What Can Foundations Do to Foster Community Investment?

10 Roles for Philanthropy

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Introduction

Philanthropic actors often see themselves as working outside or against the economic system – repairing damage that economic structures may have caused or filling gaps that economic activity leaves open, for instance. But the work of foundations – urban regeneration, for example, or climate-change mitigation and resilience – often requires engagement with the social and capital structures that drive the economy.

Guiding how investment dollars flow into communities can help leverage resources beyond grant dollars alone, and can affect structural conditions integral to the issues many foundations are trying to address.

Simply put, foundations can magnify their impact by steering private investment toward social goals. They can do this not only in their role as investors, as important as that can be, but also as grantmakers and as advocates, conveners and supporters of research. In this paper, we describe ways in which foundations can shape how capital is used to support positive social outcomes in marginalized communities.

Foundations and Investability: Focusing on the System

Over the past several years, we have explored through applied research how communities can better draw private capital investment to public purpose – what we came to call the capital-absorption capacity of places.[1] Foundations and other investors searching for impact investments often report that they struggle to find investment opportunities that meet their social goals as well as their expectations for financial return. Our question is this: What can communities do to make it easier for money to be deployed in investable opportunities that achieve their social goals?

Our work in a variety of metropolitan regions has shown us that community investment – the use of capital such as philanthropic grants and public funds as well as bank loans, bonds, and other forms of debt and equity for purposes that serve the needs of marginalized people and places – generally takes place one deal at a time. These deals are often complex, requiring multiple forms of public, private and philanthropic subsidy. Practitioners who execute these deals describe the effort to balance investability and social purpose as a long, difficult journey with serial obstacles along the way.

Communities find it difficult to build on their successes to make subsequent deals easier – to capture the energy and insights generated through a particular transaction to accelerate learning and enhance performance for the community-investment system and network as a whole. They often lack a systematic approach to organizing demand for capital and creating

[1] For a collection of papers and tools we have published on this topic, see *hauserinstitute.org*

1. Convener

A credible convening of stakeholders – to articulate priorities, facilitate communication between sectors and offer a forum for exploring potential deals and activities that catalyze community investment – can play a vital role in shaping and strengthening systems. Foundations, especially those that are place-based or have close relationships with places, can be trusted and neutral conveners, inviting to the table stakeholders like anchor institutions or major employers that may not view themselves as natural participants in community investment and ensuring that community voices are heard.

> ***Example:*** *In 2012-13, the Greater New Orleans Foundation hosted workshops on capital absorption that brought together city officials, philanthropy, community development investors and the financial sector to identify post-Katrina priorities for the region. Similarly, the California Community Foundation in Los Angeles, together with Los Angeles Transit, Housing, Resources and Investment for a Vibrant Economy (LA THRIVES), hosted capital-absorption workshops in early 2014, and followed up with a program to boost the capacity of the city and county to use investment to advance equitable transit-oriented development as the build-out of the light-rail system proceeds.*

2. Capacity builder

Foundations can use their grantmaking, fundraising and knowledge-sharing practices to build capacity in the intermediaries who invest in community development, and in the organizations – community development corporations, social service deliverers, social entrepreneurs, socially minded businesses – that can benefit from such investment. Support for capacity building can help potential borrowers strengthen their balance sheets and/or their skills so that they qualify for investment, expanding the pool of potential deals in a community. It can also help intermediaries develop place- or sector-specific expertise that facilitates development of new transactions. Foundations also can support – or sometimes directly provide – staffing for partnerships or institutions that coordinate action around community investment or that target immediate opportunities or high-priority community needs.

> ***Example:*** *The MacArthur Foundation has long nurtured the community-investment ecosystem in Chicago, funding intermediaries like the Local Initiatives Support Corp. as well as community development financial institutions serving the city's low-income neighborhoods. The McKnight and St. Paul foundations have supported CDCs and other neighborhood-based organizations as well as the Neighborhood Development Center, a community development financial institution that works with small, immigrant and minority-owned businesses in St. Paul, Minn., as they have prepared for the transit-oriented development that is accompanying the new Green Line along the Central Corridor.*

3. Matchmaker

Foundations often have access to organizations and knowledge that would benefit the communities they care about. By actively linking actors across the investment chain, *investment capital to participate in Boston Community Capital's Sun Initiative, an innovative investment response to foreclosures resulting from the financial collapse of 2008.*

6. Deal-maker

Foundations can go beyond investing in deals created by others and take the time to help structure innovative investment products that serve specific social needs. Pulling together transactions that advance community priorities while meeting the financial-return expectations of investors is time-consuming, expensive work that often requires specialized market knowledge and commitment to mission as well as financial sophistication. By identifying high-impact opportunities and unmet needs, foundations can catalyze investment at a scale beyond that which they could manage themselves.

> ***Example:*** *The Kresge Foundation helped develop the Woodward Corridor Investment Fund, which brought together local real estate developers, national intermediaries and financial institutions to invest in the revitalization of Detroit. By researching the specific obstacles to investment in Detroit, Kresge was able to supply as well as raise funds with terms longer than those generally available in the community-investment sector. This new, $30 million vehicle should help spur and accelerate investment along the corridor by making it possible to "batch" deals rather than seeking appropriate financing one deal at a time.*

7. Communicator

Foundations can be effective cheerleaders for communities, raising their profiles with audiences that have the potential to help. By highlighting opportunities and success stories, foundations can draw in a wider array of anchor investors, financial institutions, public leaders and civic advocates than otherwise might engage with a particular community's needs. Philanthropy can also place the role of private investment in the context of holistic efforts to make places more equitable and sustainable.

> ***Example:*** *In Buffalo, N.Y., the F.B. Heron Foundation and the Community Foundation of Buffalo have collaborated to link statewide economic development, and local and national interest in impact investment, to specific efforts at revitalization led by anchor investors in the Buffalo Niagara region. By sponsoring gatherings in Buffalo and telling the story of the investments underway, the foundations are helping Buffalo make its case to a larger audience.*

8. Policy advocate

Foundations can shape the environment in which investment takes place by providing policymakers with examples of effective community investment; helping the public sector understand how to develop programs, subsidies, regulations and systems that support such investment; and funding the research and advocacy work of nonprofit organizations in areas of particular interest. Foundations can also identify ways to achieve important social goals

We emphasize a broad range of roles both because we see many different opportunities to strengthen community-investment systems, and because different foundations bring differing capacities and interests to shaping community investment. Some of these roles – say, as convener or mission steward – may require close community ties and trusted relationships that are most likely found in place-based organizations. Others – the roles of deal-maker and matchmaker, for instance – may favor larger foundations or those with wider regional or national networks, especially when specific in-house investment expertise is most useful.

No foundation is likely to be the lead actor in all of these roles, nor are any of the roles restricted to foundations alone. Our point is that there are significant opportunities for all kinds of foundations to leverage their assets by engaging in systemic work on community investment, and by finding partners to share in those efforts.

The Opportunity Now

The value of developing more effective, resilient and beneficial systems for community investment is not limited to any specific moment in time. Effective systems can help preserve equity in hot markets and serve the neediest in downturns. We believe that a more smoothly functioning community-investment system will produce more high-impact transactions with lower transaction costs and better outcomes than a haphazard, deal-by-deal approach.

But there are particular moments when the work of creating an organized community-investment system seems most urgent. For instance, many of the places we work with are experiencing significant, once-in-a-lifetime investments in transit infrastructure – investments that will reshape the built environment for generations, creating opportunities to develop equitable, healthy communities that provide opportunities to residents of all income levels. Others are facing difficult moments, where disinvestment or disaster creates the need for a broad and sustained response.

Capital-absorption work won't solve these problems by itself, but it does offer foundations a way to mobilize investment at a scale that can have a significant impact. By helping a community to articulate its strategic priorities – ensuring that resources are aligned and leveraged to maximum effect, coordinating the actions of many stakeholders and enticing new actors into the system – foundations can harness the power of capital to achieve important public goals.

By taking up the roles described here, foundations can create a virtuous cycle, helping to develop a pipeline of investable opportunities that will serve the communities they care about and making future transactions more efficient and effective in delivering social and financial returns.