

In the field of social enterprise there is a range of naturally occurring ‘types’ that emerge from common approaches, ideals, and social purposes. Social Traders, working with a number of experts, have developed this series of Social Enterprise Info Briefs to capture the unique characteristics of each social enterprise type.

Community Development Finance Institutions

What are they?

Community Development Finance Institutions (CDFIs) are independent financial institutions that provide community finance products and services to individuals, organisations, enterprises and communities who are underserved by or have difficulty securing finance from mainstream financial institutions.

CDFIs do this by:

- Providing specialised financial services and training to promote growth, renewal or sustainability;
- Fostering community economic development in disadvantaged and underinvested communities;
- Providing access to capital through investment, loans, debt finance and/or equity; and
- Developing innovative financial mechanisms that facilitate financial inclusion.

CDFIs exist to address the market limitations of mainstream financial service providers. They take a range of forms, including Social Banks, Community Development Credit Unions, Social/Community Investment Funds, Enterprise Loan Funds, and Microfinance/Personal Finance Providers.

Whilst many CDFIs operate as not-for-profit organisations and may sometimes receive support from government, they aim to generate sustainable, if not profitable, revenue through their core services and loans

Why do we need these?

There are many not-for-profit organisations, social enterprises and low income individuals in Australia with little or no access to finance because they have limited independent income and few assets to secure loans. CDFIs exist to provide finance to this group with terms and conditions that are appropriate to their needs.

By making finance accessible to not-for-profits and social enterprises, CDFIs assist organisations to explore options for financial sustainability beyond grants and fundraising.

What outcomes do they achieve?

The impact of CDFIs is measured through the benefits provided to the individuals and organisations that receive financial services and capital from CDFIs. This can include:



- Not-for-profit organisations that are able to generate revenue for social programs from assets purchased through capital provided by CDFIs;
- Social enterprise growth as a result of the capital provided by CDFIs;
- Housing Cooperatives that are able to grow and house more people affordably as a result of capital provided by CDFIs that would not otherwise be available through commercial lenders;
- Economic stimulation of communities by supporting the development and growth of small and micro businesses in disadvantaged areas through capital provided by CDFIs; and
- Individuals who are able to borrow small amounts of money with fair and reasonable fees and conditions.

CDFI lending can also contribute to a different mind-set among not-for-profit organisations as they encourage growth through investment as opposed to grant funding.

How do they perform financially?

Whilst CDFIs sometimes start operations with financial contributions from government or philanthropic donors they, like their commercial counterparts, need to raise capital through various means. Most CDFIs aim for a level of sustainability or commercial viability in their own right. One method to achieve sustainability is by generating a rate of return from their loan book that covers their full operating costs. This can require CDFIs to charge interest rates equal to or higher than commercial operators. There is a perception that CDFIs carry a greater risk of default on their products by lending to organisations unable to obtain mainstream or commercial loans. However, the Foresters experience of having no defaults in over fifteen years of operation demonstrates that CDFIs can in fact have lower levels of default than commercial borrowers' experience.

Prominence in Australia and overseas

CDFIs are common in the UK, Europe and the United States where targeted government legislation has enabled the expansion and strengthening of the industry. In Australia the CDFI arena is very small, although there is enormous potential for CDFI growth, particularly as social investment grows and as the not-for-profit sector seeks capital beyond grants and philanthropy. There may also be opportunities arising from the current economic crisis for alternative banking models such as CDFIs

Examples in Australia and overseas

There are a many organisations, businesses and programs attempting to deliver various aspects of a CDFI, however there are very few examples of 'true' CDFIs currently operating in Australia. The list below provides two Australian examples of CDFIs and some of the most successful international CDFIs:



- Fitzroy Carlton Credit Cooperative – www.fccc.com.au
- Foresters Community Finance – www.foresters.org.au
- Fair Finance UK – www.fairfinance.org.uk
- Local Investment Fund (LIF) – www.lif.org.uk
- Boston Community Capital - www.bostoncommunitycapital.org

References, research and resources

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For further information

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