

# Five research priorities for community development financial institutions:

Advancing financial inclusion  
through evidence-based practice



CDFI clients, from left: Keynan Ammons, Ammons Design and Home Decor • Tina Travis, Errand Girl • SAY Sí arts education afterschool program participants

Regardless of *how* they do it, CDFIs share a common understanding about *what* they do: **empower individuals and communities by meeting them where they are**, when the needs are significant, and resources are low.

# Introduction and stakeholder overview

Community development financial institutions (CDFIs) foster lasting, transformational development by providing inclusive, fair, and equitable financial services to people, organizations, and places underserved by mainstream banking institutions.<sup>1</sup> The array of products and services offered by the country's certified 1,470+ CDFIs are as diverse as the communities they serve.<sup>2</sup>

This brief outlines a proposed research agenda mainly from the perspective of CDFI loan funds.<sup>3</sup> These CDFIs specialize in offering affordable loans that increase economic mobility and build wealth. Ultimately, this type of lending empowers individuals to own homes and small businesses, supports jobs with livable wages, and offers a pathway to revitalize community infrastructure. In addition to offering credit products, CDFI services may include a range of courses and one-on-one mentoring sessions that build personal and/or business financial literacy. Figure 1 outlines the industry's major stakeholders.<sup>4</sup>

CDFIs have long been an integral part of the financial system. That importance is illustrated by their role in responding to economic recessions and downturns.<sup>5</sup> In 2008, when traditional financial institutions slowed or halted lending operations, CDFIs worked to expand affordable capital access in high-need communities.<sup>6</sup> More recently, the industry saw a surge in media attention and increased funding due to its role as a "financial first responder" during the COVID-19 crisis.<sup>7</sup> Throughout the pandemic, CDFIs provided loans, grants, and other community resources to consumers, small businesses, and nonprofits. The ability of CDFIs to quickly provide

this kind of aid has helped cement their importance in the financial inclusion ecosystem.<sup>8</sup>

Regardless of *how* they do it, CDFIs share a common understanding about *what* they do: empower individuals and communities by meeting them where they are, when needs are significant, and resources are low.<sup>9</sup> Yet despite this shared vision of a more inclusive financial system, CDFIs and their stakeholders may differ on how to best track progress. To foster more alignment across these perspectives, we propose five research areas to help CDFIs highlight progress, identify challenges, and ultimately achieve their goals. While not intended to be exhaustive, we offer the following as a starting point for financial inclusion research on, with, and for CDFIs:<sup>10</sup>

- 1 Outline the theoretical foundations that underpin CDFI activities. 
- 2 Conduct analyses that highlight historical lessons and emerging trends. 
- 3 Work toward improving evaluation and impact measurement/management. 
- 4 Identify funding strategies that improve capacity and sustainability. 
- 5 Demonstrate the value of CDFIs via improving data quality and accessibility. 

Figure 1. Key stakeholders in CDFI research

## Those who receive or benefit from CDFI services



- Individuals and organizations that obtain a CDFI financial product or service.
- Individuals, organizations, and places that experience an increase in socioeconomic well-being as an indirect benefit of CDFI products and services.

## Universities and institutions that engage in applied research



- Applied researchers at think tanks and allied private-sector entities.
- University faculty and students studying inclusive finance and allied topics.

## Governments and quasi-public entities



- Federal agencies as well as state, local, and tribal governments that support and/or regulate CDFIs.
- The Federal Reserve system Board and its regional member banks.

## Institutional and individual impact investors



- Financial service institutions, allied service providers, and philanthropic foundations that provide debt capital and grant funding.
- Institutional and individual social impact investors that provide capital as part of their purpose-driven investment philosophy.



## Theoretical foundations of CDFI activities

In our observation, there has been limited theory building that considers the value of CDFIs.<sup>11</sup> What does exist conceptualizes CDFIs as entities that utilize a strategic mix of “interventions” that foster community and economic development.<sup>12</sup> CDFI interventions typically comprise affordable and accessible financing products

paired with intensive technical services. However, there may be a growing disconnect between the goals of CDFI interventions and the industry’s incentives for activities.<sup>13</sup> Table 1 describes several hypothesized existing and emerging tensions hinted at by other research.

Table 1. Possible tensions between CDFI activities and systems-level forces

Benefit of CDFI activities	Potential structural tension
Offering inclusive financing products and services that respond to community needs <sup>14</sup>	Maintaining deep ties and connections with communities while growing and scaling <sup>15</sup>
Acting as a catalyst for neighborhood renewal by providing services that reverse patterns of racism and institutionalized disinvestment <sup>16</sup>	Use of funding and investment from stakeholders whose policies and products may contribute to systemic inequities <sup>17</sup>
Providing reasonable and accessible financial products/ services to individuals, businesses, and organizations that are otherwise unable to access credit <sup>18</sup>	Support system with limited low-cost, long-term, flexible debt capital and unrestricted grant funding due to unfounded perceptions of borrower riskiness <sup>19</sup>

One way to improve the effectiveness of CDFI programs and services is exploring the assumptions behind their preferred strategies and tools. Questions for consideration might include:<sup>20</sup>

### Foundational theory of CDFIs

What are the underlying theoretical bases for the CDFI organizational form? How do CDFIs compare to similar community-based organizations?

### Selection of strategies and tools

What institutional and social forces have made lending the primary CDFI tool? What are the advantages of lending compared to other strategies like technical assistance and grantmaking?<sup>21</sup>

### Assessing structural tensions

What is the extent and nature of the hypothesized structural tensions between CDFIs and their support systems? How do these tensions influence CDFI activities and outcomes?

### Operating as intermediaries

Some CDFIs are intermediaries that do not directly interact with community members.<sup>22</sup> How can this intermediary role be built into theory building, impact measurement, and research?

## 2

## CDFI history, operations, and trends

CDFIs arose from a mix of grassroots advocacy and institutional regulatory pressures.<sup>23</sup> Through the 1960s, many banks were less likely to provide financial services to low- and moderate-income communities. This exacerbated disparities in access to capital, economic development, and wealth across the country.<sup>24</sup>

Change in this area started in earnest with the Economic Opportunity Act of 1964, which provided funding for community development corporations (CDCs). CDCs are grassroots local service providers, and their mode of operation laid the groundwork for the modern CDFI industry. Later, the Community Reinvestment Act (CRA) in 1977 created a regulatory framework that required certain large financial institutions to provide banking services in low- and moderate-income neighborhoods.

Though the CDFI certification is only a few decades old, organizations with CDFI-like activities have existed for some time.<sup>25</sup> Chicago's South Shore Bank, founded in 1973, is often considered to be the nation's first CDFI due to its mode of operations. The products and services provided by the bank were mimicked by other community entities, including those gathered at the first large "CDFI" meeting in Waltham, Massachusetts, in 1985.<sup>26</sup> In 1994, the Department of the Treasury's CDFI Fund was established and subsequently created the CDFI certification. Today, entities certified by the CDFI Fund offer services across many American neighborhoods.

Understanding this institutional history is critical because it suggests CDFIs are subject to strong path-dependent forces shaped by governments (local, state, and federal), mainstream financial institutions, and other similarly vested stakeholders.<sup>27</sup> The sector's development and evolution appear to be somewhat different from allied financial inclusion initiatives with similar goals.<sup>28</sup> To that end, in

order to better identify opportunities for cross-sector growth and inter-industry collaboration, we propose a line of inquiry focusing on:

### Structural efficiencies

What are the respective roles and competitive advantages of different CDFI organization types (loan funds, credit unions, banks, venture capital funds) and forms (nonprofits, for-profits, social enterprises)? How can the industry leverage this variation to improve operational efficiencies and enhance social impact?

### Models of collaboration

What types of collaborations between different organization structures can address shared operational challenges and enhance social impact? What examples of successful collaborations—both within the industry and across allied sectors—can CDFIs emulate?

### Contributions to social change

What role can or do CDFIs play in addressing the social inequities that prevent marginalized communities from achieving prosperity? How have endogenous (organizational capacity, cultural competence, etc.) and exogenous (path dependency, isomorphic pressures, etc.) forces influenced CDFI effectiveness in social change issues?

### Analysis of industry trends

How have CDFIs changed and evolved over time? What programmatic, operational, and financial trends have emerged, and how have they shaped operations and performance? How do these trends vary by organizational type, sectoral focus, asset level, beneficiary demographic, geography, and similar characteristics?

CDFIs act as a catalyst for **neighborhood renewal** by providing services that reverse patterns of racism and institutionalized disinvestment.



CDFI clients: Marygrove Early Education Center



## Impact measurement/management and program evaluation






CDFIs know the effectiveness of their programs is critical to amplifying their social impact.<sup>29</sup> In a recent survey of Opportunity Finance Network members, impact measurement/management (34%) and program evaluation (22%) were flagged as high areas of need.<sup>30</sup> Despite the acknowledged importance of these items, the industry often interchangeably uses terms like “impact measurement,” “impact management,” and “program evaluation.”<sup>31</sup> For instance, the “impact measurement and management (IMM)”<sup>32</sup> term is sometimes used to encompass both performance measurement and program evaluation

activities.<sup>33</sup> In contrast, program evaluators typically use it to describe causal claims about outcomes—that is, the net effect of what may have happened “but for” the program or activity in question.<sup>34</sup> There may be value in adopting a consistent definition set in this area, either by borrowing from another discipline or crafting something de novo.

For purposes of this brief, *impact measurement (and management)* refers to a continual process involving methods and leading practices to collect quantitative and qualitative data.<sup>35</sup> The reason for

these data collection efforts is to track progress against targeted outputs and outcomes.<sup>36</sup> *Evaluations* are episodic analyses that use impact measurement data. The scope of evaluations varies widely, but at a high level, they are intended to assess whether a product, program, or activity performs as intended and is consistent with the organization’s mission.<sup>37</sup> In support of developing research in this area, Table 2 proposes several guideposts for consideration.<sup>38</sup>

Table 2. Impact measurement/management and program evaluation guideposts

Area	Considerations and guideposts
Process <sup>39</sup> 	Program evaluation is a non-adversarial process done <b>with</b> an organization and its clients (and not a process done <b>to</b> them). Evaluators need to consider any inherent privilege and craft processes that equitably reflect the needs of CDFIs, their borrowers, clients, and communities.
Scaling <sup>40</sup> 	The need for rigor is balanced against the need for flexible and creative evaluation methods. Evaluators can right size the process to fit a CDFI’s available financial resources and staffing capacity.
Metrics <sup>41</sup> 	Metrics are ideally crafted to fit with the evaluative processes’ timeline, oriented toward longer-term outcomes, and are integrated into the organization’s overarching strategic goals.
Limitations <sup>42</sup> 	It is unlikely that the socioeconomic changes prompted by CDFI interventions can be disentangled from the complex community systems they work in. The nature of CDFI activities means that significant time may pass between an intervention and an observable outcome.
Goals <sup>43</sup> 	To offer the right mix of products and services, it’s helpful to know what is working (and what is not). To do that, findings can be structured to inform organizational strategy by offering an objective assessment of program implementation and effectiveness.

Given existing levels of CDFI organizational and resource capacity, engaging in rigorous program evaluation may be difficult. Compounding the issue, CDFIs have multiple constituencies across the array of governments, philanthropic organizations, and private institutions that provide funding. Engaging with these interests often involves conducting multiple types of evaluations, as it is unlikely any single assessment could fit the needs of every stakeholder.<sup>44</sup> After all, it may be difficult to understand *what* to measure and *whose standards* should serve as benchmarks.<sup>45</sup> Nevertheless, the field is under increasing pressure to show organizational legitimacy by adhering to an agreed-upon set of standards and processes.<sup>46</sup>

Researchers have argued that these pressures can be categorized into *coercive*, *mimetic*, and *normative* forces.<sup>47</sup> *Coercive* forces arise when organizations seek to respond to pressures from political, regulatory, and funder stakeholders.<sup>48</sup> For instance, CDFIs may feel pressure to assess activities to fit funder needs over community needs.<sup>49</sup> *Mimetic* pressure occurs when entities “copy” strategies utilized by other organizations.<sup>50</sup> One example is the tendency of CDFIs to adopt impact metrics used by peer organizations perceived to be more successful. *Normative* pressure is the result of standards and processes within organizations being shaped by the forces of professionalization.<sup>51</sup> This can take the form of CDFIs conflating compliance with impact measurement.<sup>52</sup>

To be sure, impact measurement/management and evaluation issues are common challenges across many types of nonprofits and social enterprises. But for CDFIs and their stakeholders, this area is important because it enables better tracking of progress toward a more inclusive financial system. We propose a research agenda that highlights the value of impact measurement/management and evaluation while also socializing and educating stakeholders about limitations:

### Creating industry terminology

Which frameworks, terminologies, and definitions of impact measurement/management and program evaluation are appropriate and useful for CDFIs? Should CDFIs use the terminology of adjacent sectors, or craft their own language to describe these activities?

### Assessing the viability of systems-level frameworks

Given the diversity of CDFI activities and their constituencies, is it possible (or desirable) to craft a systems-level evaluation framework?<sup>53</sup> What are the trade-offs of this type of framework? How can any proposed meta-level framework be consistently applied across one CDFI to the next?<sup>54</sup>

### Standardizing organizational evaluation processes

Is it possible (or desirable) to offer leading practices for CDFI evaluation and impact measurement/management activities?<sup>55</sup> Are there ways that other social sectors have enhanced evaluation knowledge and uptake that can be applied to CDFIs?

### Identifying outcome metrics

How can CDFIs identify the set of outcomes they should focus on while balancing endemic capacity constraints?<sup>56</sup> How can measurement and evaluation activities be fashioned in a manner that allows community, borrower, and client voices to be heard, centered, and valued?<sup>57</sup>

### Exploring the utility of rating systems

How do CDFIs and their stakeholders use voluntary rating systems? How do these systems align with the research on the qualities of effective voluntary rating systems in other sectors?<sup>58</sup> How do these systems affect a CDFI's capacity and accountability?<sup>59</sup>

### Centering equity in metrics

What strategies should be used to incorporate the voices of CDFIs, their borrowers, clients, and communities when crafting metrics? How can the needs and perspectives of other stakeholders (e.g., funders, investors) be balanced in this area?

Program evaluation is a non-adversarial process done **with** an organization (not a process done **to** them).



CDFI clients: Alabama Aerospace and Aviation High School (AAHS)



## Funding to enhance capacity, sustainability, and impact

As of 2021, about three-quarters of certified CDFIs were nonprofits.<sup>60</sup> The extent of self-sufficiency within the industry varies greatly, but many CDFIs need funding from government, business, and/or philanthropic institutions to sustain operations.<sup>61</sup> Despite noble intentions, research suggests these institutional funders may sometimes add to capacity constraints. For example, philanthropic organizations may offer grant opportunities that encourage the creation of one-time programs based on funder (rather than community) priorities.

Raising funding to enhance capacity has been a long-term challenge of the nonprofit sector.<sup>62</sup> But in the aftermath of both the COVID-19 pandemic and increased nationwide attention to racial violence, new innovations have emerged. For example, the CDFI Fund's 2021 Rapid Response Program provided entitlement-based funding awards for lending and technical assistance.<sup>63</sup> During the same timeframe, an array of philanthropic funders reoriented their giving toward community engagement, relationship building, and flexible grant terms. This included a focus on providing community organizations with recurring and unrestricted aid. Such changes reflect the theory that nonprofits, and not funders, have the experience to understand the needs of the populations they serve.<sup>64</sup>

Capacity constraints are often equated with limited budgetary resources, but the constraints CDFIs face are both financial and nonfinancial. The community and economic development literature suggests at least four other types of capacity.<sup>65</sup> First, *organizational capacity* encompasses the business processes CDFIs use for activities, adapting to change, and hiring/retaining human capital.<sup>66</sup> Second, *programmatic capacity* refers to the level of effectiveness of an organization's services. In the case of CDFIs, this includes financing and a large array of free technical assistance initiatives.<sup>67</sup> Third, *political capacity* is the extent to which CDFIs successfully maintain relationships with regulators, policymakers, and major funders.<sup>68</sup> Fourth, *network capacity* is the ability to engage secondary stakeholder groups. For CDFIs this includes ties with other community nonprofits, faith-based organizations, and educational institutions.<sup>69</sup>

To meet the needs of both CDFIs and their array of cross-sector supporters, we propose building an evidence-based funding framework for capacity building:

### Funding source effectiveness for CDFIs

What is the relative utility of funding from different sectors (government versus philanthropic versus private) in the CDFI industry? How can CDFIs leverage and pair different funders and sources to improve capacity and impact?

### Funding system improvements

How can funders and investors structure loans and grants to improve CDFI capacity and impact? What are the trade-offs of different funding and capitalization sources?

### CDFI capacity constraints

How do CDFI capacity constraints compare to those observed in other areas of community and economic development? How should funders and investors build organizational, programmatic, political, and network capacity to bolster long-term CDFI sustainability?

### Effects of recent events

How did financial support for CDFIs change due to events like the pandemic and the Black Lives Matter movement? What discrete philanthropic strategies were targeted at CDFIs during this period? Did these strategies build CDFI capacity, and if so, how? Can or should these examples be emulated?

### Engagement in the policymaking process

How do CDFIs engage with local, state, and federal policymakers? How do federal, state, and local policies affect CDFIs in terms of their ability to grow, scale, and effect change?



# 5

## Expanding research data infrastructure

Data is a prerequisite for research and needed to evaluate financial inclusion efforts.<sup>70</sup> Table 3 lists the major quantitative datasets that cover at least some portion of the CDFI loan fund industry. Though well-suited to capture CDFI processes and outcomes, qualitative data collection has not garnered much attention in the industry.<sup>71</sup> Many CDFIs collect data via focus groups, interviews, and participant observation. For example, CDFI staff frequently interview clients to gather information for marketing and promotional purposes.<sup>72</sup> But such efforts are rarely standardized enough to make them amenable to formal qualitative analysis. If collected in line with accepted protocols, transcripts from these interactions could serve as rich sources of data and may be well-suited for hybrid thematic analysis frameworks.<sup>73</sup>

Concerted efforts to improve data quality through standardization and enhanced collaboration may be of large benefit to the industry. To understand why, consider analyses of the CDFI Fund's Transaction Level Reports (TLRs), which contain detailed information on the quantity and characteristics of CDFI financial transactions.<sup>74</sup> Analyses of the data have sometimes resulted in unexpected findings. In one case, a quasi-experimental study found that areas with high levels of CDFI investment had worse economic outcomes (mortgage approval rate and median mortgage amount) compared to similar places with no investment.<sup>75</sup> It isn't possible to know for sure, but such findings could be due to low data quality, limited scope of coverage, and/or an inability to triangulate the TLR data with other sources. Regardless of the cause, these issues highlight the need for data quality improvements.



CDFI clients, from left: SueEllen Mancini, Sad Girl Creamery • Cordon family, Phat Daddy's on Da Tracks • Shae Jones, Olivia J

Table 3. Summary of major CDFI data sources

Data source	Coverage and scope	Limitations
<p>Annual Certification Report (ACR)<sup>76</sup></p> <p>CDFI Fund</p>	<ul style="list-style-type: none"> <li>• Institution-level data about portfolios, development services, and operational characteristics</li> <li>• Population-level coverage of all certified CDFIs</li> </ul>	<ul style="list-style-type: none"> <li>• Time lag in data releases</li> <li>• Some variables are withheld in public releases of dataset</li> <li>• Changes from predecessor format make longitudinal comparisons difficult<sup>77</sup></li> </ul>
<p>Transaction Level Report (TLR)<sup>78</sup></p> <p>CDFI Fund</p>	<ul style="list-style-type: none"> <li>• Detailed loan-level data across 50 variables<sup>79</sup></li> <li>• To date, primary data source for bulk of existing CDFI research</li> </ul>	<ul style="list-style-type: none"> <li>• Some variables are withheld in public releases of dataset</li> <li>• Regulatory changes have improved scope of coverage; historical comparisons remain difficult<sup>80</sup></li> </ul>
<p>CDFI Survey<sup>81</sup></p> <p>Federal Reserve System</p>	<ul style="list-style-type: none"> <li>• Institutional survey of CDFIs containing data on financials, activities, and industry trends</li> <li>• Though extensive efforts are taken to solicit responses, CDFI participation is not mandatory</li> </ul>	<ul style="list-style-type: none"> <li>• Convenience sample and not necessarily representative</li> <li>• Because many survey questions change over time, longitudinal comparisons are difficult</li> </ul>
<p>Aeris Cloud Data</p> <p>Aeris Insights</p>	<ul style="list-style-type: none"> <li>• Financial and output data that is used in Aeris financial and impact management ratings<sup>82</sup></li> <li>• Scope is rated CDFIs and non-rated CDFIs that voluntarily choose to report certain metrics</li> </ul>	<ul style="list-style-type: none"> <li>• Raw data is not publicly available but can be requested; however, approval criteria is not published<sup>83</sup></li> <li>• Sample is not representative and includes only a subset of loan fund CDFIs</li> </ul>
<p>Annual Member Survey<sup>84</sup></p> <p>Opportunity Finance Network</p>	<ul style="list-style-type: none"> <li>• Data on CDFI staffing, capitalization, lending activities, portfolio performance, financials, and programmatic outputs</li> <li>• Scope is OFN's membership, which is focused on revolving loan funds</li> </ul>	<ul style="list-style-type: none"> <li>• Raw data are not publicly available but can be requested; however, approval criteria is not published</li> <li>• Sample is not representative because it includes only OFN members that respond to the survey</li> </ul>

While it can seem a highly technical exercise, good quality data is **essential** to helping CDFIs meet their goals. To enhance and build on existing CDFI data sources, we recommend focusing on the following issues:

### **Creating data collaborations**

How can the industry improve data availability and transparency while balancing the reporting burden on CDFIs? Is it possible or desirable to start a data collaboration platform that builds upon existing reporting?

### **Enhancing data collection practices**

How do CDFIs typically collect and store data? How does this vary by size, targeted clients, borrowers, and communities? How can researchers and CDFI stakeholders improve data collection processes?

### **Leveraging qualitative data**

How can use of qualitative data by and for CDFIs be enhanced? Is there value in a standardized set of semi-structured interview guides, focus group questions, and similar instruments for qualitative data collection?

### **Improving existing data assets**

How can existing CDFI data sources be analyzed for robustness and data quality? How can data collectors be encouraged to transparently release anonymized data for research purposes?

### **Building new data assets**

What are the shortcomings of existing data sources? Can any of them be remedied? What data needs to be collected to address the industry's pressing questions? How can CDFIs and their stakeholders work together to improve data collection resources while balancing capacity constraints?



CDFI clients: Los Angeles Mission



Panelists at Opportunity Finance Network's 2023 Small Business Finance Forum

## Concluding thoughts

CDFIs and their stakeholders see value in prioritizing research capacity and infrastructure. And researchers inside and outside the industry can help by cultivating these burgeoning professional norms. We are keenly aware that a requisite level of capacity is needed to engage in research, data collection, and evaluation.<sup>85</sup> Not all CDFIs are able to devote the resources needed for these activities. Yet ultimately, we believe the CDFI community at large may benefit from bolstering the five focus areas proposed here.

The proposed areas are designed to build on existing research initiatives while centering the needs of CDFIs and the communities they serve. In recent years, both the number of CDFIs as well as industry's stature in policy, philanthropic, and business dialogues has increased. That upward trend means communities, businesses, and individuals throughout the country have better access to fair and equitable financial products and services. But to continue this growth and build on these successes, there is a need to better understand how CDFIs contribute to the nation's financial inclusion ecosystem.







CDFI client: Mike Mwenedata and Rwanda Bean Company team

# Endnotes

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## Acknowledgments

The authors wish to express their gratitude to the many individuals who provided input for this report. We are deeply grateful for the thoughtful feedback and support received from:

### **Deloitte**

Vee Bell  
Ivy Clark-Dominguez  
Nora Ellison  
Constance Gamache  
Carey Oven  
Caroline Schoenecker

### **Opportunity Finance Network**

Sacha Adorno  
Alba Castillo  
Lisa Chensvold  
Seth Julyan  
Sindhu Lakshmanan  
Beth Lipson  
Caroline Valvardi

### **Raza Development Fund**

Annie Donovan  
Melissa McDonald

### **Carolina Small Business Development Fund**

Lori Diaz  
James Onorevole

### **Federal Reserve Bank of Atlanta**

Charlene van Dijk

### **Federal Reserve Bank of Richmond**

Surekha Carpenter

### **Federal Reserve Bank of St. Louis**

Mike Eggleston

### **Urban Institute**

Brett Theodos

### **University of New Hampshire**

Michael Swack

### **University of North Carolina at Chapel Hill**

Jonathan Morgan  
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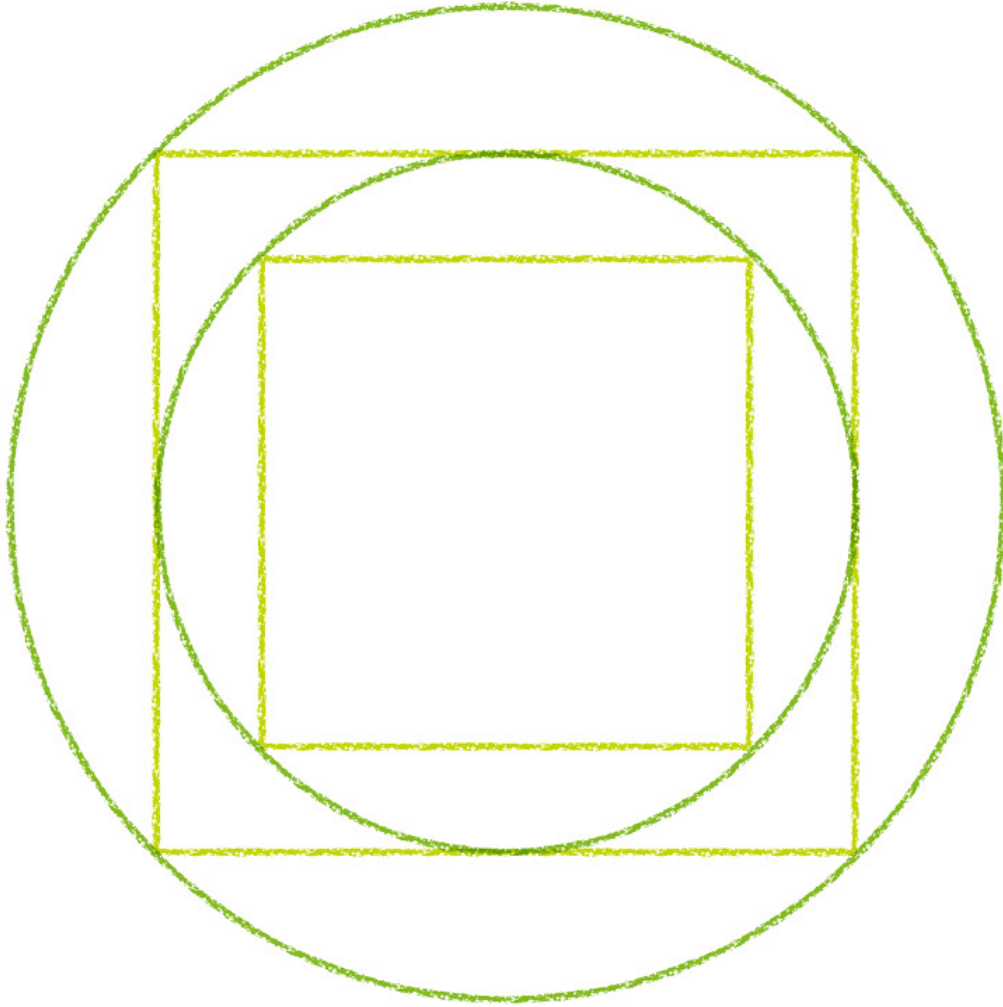
Raza Development Fund, Inc. (RDF) is a Latino-led and serving community development financial institution (CDFI) formed in 1999 by UnidosUS (formerly, National Council of La Raza), the country's largest and longest-serving Latino civil rights and advocacy organization. RDF was created to advance economic 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](http://www.razafund.org).

### **About Opportunity Finance Network**

Opportunity Finance Network (OFN) is a leading national network of more than 400 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](http://www.ofn.org).

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# 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) have a mission to provide fair, responsible financing to people, organizations, and places not reached by mainstream banking.<sup>1</sup> The more than 1,470 CDFIs across the nation work daily to create economic opportunity and improve local quality of life.<sup>2</sup>

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.



**1,470+**

CDFIs as of July 2023



**\$222B**

Total Assets Managed



CDFI clients, from left: RYSE Youth Center • Rosa Garcia, Criolite • Gem City Market

# 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—both financial and otherwise—is notable.

## Investment leverage

CDFIs leverage \$8 in private sector investment for each \$1 in public funding.<sup>3</sup>



## Recycle capital

As loans are repaid, CDFIs recycle the money back into the community through new borrowers.<sup>4</sup>



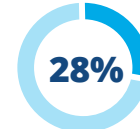
## Accessible financing for all<sup>5</sup>



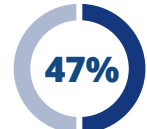
Racially and ethnically diverse persons<sup>6</sup>



Low-income<sup>7</sup>



Rural<sup>8</sup>



Women<sup>9</sup>

Note: OFN member figures.

## Meeting communities where they are: Raza Development Fund case study

Raza Development Fund is a CDFI with a passion for serving the nation's Latino community.<sup>10</sup> It works in 38 states with an array of services designed around local needs, with results that are as inspiring as they are far reaching.

- Directly invested more than **\$1.3B** and leveraging **\$6.0B**
- Creating **64,000+** quality education seats
- Constructing or rehabbing **28,000+** lower-income housing units
- Funding health care facilities that serve **300,000+** patients
- Providing **704** small business loans to owners that are 68% Latino/a/x and 75% racially and ethnically diverse persons
- Supporting local nonprofits with **\$3.2M** in grants
- Grantees report increased capacity (**77%**), used funds to secure additional support (**66%**), and improved sustainability (**57%**)

Regardless of scale, RDF and other CDFIs center their strategy around a high-touch approach. While that is costly in terms of staffing and time, it offers a disproportionately high return on investment via relationship building. By viewing clients as long-term partners, financial transactions are anything but transactional. For CDFIs, this reflects the notion that capital's power and privilege can be channeled to uplift the communities they serve.

## Lend locally and coordinate nationally: Opportunity Finance Network case study

The expanding reach of CDFIs is, at least in part, due to regional and national coordination. One example is the Opportunity Finance Network (OFN), a CDFI coalition whose members originated \$9.2B in lending across rural, urban, and Native communities between 2017 and 2021. Those investments have supported neighborhoods, businesses, and essential community infrastructure across the nation.



2,600+

Community facilities



374,000+

Businesses and microenterprises



1.3M+

Jobs



312,000+

Housing units

## Research is a pillar of financial inclusion

The CDFI industry's visibility has grown tremendously as governments, philanthropic foundations, 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 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, data collection, and evaluation infrastructure may help strengthen its value proposition. 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](#). A high level summary of the areas of focus recommended by the report is provided on the following pages.



CDFI client: Young Aspiring Americans for Social & Political Activism (YAASPA)

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 suggests CDFIs may be 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. In the process of navigating multiple stakeholders, there may be a lack of understanding on *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 incorporate 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.

Individual and organizational stakeholders for CDFIs



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 philanthropic foundations.<sup>11</sup>

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, there may be benefits to outlining an evidence-based funding framework to build 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 sources may remove some barriers. However, existing CDFI data sources have major limitations. Very few datasets cover all or even the majority of the CDFI loan fund sector. And unfortunately, even with better access, data quality is a concern. Existing analyses using these databases often arrive at counterintuitive findings.

Many CDFIs already collect data from marketing interviews, focus groups, and surveys. But the data are not necessarily structured to support formal analysis. CDFIs and their stakeholders may thus 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.



CDFI client: Kristy's Early Childhood Development Center

# 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, data collection, and evaluations are a starting point. Such activities require a level of resources not available to all CDFIs, but they are vital to the creation of a more inclusive economic system.

Deloitte, Raza Development Fund, and Opportunity Finance Network's [proposed research agenda](#) centers on five areas of focus for CDFIs and their communities. Because when CDFIs thrive, more communities and individuals across rural, urban, and Native communities have an opportunity to participate in and help grow the US economy. Maintaining or increasing the growth trajectory of CDFIs helps bolster the nation's inclusive finance ecosystem. And regardless of industry and sector, such efforts offer a potentially high return on investment.

## Recommended areas of focus:

1. Operational strategies and tools
2. Historical lessons and current trends
3. Standardizing evaluation processes
4. Capacity building funding models
5. Improved data quality and scope



CDFI client: Bridgette Bennett and staff, Bennett Law Center





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## 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 Multi-Racial.
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 CIIS 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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## Acknowledgments

The authors wish to express their gratitude to the many individuals who provided input for this report. We are deeply grateful for the thoughtful feedback and support received from:

### **Deloitte**

Vee Bell  
Ivy Clark-Dominguez  
Nora Ellison  
Constance Gamache  
Carey Oven  
Caroline Schoenecker

### **Opportunity Finance Network**

Sacha Adorno  
Alba Castillo  
Lisa Chensvold  
Seth Julyan  
Sindhu Lakshmanan  
Beth Lipson  
Caroline Valvardi

### **Raza Development Fund**

Annie Donovan  
Melissa McDonald

### **Carolina Small Business Development Fund**

Lori Diaz  
James Onorevole

### **Federal Reserve Bank of Atlanta**

Charlene van Dijk

### **Federal Reserve Bank of Richmond**

Surekha Carpenter

### **Federal Reserve Bank of St. Louis**

Mike Eggleston

### **Urban Institute**

Brett Theodos

### **University of New Hampshire**

Michael Swack

### **University of North Carolina at Chapel Hill**

Jonathan Morgan  
Teshanee Williams



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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](http://www.razafund.org).

### **About Opportunity Finance Network**

Opportunity Finance Network (OFN) is a leading national network of more than 400 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](http://www.ofn.org).

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