Pacific Community Ventures

Meeting the Moment:

U.S. Impact Investing Policy, Inequality, and COVID-19 Recovery

A scan of promising impact investing policy ideas for consideration by the Federal Government

October 2020

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About the Author

Pacific Community Ventures (PCV), a nonprofit social enterprise and community development financial institution (CDFI) based in Oakland, California, envisions a world of thriving communities where everyone has a fair shake. Our mission is to invest in small businesses, create good jobs for working people, and make markets work for social good. We achieve our mission through a combination of fair lending, free mentorship, skilled volunteerism, impact investing consulting services, and field-building research.

This discussion paper was developed by PCV's Research and Consulting team, which leads projects intended to foster the growth and increase the efficacy of the impact investing field. PCV's experience in impact investing policy has both inspired and informed this research. Since 2009, PCV has examined the role that public policy has played in supporting the development of impact investing globally. In partnership with the Initiative for Responsible Investment (IRI) at Harvard University, PCV developed a framework for policy design and analysis that was used globally to develop and implement impact investing policies. PCV and IRI also worked together through the Impact Investing Policy Collaborative to engage investors and policymakers to foster a global conversation on the role that policy could play in enabling impact investing's growth – contributing research and knowledge to the G8 Social Impact Investment Taskforce. More recently, PCV and IRI collaborated with Enterprise Community Partners through the Accelerating Impact Investing Initiative (AI3) to support impact investing policy in the U.S. PCV has also examined federal policy as part of our research and work with investors and businesses on job quality to encourage investments in quality job creation.

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SUPPORTED BY

The Tipping Point Fund on Impact Investing
Support for this research was provided by the Tipping Point Fund on Impact Investing, a project of the New Venture Fund. The views expressed here do not necessarily reflect the views of the Tipping Point Fund on Impact Investing or New Venture Fund.

Acknowledgments

We would like to thank all our colleagues and partners who have engaged with us on this research. Your willingness to share your insights was invaluable, and we thank you for your thoughtful contributions to our research and continued efforts to utilize impact investing in the U.S. to build wealth. Special thanks to the impact investing, community development, and policy practitioners and thought leaders who lent their expertise to this paper by participating in interviews and sharing research (for a full list of interviewees who contributed their ideas on impact investing policy, see Appendix C). This paper would not be possible without the stewardship of Justin Fier, Managing Director of PCV's Research and Consulting team. We also thank PCV's President & CEO Bulbul Gupta for her leadership, guidance, and feedback throughout this process.

We would like to extend further thanks to Fran Seegull and John Cochrane from the U.S. Impact Investing Alliance for their leadership on advancing an impact investing policy agenda in the U.S. and for their valuable support throughout our research.

Finally, we are deeply grateful for the financial support of the Tipping Point Fund on Impact Investing and its group of donors, without whom this research would not have been possible.

Foreword

The COVID-19 pandemic has fundamentally altered the fabric of our nation's social and economic life. Unemployment reached a record high of 14.7 percent in April as businesses were forced to lay off employees.[1] The number of active small businesses dropped by 22 percent in the U.S. – the largest such decline on record – between February and April 2020.[2] Forty-one percent of Black-owned small businesses and 32 percent of Latinx-owned small businesses had gone under by April.[3] And yet much of the devastation wrought by this crisis is all-too familiar. In the 2009 recession, 66 percent of Latinx and 53 percent of Black household wealth was wiped out, as these communities suffered the greatest losses of jobs and homes.[4] Federal recovery efforts were insufficient to meet the needs of the most marginalized Americans – especially Black, Indigenous, and People of Color (BIPOC) – and wealth inequality by race and ethnicity widened in the jobless recovery in subsequent years.[5] One decade later, many individuals, families, and entire communities that were still struggling to build back have been the most affected again, and we stand on the precipice of wiping out another generation of Black wealth in this country.

The federal policy response to COVID-19 has been similarly insufficient, and the effects of the crisis have once again disproportionately hurt the most vulnerable. BIPOC communities are more likely to contract and die from the virus than white Americans, an overlap of environmental, economic, and racial justice we now better understand and see.[6] And they are more likely to experience job loss and face evictions or foreclosures as a result of the economic downturn.[7,8] The pandemic and its effects have made clear the need for new solutions and increased support at the federal level for struggling local economies.

These under-invested communities cannot afford for us to return to "business as usual." The pre-crisis economy too often left them behind. The change needed to build an economy that works for everyone requires changemakers dedicated to imagining better. Community development leaders and impact investors, with deep ties to their communities and a history of finding creative solutions to intractable challenges, are well-positioned to take up this call. Organizations like ours were born out of federal policy that came from the Civil Rights Movement to address systemic discrimination and redlining in the financial industry. We must all strive to meet this moment by identifying and supporting smart federal policies that redirect or unlock new capital and build a new economy centered in racial justice and economic equity, where everyone has the opportunity and support they need to thrive.

This is the work that brought me to PCV just over a year ago, learning from the small Main Street business communities we work with directly to better support them year-over-year in creating quality jobs in historically low- to moderate-income communities, and better advocate for them at the local, state, and federal levels. This is how we at PCV continue to affect systemic change towards justice and equity. Please join us.

Bulbul Gupta
President & CEO
Pacific Community Ventures

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Introduction

The COVID-19 pandemic's toll on low-income families, frontline workers, small businesses, and communities of color has laid bare the consequences of income, wealth, and racial inequality in the U.S. Tens of thousands of Americans are contracting the virus daily, millions of workers have lost their jobs, businesses are shutting down, and whole communities are suffering; in response, impact investors have begun to mobilize private capital to support the vulnerable, sustain businesses, and keep struggling communities afloat.

Despite the momentum in responding to present crises, the effects of COVID-19 are likely to be felt for many years to come. Like the 2008 global financial crisis, the economic shock caused by the pandemic will only exacerbate existing inequality in the U.S. Given this reality, impact investors must scale their efforts to support a more equitable COVID-19 recovery that addresses inequality through a renewed focus on supportive public policy and coordination with the federal government.

While social and economic inequalities are not new in the U.S., the events of 2020 have brought them to the fore of national consciousness. Impact investors have long focused on addressing the gaps in opportunity and outcomes that plague communities throughout the U.S. – and for good reason: over the last several decades, inequality has steadily risen, increasing during periods of both economic growth and recession and across presidential administrations and congresses. From 1979 to 2016, the average household income of the top 1 percent increased 226 percent, whereas the average income of the bottom 20 percent grew just 79 percent.[9] The share of wealth held by the top 10 percent of Americans also increased from 67 percent to 77 percent from 1989 to 2016, whereas the share of wealth held by the bottom 50 percent decreased from just 3 percent to 1 percent.[10] Among the bottom 50 percent, 1 in 10 families had negative net worth in 2016.[11] Disaggregating the data by race, it is clear that white Americans have fared far better than other groups: for example, the median net worth of a white family was approximately ten times greater than that of a Black family in 2016.[12] Today, the U.S. has one of the highest rates of inequality among the Organization for Economic Cooperation and Development nations, outpaced only by Chile, Mexico, and Turkey.[13]

These statistics are alarming not only for the injustices they reveal, but also for the risks they present. Inequality in the U.S. negatively affects the lives of millions of Americans but also poses significant risks to markets - and society more broadly - including decreased consumer demand, reduced long-term investment performance, depressed economic activity, and greater social unrest.[14]

While federal, state and local public resources have been mobilized to respond to the crisis, the sheer scale of the need has strained already limited public budgets.[15] COVID-19 presents new opportunities for impact investors, working in concert with policymakers, to find sustainable solutions to address inequality. Impact investors can play a significant role in rising to meet this moment, helping the country build back better by making targeted investments that build wealth, especially among Black, Brown, Indigenous, and rural communities and women. To create lasting change, the impact investing community must renew discussions with civil society and government about reforming and enacting new federal policies, rules, and regulations that will increase the flow of private capital toward addressing the fallout from COVID-19.

About this Research

This discussion paper examines how impact investing policy can be used to help private capital address inequality and support COVID-19 recovery efforts in the U.S. The research is based on a scan of impact investing policies at the state, local, and federal levels, and includes an exploration of examples from outside the U.S. The recommendations, while drawn from various levels of government, are all intended to be realized at the federal level.

This research includes a set of policy ideas that could enable private capital to be put to greater use alongside public resources. The policy ideas have been surfaced through desk research that included an examination of existing and past impact investing policies around the world, the work of various National Advisory Boards on impact investing policy, impact investors' efforts to address challenges emerging from COVID-19, and targeted approaches within impact investing that build local wealth, especially for individuals and communities disproportionately affected by inequality. Furthermore, the policy ideas included herein were informed by interviews with impact investing practitioners, public policy experts, job quality thought leaders, academics, researchers, and others from around the world who offered their perspectives on impact investing policies that could be either adapted or adopted as part of COVID-19 recovery (*for a full list of experts interviewed as part of this research, see Appendix C*).

While this research is based on a broad policy scan, it is by no means comprehensive; and is intended to present a set of initial ideas to help guide conversations on impact investing policy and lay the groundwork for a more comprehensive, detailed impact investing policy agenda in the U.S. going forward. Furthermore, some policy ideas presented herein contain more detail than others on specific mechanisms or steps for implementation. As such, many of the policy ideas – especially those involving the creation of new investment vehicles or institutions – merit additional research.

This paper intentionally excludes important areas of impact investing policy that other researchers are currently examining through support from the Tipping Point Fund on Impact Investing, such as increased support for CDFIs, the Community Reinvestment Act (CRA), fiduciary duty standards, Opportunity Zones, development finance, and impact considerations in financial regulation.

Finally, this paper is intended to spark discussion. As such, the researchers encourage feedback and ask that readers share their thoughts and approaches for smarter, more targeted impact investing policy in the U.S. In addition, our team will be reaching out to impact investors, policymakers, and members of civil society to discuss the ideas contained in this paper and prioritize a shortlist of impact investing policies for additional research to be shared in a subsequent white paper.

The Role of Public Policy in Impact Investing

Public policy plays an important role in shaping the impact investing market in the U.S. and influences the supply, demand, and intermediation of capital. As demonstrated in the timeline on page 8, impact investing policy – or the laws, regulations, and public-private partnerships that drive private capital toward social and environmental value creation – have a longstanding history in the U.S.

Impact investing policy has created important community investment market infrastructure, including CDFIs that support underserved communities. Federal policy has also enabled innovations like Pay For Success (PFS) and incentivized the entrance of new market participants and sources of private capital. Collectively, this policy infrastructure has shaped the impact investing market in the U.S., forging paths for institutional and individual investors to put their capital to work toward better outcomes for American families, workers, and communities.

While many of the policies outlined in the timeline have been critical to growing impact investing in the U.S., it is important to recognize that impact investing exists within a broader policy ecosystem that affects associated investment activity and impact in communities. For example, broader tax policy can affect the relative attractiveness of tax incentives used as part of impact investing policy.

While the historical and present connection between public policy and impact investing is not widely considered by most impact investors in the U.S., understanding the role of policy in impact investing and the opportunity to use it in this moment of crisis is critical to growing the market. Through supportive policy, impact investing can more meaningfully address the challenges presented by the spread of COVID-19 – and the stark inequality the pandemic has made all the more apparent.

Timeline of Notable Impact Investing Policies in the U.S.

1932-1938 — Creation of the Federal Home Loan Bank System, the Federal Housing Administration and Fannie Mae

1958 — Small Business Investment Company (SBIC) Program created

1965 — Department of Housing and Urban Development (HUD) created

1969 — Program Related Investment regulation enacted

1974 — Housing and Community Development Act (includes CDBG and Section 8) passed

1975 — Section 330 of the Public Health Service Act (PHSA) passed

1977 — Community Reinvestment Act (CRA) enacted

1986 — Low Income Housing Tax Credit (LIHTC) enacted

1991 — National Community Development Initiative (Living Cities) created

1992 — Energy Star program created; Renewable Energy Production Tax Credit enacted

1993 — HUD Demonstration enacted

1994 — Federal Charter Schools Program created; Community Development Financial Institution (CDFI) Fund created

2000 — New Markets Tax Credit (NMTC) enacted

2009 — White House Office of Social Innovation and Civic Participation created; Healthy Food Financing Initiative (HFFI) launched; American Recovery and Reinvestment Act (ARRA) enacted

2010 — First B Corp legislation passed; Affordable Care Act (ACA) enacted; Jobs Act enacted

2013 — First Pay for Success project begun in New York City

2017 — Opportunity Zones created under Tax Cuts and Jobs Act

2018 — Social Impact Partnerships to Pay for Results Act (SIPPRA) passed; Better Utilization of Investment Leading to Development (BUILD) Act passed, creating U.S. International Development Finance Corporation

A Framework for Classifying Federal Impact Investing Policy

To understand the different ways federal policy can be used to advance impact investing, it is helpful to classify policies according to the types of interventions and the levels at which market actors operate. Drawing from PCV's research with Enterprise Community Partners and the Initiative for Responsible Investment at Harvard University, the following impact investing policy map offers a framework for thinking about federal impact investing policy writ large, and presents a system for classifying the policy ideas outlined in this paper.[16]

The framework includes three "levels," or categories that describe the types of policies and the functions they perform:

SECTOR TARGETS, or types of policies that focus on advancing specific goals and achieving targeted outcomes in particular impact sectors or themes through impact investing. The vast majority of impact investing policy falls within this category, as relevant policies typically address specific social outcomes, rather than support impact investing market-building more broadly.

MARKET INFRASTRUCTURE, or types of policies that shape market conditions by boosting the supply of private capital for impact investment, directing existing investment capital toward more socially beneficial investments, or supporting the development of investable opportunities. These policies are broad and cut across impact sectors and themes. In addition, these policies can be further classified according to supply development, directing capital, and demand development.

PUBLIC SECTOR LEADERSHIP AND COORDINATION, or types of policy infrastructure, institutional knowledge, and capacity among high-level public leaders to convene stakeholders, collaborate with impact investors, and educate and disseminate information among other policymakers and the broader public. This level of policy – often realized through executive orders or agency-level initiatives as opposed to legislative activity – enables the government to grow its expertise in impact investing and disseminate knowledge to support policymakers and impact investors alike in creating better outcomes for the American public.

Policy Levers for Impact Investing in the U.S.: An Orientation

Understanding the interconnected entry points for activating and shaping the impact investing market

1 Public Sector Leadership And Coordination

Developing platforms and the capacity for ...

Activities and Approaches

Administrative/legislative capacity
Bully pulpit
Convenings
Data and information
Education and communication
General principles

Audiences
Key actors driving policy innovation

Policy professionals and cross-agency public officials

2 Market Infrastructure

... designing the mechanisms that create sustainable market conditions for ...

Supply development	Directing capital	Demand Development
Policies that catalyze new investment (e.g. PRI)	Policies that redirect/enhance the impact of existing capital (e.g. Build America Bonds)	Policies that bolster deal flow and investment readiness (e.g. CDFI Fund)

Source: *Impact Investing: A Framework for Policy Design and Analysis.* InSight at Pacific Community Ventures and the Initiative for Responsible Investment at Harvard University, January 2011.

Larger market-level practitioners across the public, private and nonprofit sectors

3 Sector Targets

... maximizing discrete social and/or environmental impacts.

- Affordable Housing
- Community Development
- Education
- Environment
- Health
- Infrastructure/ Sustainable Cities
- Manufacturing
- Small Business
- Sustainable Agriculture & Rural Communities
- Workforce Development

Sector-based investors, intermediaries, entrepreneurs and beneficiaries

This resource is a snapshot of current federal policy levers , not an exhaustive review of all policies, agencies, or actors, nor a roadmap for future action. These levers can take the form of legislative, regulatory or administrative policies.

ACCELERATING IMPACT INVESTING INITIATIVE AI3

Impact Investing Policy Ideas

THE POLICY IDEAS PRESENTED HEREIN ARE ORGANIZED UNDER THEIR RESPECTIVE CATEGORIES, AS FOLLOWS:

SECTOR TARGETS

HEALTH AND HOUSING

- Build Capacity for "Community Quarterback" Organizations
- Provide Tax Incentives for Smaller Family Housing Creation and Rehabilitation
- Support Regional Equitable Transit-Oriented Development Initiatives

QUALITY JOBS AND WORKFORCE DEVELOPMENT

- Adopt SEC Disclosure of Job Quality Data
- Enhance Capacity of Revolving Loan Funds to Support Cooperative Small Business Models
- Implement Federal Income Tax Reduction for Employee Stock Ownership Plan (ESOP) Transitions
- Implement Federal Procurement Standards on Job Quality
- Increase Support for Technical Assistance and Financing for Employee-Ownership Transitions
- Issue Guidance on Pay For Performance & Workforce Innovation and Opportunity Act
- Review the Personal Guarantee Requirement under the Main Street Employee Ownership Act

SMALL BUSINESS

- Allocate Federal Funds to Support Black Entrepreneurs and Business Owners
- Enhance the Capacity of Lenders Serving Small Businesses in LMI Communities
- Invest in Social Enterprises through Employer-Sponsored Funds like France's 90/10 Solidarity Fund
- Revise Demographic Data Collection and Reporting Standards on Small Business Lending
- Support Community-Centered Healthy Food Efforts
- Support the Creation of Local Economy Preservation Funds

SUSTAINABLE COMMUNITIES

- Create a Federal Environmental Transition Office
- Establish a Federal Solar for All Initiative
- Expand the Rural Digital Opportunity Fund
- Quebec's Fonds de Solidarite – Create a Just Transition Plan within Retirement Portfolios

MARKET INFRASTRUCTURE

- Create a Social Investment Wholesaler
- Facilitate Impact Investments and Adopt Reporting Requirements for Insurance Companies
- Implement Investment Readiness Initiatives
- Incentivize Impact Investing through Favorable Tax Treatment of Donor Advised Fund Impact Investments
- Integrate Social and Environmental Value into Procurement Standards like U.K.'s Public Services Act
- Launch a Domestic Development Finance Bank

PUBLIC SECTOR LEADERSHIP AND COORDINATION

- Central Dedicated Unit Approach
- Multi-Tiered Approach
- National Strategy Approach

Sector Targets

While impact investing policy sometimes defies easy categorization, it can be helpful to think of a segment of supportive laws and regulations within a set of broad "sector targets," or impact themes where investors focus on achieving specific social or environmental outcomes. In this section, we present policy ideas organized under the following sector targets, identified as high priority areas for collective action within the U.S. and central to ensuring a more equitable recovery:

- **Health and Housing**[17]
- **Small Business**
- **Quality Jobs and Workforce Development**
- **Sustainable Communities**

It is important to note that these sector targets are not fixed or mutually exclusive. As such, impact investors and policymakers are cautioned against thinking too narrowly about desired outcomes.

HEALTH AND HOUSING

As part of building back better, the government has an opportunity to address the current crisis and combat long standing inequality by increasing collaboration between the health, community development, and housing sectors. Smart federal policy can unlock additional investment and reduce long-term costs by supporting innovations in affordable housing and healthcare provision rooted in the recognition that housing is foundational to health.

The unequal spread and economic fallout of COVID-19 have exposed many of the systemic inequalities inherent to both the healthcare system and the housing market for low- to moderate-income (LMI) communities and communities of color. Those most severely impacted by COVID-19 are cost-burdened renters who spend more than 30 percent of their income on housing[18,19] Many of these communities face high barriers to receiving quality healthcare, and suffer disproportionately from chronic health issues and inadequate access to healthy food.[20] For example, Black and Brown renters were already more cost-burdened and vulnerable to eviction and homelessness than their white counterparts before the pandemic.[21] Job losses as a result of the pandemic only exacerbate this risk. Furthermore, research has found that African American, Native American and Hispanic individuals are uninsured at higher rates than white Americans.[22] These realities place low-income people and people of color at higher risk of dying should they contract COVID-19, as underlying health conditions that contribute to deaths by COVID-19 are more common among low-income adults.[23] Furthermore, low-income communities and people of color are overrepresented in low-wage, frontline service jobs, placing them at greater risk of exposure to the virus.[24] Health and economic impacts as a result of the virus could potentially result in large federal spending in the long-term; addressing such impacts with effective impact investing policies could decrease that expenditure.

In recent years, recognition of the strong link between housing and health has grown among practitioners, policymakers and advocates. Federal action to drive investment within these two sectors, however, has largely been siloed. Starting in the 1970s, federal support for affordable housing shifted from large-scale housing provision to support for community development intermediaries operating at the state and local level.[25] Federal policy action targeting healthy outcomes for Americans has been broad, including funding for healthcare services for seniors and low-income families via Medicare and Medicaid, support for healthy food access, investments in the creation of community health centers, and support for research and innovation, among others.

Today, healthcare practitioners and insurers are increasingly aware of the importance of "social determinants of health," or the conditions and places in which people live, work, learn, and play that affect their health outcomes.[26] This shift has led to the creation of new public-private partnerships and cross-sector collaborations to address the underlying structural inequities that impact health.[27] Such initiatives have included, among others, health insurers' investments in affordable housing as a long-term strategy to improve community health and reduce expenditures. Impact investors have the potential to deploy large amounts of private capital to address the underlying inequities in health through place-based, community-centered initiatives that address social determinants of health - especially through affordable housing. For instance, additional guidance and supportive federal policy can help leverage or complement federal healthcare programs that support affordable housing development.

It should be noted that many of the opportunities in the housing and health space identified in conversations with experts relate to more traditional, long standing policies like the Community Reinvestment Act, the CDFI Fund, the Low-Income Housing Tax Credit, and Community Development Block Grants, which attract private investment for housing and community health initiatives. Because these landmark policies are the subject of other research supported by Tipping Point Fund on Impact Investing, they are not explored here.

Build Capacity for "Community Quarterback" Organizations

Policy Goals

- ✓ **Increased availability of affordable housing for low-income communities, particularly communities of color.**
- ✓ **Improved long-term health outcomes for low-income communities.**

Because low-income communities often make tradeoffs between paying for housing and accessing healthcare, addressing housing insecurity will improve health outcomes for communities across the U.S.[28] Initiatives to address housing insecurity to improve health outcomes often rely on public-private partnerships — for example, between government, healthcare providers, and community organizations working on addressing homelessness — and require highly integrated programming championed by a "community quarterback" organization that acts as a systems integrator for community development work.[29] This kind of leadership and coordination is critical in addressing the social determinants of health, as navigating federal regulations and working across various health and housing agencies has been cited as a major challenge by practitioners and investors.[30] Organizations working to convene groups like large hospital networks, health care providers, local housing agencies, and community development organizations would benefit from capacity-building grant funding and technical assistance, including compensation for feasibility studies and resources for the different participants to understand the other sectors, provided by the federal government.

An example of this type of public-private partnership is Kaiser Permanente's Thriving Communities Fund**,** a $200 million fund to address housing stability and homelessness in the communities in which Kaiser operates. Within this broader fund sits the Housing in Health Equity Fund, in which Kaiser partnered with Enterprise Community Partners to finance the East Bay Asian Local Development Corporation's work to keep ownership of an apartment complex in East Oakland that was on the verge of gentrification.[31] Through this collaboration,

residents can continue to live in affordable, quality housing in East Oakland, reducing the likelihood that they will forgo medical care because of high housing costs. In this partnership, Kaiser Permanente, as one of the largest health care providers in the country, was able to play a leadership role in coordinating the various resources and providing necessary capital to fund the initiative.

In order to ensure that programs like this can scale to all communities in the U.S., the federal government can provide further guidance and resources, both in terms of funding and technical assistance, to states and localities working on such public-private partnerships. Support from the federal government could incentivize private investors to participate in these transactions as well.

Provide Tax Incentives for Smaller Family Housing Creation and Rehabilitation

Policy Goals

- ✓ **Rehabilitation of a significant portion of U.S. housing stock.**
- ✓ **Reduction of existing and prevention of future neighborhood blight.**
- ✓ **Preservation of homes for LMI families, especially communities of color.**

While the LIHTC has spurred the development of multifamily affordable rental housing, there is no similar policy to support the creation or rehabilitation of rental properties with just 1-4 units — despite the fact that such properties comprise about 50 percent of all rental units nationwide and 65 percent of rental housing in non-metropolitan communities.[32] With an aging housing stock and many families struggling now to maintain their homes in light of COVID-19, an incentive program for private investors could prevent the kinds of widespread blight seen after the 2009 housing crisis, when the number of unoccupied residences across the country jumped by more than 25 percent from 9.5 to 12 million.[33]

A tax credit for private and nonprofit housing developers, lenders, and investors for building or rehabbing 1-4-unit residential properties could help sustain the housing market in many regions throughout the U.S. and extend affordable homeownership for hundreds of thousands of families. A proposal to create such a tax credit — Neighborhood Homes Investment Act (NHIA) — was introduced in the House and Senate in 2020.[34]

Support Regional Equitable Transit-Oriented Development Initiatives

Policy Goals

- ✓ **More funding for regional and local transit development efforts.**
- ✓ **More affordable housing preserved for LMI residents, many of whom are people of color.**

Local transit development, while good for communities in many ways, often drives up the cost of living in surrounding areas, leading to gentrification and loss of affordable housing for longtime residents. The Regional Equitable Development Initiative — led by Enterprise Community Partners with participation from other private and nonprofit financial institutions and the King, Pierce and Snohomish County governments in Washington — was created in 2016 to reverse this trend, acquiring properties surrounding transit development sites and protecting residents from the pernicious effects of increased property values. The pooled capital is structured as a loan fund for the acquisition of land near transit development projects, ensuring that housing in the area remains affordable.

The federal government can support such regional initiatives — which are, out of necessity, attached to local development efforts and responsive to local needs — through competitive grants or loan guarantees made available to state and local governments that would leverage additional impact investment capital. Such funds could be tied to the preservation of affordable housing and be made available and administered by the Federal Transportation Authority (FTA), U.S. Department of Agriculture (USDA), U.S. Department of Housing and Urban Development (HUD) or other suitable agencies.

SMALL BUSINESS

With uncertainty surrounding recovery for the U.S. economy, the federal government has an opportunity to implement policies that rebuild and strengthen the small business sector, identifying and directing resources to business owners most in need and connecting women, rural, and minority entrepreneurs — those hardest hit by the pandemic — with urgent, low-cost capital.

Small businesses — the backbone of the U.S. economy that employ nearly 50 percent of the nation's workforce — have suffered huge losses as a result of the pandemic.[35] Between February 2020 and April 2020, as social distancing measures took effect, the number of active small business owners was estimated to have dropped by 22 percent in the U.S. — the largest such decline on record.[36] One study found that by April 2020, about 100,000 small businesses had permanently closed.[37] As with other devastating effects of the virus, the crisis hit people of color the hardest: early analyses found that as of June 2020, Black business owners had experienced the greatest losses, with a 26 percent drop in business activity from before the pandemic. Ownership among Latinx and Asian small business owners declined by 19 and 21 percent, respectively. Ownership by immigrants fell across the board by 25 percent.[38] Small businesses in non-metropolitan areas, which make up a far greater share of employment than small businesses in metropolitan areas, have long faced barriers to accessing capital, and continue to struggle given the shutdowns in response to COVID-19.[39]

In response to these realities, the Small Business Administration (SBA) under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, expanded programs for businesses struggling to stay afloat, including the Paycheck Protection Program (or PPP, which expired in August 2020) as well as bridge loans and debt relief for existing borrowers.[40] Despite these efforts, for many Black- and Brown-owned small businesses, the capital and technical assistance needed to navigate the economic downturn remain insufficient or unattainable. Many small businesses have been unable to access relief funding, or else found that it didn't adequately address their needs.[41]

Since its creation in 1953, the SBA has served as the main federal channel for supporting the small business sector in the U.S., serving millions of small businesses with the provision of capital, contracts, and advising.[42] Outside of the SBA, federal policies like the Community Reinvestment Act, the CDFI Fund, and the New Markets Tax Credit have all spurred the growth of small businesses. While such policies have long supported successful small business development — particularly in LMI areas — initiatives that explicitly support job quality, minority entrepreneurship, and employee ownership are decidedly fewer and more recent in origin.[43] Given the crisis facing small businesses nationwide, the federal government should focus its efforts on tailoring existing and new programs to the particular needs of small businesses hardest hit by the pandemic, while also maintaining a longer-term vision for creating more equitable business structures that strengthen companies while providing greater security for employees.

Allocate Federal Funds to Support Black Entrepreneurs and Business Owners

Policy Goals

- ✓ **Access to capital and technical assistance for Black-owned small businesses.**
- ✓ **More robust data on the state of Black entrepreneurship, helping to identify critical barriers and opportunities to strengthen public-private investment initiatives.**

Given the disproportionate impact of the COVID-19 crisis on Black entrepreneurs and small business owners, combined with the long legacy of discrimination that has held Black business ownership back for generations, the federal government has an opportunity to work towards equity by actively supporting Black entrepreneurship.

In September 2020, Canadian Prime Minister Justin Trudeau announced the launch of the Black Entrepreneurship Program (BEP), a first-of-its-kind government initiative to help Black Canadian entrepreneurs and business owners access capital and technical assistance. The government, along with leading financial institutions, will generate investments of up to nearly $165.9 million over the next four years.[44] The BEP will include up to $39.8 million in funding for a new National Ecosystem Fund to help Black business owners and entrepreneurs access capital, mentorship, financial planning and other relevant training. It will also offer $25 million for a Black Entrepreneurship Loan Fund, issuing loans between approximately $19,000 - $190,000 to Black business owners and leveraging an additional $96.1 million in loan capital from private financial institutions within Canada. Finally, $4.9 million will fund the creation of a new Black Entrepreneurship Knowledge Hub — led by Black community and business organizations and educational institutions — that will collect data on Black entrepreneurship in Canada, including barriers and successes.[45]

The U.S. could follow the Canadian example and designate a federal program specifically for supporting Black entrepreneurs and small business owners across the country, leveraging capital from impact investors and private financial institutions with an interest in creating a more equitable economy. A similar initiative could be housed under the CDFI Fund or within the SBA, federal entities with infrastructure for facilitating broad national initiatives through state-level organizations and locally-based lenders and technical assistance providers. For instance, in addition to specialized financing, the SBA could be tasked with creating new small business development centers (SBDCs) or SCORE programs specifically dedicated to fostering Black entrepreneurship and the growth of Black-owned small businesses. Like the Black Entrepreneurship Loan Fund, the government could use its resources to attract private capital, expanding its own investment capacity and reach.

Enhance the Capacity of Lenders Serving Small Businesses in LMI Communities

Policy Goals

- ✓ **Make more capital available to small business lenders, including CDFIs serving communities of color, LMI communities, and rural communities across America.**

With forgivable loans from the PPP running out, many small businesses have been unable to access critical financing to stay afloat. CDFIs, community development credit unions (CDCUs), and community banks serve as an essential bridge to capital and technical assistance for small businesses that cannot access traditional financing, particularly those owned by people of color, operating in LMI communities, or located in rural communities. These entities are also an underutilized avenue for reaching smaller businesses overlooked by banks and other financial institutions in COVID-19 relief efforts. New federal policy ought to prioritize expanding and de-risking loans from CDFIs, community banks, and CDCUs, especially given their deep ties to their communities and mandates to serve historically disadvantaged populations. Potential avenues for directing capital to small businesses that have been unable to access relief thus far include altering the Federal Reserve's Main Street Lending Program (MSLP), or allocating additional federal funding specifically for building long-term equity in CDFIs, CDCUs and credit unions, such as the Neighborhood Loan program outlined in the proposed Jobs and Neighborhood Investment Act (JNIA).

Created by the CARES Act, MSLP established a Special Purpose Vehicle under the Federal Reserve and Treasury (Main Street SPV) with a $75 billion equity investment. The Main Street SPV purchases 95% of each qualified loan made to small- and medium-sized businesses by eligible lending institutions, expanding the capacity of lenders to meet the capital needs of small businesses during the downturn.[46] Eligible lenders include banks, credit unions and savings associations, but not CDFIs. The program was designed to generate up to $600 billion in low-cost loan capital for companies with fewer than 15,000 employees or revenue up to $5 billion annually, but has been massively underutilized; as of August 2020, it supported only 87 loans, collectively representing $857 million.[47] Among some of the most notable issues affecting the program's reach, the minimum loan size ($250,000 for the New Loan and Priority Loan facilities) precludes many small businesses and lenders from participating; regulations around staff retention are unclear; and the loans are not forgivable and reach maturity in just five years.[48]

The Federal Reserve could tailor the MSLP to meet the needs of more small businesses, especially those owned by people of color, by including community banks, credit unions and other financial institutions with a mandate to serve LMI communities as eligible lenders. Additionally, allowing for smaller loan sizes and longer maturity periods could open the door to greater uptake by struggling small businesses. If not as part of the MSLP, the federal government could support greater access to capital for the most at-risk small business owners by designating a separate program specifically to support CDFIs, CDCUs, and community banks by setting up a separate federal investment vehicle that would purchase a majority share of small business loans made under the program. This could in turn unlock additional capital from mission-driven investors, banks and foundations looking to invest in minority- and women-owned and/or rural businesses – for example, through CDFIs.

Invest in Social Enterprises through Employer-Sponsored Funds like France's 90/10 Solidarity Fund

Policy Goals

- ✓ **Increase the supply of capital for impact investments, including social enterprises creating affordable housing, quality jobs, clean energy solutions, and other socially and environmentally beneficial outputs.**
- ✓ **Sustain social enterprises owned and staffed by people of color.**

In order to address inequality and promote greater investment into social enterprises, France developed its 90/10 Solidarity Fund mechanism in 2001. According to this mechanism, companies in France are required to give their employees the option to invest in at least one social enterprise fund in their voluntary retirement account, and, as of 2008, in their employee saving schemes as well. These social business funds, called solidarity-savings funds, allocate between 5-10 percent of their assets to unlisted social enterprises and the remaining to classic, listed companies following socially responsible investing principles.[49]

Since its inception, the utilization of the 90/10 Solidarity Fund has grown significantly. In particular, from 2009 to 2018, the 90/10 fund market has grown from $1.17 billion to $10.90 billion.[50,51] This innovative regulation encourages the growth of the impact investing market, allowing every employee in France the option to invest in social enterprises. Creating a similar requirement in the U.S. could similarly open up a new pathway for funding social enterprises, but could also be used to fund the recovery of the small business sector. Individuals could elect to have a portion of their retirement assets placed in investment vehicles like CNote, a platform that channels investment into CDFIs lending to small businesses on the ground. This move could also help to make impact investing more mainstream among the general public.

Revise Demographic Data Collection and Reporting Standards on Small Business Lending

Policy Goals

- ✓ **More accurate and holistic data on the state of women and minority small business owners' access to capital.**
- ✓ **More capital targeted to women and minority small business owners.**

Under the Consumer Credit Protection Act (CCPA), the Equal Credit Opportunity Act (ECOA) enacted in 1974 prohibits discrimination by lenders and creditors during the evaluation of a loan application. Specifically, ECOA prevents the use of the applicant's sex, race, color, and religion in the determination of their credit worthiness. While intended as a protection against discrimination in lending, ECOA has not closed the gap in access to capital for entrepreneurs of color. In fact, as observed by Opportunity Fund, "the lack of data on loan applicants may have had the unintended consequence of masking, rather than reducing, barriers to credit for ethnic minorities."[52]

A provision of the 2010 Dodd-Frank Act would have enforced new rules requiring small business lenders to report some of the demographic characteristics of the business owners they support. However, implementation has been delayed as the Consumer Financial Protection Bureau (CFPB) failed to provide necessary guidance for financial institutions. The agency's reluctance was largely in response to push-back from lenders who felt the rules were needlessly onerous and expensive to comply with. The CFPB released an outline of new proposals for implementation in September 2020 after soliciting public comments.[53,54] Congress and the next administration have the opportunity to ensure the CFPB moves forward with issuing guidance on the regulation in compliance with the law, while ensuring data reporting requirements are not onerous for lenders. Given the disparate impact of COVID-19 on Black small business owners and business owners of color more broadly, it is of the utmost importance that banks, credit unions, lenders, and investors have the necessary data to understand if their capital is reaching those small businesses most negatively affected during the pandemic. Individual loan-level data on borrower race, ethnicity and gender must be reported to support closing the capital access gap and supporting an equitable COVID-19 recovery.

Support Community-Centered Healthy Food Efforts

Policy Goals

- ✓ **Increased access to healthy food for low-income people, people of color, Indigenous people, immigrants and refugees, and rural communities.**
- ✓ **Drive more capital towards sustainable, community-driven initiatives.**

Small businesses across the food value chain — with a high percentage of entrepreneurs and employees of color — have been particularly devastated by the pandemic. As part of a broad economic recovery plan, the federal government has an opportunity to support not only the recovery of food businesses, but also community-centered healthy food initiatives with the potential to create a more equitable and sustainable food system than existed before the crisis. As of 2019, 40 million Americans were living without easy access to healthy food, a number that has only been growing since the start of the pandemic, particularly for frontline workers.[55]

The Equitable Food-Oriented Development (EFOD) strategy serves as a model for community-centered food initiatives with the potential to support broad-based recovery. EFOD is a people-first community development strategy developed in 2015 by a coalition of local nonprofits, financial institutions and a national foundation, using the food system to create both economic opportunity and healthy neighborhoods in communities throughout the U.S. Several features characterize an EFOD organization: maintaining an equity- and justice-first focus that centers communities historically excluded from opportunity, lifting up interventions that are place-based, using market-based strategies, prioritizing community leadership development and community organizing, and emphasizing community ownership.[56]

There is opportunity for the federal government to provide more capital and support for community-centered healthy food financing programs like EFOD that offer grants, loans, and equity investments as well as comprehensive technical assistance to food businesses from historically excluded communities. Government can also act to sustain existing place-based initiatives such as the Michigan Good Food Fund and California FreshWorks through a refined Healthy Food Financing Initiative (HFFI) program. HFFI, through a partnership between the USDA, Treasury, and Health and Human Services (HHS), makes available one-time federal grants and loans to support community-based healthy food enterprises or interventions throughout the country, and has leveraged over $1 billion in additional funding from private and philanthropic sources.[57] The federal government can expand the types of organizations it reaches through HFFI beyond CDFIs, to include funds such as EFOD, and further invest in existing HFFIs with community-centered approaches in order to ensure a more equitable recovery for small businesses operating in the food sector to LMI communities and communities of color, as well as food enterprises in rural communities across the food value chain. The intentional targeting of equity-focused initiatives will help ensure that government funds support recovery, job creation, and wealth-building with food enterprises in the hardest-hit communities.

Support the Creation of Local Economy Preservation Funds

Policy Goals

- ✓ **Sustain local businesses owned and staffed by women and people of color and/or located in rural communities.**
- ✓ **Generate place-based economic activity that supports community revitalization in the wake of the COVID-19 crisis.**
- ✓ **Promote wealth-building through ownership among historically excluded populations.**

The pandemic has devastated the small business sector, permanently shuttering more than 80,000 small businesses between March and July 2020, according to a Yelp, Inc. survey.[58] Experts predict that the crisis will lead to widespread capture of floundering small businesses and greater consolidation of the economy by "private equity and absentee corporations."[59] To prevent this kind of capture and keep jobs and wealth in local communities where they're created, Democracy Collaborative proposed the use of local economy preservation funds (LEPFs), or state- or city-created holding companies that buy up struggling small and medium-sized businesses and keep them afloat through the duration of the crisis. Other experts have floated the idea of private, mission-driven holding companies in addition to publicly owned companies. Once economic conditions have normalized, these holding companies would release the small businesses.

Under Democracy Collaborative's proposal, the federal government could enable the creation of such funds at the state and local level by providing financing through the Federal Reserve Municipal Liquidity Facility. Such funding could attract additional financing from foundations and impact investors. Some LEPFs could be allocated specifically with the mandate of supporting minority- or women-owned businesses, or small businesses in rural communities. After stewarding them through to recovery, LEPFs would have the option to release companies back to their original owners or to new local owners. To support greater wealth-creation amid recovery, they could also incentivize the transfer of ownership to employees or members of the community by supporting the transition of businesses to structures like employee stock ownership plans and cooperatives. LEPFs would thereby keep small businesses afloat while also keeping them rooted in their communities, spurring economic activity locally.

QUALITY JOBS & WORKFORCE DEVELOPMENT

The federal government has a unique opportunity to rebuild a more resilient American workforce by enacting policies that promote employee ownership and improve job quality for workers. It can also promote greater transparency and accountability among employers and leverage its own buying power to create better jobs for millions of out-of-work Americans.

The history of federal workforce development policy in the U.S. has its roots in the New Deal, with Congress and the Roosevelt Administration instituting job creation programs that provided employment opportunities for urban and rural Americans.[60] Since then, key policies at the federal level have included the Manpower Development and Training Act of 1962, designed to train and retrain unemployed adults to enter or reenter the workforce, and the Comprehensive Employment and Training Act (CETA) of 1973, designed to provide employment opportunities for high school students. The Workforce Investment Act passed in 1998 centralized many disparate efforts to train the American workforce, creating one-stop career centers that facilitate state and local training and employment activities. The Workforce Innovation and Opportunity Act (WIOA) superseded the Workforce Investment Act in 2014 to further assist job seekers in accessing employment and training opportunities, as well as educational opportunities to set them up for success in the workforce.[61]

Today, the devastating impact of COVID-19 on businesses and employment is well-known. The unemployment rate in the U.S. as a result of the pandemic rose to 14.7% in April 2020.[62] Federal efforts to address this crisis have fallen short of the need; as supplemental unemployment benefits issued under the CARES Act expired at the end of July 2020, more than 30 million out-of-work or underemployed Americans lost a crucial financial lifeline.[63] Without proactive measures by the federal government, the economic fallout will result in increased long-term spending in the form of additional benefits and support for individuals who are unemployed or experiencing homelessness. Furthermore, among the numerous inequalities thrown into sharp relief by the pandemic are gaping disparities in job quality for workers of color. Millions of Black and Brown workers, overrepresented in low-wage service jobs that cannot be performed remotely, lack basic benefits and workplace protections even as they continue to labor in high-risk environments.[64]

Congress and the next administration have the opportunity to support a variety of workforce development initiatives in response to COVID-19 while encouraging greater investment in quality jobs. One possible vehicle is through the use of employee ownership, including employee stock ownership plans (ESOPs), worker cooperatives, and employee ownership trusts (EOTs). According to research conducted by Project Equity, employee ownership models have, among their numerous benefits, been shown to increase employees' asset- and wealth-building capabilities, improve companies' ability to weather economic downturns while lowering their likelihood of layoffs, boost worker productivity, and contribute to more inclusive communities. Moreover, employee ownership models have proven to have powerful wealth-building impacts, including for LMI workers and workers of color.[65] (For additional insights on the opportunity presented by employee ownership, please review The Case for Employee Ownership by Project Equity.)

Increased transparency in business practices and reporting is needed to address inequality in employment practices. Greater transparency can help promote increased investment in high-road employers who prioritize and invest in their workforce to drive business success, identify opportunities for shareholder engagement with companies to improve job quality for front-line workers and enhance financial performance, and protect investors against material risk factors associated with poor treatment of workers.

Adopt SEC Disclosure of Job Quality Data

Policy Goals

- ✓ **Increased transparency on job quality will incentivize business owners to prioritize quality jobs.**
- ✓ **Low-income communities will gain higher quality jobs, enabling wealth-building opportunities.**

The U.S. Security and Exchange Commission (SEC) requires companies that meet certain qualifications to regularly file disclosures containing specified financial and non-financial information. Given the understanding that employment practices have a material effect on a company's productivity and overall performance, and that many frontline workers who have been hard hit by the pandemic struggle to earn a sufficient living and build wealth, job quality metrics (including metrics to measure a just transition to address the climate crisis) should become integrated into SEC reporting requirements.

In August 2020, the SEC announced that it was amending the Regulation S-K Disclosure policy to include human capital, diversity, and inclusion measures. This entails a new requirement that requires public companies to provide information on any human capital measures or objectives they have in place that deem to be financially material.[66] While this amendment is a step in the right direction, the SEC can take further action in requiring the reporting of specific job quality metrics. Leaving reporting up to the company will fall short in providing investors with the necessary information on material human capital management practices. For instance, in 2019 the Human Capital Management Coalition proposed several metrics to track job quality, including the number of people employed by the issuer, the cost of the issuer's workforce, turnover, and workforce diversity data.[67] Making this data public would help investors align their investments more clearly with job quality standards, incentivize companies to make improvements in job quality, and create important transparency around companies' human capital management practices, including differences by race and gender.

Enhance Capacity of Revolving Loan Funds to Support Cooperative Small Business Models

Policy Goals

- ✓ **Create and retain jobs while supporting employee-owned businesses.**
- ✓ **Increase capital available to struggling small businesses.**

Revolving Loan Funds (RLFs) for small business development in the U.S. are typically administered at the local level and funded in part by the federal government through the Department of Commerce's Economic Development Administration (EDA). These pooled, self-replenishing funds offer a sustainable source of flexible, low-cost gap financing for small business development and expansion projects. The CARES Act extended the grant-making authority of the EDA, injecting nearly $1.5 billion in grant making capital into the agency to disburse among state and local RLFs, among other qualified entities.[68] These grants attract other sources of public and private capital to RLFs, increasing the number of businesses supported.

While the CARES Act funding is an important step in securing capital for struggling local businesses, the EDA currently does not offer flexibility to support worker-owned business models, ensuring that such businesses will not benefit from the agency's CARES Act allocation. Specifically, the personal guarantee required to qualify for EDA-sourced financing excludes businesses owned collaboratively, rather than by one individual.

To promote a more equitable recovery, further congressional action could allocate additional funding to the EDA for RLFs and promote wealth-sharing among small businesses by expanding financing options for employee-owned businesses. Berkeley, California recently amended its local RLF requirements to change the personal guarantee requirement and allow for employee-owned small businesses to access capital.[69] At a national level, the EDA could offer similar flexibility in its guarantee standards to accommodate existing and encourage new employee-owned businesses to access RLFs.

Implement Federal Income Tax Reduction for Employee Stock Ownership Plan (ESOP) Transitions

Policy Goals

- ✓ **Drive more capital to employee-owned businesses.**
- ✓ **Increase wealth-building opportunities for frontline workers.**
- ✓ **Enable businesses to become more resilient to economic fluctuations.**

The state of Iowa currently provides several incentives for businesses transitioning into ESOP models, including a 50% reimbursement of the cost of an ESOP feasibility study, as well as a 50% reduction from state income taxes from the net gain from the sale of the stock to an ESOP. Since these ESOP incentives were implemented in 2013, Iowa has 137 privately-held ESOPs as of 2020.[70]

The federal government can apply a similar policy on the national level, providing tax incentives to businesses transitioning to broad-based employee ownership models such as ESOPs and worker cooperatives. With the rising number of baby boomers approaching retirement age, this is a timely opportunity for the federal government to encourage transition of baby boomer-owned businesses towards employee-ownership models. This policy would encourage retiring business owners to sell their business to their employees, rather than other organizations that would potentially take profits and jobs out of the community.

Implement Federal Procurement Standards on Job Quality

Policy Goals

- ✓ **Drive more capital to businesses that provide good, quality jobs for workers.**
- ✓ **Prioritization of job quality at the federal level will incentivize business owners to improve quality jobs.**
- ✓ **Higher quality jobs created in low-income communities, enabling wealth building opportunities.**

Currently, federal procurement is governed by the rules and regulations under the Federal Acquisition Regulation.[71] While there are several clauses in this regulation around equal opportunity for businesses applying for public procurement contracts, there is little specificity on the quality of jobs created by the contracting party. Federal policy can encourage high-road employment practices among contractors as part of the federal procurement process by implementing mandatory reporting requirements on job quality. Prospective contractors could be required to submit metrics on job quality as part of their procurement proposal to be evaluated in parallel with existing procurement standards.

Many cities across the U.S. already consider certain job quality metrics in procurement decisions, including El Paso, Texas and San Jose, California. Furthermore, at the time of writing, Texas and California were debating legislation that would provide contracting preferences for companies working under an ESOP.[72] Including mandatory reporting on job quality metrics as part of the federal procurement process could incentivize businesses to prioritize job quality, as well as drive capital towards businesses that have minimum job quality standards.

Working to address the challenges surrounding job quality data collection is Working Metrics, a data-driven workforce analytics company that provides the capability to measure, benchmark, and assess job quality across industries. Working Metrics has already begun engaging with various organizations to implement its tool, including both public and private procurement clients. For example, Working Metrics helped TriHealth, a $2 billion hospital system in Cincinnati, integrate job quality as part of its procurement process.[73]

Increase Support for Technical Assistance and Financing for Employee-Ownership Transitions

Policy Goals

- ✓ **Drive more capital for a long-term basis to employee-owned businesses.**
- ✓ **Employee-ownership is championed at the federal level.**
- ✓ **Increase wealth-building opportunities for frontline workers under an employee-owned structure.**
- ✓ **Businesses are more resilient to economic fluctuations in the future.**

Many states and cities, including Massachusetts; Pennsylvania; Vermont; North Carolina; New York City; Berkeley, California; and Madison, Wisconsin, among others, have created employee ownership centers to provide financing and technical assistance to businesses transitioning to broad-based employee ownership.[74,75] For example, the Massachusetts Center for Employee Ownership established in 2017 helps small business owners set goals for transitioning to employee ownership, conduct a valuation and feasibility assessment, and connect with relevant service providers to assist in completing the transition. Despite these promising examples, an overall lack of awareness of employee ownership structures and access to capital to support these transitions have been cited as primary barriers to broad-based employee ownership. The federal government has the opportunity to develop new approaches to support state-level centers on employee ownership, or include it in additional relief programs in light of the acute economic impacts many businesses are facing due to the pandemic.

The federal government can support existing state and local employee ownership centers and provide financing to create new centers. There is also the opportunity to address the capital barrier, by providing increased funding to support small businesses interested in transitioning to an employee-owned model. Learning from the setbacks of the PPP and other emergency federal loan programs, policymakers should ensure that technical assistance and financing are distributed equitably to those businesses most adversely affected.

Examples of legislation that address these issues include two bills that were introduced in the Senate as part of a legislative package in 2019. The first bill, the WORK Act, proposed directing $45 million in funding to states to provide new and expand existing state-level employee ownership centers. The second bill called for the creation of a U.S. Employee Ownership Bank that would provide $500 million in financing through low-interest loans and other vehicles to support employees in purchasing business through an ESOP or worker cooperative.[76]

Issue Guidance on Pay For Performance & Workforce Innovation and Opportunity Act

Policy Goals

- ✓ **Increase federal funding for PFP transactions.**
- ✓ **More effective workforce agencies able to deploy capital through an outcomes-based model.**
- ✓ **Drive more capital to sectors particularly impacted by COVID-19.**

One of the new provisions in the WIOA of 2014 was the authorization of pay-for-performance (PFP) contracts as a contracting approach for workforce organizations. PFP contracts have payment terms based on the outcomes or quality of services as a result of the specified intervention. The WIOA PFP contracts differ in a few key ways from the traditional performance-based contracting that many workforce organizations have already been utilizing, including a stronger focus on longer-term outcomes and the option to include bonus payments which are used to expand the contractor's capacity to work on the intervention.

The San Diego Workforce Partnership is an innovative workforce agency that has utilized WIOA PFP as part of their efforts to improve employment opportunities for San Diegans. For example, in January 2018, the San Diego Workforce Partnership launched a WIOA PFP program to improve employment and recidivism outcomes for youth who have been involved in San Diego's juvenile justice system. However, due to a lack of guidance from the U.S. Department of Labor (DOL) on the use of such WIOA funds, San Diego Workforce Partnership had to transition the program back to a traditional workforce

contract. This lack of guidance and clarity from the DOL has prevented many agencies from pursuing a WIOA PFP contracting approach.

In 2018, San Diego Workforce Partnership submitted a letter to the DOL, outlining the areas in which further guidance and clarity would help workforce agencies become more comfortable in pursuing WIOA PFP contracts, including measurable outcomes as requirements for PFP contracts to allow for clear differentiation between WIOA PFP contracts and current practice, data sharing agreements between all parties involved in the contracts, clarification that local funds that are to be used for PFP remain available in perpetuity until expended, guidance on who holds these funds and how they are held, and clarification that workforce development boards may use PFP funds for administrative expenses that do not count towards the 10 percent limit of PFP activities. The agency also suggested that due to the lack of specific guidance on WIOA PFP requirements, it would be helpful for the DOL to provide examples of PFP contracting arrangements.

Updating the language and terms around WIOA PFP approaches can ensure that workforce agencies are better positioned to leverage capital from impact investors, as the PFP approach decreases investor risk and attracts private investors to impactful projects they might not otherwise pursue. More workforce agencies and jurisdictions would feel comfortable pursuing these contracting arrangements; therefore, investors would have further opportunity to drive capital towards these initiatives.

Review the Personal Guarantee Requirement under the Main Street Employee Ownership Act

Policy Goals

- ✓ **Drive more capital to employee-owned businesses as more businesses will be able to apply for a loan through the SBA.**
- ✓ **Increase wealth-building opportunities for frontline workers under an employee-owned structure.**
- ✓ **Businesses are more resilient to economic fluctuations in the future.**
- ✓ **Survival of small businesses with owners approaching retirement.**

The Main Street Employee Ownership Act was passed in 2018 to allow the SBA to provide lending capital and technical assistance to employee-owned businesses, cooperatives, and small business owners who are transitioning to an employee-owned model. The Act was passed in response to the growing concern that many baby boomers are approaching or are at retirement age. Because many small businesses - especially minority-owned - don't have a formal exit plan or are not passing down their business to family, there is an opportunity for workers to maintain ownership of these small businesses through an employee ownership model.[77]

Unfortunately, the Act has been underutilized by the SBA. One of the driving factors behind this has been the personal guarantee requirement stipulated by the SBA, which is almost impossible to fulfill under a shared ownership structure for small businesses.[78] In August 2019, the SBA released a report reviewing the personal guarantee requirement, and addressing feedback from the USDA and comments from two separate public forums. This report rejected six policy alternatives to the personal guarantee requirement including, but not limited to, personal guarantee waivers for cooperatives owned in food deserts, or operated by people of color, or for any loans to cooperatives, if the loan is fully collateralized.[79] The federal government should revisit the policy to ensure it is equitable for employee-owned businesses by revising the personal guarantee requirement.

SUSTAINABLE COMMUNITIES

To promote sustainable communities across the U.S., the federal government has the opportunity to enable access to clean energy solutions for the most underserved communities, create new investment opportunities while supporting workers in transitioning to clean energy jobs, and help direct capital toward industries fighting climate change.

Now more than ever, the impacts of climate change are increasingly visible and continue to grow more devastating to communities across the globe. The United Nations reported that global net human-caused emissions of carbon dioxide need to fall by 45 percent from 2010 levels by 2030 in order for the earth to reach a 'net zero' level in 2050.[80] The effects of climate change are disproportionately felt by low-income communities and communities of color. Studies have shown that Black and Hispanic communities have higher exposure to air pollution, and that the negative effects of climate change will cause the greatest economic damage to the poorest counties.[81,82] At the same time, the digital divide affecting low-income and rural communities presents numerous barriers not only in terms of access to healthcare, education, economic opportunities, and civic participation, but also to their adoption of smarter, more energy-efficient infrastructure, such as smart grids or smart buildings.[83] As investment in sustainable, climate-resilient infrastructure and clean energy sources becomes ever more urgent, the U.S. has an opportunity to ensure that those left out of broadband access are connected.

The government has taken several steps to address the impacts of climate change in the past, though climate-friendly infrastructure and digital inclusion are more recent priorities. Early precedents for environmental regulation and innovation include the Clean Air Act of 1963 to reduce greenhouse gas emissions. Recently, the Clean Power Plan of 2015 would have encouraged states to transition away from coal, and the Affordable Clean Energy Plan of 2019 that replaced it sets more flexible guidelines for states in designing plans to cut carbon emissions. With regard to digital infrastructure, federal departments such as the Federal Communications Commission (FCC), the Department of Commerce's National Telecommunications and Information Administration, and the Department of Agriculture have undertaken efforts to expand internet access to rural America. Programs that were originally set up to provide telephone service to low-income communities, such as the Lifeline program established during the Reagan administration was expanded to broadband access.[84] In 2020 the federal government announced the Rural Digital Opportunity Fund to provide significant financing to bring broadband to underserved communities.

Today, the government has the opportunity to bolster these efforts and drive more private capital toward initiatives that foster entrepreneurship and job creation among workers in rural or industrial areas as they transition to clean energy and sustainable infrastructure. Sometimes called the "just transition" for climate change, this human-centered approach refers to a "set of principles, processes, and practices" that center justice for workers and historically marginalized communities in the movement to transition to renewable energy sources and other initiatives to address the climate crisis.[85] As communities are transitioning from fossil fuels towards clean energy, there is opportunity for impact investing capital to drive the creation of quality jobs in the sector, as well as provide training and development opportunities for communities undergoing such a transition. There is also an opportunity to ensure that infrastructure development is done with a just transition lens — placing communities directly impacted by climate change at the forefront.[86]

Create a Federal Environmental Transition Office

Policy Goals

- ✓ **Greater access to high quality jobs for Americans, particularly rural communities who have been employed by the coal industry.**
- ✓ **Coal communities across the country have access to training to transition to quality jobs in other industries.**
- ✓ **Community-driven just transition to clean energy and quality jobs.**

In 2019, Colorado passed HB-1314 which instituted a Just Transition Office in the Colorado Department of Labor and Employment. This office supports coal transition workers in accessing education and training opportunities for high-quality jobs, and provides grants to entities in coal transition communities.[87] In addition to dedicated staff, this office also includes an advisory committee with community representation to ensure that the just transition approaches implemented by the office are equitable.[88]

While Colorado has seen a 42 percent decrease in coal production from 2014 to 2018, the state still ranks as the 11th highest coal producing state in the country.[89] As Colorado continues to transition from coal, this policy ensures that coal transitioning workers will have access to high-quality and well-paying jobs in the future.

The federal government has an opportunity to implement a national program similar to the office in Colorado within the Department of Labor, with dedicated resources to incentivize private capital from impact investors towards just transition projects. Just transition projects could include PFS programs focused on employment and training to support former coal workers transition to clean energy jobs, as well as impact funds that target community-centered, innovative renewable energy initiatives. This office could house renewable energy infrastructure funds in which impact investors could act as co-investors alongside the government. Alternatively, the federal government could provide funding for state-level just transition offices in coal-producing states.

Establish a Federal Solar for All Initiative

Policy Goals

- ✓ **Increase access to solar power for millions of low-income Americans regardless of home ownership status.**
- ✓ **Increase job creation in the clean energy sector.**

The Illinois Solar for All initiative was created under the Future Energy Jobs Act of 2016 in Illinois and expanded upon under the proposed Clean Energy Jobs Act. This program provides renewable energy credits for local solar energy contractors to install solar for underserved residents, nonprofits, and public agencies. The program mandates that 25 percent of the funds be utilized for projects located in 'environmental justice communities,' or areas that suffer disproportionately from pollution. These areas are often rural communities and communities of color. Under the proposed Clean Energy Jobs Act, the Solar of All initiative would be expanded to ensure that low-to moderate-income communities were seeing the benefits of solar power and to incentivize the on-site distributed generation in solar projects that are 100 percent low-income subscriber-owned and projects that are 100 percent owned by households located in environmental justice communities. Projects would also be distributed equitably across both rural and urban areas, and renewable energy credit procurement would be prioritized from new projects organized by local communities, located in the communities they serve, or located in brownfield projects. Similar programs were implemented in other states and localities such as Washington D.C. and New York state.

Millions of Americans cannot afford the upfront cost of installing solar in their homes; further, many low-income individuals may be renting their homes, and thus unable to make decisions about their energy sources. At the same time, low-income households pay three times more on average than higher-income households for utilities. The federal government can develop a national Solar for All strategy through the Department of Energy that addresses inequality through targeting communities who may have been left out of solar energy access. A federal strategy can provide funding

and resources to existing Solar for All programs, as well as support states and localities in developing their programs. These incentives would increase the opportunity for impact investors to finance solar energy in rural communities and communities of color that have experienced firsthand the effects of pollution and seen decades of disinvestment.

Expand the Rural Digital Opportunity Fund

Policy Goals

- ✓ **Drive capital to expand digital access across America.**
- ✓ **Millions of low-income and/or rural Americans given access to broadband required to tap into critical virtual resources, such as healthcare, entrepreneurship, jobs, and education.**

The FCC launched the Rural Digital Opportunity Fund in February 2020 in order to take a significant step to close the digital divide in the U.S. Through a two-phase reverse auction mechanism, the FCC will direct up to $20.4 billion over ten years to finance broadband networks in underserved rural areas. Phase I for this fund will start in October 2020.[90]

Currently, it is estimated that 42 million Americans lack access to a broadband connection.[91] Furthermore, the FCC has estimated that approximately $80 billion is required to provide broadband access to all Americans.[92] While the Rural Digital Opportunity Fund as currently written will provide a significant portion of that amount, there is opportunity for the FCC to expand the reach of the fund to incentivize impact investors to fund innovative models of broadband connection. For example, the FCC can consider utilizing mechanisms such as partial risk guarantees to provide loss protection for a portion of investment or from specific risks to incentivize impact investors to participate in blended finance models that finance broadband connection. The World Bank has been utilizing this tool for over 25 years.[93]

This mechanism would de-risk impact investments in new and innovative approaches to broadband access that provide benefits to local, underserved communities while also boasting benefits in other areas such as climate resilience. An example of such an approach is the work being done by the Post Road Foundation, which partners with rural electric cooperatives to provide high-speed internet-connected infrastructure to underserved rural communities using a blended finance model. This approach creates savings from smart grid deployment that in turn lower electric grid service costs in rural areas, reduce greenhouse gas emissions, and increase returns to investors. A partial risk guarantee provided by the federal government to support such innovations would drive additional, catalytic impact capital toward new initiatives, allowing successful innovations to scale more quickly than they would otherwise.

Quebec's Fonds de Solidarité - Create a Just Transition Plan within Retirement Portfolios

Policy Goals

- ✓ **Drive capital to initiatives that prioritize a community-oriented transition to clean energy and quality jobs.**
- ✓ **Make available quality employment and training opportunities in low-income communities.**

The federal government can provide incentives to individual investors to direct their retirement savings towards impact investments that align with the just transition. Quebec's Fonds de Solidarite offers an example of this model. Established in 1983, Quebec's Fonds de Solidarite is a development capital fund that utilizes the retirement contributions and savings from Quebecois workers in order to achieve its mission of maintaining and creating jobs by investing in Quebec companies. As of May 31, 2020 its net assets were $13.8 billion. In 2018, the Fonds announced the creation of a just transition plan.

This strategy includes the following:

1. Measurement and reduction of the carbon footprint of its publicly-traded investment portfolio;
2. A pledge to support companies in the transition to a zero-carbon economy with job quality a central focus;
3. Portfolio reorientation to increase investment towards addressing the climate crisis; and
4. The promotion of just transition strategy among key stakeholders in the province.[94]

Individual investors who invest in the Registered Retirement Savings Plan (RRSP+) at the Fonds receive an additional 30 percent tax credit. With this tax incentive, along with the program's just transition goals, individual investors in Quebec can put their capital to work towards decarbonization while promoting a just economy. The U.S. federal government can enact similar tax incentives for contributing to such impact investment vehicles, particularly with a focus on the just transition. Tax incentives could not only unlock additional impact capital, but also encourage the creation of new funds focused on the just transition, creating more impact investment opportunities for individual investors for retirement.

MARKET INFRASTRUCTURE

In addition to policies that facilitate impact investing activity in discrete sectors, a segment of the policy landscape for impact investing can be categorized more broadly as "Market Infrastructure." Market infrastructure policies are those that create sustainable conditions for impact investing, and include supply development, directing capital, and demand development.

Market infrastructure policies work to reshape market conditions to promote impact investing, and therefore drive more capital towards enterprises that have positive social and environmental impact.[95] In the U.S., several pivotal policies have helped shape much of the infrastructure undergirding domestic impact investing activity, including program-related investment (PRI) regulation passed in 1969, which allowed foundations to make impact investments to further their charitable purposes. More recently, the creation of a PFS project in 2013 and the first B-corp regulation passed in 2010 have paved the way for new kinds of public-private partnerships, while creating new avenues for impact investment.

In Canada, Japan, and several countries in Europe, similar types of policies "have encouraged national governments to develop their local markets and supported the creation of financial instruments that reduce the risk of private investments in social enterprises."[96] Because of this infrastructure, financial institutions in these nations have been able to respond quickly to meet the needs of local communities affected by COVID-19. For example, Germany's development finance bank pivoted in 2020 to provide small business loans to businesses affected by the pandemic. Social investment wholesalers, such as Big Society Capital in the U.K., have created loan funds and directed capital toward COVID-19 recovery. A coalition of impact investors and foundations in Canada's social finance community recently submitted an impact investing policy proposal to the federal government outlining three key actions, including a social enterprise adaptation, relief and recovery fund. The proposed blended finance fund would increase funding to and support capacity building for social enterprises, especially those owned by people of color or located in rural and Indigenous communities.

Similar approaches could be adopted in the U.S. to address systemic barriers to accessing capital, increase the supply of catalytic capital, expand social entrepreneurship, and direct investment towards underserved communities experiencing the after effects of COVID-19.

Create a Social Investment Wholesaler *(Supply development)*

Policy Goals

- ✓ **Increase supply of impact capital.**
- ✓ **Increase number of social enterprises creating affordable housing, quality jobs, clean energy solutions, and other socially and environmentally beneficial outputs.**
- ✓ **Sustain social enterprises owned and staffed by people of color.**

Social investment wholesale entities have the capability to drive a large amount of capital to social enterprises. Their investments also often leverage additional investment from outside sources. By investing through intermediaries or directly in companies, wholesalers also help remove many of the barriers social enterprises face, bridging the gap between these businesses and investors looking to deploy larger amounts of capital.[97]

Big Society Capital (BSC), which formed in 2012 as a result of the U.K. Dormant Bank Account Act of 2008, is a $806.5 million social investment wholesaler in the U.K. that leverages capital from dormant bank accounts and four of the largest high street banks in the U.K. to invest in financial intermediaries, such as fund managers, that provide funding to social enterprises.[98] Several other countries have also created social investment wholesaler banks, including Portugal Social Innovation and Japan's Designated Utilization Foundation. BSC responded to the COVID-19 crisis by supporting the creation of the Resilience & Recovery Loan Fund for social enterprises. In a recent, independent review, it was stated that BSC played a catalytic role in driving social investment in the U.K.[99]

The U.S. can create a similar social investment wholesaler that could drive a larger amount of capital to the social enterprise community by supporting social enterprise intermediaries, such as CDFIs and impact fund managers. While BSC sources capital from dormant bank accounts, other countries have taken different approaches, including using funding from public financial institutions (e.g. Portugal Social Innovation was sourced from the European Investment Fund and the European Investment Bank), government funds (e.g. Impact Capital in Australia sought government grants), and institutional investors. Countries that have developed a social investment wholesaler have often used a blended approach, incorporating several sources of capital to finance the initiative. The U.S. can consider taking a similar, blended approach to financing its own social investment wholesaler through public financial institutions, government grants, and institutional investors.

Facilitate Impact Investments and Adopt Reporting Requirements for Insurance Companies *(Supply Development and Directing Capital)*

Policy Goals

- ✓ **Additional private capital for impact unlocked, including investments in affordable housing, clean energy, small businesses, healthcare, and others.**

With $7 trillion in investable assets, the insurance industry holds enormous potential to generate social and environmental impact.[100] Modeled on the California Organized Investment Network (COIN), a federal effort to facilitate and report on insurance assets under management invested for impact could be realized through the National Association of Insurance Commissioners (NAIC).

Created in 1996, COIN brings together insurers, local affordable housing and economic development organizations, community advocates, and the California Department of Insurance in a voluntary program to channel insurers' managed assets into socially and environmentally beneficial investments in low- and moderate-income communities in California. While such investments are not mandated under California state law, COIN performs due diligence to identify appropriate investment opportunities which it shares with investors via an online portal. Insurers active in California are required to report every five years on their qualified impact investments in the state which COIN publishes to create transparency around insurers' investment activity.

At a national level, requiring that insurers report annually to the NAIC about their impact investment or ESG activities could incentivize these companies to invest more of their capital in underserved communities and/or for environmental benefit. Such reporting could further unlock new capital within the impact investment market.

Implement Investment Readiness Initiatives *(Demand development)*

Policy Goals

- ✓ **Enhance capacity for social enterprises – particularly in rural communities and/or led by women and people of color – working across sectors that currently lack the ability to compete for government contracts.**

In order to ensure that social enterprises are in a strong position to compete for public procurement contracts, and for impact investments in general, it is critical to devote capital and resources to build their capacity and investment readiness. For example, alongside the Social Values Act, the U.K. also created the Investment and Contract Readiness Fund in 2012. To support social enterprises in becoming competition-ready, the fund provided grants to match enterprises with professional legal, financial, and technical assistance services. Every £1 of grant funding provided to social enterprises unlocked £18 in contracts and investments.[101] Through dedicated technical assistance, enterprises were more prepared to bid for public service contracts and take on investment.

Similarly, Canada launched the Investment Readiness Program in 2019 to build the capacity of their domestic social enterprise market. In 2020, key stakeholders from Canada's social finance industry submitted an Impact Response letter to the Canadian federal government proposing actions the government could take to respond to the inequities highlighted by the pandemic, including investing an additional $112.3 million in the Investment Readiness Program to increase the availability of funding and capacity-building support for social enterprises.[102]

The U.S. federal government could consider implementing a similar program or fund to ensure that social enterprises across America have the resources to successfully compete for public procurement contracts. This would not only grow the social enterprise market in the U.S., but it would also drive more capital towards social enterprises. Social enterprises will benefit not only by being able to compete for public contracts, but they will also be able to attract capital from more sources, including impact investors, through the capacity building technical assistance provided through an investment readiness initiative.

Incentivize Impact Investing through Favorable Tax Treatment of Donor Advised Fund Impact Investments *(Supply Development)*

Policy Goals

- ✓ **More capital directed for impact, including investments in struggling small businesses, rural and urban entrepreneurs, affordable housing development or preservation, and nonprofits providing critical social services, among others.**

Donor Advised Funds (DAFs) are defined by the IRS as a fund or account maintained and operated by a nonprofit sponsoring organization and composed of contributions made by individual donors. Donors receive a tax deduction for the full value of their donation (up to a limit set by the IRS) immediately after making a contribution to their DAF account. DAFs have seen remarkable growth over the past few years, with the number of accounts growing by over 55 percent to more than 728,000 between 2017 and 2018 alone.[103] As of 2018, contributions to DAFs totaled $37.12 billion.[104]

Most DAF charitable assets are invested by DAF sponsors for maintenance or growth in traditional investment funds, with contributions to charitable causes made in the form of grants. While there are some examples of DAFs making impact investments, the IRS rules and investment infrastructure undergirding DAFs are not designed to enable impact investing, leaving many DAF sponsors and donors either unaware of the opportunity or reluctant to pursue it.[105] Additionally, DAFs are not subject to annual distribution requirements; many DAF funds lie dormant — without grantmaking activity — for years.

In order to unlock sizable DAF charitable assets for impact, IRS rules could be amended so that DAFs receive a tax treatment similar to that of private foundations. This would include requiring a 5 percent net asset value minimum annual distribution — the same as that applied to private foundations — in order for future donor contributions to the DAF to be eligible for a tax deduction. Like foundations, DAF sponsors could be given the option to make impact investments in the same way that foundations make program-related investments (PRIs); that is, the amount of capital invested in a DAF for impact - as defined by IRS guidelines — would count toward the 5 percent annual distribution requirement. Under current IRS guidance for PRIs, foundations are permitted to make investments that count toward their mandated payout if the primary purpose is to generate positive impact in line with the foundation's mission, and not primarily to generate income for the foundation.[106] In order to further incentivize DAF sponsors to make such investments, donors could receive an additional tax benefit equal to 50 percent the value of the capital deployed to an impact investment with an investment term of at least five years. This added incentive could temper the distribution mandate, ultimately driving more DAF charitable assets toward impact investing.

Integrate Social and Environmental Value into Procurement Standards like U.K.'s Public Services (Social Value) Act *(Directing capital)*

Policy Goals

- ✓ **Increase investment for companies that produce social and environmental benefits.**
- ✓ **Government projects, for example in rural communities, tied to creating positive impacts for residents and for the local environment.**

U.K. Public Services (Social Value) Act, passed in 2012, is an important example of integrating social and environmental value into federal procurement standards. This Act requires U.K. public entities to take into account the ways the services they procure might improve the economic, social, and environmental well-being of their locality.[107] The Social Values Act was found to have a positive impact in areas where there was sufficient awareness about the program; however, one of the main barriers of this act has been awareness-building.[108] In 2018, the government strengthened this Act by adding a level of accountability for public commissioners through its Civil Society Strategy. It was also recommended in 2019 that such social value should have a minimum 10 percent weight in the process of reviewing and evaluating public contracts.[109] Similarly, a proposal to the federal government in Canada would include weighting for social value on procurement as well.[110]

Setting federal procurement standards for social and environmental impact would ensure that companies that have a positive social and environmental impact through their products, services, and operations are prioritized for public contracts. In turn, this measure would encourage companies that do not engage in these socially and environmentally positive practices to adopt them. Furthermore, this policy could also have important positive place-based impacts. For example, a large infrastructure project undertaken by a private company in a rural community would have to show that it creates positive social value for the local community.

Launch a Domestic Development Finance Bank *(Directing Capital)*

Policy Goals

- ✓ **Capital and resources driven to underfunded development projects, such as infrastructure and affordable housing, and into underserved communities that have not been able to access capital and resources from the traditional channels.**
- ✓ **Federal assistance deployed more effectively to enterprises nationwide weathering COVID-19 and its aftereffects.**

The U.S. can consider developing a federal, domestic development finance bank that would co-invest alongside impact investors to support a variety of industries ranging from small businesses to affordable housing to renewable energy infrastructure, as well as provide capacity building technical assistance to organizations in parallel. A U.S. development finance bank would also help build up public sector capacity and knowledge on the field of impact investing that would be sustained across presidential administrations, as well as congresses.[111]

For example, KfW Development Bank in Germany provides financing and support to initiatives in developing countries, as well as domestically in Germany. KfW Development Bank finances investments in a range of sectors including health, education, energy, and financial system development. Within the bank are several sector-focused subsidiaries including housing and small and medium enterprises. Because of this structure, the bank has been able to respond to the COVID-19 crisis by working with the German government to provide financial support for small businesses through lending capital.[112] KfW approved 99 percent of the emergency loan applications it received to help companies bridge liquidity gaps and survive the pandemic for a total of $20.99 billion.[113]

The German example highlights the potential impact of a development bank to address inequality domestically. This method of development finance offers an alternative to existing financial infrastructure in the U.S., a system to which many people of color and people located in LMI communities continue to experience barriers in access. It would create a new financial entity with the explicit mandate to work with stakeholders on the ground and fund projects and enterprises that are largely overlooked by traditional banks.

PUBLIC SECTOR LEADERSHIP AND COORDINATION

In order to ensure greater effectiveness of impact investing both within and in coordination with the public sector, it is critical to establish and institutionalize the field within the federal government. Countries have taken a variety of approaches to implement public sector leadership and coordination in impact investing, and we invite readers to review the pros and cons of each approach.

In 2009, the U.S. adopted the White House Office of Social Innovation and Civic Participation, housed under the Domestic Policy Council of the executive branch. The mission of this office was to advance opportunity, equality and justice by helping to create a more outcomes-driven government and social sector.[114] One prominent issue for which the office advocated was increased funding and resources for Pay for Success models. The office also was responsible for elevating the field of impact investing overall in the federal government; for example, it coordinated the U.S. effort to participate in the G8's Social Impact Investing Forum in 2013.

According to the Global Steering Group for Impact Investment's 2018 working paper, Catalysing an Impact Investment Ecosystem, the federal government can play several different roles to elevate impact investing from a policy standpoint: market facilitators, market participants, and market regulators. The role that developing public sector leadership and coordination plays around the world is primarily that of market facilitator.

There are several challenges associated with developing public sector leadership and coordination in impact investing at the federal level. The primary challenge is government turnover; once a new administration comes into power, there is the possibility of dismantling offices or reversing actions taken by the previous administration. For example, the White House Office of Social Innovation and Civic Participation is no longer in place under the Trump Administration. Other countries see similar trends. This points to another challenge: the lack of education and awareness about impact investing at the government level. Experts interviewed for this paper reported frustration at spending time and energy educating new government staff just to have that office, department, or position removed during a future administration. Lastly, there is the challenge of coordinating across various government entities with specific issue areas and mandates given the field of impact investing spans a variety of industries.

To create an effective approach within government to promote and enable impact investing to achieve beneficial outcomes for society, it is critical to think of approaches to make institutions, knowledge, and capacity more permanent, whether through legislation, coordination among existing federal departments,

or, with an even longer-term time horizon, offering impact investing education within tertiary academic institutions, particularly business and public policy schools. The examples below highlight various approaches taken by different countries to achieve a more permanent institutional approach to promoting impact investing within government.

Central Dedicated Unit Approach

U.K.: Impact investing has a relatively long history in the U.K.'s federal government. The U.K. has had a dedicated unit to support the impact investing industry at the federal level since 2003. The unit has moved across various departments within the government, now sitting under the Department for Digital, Culture, Media, and Sports and called the Inclusive Economy unit.

Multi-Tiered Approach

Canada: Canada's approach to public sector leadership and coordination involves several different initiatives. First, domestic impact investing responsibility in the federal government falls under Employment and Social Development Canada (ESDC). ESDC is a department under the Canadian government responsible for developing, managing and delivering social programs and services, with the mission of improving the standard of living and quality of life for all Canadians. Within the ESDC, the federal government formed the Social Innovation and Social Finance Strategy Co-Creation Steering Group which developed policy recommendations in 2018 to advance social innovation and finance in Canada.

The Canadian government also houses the Impact and Innovation Unit which helps government departments build results-driven approaches for social impact. This Unit is also the home of the Impact Canada Initiative which supports government departments in applying new and innovative financing methods, partnership models, and impact measurement approaches. For example, Impact Canada has undertaken several initiatives as a response to COVID-19, such as leading the implementation of the World Health Organization Behavioural Insights Tool on COVID-19 in Canada.

National Strategy Approach

Brazil: Brazil was able to gain traction within the federal government by having the Brazilian National Advisory Board (NAB) secure an agreement with the Ministry of Industry, Foreign Trade, and Services. This partnership eventually led to the creation of Brazil's national strategy on impact investing in 2017, called Enimpacto.[115] Enimpacto is a 10-year national impact investing strategy involving over 26 organizations, with the goal of coordinating and engaging the public and private sectors, and the public at large. The four main objectives of the strategy are to increase the number of impact businesses in the country, expand the volume of capital directed at impact, strengthen intermediary organizations, and promote a favorable institutional and regulatory environment.[116]

Portugal: Similar to Brazil, Portugal also has a dedicated unit for impact investing within the federal government, within the Ministry of Presidency and Administrative Modernisation. This structure has remained in place even with changes in political parties. Portugal also created a national strategy for impact investing and social innovation in 2015 in order to develop a stronger relationship between the public and private sectors.[117] Other initiatives in Portugal, such as Portugal Social Innovation, the country's national social investment wholesaler, fit within the country's national strategy on impact investing.

France: Impact investing in France is managed by two departments at the federal level: the Ministry of Finance, responsible for the technical implementation of the country's impact investing approach and outcomes-based contracting, and the Ministry of Ecological Transition and Solidarity, responsible for the social and solidarity economy and social innovation. Representatives from both departments sit on the French NAB.[118] France launched its national strategy for impact investing, the French Impact Strategy, in 2018. Through this strategy, the federal government aims to stimulate impact venture capital.[119]

Conclusion

The events of 2020 have produced undeniable anguish: as over two-hundred thousand Americans perished from COVID-19, millions lost their jobs in the wake of business shutdowns and communities across the country became the backdrop for mass protests against racial injustice and calls for criminal justice reform.

These crises have made visible the harsh realities facing millions of Americans in their day to day lives, including inadequate healthcare access, the lack of benefits and livable wages for frontline workers, and the inability of families to afford their rent or pay their mortgage and feel secure in their homes. The disproportionate impact of these crises on communities of color demonstrates the compounding effects of national emergencies on those already enduring the consequences of inequality in the U.S.

The COVID-19 pandemic has strained public budgets in states and cities across the country, impacting governments' ability to respond to the crisis and rebuild from its aftereffects.[120] Federal spending in response to the pandemic has brought the national debt as a share of GDP close to levels last seen during WWII, and stands to grow even more.[121] With supportive federal policy, impact investors can help meet this moment, deploying private capital in support of positive outcomes for those most in need. This is not business as usual; by pushing for new ways to unlock untapped private capital through sound federal policy, the impact investing community can help build back a stronger, more equitable economy, identifying opportunities that will meaningfully transform industries and communities while centering historically marginalized groups. Impact investors and policymakers can work together to support long-term housing affordability; innovative healthcare delivery oriented around the social determinants of health; small business initiatives that prioritize investment in entrepreneurs of color; workforce and quality job opportunities that strengthen worker protections, increase skills, and promote employee ownership and wealth-building; and renewable energy and broadband infrastructure projects that keep vulnerable and historically excluded communities at the center.

The policy ideas presented herein offer a starting point for discussion. Readers are encouraged to provide feedback on these ideas and to propose others not included here to help advance the discussion on impact investing policy, inequality, and COVID-19 recovery. Let us, as a community of mission-driven organizations and individuals, take up the call and partner with communities and policymakers to utilize impact investing to its fullest potential in the push for a stronger and more equitable America.

Appendix A: Criteria for Evaluating Policy Ideas

The following criteria for evaluating policy proposals are adapted from our prior work with Enterprise Community Partners and the Initiative for Responsible Investment at Harvard University through the Accelerating Impact Investing Initiative. The criteria offer a simple way to help impact investors, policymakers, and civil society assess policy proposals and identify those that should be prioritized under a new impact investing policy agenda.

- **Impact:** What effect is this policy likely to have on the impact investing market, and on the social and environmental outcomes targeted by the impact investing market? Who experiences the outcomes? How underserved are those who experience the outcome? Why is this policy relevant?
- **Fit:** How does this policy fit with the existing policy ecosystem? Does it meet the needs of the market?
- **Capacity:** Do the players involved have the capacity to fulfill the requirements of the policy, whether involving the investment process itself or in the government's capacity to implement and evaluate performance?
- **Opportunity:** Is this something high on the agenda of key stakeholders? What does this require from a political perspective, and what are the policy's political prospects?

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Appendix C: Interviewees

Name	Role	Organization
Hilary Abell	Co-founder	Project Equity
Oscar Perry Abello	Senior Economics Correspondent	Next City
Rosemary Addis	Executive Director | Trustee	Impact Strategist (Australia) | Global Steering Group for Impact Investment
Rob Bachmann	Senior Direct, Impact Investing	Enterprise Community Loan Fund, Inc.
Renae Badruzzaman	Program Manager	Build Healthy Places Network
Anna Bailey	Policy Analyst	Center on Budget and Policy Priorities
Peggy Bailey	Vice President for Housing Policy	Center on Budget and Policy Priorities
John Balbach	Director, Impact Investments	MacArthur Foundation
Brian Blake	Public Policy Director	Partners for the Common Good | Community Development Bankers Association
Melissa Bradley	Managing Partner	1863 Ventures
Vonda Brunsting	Program Manager, The Just Transition Project at the Initiative for Responsible Investment	Harvard Kennedy School
Bridget Callaghan	Manager	Good Jobs Institute
Calandra Davis	Policy Analyst	Hope Policy Institute
Kim Dempsey	Executive Vice President, Capital Markets	Housing Partnership Network
Linda Jo Doctor	Program Officer	W.K. Kellogg Foundation
Colleen Flynn	Director of National Programs	Build Healthy Places Network
Bert Feuss	Senior Vice President, Investments	Silicon Valley Community Foundation
David Greenberg	Director, Research and Evaluation	LISC
Karim Harji	Programme Director	Oxford Impact Measurement Programme, Saïd Business School, University of Oxford
Jeannine Jacokes	Executive Director | Chief Executive and Senior Policy Advisor	Partners for the Common Good | Community Development Bankers Association
Anisha Jain	Associate	SVX
Sarah Kalloch	Executive Director	Good Jobs Institute
Jackie Khor	Vice President, Social Investment	Social Finance

Name	Role	Organization
Brendan Maher	Vice President, Integrated Capitals and Investments	Heron Foundation
Robert J. "R.J." McGrail	Senior Fellow	Lincoln Institute of Land Policy
Ben Metcalf	Managing Director	Terner Center for Housing Innovation, University of California, Berkeley
Na'Shantea Miller	Summer Intern, The Just Transition Project at the Initiative for Responsible Investment	Harvard Kennedy School
Mark Newberg	President	Stockbridge Advisors
Alison Omens	Chief Strategy Officer	JUST Capital
Heidi Pickman	Vice President, Programs and Policy	California Association for Micro Enterprise Opportunity
John Pion	Senior Associate	Social Finance
Mark Popovich	Director, Good Companies Good Jobs Initiative	Aspen Institute
Sukhbir Randhawa	Senior Investment Officer	California Organized Investment Network
Delilah Rothenberg	Founder and Executive Director	The Predistribution Initiative
Sarah Saadian	Vice President of Public Policy	National Low Income Housing Coalition
Bhairvee Shavdia	Principal	HCAP Partners
Adam Spence	Founder and CEO	SVX
Diane Standaert	Senior Vice President for Policy and Advocacy	Hope Policy Institute
Jennifer Sullivan	Director of Housing and Health Integration	Center on Budget and Policy Priorities
Maria Laura Tinelli	Director and Founder | Trustee	Acrux Partners | Global Steering Group for Impact Investment
Brooke Valle	Chief Strategy and Innovation Officer	San Diego Workforce Partnership
Waide Warner	President	The Post Road Foundation
David Wood	Director, Initiative for Responsible Investment; Adjunct Lecturer in Public Policy	Harvard Kennedy School
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