

Exploring Local Impact Investing and Setting a Delaware Strategy



Philanthropy Delaware
March 3, 2020

Session Objectives

- Understand the swelling impact investing movement and what it means for Delaware.
- Review the broad set of tools you can use to deploy impact capital across Delaware including loan guarantees, direct lending, intermediary lending, integrated capital (loans and grants), deposits and loan loss reserves.
- Identify critical issues in the state that can be addressed using foundation investments.
- Work through exercises to take stock of your “readiness” to move toward local investing and create an action plan.

Working Agreements

- Balance showing up as **experts and as learners**. This is a quickly evolving field, and we're all going to learn something! Make space for each other.
- Think about a workshop and what you did not like... **don't do that...**
- The devil doesn't need any more advocates.
- Adopt a **Both/And** mindset.
- Let's focus on **action** – this is learning for action.

Getting to Know Each Other

In a minute or less...

- Your name and organization
- Experience with *local* impact investing (scale of 1-5, 1 = newbie, 5 = pro)
- What's one question about *local* impact investing that you have?
- If you had \$1 million to invest with impact in Delaware, how would you invest it? *Remember, the investment must generate both impact and financial return.*

Place-Based Impact Investing

What is Impact Investing? It's a big field...

Divesting

- Selling or screening out investments that are not aligned or detrimental to mission.
- Sometimes called **ESG**; “environmental, social or governance” criteria used to screen investments.
- Usually encompasses the entire portfolio.
- **Example:** A foundation with a health focus may “screen out” tobacco stocks.

Activist Investing

- Buying stocks in companies to become an “activist” shareholder to promote an agenda aligned with the foundation’s mission.
- **Example:** A foundation buys the stocks of local company to promote local interests in business decision making processes.

Topical Investing

- Buying stocks or funds that advance topical (environment, health, education, etc.) impact in addition to generating financial return.
- Investment firms increasingly offer these kinds of impact funds.
- **Example:** Some foundations offer donors the opportunity to select investment pool/fund with specific interests (e.g. clean energy funds)

Local Investing

- Investing into local companies, organizations or funds with the intention to generate measurable community benefit alongside financial returns.
- Traditional partners might include CDFIs or local banks.
- **Example:** Building a local capital fund to loan to small businesses.



Investing into **local** companies,
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generate measurable **community benefit**
alongside financial returns



The impact needs to be twofold

1. Generate some **financial return** to the foundation – doesn't have to be market rate
2. Generate some **measurable social returns or community benefits**. For example:
 - Units of affordable housing
 - Number of affordable, sustainable childcare slots
 - Savings from energy efficiency upgrades to housing in a low-income neighborhood
 - Number of downtown business startups

Why is philanthropy doing this?

Philanthropy is moving this way

Some community challenges require tools other than grants.

Job creation, affordable housing, sector development strategies often mean working with for-profit enterprises that cannot be grant recipients.

Community needs surpass grant resources.

Only a small portion of resources are dedicated to grants. What about the other 95%?

Strategic investments unlock capital, foster new relationships.

Investments position foundations to work more closely with business organizations.

Donors, board members want impact investing.

Generation Impact: How do I have the greatest impact with my dollars?

Philanthropy has a role in advancing economic justice.

The capital that built our organizations came from communities. Shouldn't it be invested there?

Place-Based Impact Investing Tools

Local Direct
Loans and
Equity

Local
Intermediary
Loans and
Equity

Credit
Enhancements
and
Guarantees

Local Market
Investments

Local Impact Investing Examples

Local Investing Example: Beveridge Family Foundation

- **Investment:** Wellspring Harvest Hydroponic Greenhouse
- **Amount:** \$35,000 loan, 3% interest rate
- **Outcomes:** Financed the construction of a 15,000 square foot greenhouse to supply local produce to hospitals, schools, businesses and residents.
 - Employs 7 worker-owners
 - Produces 250,000 plants (lettuce, greens and herbs) a year
 - Supports community engagement and education on sustainability



Wellspring Cooperative © 2020

Hot Seat: Delaware Community Foundation

In 2 minutes or less...

1. What's a Delaware investment you have made?
2. What impact did it produce?
3. What did you have to do differently as a philanthropy to do this kind of work?
4. What did you learn from the investment?

Local Investing Example: **Union Bank**



- **Investment:** Craft3
- **Amount:** \$1.75 million rolling, long-term, unsecured, subordinated loan (Equity Equivalent Investment)
- **Outcomes:** Helped Craft3 expand commercial lending to low-income communities in the Pacific Northwest.

Craft3 © 2015

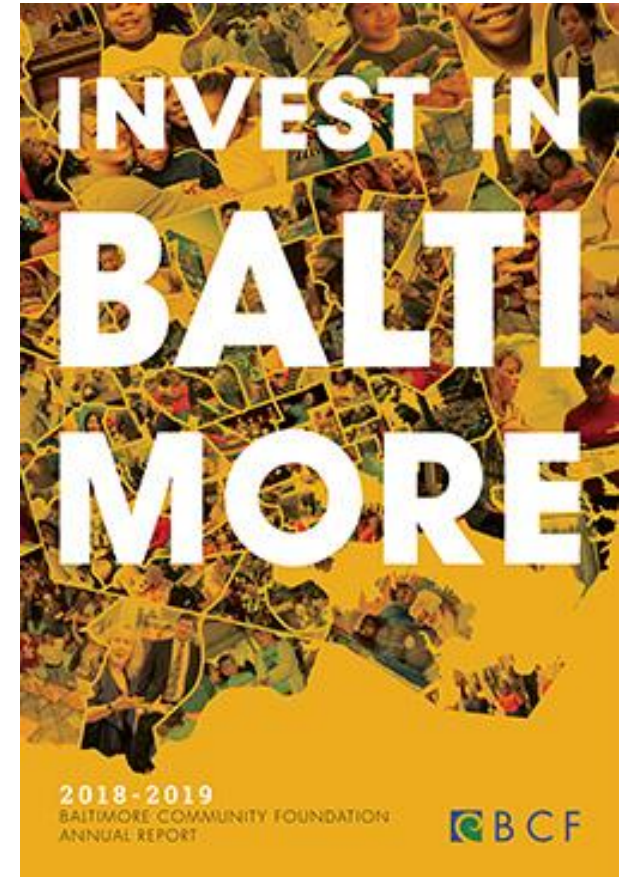
Hot Seat: Discover Bank

In 2 minutes or less...

1. What's a Delaware investment you have made?
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4. What did you learn from the investment?

Local Investing Example: **Baltimore Community Foundation**

- **Motivation:** Didn't want investments undoing the good they were doing through grants.
- **Strategy:** Minimized risk by working with local CDFIs (community development financial institutions) in areas of affordable housing and community facilities
- **Outcomes:** Nonprofit bridge loans, small business lending, affordable housing, food access, healthcare, facilities
- **Investment:** 4% of endowed assets -- \$1 million invested with a goal to deploy \$5 million more
- Foundation donors automatically engaged in 4% since DAF and discretionary funds are in the same pool
- Donor Advisors have option to allocate portion of their non-endowed DAF to the local impact investment portfolio



Baltimore Community Foundation © 2020

Hot Seat: Jessie Ball duPont Fund

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Local Investing Example: Cmtty Fnd of St. Claire County

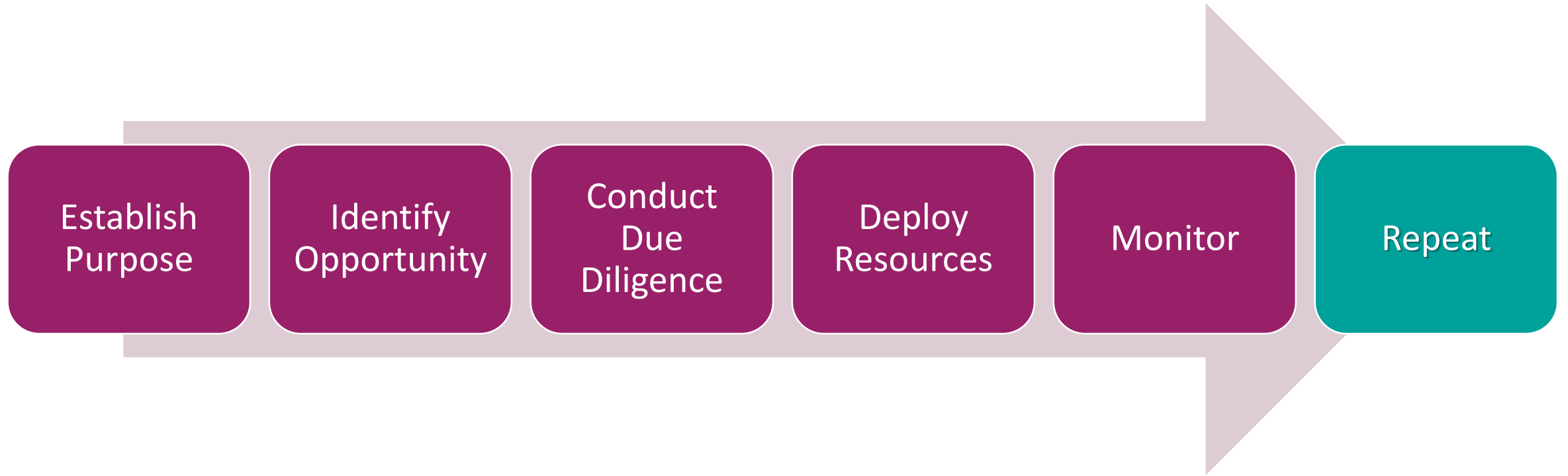
- **Motivation:** Downtown and waterfront development was a priority across the county.
- **Strategy:** Began acquiring real estate with programmatic dollars only. New investment policy to place 'up to 5%' of main investment pool into local investments – focused on returns close to fixed income holdings.
- **Investment:** \$700K loan to community college to renovate old downtown motel into student housing



SC4 © 2020

How do you do local impact investing?

The process can be a lot like grantmaking



Just do it.

Local Impact Snapshot

Exercise

Take some time to complete the Local Impact Snapshot.

Discuss your responses with your table:

- Do you have investments you'd consider impact investments?
- What more would you like to do to advance impact investing?
- What more do you need to know before you do more impact investing?

Check-in Break

Questions, Concerns, Comments?

Catalytic *Delaware* Capital

Traditional “economic development”



Traditional “community development”

Traditional “placemaking” or “community planning”

Observations on Philanthropy

- Many foundations are comfortable “staying in their lane”.
- Just because foundations don’t do it, doesn’t mean foundation can’t do it.
- Some foundations worry they lack the skills to navigate things like public policy and community capital.
- Although these worlds are unique and come with their own language, it doesn’t mean that these are areas you can’t master.

Traditional Financial Capital Providers

- Banks
- Governments and government programs
- Community development financial institutions
- Nonprofit loan funds
- Other businesses
- Family and friends

*Some of these capital providers are locally-rooted and use money **from** the community to invest **in** the community. For instance, a local bank uses deposits from residents to lend to local borrowers.*

Common Financial Capital Challenges

- Downtown buildings need significant repairs before businesses can operate in them. Nobody is committing financially to fixing them up or building new ones.
- Households and families need healthy food, but no grocery store considers the market “viable” at prevailing interest rates.
- Residents aren’t improving housing because of financial stress or because if they improved it, they are not sure they can make back their money.
- Nonprofits want to quickly scale a program or service but they don’t have money today and must wait to receive the check from a grant they were awarded.
- Businesses that need loans don’t get them. Or, businesses owners who should seek loans don’t even bother. As a result, the businesses stay small with limited economic impact.

Reasons Capital Providers Fall Short

Borrower
Collateral

Borrower
Credit

Missing Types
of Capital

Missing
Product

Capital
Provider Bias

Catalytic *Community* Capital

- **Catalytic capital** accepts disproportionate risk and/or concessionary return to generate positive impact and enable third-party investment that otherwise would not be possible. – *MacArthur Foundation, Tideline*
- **Catalytic *community* capital** is the same as catalytic capital, but its purpose is generating positive **community** or **place-based** impact.

Forms of Catalytic Capital

- **Price** – accepting an expected rate of return that is below-market relative to expected risk.
- **Pledge** – providing credit enhancement via a guarantee.
- **Position** – providing credit enhancement via a subordinated debt or equity position.
- **Patience** – accepting a longer or especially uncertain time period before exit.
- **Purpose** – accepting non-traditional terms to meet the needs of an investee

Catalytic Community Capital

- Not all impact investors are catalytic community capital providers.
- Foundations, individuals, families, businesses, governments and nonprofits can be sources of catalytic community capital.
- Roles for catalytic community capital:
 - Seeding – Time to test, refine
 - Scaling – Grow or replicate
 - Sustaining – Support mission enterprise that's not fully commercially viable

Rewind: Catalytic Community Capital Illustration



- Waco suffers from serious payday lending challenges.
- A local nonprofit lender has been building alternative lending option by partnering with employers.
- It's lower risk than some micro loans because loan payments deducted from employee paycheck.
- The lender needed additional capital and technical assistance to build their capacity.
- After working with LOCUS to help strengthen the lender, Waco Foundation made a 10% guarantee to de-risk \$750,000 of CRA-qualified loans from four community banks to help expand the nonprofit's lending capacity.

Waco Capital Stack

Total Investment \$850,000



Lunch Break

Local Demand for Catalytic Capital

What Sectors?

Affordable
Workforce
Housing

Early
Childhood
Education

People
Returning from
Incarceration

Exercise

1. As a table, select one sector.
2. Complete the worksheet together.
3. At the end of the exercise, write down three takeaways about helping more catalytic capital flow to your sector.

Investing for Delaware Together

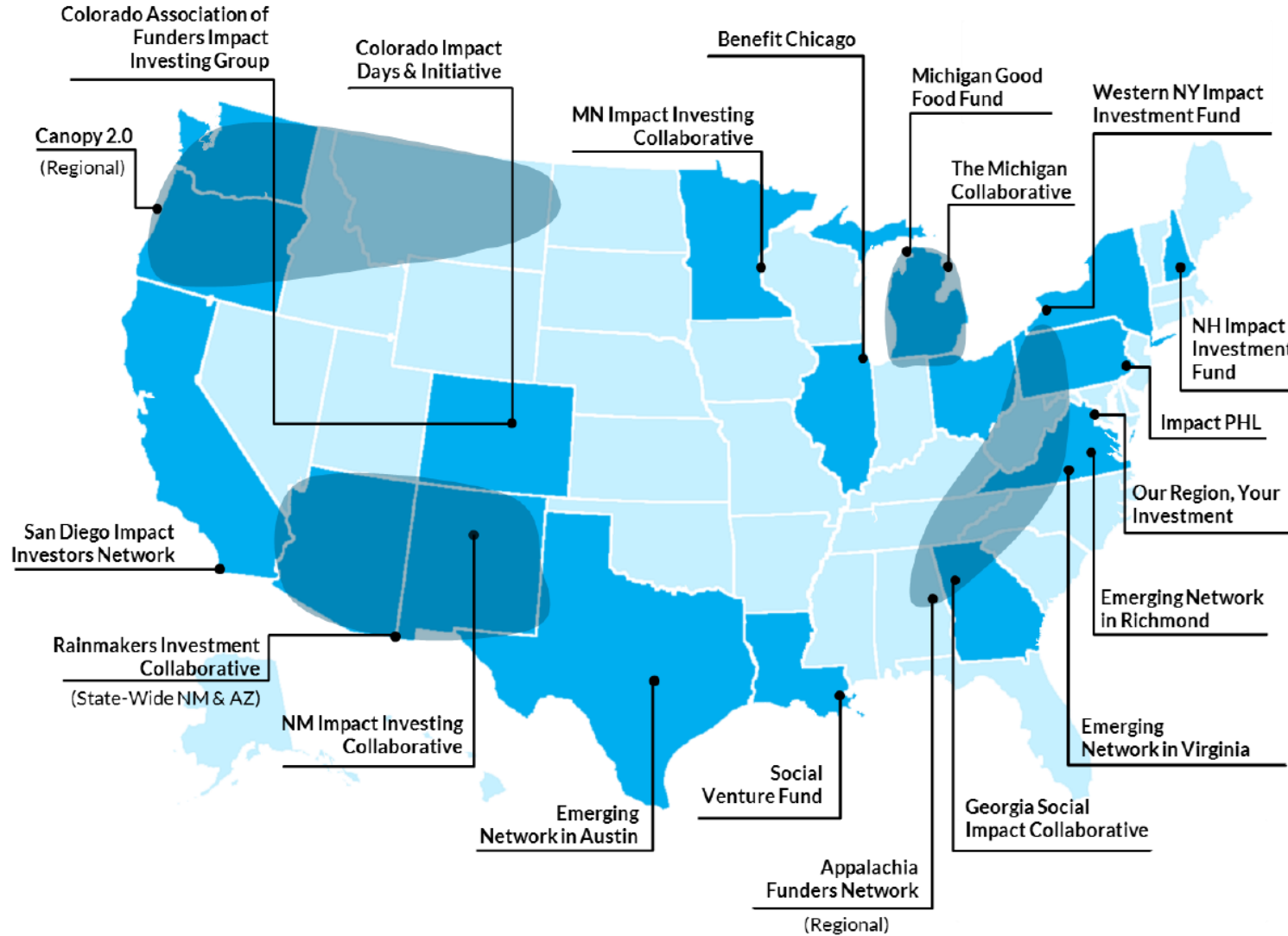
Collaborative Place-Based Impact Investing

- Coordinating efforts and leveraging capital from across the community to enable different stakeholders to become part of a larger community driven, purposefully-designed investment collaborative
- “In many cases, the collaborative opportunity arises as foundations realize that investors in a community draw from the same deal sourcing, face similar costs and barriers, and use similar infrastructure.”

Field Learnings



Map of Collaborative Initiatives



Source: *Investing Together: Emerging Approaches in Collaborative Place-Based Impact Investing*

Collaborative Models



Network

Exchanging information for mutual benefit



Consortia

A developed network with arrangements to collaborate on joint services



Alliance

Written agreements to share services, sometimes a separate organization



Platform

Shared structure that can connect community investors to social ventures

Examples of Collaborative Models

- Network – Appalachia Funders Network
- Consortia – New Mexico Impact Investing Collaborative
- Alliance – Impact Investment Fund at the New Hampshire Charitable Foundation
- Platform – The Michigan Collaborative

Core Elements

Anchor Partners

Community
Involvement

Focus on Racial
Equity/Systemic
Inequalities

Impact
Measurement
and Management

Adaptive
Planning

Market/
Ecosystem
Mapping

Ecosystem
Champions

Foundation Takeaways

- Some community challenges require different foundation tools. **Catalytic Community Capital** is one of those tools that many communities need.
- When it comes to financial capital, community needs surpass grant resources. And yet, only a small portion of our resources are dedicated to addressing financial capital gaps.
- Strategic, catalytic investments unlock and leverage other investments. A well placed and well deployed investment unlocks so much more.

Takeaways

Ideal Delaware Collaboration

A Delaware Collaboration

- In five years, what does an ideal Delaware local impact investing ecosystem look like? Draw a picture!
- In circles around your vision, list what steps as individual foundations you need to take in 2020. Think about your capital, your investments, and work with your board.
- Together, below the drawing, list three steps that Delaware foundations might take together in the next two years. What help do you need? What resources does Delaware need?

Final Questions, Concerns, Comments?