

**transform
finance**



GRASSROOTS COMMUNITY ENGAGED INVESTMENT

**Redistributing power over investment processes
as the key to fostering equitable outcomes**

EXECUTIVE SUMMARY

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ABOUT TRANSFORM FINANCE

Transform Finance is a non-profit organization that works to ensure that capital aligns with the three Transformative Finance Principles:

- 1) it meaningfully engages communities in the design and governance of investment processes;
- 2) it adds more value than it extracts; and
- 3) it fairly balances risk and return between investors and non-investors.

We provide investors with insights on how their activities affect non-investor stakeholders, advocate for more transformative practices, develop values-aligned fund and investment models, and convene a community of practice with the Transform Finance Investor Network. We support social justice actors and grassroots leaders through education that breaks down the financial landscape and inspires actions to reclaim it, hands-on learning journeys to develop strategies and organize around capital, and tailored support for investment projects that center the voices and priorities of community residents and grassroots organizations.

Together with both investors and social justice leaders, we advance financial innovations and movement building strategies that explicitly redress the issues with capital for BIPOC communities, working class people, and other oppressed communities.

www.transformfinance.org



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Introduction

The availability and use of investment capital is a main factor in driving disparate levels of well-being across communities. Black, Indigenous, and People of Color (BIPOC) communities in particular have long suffered from under-investment, leading to disparities in wealth, jobs, education, and health, as compared to white communities.

Over the past several decades, capital providers concerned with the well-being of communities, especially mission-aligned investors and community developers, have sought to fill gaps in capital. While these efforts have made gains in addressing affordable housing stock, business capital access, and crumbling infrastructure, these disparities still persist.

A core strategy has been gaining ground as a way to strengthen community development and mission-aligned investment: providing communities opportunities for meaningful input, decision-making, and/or ownership over the deployment of that capital.

Such an approach addresses the interests of mission-aligned investors and developers in three distinct ways. Practically, investments that engage communities are more likely to succeed. On a values basis, better aligning investments with the goals of communities can advance funders' and investors' commitments to social justice and equity. From a goals perspective, the process of community engagement can be an outcome in and of itself, through the process of building skills, relationships, and capacity among grassroots participants.

We call this practice Grassroots Community Engaged Investment. The projects adopting it represent a wide range of investment: grassroots efforts to develop investment funds that serve businesses in their communities, multi-stakeholder initiatives where funders and financial intermediaries cede power to community governing boards, grassroots-initiated real estate projects that take speculative investors head-on with community-owned alternatives. While these projects are innovating and pushing the boundary of investment, they build on a long history of movements to democratize the economy, foster cooperation and solidarity, and call for the autonomy of the most impact communities.

In a context where funders and investors are looking for new ways to advance racial equity and serve communities most impact by crises like the COVID-19 pandemic, this report charts a path for the entire field of community development to build power in BIPOC and working class communities through the sharing of power within investment processes.

The Practice Of Grassroots Community Engaged Investment

DEFINING GRASSROOTS COMMUNITY ENGAGED INVESTMENT

Grassroots Community Engaged Investment (GCEI) is the process and practice of investing with meaningful input, decision-making power, and/or ownership from grassroots stakeholders.

Grassroots stakeholders in the context of GCEI can be the residents of the community being served, grassroots organizations, businesses, or other non-investors with significantly deep ties to the communities the project serves. Grassroots organizations refers to community-based organizations that center the struggles of the communities being served, such as tenants' rights organizations, racial justice organizations, or associations for workers. We refer to grassroots stakeholders and grassroots organizations throughout the report.

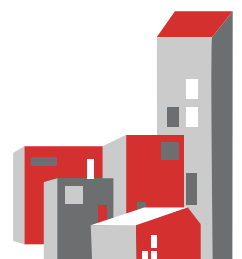
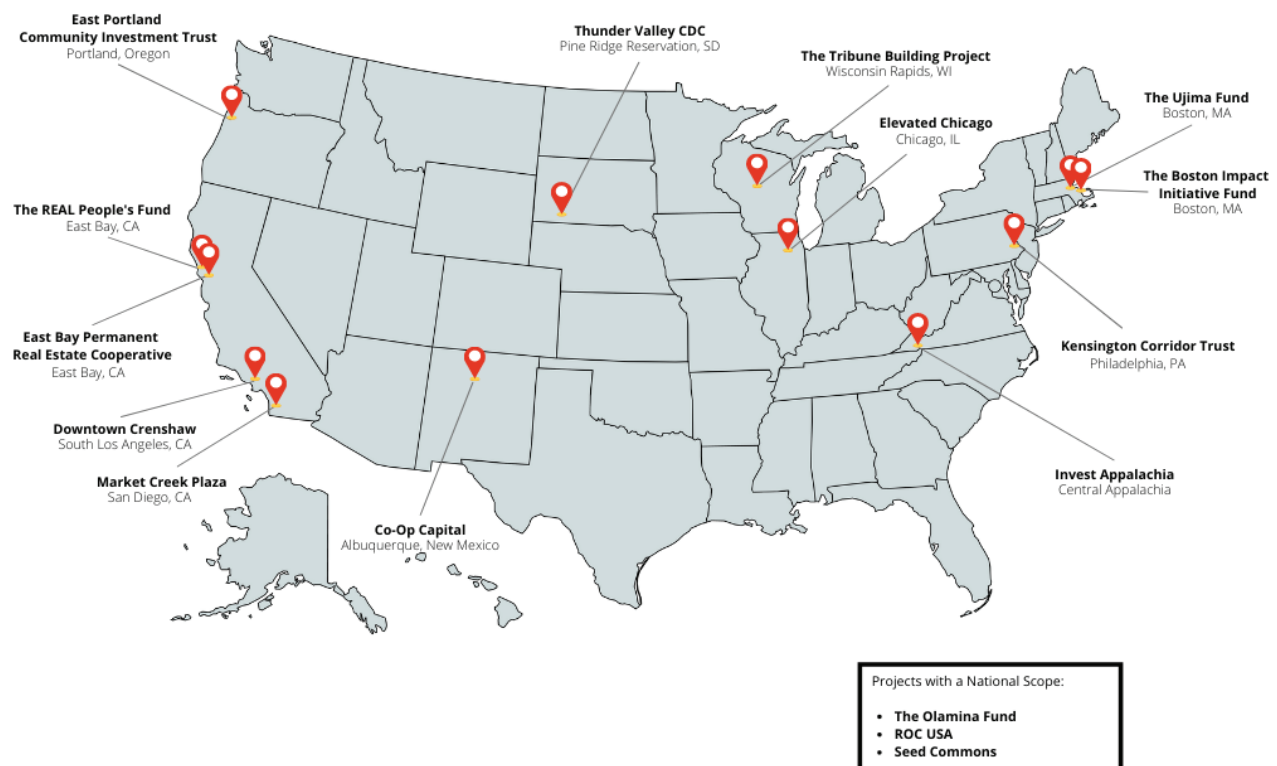
GCEI projects are community development projects and investment vehicles that implement GCEI. They include enterprise investment funds, housing developers, commercial real estate projects, intermediary funds, and multi-purpose investment vehicles. What sets these projects apart from traditional community development and mission-aligned investment projects is that they involve grassroots stakeholders in the design and governance of that investment. In that way, GCEI is not a field; it is rather a set of practices and processes that can be overlaid to any and all investments in communities.



GCEI PROJECTS HIGHLIGHTED IN THIS REPORT

Dozens of projects across the country exhibit meaningful elements of a GCEI approach. This report details 16 of those projects as the basis of our analysis. Projects were chosen to represent a broad scope in terms of goals, vision, geography, sector, and scale. Below, a map represents the different projects studied.

MAP: GCEI PROJECTS HIGHLIGHTED IN THIS REPORT



Out of these sixteen projects, the report features in-depth case studies of the following projects, demonstrating the range of projects that GCEI is applicable to:

East Portland Community Investment Trust, an initiative launched by Mercy Corps Northwest, the CDFI arm of an international NGO. East Portland CIT purchased a commercial lot to establish affordable real estate investment opportunities for low-income individuals, emerging from a two-year research effort to identify the needs of the surrounding community.

Elevated Chicago, a multi-organization collaboration that seeks to implement equitable transit-oriented development projects and programs with authentic resident engagement that build community power and ownership. Community governance happens through community tables made up of a wide mix of grassroots and grassstops organizations, which determine project priorities and presents selected investment opportunities to the Steering Committee.

Invest Appalachia, a multi-stakeholder-led investment fund that seeks to strengthen ecosystems, support market development, and reduce capital inequities in Appalachia. Grassroots stakeholders were among the many actors who designed the fund, through a series of regional convenings.

Market Creek Plaza, a partly resident-owned commercial and cultural center in San Diego that has incorporated the values and needs of residents of the low-income Diamond Neighborhoods. The project was initiated by the Jacobs Family Foundation as a way to build wealth in the community and provide opportunities for residents to have a say in their neighborhood's development.

The REAL People's Fund (RPF), a \$10 million fund that invests in BIPOC-owned businesses in the East Bay of California. With community-based and BIPOC-focused leadership, RPF is incorporating the expertise and perspective needed to maximize the empowerment of marginalized communities. Six local grassroots organizations designed most aspects of the fund, including the decisions to bring on core partners for loan underwriting and business assistance, and now govern it.

Resident Owned Communities USA (ROC USA), a combination of a robust network of nonprofits and a CDFI, focuses on converting manufactured home parks to resident ownership to prevent property value from leaving the community. A conversion starts with a vote by current residents, who subsequently control lot fees and allocate surplus toward improvements, rather than accruing to an outside investor.

Thunder Valley CDC, a Community Development Corporation initiated and run by the Oglala Lakota Tribe on the Pine Ridge Reservation in South Dakota that seeks to construct a regenerative, sustainable community on a 34-acre property that supports businesses, single-family housing, and community spaces.

The Ujima Fund, created by the Boston Ujima Project, aims to empower and finance Boston's BIPOC entrepreneurs, where there is a severe racial wealth gap. The fund serves as a locus for broader organizing and popular education and seeks to demonstrate a vision of a community-controlled economy. It pools investments from institutional investors, Boston residents, and others, allocating risk in novel ways to safeguard community members. The Community Standards Committee is responsible for setting investment priorities; voting on investments is done on a one-person, one-vote model by current and displaced working-class residents of the neighborhoods served; grassroots partner organizations; community business owners; and their employees.



Goals and Features of GCEI Projects

GOALS

Two central themes run throughout GCEI project goals: wealth building and power building.

Wealth building is already a common goal of traditional community development projects such as enterprise, housing, and real estate investments. These goals traditionally seek to support wages and employment by building business ecosystems, filling capital needs for entrepreneurs (particularly entrepreneurs of color), and helping lower costs for commercial and residential tenants. This wealth building logic is present in GCEI projects – after all, **GCEI is a layer of community input and governance that can be applied to community development and mission-driven investment.** They use community engagement and governance to ensure that the capital is going to the best use of the community, and therefore will have a greater economic impact. Some GCEI projects have a unique additional feature of allowing community members to invest into the project and benefit from its economic value.

Power building is fundamentally different from wealth building, although some of the same practices can lead to both. GCEI projects achieve power building by using the process of investment as an arena for grassroots stakeholders to advance their long term agendas. Doing so goes beyond just the wealth gained for the workers of a business, tenants of a building, or the increased economic activity that may come from a development project. It looks like bringing in existing social justice movements into conversations around capital where they were previously excluded, forging productive connections between grassroots and institutional stakeholders, building community knowledge around local finance and economic development ecosystems, and funding projects that are supported by and reciprocally support existing movements in the community.

Building wealth is necessary, but not sufficient, for creating transformative change. GCEI projects typically center this power building, using investment projects as a locus for lifting up grassroots organizing efforts. They also compete in the market with extractive investors and transform the practices of institutional partners like funders, investors, and financial intermediaries so that they are in deeper alignment with community goals in the long run.

VOICE AND VOTE

The most important element of GCEI – what separates these projects from other community development efforts – is the Voice and Vote given to grassroots stakeholders in the investment process. Having a “Voice” means that grassroots voices shape or change the ultimate outcome of the project. Having a “Vote” means that the community itself has decision-making power over at least some aspects of the project. Voice and Vote matter most because they help ensure that a project truly aligns with community wishes and incorporates their knowledge, and because they are a precursor to the creation of real power in the community. In particular, engaging grassroots stakeholders in these processes is necessary to build long-term power, and the deeper the engagement the more impactful and transformative the change.

Voice and Vote are expressed in the design phase of a project – that is, deciding what the project will look like and how it will meet community goals – and in the projects’ ongoing governance. Across the GCEI projects featured, there is a wide range of structures that capture this Voice and Vote:

Method of Voice and Vote: The deepest form of capturing grassroots Voice and Vote are those that engage either 1) a wide group of residents and other grassroots stakeholders through community assemblies or working groups, or 2) a small group of trusted grassroots organizations. The latter is seen most clearly with the Boston Ujima Project’s method of convening 600+ members and wider community members to input on key fund concepts and structures. Some projects develop simpler governance boards, where grassroots organizations participate alongside institutional stakeholders like financial intermediaries who may be involved in the project. Whether this participation is majority or minority grassroots representation matters in capturing grassroots Voice and Vote.

Scope of Decisions: Across projects, we see many different decisions that are actually being made by grassroots stakeholders. Some weigh in on everything, including business investment standards and financial products being deployed, and others just on specific decisions, such as approving individual investments or deciding which a which location an investor should do a development. The most important decision that grassroots stakeholders can have is deciding the goal and structure of a project, such as determining the percentage of grassroots stakeholders on the project’s board, and ensuring accountability for institutional partners, such as the ability to replace a fund administrator if they do not adhere to the community’s goals.

Grassroots Representation: Not all grassroots stakeholders represent the goals and needs of the community. While it is impossible to say that any group of individuals or organizations can speak for an entire community, projects that engage residents and community-based grassroots organizations – like local tenants’ rights, racial justice, place-based environmental justice, and business support organizations – are typically closer to the priorities of communities than “grasstops” NGOs that are more traditionally a part of the community development conversation. Sometimes, the scope of a project requires larger organizations with bigger scales to be involved, but projects should seek to include grassroots stakeholders closest to the ground.

ECONOMIC PARTICIPATION

Investment in general, let alone one that benefits the local economy, is not attainable by many BIPOC and working class communities. Several GCEI projects address this exclusion by providing investable opportunities for individuals the project is serving, which we call economic participation.

Why implement economic participation? The decision ties back to the two main goals of wealth building and power building. Some projects, particularly Market Creek Plaza and East Portland Community Investment Trust, explicitly offer high dividends to community members as a method of wealth building for these investors. Other projects seek to foster connection and engagement between residents and the project, as an additional layer to Voice and Vote. This may foster accountability over the project, by virtue of actual voting rights that attach to the investment. But even when economic participation does not come with explicit voting rights, it adds accountability by signaling local interest and by increasing the cost – reputational or otherwise – of making decisions that are not aligned with community priorities.

FINANCING NEEDS OF GCEI PROJECTS

GCEI projects need different kinds of capital than traditional development projects to make happen. In particular, they need “integrated capital,” that is, flexible investment instruments matched with grant capital to pay for the time and labor it takes to develop new projects.

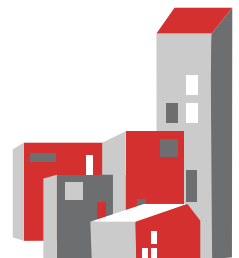
In terms of grants, GCEI projects have needs for funders to cover operating costs, technical assistance for education and training for grassroots leaders, and legal and licensing fees. Furthermore, projects that are deeply embedded with broader organizing movements use grant capital for “movement building,” where leading grassroots organizations pursue political goals alongside grassroots partners that serve the broader needs of the community. Grant capital in the form of interest subsidies, guarantees, or loan loss reserve buckets can also catalyze additional investment into a project from less risk-tolerant investors.

In terms of investment capital, GCEI projects need patient capital because the increased focus on the investment process typically leads to slower capital deployment. This results in a great need for equity or equity-like capital. They also typically require investments that at lower ticket sizes than traditional community development investments but are above what can be covered by grants – a “missing middle.” Broadly, the model of GCEI is at odds with traditional notions of risk for investors and requires a reframing – the buy-in from grassroots stakeholders can actually be seen as a de-risking element for an investor, as it ensures that there is a consumer base and support networks for the project.

Key Takeaways

- > **GCEI is an evolving practice that provides a more equitable model for community development and mission-aligned investment.** It is capable of addressing many needs and goals in communities, including racial equity.
- > **GCEI is a layer of process that can be implemented across a variety of investment structures and project types.** GCEI is seen in business, real estate, and housing investments, with goals that range from democratizing an entire local economy to developing the infrastructure to direct capital towards underfunded lenders.
- > **GCEI represents a paradigm shift from focusing just on wealth building and the outputs of investment, to power building and the processes of investment.** The engagement of grassroots stakeholders has added benefits to support broader organizing movements through the process of investment.
- > **The projects that succeed at building the most power are those that have strong community organizing attached to them.** While broad and deep organizing is key, so is the presence of some leadership tied to the community that is committed to get the project off the ground.
- > **There is a key role for funders to play in initiating and supporting early-stage GCEI projects, even though they don't necessarily have the broad relationships and trust with communities.** Funders have key experience and expertise to offer. To maintain community control, early input from communities can shape the project, and accountability measures can ensure that institutional partners don't push their goals onto communities.
- > **GCEI Projects require a complex balance of grassroots voice and vote, but also outside expertise, particularly in designing and managing legal and financial elements of the projects.** Even the most successful grassroots-led projects have a form of financial expertise, whether through outsourcing underwriting roles, investment committees, or in multi-stakeholder governance that includes grassroots voices and financial professionals.
- > **There is a tradeoff between complexity of a governance structure and the speed and ease of investments being made.** Compromises have to be made to ensure that community needs are met, there is a fair balance of power, and that investment partners can actually get capital out the door.

- > **On the investment side, GCEI projects have a multitude of capital needs, and investors need to take a needs-first approach to determine how they can support.** That means using grants when that's what communities need, rather than forcing investments or PRIs, and vice versa. It also means that sometimes, projects are actually better off without a given investment if the terms don't match.
- > **GCEI should be seen as a de-risking factor for investors.** Community engagement and accountability creates buy-in, and communities will be more likely to shop at businesses, frequent physical spaces, and build support projects.
- > **More GCEI projects are interested in replication than scale.** In particular, the investment funds we explore in this report are generally not equipped to take on large stores of capital; on the other hand, several projects are working with other communities to replicate and build off of projects. Funders play a role in sharing these experiences.
- > **There is good reason to suggest that engagement of grassroots stakeholders leads to unique and powerful outcomes for communities compared to traditional development methods.** Community engagement fosters increased civic engagement, strengthens relationships between grassroots organizations and powerful institutions, helps transform those institutions, and unlocks new sources of capital for movement work.



Recommendations

FOR FUNDERS AND INVESTORS INITIATING A GCEI PROJECT

- > Engage communities as soon as possible, especially before the project starts. Let communities determine and/or amend the goal of the project.
- > Let your knowledge and experience be a resource for grassroots stakeholders that you bring to the table, not the guiding force.
- > When designing the actual fund structure and partnerships, offer to broker outside expertise for the community but leave it to them to decide terms and actual engagement.
- > Let aligned financial partners take on back-end financing roles, and bake in accountability for those external partners in the fund governance.
- > Support education and technical assistance for grassroots stakeholders so that they can work successfully with outside institutions.
- > If you are the anchor funder for a project, make sure you have long-term resources committed but avoid over-reliance on you as sole funder.

FOR FUNDERS AND INVESTORS SUPPORTING EXISTING GCEI PROJECTS

- > Support and invest in projects initiated, designed by, and governed by grassroots stakeholders.
- > Help projects deepen their grassroots governance over time.
- > Look for projects that have strong elements of GCEI in every bucket of community development that you are funding or invested in.
- > Help your existing portfolio adopt more GCEI practices.
- > Make GCEI a precondition for support.
- > Recognize local capacity among communities to do this work and value what they have to bring to the table.
- > Commit to providing continuing operating support for project governance, time, and labor.

FOR FUNDERS SEEKING TO BUILD INFRASTRUCTURE FOR GCEI

- > Support technical assistance providers that provide critical insights for grassroots stakeholders, funders, and intermediaries involved in GCEI projects.
- > Fund research into legal structures and models that can be developed and adapted for GCEI projects.
- > Fund replicability studies and programs that work with communities to develop capital vehicles.
- > Support research to strengthen the evidence that outcomes from GCEI projects are superior to investments without community engagement.

FOR POTENTIAL INVESTORS SEEKING TO INVEST INTO GCEI PROJECTS

- > Take a less advantaged financial position that enables others to invest, especially in projects that take investments from community members.
- > Where possible, provide the capital that is hardest to obtain and that is most likely to unlock and catalyze other sources of capital, such as early design and development funding.
- > Be open to lowering minimum transaction sizes, as capital for smaller projects is scarce.
- > Help grassroots stakeholders understand their ability to absorb capital through a capital absorption review.
- > Provide capital on terms compatible with uses, including the duration of an investment, the type of capital, and the terms the project needs.
- > Act as an anchor investor to attract and de-risk capital from others.



Conclusion

The orientation towards the role of investors and funders in driving social justice is shifting. This overdue shift has been accelerated by the COVID-19 crisis and 2020 uprisings for racial justice, which have led to conversations among progressive institutions – and more importantly, among frontline activists, BIPOC communities, and others most affected by economic crises – about the need to center the voices of people harmed by systems when seeking to change those systems.

Grassroots Community Engaged Investment projects are embodying this idea in a field that has historically excluded community voice and agency: finance.

By necessity, Grassroots Community Engaged Investment projects are experimenting and building new models. Many are also of recent vintage and are only now beginning to bear fruit. The next phase will be critical to their success and growth. This is a prime moment for all stakeholders not to sit on the sidelines but join into these pioneering efforts and give them the attention and support they deserve.

By doing so, mission-driven funders and investors in particular can fulfill their potential as true allies in social justice movements, as drivers of racial equity, and as supporters of a fundamentally different economy that works for communities.

While the ultimate outcomes of these projects will manifest in the years to come, all early indicators point to the power of Grassroots Community Engaged Investments to create equity and agency in communities and to change for the better what it means to invest with, and not just for, communities.

The open questions and the gaps that remain in the field should be seen as an exciting challenge, rather than a daunting one: now is the moment for funders and investors to contribute to the writing of a new chapter in community wealth and power building. We hope this report helps all stakeholders take some meaningful steps in this direction.

To read the full report, Grassroots Community Engaged Investment, please visit <http://transformfinance.org/capital-and-equitable-communities>

The logo for transform finance, featuring the words "transform" and "finance" in white lowercase letters on a red rectangular background. The background is tilted slightly to the right.

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