JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY
INITIATIVE FOR RESPONSIBLE INVESTMENT

COLLABORATION BY DESIGN:

PRO Neighborhoods Through a Capital Absorption Lens

JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY

HARVARD GRADUATE SCHOOL OF DESIGN

HARVARD KENNEDY SCHOOL

Principal funding for this report was provided by JPMorgan Chase & Co.

The Initiative for Responsible Investment (IRI) is part of the Hauser Institute for Civil Society, Center for Public Leadership at the Harvard Kennedy School. The IRI serves as a platform for dialogue on fundamental issues and theories underlying the ability of financial markets to promote wealth creation across asset classes, while creating a stronger society and a healthier environment. The IRI works across asset classes to build communities of practice around innovative concepts in responsible investment, promoting the development of the theory and practice of responsible investment through research, dialogue, and action.

AUTHORS

David Wood

Erin Shackelford

CONTENTS

Executive Summary

In the Spring of 2017, the Initiative for Responsible Investment interviewed a number of awardees of the Partnerships for Raising Opportunity in Neighborhoods, better known as PRO Neighborhoods, a five-year, $125 million initiative by JPMorgan Chase & Co. to sponsor collaborations among Community Development Financial Institutions (CDFIs). These interviews sought to draw out insights and observations that would be valuable to members of the community investment system, especially funders and grant-makers, as they consider the effective design of future projects and funding mechanisms.

Applying the framework of capital absorption, this brief review suggests some initial thoughts on how support for formal collaboration may foster CDFI capacity development in new areas of expertise at three levels:

1. **At the level of the individual CDFI:** Within institutions, flexible support to enter into new areas of lending, as provided by the PRO Neighborhoods grants, can prove crucial for CDFIs both to expand their geographic and/or sectoral range, and to deepen engagement with the communities they serve through their lending.

2. **At the level of collaboration among CDFIs:** PRO Neighborhoods awards enabled CDFIs to share best practices, support collaborators facing challenges, and closely observe each other's practices. The structured collaboration and regular exchange that came with project execution shed light on new practices and built relationships that endured beyond the grant cycle.

3. **At the level of the community investment system:** The PRO Neighborhoods focus on innovation and collaboration led practitioners to engage a variety of actors in the broader ecosystem, including community advocacy groups, political and governmental bodies, trade associations, and collateral financial services. The challenges of engaging actors in a necessarily transaction-focused environment could be explicitly incorporated by grant makers into program design and adaptation.

The interviews point to the importance for CDFIs of thinking not just transactionally but strategically—of considering not just the transaction at hand, but the broader system of community investment in which CDFIs operate. Funders, and other actors in the community investment system, can benefit from the lessons that emerge as CDFIs collaboratively tackle innovative lending practices.

Introduction

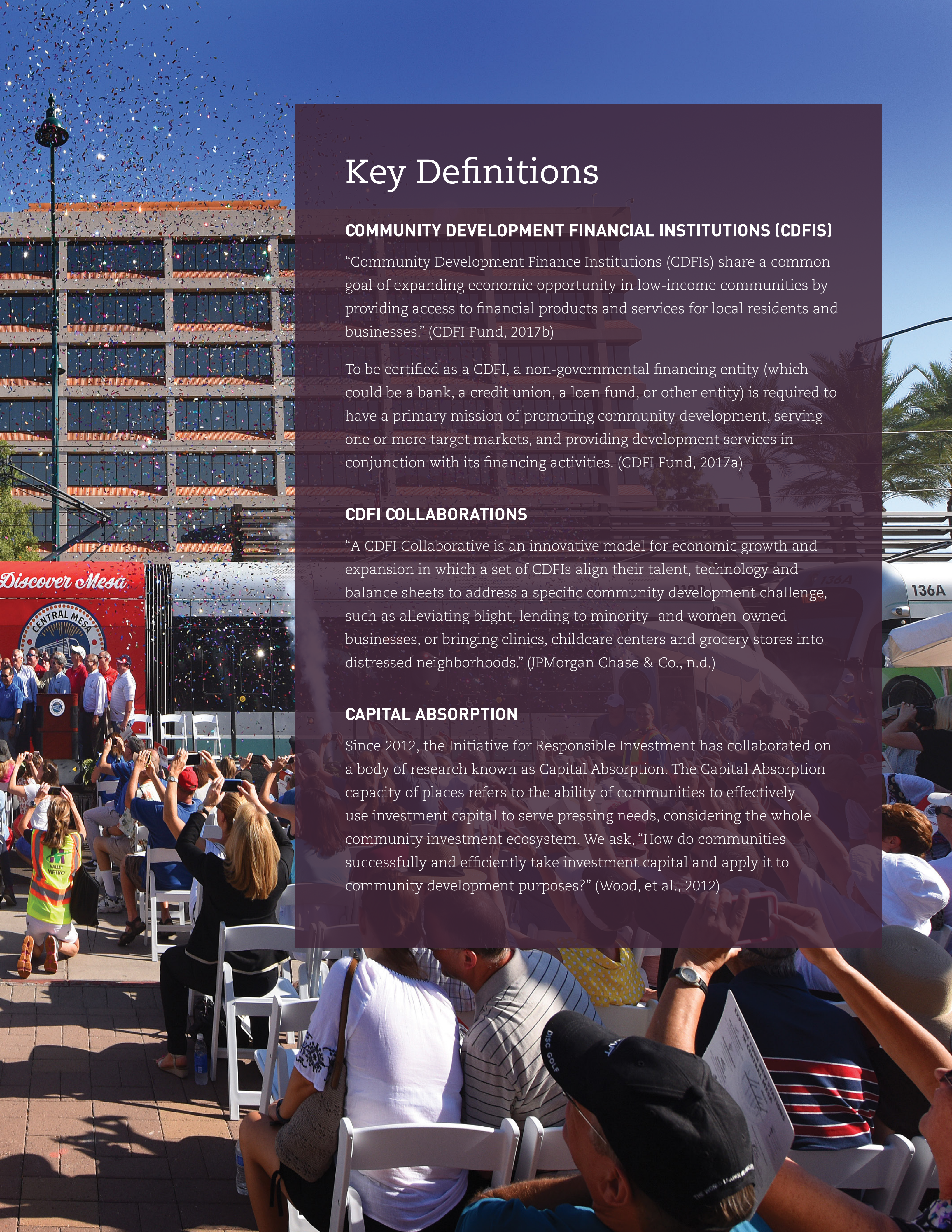
The Partnerships for Raising Opportunity in Neighborhoods, better known as PRO Neighborhoods, is a JPMorgan Chase & Co. "five-year, $125 million effort to foster inclusive economic growth by providing communities with the tools they need to address key drivers of inequality." (JPMorgan Chase & Co., n.d.) One aspect of the initiative is the PRO Neighborhoods CDFI Collaborative annual competition which encourages Community Development Financial Institutions (CDFIs) to participate in collaborative projects with other CDFIs "to jump-start community and economic revitalization in neighborhoods challenged by blight or gentrification." (JPMorgan Chase & Co., n.d.) Started in 2014, the first round of funding was awarded based on "the promise that their proposed collaborations showed in addressing particular community development challenges and on the ability of member CDFIs to use the award to expand the volume and geographic range of their current operations." (von Hoffman & Arck, 2016)

The grant program, as reviewed by the Joint Center for Housing Studies of Harvard University, has successfully led to expanded and new investment activity from CDFI collaborators. The PRO Neighborhoods CDFI Collaborative investments, which in 2014 ranged from $2 million to $7 million, have facilitated increased information sharing between CDFIs on market opportunities, technology, and other ways to support increased lending in low- to moderate-income areas across a range of geographies and sectors.

MORE THAN MONEY

Rebuilding disinvested communities takes more than money. Places that have been starved of resources for extended periods of time often lack the policies, practices, or relationships they need to effectively leverage existing or new resources.

Pictured: The grand opening of a light rail extension to Mesa, AZ, where many organizations are working in concert to revitalize the downtown area.



Key Definitions

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS (CDFIS)

"Community Development Finance Institutions (CDFIs) share a common goal of expanding economic opportunity in low-income communities by providing access to financial products and services for local residents and businesses." (CDFI Fund, 2017b)

To be certified as a CDFI, a non-governmental financing entity (which could be a bank, a credit union, a loan fund, or other entity) is required to have a primary mission of promoting community development, serving one or more target markets, and providing development services in conjunction with its financing activities. (CDFI Fund, 2017a)

CDFI COLLABORATIONS

"A CDFI Collaborative is an innovative model for economic growth and expansion in which a set of CDFIs align their talent, technology and balance sheets to address a specific community development challenge, such as alleviating blight, lending to minority- and women-owned businesses, or bringing clinics, childcare centers and grocery stores into distressed neighborhoods." (JPMorgan Chase & Co., n.d.)

CAPITAL ABSORPTION

Since 2012, the Initiative for Responsible Investment has collaborated on a body of research known as Capital Absorption. The Capital Absorption capacity of places refers to the ability of communities to effectively use investment capital to serve pressing needs, considering the whole community investment ecosystem. We ask, "How do communities successfully and efficiently take investment capital and apply it to community development purposes?" (Wood, et al., 2012)

Collaboration between CDFIs has been encouraged in recent years. At a 2013 interagency conference the Federal Reserve Board, along with the FDIC and the Office of the Comptroller of the Currency, encouraged CDFI collaboration to develop joint products and services, share risk and expertise, and jointly develop technology, stating that "CDFIs are ideal candidates to collaborate on business strategies, since they mostly operate in different markets and do not directly compete with each other. The benefits of collaboration include the ability to attract additional investors due to scale, and the ability to reduce operational costs by creating efficiencies." (Interagency Minority Depository Institutions National Conference, 2013) Or, as one of the CDFI leaders we interviewed put it, "how can we help each other do what we're trying to do better?"

For foundations considering how to more effectively structure grant programs, as well as for CDFIs and others interested in community investment, the PRO Neighborhoods program offers an interesting opportunity to analyze what CDFI collaboration can look like and how CDFIs are collaborating, particularly around innovation in product type, sector focus, and place-based investment strategy, as well as a look at the effect of CDFI collaboration on the broader community investment system.

CDFI practitioners note that collaboration can be challenging for a number of reasons. Lead CDFIs in the PRO Neighborhoods Collaborations faced challenges in finding CDFI partners to collaborate with, and lost and added different CDFI partners in the process. Some of the challenges are quite discrete, as one of the awardees told us, such as CDFIs having "different hurdles for the cost of capital"; another awardee explained that leadership or organizational changes at partner CDFIs had led to their leaving the project. Practitioners also identified the challenges of asking a CDFI partner to move into a new area of work or a sector that fell outside of their prime area of work (for instance, by expanding into small business loans or servicing food deserts).

Collaboration challenges can be broader for CDFIs, too. Structural challenges in the CDFI industry, including the ability of CDFIs to be self-sustaining, and some of the inherent challenges of community investment, make long-term, strategic, and expansive work difficult. As one PRO Neighborhoods awardee explained:

"Chase's opportunity came along at a time where collaboration among CDFIs was not a strong suit. CDFIs are sometimes collaborative at the transaction level, but very rarely at the program and peer exchange level. They connect at large conferences, but rarely … collaborate.

Collaboration requires a big incentive to get over your own organization's self-interest. Striving for sustainability means there's not a lot of excess managerial capacity. CDFIs are structured for their prime work, they're not structured to have extra capacity for new work."

Community investment is a field in which institutions tend to be focused on transactions that require both specialized knowledge and extra effort to reach the cities, towns, and regions which most need community investment.

Because these challenges make strategic CDFI collaborations rare, the PRO Neighborhoods Collaboratives are an important set of institutional engagements which present a unique opportunity to observe how CDFIs learn from each other, how they develop new skills, and how they expand into new places and sectors. The PRO Neighborhoods Collaboratives also reveal some of the ways that the field of community investment, in general, responds to changes in institutional alignment and focus.

The Initiative for Responsible Investment (IRI) has been collaborating since 2012 with The Kresge Foundation, Living Cities and, more recently, with the Center for Community Investment, on research on "the capital absorption capacity of places" (see Key Definitions). This stream of work asks how capacities change in the process of making projects and programs investable (ie, in making a project meet the fiduciary criteria of different types of investors), and looks at the larger ecosystem that allows for community investments to take place effectively.

“

Chase’s opportunity came along at a time where collaboration among CDFIs was not a strong suit. CDFIs are sometimes collaborative at the transaction level, but very rarely at the program and peer exchange level. They connect at large conferences, but rarely... collaborate.

Collaboration requires a big incentive to get over your own organization’s self-interest. Striving for sustainability means there’s not a lot of excess managerial capacity. CDFIs are structured for their prime work, they’re not structured to have extra capacity for new work.

PLACE-BASED COLLABORATION

A place-based collaboration brings together local CDFIs to concentrate on the specific needs of a community or place. The Adelante Phoenix! collaborative focuses on providing financial support to households and small business owners along the future light-rail extension to South Phoenix.

The capital absorption framework examines the broader community investment structure at a systems level, and asks how the integration of new relationships among existing and potential stakeholders changes that system. Another key finding from the capital absorption work which is relevant to the PRO Neighborhoods Collaboratives has to do with the roles foundations can play in fostering a robust community investment system. Whether as conveners, as investors, or as systems engineers, "foundations can create a virtuous cycle, helping to develop a pipeline of investable opportunities that will serve the communities they care about and making future transactions more efficient and effective in delivering social and financial returns." (Hacke, et al., 2014)

In this brief examination of the PRO Neighborhoods project, we draw on the capital absorption framework to explore what lessons can be learned from CDFIs that participated in one of three PRO Neighborhoods Collaboratives:

- **ReFresh** - designed to support sectoral innovation via access to healthy food in underserved communities in multiple states
- **The Emerging Small and Medium Enterprises Cluster Initiative (SME Cluster Initiative)** – designed to support expanded small business lending by enhancing CDFI capacity to deploy the federal SBA 7(a) program in multiple states
- **Adelante Phoenix!** – a place-based collaborative of multiple local CDFIs linking concentrated lending in South Phoenix across real estate, retail mortgage, and small business loans

In order to better understand the effects that PRO Neighborhoods had on the CDFIs involved in the Collaboratives, we reviewed reports on the project and conducted interviews with stakeholders from each of these three Collaboratives. The capital absorption framework focused our attention at a high level: we looked at the institutional and network effects of collaboration, rather than at the transactions that each Collaborative undertook.

We hope this short paper sheds light on the possibilities and challenges in the practice of CDFI collaboration, as well as on how the activities of these three projects illuminate the broader ecosystem in which community investment takes place.

The PRO Neighborhoods CDFI Initiative

Partnerships for Raising Opportunity in Neighborhoods, better known as PRO Neighborhoods, is a JPMorgan Chase & Co. "five-year, $125 million effort to foster inclusive economic growth by providing communities with the tools they need to address key drivers of inequality." (JPMorgan Chase & Co., n.d.)

For this paper, we interviewed members of three PRO Neighborhoods Collaboratives:

REFRESH

ReFresh works to create new and expand existing retail food programs, with the goal of providing access to healthy food to underserved communities in California, Colorado, Florida, and Ohio. $2 million award.

- Reinvestment Fund (Lead Partner)
- Colorado Enterprise Fund
- Finance Fund Capital Corporation
- Florida Community Loan Fund
- Northern California Community Loan Fund

THE EMERGING SMALL AND MEDIUM ENTERPRISES (SME) CLUSTER INITIATIVE

The Emerging Small and Medium Enterprises (SME) Cluster Initiative lends through the federal SBA 7(a) program, focusing its efforts in Buffalo, Chicago, Denver, Detroit, Milwaukee, the New York City metro area, and select rural communities. $7 million award.

- Community Reinvestment Fund, USA (Lead Partner)
- Calvert Foundation
- Coastal Enterprises, Inc.
- National Development Council

ADELANTE PHOENIX!

Adelante Phoenix! is developing an 80-acre mixed-use real estate project in South Phoenix and providing financial support to households and small business owners along the future extension of a light-rail line. $6 million award.

- Raza Development Fund (Lead Partner)
- Neighborhood Economic Development Corporation
- MariSol Federal Credit Union
- Trellis

In our interviews, we asked members of the Collaboratives to reflect on three nested areas of influence that the PRO Neighborhoods awards had on their work and on their thinking about community investment:

1. **Internal** institutional change within the CDFI,

2. **Collaboration** among CDFIs within projects, and

3. CDFIs and the broader **community investment ecosystem** in which they operate

These areas of influence are interrelated. We separate them here to better understand how CDFIs responded to the grant programs and the new activities they entailed.

Internal Institutional Change within Participating CDFIs

The PRO Neighborhoods awards, both within and across grantee Collaboratives, went to CDFIs of varying scale, sectoral expertise, geographic footprint, and organizational structure. But across this range of institutions, we can see some common experiences in adapting to work associated with the grants, and the kinds of capacities that developed as a result.

Participants in the first round of the program describe the relatively rapid turnaround necessary to pull together multi-institution collaborations after the announcement of the grant in the fall of 2014. While not an unfamiliar challenge for grant-seeking institutions, the quick turnaround tested the ability of CDFIs to marshal internal resources to reply to the PRO Neighborhoods Request for Proposals (RFP). (JPMorgan Chase has increased the RFP turnaround time in subsequent rounds.) The RFP asked respondents both to identify innovative sector- or place-based strategies that promoted new lending activities, and also to formally engage peer institutions to respond jointly to the RFP.

Internally, creating a proposal required participating institutions to confront a couple of questions about current and future resources and capacity: specifically, who would reply to, and, in the event of success, manage processes that were, by definition, not part of existing activity? CDFIs' perpetual capacity constraints make them not naturally inclined to formal collaboration, or to the development of new lines of work in anticipation of potential resources down the road. "You hire retroactively in our field," explained one interviewee.

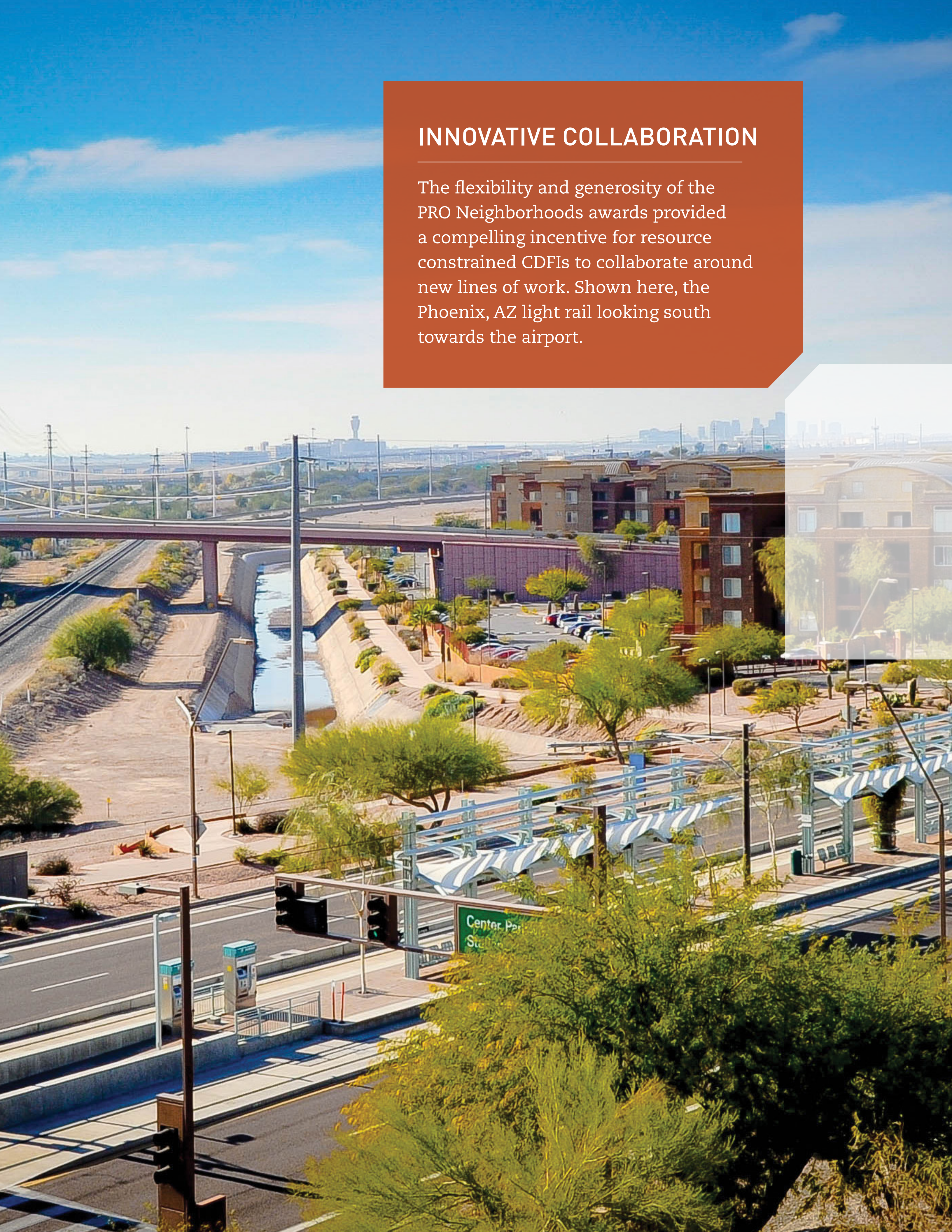
Practitioners generally describe CDFIs as organizations that operate at the margins of their internal capacity. Most CDFIs are focused on, and their continued sustainability tied to, transactions that take place in communities and sectors that lack resources, but where conventional finance is not active (one way to think of underserved communities). The PRO Neighborhoods grant application, which required the creation of a novel collaboration of CDFIs, required work outside the day-to-day, and outside the immediate capacity of most CDFIs. "[T]hese alliances don't come together easily," stated one CDFI leader in explaining the challenges of forming these new collaborations. Creating these new or innovative collaborations competes with current lines of work for capacity and resources.

For the CDFIs that overcame capacity and resource issues in the RFP process and were granted awards, the most obvious change in institutional capacity came at the level of staffing. Participating CDFIs used the grant to allocate time and effort toward the innovative practice in question. In most cases, this meant building on existing, often early stage, efforts in a particular line of work by reallocating full-time positions (or equivalent labor) towards the program in question, or at least opening up time in existing job descriptions to allow for engaging and importing ideas from peer institutions, and developing new lines of research or lending practices. As one practitioner put it, "This initiative was rich enough to allow hiring in advance, and that's really important for R&D." For some, these new roles, while funded by the grant, extended beyond the life of the grant and became longer-term parts of the organization.

In addition to increased resource capacity from the grant, PRO Neighborhoods awardees told us that participation gave them increased capacity in another way. Being involved in a PRO Neighborhoods Collaborative allowed them to build their reputation as a collaborator, and as a potential partner in future deals and programs.

INNOVATIVE COLLABORATION

The flexibility and generosity of the PRO Neighborhoods awards provided a compelling incentive for resource constrained CDFIs to collaborate around new lines of work. Shown here, the Phoenix, AZ light rail looking south towards the airport.



EXCHANGE COLLABORATION

The SME Cluster Initiative is a peer exchange collaboration that focuses on sharing expertise within a single sector (small business loans) and expanding geographically.

As one participant explained, “[W]e are not one of the national CDFIs, and our participation in a collaborative with a national CDFI, and other CDFIs, where we could bring something to the table (as well as learn from them), helped enhance our reputation as a national partner.” Raising the profile of the institution within the broader CDFI community was itself seen as capacity enhancement.

It is important to note that, while the participants we interviewed emphasized how the PRO Neighborhoods program allowed them to expand institutional capacity, they also pointed out that the programs were extensions of existing work, rather than whole cloth innovation around new forms of investment activity. There was a path-dependent process of capacity development – flexible capital allowed for open-ended development of existing work. In the words of one place-based lender, “the grant helped us do ‘spade work’ in communities where we already had relationships, with community organizations that live there and work with kids, taking them from arrival through college.” The flexibility to do deeper community engagement was portrayed not as a new capacity but rather as the ability to do more of what had already been part of the institution’s work. The tension between developing new organizational capacity and supporting existing operational needs is, unsurprisingly in the grant-making context, a regular focus of attention.

Above all, participants in PRO Neighborhoods point to flexibility in the program, and the ability to fund new lines of work, as key benefits of participation. As one participant said, “The challenge . . . to invest in capacity that will lead to more revenue later is not often met in the field.” Interviewees contrast these benefits with what they see as regular features of the CDFI ecosystem: resource-constraints and focus on transactions. That contrast reveals both the potential for and challenges to institutional change absent outside catalysts.

Collaboration among CDFIs within Projects

Practitioners sometimes start out conversations about CDFI collaboration by noting how such collaboration is not the natural state of CDFIs. The challenges of creating new CDFI collaborations are familiar to the industry itself. The Opportunity Finance Network, a national network of CDFIs, made recommendations for successful CDFI collaborations in a 2015 report, noting that "Developing and sustaining a CDFI collaboration requires a substantial commitment among all of the partners involved, and some collaboration efforts never truly get off the ground." (Opportunity Finance Network, 2015)

In addition to previously noted issues of capacity, resource scarcity, and transactional focus, CDFI practitioners point to the nature of CDFIs as gap-filling organizations. CDFIs often focus on specific places where credit is scarce, or on types of transactions that others are not doing. Such areas of focus create a built-in challenge to CDFI collaboration: if it is part of the design to work where others aren't, it can be challenging to find collaborators.

The CDFI industry does collaborate at a high level in a couple of ways. Trade associations, like Opportunity Finance Network, are a type of collaboration. Issue-specific collaborations exist as well – for instance, around public or philanthropic programs that have particular importance in the field. However, interviewees portrayed formal collaboration on lending or technical assistance programs as challenging, and as additional work.

Interviewees described the PRO Neighborhoods grants positively as creating space for collaboration. As one participant asked, "Without a big incentive, would we have sat around the table with [our collaboration partners]? Probably not. But not because we distrusted them. Just because we're busy, they're busy, and it was the incentive that caused us to sit down on a quarterly basis." Even with what was seen as a relatively significant amount of funding, initial outreach from lead applicants to potential partners did not always lead to immediate uptake. To be worth pursuing, collaboration, especially on new lines of work, was understood to require intensive organizational investment.

Furthermore, the projects took place within the context of a dynamic community investment field subject to a variety of challenges and transformations as the program took shape over the course of the three-year grant period. In one case, CDFIs were absorbed by others and the partnerships changed. In another, expected lines of lending failed to materialize, and different partners took on greater shares of transactional activity. In the third, the collaborative expanded to become a national network focused on sectoral expertise.

It is worth exploring the mechanisms of collaboration in these three projects to better understand what the challenges and potential benefits of this different form of engagement can mean for the field.

Styles of Collaboration

The three projects we address in this paper represent three different styles of formal collaboration. Each PRO Neighborhoods Collaborative shaped their collaboration based on the specific goals of the CDFIs involved, and the kinds of capacities each CDFI brought to the program.

Spoke-and-wheel collaboration: The ReFresh project was based on a lead applicant organizing a national-level collaboration to promote sector-specific innovation: access to healthy foods in marginalized communities. Participants drew from this national network for expertise, shared experiences and complementary capacities, and executed transactions in specific local contexts. This style of collaboration allowed different CDFIs to lead based on their particular skills and local knowledge.

Peer exchange within a sector: The SME Collaborative created a set of three peer institutions with different regional and national footprints but a shared goal to expand small business lending through the federal SBA 7(a) program. In this case, these three institutions shared strategic and technical practices, but pursued distinct market opportunities.

Alignment of place-based actors: Adelante Phoenix! had a concentrated set of participants in one place, with different sectoral strengths, local knowledge, and credibility. Collaboration focused on bringing different approaches simultaneously to bear on a particular community and a particular set of projects. This place-based collaboration worked to integrate what one participant called "the economic and human development dimensions" of community investment work, coordinating both lending practices and community engagement strategies.

These three different styles of collaboration naturally led to different activities and organizational changes, though there are a number of common elements that participants point to in their work. Each of the projects created room for regular dialogue among collaborating CDFIs, focused not just on particular transactions, but on more general ideas about how to address challenges within the scope of the program. Regular phone calls, site visits, and group project meetings engendered, in the words of one participant, "less transactional and more strategic [engagement] than previous collaborations." Another participant noted the value of unstructured exchange at the strategic level, stating that "even in a town with three CDFIs, they rarely talk to each other about coordination. It doesn't need to be highly structured. Just sitting down and actually collaborating and coordinating is a behavior that has huge value."

In practice, the strategic engagement started with mutual understanding – about the collaborators involved and the work to be done. "We spent a fair amount of time understanding what was under the hood at each organization – the types of businesses we were going after, the impacts they would have on the community. We shared documents. We shared best practices." This sharing took place among institutions that had a reasonably elaborate understanding of each other's activities already. But the PRO Neighborhoods Collaborations created the space to deepen this understanding, and to create a collaborative practice.

In the SME Collaborative, for instance, site visits revealed geographically distinct opportunities that opened the door to creative thinking about deal sizes and structures across rural and urban communities. Site visits in rural Maine gave new perspective on opportunities in low-income communities in Cleveland. Peer exchange in the ReFresh project opened the door to discussion about the integration of various domains (in this case, small business lending, food access strategies, and the role of public policy in shaping community investment strategies), which drew on the varied experiences of CDFIs in their local and regional contexts. In particular, expertise in various pieces of the food sector, from production and supply chains to food desert retail strategies, created a complementary exchange of practices and perspectives. Even in Adelante Phoenix!, where proximity had particularly influenced institutional relationships in anticipation of the PRO Neighborhoods program, regular exchange on different scales and types of lending helped shape collaborative discussion about a holistic evaluation of community needs and potential community investment responses. In particular, the collaborative wrestled with the challenges of gentrification associated with urban regeneration investments, as well as issues related to working with immigrant communities to effectively meet their needs.

In addition to these discussions at the strategic level, there were also more practical exchanges of technological tools and technical assistance practices, as well as collaboration on loans. For ReFresh and the SME Collaborative, which took place across different geographical areas, an exchange of market diagnostic tools was a useful and concrete outcome of their collaborations. The ReFresh Collaborative shared a platform for mapping food access which was especially helpful for CDFIs newly entering the food sector or expanding into a new geography. The SME Cluster Initiative shared underwriting tools to help reduce the transaction costs of SBA 7(a) loans and eligibility decisions.

Finally, participants note that the relationships developed during the PRO Neighborhoods Collaborations are not static, but ongoing. As one participant noted, “the relationships we developed during the program may allow us to bring in new partners on specific deals emerging now in our region.” The ReFresh project has become a national network of practice independent of the grant cycle. And ongoing discussions about the topics raised within the context of the program continue outside it, even though, as interviewees noted, without dedicated institutional resources, the same level of commitment and strategic change is hard to maintain.

SPOKE-AND-WHEEL COLLABORATION

A spoke-and-wheel collaboration, like ReFresh, which focuses on food deserts, allows smaller CDFIs to enter a new field of work and bring local knowledge to the table.

Photo credit: California FarmLink.

CDFIs and the Community Investment Ecosystem

In our work on capital absorption at the IRI, we have explored community investment as a system. To do so, we engage community investment practitioners across sectors (public, private, and civil society). The conversations can be challenging. Community investment is more often thought of by practitioners as a series of transactions pushing against the system, rather than as a system itself. Community investment practitioners describe their work as creating deals that go against the tide, or as engineering finance in places the system does not reach.[1]

Community Investment as a System

"Community investment in the U.S. is one of the most robust impact-investing sectors in the world. With support from public policy and subsidies from public and philanthropic sources, private capital flows to community investment from foundations, banks and insurance companies, individuals and others in the form of loans, bonds, tax-credit equity and structured investment vehicles. Often, CI involves specialized intermediaries skilled at working with marginalized communities and blending multiple sources of funding."

"But practitioners frequently describe CI as working against, or around, the conventional finance system. It targets underserved people and places – where conventional markets are seen as absent, misguided or failing. In describing what they do, practitioners use metaphors like filling gaps (where markets aren't working), providing cushions (to absorb risk that others won't bear) and taking haircuts (to adjust prices to "market" rates). In this frame, community investment is viewed as the hard work it takes to do what the conventional finance system itself cannot or will not do." (Hacke, et al., 2015)

Our conversations with practitioners naturally tend to focus on transactional learning or concrete institutional changes that help facilitate new transactions in expanded geographies or sectors. Nevertheless, we can see elements of the community investment system emerge that deserve attention.

In our interviews with the three PRO Neighborhoods Collaboratives we studied, practitioners pointed to engaging an expanded set of practitioners, describing a broader circle of influence than the immediate collaborations of which they were part. This circle included other community investors with different capacities. For instance, the SME Cluster Initiative expanded to include a national lender with specific capabilities on which they could draw to more effectively grow capital. The ReFresh Collaborative identified the potential contributions of credit agencies and trade associations, who fall outside of the immediate field of community investment. ReFresh identified these actors as potential contributors to the development of more cohesive and robust lending practices in the food access sector. And Adelante Phoenix! recognized a need, especially at a time of heightened political struggle and anxiety, to engage non-traditional community investment

[1] For more on our Capital Absorption work, please see https://iri.hks.harvard.edu/capital-absorption.

actors, such as community advocacy organizations, to extend credibility and build relational capacity in their community. More than one participant suggested the idea of a grant program that linked CDFIs in structured collaboration with an expanded set of actors. An expanded circle of engagement was seen as particularly valuable in developing new lines of work.

In our interviews, members of the PRO Neighborhoods Collaboratives reflected on the tensions inherent in working both within a broad community investment system and in a specific community with particular needs. For instance, one practitioner spoke about the relationship between national and local work, noting that engaging with peers generated insight into how to work effectively with local communities: "[PRO Neighborhoods] stimulated a lot of thought about how do you do this effectively without competing with local groups on the ground . . . It led us to rethink how we lend in a targeted way in communities." This tension between a desire for scale and regularity and the need for deep and idiosyncratic engagement to meet community needs is not a new topic in community investment. But it received a different kind of attention thanks to the PRO Neighborhoods Collaboratives.

The role of public policy in shaping community investment activity, another system-level topic, received notable attention in the interviews. ReFresh and the SME Collaborative were explicitly formed in the context of federal programs. The Healthy Foods Financing Initiative (HFFI), a 2010 program of the U.S. Department of Health and Human Services, was created to bring grocery stores and "healthy food retailers" to food deserts, and is the basis of the ReFresh Collaborative's work. And the SBA 7(a) program of the U.S. Small Business Administration is the starting point of the SME Cluster Initiative. The CDFI community has long-standing expertise in deploying multiple sources of public, private, and philanthropic capital effectively. The development of shared pipelines that could absorb capital leveraged by public and philanthropic programs is a response to deployment challenges in a field with complex transactions.

Finally, our interviews circled around the topic of effective philanthropic interventions to support community investment. Practitioners noted positively that PRO Neighborhoods was at a scale larger than the typical grants, allowing for significant and longer-term commitment to new practices. The relative flexibility of the grants enabled innovation and opened space for strategic engagement among partners. This same flexibility, it was noted, is in contrast to public sector sources of subsidy that often come with tighter restrictions on deployment. And, finally, one participant noted that the source of capital, a bank foundation, gave local credibility to lending programs. On the other hand, practitioners noted that the philanthropic focus on innovation can take institutions away from their core capabilities. In discussing the question of effective philanthropic intervention, CDFIs asked, "What is the appropriate balance between innovation, research and development, and supporting and deepening existing activities?"

PRO Neighborhoods, as a program, has the potential to make visible key features of the community investment system because it asks CDFIs to stretch their geographic and sectoral boundaries, and it requires institutions to adapt to new, structured collaborations. A valuable project for future research would be to track how these new networks and patterns of information exchange illuminate the broader community investment system.

Conclusion: PRO Neighborhoods and Capacity Development for CDFIs

This brief review of three projects in the first round of the PRO Neighborhoods program suggests some initial thoughts on how support for formal collaboration on particular projects may support CDFI capacity development in new areas of expertise:

1. **Internal** institutional change within the CDFI: Within institutions, flexible support to enter into new areas of lending, as provided by the PRO Neighborhoods grants, is tied to the ability to devote resources to strategic development and organizational learning. These are scarce resources for CDFIs, who tend to have a transactional focus by necessity. These resources can prove crucial for CDFIs both to expand their geographic and/or sectoral range, and to deepen engagement with the communities they serve through their lending.

2. **Collaboration** among CDFIs within projects: Across institutions, the value of time and space to devote to learning from peer institutions is a crucial element of organizational development. PRO Neighborhoods awards enabled CDFIs to share best practices, support collaborators with challenges, and closely observe each other's practice. The structured collaboration and regular exchange that came with project execution shed light on new practices and built relationships that endure beyond the grant cycle.

3. CDFIs and the broader **Community Investment System** in which they operate: The benefits of collaboration came not just from the interchange among and between CDFIs, but also through their engagement with the community investment system. The focus on innovation and collaboration led practitioners to engage a variety of actors in the broader ecosystem, including community advocacy groups, political and governmental bodies, trade associations, and collateral financial services. The challenges of engaging issues and actors in a necessarily transaction-focused environment is something that grant makers could explicitly incorporate into program design and adaptation.

Finally, it should be reiterated that this paper has focused on the collateral activities associated with the PRO Neighborhoods grantee projects addressed here. Each of these projects enabled partner CDFIs to expand their lending activity in chosen regions and sectors, with concrete outcomes linked to loans going to benefit underserved communities. We believe it is important to take into account not just the transactions in question, but the processes and capacities that were developed in design and execution, and, further, that the field of community investment can benefit from the observations and lessons that emerge as CDFIs collaboratively tackle innovative lending practices.

Bibliography

CDFI Fund, 2017a. CDFI Fund. [Online]
Available at: https://www.cdfifund.gov/programs-training/certification/cdfi/Pages/default.aspx
[Accessed 19 September 2017].

CDFI Fund, 2017b. CDFI Certification. [Online]
Available at: https://www.cdfifund.gov/Documents/CDFI_infographic_v08A.pdf
[Accessed 19 September 2017].

Hacke, R., Wood, D. & Urquilla, M., 2014. What Can Foundations Do to Foster Community Investment? 10 Roles for Philanthropy, s.l.: s.n.

Hacke, R., Wood, D. & Urquilla, M., 2015. Community Investment: Focusing on the System, s.l.: s.n.

Interagency Minority Depository Institutions National Conference, 2013. Strategies for Success Through Collaboration, s.l.: Interagency Minority Depository Institutions National Conference.

JPMorgan Chase & Co., n.d. PRO NEIGHBORHOODS: Innovative Strategies for Revitalizing Communities, s.l.: s.n.

Opportunity Finance Network, 2015. CDFI Collaborations: Keys to Success, s.l.: s.n.

von Hoffman, A. & Arck, M., 2016. PRO Neighborhoods Progress Report 2016, s.l.: Joint Center for Housing Studies of Harvard University.

von Hoffman, A. & Arck, M., 2017. PRO Neighborhoods Progress Report 2017, s.l.: Joint Center on Housing Studies of Harvard University.

Wood, D., Grace, K. & Hacke, R., 2012. The Capital Absorption Capacity of Places: A Research Agenda and Framework, s.l.: Inititiative for Responsible Investment.

JCHS JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY

INITIATIVE FOR RESPONSIBLE INVESTMENT

FIVE DECADES OF HOUSING RESEARCH

SINCE 1959