GROWTH, EQUITY, AND INDIVIDUAL WELFARE:

A THEORETICAL FRAMEWORK FOR "MOVING THE NEEDLE" ON CDFI IMPACT EVALUATION

Carolina Small Business Development Fund

AltCap
Alternative Capital for Community Impact

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Why This Matters.

Community development financial institutions (CDFI) are grassroots entities that guide sustainable economic growth by prioritizing the needs of marginalized populations. The size of the sector has grown sevenfold between 1997 and 2021, yet there are few examples of CDFIs using successful impact measurement techniques or program evaluation initiatives. The industry relies on credit access and development services as a tool for community development. However, financing is a tool that can both uplift and destroy communities. Thus, care must be taken when trying to aid the constituencies served by the industry.

Growth-Equity Spectrum.

CDFIs are traditionally assessed by their achievement of growth and/or equity goals. Growth-oriented activities are concerned with driving economic expansion because "a rising tide lifts all boats." If there are adverse consequences, the growth perspective argues the benefits always outweigh the cost. Meanwhile, activities that foster equitable development focus on socioeconomic interventions which foster community-level prosperity. Equity-oriented strategies seek to improve the economic status of those who are farthest behind.

Growth Goals

What creates the most growth?

- Posits aggregate growth is always a net positive outcome.
- Discourages redistributive policy as it harms economic efficiencies.
- Uses regulatory incentives to lessen negative growth impacts.

Equity Goals

What creates the most prosperity?

- Prioritizes equitable distribution over economic productivity.
- Encourages redistributive policy to foster economic mobility.
- Prefers institutional reforms to directly reverse inequities.

A Flawed Paradigm.

Due to the inherent tensions within these concepts, CDFIs tend to prioritize growth or equity and not growth ***and*** equity. In part, this is because their low levels of capacity make it hard to focus on both outcomes simultaneously. Critically, though, the sector is steered toward growth goals because major funders have a vested interest in cultivating economic expansion.

The long-established CDFI impact framework centers on filling in financing gaps and providing products that "prime the pump" for mainstream lenders. Accordingly, CDFIs' default method of intervention is the provision of credit. Yet in using this the mode of aid to measure CDFI effectiveness, the industry's major stakeholders have defined outcomes by what is in *their* institutional interests. This *can* be the same as what is in the best interest for the individual and their community. But in many cases, there is a vast difference between institutional interests and individual welfare.

Reframing CDFI Evaluation.

These issues are the inevitable result of trying to utilize the financial and relational resources of institutions that, directly and indirectly, perpetuate the same systemic inequities CDFIs seek to alleviate. The growth-equity spectrum is at least partially responsible for many of the challenges the industry faces in impact measurement and evaluation. We propose an alternative approach focused on individual welfare, where "individual" means all direct and indirect beneficiaries who may experience a change in well-being due to the CDFI's intervention. Importantly, the extent to which an intervention results in any change must be weighed proportionally to the beneficiaries' relational position in the community and relative level of economic freedom.

Limitations & Caveats.

Our framework is intended to be theoretical, and further iteration will be required to operationalize it into a workable concept. Considering how or if CDFIs exert a positive influence on an individual's welfare is not an easy task. Great care must be taken to properly define and operationalize an amorphous concept like "welfare." And no matter how CDFIs are evaluated, attributing outcomes to a particular intervention is always difficult. Despite such limitations, we believe this type of analysis is needed to make progress in this area – and offer our proposal as a starting point.

The Path Forward.

For CDFIs and all community development organizations, the pervasive nature of the growth-equity paradigm has had a lasting influence on impact measurement and evaluation activities. Ultimately, there is a fundamental misalignment between how CDFIs were designed to function and how they are incentivized to operate. Absent significant changes, this lack of congruence will make it difficult to engage in meaningful impact measurement or evaluation.

When the level of incongruence between policy goals and practice are this large, systems-level change is difficult. Nevertheless, we are cognizant that incremental policy shifts can snowball in ways that alter otherwise path-dependent institutions. To start that process, one recommendation is updating the Community Reinvestment Act (CRA) to incentivize support for alternative evaluation models. This includes analysis lenses which consider distributive and procedural justice and/or those which integrate relative societal position into outcome assessments.

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ABOUT THIS REPORT

We believe that CDFIs are powerful and transformative tools for good, and that those who support this work financially and through other means share that view. This analysis offers a deeply self-reflective and somewhat critical assessment of the CDFI industry and its stakeholders. The goal of this project is to identify more effective ways for CDFIs to serve their communities. To uplift and empower the populations we support; CDFI *must* engage in meaningful impact measurement and evaluation.

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EXECUTIVE SUMMARY

Community development financial institutions (CDFI) are grassroots entities that guide sustainable economic growth by prioritizing the needs of marginalized populations. CDFI intervention methods are based on the idea that credit access and development services can strengthen and rebuild disinvested neighborhoods. But since the provision of credit can be either beneficial or destructive, care must be taken when trying to aid the historically disenfranchised constituencies served by the sector. While community development lenders have existed for many decades, the CDFI Fund's enabling legislation was passed in 1994.[1] In the interim, there has been remarkable growth in the number of certified CDFIs, which increased sevenfold between 1997 and 2021.[2]

In recent years, CDFIs have worked toward shifting their evaluation focus from outputs to outcomes while also encouraging funders to support evaluation costs. However, the industry still has few examples of robust impact measurement techniques or successful program evaluation initiatives. Using the finance industry as an illustrative case study, our analysis suggests the phenomenon is tied to the ability of external forces to shape CDFI evaluation practices. Stakeholders have set a framework where CDFI interventions are measured chiefly by whether they promote growth. In the case of financial institutions, impact investors, and other providers of capital, this means ensuring provided funds have an acceptable return on investment. As a result, equity-based goals in community development activities have been minimized.

To help solve these issues, we offer a starting point by arguing for the need to reimagine the industry's evaluation paradigm. Beyond growth and equity, we propose CDFIs consider whether their activities promote improvements in individual welfare. In our proposed framework, individual welfare improvements should be weighed proportionally to a CDFI beneficiary's level of economic autonomy and relational social position. Admittedly, our proposal is purely theoretical. Additional research is needed to refine the concept into a more practical and workable model for the CDFI community.

When the level of incongruence between policy goals and practice are this large, systems-level change is difficult. Despite the challenges, we believe there is a viable path forward because incremental policy shifts can snowball and alter path-dependent institutional forces. For example, regulations could be updated to incentivize support for evaluation models which consider distributive/procedural justice and/or those which integrate relative societal position into outcome assessments.

[1] *Riegle Community Development and Regulatory Improvement Act, 12 U.S.C. 47 § 4701 (1994).*

[2] *Based on estimates compiled by the Opportunity Finance Network (2021) from data posted on the US Department of the Treasury website.*

INTRODUCTION

The inability of marginalized communities to access financial products on reasonable terms is an enduring issue with wide-reaching economic effects. For decades, slow progress in this area has accelerated patterns of disinvestment and income inequality across the nation (Ergungor, 2010; Lynch et al., 2021; Taggart & Smith, 1981). CDFIs offer a model of assistance with the potential to reverse this trend by offering disadvantaged constituencies affordable credit products (Greer & Gonzales, 2016; Park & Quercia, 2020). However, as the Congressional Research Service has observed, "measuring the extent that CDFI activities in underserved markets are advancing financial inclusion is challenging" (Getter, 2022, p. 1). While a robust body of theoretical evidence supports the CDFI model of intervention, attempts to systemically evaluate and measure the industry's impact have yielded disparate results (J. McCall & Hoyman, 2021; Theodos & Seidman, 2017).

In this report, we consider the role of the existing CDFI impact measurement and evaluation paradigms in creating these challenges. Our argument is simple, yet ambitious: to turn the tide of systemic disinvestment in marginalized communities and neighborhoods, CDFIs must fundamentally rethink the goal of their activities. And to do that, industry stakeholders must adequately support meaningful impact measurement practices. The analysis proceeds in two parts. First, to advance beyond the current slate of issues, we propose a theoretical framework of assessment which emphasizes the role of CDFIs in promoting individual welfare. Second, we apply literature on path dependency, political regimes, institutional history, and isomorphic pressures to outline how stakeholders have shaped the use of impact evaluation by CDFIs.

FROM GROWTH AND EQUITY TO INDIVIDUAL WELFARE

Like other community economic development organizations, CDFIs have traditionally been measured and evaluated by their ability to meet growth and equity goals (Wardrip et al., 2016). Growth-oriented goals see development as a process where "a rising tide lifts all boats." In other words, economic expansion is a desirable end unto itself. To the extent this causes adverse impacts, the growth perspective argues the benefits always outweigh the cost (Hines et al., 2001). In contrast, equity-oriented frameworks view development policy as a tool to create community-level prosperity.[3] Equity strategies have an intentional focus on improving the economic status of those who are most behind (Furman, 2019; Pike et al., 2007).

For policymakers, growth and equity are often viewed as separate and fundamentally distinct goals (Okun, 2015). The notion that it is unrealistic to pursue both objectives simultaneously has shaped decision-making at all levels of government (Harvey, 2009; Kantor, 2016; Slattery & Zidar, 2020; Stiglitz, 2012; Zhang et al., 2017). But if we think of growth and equity goals as a spectrum, most development policy strategies *should* fall somewhere between either extreme (Stone, 2011). For instance, as a strategy

[3] There is a strong consensus in the literature that equity should be viewed through a socioeconomic lens (Squires & Kubrin, 2006). However, federal regulations have historically defined the term as applying to financial service gaps only within low- and moderate-income communities (Kilkenny, 2002). Economic disparities have a clear overlap with social forces like institutional racism, and this is widely acknowledged by the CDFI industry. But such considerations are not yet a formal part of the federal regulatory framework (S. Adams, 2009).

which often causes gentrification (even if often unintended), we might plot place-based development as growth-leaning (Betancur, 2011; Brazil & Portier, 2022; Layser, 2019). Conversely, given its use of interpersonal networks as a tool for prosperity and interconnectedness, we could classify social capital strategies as equity-leaning (Chetty et al., 2022; J. R. McCall et al., 2021; Putnam et al., 1994).

DEVELOPMENT TENSIONS BETWEEN GROWTH & EQUITY

Development Policy Tensions

GROWTH ⟷ EQUITY

Guiding Policy Question:

What creates the most total aggregate economic growth?

- Prioritizes economic growth because the aggregate benefit outweighs any negative externalities.
- Discourages redistributive policy because it may adversely impact economic efficiencies.
- Prefers to lessen negative externalities through indirect means like regulatory incentives.

Guiding Policy Question:

What creates the most individual prosperity on a relative basis?

- Prioritizes equitable distribution of resources over increases in economic productivity.
- Encourages redistributive policy as a tool to increase economic mobility and social cohesion.
- Prefers institutional reforms to directly alter and reverse negative externalities.

We theorize this paradigm is at the heart of the challenges faced by the industry and propose an alternative that considers whether an intervention bolsters individual welfare.[4] In this context, "individual" means direct and indirect beneficiaries who may experience a change in well-being due to the CDFI's assistance (Rey-Garcia et al., 2017). Direct beneficiaries are those which meet an intervention's eligibility criteria and subsequently receive the intervention. Indirect beneficiaries are those who did not receive the intervention but are affected by it due to their individual and/or institutional relationships (Angelucci & Di Maro, 2016). Importantly, the extent to which an intervention results in any change must be weighed proportional to the beneficiaries' relational positions in the community and relative levels of economic freedom (E. Anderson, 2010; E. S. Anderson, 1999; Heller, 2019; Rawls, 1999; Sen, 2000). As a starting point for operationalizing this concept, we propose measuring changes through increases in (1) wealth, (2) real income, and (3) financial capability (Bailey, 2022).[5]

[4] *Admittedly, the extent to which development institutions promote individual welfare is rarely considered. The extant scholarship overwhelmingly focuses on incentives and other traditional development tools (Kil Huh et al., 2017).*

Considering how or if CDFIs exert a positive influence on an individual's welfare is not an easy task (Adler, 2019). Great care must be taken to precisely define and operationalize an amorphous concept like "welfare" (Alkire, 2016; Nussbaum, 2013). Additionally, an array of factors makes it hard to know if any CDFI activity is responsible for observed indicator changes. For these reasons, our framework is theoretical and further iteration will be required to operationalize it into a workable concept. Nevertheless, this type of analysis is needed to begin "moving the needle" on impact measurement and evaluation.

GUIDING QUESTIONS FOR INDIVIDUAL WELFARE FRAMEWORKS

Individual Welfare

- **Is there an observable change in well-being for the targeted beneficiaries?**
- **How likely is it that any change can be attributed to the CDFI's activites?**

Economic Autonomy

- **What is the gain in the individual's level of economic freedom?**
- **Are the observed improvements temporary or permanent?**

Individual Welfare

- **Are there improvements in relationships with community institutions?**
- **Is there an increase in participation in heterogeneous social networks?**

GROWTH OR EQUITY? THE EMERGENCE OF THE CDFI MODEL

The movement of policy along the growth or equity spectrum is mostly incremental, although on occasion, political actors or governing institutions can cause rapid change (True et al., 2007). The punctuations are frequently marked by landmark legislative reforms (Baumgartner & Jones, 2009). The CDFI structure was crafted by two periods of punctuated equilibrium in the federal policymaking process (Rast, 2012). In 1977, the Community Reinvestment Act (CRA) created a regulatory framework which incentivized large financial institutions to support community development activities.[6] Subsequently, the Riegle Act of 1994 created the Community Development Financial Institutions Fund (CDFI Fund) as an agency of the US Department of the Treasury. CDFIs have since become convenient vehicles for CRA-regulated institutions to meet their community development goals (Marshall, 2004).

[5] These dimensions are intended to be guiding principles for individual-level welfare evaluations. Exact metrics will vary based on an entity's programmatic activities and targeted populations. For example, under this framework an affordable housing organization might measure the percent of beneficiaries who are now in stable housing after being evicted. That type of metric would fall under a positive change in financial capability (Stilz, 2013).

[6] Community Reinvestment Act, 42 U.S.C. 69 § 5301 (1977)

At least in theory, CDFI certification signifies an entity's primary mission is to help people and places that have been underserved by traditional banking institutions (Patraporn, 2015).[7,8] To achieve this goal, the CDFI model is defined by three quintessential characteristics. First, to ensure responsiveness to local needs, service areas are intended to have small geographic footprints (Smith et al., 2009). Second, community members should have input into a CDFI's operation, which usually comes from representation on the Board of Directors (Berner et al., 2019). Third, CDFI products and services should be simple, accessible, and meet basic consumer and/or small business banking needs (Simon, 2002; Swack et al., 2015; Wallace, 1999).

Beyond these characteristics, CDFIs vary greatly in their organizational structure and activities. For systematic impact evaluations, this is a challenge as a lack of homogeneity makes it difficult to create cross-organizational benchmarks (Benjamin et al., 2004). There were about 1,100 certified CDFIs operating as loan funds, credit unions, banks, holding companies, and venture capital funds as of 2019 (Community Development Financial Institutions Fund, 2020).[9] Revolving loan funds represent a slight majority (528, 51.2%) of the sector by count, though they are dwarfed by CDFI depository institutions in terms of total assets.

COUNT AND MEAN FINANCIAL CHARACTERISTIC VALUES OF CERTIFIED CDFIS IN 2019

Type	Count		Operating Revenues	Operating Expenses	Investment Portfolio	Loan Portfolio	Total Assets
	#	%					
Loan Fund	528	51.2%	$4.56M	$3.58M	$6.04M	$28.57M	$39.21M
Credit Union	273	26.5%	$19.10M	$16.30M	$43.54M	$315.22M	$400.68M
Bank or Thrift	129	12.5%	$20.03M	$13.90M	$51.75M	$285.68M	$401.61M
Holding Company[10]	87	8.4%	$23.42M	$15.58M	$63.97M	$324.33M	$460.33M
VC Fund	14	1.4%	$5.17M	$5.05M	$4.51M	$16.92M	$25.51M

[7] CDFIs must demonstrate at least 60% of services are provided to target markets. Target markets can be either (1) economically distressed investment areas as defined by 12 CFR § 1805.201(b)(3)(ii) and/or (2) a population that lacks access to financial products per 13 CFR § 1805.201(b)(3).

[8] The CDFI model offers services that are neither appropriately subsidized by the state (due to their high cost) nor provided by the private sector (due to their low profit potential). This contributes to their endemic resource constraints and dependency on philanthropy (Haugh & Kitson, 2007).

[9] The table includes data for the 1,031 CDFIs who submitted annual compliance reports to the CDFI Fund in 2019. This was most, but not all, of the certified CDFIs in existence at the time.

[10] Holding companies are a complex structure used by large financial institutions to "own" multiple banks (Avraham et al., 2012). In many cases, CDFI holding companies have multiple constituent CDFI banks, even though the holding company and its banks may not necessarily be distinct and mutually exclusive. The data do not allow us to distinguish between these types of entities, and thus there may be duplication.

CREDIT AS THE PRESUMPTIVE COMMUNITY DEVELOPMENT STRATEGY

The CDFI Fund and the CDFI certification process emerged in tandem with an array of policies designed to help "entrepreneurs identify and capitalize on new markets and business opportunities" (Atkinson, 2020; Elisinger, 1995, p. 153). The structure was created primarily to provide credit via subsidized lending to underserved enterprises and individuals (Birkenmaier & Tyuse, 2005; Bradshaw & Blakely, 1999; Reuben & Queen, 2015).[11] At the time, financing was seen as a laudable and innovative development strategy because loans were not "handouts" to entrepreneurs (N. M. Jensen & Malesky, 2018).[12]

The use of financing is based on an elegantly simple idea: capital access is critical for growth (Bynum et al., 2018; Quinn, 2019; Wherry et al., 2019).[13] However, the ability of lending to act as a panacea for the economic ails of underserved communities should be viewed with some skepticism (Dwyer, 2018; Krippner, 2017; Porter, 2012; Prasad et al., 2012). As one systematic review of small and medium-sized enterprise (SME) financing noted, "it remains unclear to what extent SME financing contributes to economic development and poverty reduction" (Kersten et al., 2017, p. 330).[14] To be sure, there is acknowledgment in the CDFI sector that debt capital by itself is insufficient for community prosperity (Nowak, 2016). Yet it is unclear what other sectors can or should provide complementary interventions when affordable capital is necessary but not sufficient for equitable development (Rainey et al., 2003).

A "grassroots" approach to wield influence. CDFIs are a creature of federal policy, but their emergence can be tracked through support for financing interests at lower levels of government via urban regimes (Fainstein, 2014; Peterson, 1981; Stone, 1993). Regimes advocate for a growth paradigm that views prosperity as the precursor to a more inclusive economy (Logan & Molotch, 2007). Central to this is the idea that an improved built environment leads to better economic conditions, which increases the wellbeing of marginalized populations. In practice, however, this type of development fosters wealth concentration that benefits elites at the base of a regime's entrenched power structure. Thus, it is almost impossible for regimes to carry out equity-oriented redistributive policy (Kelly & Lobao, 2021; Peterson, 1981; Pistor, 2019).

[11] This idea was not new – the Small Business Administration (SBA) had existed for decades by the time the CDFI Fund was established. But the creation of the Fund signaled that providing subsidized financing to underserved areas had reached a critical threshold of political viability in the policy stream (Kingdon, 2010).

[12] For large private enterprises though, direct cash transfers via incentives have long enjoyed bipartisan support at the state and local levels (Loveridge, 1996; Lowe & Feldman, 2018). In theory, the economic impacts of larger firms via job creation and capital investment should be far larger than the cost of any incentive package (Rubin & Rubin, 1987). However, research suggests that incentivized firms do not create more jobs than matched control groups of firms who did not receive incentives (Donegan et al., 2019).

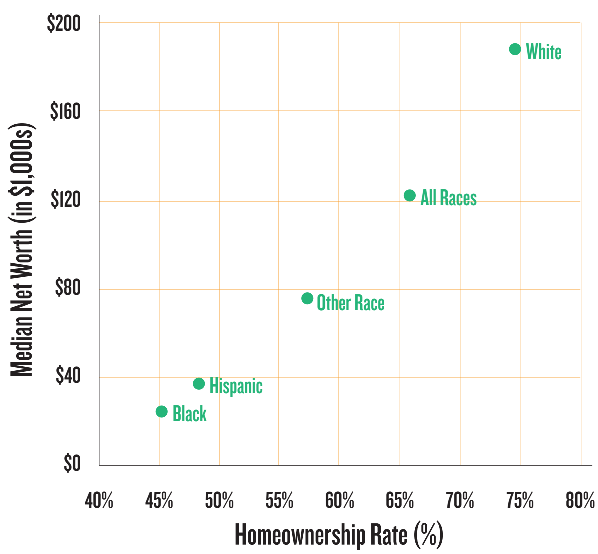
[13] The macroeconomic arguments for the importance of capital are context dependent. For small businesses, one issue is scalability (Wille et al., 2017). Few small- or medium-sized firms have access to the cash or equity they need to expand, which makes it harder for them to grow absent financing.

[14] A similar cautionary tale is the rise and fall of international microfinance. After an exhaustive review of 2,643 evaluations of microfinance initiatives, the UK's government-funded Evidence for Policy and Practice Coordinating Center found insufficient evidence to support the idea that such interventions had reduced poverty (Duvendack et al., 2011).

Urban regimes are sustained through alliances between elected leaders and an array of private sector interests (Austin & McCaffrey, 2002; Mossberger & Stoker, 2001). Lending as a policy tool can be traced back at least partially to these alliances, which frequently utilized banking interests to grow a regime's base of support (Baumol, 1990). An example of this was Philadelphia's Republican regime, which aligned itself so closely with banking interests in the 20th century that it birthed the modern financial industry (C. T. Adams, 1988; McCaffery, 1993). On the other side of the aisle, multiple iterations of the Democrat-run Chicago political machine consolidated power by forming symbiotic relationships with real estate-allied banking interests (Rose & Biles, 2020; Stapinski, 2009).

Federal policy aligns with private interests. By the dawning of the 20th century, the banking industry wielded enormous influence. According to some accounts, the power of financial institutions at the time dwarfed that of any other sector (White, 1982). Thus as political machine-based regimes waned in power in the early 20th century, the industry was cementing its alliances at the federal level (Wolfinger, 1972). By the end of the Great Depression, federal policymakers made their first notable foray into the housing market. Elected leaders began positioning homeownership as the pathway to wealth, an idea that drew the support of banking entities. This shared interest ultimately enabled redlining, the practice of using red color codes to identify neighborhoods with high densities of minority residents as "hazardous" for mortgage lending purposes (Hillier, 2003; Lang & Nakamura, 1993). While many diverse neighborhoods suffered economic damage from this, majority Black communities were among the most adversely effected (Robertson et al., 2022; Taylor, 2019).

This behavior was the result of a political and economic alliance between elites so strong that "fundamentally and intentionally discriminatory in nature, government redlining was private redlining and vice versa" (Winling & Michney, 2021, p. 44). Though the practice was outlawed in 1968 via the Fair Housing Act, its effects have cast a long shadow. Redlined communities still have higher levels of unemployment, suppressed property values, and poor public health outcomes versus non-redlined communities with similar characteristics (Aalbers, 2012; Aaronson et al., 2021; Li & Yuan, 2022; Lynch et al., 2021; Zenou & Boccard, 2000).[15] Today, Black and Hispanic households still have the lowest levels of net worth and homeownership rates of any racial demographic (Bhutta et al., 2020; Turner & Luea, 2009; US Census Bureau, 2022). While other industries now wield influence that rivals the financial lobby, banking interests remain powerful – as can be seen, for example, through its contribution to the 2008 financial crisis (Igan et al., 2012).



[15] *Residents in formerly redlined communities are also more likely to be targeted by payday lenders and similar predatory entities (Hawkins & Penner, 2021). These types of high interest financial products have many adverse impacts, and using them makes it harder for payday borrowers to cover everyday expenses over time (Melzer, 2011).*

Changing the system from within. CDFIs are tasked with leveraging the financial and relational resources of institutions that, directly and indirectly, perpetuate the same systemic inequities they seek to alleviate (Fainstein, 2011; Fitzgerald & Leigh, 2002). This creates an inevitable tension. It can be challenging for CDFIs to provide affordable financial products while being supported by revenue-driven institutions that seek to protect and grow their balance sheet. After all, one way CDFI stakeholders safeguard their portfolio is by rationing credit for risky borrowers (Faleye & Krishnan, 2017).

These institutions are major resource providers for the industry, and that alone allows them to shape how CDFI activities are measured and evaluated (Cornforth & Edwards, 1999; Meyer & Rowan, 1977; Suykens et al., 2021). The existing rubric used by financial stakeholders measures CDFI performance by their ability to fill in financing gaps and provide products that "prime the pump" for mainstream lenders (Lash, 1998). Accordingly, CDFIs' default and primary method of intervention is the provision of credit. Yet in using this lens to measure CDFI effectiveness, the industry's stakeholders have defined outcomes by what is in their institutional interests – which may not be what is best for the individual and their community.[16]

In many cases, CDFI activities provide alignment between institutional interests *and* individual welfare. For example, while the financial sector does indeed view CDFIs as a mechanism to move populations into mainstream lending, this is not in itself a conflict (Andreoni & Chang, 2019). We agree that providing credit on reasonable terms to the populations CDFIs serve *is* congruent with both the spirit and intent of our proposed framework. When development entities provide equitable access to debt which improves the net worth of individuals or businesses, the economic spillover effects often promote community-level prosperity (Kovner & Lerner, 2015).

However, we believe there are cases where a model of assistance centered around the provision of credit is inadequate. In such cases, other forms of interventions may result in better outcomes, for example, providing extensive technical assistance without any lending or giving grants. At best, such alternative strategies are undervalued by CDFI evaluation processes, and at worst, they are actively discouraged. This has the effect of dampening innovation in the design and structure of CDFI aid programs (Horton & Mackay, 2003; Szijarto et al., 2018).

External pressures on CDFIs. The mechanisms that have allowed this phenomenon to occur are complex. We theorize that major industry stakeholders exert isomorphic pressures over CDFIs in ways that have prioritized growth while concurrently deprioritizing meaningful impact measurement and evaluation (Williams et al., 2022). As proposed by DiMaggio and Powell (1983), institutional isomorphic pressures refer to how organizational decision-making is shaped by (1) coercive, (2) mimetic, and (3) normative forces:

(1) *Coercive isomorphism* occurs when CDFIs feel they must respond to the impact measurement and evaluation needs of funding entities, even if doing so is incongruent with their mission (Krause et al., 2019; Siddiki & Lupton, 2016). Similar to other types of community development nonprofits,

[16] CDFIs often focus on organizational growth and scaling to meet expectations around providing more loans. But rapid growth can make it difficult to maintain a high level of responsiveness to community needs (Nowak, 2016; Swack et al., 2015).

the CDFI industry's reliance on external resource providers makes them particularly susceptible to negative coercive forces (Stoecker, 1997).

(2) *Mimetic isomorphism* is reflected in the tendency of CDFIs to mimic the impact and evaluation strategies of other organizations. Organizational activities that are driven by mimetic behaviors can be positive or negative, depending on the context. For example, there is a tendency to engage in mimetic isomorphism during periods of high uncertainty, but serendipity often dictates whether such behaviors result in intended or unintended programmatic outcomes (Hallonsten & Hugander, 2014; Lee & Clerkin, 2017).

(3) *Normative isomorphism* is the result of standards within organizations being shaped by the forces of professionalization (AbouAssi & Bies, 2018). The positive or negative nature of this category is highly context-dependent (Becker, 2018; Gugerty, 2009; Prakash & Gugerty, 2010). As an example, industry pressures to utilize third party ratings are often negative because the process diverts resources away from internal capacity building (Christensen & Ebrahim, 2006). Conversely, such pressures can be positive when the accreditation is used to create mission alignment in a manner that aids strategic decision-making (LeRoux & Wright, 2010).

CONCLUSIONS AND RECOMMENDATIONS

The story of how a singular industry – finance, in the case of CDFIs – becomes intertwined with political interests at all levels of government is a common tale. Since the Reconstruction era, private and public sector interests have aligned to perpetuate inequities that have become deeply ingrained into the fabric of American life (Feagin, 2013; Hacker, 2008). Those inequities are mutually reinforced by private and public institutions through various mechanisms, including highly effective lobbying campaigns (Holyoke, 2003).

While the banking sector undoubtedly wields the *most* influence in shaping CDFI evaluation frameworks, it is joined by a constellation of other forces (Balboni & Travers, 2017). The CDFI industry's growth has attracted a plethora of third-party rating agencies, information technology vendors, and business consultants – all of whom have a vested interest in shaping the contours of these issues. These stakeholders shape evaluation processes by both direct control of resources and indirectly by exerting political influence over regulators (Uddin & Belal, 2019).

For CDFIs and all community development organizations, the pervasive nature of the growth-equity paradigm has had a lasting influence on impact measurement and evaluation activities. CDFIs tend to prioritize growth ***or*** equity and not growth ***and*** equity. In part, this is because their low levels of capacity make it hard to focus on both outcomes simultaneously. Critically, though, the sector is steered toward growth goals because major stakeholders have an institutional mandate to promote economic expansion at all costs (Blackmond-Larnell, 2018; Lewis & Neiman, 2009; Prasad et al., 2012; Sarig, 2015).[17]

[17] *Forces which drive CDFIs toward pursuit of economic growth at all costs are not necessarily intentional. CDFIs are providing financing to people and places that may not have needed their help, if not but for the historical actions of traditional banking institutions (Affleck & Mellor, 2006).*

To advance beyond the growth-equity paradigm, we have proposed a re-orientation that emphasizes individual welfare. Changes in individual welfare should be contextualized by concurrently considering both relative improvements in economic autonomy and changes in relational status within embedded power structures. Importantly, our approach starts with improvement in individual welfare, but the goal is to foster economic and social change at the systems level.

INDIVIDUAL WELFARE LENS FOR CDFI EVALUATION

Welfare Change

- **For direct and indirect beneficiaries.**
- **Positive well-being improvements**

Contextualized By

- **Relative societal position.**
- **Economic freedom changes.**

Measured By

- **Wealth**
- **Real Income**
- **Financial Capability**

It is no easy feat to utilize resources from an industry to try and undo the inequitable system it perpetuates. But given the incongruence between how CDFIs were designed to function and how they are incentivized to operate, the confounding results of CDFI impact and evaluation activities are to be expected. Absent significant changes, CDFIs will continue to face the same set of obstacles in this area.

When the level of incongruence between policy goals and practice are this large, systems-level change is difficult. As previously noted, there is strong consensus that the policy process is largely incremental. Periods of punctuation are relatively rare, and when they do happen, they are often caused by unexpected exogenous events (Pump, 2011). It's unlikely that that incremental change *alone* will incentivize CDFI stakeholders to promote evaluation systems that use an individual welfare lens (Adam et al., 2022).

Nevertheless, we are cognizant that incremental policy shifts can snowball in ways that alter otherwise path dependent institutions (C. Jensen, 2009; Mintrom & Norman, 2009). In that spirit, there are a few ways to begin "moving the needle" toward more meaningful CDFI evaluations. For example, regulatory changes to the Community Reinvestment Act (CRA) could include directly giving community development credit to institutions that directly fund alternative evaluation models. Useful analysis paradigms would include those which consider distributive and procedural justice or otherwise integrate relative societal position into outcome assessments (Hecht, 2017; Törnblom & Vermunt, 1999; Vijayendra & Woolcock, 2003).

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