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CDFIs v2.0
The Vision of a New Generation
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Opportunity Finance Network
December, 2011
Introduction by Mark Pinsky

In October 2010, Opportunity Finance Network (OFN) had the unique opportunity to convene twenty-five young leaders in the community development finance (CDF) industry to discuss their vision for the next CDFI era. The group was asked to work collaboratively to capture this vision in a paper for publication in 2011 that would serve multiple purposes:

- Stand on its own as an organizing paper to encourage new, young leaders in the field.
- Synchronize with the release of OFN’s new strategy for 2025 to offer complimentary or challenging views of the future of opportunity finance by this group of young leaders.
- Inform and advise strategic thinking throughout the industry, within the financial services sector, and across the financial regulatory network.
- Help young leaders advance their ideas within their organizations, either a CDFI or a CDFI partner, and help create a forum for an emerging, new generation of industry leadership.

The product of this effort, CDFIs v2.0: The Vision of a New Generation, is meant to lay a foundation for some of these activities and others by supporting new leaders’ thinking, giving form and voice to their vision, and creating a platform from which they can leverage their ideas. This initiative was developed and facilitated by OFN, and made possible through the generous support of Rabobank.

The CDFIs v2.0 Initiative

When OFN announced the CDFIs v2.0 initiative, more than 120 young professionals across the industry submitted applications for the twenty-six available slots. This exciting groundswell of interest among young leaders crossed organization type and geography. The participants represented CDFIs in all geographies across the country, including rural, urban, and native communities. They also represented CDFI partners, such as banks, foundations, and government entities.

OFN reached out to Professor Andrew Lamas a noted community development observer and practitioner from the University of Pennsylvania, to facilitate a conversation among professionals, many of whom were meeting each other for the first time. We asked the participants to discuss this strategic challenge:

*Design the CDFI you would like to lead. How would it work? What would its priorities be? What would the broader CDFI industry look like? What needs to happen now to get us where you think we need to be in 2015? 2025?*

The paper presented in the subsequent pages started with that discussion as its foundation. Following the meeting, in which many participants built strong relationships, small groups brainstormed ideas and recommendations to address broad categories they had identified as critical components of their vision for the future. A small group of volunteers, working closely with OFN’s Strategic Consulting group, finalized the document.

As we share CDFIs v2.0: The Vision of a New Generation, we look forward to the active communication of these key findings by the participants within their own organization, among their partners, and in venues that benefit the industry overall.
Acknowledgements

OFN wants to thank Fred Mendez and Rabobank for helping OFN to envision this program, and for providing the financial support to make this program—and this vision—possible.

The project was led by an outstanding Advisory Council of young leaders: Ian Galloway, Kristi Coker-Bias, and Hussein Samatar.

Our Strategic Consulting team, led by Pam Porter, with significant contributions from Christine Bare and Cecilia Walker, worked closely with everyone to design and implement the program and finalize the Vision document.

Finally, we would like to thank the Federal Reserve Bank of San Francisco, especially David Erickson and Scott Turner for hosting our convening and providing on-going support for this initiative, including but not limited to, allowing Ian Galloway to invest many hours to bring the Vision document to life.

At OFN, we truly believe that investing in efforts to hear the voices of our young leaders, and to take proactive steps to attract the best and brightest talent to this industry are critical priorities for the growth and sustainability of CDFIs as we envision the future in 2015, 2025 and beyond.

Mark Pinsky
Chief Executive Officer
Opportunity Finance Network
December, 2011
Philadelphia, Pennsylvania
Foreword

I first became involved in this project at the 2009 annual OFN Conference where I shared my perspective as an “emerging community development leader” on a morning plenary panel. Together with other emerging leaders Kristi Coker-Bias and Hussein Samatar, I argued for increased “professionalization” of community development. Community development, as I saw it, had reached the end of its adolescence and needed to mature fully into an industry, complete with strategic recruitment, advancement, and training opportunities for young professionals.

After the conference, OFN reached out to Kristi, Hussein, and I to discuss a new initiative—CDFIs v2.0. The initiative would pull together emerging leaders in the community development finance industry from across the country to consider the industry's future and how we might help shape it for the better. The group would meet in person and produce a written document capturing the salient points raised at the meeting.

The Selection Process

The community development finance industry attracts exceptionally talented people. As a result, selecting a representative group of “emerging leaders” was very difficult. We received more than 120 applications to join the CDFIs v2.0 Initiative’s inaugural 26 person class. Applicants were asked to describe their role in community development, how their leadership had moved the field forward, and how they would change the industry if given the opportunity to do so. Kristi, Hussein, and I acted as the selection committee. In an effort to remain neutral, OFN offered only broad selection criteria and did not attempt to influence the results.

After a thorough evaluation process, applicants from a range of backgrounds and geographies were selected. Unfortunately, we received too many qualified applicants for the number of slots available. Given that we had to turn so many exceptional applicants away, every effort was made to ensure a fair evaluation process.

Meeting in San Francisco

The CDFIs v2.0 group in the fall of 2010 at the Federal Reserve Bank of San Francisco. University of Pennsylvania professor Andrew Lamas facilitated our conversation. Professor Lamas took us through several exercises, each designed to solicit our insight on the industry, how we joined it, and how we would change it to make it more impactful in the future.

After a full-day’s discussion, the group zeroed in on three general issue areas: professional development, social metrics, and industry-wide efficiency. All three, according to the group, urgently needed to be addressed by the industry.

Writing CDFIs v2.0: The Vision of a New Generation

Group writing projects are always a challenge. In order to make the work more manageable, the CDFIs v2.0 group broke into three teams, each responsible for one of the three issues areas raised at the San Francisco meeting. Hannah Blitzer, Gustavo Lasala, and Susan Harper agreed to act as “team captains” responsible for each team’s progress. Out of that process, five recommendations emerged:

1. Strategically recruit new talent
2. Increase opportunities for training and advancement
3. Improve social impact measurement and collection
4. Collaborate and innovate to use resources more efficiently
5. Diversify capital sources and improve transparency

These recommendations, taken together, represent this small group of emerging leaders’ vision for the future. They are by no means intended to be exhaustive or unduly prescriptive; simply a good start. We hope they will trigger thoughtful conversation about the industry’s future and lay a foundation for further discussion.

Ian Galloway, Editor
Senior Investment Associate
Federal Reserve Bank of San Francisco
December, 2011
San Francisco, CA
CDFIs v2.0: The Vision of a New Generation

The community development finance (CDF) industry is approaching a crossroads. With roots dating back to the early 1900s, CDF began to emerge as a visible force in the 1970s as community development corporations and loan funds joined alongside credit unions and banks to make capital available to small businesses and affordable housing developers in low-income and low-wealth communities. This surge in CDF was driven by a collection of tight-knit leaders inspired by the civil rights movement. Today, this “movement” has evolved into an “industry” consisting of over 950 certified community development financial institutions (CDFIs) across the country, staffed by skilled professionals.1 In fact, the 495 CDFIs that responded to the CDFI Data Project study held almost $30 billion in assets and $20.4 billion in direct financing outstanding at the end of fiscal year 2008.2

The question of how the next generation of CDFI leaders can continue this success is critical to the growth of the field. Many of the CDFIs in existence today, both large and small, are led by their founders. As these founding leaders approach retirement in the next few years, the fate of individual CDFIs, the field at large, and the communities they impact will be shaped by the next generation of CDF leaders.

CDFIs v2.0: The Vision of a New Generation was created to consider how the CDF industry can support and harness the ideas and energy of young and emerging leaders to continue to better serve low-income and low-wealth communities. Drawing from their voices and input, this paper identifies five ways in which the industry can continue to increase its impact. Two of the recommendations discussed below focus on building a strong pipeline of highly talented professionals through strategic recruitment, training, and experiential development opportunities. The remaining three recommendations focus on strengthening the practices and impacts of the industry as a whole. Together, these recommendations provide a pathway for the future of the CDF industry.

Recommendation #1: Strategically Recruit New Talent

The CDF industry is driven by financial performance as well as a social mission to provide capital to low-income and low-wealth communities. As such, CDFIs face a challenge in recruiting and cultivating talented individuals who possess a unique mixture of financial skills and commitment to the industry’s mission.

**Commitment to Mission:** A successful leader in the CDF industry must possess a full understanding of the communities CDFIs serve. The ability to surmount the challenges of bringing access to capital to underserved communities is only possible with forward-thinking leaders who can inspire others to join them in this mission and advocate for their communities, their organization, and the field at large. While the founding generation of CDF leaders had a common starting point with the advent of the Community Reinvestment Act, the next generation of leaders must take on the goals and challenges of a maturing industry, whether it’s tackling the problems caused by the changed financial landscape of the current recession or pursuing growth and furthering the impact of the CDF industry.

**Lending Expertise and Financial Management Skills:** A key characteristic of CDF leaders is technical expertise in lending and financial management. Community development lenders and investors must understand prudent risk management as well as how to create a self-sustaining organization.

Another component of this recruiting challenge is that few candidates are aware of the extent, scale, and sophistication of the growing CDF industry. For those candidates who do know about the industry, the point of entry into a career in the CDFI field is often difficult to identify. Also, small CDFI staff sizes and limited leadership positions can inhibit natural career progression within an organization and the field as a whole, deterring some individuals from staying or entering into the sector. To address these challenges, the CDF industry can recruit [1 U.S. Treasury, Community Development Financial Institutions Fund. (September 8, 2011). Certified Community Development Financial Institutions – By Organization Type.](#)

highly-competent young people for careers in community development finance in new and strategic ways.

**Collaborate with colleges and universities.** In recent years, there has been a marked increase in interest in social entrepreneurship as well as the integration of social, environmental, and ethical issues into business training in undergraduate and graduate programs. The Aspen Institute’s Beyond Grey Pinstripes survey of MBA programs reported that between 2007 and 2011, 60% more business programs offered courses on social entrepreneurship. As CDF involves devising and implementing creative financing approaches for low-income and low-wealth communities, the industry can tap into this interest in social entrepreneurship to create exciting career paths for socially motivated young people.

By identifying and developing partnerships with schools which already have some community development oriented curricula, the industry, led by industry advocates such as OFN, can begin to create and offer:

- Classes focused on community development finance – combining financial analysis with nonprofit management and an understanding of the communities served
- Structured internships at CDFIs for undergraduate and graduate students
- Rotational programs for candidates fresh out of college or a graduate degree program
- Experiential learning opportunities for student consulting teams that provide local CDFIs with needed services such as business planning and market analyses
- Seminars and panel discussions about ‘hot’ topics within the CDF industry

Collaborations between the CDF field and institutions of higher education would complement the degree programs already in place at these schools, and would expose socially minded young people to the CDF industry. In addition, through these classes, rotational programs, and other opportunities, students would learn the skills necessary to advance in the CDF field. One example of the CDF/school collaboration can be seen through the Community Development Finance Project run by the Milano School of International Affairs, Management, and Urban Policy at the New School for Public Engagement. Since its inception in 2001, this program has produced over 80 graduates. Although this CDF/school collaboration may be challenging to coordinate for individual CDFIs, industry advocates such as OFN could take a leadership role in organizing these partnerships which will touch schools and CDFIs throughout the country.

**Partner with existing membership organizations.** Organizations such as Net Impact and ProInspire have members who possess business training and an affinity for the work of mission-driven organizations such as CDFIs. Partnering with these, and other, established membership organizations would increase awareness of the CDF industry among students and young professionals.

**Net Impact:** Net Impact is a global network of working professionals and students – both undergraduate and graduate – who are changing the world through business. The organization has over 280 chapters throughout the world with the majority located in the United States; over 2,500 individuals attend the Net Impact conference each year. In addition to this national event, the organization’s member resources, including its publications, webinar series, and online “Job Board,” provide effective outreach tools for connecting with young people.

Through a partnership with Net Impact, OFN may be able to increase awareness of the CDF industry among students and young professionals by participating in an Issues in Depth call or connecting with Net Impact’s Service Corps or Board Fellows programs to encourage student involvement with local CDFIs. Also, industry advocates such as OFN and hiring managers at large CDFIs may be able to attend Net Impact events and the annual conference. As some smaller organizations may not have the resources to attend these events, OFN can also create a national “Junior Board” to open recruitment opportunities to all CDFIs. This Junior Board can collaborate with Net Impact to visit business school campuses for informational career panels and networking events. These visits will inform Net Impact members about the work that OFN and CDFIs are doing throughout the country and raise the overall profile of the industry.

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ProInspire: ProInspire recruits outstanding professionals with more than two years of business experience who want to use their skills for social impact. ProInspire Fellows have been selected from organizations such as Bain, Credit Suisse, Deutsche Bank, Microsoft, Parthenon Capital, and other leading companies. Through a partnership with the CDF industry these Fellows will bring new insight to the sector, and, with many varying backgrounds and experiences, will often have new perspectives on how to tackle current problems or important issues facing the communities CDFIs seek to serve.

Other Service Organizations: Americorps, City Year, and Teach for America all provide opportunities for individuals to address the challenges of low-income, low-wealth communities. By partnering with these organizations, local CDFIs can educate these individuals about the role that improving access to capital can play, as well as develop access to a pipeline of potential talent.

Build relationships with traditional job seekers. In addition to recruiting young people who have business training and are passionate about creating positive social change, the CDF industry also has multiple opportunities to reach out to more mainstream or “traditional” job seekers.

Traditional Financial Institutions: CDFIs already partner with traditional financial institutions in a variety of ways. The industry could leverage these relationships to create an apprenticeship program, similar to the “deferred associate” model implemented by large law firms during the height of the economic recession. In the face of tight budgets, law firms were unable to fully hire new associates. Rather than losing this new talent, the firms provided associates with a living stipend in exchange for working for public interest organizations for a year until business conditions improved. These apprenticeships provided the new lawyers with invaluable training and ensured the retention of top talent among the law firms.

A similar apprenticeship program can be created with the CDF industry. During these troubled economic times, banks and other traditional financial institutions may not be able to fully hire young talent. However, to preserve their pipeline of young professionals, these financial institutions could subsidize a portion of a new hire’s salary while he or she works and gains valuable professional training at a local CDFI. This partnership would not only provide an infusion of highly talented professionals within CDF, but it would also strengthen connections between CDFIs and traditional financial institutions within a local community.

Mainstream Job Sites: The CDF industry should also increase its profile among traditional job seekers by building relationships with job sites such as TheLadders, CareerBuilder, Indeed, and Idealist. These organizations have strong technology platforms that provide assistance to professionals looking for careers in any field. OFN and other industry advocates may be able to work with the recruiters at these job sites to highlight the opportunities available in the CDF industry through blog postings, articles about the industry, or other communications. By developing relationships with these more traditional job sites that extend beyond just posting jobs, the CDF industry may be able to access a pool of talented professionals who would otherwise not know about the rewarding work of CDFIs.

Recommendation #2: Increase Opportunities for Training and Advancement

While more strategic recruitment will build a strong pool of new candidates for the industry, CDFIs already employ a group of highly qualified professionals. To retain these individuals and to develop new talent, the CDF industry needs to provide continuous opportunities for training and advancement. The following recommendation is based on a model of professional development used by high performing private sector businesses such as Cisco and PricewaterhouseCoopers. This model consists of three components: 1) Education, 2) Experience, and 3) Exposure.


To accelerate skill development and learning, this framework recommends that approximately 10% of training efforts focus on education (e.g., courses, readings, etc.); 20% of efforts focus on exposure (e.g., mentors, coaches, etc.); and 70% focus on experience (e.g., working on actual tasks and problems). The action steps listed below reflect this focus on creating new high quality experience and exposure opportunities while building on existing training resources.

**Create a central information hub for training resources (education).** Many organizations in the CDF industry including the National Development Council, NeighborWorks, OFN, and the CDFI Fund, among others, provide high quality training programs for CDF professionals. However, there is no centralized location where these opportunities are listed. One approach to more effectively streamline these training efforts is to create an online information hub. This hub can list all training opportunities around the country, store educational resources that aid professional development and skill building, and act as a portal for vital industry information providing links to the CDFI Fund and other critical websites. Additionally, this centralized hub could keep track of requests for particular training topics and collect data on the use of certain materials to identify trends and needs for additional trainings. Currently, the CDFI Fund provides centralized information on their website for all training available through its Capacity Building Initiative. Beyond CDFI Fund sponsored training, with its experience in social media and its role as an industry advocate, OFN could construct this information hub, building on its existing web resources.

**Cultivating young and emerging leaders (experience and exposure).** In addition to specific skills training, it is essential that young and emerging leaders are exposed to the CDF industry beyond the walls of their own CDFI. This exposure and experience applies to creating broader awareness in three ways. First, understanding how other CDFIs operate, which leads to both gathering and sharing of new approaches to deliver products and services. Second, understanding the viewpoints of CDFI partners, particularly those of foundation funders, bank investors, and government agencies, which helps to develop insight to critical funding sources. And third, understanding the participants in the markets where CDFIs serve, including an understanding of the borrower, potential partners, and other sources of capital and technical assistance that may be available to borrowers, which helps increase an awareness of the interconnectedness of community stakeholders.

Additionally, it is critical that these leaders are provided with an opportunity to experience different functions within the CDF industry in preparation for future leadership roles.

To facilitate exposure to current industry leaders, OFN can create a leadership track at its annual conference. This track can include a series of leadership forums where existing leaders from all facets of the CDF industry can instruct emerging leaders about how they built their organizations to be what they are today. Additionally, OFN could host small group discussions and question-and-answer sessions that allow emerging leaders to connect directly with these established industry leaders. This type of forum would also allow emerging leaders to connect with their contemporaries from other organizations across the country. These networks will be critical to the future of the industry, especially as enhanced technology allows geographic barriers to shrink and provides for more interconnectedness and collaboration between community development finance organizations across the nation. For those CDFIs for whom it is a financial burden to send young leaders to these conferences, there may be funders that would be willing to provide scholarship or financial support to designated emerging leaders.

To strengthen these relationships between annual conferences, OFN or other industry advocates, could organize regional meetings for young and established leaders and also create networking chapters in cities with a concentration of CDFIs and partners that would allow for more informal gatherings of CDF professionals. Additionally, social media sites such as LinkedIn and Facebook can play a critical role in building virtual communities where new and established leaders can get to know one another, ask questions and share ideas in real time. One potential outcome of this increased networking could be the formation of a mentoring program between new and established leaders.

As mentioned above, experience is one of the most critical components of professional development. As such, the industry can encourage the creation of immersion opportunities for emerging leaders that provide them with direct experience across multiple functions within an organization. For example, CDFIs and their partners could set aside a position for a “new ideas” member, even on a non-voting basis, to be filled by an emerging leader. This would allow the young leader experience serving in a board capacity or on a committee while also working across the organization to generate innovations.

Also, the industry could create exchange programs or fellowships for emerging leaders that would provide them with opportunities to work outside of their organizations for a limited period of time. These exchanges would allow leaders to experience the operations and culture of different organizations and bring best practices and skills trainings back to their home organization after the fellowship is completed.
Building on the value generated from the first CDFIs v2.0 cohort in 2010 and 2011, the industry should consider future efforts to identify and convene young leaders from CDFIs and CDFI partners to meet annually. The opportunity to develop relationships and establish short lines of communications within the industry are among the most valuable aspects of these efforts. In addition, such convenings can be structured to bring innovative thinking to challenges facing the industry, as well as to expose future leaders to the lessons learned by founders of the industry.

Finally, the CDF industry should foster the concept of ‘growing in place’—allowing young leaders to learn new skills and expand their job responsibilities within their organization. This may involve creating rotational programs within an organization or training supervisors as to how to enrich job duties and responsibilities to cultivate leadership potential. OFN may be facilitate this leadership growth by creating and disseminating best practices for how to foster this leadership growth experience within a CDFI.

Recommendation #3: Improve Social Impact Measurement and Collection

Measuring social impact is essential to the success of the CDF industry. On an organizational level, the ability to measure social impact fuels critical functions such as program planning, management and improvement as well as longer-range projects such as strategic planning. On an industry level, evidence of social impact is vital to have when advocating for policy change, cultivating donors and investors, increasing awareness of the industry among the general public, or building coalitions of like-minded organizations.

Despite the centrality of social impact measurement, the practice among CDFIs is relatively undeveloped and uncoordinated—a reflection of the different capacities of CDFIs and the varying social objectives and investment strategies under which they operate. In particular there are two inter-related challenges that impede social impact measurement:

Data Tracking and Collection: A major component of social impact measurement is understanding which data is needed to evaluate a CDFI’s practices. However, many CDFIs may not have the staff capacity, the technology, or the awareness of needed data points to systematically collect and track metrics. Additionally, even if a CDFI tracks and collects specific data for their own purposes, funders may require the measurement of different metrics which may necessitate modifications to organization protocols or the creation of multiple social impact reports.

Lack of Common Industry Metrics: The CDF industry is incredibly diverse and dynamic. At the organizational level, CDFIs vary according to lending type, size of the organization, social objectives, and mission. Additionally, as a whole, the CDF industry is constantly innovating new products and services to meet the unique needs of the communities it serves. As such, it is difficult to create one standard set of metrics that are relevant for every CDFI. For example, lenders focused on healthy foods initiatives will want to track metrics that are different from housing lenders. This lack of common industry metrics prevents a direct comparison of social impact performance between organizations. There are initiatives to create metrics that allow for organizational comparison such as the CARS™ rating system, but internal, organizational measurement systems also need to be in place to assist with day-to-day management and strategic planning.

In order to develop more robust practices to support social impact measurement on an organizational and industry level, we recommend the following action steps:

Develop an industry and organizational discipline supporting social impact measurement. Social impact measurement requires the ability to consistently:

- Identify what data is required to measure social impact for different products and services
- Build protocols and train staff on procedures to capture this needed data
- Evaluate the measurement process as the CDFI evolves in its lending practices
- Create a feedback loop that utilizes social impact data to improve practices and programs
To develop this discipline around social impact measurement on an organizational level, we recommend creating more opportunities for the sharing of best practices between CDFIs. This may take place through workshops at OFN’s annual conference or through the creation of webinars or other trainings focused specifically on this topic. Additionally, OFN can facilitate the pairing of organizations that have established best practices in social impact with those that are developing their social impact measurement program.

A component of this dissemination of best practices would be the sharing of tools among CDFIs that utilize social impact data to inform program improvement and portfolio management. For example, PeopleFund, a small business lender headquartered in Austin, Texas, has created a community impact assessment tool that is an integral component of a borrower’s loan application and can be adapted to assist in portfolio management – developing concentration targets for financial risk and social impact performance. Through the sharing of tools like this, other organizations could greatly benefit from this tool and improve their own portfolio management abilities as well as tie their lending practices more directly to their mission of community impact.

On an industry level, a similar commitment to social impact measurement is required. As the CDF industry continues to innovate new products and services – for example charter school financing or healthy food financing – the industry as a whole must have the discipline to consider the measurement implications for these new sectors at their inception.

**Establish common (but flexible) metrics across the CDF industry.** A key component of building the discipline for social impact measurement is to create a set of metrics across the CDF industry. As mentioned above, the CDF industry is incredibly diverse. These metrics would therefore have to allow for common measurements across the industry and provide a set of flexible metrics that apply to different lending types. These established metrics would then allow CDFIs to easily identify the data they need to collect depending on their lending focus and would streamline the social impact reporting process.

To be effective, establishing these common metrics will require buy-in from major funders of the sector. OFN or another industry advocate may be able to convene a meeting of funders and CDFIs focused specifically on social impact measurement. Through creating a set of common (but flexible) metrics of social impact, CDFIs would be able to better allocate resources toward data collection and reporting as they would not need to create multiple reports or collect unique data points based on their funding sources.

**Integrate financial and social metrics into communications materials.** This set of common metrics would then facilitate the communication of CDFIs’ impact. CDFIs have long utilized their stories, pictures and basic unit numbers to define the results of their programs. By incorporating social impact metrics into the communications materials of individual CDFIs as well as industry-level communications, there will be numerous benefits including:

**Improved Access to Capital:** Community development investors today are rethinking their relationship to money and what it can do to make the world a better place. Investors are also seeking broader opportunities to increase their social impact – on a local, national and even a global level. Investments in Calvert Foundation and microfinance loan funds like Kiva are prime examples of the type of global impact investors are seeking. If CDFIs are going to stay competitive in this growing marketplace they must consider the broader social impact, measure it, and disseminate it publically.

**Increased Public Support:** There is increasing pressure to provide proof of impact. CDFIs must be able to persuasively tell their story and how they create positive social change in communities across the country to break into the mainstream public consciousness. Compelling social metrics should be embedded into communications efforts by individual institutions as well as industry-wide branding, as social responsibility and social impact are integral parts of the CDFI DNA. The aftermath of the financial meltdown provides a particularly apt moment for community lenders to demonstrate how their fiscal responsibility and mission-driven approach has provided a safety net in vulnerable communities during difficult times and will support economic recovery among those hardest hit by the recession. Additionally, this is an opportunity for CDFIs to differentiate themselves from mainstream lenders by demonstrating their positive social impact.

**A Strengthened “Brand”:** There must be greater awareness of CDFIs among socially-responsible and impact investors, including pension funds, mutual funds, and individuals. This goes beyond “what is a CDFI” to understanding investment rates/terms, expected financial returns, expected social returns. For example, CDFIs are perfect models of “social enterprises” but they often do not receive recognition as such. The industry will know it’s been successful at branding when investors in socially-responsible
funds demand to know why a particular fund is not already heavily-investing in CDFIs. Currently, the CDFI brand is most closely associated with affordable housing lending, and among the developers in that field. The end users seldom know to seek CDFIs for assistance and know even less about the other programs offered under the CDFI umbrella. The lack of awareness about CDFIs is detrimental to their efforts.

**Improved Recruitment of Talented Professionals:** Telling our story provides a tool for attracting the best and brightest to the CDF industry. Many of our colleagues speak convincingly and eloquently of their passion for this field, which is largely driven by their certainty that their work makes a difference. Being able to include evidence of these impacts – beyond anecdotes – may attract talented professionals to the field.

**Recommendation #4:**
**Collaborate and Innovate to Use Resources More Efficiently**

The CDF industry receives funding from a variety of resources including government, foundations, banks, and a limited number of socially responsible or impact investors. Within the current economic climate, all of these funding sources are under increased pressure to best allocate scarce resources. Today’s more competitive funding environment requires that CDFIs continue to innovate and collaborate to ensure efficient use of all resources while fulfilling the industry’s mission. Currently, there are three main areas where the industry can gain efficiencies.

**Operations:** There are often multiple CDFIs that work in the same region and serve similar clientele. While the lending services of each organization are critical, often these CDFIs are expending effort and resources on duplicative back-office systems including technology support, human resources, and accounting. Additionally, CDFIs in the same region are utilizing subsidy dollars to engage in similar market research studies. As budgets increasingly become tighter these redundant services can be costly for individual organizations. The trend of consolidation in the CDFI industry speaks to the utility of centralizing these services.

**Fundraising:** Currently, the majority of fundraising takes place in a piecemeal fashion, with individual CDFIs seeking funding from disparate sources. This approach expends resources and efforts on the part of the CDFI as well as on the part of the funder. A prime example of this is seen at the level of the federal government. While the CDFI Fund is housed under the Treasury Department, CDFIs work with many federal agencies including the Department of Education on charter school issues, the Department of Energy on financing green energy projects, and the Department of Agriculture to support fresh food production and sale. Each federal agency has its own application process, criteria for selecting recipients of available funds and reporting requirements. CDFIs are challenged to source the government programs that best fit their projects and activities, develop applications and submit accurate and timely reports while continuing to provide the loans and technical assistance in their target communities.

**Programming:** Technical assistance is one of the main services that differentiates CDFIs from traditional lending institutions and is also a costly endeavor. Efficiencies may be gained throughout the industry through joint technical assistance programming among CDFIs and other organizations that provide technical assistance, such as community colleges or SCORE, in the same region. In particular, this is an area where Loan Funds and Community Development Credit Unions, which have historically not had much joint programming, can find opportunities to collaborate.

CDFIs need to be nimble organizations that can respond quickly and creatively to the changing environment. To build capacity and efficiencies within the industry, we suggest the following action steps:

**Develop incentives to collaborate.** Collaboration requires trust which is often hard to build between organizations that are competing for funding dollars. It would benefit policy makers and funders to incentivize collaboration among organizations in the form of co-lending, participations, referrals of borrowers to other institutions, or joint programming. These partnerships would ensure that funding dollars are not wastefully spent on unnecessary industry redundancies. The CDFI Fund, for example, could consider collaboration across CDFIs when it allocates Financial and Technical Assistance grants to eligible CDFIs.

An example of this collaboration between CDFIs is Georgia Green Loans which offers loans to start-up or existing small businesses to expand an eco-friendly product or service or ‘green’ an established business. This program was spearheaded by Access to Capital for
Entrepreneurs, Inc (ACE) which provides loans in North Georgia and the Metro Atlanta area. To expand this opportunity throughout the state, ACE has formed strategic partnerships with Albany Community Together, Inc., and Small Business Assistance Corporation (SBAC). Funders such as the U.S. Small Business Administration have responded positively to this collaborative effort, reinforcing the positive benefits of partnering for the benefit of the local community.

**Fund, share and grow platforms for increased efficiencies.** There are an increasing number of examples throughout the industry as to how CDFIs can improve efficiencies and achieve higher rates of self-sufficiency. For example, ACCION Texas has created Microloan Management Services (MMS™), a web-based service center that streamlines loan application, underwriting, loan approval, and portfolio management processes. Technologies such as MMS™ that help organizations achieve scale, reduce costs, and improve outcomes are critical to the future of the industry. Additionally, Federation of Appalachian Housing Enterprises (FAHE) has created the Berea Performance Compact which brings together member organizations which are scattered across rural Appalachia to share best practices and build efficiencies across the region. This creation of efficiencies has already pushed FAHE to be well on its way of increasing production from 2,000 housing units to 8,000 housing units by 2015.

ACCION Texas and FAHE provide tangible evidence for the power of creating efficiencies across the industry. With these examples in mind, the industry should place a greater emphasis in the coming years on scaling innovations and building collaborations. This will require funding and a willingness to share information across CDFIs.

**Foster innovation.** CDFIs are adept at entering emerging niche markets (charter schools, child care facilities, “green” lending, etc.) to innovatively strengthen the communities they serve. CDFIs need to continue to “make” these markets, build new channels of funding for this lending, and grow the demand, so that these markets become sustainable lines of business. To facilitate these product and service innovations, the CDF industry can create incubators for innovation – platforms that recognize and replicate successful, new ideas. OFN can play a central role in developing these platforms for innovation through its Staying Connected calls, regional meetings, and its annual conference. By championing innovation and creativity, the CDF industry will continue to develop new products and services that meet the changing needs of its constituents.

**Create a Federal Interagency Community Development Council.** To help federal agencies understand the resources available within CDFIs and the resources they need to continue growing, it is recommended that a Federal Interagency Community Development Council be established with specific goals relating to furthering the contribution CDFIs can make in communities and bridging knowledge gaps that may exist at the federal level. This Council should include representation from all federal agencies that work directly with the CDF industry, including:

1. Department of Treasury
2. Department of Labor
3. Department of Housing and Urban Development
4. Department of Health and Human Services
5. Small Business Administration
6. Department of Agriculture
7. Bureau of Indian Affairs
8. Department of Energy
9. Department of Education
10. Environmental Protection Agency

An interagency group would help coordinate government interventions and streamline CDFIs efforts to effectively and efficiently utilize government dollars. However, the CDF industry would need to lead the conversation around CDFI best practices and common standards – both for evaluating social impact and financial strength of CDFIs. Any criteria/suggestions for common standards should be reflective of
best practices but not exclusionary of new and emerging CDFIs from obtaining government resources.

Ultimately, the goal of these efforts would be to better pinpoint where and how government targets its resources through CDFIs; demonstrate support for and effectiveness of CDFIs on a local level as localities allocate federal resources to projects; streamline CDFIs ability to access government resources; hold CDFIs accountable to common standards; and facilitate CDFI reporting and outcome measurement. In turn, these efficiencies could better enable CDFIs to leverage capital from non-government resources while focusing more on their work in communities and with their clients in pursuit of their mission.

Recommendation #5: Diversify Capital Sources and Improve Transparency

As the CDF industry grows to meet the increasing demand for capital in low-income and low-wealth communities, additional sources of capital are needed. As more traditional government and foundation funding sources have diminished during the current economic recession, the industry has had to create new funding instruments and reach out to new types of donors and investors. This focus on funding innovations can be seen through the creation of the CDFI Bond program, the participation of some impact investors in the industry, and corporate sponsorship programs such as the Create Jobs USA partnership between OFN and Starbucks. To increase this diversification of sources of capital it is imperative that the CDF industry increase awareness of the industry among impact investors and also improve transparency so all donors and investors feel secure in their contributions to CDFIs.

Develop awareness of the CDF industry among impact investors. In November 2010, J.P. Morgan and the Rockefeller Foundation released a report providing evidence for the emergence of “impact investing; as a new asset class. Defined as an investment that is “intended to create positive social or environmental impact beyond financial return” this new asset class has the potential to be an investment opportunity between $400 billion and $1 trillion over the next decade in urban housing, rural access to clean water, maternal health, primary education, and microfinance. While most of this report focuses on international opportunities, there is anecdotal evidence that domestic social impact investors are starting to look at the CDFI industry.

To gain access to this potentially large source of capital, the CDF industry needs to increase the industry’s profile among these new potential sources of funding. A key part of this networking will be to communicate the impact of CDFIs which requires two actions: 1) diligent measuring of social impacts, as mentioned above, and 2) participating in third-party ratings that provide transparency and a source of comparison for investors and other donors.

Make ratings a requirement of doing business. Third-party independent ratings of CDFIs should become an industry standard. These ratings systems increase transparency, allow organizations to know where they stand in comparison to their peers, and also provide guidance to investors and other funders of CDFIs. CARS™, the CDFI Assessment and Ratings System, is one such ratings system that can be expanded. Currently the number of CDFIs that have gone through a CARS™ rating is just under 70; however, the industry should make a concerted effort to increase this rate. While CARS™ currently rates CDFIs on financial strength and performance as well as impact performance, any ratings system should also include a portfolio rating as well as a project rating model.

Conclusion

The CDF industry is at a crossroads. As the industry matures and grows, young leaders face new challenges and opportunities to growing the impact of CDFIs. Through CDFIs v2.0: The Vision of a New Generation, young leaders have been able to convene and create a shared vision for future success within the CDF industry. This document has outlined five key recommendations that focus on developing talent and building best practices within the industry. These recommendations have been constructed so that CDFIs can better fulfill our mission – to provide access to capital to low-income and low-wealth communities. We hope that this document proves a rallying cry for action within the CDF industry and galvanizes all participants in the industry to seek continuous improvement and innovation.
