

CONSULTATION FEEDBACK: A TRADE ASSOCIATION FOR COMMUNITY DEVELOPMENT FINANCE INSTITUTIONS

Introduction

During May/June 2001, over 900 copies of the consultation document "A trade association for Community Development Finance Institutions" were circulated to wide range of relevant organisations/individuals, including:

- All CDFIs
- Other loan funds/intermediary finance providers
- Business support providers - Enterprise Agencies and Business Links
- Central government – in particular the Treasury and DTI/SBS
- Scottish, Welsh and Northern Ireland Executives
- Regional government – Government Offices and RDAs
- Local government – Local Government Association
- Regulatory authorities – Charity Commission and the FSA
- Banks – social and mainstream; the British Banker's Association and the Bank of England
- Charities, Trusts and Foundations
- Other trade associations – ABCUL, Housing Association trade bodies
- Research institutions

This paper summarises both the written responses received and the issues raised in a focus group/seminar on the subject held during the 2nd Annual CDFI Conference, "Money for Change", Birmingham (11-12 July 2001).

You will see that we now have a clear mandate to proceed. You will also see that a few niggling matters have surfaced, but I am confident they will be resolved during the next phase of the process.

On behalf of the CDFI Trade Association Steering Group, I would like to thank those of you who have cared enough to respond. I do hope that if this document triggers any further thoughts, ideas, comments, you would take the time to forward them to Ros Boyle, Community Finance Officer, UK Social Investment Forum, Holywell Centre, 1 Phipp Street, London EC2A 4PS Tel 020 7749 4880; Fax 020 7749 4881; e mail ros.boyle@uksif.org

Andrew Robinson
Chair, UK Social Investment Forum
August 2001

Findings

Qu.1 Please state what kind of organisation you are:

There were 40 written responses, including:

- 17 CDFIs
- 3 Enterprise Agencies
- 2 Enterprise Agencies who classified themselves as CDFIs
- 3 Trade Association (including the BBA)
- 3 Charities/Trusts/Foundations
- 3 Banks/other financial provider
- 2 Govt (one RDA and the Scottish Executive)
- 7 others

In addition the major banks contributed to the response from the British Bankers' Association and the members of the steering committee contributed their organisations' inputs through the development of the consultation document.

A further 19 individuals in the focus group/seminar held at the 2nd Annual CDFI Conference in July 2001 – including Mark Pinsky, President & CEO, National Community Capital Association (US), Kerwin Tesdell, President, Community Development Venture Capital Alliance (US) and Matthew Titus, Director, SA-DHAN (the Indian association of CDFIs). The Charity Commission, the Association of British Credit Unions Limited also participated in this session.

HM Treasury and the Small Business Service have also been involved at various points in the process.

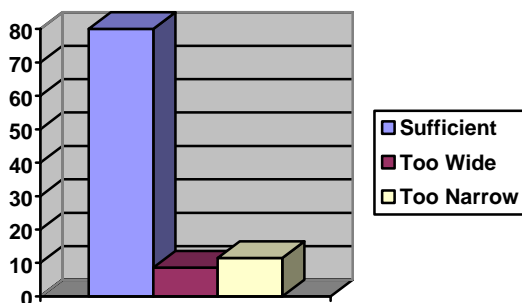
Qu.2 Is the suggested scope of the Trade Association's work, as shown in the mission statement, sufficient, too wide or too narrow? What would you add or subtract?

Mission

The mission of the trade association will be to grow, promote and strengthen the CDFI sector in the UK by becoming a centre for excellence in the full range of issues affecting CDFIs. There are four main elements to this:

- *Support the sector's growth and influence, as well as its diversity and capacity to innovate*
- *Enhance the sector's capacity to deliver sustainable financial services*
- *Build a clear identity and reputation for the sector with government and investors*
- *Undertake advocacy on behalf of the sector with regulators, government and investors on issues of regulation, policy and funding*

81% of all respondents felt the mission statement was sufficient, including 80% of CDFIs. Of the remainder 8% felt it was too wide and 11% too narrow. All respondents recognised the need for an organisation to help grow and strengthen the CDFI sector.



Comments on what should be added to the association's remit included:

- Financial assistance to members
- Research funds

Points that were highlighted in the responses included:

- Building a clear identity for the sector and stimulating awareness of it
- Development, growth and quality within the industry
- Need to determine if the association represents the sector or the members

Qu.3 What name do you feel would be the most appropriate for the Trade Association?

The following responses came back, mostly with names from the suggested list:

1. UK Community Capital Association – 10
2. Community Finance Association – 4
3. Community Finance Development Association – 2
4. UK Social Investment Association – 1
5. Association for CDFIs - 1

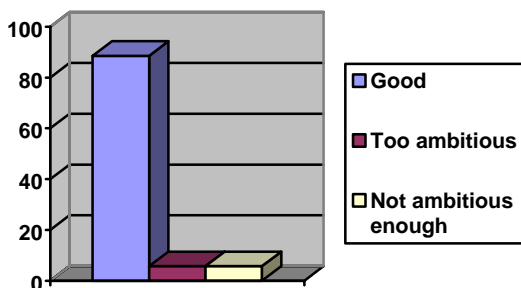
Some respondents had problems with 'UK' being used in the title, and no-one was keen on any name with 'Network' in the title.

Qu.4 Do you have any comments on the appropriateness of these goals? In particular are they too ambitious / not ambitious enough?

Goals

- A. Excellent service to members offering value for money*
- B. Increase the size and diversity of the CDFI sector.*
- C. Improve and sustain performance levels of CDFIs.*
- D. Improve reputation of CDFIs with key stakeholders: government and investors*
- E. Influence the policies of government and other key stakeholders*
- F. Trade association sustainable*

86% of respondents agreed with the goals and 80% of CDFIs. Of the 20% of CDFIs who did not agree with the goals most thought they were too ambitious. Again this demonstrates the strong need felt by the respondents for an organisation that can grow the sector and improve CDFI performance and reputation.



Comments on this question were:

- Several thought the goals were ambitious even though they agreed with them.
- A realistic timetable will therefore be needed time to achieve the goals.
- Need to balance promotion of the sector with a rigorous programme to develop standards and growth.

Qu.5 If you know of any other potential CDFIs that are not given in Appendix 1, please give details.

A few more organisations were suggested. However the main issue arising from this question was disagreement from some existing CDFIs with the list of 'Potential members' in Appendix 1. Several of the CDFIs felt that many of those listed were not CDFIs at all, but "soft loan" funds. This is no doubt the case, but the list of all known potential members (organisations with loan funds) who would still have to pass membership criteria to become members.

Qu.6 Do you agree with the definition of a CDFI?

Definition

The key factors that make CDFIs unique are:

- *A concentration on the provision of financial services for enterprise and economic activity, as opposed to personal financial services for consumption*
- *A focus on disadvantaged communities, whether defined geographically or by a social characteristic, eg ethnic minority communities*
- *A focus on service provision for the financially excluded, i.e. those that cannot gain access to mainstream finance*
- *A double bottom line of social as well as financial returns on investment*

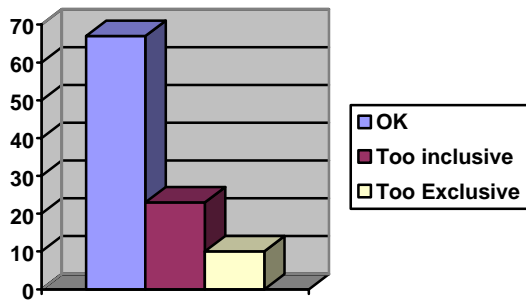
71% agreed with the proposed definition and 67% of CDFIs. Comments on the definition included:

- Personal finance services should be included, not just business finance, to avoid splitting up an already fragile sector. Also separating money for consumption and enterprise is an artificial construct due to the fungible nature of money.
- Sustainability is a vital part of a CDFI's aims and should be added to the definition.
- The definition should include that CDFIs are 'not-for profit'. This would exclude banks, which are not CDFIs – even Social Banks should not be counted as CDFIs.
- CDFIs must have core professional competency in finance administration.
- A CDFI should be defined as having at least 75% of its business in dispersing and managing loans or capital investment.
- CDFIs are independent from government.
- CDFIs are transparently organised and governed.

A large majority of respondents were in agreement with the definition, however significant issues arose from those in disagreement particularly around the inclusion or not of personal finance and around sustainability.

Qu.7 Is this target market too inclusive or too exclusive?

67% thought the target market, as identified by the definition, was fine. However fewer CDFIs (57%) agreed, and of those who didn't agree the majority felt it was 'too inclusive'.



Feedback on this question highlighted the following:

- Personal finance services for consumption should be included.
- Personal finance services for consumption should be excluded.
- Organisations as well as individuals can be financially excluded and this should be stressed.
- The association should concentrate on 'true' or core CDFIs.
- The association should keep its distance from government.

Again, whilst the majority agreed with the proposed target market, significant issues arose relating to what a CDFI is – and there are differing opinions on this from the respondents, particularly in terms of the inclusion of personal finance.

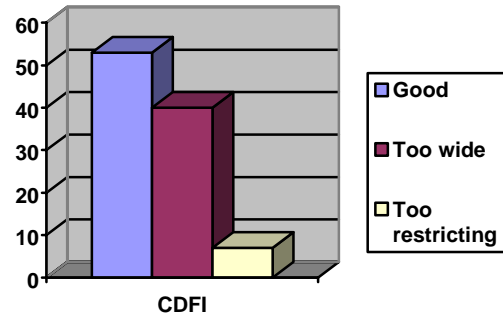
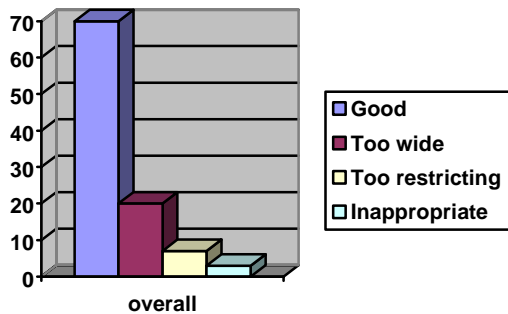
Qu.8 Are the criteria for CDFI membership too wide or too restricting? If you feel any additional criteria are needed please provide details.

Membership criteria

CDFI MEMBERS will need to fulfil the following standard membership criteria initially:

1. *A mission or primary goal of the organisation must be either community or economic development within disadvantaged communities and underserved markets*
2. *A significant proportion of the organisation's, or one of its subsidiary's, activities must be financial service provision*
3. *The organisation must demonstrate responsible lending practices*
4. *The organisation must be committed to continued professional development, which can be demonstrated through reaching appropriate performance levels within a realistic time frame*

70% overall thought the criteria for membership was fine. However, 47% of CDFIs did not agree with the criteria and the majority of those felt it was too wide.



Comments from those who felt the criteria were too wide included:

- The association must be very strict on CDFIs meeting benchmarks and other membership criteria.
- There is a conflict of interest between needing members and being strict on the criteria.

- There is a big difference between ‘soft loan funds’ and CDFIs struggling to become sustainable and this should be recognised.
- Criteria should become stricter over time.
- If a subsidiary qualifies for membership they should be members and not the parent company.

Comments from those who thought the criteria were too restrictive included:

- Venture funds and non-debt CDFIs should not be excluded.
- Community development can occur in ‘well-off’ areas too, so CDFIs should not be restricted to deprived areas only.

Although the majority again agreed with the criteria (a slim majority in the case of the CDFIs) the disagreement turned once more on the definition of a CDFI and therefore who should be allowed to become a member.

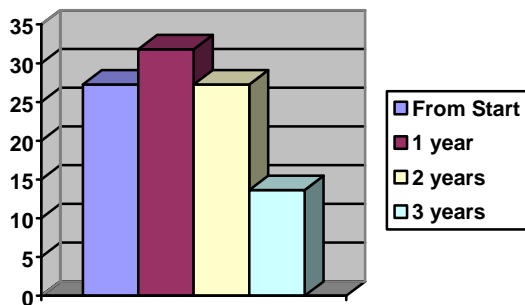
Qu.9 If you feel you are a CDFI, would these criteria allow you to qualify for membership?

Only one CDFI felt it would not qualify to join, because it provides primarily personal finance services. Several of the financial service providers that responded also thought they would qualify; these were a Social Bank and a potential wholesale intermediary.

Qu.10 Do you think CDFI membership should split into full and associate membership categories? If so when?

<i>Phase 1 membership categories</i> <ul style="list-style-type: none"> • CDFI members • Supporting members 	<i>Phase 2 membership categories</i> <ul style="list-style-type: none"> • Full members • Associate members • Supporting members
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77% thought splitting the CDFI membership into full and associate members was a good idea. The responses as to when this should occur were fairly evenly divided between splitting at the start, after one year and after two years, with one year having the slight edge.



Comments on this question included:

- Can a full member be relegated? What timeframe would they be allowed to improve?
- If a CDFI has been in existence for less than 3 years it should be an associate not a full member.
- Would the fees be different for full and associate members?

Qu.11 What criteria for full membership would you recommend are used?

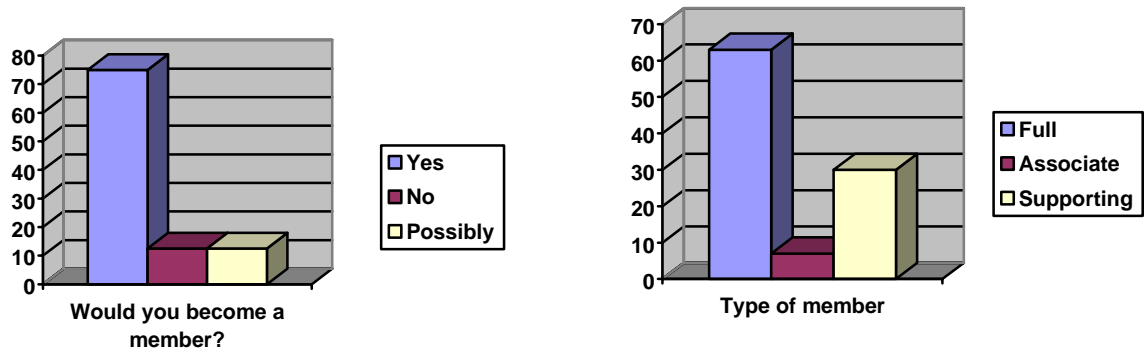
Respondents suggested the following possible criteria:

- Current community development projects
- Current portfolio
- Portfolio quality

- Proof of sustainability or aim to become sustainable within 3-5yrs
- Accountability / openness
- Independent organisation
- Diverse stakeholders
- Measurement of impact
- Multiple sources of finance
- Criteria linked to Phoenix Fund and CITC criteria

Qu.12 Would you join this association once it was established? If so, what type of membership would you apply for?

75% said they would apply for some form of membership; of these 63% wanted to be full members, 7% associate members and 30% supporting members. The large majority of CDFIs thought they would apply for full membership, however two were unsure but thought they would probably join and two thought they would not join.



Comments included:

- First they would need to assess the costs and benefits (no indication was given of membership fees).
- Joining would depend on the criteria established – in the current form they are too wide to represent genuine CDFIs, therefore their interests might not be adequately represented within this 'broad church'.
- A couple of respondents said they had no money to join.

The clear majority of those identifying themselves as CDFIs said they would join the association, with others also prepared to join as supporting members. This would be sufficient to become the first wave of members upon the setting up of the trade association.

Qu.13 Are these benefits sufficient incentive for you to join the association? If not, what additional benefits would persuade you to join?

Benefits

The benefits for all members will include:

- Access to all the association's services, which will increase members' knowledge and enable them to share best practice
- Information about latest developments in the sector, including funding opportunities, allowing members to make informed decisions with up to date information
- Sharing of innovations, allowing members to learn from other's experiences
- Access to discounted seminars, workshops, training and annual conference, which will help members to improve their skills and network with fellow practitioners
- Participation in defining benchmarks, which will help members to improve their own schemes and raise the sector's standards
- Participation in framing responses to policies and proposed regulations affecting the CDF sector, giving members a real opportunity to influence stakeholder policies
- Potential access to discounted or free external services as negotiated by the Association, eg affiliation with other trade bodies such as the NCCA, which will help members to reduce their costs

Additionally full members will also benefit from:

- Accreditation that they reach benchmark standards for the industry
- Improved credibility and therefore improved access to funding and investment streams

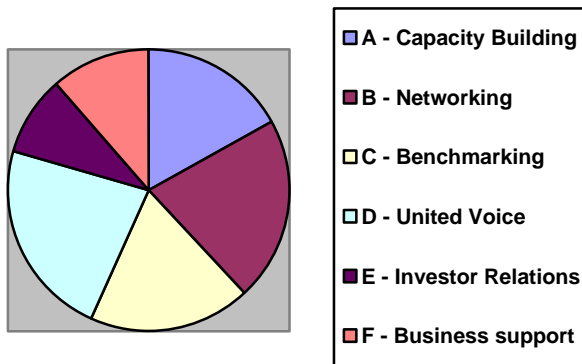
Overall 83% thought the incentives were enough to join with 7% were not sure. 80% of CDFIs felt the incentives were sufficient. Some commented that membership fees would be difficult to pay.

Qu.14 Do you feel these proposed services are appropriate? Which of the services would you prioritise? Do you feel there are any additional services that the Association should offer?

97% felt the services to be appropriate with 100% of CDFIs in agreement. Along with the numbers finding the benefits a good incentive to joining, this shows that that the proposed services have been targeted well to meet the needs of the target market.

The order of priority given to services, ranked according to prioritisation, was as follows:

1. D – A united voice for CDFIs; 64 points (23%)
2. B – Networking and information exchange; 59 points (21%)
3. C – Benchmarking to monitor CDFI performance and identification of best practice; 53 points (19%)
4. A – Capacity building support; 48 points (17%)
5. F – Assist linkage with business support providers; 32 points (11%)
6. E – Building investor relationships; 26 points (9%)



Services that were emphasised or additional included:

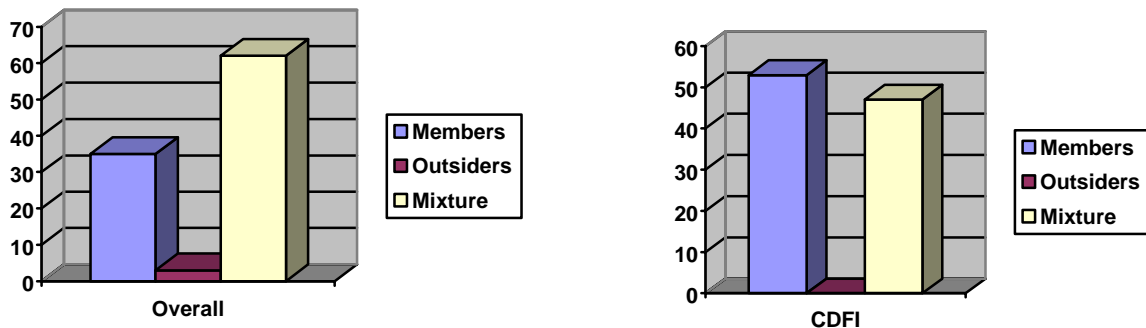
- Support for regional differences
- Help to gain access to capital
- Public policy development
- Working with other trade associations
- Members must sign up to sharing of information

Qu.15 How many Directors do you think there should be?

The majority of people felt that the most suitable number of directors would be between 7 and 11, although a few thought between 12-15 was suitable. Very few felt there should be more than 15 directors.

Qu.16 Do you think Directors should be drawn from members, outside or a mixture? If they are a mixture, should non-members be a minority, in parity or a majority?

Overall 62% felt that the Board of Directors should be made up of a mixture of members and outsiders, but with almost all saying that members should remain a majority within that. CDFIs were split 53% in favour of members only and 47% in favour of a mixture, with those in favour of a mixture saying that the members should be in the majority.



The reasons people gave for wanting a mixture of members and outsiders were:

- To maintain a broad perspective and prevent the association from becoming insular.
- A mix of people gives breadth and credibility, and raises the profile of the association.
- The association needs the commercial sector and their advice, support and influence.

The reasons given for a members only board were:

- CDFIs are the only ones with direct experience and knowledge of the sector and its issues.

Other comments included:

- Regional representatives on the board would be important.
- Representatives would be needed from across all types of members.
- If relevant external people were needed perhaps this could be as an advisory body rather than as part of the board.
- All directors must be elected.

Qu.17 Who do you think should be able to vote for the Directors – all members or only full members?

61% of all replies and 60% of CDFIs thought all members should be able to vote. Comments included:

- Regional representatives would be important.

- The board should be inclusive from start.
- Full members should retain the majority of power.
- Full members have better knowledge and experience of the sector.

QU.18 What do you think of the idea of having a President?

55% were in favour of the idea of a president, with 22.5% unsure. Overall it was felt that the role of President would have to be defined carefully if there was going to be one, and that the person would have to be carefully recruited if they were to be a worthwhile figurehead.

Those in favour of having a president gave the following reasons:

- If the person is committed to CDFIs then the idea is valid.
- The right person would open doors.
- A good choice of President would add strength and value to the association.
- A recognised figurehead could front the media.

Those not in favour gave the following reasons:

- With a strong Chair, a President is not necessary.
- It would be off putting to the target group and not in keeping with grassroots organisations.

Qu.19 Do you have any suggestions for a President, Chairperson or potential Directors?

Several suggestions were put forward for President and Chair, both from inside and outside the sector, although almost all have connections with the sector. There were plenty of suggestions for directors, most of these were practitioners or individuals already deeply involved in the sector.

Conclusion

The response to the consultation confirms the need for an organisation that will support the growth of the CDFI sector and help to strengthen it. The majority of respondents agree with the proposed mission and goals of the association, with an overwhelming number commenting that the proposed benefits of membership would encourage them to join.

The four areas we will need to keep talking about during the business planning phase are:

- (1) Definition of a CDFI and the membership criteria for the new organisation: Will intermediaries providing personal financial services be able to join/benefit from membership? Will loan funds that are not independent and do not strive to become sustainable? What about niche banks/community development subsidiaries?
- (2) Governance/composition of the board of directors: Should the board consist of “members only”? It is clear that CDFI opinion diverges from the overall opinion, with a slim majority in favour of “members only” against the overall majority wanting a mixed Board – although all agreed that members should retain the majority of power.
- (3) Geography: How do we create a viable association that has a sensitivity for the needs of CDFIs operating in Wales, Scotland, Northern Ireland and the English regions?
- (4) The provision of financial services to CDFIs: Should the new association structure itself in such a way that it could itself become an investor in CDFIs?

But the talking shouldn't prevent action.

It is interesting that none of the issues arising from the consultation differ from the past and present experience of our colleagues from the US. Furthermore nothing has emerged that hasn't been thoroughly debated by the UK CDFI trade association steering group. The fact is we need an organisation that devoted to developing the systems (learning, advocacy and financial), vocabulary, efficiencies, co-ordination and markets that will build a small number of still fragile, undercapitalised initiatives into a significant, socially-directed industry.

Next steps

Activitiy	Date	Responsible
Finalise business plan	end-Oct 2001	Steering committee
Delegation to attend NCCA Conference, Memphis	end-Oct 2001	Steering committee and funders
Seek initial funding	October/November 2001	Steering committee
Formation of company limited by guarantee	October/November 2001	Steering committee
Appointment of first/transitional board of directors	Upon incorporation	Steering committee
Recruitment of staff	November/December 2001	Board of directors
Finding office premises	November/December 2001	Board of directors
Formal launch of trade association	December 2001	Board of directors
Recruitment of members	from December 2001	Trade association management
Start service provision	from December 2001	Trade association management
Election of Board of Directors	March 2002	Board of directors