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Building Ties between Community Investment and Disaster Relief and Recovery: Reflections Drawn from the Model of the Isaiah Fund

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David Wood

Contact the author, David Wood: *david_wood@hks.harvard.edu*

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In October 2011, the Initiative for Responsible Investment — a project of the Hauser Center for Nonprofit Organizations at Harvard University — and the Isaiah Fund co-hosted a roundtable on the intersections of community investment (CI) and disaster relief and recovery work. This gathering was prompted by the experiences of the Isaiah Fund in forming a pooled CI loan fund, supported by a faith-based investor network with the intent to support disaster recovery efforts. The meeting took place in the offices of the Pew Charitable Trust in Washington, DC and was attended by a set of stakeholders representing faith-based investors, disaster relief and recovery specialists, community investment practitioners, and the public sector members engaged in both CI and disaster relief.

This short note addresses some of the key questions that emerged from that meeting and from a variety of conversations over the past year on the general topic. Using the example of the Isaiah Fund, it asks when and how the practice of community investing — with its focus on long-term community engagement and support, investment discipline, and economic development — can be usefully tied to the imperatives of disaster relief and recovery. It concentrates on practical concern of integrating CI and disaster recovery, including:

- Leveraging the potential relationship between disaster recovery practitioners and community investors.
- Exploring the Isaiah Fund experience as illustration of this relationship and its opportunities and challenges.
- Challenges for the design and organization of a robust community investment fund that supports and follows on disaster recovery efforts where appropriate.

We believe that the development of a disaster recovery CI practice is an intriguing research topic in and of itself, revealing something about how investors can target specific social impacts while considering the full ecosystem of public, private, and civil society actors that constitute CI investment markets.

More importantly, there is an opportunity to develop more robust interrelationships between disaster recovery and community investment that builds on the strengths of each to develop greater capacity for community engagement, social impact, and extended support for community redevelopment in the wake of unforeseen shocks.

Disaster Relief and Recovery and Community Investment — How might they provide mutual support?

Disaster recovery practitioners often focus on the complex relationship between serving the immediate needs of victims and laying the groundwork for sustained recovery. Relief work is not just delivering services in the immediate aftermath of disaster. The first step is prevention, the next preparedness through building systems that mitigate the effects of disasters and prepare communities to support relief and recovery efforts. Relief and the recovery put these systems into operation in communities in need.

The whole cycle — prevention; preparedness; relief; and recovery — illustrates the crucial importance of community engagement and trust across the cycle of relief and recovery and reflects the high-touch nature of successful relief and recovery efforts. The technical demands of providing goods and services are necessarily linked to cultural patterns and direct contact.

This means the disaster recovery practitioners that function most effectively tend to develop close relationships with communities. The development of ties with residents, community organizations, and other relief workers creates an important sense of the places where communities prove most resilient and most in need of support.

Disaster relief and recovery by necessity tends to focus on immediate needs and restoring basic services in the first instance. Though practitioners often note the continuum of prevention, preparedness, relief, and recovery, this extended continuum is largely devoted to post-disaster stabilization , through the coordination of labor, goods, services and money (most often in the form of public and private grant and loan dollars). One of the most important initial steps in the relief cycle, in the United States, is formal designation as a disaster area, which opens the door to public sector grants and subsidized loans.

Follow-on questions of economic development are recognized as important but often lay beyond the purview of recovery practitioners. It is here that community investing may play a role in extending the continuum of relief and recovery out through economic redevelopment: adding, in essence, a fifth stage — reconstruction — to the relief cycle.

Community investment has many definitions, but in this context key factors include: a focus on underserved communities and attention to class and racial disparities that are often exacerbated by disaster impacts; relatively long term time horizons and the provision of patient capital to support social impact; the leverage of scarce resources by moving from loans and other forms of investment that yield a return on capital; and emphasis on investment discipline that identifies high performing community enterprises (both for- and non-profit) who have the capacity to use investments effectively.

All these suggest community investing as a practice that can serve as a next stage of the recovery cycle. The move to investment brings with it economic activity, marrying a focus on underserved communities and a disaster recovery focus on communities most in need.

Closer integration of the two practices has the potential to bring specific benefits to the disaster recovery cycle. From the perspective of CI, disaster recovery practitioners may serve to identify high performing local organizations that would otherwise be unknown to the investment community. They may also bring the added benefit of community ties, trust, and goodwill that can make CI most effective at serving social needs.

From the perspective of disaster recovery, having clear working relationships with CI practitioners is a public signal that investment — even if not immediately practicable — is possible down the road. This signal may change the way that private (and public) sector actors treat a community in the immediate aftermath. For example, a corporation may be willing to rebuild rather than relocate a factory if it has some confidence in the long term CI support for a particular neighborhood after a disaster.

This close integration may be easier to describe in theory than to achieve in practice. Disaster recovery practitioners are not always trained in distinguishing investable market opportunities from real human need. And integrating these considerations into their daily work may not only be difficult, but may also distract them from vital recovery work. There is no automatic link between their work on the ground and the unique nature of information that would inform CI decisions.

On the other hand, CI response to disaster is naturally slower than disaster recovery efforts, especially as local market conditions may be particularly fragile after disasters. Community investors tend to operate through local intermediaries rather than be local themselves, working at the intersection of markets and communities. CI has to focus not just on need, but on effective demand; investors must sort out vital organizations that are good investments from those that need other forms of support.

Finally, it cannot go without saying, both recovery and CI groups require the raising of public and private sector grants through fundraising efforts that may look as much like competition as collaboration to the potential grantees in question.

Sorting through these issues will be necessary if a closer integration of recovery and CI work is possible. The example of the Isaiah Fund may help call into relief some of the necessary steps that could be taken to help a CI-disaster recovery discipline flourish.

The Example of the Isaiah Fund:

The Isaiah Fund emerged in the aftermath of Hurricane Katrina as a response from faith-based investors associated with the Interfaith Center for Corporate Responsibility (ICCR). This group of investors began their work focused on shareholder engagement of insurance companies on their post-Katrina response. However, the realization that many of these same investors engaged in CI led to efforts to create a channel for faith-based investors to use their resources to support disaster recovery efforts — beginning with the restoration of economic life along the Gulf Coast.

Early meetings with local community groups — an action somewhat atypical for nationally based investors — reinforced the value of connecting with communities and disaster recovery practitioners on the ground. This gathering highlighted the challenge of balancing the needs of the investment community — efficiency in identifying investable projects, relatively standardized analysis of financial management and so on — with the complexities of post-disaster community recovery.

Isaiah Fund moved from idea to formal investor pool in 2008, a collaboration of five faith-based investor institutions. A governing board composed of representatives from the investment community was formed to oversee the raising of capital, review and approve potential investments, and steward the ongoing investment institution.

The Fund has begun steps to register as a certified Community Development Financial Institution (CDFI) in order to serve as the formal channel for faith-based investors interested in CI in regions affected by disasters. In 2010, the Isaiah Fund was awarded a two-year technical assistance grant to strengthen its operations and prepare for CDFI certification.

Among the important decisions that had to be made by the Isaiah Fund were the criteria for investment selection: how to develop a method to best leverage monies raised. The geographic area of focus included the affected parts of the Gulf Coast Region, although after addressing issues of limited resources and the opportunity set of investments, a decision was made to concentrate investments in the city of New Orleans. In the city itself, Isaiah Fund chose to concentrate on the neighborhoods of Central City and Treme and the Broadstreet commercial corridor that connects them. These neighborhoods had relatively strong potential for economic recovery, a robust set of supports from public, private and civil society actors, and some protection from further physical damage in the event of subsequent flooding. These priorities intersected with a number of other public and philanthropic efforts engaged in rebuilding New Orleans. Targeting high impact, high profile neighborhood-based community development projects was mean to leverage greater investment from a range of other sources and types of capital.

The Fund raised more than $6 million dollars over the course of its first five years. Initial investments were made in local and regional community banks and credit unions, to facilitate their Gulf Coast community lending activity post-Katrina. Over time, direct investments were made in double bottom line real estate projects ranging from a mixed-use, mixed-income apartment complex to the provision of affordable housing for those displaced by the demolition of specific public housing projects. The Fund plans on expanding lending to the fresh food retail and social services sectors in 2012. It has also begun raising funds for disasters subsequent to Katrina, in other areas of the country.

Some key lessons in the experience of the Isaiah Fund highlight the complexities of integrating CI with disaster relief and recovery.

First, the time it took to make substantial investments reflects the complexities of investing in post-disaster areas: The challenge of identifying effective demand, the need to determine how public and other policies will unfold and affect the investment ecosystem, the difficulties of raising and deploying money in a new fund, all these led to an extended time horizon for capital deployment in this first-ever venture.

Second, raising money — particularly security capital (equity) and operating funds — for Isaiah Fund took place significantly after the disaster, and later than was ideal. In theory, this delay could be avoided by capitalizing on revenue streams associated with philanthropic donations triggered during the immediate post-disaster period. This would be especially important for raising "equity," loan loss reserves that enable lending, that can leverage significantly greater investment dollars. Given the complicated and resource-intensive fund development process, Isaiah Fund was left searching for equity after raising debt capital, limiting both the speed of deployment but also the effective scale of the Fund for the immediate disaster. (An important element of the fundraising, of course, was the existing ties among ICCR members who participated in the Isaiah Fund. This created a natural limit to the potential pool of investors but also gave the Fund a clear identity which it could leverage more broadly.)

Finally, the context of New Orleans is of course especially important. The scale of the disaster, and the amount of recovery monies from public and charitable sources raised post-Katrina, meant that Isaiah Fund took its shape in an enormous relief effort which itself created a deeper ecosystem of recovery resources than many communities develop post-crisis. This may have been a useful environment in which to develop the model of CI-disaster recovery collaboration — and indeed, it may be that this model proves more useful in less high-profile areas or recovery efforts. However, it is surely true that New Orleans and the Gulf Coast offered special conditions that will be hard to replicate elsewhere.

Ultimately, the Isaiah Fund has made significant investments at a scale large enough to play important roles in several community investing projects and neighborhood revitalization efforts in New Orleans. It has built models for community relationships and adopted investment strategies (such as the use of loan participations to leverage local, regional and national partners) that may shed light on how CI practitioners can engage post-recovery investing in underserved communities.

The Isaiah Fund participants see their work to date as potentially laying the foundation for a $20-50 million loan pool with an investment structure and mode of practice — a collection of like-minded investors, an institutional form, relationships with recovery practitioners, and an idea for a new type of community investment — that could be applied to other places. This could happen either through a national or a set of regional investment vehicles that exist before crises hit and become active in communities in need of investment capital. The focus of such a fund will, by nature, be on smaller, local transactions designed to promote greater impact in the community by leveraging additional — often sizeable — resources from other sources.

In other words, as the Isaiah Fund shifts from a regional to a national, multi-disaster model, the model can help us ask: what would a high-functioning CI-Disaster Recovery collaboration at scale look like?

Designing for CI-Disaster Recovery Collaboration:

The fundamental question raised by the model is: how can we tie disaster recovery and community investment together to the benefit of both? The ideal goal of such a project would be support for a more rapid and robust recovery from the post-disaster period to a flourishing community life in an affected area.

Reaching this goal raises a series of practical design questions, which are framed here in terms of the questions an ideal disaster recovery CI fund should be able to answer:

1) *Where and when is Community Investment an appropriate response to disaster recovery?* As noted above, CI requires not just need but effective demand, and not all communities will have demand for — or be best served by — investment capital. In other places, grant capital or public sector intervention on the one hand, or a robust local banking and investment community on the other, may mitigate the need for community investment.

   A CI fund will need some method of determining where to place its scarce resources — what sort of criteria for areas, scale, investment ecosystem, and potential benefit would trigger a CI response?

2) *How do we integrate the work of disaster recovery practitioners with a CI fund?* As noted above, in theory the recovery practitioners could be invaluable partners in determining where, how, and when community investments are made; but in practice their jobs have not focused on assessing post-crisis

situations through an investment lens. The same, of course, holds true for CI practitioners who are not nearly so familiar with relief and recovery work.

What sorts of cultural exchange, training, or work-sharing can help develop the cross-fertilization of skills? What sort of institutional relationships between recovery practitioners and a CI fund could create a resilient platform for engagement across multiple events?

3) *What sort of institutional form is most appropriate?* Questions of scale and resource management are integral. Is a disaster recovery CI best designed as national in scope, with specific regional actions following disasters? Or, should place-based funds be created in each instance, managed by a loose network of investors who have worked together on similar funds?

   This raises further practical questions of fund governance – who would be in charge of making decisions, how large is the pool of investors who will have a say in fund governance, how much freedom will staff have to operate, how will performance — financial and social — be monitored and course corrections made, and so on.

4) *How is a disaster recovery CI fund best capitalized?* One obvious model for fund capitalization would be the use of a portion of disaster relief fundraising for fund equity, using the immediate aftermath of a disaster to lay the groundwork for longer term investment down the road. But this may leave a substantial gap between the time of equity fundraising and the deployment of investment capital. The ongoing CI fund would continue to require operating capital — and even a loose network of investors will need staffing and coordination.

5) *How can we ensure that the necessary organizational partners for effective CI exist, as needed, in affected communities?* There may be areas where concentrated effort can more swiftly build capacity for community investment that does not yet exist. While certain cities and regions have a healthy supply of community development organizations, many with the scale and expertise to leverage community investment dollars, many do not. The absence of such organizations able to deliver effective, local oversight and direction significantly impairs the potential flow of community investment dollars and subsequent follow-on benefits.

   How might local organizations, disaster recovery groups, community investors, and national CDFI institutions collaborate to swiftly and successfully build capacity in partner organizations required to allow the benefits of community investment to take root?

Answering these questions is a necessary step in further developing a disaster recovery CI investment vehicle. But it is important to note that, in practice, any investment fund will face ongoing challenges in identifying priority areas, raising appropriate funds for investment, and making sure that those funds are used to support tangible social benefit. Just as importantly, the ongoing relationships between disaster recovery and CI practitioners and institutions will require regular attention and care.

Conclusion:

The model of the Isaiah Fund provides a critical point of reflection to consider the intriguing possibilities of more intentional relationships between disaster recovery and CI organizations. This has the potential to be a significant and distinct form of CI practice, and it has the potential to address concerns around the time horizons and resource allocation issues common to disaster recovery efforts. The model can help concentrate attention on core issues, highlighting key questions about when CI is appropriate, how it is best managed, and how the skills and knowledge that disaster recovery practitioners have can be leveraged for additional impact in the recovery cycle.

The Isaiah Fund itself faces questions of scale — how big should it be? How wide — and how deep — its reach? What systems can be put in place to identify the next disaster where CI can create positive impact in the recovery cycle? Related questions go to the heart of the Fund's identity. Should it continue to be a faith-based investor collaborative, or should it seek a broader network of investors? How can the Isaiah Fund strengthen, and perhaps make more formal, relationships with disaster relief and recovery organizations that could make real the promise of an extended recovery and relief cycle?

The Fund continues to operate and expand activity in New Orleans, has begun to respond to disasters in other parts of the country, and has taken steps to become a CDFI. As it grows and matures, we will learn more about the potential for this particular form of community investment.

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FY 2012 Isaiah Fund, LLC Board of Managers

Mary Baudouin
Assistant for Social Ministries
Jesuits of New Orleans Province
(504) 571-1055
mbaudouin@norprov.org

Rev. Margaret Cowden
Socially Responsible Investing Consultant
The American Baptist Home Mission Society
(718) 633-8013
revcowden@aol.com

Jeffrey Dekro
President, TZEDEC Economic Development Fund & Isaiah Fund, LLC
Bend the Arc: A Jewish Partnership for Justice
(215) 885-1293 ext. 114
jdekro@bendthearc.us

Joseph Gonzalez
Director of Community Direct Investment
CHRISTUS Health
(281) 936-3704
joseph.gonzalez1@christushealth.org

Donna Meyer
CHRISTUS Health
(713) 667-1715
meyer.donnam@gmail.com

Mark Regier
Director of Stewardship Investing
Everence Financial
(574) 533-9515 ext. 3532
mark.regier@everence.com

Pablo Bravo Vial
Director of Community Grants & Investments
Dignity Health
(415) 438-5528
Pablo.Bravo@chw.edu

Christy Wallace Slater
Director of Economic Opportunity
Foundation for Louisiana
(225) 772-2302
cwallace@louisianahelp.org

Alyssa Zeller
Director of Development and Philanthropy
Bend the Arc: A Jewish Partnership for Justice
(212) 546-2113 ext. 72
azeller@bendthearc.us

Pat Zerega
Director of Shareholder Advocacy
Mercy Investment Services
(412) 367-7575
Patricia.Zerega@elca.org