



The many paths to a more inclusive financial system:

The value of community development financial institutions (CDFIs)

Fostering a more inclusive economy

Community development financial institutions (CDFIs) are lenders with a mission to provide fair, responsible financing to people and places not reached by mainstream banking.¹ The more than 1,470 certified CDFIs nationwide collectively manage \$222 billion in assets, creating economic opportunity and improving local quality of life.²

Their lending supports small and medium-size businesses, facilitates home ownership, finances climate change solutions, builds community facilities (like schools, grocery stores, and health care centers), and so much more. In addition to providing capital, CDFIs offer clients a suite of services, from financial education to business coaching, that increases their potential and builds wealth.



Opportunity Finance Network recipients, from left: Ryse Youth Center participants • Rosa Garcia, Criolite • Gem City Market recipients

CDFI facts and figures

Over the past 30 years, the CDFI industry has become a critical part of the nation's financial infrastructure. Both public entities and private businesses invest in CDFIs, and the return on that support is notable:



Research is one pillar of financial inclusion

The CDFI industry's visibility has grown tremendously as governments, banks, and companies have worked with CDFIs to help communities withstand and recover from the pandemic's economic fallout. This new awareness brought a capital infusion and has underscored the need for high-quality, standardized research on CDFIs. One advantage of CDFIs is their ability to offer programs and services that are adaptive to local needs. But because no two CDFIs are alike, it can be difficult to understand the true extent of their impact.

Improving the industry's research and data infrastructure is a means to raising the industry's profile and strengthening its value proposition to investors. To help steer a CDFI research agenda, Deloitte, Raza Development Fund, and Opportunity Finance Network published *Five research priorities for CDFIs: Advancing financial inclusion through evidence-based practice*. The brief highlights five research areas that the industry and its stakeholders may benefit from.

1

Identify primary operational strategies and tools

CDFIs use a mix of strategies and tools to foster *community and economic development*. But there is little research on how these approaches advance *sustainable community and economic systems transformation*. As a result of the industry's growth, development, and evolution, CDFIs and their stakeholders have had to make many complex decisions and balance trade-offs about their work. Documenting and examining their operational strategies and tools may provide better understanding about the place of CDFIs in the inclusive finance ecosystem.

2

Outline historical lessons and current trends

The CDFI industry emerged out of grassroots advocacy for financial inclusion and federal regulation that requires large financial institutions to provide banking services to low- and moderate-income communities. This ground-up and top-down history may suggest CDFIs are vulnerable to shifting stakeholder trends and priorities. Such complexity emphasizes the need for further research on the industry's history and evolution, as well as current trends.

3

Standardize impact measurement and evaluation processes

CDFIs understand impact measurement and evaluation are critical for long-term success. But in some cases, CDFIs may have insufficient resources to conduct assessments and evaluations requested by funders and stakeholders. Making things more complex, they may also lack a common understanding of *what* to measure and by *whose standards* the metrics should be benchmarked.

Within the industry, terms such as "impact measurement," "impact management," and "program evaluation" have multiple definitions and are often used interchangeably. It is worth considering whether researchers should create a CDFI-specific evaluation process and terminology. Any such system should be centered on bias-free evaluation processes that incorporates the voices of CDFIs and their clients. To generate support for this area, there may be a need to highlight the value of impact measurement and evaluation to CDFIs themselves, educate CDFI stakeholders about these processes, and increase funding resources for these activities.

4

Encourage funding that bolsters capacity and sustainability

Operating on limited budgets, CDFIs face organizational, programmatic, political, and network capacity constraints. More than 75% of CDFIs are nonprofits and thus receive support from various levels of government, businesses that fund social impact activities, and/or philanthropic foundations.¹¹ Across the nonprofit sector, resources for general capacity building are scarce, and existing support sources are largely focused on specific programs. While there's been a trend in recent years toward more flexible grants and capital, the industry may see a large benefit from an evidence-based funding framework designed around building CDFI capacity.

5

Improve the industry's data quality and scope of coverage

Good research requires data, but data collection can be prohibitively expensive. Increasing access to existing data may remove some barriers for research. Concurrently, existing CDFI data sources have major limitations. For instance, few datasets cover all or even the majority of the CDFI sector. Additionally, analyses of existing datasets have often arrived at counterintuitive findings.

Many CDFIs collect data from focus groups, interviews, and surveys, although not necessarily in a form supporting formal analysis. CDFIs and their stakeholders may benefit from improved, standardized, and more accessible data. While making these improvements is logistically and technically challenging, one option is the use of data collaborations that reach across various stakeholder groups.



Building community with the help of research and data

As central actors in sustainable community development, CDFIs have not received a level of attention commensurate with their role. Better research and data on these critical institutions is a start. While research is an inherently privileged activity that can require significant resources, it can also be an investment towards a more inclusive economic system.

Deloitte, Raza Development Fund, and Opportunity Finance Network's proposed research agenda centers on CDFIs and their communities. When CDFIs thrive, more communities and individuals across rural, urban, and Native communities can have an opportunity to participate in and help grow the US economy. To maintain a growth trajectory, stakeholders may benefit from a better understanding of how CDFIs contribute to the nation's financial ecosystem.



Opportunity Finance Network recipients



Opportunity Finance Network recipient, Bridgette Bennett and staff, Bennett Law Center

Endnotes

1. R. Varisa Patraporn, “[Complex Transactions: Community Development Financial Institutions Lending to Ethnic Entrepreneurs in Los Angeles](#),” *Community Development* 46, no. 5 (October 20, 2015): 479–98.
2. Community Development Financial Institutions Fund, “[List of Certified Community Development Financial Institutions \(CDFIs\)](#)” (US Department of the Treasury, July 16, 2023).
3. Janet Yellen, “[\\$1.25 Billion Award to CDFIs to Support Economic Relief in Underserved Communities Affected by COVID-19](#)” (Remarks by Secretary of the Treasury, Announcement of CDFI Fund Rapid Response Program, The White House, Washington, DC, June 15, 2021).
4. Lakshmannan Sindhu, Seth Julyan, and Caroline Valvardi, “[CDFI 101 Toolkit](#)” (Washington, DC: Opportunity Finance Network, February 2023).
5. Opportunity Finance Network, “[Opportunity Finance Institutions: FY2021 OFN Member Data Analysis](#),” Side by Side (Washington, DC, January 2023).
6. Defined as beneficiaries who identify as Black or African American, Asian/Pacific Islander, Hispanic or Latino, Native American, or Multiracial.
7. Defined as beneficiary entities more than 50% owned or controlled by individual(s) who are low income. For metropolitan areas, the term “low-income” means an individual’s family size adjusted income is not more than 80% of the area median family income. For non-metropolitan areas, the term “low income” means an individual’s family size adjusted income is not more than the greater of (A) 80% of the area median family income or (B) 80% of the statewide non-metropolitan area median family income, whichever is greater. See Community Development Financial Institutions Fund, “[CDFI Transactional Level Report Data Point Guidance](#)” (US Department of the Treasury, February 2022); Darryl Getter, “[Community Development Financial Institutions \(CDFIs\): Overview and Selected Issues](#)” (Washington, DC: Congressional Research Service, August 16, 2022).
8. Defined as beneficiary entities not located within major urban or minor urban areas. See Community Development Financial Institutions Fund, “[CDFI CUIS Glossary](#)” (US Department of the Treasury, August 2016).
9. Includes both cisgender and transgender women.
10. The US Census defines “Latino” as a person of Cuban, Mexican, Puerto Rican, South or Central American, or other Spanish culture or origin regardless of race. RDF uses *Latina/x/e* when referring to individuals and *Latinos* when referring to groups or communities. While it is important to recognize that Latinos are not a monolith, the term has widespread use and cultural acceptance across the constituencies served by RDF.
11. US Department of the Treasury and Community Development Financial Institutions Fund, “2021 Annual Certification and Data Collection Report [Released in Response to a Freedom of Information Act Request by Lance Loethen and Tract Advisors],” 2022.

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About Raza Development Fund

Raza Development Fund, Inc. (RDF) is a Latino-led and serving community development financial institution (CDFI) formed in 1999 by UnidosUS (formerly, National Council of La Raza), the country’s largest and longest-serving Latino civil rights and advocacy organization. RDF was created to advance economic opportunity, social mobility, and racial justice. Since inception, RDF has directly invested more than \$1 billion in 38 states, leveraging more than \$6 billion in the areas of education, affordable housing, health care, social services, and social entrepreneurship. Headquartered in Phoenix, Arizona, RDF lends nationwide. Learn more about our work at www.razafund.org.

About Opportunity Finance Network

Opportunity Finance Network (OFN) is a leading national network of more than 390 community development financial institutions (CDFIs), specialized lenders that provide affordable, responsible financial products and services in low-income rural, urban, and Native communities nationwide. As a trusted intermediary between CDFIs and the public and private sectors, OFN works with its partners—banks, philanthropies, corporations, government agencies and others—to create economic opportunity for all by strengthening and investing in CDFIs. Since its founding in 1986 and through 2021, the network has originated \$100 billion in financing in rural, urban, and Native communities, helping to create or maintain more than 2.6 million jobs, start or expand more than 696,000 businesses and microenterprises, and support the development or rehabilitation of more than 2.3 million housing units and more than 13,600 community facility projects. www.ofn.org.

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