RESEARCH PAPER

Nonprofits in Urban Redevelopment –
the U.S. American way to provide
social neighborhood enhancement?

(Nonprofits in der Stadterneuerung –

eine amerikanische Besonderheit
zur Sicherung sozialer Quartiersarbeit?)

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Contents

1. Background

In the course of my dissertation *"Mobilizing more than governmental support for distressed neighborhoods - U.S. redevelopment approaches and instruments can demonstrate new ways of private and nonprofit sector support for German and Austrian neighborhood redevelopment."*, I discuss and compare Austrian, German, and U.S. American urban redevelopment instruments. The research will lead to the result if instruments from the U.S. could and should be transferred to the Austrian and German neighborhood redevelopment toolset. Of particular interest are stakeholders, funding, and long-term impact of the used redevelopment efforts.

Urban redevelopment in the U.S. is strongly focused on economic redevelopment performed by governmental institutions called "Redevelopment Agencies" and funded by tax income. Therefore, no matching instruments and results could be found while comparing Austrian "Gebietsbetreuung" and German "Soziale Stadt" projects with the projects developed by U.S. redevelopment agencies. None of the social aspects which are the basic work of German and Austrian neighborhood support are performed by U.S. redevelopment agencies. On contrary, social redevelopment in the U.S. is provided by nonprofit organizations and funded by donations, loans, and additional governmental support.

2. Objectives

Considering the facts stated above, the research question arises: *"Nonprofits in Urban Redevelopment – the U.S. American way to provide social neighborhood enhancement?"* During the research stay at the San Diego State University from April to August 2011, this question was asked and answered. Since redevelopment works slightly differently in every state of the U.S., the Californian model was chosen for the research. Californian redevelopment activities have the longest history and have been a role model for many redevelopment approaches around the U.S.

On the way to answering the overall research question stated, the actual research was divided into smaller research areas, each lead by its own research question:

- How can the U.S. nonprofit model be described?
- Which role do nonprofits play in general in the U.S. society?
- What particular role do nonprofits play in the urban redevelopment field in the U.S.?
- How can the work of Community Development Organizations be described?
- Do nonprofit efforts contribute to a successful improvement of urban neighborhoods?

This research paper will give insight in all these topics and questions and will end with answering the overall question of the research stay.

At the end, the research stay provided a comprehensive insight into the American nonprofit sector. Besides the information gathered about general facts and frameworks relating to origin and development, as well as size and organization of nonprofits, research focused specifically on the role nonprofits play in the redevelopment field. Results of the research could be used for the dissertation and its research on transferability of approaches and instruments in urban redevelopment in the U.S., Austria, and Germany.

3. How can the U.S. nonprofit model be described?

3.1 Academic definition

Nonprofit organizations are part of and therefore active stakeholders in the civil society. Following Salamon (1999: 9-10), nonprofits are a "set of organizations that is privately constituted but serves some public purpose, such as the advancement of health, education, scientific progress, social welfare, or the free expression of ideas."

Speaking of the nonprofit-sector in the U.S., there is a range of expressions used: "non-governmental organizations," "not-for-profits", "voluntary sector", "Third Sector", "philanthropic sector", "voluntary agencies", "independent sector", "social sector", "the charitable sector", "collective", and "nonmarket" organizations. (Grobman 2004: 13) For the purpose of this paper, we will stay with the expression nonprofit.

In general, it is impossible to speak of one particular structure of nonprofits in the U.S. since nonprofits vary extremely in size and orientation. Therefore, it has to be kept in mind that the nonprofit organization, performing civil engagement, cannot be defined as such. (Schönig, Hoffmann 2007: 18)

Developed over decades, today's nonprofits are characterized by their legal standing (including a legal purpose) which makes them formally constituted. Nonprofits are not part of the government and they have neither stakeholders nor investors. Nonprofits are self-governing, which is implemented by a board of trustees which is legally responsible for the actions of the organization. While being an organization with an organizational structure, the contributions are voluntary to a significant degree. Another important characteristic of nonprofits is a mutual benefit they are serving. (Grobman 2004: 14-15) (Holland, Ritvo 2008: 31) (Schönig, Hoffmann 2007: 17) Every nonprofit organization assigns a mission statement to itself, which shows their motives and objectives. (Holland, Ritvo 2008: 7)

3.2 Legal definition

Nonprofits are classified as organizations that meet section 501C of the U.S. Internal Revenue Service's tax code. More specifically, they are listed under Section 501 (c) (3) of the tax code. Organizations filed under this section have to be active "exclusively for religious, charitable, scientific, or educational purposes" (Salamon 2002: 7). Nonprofits do not seek profit, however, they can generate surplus which has to be used for the fulfillment of pur-

poses and objectives of the institution and cannot be distributed to any private parties. Tax exempt is given to the organizations for fulfilling their missions, which are "expected to serve broad public purposes as opposed to the interests and needs of the members of the organization alone" (Salamon 2002: 7). As shown later on, they are able to receive tax-deductible donations from individuals and businesses. (Grobman 2004: 14) (Holland und Ritvo 2008: 4, 31)

3.3 Distinction between nonprofit and for-profit organizations

The legal distinction between nonprofits and for-profits is given by the United States federal tax code, which defines nonprofits as receiver of tax deductible donations, which do not have to pay taxes themselves (Holland, Ritvo 2008: 4). Moreover, there are a number of characteristics that make clear what distinguishes non- and for-profit organizations (Grobman 2004: 13, 14):

	nonprofits	for-profits
purpose	achieving their mission-goal	making profit
governance structure	community members	business people
income	donations, grants, loans	profit
net revenue/profit distribution	used for fulfillment of purpose	shared out to private parties
public accountability	significant	negligible
products	intangible	tangible

Nevertheless, there are many aspects the two organizations have in common. For instance, both organizations have to operate in an economically suitable manner to produce positive outcome. Parts of the organizational challenges are: capital necessary for projects; available cash flow to cover monthly costs; revenues needed for rent, equipment, and paid staff. (Grobman 2004: 16)

Compared to for-profit organizations, nonprofits offer a number of benefits as well as disadvantages. First of all, their exemption from most of the taxes combined with the tax deductions for donors make them unique. Getting donations is alleviated by the fact that, in the public opinion, nonprofits do support the common good. Additionally, nonprofits have an advantage in grant applications due to their inability to pass on money to shareholders. Conversely, disadvantages do exist that nonprofits face in contrast to for-profit organizations. Facing unexpected challenges, nonprofits are not able to react spontaneously, since every decision has to correspond with the overall mission. In addition, nonprofits are limited in terms of salaries, whilst for-profit organizations can be more generous in this respect. (Holland, Ritvo 2008: 50)

3.4 Numbers

Providing reliable numbers on existing nonprofit organizations is not an easy task. Since the data available is incomplete and many of the organizations are very small as well as not incorporated and can therefore easily be missed in official inquiries. (Salamon 2002: 7–8) Hence, the given numbers of nonprofit organizations in the U.S. range from approximately 2 million (Holland, Ritvo 2008: xiii) to around 8.4 million (Schönig, Hoffmann 2007: 17). As a given fact, most of the existing organizations were established during the last four decades. (Holland, Ritvo 2008: 31) The workforce employed by nonprofits is estimated to be 12 million people and an additional of 6 million volunteers. (Holland, Ritvo 2008: xiii) 43 percent of the known nonprofits are active in health services, 22 percent in education, followed by 18 percent in social services (Salamon 2002: 7–8)

3.5 Different kinds of nonprofits and their projects

Like the undetermined number of nonprofits, their different types are not easy to define. Besides authors mentioning several thousand types in 26 major fields (Salamon 2002: 7–8), this paper will describe two models of classification by two different authors. While Grobman divides organizations that primarily serve the public versus organizations that primarily serve their members (Grobman 2004: 17 ff), he classifies nine thematic subsectors of nonprofits: religious, private education and research, health care, arts and culture, social services, advocacy and legal services, international assistance, foundations and corporate funders, and mutual benefit organizations (Grobman 2004: 20). Only four subsectors are described by Holland and Ritvo as well as Salamon: service providers, advocacy, expressive, community building. (Holland, Ritvo 2008: xiii) As service providers, being health care providers, nursing homes, educational institutions, day care centers, etc., nonprofits serve public needs that neither the public nor the for-profit sector takes care of. Most of the American social movements in history and recent times have been driven by advocacy nonprofit organizations, being civil rights, environmental issues, women's issues, gay rights, progressive and conservative movements, etc. People encouraged in artistic, religious, cultural, ethnic, social, recreational matters often are part of a dedicated nonprofit organization. Nonprofits are also an important part of democratic and civil processes serving as associations, charitable foundations, etc. This subsector of nonprofits is called community building sector. (Holland, Ritvo 2008: xiii) (Salamon 2002: 9 ff)

4. Which role do nonprofits play in general in the U.S. society?

4.1 Why do nonprofits exist?

As mentioned above, **nonprofits are mission- and value-driven**. Values include altruism, benevolence, cooperation, community, and diversity. Their objective is to achieve social good in their particular field of interest. All together, these are the reasons for their ac-

ceptance and in particular for the amenities they are given. (Grobman 2004: 5–6) Four reasons for their existence are shown by Bennett and DiLorenzo: thin markets, public goods, contract failure, and equity promotion. Following their reasoning, for-profits are not interested in any particular service business since the existing demand will not be sufficient for gaining profits (thin markets). Moreover, people in need are not addressed adequately by services they need, which is a result of the existing inefficient political process (public goods). Additionally, if there is service delivered, people are not able to rate the actual quality of the service (contract failure). Furthermore, poor people are not able to pay for the required services (equity promotion). Nonprofits are seen as necessary organizations to fill these gaps. (Holland und Ritvo 2008: 26–27)

American culture adds another reason for the development of this particular form of organizations. American culture shows a **strong dedication to personal freedom** and personal initiatives. Economically and ethically Americans are individualistic and cherish personal responsibility as well as self-help. Nevertheless, solidarity plays an important role, too. The awareness of living in a community and therefore being responsible for other community members is ubiquitous. As a result, support is given in different ways by the family, civic, and religious organizations, as well as professional associations, as long as the individual is part of that network. Governmental support is expected only in a few areas (defense, police, highways, emergency, disaster assistance, foreign policy), whereas everything further is not expected to be provided by the government and is sometimes even unwelcome. Americans commit to private initiatives, which are responsible for providing the common good. Therefore, almost every American citizen is either actively or passively involved in the nonprofit sector. (Grobman 2004: 8) (Holland, Ritvo 2008: 27) (Salamon 2002: 3–4, 9ff) Salamon (2002: 3) calls this non-governmental infrastructure the "unseen infrastructure of American live".

Following Holland and Ritvo (2008: 31), nonprofits play **five important roles** in the American society:

"1. They provide services to those in need or programs for those with a specific interest.

2. They support innovation, by testing new models of practice, service, and research.

3. They are effective advocates in their local communities and among wider constituencies.

4. They have enriched the fabric of every community since the earliest colonial days.

5. Finally, they have become public resources for information and professionalization of their fields of practice." (Holland, Ritvo 2008: 31)

Nonprofit organizations in the U.S. are of **various types**: hospitals, universities, orchestras, theaters, religious organizations, environmental and civil rights supporters, family and children's facilities, as well as community health and antipoverty organizations active in neighborhood based support. Additional to these basic level organizations, a large number of nonprofits are active on another level, which organizes the financial, technical and edu-

cational **support** for the basic level organizations. (Salamon 2002: 6-7) These larger organizations often operate on the national level to transfer knowledge and instruments between their various member organizations. Another supportive sector has developed in the university field. During the last time academic programs have been introduced. These programs teach the technical and instrumental knowhow for future nonprofit organization leaders, because the demand in quantity and quality is expected to grow in the near future. (Holland, Ritvo 2008: xiv)

Considering the **important role** nonprofits play in the U.S. society, the role of nonprofits in relation to the government has to be investigated. Grobman (2004: 5) describes **nonprofits as intermediaries** between government and citizens and admits an exclusive task fulfilled by nonprofits in areas where the government is unable to provide service. Nonprofits can also be seen as **third-party government** as described by Salamon (1995) who regards nonprofits such as universities, hospitals, research institutes, and commercial banks as third-party government. The third-party government takes care of services and programs former presented by the government itself. Since the government is neither able nor willing to take care of these sectors anymore, third-parties step in. Since nonprofit organizations cannot provide all services on their own, they are heavily supported by the government. Therefore, governmental action becomes indirect instead of direct, and authority is passed on to third-party stakeholders. Therefore, traditional hierarchical structures of the state are on stake. Nonprofits can be seen as **semipublic institutions** that show a long history as social service providers (health, education, emergency services, religious services, etc.). As governments began to give services away, nonprofits easily became the first responder and still are the favorite partner since they bring the experience of long years of service with them. (Salamon 1995: 16, 19, 42-43, 263-246)

The relationship between nonprofits and the government is described by Young (1999: 33). He developed a relationship pattern in three ways: nonprofits can act **supplementary** (subsidiary), **complementary** (completing) or **adversarial** (antagonistic) to the government. Besides, they can act in all three ways or different combinations thereof. Young describes the supplementary model as high governmental engagement with small civil engagement by nonprofits. Since public goods are provided by the government, nonprofits work only as subsidiary to this offer. The more public goods are offered by the government, the lesser services are provided by nonprofits. Although nonprofits are partners of governments in the complementary model, governments can assign nonprofits to fulfill tasks, for which the governmental partner pays. Nonprofits provide public goods instead and therefore complement the governmental duties. Both partners benefit from this system since nonprofits are usually more flexible in their structures and can therefore handle difficult tasks more easily than the governmental structures. Public services increase and decrease in the same pace as governmental money and missions. If nonprofit organizations act adversarial to the government, they try to place their services against or in addition to governmental actions. Public goods provided by nonprofits and by the government are decoupled. Young also

states that the entire model can exist in parallel or combined with each other, depending on the demand and structural constitution of governmental and nonprofit organizations at the time. (Schönig, Hoffmann 2007: 18-19) Salamon's saying gives a good conclusion for governmental and nonprofit relationships: "For better or worse, cooperation between government and the voluntary sector is the approach this nation has chosen to deal with many of its human service problems." (Salamon 1995: 114)

As described above, ties between the government and the nonprofit sector are tight. Since nonprofits provide public goods which are seldom creating profit, they depend on financial **support given by the government**. Surprisingly, the governmental funding makes the largest share of income for nonprofits (other: fees and donations). Split between federal, state, and local government funding, this financial support makes nonprofits capable of acting and providing the services. Salamon puts it this way: "[...] voluntary sector has become the backbone of this country's human service delivery system, and the central financial fact of life of the country's private nonprofit sector." (Salamon 1995: 34) Furthermore, the share of public services delivered by nonprofits is larger than the share delivered by the government itself. Government provides more funding to nonprofits than it uses for running its own services. (Salamon 1995: 34, 82, 90)

4.2 Role of donations and voluntarism

Nonprofit organizations in the U.S. are strongly supported not only by the government, but also benefit from the high acceptance and willingness for **donating and volunteering** of the citizens. Billions of dollars are donated each year for the work of nonprofit organizations, for example, in 2004 those organizations received 259 billion US Dollars. Around 80 billion USD went to religious nonprofit organizations and 34 billion to educational institutions during that year. While some nonprofits earn much of their income by donations, only 10 percent of the donors provide 90 percent of the amount given. U.S. Americans are committed donors, since 80 percent of the citizens donate to nonprofits. (Holland, Ritvo 2008: 210, 211, 218) Remarkably, organizations have been established that give advice in donation and giving, for example the Wise Giving Alliance by the Better Business Bureau (www.give.org). Additionally, tax exemptions play an important role in the donation field. Contributors can deduct their donations from their federal and state income tax. Therefore, nonprofits can be seen as supported by the tax payers in general, as well. (Grobman 2004: 6-7)

Moreover, people in the U.S. not only donate a lot but also volunteer in an extraordinary way. This voluntary work benefits nonprofit organizations, since they rely on volunteering staff and partners as well as short-time support by volunteers for special events. In numbers, more than half of American adults volunteer an average of 3.5 hours each week within nonprofit organizations. (Grobman 2004: 8-9) (Salamon 2002: 9ff) Holland and Ritvo state: "When challenged, people in this country rise to fulfill needs." (Holland, Ritvo 2008: 2)

4.3 History

The **roots of American civil engagement**, today present in its huge nonprofit sector, can be found in Alexis Toqueville's writings about the America he visited in 1835. Developed as social skill during a time of barely existing government structures, early settlers organized community issues in a collective manner. Moreover, the self-help structures were built in opposition to European structures of strong governmental and monarchial influence. (Grobman 2004: 5) (Holland, Ritvo 2008: xiii, 16) (Peterman 2000: 42) He distinguishes the American way clearly from the European one: "Wherever at the head of some new undertaking you see the government in France, of a man of rank in England, in the United States you will be sure to find an association." (Holland, Ritvo 2008: 19) As already mentioned above, Americans do not rely on the government, they prefer to group into organizations and arrange things that way. American culture goes so far, that there is mistrust against the government, which also influences the political view of many American citizens. Therefore, citizens see themselves as active citizens, that take care of their own needs and (through organizations) of the need of their neighbors. (Holland, Ritvo 2008: 16) (Peterman 2000: 62)

Nonprofits started to exist with the first European settlers in the U.S. and they still exist today. Nevertheless, the **role nonprofits played changed during the times**. Since the government was small and weak, nonprofits started with being responsible for almost everything. Private people organized hospitals, education, housing support, religious organizations, etc. At the beginning of the 20th century, various crises hit the U.S., for instance the Great Depression in 1930. To calm down the situation and since nonprofits could not provide the necessary support, the government stepped in and started to provide pubic goods. However, the government was still collaborating with the existing nonprofits, to benefit from their experience and their existing organizational structure. After the depression, the government backed out again, until governmental involvement came back in the 1960s, withdrew from the support system during the 1970s and has stayed relatively distant from active help until present days – apart from the established federal help system, like Social Security, Medicare, etc established during the last decades. However, even in strong governmental involvement, most of the bread-and-butter work with those in need is done by nonprofit organizations – with varying financial support provided by the government. (Holland, Ritvo 2008: 23, 30) (Salamon 2002: 5) (Salamon 1995: 33) (Schönig, Hoffmann 2007: 19 ff)

Current developments pose new challenges to organizations. Due to decreased governmental support, nonprofits face financial shortness, but at the same time increased competition as well as technical challenges, while expectations have grown over the recent years. The more problems people face in their lives (losing jobs, tight markets, financial crisis, etc.), the more they turn to nonprofits for support, only little support is expected from the government. (Holland, Ritvo 2008: 26) (Salamon 2002: 22)

5. **What particular role do nonprofits play in the urban redevelopment field in the U.S.?**

5.1 Nonprofits active in planning and redevelopment

As stated above, nonprofit organizations are active in different fields. Here, the focus will lie on **nonprofits active in the urban redevelopment field**. A large number of organizations works for the redevelopment of neighborhoods, most of them are community-based, often constituted as community development corporations (see chapter 5.3).

There are different ways how **nonprofits can be active in neighborhoods**: They step in when governmental money is withdrawn or provide public goods assigned and paid by the government. An increasing number of nonprofit organizations arise from the neighborhood itself. Observing that there is more initiative by local inhabitants needed, citizens and other stakeholders get together and build a community corporation. The organization takes care of needed improvements and problems of the neighborhood. These nonprofits have built affordable housing, child-care centers, hospitals, teaching facilities, civic clubs and the like. (Bratt 1990: 181) (Grogan, Proscio 2000: 4) (Reiner, Wolpert 1990: 201)

5.2 Community Development

Community can be defined as a connection and common interest that exists between individuals. If these individuals feel like belonging to the same group, a community is established. Community members have common interests that bind them together. While there are binds like religion, land, history, market places, chat rooms, labor unions, etc. (communities of interest), here the focus lies on the common locality, i.e. the neighborhood (communities of place). (O'Donnell 2004: ix-x) (Phillips, Pittman 2009: 3, 5) (Sennett 2008: 174)

Community development can be defined as the effort to build an organization of people and resources to achieve shared objectives to improve their lives. Objectives are the improvement of the social, physical, human, financial, and environmental situation of neglected neighborhoods. There are three missions of community development: economical change of the weak economy, enhancement of the physical appearance, and bringing neighborhood people together to build new, strong ties. At best, all citizens of these neighborhoods can be activated to change and improve their living space. (West 2009: 104) (Brophy, Shabecoff 2001: 5) (Vincent II 2009: 58, 59)

People are organized in nonprofit organizations and collaborate with necessary partners from the public, government or private (for-profit) organizations. In particular, private investment needs to rediscover these neighborhoods, which nonprofits try to support and accelerate. Community development tries to improve the situation by creating jobs and improving the economy, providing better education and qualified workforce, extension of infrastructure, increase of the quality of live, more cultural events, better recreational possibilities, building of affordable housing, crime reduction, governmental service im-

provement, and image betterment, etc. During the last decades, the community development sector has become a business of its own with expenses up to billions of dollars. Some of the organizations also get involved in the political economy of the neighborhood. (Brophy, Shabecoff 2001: xi, 293) (DeFilippis, Saegert 2008a: 1) (Squires 2008: 89-90) (Vincent II 2009: 58, 59)

Nonprofits active in community development work on various tasks and therefore come in **different organizational and conceptual structures**. "They can be as simple as an all-volunteer community association, a residents' association in an apartment complex, or a homeowners' association, working to solve particular problems in the intermediate area and advocating for improvements with the responsible authorities." (Brophy, Shabecoff 2001: 25-26) Similarities with European approaches of neighborhood managements are given by organizations called Community Development Corporations (CDCs). Theses nonprofits are tied to their particular neighborhoods and focus on projects to improve the quality of life of the neighborhood residents. (Glickman, Servon 2008: 60) These organizations are seen as the most important players and the main medium in community development efforts in the U.S. (DeFilippis 2008: 28) (DeFilippis, Saegert 2008a: 44) Therefore, CDCs will be discussed in greater detail below.

5.3 Community Development Corporations

In the following, a short fact sheet on Community Development Corporations is given. Further details on organization, objectives, projects, stakeholders, and funding can be found in chapter 6 below.

Community Development Corporations (CDCs) show the following **characteristics**:

-   Private, charitable, nonprofit, incorporate, tax-exempt organizations, formally organized
-   Neighborhood-based
-   Locally-controlled by residents, community-based board
-   Objectives: saving, revitalizing, improving quality of life in particular neighborhood (mostly low-income community)
-   Activities: community organizing, economic and physical development
-   Products: affordable housing, business development, service providing
-   Funding: grants, donations, loans
-   Numbers: no official number, estimated 3,600 to 8,000 in the U.S., high increase in recent years
-   References: (Accordino 2007: 105) (Brophy, Shabecoff 2001: 293) (Brophy, Shabecoff 2001: x, 5) (Cullingworth, Caves 2009:308) (Bratt, Rohe 2004: 197) (Keating, Krumholz 1999: 193) (Schindler 2007: 87-88) (Peterman 2000: 47) (Wright 2001: 35)

The origin of CDCs is believed to be in the late 1960s when citizens were looking for a way to get active in the improvement of their neighborhoods, since the private market was not

able to bring necessary development and governmental care was not sufficient. CDCs started with organizing citizens and focused on social stabilization and economical development. (Accordino 2007: 105) (Peterman 2000: 47) (Schindler 2007: 87-88)

CDCs differ from community to community because their goal is to serve their community as well as possible. Therefore, organizations have to adjust their activities to the specific neighborhood. (West 2009: 108 f.) They also differ from other nonprofits, since CDCs are focused on one distinctive neighborhood, but not one particular topic. (Schindler 2007: 87-88) Without being democratically legitimized, CDCs often are seen as representations of interests for the whole neighborhood without being elected in any way, which can be problematic. (Schindler 2007: 87-88)

5.4 Particular role of Community Development Corporations in the U.S.

Community Development Corporations play an immense role in the urban development field of the U.S. Grogan and Proscio (2000: 87) describe it as force that represents the primary instrument for problem solving in the cities' communities. They quote that at least one CDC is active in 95% of Americas 133 largest cities. (Grogan, Proscio 2000: 70) Therefore, the question arises: Why and how did CDCs get into this particular role?

Reasons for this situation are described for instance by Grobman (2004: 33). In his opinion, American roots of religious traditions still make people care of and serve for community needs. CDCs' work exactly shows this background of taking initiative because of being responsible for the community's wellbeing. (Grobman 2004: 33) Furthermore, Grogan and Proscio name values of all American citizens (notwithstanding their political orientation) that lead to active participation in community development through CDCs: "self-help, entrepreneurship, community building, local control, and public/private partnership." (Grogan, Proscio 2000: 73) In particular, the tradition of favoring private actors over governmental actions is a long-established belief in the U.S. (Accordino 2007: 105) Private actors and especially foundations are traditionally involved in tasks that would be implemented by governmental organizations in many European countries for instance. In the U.S., these organizations also bear more responsibility and more importance. For example urban redevelopment approaches have been supported by private foundations since 1980s. (Grell, Sambale 2001: 5)

5.5 Community Development Corporations and government

Additional to the distinct role CDCs play in the U.S., the **relationship** between the nonprofit sector (CDCs) and the government (federal, state, local) shows certain characteristics. As described above, for a long time, universities, hospitals, etc. were provided by the nonprofit sector. Hereby, the government played an increasing role in funding these services. As financing partner, the government is still a viable source and nonprofit neighborhood work could not be done in the current dimension without governmental support. (Sa-

lamon 1995: 69) Long-term, federal dollars are indispensable for CDCs. (Grogan, Proscio 2000: 93)

The **governmental money** in particular helps CDCs to be seen as reliable partners, for the for-profit sector as well as for the local government. (O'Donnell 2004: x-xi) Mainly federal money provided by the Community Development Block Grant (CDBG – see chapter 6.4) gave CDCs the necessary funding basis to develop projects in their neighborhoods. (von Hoffman 2003: 253) While governmental funding enables many CDCs to provide their needed services, federal money again comes with restrictions. CDCs therefore have to adjust their programs and projects to match the regulations given by the government to receive the grants. (Rubin 2000: 67) A supportive program provided by the government is The Community Reinvestment Act (CRA), which has direct impact on the availability of capital for CDCs. This act forces financial institutions of the community in question to provide cheap loans to local CDCs to support their social work and therein the improvement of the neighborhood. (Rubin 2000: 70)

In the U.S., the development away from **social policies offered by the government** toward private initiatives providing public goods is evident. During the time the government effort in providing public goods was shrinking, CDCs stepped in and even outgrew services that had been provided by the government before. (DeFilippis 2008: 32-33) This fact also explains the strong role the community development organizations play in neighborhood revitalization. (Held 2009: 138) In addition, existing federal money paired with the unwillingness of the government to provide particular services also lead to the emergence of new community organizations. (Salamon 1995: 70)

In general, collaborations between the government and CDCs are **not without tension**. Aside from the governmental support they receive, nonprofits often complain about the necessary paperwork that comes with federal grants as well as uncertainty of future funding. On the other side, the governmental side sometimes questions the competence of CDC activists. In the end, CDCs clearly acknowledge their reliance on the governmental support, but wonder if governmental stakeholders share the necessary seriousness needed for the local projects. (Rubin 2000: 72, 98)

State and local governments today rely on the community nonprofit sector regarding the provision of social services. Financial pressures and the governmental retrenchment leave the community-based organizations to fill the void. (DeFilippis, Saegert 2008: 331) As federal funding makes up the largest amount of support for nonprofits and is mostly managed by state and local governments, the state and local influence should not be underestimated. Without directly paying for the services, state and local governments therefore often decide about provided goods. (Salamon 1995: 79)

Forty percent of all welfare services in the U.S. are **provided by governmental organizations**. Another 40 percent are made available by nonprofits but are still paid by the government. In addition, the government pays for-profits to provide the remaining 20 percent

of the social services. (Salamon 1995: 79 ff.) Since every state in the U.S. supplies slightly different welfare services, the division varies in every state. However, research has shown that the more welfare money is spent by the state government, the higher is the percentage of active nonprofit organizations and vice versa. This illustrates how tightly governmental funding support and the availability and the viability of community development corporations are connected. (Salamon 1995: 76-77)

6. How can the work of Community Development Corporations be described?

6.1 Objectives

As mentioned above, Community Development Corporations strive for saving and revitalizing communities, as well as improving the quality of life in mostly low-income neighborhood they belong to. CDCs' goal is to bring private investment back to the blighted areas and thereby improve the economic and social life of their inhabitants. (Brophy, Shabecoff 2001: xi) First and foremost, these nonprofits rebuild distressed communities, stimulate economic growth, and provide housing. (Bratt, Rohe 2004: 197) A list of objectives is also given by Vincent II (2009: 59). CDCs seek for the improvement and/or development of

- jobs and economic forces

- education and workforce

- infrastructure

- quality of life

- culture and recreation

- leadership

- quality of governmental services

- community image and marketing

- tourism

As Accordino (2007: 105) puts it, CDCs are "altruistically motivated, but pragmatically oriented entities" which are in charge of the "re-knitting of the social fabric." (Stuart 2007: 167). Nevertheless, it should be kept in mind that every neighborhood is different and redevelopment efforts have to be adapted to every specific community. (Bright 2000, S. 4)

6.2 Projects

In general, CDCs have a wide range of programs, and differ in character, initiative, and success. (Cullingworth, Caves 2009, 308-309) However, one project area is common for every community development group: **housing**. (Bratt, Rohe 2004: 197) Most corporations

are active in constructing, rehabilitating, and managing affordable housing for low- and medium-income families. (Accordino 2007: 105) The number of housing built by nonprofit organizations is impressively large. CDCs start with the buying and developing process, then look for private stakeholders as additional investors and try to find the best collaborations between government and private business. (Glickman, Servon 2008: 52) (Grogan, Proscio 2000: 70) (Peterman 2000: 47) (Ross, Leigh 2000: 370)

In addition to their housing task, CDCs became active in other fields, because housing alone cannot solve problems of the neighborhood. (Grogan, Proscio 2000: 72) Therefore, besides focusing on housing, 40 percent of the organizations established a broader mission, most of them anti-poverty activities or other community-building and social service activities. (Accordino 2007: 105) (Brophy, Shabecoff 2001: xi):

- *Business support*: business attraction, development, expansion, and retention (Ross, Leigh 2000: 370) (Vincent II 2009: 59); small business support (Cullingworth, Caves 2009, 308-309) (Grogan, Proscio 2000: 81); retail development (Grogan, Proscio 2000: 81)
- *Human service provision*: health care (Accordino 2007: 105) (Brophy, Shabecoff 2001: xi); family services (Glickman, Servon 2008: 52); child care (Accordino 2007: 105) (Cullingworth, Caves 2009, 308-309) (Grogan, Proscio 2000: 81); after-school activities (Grogan, Proscio 2000: 81); teen pregnancy (Vincent II 2009: 59)
- *Social order*: crime control (Glickman, Servon 2008: 52) (Vincent II 2009: 59); substance abuse (Vincent II 2009: 59)
- *Job support*: job and employment training and placement programs (Accordino 2007: 105) (Grogan, Proscio 2000: 81)
- *Networking*: capacity building (building networks with other organizations) (Glickman, Servon 2008: 55)
- *Advocacy* (Brophy, Shabecoff 2001: xi) (Ross, Leigh 2000: 370)
- *Real estate development* (Ross, Leigh 2000: 370)
- *Economic development* (Accordino 2007: 105)
- *Initiatives to promote homeownership* (Brophy, Shabecoff 2001: xi)

Summarizing all fields of activities, Glickman and Servon (2008: 52) name t**hree program areas**: "housing; either commercial real estate development or business enterprise development; and one non-economic development program area (social service or advocacy work)".

Additional to the stated project areas, Vincent II (2009: 60f.) collected a **set of principles** as guide to practice for the community work of CDCs:

Self-help and self-responsibility are required for successful development.
Participation in public decision making should be free and open.
Broad representation and increased breadth of perspective and understanding are

conditions that are conducive to effective CD.
Methods that produce accurate information should be used to assess the community, to identify critical issues, strengths, weaknesses, opportunities, and threats (SWOT analysis).
Understanding and general agreement (consensus) is the basis for community change.
All individuals have the right to be heard in open discussion whether in agreement or disagreement with community norms.
All citizens may participate in creating and re-creating their community
With the right of participation comes the responsibility to respect others and their views.
Disagreement needs to be focused on issues and solutions, not on personalities or personal or political power.
Trust is essential for effective working relationships and must be developed within the community before it can reach its full potential.

Finally, independent from what field of activity CDCs have in focus, their common focus always lies in the support that is needed most in their particular community. (West 2009: 108 f.)

6.3 Stakeholders

Community Development Corporations are **founded by** citizens themselves in order to change their situation and redevelop their neighborhood. (Grogan, Proscio 2000: 67) Organizational duties are done by the CDC **staff,** which often has first-hand expertise, because many of them live in the same neighborhood. In addition to paid staff, CDCs employ a range of **volunteers** for the execution of programs (Brophy, Shabecoff 2001: 5) (West 2009: 108 f.) Management decisions are made by the **board members.** These are elected from the membership, most are local residents (often poorer members of community), business owners, representatives of key local institutions (public officials, bankers, social institutions), relevant professionals, and funders. The arrangement does not always represent the community in a direct way, since members are not only local residents. (Brophy, Shabecoff 2001: 5) (Rubin 2000: 5) (Stoecker 2008: 306) (West 2009: 108 f.) (Wright 2001: 35)

Moreover, CDCs are looking for support from outside their own organization. As von Hoffman (2003: 253) puts it "Successful community development also requires collaboration. No single entity – even government – is strong or clever enough to uplift a neighborhood on its own." Therefore, many partners collaborate with CDCs. The following listing is not exhaustive and not every player is involved in every neighborhood.

As already mentioned above, the government is an important partner in the community development field: **Federal Government, U.S. Department of Housing and Urban Development (HUD)**, oversees and regulates housing and real estate field, gives federal insurance on mortgages, provides rent-subsidies, funds nonprofits in housing and community development activities, and is the responsible body for Community Development Block Grants (CDBG). (Brophy, Shabecoff 2001: 33) **Additional federal agencies, involved in community development**: the Treasury Department's Community Development Institutions Fund, the Office of Community Service, and the Federal Home Loan Bank System. (Brophy, Shabecoff 2001: 33) **State Government, State agencies, involved in community development**: Department of Community Affairs, Housing Finance Agency, Economic Development Agency, Welfare or Social Service Department. (Brophy, Shabecoff 2001: 34-35) **Local Government**: City Administration; City and County Planning Departments; Housing, Community Development, and Economic Development Departments; Local Public Housing Authorities. (Accordino 2007: 104) (Brophy, Shabecoff 2001: 35-37) **Public sector**, as partner in development and for funding, providing subsidies and monitoring (Brophy, Shabecoff 2001: 8-9)

Foundations and intermediaries are an important partner of CDCs, in particular for funding and organizational support: **Foundations (national and community)** (Enterprise, Ford Foundation) contribute grants or loan programs or provide money for projects. **Intermediaries** (Local Initiatives Support Corporation (LISC)) mediate between the community group and national funders and supporters. (Brophy, Shabecoff 2001: 8-9) (Grogan, Proscio 2000: 87-88)

Banks support CDCs in different ways. **Banks can be for-profit banks, commercial banks, investment banks, lenders, and mortgage companies,** that provide money to make necessary investments (a win-win situation since it can be use for positive publicity). As mentioned above, commercial banks in the community are required to make loans to the community (Community Redevelopment Act). (Brophy, Shabecoff 2001: 8-9, 37-38) (West 2009: 108 f.)

Private business, for-profit developers are important associates, as well . They are partners in development projects to improve the physical appearance of neighborhoods or donating their employees' time (Brophy, Shabecoff 2001: 8-9, 42) (West 2009: 108 f.)

CDCs also collaborate with **consultants, service providers, or other local community groups** to complete their own tasks and broaden their knowledge base. Social service agencies, for instance, complete the mission of nonprofit in skills and experience. (Brophy, Shabecoff 2001: 43) (West 2009: 108 f.) Consultants provide specialized skills for community development work, as well as counsel and advice in special tasks occurring in nonprofits work that cannot be solved with the own expertise of the organization. (Brophy, Shabecoff 2001: 5, 44) Other local community and nonprofit groups can collaborate in joint service provision and various other common projects. (Accordino 2007: 106) (Brophy, Shabecoff

2001: 8-9) In addition, **policy and advocacy organizations** are working for nonprofits on changes in systemic problems and shortcomings. (Brophy, Shabecoff 2001: 44)

Moreover, **academics, research centers, universities, medical centers, etc.**, are involved in bringing academic expertise into community work, as well as in the education of future community development actors. (Brophy, Shabecoff 2001: 43)

6.4 Funding

As already mentioned above, Community Development Corporations work with a **variety of funding sources.** Most important sources are grants, loans, and donations in combination with tax deductions.

Grants can be received from foundations and governments (federal and state) (Brophy, Shabecoff 2001: 5) (Grogan, Proscio 2000: 86) (Rubin 2000: 5). In this respect, the Federal Community Development Block Grant (CDBG) program is of particular importance, which can be used for neighborhood redevelopment, economic support, and community facilities improvement. The federal government provides the money, which is distributed to projects by the local government. (Hamer, Farr 2009: 301-302)

Loans mostly come as low-interest loans for projects and are provided by banks (Brophy, Shabecoff 2001: 5) (Grogan, Proscio 2000: 86). Of great importance, the federal Community Reinvestment Act (CRA) forces financial institutions of the community in question to offer cheap loans to local CDCs to support their social work and the improvement of the neighborhood. (von Hoffman 2003: 254) (Hamer, Farr 2009: 300)

Donations to CDCs are made by foundations, companies, or private donors (Grogan, Proscio 2000: 86) Distinctive tax regulations exist for such donations, which are thereby made more attractive for businesses and private donors. (Brophy, Shabecoff 2001: 34) (Salamon 1995, S. 89)

CDCs can also earn their own **income**, e.g. through collecting fees for provided services (Rubin 2000: 6), or generate income through rents. (Rubin 2000: 6)

Besides other ways of funding, CDCs also benefit from **governmentally sponsored programs,** for example for affordable housing (Rubin 2000: 5), for redevelopment activities (Rubin 2000: 5), or for local projects (Grogan, Proscio 2000: 86).

On one hand, **financial matters are complicated** for CDCs, since there are too many sources and institutions involved. On the other hand, this broad financial portfolio enables them to be flexible if projects do not match particular programs or if funding sources fail. (Grogan, Proscio 2000: 86) Nevertheless, as already stated in chapter 5.5, federal money is crucial to CDCs, since loans and donations are mostly used in combination with federal money. (Grogan, Proscio 2000: 93)

7. Do nonprofit efforts contribute to a successful improvement of urban neighborhoods?

7.1 Success of Community Development Corporations

Overall, there is a lot of positive feedback on the work of nonprofit organizations. Finally, CDCs contributed to more stabilized neighborhoods in U.S. cities. (Held 2009, S. 138) DeFilippis and Saegert (2008: 331-332) describe it as "[…] vital component in the improvement of urban […] neighborhoods, and able to adapt to changing structural conditions." Further results of CDCs are the enhanced conditions in real estate markets and better job opportunities, as well as the safety in the neighborhoods where nonprofit organizations are active. (Zielenbach 2000: 15-16) Their achievements include more citizen participation, higher accountability, and a wide range of financial sources for community development activities. (Grogan, Proscio 2000: 73) Of course, the successful improvement of communities cannot be achieved by nonprofits alone, but CDCs often take the first step in bringing in new ideas, stimulate the economy, and support other neighborhood stakeholders in their activities. (Grogan, Proscio 2000: 75)

Even less enthusiastic authors describe the work of community organizations as necessary for distressed neighborhoods. In their opinion, CDCs' major contribution lies in being active in these neighborhood, at all. Without nonprofits, they argue, no entity would take care of these deteriorated communities. Therefore, every small success in such weak surroundings should be honored. (Stoecker 2008, S. 303)

7.2 Problems Community Development Corporations face

Beside the named positive feedbacks on CDCs, also negative ratings exist. One of the most obvious problems in the work of neighborhood based organizations lies in their restricted range as opposed to the general challenges they face. Problems occurring in the community are mostly based on problems on the local, state, federal, or global level. For example, the weak economy and high unemployment derive from higher levels and cannot be solved on the neighborhood level alone. (Glickman, Servon 2008: 46)

Another important issue arises through the resources available in the neighborhood. Community development can only use existing money, engagement, and structures to start with. After bringing grants and money into the neighborhood, the situation gets a little easier, but for example citizen involvement cannot be bought. If inhabitants of the neighborhood are not willing to participate, CDCs cannot force them. (Stoecker 2008: 305)

In addition, CDCs depend on money from external sources. Thereby, strings get attached to the projects and activities, which are hence provided by the organization, but paid by some outside source. Obviously, objectives and interests of these outside sources are sometimes not congruent with the need of the community. (Stoecker 2008: 306, 307)

7.3 Critique on Community Development Corporations

Critique on the development and the constitution of CDCs is formulated by some researchers. First of all, they criticize the unreflected cheering on the growing number of CDCs, missing the evaluation of their actual work. Even with a growing nonprofit sector problems

in the communities are still far from being solved. (Stoecker 2008: 303) In addition CDCs are seen as another developer, being focused on lucrative developments and in a process of losing their community roots. (Stoecker 2008: 303) More critique is expressed regarding the staff of community groups. Since they claim to be community-based they should employ community members. However, these citizens often lack experience and know how on leading community enhancement projects. Therefore, external staff is added to the organization. At this point researchers criticize the missing link to the neighborhood, since people from outside the neighborhood cannot be seen as grassroots participants in community development. (Peterman 2000: 52)

8. Conclusion – Nonprofits in urban redevelopment

In conclusion of the conducted research much information about nonprofits and specifically Community Development Corporations (CDCs) has been gathered. Using this gained knowledge the research question can be answered.

"Nonprofits in Urban Redevelopment – the U.S. American way to provide social neighborhood enhancement?"

Nonprofits in general play a special role in the U.S. Based on the country's history the government always took a weak role in the distribution of social goods. From the early beginnings communities provided health, education and family services. Even in these days most U.S. Americans do not expect the government to take care of social services. Nevertheless, governmental funding sources play an important role for nonprofits. Without federal, state, and local financing nonprofit organizations cannot provide their services.

On the neighborhood level a similar situation exists. Blighted neighborhoods could not be improved since the private market was not able to bring in necessary development and governmental care was not provided in a sufficient way. Therefore, mostly inhabitants of the communities came together and founded local and community-based nonprofit organizations: Community Development Corporations (CDCs). **These private, nonprofit corporations are now in charge of the improvement of the community**. CDCs fulfill this task by activating as many inhabitants, business owners, politicians, health and education stakeholders of the area as possible. Working with other community organizations and institutions they bring services to the neighborhood. Services include projects and support in housing, economic development as well as health, educational, and anti-poverty services. Thereby, the quality of life in the community gets improved.

Since distressed neighborhoods do not provide sufficient **funding sources**, CDCs have to collect money from outside of the community. As every nonprofit organization, CDCs get their income by governmental support, loans, and donations. Loans from banks (from the neighborhood) and donations by companies and private donors should not be underrated, but CDCs get the highest part of their budget from governmental sources. Federal, state, and local entities provide funding programs, grant programs or other ways of support. In

particular the Community Development Block Grant (CDBG), funded by the federal government and distributed by cities and counties, makes many community development projects possible.

Therefore, it can be stated that **social neighborhood enhancement in the U.S. happens directly on the neighborhood level**. In charge of these projects are not governmental institutions but private nonprofit organizations known as Community Development Corporations. Critique on the organizations occurs and problems in the neighborhoods still exist, but without these initiatives grounded in the neighborhoods itself no social enhancement of the communities would take place in the U.S. No social projects would be provided without CDCs and no collaboration of stakeholders on the community level would exist. **In conclusion can be stated that the U.S. model uses private nonprofit organizations to take care of social neighborhood services, although, not much would be achieved without the governmental financial support for community-based nonprofits like CDCs.**

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