A New Era of Racial Equity in Community Development Finance

Leveraging Private and Philanthropic Commitments in the Post–George Floyd Period

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Executive Summary

The compounding crises of 2020—the COVID-19 pandemic and nationwide protests following George Floyd's murder—ushered in an unprecedented increase in financial support for efforts aimed at dismantling racial barriers and promoting racial equity. It should not have taken Floyd's murder to motivate this level of public, financial, and political attention. But this heinous act, and other violence against people of color, catalyzed a moment of reckoning and highlighted the deep and enduring racial inequities that manifest in communities across the US through residential segregation and stark patterns of community investment inequities caused by government policy, private action, and market activity. Almost 18 months and more than $200 billion in corporate and philanthropic commitments later, we asked ourselves: How can we ensure that this inflow of new investment leads to real, sustained economic opportunities for communities long denied them?

Our inquiry is motivated by three observations: (1) opportunity and equity for individuals and households are inextricably intertwined with the places where they live, work, and grow; (2) the private sector should use investments to drive meaningful progress toward creating communities of opportunity; and (3) beyond financial investment, the private sector, in partnership with the public sector, has a fundamental responsibility to build the pursuit of equity into business models to ensure the commitment to racial equity is sustained and not momentary. We focus on funds earmarked for community development aimed at closing racial and spatial gaps in capital flows to underserved households, neighborhoods, and businesses.

To understand the state of racial equity commitments made since 2020 primarily for community development finance, we mined available data and evidence and conducted key informant interviews with more than two dozen leaders in technology companies, large financial institutions, and national foundations, as well as investors and investees in community development finance. Our findings show that, between June 2020 and May 2021, the private and philanthropic sectors have made at least $215 billion in racial equity commitments, with likely more than half going to community development activities and investments. And this unprecedented level of funding for racial equity is being fulfilled either on time or ahead of schedule. But funders continue to face systemic challenges in aligning the scale and targeting of racial equity commitments to actual community development finance need. Moreover, it was unclear how long leaders in these sectors will sustain their commitments and support the types of changes those commitments may bring.

This is not just a short-term crisis. If economic opportunity is to be available more justly in this country, it requires long-term resolve to invest in turning communities of exclusion and disadvantage into communities of opportunity, with an emphasis on racial equity. Our brief shares solutions for overcoming challenges for deploying capital to that end. These solutions address (1)the types of capital and institutions most effective to close capital gaps in communities, (2) ways to strengthen and develop needed financing infrastructure, (3) the importance of ensuring community participation in capital deployment strategies, and (4) the need for greater public- and private-sector disclosure on the deployment and end use of the commitments.

The brief first reflects on gaps in economic opportunity for capital access and wealth accrual in disadvantaged communities and by race, explaining why it is essential to align community development finance and corporate and philanthropic commitments to community need if the country is to successfully unlock more equitable opportunity for all. Part 1 then examines racial equity commitments made between June 2020 and May 2021; the types of organizations and priorities targeted by these financial commitments; adherence to disbursement timelines; and changes in financial products, services, and grantmaking approaches. Part 2 looks at the uses of community development capital, the role of community development finance in supporting disinvested communities, challenges reported in capital deployment, and 11 potential solutions for addressing these challenges equitably. In part 3, "The Path Forward," we discuss how the federal government can more effectively mobilize the private sector and share four strategies for the corporate and philanthropic sectors, in turn. These steps include strategies to maximize current resources and sustain momentum—such as greater transparency and collaboration and embedding equity in investment decisions—and those that can support longer-term, systemic change that extends more flexible and patient financing, responding to the needs with an even bolder commitment, and embracing equity as a business imperative.

Background

In the US, racial inequities in housing, education, justice, health, and wealth are robustly documented and deeply rooted in historical, social, and structural forces, especially racism. These forces overlap with other factors, such as class, gender, gender orientation, disability status, and other individual characteristics, to produce and compound inequities. The murder of George Floyd helped sharpen the country's awareness of the entrenched injustice and inequity faced by Black, Latino, and Indigenous and

Native people. The rise in hate crimes against Asian Americans and Pacific Islanders during the COVID-19 pandemic also exposed inequities faced by that community (Ford et al, 2021).

For the purpose of our research, we used the definition of "equity" adopted in the President's Executive Order 13985:

> The term "equity" means the consistent and systematic fair, just, and impartial treatment of all individuals, including individuals who belong to underserved communities that have been denied such treatment, such as Black, Latino, Indigenous and Native American persons, Asian Americans and Pacific Islanders and other persons of color; members of religious minorities; lesbian, gay, bisexual, transgender, and queer (LGBTQ+) persons; persons with disabilities; persons who live in rural areas; and persons otherwise adversely affected by persistent poverty or inequality.

Wealth and access to capital determine a group's economic success and well-being across multiple measures, shaping racial patterns of inequity in homeownership, rent affordability, educational attainment, small business ownership, and the capacity for community development. Disparities in wealth and capital access are also tied to *place*, with rural and low- and moderate-income households and neighborhoods of color facing numerous disparities compared with more affluent areas. Racial disparities in wealth and capital access constrain economic opportunities for people of color and could be explicitly addressed by the community development finance sector with an intentional focus on racial equity.

The 2020 crises reaffirmed the persistence of barriers to racial progress and catalyzed new efforts to dismantle barriers and promote racial equity. Since 2020, the nation has seen an unprecedented increase in financial support for efforts to improve Black health and well-being, strengthen racial justice, reinforce the vital work of prominent Black institutions, and expand access to financial opportunity for Black people and other underserved populations. Our brief situates this period's rise in financial support within the context of the post-George Floyd continuum of inequities in wealth and access to capital.

Disparities by Race or Place Exist across All Economic Opportunities

In our economy, where many households and business sectors are thriving, it is no revelation that others—especially BIPOC[1] communities—are struggling. We recognize that place, race, and community are not interchangeable concepts. Yet, visible structural disadvantage by race in communities across the country is a result of the compounding effects of racism and racist policies that have constrained access to meaningful wealth-building opportunities for people who live, work, learn, run businesses, and raise families in them. These inequities in capital contribute to broader wealth disparities because capital serves as both an input to investment and a catalyst for new capital. Clear evidence of these disparities can be seen across asset classes and across places.[2]

The corporate and philanthropic sectors' commitments to **capital investment** through equity, lending, and grantmaking are crucial to wealth building for households and communities. And they can foster a virtuous cycle by attracting further capital and producing additional capital for further reinvestment. But capital investment varies by race and by place, with Black, Indigenous and Native American, Latino, and Asian households and other people of color, and the communities in which they tend to live, often receiving less investment than communities that are home to their white peers. Disinvestment has also been documented in rural areas and low-income and minority parts of cities.

Small businesses are a key path to wealth generation. Latinos represent 16 percent of the overall population, but they account for only 6 percent of all employer firms. An even sharper disparity is seen among Black people, who represent 12 percent of the population but make up only 2 percent of all firms.[3] In contrast, non-Latino white people represent 64 percent of the population but account for 89 percent of all firms. Asian people and immigrants are also well represented in business ownership. Not only are fewer small business owners Black or Latino, but when they do achieve business ownership, their operations are typically smaller (Theodos, González, and Park 2021). Black and Latino businesses have smaller payrolls, less sales volume on average, and fewer employees.

Venture capital and angel investing can be key sources of start-up capital. Yet research indicates that investment flows are increasingly directed to larger and more mature businesses at the expense of smaller start-ups in need of capital, and the gap between early- and late-stage investing has widened noticeably since 2017. In addition, venture capital is concentrated in the white- and male-dominated fields of technology and software. Meanwhile angel investing, which relies on the personal financial resources of accredited investors, has remained flat since 2018.

Housing wealth is also heavily skewed against communities of color. More than 50 years after the passage of the Fair Housing Act, households of color remain less likely to be homeowners than white households, with access to capital playing a key role in these disparities. Even today, applicants of color are more likely than white applicants to be denied a purchase mortgage, which limits access to homeownership for households of color and, in many cases, neighborhoods of color. At the same time, homeowners of color also experience fewer benefits of homeownership relative to renting, in part because of the lower value of the homes people of color own. Black and Latino homeowners are also less likely to refinance their mortgages and are therefore less able to lock in reduced payments, a shorter loan term, or access to housing equity (for additional investments in their home, their education, or even a small business start-up) compared with white homeowners.[4]

Households of color are also more likely to have inadequate **banking relationships,** and Black and Latino communities have less access to mainstream financial services institutions. For example, Black and Latino households are more likely not to have a bank account, a key channel connecting them with wealth-building financial products and services. Nonbank mortgage lenders have a large and growing share of the market serving low- and moderate-income and home loan borrowers of color, but well-priced and well-structured credit for small businesses is difficult to access outside the traditional banking system. Moreover, many households of color rely on alternative financial services for payments and short-term credit, even if they have savings or checking accounts. These alternative financial services, in general, tend to have high fees, are outside the traditional credit reporting system, and can place additional financial burdens on households of color while generating little long-term benefit.

These gaps underscore that while there are many immediate needs to be addressed, putting capital at the disposal of communities that have been disinvested and drained of wealth for generations is required if structural change is to occur, and place-based strategies provide an effective means to do so.

Relative to the Need, Corporate and Philanthropic Commitments to Community Development Financing Are Small and Subject to Shifting Priorities

The US operates in a low-tax and low-spend public-sector environment. Tax rates in the US are among the lowest of the nations in the Organisation for Economic Co-operation and Development (OECD). Compared with other OECD countries, the US has little personal or spatial redistribution of wealth and less public provision of goods (e.g., no bank accounts at the post office, constrained publicly funded health care, limited public prekindergarten, and little free higher education). This redistribution paradigm poses both challenges and opportunities for robust, long-term public-private partnerships supporting community development finance and racial equity (Jackson, Otrok, and Owyang 2019).

Apart from the recent pandemic relief legislation, the federal government has been playing a smaller role in direct support for state and local governments compared with the period before 1980.[5] For example, in real terms, funding for Community Development Block Grants, a key program financing community development, had been declining since 1979 (Theodos, Stacy, and Ho 2017).

To encourage the for-profit sector to invest in community development, the US government relies on incentives such as tax credits, but these are not enough to attract ample investments. Even large tax-based initiatives, such as Opportunity Zones, are not adequately targeted (Theodos 2021). Apart from tax incentives, the Community Reinvestment Act (CRA) coupled with the Home Mortgage Disclosure Act data transparency, carries some weight in encouraging corporate investment in community development. However, the former applies only to banks and affects their behavior modestly at best (CRS 2019; Goodman, Seidman and Zhu 2020), and the latter is limited to investment in housing.

Philanthropy provides a significant amount of funding to help fill redistribution gaps, and, as noted, there has been a marked increase in racial equity funding for community development in the post–George Floyd period. However, there are numerous competing philanthropic priorities and limited spend-down requirements, resulting in small and insufficient outlays for community development finance focused on racial equity compared with what is needed and what the federal government provides.

In the sections that follow, we look at the state of corporate and philanthropic commitments, examine community needs identified through research and expert interviews, and share recommendations for how to better align the funding sources with the identified needs. We call for more strategic alignment across the corporate, philanthropic, and public sectors in ways that could more effectively meet these needs.

1. Racial Equity Commitments and Community Development

The racial equity commitments made between June 2020 and May 2021 across the corporate and philanthropic sectors, by some rough counts, are estimated to have reached more than $215 billion, largely with plans to distribute the funds fully between 2023 and 2025.[6] It is important to recognize that these commitments, while substantial, represent a mix of some new funding and some repurposed or refined targeting, delivery, and execution of existing products and activities. Taken together, this concentration of grants, lending, expanded access to banking and credit, targeted procurement spending, growth capital, and impact investments—*all focused on racial equity*—could generate more positive outcomes for communities of color, if deployed effectively.

In our conversations with corporate and philanthropic leaders, it was clearly their sense that they are moving large portions of the committed resources either on schedule or ahead of schedule without much friction. Organizations with one-year commitments reported that they met their committed funding level within the year, while those with longer commitments (e.g., three or five years) reported being on track with either spending or earmarking the funds.

The types of organizations and interventions that were targeted with these resources were wide ranging and reflect a broad view of priorities to address racial inequities, including being immediately responsive to calls for justice in addressing police violence; addressing the glaring health inequities made explicit in the disproportionate suffering throughout the pandemic response and recovery; and addressing historic underinvestment in historically Black colleges and universities, Latino-serving institutions, historically Black medical schools, community colleges, and other training and skill-building programs.

Across the corporate and philanthropic sectors, there was increased investment in, and a strengthening of a racial equity orientation around, strategies that are typically within the realm of community development finance. This included attention toward expanding housing affordability and accessibility, support for minority depository institutions (MDIs) and community development financial institutions (CDFIs), and investments in businesses owned by people of color. This was especially the case among the financial institutions, which have long been a source of community development finance, but we also saw new and increased levels of community development–oriented funding from all types of corporations and foundations.

In the sections below, we highlight solutions that can strengthen the effectiveness of these new community development finance investments. By aligning strategies across corporations and across the corporate, philanthropic, and public sectors in ways that are responsive to what recipient institutions and communities need, we may be able to infuse much-needed capital into places where capital flows have been constrained, supporting both crucial direct service work and organizational capacity building to grow and sustain organizations leading this work. We may also be able to address resource gaps in areas such as health care access, broadband access, justice advocacy, and other organizational supports and services fundamental to community health and the multilevel work of racial equity.

The transformative potential of the racial equity commitments to community development finance may have a longer tail than the timelines associated with the deployment of the committed resources. Leaders we spoke to said that they see the headline-grabbing billions of dollars in commitments as only a start. Highlighting new or emerging markers of progress with investors' theories of change, every corporation and foundation leader we spoke with emphasized the importance of their internal equity work in recruitment, promotion, pay, board composition, and culture change to sustain and maximize the resonance and impact of their external efforts. The financial institutions highlighted changes to their products, services, and purchasing as a result of increased conversations around racial equity within the company. Foundations described shifts in their grantmaking approaches, such as increasing support for longtime partners who work in racial equity and racial justice and increasing their efforts to find new partners, particularly community-based organizations and action and advocacy groups led by people of color. As corporations and foundations continue to examine their own practices through a racial equity lens—"baking" equity into the business model and establishing new ways of doing things—the hope is that it will lead to continued innovations in loan products, underwriting, investment terms and structures, and relationships that will usher in a new era of community development finance.

2. Uses of Community Development Capital

Given the sizable and long-standing disparities in wealth by race and place, the scale of the need for community development finance is massive and persistent. The corporate and philanthropic sectors have made sizable new investments into the community development finance ecosystem, supporting various places, models, and types of projects or investees. Understanding the uses of these investments, particularly community development capital, is essential to addressing challenges in capital deployment and identifying new opportunities for honing distribution and addressing inequities in capital flows.

In practice, place is a pathway (or vehicle) for distributing targeted capital. Inequitable capital flows are both a cause and a result of disparities in opportunity and capital. Community development finance must therefore not only serve immediate pressing needs but patiently fund infrastructure and systems that will enable intermediaries to provide capital to underserved communities and enable those communities (and their businesses and households) to absorb such investments. In other words, a lack of demand for capital does not indicate a lack of need; it signals a lack of capacity to absorb the investments these communities have missed out on. This capacity must be built.

What is the role of community development finance in directing capital into disinvested communities? Our previous work has identified three important functions (Theodos, Fazili, and Seidman 2016), which we adapt below.

- **Market maker.** Sometimes a disinvested community has a need that no current product or service addresses. Community development lenders and investors design new products that can improve the economic well-being of people and places. For example, community development lenders stepped up early to finance charter schools and federally qualified health centers, opening the way for other lenders to participate in funding these sectors.

- **Market alternative.** Sometimes mainstream lenders do not or cannot meet the basic credit and investment needs of disinvested communities, particularly at a price residents or businesses can afford. Mainstream institutions may not have appropriate products, may not serve the area, or may face regulatory obstacles, or the community and the mainstream institutions may have a historic trust deficit. Community development lenders and investors can leverage their capacities and relationships to offer the products and services mainstream lenders have not been able to provide.
- **Market catalyst.** Sometimes mainstream lenders and investors are not sure how to deliver their products and services to a disinvested community or cannot find a cost-effective way to originate loans in particular places. They might turn to community development lenders and investors, tasking them with structuring complex deals that fit mainstream lenders' risk tolerances. In this way, community development lenders and investors help draw mainstream investors into new markets or attract a higher volume of financing into particular markets. Once the mainstream lender has grown more familiar with the market, it might even begin lending without the help of a community development lender or investor. This type of catalytic activity helped jump-start financing for affordable rental housing.

Challenges in Capital Deployment

The community development finance ecosystem is strong and multifaceted. Competent delivery mechanisms exist for several types of projects or uses and across many places. They include state-chartered housing finance agencies, development finance agencies and redevelopment authorities, community development corporations and affordable housing developers, revolving loan funds, state and local programs or efforts that make direct loans to or investments in communities, community development credit unions, CDFIs, community banks and MDIs, and philanthropies that make direct community investments.

Despite these delivery mechanisms and their increasing size and professionalism, the persistence of deep inequities in capital flows highlights the substantial need for greater progress in deploying capital to underfinanced communities. Though indispensable, community development finance providers are dwarfed by mainstream financial institutions. As of 2017, CDFI assets represented less than 1 percent of the $18.3 trillion combined total assets of Federal Deposit Insurance Corporation–insured banks and National Credit Union Administration–insured credit unions (Balboni and Travers 2017; Donovan 2017). In the housing finance market, state housing finance agencies originated just over $30 billion in single-family mortgages in 2019 (NCSHA 2021), a fraction of the $4 trillion in total single-family lending volume (Goodman et al. 2021). And in small business lending, depository institutions with less than $100 million in total assets accounted for only $8.5 billion of the $644.5 billion in total outstanding loan volume in 2019 (Brown and Williams 2020).

Beyond size, community development finance is not spread widely enough, nor is it adequately positioned to resolve cash-flow inequities nationally or in many geographies. Urban Institute research indicates that between 2011 and 2015, 27 percent of US counties saw no CDFI lending activity, and half of all counties saw annual CDFI lending activity that amounted to less than $7 for every person earning below 200 percent of the federal poverty level (Theodos and Hangen 2017).

Rural areas and small and even midsize cities are particularly underserved (Theodos and Hangen 2019). Many smaller cities lack infrastructure and broader support systems to absorb investments. The emerging community development ecosystems in these places often have few of the supporting actors, such as accountants, developers, and lawyers, needed to facilitate investment. Smaller cities are more likely to have limited government capacity to coordinate community development projects. In addition, investors often specialize in transaction types for which smaller cities may not provide sufficient volume. These limitations are reflected in both fewer investments and higher transactions costs. Further, because CRA evaluations are based on markets around bank branches, it is difficult to get large or even medium-size banks to make CRA-qualified loans in rural areas and small cities outside their immediate market area.

MDIs such as Black-owned banks also service people and communities in need (Neal and Walsh 2020). But there are very few Black-focused MDIs, and their average size is smaller than the typical depository institution. At the same time, they often lack the infrastructure to operate efficiently in all asset classes, which can result in fewer products and services offered and higher costs for the consumer. There are a few large MDIs, primarily owned and managed by Latino and Asian people, but many of the MDIs that serve these communities are also small.

Several federal efforts provide vital community development capital, but these efforts face considerable challenges. One key challenge is insufficient subsidy. Many programs meant to support households and communities that are not well served are required to be revenue neutral or even revenue positive for the federal government. The credit supports provided by the Small Business Administration, the CDFI Bond Guarantee Program, and the Federal Housing Administration facilitate lending, but they do not provide operational and loan-level subsidies often essential to meeting a community's needs.

Subsidies for consumer finance are provided in some areas but not others. For example, there are no federal supports or requirements for banking institutions to provide checking or savings accounts to people who are unbanked. The benefits of many other subsidies such as the mortgage interest deduction, 401(k) and individual retirement accounts, and 529 college savings plans flow disproportionately to middle- and upper-income households.

Other programs, while helpful, leave significant coverage gaps in community financing. For example, very few Low-Income Housing Tax Credit–assisted units are in two-to-four-unit buildings, which are historically less expensive than units in buildings with five or more units. The overall pace of production of new two-to-four-unit buildings remains depressed from its pre–Great Recession levels (Neal, Goodman, and Young 2020). In addition, only a small portion of Low-Income Housing Tax Credit funds is used to preserve naturally occurring affordable housing. Programs such as the New Markets Tax Credit can be pivotal for some community investment projects but pose the constraints of transaction costs and limited funding, meaning many underserved communities have not benefited from this assistance. The equity funding provided by the CDFI Fund to CDFIs is substantially oversubscribed. With the notable exception of recent pandemic economic relief provisions, older community development programs such as the Community Development Block Grant, the Economic Development Administration, and HOME Investments Partnership Program have not kept up with inflation. The structure of the newest effort, Opportunity Zones, is skewed against operating businesses, small and rural projects, and the types of mission-aligned projects that could deliver maximum community benefit.

Potential Solutions

Promising initiatives now being tried at a relatively small scale can light the way toward more impactful practices needed at multiple levels. For example, while some corporations have provided cash deposits to MDIs, financial institutions have prioritized equity capital, which better allows MDIs to expand their lending and revenue-generating capabilities. Several financial institutions also serve as mentors through the US Treasury's Mentor-Protégé program, pairing MDIs with larger banks to provide advising and technical assistance.

Through research and interviews, we identified 11 potential solutions for investors and other stakeholders to consider as they reimagine and shift institutions and structures toward more effectively delivering transformative capital to disinvested communities.

1. **Provide more equity and grants.** For a long time, we have relied on subsidized leverage or low-cost debt as the primary lever for community development finance. But direct operational and transaction-level subsidies—not just lending supports—are essential to achieve greater equity for places and people who have not had the opportunity to amass capital. To maximize impact, grants to support lending should come with incentives to significantly expand risk tolerance.
2. **Lending capital should be low cost and patient.** Although equity and grants are critical, incentives are also needed to encourage all investors to provide low-cost patient loan capital, preferably with a term of 10 or more years. Extra incentives that lower the cost of loan capital, reduce the risks to lenders, or both will be needed to get low-cost loan capital to places that—because of CRA's focus on markets around bank branch locations—do not receive significant community development capital from banks.
3. **Build, strengthen, and modernize institutional infrastructure.** Greater support, both financial and technical, is needed for both intermediaries and end recipients of loans and investments to enable them to develop and grow new ideas, skills, and technology. This is not a one-time need; in particular, constantly shifting technology poses a continuing need for financial and technical support. Many new, small developers, especially in rural areas and neighborhoods of color, need help to grow. Greater technological investment could help MDIs improve efficiencies and reduce costs, especially in back-office activities such as accounting. And the efficiency of the

sector could be greatly improved by advancing cooperative efforts and specialization among community development financers (e.g., wholesale and correspondent lending, loan servicing, marketing and funding platforms, administration, and sharing of expertise).

4. **Strengthen resources for disinvested communities and preservation activity without raising the risk of displacement.** Communities that have long suffered from disinvestment need dedicated funding. Significant sums are also needed to support inclusion and preservation efforts in places now receiving large investments, so that newly developing neighborhoods can preserve opportunity for those who have lived there for years. Funds are also needed to help communities get ahead of gentrification, such as by resolving tax liens, supporting renovation activity amid an aging housing stock (Neal, Choi, and Walsh 2020), supporting long-term ownership models, and putting land into land banks and community land trusts to make it available for affordable housing (rental and owned) and low-price commercial use.
5. **Build ownership.** New and emerging community shareholding and institutional equity-building models can help residents become owners of small-dollar commercial and multifamily real estate in their neighborhoods. They can help community-based organizations create revenue streams on the basis of real estate they own—revenue that can be accessed by the community or its residents (Theodos and Edmonds 2020; Theodos, Edmonds, and Tangherlini 2021). Building community equity that is controlled by community residents can advance the financial and political strength of those communities.
6. **Prioritize community voices.** Dramatically different incentives, funding, and structures are needed to facilitate and sustain the inclusion of community voices. Today many lenders and investors are not community based, while many communities do not have well-resourced organizational structures. Nevertheless, effective community development requires that we lift community voices and invest in community-trusted intermediaries to ensure communities determine their own needs.
7. **Maximize opportunities through the housing finance system's secondary markets.** The housing finance system's structure offers powerful levers to redirect capital flows. Fannie Mae and Freddie Mac can be tasked to better serve the parts of the market where they lag—small loans, manufactured housing, affordable housing preservation, and climate resiliency among them. It is also important that community-focused financial institutions can place their loans with these government-sponsored enterprises. A working secondary market for these loans can enable the lenders who make them, including CDFIs and MDIs, to serve the market without having to raise additional scarce equity capital.
8. **Create a new, vibrant secondary market for nonhousing, mission-based community development loans.** For small business and more general mission-based loans, a secondary market structure would unlock capacity and take loans off the balance sheets of lenders who often have no or limited access to equity capital. Development of any new secondary market requires both initial funding (subsidy) for staff, technology, and other start-up expenses, as well

as enough risk capital to enable it to operate for at least five years to build scale and prove default and pricing propositions.

9. **Create insurance vehicles that fill critical voids.** Many community development sectors are hampered by a lack of insurance at fair prices. Critical insurance voids include hazard risks for affordable rental housing, protection against hazy land titles more common in BIPOC communities, and gaps being exposed by climate risk. One or more sector-based mission-financed insurance companies, if appropriately capitalized, could help meet such needs.

10. **Invigorate and retarget consumer subsidies.** Direct-to-consumer subsidies, when paired with other investment vehicles, can unlock debt financing. This is especially the case for home loans (e.g., down payment assistance; Stegman and Loftin 2021) and small business loans (Theodos and González-Hermoso 2019).

11. **Improve mechanisms for accountability and transparency.** In completing their rewrite of the CRA regulations, bank regulators should consider how these regulations affect communities and people of color; low and moderate income are not a sufficient proxy. The regulators should also improve the quality, timeliness, and amount of data provided to the public about community development investments by CRA-covered institutions. Data being collected under the Home Mortgage Disclosure Act should be as fully disclosed as possible given legitimate privacy concerns. And it is essential that the Consumer Financial Protection Bureau complete a robust rulemaking pursuant to section 1071 of the Dodd-Frank Act, so that the public can understand how small business lenders are serving low-income communities and communities of color. The effectiveness of Opportunity Zones could be better understood with better reporting (Theodos and Meixell 2019). Similarly, improved corporate, environmental, social, and governance disclosures and reporting by philanthropies would enable us to better understand, in real time, how these investments serve communities.

3. The Path Forward

The corporate commitments we heard about are substantial. Yet the needs described—just within the community investment space—are vast. And although community investing is only one channel for advancing equity, it is critical to the national goal of bringing opportunity and long-term sustainable change to underserved people and places. Our research shows that a more strategic alignment of funding sources with community needs and more sustainable and scalable resources are essential to creating meaningful and lasting impact.

The kind of sustainable change needed will require cooperation, coordination, and commitment across private and public sectors and over time. A promising development in the federal government is a pronounced commitment to racial equity, as evidenced by the executive order to advance equity signed by the President.[7]

Under any administration, the federal government has an essential role to play in the community development finance space by fostering strategic cooperation; facilitating and filling gaps in the forms, prices, and terms of capital needed; and providing reliable, disaggregated data to identify equity gaps, guide continuous improvement, and hold all actors accountable through measuring impact. This is the place where private-sector data could be particularly powerful when merged with public-sector efforts.

By providing such scaffolding, the federal government can muster a greater and more successful response from private capital. In turn, private funding must respond and work creatively alongside government partners. Sustaining the private sector's sense of urgency and level of investment to racial equity commitments will be essential to advancing the collaborative public-private partnership model.

Our overarching recommendation is to maximize public-private partnerships and drive a continuing all-hands-on-deck commitment to racial equity driven by a sustained sense of urgency commensurate with the scale of existing and worsening racial and spatial disparities. Below, we share four strategies for how the corporate and philanthropic sectors can build on current momentum and commitments while forging a path ahead in this promising new era of racial reckoning and community development.

1. Maximize Existing Resources to Sustain Momentum

Funders have made and are delivering on sizable racial equity commitments, applying learnings to improve impact as they go. As we move past the initial deployment stage, however, more can be done—and can be done more systematically—to ensure greater effectiveness of funds being distributed. To begin with, stronger transparency of process and accountability can help funders and other stakeholders assess and demonstrate whether recent investments are performing as intended and reaching communities in need. Additionally, reviewing the composition of the current investee pool versus where gaps remain can help funders expand beyond well-worn pathways for investment. Similarly, boosting funding for community development capacity to absorb and more broadly distribute the new funding flows will allow more investees to develop the high-touch engagement, innovation, and risk tolerance required to serve the most underserved markets, rather than just pursuing larger transactions.

Success also requires baking racial equity into community financing systems, strategies, and processes. Systems change can help funders shift away from pre–George Floyd paradigms and find new ways to elevate and listen to community voices to better understand community assets and priorities and communities' desired strategies, structures, and implementers. Systems change can fundamentally transform investment models, driving a renewed focus on investing in recipient organizations and strengthening the infrastructure and ecosystem in which they operate. It can result in investment in vehicles more aligned with community-facing organizations.

Finally, to drive a shared vision of investment outcomes, funders must come together and coordinate efforts. In Detroit's post-bankruptcy Grand Bargain model, the Kresge Foundation, other private actors, and the federal government came together to support a shared vision. Collaborative efforts could be facilitated via the federal government's convening power or led by business trade groups or associations.

2. Extend More Flexible and More Patient Financing

Community development financing is a long-term, multiyear process. Under the most favorable circumstances, results can be felt in two years, but it is more likely to take at least five years to observe positive measurable outcomes. Funds that are flexible and sustained are crucial to community development finance. Meeting current needs is important, but systemic change will require a new paradigm of patience and more flexible capital. Greater flexibility and patience may require recalibrating accountability systems to enable them to guide course corrections and improvements that focus on long-term objectives and measurements.

3. Respond to the Big Need with an Even Bolder Commitment

Racial disparities in wealth, housing, health, and other social and economic measurements are severe, persistent, and, in some cases, growing wider. Urban Institute researchers estimate that fundamental and sustainable change in an underserved community will require between $500 million and $1 billion over 10 or more years.[8] This makes the needed investments comparable in scale to the Marshall Plan that provided US aid for economic redevelopment in Western Europe following World War II. Notably, our conversations with funders showed that they agreed with the need for expanded financial commitment. The projected costs of racial equity commitments for community development are difficult to ascertain, but evidence supports the assertion that the scale of need substantially exceeds current levels of community development financing, and the best outcomes can be realized only if the need is aligned with a bolder commitment.

4. Embrace Equity as a Business Imperative

The heightened financial commitments to equity in this new period of racial reckoning were motivated by crisis. But sustaining long-term change requires that the work of equity become engrained as a "business as usual" paradigm. Akin to how issues like climate change and cybersecurity are often viewed as cross-cutting business risks, failure to prioritize equity in the workforce and the marketplace can undermine the stability of a company and the broader conditions in which it operates. While we are far from the point where equity is centered into environmental, social, and governance strategies and business risk frameworks, the private sector could take the lead in centering a new equity-anchored business model. Alternatively, the drumbeat of shareholders' insistence on greater private accountability for equity could ultimately lead to new demand for imposed mechanisms of accountability such as equity audits.

To cement the collaborative commitment, private institutions could adopt institutional versions of the federal mandate for racial equity, introducing new policies and practices to enable them to be more effective partners. This approach to embedding racial equity into institutional policies and practices could lead to new levels of scaling through targeted investments. Highly visible private-sector mandates for racial equity, paired with investments, are also likely to align with the interests and demands of the companies' increasingly diverse—and increasingly young and equity-conscious—customer bases.

Centering equity is crucial for internal company advancements as well. In interviews, a central theme emerged about the important work being done internally—like transforming workplace culture, shifting power dynamics, and diversifying staff, especially leadership, and supplier composition—that can help drive external efforts to sustain the racial equity focus beyond the current crisis. Without a robust equity platform driving internal change, external commitments to equity will likely falter.

Conclusion

Households and communities of color, as well as residents of many rural communities, have contributed greatly to the economic strength of this country, but they have been denied equal access to the cornerstones of prosperity that foster opportunity: homeownership, entrepreneurship, and community-based assets. These racial and spatial gaps in opportunity are not new. But in the wake of 2020's racial protests, corporate and philanthropic America have signaled a new level of responsibility and a new sense of urgency for closing gaps.

The crises of 2020—the COVID-19 pandemic and George Floyd's murder—profoundly challenged the nation, highlighted our racial inequities, and disrupted American life. At the same time, emerging from those same crises were unprecedented public and private commitments to racial equity in general and community development in particular. At many levels, the public and private sectors rose to the occasion, signaling new possibilities for tackling the recalcitrant challenge of racial inequity. These efforts should not go unnoticed, nor should they cease. To the contrary, racial equity commitments since 2020 suggest the possibility of a new paradigm for addressing long-standing racial and spatial gaps in opportunity. This new wave of commitments offers a chance to reimagine how the private sector can and should invest in communities as a vehicle for greater racial equity in access to economic opportunity. A year and half into this "new era," we have tried to take stock and assess progress and potential. Although the data and transparency needed to make a clear assessment are limited, we offer this as a starting point for intensifying commitments and gathering more evidence and perspectives needed to ensure real, sustainable change.

Notes

1 This term refers to Black people, Indigenous people, and other people of color.

2 "Capital Flows," Urban Institute, accessed December 9, 2021, https://www.urban.org/policy-centers/metropolitan-housing-and-communities-policy-center/projects/capital-flows.

3 Brett Theodos and Jorge González-Hermoso, "How Can We Overcome Inequities in Who Owns Small Businesses?" *Urban Wire* (blog), Urban Institute, July 18, 2021, https://www.urban.org/urban-wire/how-can-we-overcome-inequities-who-owns-small-businesses.

4 Treh Manhertz, "Home Value Disparities between Races Are Shrinking, but Remain Very Wide," Zillow, December 19, 2020, https://www.zillow.com/research/home-values-by-race-2020-28478/.

5 Megan Randall, "Census of Governments Illustrates Declining Aid to Localities, Other Trends in State and Local Finance," *TaxVox* (blog), Urban-Brookings Tax Policy Center, April 21, 2020,

https://www.taxpolicycenter.org/taxvox/census-governments-illustrates-declining-aid-localities-other-trends-state-and-local-finance.

[6] The bulk of these funds—$200 billion—came from the private sector, with banks and financial institutions accounting for more than $40 billion. Philanthropic efforts totaled at least $12.6 billion in 2020.

Calculating the size and scale of racial equity commitments across corporations and philanthropy presents several challenges. The primary one is the lack of clear documentation. Data on the amount of giving will eventually be available through updated quarterly reports, annual reports, and nonprofit tax reporting, but those data are only partially available right now. A second challenge relates to the scale. Different reports rely on different numbers. For instance, a *Washington Post* report from August 2021 determined that America's 50 largest companies had committed $50 billion, while a McKinsey report, updated in May 2021, found that the country's largest 1,000 companies had committed $200 billion. These reports do not include philanthropic giving. The philanthropic giving research and data organization Candid found that corporations, philanthropy, and individuals gave at least $12.6 billion that was granted (spent) toward racial equity in 2020, and that $11.6 billion was committed (promised, but may or may not have been spent) toward racial equity. Based on McKinsey's report and Candid's data, we estimate that institutions across the private and philanthropic sectors raised and committed more than $215 billion to advance racial equity.

The different data sources, combined with limited visibility into specifics and potential double-counting, also present challenges in determining how much of the commitment has already been funded or spent and what remains unfunded or unspent. We do not have enough clear data to provide an estimate or even a range. But conversations with funders and a limited number of publicly available reports suggest that funders have either spent on pace with their time commitment (e.g., at least one-fifth of the total funds pledged in a five-year commitment were spent in the past year, or at least one-third of the funds pledged in a three-year commitment were spent in the past year) or spent in excess of that. Some philanthropies made one-year commitments and were able to spend all those funds within the past year.

[7] Advancing Racial Equity and Support for Underserved Communities through the Federal Government, 86 Fed. Reg. 7009 (January 25, 2021).

[8] See Theodos and colleagues (2020) and Brett Theodos, "The Assumptions behind Place-Based Programs Can Hinder Their Success," *Shelterforce*, May 18, 2021, https://shelterforce.org/2021/05/18/the-assumptions-behind-place-based-programs-can-hinder-their-success/.

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The Urban Institute is honored to produce this brief that we hope will advance our collective understanding of how to reverse the effects of centuries of systemic racism. We acknowledge, with gratitude, the many contributors to this brief, reflecting the all-hands-on-deck theme it raises, especially on such a short timeline. We appreciate the authors' determination to pool their deep and diverse expertise in service to the cross-cutting issues, as well as the valuable work of supporting researchers and staff: Justyce Watson, John Walsh, Claire Cusella, Lara Picanço, David Hinson, Janneke Ratcliffe, and Liza Getsinger. We are indebted to the expert pen and writing support from John Sankofa, whose partnership through the research process made this work possible. The entire team was humbled by the generosity of time and insight extended by the people and institutions interviewed for this project—from corporations, philanthropies, government, financial institutions, and organizations working to expand opportunity in all communities.

To learn more about the Urban Institute's commitment to knowledge building to inform and accelerate solutions to overcome the legacy of structural racism and close the profound equity gaps that persist today, see "What Would It Take to Overcome the Damaging Effects of Structural Racism and Ensure a More Equitable Future?" Urban Institute, https://next50.urban.org/question/structural-racism; and "Racial Equity Analytics Lab," Urban Institute, https://www.urban.org/racial-equity-analytics-lab.

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