Partnering with Philanthropy in Community-Based Capital Projects

Overview

Philanthropy can be a critical partner in community-based capital projects — not only as a funder, but also as a strategic ally in advancing community-led development. While many organizations know philanthropy primarily as a source of program grants, philanthropic partners can support capital projects across the full project lifecycle — from early visioning to long-term operations.

A key distinction between philanthropy and traditional financing is flexibility. Philanthropic partners can often engage earlier, take on greater risk, and align more closely with community priorities. This flexibility is especially important for community-based projects that may not yet meet conventional lending requirements

In addition to funding, philanthropic partners can:

- Assess to trusted relationships with other community organizations and local stakeholders
- Provide credibility that can help attract additional funders and public-sector partners
- Convene power to align cross-sector collaborators
- Offer strategic guidance and support on equity, implementation, and long-term impact
- Give flexible resources that can adapt as the project evolves

The Role of Philanthropy Across the Capital Project Lifecycle

Community-based capital projects often develop over multiple years, and the type of support needed shifts over time. Philanthropy can play different roles at each stage of the project lifecycle.

1. Predevelopment & Visioning

Philanthropy can be an important partner in the earliest stages of a project — not only through funding, but also through relationship-building, strategic support, and technical assistance that many traditional financial institutions do not provide.

At this stage, projects are often still building community support, refining their vision, assessing feasibility, and developing the partnerships needed to move toward implementation. Because many lenders or investors are hesitant or unable to engage this early, philanthropic partners can help organizations strengthen projects before they are finance-ready.

Support may include financial and non-financial contributions, such as:

- Funding for community engagement, feasibility studies, or other predevelopment activities
- Connecting organizations to technical assistance providers, consultants, or peer organizations
- Providing strategic thought partnership and feedback during project planning
- Convening stakeholders and building cross-sector relationships
- Providing access to meeting space, networks, or community partnerships
- Supporting organizational capacity through coaching, mentorship, or leadership development

These early investments help organizations strengthen project readiness, reduce uncertainty, and position projects to access larger public and private capital sources.

2. Core Project Financing: (see below for more information about financing mechanisms)

As projects move toward implementation, philanthropy can support the broader capital stack through:

- Grants
- Program-Related Investments (PRIs)
- Forgivable or low-interest loans
- Loan guarantees or credit enhancements
- Recoverable grants

Philanthropic capital often fills roles that conventional financing cannot, helping to reduce risk and improve project feasibility.

3. Gap Financing

Many community-based projects face funding gaps caused by construction costs, limited revenues, or delayed reimbursements. Unlike core project financing, which supports primary development and construction costs, gap financing addresses shortfalls that emerge after the main capital stack has been assembled and often provides the final resources needed to move a project forward.

Philanthropy can help by:

- Filling last-dollar gaps
- Reducing reliance on debt
- Providing short-term bridge funding during critical project phases
- Supporting projects that do not generate revenue or have components that do not yet generate return in paying back debt

These contributions are often critical to maintaining project momentum.

4. Long-Term Operations

After a project opens, ongoing resources are often needed to sustain programming, support day-to-day operations, and ensure the space remains active, welcoming, and accessible to the community. Philanthropy may provide support for:

- Community programming and events
- Staffing and community engagement
- Facility operations and maintenance
- Resident-serving initiatives and partnerships based in the facility
- Evaluation, learning, and impact measurement

In many cases, this support is provided through grants that sustain programming, staffing, community services, and other mission-driven activities that may not generate significant revenue.

Mechanisms and Financing types

Beyond grants, philanthropy uses financing mechanisms that provide greater flexibility than traditional capital and can help unlock additional investment.

Program-Related Investments (PRIs)

PRIs are mission-driven investments made by foundations at below-market rates with the expectation of repayment. They are commonly used in community development and capital projects to provide flexible, catalytic capital to projects that align with mission and values of the philanthropy.

PRIs may take the form of:

- Low-interest loans: Direct loans with below-market interest rates
- Loan guarantees: Commitments that reduce lender risk and help projects qualify for financing
- Equity-like investments: Repayment structures tied to project performance rather than fixed schedules
- Other recoverable financing structures: Flexible structures with repayment tied to milestones or outcomes

Recoverable Grants / Recoverable Loans

Recoverable grants are flexible financing tools that function similarly to low- or no-interest loans, but with more adaptable repayment terms than conventional debt. Unlike traditional grants, these funds are intended to be repaid if a project succeeds or reaches agreed-upon milestones, allowing foundations to recycle capital into future community investments. Repayment may be tied to project cash flow, milestone achievement, or other flexible conditions, and foundations may defer or partially forgive repayment when community outcomes are achieved.

They are commonly used to support early-stage and time-sensitive project needs, including:

- Predevelopment activities before permanent financing is secured
- Acquisition or site control opportunities requiring fast action
- Early project costs such as environmental studies, permitting, or design
- Supporting projects with delayed public reimbursements or tax credit equity

Loan Guarantees

Loan guarantees allow project proponents to reduce lender risk by committing to cover a portion of potential losses if a borrower cannot repay a loan. Rather than providing capital directly, foundations use their balance sheet or assets to:

- Unlock conventional bank financing
- Improve loan terms or lower interest rates
- Increase lender confidence in community-based projects
- Support organizations with limited collateral or development history

Bridge Loans

Bridge loans provide short-term financing to help organizations cover immediate project costs while waiting for committed funding to arrive. Community-based capital projects often experience timing gaps between when expenses must be paid and when reimbursements, grants, tax credits, or permanent financing are received.

Bridge financing can support:

- Construction draws and contractor payments
- Delayed government reimbursements
- Timing gaps between grant awards and disbursement
- Acquisition costs while permanent financing closes
- Cash flow stabilization during project development

Expanding Your Funder Network

Community and Regional Foundations

Community and regional foundations can be strong partners for locally focused projects because of their deep commitment to the communities they serve. In addition to providing grant opportunities, these foundations often maintain relationships with other funders and may be able to facilitate warm introductions or connect organizations to broader funding networks.

Funder Research and Foundation Profiles

Several platforms can support funder discovery and due diligence:

- Candid
- GuideStar
- Cause IQ

These databases provide access to grantmaker profiles, IRS Form 990 filings, financial information, leadership details, and funding histories. They can be useful for identifying aligned funders, researching philanthropic priorities, and assessing potential fit with your project. Most offer both free and paid access options.

Learning More About the Philanthropic Sector

For those interested in taking a deeper dive into philanthropy trends, funder priorities, and developments across the nonprofit sector, the following publications offer valuable insights and resources:

- Inside Philanthropy
- The Chronicle of Philanthropy
- Nonprofit Quarterly

These outlets regularly publish insights on grantmaking trends, foundation strategies, fundraising practices, and emerging issues in the nonprofit sector. There are both free and paid content options.