



## COMMUNITY ENDOWMENTS FOR COMMUNITY FUTURES

Janet Topolsky

### Main Ideas

1) Community endowments are the community equivalents of Individual Development Accounts. They are collective nest eggs to fund local projects but they also have positive non-financial effects that can transform a community's future.

2) Community foundations are the fastest growing sector of charitable contributions in this country. They are flexible institutions that can be financed in many different ways and tackle a broad range of community needs.

3) Community endowments are a powerful means of building community capacity (see "Moving Beyond the Deal," page 35).

Almost a decade ago, I had the great good fortune to edit *The Entrepreneurial Economy Review*, the then bi-monthly publication of the Corporation for Enterprise Development (CFED). Once in a while, an author's idea grabbed me by the eyelids and changed my thinking for good. Chief among them was Michael Sherraden's thesis in *Assets and the Poor*, which CFED excerpted and condensed in the *Review* before the book's 1991 publication.

Today, of course, Sherraden's assets model is redefining the front of the "war on poverty." Moreover, there is growing acceptance of what intrigued me most in his work—the idea that asset ownership produces significant non-financial benefits, influencing the long-term prospects and the civic participation of asset-owning individuals and their families for generations to come. His oft-quoted tagline that suggests these non-financial effects of asset-holding still resonates: "Income may feed people's stomachs, but assets change their heads."

Recently, I began to hear echoes of Sherraden's asset motto in a different and larger context. For the past five years, I have helped manage the Rural Development and Community Foundations Initiative (RDCFI), a national multi-year effort sponsored by the Ford Foundation. One of RDCFI's aims is to help statewide and regional community foundations raise permanent endowment funds that will benefit low-income, asset-poor rural people and their communities. About two years ago it dawned on me: Small rural communities that were working hard to build a community fund seemed to be experiencing significant positive non-financial effects well beyond the slow but steady amassing of permanent philanthropic capital.

As one community endowment builder, Tom Cote of Scobey, Montana, put it: "Once you start raising an endowment, you really begin to get people's attention, and they start asking serious questions about what they want the community to become." Katharine Pearson, then of the East Tennessee Foundation, was even more direct: "If you're going to build [a] community endowment," she declared, "you must do community development."

So here is my proposal: Let's build more community endowments. Permanent philanthropic capital that is of, by and for the community is a missing link in the bundle of assets that all communities need to build better, more independent, desired futures. To parallel Sherraden's statement: Project funding may satisfy short-term community needs, but locally controlled, indigenous community endowments may help transform their future.

### COLLECTIVE NEST EGG

A community endowment works much like a permanent collective savings account, where the specified community determines how to distribute the earned interest. At regular intervals (e.g., annually or quarterly), a percentage of the endowment's earnings is distributed within the community, typically as grants, through a process determined by a community-based board that "governs" the endowment. The remainder of the earnings becomes part of the endowment principal.

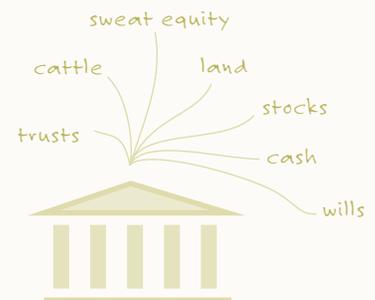
Community endowment =  
community development

One common and growing form of community endowment is held as an “advised” fund at a community foundation. Community foundations are tax-exempt private philanthropic organizations that raise and manage a wide range of permanent endowment funds. In turn, these [invested] endowments generate a stream of revenues to support charitable activities within the geographic area served by the foundation.

Community foundations are not yet well known on the streets of America, but they are the fastest growing sector of charitable contributions in this country. The more than 500 community foundations today hold a combined total of at least \$20 billion in assets.

One beauty of community foundations is their flexibility as a mechanism and support for local endowment building. At a community foundation, local donors may establish any of a wide variety of endowed funds. The donor may tightly or loosely specify the purpose for which the fund must be used, or may leave it to the community foundation’s discretion. A “donor” that sets up an endowed fund may be an individual, a family, an organization, a set of unrelated individuals with a common purpose, or a whole community. Donors may establish endowed funds at a community foundation through donations of cash, real property (like land, art, cattle, or stamp collections), stocks, “sweat equity” that triggers other donations, or financial assets (like wills or trusts).

Although they are established as donor-service organizations, community foundations occupy a central, grounded and non-partisan position in a community. In addition to building endowments and making grants, they can convene community stakeholders, foster unique partnerships, broker technical assistance, leverage other resources into play, build bridges, and foster “unprecedented conversations” among people, places, and organizations. In short, community foundations can help build the capacity communities need as they strive to help themselves.



### **ASSETS FOR THE FUTURE**

Why build community endowments? Many communities—whether urban neighborhoods or rural towns—live essentially hand-to-mouth. Typically, they depend on the distribution of the community’s annual income (tax revenues) and local charitable drives just to meet their basic and immediate community priorities. Often, when more extensive community investment is necessary, local leaders must appeal outside the community for funding, from sources like state government or private foundations that tend to be unpredictable or inflexible. So even when local needs and opportunities are well defined and a community’s energy strong, many communities lack a solid base of locally controlled, permanent philanthropic assets on which to build their future.

Establishing a community endowment that includes broad and inclusive community representation in its governance and decisionmaking structure can begin to build a community’s assets in much the same way that Individual Development Accounts help build individual family assets. Indeed, to get back to Sherraden’s non-financial effects of asset ownership, many small communities in RDCF that have endeavored to build community endowments exhibit parallel effects.

Take Daniels County, in the remote far northeast corner of Montana. The recent efforts of individuals in one small town, Scobey, to build a community endowment eventually inspired two competitive neighboring towns to join in and mount a countywide effort. A new generation of county residents—from all perspectives and walks of life—has started working with the “old guard” to improve the area’s future. The fundraising effort itself has required a comprehensive countywide education effort about endowments, using the newspaper, the radio, public forums, and one-on-one meetings, which is causing people to ask new questions about the community when thinking about how the endowment proceeds might be used. Fundraising efforts are bringing people out of the woodwork and building community peer pressure and social capital, as “paper-a-thon” contributors or radiothon listeners challenge fellow community members who attended a certain high school or who have a spare bale of hay to “put your asset where your community is.” Children’s piggy bank donations, and teenagers’ yard work and babysitting pledges or help at community gatherings are as highly valued as the larger gifts made by trust benefactors, giving these youngest residents both pride and stature in the community. County citizens have journeyed to other communities to share their story and to the state capital to press for a tax credit for charitable contributions to community funds.

This great story parallels what Sherraden calls the “welfare effects of asset ownership” on individuals. Replace his “household” or “personal” with “community,” and imagine how a local endowment can help:

- Improve community stability.
- Create an orientation towards the future.
- Stimulate the development of other assets.
- Foster focus and specialization.
- Provide a foundation for risk taking.
- Increase community efficacy.
- Increase social influence.
- Increase political participation.
- Enhance the welfare of offspring.

Are there issues and difficulties and politics involved in creating community endowments? You bet there are. But if the local will exists, most can be addressed if a broad range of community members just sits down and works together to devise a strategy and a plan. And so, **the nurturing of a community’s endowment can contribute to building a community’s capacity to make better decisions about—and act on—its future.**

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Janet Topolsky’s argument for community endowments brings together some important concepts—assets, community values, local control, stewardship, markets, and performance—all unified by a growing form of community financing. These endowments may be a key ingredient for a dynamic and inclusive economy. This is the community equivalent of IDAs.