

*An Informed Discussion:*

**Achieving Sustainability, Scale, and Impact in  
Community Development Finance**

**Kirsten Moy and Greg Ratliff**

**The Aspen Institute**

**April 21, 2005**

# Contents of Presentation

---

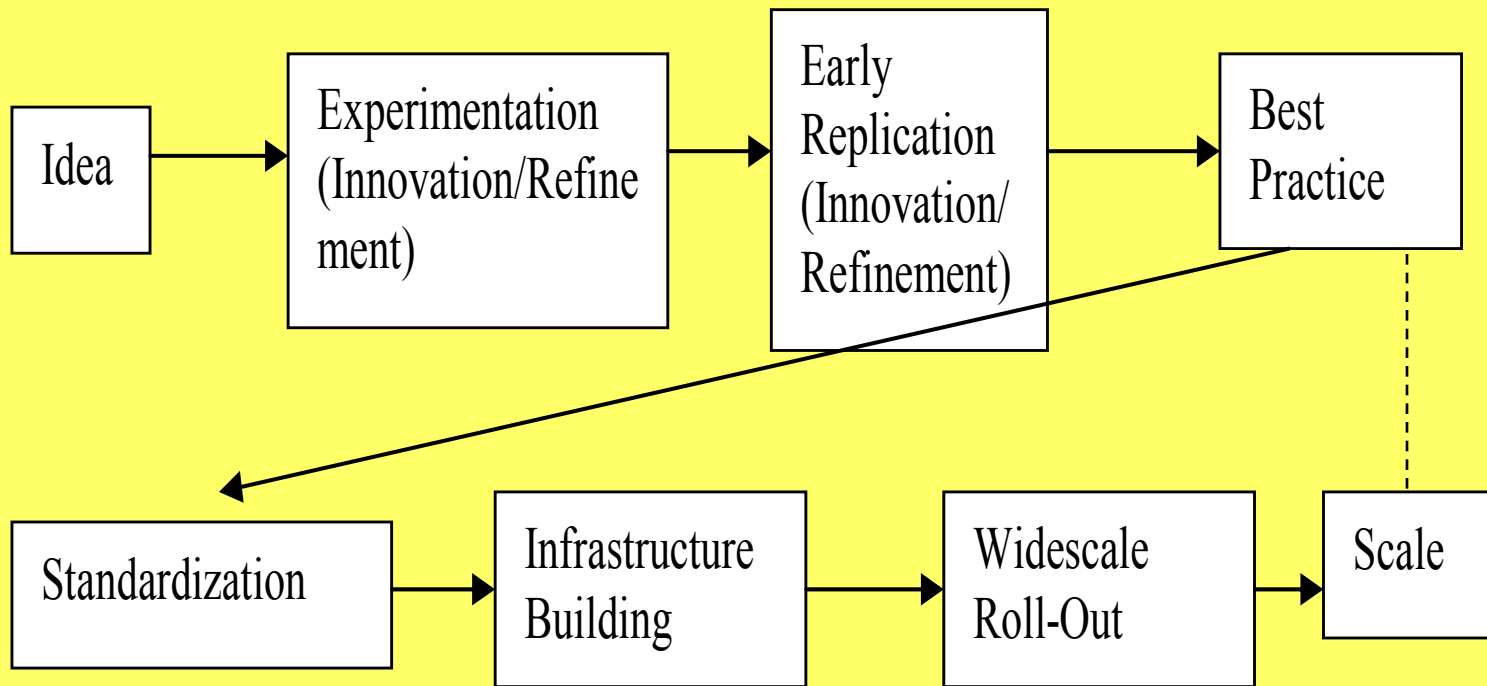
- ◆ Initial conception and framework for research
- ◆ Lessons across the case studies
- ◆ Three models for understanding scale
- ◆ Putting the models together
- ◆ Balancing scale and impact
- ◆ Objectives for the day and a half

# Why Pursue Scale?

---

- ◆ To provide access to credit to as many low income people and communities as possible on a permanent and sustainable basis.
- ◆ Goal is to create larger organizations that can reach more people, tap into economies of scale and become more sustainable, and ultimately have greater impact in low income communities.
- ◆ Scale became our proxy for success. Need to better understand the dynamics of getting to scale.

# Model for Reaching Scale



Source: Alan Okagaki & Associates

# Case Comparisons Undertaken

---

## ◆ **Banknorth Group**

A bank that grew 10-fold in 10 years but maintained its community focus.

## ◆ **7-11 (Vcom Expansion)**

Rollout of a new financial services delivery system utilizing technology.

## ◆ **VISA Credit Card**

The world's most widely accepted payment system for consumers and businesses.

## ◆ **ACE Cash Express**

Growth of a nonbank financial institution with a broad retail presence.

## ◆ **Allied Capital and BLX**

A diversified financial services company focusing on small & emerging businesses.

# Case Comparisons Undertaken

---

## ◆ **The Reinvestment Fund**

Evolution of a CDFI into a regional community development organization.

## ◆ **Self-Help (Fannie Mae SF Mortgage Program)**

Creating a secondary market for HLTV single family mortgages.

## ◆ **ACCION International/ACCION USA Retooling**

Evolution of one of the world's premier microfinance organizations/network.

## ◆ **Dell Computers**

Built to order computer manufacturer and supplier.

## ◆ **Unified Western Grocers**

A California-based cooperative working to grow its members' size, sophistication and earnings.

# Description of Case Selection

- ◆ Industry leaders that were generally acknowledged to have successfully scaled up.
- ◆ Organizations where we had a personal contact who would provide entrée and higher quality information.
- ◆ As a group the organizations emphasized financial service delivery, and included nonprofit, for profit and cooperative models.
- ◆ Selected organizations whose business approach could serve as a model for CDFIs.

# Lessons Across Cases

---

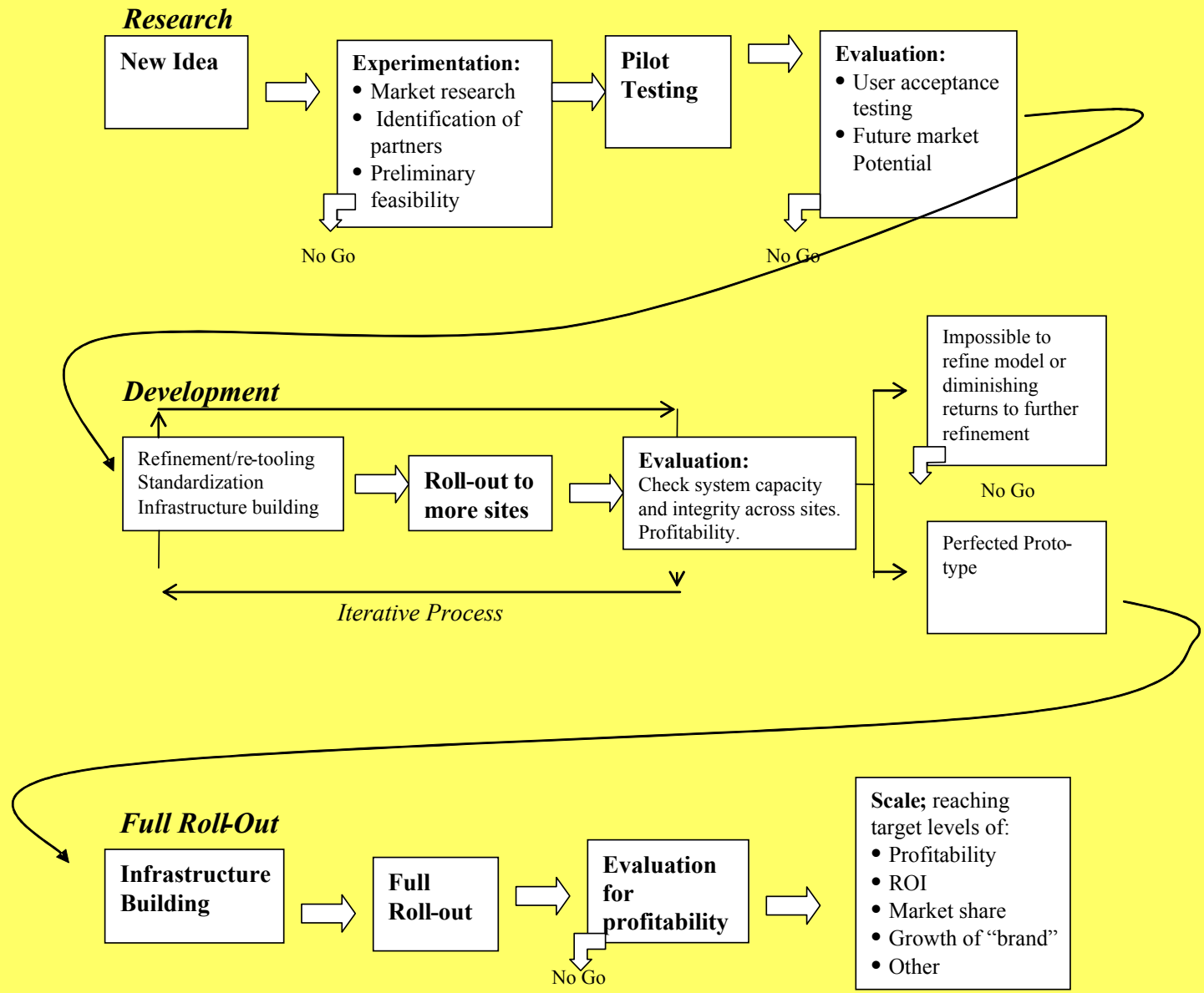
1. Demand for services or a clear market gap were the primary drivers in determining which products and services to scale up.
2. Companies partnered with organizations that had specific knowledge or expertise in an area the growing organization didn't, or where the partner produced a needed component of the product or service.
3. Investments in Technology often led to increased efficiency and cost savings.
4. Significant investments in Infrastructure were also crucial to successful growth. Investments often increased integration of operations and facilitated product development.
5. Capital was raised several times at strategic points in the growth and scale process and the volume of capital raised was in the tens of millions in every instance.

# Lessons Across Cases

---

6. Geographic expansion was central to generating sufficient volume of transactions to reach scale.
7. Different management skills are needed at different points in the growth process. Successful organizations recognized this and accessed the requisite skills through a variety of means.
8. Several organizations in the study changed their legal structure to accommodate future growth.
9. The ability to adapt to changing market conditions in a timely manner allowed organizations to continue to grow.
10. The profitability of new product introductions was the primary driver of product development. The ability to produce a diversified yet complementary set of products was critical to achieving scale.

# Model: Product Level



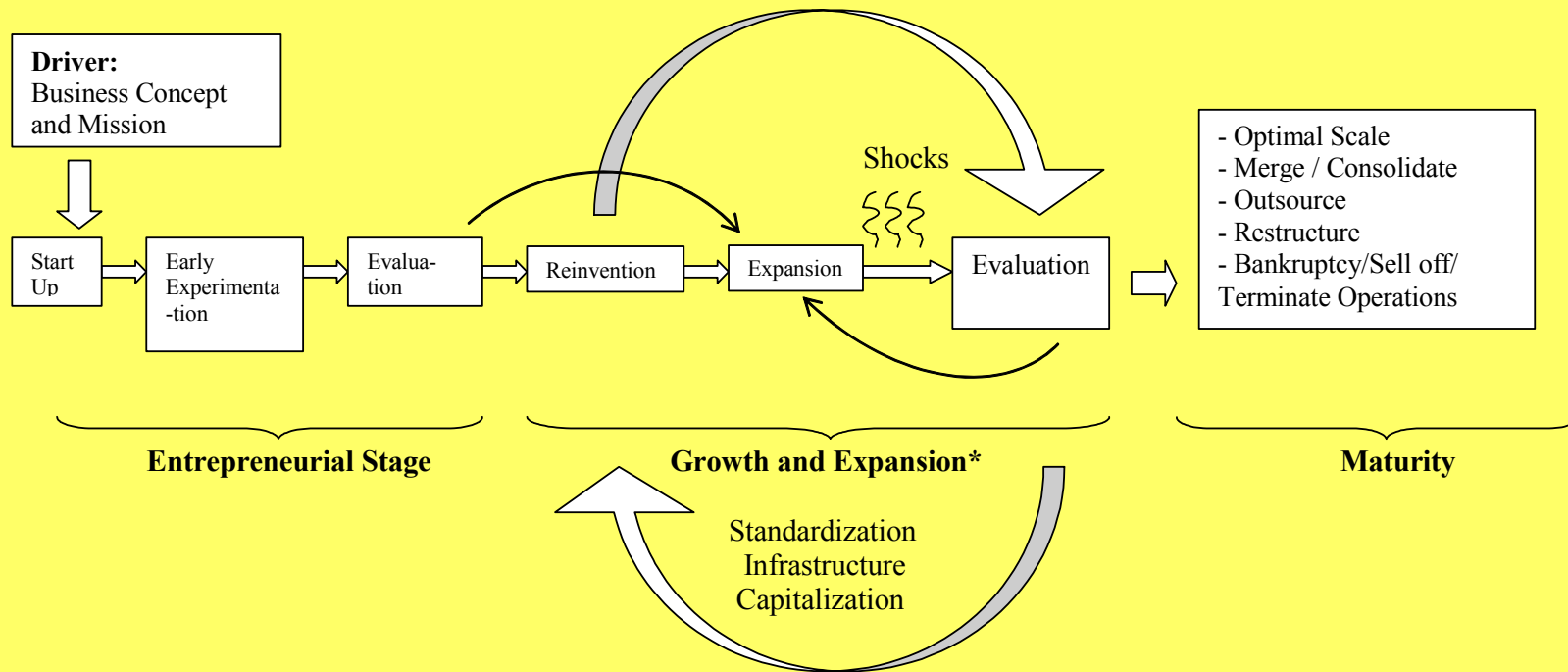
# Model at Product Level Suggests

---

- ◆ Going to scale is not a linear, but an iterative process comprised of idea development/standardization/ infrastructure building/testing and evaluation at every stage.
- ◆ The process takes far longer and cost far more than any of us would like to think or can support.
- ◆ It is likely that many (most?) developing products will be rejected along the way.
- ◆ A full rollout cannot be staged until there is a perfected prototype – something we rarely achieve in the CD world.
- ◆ Implicit in the model is strong product demand (i.e., broad acceptance or desire for a product), if scale is the ultimate goal.

*The private sector does not think in terms of “building scale,” but of reaching target levels of profitability, geography, market share, brand dominance, and they have far more resources to do so.*

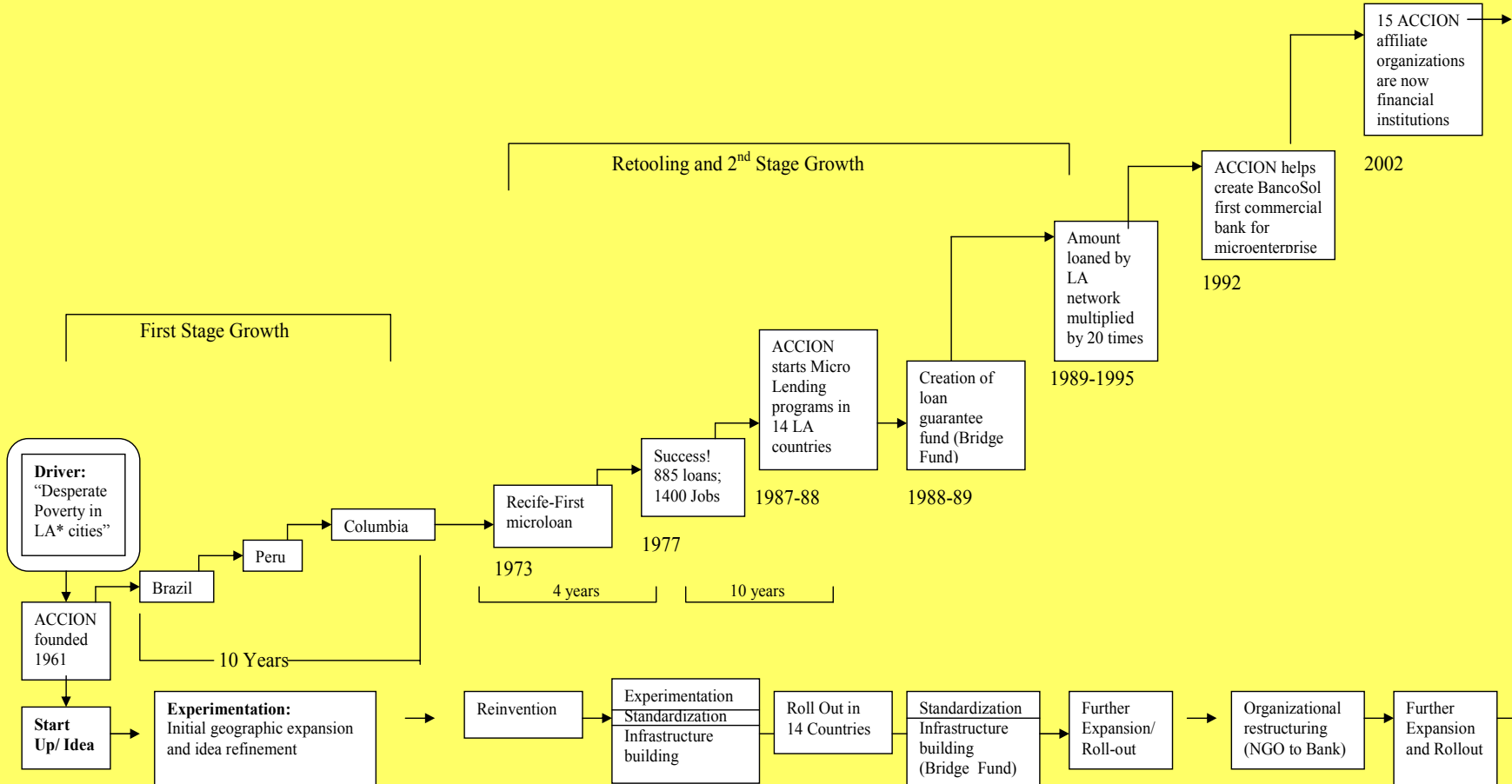
# Model: Organization Level



\* Growth and Expansion (reinvention, expansion and evaluation) may occur along multiple product lines, in growing or expanding markets or with greater penetration of a single product within the existing market.

# The Model: Organization Level - ACCION

Retooling, organizational restructuring and 3<sup>rd</sup> stage growth



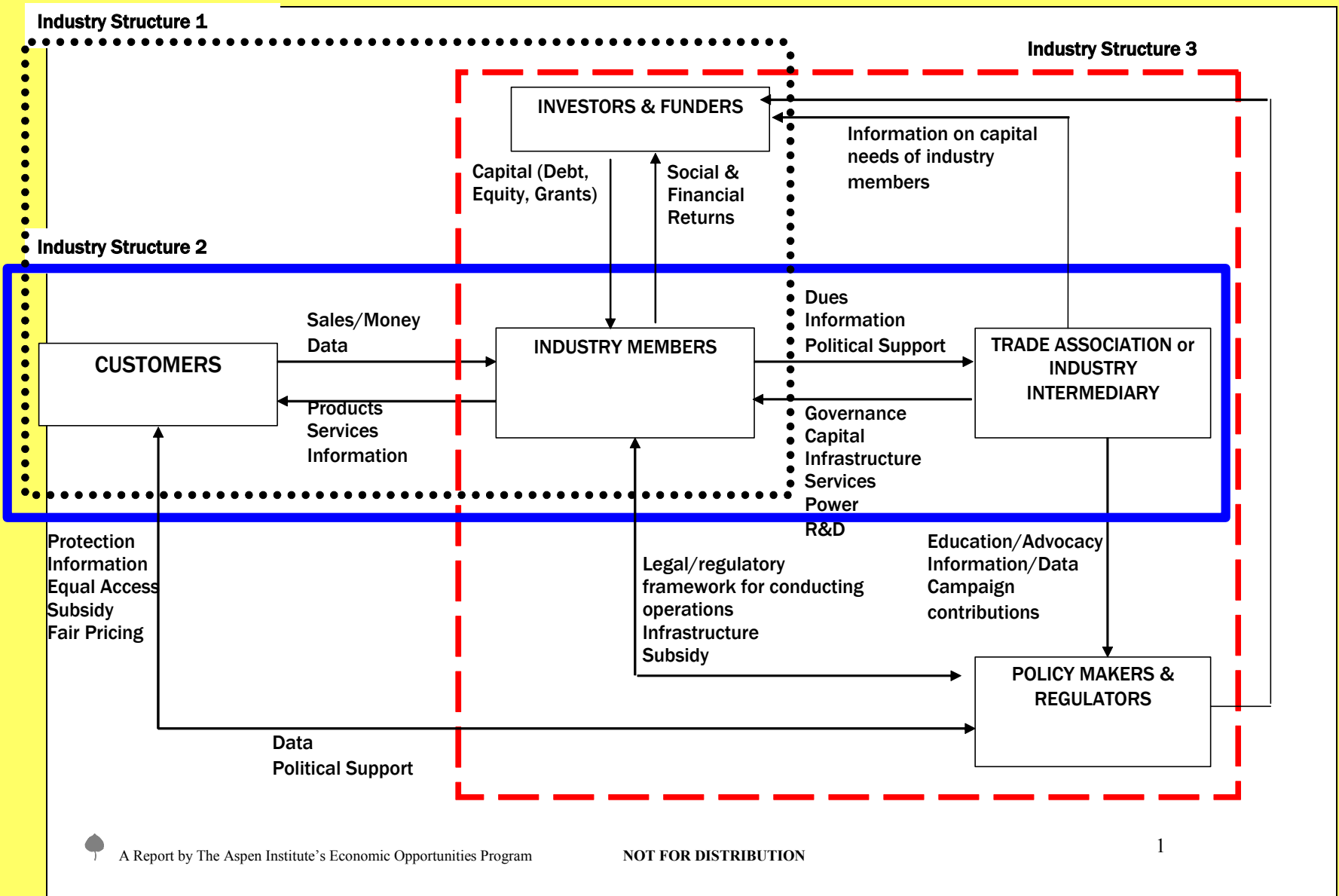
\*LA=Latin America

# At the Organizational Level, the Model Suggests a Different Set of Findings

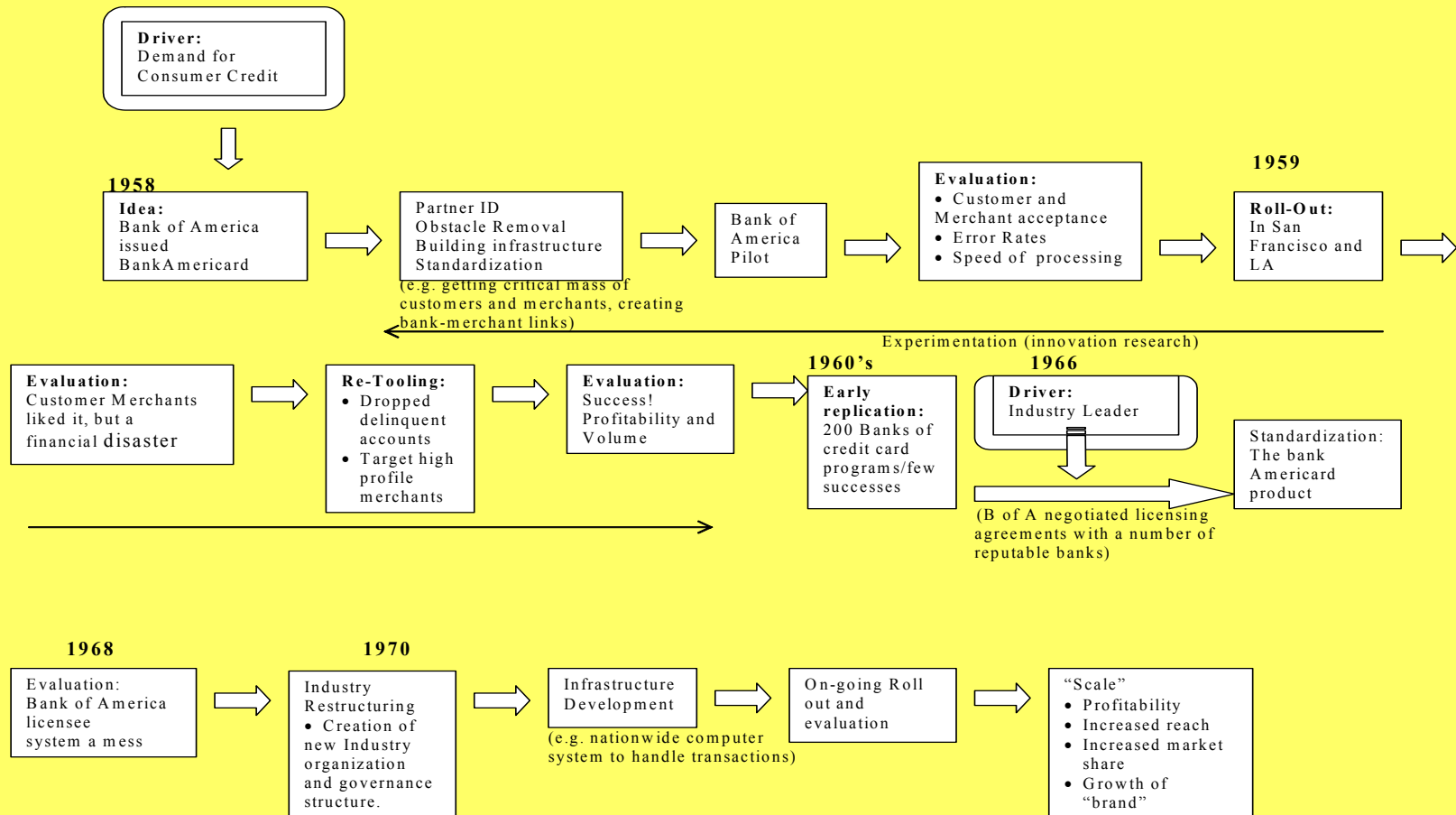
---

- ◆ Organizational scale cannot be achieved without one or more products/services that go to scale.
- ◆ Scale cannot occur w/o sufficient geographic or program scope for an organization to expand.
- ◆ Scale cannot be achieved w/o sustainability.
- ◆ Key investments in infrastructure can catapult an organization to a new level of activity and impact.
- ◆ Need for new organizational structures and new partnerships as the organization grows.
- ◆ Reaching scale can take a long time, a period possibly better measured in decades than in years.
- ◆ Scale is a characteristic associated with networks (or an industry), not an individual organization.

# Model: Industry Level



# The Model: Industry Level - VISA



# The Industry Model Offers...

---

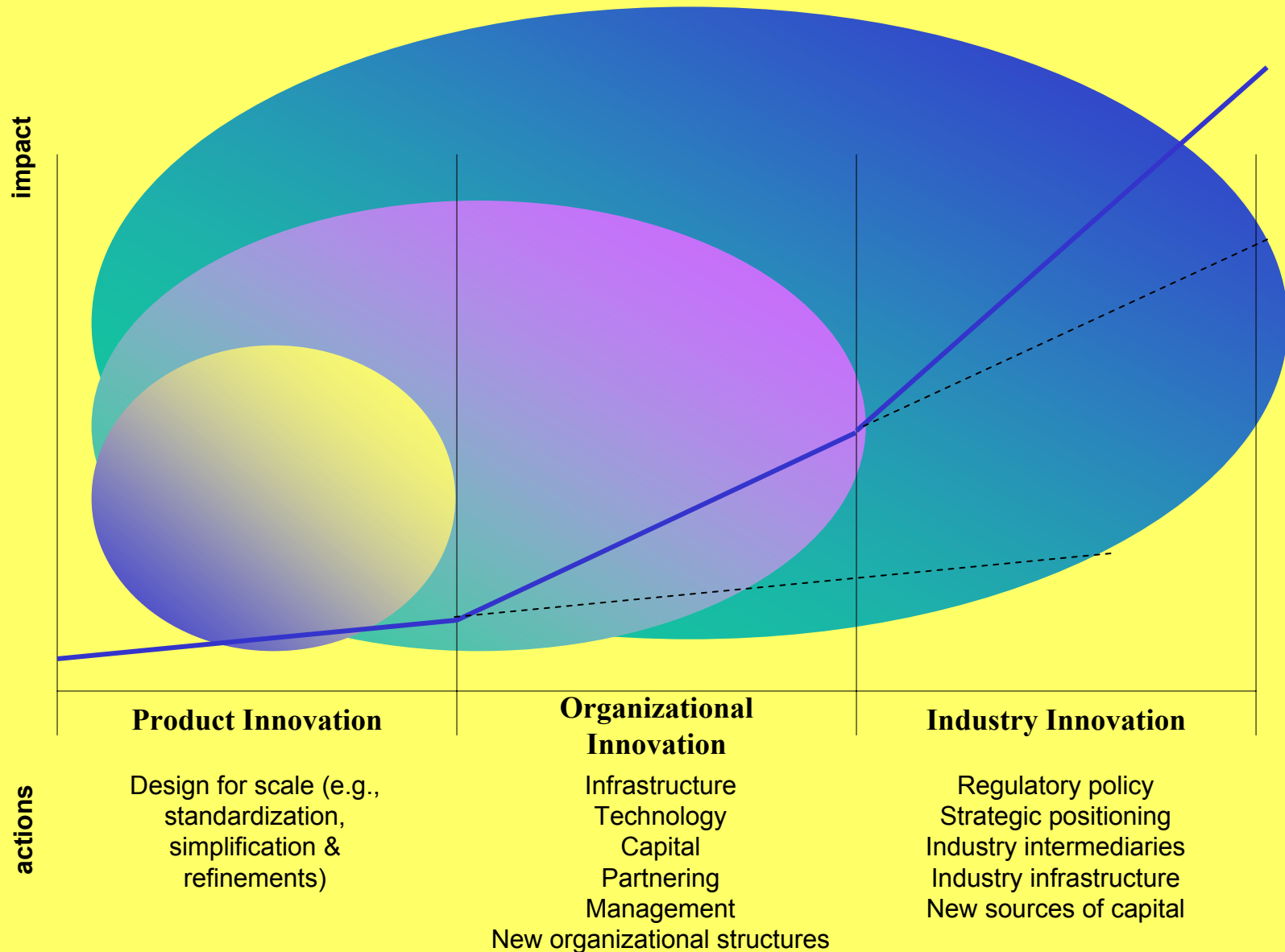
further insights into the scale-up of a product, how product and organization scale are linked, and how an industry reaches scale

- ◆ Typical industry structures support direct interaction between the customer and the industry member. In the CDFI industry the most direct interaction is between the funder/investor group and industry members as well as with regulators.
- ◆ In an industry of small players, industry networks and other forms of affiliation become more important as agents for successful scale and growth.
  - ❖ Access to common infrastructure can enable networks of organizations to work cooperatively to deliver greater volumes of product with increased efficiency
  - ❖ Strong training and development efforts are necessary for growing management talent
  - ❖ Sufficient industry clout can create a more supportive legal, regulatory and policy environment
- ◆ An industry leader can play a powerful role in setting standards and creating standardization in an industry.

# Challenges of CDFI Industry Model

- ◆ Overcome the disruptive effect of subsidy and build a stronger connection to the customer (the ultimate issue is impact).
- ◆ Improve strategic positioning: A clearly defined value-added role for CDFIs within the financial services market place that builds a strong connection to mainstream institutions.
- ◆ The creation of a viable network that can take the industry to scale and entails at a minimum:
  - ❖ Workable governance structure
  - ❖ Effective industry branding and communications, clout
  - ❖ Identification of new flexible sources of capital beyond traditional government and philanthropic dollars that can support growth at each level of development.

# New Pathways to Scale for Community Development Finance



# Balancing Impact and Scale

# Tension of Growth

---

- ◆ There is a fundamental tension between being community or place-based and going to scale.
- ◆ Scale is not a realistic goal for the majority of place-based development finance organizations.
- ◆ The CDFI product mix has been developed in response to community need not sustainability.
- ◆ We have it reversed. Sustainability is the path to scale. Scale is not always the path to sustainability.
- ◆ Funders and CDFIs have focused mostly at the organization or industry level where scale in terms of numbers reached defines success.
- ◆ A viable business model that incorporates long term profitability will be required.
- ◆ Investing in Infrastructure is critical to future growth and successful scale.
- ◆ CDFIs have limited mechanisms for raising the amount of capital required to successfully scale up their operations.

# To Grow or Not to Grow?

- ◆ We all want greater impact, but is increased product/service delivery the only way to have greater impact?
- ◆ Pursuing impact apart from direct product/service delivery can free us to explore alternative strategies: e.g.,
  - ❖ Policy and regulation, which can affect far larger numbers of individuals or communities than the delivery of a financial product; or
  - ❖ Becoming sufficiently connected, credible and resourced as an organization to affect an issue or a market. Demonstration effect.

# Research Conclusions:

---

- ◆ To achieve scale, our thinking must shift from the current focus on product innovation to product delivery, and from developing products to developing organizations and the industry. In addition, the funding environment must parallel these shifts.
- ◆ To achieve scale, we must first achieve sustainability; to achieve greater scale, we must maximize our use of subsidy.
- ◆ Growth is perilous, and growth for growth's sake can reduce the community development impact of our initiatives.

# Research Conclusions:

---

- ◆ **Any strategies for achieving scale in the CDFI industry must address fundamental issues of industry structure; two emerging directions for the industry to investigate:**
  - ❖ Greater integration (or re-integration) of the field's activities into those of mainstream financial institutions, focusing on the value-added and optimal roles of CDFIs,
  - ❖ Development of stronger and more comprehensive infrastructure to support networks of CDFIs that will work cooperatively or collectively to deliver products and services to significantly larger numbers of people.
- ◆ **It's ultimately about impact, and achieving scale is only one way to achieve impact.**

# Purpose of this Conversation

- ◆ Refine the proposed common framework for scale and sustainability.
- ◆ Explore new business models and industry structures with potential for promoting scale and sustainability in the field.
- ◆ Consider mechanisms for implementing future dialogue and action supporting the development of new organizational and industry practices.

*An Informed Discussion:*

**Achieving Sustainability, Scale and Impact in  
Community Development Finance**

Contact Information:

Kirsten Moy and Greg Ratliff

[Kirsten.moy@aspennst.org](mailto:Kirsten.moy@aspennst.org) and [Gregratliff6@aol.com](mailto:Gregratliff6@aol.com)

The Aspen Institute