ACCELERATING IMPACT INVESTING INITIATIVE AI3 | INSIGHT AT PACIFIC COMMUNITY VENTURES | Enterprise | INITIATIVE FOR RESPONSIBLE INVESTMENT

Catalyzing Impact Investment through Policy Innovation: Building Economically Vibrant and Sustainable Low-Income Communities

Thursday, June 26, 2014 |The Ford Foundation, New York, NY

Event Summary

IN BRIEF

The Accelerating Impact Investing Initiative held its third public convening on June 26, 2014, engaging a targeted group of 40 practitioners in dialogue about concrete opportunities for policy reform in the U.S., with the goal of catalyzing private investment for two key outcomes:

1) Creating quality jobs in underserved communities; and
2) Delivering sustainable, just, and healthy built environments.

Attendees:

Over 40 people were in attendance, representing a wide range of players in the impact investing ecosystem. These included financial institutions (e.g. Goldman Sachs and BAML Capital Access Funds); public offices (e.g. the White House Office of Social Innovation and Civic Participation and Pension Benefit Guaranty Corporation); CDFIs and other intermediary institutions (e.g. LISC, The Reinvestment Fund and CEI); and foundations (e.g. F.B. Heron Foundation, Surdna Foundation and Ford Foundation).

Summary Takeaways:

1. Policy reform will require an enduring, broad-based coalition of supporters from multiple sectors, united around a common, core set of goals.
2. Legislative change is unlikely in the short term; immediate reform efforts should focus on enhancing the effectiveness of existing policies through regulatory changes and education initiatives.
3. Sector-specific reform efforts are not productive at this point; we must provide the supporting context of a broader impact investing policy landscape first, including by building out the policy map AI3 has developed.
4. The NAB report released June 25th is a "playbook" for the field; building on the NAB's work will require a concerted effort to prioritize recommendations and rally supporters.
5. There is tremendous opportunity and need for sharing lessons across sectors and existing federal programs.
6. Higher standards for data collection and wider sharing of impact can be highly effective.
7. Going forward, AI3 will focus on two key work streams, AI3 Action and AI3 Learning.

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SESSION OVERVIEW

The meeting included introductory remarks from Lisa Davis (Ford Foundation), Terri Ludwig (Enterprise Community Partners), and Beth Sirull (Pacific Community Ventures). Following their remarks was a plenary panel conversation with David Wood (Initiative for Responsible Investment), Ellen Seidman (Urban Institute), and Jonathan Greenblatt (White House Office of Social Innovation and Civic Participation), and two breakout sessions focused on job creation and built environments.

Through research and convening in the past year, the AI3 has identified a set of policies that are already (or have the potential to be) critical to harnessing private investment for job creation in low-income communities and the creation of sustainable built environments. These policies provided a focal point for discussions and were highlighted in two-page briefs provided to attendees ahead of the meeting.

1. Program Related Investments (PRI)
2. New Markets Tax Credit (NMTC)
3. Rental Assistance Demonstration (RAD)
4. Jumpstart Our Business Startups (JOBS) Act
5. UK Social Investment Tax Credit
6. Small Business Investment Company (SBIC) Program
7. Employee Retirement Income Security Act (ERISA)
8. Affordable Housing Programs for Government-Sponsored Enterprises (GSE)
9. Community Reinvestment Act (CRA)
10. Community Development Financial Institutions (CDFI) Fund
11. Low Income Housing Tax Credit (LIHTC)

The meeting followed the release from the previous day of *Private Capital, Public Good - How Smart Federal Policy Can Galvanize Impact Investing – and Why It's Urgent*, the final report published by the U.S. National Advisory Board (NAB) to the Social Impact Investing Taskforce. The meeting presented an important opportunity both for soliciting input on ways to engage policymakers and for continuing to build a community of practice and advocacy. Building off of this work, AI3 will be publishing policy recommendations and a strategy for action in the fall.

To be sure, the NAB's critical work has delivered a "playbook" of options for accelerating impact investing though policy, as Jonathan Greenblatt explained during the meeting. AI3 is committed to building on this work and moving from ideas to action, emphasizing critical legacies, like community finance, and the importance of learning from, strengthening, and leveraging this existing market infrastructure.

The range of new investment products built on public private cross-sector development, such as infrastructure banks, pay for success finance models, and new tools for credit enhancement, has bolstered the connections between investors and policymakers. And investors themselves -- retail, high-net-worth, endowments and institutions – are searching for opportunities to invest in products that deliver both social and financial returns.

Our challenge is to take discussions about developing innovative public-private partnerships that tend to be limited to sector-specific policies, and provide the supporting context of a broader impact investing policy landscape. The goal of the AI3 is to build better ways to identify, evaluate, and promote policies that effectively utilize private capital investment to create intended social benefits, with the goal of increasing cross-sector capacity for effective policymaking and implementation.

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Opening Panel

Key Takeaways:

1. Community finance sector could benefit from trying to attract capital from investors not bound by legislation to invest
2. Administration is key player in midst of Congressional deadlock
3. We should consider opportunities presented by Affordable Care Act
4. NAB report can be instrumental blueprint for the field
5. Coalition-building should be prioritized

David Wood led an introductory discussion with Ellen Seidman and Jonathan Greenblatt on the need and opportunity for policy reform, especially in light of the newly released report from the U.S. NAB.

Ellen emphasized the need to focus on the characteristics of investors; in essence, she noted, we are talking about new ways of bringing in investors who are not "bound" to community finance through regulation. She discussed CRA legislation in particular, observing that reform efforts might succeed in changing the way funds are distributed, but that increasing the pool of capital would require extending the policy to include other fiduciaries like insurance companies – a difficult legislative change. In the midst of the current deadlock in Congress, Ellen said, the Administration is a key player. Finally, concerned by the absence of health from the agenda (a result of the SOCAP Health conference taking place the same day in New York), Ellen pointed out that Community Benefits regulations within the Affordable Care Act present tremendous opportunities for impact investing.

Reiterating Ellen's point about the role of the Administration, Jonathan spoke about the convening power of his office and its ability to promote change through signaling to the market. He described the NAB report as a playbook and "blueprint for reform" uniting cross-sector stakeholders. He noted the clear thread line connecting community development to impact investing, and, in a sentiment that would be echoed throughout the day, emphasized the need to build broad coalitions around reform initiatives.

Working Session I: Creating quality jobs in underserved communities

Key Takeaways:

1. Change restricting definitions of fiduciary duty, such as those within ERISA and PRI legislation, which dissuade investors from committing capital to impact.
2. Improve data collection to boost program effectiveness; i.e. track the amount of *quality* jobs created by an SBIC investment, rather than simply jobs created.
3. Incentivize investors to take more risk; i.e. weight CRA credit by amount of risk involved.
4. We must consider tradeoffs involved in any reform effort – action vs. education, executive vs. legislative-level change, what is most needed vs. what will likely have broad support, etc.

Participants focused on the opportunity to better target and coordinate existing policies as a mechanism for creating quality jobs leveraging impact investing, including through disclosure.

Ideas included: strengthening the connection between the SBIC and NMTC programs; examining opportunities in public and private sector procurement to support more impactful enterprises (including

nonprofits and hybrids); elevating the workforce development aspects of other public sector efforts in community and economic development, like affordable housing; broadening the definition of impact within the SBIC program; requiring additional disclosure related to the quality of jobs in programs that have employment as an explicit or implicit objective, including CRA, SBIC, and NMTC; updating the IRS definition of "charitability" for foundation mission- and program-related investments; and enhancing CRA more broadly ("could we create a LEED-type rating system for CRA investments and offer additional CRA credit for taking more risk", one attendee asked). Attendees also reiterated their interest in, and commitment to, reform of ERISA.

One new innovation piqued the group's interest: the prospect of adapting the UK's newly enacted social investment tax relief to the US, most likely leveraging CDFIs as the vehicle of choice for tax-advantaged investment.

Attendees emphasized the broad range of important questions and trade-offs the AI3 would need to consider moving forward: whether to pursue executive or legislative reform; focusing on action or education; identifying the tools required in various reform efforts and the impact being sought; prioritizing opportunities likely to have a coalition behind them; the capacity of investees to absorb capital; and other stakeholders to involve, including banks and community development organizations.

Attendees stressed the importance of a focus on education in particular. They noted that existing programs can be used in new ways, and that investors should be encouraged and incentivized to take more risk. Standards for reporting on important social priorities – like job quality – should be developed. Participants also urged the AI3 not to shy away from developing a legislative agenda for impact investing, which is much needed.

In conclusion, participants said the AI3 should think hard about its unique role and the kind of policy opportunities that will attract broad coalitions of support – mindful of the dynamics on both sides of any issue (a key concern for public officials).

Working Session II: Delivering sustainable, just, and healthy built environments

Key Takeaways:

1. Requiring greater disclosure by investors can be key opportunity for impactful reform.
2. Important to factor in considerations of social equity and access to opportunity in risk assessment and reporting
3. Role of the AI3 can extend beyond making policy recommendations; identifying and publicizing existing policy infrastructure can help practitioners develop "multilingual leadership"
4. We ought to look more deeply at other market sectors (like tax-exempt bond market, health care and delivery, resilience, and transportation) for policies that can be leveraged to advance equity and access to opportunity.
5. Ongoing priority should be sharing lessons across sectors and policies.

ERISA was a subject of consideration in this working group also, although it was noted that community development does not currently have the product available to absorb pension fund capital at scale.

Disclosure requirements were identified as an important and relatively practical opportunity for reform, with big impact. For example, if any financial instrument gets special tax treatment (tax-exempt bonds,

etc.), the project's social and environmental impacts should be reported clearly. Attendees also emphasized the importance of building social equity and access to opportunity into existing disclosure standards, risk analyses (including a public risk assessment), and cost/benefit studies. Green bonds were cited as an example where investment bankers had done this work. The term "high-road infrastructure" struck a chord as a way to distinguish public-private partnerships that emphasize delivering intentional social and environmental impacts (in their construction and management) in addition to financial returns to their investors.

Delegates suggested the AI3 could help in other ways beyond merely making policy recommendations. The policy map could be further developed, for example, with policy briefs relating to new and existing interventions that contribute to the impact investing ecosystem. This resource would help practitioners from all sectors develop the "multilingual leadership" skills required to grow the field and build coalitions. Participants also noted that there are opportunities to look harder at specific market sectors with impact, including the $3.7 trillion tax-exempt bond market, health care and delivery, resilience, and transportation, with a view to policies that can be leveraged to advance equity and access to opportunity. Policy briefs could be prepared in each of these areas and partners identified for advancing the work.

An important ongoing priority should be sharing lessons across sectors and policies. For example, CRA and community benefit reporting requirements for nonprofit hospitals under CRA are both disclosure-based policies that could learn from each other. Schedule H of a hospital's 990 standardizes the definitions of what counts as community benefit, as well as reporting methods around community needs assessments, but contains no regulatory "hammer" to ensure that community benefit activities are carried out. CRA, by contrast, results in placed-based investment activities, but does not have a sophisticated baseline for ensuring those dollars are invested for community benefit (of high-quality).

NEXT STEPS

Above and beyond the immediate goal of publishing policy recommendations and an advocacy strategy in the fall, AI3 is focused on two key work streams, AI3 Action and AI3 Learning.

- **AI3 Action** will serve as the advocacy arm of AI3, with a focus on refining specific policy recommendations, prioritizing these reforms, building coalitions, honing messages, developing and executing an audience-oriented communications strategy, engaging and educating policymakers and, ultimately, enacting and implementing policy changes. AI3's fall strategy will include 3-4 policy priorities to which AI3 Action will devote the bulk of its time and resources. The strategy agenda will build off of the work of the NAB, but will not necessarily be limited to the solutions identified in the NAB report.

- **AI3 Learning** will be a central repository for information on US impact investing policy, collecting policies, summarizing them in a format accessible to a variety of audiences, and engaging in deeper dive research on issues and topics of particular interest. AI3 Learning will develop tools and produce research for a diverse stakeholder audience, with the goal of developing high quality impact investing policy. AI3 Learning will also play a convening role that complements AI3 Action, engaging experts in dialogue around specific policy ideas and themes.

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