The Capital Absorption Capacity of Places

A Self-Assessment Tool

Version 4.1, October 2013

INITIATIVE FOR RESPONSIBLE INVESTMENT

LIVING CITIES
INNOVATE ▸ INVEST ▸ LEAD

This self-assessment tool was developed for Living Cities by Robin Hacke of Living Cities; David Wood and Katie Grace of the Initiative for Responsible Investment at the Harvard Kennedy School and Marian Urquilla. We appreciate the feedback of numerous colleagues and leaders in the community development field who have participated in our research, reviewed drafts of the capital absorption work, and contributed their expertise to advance our thinking. We view this tool as part of a continuing dialogue and invite your feedback and comments.

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A FUNCTIONAL FRAMEWORK

OVERVIEW

In 2010, the philanthropic collaborative Living Cities (www.livingcities.org) launched the Integration Initiative, an effort to transform the systems that shape the lives of low income people in five U.S. metropolitan regions: Baltimore, Cleveland, Detroit, Minneapolis-St. Paul and Newark.

In the course of developing the Integration Initiative, the Living Cities team was repeatedly struck by gaps in what we have begun to refer to as "capital absorption capacity" – the ability of communities to make effective use of different forms of capital to provide needed goods and services to underserved communities. As a result of this experience, Living Cities is sponsoring research meant to illuminate the political, social, cultural, and financial elements that create capital absorption capacity. Our focus is not on the supply of capital, although an adequate supply of capital is clearly fundamental. Nor are we focused specifically on the nature of, and ways to build, investment intermediaries that meet certain criteria of scale and sectoral reach. Instead, we are looking at how communities themselves deploy investment and create an environment that puts dollars to work on behalf of low income people.

Our goal is to build a new framework for understanding capital absorption capacity. The framework assumes that many stakeholders – from intermediaries to community groups to public agencies to the mainstream investment community – are required to make community investment possible. These stakeholders interact with each other and with the policy and regulatory environment in places to create an ecosystem for capital absorption. We believe that understanding the overall ecosystem (the interplay of the actors and functions that produces an environment for community investment) in a particular community is just as important as identifying the specific actors that are present or absent in that community.

What follows is our current draft framework for analyzing the capital absorption capacity of specific places. Think about how this framework applies in your community, and what actions you might take to make the functions and the ecosystem more robust.

DEFINING COMMUNITY INVESTMENT

For the purpose of analyzing capital absorption capacity, we define community investment (CI) as the application of public and private capital to achieve targeted outcomes for underserved communities, giving all citizens the chance to lead healthy, productive and fulfilling lives (see box below). In the words of former Federal Reserve Bank governor Elizabeth Duke, CI "is based on attention to both the physical infrastructure, whether housing or commercial spaces, and the health and welfare of the residents therein." It brings together real estate, business development and social service investments in ways that make each more effective.

We need to answer the question: *How do communities successfully take investment capital and apply it to community development purposes?*

Community Investment Issues and Sectors

- Access to financial services
- Affordable housing
- Arts and culture
- Business development
- Economic development
- Education
- Energy efficiency
- Health and wellness
- Public safety
- Transit-oriented development
- Urban regeneration

COMMUNITY INVESTMENT AS A SET OF FUNCTIONS

The following core functions are required to absorb capital and make effective community investment.

These functions do not predetermine what a successful community investment ecosystem looks like or the specific actors involved. Certain functions may be best performed by local, regional, or national actors; institutions not conventionally understood as community investors may be best placed to achieve specific goals. Further, there is potential for new technologies or innovative collaborations to deliver functions more effectively.

Pipeline

Generate deals and projects that contribute to defined community goals.

- Spot opportunities
- Pull together projects and deals
- Predevelopment and development
- Leverage public resources
- Assemble capital, including identification and blending of sources
- Structure and underwrite investments
- Align deals and projects with vision and goals

Enabling Environment

Build the policy and support tools that allow community investment to take place.

- Set and influence policy and regulatory environment
- Apply and enforce policies and regulations
- Generate and provide data
- Provide subsidy, first loss money, and training
- Ensure availability of diverse and capable actors

Shared Priorities

Ensure that investment meets recognized community needs, and is done with the support of community actors.

- Define needs
- Engage with community
- Convene stakeholders; "table-setting"
- Determine priorities

Management and Monitoring

Manage portfolio to ensure financial and social performance.

- Loan servicing
- Portfolio management
- Workouts and problem solving
- Data collection and evaluation
- Social impact monitoring
- Organizational capacity building

Learning and Adaptation

Learn and apply the lessons of CI to create durable networks that can strengthen CI practice and carry it through to new areas.

- Build platforms for ongoing collaboration
- Identify and attack barriers
- Create new products
- Identify and explore emerging needs/fields

SHARED PRIORITIES

DESCRIPTION: Ensure that investment priorities will yield important benefits to low income people and are aligned with recognized community needs.

FUNCTIONS

- Define needs
- Engage with community
- Convene stakeholders; "table-setting"
- Determine priorities

KEY QUESTION TO CONSIDER:

What are the shared priorities that guide investment in our community?
OR: If a Martian came to our region and spent some time observing and understanding our work, how would the Martian describe our organizing vision and priorities?

PROMPTS TO DEEPEN YOUR DISCUSSION:

Where did the organizing vision come from? Who set it? What's left out? How "shared" is it?

If the community doesn't have a shared vision: Who is best suited to convene a vision-setting process? What issues would likely get the most traction? If you tried but failed to develop a shared vision, what got in the way?

ASSESSMENT

We have a widely shared vision that guides investment in our community.	Not really	To some extent	To a great extent
Our vision results from an inclusive process that engages and is seen as legitimate by stakeholders from multiple sectors.	Not really	To some extent	To a great extent
Our vision is comprehensive and includes investment in both places and in people.	Not really	To some extent	To a great extent

OVERALL DOMAIN SCORE (WITH 1 BEING LOW AND 5 BEING HIGH): ____________

EXPLAIN THE THINKING BEHIND YOUR SCORE:

PIPELINE, MANAGEMENT AND MONITORING

DESCRIPTION: Generate deals and projects that contribute to defined community goals. Ensure financial performance and social benefits.

FUNCTIONS

- Spot opportunities
- Pull together projects and deals
- Predevelopment and development
- Leverage public resources
- Assemble capital, including identification and blending of sources
- Structure and underwrite investments
- Align deals and projects with vision and goals
- Portfolio management
- Workouts and problem solving
- Data collection and evaluation
- Social impact monitoring

KEY QUESTION TO CONSIDER:

How do we currently build a pipeline of investments and projects that help to move us towards our shared goals?

THINK ABOUT:

How do good investments and projects typically get identified, put together, and resourced?

Who aggregates capital? Who leads investment?

For real estate transactions: who leads predevelopment/development? Who is at the table?

How strong or weak is capacity of end-users to borrow?

How do goals of economic development, social equity, and sustainability get integrated into deals and programs?

Who are the actors who steward investments from beginning to end–who takes the lead, what happens when things go wrong?

How well have we integrated community investment with workforce training, business development services, and social services?

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ASSESSMENT

We have a robust pipeline of good deals and projects.	Not really	To some extent	To a great extent
We are able to move investments forward in a relatively predictable and efficient manner.	Not really	To some extent	To a great extent
We have systems in place to ensure that investments are put together in ways that maximize their potential social benefit and we prioritize deals and projects that can make important contributions to achieving our shared goals.	Not really	To some extent	To a great extent

Are there significant differences in how these functions are done by type of investment, i.e. housing, community facilities, commercial real estate, small business development, human services?

Plot out the different sector-specific pipelines from weakest to strongest:

WEAKEST STRONGEST

OVERALL DOMAIN SCORE (WITH 1 BEING LOW AND 5 BEING HIGH): ____________

EXPLAIN THE THINKING BEHIND YOUR SCORE:

ENABLING ENVIRONMENT

DESCRIPTION:

- Build the policy and support tools that allow community investment to take place.
- Strengthen the market and provide the support, linkages and mechanisms needed to attract and sustain investment.

FUNCTIONS

- Set and influence policy and regulatory environment
- Apply and enforce policies and regulations
- Generate and provide data
- Provide subsidy, first loss money, and training
- Ensure availability of diverse and capable actors

KEY QUESTIONS TO CONSIDER:

What are we already doing to foster the success of equitable community investment? What are the bright spots? What are our gaps?

THINK ABOUT:

DEMAND AND OPPORTUNITY:

In what ways do public policies foster market demand and contribute to better functioning markets in our area?

In what ways are markets working/failing to deliver essential goods and services?

PRACTICES AND TOOLS:

How are we using subsidy, training, data and coordination to boost the effectiveness of community investment? What would help us do better?

What kinds of money (Section 108, housing trust funds, PRIs, etc.) do we tend to use, and what tools and types of money could we use better?

In what ways have we fostered a systematic approach?

Does the system include diverse communities and recruit unlikely actors?

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ASSESSMENT

Our public policies, practices and regulatory system support effective community investment.	Not really	To some extent	To a great extent
We use and coordinate public and private subsidy, data and training resources to catalyze and support community investment in our area.	Not really	To some extent	To a great extent

OVERALL DOMAIN SCORE (WITH 1 BEING LOW AND 5 BEING HIGH): ____________

EXPLAIN THE THINKING BEHIND YOUR SCORE:

MOVING THE WORK FORWARD

KEY QUESTION TO CONSIDER:

How can we foster a systematic approach to developing and implementing our community's vision?

THINK ABOUT:

What mechanisms (e.g. regular meetings, joint RFPs, formal collaborations, etc.) need to exist to ensure that we approach investments systematically rather than as 'one-of' deals?

STRATEGY PLANNING OUTLINE

What platforms do we need to assure ongoing collaboration?

What barriers should we target?

What new products do we need to prioritize?

How will we identify and explore gaps and emerging needs?