

**REGIONAL DOUBLE BOTTOM LINE
INVESTMENT INITIATIVES AND FUNDS:**

***A handbook for fund sponsors, fund
managers, investors and community
economic development practitioners***

April 2004

Managed by: FutureWorks and Sustainable Systems
in partnership with Economic Innovation International

Supported by: The Ford Foundation

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INTRODUCTION AND OVERVIEW

Across the United States business civic organizations, community leaders, and government agencies are launching regional investment initiatives to attract private investment into the poorest neighborhoods in their respective regions. These initiatives are utilizing investment funds to produce double bottom line returns—risk adjusted market rate financial returns and substantial social and environmental returns—in priority neighborhoods.

Regional double bottom line market-rate private equity funds are designed to attract large-scale capital managed by proven fund managers with outstanding track records. In the context of regional initiatives, business and community sponsors are organizing the funds to provide investors with risk adjusted market rates of return and business and community stakeholders with community revitalization, smart growth, and measurable job and wealth creation.

Belden Daniels and James Nixon have provided the first national look at regional double bottom line investment initiatives and funds in their paper *Making Markets Work for Inner-City Revitalization*. In the past 5 years, investors have invested more than \$2.5 billion in double bottom line funds, including \$500 in funds with a regional orientation.

As the field of double bottom line regional initiatives and funds has emerged over the last few years, an extensive body of knowledge and practice has been developed. This knowledge, however, is fragmented, not written down, and largely held in the minds of a few practitioners. To date there has been no systematic effort to define the field of regional initiative and fund building and management, identify its component parts or distill promising practice.

The time is right to undertake a project to make this knowledge and practice available in writing and on the web in a coherent, accessible form. This will benefit sponsors, investors, and investment managers that are new to the field, but it will also be of substantial benefit to those already involved in the field, since the field as a whole has not been well described or documented.

In this proposal FutureWorks and Sustainable Systems, in association with Economic Innovation International, outline an 18-month project to research and write a handbook for sponsors, investors, economic development practitioners, and finance professionals involved in—or interested in becoming involved in—regional double bottom line initiatives and funds. The proposal is organized as follows:

- **Section I** provides a cursory "state of the field" review of community investment and identifies the place of double bottom line regional initiatives and funds in the field.
- **Section II** demonstrates the need for a handbook on double bottom line regional initiatives and funds and describes the product we envision and our proposed methodology.

- **Section III** demonstrates how our proposed handbook relates to current activities and network in the field of community investing.
- **Section IV** provides our qualifications to carry out this work as well as a project timeline and proposed budget.

SECTION I: STATE OF THE FIELD: COMMUNITY-BASED INVESTING AND THE EMERGENCE OF REGIONAL INITIATIVES AND FUNDS

Community investing is a response to poverty and disinvestment in urban and rural America. The field has grown significantly and produced important results over the past 30 years. The pioneers of community investing have been predominantly below-market funds seeking to supplement the market by making socially and environmentally important investments at a below-market cost of capital to investment recipients and a below-market return on investment for investors. The great majority of these earlier organizations and funds were structured as not-for-profit corporations.

Because of their below-market character, these pioneering funds were only able to access smaller amounts of private capital. To increase investment flow, proponents of community investing pursued government assistance. As its major community investing initiative, the Clinton administration sponsored the Community Development Finance Institution (CDFI) Fund housed in the U.S. Treasury. As of September 2003, this Fund has certified 660 CDFIs and invested \$534 million in CDFIs.

CDFIs have become a mature field. According to the National Community Capital Association—the trade association for CDFIs—there are more than 800 CDFIs today, including 200 community loan funds, 250 community development credit unions, 40 community banks and numerous micro-credit organizations operating across the country.

With the maturation of the below-market community investment system has come growing recognition among practitioners that revitalizing inner cities and investing in minority-owned businesses at scale will require greater private sector involvement and greater utilization of market mechanisms. In recent years there has been a great deal of activity in the area of “double bottom line” investing and considerable intellectual effort has been directed toward the development of mechanisms to increase the flow of capital to low-income, inner-city communities.

One of the clearest expressions of this activity is the recent increase in double bottom line community venture capital funds. Community development venture capital funds use the tools of venture capital to create jobs, build entrepreneurial capacity, and expand the wealth of distressed communities. According to the Community Development Venture Capital Association (CDVCA)—the trade association for community development venture funds—the field has grown from a handful of organizations just a few years ago, to 68 funds today with \$548 million under management.

In addition, several major research efforts are underway that seek to increase the flow of capital to inner cities and/or measure the social impact of capital investment. The Milken Institute, for example, recently launched a Center for Emerging Domestic Markets. The Center provides research and information, education programs and a financial innovations lab to increase capital flow to minority-owned businesses.¹

Columbia University Business School has undertaken a new research program called RISE (Research Initiative on Social Entrepreneurship) with support from the Rockefeller and Surdna Foundations and several investment funds. RISE studies the growing impact of building profit and nonprofit ventures that aim to achieve social and financial impact through their products, services and other business practices, and the entities that fund them. RISE recently initiated a project to map investment vehicles that make early-stage equity investments in scalable for-profit ventures that have positive social or environmental impact.² In addition, RISE is working in collaboration with several social investment funds and foundations to review, analyze and apply various methods that can be used by early-stage social enterprises to help assess social impact and measure social return on investment (SROI).

Double Bottom Line Regional Initiatives and Investment Funds

While sharing a goal of financial and social returns, double bottom line regional initiatives and funds differ from CDFIs in general—and community venture capital funds in particular—in fundamental ways. Community venture capital funds invest in *individual companies*. In contrast, regional double bottom line initiatives and funds take a more comprehensive approach to revitalization by investing in industrial, commercial, and mixed-use real estate, affordable and mixed-income housing *and* growing businesses.

These emerging regional investment initiatives are based on the recognition that a new development paradigm is needed. Whether this new paradigm is characterized as sustainable regional development, smart growth, or double bottom line investment, it is based on the recognition that successful urban real estate and business development must involve all the relevant stakeholders (business, community, government) to produce desired outcomes of economic prosperity, social equity and environmental quality (the ‘three Es’ of sustainable development and smart growth).

¹ The Milken Institute’s Center for Emerging Domestic Markets recently released a report entitled, “Creating Capital, Jobs and Wealth in Emerging Domestic Markets: Financial Technology Transfer to Low-Income Communities.” The study confirms that continued economic growth in the United States requires investment in markets long ignored by mainstream investors and financial institutions. The report presents financial innovations that could increase capital flow to EDM and LMI markets including system, product and process innovations. This work was supported by the Ford Foundation’s Corporate Involvement Initiative.

² The Rockefeller Foundation’s Double Bottom Line Project grew out of its Program Venture Experiment. ProVenEx seeks to catalyze private sector investments in areas that will benefit poor and excluded people. Investments are structured using market principles in early-stage and growing businesses that will further the Foundation’s four main themes. One area of investment is in businesses that create jobs in low-income inner city communities in the United States. In conjunction with Columbia Business School, Rockefeller has undertaken a major commitment to further develop the field of social impact and social return on investment.

Regional investment initiatives build links between business, community, environmental, and public leadership that establish long-term, mutually beneficial partnerships. Such partnerships can reduce conflict, increase certainty, and expedite the desired types of business and real estate development that are in the interests of all the stakeholders.

Regional funds make investments in the context of agreed upon regional goals and plans for growth and development that stakeholders have signed on to. As such, these funds are firmly embedded in the leadership infrastructure of the region. While informed by and often incorporating the CDFI and community venture capital models, regional fund initiatives contain the promise of a more *systemic* approach to urban revitalization as they address multiple aspects of development and seek to alter the way economic development proceeds at a regional scale.

SECTION II: A PRACTITIONERS' HANDBOOK ON DOUBLE BOTTOM LINE REGIONAL INITIATIVES AND INVESTMENTS

Double bottom line regional funds represent an important mechanism for achieving sustainable and inclusive regional development. There is a great deal of interest in this development approach among economic development practitioners (including regional business organizations, investors, fund managers and community groups) yet no systematic information on the approach is currently available.

It would be highly beneficial to the fields of both community investing and regional economic development to establish a way for leading practitioners to collaborate on a handbook that presents:

- The theory behind how and why regional funds work to generate market rate financial returns and substantial social and environmental returns.
- A wealth of examples of regional double bottom line initiatives and funds.
- A discussion and mapping of the roles of business, community, and government sponsors.
- A discussion and mapping of the finance professionals involved including investors, investment managers, and financial service providers.
- The most effective implementation strategies.
- Relevant tools and products for establishing, building and evaluating regional initiatives and funds.
- Ways to network, build the craft, and collaborate on projects.

The Handbook will be of great benefit to practitioners and investors as interest in 'best practice' in this field has accelerated rapidly in the past few years. A new Rockefeller Foundation funded initiative, for example, is currently examining best practices for "US Public Sector Pension Funds and Urban Renewal." This initiative neatly parallels the Handbook Project proposed here in that it is concerned with the development of best practices for investment by institutional investors in regional initiatives and funds built according to best practice principles by practitioners of regional business organizations and community stakeholders.

In addition, a new European-North American Initiative funded by the European Union and the United Kingdom government to review the New North American best practice of market-rate community equity funds in comparison to the European experience is currently underway.

These two research studies along with the Practitioners' Handbook will serve to dramatically advance this field of regional double bottom line investing over the next several years.

Proposed Product and Methodology

We propose an 18-month project to research and write a handbook for regional initiative and fund sponsors and investment professionals.

The product will be marketed and distributed to regional business civic organizations, business associations, local and regional government agencies, community groups and investment managers across the United States to support and encourage them to develop the necessary capacity to sponsor regional double bottom line initiatives and funds. An important vehicle for marketing the Handbook will be project team participation and promotion of the Handbook at select conferences and trade association meetings.

FutureWorks, Sustainable Systems and Economic Innovation International will work closely with the new Network of Community Development Private Equity Funds to develop and research the handbook. This emerging network is composed of regional funds from across the country.³ The network met for the first time in the fall of 2003 in San Francisco. A second meeting of the network will take place this April in Baltimore. The Handbook will be a key resource for the association and its members.

A key first step in the project will be to assemble an Advisory Group. The advisory group will consist of current fund sponsors and investors as well as expert practitioners with

³ Regional fund families currently exist in Massachusetts, Los Angeles, the Bay Area, Sacramento, San Diego, Portland, St. Louis, New Mexico and South Florida (Daniels and Nixon, 2003). The first national gathering of double-bottom line funds, investors, sponsors, and practitioners took place in the Fall of 2003 in San Francisco at the first *Community Based Investing* conference. At the conference funds in attendance agreed to explore forming an association. An exploratory committee has been established and a second conference will take place in April in Baltimore. The Practitioner's Handbook Work Group coordinated by FutureWorks and Sustainable Systems would work closely with the association to identify and document double-bottom line 'best practice.'

experience in community investing. The Advisory Group will meet three times over the course of the project to help the project team define the field systematically, identify its component parts, and distill promising practice based on double bottom line initiative/fund activity across the country.

We envision a Practitioner's Handbook with *five* basic components:

- 1) We will introduce the theory and practice of double bottom line regional initiatives/funds as a strategy for achieving greater economic and social equity, regional smart growth and sustainable economic development.
- 2) We will provide examples from across the country of different kinds of investments (e.g. housing, mixed-income, mixed-use real estate investments, business equity and subordinated debt investment, Brownfield development etc.) and different types of regional engagements (e.g. workforce networks, investment networks, wealth creation approaches, environmental support organizations).
- 3) We will define the essential components of successful regional double bottom line systems (e.g. initiative building, fund building, implementation strategies, investment and deal flow networks, development catalysts, and monitoring and evaluation).
- 4) We will provide a map and clearly define the roles of the respective players and will provide examples of successful governance structures.
- 5) We will address the mechanics of initiative and fund building (i.e. formulation of steps and materials involved in different aspects of initiative building and fund building).

SECTION III: HOW THE HANDBOOK PROJECT RELATES TO OTHER DEVELOPMENTS IN THE FIELD

Throughout the process of designing, researching and marketing the Practitioners' Handbook, FutureWorks, Sustainable Systems and Economic Innovation International will work closely with the following groups:

- ***Emerging Network of Community Development Private Equity Funds***

As noted in the previous section, a network of regional double bottom line funds is currently being organized. One of the goals of the Network is to develop a system of best practices for the field. The founding documents of the network propose collaborating on the Handbook Project as a way to accomplish that objective. The Handbook Project will be presented at the upcoming conference being held in Baltimore on April 1-2.

- ***Community Investing Associations (National Community Capital Association and the Community Development Venture Capital Alliance)***

To a growing degree, both the National Community Capital Association and the Community Development Venture Capital Alliance are including market rate funds in their memberships and shifting their services to address this type of fund. Mark Pinsky and Kerwin Tesdell (respective directors of the two associations) will be invited to sit on the Advisory Group of the Handbook Project. It is envisioned that the Handbook Project will collaborate closely with both organizations and that the products of the Handbook Project will be mutually beneficial.

- ***The Inner City Economic Forum***

The Inner City Economic Forum (ICEF), co-chaired by Henry Cisneros and Michael Porter, has recently emerged as a major national forum for inner city revitalization, backed by the nation's largest financial institutions, proven community stakeholders, most widely respected policy makers, and key bi-partisan political leadership.

ICEF is considering to set a goal of \$1 billion in new committed capital from institutional investors in regional and national double bottom line funds within the next five years. To prepare for the Fall 2004 follow-on ICEF National Conference, ICEF has created a number of working groups one of which, "Increasing Capital Flows to the Inner City," is co-chaired by leading venture capitalist Chris Gabrieli and Ken Lombard, President, Johnson Development Corporation.

FutureWorks, Sustainable Systems and Economic Innovation International are currently discussing with ICEF leaders how the Handbook Project can inform both the agenda of this ICEF workgroup and the regional investment strategies endorsed by the Forum.⁴

⁴ Belden Daniels and James Nixon prepared their paper *Making Markets Work for Inner City Revitalization* for presentation at the first ICEF meeting in New York city on October 16-17.

Qualifications, Work Plan and Budget

FutureWorks and Sustainable Systems will co-manage the DBL Handbook Initiative. With the collaboration of Economic Innovation International, the three organizations are uniquely qualified to carry out this project (see Appendix for project manager bios).

FutureWorks is a strategy consulting firm focused on regional institutions of economic, workforce and civic development. The firm specializes in three areas: 1) direct strategy consulting services to regions; 2) design and management of ‘action learning networks’ of high level practitioners from analogous institutions in different states and regions; 3) public policy research and development.

With support from the Ford Foundation, FutureWorks has designed and run MetroBusinessNet for the past 3 years. MetroBusinessNet is a national network of regional business-civic organizations engaged in sustainable regional development. Several of the business organizations in the network are pursuing regional double bottom line funds.

FutureWorks has learned a tremendous amount about how to engage regional business organizations in large-scale sustainable growth strategies through the network and has established strong relationships with many of the country’s leading business civic organizations. Currently, FutureWorks is completing a national survey of regional business civic organizations in the 30 largest metropolitan regions in North America. FutureWorks is ideally situated to promote the handbook to business organizations and to help them build capacity to become fund sponsors.

Sustainable Systems, Inc is a business and economic development corporation providing market-based strategies to achieve sustainable development and smart growth.

Sustainable Systems is the Initiative Building Consultant to the Bay Area Council for the Community Capital Investment Initiative (CCII) and the Bay Area Family of Funds, one of the premier regional investment initiatives and fund families in the country. The Family of Funds has raised more than \$160 million in private equity capital to date. Sustainable Systems designed many of the innovative aspects of CCII and the Family of Funds, including the Bay Area Investment Network, the Joint Venture Project, and the Framework and Methodology for Documentation, Monitoring and Evaluation.

Sustainable Systems also developed and manages the Communications Technology Cluster—a successful business incubator/acceleration center in downtown Oakland, California. Sustainable Systems also serves as a Development Catalyst for the initiation of new development deals, and provides eco-industrial consultation and development services.

Sustainable Systems principals are founding members of the emerging network of Double Bottom Line Initiatives and Funds and have extensive relationships with double bottom practitioners across the country.

Economic Innovation International is internationally recognized for building more than \$100 billion of privately capitalized innovative, first-time funds to accomplish new public purposes in North America, Europe and Asia since 1970. The most recent instance is the creation of a new venture capital industry that produces risk-adjusted, market-rate returns for institutional investors and “Three E” triple bottom line returns for targeted communities—prudent Economic returns, social Equity and Environmentally sound initiatives—pioneered by Economic Innovation in collaboration with Sustainable Systems.

Since Economic Innovation created the first alpha fund in 1997, this industry has grown to more than \$2.5 billion, of which over \$500 million of the earliest models have been built by Economic Innovation, and the most important paradigm funds—the Bay Area Family of Funds—have been built jointly with Sustainable Systems. These market funds succeed best when overseen by a not-for-profit sponsor like the Bay Area Council or the St. Louis Regional Chamber and Growth Association (RCGA), model regional business-civic organizations with whom all three members of the project team have worked, and both of whom have sponsored double-bottom line families of funds supported by the Ford Foundation through the MetroBusinessNet project.

Economic Innovation is also participating in the European-North American best practices study noted above, is active in the Inner City Economic Forum, and is also a founding member of the *Emerging Network of Community Development Private Equity Funds*.

Timeline and Work Plan

The Practitioners Handbook is structured as an 18 month undertaking—beginning May 15, 2004 and concluding November 15, 2005. Below we provide a preliminary work plan and budget.

Spring-Summer, 2004

- Background research on regional initiatives and funds
- Develop research design/methodology for Handbook
- Outline handbook chapters

Fall, 2004

- First Advisory Group meeting (present and discuss outline and research methodology)
- Begin research and data collection (including site visits to funds)
- Attend related conferences and publicize Handbook Project: Oxford/Rockefeller Pension Fund Conference; Inner City Economic Forum; Market Rate Community Equity Conference; MetroBusinessNet Annual Convening; Alliance for Regional Stewardship

Winter, 2005

- Continue/complete research and data collection
- Organize/synthesize research findings according to approved outline

Spring, 2005

- Write first draft handbook
- Second Advisory Group meeting (feedback and revisions)
- Circulate handbook draft to select group of practitioners for review

Summer, 2005

- Write final draft handbook
- Develop marketing/outreach strategy

Fall, 2005

- Final Advisory Group meeting to review final draft
- Produce Handbook in print and electronic form

APPENDIX: PROJECT MANAGER BIOS

Erin Flynn

Erin Flynn is Vice President of FutureWorks, an Arlington, MA strategy-consulting firm focused on regional institutions of economic, workforce and civic development. She brings over a decade of experience managing multifaceted economic and workforce development projects to her current position.

For the past 3 years, Ms. Flynn has directed MetroBusinessNet—a multi-year, national initiative supported by the Ford Foundation to develop and demonstrate the critical ways business leaders can work together through business-civic institutions to address socio-economic challenges that impact business performance at a metropolitan scale. In this capacity, she has developed and delivered a series of substance-driven conferences and workshops to business civic leaders from Chicago, St. Louis, Washington, D.C., San Francisco and Austin. Currently, Ms. Flynn is leading consulting engagements that focus on business involvement in sustainable regional development efforts in Boston, Portland, OR and Salt Lake City.

Ms. Flynn also brings extensive experience in program evaluation to her current position. She recently completed a two-year assignment directing an in-depth evaluation of the Building Essential Skills through Training (BEST) Initiative for the Commonwealth Corporation of Massachusetts. BEST was a \$3.5 million public-private training program designed to advance the skills and careers of entry-level employees in the health care, manufacturing and financial service sectors.

Ms. Flynn began her professional career at Jobs for the Future (JFF) —a national, non-profit organization that designs, implements, and evaluates workforce development partnerships. She was a key contributor to JFF's National School-to-Work Initiative—a nationwide demonstration program that pioneered new approaches to 'work-based' learning and school-to-work transition. Ms. Flynn managed relations with several of JFF's school-to-work sites and was instrumental in building enduring education-business partnerships in the health care, manufacturing and printing industries. From 1991-1994, Ms. Flynn directed a research program at JFF examining the relationship between workplace training and the transformation to 'high performance' work organization in the manufacturing sector. In this context, Ms. Flynn and her team conducted extensive firm-level research and documented promising models of workplace innovation.

From 1995-97 Ms. Flynn was a Research Fellow at the Center for International Studies at the Massachusetts Institute of Technology. During this period she researched and wrote her Ph.D. dissertation which examined the decline of the Massachusetts metalworking sector and strategies employed by firms to identify and survive in niche markets. Prior to joining FutureWorks in 2001, Ms. Flynn worked as a consultant providing research, analysis and strategy to a variety of public and private sector clients.

Ms. Flynn has a B.A. in Politics from the University of California at Santa Cruz and a Ph.D. in Political Economy from the Massachusetts Institute of Technology. She is the author of numerous reports, studies and articles that have appeared in academic and popular journals including Economic Commentary, Economic Development Quarterly, Regional Studies and Industrial and Corporate Change.

James Nixon

James Nixon is Chair of the Board of Sustainable Systems, Inc, a business and economic development corporation providing market-based strategies to achieve sustainable development and smart growth. Sustainable Systems manages the Communications Technology Cluster—a successful business incubator/acceleration center in downtown Oakland, California.

Sustainable Systems is Initiative Building Consultant to the Bay Area Council for the Community Capital Investment Initiative and the Bay Area Family of Funds, using market forces to address poverty reduction, community wealth creation, and smart growth in neighborhoods in the Bay Area with high levels of poverty. The Family of Funds has raised more than \$160 million in private equity capital to date.

Mr. Nixon is also Chair of the Board/CEO of ProgressiveTrade Securities, Inc a broker/dealer and NASD member, offering an on-line socially responsible investment application. He holds a Series 24 Principals' license.

Mr. Nixon is Vice President of the Alliance for Community Development, co-sponsor of the Bay Area Community Equity Fund, one of the funds in the Bay Area Family of Funds. He also is a member of the Advisory Committee of Oakland Advisors, the Oakland affiliate of the Initiative for a Competitive Inner City.

Mr. Nixon is author of *Community Investing: An Exploration of the Strategy*, included as a chapter in *The SRI Advantage: Why Socially Responsible Investing Has Outperformed Financially*. He joined with Belden Daniels to co-author *Making Markets Work for Inner City Revitalization*, which discusses the new national landscape of double bottom line funds.

Mr. Nixon served as Co-Coordinator of three *Building the Sustainable Economy* international conferences, two in New York City one in Havana Cuba. He drafted *Building the Sustainable Economy: An Opportunity for Oakland*, a policy framework unanimously adopted by the Oakland City Council, and chaired the Working Group that produced the Oakland's Sustainable Community Development Initiative, also adopted unanimously by the City Council.

Prior to Sustainable Systems, Mr. Nixon served as Senior Vice President for Social Research and Network Services for 12 years with Progressive Asset Management, Inc, the first full-service socially responsible investment broker/dealer, where he coordinated social research, network services, shareholder advocacy, and community investments.