

# Foundational Principles for Community Development Finance Institutions in Australia



Foresters Community Finance Ltd  
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# 10 Foundational Principles for Community Development Finance Institutions (CDFIs) in Australia

1. **Context** - CDFI's should be developed for the uniquely Australian context;
2. **Focus** - CDFI's should focus on addressing financial exclusion of individuals, social enterprises/businesses, and community sector organisations;
3. **Purpose** - CDFIs must have a social purpose and aim to deliver wealth creation and asset building into communities that are most disadvantaged or underserved;
4. **Synthesis of Skills** - CDFI's should synthesise the best of private, public and community sector strategies, skills and knowledge;
5. **Sustainability** - CDFIs must be structured for sustainability;
6. **Social Impact** - CDFIs must be impact focussed organisations.
7. **Support and Capacity Building** - CDFI's must build the capacity of people, businesses and organisations in the markets in which they operate;
8. **Innovation** - CDFI's should seek the leading edge of innovation in addressing financial exclusion;
9. **Enabling Policy and Regulatory Environment** - CDFI's should be supported and monitored through appropriate policy and regulation;
10. **Source of Capital** - CDFI's should be structured to enable capital and investment to be sourced from a diverse base - with the majority of their funds coming from capital markets to ensure their long-term sustainability.

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# 10 Foundational Principles for Community Development Finance Institutions in Australia

As Australia's leading CDFI, Foresters Community Finance Limited has 20 Years experience delivering community development finance, researching its application in Australia and offering training programs focussed on addressing financial needs of individuals, enterprises and organisations. We believe the foundational principles outlined below are key to building a sustainable Australian CDFI sector.

**Community Development Finance Institutions (CDFIs)** are:

“Independent organisations focussed on the use of financial mechanisms to develop and service people, organisations and communities who are often disadvantaged and have been underserved by mainstream financial institutions”

Burkett and Drew, 2008

## 1. Context

**CDFI's should be developed for the uniquely Australian context.** The development of CDFIs in Australia should be built upon a deep and comprehensive understanding of the AUSTRALIAN context. CDFI's in Australia need to reflect the unique realities within Australia rather than merely importing or replicating overseas models. While there is a need to understand overseas CDFI experiences, this should engage not only with the strengths of these models but also point out and address their weaknesses. Some particular features of the Australian context will distinguish CDFIs in this country:

- The nature of financial exclusion in Australia is unique due to features of our banking, finance and welfare systems;
- Our research into financial exclusion is still limited so demand for CDFIs needs to be demonstrated in practice;
- As yet we have no strong policy and legislative drivers for CDFI development;
- In many respects philanthropy is not as sophisticated in the Australian market, so it is not likely to shape the CDFI sector to the extent that it has overseas; and
- We have unique socio economic and population drivers which will inevitably shape the CDFI market in this context in particular ways .

## 2. Focus

**CDFI's should focus on addressing financial exclusion of individuals, social enterprises/businesses, and community sector organisations.** Financial Exclusion in Australia affects individuals (particularly those living on low incomes who are also asset poor); social enterprises and social businesses; and non-profit community sector organisations. CDFIs could and should play an important role in addressing the financial exclusion of all of these groups.

**Financial exclusion** is a process whereby a person, group or organisation lacks or is denied access to affordable, appropriate and fair financial products and services, with the result that their ability to participate fully in social and economic activities is reduced, financial hardship is increased, and poverty (measured by income, debt and assets) is exacerbated.

Burkett and Sheehan, forthcoming

### 3. Purpose

**CDFIs must have a social purpose and aim to deliver wealth creation and asset building into communities that are most disadvantaged or underserved.** They will achieve this by channelling investment into these communities; building, managing and making the best use of community-owned assets; and supporting people to access the capital needed to build their assets as a pathway out of poverty. Although they might resemble banks or investment companies, what distinguishes CDFIs in the market is their social purpose.

### 4. Synthesis of Skills

**CDFI's should synthesise the best of private, public and community sector strategies, skills and knowledge.** CDFIs require a synthesis of skills to ensure both financial sustainability and social impact. The work of CDFIs, if it is done well, harnesses a unique and valuable skill set. Financial skills or community development skills on their own are not enough for CDFI workers. They need to build bridges and synthesise across these two skill sets. Equally there needs to be a synthesis of skills across the sectors to ensure that CDFIs will flourish in the Australian environment. Each sector can contribute to the development of CDFIs, but CDFIs do not sit within any of the traditional sectors - they are 'Fourth Sector' organisations. Corporations such as banks and other finance and investment institutions will play an important role in the development of CDFIs - *however*, CDFIs are not banks and they will not be able to achieve significant social impact if they are developed under the umbrella of banks. Governments may play an important role in catalysing the CDFI sector and creating an enabling environment, *however*, CDFIs need to be independent of government both structurally and financially in order to maximise their impact and reach. Community sector organisations will help CDFIs to connect into poorer communities, *however*, CDFIs have an agenda that must go beyond non-profit or welfare agendas if they are to be truly effective and sustainable over time.

### 5. Sustainability

**CDFIs must be structured for sustainability.** They are, in effect, social businesses and aim to generate surpluses (aka profits!) from fulfilling their purpose. Their focus for this surplus or profit, however, is intimately tied to their purpose, which is to build the wealth and assets of the poorest sectors of our society. CDFIs cannot promote the building of financially sustainable households, businesses or organisations without themselves working towards sustainability. Government could certainly play a significant role in funding and catalysing the start-up of the CDFI sector. However, a CDFI sector that is totally dependent on government or philanthropic funding for the long-term is not sustainable and should not be encouraged in Australia. CDFIs need to be structured for sustainability and their business models must be developed around ensuring this sustainability over the long-term.

## 6. Social Impact

**CDFIs must be impact focussed organisations.** They exist to redress the market failures that have led to financial exclusion. As social purpose businesses CDFI's have a responsibility to focus their energy on maximising their social impact - that is, making a difference in relation to financial exclusion. The development and application of impact measures that focus on increased wealth and well being, sustainability, asset ownership and enterprise activity will be the ultimate indicators of a successful CDFI.

## 7. Support and Capacity Building

**CDFI's must build the capacity of people, businesses and organisations in the markets in which they operate.** Providing financial services and products to the most excluded people and groups in society is not just about increasing access. It is also about ensuring that people and groups are able to utilise these products in a way that builds their capacity and assists them to move forward on the pathway out of financial exclusion. CDFIs either provide this support and capacity building directly as part of their business models, or they leverage this support through specific partnerships with other organisations or social businesses. Support and capacity building are crucial dimensions of CDFI offerings and are core to CDFIs maximising their social impact. CDFI's across the globe incorporate capacity building as a part of the rigour of their investment approach, distinguishing them from traditional financiers.

## 8. Innovation

**CDFI's should seek the leading edge of innovation in addressing financial exclusion.** CDFIs offer 'new' and innovative ways to address financial exclusion - they are not 'more of the same delivered in a slightly different manner'. Although they may draw on traditions developed by friendly societies, credit cooperatives and mutual aid, they are focussed on innovative ways to utilise financial mechanisms to make an impact on financial exclusion. Currently, addressing financial exclusion is polarised between non-market and commercial market approaches. The development of CDFIs could see the emergence of a social market, that could ensure maximum social returns on investment while also offering opportunities for financial returns and financial sustainability. The exploration of social market approaches to addressing financial exclusion have been limited in the Australian context - indeed Foresters Community Finance is unique in this context as a social business (with a growing interest in this business model expressed by CDFIs in both the UK and the US).

## 9. Enabling Policy and Regulatory Environment

**CDFI's should be supported and monitored through appropriate policy and regulation.** The government has a crucial role to play in creating an enabling environment in which CDFIs could flourish in the Australian context. Regulation currently limits the role that banks and credit unions can play in addressing the needs of financially excluded individuals, social enterprises and non-profit organisations. By opening up opportunities and a regulatory space for CDFIs, the gap that currently exists between welfare responses and the commercial market could be filled with independent financial intermediaries who have the specific purpose of addressing financial exclusion. It is important that the development of this sector is approached carefully as there will be some players in both banking and non-profit spaces who may take the opportunity to reinvent themselves under this title without providing the impacts that focussed and independent CDFI's could deliver.

## 10. Source of Capital

**CDFI's should be structured to enable capital and investment to be sourced from a diverse base - with the majority of their funds coming from capital markets to ensure their long-term sustainability.** CDFIs need to be designed and developed as financial intermediaries who can source capital from a variety of places rather than being limited to traditional sources such as government funding or philanthropy. Foresters Community Finance has pioneered the field of social investment in Australia, which has brought new capital into the arenas of personal finance, social enterprise development and the community sector. It is imperative that any pilot projects or government funded initiatives to develop the CDFI sector in Australia build on what is currently available and ensure we see new capital flow into these underserved markets which CDFI's have a unique capacity to respond to. Should government fund the initial development of a CDFI sector in Australia then one of the key objectives of such a pilot should be to ensure that CDFIs can access diverse sources of capital and investment into the future. We must begin with a clear understanding and pathway towards sustainability.

- For more information about CDFI's visit Face Book and become a fan of Community Development Finance Australia.
- For more information about Foresters Community Finance visit our website [www.foresters.org.au](http://www.foresters.org.au)