



Advancing Equity:

Diversity and Inclusion at CDFIs

INTRODUCTION

In 2018, FUND Community Institute (FUND CI) released its landmark study, *Perception versus Reality: Women and Change in the CDFI Industry*. One of the key findings was that the CDFI industry has a long way to go in terms of achieving diversity and inclusion. To further investigate this issue, FUND CI conducted research to identify the best practices of CDFIs that are recognized as being ahead of the curve in fostering diversity, equity, and inclusion both internally and externally. The purpose is to share both innovative and replicable practices for use by other CDFIs in advancing their own diverse, equitable, and inclusive workplaces.

CDFI RESEARCH PARTICIPANTS

AltCap
Blue Hub Capital
Capital Impact Partners
Chicago Community Loan Fund
Craft3
Hope Credit Union
IFF
LIFT Fund
Opportunity Fund
Self-Help Credit Union
South Carolina Community Loan Fund

METHODOLOGY

To support this project, FUND CI assembled an Advisory Board of five members, including Ciere Boatright (Vice President of Real Estate and Inclusion at Chicago Neighborhood Initiatives), Erica King (President of Chicago Neighborhood Initiatives Microfinance Group), Victoria Lakes-Battle (Executive Director at Chicago Region IFF), Dr. Carmen Phelps (Diversity, Equity, and Inclusion Director at Enterprise Community Partners), and Sylvia Rebozo (Senior Grant Developer at Chicanos por la Causa).

The Advisory Board provided insight on the research plan, key guiding questions, key informant discussion guide, selection of key informants, and final report.

FUND CI conducted research over the spring of 2019 composed of a literature review, additional background research, and key informant interviews. As part of the research for the *Perception versus Reality* study, all 59 key informants were asked to identify those CDFIs they perceived to be industry leaders in supporting diversity, equity, and inclusion (DEI). This yielded a list of 12 CDFIs that were commonly mentioned. To supplement the list, the researchers solicited input from the Advisory Board, other stakeholders, and the interviewees, resulting in a final list of 14 CDFIs. From this list, the project team completed telephone interviews with 11 of these organizations.

The following pages present the findings from this study.

COMPOSITION OF KEY INFORMANTS

Represent 10 states

Headquartered in the Northeast,
South, Midwest, West, and Northwest

Several regional and national CDFIs

Nine nonprofit loan funds;
two credit unions

Conduct all types of CDFI lending

WHAT DO WE MEAN BY DEI?

To guide the research, the project team presented the following Ford Foundation definitions of diversity, equity, and inclusion to key informants:

DIVERSITY is the representation of all our varied identities and differences, collectively and as individuals.

EQUITY seeks to ensure fair treatment, equality of opportunity, and fairness in access to information and resources for all.

INCLUSION builds a culture of belonging by actively inviting the contribution and participation of all people.

Olivia Rebanal, Director, Inclusive Food Systems at Capital Impact Partners, provided another useful context for understanding these terms:

Diversity focuses on quantity: different identities and cultures

Inclusion focuses on quality: participation across identities and cultures

Equity focuses on justice: policies, practices, and procedures to ensure equitable outcomes

THE BUSINESS CASE

The literature review provides two key insights that informed the remainder of the research. First, there is momentum and ample discussion occurring about these topics in both the corporate and nonprofit worlds, including the CDFI industry. One example is that, over the past year, Next Street spoke with eight CDFI leaders and all agreed they “are increasingly focused on diversity, equity and inclusion as a core value” (*Next Up: CDFI Leaders Thinking Ahead and Acting Now - Reflections*, Tim Ferguson, October 2018).

The second finding is that fostering diverse, equitable, and inclusive organizations supports not only the social good but also the profits and innovation of the company. There has also been significant research on the financial benefits of fostering DEI to all types of companies. Two pieces of recent evidence:

“Companies with more diverse management teams have 19% higher revenues due to innovation.”

How Diverse Leadership Teams Boost Innovation
Boston Consulting Group, January 2018

More diverse companies launch an average of two extra products in any given year.

Do Pro-Diversity Policies Improve Corporate Innovation?
Financial Management, December 2017

OVERALL STATE OF DEI MOVEMENT IN THE CDFI INDUSTRY

Given the mission and history of the industry, a commitment to and knowledge of DEI issues is believed to be inherent to and part of the culture of CDFIs. However, while DEI issues are frequently part of industry discussions, these values and beliefs are not yet codified into formal policies or procedures.

A common theme from key informants is that, for most CDFIs, their support and implementation of DEI initiatives is an organic process that currently is mostly about consistently moving the pendulum closer to equity.

“I would probably describe our commitment as very, sort of, values led, but still quite informal.”

“I don’t know if we necessarily have any formal policies around that. It’s just ingrained in the values of the organization at every level.”

“I think there’s a lot of places we identify some of our core values as really highlighting DEI, but not necessarily being named explicitly as such.”

“We are in agreement, but there is nothing in our policies yet that reflects this.”

“Our culture is organically E and I – the way that we work with each other and give all people a chance to lead, but not in writing. We don’t have that structure.”

“Commitment to DEI, but need more language and intentionality behind it.”

“As a continual iterative process that’s more of a journey, not necessarily a destination.”

SELECTED QUOTES

WHAT IS DRIVING THE MOVEMENT?

For many CDFIs, the commitment and driving force behind DEI initiatives is the leader of the organization. In other cases, it is an individual employee who is very focused on these issues and takes on and champions this work in addition to their own responsibilities.

There are also cases where the start of these initiatives derives from an organizational change such as a merger or acquisition, leadership change, or participation in an external program related to DEI.

“Our approach or our business strategy to diversity and inclusion is really a top-down or top, starting with leadership and then matriculating throughout the organization. The leadership really sets the tone for the significance of this initiative, which I think that’s where it should be.”

“One of my real concerns as CEO is that we get some of this commitment to these issues sort of operationalized, if you will. So that it becomes a regular part of our practice.”

“And I cite that as a moment of transition because [the new CEO] has definitely championed and languaged a high level of serious commitment to racial and social equity at our organization.”

“It is not my job, yet it’s in my job description currently, and is on my plate because I feel strongly about it. But that is an unacceptable way to approach this work at a systems level.”

“And I think I remember that, within a couple of months, expressing interest to my supervisor at the time, around having some kind of racial equity working group, or committee, or focus around that.”

“I think most of the effort has been mostly staff driven, so we’re thinking about how can this trickle up to the leadership as well, more broadly.”

SELECTED QUOTES

COMMON DEI PRACTICES OF LEADING CDFIS

All CDFI staff interviewed expressed that their organizations are committed to fostering inclusive and just workplaces. The following are common practices shared by many of the organizations:

- Mission statement and/or strategic plan that they believe implicitly addresses DEI or might even specifically set forth demographic lending goals
- Core organizational values that explicitly state support for DEI that may include a formal diversity statement
- Committees or groups that research and discuss DEI issues and that also might suggest initiatives
- Engagement in discussions about hiring and recruitment policies as they relate to DEI and implementation of at least some modifications to their processes
- Participation in external initiatives, research or trainings related to DEI
Examples include: Wells Fargo Diverse Community Capital, Kresge Fuel, Center for Community Investment, Race Forward, Demos, and Chicago Regional Organization for Antiracism (C Roar)
- Acknowledgment and stated understanding that diversity and equity and inclusion are not the same issues and deserve equal and different attention

DIVERSITY IN THEIR OWN WORDS

The project team spoke with interviewees about their perspectives on the composition of their organization's staff and board and how they aligned with the communities they serve.

"When it comes to the overall team, we blow our peers out of the water."

"On our staff I would say that we're generally pretty diverse ethnically. However, I would be very interested in knowing where positions of power and where the greatest progression occurs."

"Absolutely. Our mission, of course, is to serve the underserved and the underbanked. You will find all of our locations in communities that represent the underbanked, underserved population, and what we describe as high-impact areas."

"But our demographic, I think, speaks for itself. It's very diverse: It's well over half female; it's well over half minority, as well."

"At the senior management level, we're actually trending in the right direction."

"No. I think that we can agree that we're not. I do think we've made strides, though."

"Not as diverse as it should be."

"So my guess is it's probably mixed at best."

"We outperform our peers in terms of overall board diversity."

"I'd say both our board as well as our most senior leadership team, I think we have, certainly, a ways to go on increasing the diversity there."

"The majority of our board of directors represent people of color or minority representation."

"No. For the most part our board members, it has a lot to do with how we've been historically funded. So a number of our board members are bank representatives, so they look like traditional bankers."

CDFI BOARD

CDFI STAFF

DEI CDFIS HAVE INNOVATIVE PRACTICES

The practices outlined here stood out as innovative and/or unique and also as furthering the implementation of formal policies supporting DEI, including:

- Adopting a formal DEI budget
- Formally evaluating each department with respect to DEI issues and developing a work plan for change either through hiring a consultant or creating a formal internal committee
- Including employee adherence to DEI core values as part of performance evaluation
- Implementing comprehensive evaluation and modification of hiring and recruitment policies and procedures
- Making changes to underwriting
 - Updating policies to not be based solely on appraisals
 - Discussing possible displacement issues with project sponsors
 - Getting genuine engagement from community that includes power sharing and is not simply extractive
- Requesting investors make changes to Board representatives
- Completing a formal compensation study with adjustments to identified inequities
- Holding full-day staff equity training

“Employee evaluation includes adherence to DEI core organizational values. These values are explained as part of onboarding and then the employees are evaluated as to how they implement them. It’s really how well they seek diverse opinions, apply standards, and appreciate cultural diversity. For example, Minimally Effective would be, ‘May inadvertently apply standards unequally. Needs to seek more diverse opinions or find ways to use diversity as a strength. Maybe from diversity training.’ And then something like Highly Effective would be, or is described as, ‘Sincere appreciation for cultural diversity. Deliberately seeks perspectives from various groups. Incorporates perspectives when making decisions. Uses the differences of people to create a competitive advantage.’ So the measure around diversity... roughly breaks out to 16.7% of this person’s evaluation.”

“Trying to think about how could we make the hiring process [crosstalk] more equitable, right? So that manifests itself in how we write our job descriptions, where we post them, how we interview folks, who’s in the room interviewing, how we debrief.”

RECRUITMENT AND HIRING PRACTICES

- Using technology (human capital software management system) to post job opportunities in a wide number of places
 - Includes *Discover Your Potential* tool, which allows applicants to input skills and be matched to jobs
- Expanding recruiting network by building relationships with HBCUs, women-oriented organizations and affinity groups, chambers of color, organizations that have a higher percentage of participation by professionals of color
- Assessing potentially limiting job requirements, such as BA degree credential
- Eliminating previous salary history questions to eliminate bias
- Eliminating criminal history question
- Asking the same social impact questions of all candidates
- Implementing a formal debrief process to discuss candidates with full team
- Committing to paying interns

WHERE IS THE MOVEMENT GOING?

All interviewees were asked what they hoped to see at their organization with respect to fostering DEI. Responses included:

- DEI incorporated into all formal policies and procedures of the organization
- Dedicated DEI staff member
- Achieve DEI in staff and board composition and in leadership and decision-making positions
- Re-conceptualize community input and participation on projects

“I’m hoping that our DEI policies become such an authentic and inherent part of how we operate that we have formal metrics and processes that we are measuring, but that people are just generally and authentically challenging and working with each other in this type of framework. That it just becomes part of who we are and how we operate. That our customers see it – stakeholders, investors, and partners. And it’s just another hallmark of who we are. I think people appreciate us now as an organization that will treat the disadvantaged with respect and dignity. I would love for folks to see this DEI way of being as a hallmark of the organization.”

“I would like to be known as an organization that actively addresses diversity, equity and inclusion and uses the movement of capital to do so. I have often said I won’t be happy when I leave unless we are seen as a civil rights organization. And then I think, from a more kind of tactical perspective, could you look at our policies and procedures and know that we were absolutely committed to addressing issues of diversity, equity and inclusion?”

“That’s why I’m very eager to add someone to our staff that would specifically be catered towards D&I initiative.”

“Yeah, I think how can we modify our application process or our underwriting to reach more potential borrowers that even we can’t lend to?”

“And I think seeing more ... having more formalized policies, and goals, and benchmarks for where we’re trying to get, I think, is important.”

“We will then hopefully acknowledge that, in order to address it sufficiently, we would have a position at a level that can make decisions on changing those policies in the institutions.”

CONCLUSION

As always, when working with the CDFI community, FUND CI was gratified at the willingness of organizations to participate as part of the Advisory Board and as key informant interviewees. We sincerely thank all who participated.

WHAT'S GOING ON AT FUND CI?

All of our reports are available at www.fundci.org

Wisdom Fund partnered with FUND CI to explore why **women small business owners** access capital at lower rates than their male counterparts. To explore the issue, FUND CI analyzed data from CDFIs with a track record of lending to small businesses as well as a literature review to better understand trends related to lending to women entrepreneurs.

FUND CI released its findings from its landmark study, ***Perception versus Reality: Women and Change in the CDFI Industry.*** The findings from the study reveal that although the CDFI industry is perceived as more welcoming and that women can succeed more than in other industries, gender discrimination remains an issue in the industry.

Look for the release of a follow-up study on the role of **women at Native CDFIs** and lessons for the industry coming out this quarter.

THE FUND FAMILY

The FUND Family of organizations works collectively to facilitate positive social, economic, and environmental impacts through consulting services, research, training, and facilitation of opportunities for knowledge sharing. Consisting of FUND Community Institute (a nonprofit think tank) and FUND Consulting (a for-profit consulting firm), FUND delivers high-quality services with a focus on supporting organizations and practitioners fostering positive outcomes in communities nationwide. The leadership of both organizations has certifications in Fostering Inclusion and Diversity from the Yale School of Management.

For questions, please contact Ruth Barber at ruthbarber@fundci.org.

