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## How Impact Investing Can Advance Economic Development Finance

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## Katie Kramer

Vice President  
Council of Development Finance Agencies  
Columbus, OH

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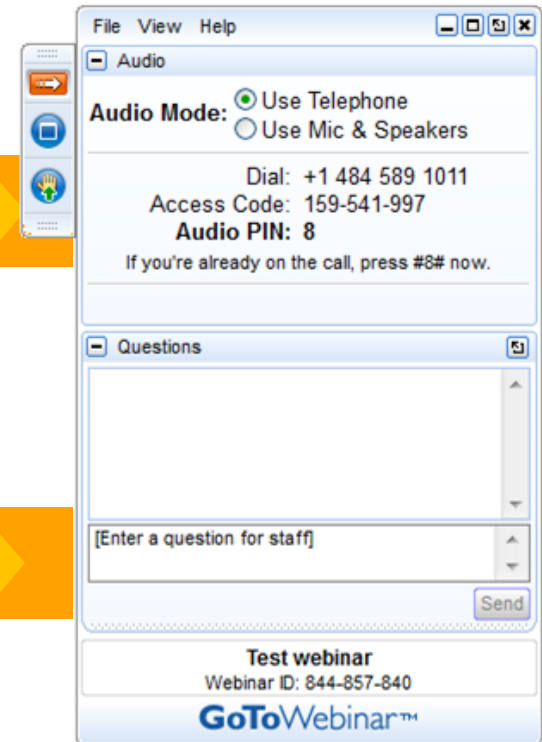
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# How Impact Investing Can Advance Economic Development Finance

## Fundamentals of Economic Development Finance WebCourse



January 27-28, 2016  
Daily: 12-5pm (EST)

## Panelists

### Rena Nakashima, *Moderator*

Senior Project Manager  
BNY Mellon

### Robin Hacke

Senior Fellow  
The Kresge Foundation

### Toby Rittner

President & CEO  
Council of Development Finance Agencies

### David Wood

Director  
Initiative for Responsible Investment

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# How Impact Investing Can Advance Economic Development Finance



## Rena Nakashima

Senior Product Manager  
BNY Mellon  
Los Angeles, CA

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# How Impact Investing Can Advance Economic Development Finance



**Robin Hacke**

Senior Fellow

The Kresge Foundation



**Toby Rittner**

President & CEO

Council of Development Finance Agencies



**David Wood**

Director

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# Blending Capital for Impact: How Foundations Can Advance Economic Development Finance

Toby Rittner  
President & CEO



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# What is Development Finance?

- Development finance is the efforts of local communities to support, encourage and catalyze expansion through public/private investment in physical development/redevelopment and/or business/industry.
- It is the act of contributing to a project/deal that causes that project/deal to materialize in a manner that benefits the long term health of the community.
- Development finance requires programs and solutions to challenges that the local environment creates.



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# What Does DF Include?

- Debt, equity, credits, liabilities, remediation, guarantees, collateral, credit enhancement, venture/seed capital, early stage, workforce, technical assistance, planning, short-term, long-term, incentives, gap, etc.
- Proactive approaches that leverage public resources to solve the needs of business, industry, developers and investors.



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# Why is DF Important?

- Businesses need working capital and the ability to invest in themselves
- Developers need assistance to achieve an acceptable ROI
- Communities need infrastructure and amenities
- Citizens need opportunities for advancement – jobs, small business, education, etc.
- Regions need economic prosperity



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# Who is Development Finance?

- Development finance agencies (generally speaking)
- Community development corporations
- Industrial development authorities
- Authorities (general) – ports, joint powers, airport, transit, stadium, housing, health
- Educational entities – colleges, universities, etc.
- Economic development corporation
- Community development financial institutions
- Dozens of other examples – air, power, water, energy, etc.



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# What is the Market?

- 55,000 bond issuers in the US
- \$3.2 trillion municipal bond market
- 2<sup>nd</sup> most secure market (behind US Treasuries) in the world
- Over 100 years of formal bond financing expertise
- 15,000 – 20,000 revolving loan funds in the US
- 700 regional EB-5 centers
- 35,000+ public/private economic development entities (not all financing)



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# Trends in DF Tool Use

- 50% of finance agencies issue bonds
- 41% act as conduit bond issuers
- 50% provide direct loans
- 27% provide loan guarantees (collateral support)
- 39% provide grants
- 62% provide technical assistance



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# Introducing the Toolbox Approach

- The Toolbox Approach is a full scale effort to building local and regional financing capacity to serve and impact a variety of business and industry needs.
- This is an investment in programs and resources that harness the full spectrum of a community's financial resources and is a dedication to public/private partnerships.



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# Why the Toolbox Approach?

- Wide variety of programs already exist to help with both general and targeted financing needs
- One size does not fit all and there are different instruments for different users
- More parties can be involved with a comprehensive approach – banks, thrifts, educational providers, investors, angels, developers, planning authorities, etc.
- Diversity is very important in development finance efforts.



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# The Toolbox and Financing Spectrum

## 5 Practice Areas

### **Practice Area 1: Bedrock Tools**

- Bonds and the Basics of Public Finance

### **Practice Area 2: Targeted Tools**

- Tax Increment Finance, Special Assessment Districts, Government Districts and Project Specific District Financing



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# The Toolbox and Financing Spectrum

## Practice Area 3: Investment Tools

- Tax Credits, Seed & Venture Capital and Angel Funds

## Practice Area 4: Access to Capital Lending Tools

- Revolving Loan Funds, Mezzanine Funds, Loan Guarantees and Microenterprise Finance

## Practice Area 5: Support Tools

- Federal Funding and Abatements



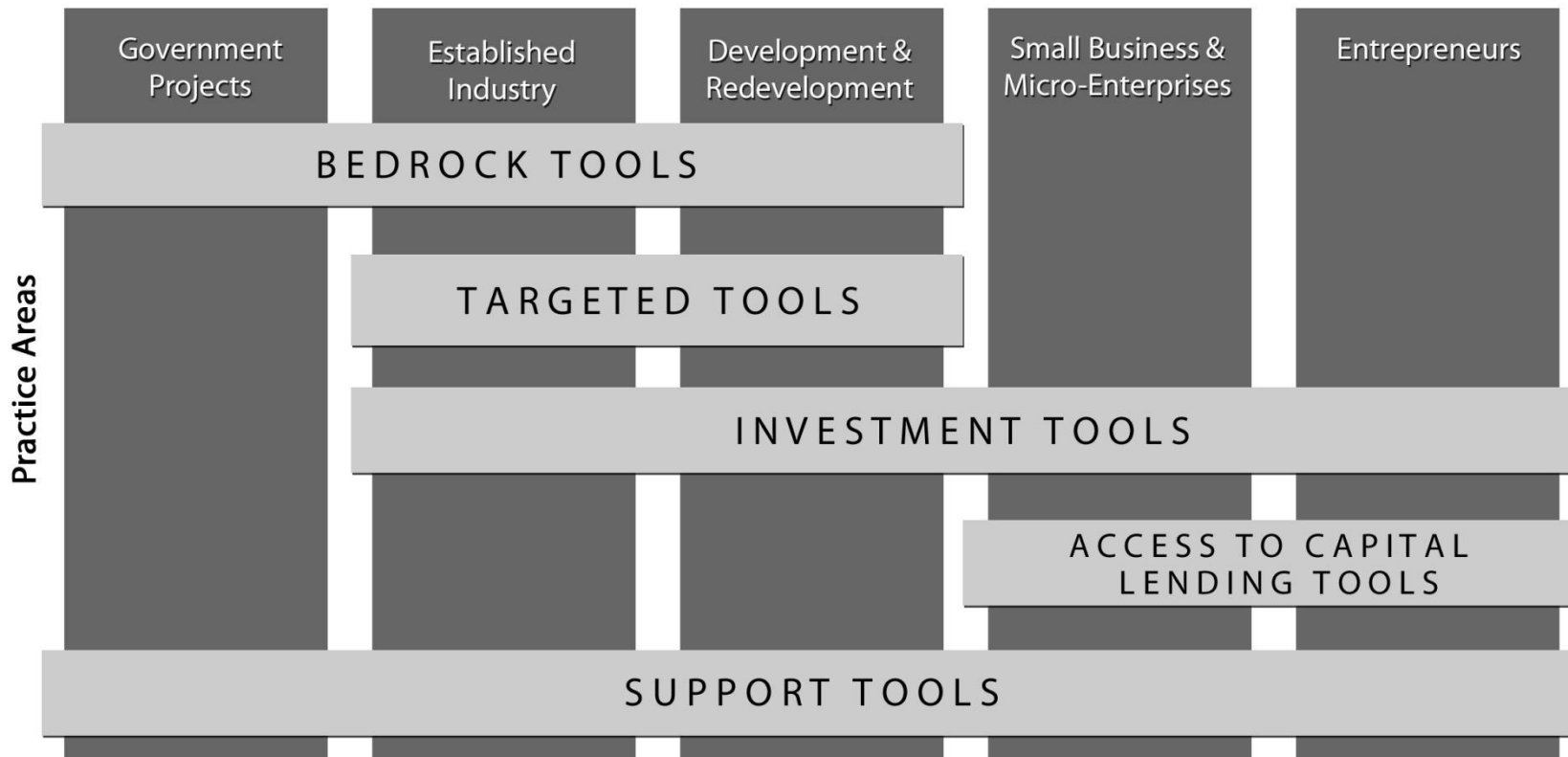
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# Development Finance Spectrum



## Development Finance SPECTRUM

### Types of Financings



From the *Practitioner's Guide to Economic Development Finance*

# Recession's Impact

- Reduction in state and local government tax revenues has severely hindered ability to spur economic development
- Constraints of federal government have reduced resources for economic development
- Focus on risk has caused serious challenges to the ability to credit enhance public financing
- Pipeline of projects has increased but reciprocal financing has not been able to engage



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# 2015 Trends in Development Finance

- Project focus has shifted
- Energy efficiency, sustainable development
- Urban infill, land reuse and revitalization
- Transit oriented development, intermodal opportunities
- Innovation finance, entrepreneurship
- Small business development
- Reshored manufacturing



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# Blending Capital Potential

- What would a \$1M investment into a bond structure do for a local development agency that is trying to create jobs through the issuance of small industrial development bonds?
- How would a \$2M co-investment in an energy efficiency retrofit program impact the social and environmental health of a community?
- What does it take for a foundation to unlock and leverage the hundreds of millions available through the traditional public sector finance markets?



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# **Impact Investing and the CDFA**

David Wood and Robin Hacke

December 15, 2015

# Foundations' role in impact investing

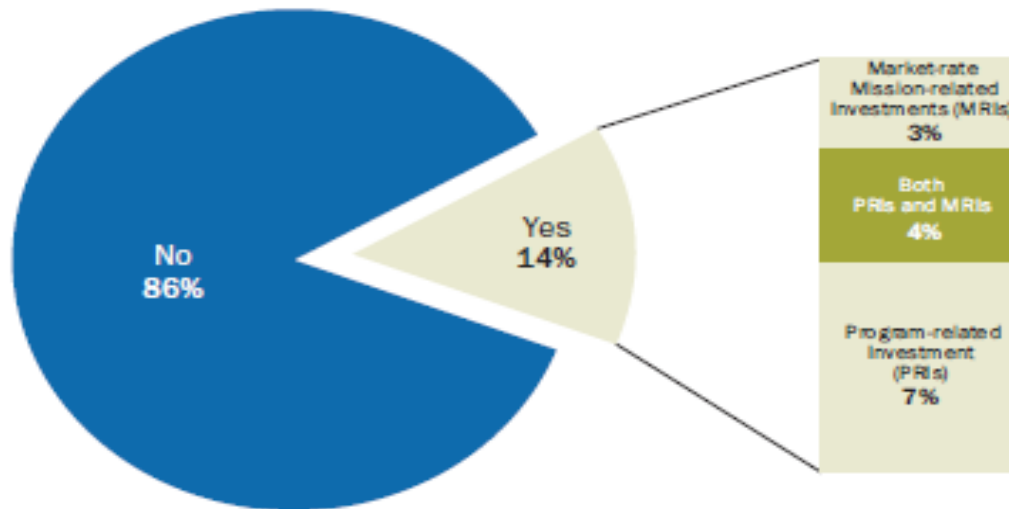
- Impact investing as a tool of philanthropy
- Two components:
  - Targeted social (and/or environmental) benefits
  - Targeted financial returns
- Integrated operations:
  - Program and finance
- Mission focus

# State of the Field

- We don't know

## Foundation Engagement in Mission Investing, 2011

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SOURCE: The Foundation Center, *Key Facts on Mission Investing, 2011*.  
Based on the responses of 1,195 foundations.



# Who does it?

- Foundations
  - Kresge
  - F.B. Heron
  - Vermont Community
- Vehicles
  - CDFIs
  - Fixed Income
  - Alternatives
  - Social Impact Bonds
  - Direct

# Philanthropic Tools

- Grants
- Convening and engagement
- Investments
  - Guarantees
  - Concessionary investments
  - Endowment investments
- Signaling mission value

# Philanthropic Investing across Sectors: A few examples

- Community Investment: Targeted to low- and moderate income places and people
- Economic Development: Targeted to place, domestic and international
- Environmental Investment: Carbon mitigation, land conservation, sustainable agriculture
- Health and Healthy Communities: Healthcare provision, smart growth, health outcomes as measurement
- Arts: Support for arts generally, access to underserved communities

# The Innovation Cycle

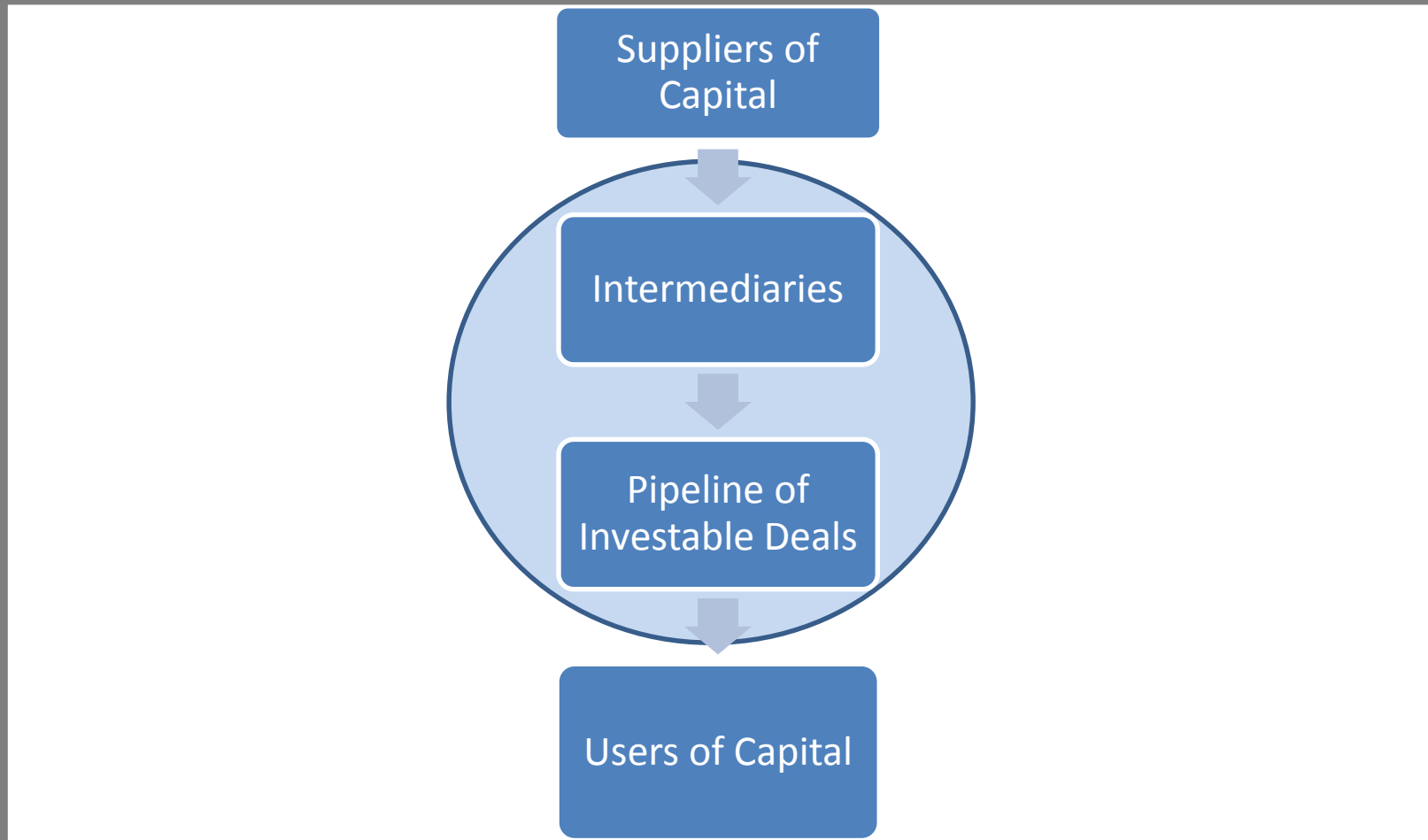
- MacArthur: platforms and products
- Total philanthropy and the 100% club
- Structured vehicles
  - Bay Area TOAH Fund
- Green Bonds
  - Climate Bonds Initiative
- Health as coordinating principle
- Good jobs and inequality

# Impact Investing and its Siblings

- Impact Investing:
  - Broader scope than Mission Investing, same targets (HNW, Family Office, Banks, Funds)
- Responsible Investing:
  - Institutional in orientation; Environmental, Social, Governance; Long-term in focus (Pension funds, Endowments, Sovereign Wealth Funds)
- Social Investing:
  - ESG + values alignment (Retail and Institutional Investors)

# Strengthening Impact Investment

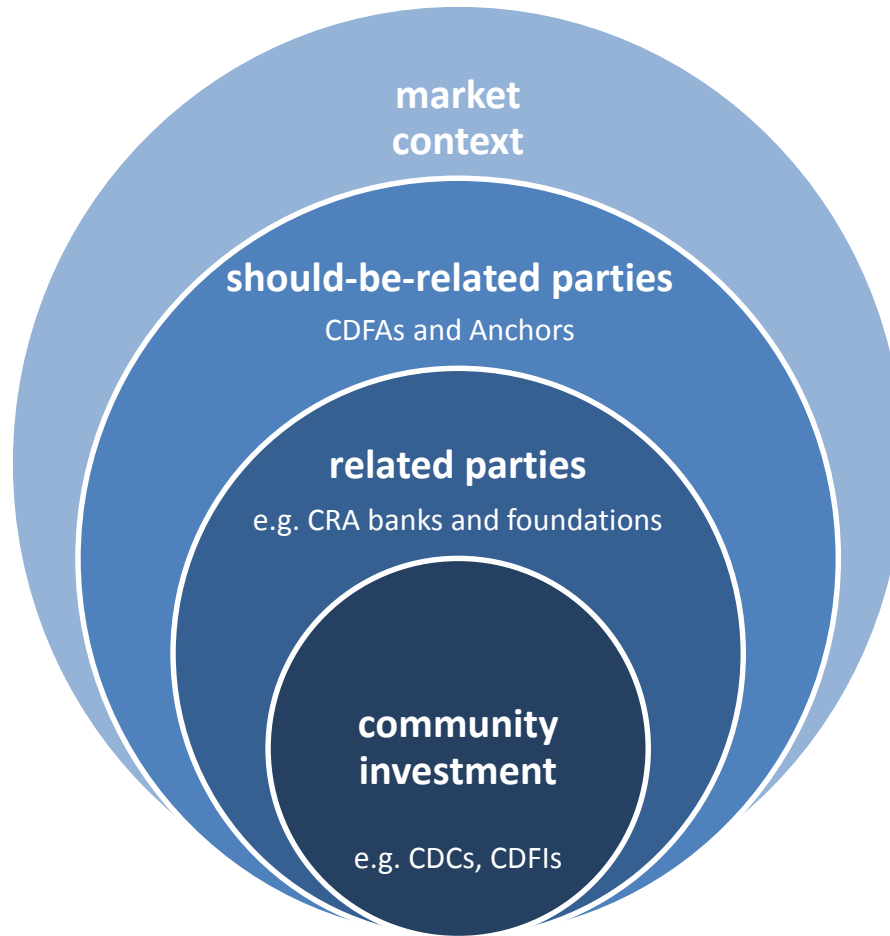
## Transactions



## Networks & Forums

# Integrating New Actors

Transactions



Policies & Practices

Strategic Priorities

Networks & Forums

# Engaging DFAs

- What do DFAs do that look like mission impact to foundations?
- How can foundations extend/advance mission impact with DFAs?
  - Credit enhancers
  - Subsidy providers
  - Targeted buyers
- How can the relationships be fostered to minimize transaction costs and maximizing impact?



# Resources

- Mission Investors Exchange:
  - [www.missioninvestors.org](http://www.missioninvestors.org)
- Opportunity Finance Network:
  - [www.opportunityfinance.net](http://www.opportunityfinance.net)
- USSIF: The Forum for Sustainable and Responsible Investment
  - [www.ussif.org](http://www.ussif.org)

## For more information:

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Or visit [www.kresge.org/library/community-investment-focusing-system](http://www.kresge.org/library/community-investment-focusing-system)

Or [www.hauserinstitute.org/iri](http://www.hauserinstitute.org/iri)

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