**Only Halfway to Economic Democracy**

*Community development finance has done some great things—but it has so far fallen short of its promise*

Few books make me so angry that I must resist throwing them across the floor. One such book, published in 2002 (and since updated) was Greg Palast’s *The Best Democracy Money Can Buy*, which documents the mass disenfranchisement of African American and other voters in Florida helping deliver the 2000 election to George W. Bush. More recently, it was *Winners Take All*: *The Elite Charade of Changing the World* by Anand Giridharadas (currently Editor at Large of *Time* magazine). As [Miriam Axel-Lute has written](https://shelterforce.org/2019/11/11/the-inside-world-of-change-makers/), it’s not that I didn’t know the rich and powerful controlled the world—it’s that the book shines an unsparing light on the sometimes subtle yet insidious ways in which ultrarich individuals and institutions are applauded for their efforts to “do good while doing well” in what Giridharadas snappily calls “MarketWorld.”

So how does this relate to our work? As CEO for over 30 years of the National Federation of Community Development Credit Unions (now [Inclusiv](https://www.inclusiv.org/)), I worked to create the CDFI Fund at the U.S. Treasury. I regard the growth of the CDFI Fund as one of the foremost domestic policy achievements of the last half-century. But as I have [argued in my book, *Democratizing Finance*](https://www.indiebound.org/book/9781525536625?aff=Shelterforce)*,* CDFIs have only moved us halfway toward financial democracy. They have indeed broadened access to capital for poor and financially excluded communities. But they have not, with certain exceptions, transferred control over capital to those communities. Neither have they transformed or challenged the mainstream banking system.

The CDFI Fund is now 25 years old. To mark the anniversary, in November last year I joined former President Bill Clinton, Secretary Hillary Clinton, and hundreds of CDFI activists, former federal officials, and funders at the Clinton Presidential Library in Little Rock for a conference titled, “Economic Inclusion and Growth: The Way Forward.” The fund was created to fulfill candidate Bill Clinton’s campaign promise in 1992 to create a “network of 100 community development banks and 1,000 microenterprise programs.”

 Since the fund’s first awards in 1996, it has provided more than $2 billion in much-needed equity capital to hundreds of credit unions, loan funds, venture funds, and banks with the explicit mission of serving historically underserved populations, including low-income communities, communities of color, and the disability community. The CDFI Fund launched the Healthy Foods Financing Initiative with the help of former First Lady Michelle Obama, and other innovative programs. CDFI Fund awardees have built affordable housing, primary care clinics, community facilities, and more, while expanding financing for small businesses and, in the case of credit unions and some banks, providing financial services to low-income households. The CDFI Fund has made an invaluable, distinctive contribution by providing *equity capital*—not merely debt. Thus, it has built *institutions* rather than recapitulating the typical year-to-year funding of most federal programs.

So, if ever there was a federal initiative that truly did bring capital to communities long ignored by mainstream banks, the CDFI Fund has been it. It has “democratized” access to capital—in a valuable, but limited, way.

My hope was that the CDFI Fund, created in 1994, would provide capital to the small, struggling credit unions that I represented—grassroots, primarily minority organizations born in church basements, in Community Reinvestment Act campaigns, and in the Civil Rights movement of the South. But for much of the history of the CDFI Fund, these institutions got a beggarly share of the capital awarded by the fund.

**Lost Opportunities**

In early Congressional hearings debating the creation of the proposed CDFI Fund, Rep. Lucille Roybal-Allard of Los Angeles voiced the fear that the CDFI Fund would be a “grantwriting competition,” that small organizations serving the neediest communities would lose out to more sophisticated, higher capacity, primarily urban and white-led organizations. In fact, for most of the CDFI Fund’s first two decades, this was the case. Eighty-percent of capital grants went to nonprofit loan funds, which were better positioned to fulfill a major requirement of the fund: leveraging nonfederal matching capital. The rules were neutral. There was no discriminatory intent; but the result was disparate impact. In their lack of capacity and fundraising experience, the most disadvantaged institutions—many rural, many minority-led—were at a disadvantage.

The CDFI Fund was built on the concept of public + private partnership. Where would the non-federal—especially, private—capital come from? In the early years of the CDFI movement, foundations were a leading source, and it hardly bears repeating that in the 1990s and 2000s, minority, rural, and other small institutions lacked access to these philanthropies. When CRA was revised in the mid-1990s—a Clinton administration priority—investment in CDFIs was clearly endorsed as credit-eligible. Mainstream banks then became the foremost source of matching private-sector capital for CDFIs—for nonprofit loan funds, at least, but not so much for banks and credit unions, which mainstream banks often saw as potential competitors. In short, CDFI winners were those who were able to access capital from what Giridharadas calls “MarketWorld.”

Opening the door to private philanthropic and corporate investment was in tension with another founding principle for the new CDFI Fund: In its awards, it was to consider the *“degree to which [applicants] were community-owned or governed.”* Which institutions in the CDFI world are, in fact, “community-owned or governed?” Generally, banks and venture funds are owned by and accountable to their shareholders and investors. As for nonprofit loan funds, their governing bodies (as distinct from advisory committees) rarely include members of low-income communities. Private-sector funders and investors may sit on the boards or at least indirectly influence the loan funds by their covenants, benchmarks, and grant requirements. For CRA-motivated banks, in particular, this kind of relationship is likely the kind of “win-win” that Giridharadas describes—not approvingly, by the way—as characteristic of MarketWorld relationships.

That leaves two types of entities that are better structured to meet the standards of “community owned or governed.” Credit unions are entirely owned and governed by their members on the basis of one person/ one vote, regardless of the amount of each member’s deposits. Outside capital plays little to no role for most credit unions. However, for the first two decades of the CDFI Fund, credit unions obtained a very minor share of CDFI Fund investments—in a particularly bad year, less than 10 percent of total funding. Fortunately, this picture has improved noticeably in recent years.

Native American tribal and related entities are also owned by the communities they serve, and are an important example because these CDFIs can contribute to the drive for Native sovereignty and self-determination. The CDFI Fund was not designed to allow set-asides for different populations and types of CDFIs. An exception, however, are the [Native Initiative](https://www.cdfifund.gov/programs-training/Programs/native-initiatives/Pages/default.aspx)s, which have supported Native CDFIs specifically with financial awards and technical assistance since 1994; they are a hallmark success of the CDFI Fund.

So, where does the CDFI field fit in the “MarketWorld” paradigm? From my observation, when “impact investors” engage with CDFIs, it is mostly with the nonprofit loan fund sector. In fact, community development loan funds have often been leaders in improving the physical and social infrastructure of low-income communities through their investments. They also have pioneered breakthroughs to the capital markets, obtaining debt ratings and fashioning bond deals. But for the most part, no elements of their governance, ownership structure, or financing is inherently democratic. Nor are they in the business of transforming the banking and financial system. Consider the indictment rendered by Mehrsa Baradaran in her book *How the Other Half Banks*:“The [CDFI Act] was not intended to change the business of banking to meet the needs of the poor but to fit the needs of the poor into the business of banking … the [CDFI movement] was rooted in the market ethos that defines modern banking.”

This uneasy relationship has led to self-examination within the CDFI movement, particularly among loan funds. Have investor metrics and risk parameters bent the mission trajectory of CDFIs? Why doesn’t the leadership of many CDFIs reflect the communities they serve? Is there a “[Sackler problem](https://www.vox.com/future-perfect/2019/7/17/20697901/sacklers-louvre-opioid-crisis-philanthropy-donors-protests)” when a bank (e.g., Wells Fargo) that has harmed millions of its consumers is also a major funder of CDFIs? Have CDFIs become “fig leaves” for banks, once asked Clara Miller, former CEO first of the Nonprofit Finance Fund?

**Review and (Re)prioritize**

It would be disingenuous for me to suggest that the choices are easy. Banks and other wealthy institutions bear heavy responsibility for creating inequality; should they *not* be expected to direct their massive financial resources to remediation? If not them, who? The early CDFIs, like my own, were launched with start-up capital from ethical, nonextractive investors—Catholic women’s orders like the Adrian Dominican Sisters. But these resources are limited. We do not need to seek scale for scale’s sake, but if we want to simply *do more*, it is hard to resist taking from those who can provide more.

So what can be done to further democratize a field that has set out to broaden access to capital to those people and communities who have long been excluded?

As for the CDFI Fund, it should reprioritize investing in organizations that are “community owned or governed.” A new generation of cooperatives, such as the [San José Coop](https://coopsanjose.com/) and the [Cidreña Coop](https://cidrenacoop.com/) in Puerto Rico and credit unions like [Stepping Stones Community Federal Credit Union](https://www.sscreditunion.org/) are emerging in historically excluded communities. Some are pioneering “multi-stakeholder” ownership; others are organizing credit unions as an economic arm of a political and social empowerment campaign. The CDFI Fund more than any other government entity has the capacity and mission to nurture efforts like these.

For CDFIs, especially loan funds: One place to start might be a code of fundraising ethics. Conflict of interest policies for officials and staff are common. What if CDFIs were to adopt policies specifying that they will not accept funding from financial institutions engaged in predatory practices, nor will they provide seats at the governing boards to such institutions? Conversely, should not CDFIs build structures that ensure an active voice for the communities in which they invest? Their governing boards–not advisory boards—should include representatives of grassroots community organizations.

As for the investment side, CDFIs should review their portfolios and policies to ensure that they are aligned with the original reason for their creation, namely, to take risks that mainstream banks spurned. This may imply broadening their parameters to invest more heavily in minority start-ups and other relatively high-risk enterprises.

Credit unions should exercise their own particular kind of soul-searching. They were created more than a century ago to serve the unbanked and excluded; they should not now restrict themselves to the safest “A” rated borrowers. Moreover, they should take a more active role in investing in community-building projects, such as affordable housing and minority enterprise. Finally, credit unions should aggressively work to diversify their boards generationally and racially, moving beyond the older, whiter, more prosperous cohort that still dominates many credit union boards.

Finally, what sort of public policy agenda should mission-driven CDFIs pursue? I would encourage them to find their voice by:

* opposing the hyper-concentration of financial power in a handful of institutions
* resisting efforts of these institutions and their allies to roll back regulation
* supporting federal and state policies to eliminate predatory lending practices
* defending pro-consumer regulation and specifically, the Consumer Financial Protection Bureau (CFPB).

CDFIs have made remarkable strides in institution building. As a field with roots in civil rights and anti-poverty movements, it is time to reinvigorate their role as fighters for equity and equality.