# Economic & Social Impact Measurement and CDFIs
## - The CBS Experience

**Sean Dennis, Managing Director,**
**Capitalise Business Support (CBS), Hastings**
**( A Community Development Finance Institution (CDFI) )**
**Member of the CDFA Board**
**&**
**Jim McLoughlin, Babak Sodagar, Dr Jaime Kaminski**
**CUBIST Research Group**
**(Socio- economic impact research)**
**The Business School , University of Brighton**

## Applying the SIMPLE method of impact measurement

**{SIMPLE** = **S**ocial **Imp**act for **L**ocal **E**conomies**}**

**Project funded by CDFA Step Change**
**& University of Brighton, Commercial Activation Fund**

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# Overview of the Session

- Policy & Sectoral context for UK CDFIs
  - Impact measurement as a strategic priority
- CBS: A pilot project on impact measurement
  - Brief introduction
  - Project objectives
- SIMPLE Impact Measurement Model: An  Overview
- Emerging Impact measures from CBS project
- Future direction?

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# UK Policy and Sectoral Context

## - GHK Report's recommendations to Dept. BIS & CDFA

- **Recommendation 1**: Continue public sector support to CDFIs
- **Recommendation 4:** The sector, led by the CDFA, should continue to support the development of social impact methodologies in partnership with national social value initiatives and to evidence the full value of its activities.

Source: GHK Report, March 2010

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# Capitalise Business Support

- Enterprise CDFI
- Aims & rationale:
  - Improve impact measurement
  - Better demonstrate our impact
  - Are we delivering our Mission Statement?
  - Future funding & support
  - Potential product to support the sector?

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# The SIMPLE Impact Measurement Method - Applied to CBS

- **Applied SIMPLE (Social Impact for Local Economies) Model**
  - A strategic approach to impact measurement (McLoughlin et al, 2009)
- **CBS – Measurement Development & Embedding processes**
  - Planning & briefing on CBS context and sectoral needs
  - In-house facilitated workshops with CBS staff team by Cubist Group
  - Stakeholder engagement
  - Ongoing learning, review and amendments
  - Development of measures
  - Follow up testing of measures with key stakeholders/experts

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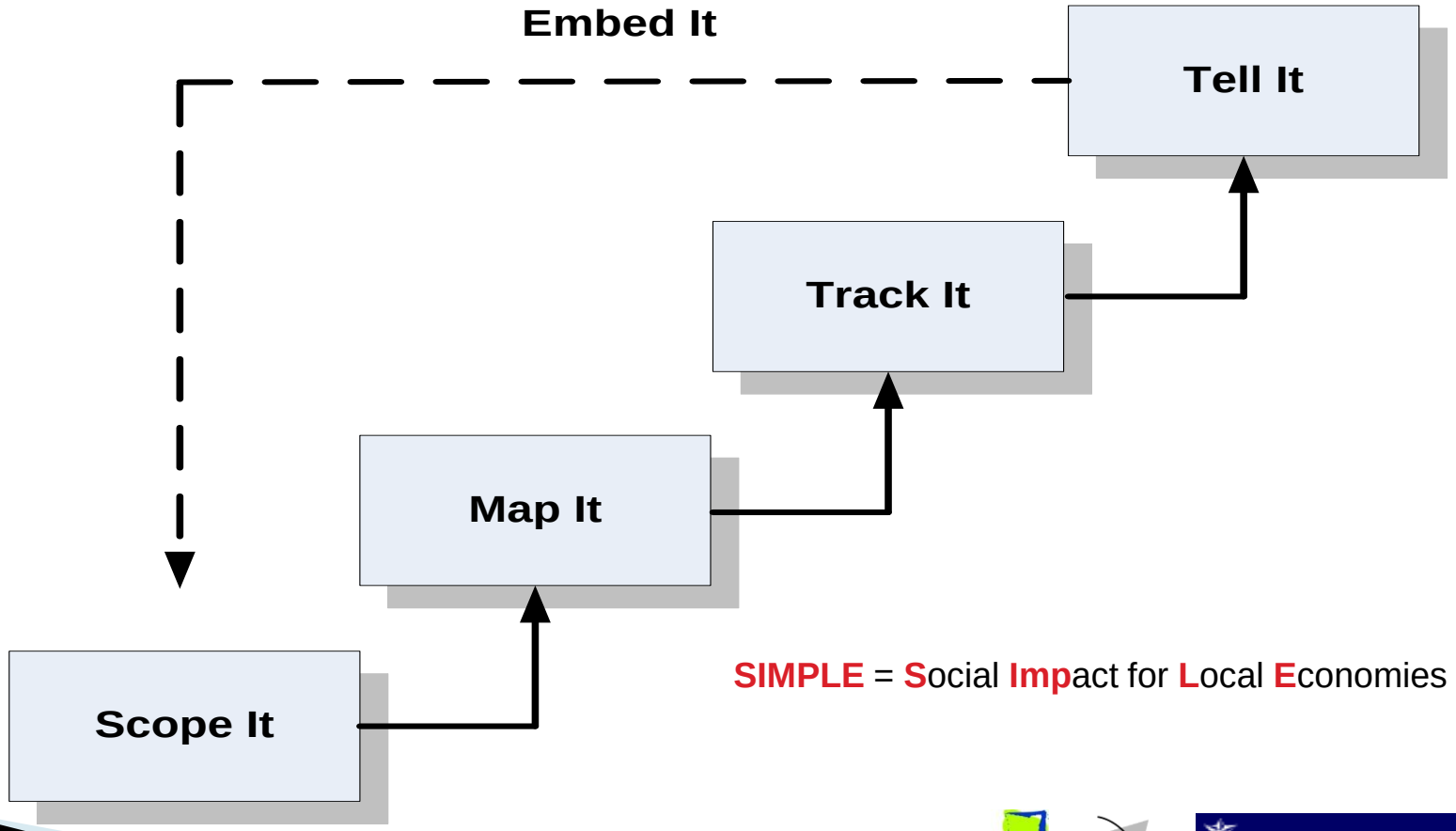
# The SIMPLE Model: a 5 step approach




**SIMPLE** = **S**ocial **Imp**act for **L**ocal **E**conomies

Source: McLoughlin, Kaminski, Sodagar, et al (2009)

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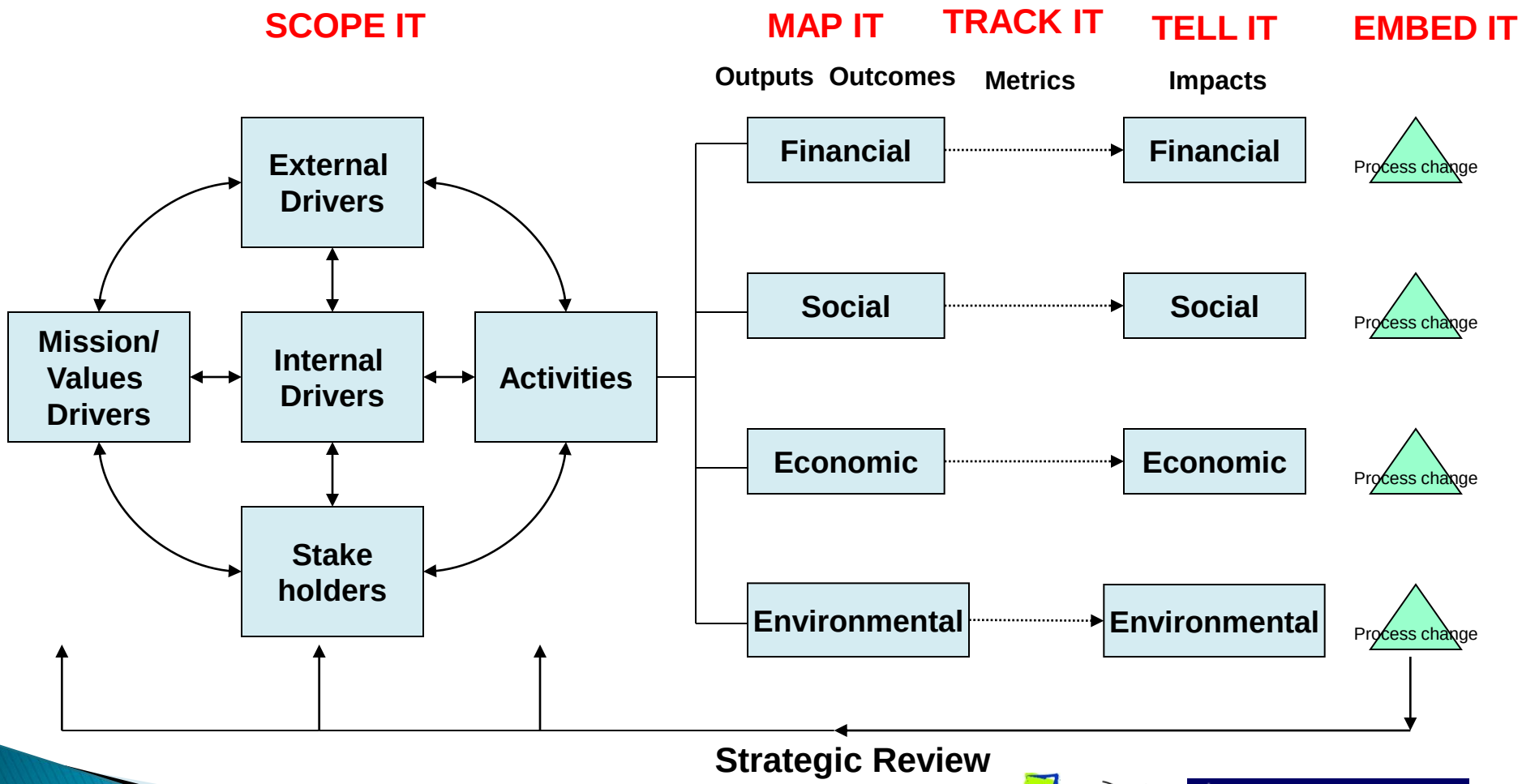
# The SIMPLE Impact Model &
## The quadruple bottom line (4BL) - Summary version




Source: McLoughlin, Kaminski, Sodagar, et al (2009)

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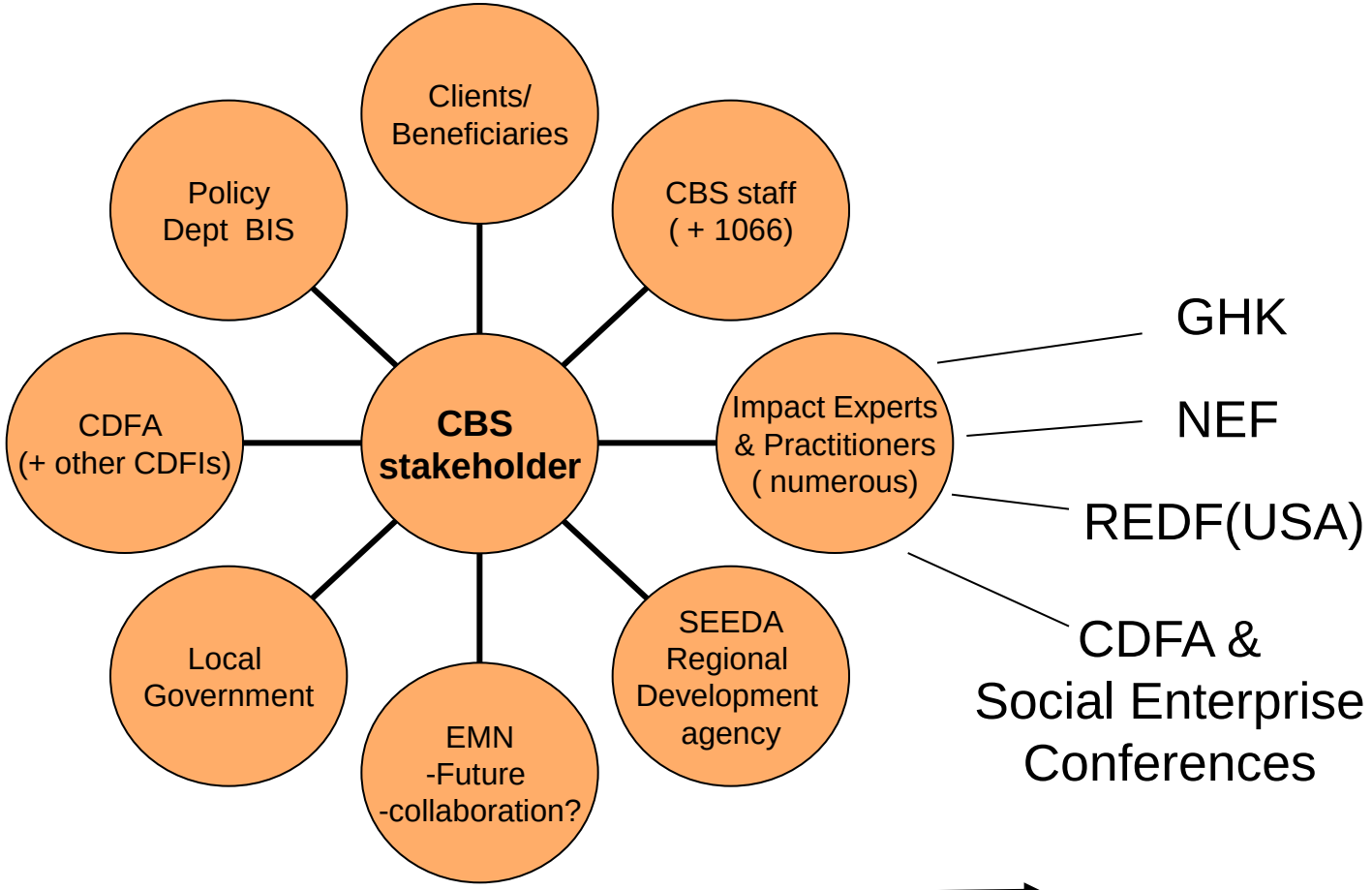
# Stakeholder Engagement – An ongoing, inter-active process

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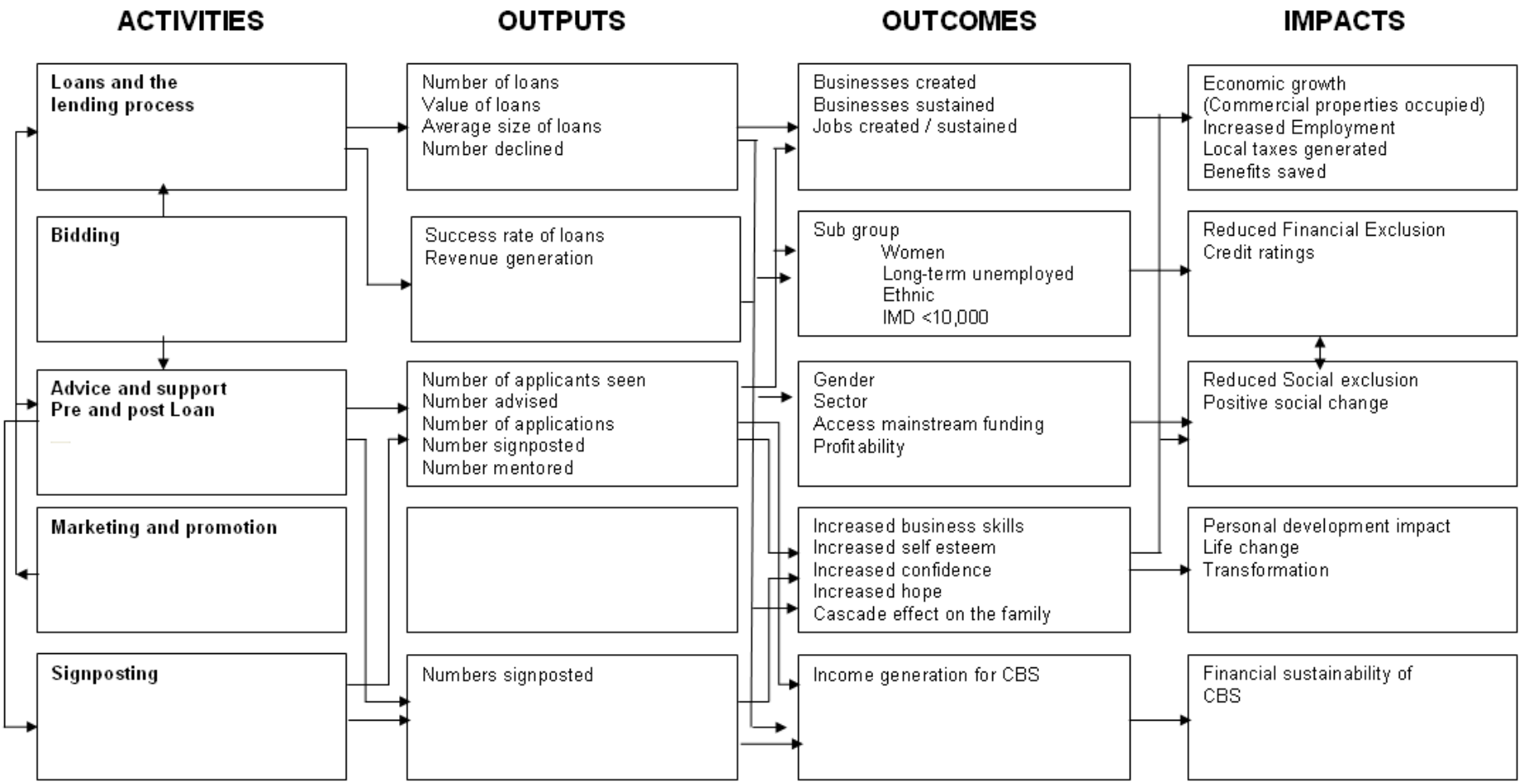
# MAP IT: Capitalise Business Services




**Identified Social , Economic and Financial sustainability outcomes**

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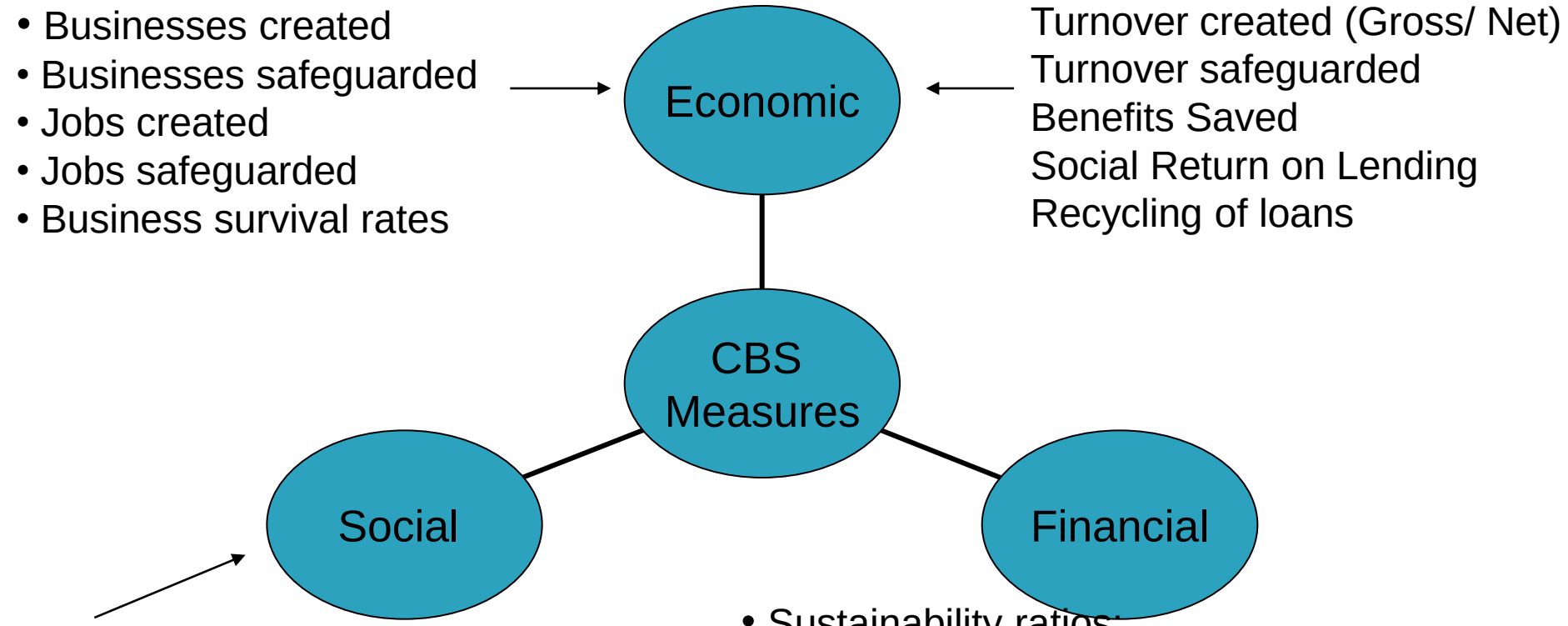
# CBS: Emerging Impact Measures
## – A Blended value approach




- Businesses created
- Businesses safeguarded
- Jobs created
- Jobs safeguarded
- Business survival rates

Turnover created (Gross/ Net)
Turnover safeguarded
Benefits Saved
Social Return on Lending
Recycling of loans

- Socio- economic profile of beneficiaries
  - gender, IMD, age, ethnicity, area etc
- Business skills development
- Personal development & confidence
- Social capital & connectivity
- Entrepreneurship and business acumen
- Financial inclusion
- Stories/reflections

- Sustainability ratios:
  - Operating costs
  - Operational Self Sufficiency
  - Loan fund Self Sufficiency
- Loan portfolio performance indicators:
  - Portfolio growth
  - Portfolio at Risk
  - Write off rates

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# CBS - Social Impacts

Socio–Economic profile of clients:

- Loans to women ~ 40%
- Ethnic minorities ~ over 13%
- Under 30s ~ 16.5%
- Over 50s ~ 18.3%
- Unemployed ~ 25.7% (of which long term unemployed ~ 10.3%)

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# Attribution findings & contributing to reduced financial exclusion

- **87.5%** said they would not have started with out our loan support
- **100%** rated the importance of loan to starting or sustaining their business at 7 or above. (using a Likert scale of 1 to 10 ~ 10 being most important) :
  - 12.5% ~ 7
  - 25% ~ 8
  - 62.5% ~ 10
- **37.5%** confirm support has subsequently helped them gain other funding

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# Business Skill Impacts - Quantitative measures

- **75%** said we helped improve their **business skills** to **a good or significant extent**
- What skills did we help them develop?
  - **75%** business planning skills.
    - Of these **100%** confirmed this was to a **good or significant extent**
  - **62.5%** financial skills.
    - Of these **62.5%** confirmed this was to a **good or significant extent**
  - Also helped 42% improve operational skills, 28% marketing and 14% people management

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# Business Skill Impacts - Qualitative

- What did they say about the skills support?

**‘Could call at any time for advice and it was never too much trouble’**

**‘Without that knowledge, the plan had no validity. It brings a sense of realism’**

**‘Provided knowledge and experience, as a woman in business, needed to toughen up’**

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# Personal Impacts - Quantitative

- **Confidence & Self Esteem**:
  - **100%** confirmed we had positively impacted at least to some extent with **75% to a good or significant extent**
- **Sense of Well Being**:
  - **100%** confirmed we had positively impacted at least to some extent with **50%** to a good or significant extent
- **Sense of control of your life**:
  - **100%** confirmed we had positively impacted at least to some extent with **75% to a good or significant extent**
- **Aspiration and ambition**:
  - **100%** confirmed we had positively impacted at least to some extent with **75% to a good or significant extent**

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# Personal Impacts – Qualitative. What did they say about us?

‘Good to know that someone believes in you.  Begin to be taken seriously’

‘I was £70k in debt.  Now 3 years later I have repaid that debt and grown the business’

‘If it wasn't for the help, which was a substantial gamble, none of this would have happened and I would possibly have been bankrupt. CBS looked at the business and understood the business, which the banks did not’

‘Gave me the confidence to make decisions over changing the direction of the business’

‘I stopped being statistic – as a single parent, I was considered by some to be the lowest of the low’

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# Economic Impacts – Summary

- Businesses created ~ 169 *
- Jobs created ~ 214 *
- Jobs safeguarded ~ 65 *
- Start up rates ~ 70.3%
- Gross Turnover generated ~ £1.5m (based on sample of £206,000 loans made)
- * figures only relate to businesses actually funded by us, not those that have only received business advice

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# CBS Economic Impacts – From Gross to Net at Organisational level

- **Drawing on GHK report (March 2010)- additionality calculations**
  - Deadweight data
  - Displacement
  - Multiplier
  - Leakages
- **Consistent with**
  - the BIS IEF Framework
  - HM Treasury Green Book
- **CBS method**
  - Delivers cumulative impact through time
  - Nearly 100% sampling
  - Weights can be adjusted to CDFI local conditions
  - Includes failed loans

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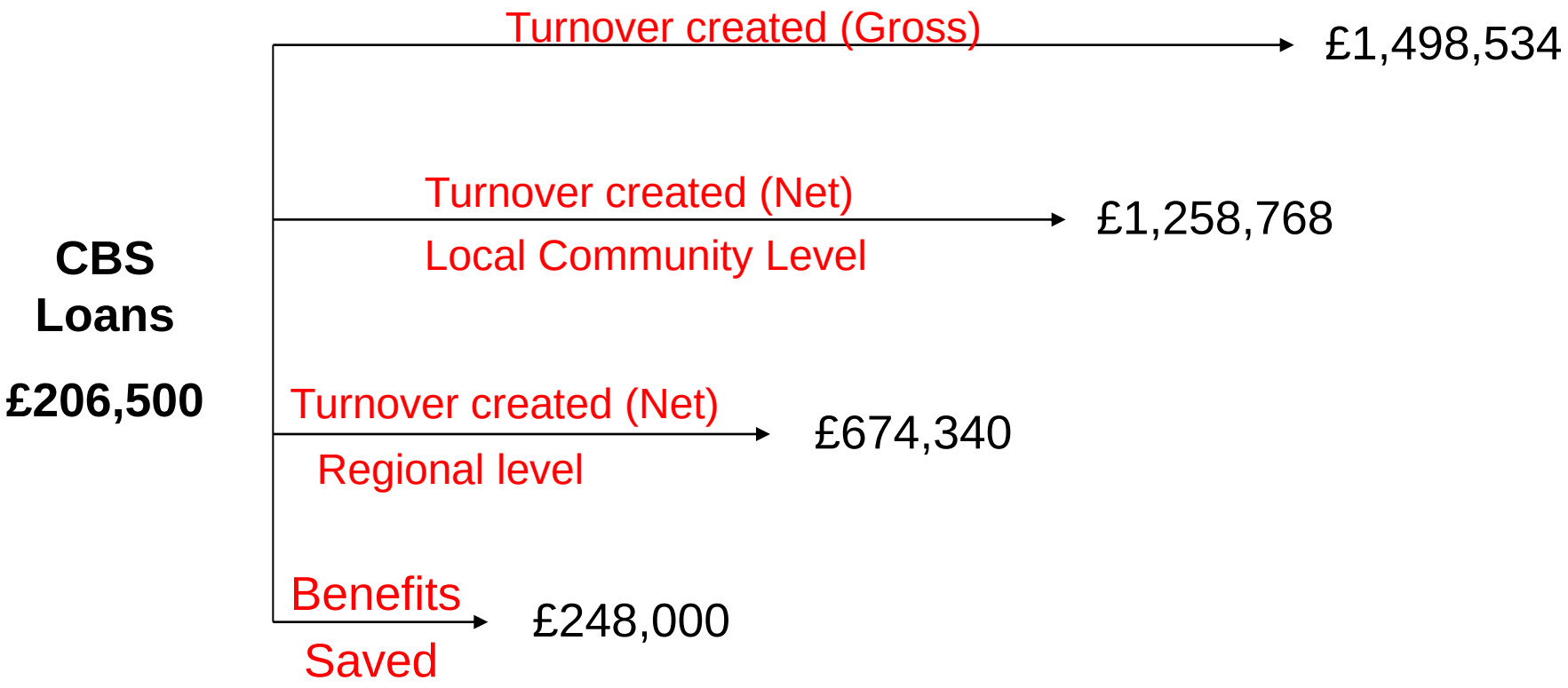
# CBS Cumulative Gross & Net Economic Impacts




**Note: Test data from 22 start ups by CBS**

- **Includes lifetime loan effects – counted as 3 yrs**
- **Failed loans are included**
- **Net figures apply the GHK Report's Gross to Net Weightings**
- **Net includes deadweight, displacement & multiplier effects**
- **Benefits saved refers to previously unemployed + £5000 pp per y**

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# Social Return on Lending (SROL)
## - CDFI enabled economic activity

## Basic Formula

| Value Added Activity | | Data Source |
|---|---|---|
| Gross Value Added (Client ) | → | Client Turnover (adjusted to GVA) (Client enabled & attributable to CDFI) |
| + Benefits Saved | → | Jobs created (Previously unemployed enabled by CDFI interventions) |
| + CDFI Value Added | → | CDFI records (Added value of intermediation) |

Source: McLoughlin, Dennis, Kaminski, Sodagar(2009)

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# Social Return on Lending (SROL) - Example

| | | Turnover adjusted Client GVA A | | | | Benefits saved - jobs created etc B | | | | GVA CBS C | Gross value-E ( A+ B + C) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Borrower organisation | loan | Yr 1 | Yr 2 | Yr 3 | Sub Total | Yr 1 1 job | Yr 2 2 jobs | Yr 3 2 jobs | Sub total | total term | Overall Total |
| A | 10K | 15K | 20K | 20K | 55K | 5K | 5K | 0 | 10K | 3K | 68K |
| B | 10K | 15K | 20K | 0 | 35K | 5K | 5K | 0 | 10K | 1K | 46K |
| C | 10K | 15K | 0 | 0 | 15K | 5K | 0 | 0 | 5K | -6K | 14K |
| Total | 30K | | | | | | | | | | 128K |

SROL: £1Loan generates £4.26 value added

Source: McLoughlin, Dennis, Kaminski, Sodagar(2009)

# Main Results – showing value added

- **£30K loans generated 128K of Gross economic value added – enabled ( despite two loans failing)**

- **£1 of loans enables £4.26 value added** (approximately) for society focused on disadvantaged groups

calculated by: 128K (value added)/30K( loan)= £4.26

- potential CDFI benchmark measure

Note:

- **Even failed loans can have net value added to society.**
- **Sector specific Measure – assumes 0% deadweight for start ups**
- **A Gross figure**
- **Overstates as no displacement or % deadweight accounting**
- **Understates: re**
  - **- no multiplier effects added**
  - **- low turnover assumed**
  - **- benefits saved per previously unemployed = £5000 pp per year**
  - **- recycling of loans not included**

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# Loan Recycling Economic Impacts - testing from CBS data

| | Initial loans | Turnover Created | Turnover Created Net | Multiplier on £1 loan | recycled loans | Extra Value Added generated through recycling |
|---|---|---|---|---|---|---|
| Community level | 206K | £1.5m | £1.26 | 6 | 103K (1st round) | 618K |
| | | | | 6 | 51.5K ( 2nd round) | 309K |
| | | | | | | |
| Regional level | 206K | £1.5m | 675K | 3.3 | 103K (1st round effects) | 340K |
| | | | | | 51.5K ( 2nd round effects | 170k |

Recycling of £206K loan potentially generates extra turnover created ( net) £618K ( 1st round Community level) and £340K ( 1st round regional level)

Based on - Estimates on recycling ratio from CBS of 50%

- Applying GHK Report Gross /net weights
- 1st & 2nd round effects

Note: need to take into account transaction costs of recycling

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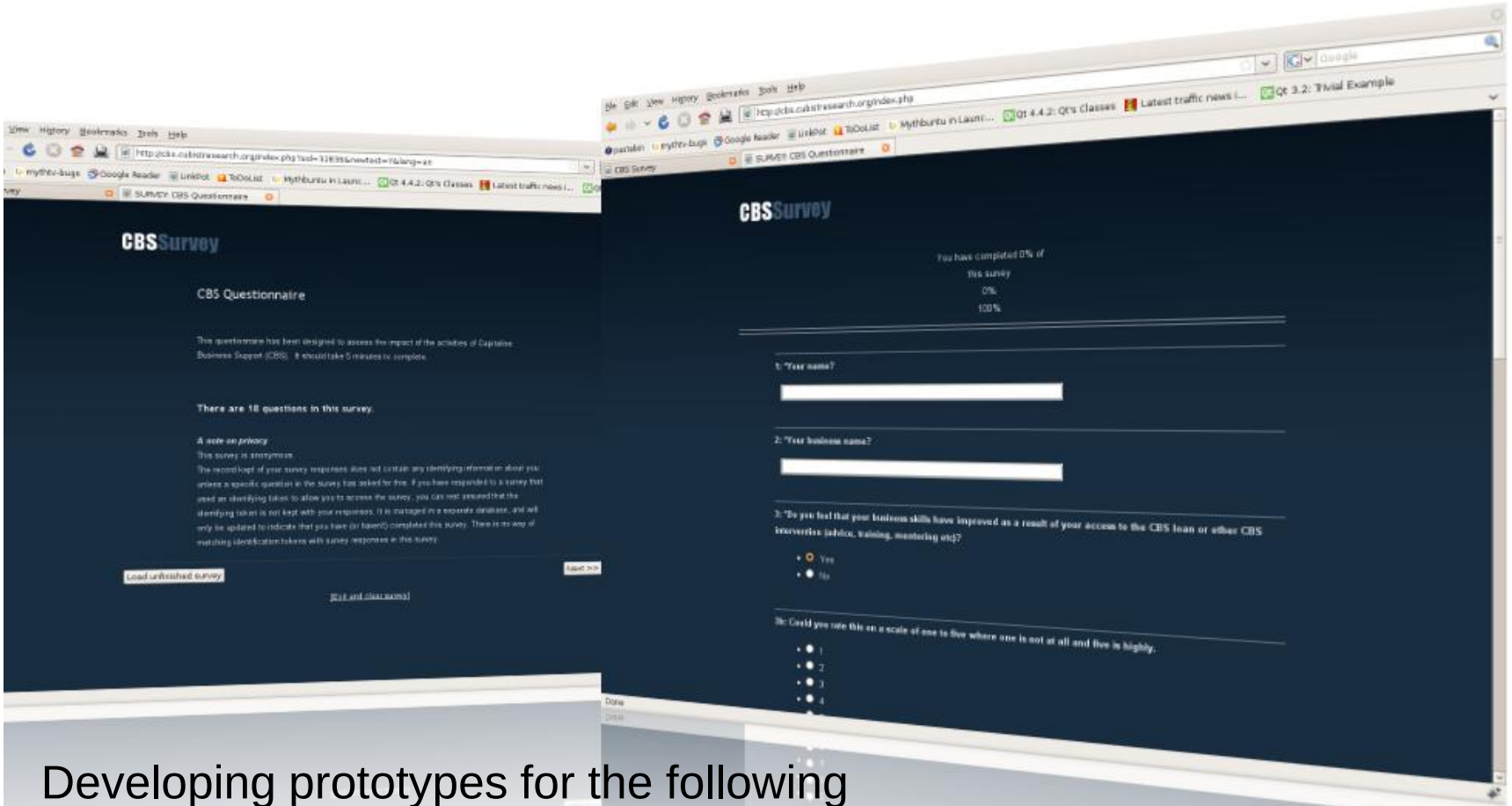
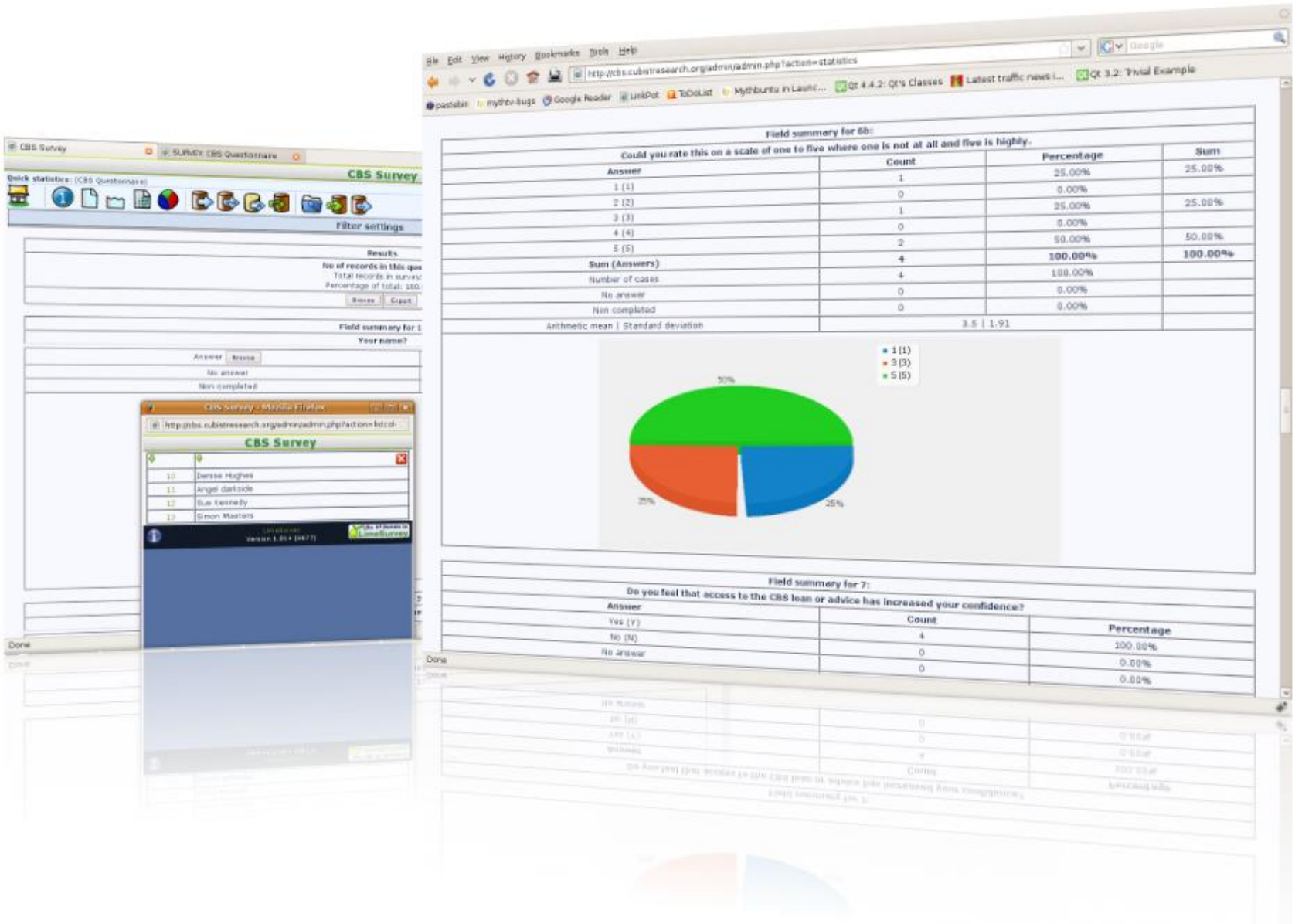
# Developing Support Software - Online questionnaire




Developing prototypes for the following

- Social Impact data capture
- Gross /Net economic impacts

# Developing Support Software - Generation of Reports



# Future Direction?

- Is the CBS impact measurement method of interest and potential benefit for the UK CDFI sector?
- Is a UK Social Performance working group needed?
- If so could this have representation on the existing EMN Social Performance Working Group?

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# Economic & Social Impact measurement and CDFIs
# - The CBS Experience


**CONTACT US**

**Sean Dennis, Managing Director,**
**Capitalise Business Support ( CBS), Hastings**
Tel: 01424 205504
E Mail: Sean.Dennis@1066enterprise.co.uk

**&**

**Jim McLoughlin, CUBIST Research & Consultancy Group,**
**The Business School , University of Brighton**
Tel: + 44 (0)1273 642573
E Mail: jgm4@bton.ac.uk


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# Gross to net economic impacts 1:
## Example for a CDFI in local economy

| **Business /Jobs Impacts** | Gross Economic Impacts | | Gross to net adjust. | | Net Economic Impacts |
|---|---|---|---|---|---|
| **Businesses created** | 10 | | 78% | | 8 |
| **Businesses Safeguarded** | 10 | | 83% | | 8 |
| **Jobs created** | 20 | | 26% | | 5 |
| **Jobs Safeguarded** | 40 | | 28% | | 11 |

Using GHK Report (Mar 2010) additionality weightings

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# Gross to net economic impacts 2:
## Example for a CDFI in local economy:
### Turnover Created/Safeguarded

| **Turnover** | Yr 1 | Yr2 | Yr3 | Gross Cumul-ative | Gross to net adjust. | Net Economic Impacts |
|---|---|---|---|---|---|---|
| **Gross turnover created** | 300 | 350 | 400 | 1050 | 84 % | 882 |
| | | | | | | |
| **Turnover Safeguarded** | 1000 | 1200 | 1500 | 3700 | 94 % | 3478 |

All in £ 000s, and % based on GHK Report (2010)

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