AUSTRALIAN CENTRE FOR CO-OPERATIVE RESEARCH AND DEVELOPMENT

Community Development Finance Institutions: Evidence from Overseas and Australia

Kathryn Parker and Mark Lyons

September 2003

ACCORD Report

serving co-operatives, mutuals and the wider social economy

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The ***Australian Centre for Co-operative Research and Development (ACCORD)*** is an independent centre dedicated to research and development of co-operatives, mutuals, and the broader social economy.

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Executive Summary

This paper describes a case of Australian exceptionalism; a case with tragic consequences. Australia has failed to follow most other developed countries and to develop a set of specialised financial institutions that are needed for the successful regeneration of disadvantaged communities.

For more than thirty years, developed countries have had to respond to continuing high levels of unemployment and growing levels of long-term unemployment. Increasingly, this long-term unemployment is geographically concentrated, in certain parts of large cities and in certain rural areas. It has given rise to the multifaceted problem that the European nations have labelled social exclusion. This challenge of continuing joblessness and its consequent social exclusion has generated many policy responses and led to the emergence of important new institutions.

Community Development Financial Institutions or CDFIs constitute one such new form of institution.

The term CDFI is a generic one, covering a wide range of organisations. What these organisations have in common is that they raise finance and invest it in local community-owned or small business enterprises. They also provide business training and support as an accompaniment of their investing. They are grounded in their local communities. They raise their finance in the form of grants and loans and they invest via grants and loans.

CDFIs emerged first in the United States as part of the 1960's recognition that community development had a central economic dimension and that frequently what constrained community economic development was the absence of funds for investment in new projects. By their very nature, projects designed to generate employment and build social infrastructure in deprived communities were not viable by conventional banking criteria. What emerged were a variety of institutions that understood this challenging environment, could provide the support and judge the risks to ensure a high success rate and thus rebuild damaged communities. Whilst these new institutions have emerged independently of government, they have benefited from various forms of government support, in the form of supportive regulatory arrangements and tax incentives for investors in CDFIs.

This paper describes the emergence of CDFIs, the various forms they have taken and the kinds of government support they have received in the United States, Canada, the United Kingdom and continental European countries.

The report then turns to Australia where there has been no equivalent institutional development and little recognition of the financial dimension to community development. It identifies a number of proto-CDFI organisations, but with one, highly specialised exception, these are underdeveloped. It reviews a range of government and parliamentary reports over the past twenty years and finds that while there were several proposed policies that would have encouraged the emergence of CDFIs in Australia, these were ignored. Other high profile inquiries, surprisingly, stopped short of investigating the financial needs of entrepreneurs, both small business and local social enterprise, in disadvantaged communities.

This leaves Australia as a significant exception among developed western countries. The paper concludes with an exploration of the reasons for this exception, finding reasons on both the supply and the demand side. It concludes that circumstances on both the demand and the supply side are now more favourable than they have ever been for the development of CDFIs in Australia although government policy changes make it harder than ever for appropriate institutions to emerge. The paper makes several suggestions for initiatives that can carry forward the task of institutional development: trials, networking, research and, later, a government inquiry to generate better policy settings.

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1. Introduction

Community development financial institutions (CDFIs) are emerging world wide in response to a demand for community enterprise finance that is not being met by conventional financial institutions. Business advice and training generally accompany financial support. CDFIs are sustainable, independent, financial institutions, mostly nonprofit but some for-profit,[1] that operate as financial intermediaries leveraging finance from a variety of sources (e.g. grants, loans and donations) into disadvantaged areas for specific community project or enterprise needs. CDFIs are distinguishable from conventional finance providers by their prioritisation of community finance needs, and the unique methods and services they employ. Their emphasis is on the provision of finance for generating employment and other social and community development projects, not consumer finance.

The term CDFI was coined in the 1980s in the United States of America (USA) to encompass a diverse range of organisations that had emerged over the past two decades to mobilise finance for the economic development of severely disadvantaged communities, and to lobby governments for supportive policies. CDFIs in the USA are the product of the community development movement and the 1960s War Against Poverty. CDFIs are growing in number throughout most other developed countries[2] to serve the financial needs of disadvantaged communities and of micro and small enterprises[3] not served by conventional financial institutions. In the USA and the United Kingdom, the growth of CDFIs has been greatly assisted by specific policy initiatives. In Canada a strong community economic development movement draws support from cooperative financial institutions such as credit unions, whilst in Europe the emergence of social enterprise has drawn forth specialist financial institutions. In both cases, recent efforts to reform financial services to encourage greater social responsibility on the part of conventional financial institutions, including pension funds, may contribute to the further development of CDFIs.

While CDFIs share a common mission of financing community development, they have diverse legal and regulatory structures and development lending goals. Some are regulated by central government financial authorities as for-profit banks and nonprofit credit unions, while others are less regulated and function predominately as nonprofit institutions offering venture funds and loans for micro-enterprises. CDFIs may target a particular urban, rural or regional community, or lend to specific groups of people (minorities, women or low-income families), and they offer specific types of credit products not readily available in the conventional market. Such diversity of regulatory environments, focus and financial products makes comparison difficult.

Because many of these organisations have developed outside conventional financial markets, little data is available and few studies have documented their development or

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[1] Based on the definition in Ainger, B., Brocklehurst, R., and Forster, S., *Feasibility Study into a Wholesale Intermediary for Community Development Finance*, Final Report, April 2002, sponsored by the New Economics Foundation (NEF), Local Investment Fund and The Housing Finance Corporation.

[2] This report examines CDFIs that are emerging in "developed" countries comparable with Australia, including the United States, the United Kingdom, Europe and Canada. CDFIs are also well established in the "developing" world ("the South"), as micro-credit and micro-enterprise schemes, such as the Grameen Bank, Bangladesh, the Bank Rakyat Indonesia, and the BancoSol, Bolivia.

[3] For the purposes of the report, small businesses are defined as those with 0–49 employees and micro-enterprises as businesses with 0–9 employees.

compared them with traditional financial institutions. However, as a result of specific policy initiatives and trade industry association efforts to elevate the political importance of CDFIs and to instigate policy initiatives, there are studies documenting the characteristics of these organisations and their industry sector in comparably developed countries such as the USA and the UK.

This report should be regarded as the first phase of research in this area by the ACCORD group. The research in this paper is based on extensive review of primary and secondary sources for overseas organisations, and on some interviews where feasible in the Australian and overseas contexts. Case studies were selected to reflect the different CDFI types around the world and include community development banks, credit unions and loan funds, plus micro-enterprise funds. The case studies are referred to in the text of the main report and further detailed in Appendix 1.

This report provides an overview of the policy developments and industry characteristics that are influencing community development finance initiatives in the USA, UK, Canada and Europe. The report then considers past Australian Government inquiries on employment initiatives, regional development, regional banking and finance that came close to considering community finance needs and providers. It follows this policy overview with a description of Australian financial institutions, initiatives and other organisations that would appear to merit the description of CDFI and that are contributing to the development of an Australian community development finance industry.

The report concludes that Australia has a long way to go to develop community finance providers and policies comparable to those in existence in the USA and the UK. Nevertheless, as demonstrated overseas, a strong community development finance industry can assist local initiatives in their efforts to reduce poverty and unemployment, and to stimulate economic growth in disadvantaged areas. These are the lessons that ACCORD is keen to showcase to stimulate debate and further research, and to develop successful Australian pilots and policy developments.

2. What Characterises CDFIs?

CDFIs are emerging world wide in response to community development finance needs which are not being met by conventional financial institutions. Disadvantaged groups and enterprises are seeking out alternative sources of finance to generate local employment by building businesses and building community resources. These communities, enterprises and lower-income borrowers have a wide range of credit needs. The needs of some borrowers and projects can be met through additional flexibility in lending procedures and underwriting standards (such as debt-to-income ratios, cash-flow lending and employment histories).[4] Other borrowers and projects have different requirements, such as grants, loans, equity and other forms of assistance, including business and marketing plans and borrower education.

While conventional financial institutions meet some of these needs, they do not address the full range of credit needs of disadvantaged communities or small business enterprises. Traditional financial institutions have ignored these groups, as they seek higher profits and lower risks; a product of the globalisation of financial markets and institutional consolidation.

Over the last three decades, particularly in the United States, CDFIs have emerged to provide new opportunities for neglected communities and disadvantaged areas. CDFIs are financial intermediaries which have community development as a primary objective and which develop a range of unique services, programs and methods to carry out their objectives. They often make loans which conventional banks consider unbankable, they combine loans with grant finance, and they deliver financing with other development activities such as business mentoring and technical assistance (e.g. business and marketing plans). As well, they measure their success not only by their own economic gains but also by their contributions to community housing, businesses, community organisations and services necessary to revitalise the poor and disadvantaged groups.

While CDFIs may have common objectives, they often have a variety of legal and regulatory structures and lending goals. Some are chartered as banks and credit unions. Others are non-regulated, nonprofit institutions or funds that gather private capital from a range of social investors for community development lending or enterprise investing.

CDFI Definitions

The term "community development financial institutions" is a generic one and encompasses a wide variety of financial organisations united specifically by objectives to provide finance to traditionally excluded social groups, individuals and business enterprises. The term was coined in the USA during the mid-1980s in efforts to harness the sector for political lobbying and for trade industry association purposes.

According to the US trade organisation, the Coalition of Community Development Institutions ("the CDFI Coalition"), CDFIs are:

> "*a private sector financial intermediary that has community development as its primary mission and develops a range of programs and methods to meet*

[4] Tholin, Kathryn, *Community Development Financial Institutions: Investing in People and Communities*, July 1994, Woodstock Institute.

> *the needs of low-income communities. CDFIs make loans and investments that are considered unbankable by conventional industry standards and serve borrowers, investors and customers not serviced by mainstream financial institutions. They also link finance to other development activities."*[5]

According to the recently established UK Community Development Finance Association (UK CDFI), CDFIs are:

> "*sustainable, independent organisations which provide financial services with two aims: to generate social and financial returns. They supply capital and business support to individuals and organisations whose purpose is to create wealth in disadvantaged communities or under-served markets."*[6]

Although the definitions vary, CDFIs consist of both independent nonprofit and for-profit financial institutions, funded from a variety of sources including individuals and charitable foundations, as well as banks and government. They also use a variety of different methods to achieve their social and financial goals. While most CDFIs make loans alongside business development activities, others offer equity or venture capital-type arrangements, and others such as credit unions offer innovative savings and loans for low-income members.

In the USA, CDFIs have been categorised into two groups: depository CDFIs, including community development banks and credit unions, and non-depository CDFIs, comprising community loan funds and venture capital funds.[7] These institutions finance business start-ups and expansion, quality affordable housing and vital community facilities and services. The core and dominant activity of CDFIs is financing and, in support of financing, CDFIs often undertake business planning, development and advisory services to assist their customers in meeting the lending requirements of financial institutions.

Financial sustainability is also important for CDFIs. The UK CDFA emphasises financial sustainability because the process of building wealth and skills in under-invested communities is long term and CDFIs need to ensure risk management strategies, procedures and loan funds are not eroded by non-repayment and inflation. CDFIs are often the only source of finance in communities where mainstream finance has withdrawn, and they have a diverse locally based set of stakeholders. However, the management of low risk levels is a feature that also distinguishes CDFIs, and they work hard to ensure that their customers not only meet their loan requirements but also expand and develop within their local communities.

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[5] The Coalition of Community Development Financial Institutions (CDFI Coalition), *About CDFIs: What, How and Why*, at http://www.cdfi/about.html (accessed 14 August 2002).
[6] Community Development Finance Association, Business Plan, *The Power of Association*, July 2002, at http://www.cdfi.org.uk (accessed August 2002).
[7] Pinsky, Mark, President and CEO National Community Capital (www.communitycapital.org), *Building the UK CDFI Sector, Lessons from the U.S.*, Prepared Text, Delivered at "Money for Change" Conference, Birmingham, UK, July 2001.
For the purposes of this report, depository institutions are those that accept deposits from the general public and are usually centrally registered and supervised, including banks and credit unions; non-depository refers to those specific funds established by a range of different institutions for community development purposes or projects.

What Do CDFIs Do?

While differing in structure and specific lending programs, CDFIs have several things in common:[8]

- They create new economic opportunity for institutions, businesses and individuals who do not have access to the mainstream economy.
- They provide a range of services in addition to lending, for example, business mentoring and other development activities that enable communities to maximise the advantages that the finance can provide.
- They make a difference to the local communities in terms of community, business, housing and other enterprise financial needs.
- They provide a direct channel for private capital into low-income communities.
- They are successful lenders, combining an understanding of business and community needs with business expertise and financial skills often outside the experience and training of those communities.

CDFI Types

There are a number of examples of community finance institutions. They range from small nonprofit micro-enterprise lenders with a few hundred borrowers to large banking institutions with thousands of borrowers and loans worth millions. They all have different regulatory regimes and differ from country to country.

However, using the institutions existing in the USA as a guide, CDFIs include the following organisations and characteristics.[9]

> ***Community development credit unions:***[10] *These are credit unions or co-operative institutions that are usually not-for-profit, regulated entities*[11] *serving members in low income communities. They promote community ownership of assets and savings, and provide affordable credit and retail financial services to lower-income people and minority communities. Their borrowers are usually members of the credit union and individuals, and capital sources are member deposits and limited non-member deposits from social investors and government. Their services include consumer banking services (e.g. savings accounts, cheque cashing, personal loans and home rehabilitation loans). They also offer credit counselling and business planning assistance to members.*
>
> ***Community development banks:***[12] *These are for-profit, regulated institutions*[13] *that are dedicated in their constitutions to social or environmental objectives. They target disadvantaged communities and provide depository accounts, competitive returns and traditional banking services, loans and community*

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[8] Tholin, K. *op. cit.*

[9] CDFI Coalition, *Comparison of Community Development Financial Institution Types* www.cdfi.org/cdfitype.html, (accessed in August 2002); In Collin, S., Fisher, T., Mayo, E., Mullineux, A., Sattar, D., (Eds), *The State of Community Development Finance, 2001*, A report for the Joseph Rowntree Foundation. Published by the New Economics Foundation, London, July 2001.

[10] CDFI Coalition, *ibid*.

[11] *ibid.* In the USA, Credit Unions are federally and state regulated and insured by the National Credit Union Administration.

[12] *ibid.*

[13] *ibid.* In the USA, Community Development Banks are federally regulated and insured by the Federal Depository Insurance Corporation, the Federal Reserve and the Office of the Comptroller of the Currency, and state banking agencies.

revitalisation programs. Their borrowers are usually nonprofit community organisations, individual entrepreneurs, small businesses and housing developers; while their capital sources include deposits (often below-market investments) from individuals, institutions and government. Their services include mortgage financing, home improvements, commercial businesses, nonprofit and student loans, and consumer banking services. Business and technical assistance services are also a feature of their operations and provided by sub-contractors or a subsidiary organisation.

Community development loan funds:[14] *These are generally nonprofit, self-regulated entities that can often take a variety of legal forms. They aggregate capital from individual and institutional social investors at below market rates and re-lend the money primarily to nonprofit housing and business developers in urban and rural lower-income communities. Capital sources include community foundations, banks, religious organisations, corporations, local, state and federal governments, insurance companies and individuals. Their financial products include construction, pre-development facilities and business start-up and expansion loans. They also provide extensive guidance for borrowers before and during the loan transactions.*

Community development venture capital funds:[15] *These provide equity and debt features for medium-sized businesses to create jobs, entrepreneurial capacity and wealth benefiting low-income people and communities. They have large capital requirements and are either profit or nonprofit organisations with varied community representation. Their capital sources come from a variety of foundations, corporations, individuals and government. Their borrowers invest in small to medium-sized businesses in distressed communities via commercial equity investments and loans with equity features.*

Micro-enterprise development loan funds:[16] *These foster social and business development through loans and technical assistance to low-income people, the self-employed or small businesses unable to access conventional finance. They have flexible start-up requirements and are generally nonprofit institutions. They are funded through foundations and government incentives.*

It should be noted that the above CDFI types and characteristics are based on those developed by the US CDFI Coalition, the USA's major CDFI trade industry association.[17]

There appears to be relatively little detailed academic consideration of CDFIs as a group of financial institutions or intermediaries just outside conventional financial sources. There also appears to be limited consideration of the history or development of CDFIs in terms of their relationships with other financial institutions, or with community and regional development organisations.

[14] *ibid*.
[15] *ibid*.
[16] *ibid*.
[17] *ibid*.

Nevertheless, it is apparent from case studies and available publications that various CDFIs in both the USA and the UK are highly integrated in that they have a variety of relationships with other financial institutions and community development organisations. In particular, many of the community development institutions and loan funds rely on and partner with a variety of private capital sources (including church funds, foundations, corporations) and public capital sources (including government).

Often the separation between the different institutions and funds is difficult to distinguish. For instance, in the USA, there are over 500 community foundations dedicated to ensuring sustainable funding for social and economic needs, and most provide grants to specific projects or organisations. Some of these also provide support to Community Development Corporations through program-related investments including loans, loan guarantees and equity investments usually dedicated to community housing and community development projects. While community foundations are an important and growing source of CDFI finance, they are not primarily the financing institution, although some may establish a community development loans fund, or assist local community and nonprofit community development initiatives and finance sources.[18] For instance, a study on 10 US community foundations found that although seven reported making loans or program-related investment, only four did so regularly.[19] Two had micro-enterprise loan funds dedicated to helping low-income people finance businesses, while two others had substantial community loan funds to make low-interest loans to various types of nonprofit organisations.

CDFIs vary enormously according to the different regulatory regimes and the different institutional, cultural and social factors that created them. They also differ on a country-by-country basis. However, what they have in common are their social objectives and their economic intentions to provide finance or alternative sources of revenue to those business enterprises and social groups traditionally excluded from the financial market place.

[18] Carmen, Joanne, Community Foundations, A Growing Resource for Community Development, *NonProfit Management and Leadership*, Vol. 12, no.1, Fall 2001.
[19] *ibid.*

3. The United States of America (USA)

In the USA, the CDFI sector is now highly developed in terms of its size, demand for its services, and political and public support. The CDFI Coalition represents more than 450 established CDFIs working in 50 states and managing more than $1.5 billion.[20] These institutions have lent and invested some $5 billion in distressed communities with collective loan loss rates comparable with the best banks.[21] This section documents some of the policy developments, such as the community reinvestment legislation, and recent initiatives that have strengthened the community development finance industry in the USA. It then considers the current state and size of community finance in the USA and some of its unique characteristics.

Background

According to Mark Pinsky, President of the National Community Capital Association, in the USA CDFIs had their origins in the mutual, self-help, credit and investment institutions that started in the mid-1800s financing agriculture because the banking system served predominately wealthy individuals and businesses.[22] Informal credit and investment networks boomed during the 1880s to 1920s in response to immigration and further financial exclusion from traditional sources.

The growth of credit unions from the 1920s, and then the appearance of publicly and privately funded community development corporations in the 1960s, together with the 1960s government policies (War on Poverty) and efforts to reduce unemployment in urban and regional areas, were all critical in building new institutions to serve the needs of their communities and members within specific geographical areas, union or trade associations, and industry sectors.[23]

Community Reinvestment Act

CDFIs, in their present size and strength, are the market response to the Community Reinvestment Act (CRA), enacted in 1977, which encouraged banks and thrifts[24] to meet the credit needs of their entire communities, including low and moderate income neighbourhoods, consistent with safe and sound lending practices". According to many observers, the CRA has been successful in assisting banks to identify previously unrealised market opportunities in these communities.[25] Since the inception of the CRA in 1977, banks made $1,051 trillion in loan pledges to low-income areas, with 99

[20] CDFI Coalition, "Members", at http://www.cdfi.org/members.html. (accessed on 8 November 2002). Note that the currency in this section is reported in US dollars.
[21] *ibid*.
[22] Pinsky, M., *op. cit.*
[23] Sirianni, C. and Friedland, L. *Civic Innovation in America, Community Empowerment, Public Policy, and the Movement for Civic Renewal*, University of California Press, Berkeley and Los Angeles, 2001.
[24] Thrifts are financial institutions centrally regulated by the Office of Thrift Supervision to ensure that the 1000 or more thrift institutions in the USA comply with the Community Reinvestment Act. They function in a similar manner to banks and are located in disadvantaged communities.
[25] Barr, M., De La Vina, L., Personick, V., and Schroder, M., The Community Reinvestment Act: Its Impact on Lending in Low-Income Communities in the United States, in Guene, Christophe and Mayo, Edward, *Banking and Social Cohesion, Alternative Responses to a Global Market*, 2001, John Carpenter Publishing, Oxfordshire.

percent of the total pledged in the past seven years as a result of structural changes in banking and heightened focus on the CRA.[26]

The CRA legislation was enacted in response to evidence that commercial banks and savings associations were engaging in "redlining" practices that were contributing to the decline of many inner-city urban areas.[27] "Redlining" practices involved depository institutions literally or figuratively drawing a red line around certain geographical areas and declining loans in those areas because of the racial composition, age of housing stock, or other factors, regardless of the creditworthiness of individual loan applicants.[28] It was believed that these practices were resulting in the disinvestment and decline of many older, central city and typically low-income and minority neighbourhoods and a shift of jobs to surrounding areas.[29]

The CRA encourages federally insured financial institutions to meet the obligations of their bank charter by providing banking and credit services to all segments of the communities in which they operate. Under the CRA, the bank regulatory agencies including the Federal Reserve Board, the Office of the Comptroller of the Currency, the Office of Thrift Supervision and the Federal Deposit Insurance Corporation regularly review bank institutional lending, investment and banking services to low- and moderate-income groups within their assessment areas. Home mortgage lending is also considered in the CRA review. The CRA ratings are made public and are used by the regulatory agencies in their consideration of certain applications, including those for proposed mergers and acquisitions.

Changes to the CRA since the late 1980s have made the laws more effective, including making public each institution's rating and ensuring objective performance measures. Banks are now rated according to their actual performance in helping communities meet their credit needs. The ratings are taken into account when the financial institutions make various types of applications, including branches, office relocations, mergers, consolidations and purchases, and assumption transactions.

New CRA agreement "sunshine" provisions require that depository institutions disclose their agreements with community groups and that community groups report to banking regulators on their use of funds received under these agreements.[30] Community groups, including CDFIs, must make agreements and document the use of funds; and banks are required to report to the federal regulators.[31]

In the USA, between 1965 and 2000, the Office of the Comptroller of the Currency (OCC) approved some 1700 investments, receiving $11.2 billion in funding from

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[26] Sattar, Danyal and Fisher, Thomas, Social Investment Taskforce: The Scope and Opportunity for Social Investment in the UK, April 2000, New Economics Foundation publications at http://www.neweconomics.org (accessed April 2002).
[27] Haag, Susan White, *Community Reinvestment and Cities: A Literature Review of CRA's Impact and Future,* A Discussion Paper prepared for the Brookings Institution Centre on Urban and Metropolitan Policy, March 2000.
[28] *ibid*.
[29] *ibid*.
[30] The Gramm-Leach-Bliley financial reform legislation of 2000 called for "sunshine" disclosure and reporting of CRA-related agreements between banks and community groups. CDFI Coalition, *CDFI News*, January 2001, Vol. 9, no.1 (accessed 14 August 2002).
[31] *ibid.*

national banks and community partners.[32] By the year 2000, 47 banks had made 134 community development corporation and community development project investments.

Recent Federal Policy Initiatives

The efforts of banks are also now supported by a range of US Treasury supported, specific CDFI initiatives to serve the capital needs of distressed and low-income neighbourhoods and communities. These initiatives were the direct result of the Clinton Administration's early interest in and support for CDFIs such as ShoreBank[33] that had been successful in reducing poverty and creating new business and community enterprise in the Chicago area. President Clinton, in his 1992 campaign, pledged if elected he would establish a program to create 100 community development banks modelled on ShoreBank, as well as 1,000 micro-enterprise lenders.[34]

For example, the *CDFI Fund* was created to expand credit, investment capital and financial services in distressed urban and rural communities. It was authorised by the federal Riegle Community Development and Regulatory Improvement Act, 1994 and was a bipartisan initiative.[35] By stimulating the creation and expansion of diverse community development financial institutions and by providing incentives to traditional banks, the CDFI Fund invests in building private markets, creating healthy local tax revenues, and empowering residents. The CDFI Fund provides small amounts of capital to institutions that serve distressed communities and low-income individuals and leverages private-sector investments from banks, foundations and other funding sources.[36] It matches capital grants, equity investments and awards to fund technical assistance and organisational capacity building and requires a 1:1 non-federal match for most of its awards.[37] The fund also rewards banks for making investments in CDFIs and community development through its Bank Enterprise Award Program and the New Markets Tax Credit Program, further discussed below.

Since the Fund's creation, it has made more than $534 million in awards to community development organisations and financial institutions.[38] Through the first six rounds of the CDFI Program, the Fund has made over $353 million in investments in CDFIs in local, regional, state-wide, and multi-state markets in 50 states, plus the District of Columbia, Puerto Rico and the Virgin Islands.[39]

The *Bank Enterprise Award (BEA) Program* recognises the key role played by traditional financial institutions in community development lending and investing. In the first six rounds of the BEA Program, the CDFI Fund has awarded over $181 million to banks and thrifts.[40] To date, banks and thrifts receiving awards have provided more

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[32] Comptroller of the Currency (OCC), Administrator of National Banks, *National Bank Community Development Investments*, 2000 Directory.
[33] ShoreBank began operating in 1973 when it purchased the South Shore National Bank on Chicago's South Side. For further details refer to Appendix 1 and the section on ShoreBank in this report, and the ShoreBank web site (http://www.shorebankcorp.com/main/history.cfm).
[34] CDFI Coalition, *CDFI Coalition: From Inception to Present Day*, (www.cdfi.org/aboutus.asp) (accessed 30 January 2003).
[35] US Treasury, *CDFI Fund Overview*, at http://www.cdfifund.gov/overview/index.asp (accessed 8 November 2002).
[36] *ibid*.
[37] CDFI Coalition, What's A CDFI?, http://www.cdfi.org/whatcdfi.html (accessed 8 November 2002).
[38] US Treasury, *op.cit*.
[39] *ibid*.
[40] *ibid*.

than $960 million in financial support or technical assistance directly to CDFIs, and more than $2.6 billion to distressed communities in the form of direct loans, investments and services.

On December 21, 2000, the *Community Renewal Tax Relief Act of 2000* was signed into federal law. The law provides for $15 billion in tax incentives under the New Markets Tax Credit Program to help spur economic growth in new markets in urban and rural communities across the country. By making an equity investment in an eligible "community development entity" (CDE), individual and corporate investors can receive a New Markets Tax Credit worth more than 30 percent of the amount invested over the life of the credit, in present value terms.[41]

CDFI Industry Characteristics

The most comprehensive figures and statistics on the size of the US CDFI sector come from research undertaken on the sector by its trade associations. The figures below are indicative of the size of CDFIs in the USA. However, it is understood that there is little detailed research or surveys that estimate the extent of overlap between the different organisations, funds and institutions.

A recent survey by the CDFI Coalition titled the CDFI Data Project (the "CDP" project) aims to produce high quality, comprehensive data for and about the community development finance field.[42] The CDP collected data for the 2001 year on 512 CDFIs, which represents the largest dataset ever collected on the sector and a majority of the 800–1000 CDFIs operating in the USA. The 512 CDFIs had $5.7 billion of financing outstanding at the end of 2001 and $2.4 billion in new loans and investment activity. The sample undertook the following financing related services:[43]

- Financed 7,484 businesses and micro-enterprises, and supported 52,798 jobs;
- Provided asset-building savings and retail financial services that benefited over 2 million people from credit unions services, and 487,148 people from retail bank services;
- Provided 7,139 mortgages to economically disadvantaged people;
- Constructed or rehabilitated 43,428 homes affordable to low-income families;
- Built or renovated 501 community service facilities in economically disadvantaged communities.

According to data sourced from the UK based New Economics Foundation in 1999,[44] the US National Community Capital Association's membership data in 2000,[45] and studies published by the Woodstock Institute in Chicago,[46] US CDFIs include features and characteristics described in the paragraphs below.

[41] *ibid*.
[42] CDFI Coalition, *CDFI Data Project*, http://www.cdfi.org/datproj.asp (accessed 18 June 2003).
[43] The CDFI Coalition is planning to release a report on the CDFI Data Project in the summer of 2003.
[44] Sattar, D., and Fisher, T, *op cit.*
[45] National Community Capital Association website, Community Development Industry Statistics, http://www.communitycapital.org/community_development/finance/statistics.html (accessed 8 November 2002).
[46] McLenighan, Valjean and Tholin, Kathryn, *Partners in Community Building, Mainstream and Community Development Finance Institutions*, May 1997, Woodstock Institute, Chicago.

1. ***Community Development Banks.*** It is estimated that there are approximately 30–40 community development banks with assets approximating $2,922 million.[47] In the United States a growing number of federally insured and regulated depository institutions provide capital specifically to rebuild lower-income communities. They are sometimes the subsidiaries of larger banks or nonprofit holding companies that have been set up to provide non-depository credit and support mechanisms, such as venture capital funds, development loan funds and technical assistance agencies. For account holders they offer services through conventional banks, including savings and current accounts. Examples include ShoreBank in Chicago, Elk Horn Bank and Trust in Arkansas, and Community Capital Bank in Brooklyn.[48] Their loan loss rates compare favourably with those of conventional financial institutions.

The CDFI Coalition in a recent survey[49] of 18 banks found that they were all for-profit institutions, located in major urban areas (58%), with an average capital of $119 million, average staff size of 62, average finance (loans) outstanding of $70 million, of which some 39% were provided for business purposes, 42% for housing, and an average loan size of $68, 599.

The following describes some of the lending activities of the well known CDFI ShoreBank in Chicago.

ShoreBank was the first and is the largest community development bank holding company in the USA. Its mission is to provide innovative loan, deposit and investment products for low- and moderate-income residents in underserved communities and record strong financial performance. ShoreBank measures its performance to a triple bottom line—economy, equity and environment—seeking a balance among financial, development and environmental goals. It is a $1.4 billion corporation with for-profit and nonprofit subsidiaries in Chicago, Cleveland, Detroit, the Pacific Northwest, and the Upper Peninsula of Michigan. It has invested a cumulative $1.1 billion in its priority communities and received national and international awards and recognition for its leadership role in community development finance.[50] (See the Appendix for further details.)

2. ***Community Development Credit Unions***. It is estimated that there are over 200 community development credit unions with assets around $601 million.[51] Owned and controlled by their membership, nonprofit community development credit unions differ from mainstream credit unions in that they target people with low to moderately low income and communities with limited access to traditional sources of financial services and credit.[52] They have a dual mission to meet members' needs for financial services and to make loans that promote local development.

[47] Sattar, D., and Fisher, T, *op. cit*. The New Economics Foundation were part of the team advising and consulting the UK Social Investment Taskforce on overseas community finance initiatives.
[48] McLenighan, Valjean and Tholin, Kathryn, *op.cit.* http://www.woodstockinst.org
[49] CDFI Coalition, *CDFI Data Project, op cit*.
[50] CDFI Coalition, *Focus on a CDFI, Shorebank, Chicago, Illinois* (www.sbk.com) at www.cdfi.org (accessed on 29 January 2003).
[51] Sattar, D., and Fisher, T. *op. cit*.
[52] McLenighan, V., and Tholin, K., *op. cit*.

The National Federation of Community Development Credit Unions currently has some 207 member credit unions serving more than 600,000 shareholders across the United States and Puerto Rico, with more than $1.9 billion in community-owned assets.

In the United States, a survey conducted by the CDFI Coalition in 2001[53] estimates that there are over 230 community development credit unions that are structured as co-operatives, and located in a mix of rural and urban areas. They have an average capital around $12 million (per institution) and total staff of 10 (on average); while average loans outstanding were almost $10 million, average loans per institution were $5,176. Of these, 37% were housing loans and 53% were personal development and consumer loans.

3. ***Community Development Loan Funds.*** It is estimated that there are over 200 community development loan funds (CDLFs) with assets around $1,742 million.[54] The funds operate in specific geographic areas and act as intermediaries, pooling investments and loans provided by individuals and institutions at below market rates to further community development. They include micro-enterprise development funds that have lent some $25 million to low-income individuals for business start-ups.

The CDFI Coalition in a recent survey[55] of some 238 loan funds, including multibank community development corporations, found that 97% of these were nonprofit, located in a mix of rural and urban areas, had an average capital of $12 million, on average 14 staff, an average financing outstanding of $10 million, and provided loans for housing (74%) and business (12%), with an average loan of $71,868.

CDLFs finance the housing and economic development initiatives of community development corporations and other community-based organisations, as well as small business start-ups, expansions or acquisitions.[56] CDLFs often leverage larger loans from traditional financial institutions. McLenighan and Tholin in their 1997 report noted that the 47 CDLF members of the National Association of Community Development Loan Funds lent more than $300 million in that decade with loan losses of less than one percent. Often operating outside the banks and securities regulatory arena, CDLFs solicit investment capital from within and outside the community in small and large amounts, have flexible lending policies, emphasise community building and provide technical assistance.

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[53] CDFI Coalition, *CDFI Data Project, op cit*.
[54] Sattar, D. and Fisher, T. *op. cit*.
[55]CDFI Coalition, *CDFI Data Project, op cit*
[56] Tholin, K. and Stevens, J., *Lenders of the Last Resort: Community Development Loan Funds*, August 1991, Woodstock Institute, Chicago, Illinois.

Murex Investments (MI) is a community development venture fund targeting low-income communities. The fund is a US Treasury-certified Community Development Financial Institution (CDFI) established in 1998 as a wholly owned subsidiary of Resources for Human Development, Inc.(RHD), a diversified nonprofit organisation headquartered in Philadelphia. Its first fund of $5.2 million was invested in seven companies in low-income areas and has created/retained over 250 jobs. Murex Investments is a "double bottom line" investor, in that it measures fund performance based on financial and social returns to its stakeholders. It is one of only seven funds nationwide to have been selected to participate in the Small Business Administration's New Markets Venture Capital initiative. (Refer to the Appendix for further details.)

4. ***Community Development Venture Capital Funds.*** It is estimated that there are approximately 50 venture capital funds worth $150 million in assets.[57] Community development venture capital funds are either free-standing organisations, affiliates of CDFIs, or community development corporations. They differ significantly in focus and activities; however, their goals include creating jobs and wealth among economically disadvantaged populations and regions, and assisting entrepreneurs in solving social and environmental problems.

The CDFI Coalition in a recent survey[58] of 26 venture capital funds found that they were located more in major urban areas (46%) than minor urban areas (26%) or rural areas (28%), with an average capital of $10 million, average staff size of 7, and an average finance outstanding of almost $5 million, providing 98% of loans to business, and an average loan size of $112,693.

5. ***Micro-Enterprise Funds.*** These funds provide small loans to micro-enterprises generally in the range of between $250 and $10,000 to start or expand self-employment or micro-businesses employing several people, often family members.[59] Ventures include day care, tailoring and fashion design, catering and food services, and retail and merchandising. Borrowers are predominately women, low-income welfare recipients or the working poor. Most micro-loan funds are components of micro-enterprise development programs that integrate economic and human development strategies.

   The Association for Enterprise Opportunity is a national, member-based trade association representing more than 500 micro-enterprise development programs.[60] Another organisation, the National Congress for Community Economic Development (NCCED) represents more than 900 community-based and community-controlled development organisations. These community-development corporations focus on economic development in low- and moderate-income communities in rural and urban America.

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[57] Sattar, D. and Fisher, T., *op. cit.*
[58] CDFI Coalition, *CDFI Data Project, op cit*
[59] McLenighan, V. and Tholin, K., *op. cit.*
[60] National Community Capital Association , *Community Development, the Players*, at http://www.communitycapital.org/communitydevelopment/finance/players.html (accessed 9 April 2002).

A Unique Experience?

Community finance and the CDFI industry in the USA are well developed for a variety of reasons which are unique and a product of the country, its history, culture and financial institutions. Mark Pinsky, of the National Community Capital Association in the USA,[61] provided some insightful comments on the CDFI experience in the USA when addressing industry colleagues in the United Kingdom. These are worth noting when considering other developed countries such as Australia. The main observations are as follows:[62]

- CDFIs grew as a result of the civil rights, gender equality and the environmental justice movements—their activism, public efforts and the structural and systematic changes that they effected in American policies.
- Community Development Corporations in the US have also been an effective and integral part of revitalising local and community disadvantaged areas, leading to the development of a variety of financial strategies and arrangements over forty years that have helped create CDFIs.
- Community finance that is effective works just outside the margins of conventional finance, and aims to change conventional ideas about risk.
- Community finance is also innovative in the networks and partnerships it creates with traditional finance sources and mainstream institutions. It therefore influences the behaviour of institutional and individual wealth holders.
- Community finance is generally about adapting conventional products and strategies to "unconventional or non-conforming" markets. That is, it is about the delivery strategy for these different financial products and their different customers.
- CDFIs are not "prefabricated institutions", they are "customised responses to distinct and unique market conditions". They cannot simply be set up in another country or region, even with supportive policies, if there is no local community demand for them.
- The success of the US community finance industry is the result of specific policies and circumstances that are not readily transferable to other countries. A modernised CRA might allow financial service companies to define their target markets and then require them to meet community reinvestment and development requirements across the entire market, rather than a specific geographical area. Some of the other national CDFI policies are also worth considering or reviewing for other national community finance strategies.
- The US experience shows that community development is also capital driven and disciplined, sustainable, agile and focused to balance investor and community needs with proper and responsible standards of accountability and low levels of risk.
- As well, human capital is an important aspect in the operations of CDFIs, especially in their provision of mentoring and technical advice because "capital alone cannot make a difference in distressed markets and local economies".
- There is a need for advocacy or a trade association representation of community finance organisations and their experience in unconventional markets that can be translated into both the policy arena and conventional markets.
- Finally, performance and successful CDFIs matter, so that they can in turn leverage other funds, finance industry markets and appropriate government policies and regulations to ensure continued success. Community development finance is not a

[61] Pinsky, M. *op. cit.*
[62] *ibid.*

charitable activity although its purposes are philanthropic. It is still a business with clear benefits for investors and borrowers.

4. The United Kingdom (UK)

Community development finance has been growing slowly since the early 1970s, the result of initiatives by entrepreneurs and the creation of innovative financial institutions to satisfy disadvantaged community groups. However, recent supportive policy inquiries and emerging initiatives look set to spur the development of community finance institutions in the UK and create a strong, vibrant sector to match that in the USA.

Like their US counterparts, CDFIs in the UK are specialist enterprises often operating on a mutual and nonprofit basis. They contribute to wider community development by delivering credit and related services, such as savings, to excluded groups.[63] Demand for community development finance has come mainly from small and micro-businesses, social enterprises and voluntary organisations.

According to the UK Social Investment Task Force, CDFIs see their primary purpose as the provision of finance as well as specialist knowledge and methods to assist self-employed individuals and businesses just outside the margin of conventional finance.[64]

The following section provides an overview of some of the policy developments that have strengthened the community finance industry in recent years. It is followed by an overview of the industry itself with particular attention paid to examples, such as social banks, loan and micro-enterprise loan funds that are striving to alleviate disadvantaged areas in the UK.

Background

The development of CDFIs in the UK has been patchy and often in response to traditional banks moving away from a local branch presence, as well as prompted by the needs of entrepreneurs in under-invested communities.

Nevertheless, the UK has a long history of mutual financial institutions, such as building societies and mutual assurers' associations which date back to the late eighteenth century. Recent CDFIs originated in the 1960s and 1970s in the co-operative sector with the establishment of credit unions and the first community loan fund. Early loan funds included Mercury Provident (now Triodos Bank), Industrial Common Ownership Finance, Hackney Business Venture and the Prince's Trust.[65] Other CDFIs, such as the Local Investment Fund and the Aston Reinvestment Trust, started more recently.

In the last couple of years, interest in CDFIs has expanded as a result of the current UK Government's attempts to address social and financial exclusion, as part of the work of the Social Exclusion Unit's National Strategy for Neighbourhood Renewal. CDFIs have appealed to the political priorities for organisations that through enterprise, self-help, cooperation and responsibility can create finance for sustainable organisations

[63] Collin, Sam, Fisher, Thomas, Mayo, Edward, Mullineux, Andy and Sattar, Danyal. (eds), *The State of Community Development Finance, 2001*, A Report for the Joseph Rowntree Foundation, New Economics Foundation.
[64] Social Investment Task Force, *Enterprising Communities: Wealth Beyond Welfare*, Report to the Chancellor of the Exchequer, October 2000, (www.enterprising-communities.org.uk)
[65] *ibid.*

using private, public and philanthropic funds. The UK Treasury also supported the Social Investment Task Force Inquiry[66] reporting in 2000 on financial and social exclusion. As a result, policy and tax recommendations made by the Inquiry have been implemented to encourage the growth and development of CDFIs, and a representative trade association has recently been formed.

Parallel processes concerning social and financial exclusion are also being undertaken in Scotland, Wales and Northern Ireland. These have included the Social Inclusion Action Teams in Scotland, the policy statement by the National Assembly in Wales on "Building an Inclusive Wales", and the New Targeting Social Need Initiative in Northern Ireland.

Recent Policy Initiatives

The UK Social Investment Task Force reported in October 2000 to the UK Treasury on a number of ways that the UK can radically improve its capacity to create wealth, economic growth, employment and an improved social fabric in its under-invested and poorest communities.[67] The central conclusion of the Task Force was that the potential existed to achieve a radical transformation of investment flows to support entrepreneurial value creation in those communities deprived of capital and management expertise.

The UK Social Investment Task Force recommended five proposals that are currently being enacted and developed further by the UK Treasury and Government.

1. Community Investment Tax Credit

The first recommendation was for a Community Investment Tax Credit to encourage private investment in under-invested communities, via CDFIs that can invest in both profit and nonprofit enterprises.

Following the Task Force's recommendation, Treasury published a consultation document, held public consultations, and then introduced the Community Investment Tax Relief as a new tax incentive scheme in the Finance Act in 2002[68] which came into force in January 2003. It aims to encourage individuals and corporate investors to invest in accredited CDFIs, which in turn provide finance to enterprises that operate within or for disadvantaged communities. The tax relief, which is spread over five years is equal to five percent per annum of the amount invested in a CDFI, provided that the investment is held for at least five years (i.e. the total relief available is 25 percent). Investments may be in the form of loans, equity investment (either shares or securities), or deposits (for those CDFIs which are banks).

The scheme is managed by the Inland Revenue[69] and the Small Business Service (SBS).[70] The necessary legislation is contained within the Finance Act 2002,

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[66] *ibid*.

[67] *ibid.*

[68] The Finance Act 2002 provided the legislation for the CITR scheme, detailed at *http://www.uk-legislation.hmso.gov.uk/acts/act2002/20023-alhtm#sch16*

[69] Detailed Guidance Notes on the CITR scheme, as well as Brief Guide for Investors can be accessed from the Inland Revenue at http://www.inlandrevenue.gov.uk/specialist/citc_guidance.htm.

[70] The Small Business Service publishes material concerning the accreditation of CDFIs and can be found at http://www.sbs.gov.uk/finance/citr.php

with more detailed operational information set out in CITR Regulations 2003 and in material published by the Secretary of State for Trade and Industry.

By March 2003, eleven CDFIs had been accredited by the UK's SBS, including in particular the Aston Reinvestment Trust, Industrial Common Ownership Finance, Charity Bank, London Rebuilding Society, National Federation of Enterprise Agencies, and the Ulster Community Investment Trust.

2. Community Development Venture Fund

The second recommendation was for the establishment of a Community Development Venture Fund that would match funding in a partnership between government and the venture capital industry, entrepreneurs, institutional investors and banks.

The Community Development Venture Fund (CDVF) was launched on 14 May, 2002 and is a £40 million equity and new equity venture capital fund.[71] The UK Government is investing up to £20 million on a pound-for-pound basis with private-sector investors. The Fund aims to stimulate the provision (and benefits) of venture capital to viable small and medium-sized enterprises which are capable of substantial growth and which are located in the 25 percent most deprived wards in England, as classified under the Index of Multiple Deprivation (IMD) ranking.[72] In addition to demonstrating the need for venture capital investments, business plans should also demonstrate the benefits to the local communities in terms of either employment, sourcing, or supply of goods and services.

Bridges Community Ventures Ltd has been appointed as the fund manager to manage the fund on a commercial basis. It is responsible for identifying and developing potential investment opportunities, rasing the finance, making the investment deal decisions and liasing with regional and local partners.

3. Greater Disclosure by Banks

The third recommendation was for greater disclosure by banks of their role in under-invested communities. This disclosure was recommended preferably on a voluntary basis, but with consideration of legislation to ensure that the disclosure occurred and was sufficiently detailed, and with a ratings system developed to reward excellent performance.

The Government has asked the banks to respond to the recommendations regarding this. As well, the Bank of England from 1999 has begun to collect statistics on bank lending in the most deprived areas of the UK and has sought to increase awareness in the small-business sector of other sources of loan finance such as CDFIs.

For instance, the Bank of England in April 2002, as part of its annual report on the financing of small firms, reported on new data the Bank collected on mainstream bank lending to small firms in deprived areas and pointed to new

[71] UK Department of Trade and Industry's Small Business Service, *The Phoenix Fund*, http://www.sbs.gov.uk/phoenix/default.php (accessed 12 November 2002).
[72] *ibid*.

research about the hurdles small firms in deprived areas face in accessing mainstream finance.[73] It pointed out how CDFIs could play an important role in assisting such firms and concluded with a review of the challenges facing the emerging CDFI sector.

As well, a report by the Bank of England released in May 2003 examines the financing of social enterprises and comments on the important role that CDFI awareness could play in debt financing for such enterprises, as well as the need for more partnerships between conventional banks and CDFIs, especially through taking advantage of the CITR.[74]

4. Charities and Trusts
The fourth recommendation was for greater latitude and encouragement for charitable trusts and foundations to invest in community development initiatives, even where these include significant profit elements.

The Charity Commission for England and Wales has issued guidelines on program-related investments and the extent to which community-development finance is charitable and how charities and foundations may invest in this area.

5. Support for CDFIs
The fifth recommendation was for greater support for CDFIs within Government (Treasury, Small Business), financial institutions and charitable foundations, together with tax incentives and a strong private sector (establishment of a peak industry association modelled on the National Community Capital Association of the USA).

A CDFI trade association, the Community Development Trade Association has recently been established (effective from July 2002), together with a prospectus and business plan setting out how it may function.[75]

CDFI Industry Characteristics
According to the UK Social Investment Task Force, even adjusting for population size, the UK CDFI sector is no more than forty percent or so of its American counterpart.[76] Community finance initiatives in the UK are diverse and they address different needs and sectors, using different financial mechanisms and regulatory organisational structures. Research undertaken by the New Economics Foundation as part of the UK Social Investment Forum estimates the UK social investment funds and their assets as totalling over £500 million pounds in 1999.[77]

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[73] Bank of England, *Finance for Small Firms—A Ninth Report*, April 2002, Domestic Finance Division (www.bankofengland.co.uk) (accessed May 2002). The Bank of England's *Finance for Small Firms—Tenth Report*, April 2003, also confirmed these findings.
[74] Bank of England, *Financing of Social Enterprises: A Special Report*, May 2003, Domestic Finance Division, *www.bankofengland.co.uk*
[75] Community Development Finance Association, *The Power of Association*, Prospectus for Community Development Finance Association, a Trade Association for Community Development Finance Institutions, *www.enterprising-communities.org.uk* (accessed October 2002).
[76] Social Investment Task Force, *op. cit.* p.12.
[77] The New Economics Foundation (*www.nef.org.au*) has assisted in research and publications on CDFIs, as well as leading policy debates for CDFI initiatives. Some research includes:

The following paragraphs describe some of the characteristics and features of UK CDFIs**.**

1. ***Social Banks***
   These are licensed for-profit banks and finance service providers dedicated typically in their constitution to social or environmental objectives. They are registered and supervised through the Financial Services Authority (FSA). In 2000, the total assets of social banks were around £490 million.[78] One of the larger funds is the UK part of the international Triodos Bank, and it has a balance sheet total of £287 million.[79] The Ecology Building Society provides mortgages for ecological housing and in 1999 its assets rose to almost £29 million, a growth rate of 7.8 percent.[80]

> *Triodos Bank is a social bank lending only to organisations and businesses with social and environmental objectives. It was founded in 1980 in the Netherlands and is a fully licensed independent bank, owned by public shareholders.*
>
> *It finances enterprises which add social, environmental and cultural value in fields such as renewable energy, social housing, complementary health care, fair trade, organic food and farming, and social business. It also finances fair trade and micro-credit organisations in developing countries with the support of depositors and investors who wish to contribute to social justice within the context of a more sustainable economy.*
>
> *Triodos Bank is one of Europe's leading ethical banks. (Refer to the Appendix for further details on the Triodos Bank.)*

2. ***Community Loan Funds***
   These are commonly constituted as companies limited by guarantee or as industrial and provident societies,[81] and often operate multiple legal structures in order to capture the benefits of different regulatory or tax treatments, such as registered charities or accredited agencies. They serve community regeneration initiatives by making capital available and loans are often coordinated with or used to lever other sources of capital as well as subsidies. UK charities are also, to a degree, exempt from the Banking Act 1987, so that charitable CDFIs may take deposits from another charity or receive deposits on which they pay no interest or premium.

   In June 1998, there were 11 community loan funds in the UK with assets over £75 million, about half available for loans (as opposed to equity).[82] The New

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Mayo, E., (NEF) and Mullineux, A.,(University of Birmingham), *Bootstraps or Braces? The Regulation of Community Development Finance Institutions*, July 2001;
Collin, S., Sattar, D., Fisher, T. and Mayo, E., (NEF) and Mullineux A.(University of Birmingham), *The Performance and Transformation of Soft-Loan Funds in the UK*, July 2001.
[78] Collin, S. (et al.), *The State of Community Development Finance*, 2001. *op. cit*.
[79] *ibid*.
[80] *ibid*.
[81] Sattar, D. and Fisher, T. *op. cit*.
[82] *ibid*.

Economics Foundation estimates that these funds leverage additional commercial investment in ratios of 1:10.[83] Since 1998, these funds have continued to extend their operations, adding new structures and fund bases, such as social enterprise funds under the Aston Reinvestment Trust and Developing Strathclyde Ltd. They have also been joined by new entrants, such as the London Rebuilding Society, the Sheffield Employment Bond and Social Investment Scotland.

Developing Strathclyde Ltd was established in 1993. A company limited by guarantee, the organisation has enterprise trust status.

It established the Glasgow Regeneration Fund (GRF) (its first loan fund) as a public and private partnership to provide financial support to business start-ups and existing businesses located in the eight regeneration areas in Glasgow.

GRF is operated under the governance of a board of directors representing the founding agencies and public and private sector partners and sponsors, and has received significant financial grant assistance from the European Union (through the European Regional Development Fund, via the Western Scotland Objective 2 Programme (1994–1996), administered by Strathclyde European Partnership). (Refer to the Appendix for further details on the Glasgow Regeneration Fund.)

3. ***Micro-Finance Funds***
   These funds are estimated to have assets of around £25 million.[84] They make very small loans to micro-entrepreneurs (sole traders or small businesses) and charge borrowers close to market rates of interest. They aim to keep costs low without relying on traditional collateral or equity requirements. Examples include the Prince's Trust (described below), the largest micro-finance provider in the UK. Initiatives to provide micro-finance to women on low incomes or welfare have also been developed in Norwich and Glasgow.

The Prince's Trust is a well known supporter of small business in the UK. It has been helping business start-ups among young people under 30 since 1983. Since that period, some 50,000 start-ups have been assisted and 60 percent of the companies are still trading after three years. It exists to help young people fulfil their potential, especially those aged between 14 and 30 years facing disadvantage. (Refer to the Appendix for further details)

4. ***Mutual Guarantee Societies***
   These societies are formal associations of small and medium-sized enterprises where members pool their savings in banks in order to provide collective guarantees and win better finance terms.

5. ***Credit Unions*** (representing some £240 million)
   These are not-for-profit, separate co-operative legal entities mainly limited to personal finance and operating with an exemption from the Banking Act,

[83] *ibid*.
[84] Sattar, D. and Fisher, T. *op. cit*.

registered and supervised through the Financial Services Authority (FSA).[85] Co-operative institutions provide saving and borrowing activities, where members with a common bond save in the form of shares which are then re-lent to members. Over 200,000 people benefit from the services of 530 credit unions in England, Scotland and Wales and some 152 credit unions serve a further 200,000 members in Northern Ireland.

CDFI Partnerships

A number of banks and building societies have played a critical and active role in supporting CDFIs. Support has varied from capital and revenue grants, and seconding staff, to various community finance institutions or providing ex-banking recruits, referral and co-financing. According to the April 2003 study by the Bank of England, banks provide some £1.2 billion to small and micro-enterprises in the most disadvantaged post-code areas.[86] As a proportion of small business lending in all areas, the deprived areas counted for 3.2% at end June 2002, and have fallen gradually since data was first collected in June 2000 especially in the average value of overdrafts. The report finds that many businesses in deprived areas represent a greater credit risk with higher than average overdrawn accounts and bad debts. These “marginal” businesses are believed to be better served by CDFIs, which are considered effective in assisting and mentoring some of these clients.

[85] The UK FSA is responsible for the registration of Industrial and Provident Societies, Social Banks and Credit Unions; it is also responsible for the supervision of Social Banks and Credit Unions. For more detail on financial regulation, see Mayo, E. and Mullineux, A. *Bootstraps or Braces? Regulation of Community Development Finance*, 2001, *op. cit.*

[86] Bank of England, April 2002, *op. cit.* Deprived areas are identified by an Index of Local Deprivation and then postcodes; they account for approximately 560 of all postcode numbers in Britain.

5. Canada

Although there is a strong community economic development movement and a developing CDFI sector in Canada, information on the various CDFIs is difficult to obtain, except on an individual, case-by-case basis and there are few studies or research on CDFIs as a financial intermediary sector in Canada.

While there appears to have been no specific government or related policy reviews focused on the importance of CDFIs, recent policy attention by the central Canadian Government has given encouragement to community banking and more socially accountable financial institutions. This may lead indirectly to more sustained development and stronger CDFIs in Canada and to a representative trade association.

The following sections highlight some recent financial reform initiatives that may be stimulating the growth of community finance providers in Canada. Some community finance examples are then considered.

Financial Reform Policy Initiatives

In September 1998, a Task Force on the future of the Canadian financial services sector presented the Canadian Government with its report entitled "Change, Challenge, Opportunity". The report was reviewed by two parliamentary committees which in turn undertook extensive public consultations and presented the Government with their own recommendations.[87] Then, in 1999, the Canadian Government released a report on the reforms necessary to reform its financial sector,[88] with no specific mention of CDFIs or measures to improve financial access to disadvantaged areas or enterprises.

Nevertheless, a number of organisations appear to have successfully lobbied the Canadian Government regarding community reinvestment needs and considerations, such as the Canadian Community Reinvestment Coalition. As part of an Act to establish the Financial Consumer Agency of Canada[89] introduced into parliament and law in June 2001, there are now a number of requirements to encourage greater community investment and accountability of financial institutions:

- Banks and other financial institutions with equity shares of $1 billion or more are now required to publish an annual statement describing their contributions to the Canadian economy and society.
- A comprehensive program of data collection and analysis exists to ensure better information on the financing needs of small and medium-sized enterprises and the availability of finance to meet those needs. Various new data sources will be

[87] According to the Canadian Department of Finance, *Summary of Key Legislative Measures and Statements of Government Policy*, at http://www.fin.gc.ca (accessed October 2002).

[88] Canadian Department of Finance, *Reforming Canada's Financial Services Sector: A Framework for the Future*, June 1999, available at *http:///www.fin.gc.ca/finserv/docs/finservBe.html* (accessed August 2002). This contained 57 measures to promote efficiency and the growth of the sector, foster domestic competition, empower and protect consumers and improve the regulatory environment; however, it did not mention CDFIs.

[89] Canadian Community Reinvestment Coalition, *Bill C-8, An Act to Establish the Financial Consumer Agency of Canada and to Amend Certain Acts in Relation to Financial Institutions*, February, 2001, according to the Canadian Community Reinvestment Coalition (CCRC), *Comparison of Amendments Set Out in Bill C–8 to Financial Institution and Other Laws vs CCRC Recommendations*, February 2001, at *http://www.cancrc.org/english/recommen01.html* (accessed October 2002).

collected and analysed to provide information on small business debt and equity financing.

- The Government has publicly committed to encouraging, but not requiring, financial institutions to provide finance to high-risk borrowers through appropriate pricing and innovative financing packages (the exact mechanisms for these require further investigation).
- As part of the measures to foster greater domestic competition in financial services, the Act has established three classes of banks based on size of equity for the purposes of determining ownership restrictions. This has allowed for the creation of community-based banks with services tailored to the needs of specific clientele, but still able to compete with major banks in local and regional markets.
- The Government has publicly committed to encouraging financial institutions to explore partnerships and other means of increasing micro-credit programs.

CDFI Examples

Some of the banking reforms may lead to the development of a strong and vocal community finance sector but information on this is difficult to obtain. There is very little specific data on CDFIs, as either an industry sector or as a group of lending organisations in Canada. Nevertheless, information from sources such as the Community Reinvestment Coalition, various credit unions, the Canadian Department of Finance[90] and Social Investment Canada[91] demonstrates that there are organisations that have CDFI-like features. These are detailed below.

- **Community Loan Funds.** These might also be described as micro-credit loan funds which make loans and technical support available to under-served individuals and communities (these may be structured as trusts or private companies). Examples include the Access Riverdale Loan Fund and SEED Loan Fund Kitchener (Ontario). It is unclear to what extent these funds support or are related to the 100 Community Foundations that provide philanthropic community project grants.
- **Credit Unions and *Caisses Populaires*.** These included 703 credit unions and 1069 *caisses populaires* (predominately in Quebec) in 2001 with combined assets of some $121 billion. These are co-operative financial institutions owned and controlled by their members, based on co-operative principles, and their main purpose is to provide deposits and loan services to members and their communities. Notable examples include the Assiniboine Credit Union (see Appendix 1 for further details), Citizens Bank of Canada, Credit Union Central of Canada, Metro Credit Union, VanCity Savings and Credit Union. As well, the *mouvement des caisses Desjardins* consists of a network of *caisses populaires* in Quebec, Manitoba, New Brunswick and Ontario.
- **Mutual Funds**. There are some 73 mutual funds with combined assets of $282 billion, including Acuity Funds, Desjardins Funds, Ethical Funds, Manulife Financial and Meritas Mutual Funds.
- **Labour Sponsored Funds.** These include the Crocus Fund (Manitoba), First Ontario Fund, Fonaction (Quebec), and Working Opportunity Fund (British Columbia).

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[90] Department of Finance Canada, *Canada's Financial Services Sector*, March 2002, http://www.fin.gc.ca (accessed October 2002).

[91] The Canadian Association for Socially Responsible Investment, http://www.socialinvestment.ca/ (accessed October 2002).

6. Europe

Whilst the term CDFI is not widely used in the continental countries of the European Union, the last 10 to 20 years have seen the emergence of a new generation of social economy finance organisations that target regeneration, social inclusion and economic development objectives. These share similar aims with CDFIs in the English-speaking countries of the northern hemisphere and also take many diverse forms. Their emergence has taken place in spite of the regulatory and tax reforms designed to ensure integration and harmonisation of the legal framework in the European Union (EU) and focused on creating a level playing field to ensure competition in banking services.[92]

In Europe, most CDFI-like financial institutions belong to the International Association of Investors in the Social Economy (INAISE), a network that currently comprises around 40 organisations.

Social Banking and Employment Studies

In 1997, INAISE published a major study for the European Commission on the 48 different financial instruments of the social economy and their impact on job creation.[93] The report concluded that many new jobs were being created by enterprises financed by new financial instruments. These instruments included loans, venture capital and guarantee instruments, as opposed to grants and subsidies, and had come into being during the last 20 years. The interesting feature of this was that the financial instruments were not the products of the larger traditional social economy banks (savings banks, co-operative and other mutual banks) of the European Union. The report provided the European Commission with important recommendations on the creation of a business, using micro-credit, encouraging local savings, measures to guide business start-ups, public support measures for micro-credit organisations, such as specific financing programmes, building on best practices and integration with macro-policies.[94] One of the objectives of the research was to enable draft guidelines to be drawn up for new European Commission initiatives. However, at the time of writing this report, very few of the recommendations of the report appear to have been implemented by the European Commission.

Another study by INAISE revealed problems with the legal and regulatory hurdles facing social finance organisations in Europe, especially their efforts to achieve bank status.[95] The study referred to examples in Belgium, Germany and Spain, complemented by case studies from Italy, Portugal and Sweden, and showed diversity of characteristics in terms of country size, traditions in social finance and bank regulatory practices.

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[92] Guene, Christophe, INAISE, Brussels, Appendix 2: Freedom to Smallness? Living with the Legal Framework for Social and Micro-Finance in the EU, in Fisher, T., Bush, M. and Guene, C., *Regulating Micro-Finance, A Global Perspective*, published by the New Economics Foundation, in association with INAISE and the Woodstock Institute, December 2000.
[93] INAISE, *Financial Instruments of the Social Economy (FISE) in Europe and their Impact on Job Creation,* Brussels, 1997.
[94] *ibid*.
[95] Referred to in Guene, C. *op. cit.*

For example, France (and the rest of Europe too) has no suitable framework for the use of micro-credit.[96] Banking law permits associations to extend credit only to their members and on their equity. The minimum capital necessary to create a financial company is high and the system of control (supervision, free reserve ratios) does not correspond with the specific characteristics of micro-finance.[97] Finally, general financial institutional interest rates are fixed so low that they do not enable micro-finance providers (such as the ADIE, Association for the Right to Economic Initiative which lends to over 5000 micro-entrepreneurs) to have a sufficient margin to cover risks. In many cases, micro-credit providers have to enter into partnerships with traditional banks (where they receive the interest earnings[98]) in order to allow the socially excluded to access the traditional banking system progressively.

Europe also has extensive experience in social investment, much of which falls under the umbrella of evolving European Union law and practice.[99] There is also a strong "old social economy" finance sector where mutual or regionally oriented state (or quasi-state) finance organisations are not confined to housing but are dominant financial organisations in France and to some extent in Germany. Many have "social objectives" written into their founding documents and charters, and have become mainstream savings-oriented institutions, rather than drivers of local and regional economies.

CDFI Sector?

An unpublished 1999 survey by INAISE of 86 "social investment organisations" in the 15 European Union member states revealed a combined capital of EUR 1.6 billion and a total loan portfolio of EUR 640 million.[100] The survey focused on those organisations offering loans for small enterprise, the voluntary and co-operative sectors (excluding personal finance credit unions) and by no means covered all social investment organisations in the EU. The New Economics Foundation estimates that the CDFI sector is approximately EUR $2 billion in capital, with EUR $1 billion on loan at any one time.[101]

Eastern Europe

Social investment is also evolving in Eastern Europe, particularly in the provision of micro-finance for micro-enterprise, as well as credit unions in Poland (Funusz Mikro) and the Czech Republic. Some of these countries will be joining the EU over the next decade.

Policy Developments

It is understood that the EU Commission is currently developing ideas on a potential new banking directive. Some CDFIs view the prospect with anxiety, fearing that it may call into question their right to operate. However, it may also offer a potential opportunity to confirm and legitimise their status. A recognised status could be established for a community development bank.[102]

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[96] Nowak, M, Social Credit in a Welfare State: Lessons from ADIE, in Guene, C. and Mayo, E., *Banking and Social Cohesion, op. cit.*
[97] *ibid.*
[98] *ibid*.
[99] Sattar, D. and Fisher, T., New Economics Foundation, April 2000, *op. cit*.
[100] *ibid*.
[101] *ibid*.
[102] Mayo, E. and Mullineux, A., *Regulation of Social Investment*, New Economic Foundation, August 2000, www.nef.com.uk (accessed August 2002).

The EU Commission recently issued a Green Paper promoting a European framework for Corporate Social Responsibility (CSR)[103] to encourage debate on how it should promote these responsibilities within Europe and internationally. While there have been some attempts to draw the debate on this towards the responsibilities of financial institutions and the paper may serve to increase attention on the responsibilities of financial institutions with regards to social banking and community finance responsibilities, banking was not specifically part of the CSR framework.

In November 2001, the European Sustainable and Responsible Investment Forum (Eurosif) was established as an initiative of five European social investment forums with the support of the European Commission.[104] Eurosif aims to promote the development and convergence of socially responsible investment across Europe. The group is coordinating a response to the EC's Green Paper and is intending to run seminars on the relationship between investors and companies, public policy and socially responsible investment. The group also provides details about European financial institutions that prioritise social and environmental objectives.

While in some EU states, legislation ensures access to banking for all individuals, the actual services offered by banks are often inappropriately priced for lower income sections of society.[105] A survey of over 35 European banks found that although the majority of banks were aware of the issue of access to banking, only a few had specifically formalised policies or products to address this issue.[106] Efforts were directed more towards supporting small- and low-income businesses than individuals. Some of the banks included were the Deutsche, Den Danske, BancoPopular Espanol and Banco Central Hisplanamericano which stated that supporting low- and small-income businesses was part of their retail focus.[107]

There is no comparable community reinvestment legislation in Europe and it is the prerogative of each bank to decide how much they wish to address community re-investment and charitable giving.[108] There has also been some academic consideration of the transferability of the USA's community reinvestment regulations to the EU as a benchmark to develop ideas for efficient European regulation and to implement social responsibility into the banking business.[109] While the European Treaty emphasises equal rights and access, there is no robust principle of anti-discrimination on ethnic, geographical or social grounds informing the provision of financial services in any of the large EU countries such as Germany, France and the UK. Recommendations in this area have focused on the need to develop a legal basis for non-discrimination in

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[103] Commission of the European Communities, Green Paper, *Promoting a European Framework for Corporate Social Responsibility*, Brussels, 18 July 2001.
[104] Refer to http://www.eurosif.org
[105] Guiseppi, James, National Provident Institution, Global Care, UK, *European Banks' Environmental and Social Policies and Business Practices Survey— The Guiseppi Report*, in Guene, C. and Mayo, E., *Banking and Social Cohesion*, *op. cit*.
[106] *ibid*.
[107] *ibid*.
[108] *ibid*.
[109] Ever, J., A European Regulation for Social Responsibility of Banks? Learning the Lessons from the US Community Reinvestment Act, in Guene, C. and Mayo, E., *Banking and Social Cohesion, op. cit.*

banking on social grounds, flexible banking regulations giving priority to private initiatives, and the development of a social code in banking practices.[110]

Nevertheless, while there may be a variety of organisations that can be termed CDFIs which exist in Europe, there is little comparable data on their development or contributions to individual European economies and the EU generally. Some of the notable CDFI-like institutions in Europe include the Netherlands-based Triodos Bank, the ADIE (French) micro-enterprise network, and the German GLS Gemeinschaftsbank "Community Bank". These are further detailed in the Appendix.

110 *ibid.*

7. Community Development Finance Policies in Australia

Australia has a long history of government inquiries investigating regional and economic development, finance difficulties, and ways to assist employment generation and alleviate unemployment. However, these inquiries have failed to adequately address community development finance issues such as:

- the demand that micro-enterprises and community groups have for start-up and expansion finance, such as seed funding loans, and the difficulties many of these organisations have in accessing conventional finance;
- the supply of traditional and non-traditional financial services to micro-enterprises and the unemployed;
- policies, programs, pilot studies and regulations that support the development of community finance within Australia; especially given the developments in this area occurring in the USA and the UK; and
- policies and regulations that encourage banks and other financial institutions to expand services for micro-enterprises, community groups, the unemployed and disadvantaged areas.

These omissions over the last three decades are remarkable considering the policy developments occurring in the USA and the UK, and recent inquiries into regional development, finance for small business enterprises and social welfare. The following paragraphs describe how close Australian Governments have come to considering and implementing policies for financing community development.

Local Employment Initiatives

The 1987 Report of the National Advisory Group on Local Employment Initiatives (LEIs) made some innovative recommendations regarding alternative sources of finance to support local employment initiatives.[111] It proposed:

- a system of locally based, federally funded intermediary organisations which would provide or facilitate business advice, support, monitoring and training for LEI enterprises;
- provision of adequate and accessible finance for local employment initiatives by capturing private investment funds and channelling them into economically viable LEIs.

This Report proposed the establishment of a central government-backed, small-scale, specialist financial intermediary investment capacity called the Local Initiatives Finance Trust (LIFT). The LIFT was designed to enable individual investors from all around the country to nominate the focus of their investment either by area or by industry (or both). It was hoped that the effect of a national body would attract investors by removing risk and assuring returns. The Government shelved the report and withdrew support for locally funded employment initiatives.

Regional Development Bonds

In early 1991, a report to the NSW Ministerial Council on Cooperatives recommended a model for raising funds to invest in local development projects.[112] At the heart of the

[111] National Advisory Group on Local Employment Initiatives, *Local Employment Initiatives: A Strategic Approach*, Canberra, 1987.

proposal was the creation of a nonprofit public company or co-operative to act as a state-wide local development reserve fund for locally based, funds management groups operating through rural NSW. Once assessed as competent, locally based funds would act as agents for and owners of the Reserve Fund. They would be responsible for fundraising and on-lending assessment, within prudential guidelines established by the Reserve Fund that would be responsible for treasury management. Funds would be raised by issuing unsecured two-year debenture notes under a state-wide prospectus issued by the Reserve Fund. Research undertaken in developing these recommendations had identified pockets of unsatisfied demand for investment finance and investors willing to invest in their local communities and to bear a medium level of risk to do so. No action was taken on the Report.

Regional Development Taskforce

The 1994 Taskforce on Regional Development, chaired by Bill Kelty (then Secretary of the ACTU), recognised the variety of problems in regional areas throughout Australia and developed a number of specific recommendations on financing local regional development initiatives.[113] The recommendations focused mainly on supply-side initiatives such as re-designing Infrastructure Bonds[114] and the rules governing pooled development funds, as well as the consideration of legislation to allow Regional Economic Development Organisations or local government authorities to set up Regional Pooled Development Funds (RPDFs).[115] The Taskforce also saw the need to amend regulations to allow financial institutions such as credit unions to invest in RPDFs, with the Government to establish a private-sector-based authority to support RPDFs, and a market for equity capital for small and medium-sized private companies.[116] As well, the Taskforce recommended that superannuation funds be encouraged to provide members with a choice of different investment portfolios, including an option to invest part of their funds in their local region.[117]

The recommendations were innovative and drew attention to the "difficulties that small and medium-sized enterprises had in seeking development finance in Australia" and the Government's need to be involved in assisting enterprises to cope with regional finance difficulties.[118] However, the Taskforce paid insufficient attention to the evidence relating to the *demand* for finance and the problems and hurdles that enterprises have in gaining access to finance. Although the Government attempted to make changes to schemes such as the Pooled Development Funds, and developed innovative regional development programs via Regional Development Organisations, many of the programs were dismantled by the incoming Howard Government in 1996.

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[112] Fitzgerald, Paul, *Feasibility Study into a Regional Development Bond Facility for Rural New South Wales.* A Report to the Ministerial Council on the Future Directions for Co-operatives, Sydney, 1991.

[113] Taskforce on Regional Development, *Developing Australia, A Regional Perspective*, A Report to the Federal Government by the Regional Taskforce on Regional Development, Chaired by Bill Kelty, Volumes 1, 2 and 3. Canberra, 1993.

[114] Infrastructure Bonds were introduced by the Commonwealth Government in the1992 One Nation Statement. For further details on their history, development and taskforce recommendations, see *ibid*. p.19.

[115] Pooled Development Funds were introduced as a Federal Government program in the One Nation statement and began in June 30, 1992, *ibid.* p.20. The AusIndustry, *Pooled Development Funds Registration Board, Annual Report*, 1999-2000, lists 96 registered PDFs with a cumulative capital raised of $476 million as at June 2000.

[116] Taskforce on Regional Development, *op cit.*

[117] *ibid.*

[118] *ibid*, p.20.

The SCEFPA Report—Money Too Far Away

The House of Representatives Standing Committee on Economics, Finance and Public Administration March 1999 report ("the SCEFPA report"), *Regional Services: Money Too Far Away*[119] was established to investigate and report mainly on the decline in regional consumer banking services. It paid little attention to the alternative financial needs and demands of rural and remote businesses and community enterprises.

However, the issue of the financial sector's social and community obligations was investigated by the Report. For instance, it was that noted that while banks (and other non-bank financial institutions) had social and community obligations, these were not imposed by *regulation.*[120] Although the Report concluded that market forces alone would not be sufficient to ensure that banks maintained community service obligations, there were no "regulatory" or policy responses to this particular recommendation.

The Report also observed that *competition* alone would not ensure that small, remote or disadvantaged communities retained access to banking services. The committee considered that the Government had a responsibility to ensure that all communities had access to essential services, including financial services, and suggested that the financial community has shown an increased willingness to accept that they have a social responsibility.[121] The committee considered that the Government should meet its responsibilities through a regulatory approach which encouraged all players to accept "shared responsibility" for ensuring communities maintain access to banking and like services. These conclusions, however, were not followed up with proactive policy recommendations to ensure that financial institutions had "community service obligations" written into their charters and business and lending objectives.

In the end, the Report's recommendations focused on improvements for consumer access to banking services (e.g. through Giro Post and Rural Transaction Centres), rather than those services benefiting enterprises in remote and rural areas.

This focus on consumer banking meant that while the SCEFPA Report noted the US Community Reinvestment Act (CRA), it did not examine the history, benefits or costs of the CRA in the USA or its transferability to Australia. There was also no detailed consideration of the policy developments in community finance and some research occurring in the United Kingdom and Europe.

The 1997 Wallis Inquiry and Its Effects

The 1997 Inquiry into the Financial System, chaired by businessman Stan Wallis, led to major changes in the regulatory framework. The report made no direct reference to the need for community development finance, but led to changes that have made the meeting of those needs more difficult. Two aspects of the Inquiry are relevant here.

One is its deep scepticism toward imposing any kind of community service obligation on financial institutions. The Inquiry report found that if financial institutions subsidised some activities because of "community service obligations", it would

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[119] Standing Committee of Economics, Finance and Public Administration (SCEFPA), *Regional Banking Services—Money Too Far Away*, The Parliament of the Commonwealth of Australia, March 1999.
[120] *ibid.*
[121] SCEFPA, *op. cit.*, paragraph 2.86.

"compromise their efficiency and be unlikely to prove sustainable in a competitive market".[122] However, the Inquiry did acknowledge that a general case would exist for imposing community obligations on banks by regulation if there was "evidence of market failure".[123]

A second aspect of the Inquiry which retarded the emergence of CDFIs in Australia is the decision to subject a number of financial institutions, such as credit unions and friendly societies, to greater regulation under a new Australian Prudential Regulation Authority (APRA) and licensing provisions governed by the Australian Securities and Investment Commission (ASIC).

Anecdotal evidence suggests that these reforms have made it more difficult for existing financial institutions to respond to local community development finance needs, and have retarded the possibility of new, specialised institutions emerging to address such needs. For instance, it is now almost impossible for new, locally based credit unions to be formed—a consequence of the demanding nature of current capital adequacy and prudential requirements imposed on large and small banking and financial institutions alike.

McClure Report and Welfare Reform

The Reference Group on Welfare Reform, appointed by the Commonwealth Government late in 2000, also passed over an opportunity to address the financial needs of social enterprises.[124] The Reference Group's goal was to find ways of increasing the number of people of work-force age who were employed. Its primary focus was on ways of reducing disincentives to seeking employment created by the complexity of the income support system and the intersection of the income support and the taxation systems. It paid far less attention to ways of increasing the number of jobs in the economy. It acknowledged the potential role that might be played by social enterprises in creating employment opportunities in disadvantaged areas, but it payed little attention to how this might work in practice and gave no attention to how such enterprises might obtain start-up capital and operating finance.

Enterprise Initiatives and Programs

Although the current and previous Commonwealth and State Governments have tried to assist small business through a range of programs, grants and advisory measures, it is argued that these have not addressed the difficulties that small and micro-businesses have in gaining finance. For instance, although the establishment of government organisations such AusIndustry and government support for nonprofit Business Enterprise Centres (BECs) is of great assistance to small start-up enterprises, especially in business planning and technical advice, they do not address seed capital, collateral, and accessing finance. As well, many previous and current programs have specifically targeted enterprises investing heavily in research and development (through tax concessions and grants); but again these have not addressed the financial needs of these

[122] Financial System Inquiry, *Financial System Inquiry Final Report* (Wallis Report), Commonwealth of Australia, 1997, p.176.
[123] *ibid*., p.177. However, the report did not attempt to define or give examples of 'market failure' conditions justifying such regulations.
[124] Reference Group on Welfare Reform, *Participation Support for a More Equitable Society*, Final Report to the Commonwealth Minister for Family and Community Services, Senator Newman, Department of Family and Community Services, Canberra, 2000.

businesses, in particular start-up and expansion capital. Likewise, the establishment and creation of funds for high technology ventures, and the creation of the 1992 Pooled Development Funds programs, have helped the more established businesses (with plenty of resources and time to complete the paper work) rather than the small start-up enterprises.

Governments seem unwilling to directly address the difficulties faced by small and micro-businesses in accessing finance, and to do so within a community economic development framework. These difficulties include raising start-up capital, the need for seed funding, the collateral requirements of financial institutions, etc. These problems are far more pronounced in "disadvantaged" areas where high levels of unemployment and low asset values continue cycles of poverty.[125]

The Government even seems unwilling to equip itself, and the wider community, with information that would document the extent of the problem. In Australia, there are no obligations or requirements on financial institutions to disclose loans to small business enterprises (by amount or by post code areas). Small business and government planning would be assisted by the availability of such information, especially for disadvantaged rural and remote areas. By contrast, the Bank of England now reports regularly on finance for business in deprived areas and for groups within deprived communities as part of their annual review of finance for small and medium-sized businesses.

[125] Many of the above inquiries (and others) have indirectly recognised these problems, but recommendations have not provided solutions that enhance the local, community capacity to manage and invest locally in enterprises that can in turn create greater employment and local economic wealth.

8. Are There Any CDFIs in Australia?

Australia has few organisations that may be described as "community development financial institutions", comparable with those in the USA and the UK. Nevertheless, there are a few Australian financial institutions and organisations that are endeavouring to provide capital and finance to disadvantaged communities and under-served markets. Several credit unions, friendly societies and other more specialised institutions are trying to serve the unmet financial needs in disadvantaged communities in a variety of new ways (new services, partnerships, prioritising social and community outcomes before profits, and new markets). Sometimes, these organisations also provide or arrange services such as business mentoring, technical advice and direct help to ensure that the enterprises meet their financial obligations.

This chapter is primarily an attempt to describe some Australian organisations that have CDFI-like features and qualities. There may be many more examples that need to be documented in the Australian context and further research in this respect is critical.

Credit Unions/Friendly Societies
The financial co-operative model provides a good basis for an organisation that prioritises social and community enterprise lending before profit objectives. These organisations in Australia may be well positioned to expand their role in community development finance. However, without further research it is difficult to say how far Australian credit unions and other financial co-operatives provide a community development function similar to community development credit unions overseas. At this stage, we have identified only two credit unions and a friendly society which have developed specific financial programs and services to meet the needs of low-income and disadvantaged groups.

Two credit unions and a friendly society which is located in Queensland may fit the CDFI-type characteristics. These include the Maleny Credit Union (MCU), the Foresters ANA Friendly Society (Foresters ANA) and the Traditional Credit Union (TCU).[126]

The MCU is very much a product of its local community and the desire to achieve local financial autonomy. It has grown from two staff volunteers with $50,000 local deposits to 14 staff and assets of around $15.6 million.[127] *The objectives of the MCU are to provide appropriate and ethical financial solutions to members, solutions that are socially just and environmentally responsible, and which empower the local community and are based on people, honesty and good will. While it primarily provides consumer finance to its members, MCU also makes significant business loans to local enterprises, especially other local cooperatives. In this role, it has been crucial in enabling Maleny to become the "cooperative capital" of Australia. Amongst many of its activities, the MCU allocates some 5–10% of its profits to a community grants scheme and provides loans to people on low incomes or social security who would otherwise be unable to access credit.*[128]

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[126] There may be other credit unions that are still similar or once were to these organisations. For instance, the Macaulay Community Credit Co-operative Limited in Victoria operated a local investment fund between 1989 and 1999 that had many CDFI qualities; however, it had only one major borrower.
[127] Maleny Credit Union, *Social, Environmental and Financial Annual Report*, 2001.
[128] *ibid*.

Foresters ANA was formed in 1999 with the merger of two friendly societies, namely the Ancient Order of Foresters in Queensland Friendly Society and the Australian Natives Association of Queensland Friendly Society. Its mission is to promote mutual aid, real ethical investment and community development. Through its ethical investment funds it provides financial assistance to a range of community and not-for-profit organisations including housing co-operatives, welfare organisations, community credit unions and others. Its loans are provided at fair rates of interest while ensuring a solid and secure return for member investment.[129]

The TCU was established in 1994 as a result of the lack of banking services in Arnhem Land in the Northern Territory and the problems that residents had in cashing cheques. At present, the TCU has branches in eight remote Indigenous communities and a head office in Darwin; it has 32 staff and some 6,500 members located in the various communities. In addition to usual banking services, the TCU offers clan accounts under which members can save for a clan cultural activity (funerals and ceremonies), Christmas Club accounts and accounts aimed at budgeting. As well, consumer loans of up to $10,000 are available to members and mainly used for cars, furniture and whitegoods. Recently, the TCU has begun to offer small business loans to members. The conditions of the loans require that deposits of 10 percent of the value of the loan have been accumulated over a three-month period; loans are repayable over five years. The loans schemes have been successful and the organisation stresses the importance of face-to-face banking services (including local language skills of staff).[130] *According to APRA, TUC has some $5.9 million assets in September 2001, up from $4.7 million in September 1999.*

Australian credit unions are growing.

- Credit unions are growing in size and asset base. In September 2001, some 213 credit unions were listed with and regulated by APRA, with total assets of $24 billion, up 19% on September 2000. Commercial loans to the value of $979 million were provided, up some 24% on the previous year.[131]
- A recent study by the Australian Bankers Association shows that credit unions are increasing their share of the small-business market much to the dismay of banks.[132] In June 1997, virtually no small businesses used credit unions and building societies. By December 2000, data show an increase to 4% of small businesses using credit unions and building societies for deposits.

It is not clear, however, that any of the growth is increasing financial access for social and community enterprises in disadvantaged localities. Further research is needed to:

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[129] Foresters ANA Friendly Society Ltd, *Micro Finance Handbook*, *Including an Orientation to Mutuality and Foresters ANA Friendly Society*.

[130] McDonnell, S. and Westbury, N., *Banking on Indigenous Communities: Issues, Options and Australian and International Best Practice*, Background Briefing Paper for the workshop on Improving Banking and Financial Services for Indigenous Australians, Reconciliation Australia, May 2002.

[131] Australian Prudential Regulation Authority, *Balance Sheet for All Credit Unions*, 12 November 2001, www.apra.gov.au (accessed August 2002).

[132] Australian Bankers Association, *Small Business Banking in Australia*, February, 2002, www.aba.com.au (accessed March 2002).

- Measure the extent to which credit unions in Australia provide lending and other services to enterprises, such as community groups and micro-businesses;
- Document the types of financial services provided by credit unions and friendly societies to community and business enterprises: for example, loans, funds, equity arrangements and other business services or advisory services, including the need for traditional forms of collateral or business plans;
- Investigate the extent to which recent changes in banking requirements and reforms implemented after the Wallis Inquiry have helped or hindered the establishment of credit unions and community development lending priorities.

Another recent joint initiative, aimed at strengthening the Australian community finance sector, was the formation of the Community Capital Association (the result of a Community Capital Conference in Maleny in April 2002 funded by the Commonwealth Department of Family and Community Services) and the funding of research projects on overseas community finance initiatives.[133] However, the association has been hampered to date by its small membership.

Community Foundations

The community foundation concept is relatively new in Australia, although the numbers have grown rapidly in the past two or three years, encouraged by the efforts of Philanthropy Australia and the Foundation for Rural and Regional Renewal. Community foundations raise funds by way of donations and bequests, invest those funds and distribute the return on those investments in the most effective way to reflect the wishes of individual donors and the needs of a particular geographical local community. Community foundations are primarily structured as public charities, and in their early years their main task is to build a corpus or endowment from which grants are made to local charitable and community organisations.[134]

There are four well established community foundations in Australia. These are the Victorian Community Foundation (established in 1983); the Queensland Community Foundation (established in 1986); the Tasmanian Community Foundation (established in 1995); and the Melbourne Community Foundation (established in 1997).[135]

The establishment of the national Foundation for Rural and Regional Renewal (FRRR) in 2000 has stimulated the development of a number of other community foundations in rural and regional Australia. FRRR has supported the development of a number of emerging community foundations including the Geelong Community Foundation (also supported by the Melbourne Community Foundation), the Mumbulla Community Foundation (also supported by the Sidney Myer Fund), the Eastern Victoria Community Foundation and the Chaffey (Sunraysia) Community Foundation—all incorporated in 2000/01.[136] The FRRR is also supporting the formation of the Alpine Valley and Ballarat Community Foundations.

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[133] Rees, Paul, *Inspiration from Abroad, Making Money Work for Community*, May 2002, paulrees@powerup.com.au

[134] Brown, Catherine, *The Community Foundation Kit*, Produced and funded by the Foundation for Rural and Regional Renewal, Philanthropy Australia and Community Foundations of Canada. Australian First Edition, 2001.

[135] *ibid.*

[136] *ibid.*

Grants from community foundations have been an important source of funding and capital for community development loan funds in countries such as the USA. As well, some foundations have invested some of their capital in CDFIs, by way of loan finance, making what are called "program-related investments". It is doubtful whether any of the growing community foundations in Australia could make such "program-related investments". Further investigation is required to assess the extent to which community foundations in Australia are able to, or may be prevented from, adopting greater "CDFI-like" features, including the regulations, tax and legal obstacles to providing community development loans in accordance with their general goals.

The Mumbulla Foundation is an independent, charitable organisation formed to collect and distribute gifts from a wide range of donors to meet critical needs in the Bega Valley Region. The Foundation is governed by a Board of Directors consisting of voluntary representatives of sectors of the community. The mission of the Foundation is to support and enhance the well being of people in the Bega Valley region by providing funds through grants for community interests such as:

- *Building and managing resources for the long-term benefit of the community in the form of a permanent endowment*
- *Responding to emerging, changing community needs through grant-making and other program activity*
- *Serving as a resource broker, convenor and catalyst in the community.*[137]

Micro-Credit loans

There are a number of micro-credit schemes in Australia operated by groups in partnership with banks, welfare groups, foundations and corporations. They provide mainly small loans through grants or "no interest loans" to disadvantaged individuals. However, there is very little information on whether any of these provide loans for more general community enterprises and small business start-ups. Few appear to resemble the micro-enterprise development loan funds found overseas.

For instance, there are a variety of No Interest Loan Schemes (NILS) that have been established to provide small loans to welfare recipients for the purchase of essential living items (mainly household whitegoods and medical equipment). As at June 1999, there were some 61 active loans schemes operating mainly in Victoria and NSW.[138] The funds to provide these loans come from donations from various sources (mainly charitable bodies and trusts) and the schemes are run by community organisations usually for their local residents.

Most NILS establish themselves using a model and set of principles provided by the Good Shepherd Family and Youth Service in Victoria. Loan loss rates are in the order of 5–20 percent.[139] The Council of Social Services of New South Wales (NCOSS), in conjunction with the Macquarie Bank Foundation, NSW Department of Planning and

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[137] Mumbulla Foundation, Role of the Foundation, http://www.mumbulla.org. (accessed August 2002).
[138] Australia Street Company, *Review of No Interest Loan Schemes*, Commissioned by the Department of Fair Trading, 1999 (available online at *http://www.ncoss.org.au/nils/comm.htm*) (accessed August 2002). The NCOSS website, (accessed in October 2001) also lists some 58 NILS schemes operating throughout Australia at *www.ncoss.org.au/nils/comm/contacts.htm.*
[139] *ibid*.

the NSW Department of Fair Trading, reported in October 2001 on their project and efforts to establish a No Interest Loans Scheme during that year in NSW.[140] Some six new NILS were in the process of being established with $184,000 raised from a variety of philanthropic trusts, corporate sources, banks and government.[141] The NILS web site was established with a dozen different sites where community groups could apply for NILS funding. Funding proposals totalling about $750,000 were made.

Some other micro-credit projects recorded by the NCOSS in September 2001 were as follows:[142]

- First National Advantage Credit Union—2400 members in all states, with deposits of $10 million, 280 loans and overdraft of $4 million.
- Traditional Credit Union—after receiving seed funding from ATSIC, it was initially a savings credit union, and has since started providing small loans, often for whitegoods; it now 15 branches including Darwin, and only Indigenous staff are employed.
- CITYCARE, Redfern NSW—in 2000, small loans of up to $400 were made available to disempowered people in the Redfern area; the loans were used primarily for establishing home-based small businesses; loan repayment rates were about 50 percent; subsequent plans are based on the Grameen Bank model combined with Plan International's approach, and hope to incorporate mentoring, training, incubation, and also solving the "point of sale" issue.
- Foresters ANA Friendly Society in Brisbane, Queensland—operates three micro-funds, including a financial distress fund, a community credit fund and savings, and loans circles.
- Brotherhood of St Laurence Micro Business Loan Guarantee Scheme—the Brotherhood of St Laurence recently completed a feasibility study of a scheme to provide low value loans to needy customers not otherwise eligible for bank credit. It is proposed that a pilot scheme will be established in Melbourne and the fund will be a sustainable rather than a charitable endeavour.[143] The micro-credit scheme has attracted the support and interest of Westpac Bank.

However, further information is required on the exact nature of these schemes, including how they are incorporated and their legal requirements, loan rates, potential customers and services. Also, the extent to which they provide loans to community and business enterprises as opposed to financially excluded individuals has not been assessed.

Other Local and Regional Funds

Commonwealth and State Government regional development programs have directly or indirectly encouraged and supported a number of local and regional finance initiatives. These initiatives resulted in feasibility studies and other studies that may have documented and supported the need for local and community finance initiatives to lower unemployment, create local enterprises and alleviate disadvantage. However,

[140] Refer to www.ncoss.org.au/nils/comm.htm for further information (accessed on 31 October 2002).
[141] Drake, Robert, NCOS Project Report: No Interest Loans Development Project, Council of Social Services of New South Wales, October 2001, *http://www.ncoss.org.au/nils/comm.htm*.
[142] Refer to NCOSS web site, *ibid.*
[143] Boreham, Tim, Faith in Hope to Give Credit Where it's Due, *The Australian*, 4 April 2002.

many of the programs and their funding sources have long since disappeared[144] and it is difficult to find copies of the studies, or recommendations for the various innovative finance mechanisms that might have been considered. For example, it is understood that in Manjimup, Western Australia, local community efforts and State Government funding resulted in a micro-credit type fund that provided funds for cultural, entertainment and youth purposes.[145] As well, the Kempsey Shire Council initiated and funded the Macleay Valley Economic Development Trust to increase wealth, jobs and investment within their local government area. It is understood that the Trust is no longer operating and the details surrounding its operation are unclear.

Another scheme that has a potential for growth is the LandCare Revolving Loan Fund started by the Broken River catchment Landcare group in North Eastern Victoria.[146] Modelled on both community loan funds in the United States and the Grameen Bank in Bangladesh, it is invested in by local Landcare members and in turn enables them to access small amounts of capital for environmental and productive developments on their land.

Diocesan Development Funds

Another successful but specialised example of CDFI-like organisations is the Development Funds established by the dioceses in the Catholic and Anglican churches and by state synods of the Uniting Church. These Funds collect and manage surplus funds of parishes and other church organisations such as schools, hospitals and aged-care facilities. These funds are invested by way of loans in new church projects such as new school buildings, aged-care facilities and church repairs. These loans are then repaid by the church schools, hospital or aged-care facilities, at or just below market interest rates. “Profits” are in turn invested in “unprofitable” church projects (e.g. homeless shelters and family counselling services) that cannot cover running costs or charge fees from clients.

In some dioceses, funds are raised from parishioners in the form of fixed term deposits and similar instruments. They are exempted from the Australian Securities and Investment Commission (ASIC) fundraising requirements. They are generally owned and registered with the legal entity that is the archdiocese and are regarded as private companies not subject to the normal requirements of having a prospectus and trust deed under the Corporations Law, and not examined or approved by the Australian Securities and Investment Commission.

In the case of the Catholic church, the first Development Funds were established in the 1950s in response to a problem the church faced in raising loans from conventional finance institutions. Under church (Canon) law, it is extremely difficult to alienate church lands and thus church properties could not readily be given as security for loans.

Within the Catholic Church it is estimated that of the 32 archdioceses throughout Australia, there are some 26 archdiocesan-based Catholic Development Funds (CDFs),

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[144] For instance, the Howard Government in 1986 dismantled and cut funds to Brian Howe’s Regional Development Program and Regional Development Organisations that had spurred many local and independently financed regional development initiatives throughout Australia;
[145] However, it is unclear whether the fund still exists.
[146] www.sen.org.au/people/mortimer_derek.html

with approximately $2 billion under management. Examples include the Perth Catholic Development Fund which had total loans under management in 1999 of some $65 million;[147] and the Brisbane Archdiocesan Development Fund[148] is estimated to have some $200 million under administration.

These funds are similar to CDFIs in that they provide the diocese with funds for capital works without resorting to mainstream finance. In effect, they assume a dual, "community bond"—a shared, relatively small geographical area and shared faith.

Community Banks

Community Banks are a recent phenomenon in Australia, developing in response to bank closures in rural and regional centres. As at June 2002, the major banks and APRA reported some 2970 bank branch closures across Australia, a decrease of 35 percent or some 1614 branches in the five years from 1998.[149] Many communities have been left without branch banking facilities.

The Bendigo Bank has devised a Community Bank branch franchise model whereby local communities own and operate a Community Bank branch of the Bendigo Bank.[150] Members of a local community invest in the order of $400,000 to $500,000 to establish their own Community Bank which operates as a franchise of Bendigo Bank. By January 2003, Bendigo Bank had established 88 Community Banks throughout Australia, both in metropolitan and rural areas.[151] However, it is doubtful whether these organisations fit the description of a CDFI because their primary purpose is to provide a conventional banking facility and not to provide loans for community development purposes, and financially or socially excluded enterprises. In Australia, Community Banks operate as mainstream financial institutions, and lending decisions are made in Bendigo rather than within the individual communities of their establishment.

There are a number of other community bank models being devised. The Bank of Queensland is establishing new branches with an "owner–manager" model and plans some 34 branches in addition to its existing network of 96 branches by August 2004.[152] Other new banks such as Members Equity are aiming to provide banking services and low rate home and business loans without the large infrastructure costs of traditional banks.[153] Further information is required to determine whether these institutions will perform a CDFI-type role.

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[147] Catholic Development Fund, Welcome, History, at www.cdfcatholicwa.com (accessed February 2003).

[148] Archdiocesan Development Fund, at www.bne.catholic.net.au (accessed February 2003), including email queries and telephone interviews conducted in August 2002.

[149] Finance Sector Union Website, *Branch Closures –Major Banks*, at www.fsunion.org.au/article.asp?artid=4836 (accessed February 2003).

[150] Bendigo Bank, Community Banks (trademarked concept), at www.communitybank.com (accessed February 2003).

[151] Community Bank (TM), *The Communities, Innovation and Success*, at http://www.communitybank.com.au/communities/intro.htm (accessed February 2003).

[152] Hughes, A, As Big Four Leave This Bank Steps In, *Sydney Morning Herald*, 7 April 2002.

[153] Members Equity, Members Equity Notice, http://www.membersequity.com/bankingLicence.htm (accessed May 2002)

In 2002, a different version of a community bank was established that more closely resembled a CDFI. A new national Community Sector Bank was launched to provide banking and financial services to the nonprofit community services sector. Community Sector Banking (CSB) was established as a joint venture between Bendigo Bank and Community 21—an unlisted public company of almost twenty major charities and welfare groups, including the Australian Council of Social Service, Brotherhood of St Laurence, Jobs Australia, Scope (Vic), the Deaf-Blind Association (Vic) and the NSW Council of Social Service.[154] The objective of the CSB is to provide a full range of banking services for community sector organisations. This will include taking in funds and making loans to community organisations, including social enterprises. Further information on the lending objectives, criteria for loans, and communities/enterprises likely to benefit from this initiative is still unavailable. Nevertheless, this initiative has the potential and opportunity to qualify as a CDFI, comparable with UK and US institutions.

Social Venture Capital Funds

Conventional venture capital is high risk, equity and loans capital directed towards new or young businesses with prospects of rapid growth and high rates of return. The aim of this type of investment is to accelerate the growth of these businesses. It is usually accompanied by the venture capitalist taking a hands-on role in the management of the venture being funded. In this respect, venture capital resembles CDFI-type arrangements. Emerging from the venture capital industry in the United States have come social venture capital funds. These operate in a similar way to a conventional venture capital fund in that they invest in only a few enterprises and provide management support. But unlike conventional venture capital, these funds seek a social return rather than a financial one (though sometimes they seek that as well).

In Australia, just as the venture capital industry has been slow to develop, so too has social venture capital. There are few social venture capital funds established specifically for the purposes of providing equity or debt financing for social enterprises or other disadvantaged small business groups. This is in contrast to the development of such funds in the USA and the UK, which have sometimes received government support. One example of a social venture capital fund is that of the Lumbu Indigenous Community Foundation, which seeks to provide capital for aboriginal enterprises.[155] This is a new venture and little is known about how it will operate.

Another venture capital fund may arise from the work that Social Ventures Australia[156] is undertaking. In its first year, SVA sought out innovative social enterprise proposals and helped proposers through business mentoring to work proposals into viable business and investment opportunities. The two most successful ventures have been provided with seed funding and close mentoring from skilled business professionals. SVA is investigating the possibility of establishing a social venture fund for longer term investments in social ventures.

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[154] Community Sector Banking, New Australia-Wide Community Banking Service Launched Today, 29 July 2002, http://www.communityhousing.org.au/issues (accessed 15 November 2002).

[155] Kendall, Ross, Lumbu Launches Indigenous Investment Vehicle, *Ethical Investor*, Issue 15, September 2002.

[156] Established in 2002, SVA is the result of the pooled resources of The AMP Foundation, The Benevolent Society, The Smith Family and Work Ventures. Refer to web site (www.socialventures.com.au/company) for further details.

As well, the ANA Foresters (profiled previously) has been investigating the possibility of establishing such funds for community ventures. In this context, it should be noted that there is also growing support in the ethical investments industry for community development finance schemes. Bendigo Bank's joint venture with Community Aid Abroad—the Ethical Investment Trust—has grown over the last couple of years to over $120 million.[157] Further research is needed to assess the extent to which these proposed funds will be similar to overseas community development venture capital funds.

[157] Manning, Paddy, Where Credit is Due, *Ethical Investor*, Issue 12, June 2002.

9. Discussion and Recommendations

There can be no doubt that when it comes to financing the economic development of disadvantaged communities, Australia stands out from the rest of the developed world for its relative lack of response to this area of need.

Australia has few examples of the types of organisations that overseas have come to be called CDFIs, and the few it has are small and constrained by legal and regulatory requirements. The terminology of CDFIs and community finance has not yet penetrated public or official discourse and government inquiries. This is surprising given continuing concerns with high unemployment and considerable investment in programs for regional and community development.

This lack of response is puzzling.

It cannot be that Australia does not have disadvantaged communities; localities with high levels of joblessness, low asset values, poverty and crime. There is plenty of evidence that it does. It might be that Australia's financial system, following two decades of radical reform, now works efficiently, providing loans to all those who have a good business case. This is unlikely. There is plenty of evidence of individuals, communities and enterprises with unmet financial needs and of continuing financial and social exclusion.[158] Anecdote, including submissions to public inquiries, suggests that there are still many examples of market failure in the supply of financial services catering for small business and community-based enterprises. However, systematic research is needed to establish the existence of market failure and to map its dimensions.[159] Pilot testing of the ability of existing financial markets to finance social enterprise and other community economic development projects also seems warranted.

Part of the reason for Australia's failure to develop CDFIs may lie on the demand side. There have been few Australian community development organisations or activists who understand the economic aspects of community development and the financial needs of successful job creation ventures. Community development in Australia, unlike in North America and the United Kingdom, has remained focused on generating government action. In the Australian model, community development occurs by governments legitimating rights, by governments building facilities and by governments providing income or sometimes jobs for the jobless. There have been few efforts to stimulate enterprise and generate employment through the efforts of community organisations; and few examples of partnerships between community development activists and small business advocates. The Australian community sector is still significantly grant-dependent, rather than financially independent. The small business sector has frequently allied itself with big business and its lobbyists have generally overlooked the difficulties faced by those trying to start enterprises without collateral, seed funding or in highly disadvantaged areas. In Australia, partnerships and alliances between

[158] Connolly, Chris and Hajaj, Khaldoun, *Financial Services and Social Exclusion, Financial Services Consumer Policy Centre*, University of NSW, Chifley Research Centre, March 2001.

[159] This paper acknowledges the research undertaken by researchers such as Ralston, Deborah and Beal, Diana, *Rural Communities: Adjusting to a Future without Bank Branches*, University of Southern Queensland; and Argent, N.M. and Rolley, F., Financial Exclusion in Rural and Remote NSW, Australia: A Geography of Bank Branch Rationalisation, 1981–98, in *Australian Geographical Studies*, Vol. 38, no. 2, July 2000, pp.182–203.

community groups and enterprises have never taken root. They have come and gone with the various government programs that initiated them.[160]

While weak demand may have held back the development of CDFIs in the past, there are several reasons for believing that the position is changing. Growing frustration with the limitations of government grants and contracts is encouraging increasing numbers of community organisations to embrace social enterprise models and to develop closer links with businesses. They are learning how to take an enterprise approach to addressing social need. The growth of the Social Entrepreneurs Network (SEN)[161] testifies to this changing outlook.

In addition, the creation in the late 1990s of the Commonwealth Government's JobsNetwork[162] has brought many more community organisations face to face with the lack of local employment opportunities (although JobsNetwork does not allow a direct response to this need). At the core of the community sector's involvement in the JobsNetwork are the Skillshare organisations that can trace their lineage back to early job creation schemes of the Whitlam Government and to the Local Employment Initiatives scheme that had a short-lived existence in the late 1980s.[163] These organisations are members of Jobs Australia.[164]

The existence of this Jobs Australia group and the Social Entrepreneurs Network suggest that within the community sector there is now likely to be a critical mass of activists who understand the need for community economic development and are prepared to work with local small businesses to create jobs in local areas. The various initiatives taken by many government departments to rebuild and regenerate local rural communities are likely also to have added to that critical mass.

Initiatives are now needed that will encourage social enterprise and small business entrepreneurs, and provide vehicles to assess their proposals, help them sharpen their plans and provide the finance and on-going technical assistance that they need. A good deal of work is needed to determine the best shape of these vehicles. They need to be locally owned, but to have the ability to share risk across a region or state. They need to

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[160] The Regional Development Organisations (RDOs) established under the Regional Development Program of Brian Howe in the mid-1990s were managed by Boards represented by community and business groups together with union, local, state and federal government representatives. The RDOs generally worked together well to devise business and marketing plans, but few survived when the new Howard Government dismantled the program and stopped their finance. See Fullop, Liz and Wiggers De Vries, Miriam, *Regional Economic Development Organisations (REDOs) in NSW: A Preliminary Study*, Deakin, ACT, 1997.

[161] The SEN is a mutual learning and support network, created by and for social entrepreneurs in Australia and New Zealand to be more effective, more successful, and more prominent in public life. For further details see SEN's web site (http://sen.org.au).

[162] The Howard Government replaced the Commonwealth Employment Service on 1 May 1998, with a system of private job-market brokerage firms, the 'JobNetwork', a national network of for-profit and nonprofit organisations dedicated to finding jobs for unemployed people, particularly the long-term unemployed. For further details on the current arrangements see http:// www.www.workplace.gov.au

[163] Skillshare organisations are nonprofit organisations that provided employment and training services under the Hawke-Keating government's Skillshare program. Most were established in the 1970s and funded by the Fraser government's Community Youth Support Scheme. The Local Employment Initiatives (LEIs) program was a Commonwealth Government program which encouraged local employment generating initiatives in the late 1980s.

[164] Jobs Australia is the peak body for nonprofit employment and training providers, see http://www.ja.com.au

be able to tap loan funds from the local community as well as donations (community foundations alone cannot raise the required funds). They need to be governed and managed in a business-like and financially prudent manner. Investors need to be assured that investment decisions are made by people with banking experience, but means will need to be found to allow proposals that have no collateral and/or which rely on voluntary as well as paid employment to be assessed on their merits and not dismissed because they do not meet conventional banking guidelines. Ways of providing effective technical assistance also need to be found, and the cost of such assistance built into the business plans of any CDFI-type of institution. The optimum legal form for such vehicles and the most appropriate mechanism for fund raising also need to be established. The report for the NSW Government on regional development bonds, which suggested an unlisted public company or a co-operative as the best legal forms and debentures or co-operative capital units as the best fundraising devices, needs to be reviewed in the light of changes to Corporations law and to the Financial Services Act.

Perhaps the most challenging task of all is to bring together the rudimentary components of the community economic development industry and the equally underdeveloped CDFI-type organisations in a way that starts the slow process of building both a demand for, and a supply of, community development finance. These considerations point to several possible courses of action. They might be pursued simultaneously, or, perhaps, serially. Yet, one thing is clear. The growth of a strong community development movement sustained by strong CDFIs will be a slow process.

Trials

There is a need to trial several models of CDFIs in different localities or regions, and to monitor carefully their progress and evaluate the results. This will have several benefits. It will enable a better understanding of the extent and character of demand for community development finance. It will also enable different forms for organising a CDFI to be assessed. These might include independent operators such as a community finance co-operative, or an unlisted public company housing both a loan fund and a community foundation, or a specialised subsidiary of an existing financial institution such as a bank, building society or credit union. There is also a need to trial a locality-specific CDFI along with a two-tier model, where several local CDFIs are subsidiaries or members of a regional or state-level institution that handles a number of tasks including quality assurance and risk sharing. It is also necessary to assess different ways of providing business support for those seeking loans or grants.

Finally, there is a pressing need to gather firm information about the preparedness of local interests either to donate or to lend funds to a CDFI and the best structures and financial instruments for attracting these funds. It is unlikely that the full range of possibilities can be tested in a pilot phase; rather some form of pilot funding could be obtained (by way of a government grant or a grant from one or two bodies prepared to risk their funds in a pilot). Only when the pilot has been successfully running for a year or so will it be possible to gauge the actual willingness of the mass of potential financiers to donate or invest.

Networks

A concerted effort needs to be made to bring together activists and innovators engaged in community economic development, social enterprise/entrepreneurship, small and micro-business development and the finance industry, including rudimentary CDFI-type institutions. The great value of such networks is the transfer of lessons learnt, of information and of technologies. The most efficient method for building networks between the disparate parties with an actual or potential interest in CDFIs would be via highly targeted conferences. Such conferences could be held annually for at least three successive years. They could be attended by two or three international CDFI leaders who could outline the experiences of their own countries or regions. Because the Australians for whom it would be appropriate to attend such conferences are embedded in many different networks, networks that rarely overlap, preparation for the first conference would require a good deal of prior research to identify potential invitees. Such a conference and its preparation would need to be heavily subsidised, perhaps by the Commonwealth Government or a well endowed foundation.

Research

Further research is required to explore the extent and quality of unmet demand for community development finance, to identify what is needed to get such demand to a stage of being "investment ready", and to determine the most appropriate vehicles for meeting that need. The most efficient way of raising funds and the incentives or assurances needed to raise such funds also require careful exploration. Australia's financial services and fund-raising legislation have not been developed in ways that would encourage these forms of innovative public benefit fundraising, and may need amending. If so, a convincing case will have to be made. Research associated with pilot projects, should they go ahead, will eventually answer these questions, but some of the issues could be explored in a preliminary way as a prior step to any pilot study.

Government Inquiry

In the USA and the UK, specific government policies support the growth of CDFIs. It is likely that similar supportive policies will be required here. A prior step to such policy formation will be an inquiry, such as that conducted by the Social Investment Taskforce in the UK. This could be conducted in Australia by a body such as the Productivity Commission, or by a specially appointed taskforce. Alternatively, a Parliamentary Committee might undertake the inquiry. It would be premature to conduct such an inquiry before some piloting and network building have taken place.

Appendix

United States

1. Self-Help[165] (Community Development Credit Union)

The nonprofit centre for Community Self-Help and its financing affiliates, Self-Help Credit Union and Self-Help Ventures Fund, is one of the USA's leading community development financial institutions (CDFI). Its mission is to create ownership and economic opportunities for minorities, women, rural residents and low-wealth families. It operates from regional offices in Asheville, Charlotte, Durham, Greensboro, Greenville, and Wilmington.

Since 1980, Self-Help has provided over $1.78 billion in financing to 25,800 small businesses, nonprofits and homebuyers. In many cases, its lending and advocacy efforts have benefited people and communities both in North Carolina and nationwide.

In addition to direct lending, it assists economic development by its research and advocacy services. As a widely recognised model for community development finance, it shares knowledge and experience with other community development organisations, legislators and government agencies.

Small Business Services

Self-Help's Small Business Lending services help entrepreneurs who find it difficult or impossible to obtain conventional financing. Since 1980, Self-Help has made $151 million in loans to 2,000 small businesses (rural, women and minority groups). These loans created or maintained over 13,000 jobs.

Community Facilities

Self-Help's Community Facilities Fund provides loans and technical assistance to nonprofit and human services organisations. Since the establishment of the Fund, Self-Help has provided $63 million to almost 500 nonprofits and human service providers that created or maintained:

- Over 17,000 child care spaces
- 6,760 charter school spaces
- 425 supportive housing spaces
- Over 4,700 jobs.

Sustainable Development Lending

Self-Help established this initiative both to lend to environmentally focused businesses and to advocate for policies that promote responsible growth. It provides financing to a wide range of sustainable development enterprises including organic farms, recycling businesses and eco-tourism firms. Since the program's inception, it has made 122 loans to targeted firms for over $15 million, and these firms have created or sustained 1,050 jobs.

Home Ownership Financing

Its home lending helps home buyers with weak credit or limited down payment funds, enabling them to build financial security and giving them a stake in their communities.

[165] Sourced from its web site:http://www.self-help.org

Since 1980, Self-Help has made direct home loans worth over $81 million to over 1600 North Carolina families. These home loans went to:

- 60% minorities
- 47% households headed by women
- 72% low-income families
- 42% rural households

2. ShoreBank Corporation (ShoreBank)[166] (US Community Development Bank)

ShoreBank is the bank holding company that invests in and works at restoring markets in underserved communities. With assets of $900 million and $79 million in capital, ShoreBank has invested over $100 million during 1998 through its own commercial banks and other subsidiaries in five US locations to demonstrate that lower income communities are worthy of additional private and local investment, even by stringent private sector standards.

It currently consists of 22 affiliated organisations in five US locations with 500 employees. The four commercial banks in the UK are all fully regulated institutions. Its other subsidiaries and affiliates include for-profit real estate companies, not-for-profits that undertake higher risk enterprise lending and labour force development, and venture capital funds.

It also has a consulting company, ShoreBank Advisory Services, which works with for-profit and nonprofit organisations both locally and abroad and has been instrumental in assisting conventional banks domestically and internationally to tap into new market opportunities.

History

Shorebank began operating in August of 1973, when it purchased South Shore National Bank on Chicago's South Side with $800,000 in capital and a $2.4 million equity loan from the American National Bank. From its inception, the bank aimed to reverse the decline of inner-city neighbourhoods and the practice of redlining. Within two years, profitable operations were restored, and ShoreBank's profits have helped support the activities of the other affiliated operations.

In 1978, three affiliates were capitalised: a real estate development company, a not-for-profit organisation, and a minority venture capital fund. These new organisations were a critical extension of ShoreBank's lending activities.

ShoreBank began replicating its development banking approach in other communities in 1986. Currently, ShoreBank operates in Chicago, Cleveland, Detroit, the Upper Peninsula of Michigan, and the Pacific Northwest.

In 1995, Shorebank doubled in size to just over a half-billion dollars in a merger with Indecorp, a Chicago bank holding company that included two South Side commercial banks.

[166] Information sourced from:

- Shorebank web site at http://www.shorebank.com and http://www.shorebankcorp.com
- Pikholz, L. and Grzywinski, R., Communities are Creditworthy: Shorebank (USA) and Bumblebees in Guene, C. and Mayo, E., *op cit.*

Shorebank has received national and international recognition for its efforts, and has earned the support not only of the residents in the communities it serves, but also of socially responsible investors and depositors nationwide.

3. Murex Investments[167] Community Development Loan Fund

Murex Investments (MI) is a community development venture fund targeting low-income communities. The fund is a US Treasury certified Community Development Financial Institution (CDFI) established in 1998 as a wholly owned subsidiary of Resources for Human Development, Inc.(RHD), a $90 million diversified nonprofit organisation headquartered in Philadelphia. MI's first fund of $5.2 million is invested in seven companies in low-income areas and has created/retained over 250 jobs.

Murex Investments is a "double bottom line" investor: it measures fund performance based on financial and social returns to stakeholders. Murex Investments' key differentiator is its operating model and it develops an integrated system of control and accountability for each portfolio company.

MI is one of only seven funds nationwide to have been selected to participate in the Small Business Administration's New Markets Venture Capital (NMVC) initiative.
The NMVC program was instituted by Congress late in 2000 as a way to address the dearth of venture capital in America's distressed communities. Each of the seven community development venture capital funds selected to participate in the initiative receives a 1:1 federal match for investment and technical assistance dollars. As an NMVC company, MI will bring an investment fund totalling $11 million, plus $3.3 million in operational assistance funds, to approximately 30 companies in distressed areas in its operating region.

[167] Sourced from http://www.rhd.org

Canada

4. Assiniboine Credit Union[168]

Assiniboine Credit Union is a profitable, co-operative financial institution dedicated to finance and social goals, and was established in 1943. It offers competitive services and products, working to establish policies that are fair and just and contribute to building strong, self-reliant communities. These policies are reflected in its approach to staff, members and partnerships with community builders outside the credit union.

Community and Business Enterprise Development

Assiniboine Credit Union is committed to serving those not well served by traditional financial institutions and aims to ensure that its resources are available to support and develop those communities. It also leads and actively participates in community economic and social development to ensure that those communities continue to prosper and to grow. It also offers unique services and support to smaller businesses and nonprofit organisations.

Community Project Fund

Assiniboine Credit Union supports a variety of community projects each year through the Community Project Fund whereby the maximum donation per project is around $2,000. Proposals considered for funding incorporate principles of social justice and have a strong community development theme. Projects revolve around the theme of healthy families/healthy communities. Funding is considered each year in the following categories: housing, anti-racism, co-operatives, employment, anti-poverty and environment. Each project has a measurable impact on the community it targets. Special consideration is given to Assiniboine members.

5. VanCity Credit Union[169]

Vancouver City Savings Credit Union is a democratic, ethical and innovative provider of financial services to its members. Founded in 1946 to provide financial services to people from all walks of life, it has grown to become a major financial institution serving the people of British Columbia.

It is committed to doing business in a way that strengthens its own long-term success, while contributing to the social, economic and environmental wellbeing of the community.

VanCity is Canada's largest credit union, with $7.5 billion in assets, 280,000 members, and 39 branches throughout Greater Vancouver, the Fraser Valley and Victoria. VanCity owns Citizens Bank of Canada, serving members across the country by telephone, ATM, and the Internet. Both VanCity and Citizens Bank are guided by a commitment to corporate social responsibility and to improving the quality of life in their communities.

Some of the various community development lending programs and grants that VanCity has are described below.

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[168] Information sourced from web site, http://wwwassiniboine.mb.ca
[169] Information sourced from web site, http://www.vancity.com

1. Branch Funding Program:

Each VanCity branch makes small grants to local initiatives that improve the wellbeing of the community in which the branch operates. Grants normally range up to a maximum of $500. Requests for funding can be made by contacting the Community Programs Representative at the branch.

2. EnviroFund Grants:

Grants of up to $20,000 are awarded to four local community initiatives that address specific environmental concerns in the Lower Mainland, Fraser Valley and Greater Victoria area in a positive, constructive and creative manner. Since 1992, $802,000 has been awarded to 42 such environmental projects.

3. Community Project Grants:

Grants of up to $5,000 are awarded to community initiatives that focus on the issues of social justice, economic self-reliance or ecological responsibility.

4. Community Economic Development Grants:

Four grants of up to $20,000 are awarded to major community economic development (CED) projects that foster the economic, social, ecological and cultural wellbeing of communities and regions.

5. Capacity Building Grants:

This grant program is specific to VanCity members and provides up to $5,000 to organisations which meet the funding criteria to support their capacity building initiatives.

6. Community Investments

VanCity uses its unique skills and expertise as a financial institution to create solutions to social, environmental and economic issues. Through innovative loan programs and deposit products, its members make a difference to local and world-wide communities. Through micro-credit and other innovative loans, VanCity provides access to credit and invests in the economic wellbeing of members and the community. It also offers eligible community investment products for members who want to invest in communities locally and internationally.

7. Access to Credit

- *Micro-credit*

Small businesses are the heart of many communities and the Canadian economy. However, many entrepreneurs face barriers in accessing the credit they need for their business due to factors such as being a start-up, the industry, lack of credit history or lack of sufficient equity or collateral to secure the loan. VanCity recognises the value of these entrepreneurs and has designed a number of products to meet their needs.
Micro-credit loans provide financing up to $25,000 for entrepreneurs who are in the start-up or expansion phase of their business. Loans may be tailored and include advice for disabled entrepreneurs.

- *Self-Reliance Loans support economic self-reliance*

Self-Reliance Loans are loans for "people who want to start or expand a business to create employment for themselves". Loan approval is based primarily on character and credit history. The maximum loan amount is $25,000. These loans are fixed term loans with a maximum amortization of 60 months with interest rate set at the Prime rate +4%. There are no other fees and options are available such as postponing up to two payments a year.

8. Community Investment Deposits

The organisation also provides Community Investment Deposits which, although they earn a lower rate of interest, benefit local communities in the Lower Mainland, Fraser Valley and Victoria regions. Funds can be invested in the form of reduced interest loans to community groups for job creation, affordable housing or environmental protection and restoration.

VanCity seeks advice from a Community Investment Deposit Advisory Council which reviews and recommends projects for funding. All projects must meet both financial and social criteria to ensure that they provide maximum benefit to the community and have no negative social or environmental implications. Regular updates indicating how these deposits are being used are communicated to deposit holders.

9. International Community Investment

VanCity's International Community Investment Deposit (ICID) program offers VanCity members an option to invest in innovative community loan funds that benefit low income and marginalised communities around the world.

Member investments in International Community Investment Deposits yield real social, economic and environmental benefits to individuals and communities, such as jobs created, house built, lives transformed and environments restored.

Europe

6. Triodos Bank[170] (Netherlands, Europe and United Kingdom)

Triodos Bank is a social bank lending only to organisations and businesses with social and environmental objectives. It was founded in 1980 in the Netherlands (regulated by the Dutch authorities), has established offices in Belgium and the UK, and is a fully licensed independent bank, owned by public shareholders.

It belongs to a world-wide network of national and international financial institutions active in the social economy. It only finances enterprises which add social, environmental and cultural value—in fields such as renewable energy, social housing, complementary health care, fair trade, organic food and farming, and social business. It also finances fair trade and micro-credit organisations in developing countries with the support of depositors and investors who wish to contribute to social justice within the context of a more sustainable economy.

It offers a comprehensive range of banking services for social businesses, charities and groups along with a variety of savings accounts for individuals. It only lends money to organisations and businesses pursuing positive social, environmental and cultural goals. Its threefold approach is the source of the name Triodos, "tri hodos" which means "threefold way".

History

Triodos Bank NV was established with EUR 540,000 in share capital when it opened as a fully licensed, independent bank in The Netherlands. In 1990, it launched the first green investment fund, Biogrond, and listed it on the Amsterdam stock exchange. The investments, mainly listed companies, are screened according to social and environmental criteria.

In 1993, it founded its Belgian office and launched the Dutch Wind Fund. In 1994, it launched the first Triodos North-South Funds in The Netherlands in partnership with the Doen Foundation/National Postal Code Lottery and the Hivos Foundation (Humanist Institute for Development) and began focusing on micro-finance initiatives in developing countries and fair trade finance.

In 1995, Triodos Bank opened in the United Kingdom (UK) and launched the UK Wind Fund. It then began operations in the UK providing private investors with the opportunity to participate directly in socially, environmentally and culturally positive companies. In 1997, the Triodos Added Value Fund was listed on the Amsterdam stock exchange and then merged into the Triodos Green Fund.

In 1998, the Solar Investment Fund financed solar energy projects in developing countries and Triodos Research offered research on the social and environmental performance of stock market listed companies to mainstream banks and pension funds.

In 2000, all Triodos Bank branches were accredited with ISO 14001 status for environmental management. By 2001, the Triodos Venture Capital Fund was founded.

[170] Information Sources: Web site at http://www.triodos.com

Banking Policies
Triodos's banking policies focus on financing organisations and groups that create real social, environmental and cultural value.

Charity Banking
The Bank has also begun to lend increasingly to charities' development. The finance ranges from bridging a grant payment to buying a property to build an asset base. Triodos lends between £20,000 and £10 million for up to 25 years at competitive interest rates with flexible repayments around fundraising activities.

Partnerships
Triodos Bank maintains partnerships with a number of like-minded organisations to help provide finance for socially and ecologically sustainable as well as cultural enterprises. In addition, it regularly engages with other organisations such as UKSIF (UK Social Investment Forum), NGOs and government regarding issues of shared interest and concern.

In the UK, Triodos Bank has established formal partnerships with The Soil Association, Friends of the Western Buddhist Order (FWBO), the Quaker Housing Trust, Churches National Housing Coalition (CNHC) and Friends of the Earth.

Triodos Foundation

Triodos Foundation works within a legal framework governing charitable donations that clearly separates its work from the work of Triodos Bank. However, beneficiaries of Triodos Foundation must complement the work of Triodos Bank, reflecting the core values and priorities at the heart of the Triodos group's mission.

7. The Prince's Trust[171] (United Kingdom)

The Prince's Trust is a well-known supporter of small business in the UK. It has been helping business start-ups among young people under 30 since 1983. Since that period, some 50,000 start-ups have been assisted and 60 percent of their companies are still trading after three years.

It exists to help young people fulfil their potential, especially in the 14 to 30 year age groups who face disadvantage, by offering them the support, encouragement and basic financial assistance they need to achieve their goals. Through a variety of programmes across the UK over 25 years, it has helped over 450,000 young people.

The Prince of Wales began the Trust to help young people who were facing obstacles to realising their potential and these have included the unemployed, those in or leaving care, educational underachievers and ex-offenders.

[171] Information sources

- The Prince's Trust web site at www.princes-trust.org.uk;
- References in Westall, A., Ramsden, P. and Foley, J., *Micro-Entrepreneurs, Creating Enterprising Communities,* New Economics Foundation and Institute for Public Policy Research, UK, 2000.

Core programs include:

- Business Start-ups through the provision of low interest loans, grants, mentors and other support for 18–30 year olds who want to start a business;
- Personal development through a unique training programme called Volunteers; Unemployed and employed alike work as a team on community projects and other challenges, helping them develop skills, build confidence, get job opportunities and have fun;
- Clubs for underachieving students: the network of xl clubs give young people the confidence and motivation to continue in education;
- Group Awards: money grants for groups of 14–25 year olds with ideas for projects to help their communities.

The Trust extends loans up to £5000 (average £2237) to start up a business, repayable with 3 percent interest over one to three years. The Trust also offers grants of up to £1500 (£3000 for groups) to almost half of the businesses it supports. In 1997, the Trust gave loans totalling £7.2 million to 3,409 start-up businesses and grants of £4.7 million.

Businesses are allocated a business mentor (a volunteer usually from the local community).

In 1996–97, the Trust received grants of more than £12 million, had investments of around £12 million and outstanding loans of £5.7 million.

The Trust is structured as a charity, with significant grant finance and voluntary support. The contributions from business enable the high losses of the scheme to be offset. Nevertheless, in 1996–97, the total expenditure (including write-offs and provisioning) amounted to less than £3700 per young person supported, compared with £8500 a year that an unemployed claimant costs the exchequer.

8. Glasgow Regeneration Fund (GRF)[172] (United Kingdom)

The GRF was established by a public and private partnership to provide financial support to business start-ups and existing businesses located in the eight regeneration areas in Glasgow. It is the first loan fund managed by Developing Strathclyde Ltd (DSL) and it also receives grants from the European Union's European Regional Development Fund.

The DSL operates the GRF under the governance of a Board of Directors representing the founding agencies and public and private sector partners and sponsors. In addition, GRF has received significant financial grant assistance from the EU via the Western Scotland Objective 2 Programme (1994–1996) administered by Strathclyde European Partnership.

[172] Sources include:

- GEF Web site at http://www.regenfund.co.uk
- Huttich, Thomas, INAISE, Glasgow Regeneration Fund, in *Upscaling Social Investment, 50 Case Studies*, INAISE, April 2000;
- Westall, A., et al., *op. cit.*

Its vision and mission is to help create employment for local residents based within the Regeneration Areas, thereby reducing poverty levels, by providing access to capital to organisations, which are, or will be, based within the Regeneration Areas of Glasgow.

DSL and its GRF believe that a strong local economy is the foundation of a healthy community. The Fund aims to stimulate enterprise in socially disadvantaged areas of Glasgow. It recognises that there are people in these areas, especially the unemployed, who would be capable of starting their own business, but have no access to traditional capital funding.

This translates into three broad objectives for the fund:
- To develop enterprise opportunity for local people
- To grow existing businesses and jobs
- To strengthen the sustainability of local communities.

GRF is targeted at eight specific Regeneration Areas of Glasgow. With 44% of Glasgow's resident population, the Regeneration Areas are home to over 60% of the city's long term unemployed. With problems exacerbated by a range of other physical and social difficulties, these areas have been identified by the public agencies as disadvantaged. Furthermore, it is estimated that 25% of the UK population do not have bank accounts, with many peripheral city areas suffering a systematic withdrawal of banking facilities, a trend which is clearly apparent in the Regeneration Areas.

The eight Regeneration Areas supported by the GRF are: Glasgow North, East End, Govan, Gorbals, Drumchapel, Castlemilk, Greater Easterhouse and Greater Pollok.

Business start-ups and development are funded through loans, equity and bank guarantees; repayments are flexible and may include capital "holidays" and staged repayments. Loans are typically small scale, between £1,000 and £20,000, and structured over two to five years. The Fund uses geographical, commercial, sectoral, viability and local impact as the main criteria for deciding whether to approve an application.

The Fund's remit is to provide access to business capital on a commercial basis with the minimum of eligibility criteria, particularly to individuals with little or no security, whilst taking an "informed" view as to the prospect of the long term viability of their business proposition.

By May 2000, the Fund had made loans to 299 companies (half as start-ups) and lent nearly £2 million to some 240 small businesses from across the Regeneration Areas. About 50 percent were in new businesses, others were looking to expand; 19 businesses have been rescued from closing down.

By 2000, GRF had been responsible for over 1,800 new jobs and safeguarded 550 jobs at risk; 83 percent of businesses assisted by GRF continue to trade for more than one year following funding. From the total fund of over £3 million (received from organisations in the public, private and third sectors), GRF had invested £1,918,741 to the end of March 1999, and of this some 82 percent was invested in loans, nine percent in grants and nine percent in equity.

The Fund itself receives major support from the European Development Fund and a range of private and public local partners. As well, the Fund receives revenue support from European funds, and funds and staff seconded from the Royal Bank of Scotland and Clydesdale Bank. Some of the private company investors include the Body Shop, Scottish Homes and British Petroleum.

The Glasgow Regeneration Fund forms part of Glasgow City Council's and the Glasgow Development Agency's respective strategic plans, each contributing significantly in financial terms and both providing Board Directors. Glasgow City Council (including the former Glasgow District Council and Strathclyde Regional Council) has provided £470,000 in funds, while the Glasgow Development Agency has provided £248,000.

9. ADIE[173] (France)

The ADIE association was established in 1990 as an innovative way of working with banks to provide reasonably priced credit to unemployed people setting up micro-businesses. Lending in France is restricted to organisations with banking status, so ADIE has received special authorisation to make loans from equity raised from donors.

By the early 1990s, demand from self-employed and micro-enterprises was far outstripping the donor funds it could raise annually. In 1994, ADIE formed a partnership with the major French banks, whereby ADIE assesses the borrower's creditworthiness but the bank issues the loan and pays ADIE a set-up fee of three percent. ADIE uses its equity to give a 70 percent guarantee to the bank. As a result, by 1998 only one in four loans were sourced from ADIE's own funds and 75 percent were made by 25 banking partners across France.

As ADIE cannot source its own capital, it relies on bank partners to make loans and it does not make much money from its lending operations to pay for its costs. It is also unable to charge a higher rate for its loans because of the French restrictions on lending rates. While it cannot become self-financing, it has been successful in attracting grant aid from the around 250 public, private and charitable sources including European Union, the French Government and local authorities.

In 2002, ADIE had 22 regional subsidiaries, serving most regions of France. Lending decisions are made at the branch level, and it has 200 local staff and 600 volunteers (including retired business people and bankers) who provide mentoring and advice.

Since 1990, ADIE has been able to finance and mentor some 5,600 businesses created by the unemployed and recipients of minimum income support; however, the demand for micro-credit finance is much greater than be provided. Lending volumes increased from 700 in 1995 to around 5422 cumulative loans by 1998, with an average loan amount of 22,000 (FF), an average loan term of 20 months. In 1998, there were a total

[173] Sources include:

- Conaty, P., ADIE: Micro-Finance for Enterprise (France) in INASE, *Upscaling Social Investment 50 Case Studies, op cit*;
- Nowak, M., Social Credit in a Welfare State: Lessons from ADIE, in Guene, C. and Mayo, E.. *op cit*.
- Westall, Andrea, (et al), *op cit*

of 44 million (FF) in loans outstanding. There were some 3,300 individual borrowers in 1998.

The ADIE targets its lending to France's most disadvantaged groups and in 1997, 44 percent of clients were on welfare, and 27 percent were long term unemployed households. It solicits applications and runs support programs for the most marginal groups, including the young unemployed, ex-prisoners, ethnic minorities and women entrepreneurs in rural areas.

The survival rate of micro-businesses is slightly higher than the national average for all businesses: 75% at the end of two years and 55% at the end of five years. The rate of repayment is of the order of 90% compared with 75–80% for the average of state-guaranteed loans made to very small enterprises.

10. GLS "Community" Bank (Germany) GLS Gemeinschaftsbank[174]

Founded in 1974, the GLS Gemeinschaftsbank ("community bank") is one of the most unusual credit institutions, although it is a fully recognised bank in Germany. It assigns credit not according to the principle of maximising profit, but according to its social and environmental impact. With its two sister institutes—the nonprofit credit guarantee co-operative (GKG, founded in 1966) and the nonprofit trust (GTS, an association of about 240 charitable companies founded in the 1950s)—the co-operative bank today has over 17,000 members and customers.

The GLS community bank in Bochum is one of the oldest alternative banks in Germany, created in 1974, and now with branches in Hamburg, Munich and Stuttgart. It had a total balance sheet of DM 289 millions in 1998. The bank has some 10,000 co-operative members subscribing 14.3 million co-operative shares (December 1997).

GLS represents "community for borrowing and giving". The bank lends depositors' funds to a range of community projects concerned with education, unemployed, communal living, agriculture and renewable energies. Most savers are socially and ecologically committed individuals, with few institutional investors. Criteria for lending is strict and financial security is ensured—if material collateral is missing, by personal endorsements (usually no more than DM 5000 per person). The interest rates charged to borrowers directly reflect operational costs and although GLS does not need to generate a profit, it has fewer credit failures than average.

GLS collects money with classical banking tools and holding funds, and passes them on in the form of credits. Deposits are protected and risk capital is developed by holding funds. Investors are usually satisfied with net yields more or less below market conditions.

The Gemeinnützige Treuhandstelle e.V. Bochum (GTS) was founded in 1961 is an association of more than 260 charity organisations. The GTS has gained expertise in the structuring of donations and large fortunes as well as in dealing with wills and

[174] Sources on GLS include its web site www.gemeinschaftsbank.de/english.htm (accessed 17 September 2002) and Huttich, Thomas, INAISE, GLS Community Bank (Germany), in INAISE, *UpScaling Social Investment, 50 Case Studies,* April 2000.

estates. The GTS supports the social, ecological and cultural aims of its charitable member organisations.

The Foundation New Energies, administered by GTS, aims to foster the change to a renewable, decentralised and energy-saving structure. Four Agricultural Funds offer the opportunity to participate directly in bio-dynamic farms. Presently, 28 bio-dynamic farms all over Germany are supported by both funds which together amount to a volume of 4.7 million DM. They are administered by the Gemeinnützige Treuhandstelle e.V. Bochum.

The Development Cooperation Fund of the Gemeinnützige Treuhandstelle e.V. is cooperating with approximately 30 self-help and social projects in Africa, Asia and South America. In 1997, 1.0 million DM worth of donations were transferred to these projects.

The GLS Beteiligungsaktiengesellschaft was founded in 1995. Its objective is to help cooperating companies in finding equity capital. The capital stock amounts to 3 million DM.

The Gemeinschaftsbank has two Funds for wind-power and one for water-power. It has also established a fund for the purchase of the power supply system of Schönau, a small town situated in the Black Forest, Germany. The four energy funds sum to a total volume of 10.2 million DM. All of them are managed since 1997 by the GLS Beteiligungsaktiengesellschaft.

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