

COMMUNITY ECONOMIC DEVELOPMENT ORGANIZATIONS AND THEIR ACTIVITIES

MONEY MEETS COMMUNITY

FRANK WOODRUFF | Executive Director National Alliance of Community Economic Development Associations

CHRIS WALKER | Research Consultant

This is part of the 2023 Money Meets Community Series — five briefs exploring the lines of business and financial resources of the field community economic development organizations in the United States. Authored and commissioned by the National Alliance of Community Economic Development Associations (NACEDA) as part of its Grounding Values in Research program, the Money Meets Community Series arrives in 2023 at a critical juncture for our country's low- and moderate-income people and places and the local organizations dedicated to serving them.

SUMMARY

This brief identifies the types of nonprofit organizations that make up the community economic development (CED) sector. These groups invest large amounts of government and philanthropic dollars into projects and programs to advance the well-being of low-income communities and the people who live there. Based on analysis of tax information and organizations' website descriptions, this brief finds that:

- Many different types of agencies pursue CED, ranging from social services agencies (the largest share of groups) to real estate developers, residential property managers, lenders, and planning and organizing groups.
- To respond to the diverse needs of the areas they serve, most CED groups pursue multiple activities simultaneously. For example, nearly half of groups that develop real estate – long a core CED activity – do not do so as a primary line of business. As another example, some 39 percent of developers do some kind of lending.
- No matter what type of activity CED groups carry out as their primary line of work, most provide social services to low-income people. Nearly 80 percent of all groups do so, and more than half of these engage in workforce development, the most popular service provided.

BACKGROUND

Since the early 1960s, community-based nonprofits throughout the United States have worked hard to advance the community and economic well-being of low-income areas. These areas, ranging from Indian reservations to dense urban neighborhoods, have long experienced entwined physical, economic, and human capital challenges. Overcoming these challenges is the

task community and economic development (CED) organizations and their supporters have set for themselves.

Over time, grassroots responses to local needs have called forth a varied set of organizations, able to develop or renovate housing, revive commercial areas, increase homeownership, provide social services, or undertake a myriad other types of CED programs and projects. They call themselves by a variety of labels that attest to this diversity: community development corporation, community housing development organization, community-based development organization, self-help housing development, community action agency, community development financial institution, and many others.

These grassroots groups are supported by a loose nationwide network of public-sector housing and community development agencies, private foundations, financial intermediaries and banks, technical assistance providers, and others. These supporters have a strong interest in knowing about the groups that make up the CED sector and their activities, their support, and their impacts. The volume and effectiveness of resource flows to communities in need depends very much on the ability of front-line organizations to deploy capital and other resources effectively.¹

But much of what we used to know about CED organizations is outdated. For example, the last survey of the groups doing this work was completed in 2005, and much has changed in the intervening 18 years. This NACEDA research brief is the first in a series that will explore special topics in the CED sector. This brief examines the types of groups that form the sector. Upcoming briefs will examine the funding that flows into these groups, their geographic distribution, their overall financial health, and how financial health is influenced by the types of groups they are or where they work.

¹ Some policymakers and practitioners have come to call this "capital absorption capacity."

RESEARCH QUESTIONS

Each brief in the series will take on a few specific research questions. We begin with purely descriptive ones:

- **Which kinds of nonprofit agencies make up the community economic development sector?**
- **What kinds of activities do CED groups carry out?**
- **Do different kinds of agencies carry out different types of activities?**

Answers to these questions draw on analysis of financial data from annual tax returns received by the IRS, coupled with a scan of groups' websites, to record the kinds of activities they carry out.² These data pertain to a set of some 5,700 organizations culled from lists of CED program participants and advocacy organization members.

RESULTS

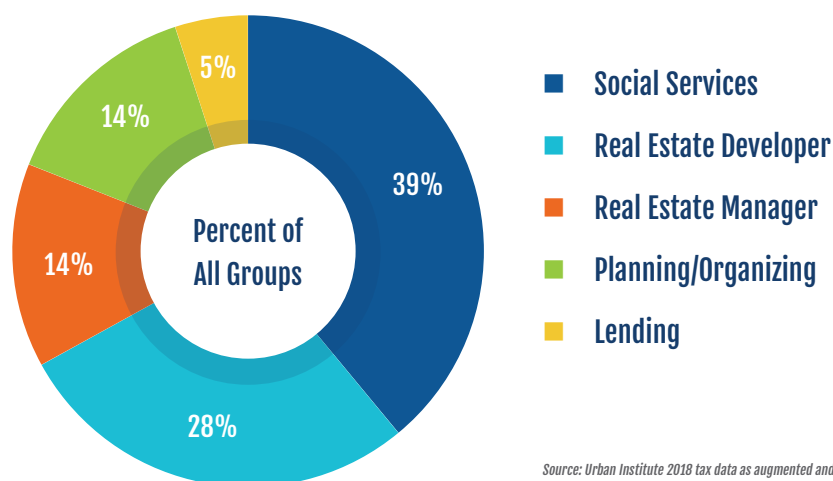
FINDING 1:

Most CED groups either develop or manage real estate.

Figure 1 shows a diverse CED sector, which consists of five different types of groups. The largest share of groups can best be described as social services agencies, of which at least a third are community action agencies. Other groups primarily develop real estate, manage properties, lend to real estate developers or homebuyers, or do some other kind of activity, especially planning and organizing.

Regardless of their diversity, most agencies in the CED sector have some connection to real estate. Indeed, many CED practitioners and their supporters have long viewed community-based developers as the mainstay of the sector. But our research finds that only about 28 percent of all groups nation-wide primarily carry out some kind of real estate development. **(FIGURE 1)** Other groups carry out development, to be sure, but not as their main line of business.³

FIGURE 1 Composition of CED Sector by Agency Type



Source: Urban Institute 2018 tax data as augmented and analyzed by NACEDA; Weighted N = 4,206

² The Urban Institute database can be found at <https://datacatalog.urban.org/dataset/community-based-development-organization-sector-and-financial-datasets>. The Methodological Note at the end of this brief describes NACEDA's supplemental survey of group websites to record their activities.

³ Technically, these are groups that have carried out development in the past; current activities are not always clear from their websites. That said, it is highly likely that most groups continue their work into the present.

FINDING 2:

Some three-quarters of CED agencies pursue multiple lines of business.

Regardless of groups' primary activity, most CED agencies carry out multiple lines of business. Fully 74 percent of groups pursue more than one of five types of activity: real estate development, property management, lending, social services, or planning and organizing. (FIGURE 2) Real estate developers and lenders carry out more activities, on average, than other groups; planning and organizing groups carry out fewer.

FIGURE 2 Number of Business Lines by Agency Type

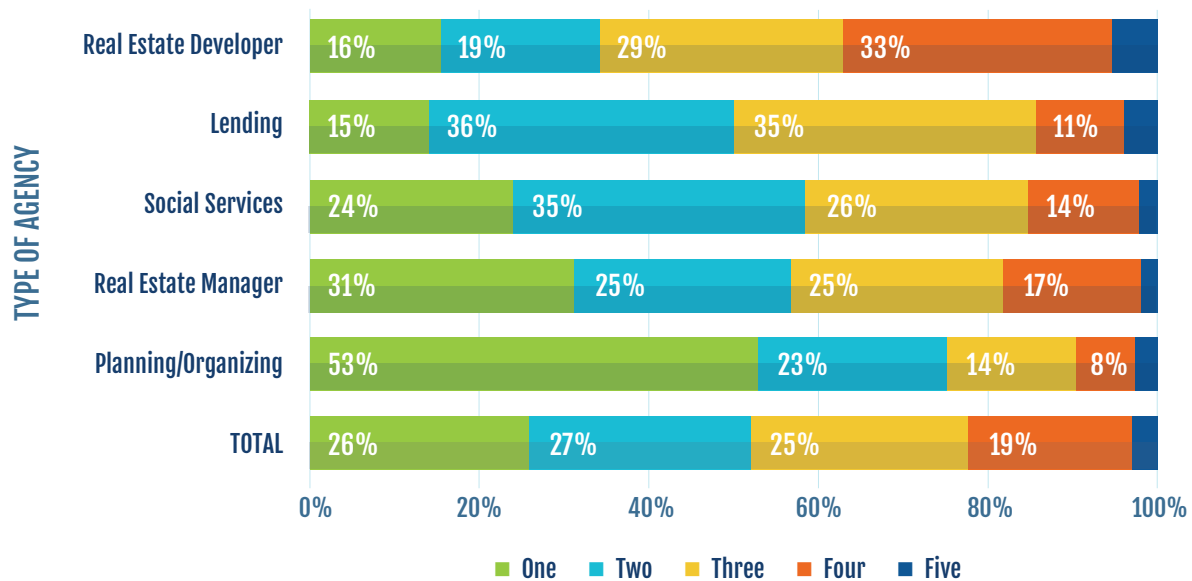
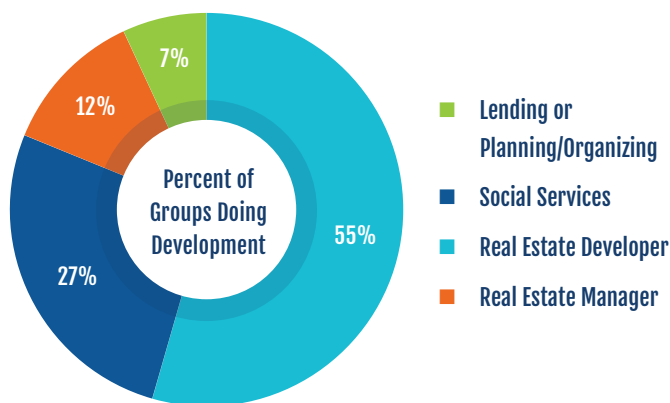


FIGURE 3 Types of Agency Doing Real Estate Development



Source: Urban Institute 2018 tax data as augmented and analyzed by NACEDA; Weighted N = 3,840

FINDING 3:

Over 40 percent of groups that do real estate development do not do so as their primary line of business.

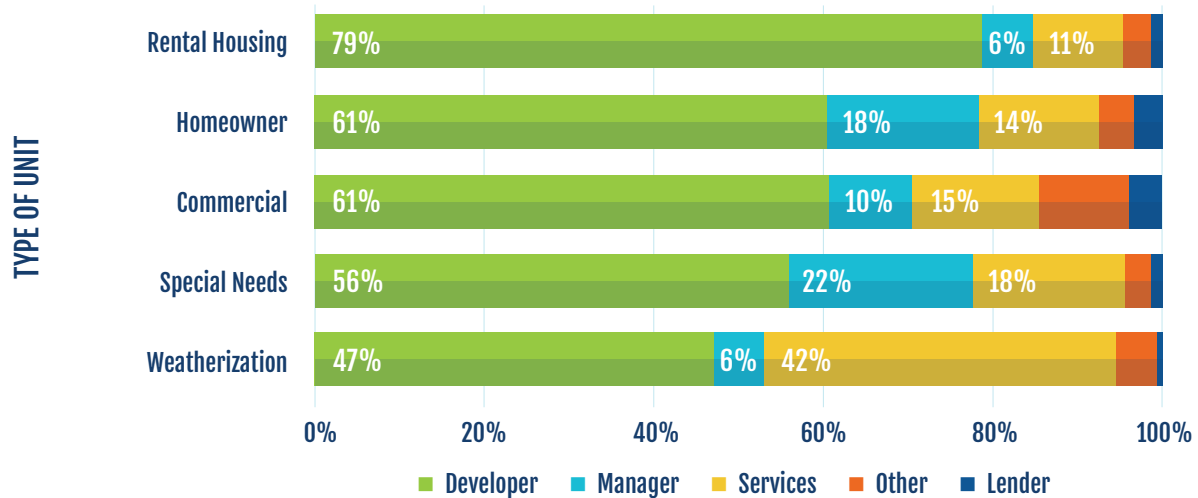
Whereas 60 percent of CED agencies do some kind of real estate development, just over half of these do so as a primary line of business. Of the remainder, 12 percent are primarily property managers, 27 percent are primarily social services providers, and 6 percent are primarily lenders or planning and organizing groups. (FIGURE 3)

FINDING 4:

Different types of groups tend to do different types of housing.

The type of sponsoring agency matters in terms of the types of development that gets done. Some 79 percent of the groups that are involved in rental housing are primarily real estate developers and not property managers or social services providers. (FIGURE 4) This is less true of owner-occupied housing, and even less true of weatherization. About a third of groups that are involved in owner-occupied housing are management or social services agencies, as are 42 percent of groups that do weatherization or home repair.

FIGURE 4 Percent of Groups Developing Each Unit Type by Agency Type



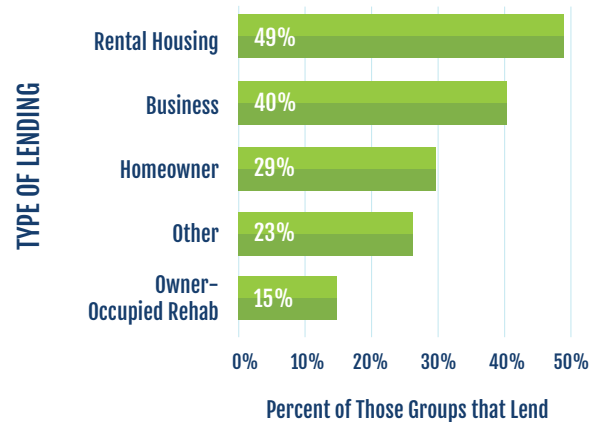
Source: Urban Institute 2018 tax data as augmented and analyzed by NACEDA; Weighted N = 3,840

FINDING 5:

It is not uncommon for developers and other types of agencies to act as lenders.

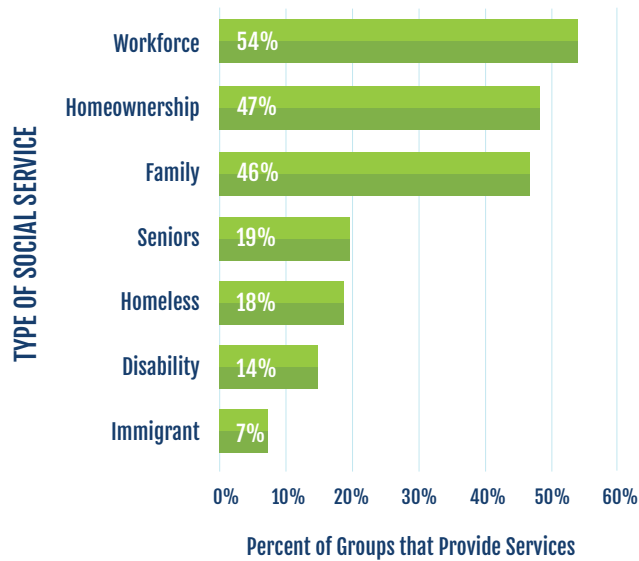
Many CED groups make loans for real estate development, home purchase, emergency repairs, or other purposes.⁴ Some 39 percent of real estate developers make loans, as do anywhere from 10-16 percent of other types of groups. The types of lending groups do are shown on (FIGURE 5) Groups most commonly make loans for rental housing (49 percent) with small business lending a close second (at 40 percent).

FIGURE 5 Types of Lending Done by CED Groups



Source: Urban Institute 2018 tax data as augmented and analyzed by NACEDA; Weighted N of Lenders = 945

⁴ Our construction of lists of CED cohort members did not seek out lenders specifically, as would have been the case had we included the Treasury Department’s list of CDFI-certified lenders. That said, we did not exclude some 200 agencies that primarily are lenders, but which were otherwise State association members or other recipients of loans from national groups included in our solicitation of organization lists.

FIGURE 6 Types of Social Services Done by CED Groups

Source: Urban Institute 2018 tax data as augmented and analyzed by NACEDA; Weighted N of Lenders = 3,042

FINDING 6:

Social services provision, most commonly workforce development, is widespread across CED groups.

Finally, one of the most striking findings from this survey pertains to the widespread provision of social services by all kinds of agencies. Some 77 percent of all CED groups provide social services, ranging from 100 percent of social services agencies to 45 percent of planning and organizing agencies. (Not shown on table.) **FIGURE 6** shows the types of social services provided by groups that offer them. Workforce development, including training, career prep and other services, is the most common

type of service offered: some 54 percent of groups that provide services do workforce development. Nearly half of service-providing groups offer homeowner or family services. Fewer offer services to special-needs groups such as seniors, homeless and disabled people, and immigrants.

That said, the kind of agency a CED group is has some bearing on the kind of services they provide. Of those groups that provide services, developers are the most likely to offer homeownership services, property managers are the most likely to offer senior and disability services, property managers and social services agencies are most likely to offer homeless services, and social services agencies are the most likely to offer general family services and workforce development. In fact, at least 40 percent of any type of group engage in workforce development.

CONCLUSION AND POLICY IMPLICATION

One of the CED sector's exceptional strengths is its ability to shape business lines in response to the diverse needs and assets of low-income communities. Groups have long pointed to the value their diverse programming adds relative to for-profit developers, a claim recognized by many foundations and public agencies.⁵ It is also true that any entity (and sector) with diverse business

“ To be effective, supporters of the CED sector must devise financial and technical assistance arrangements that provide custom-fit support to a wide variety of groups and business models.

lines will face internal management challenges that single-purpose entities do not. The CED sector must prioritize financial and technical assistance arrangements that explicitly account for the needs of different types of organizations and combinations of business models.

These findings reported above should not surprise anyone with a more than passing familiarity with the CED sector. Groups have long been known to be diverse in their activities, although actual numbers on this have been hard to come by. Upcoming publications in this series will show how the national flow of funds, geographic coverage, and financial health of CED groups vary by type of organization and by the types of activities they undertake.

This variation arises because different activities require different kinds of financial, technical, and human resources. And different types of CED groups access these resources in different ways and from different sources. Therefore, the CED sector must put in place or reinforce financial and technical assistance arrangements that explicitly take into account what different types of organizations need, for which kinds of activities, and at which times.

But because organizing tailored support for widely-dispersed and heterogeneous groups is difficult for governments to do, it is important to strengthen and diversify the intermediaries that can do this effectively.

Over time, local, regional and national intermediaries have emerged to package loans, grants, and technical support in precisely this customized way. And intermediaries too are diverse: some emphasize the allocation of capital; others make grants to support operations; still others emphasize policy development and advocacy. These must be strengthened so they can extend their work into new areas and to groups that have been left out of the mainstream of CED support.

This tailored support is even more important given the nation's new emphasis on reducing social and racial disparities in pursuit of equity. Because CED groups have a direct connection to low-income people where they live, these community-based agencies are a good way for governmental and philanthropic actors in many policy fields – public health, human services, climate change – to reach into poor urban and rural places.

⁵ See, for example, the many efforts to place grassroots CED groups at the heart of comprehensive community change initiatives.

APPENDIX NOTE ON RESEARCH METHOD

To construct a roster of organizations for this research, NACEDA compiled lists of CED groups. The lists consist primarily of CED groups that are members of state associations that advocate for community and economic development. The lists also include CED groups that have received community development funding from prominent national community development intermediaries or the Federal government.⁶ The Urban Institute, under contract to NACEDA, combined these lists and removed duplicates.⁷

Some 80 percent of groups appeared on multiple sources, giving us a great deal of confidence that our method produced a combined list of groups that fairly represent the CED sector's most active members. The Urban Institute merged this list with financial information on each group, drawn from the IRS Form 990s, which are the tax returns filed by most nonprofit organizations. This information consists of detailed breakdowns of groups' revenues, expenditures, assets, and liabilities. (Note that this information is not as detailed as that contained on audited financial statements.)

As we considered ways to further analyze the data, our advisory group of industry practitioners made clear that financial characteristics of

groups – and therefore the indicators of their financial health – are influenced by their business lines – the types of activities they undertake. But the lists used to construct the CED cohort contained very little information on the organizations themselves beyond name, location, and contact information. The IRS files contain detailed financial information, but not much information on groups' activities.

To find out more about these groups, NACEDA paid graduate students to review websites for a large sample of groups and record their activities. Coders also recorded groups' *primary* activities, enabling us to segment our analysis of the CED sector according to *agency types* (developers, managers, lenders, planning and organizing agencies, and social services agencies).

The original cohort includes 5,702 groups. The new segmentation file contains data on 2,225 groups – roughly a 50 percent sample of the 4,206 groups with websites. (The figures in this brief, therefore, are weighted to represent all 4,206 groups, excepting those where information is missing or not applicable.) Because groups without websites tend to be very small, this analysis necessarily ignores the least active groups in the sector.

⁶ As noted above, the research team did not make special efforts to include lenders, such as certified Community Development Financial Institutions, but if these types of groups were found on the lists we assembled, they were not excluded from analysis.

⁷ A very detailed description of our list construction method appears in the Urban Institute's Technical Appendix to their study of financial characteristics of these groups. <https://www.urban.org/research/publication/financial-health-community-based-development-organizations>



© NATIONAL ALLIANCE OF COMMUNITY ECONOMIC DEVELOPMENT ASSOCIATIONS

1660 L Street, NW, Suite 306 | Washington, DC 20036 | United States | 202-518-2660