loans? How can our learnings be brought to peer and partner organizations to influence broader systems change? The Impact Matrix is the first step in answering these questions and so many more.

Resources

For those interested in deepening their own impact measurement and management practice, we've leveraged the following resources as part of our work:

- **Impact Frontiers:** LISC is a participant in the Impact Frontiers CDFI Cohort, a collaborative effort to integrate financial risk and return analysis with impact-management practices. A key deliverable of this work has been the development of LISC's Impact Matrix. Impact Frontiers has authored several resources to help organizations as they begin their impact-financial integration work, including:

- "**How investors can integrate impact with financial management**," in the *Stanford Social Innovation Review*.

- "**Impact-Financial Integration: A Handbook for Investors**:" The Impact Frontiers Collaboration developed this guide to help investors integrate impact with financial analysis in their decision making. It could change the way investors around the world allocate capital to achieve financial, social, and environmental goals.

- **Global Impact Investing Network (GIIN):** The GIIN is widely recognized as one of the world's leading sources of data and perspectives on impact investing. In its Research Center, you will find GIIN-authored research, resources such as Investment Profiles and Investor Spotlights, publications authored by other field-building organizations, and more.

  LISC participates in GIIN working groups to help standardize impact measurement and management across asset classes. Most recently, LISC provided data and input in the design of the financial-inclusion-impact performance benchmark on IRIS+.

- **Impact Management Project (IMP):** The IMP began in 2016 as a time-bound forum for building global consensus on how to measure, assess, and report impacts on people and the natural environment. As part of its work, the IMP defined **impact management norms** including the **five dimensions of impact:** What, Who, How Much, Contribution, and Risk.

  Through our Impact Matrix, LISC aligns our impact measurement and management activities with the IMP's five dimensions of impact.

- **United Nations Sustainable Development Goals:** The **2030 Agenda for Sustainable Development**, adopted by all UN Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 Sustainable Development Goals (SDGs), which are an urgent call for action by all countries—developed and developing—in a global partnership. They recognize that ending poverty and other deprivations must go hand in hand with strategies that improve health and education, reduce inequality, and spur economic growth—all while tackling climate change and working to preserve our oceans and forests.

  Through our Social Bond Framework and Project Profiles, LISC aligns our portfolio with 10 of the UN SDGs, including SDG #1, No Poverty; SDG #2, Zero Hunger; SDG #3, Good Health and Well-being; SDG #4, Quality Education; SDG #7, Affordable and Clean Energy; SDG #8, Decent Work and Economic Growth; SDG #9, Industry, Innovation and Infrastructure; SDG #10, Reduced Inequalities; SDG #11, Sustainable Cities and Communities; and SDG #12, Responsible Consumption and Production.

- **International Capital Markets Association** (ICMA) **Green Bond Principles, Social Bond Principles, Sustainability Bond Guidelines,** and **Sustainability-Linked Bond Principles:** The principles are a collection of voluntary frameworks with the stated mission and vision of promoting the role that global debt-capital markets can play in financing progress toward environmental and social sustainability. They outline best practices when issuing bonds serving social and/or environmental purposes through global guidelines and recommendations that promote transparency and disclosure, thereby underpinning the integrity of the market. The principles also raise awareness of the importance of environmental and social impact among financial-market participants, which ultimately aims to attract more capital to support sustainable development.

LISC has aligned debt issuances with the ICMA sustainability and social bond principles, and received an independent opinion from Vigeo Eiris confirming our Social Bond Framework's alignment with these principles as well as with the UN SDGs.

- **Impact Measurement & Management for the SDGs:** This is a free course produced by the award-winning team at the Center for the Advancement of Social Entrepreneurship (CASE) at Duke University, and developed in collaboration with advisors from around the world. The course consolidates several decades of work around impact management into a cutting-edge guide based on short videos and lessons with concrete practical examples.

Special thanks to:

LISC's Impact Measurement & Management Working Group: Kathleen Keefe, Carly Pablos, Andrea Rattray, Anna Smukowski, Jessica Weitzel, and Nina Williams

Impact Frontiers CDFI Cohort

Additional feedback provided by: LISC senior management, Lending leadership, executive directors, Research & Evaluation, 10X Steering Committee, Racial Equity in Lending Workgroup, Green Team, national underwriters, and all LISC staff who responded to our requests for input

About the Author

As LISC's first ESG & Impact Reporting lead, Laura Mixter oversees LISC's impact measurement and management work, including the implementation of the LISC Impact Matrix, for all loans financed through LISC's loan fund. Laura joined LISC in December 2021 after spending six years at our affiliate New Markets Support Company (NMSC). At NMSC, she held a number of different roles on the Asset Management, Advisory Services, and Impact teams. Laura has a BA in Public Policy from Duke University and an MBA from Duke's Fuqua School of Business. While at Fuqua, Laura performed research on successful impact investing firms as a CASE i3 Associate.