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Social Entrepreneurship: Marketing a Community Development Financial Institution toward Financial Inclusion

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SOCIAL ENTREPRENEURSHIP: MARKETING A COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION TOWARD FINANCIAL INCLUSION

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Abstract

This paper emerges from a pedagogical philosophy that business students should experience a real-world consulting client and project prior to graduation. An equally important component of this capstone experience is the opportunity for the students to study a problem, and to make a set of solution-driven recommendations, that will lead to social good.

This research is part of a series of conference papers from graduate students at Molloy College. Molloy College is rooted in the Dominican tradition of study, spirituality, service, and community. Dominican education promotes the lifelong search for truth and the development of ethical leadership (Molloy College Mission Statement). The college theme in 2012 was civic engagement; as a result, the business program capstone course was redesigned to provide the students with an opportunity to demonstrate the skills and knowledge expected of Molloy graduates. Most important, the students demonstrate that they have developed the disposition to value and support business organizations whose missions include service to the community.

The 2015 MBA Capstone Class was divided into two consulting teams. Each team was provided with a real-world client and a real-world consulting problem. This paper reports on the work product created by the students under the consulting team name of, "*Long Island Ecological Consulting*." Each team used the Bloomberg Philanthropies, "Mayor's Challenge" application to guide the consulting process. This process takes the students through four stages: (1) establishing a solution-driven vision, (2) developing a turnkey implementation plan, (3) determining the impact of the plan, and (4) determining if the solution can be replicated.

Key words: Community Development Financial Institution; Financial Inclusion; Social Entrepreneurship, CDFI

1 INTRODUCTION: THE CONSULTING PROBLEM

The client is *Sustainable Long Island*; it is a not-for-profit organization that promotes economic development, environmental health, and social equity. Sustainable Long Island has an affiliate company named *Long Island Fund for Sustainable Development, Inc. (LIFSD)*. This affiliate is a Community Development Financial Institution (CDFI), which is linked to the CDFI FUND of the US Department of the Treasury. The CDFI Fund promotes economic revitalization in distressed communities throughout the US. Since its inception, the CDFI fund has awarded more than \$1.7 billion to local CDFIs and allocated \$33 billion in New Market Tax Credits.

Long Island Fund for Sustainable Development (LIFSD) has been inactive since 2005. Sustainable LI Executive Director, Amy Engel is resurrecting this affiliate company. The mission for LIFSD will be to provide loans & financial assistance to borrowers who lack access to traditional lending sources, yet, whose business activities are a source of creating and retaining jobs, therefore a catalyst for local economic growth. Therefore, the consulting problem is to develop a re-entry and marketing strategy for the LIFSD to reach its target market.

2 THE VISION

The team's vision for its turnkey plan was to (1) plan for the resurrection of the LIFSD, and (2) to guide the ultimate beneficiary of each loan to become more fiscally responsible through counseling and one-on-one guidance. Subsequently, this bi-focus will ensure that the LIFSD thrives into the future.

The team began its research with the intention of developing a set of best practices. First, the team focused on several Community Development Financial Institutions (CDFIs) across the country. Second, the team focused on loan recipient criteria.

Recommended recipient criterion: a loan beneficiary should

be an investor or a small business interested in making energy efficient or related improvements to his or her home or business. These improvements can be solar, wind, geothermal, energy efficiency, water conservatory, etc. Energy conscious improvements benefit the environment by increasing sustainability, but they also benefit the individual. Utility bills will become less costly once initial costs are paid and quality of life improves. Greenhouse gases will reduce in the atmosphere and it will also create more jobs within the community. Another type of beneficiary for the loan is an investor or a small business that has been severely affected by a natural disaster. To prove that the party has actually been affected by a natural disaster, proper documentation will be required in order for funds to be distributed.

Recommend establishing LIFSD's operational services: They will provide support from the initial start-up phase through advanced strategic management. The list of operational services will include assistance in CDFI Certification Applications, CDFI Financial Assistance / Technical Assistance. Although this is not a new idea, it will be instrumental in the development and revitalization of individuals and businesses in Nassau and Suffolk counties. We will execute a unique approach of combining qualitative and quantitative research with aptness and vision. LIFSD will provide, Capitalization Planning, Client Surveys, Community Development Strategy, Impact Analysis and System Development, Market Analysis, Strategic Planning.

The team's strategy emphasized Sustainable Long Island's vision in promoting economic development, environmental health, and social equity for all Long Islanders. Our client's key assets are based upon providing loans to small businesses, where the funds will be used to expand future business opportunities, create more jobs, and create a healthier, more financially stable community. The vision of this marketing strategy is to emphasize the impact LISFD will have on current and future quality of life, such as: Land use and redevelopment, food access, transportation services, natural resource consumption, and housing options. In addition, we will be addressing the benefits and technical assistance services we will be providing to small businesses.

3 THE IMPLEMENTATION PLAN

Phase 1 of the implementation plan establishes the framework. It starts with research and relationships. To accomplish this we have created the CDFI Research Report, which we have used to create a strategy that best suits LIFSD's needs. Lastly, we believe LIFSD should target credit unions, banks, and angel investors.

Phase 2 is the strategy. A marketing strategy has been created to help promote this idea. We suggested using the website, which has incorporated research from a Porter's Five Forces analysis. This website should help potential investors and clients to have an understanding of the great benefits that LIFSD has to offer. The information inside the

brochure we provided to our client notifies the public that SLI has a CDFI program; it will also provide technical assistance resources for small businesses who secure loans under the CDFI.

Phase 3 is the implementation. This phase consists of a cohesive plan for LIFSD using phase 1 and phase 2. This includes a comprehensive list of our research and relationships. Our contacts are aware of LIFSD and have indicated interest in providing funding for the fund. This would be a good opportunity for Amy Engel to begin reaching out and fostering these relationships on her own.

It could take 1-2 years to implement this idea. It is going to take time to foster relationships with lenders and borrowers. As well as gaining funding over time to ensure the fund grows. Some of the issues that would slow down the process would be not being able to get enough funding to lend, not getting borrowers, and not getting paid back.

The turnkey process that *Long Island Ecological Consulting* is recommending will, in the long run, increase revenue for Sustainable Long Island. Once the CDFI program returns to an active state, it will need qualified employees to effectively run the department. LIFSD will need to rely on a skillful underwriter to assess the factors of a loan and to give a recommendation on a close. We have provided to our client a spreadsheet with all of the expenses mapped over the next three years.

Hiring an experienced underwriter is the primary expense for our proposal. This operating cost will prove beneficial by safeguarding the fund from lending to suitors with an abnormally low probability of paying back the loan or defaulting since the point of the fund is to exercise financial inclusion with precarious investors. A fulltime underwriter working in New York makes within the range of \$53,000 to \$91,000 per year, while the New York area average salary is \$65,729.

This underwriter will produce a cost of equipment, salary along with benefits, and workplace integration. The cost of salary and benefits for this underwriter will be the costliest investment for LIFSD. The major benefits will be life insurance, retirement, government benefits, etc. Benefit packages can range between 1.25 to 1.4 times base salary. In the case of the average salary for a New York underwriter \$65,729, total salary plus benefits could equate to a total of \$82,161 for year one. Year two the salary plus benefits would equate to \$82,982; this includes a 1% raise. For year two, salary plus benefits would be \$84,642; based off a 2% raise. Another essential cost to consider would be the cost of workplace integration, which includes the initial first year expense of the office and related equipment.

The critical partners that must be engaged include:

a. The Federal Government

The federal government is a critical partner because it will provide the main source of funding needed for the loans

LIFSD will be giving out.

b. Private and Public Financial Institutions

These institutions will be responsible for providing additional funding needed to expand the CDFI to help more green conscious businesses and/or individuals interested in sustainable improvements to their homes.

c. Sustainability-Conscious Borrowers

These borrowers are the reason for the fund. Their drive and tenacity to be different help our earth.

d. Financial Counselors

These counselors would help guide the business who receive our loans. They are part of our solution and will help set us apart from the rest of our competitors. These partners will guide the recipients of the loans and help them come up with different schedules to become more financially/economically independent.

e. The Board of Directors

These critical members are at the LIFSD's disposal. The board is there not only for monetary help but for their experience, expertise, and their connections. These individuals serve as critical partners and are pivotal for the success of the business.

4 RISK FACTORS THAT MAY DETAIL THE PLAN

- **Borrowers may default on the loans received.** - The success of the plan will be dependent on establishing loans that have competitive interest rates and clear payment structures. SLI typically lends to low-income people/businesses that would not be eligible for traditional loans programs. CDFI's serve as alternative lenders to support these borrowers; however, the loans tend to have a high interest rate. The lower interest rates may increase the likelihood of the borrowers to repay the loans. In addition, we will come up with debt restructuring program to recover some portion of the loan. It will include a loan action plan and the loan manager will closely monitor the overdue loan.
- **Additional funding streams** - Due to the ever changing economic market, additional funding streams may not be available through traditional methods. SLI must be willing to use their debt to leverage their assets, this requires a strong loan program criteria and the implementation of a one-to-one technical and training program to improve its ability to recover payments on loans and reduce its risk profile.
- **Ability to effectively reach target market.** - The intended target market for the plan is small business owners looking to start business in the community. A dynamic approach will be necessary to reach the target market. Implementing the plan within the phases will alleviate the risk.

5 THE IMPACT ON SOCIETY

This idea will **address the social and economic problems** of residents and businesses in Long Island that would like to make sustainable improvements. The Long Island Foundation for Sustainable Development (LIFSD) aims to positively and financially help those precarious investors that may have troubles obtaining loans from outside institutions. It will also financially help those victims of natural disasters, such as Hurricane Sandy, by providing bridge loans to those individuals or businesses that are waiting for government assistance.

This idea may **improve customer service** by increasing the efficiency and productivity of those businesses making sustainable improvements. Part of the process in lending out money to the disadvantaged is to consult them and guide them to make better business decisions and enhance their status from risk adverse and assisting them in becoming more favorable loan candidates.

With the guidance and help of the financial professionals, our idea will consequently **enhance the accountability** of the businesses, as well as the individuals involved. These parties will be positively affecting the public by creating longevity and duration within the environment. Also it will increase the competence of the applicants, making them culpable. *Their ignorance will no longer be able to be considered bliss.*

Lastly, the **efficiency** of the businesses and the homes will **increase** due to the increase of funds, capital, and knowledge available to the appellants. The sustainable improvements made to the homes and businesses may cost a lot upfront but it will eventually save money for the individuals and businesses and make them work faster and superiorly.

Our main objective is to restructure and redevelop a successful CDFI program for Sustainable Long Island's affiliate Long Island Fund for Sustainable Development (LIFSD). In doing so, the results will have a beneficial outcome towards economic development, environmental health, and social equity within distressed communities in Long Island. With the support of private and public financial institutions and other additional funding streams we will be able to effectively reach a greater target market. Initially we will implement our marketing strategy and develop relationships with lenders and borrowers before experiencing expected outcomes.

Economically, LIFSD will focus on lending to borrowers such as small businesses and homeowners that cannot receive traditional loans from banks due to various conditions. The results of implementing a technical assistance service for these borrowers will conceivably increase the ability for small businesses and homeowners to receive loans from the other institutions in the future and will also reduce risks factors for LIFSD. The financial

assistance provided by LIFSD, this will help monitor the progress of the CDFI and will be advantageous for subsequent or continuing borrowers once input is provided. Another beneficial outcome will be promoting environmental health. Small businesses and homeowners will be able to make energy efficient improvements and utilize solar, wind, and geothermal energy. Socially by granting loans to small businesses and homeowners this can effectively create more employment opportunities and also revitalize various communities within Long Island.

The time frame we feel is realistic to implement our idea is between one to two years. During this time, relationships will be made between lenders and borrowers. LIFSD will also need time to develop relationships with financial institutions as well as other investment opportunities. Once LIFSD attains additional funding streams (aside from the treasury) and hires an underwriter it will be able to resurrect the CDFI program and will start the lending process. Our goal is that in a year from now LIFSD will start to show positive and financially fruitful results by hiring the underwriter. The additional funding streams our consulting team researched required certain prerequisites to obtain capital. One of the requirements is submitting financial statements for at least 3 current years of business activity. So they cannot be included in the aforementioned timeline. Once the two steps, attaining funding streams and employing an underwriter, are achieved the LIFSD will greatly benefit. The payments on the loans for solar panels and other environmentally friendly enhancements to homes will also qualify as positive results.

6 HOW SHOULD THE IMPACT BE MEASURED?

LIFSD's goal is to work with partners to create a comprehensive approach to community development based on a vision for healthy communities – green, economically vibrant places, where people live, learn and grow to their full potential. Its impact can be measured by how successful LIFSD is in partnering with banks, credit unions, private foundations and other streams of funds. The more

organizations invest and partner with LIFSD, the greater the chance of success.

Another way to measure impact is determining how well LIFSD implements certain project phases. In particular, one of LIFSD's goals is to provide technical assistance to shares its expertise with its borrowers, grantees and partners to enhance their skills, knowledge and financial sophistication. Through these efforts, LIFSD wants to help other organizations become more sustainable and enhances their ability to serve more low income people. LIFSD will offer one-on-one technical assistance to borrowers and grantees throughout the funding process.

LIFSD will take on the role as steward for capital invested into distressed communities, and the impact of its operations can be measured by determining how well they exemplify strong financial management, disciplined underwriting and careful portfolio management. The ultimate goal is to create profitable financial returns. This can be done by successfully lending to borrowers who are capable of repayment of loans to prevent default. LIFSD will need to analyze financials to insure that they are on point with the financial projections.

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REFERENCES Will be supplied upon request.