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New Funding Mechanisms

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Illustrations: Kirk Lyttle

New Approaches in *Social Investing*

by Ronald L. Phillips
Coastal Enterprises, Inc.

Issues of wealth, power, race, and class keep bubbling to the surface. If the bubbling makes dramatic television, it may even appear on the evening news. Recent hurricanes highlighted the impoverished conditions many live under along the Gulf of Mexico and challenged Americans to question domestic policies and economic structures. But the issues don't go away after the hurricanes and tornadoes. We need lasting change, and to get there, we need more individual investors willing to consider "social investing."

Illustrations: Kirk Lyttle

Many organizations have sprung up over the past few decades dedicated to bridging the gap between the rich and poor. Community development corporations and community development financial institutions (CDCs/CDFIs) never stop striving to help people and places left out of the economic mainstream.[1] Their biggest challenge: finding new sources of funds. Many see a potential source of funds in individuals with high or even modest net worth who are concerned about the viability of local communities.

CDCs and CDFIs are not just looking for handouts. They are looking for investors who expect a financial return. After all, a loan for affordable housing or for an immigrant's start-up business gets paid back with interest.

Background

In the mid-1990s, working with Co-op America (http://www.coopamerica.org/), socially conscious asset managers came together as the Social Investment Forum (SIF). Their goal was to plan for the greatest challenges of the 21st century, which they identified as the growing gap between rich and poor, and the degradation of the natural environment that sustains human settlements. Today, as the wealth gap widens (a mere one percent of U.S. households hold 50 percent of the wealth), investment in community development is increasingly critical.

Managers in the socially responsible investment field traditionally promoted investments in companies that improved health or avoided pollution or treated workers well. But in 2001, the SIF established the "1% or More in Community Campaign," which aimed to invest as much as $15 billion in community development initiatives by 2005. Despite progress, that goal has not been met. So far, socially conscious mutual funds and others have invested $1.8 billion in community development, mostly by taking out certificates of deposit in regulated community development banks and credit unions.

Perhaps it is time for managers of socially responsible investment (SRI) funds to revisit their gatekeeper role. CDCs/CDFIs are uniquely situated to meet both the social and the financial goals of asset managers' clients, and more of that group might be interested if managers provided information about the industry. Just as they would for any investment, they would need to explain both the risks and potential benefits.

Community Development Comes of Age

Today community development groups have 40 years of experience investing in livable and healthy communities. They comprise 4,000 entities across rural and urban America. And they have been learning to measure their accomplishments in ways investors can understand.

National Community Capital Association's most recent CDFI survey reported that a mere 143 community development financial institutions had aggregate assets of $3.7 billion, employed more than 2,200 people, and financed nearly $9 billion worth of social-impact projects.[2] The sources of funding were telling. Banks contributed 53.7 percent; foundations, 15 percent; government, 13 percent; and individuals, only 3 percent.

The industry is ripe for investment. The challenge is how to get the word out. If CDCs and CDFIs can make their value clearer, they might, for example, engage investors through the recently passed $15 billion federal program that encourages private investment in underserved communities, New Markets Tax Credit.[3]

However, explaining the value of the industry is not always easy. The world of community development financing is complicated (it can involve, for example, venture-capital investing, commercial real estate, charter school support, shopping mall development in poor urban areas, cooperatively owned ventures, and housing projects). Traditional sources of funding consider CDCs and CDFIs unconventional, and potential investors often have trouble seeing them as an asset class. That is something the industry must overcome.

Sources of Capital

CDCs and CDFIs grapple with challenges that, although they exist in other sectors, are a bigger struggle for groups devoted to creating economic opportunities in areas the private market has left behind. The following are among those challenges.

Liquidity, or Access to Capital

CDCs and CDFIs require flexible grants, loans, and equity to support the underlying value of their mission. They depend to some extent on subsidy, as do other groups favored by the U.S. tax code—agribusiness, highway departments, homeowners deducting mortgage interest, and so on.

Leverage of Private Capital

CDCs/CDFIs have proven their ability to leverage and manage large sums of private-sector capital—that is, to expand the reach of the dollars they get from government or foundations

with large private-sector loans and investments that can be paid back over time. Today's challenge is to access more of that private capital.

Suitable Regulations

Many CDCs/CDFIs rely on partnerships and joint ventures with banks to finance a project, so community-investment regulation of banking institutions—and potentially of credit unions and insurance companies—is critical. The Community Reinvestment Act has been of great value. Future modifications to regulations could give individuals an incentive to invest in the CDC/CDFI industry.

Impact

CDCs/CDFIs need operating efficiencies combined with high social impact. Like any business, they require skilled staff to manage and make investments, measure performance, market the organization's products and services, and create a sustainable, mission-driven enterprise.

The greatest of the above challenges is the first. CDCs and CDFIs need a continuous supply of capital, particularly "patient" capital—capital from investors who do not need an immediate return. Historically, private individuals have not invested in community development because it is difficult for one person acting alone to do the necessary research. Through a vehicle called Community Investment Notes, the Calvert Foundation of Bethesda, Maryland, has perhaps come closest to tapping the wealth of individuals in an organized, underwriting way.[4]

But, admittedly, many otherwise willing investors have trouble assessing which CDCs and CDFIs are best for them. Some just stick to the regulated financial institutions, such as Shore Bank in Chicago and Self-Help Credit Union in Durham, North Carolina, which use the common, federally insured certificate of deposit for capital.

But the unregulated majority also offer good investments. Major CDCs/CDFIs in which individuals have successfully invested include Enterprise Corporation of the Delta in Jackson, Mississippi; New Hampshire Community Loan Fund; Boston Community Capital; and Coastal Enterprises, Inc., in Maine. Some even have for-profit subsidiaries with traditional venture-capital investment options that support their mission.

A recent CDFI survey reported that 143 community development financial institutions had aggregate assets of $3.7 billion.

Other funding comes through national intermediaries such as the Local Initiative Support Corporation (LISC), Enterprise Foundation, and National Community Capital, which aggregate private and public capital and deliver it wholesale to CDCs and CDFIs.

Current Capacity

The community development industry now has a far greater capacity and sophistication than most people realize. Not only have CDCs and CDFIs invested tens of billions of dollars, but they are professionally managed, they have strong boards, financial systems, and annual audits—and they do major projects. Coastal Enterprises, for one, has directly invested and leveraged more than $1.1 billion. Its capital has been used for 1.8 million acres of sustainably managed working forests, 160 fisheries enterprises along the coast of Maine, and financing for 120 child-care centers and hundreds of affordable rental and ownership housing units. The list goes on. In the process it has generated thousands of jobs in businesses large and small.

But as CDCs and CDFIs continue to grow, explaining to potential investors what they do and how well they do it has had to move beyond the heartwarming anecdote to more precise measures. The CDFI Rating and Assessment System (CARS), for example, both takes into account the industry's unique characteristics and applies standard criteria for assessing weaknesses and strengths.[5] From an investor's point of view, there are indeed strengths. Besides management experience, the industry has assets like real estate, having often taken first-lien positions on properties.

One way to open up the capital markets for this untapped class might be to give CDCs and CDFIs "nonbank" borrowing status under

the Federal Home Loan Bank system. A second avenue could be raising socially directed venture-capital funds. A third option is utilizing charitable, tax-exempt-bond-financing sources. The possibilities are endless.

The Three-Legged Stool

If we think of the history of the socially responsible investing movement as a three-legged stool, the first leg represents the corporate social responsibility movement (CSR) that came out of the 1960s turbulence. Its aim was and still is to align capital and business behavior with social values. Through stockholder action and public education, the movement holds large corporations and those who invest in them accountable for their effects on society—workplace practices, minority hiring, human rights, and environmental stewardship.

Community development groups may not yet be a recognized asset class for investment purposes, but they are definitely an asset to society.

The second leg is the behavior of a new generation of businesses that voluntarily include environmental stewardship as part of their focus—for example, Microsoft, Starbucks, Ben & Jerry's, and Stonyfield Yogurt.

The third leg is community development. Capital markets are adjusting to the first two legs fairly well, but will they adjust to a CDC/CDFI asset class? The markets are not yet very receptive, still tending to describe such investments as junk bonds. But unlike many corporations with higher ratings, CDCs and CDFIs support social and economic justice for communities and thus provide a lasting value.

Community development groups may not yet be a recognized asset class for investment purposes, but they are definitely an asset to society. The industry has come a long way. We hope that before another 40 years pass, we will be able to bring some of the billions of dollars of private social investments into supporting the economic sustainability of low- and moderate-income people and the places where they live. We need to keep capital flowing into building and rebuilding the lives of marginalized people and communities.

Ronald L. Phillips *is president of Coastal Enterprises, Inc., based in Wiscasset, Maine.*

Endnotes

[1] Throughout this article I refer to the CDC/CDFI industry as virtually the same in terms of their history and overall mission. The CDCs of the 1960s set the stage for community development entities such as housing-development corporations, community development credit unions, community development banks, microenterprise funds, and CDFIs.

[2] The Corporate Data Project, managed by National Community Capital Association, is sponsored by the CDFI Fund and several private foundations. The annual publication is based on a sample survey of CDFIs active in a variety of financing initiatives, including housing, small business, community facilities, and venture capital. See http://www.communitycapital.org/.

[3] For more information on the New Markets Tax Credit, visit the web site of the CDFI Fund http://www.cdfifund.gov/; or the web site of the NMTC Coalition, the national community development advocate for legislation, program impact, and reauthorization, www.newmarketstaxcreditcoalition.org.

[4] Investors purchase notes that go into a Calvert Foundation revolving loan fund and ultimately to CDCs/CDFIs. Funds are used by borrowers for a variety of purposes, including small-business loans and microloans, community facilities, and affordable housing. The notes are not the same as a mutual fund, are not FDIC insured, and are not related to Calvert Group's sponsored investment products.

[5] It uses CAMEL (capital adequacy, asset quality, management, earnings, and liquidity), an internationally accepted way of assessing a bank's strengths and weaknesses. The CARS method also includes a rating for impact and how much the organization engages in policy.

Matchmaking FOR Community Investors

Recognizing that community development financial institutions are always looking for more ways to fund good works and that the socially responsible investment (SRI) community is always looking for worthy causes that provide a reliable return, contemporary matchmakers are working to bring the two industries together.

by Anna Afshar • Federal Reserve Bank of Boston

Illustrations: Kirk Lyttle

When CDFIs finance, say, affordable housing or start-up businesses in low- and moderate-income neighborhoods, their loan recipients pay them back, often with returns the lenders can earmark for other goals. But CDFIs could support a lot more community improvement if they could raise more investment money at favorable rates, and socially responsible investors may be the right people to provide it.

One study found that a typical socially responsible investor was a charitably disposed male with an annual income of $50,000 to $100,000.

Different socially responsible investors have different strategies. First are those that do screening. They may avoid companies that test cosmetics on animals, work in the defense industry, or have a bad record of oil spills. Second are those that aim to be part of the solution. Some file shareholder resolutions to address issues such as labor abuses or human rights; others may advocate change directly with managers.

But there are ongoing challenges for the third group, socially responsible investors interested in building strong communities through strategic investment. Potential community investments differ from other investments, making it difficult for socially responsible investors and SRI funds to justify putting money in them. Commonly cited differences include the lack of standardization of community-investment procedures (investors and financial advisers end up with the administrative costs of comparing apples and oranges), the smaller size of community investments (institutional investors require large pools), and the more variable and sometimes lower rates of return (depending on the product, community-investment returns range from zero percent to market rate). These differences stem primarily from CDFIs' dual mission of customizing products for low- and moderate-income clients while producing a good financial return. Other differences are the result of inefficiencies in the overall industry.

With such concerns in mind, the Federal Reserve Bank of Boston and the Aspen Institute of Washington, D.C., held a conference in November 2005 to elicit suggestions for expanding SRI activity in community investment. Joan Bavaria, president of Trillium Asset Management, and Amy Domini, founder and CEO of Domini Social Investments, provided an overview of SRI industry perspectives. Participants from SRI and CDFI organizations exchanged views on how to reach out to new investors and how to improve the viability and performance of the overall community investment sector.

The New Community Investors

Community investments comprise less than 1 percent of total professionally managed SRI portfolios. (See the exhibit "U.S. Socially Responsible Investment, 2003.")[1] Still, there are indications that some socially responsible investors are increasing their community investments and that others are interested.

Linnie McLean, director of finance at Trillium, says that she is seeing growth in the number individuals seeking community investments. However, since Security and Exchange Commission regulations prohibit firms like Trillium from proactively marketing such products, the company offers them as one of numerous investment options. If a client shows interest, Trillium explains the option in detail.

Juliana Eades of the New Hampshire Community Loan Fund sees family foundations as a largely untapped source of community investment. She points out that universities and other institutions with large endowments have learned to solicit the support of these funding sources and recommends that CDFIs do the same.

Elizabeth Glenshaw of Maryland-based Calvert Foundation suggests that another target should be retirement money. Self-directed IRAs, for example, allow investors to assign a portion of their savings to community investments. Some pension funds, such as the one run by the Church of the Brethren, lets investors direct 5 percent of their portfolio to community investment. Glenshaw urges CDFIs and SRIs to advocate for legislation that would promote more widespread use of such options.

Calvert has counterintuitive data from research done to understand its typical socially responsible investor. The profile of that investor, Glenshaw says, is not a high-net-worth individual, as the common wisdom would have it, but rather a charitably disposed male between the ages of 50 and 65, with an annual income of $50,000 to $100,000. As many as 75 percent of that group have no children. Such insights have implications for the marketing initiatives of both SRIs and CDFIs.

New Pathways to Scale

Current efforts to increase community investments go beyond tapping into new investors. According to the Aspen Institute, it is necessary to address the viability of the overall CDFI system. In a paper published by the Federal Reserve Bank of Chicago, "New Pathways to Scale for Community Development Finance," Aspen's Greg Ratliff and Kirsten Moy investigate how the CDFI industry can grow to scale and ultimately

U.S. Socially Responsible Investment, 2003

Investment Type	Total Assets
Screening Out Objectionable Investments Only	$1,702 billion
Screening plus Shareholder Advocacy	$441 billion
Community Investing	$14 billion
Shareholder Advocacy Only	$7 billion

Community Development Financial Institutions Rated by CDFI Rating and Assessment System, CARS

Austin Community Capital Corp.
Coastal Enterprises, Inc.
Community First Fund
Florida Community Loan Fund
Low-Income Investment Fund
Montana CDC
New Hampshire Community Loan Fund
Northern Economic Initiatives
Northland Foundation
The Reinvestment Fund
Rural Community Assistance Corporation
Unitarian-Universalist Affordable Housing Corp.

achieve a greater social impact.[2]

They argue that for years the industry has been focused on getting bigger, in the belief that expanding service delivery will lead to sustainability. But Ratliff and Moy point out that if CDFIs do not also focus on cost control and increased efficiency, then doing the same thing on a larger scale will not help the industry grow in a meaningful way.

Thus, achieving scale for the CDFI industry means expanding volume, reach, and efficiency to reach sustainability. Once they are sustainable, the authors say, CDFIs will be able to attract additional investment and deepen their impact. Ratliff and Moy use 10 case studies of mostly for-profit organizations to develop models, or "pathways," showing how CDFIs can achieve scale at the product, organization, and industry levels.

Tom Bledsoe, president of the Housing Partnership Network, a national network of top-performing affordable housing CDFIs, agrees with Ratliff and Moy that the current CDFI funding system discourages important organizational improvements because it focuses on the volume of loans. He points to his own organization's experience visiting European nonprofits for ideas. The Housing Partnership Network found the European groups more interested in organizational capabilities than U.S. nonprofits. The whole industry supported flexibility, including using subsidies to build up organizational capacity.

Elyse Cherry, president of Boston Community Capital, a financial intermediary, notes that Ratliff and Moy's recommendations for more horizontal integration and industry networking are already occurring but need to expand. BCC, for example, employs its financial position and organizational reputation to attract money both from outright donors and from investors looking for a return. That allows BCC to provide funding to community development organizations and private developers that might not have been able to access to such funds—or to get them at the same cost. Still, Cherry believes that BCC and other CDFIs can benefit greatly if they develop more industrywide partnerships, particularly partnerships that lead to standardization of products or processes.

A New Asset Class?

Although there are clear benefits in the CDFI industry's move toward private-sector models, many SRI and community-investment professionals say that what is unique about the industry can be leveraged to greater advantage, too. For example, the recent volatility of financial markets provides a golden opportunity to promote the fact that community investments are not correlated with mainstream debt and equity markets. Community-investment professionals want to see community investment become its own asset class, with appeal to people focused on financial returns as well as on doing good. But what would it take to create an asset class?

Many argue the need for a reliable and widely used rating system to capture the unique value of CDFIs. The CDFI Assessment and Rating System (CARS), which the National Community Capital Association launched in 2004, may prove to be that tool. (See the exhibit "Community Development Financial Institutions Rated by 'CARS.' ")[3] Like any credit-rating system, CARS analyzes and rates the financial strength and performance of a CDFI. But it also analyzes a CDFI's impact, including the leadership role the institution plays in the industry and the CDFI's efforts to shape public policy. Such measures are attractive to investors who want to know that their investments are having a significant effect.

Still, the challenge remains of how to marry the needs of socially responsible investors for standardized investment products, regular returns on principal—and other such mainstream investment factors—with the idiosyncrasies and financial performance of the community-investment sector. The community-investment world will have to work a little harder on making the overall industry more attractive while simultaneously courting socially responsible investors, one investor at a time.

Anna Afshar *is a senior research associate at the Federal Reserve Bank of Boston.*

Endnotes

1 The data do not capture all money involved in community investing. For example, they do not include Community Reinvestment Act investments that were not made through a CDFI or low-income housing tax credit programs. See *2003 Report on Socially Responsible Investing Trends in the United States* (Washington, D.C.: Social Investment Forum, 2003).

2 Gregory A. Ratliff and Kirsten S. Moy, "New Pathways to Scale for Community Development Finance," *Profitwise News and Views* (Chicago: Federal Reserve Bank of Chicago, December 2004).

3 Twenty-one CDFIs are in the pipeline for CARS ratings. All information is as of November 2005. See http://www.communitycapital.org/financing/cars.html.

Benefiting Both Nonprofits and Donors: Charitable Lead Trusts

by John H. Clymer and Sarah T. Connolly, Nixon Peabody LLP

Today's most knowledgeable nonprofits are alerting supporters to new estate-planning and charitable-giving tools, some of which make resources available to the charity immediately. Even small nonprofits are telling potential donors about instruments that simultaneously enable larger gifts and generate significant tax benefits for donors and their heirs. The charitable lead trust is one such instrument.

Two Types of Charitable Lead Trust

A charitable lead trust is a trust that gives an "income" interest (the "lead interest") to one or more charities for a set number of years (three-, five-, 10-, and 20-year terms are all common). It provides that the principal (the "remainder interest") will ultimately go back to the donor—or to designated beneficiaries.

There are two types of charitable lead trust: annuity trusts and unitrusts. Both are irrevocable.

Annuity Trust

At least once a year, a charitable lead annuity trust gives a nonprofit organization either a fixed percentage of the initial net asset value of the trust or else a fixed dollar amount. The amount that must be distributed each year remains the same no matter what happens to the value of the trust's assets.

Unitrust

A charitable lead unitrust differs in that the donor specifies from the outset the *percentage* of the trust's net asset value that is to be distributed annually to a charity. The net asset value is determined anew in each taxable year on the same day. Because the percentage is fixed—but the value upon which it is based varies—unitrust payments increase or decrease with the value of the assets. Thus for the recipient organization, the income is less predictable.

How Is a Charitable Lead Trust Created?

A charitable lead trust is created by a written trust agreement between the donor and one or more trustees. The trust document will indicate whether the trust is to be an annuity trust or unitrust, will state the amount to be distributed, and will name the charity or charities to be benefited.

The trust instrument also will contain terms providing for the disposition of the trust assets when the period of payments to the charitable organizations ends. The property may pass to named beneficiaries, return to the donor, or continue in trust for family members or others. The trust instrument also will contain provisions common to all trusts, such as those related to the trustees' investment powers and duties. Usually the trustees receive investment assets at the time the trust instrument is signed. Also, a trustee is entitled to receive a trustee's fee, and a separate management fee may also be charged if the trustee is not actively managing the investments.

Federal Tax Consequences

Charitable lead trusts give the donor particular tax benefits.

Income Tax

Taxable income and capital gains realized by a charitable lead trust are taxed to the trust. The trust is allowed an unlimited charitable income-tax deduction each year for the distributions made to charity. The donor does not receive a federal income-tax deduction, either for the initial contribution to the trust or for the distributions made annually to charity, but there are advantages to reducing taxable income this way, as described below.

Gift, Estate, and Generation-Skipping Taxes

A donor may receive a federal gift-tax charitable deduction for the present value of the income interest given to charity. If the property is to pass to the donor at the end of the term, the property returning to the donor will be included in the donor's estate at death, but there will be no liability for gift tax at the time the trust is created. If the property is to pass to others at the end of the term, it will not be included in the donor's estate, but it will be subject to gift tax at the time the trust is funded, based upon the discounted value of the beneficiaries' right to receive the property in the future. The gift will not qualify for the annual exclusion from gift tax (currently $11,000 per donee), because it is a *future* interest. If those receiving the remainder of the lead trust are grandchildren, there may be a generation-skipping transfer tax imposed when they receive distributions.

Example

Let's say a donor transfers $100,000 in appreciated securities to a charitable lead annuity trust in November 2005. The trust has a 15-year term, and at the end of that period, the property remaining in trust will pass to the donor's children. To value any gift of this sort for tax purposes, the Internal Revenue Service promulgates regulations that contain actuarial and financial-return assumptions.

For November 2005, for example, the assumption was that returns would be 5 percent per year. The donor sets the annual annuity rate at slightly in excess of 9.6 percent. This produces an annual annuity payment to charity of $9,640 a year on a $100,000 initial value. Under the applicable Internal Revenue tables, an annuity of that amount, given a return assumption of 5 percent, will reduce the annuity trust value to zero at the end of the 15-year term. Therefore, there will be no taxable gift to the donor's children. However, if the average annual return on the trust's assets is actually 8 percent a year for the 15-year term (rather than the 5 percent assumption), then when the trust ends, the children will receive $55,606 free of estate or gift tax. During the 15-year term, payments to charity will have been $144,600. The donor has achieved the objective of passing more than $140,000 to charity, reducing the children's anticipated inheritance by only $55,000 while removing $200,000 from the estate, free of income, estate, and gift taxes.

Why Establish a Charitable Lead Trust?

Charitable lead trusts are created by donors who have a commitment to charity and who also wish to benefit their families or others.

Donors with a history of generous charitable giving may find that they have hit the ceiling of the income-tax charitable deduction of 50 percent of adjusted gross income for cash gifts (or 30 percent for gifts of "appreciated property," such as securities).

Placing property in a lead trust

Illustrations: Kirk Lyttle

enables them to increase an income-tax charitable deduction by removing from their own tax returns the income from the property placed in the lead trust. Donors thus lower taxable income while still having income go to charity.

Another reason a donor with significant assets and strong charitable interests may wish to take this path is the ability to benefit a favorite charity today without giving away assets forever. A lead trust can meet the donor's own future needs if it is tailored to end on an expected occasion, such as a retirement or the termination of another trust from which the donor or a family member has been receiving income. If the lead interest is designed to end when the specified event occurs, the donor or family member will then receive the trust's assets.

In short, a charitable lead trust can offer significant tax benefits to donors and their families while providing a stream of funds to serve favored charities.

John H. Clymer *and* **Sarah T. Connolly** *are partners in the Private Clients' Group in the Boston Office of Nixon Peabody LLP.*

Coming Up

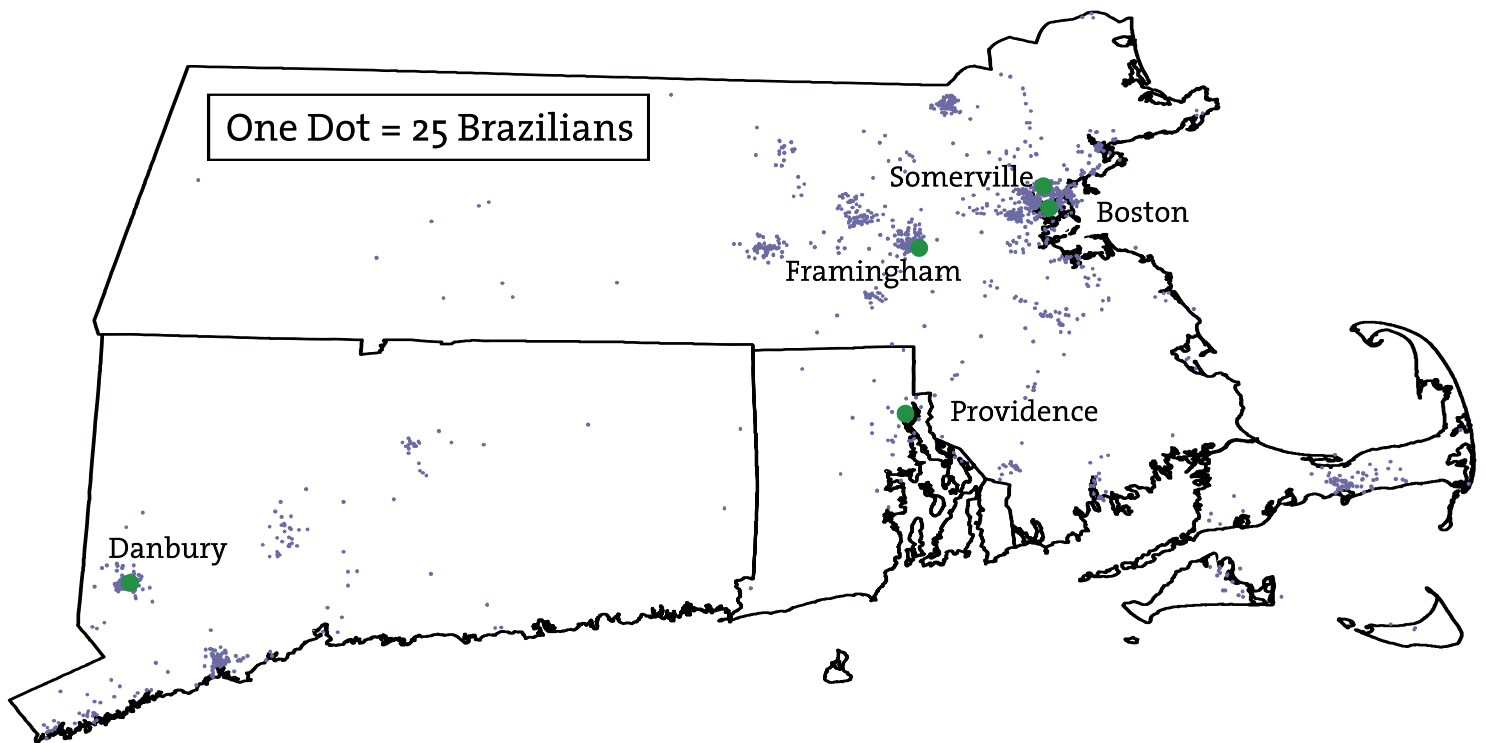
in Future Issues of *Communities & Banking* Magazine

- The latest Home Mortgage Disclosure Act data: implications for New England
- What works for communities after a military base closes
- A New Haven bank reaches out to the community
- Massachusetts laws for affordable housing
- New mortgage risks for banks and consumers
- A money-management program helps the impaired elderly
- How artists build the New England economy
- Patterns of home buying among immigrants
- One state pioneers supportive housing, a better solution for homelessness
- Removing the barriers to building up assets and leaving poverty

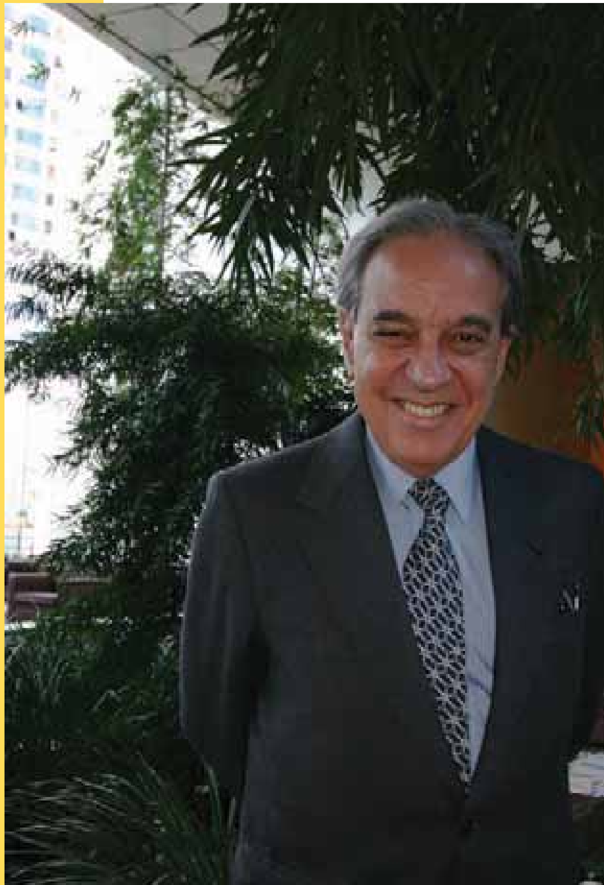
Mapping New England

High Concentrations of Brazilians in Southern New England

According to the U.S. Census, 23.2 percent of the more than 200,000 Brazilians living in the United States in 2000 made their home in New England. In Massachusetts, Brazilians have settled primarily in Boston, Framingham, and Somerville. There is also a high concentration in Danbury, Connecticut.



Jório S. Gama
Consul General of Brazil



Reaching Immigrant Communities

Jório S. Gama, Consul General of Brazil, has New England ties that go back more than 40 years. In 1964, the Vermont-based Experiment in International Living chose him and nine other Brazilian diplomats-in-training to spend three months giving talks about Brazil and getting to know Americans in New England and elsewhere. Since then, he has served his country in many ways, including as ambassador to South Africa and as consul general in both San Francisco and Boston. He and his office offer help to Brazilians in Massachusetts, Maine, New Hampshire, Rhode Island, and Vermont. Ambassador Gama spoke recently to *Communities & Banking* about his New England constituency and answered questions about how banks might serve Brazilian immigrants better.

Photograph by Fabienne Anselme Madsen

C&B: The most recent census, 2000, indicates that there are fewer than 50,000 Brazilians living in New England. Anecdotal evidence suggests that there are many others who are undocumented and uncounted. Does your office have an estimate?

JG: There is no way to know. The only number we can be sure of is how many come to our office every day, and it is higher than for other consulates in Boston. In 2004 an average of 112 people per day came just to renew their Brazilian passports. We do not check to see if they have American documents.

C&B: Brazilians and other immigrants send money home through a variety of channels. How do you think banks could help foreign nationals with their remittances?

JG: People prefer other money-transfer operations. The problem is that most banks require documentation proving that the individual is here legally. The FDIC has met several times with the Boston consular community on ways to bring more people through bank doors. There is a lot of potential. In 2004, Brazilian expatriates around the world sent home $5.6 billion, more than what soy products, our main export, brought into the country.

C&B: A recent Federal Reserve Bank of Boston article citing 2000 statistics said that 25 percent of remittances received in Brazil actually came from New England, mostly through nonbank money transfer.

JG: Well, how can immigrants use a bank for remittances without an identity card that banks will accept? Chicago banks accept a card that the Brazil consulate there issues, similar to the Mexican Matrícula Consular card. It acknowledges that the person is a citizen of Brazil and lives at a certain address in America. Permission to use such cards has to be given by the mayor of a city. We have a similar card here right now, but no Brazilians ask for it because they know banks won't accept it. Information spreads quickly in our community. Believe me, if our I.D. card or the Brazilian passport worked for one person, everyone would hear about it.

C&B: New research in the summer 2005 issue of *Communities & Banking* suggests that immigrant entrepreneurs also do not use banks. Instead, they are likely to rely on savings or borrow from family and friends. How can the banking community reach entrepreneurs?

JG: Let me put this in context. Most of the undocumented come to make money and then go back to Brazil. The people who stay soon learn they can buy a house without being documented, but, even so, they are not used to your mortgage system. You are born in this country with a lawyer at your side and the idea you can buy a house with help from a mortgage company, but in Brazil only an official bank handles such transactions. People are not used to your system for buying a house, and the same is true for starting a business.

C&B: Banks are working on new financial-education programs that address differences in background and language. In the Federal Reserve's Public and Community Affairs department we hear about other challenges immigrants face. Last year Brazilian priests in Allston, Massachusetts, were so alarmed about the problems they were seeing that they advertised in the media back home to warn people not to come.

JG: Brazilians have varied impressions of America. Some say that it is dangerous, that you can be exploited. Others say it is the best place in the world to work your way up. In terms of how they are treated, I see a paradox. On the one hand, many businesspeople have told me that the Brazilian workers here are needed and cherished. I frequently hear Brazilian workers praised for respecting the law, working hard, and staying out of confrontations among themselves and other nationalities.

You have a few prejudiced people here. All communities do. In Framingham, there are a few anti-immigrant activists, but the state and the Framingham town council protect and encourage Brazilians. I myself feel like I am in Brazil when I go to Framingham. Most Americans appreciate immigrants. But the other side of the paradox is that there are ways in which America treats immigrants poorly.

C&B: Certainly, immigrant workers are part of the economic base and are often happy to do jobs that Americans no longer want.

JG: Exactly. Without immigrants, the states would be in trouble, but instead of receiving all necessary support, immigrants often get the opposite, and that can be frightening. People know there could be a knock at the door one morning, and a family member could be taken to prison or deported.

This is not just a federal question. Here's a local example that really hurts. If the son of someone without documents wants to go to high school, he can. But if he wants to go to a state college, the state charges him the same price as someone from California or Switzerland. Why deliver retribution like that to people who are needed in the economy? They seem to be accepted because they provide, but roadblocks like this tell them they are not accepted after all.

If they felt their presence here was really welcomed, it stands to reason that everyone, including the financial community, would benefit. How are immigrants going to be trusting enough to open an account, to apply for a mortgage, to borrow money for a business, if they know that the next day someone might put them in jail? If they are afraid, they are not going to go to a bank and chat about their dreams—they won't even do that at the consulate. I see them waiting in line there. They keep their heads down, complete their business, and go. If states could address paradoxes like "We want you for your work but not enough to help your children through college," that in itself would make a huge difference.

Beyond Neighborhood Revitalization

In the mid-1970s,

Boston's Jamaica Plain neighborhood embodied many of the characteristics of declining urban areas across the United States. Years of disinvestment had left a blighted and vulnerable community. Nevertheless, many residents refused to give up hope. People of varied backgrounds and incomes joined forces in an effort to revitalize their neighborhood.

Today, Jamaica Plain is one of the most sought-after places to live in Boston. With the mission apparently accomplished, a new mission arises. Many of the neighborhood's rescuers, who banded together to form community groups such as the Jamaica Plain Neighborhood Development Corporation (JPNDC) may not be able to enjoy the fruits of their labors if the area becomes too pricey.

Photographs in this article are courtesy of JPNDC.

by Sally Swenson and Chris Ney
Jamaica Plain Neighborhood Development Corporation

Stability, Sustainability, and Equal Opportunity

This is a common post-revitalization concern for all nonprofit community development corporations (CDCs), not just JPNDC. Young college graduates, teachers, accountants, firefighters, and nurses are among the workers who are excluded from settling in many revitalized communities. In New England, the overheated housing market is one of the greatest threats to economic sustainability of communities.[1]

That's why, in collaboration with other groups, the 28-year-old Jamaica Plain Neighborhood Development Corporation is adapting itself to new challenges. Its approach may serve as a model for other communities that have experienced successful turnarounds. Today's mission is to shape the *kind* of revitalized neighborhood that people want their community to be and to ensure that development is equitable, sustainable, and resident-driven.

One Neighborhood's Decline

Jamaica Plain was long known for its graceful parks, designed by Frederick Law Olmsted, and its elegant Victorian homes. It was also known as a place where working-class and immigrant families found jobs and put down roots. For generations, businesses flourished in JP and provided jobs. For example, at the turn of the 20th Century, Jamaica Plain and adjacent communities were home to 25 breweries—the highest concentration in New England. And the massive TG Plant Shoe Factory used to be the largest industrial site in Boston, employing 4,000 people in its heyday.

But by the 1960s, factory jobs were leaving, and many Bostonians were moving to the suburbs. Abandoned breweries attracted vandals, and banks refused to approve mortgages. In 1976, arson destroyed the shoe factory. For nearly two decades the abandoned property attracted drug dealers and illegal dumping.

The defining moment in JP's downward spiral was the proposal to raze large sections to build an eight-lane highway. More than 400 homes were destroyed before a broad alliance of residents stopped the project. Their success inspired them to create organizations that could direct future development.

Community-Based Reinvestment Strategies

From 1977 to 1997 JPNDC and others undertook numerous initiatives to reverse blight, create jobs, and promote community ownership. The Brewery Small Business Complex, a formerly abandoned five-acre brewery, became home to 40 small businesses employing 200 people. Distressed buildings were either renovated as resident-owned cooperatives or sold at affordable prices to first-time homebuyers. Community organizers brought residents together to plan improvements and to help merchants create one of Boston's strongest neighborhood business associations. Another program provided technical assistance to merchants, who have been able to access nearly $5 million in financing from banks that had not previously made loans to small, inner-city entrepreneurs.

Occasionally during these 20 years, the real estate cycle turned upward, and investors took an interest in Jamaica

Plain. Community leaders saw the risk for the neighborhood's hallmark diversity. So a local tenants' group, City Life/Vida Urbana, and JPNDC formed an alliance to protect low-income residents from displacement. Together they created an effective mix of public advocacy, direct action, and development expertise that led to acquisition of key neighborhood properties and their redevelopment as permanently affordable housing. The alliance produced a total of nearly 200 rental or cooperative units for families and the elderly.

By 1998, the results of this community activism were visible throughout Jamaica Plain. On Lamartine Street, the new Nate Smith House for low-income seniors replaced an eyesore that a notorious landlord had long refused to repair. The Hyde Square Cooperative brought new life to a troubled area, replacing trash-filled lots with townhouses and a community garden. And 20 years after fire destroyed the Plant shoe factory, a private developer, a public-housing tenant-management corporation, and JPNDC teamed up to build a community health center. They also brought in a Stop & Shop, which was the first major supermarket to build in Boston's inner city in 15 years.

In 2001, the National Community Development Initiative cited JPNDC in a study on the catalytic role of CDCs in neighborhood revitalization. One of NCDI's main indicators was rising property values.

But rising property values are both good news and bad news.

Strategies for Stable, Equitable Communities

Housing prices began rising in Jamaica Plain after 1995 and have continued to increase ever since. In ten years, the median price for a single-family house went from $165,000 to $500,000. Jamaica Plain is now the third most expensive of the 16 neighborhoods in Boston, which is one of the most expensive metropolitan areas in the United States.

If property values are the only measure, then revitalization has occurred. The decline has been reversed. But what is the proper role for a community development corporation after that?

The Jamaica Plain Neighborhood Development Corporation purchased the Blessed Sacrament Church from the Archdiocese of Boston in September 2005. The renovation will provide for affordable housing, commercial space, and other community uses.

Neighborhood turnaround raises a new set of concerns. Sociologists and other researchers who have studied gentrification generally agree that once real estate agents "discover" an up-and-coming neighborhood, a new wave of residents arrive who are attracted to its cafes and investment potential but are relatively unlikely to put down roots. In his classic book *Common Ground: A Turbulent Decade in the Lives of Three American Families*, J. Anthony Lukas termed such gentrifiers "the most mobile members of a mobile society." Census and real estate data confirm increasing transience in JP, lending credence to the worries of long-term residents about social stability.

New situations call for new strategies to ensure that revitalization is sustainable and benefits low- and moderate-income residents. The following approaches being tested in Jamaica Plain may have application elsewhere in New England

Leadership in the Affordable-Housing Debate

When gentrification creates sophisticated opposition to additional affordable housing, community development corporations need to be prepared. A campaign to increase understanding about exactly who needs affordable housing (a wide range of people, including teachers and firefighters) and to promote values of inclusiveness and compassion is important. Experienced nonprofit groups need to have answers for opponents who argue that affordable housing translates into crime and trash. Such views represent a lack of understanding.

Sophisticated Real Estate Capacity

Fifteen years ago, organizations like JPNDC could buy properties from foreclosing banks at rock-bottom prices. Today it is necessary to compete with savvy private developers in a world where deals are made overnight. Although the financial resources of community development corporations

The key to success in the post-revitalization stage of community development is constant renewal of trust and the strengthening of grassroots leadership through participatory decision making.

can never equal those of for-profit developers, CDCs need to keep improving their real estate sophistication. That means having staff with expertise, a wide range of expert consultants available, and multiple levels of short- and long-term financing. Then the CDC can move quickly and take risks, putting cash up front so that it doesn't lose opportunities.

Jobs for Self-Sufficiency

It is important to bring jobs back to the neighborhood, but not just temporary, low-paying jobs. Revitalization groups must help residents obtain work that can support a family. The Jamaica Plain Neighborhood Development Corporation is doing that through its leadership of the Boston Health Care and Research Training Institute, a collaboration of nonprofit organizations and 11 employers in Boston's largest employment sector. Because of the Training Institute, some of the nation's most prestigious teaching hospitals are now investing in previously ignored segments of the workforce to meet their own urgent needs for nurses and other skilled professionals.

Embracing Sustainability

Mixed-use neighborhood planning, sometimes called "smart growth," needs to be applied to all new projects. In Boston, lead developer JPNDC is embarking with Urban Edge and the Hyde Square Task Force on their largest initiative ever: the transformation of long-neglected Jackson Square with 400 new mixed-income homes, a youth and family center, and 130,000 square feet of new retail, office, and recreational space. A new and vital community will be created on now barren land at a major transportation hub. Moreover, the buildings will incorporate environmentally sound design principles to protect the health of residents and to reduce energy use.

Continued Commitment to Resident Leadership

Accountability to the community will always be the foundation of CDC success. Recently in Jamaica Plain, the community wanted to save a beautiful Catholic church from outside development. Countless calls and letters to the Archdiocese of Boston from church members and 1,400 petition signatures supporting a JPNDC purchase made it clear what the community wanted. In September 2005 the JPNDC became the first community development corporation in Boston to purchase a shutdown church for use by the neighborhood.

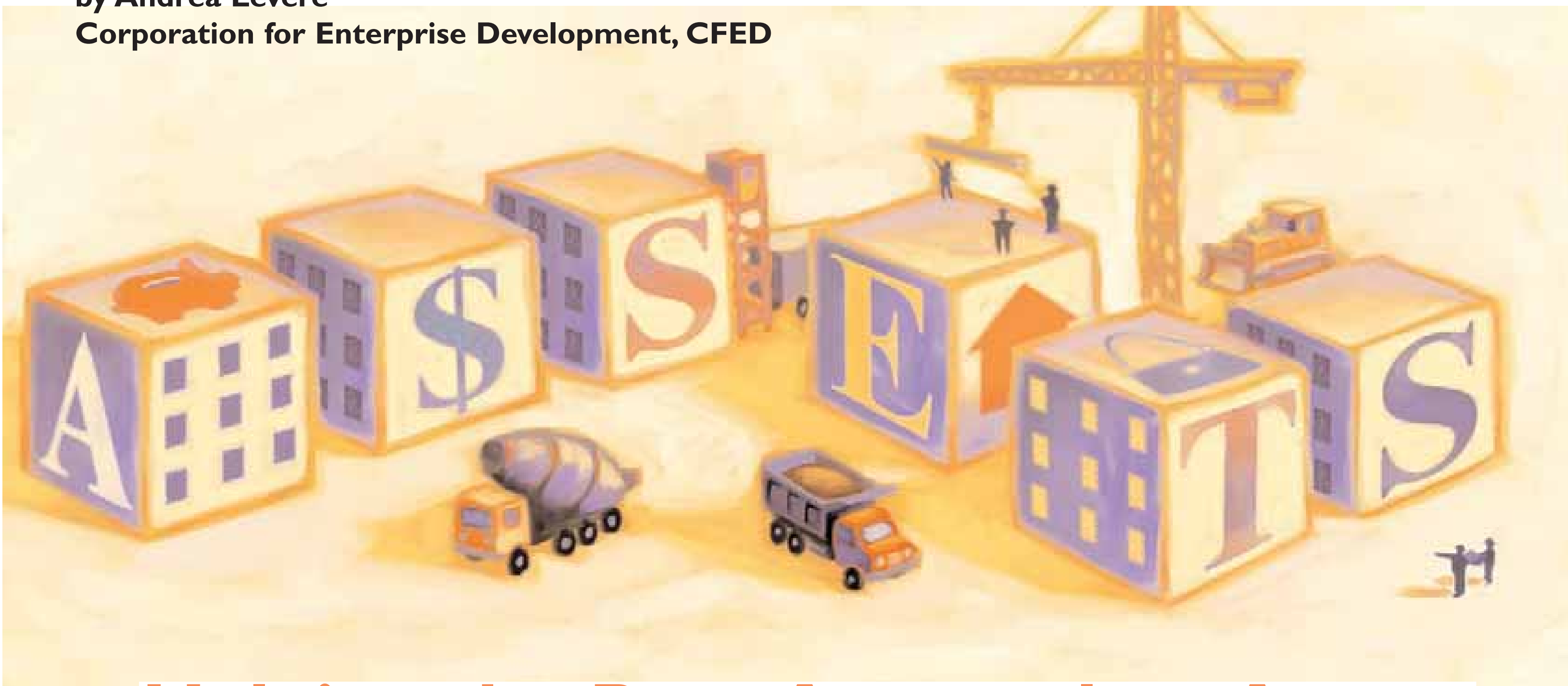
The key to such successes is constant renewal of trust and the strengthening of grassroots leadership through participatory decision making. The work is never done. CDCs that see revitalization efforts bear fruit must be more vigilant than ever to ensure that the low- and moderate-income people they serve have economic security, equal opportunity, and a role in shaping their future.

Sally Swenson *is resource development director and* **Chris Ney** *is resource development associate and of the Jamaica Plain Neighborhood Development Corporation in Boston.*

Endnote

[1] See http://www.nhc.org/chp/p2p/. By typing in the name of a city, one can view a table showing annual income needed to afford a median-priced home compared with the income of professions such as teacher and police officer.

by Andrea Levere
Corporation for Enterprise Development, CFED



Helping the Poor Accumulate Assets

Over the last decade an entire field has emerged from the idea that, given the right incentives and supports, even very poor people will save, accumulate assets, buy homes, start businesses, and pursue higher education. In the process, the thinking goes, they are likely to improve their knowledge of and participation in the financial system—and pass along a sense of possibility and empowerment to their children, breaking the cycle of poverty.

Organizations such as the Corporation for Enterprise Development (CFED), www.cfed.org, have embraced that idea and are making strides in helping the poor accumulate wealth. However, there is still a long way to go. The daily struggles of low-income people tend to be under the radar, and media coverage of hurricanes, tornadoes, and other disasters makes them visible only for a while.

The large-scale traumatic events of the last few years underscore the value of basic financial tools—a bank account, a credit card, a strong credit rating, and knowledge of how to navigate the financial system—

Illustrations: Kirk Lyttle

in helping a family get back on its feet. But dealing with disasters is not the only reason to have assets.

As lawmakers who have enacted policies helping many Americans accumulate assets recognize, planning for the future, buying homes, preparing for retirement, sending children to college, and weathering unexpected financial storms are all important for daily living. If one includes the tax incentives for mortgages, retirement savings, and the like, the federal government has a large stake in asset building. In 2003, for example, it spent $335 billion (conservatively measured) on asset building.

But do the government's incentives help the poor? CFED research suggests that the incentives are largely uncoordinated and disproportionately beneficial to those who already have assets. CFED's analysis of the largest asset-related spending categories in the federal budget shows that more than one-third of the benefits go to 1 percent of Americans, those who typically earn more than $1 million per year.[1] In contrast, less than 5 percent of the benefits go to the bottom 60 percent of taxpayers. For years, most of the low- and moderate-income individuals and families in the bottom 60 percent have not been assisted by the federal government to build assets at a level comparable to the benefits received by people at higher income levels.

Individual Development Accounts and Assets

Interest in helping the poor build assets dates back to at least the late 1980s, when Michael Sherraden, the director of Washington University's Center for Social Development in St. Louis, offered a theory of welfare and assets.

Two events coincided to get Sherraden thinking along new lines: conversations with welfare recipients who were frustrated that they could never get ahead; and lively discussions among Washington University faculty regarding the school's new retirement-savings program, a defined-contribution plan. Sherraden began to understand that assets matter to people in ways that income alone does not—and that institutions have a role in determining who accumulates assets, just as Washington University had a role in its professors' accrual of assets through the retirement plan.

Sherraden's 1991 publication, *Assets and the Poor*, prompted interest in a new tool: the individual development account, or IDA. Just as an industry's employees feel encouraged to use a 401(k) because they know their employer will add to their savings, the poor may feel encouraged to save in an IDA because it offers matching dollars.

An IDA savings account is set up to meet a specific goal—an asset such as a home, an advanced degree, or a new business. Government, private, or nonprofit agencies match the money for reasons of their own. Private foundations, for example, may support IDAs to test how well an asset-building approach can move people out of poverty. Financial institutions may participate for both philanthropic and business reasons. Their funding qualifies for credit under the Community Reinvestment Act, plus account holders sometimes become consumers of mortgages and other bank products.

Asset limits on people who still need some public assistance may create barriers to leaving poverty.

The mid-1990s saw the first individual-development-accounts programs. But the big push started in 1997, when a multimillion-dollar demonstration project—the Downpayment on the American Dream Policy Demonstration—was launched. The five-year initiative was led by CFED in cooperation with the Social Development Center and several national foundations. Within two years, CFED and its partners had leveraged data from the early years of the demonstration to advocate for what would become the Assets for Independence Act. That federal legislation and the funding it made possible helped create a new field of IDA practitioners, policymakers, financial institutions, and funders, who put the tools for saving into the hands of those whose opportunities were limited.

Increasing Ways for the Poor to Build Assets

IDAs were the first concrete manifestation of a shift in focus from income maintenance to wealth accumulation for people outside the mainstream. Perhaps even more important, they became the catalyst for other asset-building strategies.

One adaptation has extended the IDA concept to children. In 2003, CFED—in partnership with the Center for Social Development, the University of Kansas School of Social Welfare, New America Foundation, key funders, and 13 community and experimental partners—launched the Saving for Education, Entrepreneurship, and Downpayment (SEED) Policy and Practice Initiative.

The multiyear national program develops and tests ways to match financial education for children and youth with each of their savings-account goals. The initiative partners are currently using SEED to test different account structures, including standard savings accounts, Coverdell education savings accounts (tax-free college accounts; formerly known as Education IRAs), state 529 accounts (state-sponsored college investment accounts), and mechanisms for rolling unused account balances into individual retirement accounts.

In addition to savings vehicles, increasingly creative ways to provide financial services that help low-income people build assets (such as stored value cards that link people not only to transaction-related services but to mortgages and other asset-building opportunities) are becoming part of a bigger econom-

Helping the Poor Build Assets: Connecticut

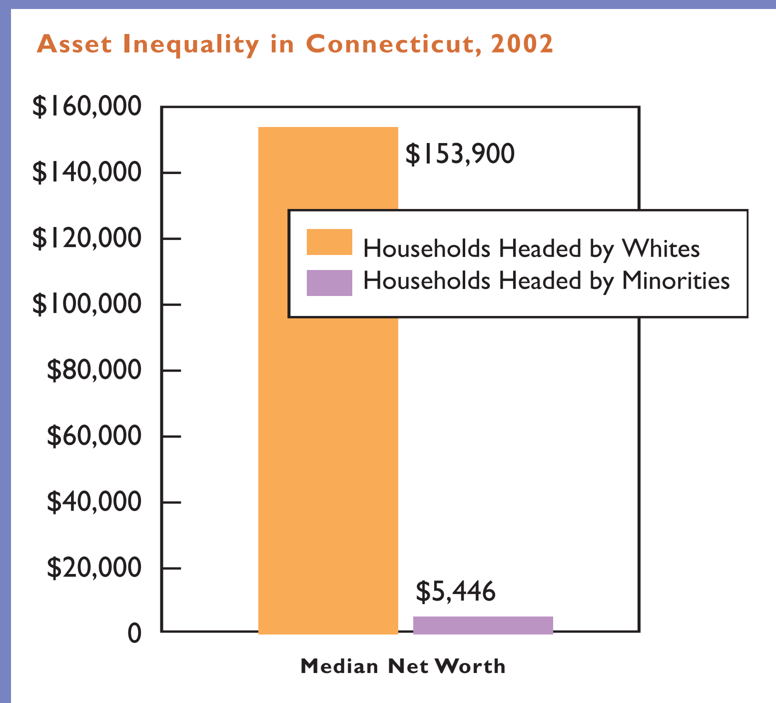
by Ellen Scalettar, J.D., and Douglas Hall, Ph.D., Connecticut Voices for Children

Nationally, the bottom 60 percent on the economic ladder collectively holds less than 5 percent of the nation's wealth.[1] In Connecticut, asset inequality by race is particularly stark. The median net worth of Connecticut households headed by Caucasians was $153,900 in 2002, 28 times greater than the $5,446 median net worth of minority-headed households.[2] Despite such extremes, poverty-reduction measures have largely focused on reducing inequality in income only, through cash and cash-like assistance. It is true that benefits such as Medicaid, Food Stamps, the Earned Income Tax Credit, and Supplemental Security Income have significantly reduced the number of Americans living in poverty—in 2003, for example, by nearly half of what it would have been that year without such programs.[3] But federal programs have been less successful establishing long-term economic self-sufficiency.[4] That is why Connecticut, for one, is promoting a multifaceted approach that combines income- and asset-building programs for poor families.

Connecticut is paying particular attention to individual development accounts, the matched savings accounts that help poor families accumulate enough cash to make asset-enhancing purchases. IDA participants' savings are matched at a predetermined ratio by government, the private sector, or nonprofit organizations.

In 1998, after the federal welfare law of 1996 let states include IDAs in their welfare-reform plans, CTE, Stamford's community-action agency, established the first Connecticut IDA program. The following year, State Treasurer Denise Nappier convened a task force on how to structure an effective statewide program. With Treasurer Nappier's advocacy, the resulting report led to a law establishing the "Connecticut IDA Initiative" for low-income, employed people and qualified disabled people.[5]

The legislation sets a maximum match rate of $2 for every $1 saved by a participant. The match must not exceed $1,000 in a calendar year and $3,000 for the duration of the program. The legislation requires the state's Department of Labor to establish an IDA Reserve Fund to hold all state IDA appropriations and any supplemental grants, donations, and private contributions.[6]



The Connecticut IDA Initiative allows saving for the following: education and job-training costs; a home purchase; entrepreneurial activity; and, in contrast to the otherwise comparable federal Assets for Independence Act, the purchase of an automobile to obtain or maintain employment and a lease deposit on a primary residence. Since 2000, the Connecticut Department of Labor has managed $2.9 million in support of IDAs, consisting almost equally of federal, state, and private funds.[7] To date, there have been more than 850 IDA accounts, both under the state program and independent of it. Already, 257 account holders have reached their savings goals.

A good example of an IDA program created by a nonprofit organization independent of the state statutory framework is the Jim Casey Youth Opportunities Initiative. The initiative combines extensive financial education with an IDA account in an effort to improve the financial outcomes of youth transitioning from foster care to adulthood. Savings are matched 1 to 1 with private charitable dollars.

The state's IDA programs also provide financial education before accounts are opened and ongoing asset-related training. Crisis intervention or re-employment services are available if needed.

Additional IDA funding came in 2005 from the Connecticut General Assembly, which included in its newly created Housing Trust Fund some $300,000 of bond funds dedicated to IDAs that promote home ownership. However, because the IDA program did not receive a General Fund appropriation, it is unclear whether, and to what extent, using IDA money for needs other than home purchases will continue to receive state support.

[1] Ray Boshara, "Individual Development Accounts: Policies to Build Savings and Assets for the Poor," *Welfare Reform and Beyond, Policy Brief 32* (Washington, D.C.: Brookings Institution, March 2005), p. 8, http://www.brookings.edu/es/research/projects/wrb/publications/pb/pb32.h.

[2] Douglas J. Hall, *Connecticut Family Asset Scorecard* (New Haven: Connecticut Voices for Children, May 2005), p. 10. According to 2000 U.S. Census Bureau data, the average annual per capita income in Connecticut for white, non-Hispanic residents is $32,000, compared with $13,000 for Hispanics and $17,000 for black, non-Hispanics.

[3] *What Does the Safety Net Accomplish?* (Washington, D.C.: Center on Budget & Policy Priorities, 2005), www.cbpp.org/pubs/accomplishments.htm.

[4] Isabel V Sawhill and Ron Haskins, "Work and Marriage: The Way to End Poverty and Welfare," *Welfare Reform and Beyond: Policy Brief 28* (Washington, D.C.: Brookings Institution, September 2003), p 1, http://www.brookings.edu/es/wrb/publications/pb/pb28.pdf.

[5] A person must have a qualified disability or be earning income and be part of a household with adjusted gross income not exceeding 80 percent of the area median income. See Office of State Treasurer Denise L. Nappier, *Legislative Initiatives 2000*, www.state.ct.us/ott/legislativeinitiatives2000.htm#ida.

[6] Office of State Treasurer Denise L. Nappier, *Legislative Initiatives 2000*, www.state.ct.us/ott/legislativeinitiatives2000.htm#ida.

[7] One private-sector funder alone, the former Fleet Bank, contributed nearly one-third of these funds.

ic-opportunity picture.

The next question is how to help the poor protect the assets they acquire. Although any family may experience misfortune that suddenly strips away assets, low-wealth families are especially vulnerable. Unexpected health-care costs, unfair or predatory lending, and asset limits imposed on people who still need some public assistance all impede upward mobility. Researchers are looking into steps that federal and state governments might take to monitor and curb predatory practices. In addition, nonprofit organizations are discussing programs such as expanded financial-literacy classes to help people keep and build on what they have accumulated.

New Tools

In May 2005, CFED released its first *Assets and Opportunity Scorecard*.[2] The scorecard is a tool for measuring how easy or hard it is for U.S. families in different parts of the country to achieve the American Dream, which CFED sees as resting on two pillars. First is families' ability to build assets that they can use to send children to college, weather unexpected financial troubles, and create a sound economic future. Second are safety nets and safeguards that provide financial security after a job loss, medical emergency, or other traumatic life event.

The scorecard can pinpoint local needs and give planners ideas for helping the poor build assets. It clarifies issues state-by-state and looks at state policies that help or hinder the ability of citizens to get ahead. Among the facts the scorecard reveals are the increases in bankruptcy filings and the decrease in numbers of Americans who are covered by employer health insurance or who use financial services. It says that in 2002, for example, only 29 percent of Americans had a checking account, down from 33 percent in 1996. It also addresses the role that state policy can play in building wealth by, for example, promoting homeownership, improving health-insurance availability, fostering entrepreneurship, and encouraging banks to offer products that meet the needs of all potential customers.

One sign that asset building, which started with individual development accounts, is growing more sophisticated is the renaming of the asset-building field's biannual learning conference. Once called the IDA Learning Conference, this year's event is dubbed "2006 Assets Learning Conference—A Lifetime of Assets." Significantly, the first IDA Learning Conference, in 1995, attracted only 150 people. In 2006, about 900 participants representing all aspects of the movement are expected: account holders, practitioners, policymakers, funders, financial institutions, and government advocates.

Similar events are in the works. For example, a series of forums around the country, coordinated by CFED and the Federal Reserve System, will bring together leaders in economic policy, community development, philanthropy, and the financial industry to promote and support homeownership, business ownership, savings, and investment.

In fact, all signs point to an increase in creative partnerships and new ideas to further the potential for families and communities to make good on the American Dream.

Andrea Levere *is the president of CFED, the Corporation for Enterprise Development, a nonprofit organization dedicated to expanding economic opportunity and based in Washington, D.C.*

Endnotes

1 *Hidden in Plain Sight* (Washington, D.C.: Corporation for Enterprise Development, 2004), p 4.

2 See http://www.cfed.org/focus.m?parentid=31&siteid=504&id=505.

Illustrations: Kirk Lyttle

Building from Strength

Asset-Based Community Development

by John E. Walker
Northeast Assets Leadership Project

Too often when approaching community improvement, people focus on what is wrong and requires fixing. Now there is a better way. Instead of occupying themselves with a community's deficits, forward-thinking organizations are identifying and building on local assets. After all, even the most troubled community has strengths. Once people's eyes are opened to community assets, a positive energy for change takes over.

A growing community-organizing movement, asset-based community development (ABCD), posits that the glass is half full rather than half empty. Rather than focus on community deficits like crime, vandalism, unemployment, or drugs, ABCD aims to identify and mobilize the positive attributes inherent in local government, businesses, nonprofits, voluntary associations, and individuals.

Common-Sense ABCD Comes to New England

Asset-based community development evolved from 1970s research and organizing in Chicago communities. Working up from the block to the regional level, ABCD leveraged community assets to address poverty, public health, human services, education, and criminal justice.

John McKnight and John (Jody) Kretzmann, leaders of the approach, presented their findings in a 1993 book, *Building Communities from the Inside Out: A Path Toward Finding and Mobilizing a Community's Assets*. Then in 1995, they became co-directors of the Asset-Based Community Development Institute, a research project of Northwestern University's Institute of Policy Research, which was established to "conduct research, produce materials, and otherwise support community-based efforts to rediscover local capacities and to mobilize citizens' resources to solve problems."[1]

The year 2003 saw the launching of the Northeast Assets Leadership Project, which helps leaders in New York and New England to implement strengths-based strategies for community and youth development. The egalitarian nature of its ABCD approach is a natural fit with the Yankee heritage of town government and community stewardship. As people learn about ABCD, they warm to its practicality and the way it elicits the voices of diverse constituencies.

The Glass Is Half Full

Because ABCD concentrates on a community's upside, people do not assess *needs*, or deficits, first but assets. Although needs-based data may accurately profile an area, they generally undervalue potential building blocks and hence may discourage civic action. Consider the following ABCD advice.

Use an Asset Lens

Instead of looking through a *needs lens*, look through an *assets lens* to profile a community; look for strengths that can be employed for progress.

For example, a church may have vibrant social-action clubs, facilities it is willing to share, and seasoned volunteers to recruit for community projects. A police officer who loves hiking may be approached to lead a youth field trip. An immigrant family may have unique farming knowledge that could support a town's sustainable-agriculture goals. A walking group may have insights on neighborhood improvements that would make residents feel safer.

Identifying strengths and inviting individuals to share their gifts energizes other community members.

Be Inclusive

The next step is to challenge everyone to be a leader in the development process. Welcoming all citizens creates productive matches between individuals and groups. For example, in Hartford, librarians' outreach in economically diverse community settings is creating synergies. The community is seeing librarians in a new light, and the librarians are getting fresh insight into residents' learning goals.

Map the Assets

Assessing a community's potential is called *asset mapping*. An asset map can be a detailed inventory of strengths or just a preliminary scan. New software tools are adapting the process to specific needs and are improving the usefulness of the data for the end user, whether an individual, a civic group, a public entity, or a private organization.[2]

Instead of looking through a *needs lens*, look through an *assets lens* to profile a community.

The mapping method is as important as what gets mapped. A good process aims to build trust and gain recruits. People can tell if the mapping exercise is just a token nod to get them on board. They need to be sure they will be part of implementing the plans.

Be Action-Oriented

The ideal ABCD initiative channels the interest generated by the mapping into immediate improvement efforts, such as cleaning an abandoned lot, beautifying a corner, creating a microenterprise loan bank, or negotiating municipal bonds for targeted neighborhood goals. Because most improvements will not reap a bountiful harvest for years, ABCD organizers plant some seeds that will bear immediate fruit. In Fall River, Massachusetts, a communitywide program to enhance the city's quality of life involves hundreds of citizens on dozens of projects. Quarterly updates are published, and a web site was launched to keep to everyone current.[3]

Let Citizens Direct the Spending

Too often, the plans started by community groups are not realized because actual investment remains in the hands of major developers or city departments. If ABCD is done right, citizens also have a say in financing.

When money is available for miniprojects and when major capital-improvement projects reflect the goals set by the neighborhoods, broad support for the long haul is much more likely.

Lead by Stepping Back

Successful asset-based community development entails coordinated, spirited, multiparty, bottom-up deliberations. Any experts who join the deliberations should play a supportive—not a leadership—role.

Nurture a Sense of Ownership

A sense of ownership inevitably leads to accountability. People work harder at goals and are more willing to commit time, money, and personal influence to ensure that projects are completed well.

One good approach is to give citizens credit after each milestone. In Vermont, Wyndham County's Alliance for Building Community (ABC) has an annual, sold-out celebration that supports "an ongoing community forum where participants mobilize community strengths and resources to address community needs."[4] In Connecticut, the Connecticut Assets Network has a web-based reference tool for documenting citizen action in communities.[5]

Choosing Geographic Focus

ABCD works well at both micro and macro levels. Whether it is used for a housing project or a multicounty region, the principles are similar.

The Neighborhood

A good ABCD initiative will focus on the strengths and aspirations of each resident and family. Organizers map not only skills, education, job experience, and avocations, but dreams. Detailed surveys can lead to microloans for aspiring entrepreneurs or improved matching of job-training services to real needs. They can ensure that after-school programs address student interests and that adult mentors are thoughtfully matched with those seeking advice.

In Bridgeport, Connecticut, a program known as RYASAP (Regional Youth/Adult Substance Abuse Project) works at the block level to address root causes of youth difficulties. Hundreds of citizens and dozens of businesses are involved in neighborhood and citywide coalitions to provide expanded opportunities for young people. Minigrants of up to $500 take the ideas of youths and adults for, say, an improved playground or an after-school homework club, and make them reality. An annual celebration of each neighborhood's work on the city's youth-development goal draws media interest and hundreds of supporters.

The Business District

A capacity assessment should be undertaken to spark business collaboration and promote the long-term benefits of a diverse economic base. Then when loans or grants become available, investment should be directed to group-defined goals and be available to all. If major revitalization grants become available, microloans and job training should be part of the package.[6]

The Community

The next level of focus involves both residential and business districts. Thoroughly understanding the attributes of the whole municipality is critical—the labor force, the strongest market segments, the most practical business and neighborhood goals, and the quality of civic institutions' community investments.

Illustrating the community level of ABCD is Maine's Strategies for a Stronger Sanford. In January, the group launched a youth-development initiative using a strengths-based process. The process links an economic-renewal-investment plan with the goal of reducing juvenile crime. Young people, adults, nonprofits, businesses, and government are mapping assets and designing investment plans together. The upbeat asset focus is building support for projects of varying sizes and durations.

The Region

Promoting a sustainable, healthy community and identifying competitive assets may span a whole region. All local governments work to maximize regional potential—for example, port development, agriculture, tourism, technology, or traditional manufacturing.

Once a geographic area has begun to demonstrate focused action, investor interest increases. Bank consortia may form loan pools for microenterprise; town and state government may discover ways to match capital-improvement-project bonds with regional priorities; nonprofit and university programs may start linking budget items to citizen priorities; and ABCD-inspired coalitions may sponsor citizen leadership development. Positive energy is self-reinforcing. One caveat: As at the neighborhood level, leaders in a regional effort must be inclusive, share responsibility, have staying power, and recognize and act on the potential. Focus and tenacity are key.

Maine's Western Mountain Alliance, which serves seven rural counties, offers a regional example of asset-based community development.[7] Since its founding in 1987, WMA has emphasized strengths-based planning and grassroots leadership. In one success story, six competing banks formed a joint low-interest loan bank to support small farms, the region's greatest competitive advantage.

For ABDC to succeed, whether undertaken at the neighborhood, business-district, community, or regional level, it is important to understand that the approach is more a philosophy than a rigid formula. Techniques and organizing steps can be as creative and as simple or complex as people wish. Those who have tried the method have found that all fields can be fertile and will flourish when seeds of progress—community assets—are planted and nurtured.

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Endnotes

[1] See John Kretzmann and John McKnight, Building Communities from the Inside Out: A Path Toward Finding and Mobilizing a Community's Assets (Evanston, Illinois: Institute for Policy Research, Northwestern University, 1993).

[2] For examples and workbooks, see the Asset-Based Community Development Institute web site, http://www.northwestern.edu/ipr/abcd/abcdback-ground.html.

[3] See http://www.gfrpartners.com/healthycity.htm.

[4] See http://www.sover.net/~abcwahle/index.html.

[5] See http://www.ctassets.org.

[6] L. K. Snow et al., Community Transformation: Turning Threats into Opportunities (Chicago: Northwestern University, 2000)http://www.northwestern.edu/ipr/abcd/snowflyer.html. For a step-by-step approach on organizing a business district, see John P. Kretzmann, John L. McKnight, and Deborah Puntenney, A Guide to Mapping Local Business Assets and Mobilizing Local Business Capacities (Chicago: Northwestern University, 1996), http://www.northwestern.edu/ipr/publications/businesswb.html.

[7] See http://www.westernmountainsalliance.org.

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