SEARCHING FOR THE EIGHTH DEGREE OF *TZEDAKAH*
Jewish Institutional Investment in Low-Income Community and Economic Development Financial Institutions

JEFFREY DEKRO
President, The Shefa Fund

and

LAWRENCE BUSH
Newsletter Editor, The Shefa Fund, Philadelphia, Pennsylvania

American Jewish institutional investment in low-income community and economic development is a new realm for Jewish institutional tzedakah *that is both informed by traditional Jewish concepts and serves to build bridges between the Jewish and non-Jewish communities. The Tzedek/Justice Economic Development Campaign facilitates partnerships between Jewish institutions and community-controlled community development financial institutions.*

The eighth degree of tzedakah, *"above which there is no other, is that of the person who assists a poor Jew by providing a gift or a loan or by accepting him [sic] into a business partnership or by helping him find employment—in order to strengthen his hand until he no longer needs to ask aid of others."*

Maimonides, *Mishneh Torah*

The American Jewish community is renowned for its *tzedakah.* A community of fewer than six million, we annually respond to UJA/federation fund appeals with over a half-billion dollars and give grants from 6,000 or more Jewish family foundations. Private Jewish foundations alone currently have more than $4 billion in assets. Some 2,500 give over $25,000 annually (Dekro, 1996; Tobin, 1994). Jewish institutional assets, including federation-related endowments, rabbinic pension funds, and family foundation endowments, amount to more than $9 billion.

Federation endowments have grown over the past 20 years to more than $4.25 billion and are expanding at a fast rate. Within the federation movement, these funds are regarded as critical because, although the annual campaign revenues continue at very high rates, statistics suggest that Baby Boomer and younger Jews do not have the same giving patterns as their parents and grandparents. The endowments provide a means for federations to "capture and recycle" the community's capital, precisely the same strategy adopted by the community development financial institutions discussed in this article (see Stehle, 1997). In addition, major American cultural organizations, universities, medical centers, the Democratic Party, and the State of Israel are all beholden to the money-organizing networks of American Jews, for whom *tzedakah* serves as an expression of communal identity and idealism that is truly as binding as the Holocaust, Zionism, or religious observance.

To a distressing extent, however, this dynamic "money culture" of American Jewish institutions is little informed by Judaism itself. Traditional Jewish teachings about the "Torah of Money"—about stewardship (as opposed to ownership) of wealth, about property rights being freighted with communal

Copies of The Shefa Fund's newsletter and other information can be obtained by writing 805 East Willow Grove Avenue, Philadelphia, PA 19038 or calling 215-247-2904 (shefafnd@libertynet.org).

obligations, about social investment as the greatest form of *tzedakah,* and about the dignity of both rich and poor—are not discussed much publicly in tandem with Jewish fund raising and grant making. Distanced from these values, Jewish money organizing may "take care of business," providing resources for both Jewish and non-Jewish causes, but at the expense of alienating many Jews.[1]

During the past three years, The Shefa Fund, a public tax-exempt foundation based in Philadelphia and national in scope, has identified a new realm for Jewish institutions *tzedakah* that would help establish an authentic link between contemporary *tzedakah* and Judaism's socioeconomic wisdom while building powerful bridges between the Jewish and non-Jewish communities. The Shefa Fund has launched the Tzedek/Justice Economic Development Campaign (TZEDEC), which aims to stimulate increased, visible American Jewish institutional investment in low-income community and economic development nationwide.

This work is led by community development financial institutions (CDFIs), which have been providing capital to poor, credit-starved communities for the past two decades. CDFIs are mediating institutions that capture the available money in low-income communities and attract investment and loan capital from outside the communities to provide previously unaffordable or unavailable credit for residents, low-income housing developers, local small businesses, and nonprofit agencies that serve in the communities. CDFIs include federally insured community banks (numbering seven so far), federally insured credit unions (approximately 150), loan funds (more than 40), and microenterprise development loan funds (hundreds and growing). Located in poor urban neighborhoods, rural communities, and tribal lands, CDFIs now have over $1.5 billion under management and an overall loan-loss rate less than half that of conventional banks. Clearly, CDFIs today represent one of the few successful anti-poverty tools of our income-polarized era.

SUCCESSES OF THE CDFI MOVEMENT

Examples of CDFIs' success are visible throughout the United States. On Chicago's South Side, the South Shore Bank and its subsidiaries have financed the rehabilitation of 30 percent of the neighborhood's housing. In North Carolina, a $50,000 loan from the Self-Help Credit Union helped save a worker-owned sewing company, which then became the second largest private employer in its county.

In metropolitan Philadelphia, the Delaware Valley Community Reinvestment Fund has, in ten years, loaned over $40 million and leveraged $136 million more from private and public sector sources for affordable housing, capital and economic development loans, and bridge loans to nonprofit organizations. In Seattle, the Cascadia Revolving Fund has loaned $4.1 million since 1987, mostly to socially and environmentally conscious entrepreneurs in rural regions of Washington and Oregon, areas that have been hurt economically by changes in the Pacific Northwest timber industry.

The hallmarks of CDFIs are that they are run by and for community members and have a mission to instill dignity, develop skills and capacities, nurture leadership, and establish power and autonomy for whole communities. According to Robert Friedman, founder of the Corporation for Enterprise Development, an umbrella group for microenterprise loan funds,[2] CDFIs are a "movement of human

[1]"(T)he current fundraising systems, especially the UJA...have failed to engage most Jews," writes Gary Tobin in his April, 1994 report, *Israel and the Changing Character of Fundraising.* "(M)ost young Jews have never contributed." Tobin recommends "donor-responsive fundraising" that requires organizational change so that the "sense of cliquishness or elitism that often pervades organizations" is lessened and "avenues for involvement" are expanded.

[2]Microenterprises are small businesses involving one to five people, with annual gross receipts of less than $500,000. Microenterprise loan funds foster such businesses in low-income communities by providing entrepreneurial training and small amounts of capital, usually less than $5,000 and often as little as $250.

development. You have a pool of would-be borrowers relying on one another.... In lieu of collateral, the community itself serves to guarantee loans." Friedman also notes that there are

> strong secondary effects: how kids react to their parents, how parents feel about themselves, how families participate in the community, in schooling, and so on. Community development strategies represent a real improvement over a social service structure that maintains consumption but doesn't invest in production or independence.

In the summer of 1994, the Clinton Administration pushed the Community Development Financial Institutions Act through Congress. Passed unanimously by the Senate and with only twelve dissenting House votes, the CDFI Act was designed to provide CDFIs with a total of $382 million of federal money, depending on a dollar-for-dollar match from private investors, including the business, foundation, and religious communities. In three years, $145 million has been authorized.

OBSTACLES TO JEWISH INVOLVEMENT

Notwithstanding all these marks of success, the CDFI movement has received only the slimmest Jewish institutional support. For example, of the 19 percent of borrowed loan capital (nearly $30 million) that community loan funds have received from religious institutions, less than one-tenth of 1 percent has come from Jewish sources. Even direct attempts to invite Jewish participation have met with frustration. When the Community Capital Bank of Brooklyn was established early in this decade, extensive efforts were undertaken to solicit Jewish community investment from New York and elsewhere. These solicitations, including letters and meetings, resulted in only five Jewishly identified investments in over 15 months. By the fall of 1993, when the bank had $13.6 million in total deposits, only $160,000 had come from Jewish institutions, compared to $3 million in deposits from other religious institutions, and this in the city with the largest Jewish population in the world.

Also in 1993, the National Association of Community Development Loan Funds and the National Federation of Community Development Credit Unions established the National Religious Investors Initiative (NRII), designed to facilitate religious community investment in CDFIs. Its goal is to raise $20 million in ten-year, below-market rate investments from U.S. religious institutions and related agencies. These investments are to be used for loans and deposits to benefit loan funds and credit unions, which will, in turn, be required to match a portion of these challenge loans and deposits with monies from local congregations, agencies, foundations, and individuals. So far, the NRII has obtained commitments and investments totaling $5.1 million from Catholic Healthcare West, Unitarian Universalist Association, Franciscan Health System, and the Presbyterian Foundation. To date, however, no Jewish institution has committed any money.

Why this hesitation on the part of Jewish institutions, despite the Jewish community's consistent support and advocacy on behalf of America's poor and minorities and despite the visible participation of individual Jews as pioneering activists in low-income community development? The obstacles to Jewish institutional involvement are both objective and subjective:

- *The Jewish community is highly decentralized,* unlike the Protestant and Catholic communities, which are actively involved with CDFIs. From one local Jewish community to the next, diverse configurations and interests compete for the allegiance and resources of individual Jews. Although the community is well coordinated, few mechanisms and perhaps even fewer opportunities exist to explore and shape economic development policy on issues other than those of exclusively Jewish communal concern.
- *American Jewish organizations have his-*

torically operated on the basis of available cash, rather than with the benefit of endowment capital. As a result, little reserve money has been available for long-term investment. Only in the past two to three decades have substantial assets been accumulated by Jewish federation endowments and family foundations.

- *American Jewry has for years been in an angry, defensive stance about the attitudes of other minority communities toward Israel and toward Jews.* The persistent reality of African-American anti-Semitism, the outbreak of anti-Semitic violence in Crown Heights, black-Jewish disputes over quotas and affirmative action, the visibility of Jewish neoconservatives in advocating social policies that hit the black community hardest, the popular success of Louis Farrakhan, and other factors have created a wide gap between these formerly allied communities. This alienation has had some spillover effect that makes the cultivation of Jewish empathy and support for economic development in poor and minority neighborhoods a challenging task.
- *Low-income community development work has long been seen as the province of Christian churches and institutions.* Jewish congregations and organizations have not necessarily felt themselves to be a welcome partner, at least not before the blossoming of interfaith dialogue and efforts in recent years.
- *The emergence of community development financing and enterprise is relatively new.* Like their counterparts in the wider philanthropic universe, American Jewish funders generally know little about low-income community and economic development (C/ED) issues and strategies. In spite of the professionalization of the field during the past decade, stereotypes persist linking community self-help to inflated rhetoric and incompetence, and there are relatively few quality informational materials or C/ED professionals available to alter this image through outreach.

In addition, professional foundation and investment advisors are often reluctant or unequipped to initiate complicated discussions about the needs, opportunities, limitations, regulations, and accountability of investment in C/ED projects. As a result, funder deliberations usually focus on traditional grant making, rather than on more innovative philanthropic options for support of community and economic development.

- *Conventional fiduciary concerns associated with risk and return are exacerbated for Jews by deep-seated security fears.* Jewish philanthropic asset management tends to be even more conservative than that of other community foundations in order to preserve capital for crises (e.g., war in the Middle East or emergency assistance for Ethiopian Jews).[3] Crises aside, Jewish communities in North America and worldwide continue to face many pressing problems, including immigration and social welfare needs in Israel and the United States, protection from anti-Semitism and its attendant threats, and promotion of Jewish education and culture.
- *Jewish institutions do not readily recognize factors of Jewish self-interest or religious imperative in C/ED.* In general, the most prominent and financially secure Jewish institutions are secular and Israel-oriented.

COMMUNITY INVESTMENT AND THE "TORAH OF MONEY"

To organize Jewish institutional investment in CDFIs, it is critical to help financial decision makers understand that their involvement would *not* bring about a diversion of the flow of Jewish funds to Jewish causes. What we are speaking about is how Jewish resources are *invested,* not spent.

[3]Partly in response to low rates of asset investment growth due to conservative investment strategies, donor advisors working with the Jewish Communal Fund in New York established The Foundation for the Jewish Community in 1996. The Foundation has been growing ever since.

Nor does CDFI investment necessarily entail higher risk to principle than standard investments. Community development banks and credit unions, for example, are federally insured and present no risks to depositors. The banks (and some credit unions) offer competitive rates for certificates of deposit, as well as options for lower-return social investing. Community development loan funds, though not federally insured, are so rooted in their communities as to realize a loan loss of less than 1 percent. Microenterprise funds do incur losses of 4 to 6 percent, but much smaller sums of money are at risk here, with loans not exceeding $5,000. There are, in other words, differing levels of risk, return, and terms available to Jewish organizations investing in low-income community development.

The goal of this kind of investment, however, is not to maximize profitability, but to make money available as cheaply as possible to credit- and capital-starved communities. Ideally, investing for C/ED should *not* bring as high a rate of financial return as commercial investments. Capital for human investment simply does not return profit at the rate of corporate investment—until we begin to redefine the concept of profit in light of Judaism's "Torah of Money."

"The poor person does more for the householder than the householder does for the poor person," teaches Rabbi Yehoshua in the Midrash (*Leviticus Rabbah* 34:8). This fundamental teaching about profit applies powerfully to Jewish communal involvement in C/ED work. Indeed, such involvement could have enormous resonance for the Jewish community in religious, historical, and communal terms.

Religiously speaking, investing in CDFIs means investing in the viability of Jewish values as relevant and binding to our modern lives. In fact, the CDFI movement's emphases on self-reliance, communal responsibility, and social dignity perfectly fulfill classical Jewish teachings about *tzedakah:* "May blessing come upon the one who provides relief. Better is the one who makes loans. But the one who provides a share for the poor and holds a stake in their success transcends them both" (*Avot de Rabbi Natan,* Chapter 41).

This emphasis on partnership or investment over mere relief once established *tzedakah* as the cornerstone of Judaism's program of community-building and spiritual uplift and could do so again in a modern context. As David Hartman and Tzvi Marx write,

> Through personal moral training in the very specific issues involved in *tzedakah*...the foundation is laid for the reformation of society in its juridical and political dimensions. Efforts to solve the dilemmas and frustrations in the microcosm of charity are expected to bear fruit in the macrocosm of righteousness (Hartman & Marx, 1987).

CDFIs also embody a perspective on poverty that is very much aligned with Judaism's view of poverty as a communal problem requiring a communal solution lest it cause degradation throughout the society.

In these matters, the definition of community is broad: "For the sake of peace," teaches the Talmud (*B. Gittin* 61a), "the gentile poor should be supported as we support the poor of Israel." Such teachings are directly violated by our present "reformed" welfare system's unspoken philosophy of deterrence, of promoting indignities so as to discourage people from seeking assistance. Support for C/ED strategies, by contrast, means support for approaches that respect the dignity of poor people and seek their empowerment. Though CDFIs have by no means eliminated the need for welfare and other forms of poverty relief, their Jewishly resonant emphasis on *human development* can help restore the notion of entitlement and transform the cruel, blame-the-poor biases that are currently helping shape social policy.

JEWISH SELF-INTEREST

Communally speaking, Jewish support for low-income community development serves the cause of Jewish continuity by revitalizing the social action component of Jewish communal life. This component is of central importance to young Jews and many other sectors of our community. Jewish social action values and instincts have been finding expression in a narrowing scope, chiefly the ballot box, as our lives become more and more professionalized and suburbanized. Expanding the landscape of politics to include the Jewish community's very active money culture therefore means nothing less than expanding the sphere of life in which Jewish identity has impact and significance.

In addition, participation in C/ED offers several material benefits to American Jewry. It can help move intergroup relations, including black-Jewish relations, onto a new ground of partnership off the flypaper of mutual grievance and beyond the limits of legislative activism. It can help improve metropolitan areas that are still the socioeconomic centers of Jewish life. In New York City, community development job training has helped enlarge the pool of paraprofessional healthcare providers, a boon for our aging Jewish population. In Boston, the area's only existing microenterprise loan fund, initiated through Jewish Vocational Services with loans from the Combined Jewish Philanthropies, has created jobs for Ethiopian and Russian Jews along with other immigrants.

Historically speaking, the CDFI movement has powerful resonance for Jews. As historian Henry Feingold has pointed out, financial credit has been a crucial factor in the American Jewish success story. Feingold (1992, p. 142) notes that "internal credit lines offered by 509 loan societies and 2,367 mutual benefit societies" enabled immigrant Jews to overcome anti-Semitic banking policies in the first quarter of the twentieth century, during which time only one bank in New England and one in the mid-Atlantic states would extend credit to Jews. Although the loans were small and of very short duration, and losses were minimal, such self-help loans were the key ingredient in the American Jewish economic success story by "permit[ting] capital to be transferred from one generation to another and from one group to another within the community" (Feingold, 1992, p. 142). The best known of these Jewish "CDFIs" was New York's Hebrew Free Loan Society, which extended $15 million to 400,000 borrowers over a 30-year period.

These Jewish "CDFIs" inspired Edward Filene, the socially conscious department store entrepreneur of Boston, to become a powerhouse activist in the American credit union movement. Filene was the organizer of the Massachusetts Credit Union Association in 1917 and the Credit Union National Extension Bureau several years later. Under his leadership, credit unions in America multiplied from 48 to over a thousand in fifteen years (1915–1930). In 1934, Filene organized the Credit Union National Association and donated $1 million for its work. The credit union movement was clearly instigated, led, and populated by Jews (Tenenbaum, 1995).

TZEDEC'S INITIAL ACHIEVEMENTS

The Jewish resonance of the CDFI movement has been apparent in the Shefa Fund's early successes with the Tzedek/Justice Economic Development Campaign (TZEDEC). In two years of research and exploratory conversation, TZEDEC has organized more than $1,000,000 in community development bank deposits and loan fund investments from Jewish institutions, including the Reform Rabbinical Pension Fund Board ($200,000). Two Reconstructionist synagogues have made CDFI deposits or loans totaling $310,000, and the Social Action Committee of the Reconstructionist Rabbinical Association has adopted TZEDEC as a national project. The Reform movement also shows growing interest, with Dr. Leonard Fein, head of the Social Action Commission of the Union of American Hebrew Congregations, building support for C/ED investments by the movement's national bodies and affiliated congregations.

With underwriting by the Nathan Cummings Foundation, the Shefa Fund is planning a September 21–22, 1997, TZEDEC conference, co-hosted by the Jewish Federation of Metropolitan Chicago, that will bring together Jewish funders to learn about the CDFI movement and formally launch a national vehicle for Jewish institutional participation. More than a dozen federations and a score of Jewish foundations have expressed interest in participating.

The goal is to organize a National TZEDEC Challenge Pool (NTCP) of at least $2 million that will, in turn, catalyze at least $12 million in Jewish-sourced CDFI deposits, loans, and investments by the end of the year 2000.[4] The NTCP will lend half of its capital to the National Religious Investors Initiative to increase the financing resources of the 200+ community-development loan funds and credit unions nationwide. The remaining 50 percent will be used to make loans directly to community development projects, including CDFIs and low-income community development financing projects based in Jewish agencies, as a match for deposits and loans made by federations and other local Jewish funders. Investors in TZEDEC will therefore see their *tzedakah* work both at home and in the larger national arena.

In addition to its overall quantitative goals, TZEDEC is designed to demonstrate the effective applicability of the highest *tzedakah* standard so that the American Jewish community can be effective investment partners, not donor patrons for C/ED activists. TZEDEC facilitates partnerships between Jewish institutions and the community-controlled CDFI movement to improve the lives of poor people, both Jewish and non-Jewish. TZEDEC therefore acts in the roles of educator, convener, and facilitator/broker. Its impact is several-fold:

- to demonstrate how the Jewish application of *tikkun olam* can have a positive impact for justice while strengthening Jewish identity and community affiliation
- to reactivate American Jews as a caring constituency by educating about viable, proactive programs to address poverty issues in which it is possible for the Jewish community to be engaged fruitfully
- to build genuine, outcome-oriented partnerships across faith, race, and class lines
- to make financial capital available for C/ED as a fulfillment of the highest standard of *tzedakah*—enabling people to provide sufficiently for themselves
- to strengthen the CDFI movement

CONCLUSION: "*EYT LA'ASOT*, A TIME TO ACT"

Today, in the very cities where our people found their way through self-help networks—the very cities in which Jewish real-estate and retailing fortunes were eventually made—poor people are now trying to exercise responsibility and control over their economic lives and their communities' long-term development. The CDFI movement presents an exciting opportunity for the Jewish community to exercise its abundant financial resources, expertise, and heart on behalf of that effort. "The strength of the Jewish community and its ability to survive in freedom bears a direct relationship to the quality of life of those around us," affirmed Michael Pelavin, then chairman of the National Jewish Community Relations Advisory Council, in a speech during the latter days of the Reagan-Bush era. Subsequent years of conservative social policy and income polarization have thankfully not altered the remarkable Jewish prophetic sensibility embodied in those words.

[4]One major tool being explored to obtain capital for the NTCP and local investments in CDFIs is Program Related Investments (PRIs), a special IRS-sanctioned mechanism by which a foundation can expand upon its grantmaking by investing principle in projects that fulfill the foundation's philanthropic mission. Pioneered by the Ford Foundation, PRIs remain a little-known but highly effective means of accomplishing philanthropic work in cash-strapped times. The Ford Foundation and Brody and Weiser (203-481-4199), a consulting firm that has pioneered efforts to promote PRIs, have produced highly readable and technically informative materials about these investment tools, as has the Council on Foundations (202-466-6512). The Foundation for the Jewish Community (212-832-2405), cited in footnote 3, requires each donor advisor who works with it to agree that at least 10 percent of his or her *tzedakah* fund may be used for PRIs.

Rather, those years have seen the elevation of the CDFI movement to a status, sophistication, and importance worthy of immediate Jewish attention.

REFERENCES

Community economic development faces the budget axe. (1995, April). *Wealth & Covenant,* p. 1.

Dekro, Jeffrey. (1996). Community economic development. In: *The narrow bridge: Jewish views on multiculturalism.* New Brunswick, NJ: Rutgers University Press.

Feingold, Henry. (1992). *A time for searching, 1920–1945.* Baltimore: The Johns Hopkins University Press.

Hartman, David & Marx, Tzvi. (1987). Charity. In: Arthur A. Cohen & Paul Mendes-Flohr (Eds.), *Contemporary Jewish religious thought* (pp. 47–48). New York: Free Press.

Stehle, Vince. (1997, May 15). Diversifying Jewish philanthropy. *Chronicle of Philanthropy, 9*(15), 1, 27–29.

Tenenbaum, Shelly. (1995) *A credit to their community: Jewish loan societies in the United States, 1880–1945.* Wayne, IN: Wayne State University Press.

Tobin, Gary. (1994, April). *Israel and the changing character of fund raising.* Waltham, MA: Brandeis University.