Crossing Over to An Improved Era of Community Development

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December 2012
W12-7

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This paper appeared in the book Investing in What Works for America’s Communities, a joint project of the Federal Reserve Bank of San Francisco and the Low Income Investment Fund.
CROSSING OVER TO AN IMPROVED ERA OF COMMUNITY DEVELOPMENT

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The field of community development is at an inflection point, poised to achieve scale, impact, and integration of the many lessons learned over the past 40 years. It is on the threshold of entering a new phase capable of meeting the twin goals of revitalizing low-income neighborhoods and narrowing achievement gaps of the poor. The field is well positioned to enter this more productive phase as a result of decades of capacity and network building, creating partnerships with private capital providers and public stakeholders, success in innovating with new programs and attracting private capital, and drawing on lessons learned about what approaches work best to produce the strongest outcomes. However, significant

The authors would like to thank Nancy Andrews, David Erickson, and Ellen Seidman for their thoughtful comments and their dedication to community development. They embody the best the field has to offer. We would also like to thank Mark Pinsky and David Wood for their review and comments.
challenges lie ahead. These challenges range from the battle for resources to the need to devise cost-effective ways of measuring social impact, from promoting greater cooperation among key private stakeholders to forging new public-private-philanthropic partnerships, and from nurturing smaller innovative community developers to consolidating organizations when it is in the best interest of the community.

**THE OPPORTUNITY**

There are significant opportunities for community builders, community capital providers, and their private capital partners to leverage public investment in low-income communities. For example, $16 billion in new social investment will be needed to support community health centers as an outgrowth of health care reform.\(^1\) Annually, $1.5 billion in social capital investment will be needed to support high-performing, community-based charter schools, with community development financial institutions (CDFIs) likely to provide about $250 million of this each year.\(^2\)

In addition, billions of dollars will be available to support transit systems over the next decade, and more may flow to transit-oriented development (TOD) as the value becomes more apparent of linking low-income people to jobs. TOD planning efforts are underway in cities from Seattle to Boston to Atlanta. Further, despite threats to the federal housing budget and tax incentives, billions of dollars of investment annually will likely be deployed to preserve and add to the nation’s affordable housing stock. In short, the scale and opportunity for capital investment over the next decade is vast.

Such investment will create jobs and potentially serve as engines of economic vitality for distressed communities. Community developers, CDFIs, and private capital providers will need to

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work with public stakeholders to invest at scale in America’s communities over the next decade. But budget constraints combined with the demands of resource providers will mean that investments will have to show impact and social return for the dollar.

CDFIs are playing a new and important role aggregating capital from private sources while leveraging philanthropic funding and government programs. Numbering nearly 1,000 and with well over $25 billion in assets, CDFIs are deploying large sums of capital and in ways that are bringing the promise of integrated community development closer to hand. Many have demonstrated their capacity to generate operating surpluses while achieving meaningful social outcomes even in the midst of a severe economic downturn. As a result, the capitalization of CDFIs has been on a steep climb and may be on the threshold of even more dramatic increases.

Finally, and as we discuss below, promising new approaches are emerging with common elements that could lead toward more systemic and meaningful community impact. These approaches integrate place- and people-based strategies, aim for transformative neighborhood change, and work in creative partnerships to drive results and improve the ecosystem that supports community development.

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EMERGENCE OF PROMISING MODELS WITH COMMON ELEMENTS

Promising models are emerging that take a more integrated approach to community development and measure impact. These include the Building Sustainable Communities initiative, the activities of NEXT Award winners, and the Integration Initiative, as well as the Harlem Children’s Zone and Purpose Built Communities being led by community developers. Other organizations historically focusing on people-based programs, like Neighborhood Centers, Inc. (NCI) in Houston, are in turn recognizing the importance of place-based investments and entering this sphere with large, concentrated, and quality investments. Many community developers, as well as housing authorities are also coming together with for-profit firms like McCormick Baron Salazar, Jonathan Rose Companies, and the Integral Group to deliver large-scale redevelopments.

All these examples share certain common elements:

- All leverage private capital in new and important ways.
- All are aimed at integrating people-based and place-based strategies within a master vision.
- All are directed toward closing the achievement gap in education.
- All are linked by a belief in measuring outcomes and directing resources toward what works.
- Most aim, in addition, to support small businesses and improve access to jobs that pay a living wage.

The field has made great strides but it is still striving to turn one-off successes into more replicable and scalable strategies to create systemic change.

Fortunately, the contours of effective strategies are coming into view as evidence mounts of the importance of combining interventions that develop human capital (through strategies
Investing in What Works for America’s Communities

such as early childhood interventions and social services) with placed-based interventions (such as developing and preserving affordable housing and developing commercial space, community centers, health clinics, child care centers, and charter schools). This more holistic approach holds out hope for closing the gaps in achievement and well-being that hurt the poor. At the same

Although there are a number of ways to define people- versus placed-based interventions, we use the terms as follows:

**Place** – real estate and infrastructure based activities, including affordable housing preservation and development, commercial development, green space set-asides and improvements, and community facilities including charter schools, health centers, day and eldercare centers, and community centers devoted to other community activities and gatherings; transit, communications, and energy improvements.

**People** – childcare and job training and placement to enable adults to work and improve their incomes, savings and homeownership programs to help people build assets (but not tied to housing development or rehabilitation), early child interventions and charter schools services intended to narrow educational achievement gaps, small business development and lending for economic development, community policing and safety, community organizing, and social case work to address special needs like addiction or disabilities or reentry after incarceration.

Research supports the importance of affordable and stable housing, access to strong community facilities and services, healthy real estate conditions, and the provision of neighborhood safety to human outcomes. It also supports the value of especially early child interventions and educational programs to closing lifetime achievement gaps, among other important people-based interventions aimed at improving community life and wealth and employment among low-income adults.
time, effective strategies will differ from place to place, as will the initial steps towards a holistic strategy.

**THE CASE FOR INTEGRATED, RESULTS-BASED APPROACHES**

As far back as the reform movement of the late 1800s and early 1900s, reformers working in poor communities understood that poverty had many causes and that meaningful progress demanded tackling several causes simultaneously. Beginning in the 1960s, the architects of the Model Cities program wanted to take a comprehensive approach to community development. Over the following decades other earnest efforts sought the same goals. Evaluations of these efforts, however, generally found them wanting.\(^5\) They often foundered because one or more elements of an ambitious strategy failed to fall into place, funding for one or more elements was not secured, or organizations others depended on faltered.

But the field has never given up on the goal of a more holistic approach, or at least on the idea that it is important to place individual actions in a broader vision of what it takes to bring about meaningful community development. This impulse is increasingly finding expression in efforts to attend to human capital as well as the affordable housing needs of individuals and other real estate development needs of a community. Community-based organizations—from the Crittenton Women’s Union and its effort to help lift women out of poverty through job training, child care, and housing, to the more well known Harlem Children’s Zone (discussed below)—are striving to treat the multiple needs of their clients even as they try to improve the physical conditions and facilities in their neighborhoods.\(^6\)

Foundations and national intermediaries have also been pushing to promote more holistic efforts to address the needs of poor communities and their residents through initiatives like Annie

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\(^5\) See Alex von Hofmann’s piece in this collection.

E. Casey Foundation’s Rebuilding Communities Initiative, Enterprise Community Partners’ Neighborhood Transformation Initiative, the Ford Foundation’s Neighborhood and Family Initiative, Living Cities’ Integration Initiative, and the Local Initiative Support Corporation’s (LISC) Building Sustainable Communities Initiative. Indeed, a continued effort to bring about transformative change through multisectoral interventions is apparent.

The push to pay more attention to human outcomes while attending to physical and economic revitalization of communities has gathered momentum. Since the 1970s, many community developers have focused their attention on place-based housing strategies, working to transform vacant lots and abandoned properties by repairing and rehabilitating dilapidated housing and constructing new affordable units. This remains important work: community developers have been willing to make investments in rundown, poverty-stricken neighborhoods and in housing for hard-to-serve residents that others might ignore. Without community developers and their continued efforts to not only revitalize this housing stock but prove the investment potential of these neighborhoods, the cycle of disinvestment in these areas would be harder to break.

Yet as the field has matured, those in it have increasingly recognized that substandard housing is only one of many problems facing the poor that community developers should address. Over time, CDC leaders have expanded their activities to include economic and commercial development and the provision of human services. While a full 92 percent of 163 community developers surveyed in 1999 developed housing, a solid 47 percent of them had workforce and youth programs. Furthermore, the same study found that an additional 17 percent of them planned to have workforce and youth programs in place within the following

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7 For an excellent summary of the history of CDCs, spanning back to their inception with an effort led by Robert Kennedy to create and fund them through amendment of the Economic Opportunity Act, see Alex von Hoffman’s piece in this volume.
two years alone. Clearly, the trend leading into the 2000s was not to abandon a place-based housing strategy, but to complement it with a people-based one focused on social services.

The view that the community development field has to purposely pursue the development of human capital is the focus of Nancy Andrews’s paper “Coming Out as a Human Capitalist.” David Erickson and Andrews take this argument further in a paper called “Partnerships among Community Development, Public Health, and Health Care Could Improve the Well-Being of Low-Income People.”

Failing to attend to the human development needs of poor and low-income individuals and families in addition to their housing and community needs can derail efforts to improve communities because it makes it harder for the residents to do well in school, find and keep jobs, and receive other supports they need. Conversely, failing to deal with place threatens to derail efforts to improve the lives of the poor because those lives are deeply affected by community conditions, including housing, schools, retail, access to jobs, and public safety.

Andrews recounts a growing body of scientific studies that plainly demonstrates that place matters to people’s life chances, and conversely, that successful human development also affects place. Indeed, path-breaking research reported in 2011 by the *New England Journal of Medicine* demonstrates that living in better communities can lead to about a 20 percent reduction in obesity and diabetes, an impact as great as a medical intervention. In

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11 See Jens Ludwig et al., “Neighborhoods, Obesity, and Diabetes — A Randomized Social Experiment,” *New England Journal of Medicine* 365 (2011):1509–1519. The study found about a reduction of about one-fifth among women with children with vouchers that moved to lower poverty communities under HUD’s Moving to Opportunity program when compared to women who were not randomly assigned to this group.
addition, the stressful living environment that poverty all too often produces impedes cognitive development, as does the better known impact of certain toxins (like lead paint) often found in older, low-income housing.

Poverty is a multidimensional problem. Solutions must also be multipronged. Studies that have found a relationship between poor-quality housing, health problems, and educational attainment provide a clear and strong argument for the integration of housing with human services, including health, education, early childhood intervention, and daycare.\textsuperscript{12} The most successful interventions are not limited to placed-based bricks-and-mortar strategies; rather, they include people-based services, especially early learning programs and health counseling.

In fact, early childhood interventions and health education have been found to outpace others in terms of the strength and reliability of their long-term effectiveness. A report by the MIT Workplace Center, for example, found that “every dollar invested in quality early care and education saves taxpayers up to $13.00 in future costs.”\textsuperscript{13} While the impact of job training programs has been less consistent and compelling, the most carefully controlled study done on the combination of housing and job training did show solid positive results on both employment rates and wage levels from bundling these two forms of assistance.\textsuperscript{14}


Although effective, services are harder to fund because they do not provide solid financial returns to sponsors. Instead, sponsors must rely excessively on grants rather than fee or rental income to generate operating surpluses to provide the service. Furthermore, the social impacts of these programs may take decades to manifest fully.

Housing investment, on the other hand, generally produces a positive financial return, and multi-billion dollar federal programs exist to support it. Social impact investors, therefore, need to be convinced of the social worth of activities unrelated to real estate and be willing to accept lower financial returns for investing in them. And they need to find ways to lend to entities for the operation and expansion of schools and clinics not just to building the facilities.

**STRIVING FOR—AND INVESTING IN—SOCIAL IMPACT**

The emergence of social impact investment and pay for success programs are major developments in community development. Increasingly, socially motivated investors (including philanthropic organizations, financial institutions under regulatory incentives to serve poor and low-income communities, and funds that raise money from investors willing to accept below-market returns) are interested in channeling investment into activities that have social impacts that are large and measurable. They also are trying to understand how to best use their limited socially motivated capital to leverage private capital for maximum social impact.15

Linking impact and outcomes measurement to social investing has the potential to dramatically transform the landscape of funding for community development. If successful in attracting

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15 A 2011 report sponsored by the Rockefeller Foundation, “Impact Investing: A Framework for Policy Design and Analysis,” found that government and foundation support alone will be insufficient to fund all of the needed community programs in the future, but that “[p]olicy in impact investing catalyzes viable private markets for social goods.”
endowment investment, this could produce a substantial amount of new capital.\textsuperscript{16}

But it will take a coordinated effort, facilitated by policy and organizational infrastructure, to build an enduring and scaled social impact investing marketplace. Hopeful signs that this infrastructure is beginning to emerge include the formation and growth of organizations such as the U.S. Social Investment Fund, the Global Impact Investing Network, and Impact Reporting and Investment Standards.

**BUILDING ON STRONG INSTITUTIONAL CAPACITY**

The community development field is strong and well positioned to build on knowledge of what works and to prove the social, economic, and financial value of integrated programs.\textsuperscript{17} Years of capacity building have paid off. There are now many financially strong community developers and CDFIs with track records of success. Several have succeeded in taking their operations to the regional and even national levels. Among community developers, these include Community Builders in the Northeast, BRIDGE in the Bay Area, and Mercy Housing and National Church Residences in states across the country. Among CDFIs, these include FAHE in the Appalachian region, the Low Income Investment Fund headquartered in the Bay Area, The Reinvestment Fund in the Mid-Atlantic region, IFF (formerly known as the Illinois Facilities Fund) in the Midwest, and LISC and Enterprise in states across the country. Although in some cities capacity is still weak, more and more places boast strong,

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local, community-based organizations or have strong regional or national players operating in their area.

Community developers and CDFIs are also bolstered by strong national intermediaries such as Enterprise Community Partners, the Housing Partnership Network, Living Cities, LISC, NeighborWorks, the Opportunity Finance Network, and Stewards of Affordable Housing (SAHF). These intermediaries are helping to capitalize the members in their networks, providing them with technical assistance, developing policy, and lobbying on their behalf. They also are working together in a number of field-building activities (such as Strength Matters, a consortium of NeighborWorks, the Housing Partnership Network, and the Stewards of Affordable Housing) that aim to improve the financial viability and standardize the financial reporting of affordable housing community developers.¹⁸ National intermediaries are also banding together to solve common challenges such as the foreclosure crisis.¹⁹

These intermediaries are promoting more integrated community development as examples discussed below demonstrate. In addition, groups are devoted to promoting integrated community development specifically, such as Integrated Community Development International and the Institute for Comprehensive Community Development.

The maturation of the CDFI industry is an especially noteworthy and important development. The movement began with credit unions early in the twentieth century and expanded in the 1970s to include community banks and loan funds that sprang up in communities across the country in the 1970s to address unfulfilled capital needs in low-income and other disadvantaged areas. Working in all states and both rural and urban areas, there were 999 certified CDFIs as of June 2012, and additional opportunity

¹⁸ For more information see http://strengthmatters.net.

¹⁹ They are doing this, for example, by coordinating activities through the National Community Stabilization Trust and working together on the Mortgage Resolution Fund which is aimed at purchasing distressed notes and modifying loans to keep owners in their homes.
finance institutions including community development loan funds, private equity funds, community development credit unions, and community development banks that may not have sought certification.\textsuperscript{20}

CDFIs have succeeded in attracting financing from large banks lacking the on-the-ground contacts or underwriting capabilities to identify bankable opportunities. They are able to aggregate capital from larger banks, individual donors, and foundations and can effectively channel it to multiple activities in pursuit of an integrated agenda. They have developed the expertise necessary to prudently lend to different types of activities—commercial development, residential development, small business, health provision, charter schools, and others. This enables other organizations, such as community developers, to concentrate on real estate development, property operation, and services they are best suited to provide.

Many CDFIs offer a full spectrum of lending to support community building. IFF, Low Income Investment Fund, Hope Enterprise Corporation, and The Reinvestment Fund are just a few examples. Among them, they lend to small businesses, charter school developers and operators, health clinic developers and operators, affordable housing developers and operators, and consumer financial products. In fact, many CDFIs now provide all or most of these lending services, and it is common for them also to provide technical assistance and to coordinate community building strategies that civic and city leaders are striving to launch. This capacity lends itself to driving and successfully supporting integrative community development.

**BROADENING PARTNERSHIPS AND EXPANDING FEDERAL SUPPORTS**

Although public-private partnerships have long been pursued as a way to leverage private capital and expertise, the partnerships

that will drive social impact investing and integrated community development will extend these partnerships and engage more stakeholders both directly in funding and indirectly through the coordination of activities.\textsuperscript{21}

Many partnerships are emerging that stretch beyond the familiar public-private model. There are a growing number of tripartite structures at the funding level, involving philanthropy, public funds, and private lenders. A good example of this is the New York Acquisition Fund (NYAF).\textsuperscript{22} This initiative brings together multiple partners and the city to address housing preservation needs in New York City. NYAF provides low-cost loans to developers so that they can act quickly to acquire properties to prevent them from becoming unaffordable. Foundations and the city take the riskiest positions, covering the first-loss risks, while for-profit lenders supply the bulk of the capital and are in senior position. As a result, the initiative was able to attract more than $190 million in private bank capital that likely would not have been committed to housing preservation. Thus, the funding stream involved philanthropy, city, and private lenders and was coordinated and deployed through multiple nonprofits.

Another example is the work of the Atlanta Housing Authority and other housing authorities around HOPE VI public housing redevelopments. These local housing agencies worked with community developers and for-profit developers to create mixed-income communities, often supported by charter schools and other community facilities.\textsuperscript{23}

Innovations such as these have ushered in new thinking around partnerships. They focus investors on understanding the “capital stack” needed to launch new approaches: how to best use the

\textsuperscript{21} As Living Cities argued “[w]hat [is] needed in the neighborhoods [to] marry national and local funding with technical competence and neighborhood enterprise and responsiveness—something that mount[s] a broad assault on the multiple interlocking problems of these neighborhoods.” Living Cities: The National Community Development Initiative, 2001.


scarce foundation and government funds to leverage private capital. The highly structured nature of such partnerships brings foundations into new relations with government and private pools of capital. In addition, in the case of the NYAF, by taking a first-loss position, the fund also has the potential to demonstrate that lending for housing preservation can be profitable and to measure the risk of such lending.

Other sources of support for community development activities have come online during the last two decades that help facilitate more meaningful and integrated solutions to community development. In 1994, the CDFI Fund and in 2000 the New Markets Tax Credit (NMTC) program were added to the arsenal of tools available to spark community development. The CDFI Fund’s mission is “to expand the capacity of financial institutions to provide credit, capital, and financial services to underserved populations and communities in the United States.” By cultivating a network of CDFIs, the Fund has leveraged private investment and channeled it to organizations that can deploy capital across a wide range of investment types that spur community development. In so doing, it has also promoted and supported the diversification of CDFIs and positioned many to be able to press for and fund more integrated community development. The NMTC is allocated by the Treasury Department through a competitive process. Of a number of criteria used to rate applicants, one is community impact. These credits have been used to develop charter schools, health care centers, public markets, commercial space, industrial space, and a range of other community facilities. The program has been a major catalyst for more integrated community development. CDFIs and national intermediaries that have received NMTC allocations have used them to fund community facilities and business development, adding these activities to the housing activities many of them already funded.

INVESTING IN WHAT WORKS

To the extent that more integrative, impact-based approaches are now favored, several current initiatives show how these are being structured and how they can achieve impact. These include
LISC’s Building Sustainable Communities Initiative, Living Cities’ Integration Initiative, NEXT award program, Harlem Children’s Zone, and Purpose Built Communities. All five examples demonstrate a movement toward integrated approaches and results-oriented interventions, as well as the potential of strong lead organizations to drive change and work closely with residents and cooperatively with multiple organizations.

**Building Sustainable Communities**

Launched in 2007, LISC’s Building Sustainable Communities (BSC) project pursues more comprehensive community development. LISC is deploying capital, providing technical assistance, and evaluating results of efforts to invest in housing and other real estate. It is also promoting access to quality education, stimulating economic development, building incomes and wealth, and supporting healthy lifestyles.

LISC has established five goals for its BSC initiative: (1) expanding investment in housing and other real estate; (2) increasing family income and wealth; (3) stimulating economic development; (4) improving access to quality education; and (5) supporting healthy environments and lifestyles.24

Clearly, these goals express a commitment to integrated community development. Drawing on 25 years of experience, LISC has discovered ways to support all of these goals using what it views as time-tested approaches.

The approach “starts with a continued commitment to capital investment in a wide variety of new and renovated homes, community facilities, commercial and industrial property, and the public spaces that link all these elements together.”25 This is an area that LISC and other intermediaries have long focused on—leveraging private capital and public support through

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25 Building Sustainable Communities: A Progress Report on Meeting LISC’s Next Generation of Challenges and Fulfilling the Promise of Community Development (Chicago: LISC, 2009), p. 3.
incentives and subsidies like the Low Income Housing Tax Credit, community development block grants, and NMTCs. To increase family income and wealth, LISC aspires to three other offerings: financial opportunity centers (pioneered by the Annie E. Casey Foundation and which have an established track record of success); individual development accounts, which studies show are effective in getting people to save; and job training and micro-enterprise development.

To stimulate economic development, LISC intends to augment its real estate investments (in commercial, retail, industrial, and residential development at qualities and densities intended to spur local demand) with marketing to attract local businesses. It also intends to work with anchor institutions to train and employ local residents, and press for government policies that promote business development.

To support access to education, in addition to aggregating capital to fund school facilities, LISC aims to use these schools to provide other after-school community services and programs supportive of education, children, and parents. They can also help to organize parents into groups and support outside school programs. This is an approach that the two final examples below, Harlem Children’s Zone and Purpose Built Communities, demonstrate can be highly effective in closing educational achievement gaps.

Finally, in addition to capitalizing health facilities like clinics and healthy food markets, LISC intends to support a range of other programs and facilities, such as partnerships with law enforcement, athletic fields and facilities, and better transportation options. Again, these are programs with proven track records of success when done properly.

Quad Communities in Chicago is the most advanced attempt to put the BSC approach into practice. LISC’s efforts to build a sustainable community began with creating the Quad Communities Development Corporation to represent residents and bring multiple stakeholders together to develop a plan for
Community Development: Past and Present

The community’s future. Plan in hand and with LISC and local government, civic, and business leaders’ backing, the community has succeeded in redeveloping 3,000 public housing units, developing a charter elementary school, revitalizing the commercial core, developing an arts center, and establishing a financial opportunity center. The investments in facilities and services have been intentionally located in close proximity and in an area that had lacked investment of any sort for years. Quad Communities Development Corporation played a lead role in conceiving the plan. But it coordinated many other groups that have invested in and operate many of the newly developed facilities and services rather than doing so itself. Supported by LISC acting in the role of CDFI and capital aggregator, the Quad Communities initiative has laid the foundation for transformative change in the neighborhood.

Integration Initiative

The recently launched Living Cities Integration Initiative also aims to take a more integrative approach to community development and intends to bring a range of actors to the table (government, business, philanthropy, and community-based organizations). It uses an “ecosystem” approach to support policy and capacity, and is in the process of considering cultivating an investment-ready pipeline to ensure the range of functions is in place for sustainable and systemic community development.

Five cities will receive $80 million of investment from the initiative in the form of grants, loans, and program-related investments with the aim of leveraging significant amounts of private debt and venture capital. In all five, the initiative aims to overcome the fragmented nature of programs and interventions. Several of the strategies are centered on building on the capacities of anchor institutions like hospitals and universities to spur economic development and provide jobs to residents. Several also emphasize devising and testing ways to make adult education, job training, and job placement programs more responsive to local needs and opportunities. Along with service-based interventions aimed at supporting employment and economic development,
most address affordable housing needs, infrastructure needs, and/or abandoned properties. All designate a single lead coordinator and a single lead CDFI to work with local nonprofits, lenders, anchor institutions, and philanthropies.

This approach is similar to the one taken by BSC. Perhaps the city pilot that combines the most elements of this approach is the one now underway in Newark. This tests the idea of a “wellness economy” as a way to organize thinking about and planning investments. A central aim is to address the land and real estate needs for fresh foods, health care, and decent affordable housing. But it also features a municipal mechanism to align education, health, and social services planning with residential development.

Although the Integration Initiative does not focus as much on early childhood intervention and childhood education as others, it is clearly a place- and people-based strategy that emphasizes coordination, evaluation, and data-driven decisions about how to deploy resources over time.

**NEXT Award Winners**

The Wachovia Wells Fargo NEXT Awards for Opportunity Finance support innovative and effective CDFIs. Its winners underscore the growing number of CDFIs driving the kind of integrated, results-oriented approach to community development discussed in this paper as well as efforts to build capacity in areas where it is weaker.

The NEXT award program shows the extent to which the field is moving toward an integrative approach based on measurable impacts and results. The award winners underscore that the most important community issues and solutions vary from place to place but nevertheless offer models others can adapt and replicate. Take the Charter School Development Corporation in Michigan, which received an award for devising innovative ways to help charter schools fund their facilities in tough economic times, a model other communities in difficult economic straits can follow.
An award in 2011 also went to the Neighborhood Development Center in Minneapolis to recognize its important work in both bringing about economic development and measuring the results of its work. An award to the Progress Fund was made to support a regional partnership in Pennsylvania around small business development. And on the policy front, the Alternatives Federal Credit Union won an award for convincing the City of Ithaca and Tompkins County in New York to require any firm receiving funds from them to provide a living wage for all its employees. Like the work of the other awardees, their work establishes models others can follow.

Finally, Coastal Enterprises Inc. (CEI) won an award to support its national Working Partner Initiative aimed at partnering with organizations in rural regions to use NMTCs to fund projects with community benefit agreements. The latter are agreements that engage the community in determining the community outcomes that project sponsors must meet. CEI’s award reflects the increased focus on local capacity through partnerships with stronger regional players and to extend community development activities to the schools, clinics, and other nonhousing activities that NMTCs support. CEI, like several past recipients, lends to a range of investments including in community facilities to support education and health, affordable housing, and business development.

**Harlem Children’s Zone**

Harlem Children’s Zone (HCZ) has helped improve the communities in which it operates while also closing residents’ educational achievement and well-being gaps. It has measurable results to date. HCZ has been proclaimed as a “shining example of what is possible.”

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by block. Led by Geoffrey Canada since 1990, HCZ served more than 11,000 children and 10,000 adults in 2010. With a focus on early intervention and breaking the cycle of poverty, HCZ started with a single-block focus but now works in a 97-block area in Harlem.

Although HCZ is clearly a place-based strategy focused on a part of Harlem, the program is really a marriage of a people-focused and place-based antipoverty strategy. As Canada explains:

*What we’re doing is not some kind of brilliant, eureka moment that we had when we figured out how to do this. We have been talking about these issues, providing comprehensive, integrated services to poor children since I was in graduate school.... So we just simply did it. We just decided that the time had come to actually put together all that the social scientists and the educators had been talking about for decades in approaching this problem.*

The initiative involves charter schools and some physical redevelopment of dilapidated housing and provision of affordable housing but centers on prenatal education, parent education, early learning, and education.

HCZ’s accomplishments are extensive and listed on its website, so we highlight only a few here. Its Baby College for training parents was successful in getting 86 percent of parents who read to their children fewer than five times a week to read to them more often. All third graders in its Promise Academy tested at or above grade level on the math exam, and they outperformed peers throughout the state. In 2008, 93 percent of ninth graders in its Promise High School passed the statewide algebra exam. In 2010–11, all 284 students in its high school afterschool program stayed in school, and 254 (90 percent) of its high school seniors

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27 Harlem Children’s Zone, 2010-2011 Annual Report.


29 Harlem Children’s Zone, “Our Results.” Available at http://hcz.org/our-results.
were accepted into college. And its asthma initiative, which has served nearly 1,500 children, showed striking improvements 42 months after enrollment, with the share of emergency room visits of enrollees with a prior three-month period dropping from 46 percent to 15 percent.

A major factor contributing to the success of the HCZ is its commitment to people and focus on outcomes. As one of the first major nonprofits to establish a 10-year business plan, it has demonstrated empirical results and has adjusted programming and funding as needed to maintain and improve outcomes for participants. From these proven results, HCZ has been able to solicit funding from major foundations such as Goldman Sachs Gives and Google to expand its agenda and increase its impact. As President Obama said, “It's an all-encompassing, all-hands-on-deck effort that's turning around the lives of New York City’s children, block by block.”

Moving beyond just a purely educational campaign, HCZ has expanded to include job training and computer workshops, nutrition classes and health clinics, and homeownership classes. Its current scope has many similarities with traditional community developers, despite very different roots.

Although acclaimed by many, HCZ is not without those who urge caution in interpreting its results. They have pointed out that the improvement in test scores in HCZ charter schools is only about average for other charter schools in New York City, even after adjusting for differences in student population. In addition, students attending HCZ charter schools but living outside the zone had test results that were on par with students living in the zone. Although this suggests that the many other community services provided in the HCZ had little or no effect


on educational attainment, these services have produced other benefits for residents. Also, by trying to fight the systemic nature of poverty in Harlem, monitoring results, and adjusting its strategy, HCZ has shown that there is a different path than the status quo, giving the field a transformative example of how to approach community development.

Some have also questioned whether HCZ is too costly to be widely replicated and whether capital will be available to cover the costs of the high-touch approach part of its success. HCZ relied on a specialized source of capital (wealthy New York–based philanthropists) to pick up these costs. But pioneering efforts often are more costly than later replications because they involve much more trial and error. In addition, the social outcomes achieved in each case are impressive and just the sorts of outcomes social investors want to take to scale. On average, helping a child go on to college means hundreds of thousands of extra dollars earned over hers or his lifetime. In addition, it remains to be seen how much programs like these may save in the long run on other public expenditures like unemployment insurance payments, incarceration, remedial education, and health care for avoidable chronic disease. These public savings are bound to be substantial.

**Purpose Built Communities**

Similar to HCZ, Purpose Built Communities (PBC) envisions a “cradle-through-college” model that aims at closing the achievement gap in the East Lake neighborhood in Atlanta. Its aim is also to redevelop troubled real estate and offer community services and facilities to support the full range of needs of people in the community. Again, the data show it has succeeded in doing so. Originally started in 1995 as part of a HOPE VI public housing redevelopment project, PBC has expanded to eight cities and its network continues to grow. Its success suggests that a replicable model for closing the achievement gap is to redevelop rundown properties, mix moderate-income housing with

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32 The report produced by the Brookings Institute also found that educational advantages of the HCZ end in middle school and that the complementary community services.
low-income housing, and provide high-quality education and early learning programs.

The public housing in East Lake was a notorious haven for crime, drugs, and underachievement. Of 650 units, only 260 were actually occupied, with the rest boarded up or uninhabitable. Only 5 percent of fifth graders met state math standards and the school was last out of 67 in the City of Atlanta. Violent crime was at an all time high, and 87 percent of East Lake’s residents did not work. Fifteen years later, violent crime has dropped by 90 percent and 70 percent of the residents are now working. And kids are learning: 98 percent of fifth graders now meet or exceed state math standards, and the school now ranks fourth in the Atlanta public school system, despite the fact that nearly 80 percent of its students are sufficiently low-income to qualify for the free/reduced price lunch program. In 2009, more than 85 percent of eighth graders at the Drew Charter School in 2005 had graduated from high school. By 2011, 99 percent of the local school’s students met or exceeded state reading standards, and 94 percent met or exceeded math standards.

As of 2011, PBC has acted as advisors to eight different development groups across the country and continues to grow. Working in New Orleans after Hurricane Katrina, for example, PBC helped the Bayou District Foundation transform the dilapidated St. Bernard’s public housing site into a mixed-use and mixed-income community. Using many of the lessons learned from the Villages at East Lake, the newly opened development has a new charter school, an early learning program and supportive services.

PBC stresses open communication between the various groups in its network and hosts annual collaborative meetings so each organization can learn from one another’s successes and challenges. Whereas each location is unique and needs a tailored


solution, the collaborative model PBC has embraced has led to best practices and a basic framework. As Warren Buffett, one of PBC’s cofounders, states, “I like to back success. I like things that change people’s lives…. [PBC has] got the right mission. It’s got a record of success. It’s got the right leader and it’s hard to find terrific leadership. And now it’s been proven to be replicable.”

Although still in its early stages, with sustained success only being able to be evaluated by future generations, PBC has provided a replicable model for communities to dramatically alter the achievement of low-income residents.

**MEETING THE CHALLENGES AHEAD**

Although the community development field has progressed, it still faces several challenges as it moves forward. Unless it successfully meets these challenges, the field will have a difficult time fulfilling the promise of an outcome-oriented, integrated approach to creating systemic change in low-income communities across the country.

First, integrated community development demands significant flows of capital into a community for diverse programs and activities. Finding ways to attract private capital to make such concentrated investments will remain an important challenge. Fortunately, the field can look to strong national intermediaries and CDFIs that have managed to aggregate private capital and leverage scarce government tax incentives and subsidies to fund integrative initiatives. It can also look to the growing number of strong community-based organizations and regional and national firms capable of launching and operating community development initiatives and activities at scale. Concentrated investment can spark additional investment and reduce risk to both community and investors because its benefits usually get capitalized into the value of real estate in the areas around it.

More specifically, to take integrated community development to scale it will be necessary to create a financial return on investment.

sufficient to attract private capital and sustain community developers and CDFIs. Moving beyond real estate investments to investments that promote human capital development will take special efforts to craft strategies that show people-based investments can enhance social return while generating financial returns.

Second, integrated community development places a premium on coordination and cooperation among community development organizations with different functions as well as among multiple other stakeholders, including business and civic leaders, philanthropic organizations, and government agencies. The field should support education that builds the skills of community development leaders to forge such partnerships and operate them effectively. In addition, innovative financial structures in which philanthropic and government capital work together to leverage private capital must be studied and efforts made to replicate successful ones. New government programs should learn from and build on these efforts.

Third, the structure of government programs and funding streams poses another set of challenges. Despite fledgling efforts at the federal level to coordinate sectors at the regional level (through the HUD-DOT-EPA Sustainable Communities Program) and to promote integrated solutions at the community level (through the Choice Neighborhood Program), funding and program innovations continue to take place at the federal level almost exclusively within silos that resist efforts to coordinate and meld them together in more flexible ways. Nevertheless, there are ample examples of the federal government giving states authority to experiment that have produced replicable approaches. Welfare reform, for example, was based on innovative programs piloted at the state level. Moving-to-Work public housing authorities, able to petition HUD to waive rules, have also become laboratories of invention.

Fourth, the Great Recession and its aftermath pose another set of challenges. Although some weaker community development
organizations have failed, others are still teetering. Weak organizations often resist merging with or being acquired by stronger organizations until it is too late. Helping organizations know how and when to reach out to other organizations when they are in trouble—whether as an after-effect of the recession or for other future reasons—is important to sparing communities and the broader field from the ravages of failed organizations. The Great Recession has also resulted in massive disinvestment, foreclosures, and abandonment in communities across the country. Integrated investment in these communities will require dealing in new ways with housing distress, abandoned properties and the loss of jobs and civic services.

Fifth, the social impact investing movement brings its own set of trials to the field because it puts new responsibilities on community-based organizations to demonstrate social impacts to investors in measurable ways. Measuring social impact is not easy or cheap. The field would be well served by pooling its resources to generate efficient and transparent ways of evaluating community impact and facilitating the cross-organizational sharing of best practices for outcome measurement. Those leading this movement understand the importance of doing so and are already trying to sort out better ways to measure social impact and support quality local efforts to address poverty.36

Sixth, impact investment can place a greater burden on organizations that wrestle with causes of concentrated poverty with smaller or difficult-to-measure impacts but which are nevertheless important elements of a broader strategy. Socially motivated investors may have to accept that measurement of social impact of some activities, which have a logical place in improving the well-being and achievement of the poor, may be elusive or small and invest in them anyway.

Seventh, although the success of strong CDFIs and community developers with regional or national reach has helped bring about better human and community outcomes, it has also made it a challenge for smaller organizations to grow even if they are financially strong and doing good and important work. Rural CDFIs and community developers and those in small cities also face special challenges finding capital because they fall outside of areas where large banks are assessed for Community Reinvestment Act (CRA) performance. It is therefore important for government agencies, national intermediaries, and large foundations to make extra efforts to identify and strengthen small but effective organizations, especially in rural areas. It could also be advantageous to give large banks CRA credit for certain forms of community investing even if outside of their traditional assessment areas.

Eighth, CDC capacity is constrained by a financing system (including most government incentives and subsidies, as well as equity and debt finance from the private market) that funds transactions (e.g., real estate development) rather than entities (such as capital provided to a CDC to strengthen its financial capacity). Efforts to apply lessons from European countries where investments are more often made to entities based on their balance sheet capacity—as well as to craft tailored approaches that work in the United States—could play an important part in strengthening CDC capacity.37

Ninth, and more broadly, the important work of building the capacity of community-based organizations and expanding their geographic coverage is far from done. Many communities are lacking in strong organizations or organizations that are able to work with nonprofits, for-profits, and governments in ways that are mutually beneficial and reinforcing. The CEI example discussed above, and IFF’s efforts to branch to new markets, are attempts to close these gaps.

Finally, fiscal austerity has added to the ever-present urgency of protecting but also expanding funding for critical but chronically underfunded government programs. The NMTC program could sunset at the end of 2012 if legislative action is not taken. The Sustainable Communities Program was not funded in fiscal year 2012 but managed to receive funding of $50 million in fiscal year 2013. All other programs are under pressure, and funding for several, such as the CDFI Fund, have been trimmed. Lastly, the potential for a broad overhaul of the tax code places at risk some of the cornerstones of community investing like the LIHTC and NMTC programs. The late Cushing Dolbeare, founder of the National Low Income Housing Coalition, would regularly remind groups that if they give up the battle to increase government funding for the poor, the War on Poverty would surely be lost.

THE WAY FORWARD

As active agents of social and economic change, CDFIs and community development organizations have successfully attracted large-scale support from private financial institutions, from banks to insurance companies to hedge funds. The opportunities that open for low-income communities and their residents because of these efforts include small business development, job training and creation, retail and commercial services, safe and affordable homes, improved education, new community health clinics, transit-oriented developments, green financing, and many successes in venture capital investing, the arts, recreational space, and an array of community facilities.

The community development field is ready to step into a period that will achieve scale, impact, and accountability for outcomes. The hints of the future lay in some of the innovative examples described above. Meeting the challenges ahead will help the community development field continue to mature and advance toward an integrated approach to community development informed by evaluation and proven tactics.
Still, community developers and CDFIs will have to continue to innovate and further develop, refine, and disseminate promising models like those discussed in this paper. Indeed, many of the most important sources of finance for community development emerged from successful experiments at the local level. Initiatives that sprung up spontaneously in local communities were later supported by the foundations, and several led to important federal policies, programs, or the emergence of national intermediaries. Examples include the CRA, which was modeled after ordinances in Chicago; the creation of NeighborWorks, which started with Federal Home Loan Bank officials taking notice on a field trip of the first Neighborhood Housing Services; the CDFI Fund, which was created to support CDFIs that sprung spontaneously in response to local problems; and Enterprise and LISC, which grew out of foundation support of successful local initiatives.

In all cases, the field can benefit from drawing on lessons learned from successful efforts. As detailed above, early childhood interventions can have dramatic impacts, and while the evidence of the value of job training and other employment-related services is less compelling, when it is combined with housing assistance, it seems to make a real difference. And daily we can see the value of improving schools, rehabilitating substandard housing, reducing housing costs, providing access to health care and job training, and improving public safety. Although it is less clear how much elements like these may work together to create synergies, there are reasons to believe that they do and the Integration Initiative and others are hunting to find and quantify them if they do.

Although the goal of comprehensive community development remains elusive, several organizations and initiatives have made significant progress in identifying the features most likely to lead to successful outcomes. In some cases, the successes have been spectacular, as in the rebuilding of the South Bronx and the turnarounds in East Lake and the Harlem Children’s Zone. These successes demonstrate the value of concentrated public investment when administered by strong lead organizations and
supported by national intermediaries, foundations, and state and local agencies. Success requires the very active participation of the community and coordination among multiple nonprofit service providers, community developers, government agencies, the business sector and financial institutions.

Nevertheless, launching truly multi-focused, integrative initiatives is costly, and the road map for doing it right does not yet exist. This is why LISC, Enterprise, Living Cities, and others are all investing now in pilot projects to understand what makes integration strategies effective and efficient.

Although actively pursuing and integrating both people- and place-based interventions is the aim, achieving it will usually require smaller first steps. It is impractical, and probably ultimately undesirable, to try to devise extensive plans initially rather than strategically make choices about initial areas of focus that can later serve as the foundation for other work. For example, Harlem’s Children Zone started with a strong community center that was placed in a public school. It then branched to supporting the classroom experience of the school during the day and then launched a truly integrated approach but on a single block. As they gained experience and documented success, they were able to expand the zone beyond that block. Likewise, Purpose Built Communities started with a vision of what it takes to spark community development focused deliberately on both people and place.

It makes sense to take a page from these two playbooks and focus on two or three important initiatives first to anchor future efforts. Nonetheless, although community development can start from different entry points, ultimately it must attend to a broad range of community needs, from physical redevelopment to public safety, from community organizing to improving resident access to quality schools, child care, job training, health clinics, and elder care.

Finally, ensuring that the community’s voice is heard and incorporated into plans and activities is critical. As holistic approaches
increasingly emerge and as efforts to create replicable models gain momentum, there is a risk that the voice of the community itself will get lost in the cacophony of partners, as well as in an evolving confidence among practitioners that they have settled on the interventions that matter most. Although successes provide direction and guidance on tough issues, the field must avoid a one-size-fits-all approach to addressing poverty. Instead, it is critical not to lose sight of the importance of crafting strategies that address the political realities, institutional capacities, and specific needs and wants of widely varying communities.

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