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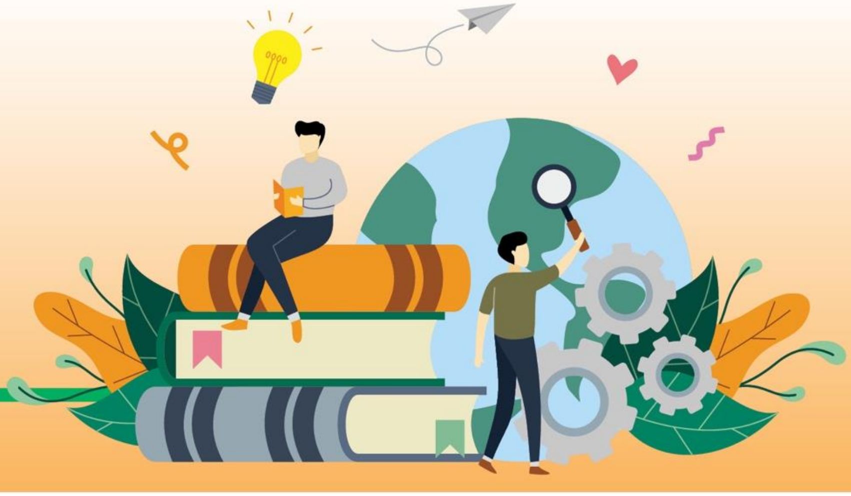

RESEARCH & POLICY ANALYSIS PROGRAM ON ECONOMIC AND COMMUNITY DEVELOPMENT

Public Comment on the Annual Certification and Data Collection Report Form and the Certification Transaction Level Report

(OMB #1559-0046)

AUGUST 2020 PUBLIC COMMENT

About the Research Program

This product has been created as part of Carolina Small Business's commitment to provide innovative and objective research on issues of preeminent concern for policy leaders, academic thought leaders, development practitioners, and small firm entrepreneurs.

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RE: Comments on the CDFI Program's Annual Certification and Data Collection Report Form (ACR)/Certification Translation Level Report (CTLR)

To Whom It May Concern:

In response to the above request for public comment (OMB #1559-0046), Carolina Small Business Development Fund respectfully submits the below comments for your consideration. CSBDF is an unregulated revolving loan fund operating as a 501(c)3 nonprofit community development finance institution (CDFI). Our organization is dedicated to promoting community economic development by reducing barriers to entrepreneurship across North Carolina and adjacent regions. We help small and medium sized businesses start strong and sustain their growth through affordable financing and free technical assistance.

Our work in these areas is informed by a commitment to objective, peer-reviewed scholarship and meaningful program evaluation. To our knowledge, CSBDF is one of the few CDFIs in the nation that has made a sustained commitment to thought leadership in this area of research. We value an evidence-based approach to CDFI interventions, and our desire to enable the CDFI Fund to capture useful and high-quality data (while minimizing compliance burdens on CDFIs) has shaped our comments on this topic.

We Agree More Data is Needed to Support CDFI Activities

Reasons for seeking and maintaining the CDFI designation vary, but most community economic development organizations like CSBDF have two primary motivations (Getter 2019).[1] First, the CDFI Fund offers grants and assistance programs which are only open to eligible certified CDFIs. Second, existing federal regulatory frameworks incentivize banks and other large financial institutions to deploy capital through certified CDFI entities (*The Community Reinvestment Act* 1977).

Though CSBDF is a small business lender, we know that CDFIs engage in a wide variety of other activities like affordable housing and personal consumer financing. The Fund thus has the difficult task of attempting to create a standardized reporting processes across a wide range of activities. Nevertheless, we agree such reporting is needed because it helps support how CDFIs aid in neighborhood-level revitalization (Swack, Hangen, and Northrup 2014), contribute to sustainable urban renewal (Hoffman 2012), and increase the rate of small business creation (Fabiani and Buss 2008).[2]

The proposed ACR and CTLR will be the only way assess CDFI activities at the national level. We believe such reporting is vital because there is a paucity of data that evaluates CDFI activities. In our opinion, this is one reason why most scholarship on CDFIs to date is theoretical (Caskey and Hollister 2001). Notably, this is not a challenge unique to the realm of CDFIs. Assessment of most government programs in the economic and community development space are equally sparse in terms of quantitative data (Schich et al. 2017).

Without meaningful data, it is difficult to evaluate CDFI activities. We think the lack of data to date is especially problematic because it makes impossible to conduct empirical analysis on any possible harms that may happen due to CDFI interventions. As lending-focused community organizations, programmatic interventions conducted by CDFIs (when done incorrectly) can cause adverse impacts. The effectiveness of credit access as an economic development strategy relies on lending to entities that can be expected to repay the debt (Stanton 2017). When entities (firms and consumers) receive loans which they cannot easily repay, these programs can inflict harm on the business and the local community. Yet it is impossible to measure this kind of phenomena in aggregate right now due to lack of data.

New Requirements Do Not Help Performance Measurement or Evaluation

We believe new reporting requirements should either (1) help improve aggregate measures of CDFI performance or (2) promote meaningful program evaluation. For CDFIs, performance measurement assesses the results of activities through outputs, intermediate outcomes, and long-term outcomes (Immergluck 2008). Outputs are completed program activities, like the number and value of loans deployed for a revolving loan fund. Outputs have limited intrinsic value, except that the activity should lead to intermediate and long-term outcomes. Intermediate outcomes are local community changes that occur due to the CDFI's outputs. For example, a small business hiring a new employee due to receiving a low or no interest loan. Finally, end outcomes represent the goal of the CDFI's activities. End outcomes can include an array of socioeconomic measures like increases in social capital or reductions in unemployment. The proposed new reporting requirements add additional output tracking, but do not otherwise aid in meaningful measurement.

There are two major categories of evaluations that can be conducted using performance measurement data: *process* evaluations and *outcome* evaluations. Process evaluations are primarily concerned with understanding whether program delivery is done in a way that meets short-term programmatic goals. These types of evaluations include a focus on output data to determine whether a CDFI program is working as intended and is meeting basic numerical goals. In contrast, outcome evaluations seek to determine whether a CDFI's program or policy is having desired results on the targeted beneficiaries. This category of analysis relies mostly on intermediate and long-term outcome data. Because they involve longer-term time periods and more complex types of measurement, outcome evaluations create higher demands on a CDFI's staff and data collection processes.

Overall, the proposed changes to the ACR and CTLR processes are unlikely to help in the creation of more meaningful evaluation of CDFI activities. At best, the information provided could help process analyses by allowing a better look at whether CDFIs are engaging in activities that meet the CDFI Fund's output goals. To the extent that better quality data are needed to assess outputs, the recommended changes achieve that goal. Concurrently, it is disappointing that the new ACR and CTLR do not "move the needle" in any sense towards more robust measures of activity. The new requirements will not help researchers better evaluate the long-term outcomes of CDFI activities.[3]

New Requirements Add Reporting Complexity But Don't Improve Data Quality

It is important to note that we agree with the Fund's intention to streamline and reduce administrative compliance burdens. The Fund's current reporting requirements - especially for CDFIs who receive grant awards - are complex and not intuitive. Reporting requirements have historically required CDFI staff to have specialized knowledge and represent a not insignificant drain on organizational capacity.[4] We think it is appropriate, therefore, to minimize reporting burdens.

But the proposed CTLR represents a net additional reporting requirement that will not meet the Fund's goals of providing more verifiable data. Although the CTLR auto-calculates other questions currently included in the re-certification process, there is an additional level of administrative burden to produce the CTLR itself. The burdensome way in which the CDFI Fund requires reporting has spawned a cottage industry of software and consultants. With the addition of the CTLR, more CDFIs will have to spend additional resources in order to adapt to another reporting format. If the CLTR contained information that would be useful in improving data quality and outcome evaluation, then the proposed changes might still be advisable. But the core problem is and remains that the data points required in the CDFI compliance reporting provide little insight into the impact of CDFI activities.

Still, we believe there must be a middle ground. We strongly agree with the spirit of the proposed changes. There is a great need for better quality CDFI data that concurrently reduces administrative compliance burdens. And we understand it is no easy task to get better data in a way that reduces reporting requirements. But unfortunately, the proposed changes do little to move reporting toward the collection of data which allows for holistic evaluation of CDFI activities. We know this is a challenge because CDFI entities vary widely in their programmatic areas and capabilities to collect and report data. But we think there can be small steps toward more useful data by continuing to iterate on the ACR and CTLR process. For example, the Fund could consider establishing a best practices in data collection group of CDFIs. This group could help with the creation of a methodology to collect more meaningful measures through things like a common pool of survey questions designed to measure the outcomes of various CDFI activities.

Thank you for the opportunity to comment on the proposed changes to the CDFI Fund's ACR and CTLR process. Please let me know if I can do anything to be of assistance as you consider these changes.

Sincerely,

Kevin S. Dick

Kevin S. Dick, CEcD
President and CEO
Carolina Small Business Development Fund

Notes

[1] In recent years the CDFI Fund itself has faced a series of actual and proposed budget cuts. This, when combined with changing regulatory regimes around the Community Reinvestment Act, has meant that state and local governments are increasingly important support sources for CDFIs (Theodos et al. 2017). For example, New York Governor Andrew Cuomo (2020) recently proposed $25M in seed funding to supplement the state's existing CDFI assistance fund.

[2] More broadly, scholars have argued that economic development programs that function in a manner similar to CDFIs are associated with an array of positive outcomes (Caskey and Hollister 2001; King and Levine 1993). For example, policies which target smaller firm development may help lower income inequality and promote aggregate economic growth (Bartik 2004; Benjamin, Rubin, and Zielenbach 2004; Fortunato and Alter 2015; Rubin et al. 2008).

[3] We acknowledge that measuring "long-term outcomes" is easier said than done. For example, in practice, CDFIs tend to operationalize their impact as the number of jobs created or retained by client firms (Coastal Enterprises Inc. 2006; Gramigna 2017; Greer and Gonzales 2016; Pacific Community Ventures 2016). But small and medium-sized businesses are not usually associated with net new job growth (Davis, Haltiwanger, and Schuh 1996; Gabe 2017).

[4] Financial resources are critical for CDFIs and other community-level institutions that are charged with the deployment of federal policy (Berner, Vazquez, and McDougall 2019). But other types of capacity – including organizational – are also key (Casey 2015; Glickman and Servon 1998).

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