Carolina Small Business DEVELOPMENT FUND

Amber Bell
CDFI Program and NACA Program Manager
Community Development Finance Institutions Fund
Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20220

May 1, 2019

Re: Comment on CDFI Program Financial Assistance and Technical Assistance Applications (OMB #1559-0021).

Dear Ms. Bell,

In response to the above request for public comment, Carolina Small Business Development Fund (CSBDF) respectfully submits the below for your agency's consideration. As a certified unregulated CDFI, CSDBF works to promote community economic development across North Carolina and surrounding states. Our ultimate goal is to offer an accessible pathway for small business success to aspiring and existing entrepreneurs. That goal is achieved through a three-pronged approach which encompasses: (1) affordable financing, (2) comprehensive technical assistance, and (3) evidence-based policy research. By helping entrepreneurs reach their business ownership dreams, we seek to grow and support the primary engine of neighborhood-level economic growth. CBSDF is a past awardee of the CDFI program's Financial Assistance grant, and it is from that perspective that we offer the below comments.

Financial support available to CDFIs and other community organizations has been in decline for decades.[i] Research shows one of the biggest challenges confronting community development organizations is the ability to secure resources and ensure operational sustainability.[ii] The overall declining capacity of community development organizations writ large has become so pronounced that philanthropic organizations at both the local[iii] and national[iv] level have begun offering grant programs to raise the capacity of CDFIs and those performing similar work. The Fund's FA and TA grant programs are vital because they serve as a consistent source of operating support for lending and other programs. In our opinion, these grant programs are a critical facet of an ever-dwindling CDFI financial support structure.

Because these grants are funded by public tax dollars, we recognize that the CDFI program must ensure awardees can achieve *meaningful* outcomes which increase the economic wellbeing of their clients. That high standard of accountability and transparency requires that the application process be both rigorous and comprehensive. Although we agree with and support these intentions, we would also encourage the Fund to consider balancing such ideals against the capacity constraints that characterize most CDFIs. There is growing concern that the

FA and TA application requirements have become increasingly complex and technical in nature. If the ultimate aim of these grants is to promote sustainable economic development by CDFIs, neither the application nor the program requirements currently facilitate that goal.

According to public data releases by the CDFI program, the average number of administrative staff for awardee loan funds has stayed constant over the past decade. On average, loan funds employed 5.9 full time administrative staff for fiscal year 2016. Loan fund staffing in this area has essentially remained the same over the past decade (+1%), even though it has grown remarkably for other types of institutions like Banks (+85%) and Credit Unions (+198%). On average, about 35% of CDFI loan fund total staff was devoted to administration in 2016 – a slight decline from 38% in 2007. What these data suggest is that staff capacity to manage the FA and TA application process is declining, even as the application process itself becomes more complex.

TA/FA Awardee Average FTE Staff by CDFI Classification[v]

Type	Administrative			Technical			Lending		
	2007	2016	%	2007	2016	%	2007	2016	%
Banks	14.1	26.0	85%	1.3	7.8	490%	15.0	33.2	121%
Credit Unions	6.4	19.1	198%	2.6	8.8	240%	3.8	30.0	685%
Loan Funds	5.8	5.9	1%	4.6	4.2	-7%	5.1	6.5	29%
Venture Funds	3.2	3.0	-7%	2.2	3.1	41%	3.2	3.8	20%
Overall	5.6	7.8	38%	3.9	4.7	21%	4.8	9.9	105%

TA/FA Awardee Proportion of FTE Staff Devoted to Administration[vi]

Type	2007	2016
Banks	25%	24%
Credit Unions	24%	20%
Loan Funds	38%	35%
Venture Fund	37%	30%
Overall	34%	27%

As currently structured, the CDFI Fund's TA and FA application processes tend to reward organizations that need it the least. This is a byproduct of a grant process which is so complex that organizations must devote a high level of staff and financial resources simply to apply. CSBDF estimates that it takes well over 160 hours of time across all staff members to complete the application. In addition to the significant time spent by our staff on this process, CSBDF has also begun utilizing CDFI grant writing consultants. The requirements for matching funds compound the problem, because smaller CDFIs are unable to provide that kind of financial commitment.[vii] While the capacity and financial commitments required to apply for the Fund's TA and FA programs are increasing, the awards themselves are declining. Of note, the Fund's average FA award size has declined nearly 40% from $1.2M in FY2016 to $720k in FY2018.[viii]

Both due to the complexity of the process and the matching funds requirements, many organizations which could be very effective in their utilization of grant funds are altogether discouraged from applying. To improve the process and better align the TA and FA program goals with their intended audience, we recommend the following reforms:

I. **The TA and FA applications should undergo a full program audit to assess the usefulness of each question and estimate the administrative cost related to collecting data.**

Collecting robust and actionable data is key to the long-term health of CDFI organizations and the Fund itself.[ix] However, the reporting and compliance burden associated with the Fund's TA and FA programs mandate the collection of information related to a variety of output (not *outcome*) data. We encourage the fund consider a full audit of application and reporting data related to the FA and TA grant process. Data which are either difficult to collect accurately, or data for which the administrative burden to collect accurately is extraordinarily high, should not be required. The CDFI Fund's removal of the institution-level reporting (ILR) requirement and the reduction of the transaction level reporting (TLR) for awardee CDFI's are recent reforms that demonstrate this idea in practice. The Fund should considering applying the same process to the TA and FA application/reporting requirements in order to reduce burdensome data collection in ways which will ultimately improve overall data quality.

We recommend a program audit of the process which asks the following of every question or data point applicants are expected to submit or later report on: First, is the application question or data point related to an *outcome measure* which can be directly or indirectly tied to the goals of the FA or TA program? Second, is the application question or data point an item for which CDFIs can *accurately answer* and report on? Third and finally, is the estimated cost and administrative burden required to answer the application question or data point *reasonable* for the low capacity organizations that the FA and TA programs are targeting?

II. Reduce requirements that CDFIs project output activity in areas where such forecasts cannot be estimated with any reasonable degree of accuracy.[x]

The Fund's grant programs require that applications project programmatic or lending activity outwards for multiple years. Awardees are then mandated to meet benchmarks related to these projections. For example, the FA application requests that applicants choosing objective 2 project specific dollar amounts that will be deployed per each new targeted population. However, it can be extremely difficult to estimate this with any degree of accuracy. By their very nature, targeted populations are hard to reach and their lack of interactions with financial institutions makes measurement difficult even for well-resourced CDFIs.[xi]

Overall, most CDFIs do not have the technical capability to project these categories of activity with any degree of certainty. In some cases, this causes CDFIs to underestimate projections to ensure they would be able to meet what later become mandatory compliance benchmarks. In other cases, smaller CDFIs may estimate overly aggressive targets that they cannot reasonably maintain in order to secure an award. Only resource-rich CDFIs have the capacity to produce projections that have any foundation in data analysis or statistical modeling.

Because the relative size of these projections play a role in making grant awards, well-resourced organizations tend to have disproportionate chances of being successful.

Even when smaller CDFIs receive awards, the organization is required to meet projection benchmarks regardless of the award size. For example, a small CDFI making projections based on a requested $1M maximum FA award size is required to meet projections even if they are only awarded $500k. Because the CDFI Fund's grant program awards tend to be consistently less than what the organization request, this puts a disproportionate burden on smaller CDFI awardees.

III. Where appropriate and backed by best practices for program evaluation, allow the use of qualitative data to demonstrate impact of FA and TA awardees.

A great deal of research supports the idea that qualitative data collection can be an appropriate method to demonstrate programmatic impact.[xii] Presumably, the Fund does not allow the use of qualitative data in grant program metrics because such methods are difficult to standardize across all awardees. While the need for standardized data collection on impacts is desirable, the scope of work performed under the FA and TA objectives is large and sundry. For example, one allowable objective of the FA award is the provision of new products or services. In the first few years of a new service offered by a smaller or low capacity CDFI, quantitative outputs are likely to be highly volatile. Because lower capacity CDFIs are unable to meet the strict compliance burdens the Fund imposes when projecting activity in this category, they will not select this objective. Such behavior hinders programmatic innovation within the CDFI industry, which is contrary to the goals of the Fund. Applicants should be allowed to propose evidence-backed qualitative metrics for each objective, including methods like representative focus groups.

IV. Provide guidance on FA and TA application questions which require the reporting of data with unclear or inconsistent definitions.

Many of the questions for the grant programs require the production of detailed demographic data. However, the Fund has not consistently provided guidance on how many of the terms used to measure this information should be recorded. For example, Table 3 of the FA application requires the reporting of clients by income. While the Fund uses a consistent definition for how to *categorize* low or moderate income status (percentage of area median income), there is no guidance on how exactly client income data should be *defined*. For example, some CDFIs use a client's self-declared income – a data point which for obvious reasons is unlikely to be accurate. Other CDFIs, including CSBDF, utilize a client's adjusted gross income based on their most recently completed tax returns. Yet even adjusted gross income can be an inaccurate reflection of an individual's household earnings, especially in the case of entrepreneurs with significant business-related tax liabilities.

This issue is illustrative of a larger problem – the CDFI Fund provides limited guidance on data collection, even in the case of mandatory compliance data points. This makes the comparison of data across organizations difficult at best, and it limits the ability of the Fund and the CDFI community to demonstrate impact in a defensible manner. The challenge of collecting meaningful data on outcomes is compounded when requirements around what must be reported changes frequently. Periodic, large scale changes in data reporting mean that time-based comparisons of compliance data cannot be utilized in any meaningful way.

V. Consider expanding the TA and FA programs to provide pre-application microgrants. Microgrants would be awarded to low capacity CDFIs so that they can submit grant applications which contain data-backed projections and fully developed business plans.

As we previously noted, it is important that the FA and TA program maintain its commitment to accountability. To balance that with the goal of helping low capacity organizations, the Fund should consider implementing a microgrant assistance program for the FA and TA application process. Microgrants would provide support for CDFIs to conduct the necessary research and hire the necessary contract personnel to submit a high quality FA or TA application. Notably, an additional grant application process does represent more administrative burden for low capacity CDFIs. Thus, we recommend any such program be designed to ensure the application is streamlined and easy for the target audience to complete.

Thank you for the opportunity to comment on application process for the CDFI Fund's Technical and Financial Assistance Awards. I know reforming these grant programs in a way that maintains accountability is difficult, especially in a constrained budget environment. However, significant changes are needed to ensure the FA and TA grant programs are accessible to their intended audiences. Please let me know if I can do anything to be of assistance as you consider changes for the next application round.

Sincerely,

Lenwood V. Long
President and CEO
Carolina Small Business Development Fund

[i] Berner, M., Brown-Graham, A., McCall, J.,, Morgan, J., Mulligan, T., Floyd, N., Hatoon, C., & Mahood, A. (2019). Building Bonds and Bridges (And Leveraging Links): A Place-Based Mobility Strategy Based on Social Capital Creation. Presented at the 2019 Biannual Federal Reserve Research Conference, Washington, DC.

[ii] Bratt, R. G., & Rohe, W. M. (2007). Challenges and dilemmas facing community development corporations in the United States. *Community Development Journal*, 42, 63–78.

[iii] North Carolina's Triangle Community Foundation, for example, offers capacity building grants of up to $25,000 for nonprofits serving communities of color.

[iv] The Kauffman Foundation's grant guidelines specifically target capacity building initiatives. This is similar to grant programs offered by other nationwide foundations.

[v] FY2003-2016 CIIS CDFI Dataset, Institution Level Reports, Released November 2018. Overall totals include institutions under the Native American Program.

[vi] Ibid. Data indicate mean staff classified as administrative as a proportion of staff across all categories (administrative, technical, lending, and other financial).

[vii] The FA award category that does not require fund matching for small and emerging CDFIs (SECA) is not a viable option for most organizations because the category has a low maximum ($700k) that is not worth pursuing when the Fund tends to provide awardees with far less than the amounts they request.

[viii] Average award sizes are derived from the CDFI Fund's fiscal year in review reports, and represent total financial assistance award amounts divided by the amount of awardees

[ix] Kaplan, H. (2007). First Mover: The CDFI Fund's CIIS Database Holds Promise to Create Substantial Data Repository for Community Development Investments. *Community Development Investment Review*, 3(2), 51-60.

[x] Alternatively, the fund could also consider continuing to require applicants to project activity but not use the estimates as the basis of future compliance benchmarks. The work of CDFIs, especially smaller unregulated institutions, is subject to variance that is largely beyond the scope of the CDFI itself. For example, a small business CDFI in a single metropolitan area is highly subject to local macroeconomic trends that are beyond its control. Such a CDFI might propose aggressively high benchmarks to receive an award, but then be unable to meet them because (for example) a large employer left the neighborhood and typical lending clients were suppliers or customers of that larger business.

[xi] Swack, M., Hangen, E., & Northrup, J. (2014). CDFIs Stepping into the Breach: An Impact Evaluation Summary Report. Carsey School of Public Policy, University of New Hampshire.

[xii] Ritchie, J. & Spencer, L. (2002). Qualitative Data Analysis for Applied Policy Research. In A. Hberman & M. Miles (Eds.), *The Qualitative Researcher's Companion*, 305-329.