Urban Impact Investing: Keeping Results Local

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Local impact investing could drive results by utilizing expertise and resources of multiple stakeholders. Defined as the creation and use of investment vehicles to generate specific social or environmental benefits while reaping financial returns, this practice has been applied in a real estate, environmental and small business context. Impact investing principles will be analyzed as a response to the capital vacuum for small business owners in urban environments by observing models among players in various cities. Iterations of this study will propose a pilot model for the creation of an impact investing platform in Jersey City by will outlining specific best practices, identifying available resources and developing a portfolio of high-potential, under-resourced small businesses.

INTRODUCTION

Social impact investing is gaining popularity as an alternative tool of investing that maximizes social good, whether it be environmental, poverty alleviation or another area, but it is still deemed by many as less profitable than traditional financial investment approaches. One reason for this impression of lack of profitability is the difficulty of monetizing and measuring "social value." A 2015 Cambridge GIIN (Global Impact Investing Network) report which seeks to define a benchmark for impact investments demonstrates the difficulty of this task. While it provides a detailed analysis of financial returns on impact investments, it does not clearly define any measurement tool to assess and measure social returns. This is problematic even when approaching investing from a philanthropic or triple bottom line perspective because even social investors want to see impact (Foose & Folan, 2016). An impact investing approach that is gaining popularity~~,~~ is the idea of channeling investor dollars into urban neighborhood businesses and organizations as part of a broader strategy for neighborhood revitalization.

The purpose of this paper is to describe successful local efforts already implemented in urban areas around the United States using a localized impact investing strategy and highlighting ways these initiatives have worked effectively. Several notable programs will be analyzed as case studies, highlighting varied approaches that have been piloted. Based on the research, which includes qualitative surveys of individuals involved in these successful programs, (Lacka, 2015), a preliminary program design will be created for Jersey City, NJ, a dynamic, diverse and growing urban area, where there are many efforts underway to support equitable local development and to foster entrepreneurship and small business growth as a tool for neighborhood revitalization and economic empowerment of residents, particularly women and minorities.

The research approach is a multi-phase, long-term study involving qualitative and quantitative methods. In 2014, an in-depth long form survey study of local entrepreneurs was completed (Lacka, 2015), and the challenges identified in the study's abstract were confirmed by the entrepreneurs' responses. Since that time, many changes and programs have been implemented to address these challenges, but capital remains an overarching question that has impeded small business growth. A local impact investing instrument or platform does not yet exist in the Jersey City region, which is what this paper seeks to address. This is a fact finding component of the study, which will analyze existing local impact investment programs and approaches to gain first hand input and feedback from the following local impact investing models; the Boston Impact Initiative, a private investment fund in the highly resourced mid-sized City of Boston, MA; Profeta Loan Fund, a private investment fund in the under-resourced mid-sized City of Newark, NJ: Invest Detroit, a fund funded by a nonprofit-public partnership in the under-resourced large City of Detroit, MI and Pacific Community Ventures, a non-profit certified community development financial institution (CDFI) utilizing a hedge fund model in the highly resourced large city, San Francisco, CA.

Observations from this analysis will be used to design a preliminary model for a local urban impact investing pilot in Jersey City, NJ. These results will be shared with the Local Economy Working Group, a coalition of industry leaders across sectors with a vested interest in creating strong local economies through community organization and advocacy. The next phase of the study, which is not addressed in this paper, involves follow-up qualitative interviews with the entrepreneurs profiled in Ignite Institute's 2015 study (Naatus, Caslin, Demmelash, Lacka & Zeuli) as well as a broader quantitative survey to validate earlier findings and gain new insights into the local entrepreneurial ecosystem.

The value of this study is to identify various applicable models of local impact investing and articulate the pros and cons of each model, while remaining cognizant of differences in industry sectors and unique characteristics of different cities that may affect implementation and results. The results will be framed as best practices and recommendations and will be used to develop a preliminary model for local impact investing in Jersey City, NJ to be used as an example for mid-sized cities throughout the US. This model should align with the local economy agenda set forth by the Local Economy Working Group and engage a diverse group of stakeholders to maximize buy-in, participation and long-term sustainability.

LITERATURE REVIEW

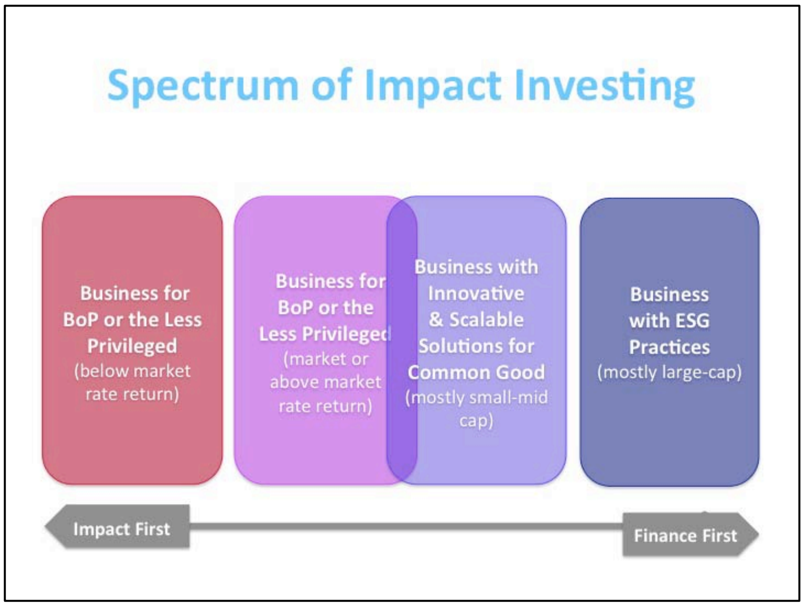
In the field of urban economic development, many studies on entrepreneurship and small business growth cite common challenges to holistic and consistent approaches to community-wide growth efforts, including lack of access to capital and other resources, high costs of storefronts, retail and work spaces, lack of vending opportunities and issues of capacity building, to name a few (Trillo & Naatus, 2015). Proposed solutions to these and similar challenges are being taken on by local governments, nonprofits, philanthropists, higher education institutions and advocacy groups, but too often the efforts are not well coordinated, and there tends to be program replication. One area that is gaining interest and that has potentially broad and significant local impact is local impact investing, which can be defined as the creation and use of investment vehicles that aim to generate specific beneficial social or environmental effects in addition to financial gain in a particular location or local ecosystem. A related topic and more traditional term is community investing, or financing that helps to generate resources and opportunities for economically disadvantaged people in the United States and globally that are under-served by traditional financial institutions. Community investors make it possible for local organizations in urban and rural areas to enhance access to affordable housing, employment, financial services for low-income individuals, small business capital and even services such as childcare (Maurasse, 2001). This type of investing is carried out organizations ranging from community development banks, credit unions, loan funds and venture capital organizations and also urban funds such as those described in this paper.

Many studies acknowledge the rationale for impact investing or selecting investment vehicles that have high scores for ethics, sustainability and social responsibility. A recent paper from the University of

Oxford and Arabesque Partners, 88% found that "companies with robust sustainability practiced demonstrated better operational performance (Gordon, Fiener & Vies, 2014). The article cites another compelling push towards impact investment vehicles, that because women and millennials are increasingly controlling larger portions of the nation's wealth, and since these two groups generally tend to value social impact more, that these investment returns are likely to grow as well.

The difference between broader social investments and urban impact investing is the place-based case management strategy utilized in these models as well as the degree of impact. The following "Spectrum of Impact Investing" conceptual model (see Fig. 1) is useful in identifying varying levels of financial returns inversely proportionate to the level of impact of the investment. For investments supporting BoP of Bottom of the Pyramid consumers and locations, impacts are greater but returns are lower, while at the other end of the spectrum with more advanced instruments, and using the ESG, Environmental, social and governance (**ESG**) approach, returns are much higher, yet measurable impact is secondary as an investment decision-making criterion.

FIGURE 1
SPECTRUM OF IMPACT INVESTING



Source: The Global Impact Investing Network

The model cases described below as well as the preliminary recommendations described in the conclusion fall towards the impact first end of the spectrum, which may pose a challenge for broad-based or global investors, who may not appreciate a significant local impact on human beings and neighborhoods. These types of funds and programs, therefore must specifically target investors and philanthropists with a stake in local economies, that would reap the broader benefits of positive impact and therefore be willing to forego the higher financial returns of more large-cap impact investments towards to finance first end of the spectrum (Sriram, Mersha & Heron, 2007). In the following section, four notable local urban impact investing models will be assessed and compared.

URBAN INVESTING CASE STUDIES

The Boston Impact Initiative

Location: Boston, MA
City population: Mid-sized
City classification: Well resourced
Investor: Private

Organizational Overview

The Boston Impact Initiative (BII) is a private investment fund that works in tandem with local businesses and organizations in the City of Boston, with the mission of creating opportunity shifts for high-need urban centers. The Boston Impact Initiative is unique from many traditional investment firms, stating that they "are committed to creating a better future for those communities who have been impacted by racial, social and economic inequality."

Towards these ends, BII uses an integrated capital approach, which combines investing, lending and giving to keep money within the local community. They seek to beneficially impact the City of Boston, and to serve as an example for similar cities across the nation.

Why "Place Matters" to BII

BII seeks to take into account the unique challenges and assets of Boston, MA. Whereas many organizations seek to address specific issues, BII realizes the interconnection between societal challenges. Change must begin at home in order for it to be lasting. Therefore, BII seeks to invest in communities by investing in community-members.

Methodology and Criteria

BII uses "a target asset allocation of equity investments (15 percent), loans (70 percent) and grants (15 percent) to fulfill its mission."[1] It invests in both for-profit and non-profit agencies.

The below list represents investment criteria set forth by BII:

> We are seeking to invest in organizations and initiatives—both for-profit and not-for-profit—that are committed to creating a better future for Boston's youth and families. This includes a focus on:
>
> - Challenging structures that perpetuate racial, social, economic and environment justice
> - Developing secure job opportunities
> - Developing opportunities for social and business entrepreneurship
> - Building healthy local food systems
> - Creating stable housing environments
> - Providing equitable access to transportation
> - Engaging youth activism through arts and culture
> - Creating opportunities for community and civic engagement
>
> As we seek opportunities for partnership and investment, we'll explore some of the following questions:
>
> - How does this initiative fit with our values and beliefs about change? What can we learn from our differences?
> - Who is leading the initiative? Does the leadership team have the competency and commitment to support this work?
> - How will this investment create opportunities for urban youth?
> - How will our partner assess their impact?
> - Do we believe their financial plan will be successful? What is our risk?
> - How does this investment fit with our existing portfolio?[2]

In order to employ this unique mission to investments, BII's portfolio uses an integrated approach towards debt, equity and grant-making. Selected businesses are one that contribute to strengthening community resilience.

BII, like many funds and organizations involved in impact investing, measures its returns based on the "triple bottom line" model. Rather than looks just at the profit, BII takes into consideration the social, environmental and monetary value of an investment in order to measure an investment's true value. Moreover, as a social investing firm, they are willing to take certain below market returns in order to invest in overall community benefit.

Analysis of Place

Boston is a well-resourced city with ample intellectual and financial resources. However, wealth and prosperity have not been shared equitably throughout the city. Specific neighborhoods and demographic groups are not presented with equal opportunities; BII, through specific understanding of place and the community landscape, expands these opportunities with a case-management approach.

Profeta Urban Investment Foundation

Location: Newark, NJ
City population: Mid-sized
City classification: Under-resourced
Investor: Private

Organizational Overview

Profeta Urban Investment Foundation is a private loan fund aimed towards stimulating business development specifically in Newark, NJ. Profeta only supports businesses in Newark, NJ and offers zero interest loans to qualifying businesses. Compared with the BII, Profeta uses more traditional criteria to determine loan eligibility. Specifically, Profeta states that it seeks to attract tourism activities including shopping, dining and entertainment to Newark, NJ from bordering high-wealth communities including Short Hills, Maplewood, Livingston, etc.) in order to bring investment dollars back in the City of Newark.

Why "Place Matters" to Profeta

The Profeta Urban Investment Foundation was established by Paul V. Profeta. Paul Profeta, a real estate investor in West Orange, NJ, established the Profeta Urban Investment Foundation based upon a personal connection to the City of Newark. Profeta, who was raised in Maplewood, grew up visiting Newark and witnessed the city's decline first hand. Through investing specifically in minority-owned businesses in commercial corridors with high vacancy rates, Profeta hopes to create a spark around the State of New Jersey to encourage business owners to start or relocate their businesses in Newark, NJ, one business at a time.

Methodology and Criteria

Since its creation in 2007, Profeta has invested in 11 Newark-based businesses, from food services, entertainment, language-services, urban agriculture, and non-profit organizations. Although the investment criteria are more stringent and Profeta does not include the "triple bottom line" approach in its organization mission, Profeta connects businesses with technical assistance programs by partnering with the Rutgers Center for Urban Entrepreneurship and Economic Development. The below lists represents Profeta's desired profile, and criteria for small businesses.

The enterprises that the Foundation is interested in helping are:

- owned, controlled and operated by minority individuals
- headquartered in Newark
- do business in Newark

- return real value to Newark and its citizens by making jobs available to Newark residents and by providing goods and services required by those residents

The enterprises criteria are:

- reasonable monthly business revenue and expense forecast for the next 3 years
- the appropriate experience to run a business
- detailed outline of how you plan to use the funds we loan to you
- competitive analysis and a solid marketing plan to grow your business
- Must be located in Newark, NJ
- Please be aware that while we don't charge interest on the loan, we will approve a loan only if we believe the business can support the expenses.[3]

Analysis of Place

Newark, NJ is a city that severely lacks financial resources. Although major pushes have been made to bring businesses back to Newark, especially in the financial district, small business growth remains stunted. By providing investment and assessing the needs for certain businesses in certain areas, Profeta is setting a much-needed example for private investors and business owners throughout Northern New Jersey.

Invest Detroit

Location: Detroit, MI
City population: large sized
City classification: Under resourced
Investor: Non-profit, private, public

Organizational Overview

Invest Detroit is a certified Community Development Financial Institution which brings together resources from for-profit, non-profit and public sources with the mission of stimulating community and economic development in specific underserved neighborhoods on the City of Detroit. In total, it represents $225 in funds through utilization of the New Market Tax Credit allocation and capital that had been committed to the fund. Invest Detroit finances real estate development, business expansion and ad hoc project with the purpose of stimulating job growth and revitalizing distressed areas.

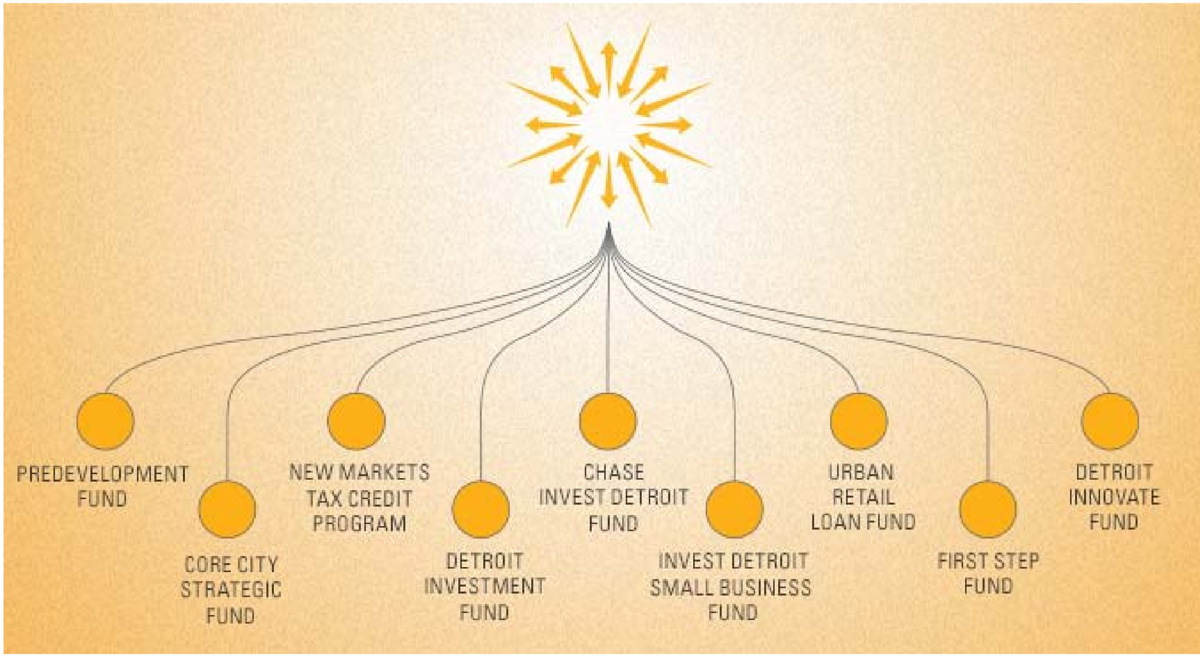
Why "Place Matters" to Invest Detroit

Like Profeta loan fund, Invest Detroit seeks to stimulate commercial growth in Detroit, MI by pooling together resources from the public, private and philanthropic sectors. In an area that faces high vacancy rates and low investment, creating business clusters in specific areas can inspire outside and internal investors to stimulate business growth in the city.

Methodology and Criteria

Invest Detroit has 8 distinct financing programs, illustrated in the model below (Fig. 2). For the purpose of this study, we will focus on the Invest Detroit Small Business Fund.

FIGURE 2
THE DETROIT INVESTMENT FUND MODEL



[4]

The Invest Detroit Small Business Fund is financing by Goldman Sachs and the W.K. Kellogg Foundation. It seeks to finance commercial, industrial and retail businesses.

Criteria for the Small Business Fund are Found Below

General Loan Criteria

- Business in operation for at least two years
- Revenues above $150,000 in the most recent fiscal year
- A minimum of two employees
- Potential and desire to grow revenues and create jobs in the community

Loan Size

- $50,000 to $750,000 [Preferred range $175,000 to $275,000][5]

Analysis of Place

Neighborhood revitalization in Detroit, MI remains a crucial challenge. It remains the 3rd most dangerous city in the US, and has the highest concentrated poverty rate among the 25 largest US cities (Wariku, 2016). Like Newark, efforts have been made by public officials, non-profits and outside investors to improve investments and stimulate economic development efforts. Invest Detroit pools resources across sectors in order to begin the process of business development and investment in Detroit.

Pacific Community Ventures

Location: San Francisco, CA
City population: Large sized
City classification: Well resourced
Investor: Non-profit, private, public

Organizational Overview

Pacific Community Ventures (PCV) is a 501(c)(3) certified community development financial institution which works across a network of impact investors, policymakers and small businesses. PCV is highly mission driven, and specifically seeks out businesses which have the potential to offer good, sustainable jobs and investments in underserved neighborhoods in order to create an inclusive economy for everyone. PCV accomplishes these goals through its four signature programs, including PCV InSight which provides technical assistance for social investors, Business Advising, PCV Small Business Lending fund and Impact Evaluating.

Why "Place Matters" to PCV

PCV was founded by two former executives who operated in the Silicon Valley region. During their time working one-on-one with tech startups and providing capital, business advisement and networking, the founders recognized the need that existed for such resources for small-service sector businesses.

Methodology and Criteria

PCV offers technical assistance for small businesses and social investors, evaluation tools and startup capital ranging from \$50,000 - \$200,000. The major criteria for lending is that the business is California based and creates quality, sustained jobs in local communities. In addition, PCV offers intensive technical assistance including pro-bono financial advisors, HR, operations and business strategies.[6]

Analysis of Place

San Francisco is the tech hotbed of the world and has experienced unprecedented financial growth. However, as has been the case in many American cities, the financial growth has not always occurred equitably. Rent and cost of living have increased for long-time residents, and as high technology jobs have appeared, main street jobs have disappeared. PCV creates a platform for all residents of San Francisco to share the wealth.

ANALYSIS AND RECOMMENDATIONS

These urban impact investing initiatives were chosen to highlight in this particular study due to a number of similar city characteristics to Jersey City. These variables include having a diverse, multi-cultural population, a historical identity, a degree of inequality in access, education and income across different neighborhoods, and a loss over time of a manufacturing base and larger employers that have led to many shared challenges. There is often a particular need for investment and revitalization efforts in underserved urban neighborhoods, and these four case studies provide examples of inclusive and sustainable efforts to target less privileged businesses that might otherwise lack access to loans and funding, and as a result maximize impact.

Findings from the Jersey City entrepreneur survey in 2014 (Lacka, 2015) identified the existence of many barriers, which make it difficult for local entrepreneurs to access available capital. These barriers include a lack of knowledge of available funds or the process of how to apply. Cultural barriers and a lack of trust by certain communities or neighborhoods may impede the process as well. From the existing models described in this paper, the Boston Impact initiative is the most applicable model, due to the nature of the beneficiary businesses and industries, which are similar to those in the Jersey City ecosystem, as well as the incentive structure for investors in this program, which might be similar in the Jersey City context.

Lessons that can be applied from all of these impact model cases described above to the Jersey City model include partnering with large stakeholders, philanthropists and anchor institutions that are part of the local economy to pool resources and funding, provide technical and social support and ensure long-term sustainability and impact. Currently, there are a variety of organizations in the private and public sector of Jersey City that are contributing to the development of entrepreneurial ventures and small businesses in the city, with activities ranging from business coaching and technical training to microloans and business incubation space. The Office of Innovation, a new entity in the City of Jersey City, funded by a Bloomberg Philanthropy grant, is creating a web-based map of available resources, including a local business directory, event calendar and portal of available commercial spaces.

By creating city-wide impact investment vehicle with clear criteria for eligibility, Jersey City has the opportunity to leverage the fast-paced growth of small businesses in the city, as well as target neighborhoods and business owners that face more hurdles in accessing capital from more traditional sources. By incorporating strategic partnerships, such as the Profeta partnership with the local University and the City government in the Boston Impact Initiative, the Jersey City investment model can take hold more deeply and access resources from community anchors to provide the training and capacity building components, which are illustrated in the case study models described in this paper. Another option is creating a portfolio of local impact investment and incentives, as the Detroit model illustrates, which can provide~~s~~ an array of incentives that target a variety of stakeholders to engage in impact-intensive investing with the goal of community improvements that have the potential to create financial returns in the long-term for the investors, who must be selected carefully and have a valid stake in the community.

It will be important in the Jersey City model to explicitly identify the criteria for qualifying for the investments, loans or grants, and we recommend limiting the funds to the neighborhoods that are more in need of economic development investment, which would exclude the very prosperous downtown Jersey City, that has attracted a significant amount of traditional investment and upscale businesses. Further survey studies will also examine if Jersey City should specifically develop and fund businesses in a specific sector, such as tech, advanced manufacturing or services, and more clearly identify specific clusters to promote economies of scale and greater local competitiveness in a particular sector. Clustering is the phenomenon whereby firms from the same industry gather together in close proximity (Porter, 1998), and the purposeful creation of new clusters in targeted neighborhoods through impact investments has a lot of potential. In addition, the input and potential financial contributions of local investors who have a stake in the development of successful local businesses can be a source of funding for these investment vehicles, and must be part of the development process. Another lesson from the Boston Impact Initiative is the holistic approach of addressing a variety of societal problems, from environmental, to health, to poverty to discrimination through funding decisions, in an effort to maximize impact. The conclusions described herein are only the first step in conceptualizing a powerful model for local impact investing in Jersey City, and the goal is to propose a detailed pilot project over the next year.

ENDNOTES

1. http://bostonimpact.com/integrated-capital/investment-criteria/
2. Criteria from BII.com
3. www.profetafoundation.org
4. http://investdetroit.com/managed-funds/
5. http://investdetroit.com/managed-funds/invest-detroit-small-business-fund/
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