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With CDFIs, Philanthropists Can Offer Direct Relief to Small Business Owners

By Joan Allmaras, Philanthropic Services Specialist

The [COVID-19 pandemic](#) has exacerbated existing inequities in race, gender and income—inequities that have been keenly felt by small business owners and entrepreneurs. Yet much of the financial relief efforts have left small businesses, and local economies, behind. While federal programs have increased the availability of funding, [it has been limited and challenging to obtain](#). High unemployment has also drastically reduced the customer base that normally frequents small businesses. However, philanthropists are stepping in to support small businesses through a unique financial structure—community development financial institutions, or CDFIs. By supporting CDFIs through donor-advised fund grants, donors have a unique opportunity to make a strong impact at the local level.

What is a CDFI?

CDFIs are mission-driven financial institutions that invest in small businesses and community services, addressing issues that the mainstream financial market does not. CDFIs can take the form of a traditional bank, credit union, loan fund or venture capital fund, and provide much-needed financial services to communities that may have limited access to traditional banking services. This limited access is a result of decades of discriminatory policies and practices, such as redlining, that reinforced segregation and economic disparities across the country. While there have been efforts to [reverse the consequences](#) of these policies, continued under-investment in communities of color has resulted in related challenges, such as lack of documentation needed to secure traditional lending, poor or no credit, or even the absence of conventional banks.

Women entrepreneurs also face an uphill battle to secure funding through conventional financial vehicles. They typically [receive smaller loans](#) and pay higher interest rates than male small business owners. Women of color who own or wish to start a small business face even greater hurdles than their white peers.

CDFIs rise to meet these challenges. They are present in every state, plus DC and Puerto Rico, and some are tailored to serve distinct populations in addition to a specific geographic area. Many CDFIs are structured as nonprofit organizations and organized around a mission-driven pursuit of equity in access to banking services.

How can philanthropy help advance the work of CDFIs?

CDFIs have made headlines in recent months, as they receive support from major individual philanthropists. Several foundations, including the Kresge Foundation, and corporations such as Twitter, Netflix, PayPal and Square have also committed to holding a portion of their assets at CDFIs. The most recent COVID-19 relief bill provided an extension of the Paycheck Protection Program, with funds specifically allocated to CDFIs for processing.

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Much like [community foundations](#), CDFIs are uniquely positioned to make a difference in their communities. In Detroit, for example, Black small business owners were able to access funding for re-development efforts through the help of a CDFI, keeping the resulting wealth in the neighborhood. In Los Angeles, a CDFI provided the capital for homeless shelters to quickly expand their resources to accommodate an increase in capacity, driven by a new public funding initiative. For donors interested in supporting economic recovery in communities hit the hardest by COVID-19, there are many ways to provide capital through a CDFI. Through donor-advised funds, donors and [social impact investors](#) may make grant recommendations to fund supportive and educational programs, or recoverable grants to a loan fund. Individuals and organizations might even choose to invest their own assets—personal or charitable—in a CDFI.

Where do I start?

Below are just a few CDFIs across the country that are working to address the unique needs and opportunities in their communities:

- [The Enterprise Center](#) serves the greater Philadelphia area and Camden, New Jersey. Initially developed to support minority entrepreneurs in West Philadelphia, the organization now offers access to debt and capital for women- and minority-owned small businesses, and initiatives to drive neighborhood revitalization efforts.
- Serving communities in Alabama, Arkansas, Louisiana, Mississippi and Tennessee, [HOPE](#) has generated more than \$2.9 billion in financing to benefit more than 1.7 million people since 1994. In addition to a credit union, HOPE also operates a loan fund and policy center to serve low-wealth communities and individuals across the Deep South.
- The [Neighborhood Development Center](#) takes a holistic approach to supporting businesses in the lowest-income neighborhoods of Minneapolis-St. Paul. In addition to financing, NDC provides culturally-competent training and technical assistance to entrepreneurs as well as access to real estate through its business incubator program.
- With offices in five cities across the United States, the [Nonprofit Finance Fund](#) provides capital and financing for nonprofits across the country. NFF provides funding to nonprofits in numerous sectors for a variety of projects, giving organizations both the flexibility to pursue new opportunities and the stability to withstand challenging times.
- [Spruce Root](#) serves Southeast Alaska, primarily in low-income rural and native communities. The organization works with businesses and entrepreneurs to provide capital via its loan program in addition to business coaching and technical assistance.

While these examples are far from exhaustive, they represent the tailored strategies CDFIs employ to respond to the particular needs of individual communities. By supporting CDFIs, donors have the opportunity to multiply their impact, helping to ensure the survival of more small businesses and nonprofits—and an equitable economic recovery—through the COVID-19 pandemic. To find your local CDFI or to provide support for a particular geographic area, visit the [US Treasury's CDFI Fund website](#).

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As always, NPT stands ready to help you help others. For more information on how you can use your donor-advised fund account to support small businesses through CDFIs, contact our [Philanthropic Services](#) team at (888) 878-7900 or philanthropicservices@nptrust.org.

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Joan Allmaras is a Philanthropic Services Specialist at NPT. She produces tailored, in-depth research on specific issues and geographic areas of interest to NPT's donors. Ms. Allmaras holds a Bachelor of Arts from the University of San Diego and a Master of Science in Nonprofit Leadership from the University of Pennsylvania.

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