Inside **Philanthropy**

The State of American Philanthropy

Giving for Community and Economic Development

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ABOUT THE STATE OF AMERICAN PHILANTHROPY

The State of American Philanthropy is a series of background papers on important topics and trends in U.S. philanthropy. The papers draw on past research and reporting by IP writers, as well as new interviews, grantmaking data, and other sources. Learn more at insidephilanthropy.com/state-of-american-philanthropy.

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Table of Contents

EXECUTIVE SUMMARY

Community economic development (CED) is a somewhat amorphous term among both funders and community leaders doing the work, but the focus of this brief – and the data on which its analysis is based – focuses on the physical development of communities and services within them: economic, business and workforce development in urban, suburban and rural communities (although workforce development as a topic is covered in more detail in a separate State of American Philanthropy brief); affordable housing (also the focus of another SAP brief); and programs aimed and increasing community service in specific locations.

This brief details recent sources of private funding for CED, but makes clear that government funding – federal, state and local – is the primary source of funding (sometimes indirect) for most nonprofits working on CED. And those government funds are on the upswing as a result of an influx of federal money associated with economic stimulus programs responding to the COVID pandemic.

Who's Giving

- Among nongovernmental sources, private foundations are the largest supporters of CED nonprofits. Corporations, especially banks that need to be responsive to the Community Reinvestment Act, are also very significant supporters of CED.
- Intermediaries are taking on ever-larger roles in distributing funds and increasing their prominence in planning and coordination.
- Community foundations have considerably less funds to devote to CED, but often step up to act as the bridge or intermediary to coordinate funds and activities, using their knowledge of local social challenges as well as their connections to business and donor communities.

Who's Getting

- Because of their increasing roles as coordinators and fund distributors, both intermediaries and community foundations are among the largest recipients of CED funding.
- The "service providers" in this field are extraordinarily wide-ranging in their focus and expertise and include such recognizable names as Living Cities, Trust for Public Land, Habitat for Humanity, Jobs for the Future, MDRC, Community Change and Neighborhood Reinvestment Corporation.

The Big Issues and Funding Trends

- Gentrification and displacement are widely debated challenges in the CED field; ongoing inequity in planning and fund distribution and the continuing fallout from decades of redlining and other discriminatory development practices continue to be inextricable from those concerns.
- While "inner city" development has been the primary focus of the field for more than a century, there is increasing attention to the need for multifamily and affordable housing in the suburbs, as well as housing, economic, technology and workforce development in rural areas.

- Perhaps more than any other philanthropic program area, community economic development is particularly well-positioned to tap into funders' increasing interest in impact investing and loan guarantees.
- Building on the growing belief that those closest to the problems are best positioned to create solutions, major supporters of CED are increasingly insisting on resident-led and cross-sector approaches to development.

Equity in the Sector

- CED has become widely associated with some of the most blatantly discriminatory practices in the U.S., including redlining and displacement. But CED strategies can be wielded in service of equitable outcomes, supporting community-led decision making in both grantmaking and investment, increasing attention to communities beyond core business districts, more comprehensive and intersectional approaches to what makes a community vibrant, and an explicit focus on racial equity in both process and outcomes.
- To end gentrification and displacement, funders are supporting things like community land trusts, subsidized and/or supportive housing, rental assistance and tenant advocacy programs, and advancement of "just cause" eviction ordinances.

This brief gives an overview of the wide breadth of support associated with CED, touching on issues including housing, education, healthcare, employment and banking. CED funders and practitioners are embracing this interconnectedness through CED approaches like asset-based development or by using frameworks like social determinants of health. These interconnected approaches challenge the orderly categories often used to define grantmaking priorities. However, as the experts IP interviewed for this brief made clear, philanthropy is particularly well-positioned to support the work necessary to assemble disparate pieces and provide the grantmaking glue that keeps it together.

Introduction

This State of American Philanthropy brief focuses on understanding the role of philanthropy in advancing community and economic development efforts. The following brief draws on existing research on the field, news coverage, discussions with thought leaders working in these areas, and an analysis of Candid data to examine the major donors and influencers in the community and economic development ecosystem, the key investment areas that are attracting philanthropic dollars, and the strategies that funders are using to make their investments.

Though philanthropic investments in community and economic development are much smaller than those of the federal government, investments from foundations, corporations and major donors can have an outsized impact on the field because those funders can nimbly adjust their strategies to meet changing needs, coordinate among disparate stakeholders, catalyze larger investments and pilot new approaches. In particular, corporations working in banking and finance play a unique role in this space, both through their philanthropic efforts and through their business activities. Certain types of financial institutions are required to advance community and economic development goals through regulations set by the Community Reinvestment Act (see more detail on the CRA in the Who's Giving section of this brief), providing a framework for how some community development efforts are shaped and evaluated.

CED giving is a sprawling category of the nonprofit sector that regularly engages other sectors like government, private industry and grassroots organizations in an effort to promote the wellbeing and prosperity of both people and place. More specifically, Candid's philanthropy taxonomy defines CED as efforts that: "Work to strengthen the health and prosperity of communities and increase the capacity of various community organizations to improve the quality of life for all, including: community and neighborhood development and improvement services; urban, rural, and sustainable economic development programs; business and financial services and services to improve or develop commercial and industrial enterprises within communities; services to enhance, improve, and protect the workforce and promote employment; efforts to develop and rehabilitate community housing, and organize tenants and homeowners; and community service programs."

Candid's definition of CED also includes sub-categories such as Business & Industry, Community Improvement, Economic Development, Financial Services, Housing Development, and Sustainable Development, each of which could be considered a field unto themselves.

These broad and intersecting elements of CED impact – and are impacted by – countless other topics. IP's State of American Philanthropy initiative has produced briefs on several of these related fields; follow the links below to learn more.

- Housing and homelessness
- Workforce Development and Workers Rights
- Mental Health
- K-12 Education

Broadly speaking, there have been several high-level approaches to supporting and implementing CED-related efforts, with different strategies dominating in different political and social moments throughout U.S. history. Dating back to the Great Depression, there have been efforts to stimulate economic development and community improvement through top-down approaches led by the federal government or private industry, as well as through bottom-up, place-based grassroots efforts.

Similarly, there have been periods when CED efforts focused on a singular lever to initiate a positive domino effect for a community (e.g., job training or physical infrastructure) or a comprehensive approach that seeks to address and coordinate many aspects of a given community simultaneously (e.g., housing, healthcare, job availability, quality education). Alexander Von Hoffman's 2012 article on the history of community development in the United States provides a detailed account of the progression — and pendulum swings — of community development in the U.S. over the course of the 20th century. While there is no monolithic approach to CED that defines the modern moment, there is a current emphasis on resident-led, place-based efforts that take a more comprehensive, interconnected approach to the physical and economic health of people within communities as well as the vitality and safety of the physical spaces of communities.

In the years leading up to 2020, there was more overt discussion in the philanthropic sector about different approaches to CED implementation and investment. Now, in the context of the coronavirus pandemic and with an increased focus on racial inequities following the 2020 murder of George Floyd, CED strategies are being deployed as core parts of pandemic response efforts and racial equity strategies. While these efforts often use the levers of CED (housing, access to capital, jobs, etc.), they are doing so with an increased sense of intentionality and urgency, and often under the auspices of a pandemic and/or racial equity response. This is all taking place in the context of a growing awareness of the inextricable connections between place, opportunity and racial equity, and the extent to which any CED effort has the potential to reduce or increase inequities.

The Lay of the Land

Who's Giving

Foundation and corporate grants for community economic development efforts grew slightly between 2015 and 2018, the most recent years for which complete data is available, making up between 8% and 11% of all foundation and corporate grants during that period, based on IP's analysis of data from Candid. These private dollars represent important, flexible and potentially more accessible funding streams for CED efforts, despite being relatively small compared to the value of U.S. federal grants to CED efforts (as well as state and local government funds).

Private Foundations. Among the 50 largest institutional funders of CED between 2014–2018, about two-thirds of the grant dollars distributed came from private foundations. Many of these major foundations' strategies are framed by stated commitments to racial equity and justice, using CED-related strategies as one way to advance their equity goals.

Ford Foundation, which has a history of shaping and supporting the community development field, gave the most to CED efforts during that period. It has long been a catalyst for new mechanisms in community development, experimenting with comprehensive community development approaches. It provided funding for the nation's first community development corporation (CDC), Bedford-Stuyvesant Restoration Corporation in New York in the 1960s, and established a key community development financial intermediary in the 1980s (the Local Initiatives Support Corporation, aka LISC).

The Kresge Foundation has also played a significant role in advancing the field. In addition to traditional grantmaking, Kresge is "using its balance sheet" to engage in impact investing and provide credit enhancement for efforts that need loan financing, but that might otherwise be too risky for traditional lenders – which is often the case for projects in low- and moderate-income (LMI) communities. Kresge was influential in establishing the Community Investment Guarantee Pool (CIGP), which was formally launched in 2020, and through which multiple major foundations and other stakeholders came together to guarantee loans made by local lending intermediaries for efforts related to small business lending, affordable housing development, and climate change mitigation and adaptation (see more on prominent intermediaries below). By using the value of endowment dollars to guarantee otherwise risky loans—and rarely needing to pay out the value of the guarantee—the CIGP facilitates access to financing at a scale that can move the needle for community change, and in communities that would otherwise be left out of the traditional loan market. Many CIGP participants are also top CED givers through their more traditional grantmaking, including the Wells Fargo Foundation, the California Endowment, the Hewlett Foundation, the Gates Foundation, the Rockefeller Foundation and the Robert Wood Johnson Foundation.

In addition to their participation in the CIGP, the Robert Wood Johnson Foundation provides support for CED through its Healthy Communities initiatives and is noted for its support of CED efforts in rural communities that are often overlooked for funding.

Other major private and family foundations that support CED include the Kellogg Foundation and the Lilly Endowment, as well as other familiar names like the Walton Family Foundation, the Richard King Mellon Foundation, the John S. and James L. Knight Foundation, the Surdna Foundation, the William Penn Foundation, the JPB Foundation, the MacArthur Foundation, the James Irvine Foundation and the Ewing Marion Kauffman Foundation.

Financial Institutions & Corporations. As mentioned in the introduction, financial institutions, particularly banks that are regulated by the Community Reinvestment Act, play a large role in the CED space. Some of this funding is considered philanthropic (funded by corporate foundations or charitable initiatives), while other funding may be a product of business activities that nonetheless plays a very significant role in advancing community development goals. According to 2019 data from the National Community Reinvestment Coalition, over $2 trillion in small business loans and community development loans have been invested in low- to moderate-income communities by financial institutions since 1996.

10 Institutional Funders to Know: Community and Economic Development

- Bill and Melinda Gates Foundation
- Ford Foundation
- Kresge Foundation
- Lily Endowment
- Neighborhood Reinvestment Corporation (dba NeighborWorks America)
- California Endowment
- JP Morgan Chase Foundation
- Robert Wood Johnson Foundation
- W.K. Kellogg Foundation
- Wells Fargo Foundation

The Community Reinvestment Act (CRA) was enacted in 1977 to ensure that banks and savings institutions were meeting the credit needs of communities—particularly low- and moderate-income (LMI) communities that faced severe disinvestment as a result of racially discriminatory lending practices called redlining—and to harness the power of the financial sector for community and economic development. Financial institutions are typically evaluated every three years based on criteria that vary depending on the size and type of the institution but generally relate to lending, investment, and services provided within their business footprint, and the extent to which LMI communities are or are not served. Regulators assign CRA scores to financial institutions that impact a financial institution's ability to expand its branch locations, engage in a merger/acquisition, or even appoint new members of a bank's senior leadership. The CRA is currently being updated and modernized to reflect new banking and lending behavior (e.g., online banking) and categories of community impact, though the specific timeline for the updated CRA is not currently known.

50 Largest CED Funders by Type 2014 - 2018[3]		
	% of total funding from 50 largest CED funders	% of overall CED funding
Financial/Corporate	14.9%	4.71%
Corporate	2.56%	0.81%
Private/Family	65.88%	20.78%
DAF	2.89%	0.91%
Community Foundation	3.51%	1.11%
Other	10.23%	3.23%
Total	100%	31.54%

On the philanthropic side, four financial corporations represent about 15% of dollars granted by the top 50 CED donors between 2014 and 2018: the Wells Fargo Foundation, JPMorgan Chase Foundation, the Citi Foundation, and the Bank of America Charitable Foundation. Among non-financial institutions, the Wal-Mart Foundation and the Verizon Foundation are among the largest corporate funders of CED.

Similar to the major private foundations, many corporations' more recent CED investments (both through business activities and philanthropy) are tied to supporting racial equity following the 2020 uprisings for racial justice across the nation. For example, JPMorgan Chase made a 2020 commitment to invest $30 billion over five years to reduce the racial wealth gap through CED-related strategies that align well with their business activities, such as affordable housing, boosting homeownership, and small business development. Wells Fargo made a commitment of up to $50 million to invest in African American Minority Depository Institutions, in addition to an earlier $175 million investment in CDFIs more generally (2015-2020) and a 10-year commitment to make $60 billion in loans to boost homeownership among Black Americans (2017-2027).

Citi Foundation recently announced a new $50 million commitment to make grants to nonprofit community-development financial institutions across the United States to help people from low-income and marginalized communities build wealth and assets. It says the grants will back advancements in human capital and talent development, financial and risk-sharing models, technology, operations, leadership and research.

Non-financial corporations are also making investments in community-based financial institutions as part of their racial equity commitments: Netflix made a 2020 commitment to invest $100 million (about 2% of its corporate holdings) in financial institutions that serve Black communities. Twitter made a $100 million investment to establish the Finance Justice Fund in partnership with the Opportunity Finance Network. The Finance Justice Fund will use this investment to make long-term, below-market-rate loans to CDFIs. As part of this partnership, Twitter committed to using a portion of its investment returns from the Finance Justice Fund to provide funding to Operation Hope, an organization that provides financial literacy and economic inclusion for underserved communities and communities of color. And PayPal made a commitment of $535 million through both grants and investments to support Black-owned businesses and financial empowerment for communities of color.

For organizations like Candid documenting philanthropic distributions, it can be a near-impossible challenge to track which parts of corporations' high-profile pledges for equity are actually distributed to communities as discrete grants and which are integrated into business functions. Even when tax-deductible charitable giving figures for CED are reported or become available later, disaggregating what percentage might be directed toward housing, employment or community planning rather than community organizing, advocacy and other activities related to CED can be quite difficult. Readers of news coverage of corporate pledges for CED efforts should keep those reporting issues in mind as they seek out more concrete but less contemporaneous data about where funders actually direct their charitable funds.

Community Foundations. While only three community foundations are among the 50 institutional funders providing the most resources for CED—the Cleveland Foundation, the San Francisco Foundation and the Greater Milwaukee Foundation—such funders are essential players in the CED field, as are investments from the over 750 community foundations across the country.

Community foundations are fundamentally tied to a specific place and are more likely to have a nuanced understanding of community strengths and challenges and to have the local relationships to support or potentially lead implementation of regional efforts. Community foundations also have unique flexibility in the strategies that they use to support organizations and initiatives, particularly if they have access to a significant endowment.

CED philanthropy experts Deb Markley of LOCUS Impact Investing and Janet Topolsky of the Aspen Institute Community Strategies Group say that in addition to traditional grantmaking, community foundations can issue loans, offer credit enhancements to projects needing financing, invest their endowment in local businesses, incubate community initiatives, and provide fiscal agency for nascent or grassroots efforts. Particularly in rural communities, community foundations increasingly play an "anchor institution" role for coordinating CED efforts.

In a recent study of community foundations and United Way grantmaking for CED efforts, a report from the Federal Reserve Bank of Philadelphia found that community foundations that direct a greater share of giving to local organizations tend also to have a lower reliance on DAF contributions, give out less grant money each year, and are smaller in size (overall assets). While these are correlations and not causations, fundraisers may want to keep this in mind as they assess potential donors and supporters. The study also found that a typical grantmaker in their sample directed a little over one-third of their grant volume to local CED organizations — and the typical United Way in their sample dedicated more than half of its grant dollars to local CED efforts, flagging United Ways as key supporters of this work, as well.

Major Donors. Gifts from major individual donors also play a role in the CED ecosystem, though their giving is not always reflected in giving databases tracking institutional philanthropy, like Candid. In 2020, philanthropist MacKenzie Scott made pledges totaling nearly $6 billion to a wide range of organizations, 25 of which were CDFIs that provide banking and financing to low- and moderate-income residents and small businesses.

The Chan Zuckerberg Initiative, led by Meta (formerly Facebook) founder Mark Zuckerberg and his wife, Dr. Priscilla Chan, has prioritized housing affordability in the Bay Area and helped launch a public-private partnership in 2019 called The Partnership for the Bay's Future, seeking to invest $500 million before 2025 to preserve and construct affordable housing for low-income residents. Beyond their investment in the Bay area, CZI is also a founding member of the CIGP.

Ballmer Group, led by Steve Ballmer, former CEO of Microsoft, and his wife Connie Ballmer, has also been making investments that draw on CED strategies, with a particular focus on place-based, public-private partnerships in their focus regions of Washington state, Los Angeles County and southeast Michigan.

Major Donor Spotlight: MacKenzie Scott

In 2020 MacKenzie Scott donated $40 million in unrestricted funds to LISC--the largest donation in the organization's history. LISC is putting the funds toward a number community development projects, including homeownership projects developed by, and serving, people of color. Habitat for Humanity International announced that it, and its 84 U.S. affiliates, recieved $436 million from Scott in 2022. Habitat is using the funds for various projects including increasing the supply of affordable housing, increasing Black homeownership and leveraging capital investments for organizations serving communities of color.

Intermediaries. National financial intermediaries channel funding from private and government sources and provide technical assistance to local or regional community development efforts focused on affordable housing, homeownership and other dimensions of CED. In their role as financial intermediaries, these organizations function as both funders and grant recipients. CED grantseekers should be aware of the three major financial intermediaries: NeighborWorks America, Enterprise Community Partners and Local Initiatives Support Corporation.

NeighborWorks America, a congressionally chartered nonprofit organization founded in 1978 (legally titled the Neighborhood Reinvestment Corporation and formerly called the Neighborhood Housing Service) is a key intermediary for both government and private funding, as well as technical assistance for affordable housing and homeownership efforts at the local level.

Enterprise Community Partners (formerly called the Enterprise Foundation, founded in 1982) provides financing, property management and technical assistance for affordable housing and homeownership.

LISC (Local Initiatives Support Corporation, founded in 1980) provides financing and technical assistance for housing as well as other domains (e.g., education, business, workforce) and was founded by a coalition organized by the Ford Foundation in the late 1970s. This movement led to an increase in funds established specifically for social-purpose lending, and later, the creation of the Community Development Financial Institutions Fund in the U.S. Treasury Department in the mid-1990s.

While they make loans for community development rather than charitable grants, community development financial institutions (CDFIs) are also important financial intermediaries that often work at the local level with close ties to specific communities. CDFIs seek to meet the depository, lending and investment needs of low- and moderate-income (LMI) residents, small businesses, affordable housing developments and community facilities in LMI communities. In addition to donations and income from banking activities, CDFIs are also eligible to receive funding and technical assistance from the federal CDFI Fund, and sometimes receive funding from traditional financial institutions that are seeking to earn CRA credits.

See more on the use of intermediaries in the Funder Strategies and Trends section of this brief.

Government Funding and Incentives. This brief primarily focuses on the role of private donors and foundations, but often, the vast majority of funding for CED efforts come from federal, state and local governments, a subject that represents a complex field of study unto itself. Government funding and incentives play a large role in funding in CED efforts, as shown in the chart below. Federal support for CED includes major programs like Promise Zones, Community Development Block Grants (CDBG), New Markets Tax Credits, Opportunity Zones (a Trump-era development that key CED funders attempted to improve) and others.

The Opportunity Zones program is a Trump-era CED initiative passed into law as part of the Tax Cuts and Jobs Act of 2017. It provides tax incentives to private investors to develop areas often overlooked for economic development projects (low-income, high-poverty census tracts). The program came under criticism for lacking transparency and for not requiring investments in projects that support prosperity for the existing community—like affordable housing developments —rather than luxury high-rise buildings. In the years following the program's launch, some foundations worked to incentivize investments that would support local communities, seeking to prevent resident displacement, promote affordable housing and provide living-wage jobs. Since 2019, news coverage of foundation involvement in Opportunity Zones has subsided, though the program remains active and continues to face criticism for failing to serve low-income communities.

A new tool out of the Federal Reserve Bank of St. Louis called Community Investment Explorer 2.0 allows users to visualize the investments of 10 major federal community investment programs. Average annual investment through these programs between 2012 and 2020 was approximately $355 billion, primarily concentrated in metropolitan areas, though with some allocations for smaller regions.

State-level and local funding and incentives are major factors in the braided funding streams that support CED, including state tax credits, affordable housing trust funds and commissions, community

Year	Philanthropic Grants for CED	U.S. Federal Grants for CED	Philanthropic Grants-All Categories	Grants for CED (including U.S. federal funders)	CED as a % of Philanthropic Giving
2015	$6.56B	$65.65B	$75.73B	$72.21B	9%
2016	$7.54B	$46.34B	$76.69B	$53.88B	10%
2017	$8.13B	$87.03B	$86.13B	$95.16B	9%
2018	$9.84B	$58.97B	$87.13B	$68.81B	11%

improvement districts, and others. Additional investments made through pandemic relief funds also have the potential to shape the CED landscape, though their specific impact is still unfolding.

Who's Getting

The working definition of CED is broad, and given the interconnectedness of the services and infrastructure that make a community vibrant and healthy, recipient organizations vary widely in their focus areas. According to data from Candid, a little over a third of CED philanthropic grants between 2014 and 2018 were dedicated to economic development, followed by community improvement (a bit less than a third); then business and industry, housing development, and financial services (each about one-tenth). Even within these broad subcategories, recipient agencies focus on issues including education, job readiness, climate change, healthcare, affordable housing, and others.

Average grant sizes ranged from $48,000 to $95,000, though many were undoubtedly larger for capital projects, and many were smaller for grassroots efforts. Roughly a quarter of the grant dollars awarded to the 50 largest recipients of CED grants are community foundations or federations that regrant dollars in their local areas; the ultimate destination of those dollars is not clear. Within the list of the 50 largest grant recipients, roughly 5% of dollars go to major financial intermediaries (Neighborhood Reinvestment Corporation and LISC), which are then channeled to local intermediaries and service providers.

Though not appearing in the list of the 50 largest CED grant recipients, there are several national organizations that are influential in the CED ecosystem, including Purpose Built Communities, Mainstreet America, Living Cities, Common Future (formerly BALLE), the Mastercard Center for Inclusive Growth, and others.

Other nonprofits receiving considerable amounts of private funding for CED include the Trust for Public Land, Habitat for Humanity International, Jobs for the Future, MDRC, Vocational Development Foundation, Community Change and Neighborhood Reinvestment Corporation.

Most of the organizations working on the ground to advance CED would not register in lists of top grant dollar recipients, but are just as important as their larger-scale partners. These local organizations work on a wide range of issues, and may take the form of traditional nonprofits, CDFIs, community foundations, community development corporations (CDCs), intermediaries and public-private partnerships.

10 Grantees to Watch: Community and Economic Development

California Community Foundation	Los Angeles, CA
Community Foundation for Southeast Michigan	Detroit, MI
Community Foundation of Greater Memphis	Memphis, TN
Foundation for Detroit's Future	Detroit, MI
JobsOhio	Columbus, OH
Marin Community Foundation	Novato, CA
Neighborhood Reinvestment Corporation	Washington, DC
Promedica Health System Fund	Toledo, OH
Strada Education Network	Indianapolis, IN
Year Up	Boston, MA

The Big Issues & Beyond

The world-altering challenges of 2020 and 2021 had a significant impact on the flow of resources to the CED field. The new priorities of the Biden administration, a global pandemic and recession, and increased attention to systemic racial discrimination and inequitable outcomes have deep effects on community economic development and have shaped the way that efforts are structured and funded.

Influx of federal funding. As a result of pandemic relief legislation, the CED field is seeing a massive and rapid influx of federal resources. This influx presents both an opportunity and a challenge: Dollars deployed quickly tend to flow through the same channels and to the same organizations that have received federal funding in the past—and by that measure, those organizations are partially complicit in perpetuating the conditions and inequities of today's society. Federal dollars also have a well-earned reputation for complex processes and red tape, making it difficult for all but the most seasoned community organizations to access funding.

Grantee Spotlight

Year Up aims to close the opportunity divide by providing young adults with the skills and experiences necessary to successfully launch their careers. The organization partners with employers, talent providers and policymakers to ensure equitable access to economic opportuinity and education for all young adults. Year Up has a number of corproate partners including AT&T, Salesforce, GE, and Microsoft.

Some efforts are underway to ensure that these dollars reach communities that need them most. Janet Topolsky of the Aspen Institute Community Strategies Group says she has observed earnest attempts by the federal government to direct funding to new and existing programs that support more locally led development, and that reach often neglected rural areas. In some communities, says Deb Markley of Locus Impact Investing, local foundations have provided guidance and convened stakeholder listening sessions in order to support the state and local entities charged with administering federal dollars to ensure they reach the communities and people that need it the most. There have also been efforts to reduce the number of steps associated with accessing federal funds, which may make them more accessible to smaller, community-based organizations. Philanthropic donors may seek to support capacity-building and technical assistance to organizations navigating complex government processes, intermediaries that can provide this type of support, and flexible operating dollars to fill in among more restrictive government grants.

This historic federal investment into the CED ecosystem is likely to have effects for years to come, though its precise impact—and which communities will ultimately benefit—is not yet known.

Rising costs of affordable housing. As Americans struggle to pay rising housing costs, government eviction moratoriums expire or are struck down by courts, and inflation looms, the need for stable, affordable housing has gained even more visibility and urgency, both in urban and rural areas. While many major CED funders prioritized housing as a key strategy before the pandemic, access to affordable housing and preventing homelessness is now particularly salient for both private and public funders in the CED ecosystem. Recently, two top CED funders, the Ford Foundation and the Robert Wood Johnson Foundation, partnered to provide $7.5 million in seed funding to the new HouseUS Fund, a pooled philanthropic fund that provides multiyear, unrestricted funding for community-led solutions to the current housing crisis.

For more on philanthropic trends related to housing, check out the State of American Philanthropy brief on Giving for Housing and Homelessness.

Gentrification and displacement. Community gentrification and displacement of lower-income residents represents a perennial challenge of community and economic development efforts. Residents are forced from their homes or communities through direct physical displacement via tools like eminent domain, or more gradual changes in land use, amenities, development projects, affordability or demographics. Concern about gentrification marks a philosophical divide about development: whether success lies in investing in the existing community infrastructure and local residents, or introducing new developments and creating a new neighborhood character that draws wealthier people—and often pushes people of lower incomes out.

Affordable housing and race are often at the center of conversations about gentrification, particularly in major cities. According to a study of 2000-2013 U.S. Census data from the National Community Reinvestment Coalition, "gentrification was centered on vibrant downtown business districts [in major American cities], and in about a quarter of the cases, it was accompanied by racialized displacement." Unsurprisingly, their study found that "displacement disproportionately impacted black and Hispanic residents who were pushed away before they could benefit from increased property values and opportunities in revitalized neighborhoods. This intensified the affordability crisis in the core of our largest cities."

The Federal Reserve Bank of San Francisco has worked with the Urban Displacement Project at UC Berkeley and the Great Communities Collaborative, an initiative of the San Francisco Foundation, to research and develop strategies for more inclusive and equitable growth that "protect against displacement, preserve existing affordability, and produce new affordable housing." This focus on more inclusive and equitable CED is an increasing trend in and of itself, discussed in the following section.

Intermediary Spotlight

NeighborWorks has 250 member organizations around the country that provide support to community-based organizations working in the fields of affordable housing, financial counseling, and resident engagement. It also collaborates with local organizations in the health employment and education fields. Although NeighborWorks is a congressionally chartered and funded nonprofit organization, it receives fairly wide support from the private sector as well. Donors include the Robert Wood Johnson Foundation, Truist Foundation, Wells Fargo, and the Kresge Foundation.

Lingering inequitable practices. In the context of rising inequality and the 2020 murder of George Floyd and other high-profile killings of Black people, many CED funders and practitioners have an increased awareness of long-standing racial inequities, which were thrown into even sharper relief by the pandemic. In the CED field, Topolsky of the Aspen Institute Community Strategies Group sees a growing recognition that traditional approaches to economic development create and perpetuate these inequities, and that new tools and approaches are needed to create communities and economies that work for everyone.

Program Spotlight

Surdna Foundation

Surdna's Inclusive Economies program supports efforts to create inclusive and equitable economies for people of color. Areas of grantmaking include business start up and growth and equitable economic development with a focus on African American and Hispanic communities. Recent program grantees include Black Gravity, Next City, and Coworker.org.

Terms like "inclusive prosperity," "financial inclusion," "equitable development," and "inclusive growth" are becoming increasingly common in the CED field. While each of these terms have their respective definitions and approaches, they all recognize that high levels of inequality are counterproductive to economic growth and stability, and call for strategies that are explicitly concerned with the extent to which people—particularly BIPOC communities—have been harmed by traditional CED approaches. Major CED funders, like the Surdna Foundation, the Rockefeller Foundation and others, have specifically cited equitable economic development and inclusive growth in their grantmaking priorities in recent years.

Balancing urban, suburban, and rural. Public and private CED funding is typically focused on heavily populated metropolitan areas. While many donors continue to invest in population-dense urban areas, some are recognizing the need to balance their investments, acknowledging the ways in which the fates of rural, suburban and urban areas are tied together. Katie Kramer, vice president of the Council of Development Finance Agencies, has observed an emerging realization among major metropolitan areas that decades of incentives and financing for strong central downtown business districts have neglected the surrounding outlying areas, and has made achieving a thriving economy all the more difficult. As a result, she is noticing the field move slowly away from massive investments in downtown central business districts, in favor of greater investment in neighborhood-level development.

In rural areas, however, downtown revitalization efforts seem to be growing. Deb Markley of LOCUS Impact Investing primarily works with foundations investing in rural communities and sees increased attention to rural downtown areas, as well as a focus on the enabling conditions of CED like affordable and quality child care infrastructure, access to broadband internet, and—as in urban and suburban areas—access to quality affordable housing. While investment in rural CED may not yet be a prevailing trend, there are meaningful efforts underway to direct more community development resources to rural communities by thought leaders like the Federal Reserve Bank of St. Louis, Aspen Institute Community Strategies Group, and e2 Entrepreneurial Ecosystems (formerly the Center for Rural Entrepreneurship).

American suburbs are increasingly racially and ethnically diverse, and are also increasingly home to lower-income families – actually more so than in U.S. cities. Yet, restrictive zoning laws prohibiting higher-density affordable housing complexes and favoring more expensive single-family homes represent a widespread “NIMBYist” strategy to preserve an outdated notion of what suburbs should be, creating a real challenge for suburban CED efforts. Despite these challenges, affordable housing complexes are being built in suburban communities. The MacArthur Foundation funded a study of Ethel Lawrence Homes, an affordable housing development in a wealthy suburb of Philadelphia, and found that the development had no negative impact on crime or property values, and had significant positive impact on the lives of residents. Given the increased awareness of growing suburban poverty over the past several years as the cost of living in major American cities reaches new heights, and as place-based approaches to CED become more popular, there may be increased attention from funders to suburban CED efforts.

Funder Strategies and Trends

Foundations and corporate donors try to give toward CED in a way that supports the complex field and that leverages philanthropy’s unique role in advancing it. In addition to the specific approaches described in the following sections, many CED funders continue to engage in their traditional grantmaking, though they report they are doing so with fewer restrictions and greater flexibility, both as a result of the urgency of the pandemic and as part of a movement toward trust-based philanthropy.

Impact investing. Some funders are using their endowment dollars to advance CED projects that often require a scale of investment far beyond the required 5% annual charitable payout. Impact investing has become an increasingly popular tool by which foundations further their goals, investing their endowment funds in ways that yield both financial and social returns in line with (or at least not in conflict with) their organizational missions.

Darren Walker, the president of the Ford Foundation (a top CED funder with an active impact investment strategy), chairs the U.S. Impact Investing Alliance, which encourages other foundations to evaluate their endowment investments based on their mission impact and financial returns. Another major CED funder, the Surdna Foundation, committed $100 million for impact investing in 2017. The Heron Foundation is also a leader in this space, investing 100% of its endowed funds in impact-screened investment products, and advancing the field by creating the U.S. Community Investing Index to identify companies that make positive contributions to their communities in a variety of domains.

Some place-based foundations, particularly community foundations, are taking impact investment one step further by investing some or all of their endowed funds locally, so as to keep the value of those invested dollars within the community instead of diffusing that impact across the country or worldwide. “There is growing interest and action by community foundations—large and small—to use their own funds to invest in their local economy—it can be their grantmaking funds, special funds that have been raised from donors, or investment from their investment portfolio,” Topolsky of Aspen Institute Community Strategies Group told IP. “They are choosing to invest in local businesses, rather than a business in China or elsewhere.”

Deb Markley of LOCUS Impact Investing highlighted several place-based community foundations that conduct such investing, including the Hutchinson Community Foundation, the Foundation for Appalachian Kentucky, and the Topeka Community Foundation. Additionally, Common Future (formerly the Business Alliance for Local Living Economies) supports foundations, predominantly place-based foundations, in moving their investments into local economies. Katheryn Witt, director of funder learning and investment at Common Future, cited the Barra, Heron, and Cleveland foundations as organizations at the forefront of place-based, mission-aligned investing. Witt also noted a burgeoning movement toward participatory investing practices, building upon learning from participatory grantmaking practices.

Providing loan guarantees. CED work happens at all scales, ranging from neighborhood-level projects to large-scale capital infrastructure. In order to support large-scale projects that require significant financing, and to make loan capital available to small businesses and communities that are often left out of the traditional loan market, some donors with significant endowments are committing a portion of their endowed funds to guarantee loans that traditional lenders would regard as too risky. In most cases, the committed funds never leave the foundation's bank account or balance sheet, and continue to be available to guarantee future loans while still earning interest to support more traditional grantmaking.

For large foundations, even committing a small percentage of their endowment (in addition to the 5% payout) frees up an enormous amount of capital and can attract around five times that amount of additional capital for projects, businesses and individuals that might not otherwise be strong candidates for loans. Foundations can make these loan guarantees on their own, or by collaborating in a pooled fund (e.g., CIGP) the participating foundations reduce their individual risk if a borrower defaults on the guaranteed loan while increasing the funds available for these credit enhancements. As mentioned earlier, the Kresge Foundation has been a notable leader in this space, along with the Ford, Gates, and MacArthur foundations.

Katie Kramer, vice president of the Council of Development Finance Agencies, told IP, "When we talk about the biggest challenges of macro-level equitable development, the philanthropic sector can activate their balance sheets and endowments in a much more powerful way."

Impact investing and lending can be powerful tools, but they are not silver bullets, and are often subject to the same flaws and biases of traditional financing models, as Rodney Foxworth, CEO of Common Future, wrote in a 2018 article. And according to Dara Eskridge, executive director of Invest STL, not all small businesses and organizations needing support want to take on debt. In those cases,

Community Strategies Group
aspen institute

"There is growing interest and action by community foundations– large and small–to use their own funds to invest in their local economy–it can be their grantmaking funds, special funds that have been raised from donors, or investment from their investment portfolio. They are choosing to invest in local businesses, rather than a business in China or elsewhere."

–Janet Topolsky, executive director, Community Strategies Group, The Aspen Institute foundations can best strengthen them through grant funding and technical assistance — or, at a more visionary scale, they can help change the way that markets operate.

Using intermediaries. Intermediaries channel resources and technical assistance to community-based CED efforts and generally offer an understanding of local dynamics, challenges and opportunities that are unknown to a funder working at a national scale. CED intermediaries can serve as a vital bridge from high-level strategy to on-the-ground, community-led implementation, though the use of intermediaries can also reduce the transparency related to the ultimate destination and impact of resources.

Recently, CDFIs have particularly benefited from increased funding from both government and private sources, often with the stated goal of providing loan capital to small businesses and communities of color. While philanthropic investment in CDFIs is not necessarily new (the MacArthur Foundation has been doing it for over 35 years), Topolsky of the Aspen Institute Community Strategies Group predicts that CDFIs will grow in their roles as key bankers and lenders in low- and moderate-income communities as a result of this new visibility and increased investment.

Funder Spotlight

HERON

Heron has been committed to lifting people and communities out of poverty since 1992. Instead of taking the more traditional progammatic approach to grantmaking, its areas of giving focus are more fluid. Referred to by the foundation as "workstreams," Heron identifies its areas of grantmaking based on market opportunities. This approach allows the foundation to pivot away opportunites that are no longer relevant and prioritize more viable areas of giving.

While CDFIs are important players in the CED ecosystem, some CDFIs still struggle to meet the needs of small businesses and residents in LMI communities. Eskridge of Invest STL said that a coalition of CDFIs in St. Louis, Missouri, recently analyzed their lending criteria and found them to be nearly as restrictive as those of traditional lenders, and loans were thereby not reaching the "riskiest" of applicants; they are currently revising their loan criteria to be less restrictive.

Community foundations can also play a type of intermediary role. As mentioned in earlier sections, grants to community foundations make up nearly a third of the top 50 CED grant recipients between 2014 and 2018. Depending on the specific nature of grants made to community foundations, some or all of those dollars will be reinvested in community-based efforts. Community foundations' roles as intermediaries often go beyond regranting funds. The next section discusses coordinated, placed-based CED, which often calls on local or regional community foundations to play a leadership role.

Forming place-based collaborations. In both urban and rural communities, there is a movement toward supporting collaborative place-based efforts, often led by a local anchor institution. The nature of that anchor institution varies by community, but community foundations tend to be particularly well-suited for the role due to their regional focus, connections to local service organizations, flexibility with how they invest, grant, or loan dollars, and their ability to fill identified gaps.

Deb Markley of LOCUS Impact Investing says that community foundations are positioned to lead from "the development middle." With their deep understanding of the social services and basic needs landscape, they also see the role of economic development strategies and are able to facilitate solutions outside the silos that often define—and limit—community revitalization efforts.

"This is such an important role because critical issues don't get tackled in silos. If your economic development [strategy] is just focused on employers and isn't thinking about workforce issues, housing issues, childcare issues – they are not going to be successful," Markley said. "Philanthropy can use their social capital, and to some extent, their political capital, to advocate for the changes that [a community] needs... we see foundations stepping into this role [with a sense of] obligation to be working toward an economy that works for everybody... and as a new generation of folks engage with community foundations, they are [beginning to pressure them] to be a different kind of leader in the community... to be more community and impact-focused, not just growing the endowment."

While regional community foundations often play an important role in these place-based efforts, national foundations are also investing in place-based CED. For example, the Rockefeller Foundation launched the Rockefeller Foundation Opportunity Collective in 2020, selecting 12 cities in which cross-sector partnerships will receive funding over several years to prevent community displacement and to provide access to capital for low-wage workers and small businesses owned by women and people of color. In 2019, Kresge launched Building and Supporting Equitable Development (BASED), which takes an arts-and-culture approach to community development in nine communities – this is one example of a trend called "creative placemaking," wherein collaborators from across sectors use art and design tools to engage and strengthen communities.

Network Spotlight

PURPOSE BUILT COMMUNITIES

Purpose Built Communities takes a "coordinated holistic approach based on quality and focused on sustainability," to CED. The organization focuses on a number impact areas, including racial equity, economic mobility, community revitalization, mixed-income housing, the cradle-to-college pipeline, and overall community wellness. Purpose Built Communities currently has local network members in 15 states.

Resident-led and cross-sector approaches. This focus on coordinated, place-based CED—paired also with a focus on racial equity—is fertile ground for two other related trends. One is increased attention to community and resident voices in designing, implementing and benefiting from CED strategies. Another is taking a cross-sector, asset-based approach to building community wealth and vitality, intentionally strengthening the multiple interconnected assets and dimensions of a community (social, cultural, natural, economic, etc.) as ingredients for a community to innovate and create as an alternative to traditional economic development strategies that focus on ROI, business attraction and job creation.

While comprehensive community development approaches and efforts to center resident voices are not new, both are particularly appropriate to the present moment. The pandemic has laid bare the fundamental interconnectedness of the issues that impact the health of a community (healthcare, housing, employment, child care, safety, recreation, etc.), and funders and practitioners are reconciling their strategies with increased attention to racial inequities and systemic discrimination. Power-sharing and shared leadership approaches are slowly becoming more widespread. Taken together, these trends are resulting in a more collaborative, locally led approach to CED that is increasingly informed by authentic resident engagement and leadership, rather than top-down strategies conceived by funders or entities in similar positions of power. However, such approaches have not yet become standard practice.

Perspectives on Equity

While CED strategies can be a key lever in addressing racial inequity, they have also been associated with practices that create and perpetuate those inequities. Decades of policies and practices have supported a version of CED that deliberately excluded and displaced BIPOC communities, including imposing exclusionary zoning laws and racial covenants, denying loans for residents of Black neighborhoods, and the physical razing of vibrant Black middle-class communities in order to build highways.

Other practices are more subtle, like the privileging of certain voices in a community planning process, or the gradual gentrification of neighborhoods and the displacement and dismantling of communities whose people can no longer afford to live there. Still others are more technical, like which areas or projects are chosen for development, the community's cost/benefit of incentives offered in exchange, or the extent to which municipal budgets are funded by fines and fees paid by people of color and low-income communities.

So, too, can CED strategies be wielded in service of equitable outcomes, though it takes intentional effort. Such strategies include community-led decision making in both grantmaking and investment, leveraging endowment funds through impact investing, increased attention to communities beyond the core business district, more comprehensive and intersectional approaches to making a community vibrant, and an explicit focus on racial equity in both process and outcomes. These are positive steps in a journey that will require active stewardship and advocacy from policymakers, CED funders, and practitioners.

Some of the activities that funders support to address gentrification and displacement include community land trusts, building of subsidized and/or supportive housing, rental assistance and tenant counseling programs, and advancement of "just cause" eviction ordinances. While those efforts are good for a wide variety of people, they are aimed at communities directly on the front lines of displacement, which are most often Black, Latinx and AAPI people.

Funder Spotlight

The ROCKEFELLER FOUNDATION

Rockefeller's Expand Equity and Economic Opportunity program has two main initiatives focusing on closing the racial wealth gap and removing barriers to equal economic access and opprotunity. The Scaling Solutions for Workers initiative aims to ensure that working families across the country can meet their basic needs; and its Mobilizing Private Capital for Impact intitiative promotes greater investments in low-income communities. Recent grantees include the Black Economic Alliance Foundation and Ownership Works

An Analysis of Opportunities & Challenges

As fundraising organizations and grantmakers work together to advance CED efforts, the field's key challenges and gaps also represent key opportunities.

Realizing commitments to racial equity. As mentioned in earlier sections, there is increased discussion and visibility for issues related to racial equity. The challenge facing the field is ensuring that these stated commitments result in more equitable processes and outcomes—and the opportunity is to deliver on that promise. In response to an August 2020 IP survey of funders and fundraisers, one respondent working in CED wrote, "This is a slow process, and I think that the funders believe that they are doing a good job, but many of their practices haven't changed, and still have some major problematic practices that continue to be extractive, whitewashed, and made digestible for white, rich funders." This is a topic that is discussed in depth by the Bridgespan Group and others, and their recommendations—like funding organizations led by Black, Indigenous and other people of color, funding movement building, or investing/divesting endowment funds to advance racial equity—absolutely apply to grantmakers funding in the CED ecosystem.

Investing Beyond the Grant. Increasingly, big foundations and corporations are using their wealth in new ways to tap into and leverage traditional financing systems—like loan guarantees or investing in CDFIs. These are exciting opportunities to impact the flow of capital at a significant scale to advance CED goals and to do so with a racial equity lens. While these more technical investments may be intimidating for some funders, and may seem out of reach for foundations with smaller endowments, strategies like local impact investing, leveraging relational capital, or serving as a convener or hub for collaborative efforts are also critical for advancing CED.

Using intermediaries and ensuring added value. With the large-dollar projects that often define the field of economic development, money often has to make its way from the federal government or large institutions, passing through many processes and intermediaries before funds reach their ultimate destination. Intermediaries are a necessary bridge to bring dollars to communities, particularly to smaller organizations that might not otherwise have access to these funding sources. And intermediaries have key local or regional expertise and relationships that higher-level players do not. At the same time, intermediaries can obscure the ultimate destination of funds, reducing transparency and also reducing dollar amounts that ultimately reach communities.

In response to an August 2020 IP survey, one respondent shared frustration that "the continued growth of intermediary funding organizations... tout their ability to expand reach or create efficiencies, but there is no real data to support these assertions. Ultimately, they are businesses, not philanthropies, and their primary concern is the client and renewing contracts, not the project or solving the problem." While intermediaries can play an important role in the CED ecosystem, particularly in a moment when unprecedented federal funds are flowing to CED, stakeholders need to ensure that dollars spent on intermediaries actually add value to the process and outcomes.

Embracing interconnectedness. This brief opens with a sprawling definition of CED — a field that touches on housing, education, healthcare, employment, banking, and other sectors, because all of these elements of a community's health and vitality are connected. Increasingly, CED funders and practitioners are embracing this interconnectedness through such CED approaches as asset-based development, and using frameworks like social determinants of health or the CDC's Whole School, Whole Community, Whole Child framework. These interconnected approaches challenge the orderly categories often used to define grantmaking priorities — one survey respondent in the State of American Philanthropy survey wrote, "Community development as a whole is incredibly effective with holistic approaches that work on affordable housing, workforce development, social justice, the social determinants of health, but as a sector, [it] receives little love. [It's] not as easy to explain as Feeding America or Saving the Oceans. But [it's] critical to local economic ecosystems and to helping those in historically disinvested communities."

While there seems to be rich discussion within the field regarding the topics discussed here, we will be watching for greater attention to climate and sustainability as it relates to CED philanthropy, as well as to support for CED efforts within Indigenous and immigrant communities. These topics came up in our research and interviews to a lesser degree than we anticipated, despite being critically important to CED.

Inside Philanthropy
August 2020 Survey

"Foundations are more focused and involved in only a few community needs such as homlessness and as an active community advocate for their causes. They used to leave the advocay and collaborations to each nonprofit to do. This model is better for all concerned, especially those in need of assistance."

—Foundation professional, Moorpark, California

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Feedback?

The State of American Philanthropy is an ongoing project. Each SAP brief will be updated periodically to integrate new information, additional data and evolving perspectives. This brief was originally posted to Inside Philanthropy in June 2022. It has not yet been updated. If you have comments or information you'd like to share with us, please email us at managingeditor@insidephilanthropy.com.