Transforming Persistent Poverty in America:
How Community Development Financial Institutions Drive Economic Opportunity

DISCUSSION DRAFT

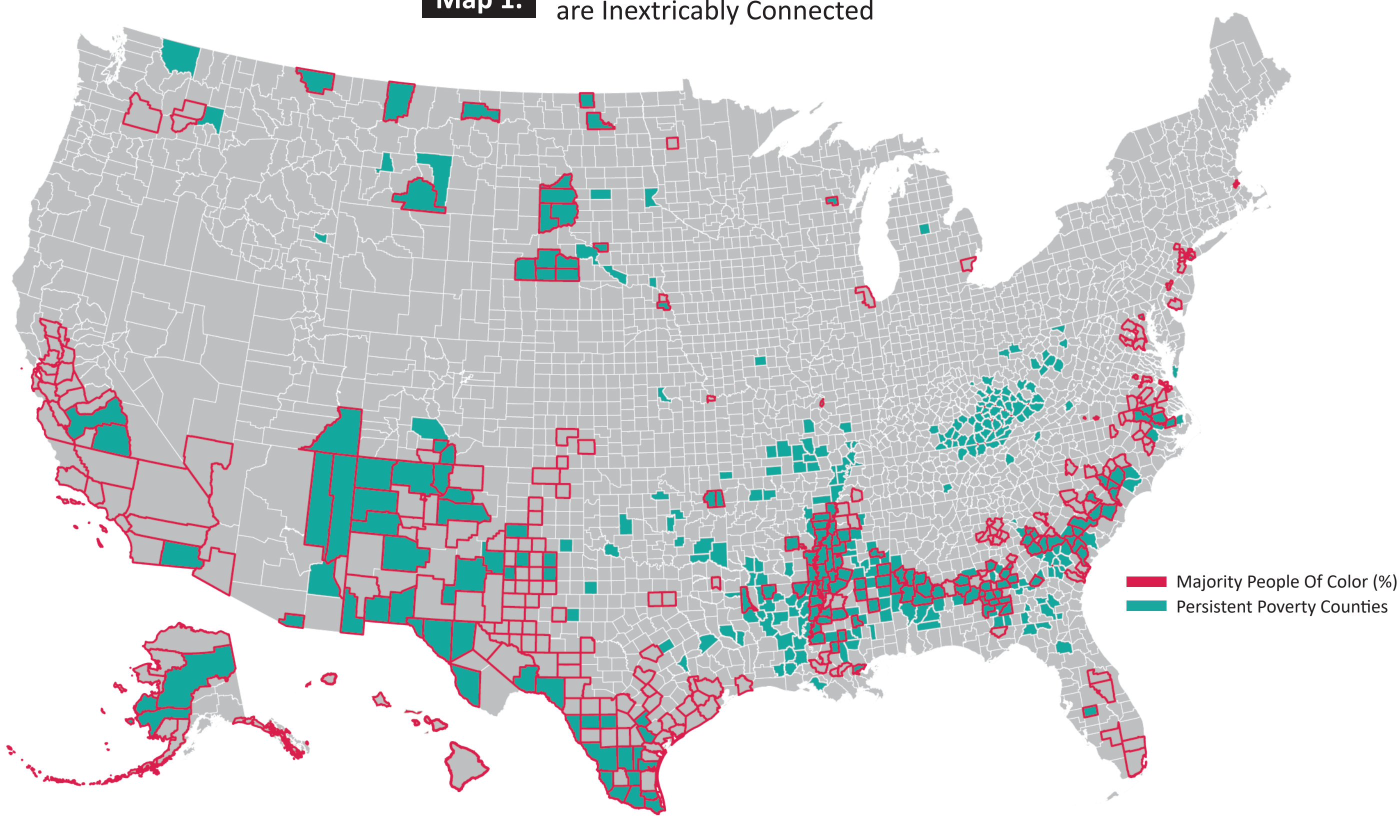
Background

Guided by a vision of a nation where persistent poverty no longer exists, six Community Development Financial Institutions (CDFIs) located in and serving regions with a high prevalence of persistent poverty came together to author a discussion draft of a forthcoming paper for the solication of feedback by key partners gathered for the Reclaiming Appalachia Rural Conference. Together, the CDFIs, Community Development Corporation of Brownsville, Communities Unlimited, Fahe, First Nations Oweesta Corporation, Hope Credit Union and Hope Enterprise Corporation, and Rural Community Assistance Corporation, represent three quarters of the nation's persistent poverty counties and have records of accomplishment spanning multiple decades. With a shared ethos of investing in both people and place and informed by the voices of local people, the organizations seek to unify around opportunities in diverse communities at a time of great division in our nation. This discussion draft was made possible with support from the Robert Wood Johnson Foundation.

Structural Exclusion by Place and Race in Persistent Poverty America

Perhaps nowhere else in the United States is the structural exclusion by place and race more self–evident than in persistent poverty America. Of the 395 persistent poverty counties, 8 out of 10 persistent poverty counties are non-metro – home to nearly seven million people. Additionally, every rural majority black and Native American county is also persistently poor (Map 1).

Map 1. Race, Ethnicity and Persistent Poverty are Inextricably Connected



SOURCE: US Census Bureau American Community Survey. US Treasury CDFI Fund Hope Policy Institute Analysis

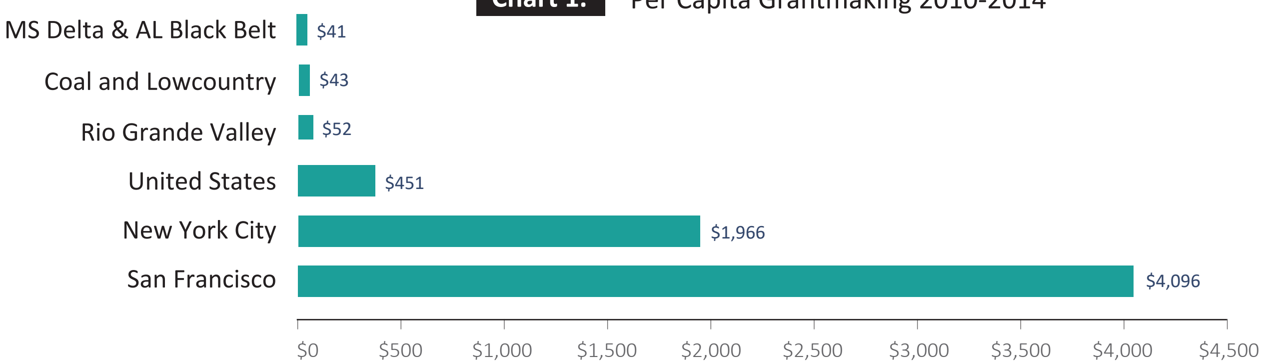
Notably, regions of deep persistent poverty were created by design – formed by policy choices that facilitated the acquisition of wealth through slavery in the Mississippi Delta and Black Belt, the taking of land and life from Native and Latino people and the extraction of natural resources from Appalachia. Today, the consequence of history manifests itself in other forms of distress and structural exclusion – high unemployment, a lack of access to banking services, a paucity of quality affordable housing and safe drinking water – all of which contribute to higher rates of premature death and lower health outcomes.

Philanthropic and Bank Investment Lag in Persistent Poverty Areas

In places of great need, financial capital serves as a critical intervention. Small business loan programs create jobs to address unemployment and poverty. Affordable housing programs offer opportunities for individuals and families to build assets through home purchase. When available, capital increases access to financial services that establish credit pathways and savings. Infrastructure development provides clean drinking water. Collectively, these strategies create wealth that stays in communities and address critical social determinants of health in persistent poverty places.

Despite the well documented benefits of capital investment, particularly when deployed by CDFIs, regions with large concentrations of persistent poverty lag large urban areas in philanthropic investment (Chart 1).

Chart 1. Per Capita Grantmaking 2010-2014*



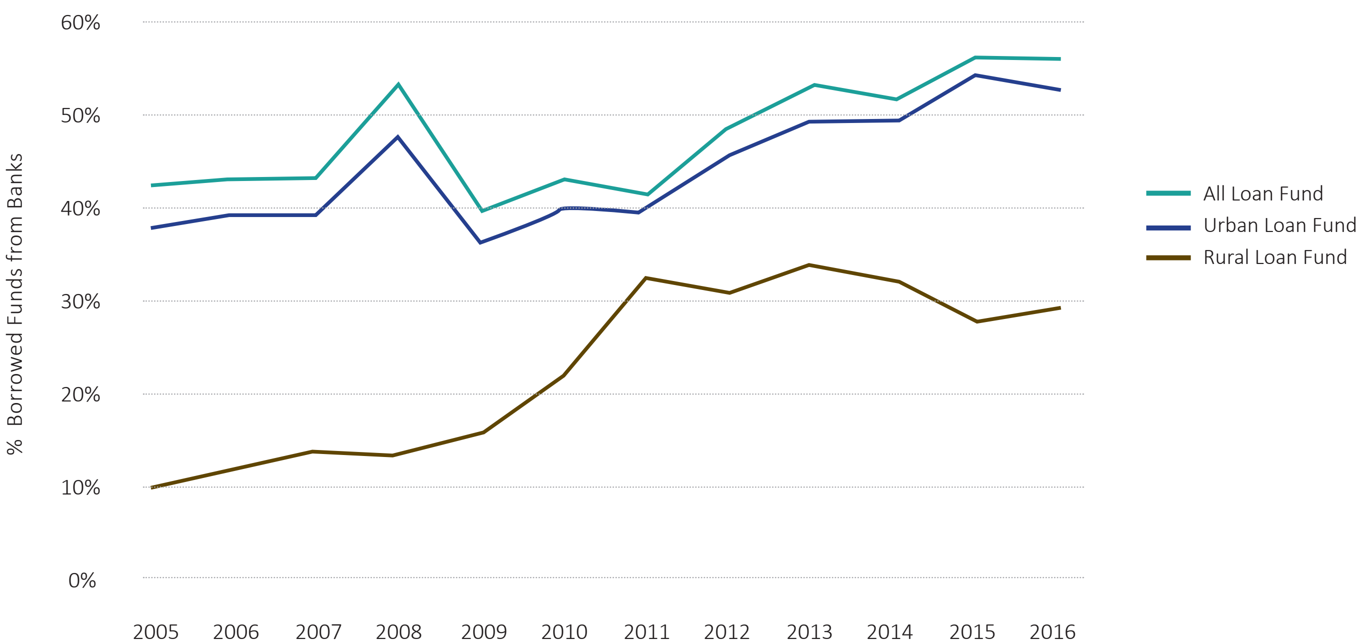
SOURCE: National Committee for Responsive Philanthropy and Grantmakers for Southern Progress. As the South Grows. 2016 – 2017.
*Analysis for Native Communities was not available in this format

Hope Credit Union members open an account in Moorhead, Mississippi.

In Indian Country, giving trends fare no better. According to the First Nations Development Institute, over the eight year period spanning 2006 to 2014, total grants made by foundations to Native American organizations dropped 29%, resulting in a loss of $35 million.

Underinvestment in rural persistent poverty regions, however, is not limited to philanthropy. Historically, particularly in large cities, banks have been the primary source of capital to support the growth of CDFIs and the subsequent strategies implemented to address unemployment, gaps in affordable housing, access to financial services and community infrastructure development. Due to structural deficiencies in the Community Reinvestment Act (CRA) tying CRA investments to bank branch locations, bank investment in rural CDFIs trails investment in CDFIs serving urban areas. In 2017, for example, only 27 cents of every dollar borrowed by rural CDFIS was from a bank in contrast to over half of borrowed funds from urban CDFIs (Chart 2).

Chart 2. Percentage of Borrowed Funds From Banks: Opportunity Finance Network Member Loan Funds, 2005-2017



SOURCE: Bank Investment Falls Short in Rural Areas. Opportunity Finance Network. February 2019.

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CDFIs are Uniquely Positioned to Address Challenge of Persistent Poverty

For decades, CDFIs in some of the most economically distressed regions of the country have been successfully meeting the needs of local communities and people to address the challenges associated with persistent poverty. From the development of entrepreneurs to the expansion of quality affordable housing; from increased access to financial services to more readily accessible, drinking water, CDFIs leverage the power of finance to import capital into communities and regions that otherwise suffer from disinvestment, build human capacity to strengthen local economies and facilitate the assumption of agency and power in local people to determine a desired destiny.

Through RCAC intrastructure development, rural communities in the West now have access to safe drinking water.

Call to Action

Given the challenges facing persistent poverty areas and the clear funding gaps fostered by banks and philanthropy, deep, meaningful investments made with a sense of urgency are needed to create opportunity for both people and place. To this end, we propose the following recommendations to further create conditions that advance social and economic opportunity in the nation's most distressed communities.

Increase and prioritize federal investment in persistent poverty places

Establish floors for federal discretionary spending of at least 10% in persistent poverty areas

One option to establish a floor on discretionary spending could include the designation of 10% of all designated federal discretionary dollars for specified community development programs to be directed towards counties and census tracts where at least 20% of the population has been living in poverty for 30 years in a row. Groundwork for support of such a plan has been laid by adoption of such standards in US Treasury CDFI Fund and Agriculture appropriations over the last few years. By setting a floor for discretionary spending, the plan ensures that communities most in need will be not be left out of the appropriations process.

Expand Bank Lending and Community Development Investment in Persistent Poverty Communities

Modernize CRA to create requirements and incentives for banks to invest in persistent poverty areas

Many large banks with the most resources to reinvest do not have branches in rural persistent poverty areas and therefore do not have a requirement to advance community reinvestment in those areas, even as lending and deposit capture activity still occurs. To address the mismatch, CRA investment requirements should be increased and the definition of CRA assessment areas should be expanded to include rural persistent poverty places where banks lend and take deposits from consumers.

Create incentives for bank investment into CDFIs

Bank investment has been a critical driver of CDFI success, though less so in rural areas. To expand economic opportunity in persistent poverty areas, CRA incentives should be created to make equity and debt available for CDFIs located in and with long track records of serving rural persistent poverty regions.

National community development intermediaries should increase investment in the capacity of CDFIs in persistent poverty communities to deepen their impact and build a leadership pipeline

National intermediaries should explicitly expand their commitment and deepen financial and human capital investments to deepen the impact of CDFIs and community development organizations located in regions of persistent poverty. Those with a long history of investment in local organizations, such as NeighborWorks, Opportunity Finance Network, Enterprise and LISC, should lead the way particularly in the development of a diverse leadership pipeline by race and gender reflective and inclusive of local populations.

Create a $1 billion Persistent Opportunity Fund

Philanthropic investment in native communities and regions with high concentrations of persistent poverty remains woefully shy of the levels of investment nationally and in our country's city centers. To begin to remedy the inequity in funding and scale investment to commensurate with need, philanthropic organizations should collectively commit to and create a $1 billion Persistent Opportunity Fund to provide a mix of equity, debt and operating support to CDFIs located and working in persistent poverty regions and have a long track records of success serving people, businesses and communities in those regions.

Increase support for a persistent poverty research agenda

Deepen CRA assessment area understanding for rural persistent poverty areas

Several years ago, the Federal Reserve Bank of Atlanta created a mapping tool to illustrate the network of branches for the twenty largest banks in the Southeast region. The tool provides a visual of the geographies where banks would likely be motivated to make investments associated with CRA. Notably, gaps in branch coverage existed in rural and low-income markets. A similar analysis covering the various regions of the country would provide a comprehensive overview of the CRA assessment area gaps in persistent poverty areas nationwide – bolstering the case for the expansion of assessment areas and incentives to invest.

Measurement of the Capital Gap

One of the primary tools that CDFIs have to address the racial wealth gap and inequitable access to financing at the community level includes increased access to capital. Unfortunately, when it comes to quantifying the supply and demand for capital, particularly at smaller units of geography, the data do not exist. This part of the research plan would flesh out the size of the gaps and lift up solutions for closing gaps.

Development of housing quality indicators

Anecdotally, the housing stock for owners and renters in rural communities is poor. Yet, beyond Census data that measure access to plumbing and the presence or absence of a complete kitchen, data to measure housing quality are limited. The redevelopment of the housing stock is critical to the revitalization of rural economies and a key component of the work of many CDFIs. This project would aim to create a measure to gauge the housing quality issues in persistent poverty rural America.

Impact measurement

CDFIs engage in a number of activities to expand both access to financial capital and the development of human capital. This research agenda item would aim to identify both quantitative and qualitative methods to measure the impact of the work of CDFIs through finance, technical assistance and leadership development and the building of power among local people to engage in the work of changing the systems that perpetuate conditions of persistent poverty.

Oweesta sponsored Financial Coaching Training in Boulder, Colorado

Fahe Member Kentucky River Foothills Development Council, Inc. (KRFDC) celebrates the groundbreaking of their 100th home with homeowner Shay Powell.

Communities Unlimited supports intrastructure projects like this line extention in the field.

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