What Can Foundations Do to Foster Community Investment?

10 Roles for Philanthropy

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About this paper

The Kresge Foundation and John D. and Catherine T. MacArthur Foundation are sponsoring a project designed to improve the ability of cities to attract and deploy socially motivated investment capital at scale. The work recognizes that:

- Mainstream markets often fail to meet the needs of low-income communities.
- Communities need a systematic approach to harness private capital effectively to achieve important social and environmental goals.

The project builds on work begun at Living Cities, a collaborative of 22 financial and philanthropic institutions.

This paper is part of a series of publications. It is the work of Robin Hacke, a senior fellow at Kresge; David Wood, director of the Initiative for Responsible Investment at the Hauser Institute for Civil Society at Harvard University; and Marian Urquilla at Strategy Lift. Other publications on this topic may be found at *http://hauserinstitute.org/iri/about/capital-absorption*.

Introduction

Philanthropic actors often see themselves as working outside or against the economic system – repairing damage that economic structures may have caused or filling gaps that economic activity leaves open, for instance. But the work of foundations – urban regeneration, for example, or climate-change mitigation and resilience – often requires engagement with the social and capital structures that drive the economy.

Guiding how investment dollars flow into communities can help leverage resources beyond grant dollars alone, and can affect structural conditions integral to the issues many foundations are trying to address.

Simply put, foundations can magnify their impact by steering private investment toward social goals. They can do this not only in their role as investors, as important as that can be, but also as grantmakers and as advocates, conveners and supporters of research. In this paper, we describe ways in which foundations can shape how capital is used to support positive social outcomes in marginalized communities.

Foundations and Investability: Focusing on the System

Over the past several years, we have explored through applied research how communities can better draw private capital investment to public purpose – what we came to call the capital-absorption capacity of places.[1] Foundations and other investors searching for impact investments often report that they struggle to find investment opportunities that meet their social goals as well as their expectations for financial return. Our question is this: What can communities do to make it easier for money to be deployed in investable opportunities that achieve their social goals?

Our work in a variety of metropolitan regions has shown us that community investment – the use of capital such as philanthropic grants and public funds as well as bank loans, bonds, and other forms of debt and equity for purposes that serve the needs of marginalized people and places – generally takes place one deal at a time. These deals are often complex, requiring multiple forms of public, private and philanthropic subsidy. Practitioners who execute these deals describe the effort to balance investability and social purpose as a long, difficult journey with serial obstacles along the way.

Communities find it difficult to build on their successes to make subsequent deals easier – to capture the energy and insights generated through a particular transaction to accelerate learning and enhance performance for the community-investment system and network as a whole. They often lack a systematic approach to organizing demand for capital and creating

[1] For a collection of papers and tools we have published on this topic, see *hauserinstitute.org*

the conditions for its deployment.

By focusing on the systems that condition how community investment takes place, foundations can help make such investments more frequent, more robust and more effective. An effective system requires the presence of capable borrowers and specialized intermediaries like Community Development Financial Institutions (CDFIs). But the ability to make these investment systems function effectively requires more. Effective systems are also characterized by *clearly defined community priorities*, *a transparent pipeline of feasible deals that help achieve those priorities* and *a supportive ecosystem*. To be supportive, that ecosystem must be one in which stakeholders communicate regularly, there are appropriate funding sources, and policies and regulations facilitate the creation and consummation of good deals for the community.

Foundations can play important roles in creating and strengthening these systems, using their own array of resources to channel public and private capital toward socially important outcomes. By helping make the communities they care about "investable" for projects, programs and transactions that generate social value beyond what happens in conventional markets, foundations can amplify the effect of their own grants and investments. How can foundations build the capacity of places to attract and leverage investment for community benefit?

Promoting Investment in Marginalized Communities: 10 Roles for Foundations

Here we offer 10 roles that foundations can play that may contribute to more effective channeling of private capital to public purpose. Not every foundation will take on every role. Our aim is to highlight different tools that can help marginalized communities organize demand for and attract capital. (Note: We have focused on attracting useful investment to places that need it, though there are obvious overlaps with efforts to attract investment to socially important sectors).

10 Roles for Foundations	
1. Convener	6. Deal-maker
2. Capacity builder	7. Communicator
3. Matchmaker	8. Policy advocate
4. Data provider	9. Mission steward
5. Investor	10. Systems engineer

1. Convener

A credible convening of stakeholders – to articulate priorities, facilitate communication between sectors and offer a forum for exploring potential deals and activities that catalyze community investment – can play a vital role in shaping and strengthening systems. Foundations, especially those that are place-based or have close relationships with places, can be trusted and neutral conveners, inviting to the table stakeholders like anchor institutions or major employers that may not view themselves as natural participants in community investment and ensuring that community voices are heard.

> ***Example:*** *In 2012-13, the Greater New Orleans Foundation hosted workshops on capital absorption that brought together city officials, philanthropy, community development investors and the financial sector to identify post-Katrina priorities for the region. Similarly, the California Community Foundation in Los Angeles, together with Los Angeles Transit, Housing, Resources and Investment for a Vibrant Economy (LA THRIVES), hosted capital-absorption workshops in early 2014, and followed up with a program to boost the capacity of the city and county to use investment to advance equitable transit-oriented development as the build-out of the light-rail system proceeds.*

2. Capacity builder

Foundations can use their grantmaking, fundraising and knowledge-sharing practices to build capacity in the intermediaries who invest in community development, and in the organizations – community development corporations, social service deliverers, social entrepreneurs, socially minded businesses – that can benefit from such investment. Support for capacity building can help potential borrowers strengthen their balance sheets and/or their skills so that they qualify for investment, expanding the pool of potential deals in a community. It can also help intermediaries develop place- or sector-specific expertise that facilitates development of new transactions. Foundations also can support – or sometimes directly provide – staffing for partnerships or institutions that coordinate action around community investment or that target immediate opportunities or high-priority community needs.

> ***Example:*** *The MacArthur Foundation has long nurtured the community-investment ecosystem in Chicago, funding intermediaries like the Local Initiatives Support Corp. as well as community development financial institutions serving the city's low-income neighborhoods. The McKnight and St. Paul foundations have supported CDCs and other neighborhood-based organizations as well as the Neighborhood Development Center, a community development financial institution that works with small, immigrant and minority-owned businesses in St. Paul, Minn., as they have prepared for the transit-oriented development that is accompanying the new Green Line along the Central Corridor.*

3. Matchmaker

Foundations often have access to organizations and knowledge that would benefit the communities they care about. By actively linking actors across the investment chain, foundations can help investors locate relevant investment opportunities and can address gaps in the ecosystem by importing missing capacity into places and sectors where it is needed. The networks that foundations can help create can reduce transaction costs and facilitate deal generation that would not otherwise take place.

> ***Example:*** *The Chicago Community Trust is supporting efforts to help the community development financial institution IFF and Enterprise Community Partners expand their reach to suburban communities in the Chicago area where they previously were not active, bringing new capacity to communities that previously lacked investment intermediaries. In Oregon, the Meyer Memorial Trust has collaborated with other public sector and philanthropic actors to create an online integrated platform for economic development meant to make transparent the pipeline of high-impact investments in communities that tend to be less visible to financial markets.*

4. Data provider

Community-investment systems require solid data to function effectively. By funding the collection, analysis and dissemination of data about vacant parcels, neighborhood purchasing power and other community characteristics, foundations can make it possible for developers and investors to spot and evaluate opportunities, lowering transaction costs and spurring deals that otherwise might not take place. Similarly, inventorying small businesses can facilitate local procurement efforts or the creation of targeted loan funds.

> ***Example:*** *The Ford, Denver and Piton foundations, through their participation in the collaborative Mile High Connects, supported the creation of a Denver Regional Equity Atlas[2] to raise awareness of opportunities in communities along the area's newly expanded transit network in the Denver region. A similar atlas was developed in Los Angeles with local philanthropic support. Through its national rental housing preservation initiative, the MacArthur Foundation has supported 10 university-based data clearinghouses that facilitate multi-family development activity in markets like Chicago and New York City.*

5. Investor

Foundations can play a vital role in providing risk-bearing, patient and/or subsidized investment – the "but for" money that allows socially important investment funds or deals to close. Foundations can also make socially valuable investments with their endowment dollars and help signal social credibility and financial viability to the broader market. Such investments have the collateral benefit of creating a track record for impact-investing strategies, and helping build scale and capacity in intermediaries, investees and foundations themselves.

> ***Example:*** *The California HealthCare Foundation draws on its exposure to innovative health-delivery systems in poor communities to invest in early-stage companies with high social-impact potential, taking on investment risk as these companies prove their concept and linking investees to the broader networks that CHCF has cultivated in the field. The Annie E. Casey Foundation used program-related*

[2] *http://www.denverregionalequityatlas.org/*

investment capital to participate in Boston Community Capital's Sun Initiative, an innovative investment response to foreclosures resulting from the financial collapse of 2008.

6. Deal-maker

Foundations can go beyond investing in deals created by others and take the time to help structure innovative investment products that serve specific social needs. Pulling together transactions that advance community priorities while meeting the financial-return expectations of investors is time-consuming, expensive work that often requires specialized market knowledge and commitment to mission as well as financial sophistication. By identifying high-impact opportunities and unmet needs, foundations can catalyze investment at a scale beyond that which they could manage themselves.

> ***Example:*** *The Kresge Foundation helped develop the Woodward Corridor Investment Fund, which brought together local real estate developers, national intermediaries and financial institutions to invest in the revitalization of Detroit. By researching the specific obstacles to investment in Detroit, Kresge was able to supply as well as raise funds with terms longer than those generally available in the community-investment sector. This new, $30 million vehicle should help spur and accelerate investment along the corridor by making it possible to "batch" deals rather than seeking appropriate financing one deal at a time.*

7. Communicator

Foundations can be effective cheerleaders for communities, raising their profiles with audiences that have the potential to help. By highlighting opportunities and success stories, foundations can draw in a wider array of anchor investors, financial institutions, public leaders and civic advocates than otherwise might engage with a particular community's needs. Philanthropy can also place the role of private investment in the context of holistic efforts to make places more equitable and sustainable.

> ***Example:*** *In Buffalo, N.Y., the F.B. Heron Foundation and the Community Foundation of Buffalo have collaborated to link statewide economic development, and local and national interest in impact investment, to specific efforts at revitalization led by anchor investors in the Buffalo Niagara region. By sponsoring gatherings in Buffalo and telling the story of the investments underway, the foundations are helping Buffalo make its case to a larger audience.*

8. Policy advocate

Foundations can shape the environment in which investment takes place by providing policymakers with examples of effective community investment; helping the public sector understand how to develop programs, subsidies, regulations and systems that support such investment; and funding the research and advocacy work of nonprofit organizations in areas of particular interest. Foundations can also identify ways to achieve important social goals

– healthier communities, equitable access to opportunities, carbon mitigation and climate resilience – that help direct public-sector efforts to shape private-market activity.

> ***Example:*** *As a leading member and funder of the Great Communities Collaborative, the San Francisco Foundation has helped shape policies and practices that advance equitable transit-oriented development in the Bay Area. The foundation, which houses GCC staff, helped catalyze the Metropolitan Transportation Commission's decision to invest $10 million in the Bay Area Transit-Oriented Affordable Housing Fund, a $50 million vehicle that finances development of affordable housing and vital community services near transit.*[3] *The Great Communities Collaborative has supported a number of station area plans that local leaders can use to help implement the goals of Senate Bill 375, which calls for reduction of greenhouse gas emissions through the concentration of future development in the state.*

9. Mission steward

Foundations can be voices for social equity and environmental sustainability as economic development takes place, and they can help ensure that investment transactions are structured in ways that take social needs and community priorities into account. As community-investment transactions encounter inevitable obstacles and compromises, foundations can take the long view, elevating the interests of underserved constituencies and communities.

> ***Example:*** *The Annie E. Casey Foundation has been a steady voice for the interests of residents of East Baltimore, where a significant redevelopment effort has been underway for many years. The foundation has committed to ensuring that the project not only makes physical improvements to the neighborhood, but also improves opportunities for area residents. To do that, the foundation has offered intensive support to families forced to relocate, ensured the ability of relocated residents to return, provided greater compensation to relocated families than has been typical in redevelopment projects and involved residents in a consequential way in planning, design and implementation.*[4]

10. Systems engineer

Typically the community-investment system exists as an informal collection of stakeholders who tend to interact with one another in the context of particular transactions. No one is responsible for the architecture or smooth functioning of the system as a whole, and no one actor is charged with thinking about how to learn from completed deals or respond to emerging opportunities. Foundations are well-positioned to take a holistic view of the system and assess how its functioning could be improved.

> ***Example:*** *The Kresge Foundation has taken the initiative to improve capital-absorption capacity in Detroit, playing many of the roles described in this paper. Kresge is now considering how the system has evolved in recent years and what actions it should take to enhance the capacity of the community-investment system as the city exits bankruptcy and enters the next phase of its rebirth.*

[3] For more details, see *http://bayareatod.com/*
[4] For more details, see *http://www.aecf.org/m/resourcedoc/ACEF-EastBaltimoreRevitalization_2011.pdf#page=4*

We emphasize a broad range of roles both because we see many different opportunities to strengthen community-investment systems, and because different foundations bring differing capacities and interests to shaping community investment. Some of these roles – say, as convener or mission steward – may require close community ties and trusted relationships that are most likely found in place-based organizations. Others – the roles of deal-maker and matchmaker, for instance – may favor larger foundations or those with wider regional or national networks, especially when specific in-house investment expertise is most useful.

No foundation is likely to be the lead actor in all of these roles, nor are any of the roles restricted to foundations alone. Our point is that there are significant opportunities for all kinds of foundations to leverage their assets by engaging in systemic work on community investment, and by finding partners to share in those efforts.

The Opportunity Now

The value of developing more effective, resilient and beneficial systems for community investment is not limited to any specific moment in time. Effective systems can help preserve equity in hot markets and serve the neediest in downturns. We believe that a more smoothly functioning community-investment system will produce more high-impact transactions with lower transaction costs and better outcomes than a haphazard, deal-by-deal approach.

But there are particular moments when the work of creating an organized community-investment system seems most urgent. For instance, many of the places we work with are experiencing significant, once-in-a-lifetime investments in transit infrastructure – investments that will reshape the built environment for generations, creating opportunities to develop equitable, healthy communities that provide opportunities to residents of all income levels. Others are facing difficult moments, where disinvestment or disaster creates the need for a broad and sustained response.

Capital-absorption work won't solve these problems by itself, but it does offer foundations a way to mobilize investment at a scale that can have a significant impact. By helping a community to articulate its strategic priorities – ensuring that resources are aligned and leveraged to maximum effect, coordinating the actions of many stakeholders and enticing new actors into the system – foundations can harness the power of capital to achieve important public goals.

By taking up the roles described here, foundations can create a virtuous cycle, helping to develop a pipeline of investable opportunities that will serve the communities they care about and making future transactions more efficient and effective in delivering social and financial returns.