

# From Impact Measurement to Management: Broadstreet's Impact Rating Tool

While CDFIs and other community investors collect a wealth of information from portfolio companies about their expected contributions to community development, too often this information is used to meet [regulatory requirements](#) rather than inform investment decision-making. For many community investors, leveraging insights from impact analyses to guide portfolio construction and ongoing management— i.e., the second 'M' in [impact measurement and management](#) (IMM)—remains an aspiration rather than an established practice.

To be sure, most community investors have clearly defined impact goals, which they use to screen out investments with negative impacts or 'screen in' those expected to generate positive impacts in under-resourced communities.

Once investments are screened for impact, investment decisions are typically made by analyzing expected risk-adjusted financial

returns, weighing strategic considerations, and anecdotally assessing impact. Few community investors systematically examine which investments are expected to generate relatively more or less impact, which can help them more closely align their investments with their objectives and increase the likelihood that their portfolios reflect their values and goals.

Thankfully, leaders in the field are increasingly recognizing the crucial importance of methodically assessing anticipated impact. Systematic impact due diligence is one of nine of the International Finance Corporation's [Operating Principles for Impact Management](#), is a core component of the [SDG Impact Standards](#), and is cited by the [GIIN's Roadmap for the Future of Impact Investing](#) as critical to exponentially enhancing the scale and effectiveness of the industry. As a result, more community investors are developing systematic approaches to impact diligence, supported by industry groups such as the [Impact Frontiers](#).

## OUR APPROACH

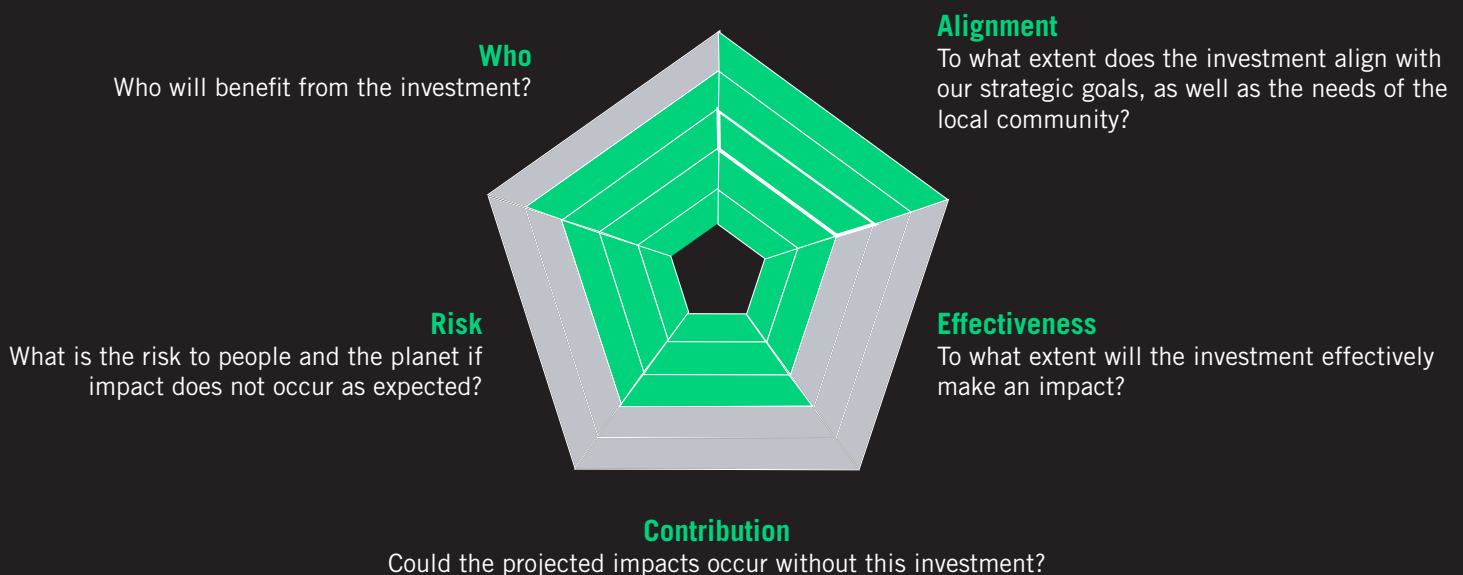
Broadstreet is committed to using impact data to inform our investment decisions, and we've focused initially on our diligence process. In 2021, Broadstreet's Impact team began building a robust, comprehensive impact rating tool to consistently evaluate the anticipated impacts of our [New Markets Tax Credit](#) (NMTC) investments. These investments utilize federal tax credits to incentivize private investors to deploy capital in underinvested communities across the country. Our track record of \$1+ billion of NMTC investments has always run the gamut of project type, and comparing this diverse set of investments has always been challenging. How should investors compare the expected impacts of investments in rural hospitals, urban charter schools, large manufacturers creating quality, accessible jobs, and small nonprofits providing wraparound

services? We believed that by building an impact rating tool containing specific yet generalizable questions and indicators, these comparisons would be possible. Doing so would enable us to assess impact more rigorously, benchmark our impact performance, and achieve greater progress toward our community development goals.

We started with the Impact Management Project (IMP)'s [Five Dimensions of Impact](#): What, Who, How Much, Contribution and Risk. These dimensions, which were identified by the IMP as foundational concepts that should be used to understand any impact, have been widely adopted within the practice of impact management in the impact investing and community investing fields.

## IMPACT FRAMEWORK

At a high level, our five-dimension impact rating tool asks the following questions<sup>1</sup>:



<sup>1</sup>The graphic depicts an investment's hypothetical rating for each dimension of impact.

<sup>2</sup>We changed "What" to "Alignment" and "How Much" to "Effectiveness" to convey more clearly what each dimension intends to assess.

## A CLOSER LOOK AT OUR IMPACT FRAMEWORK

After settling on these five dimensions, we divided each into sub-dimensions, indicators and criteria with corresponding scores. For example, Effectiveness was divided into Depth, Scale and Efficiency based on guidance from the IMP and the Global Impact Investing Network.

The sub-categories of Effectiveness evaluate the following questions:

**Depth:** How meaningful is the primary intended benefit to the affected stakeholders? To what extent does the project fill a gap or represent an improvement over the existing options? To what extent are jobs high quality?

**Scale:** How many people will the project directly serve per year? How much will the project's capacity to serve people increase compared to its operations prior to NMTC financing? How many permanent jobs will the project directly create?

**Efficiency:** Is the transaction expected to be a financially efficient means of supporting the targeted outcomes?

For Depth, investments could earn top scores by supporting projects with strong interventions offering significantly better options than currently available in the community. For example, an industrial project creating quality

jobs paying significantly better than living wage in a community with an especially high unemployment rate would score highly in the depth sub-dimension.

Scale is measured by the number of people served and jobs created. To receive full points, projects must be in the top quartile of our 17 years of investments in NMTC projects. Finally, Efficiency is determined based on people served or jobs created per 1 million of total development costs and compared to our historic

portfolio performance. By including a measure of efficiency, we reduce the risk of prioritizing larger projects simply because they serve more people.

Closing the racial health, wealth and opportunity gaps is a vital priority for Broadstreet, so we have embedded racial equity assessments throughout our impact rating tool. In addition to considering the extent to which our investments empower and benefit BIPOC leaders, staff and community members,

we assess whether our investees have policies that ensure racial equity, diversity, and inclusion (REDI) practices are embedded within the organization. These assessments are performed within the "Risk" dimension, which evaluates the quality of investees' governance and management as well as other factors affecting the likelihood that impacts do not occur as expected.

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A rendering of Sankofa Park from Destination Crenshaw, a recipient of an NMTC investment. [Destination Crenshaw](#) is the largest public-private Black art program in the United States. | Source: Studeo-MLA and Perkins + Will

## TESTING THE TOOL

To gain confidence that our impact rating tool is predictive of actual impact, we tested it on all the large (>\$4 million) NMTC investments we've deployed over the last seven years. This refinement process answered many of our team's questions:

- Which criteria received the same score for most or all investments, so weren't differentiating projects' impact scores?
- Which criteria were highly correlated with one another, suggesting they could be combined or one could be removed?
- What information was hard to find or unavailable?
- Which types of projects tended to score highly, and did that correspond with the projects we knew to be successful?

- What accounted for any discrepancies between scores and the team's understanding of project outcomes?

Answering these questions, we were able to eliminate about 30 percent of our original criteria, refine scoring guidelines to improve consistency and usability, and benchmark investment scores against the overall portfolio as well as for each type of project (e.g. community facilities) we finance. We have already put the tool to work, using it to evaluate new NMTC investment opportunities and identify where we could work with sponsors to improve community impacts. In 2022, we will use our impact rating tool to assess investments both before and after deploying capital to test whether expected impact is achieved and explore ways to further refine our approach.



## IMPACT HEAT MAP

By ranking and color-coding our investments by the five dimensions and overall impact scores, we identified trends, new questions, and areas for improvement within our impact rating tool. These are actual (and anonymized) scores for our large NMTC investments from the last seven years.

WHO: % Score Earned	WHAT: % score earned	HOW MUCH: % score earned	CONTRIBUTION: % score earned	RISK: % score earned	% Total Score Earned
85.00%	60.00%	87.50%	66.70%	100.00%	83%
100.00%	80.00%	58.30%	83.30%	100.00%	79%
55.60%	80.00%	75.00%	66.70%	100.00%	73%
83.30%	50.00%	76.00%	41.70%	87.50%	71%
77.80%	20.00%	71.90%	66.70%	87.50%	70%
84.70%	60.00%	66.70%	33.30%	100.00%	70%
51.40%	80.00%	67.70%	66.70%	100.00%	70%
83.30%	16.70%	77.10%	16.70%	87.50%	66%
80.60%	50.00%	59.40%	33.30%	100.00%	66%
91.70%	33.30%	72.60%	16.70%	87.50%	64%
80.00%	30.00%	53.10%	33.30%	87.50%	63%
69.00%	60.00%	50.00%	33.30%	87.50%	63%
90.00%	60.00%	43.80%	29.20%	100.00%	62%
66.70%	60.00%	83.30%	33.30%	50.00%	60%
100.00%	60.00%	75.00%	16.70%	62.50%	58%
63.90%	40.00%	68.80%	33.30%	62.50%	58%
75.00%	40.00%	72.20%	33.30%	50.00%	57%
70.00%	50.00%	41.70%	33.30%	100.00%	57%
70.00%	60.00%	37.50%	16.70%	87.50%	52%
50.00%	60.00%	70.80%	16.70%	50.00%	52%
56.90%	40.00%	36.90%	29.20%	100.00%	52%
16.70%	80.00%	64.60%	16.70%	93.80%	51%
50.00%	40.00%	66.70%	16.70%	66.70%	49%
50.00%	30.00%	78.60%	33.30%	8.30%	48%
41.00%	50.00%	38.10%	33.30%	62.50%	48%
33.30%	50.00%	58.30%	16.70%	66.70%	47%
8.30%	50.00%	64.30%	16.70%	75.00%	47%
40.00%	70.00%	42.70%	33.30%	62.50%	47%
41.70%	33.30%	36.50%	16.70%	100.00%	45%
23.30%	0.00%	58.30%	45.80%	75.00%	44%
66.70%	60.00%	50.00%	16.70%	37.50%	44%
6.70%	40.00%	47.90%	33.30%	100.00%	43%
25.00%	40.00%	33.30%	33.30%	75.00%	41%
15.00%	50.00%	50.00%	16.70%	75.00%	41%
20.80%	60.00%	50.00%	16.70%	62.50%	41%
5.00%	60.00%	51.00%	33.30%	62.50%	41%
45.00%	40.00%	43.80%	12.50%	43.80%	38%
66.70%	50.00%	25.00%	16.70%	33.30%	33%
100.00%	83.30%	35.70%	16.70%	0.00%	31%
8.30%	50.00%	18.80%	33.30%	37.50%	27%

## LEARNINGS SO FAR

While the primary goal of building an impact rating tool is to enhance our impact within the communities we serve, we've seen three immediate benefits to our organization. The first is that developing the tool has helped us gain internal alignment around our impact priorities. For example, we observed when testing the tool that investments in commercial and industrial projects tended to score lower than other projects like healthcare and community facilities. When scrutinizing these scores with colleagues who had close experience with them, we realized our tool was not assessing a crucial element of these projects: whether they were expected to reduce neighborhood blight. While harder to quantify than the type and magnitude of services and job opportunities provided, projects' effects on their surrounding physical environment and neighborhood's character is an important aspect of their community impact. By comparing quantitative impact scores against team members' understanding of project results, we were able to learn more about the myriad benefits of the projects we've supported and align on how they should be assessed.

The second benefit we've experienced so far is an increased ability to assess and compare the anticipated impacts of projects that are unlike those we've financed before. This should allow us to broaden our deal flow in service of our mission.

For example, prior to using our impact rating tool, we would have found it difficult to assess a project sponsored by a university in a rural area, because we have not historically financed many projects led by academic institutions. Additionally, while we rely on our counterparts in local LISC offices around the country to assess the importance of projects to their local

community development plans, we are unable to do so as easily in rural areas that do not have LISC offices nearby. Our impact rating tool, however, allows us to make "apples-to-oranges" comparisons between novel projects and our historic investments – showing us that investments in new types of partners such as rural universities can advance progress toward our goals.

The third benefit is the most promising: the impact rating tool is helping us make investments that are more closely aligned with our priorities and are expected to have even more positive impacts within the communities we serve. Since creating the tool, all our new NMTC investments have scored above the median in our portfolio, with all falling in the top or second-highest quintile. While we cannot solely attribute these higher-impact investments to our impact rating tool, developing our impact diligence approach has empowered our investment team to more effectively source deals that support quality job creation, wealth-building opportunities, and increased access to quality healthcare in ways that advance racial equity.

Lastly, we've learned that despite the comprehensiveness of our impact rating tool, it will never answer every impact-related question we have. In the same way that underwriters will have a standard set of financial diligence questions but have unique inquiries for many projects, impact diligence must be standardized yet tailored to each deal. Rather than being a shortcoming of our approach, we've seen that the tool leads us to new impact-related questions we wouldn't likely have asked before – strengthening our ability to use impact measurement to inform investment decisions.

Our impact rating tool is a living resource. As we rate more pipeline projects and our portfolio grows, we will continue to refine it to ensure we are constantly challenging ourselves to find the best, most impactful NMTC projects that will make the biggest difference in the communities we serve. It is also a template for Broadstreet's growing community investing and impact management work outside the NMTC space. The aspects of a high-quality NMTC project that are captured in our tool – serving a diverse population, offering essential services to under-resourced communities, unable to move forward without our investment – are the same qualities we look for in investments as we expand our services and investment types. Our impact rating tool has already been and will be adapted to future funds Broadstreet deploys to ensure we are holding ourselves to the highest standards of impact across all our work.

We're looking forward to continually refining our impact rating tools and building new ones as Broadstreet continues to expand and grow. For those interested in building impact rating tools, we suggest reviewing [PCV's Impact Due Diligence Guide](#), a resource created by the head of Broadstreet's Impact team, along with the IMP's [Impact-Financial Integration Handbook](#).

While systematic impact diligence is a vital part of the second 'M' in IMM, there is much more

## ABOUT BROADSTREET

Broadstreet is an impact fund services company dedicated to bridging the gap between investors and underinvested communities and enhancing the vibrancy and scale of the market. We develop financing solutions with a unique, collaborative approach with our Fund Management Services. We support aligned partners with customized services to boost their capacity to advance equitable outcomes with our Fund Administration Services.

work for us and the industry to do. Among the many important topics to address when refining our approach, we will focus on the following over the coming year: how can we improve alignment of interests between community investors and borrowers with deal structures that provide financial incentives for attaining impact objectives? How should we merge impact and financial underwriting to gauge the reasonableness of investees' stated impact targets? And what are the best ways to set and track impact objectives over the tenure of investments to more rigorously measure impact performance against expectations?

Elevating IMM to the same importance and rigor as financial management is still an aspiration, but is within our industry's grasp. Let's make it an established practice.

## ABOUT THE AUTHOR



**Daniel Brett** — *VP, Impact*

As Vice President of Impact, Daniel leads efforts to measure, manage, and optimize the positive impact of Broadstreet's and clients' investments within under-resourced communities. Prior to joining Broadstreet, Daniel served as Director of Research and Consulting at Pacific Community Ventures, where he managed consulting engagements with investors across asset classes, evaluations of impact investment portfolios, and field-building research projects including Impact Investing 2.0, Moving Beyond Job Creation, and the Impact Due Diligence Guide. Daniel has 15+ years of international and domestic experience across diverse fields including financial inclusion, quality job creation, food security, affordable housing, clean energy, and sustainable supply chains. He holds a BA in Economic and Environmental Science from Tufts University, and an M.B.A. from the University of Oxford.