RESEARCH REPORT

State and Local Governments and Impact Investing

A Guidebook for Strategic Engagement

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Executive Summary

Impact investing approaches, which deploy capital seeking both a financial return and a social or environmental impact, have gained increasing attention and popularity. Conspicuously absent from many conversations on it, however, are state and local government actors. But there are clear benefits for governments, as well as for impact investors, investees, and communities, to engage with impact investing.

For governments, impact investing can leverage significant private and philanthropic funds in the interest of social and environmental goals, access resources to stimulate growth and boost governance capacity, and help shift risks for innovative solutions. At the same time, governments can add significant value to impact investing efforts through a range of roles. Governments can serve as

- **sources of catalytic capital to seed impactful enterprises and leverage other investments;**
- **sponsors and partners of platforms that nurture a pipeline of investable projects;**
- **strategic partners in identifying local needs, data, and priorities;**
- **trusted brokers or conveners, facilitating various impact investing efforts;**
- **creators of local incentives for impact investments; and**
- **supporters of the social enterprise community, highlighting and elevating efforts.**

These roles should be tempered by a thoughtful consideration of factors such as the risk of distorting the market, the limitations of the pace of government compared with the relatively fast speed of impact investment decisions, the cost-benefit of different types of engagement, the political and reputational risk of impact investing, and the need for a thoughtful selection of partners.

Governments, spurred by executive or legislative leadership, can begin engaging in impact investing by taking actions recommended by this report, starting with **delegating a new or existing office or committee to coordinate government efforts**. This entity would then be responsible for implementing, guiding, or coordinating most of the other recommended actions, as appropriate for the local context and appetite. This entity could help

- **map existing public investing and priorities** to identify capital shortfalls and opportunities for private capital to stretch public dollars;
- **create a unified vision of impact investing opportunities and risks** to guide government efforts and engage partners (public, private, philanthropic, and nonprofit);

- **integrate impact investing into strategic decisionmaking conversations** by educating agency leaders and staff, securing buy-in, and identifying champions;
- **create a social impact investment bank or fund to help catalyze promising projects,** aligned with opportunities, priorities, and risks outlined in the government vision;
- **find opportunities to elevate marginalized voices into impact investing conversations;**
- **continuously learn from its own and others' impact investing efforts, using those lessons to inform practice, identify new opportunities, and mitigate risks; and**
- **support efforts to measure impact and use evidence to inform public policymaking.**

In this report, we argue that governments can and should consider engaging with impact investing efforts, and in many cases they already are. Adopting a coherent, locally appropriate strategic policy that accounts for the full opportunities, risks, and options presented by impact investing will enable governments and the communities they serve to leverage and support these new financial resources in ways that benefit the public.

State and Local Governments and Impact Investing

Impact investing approaches, which deploy capital seeking both a financial return and a social or environmental impact, have gained increasing attention and popularity across the country. Conspicuously absent from many of these conversations, however, are state and local government actors. But there are persuasive reasons they should engage and several roles they could play. This report will explore this space, outlining the opportunities and considerations state and local governments should weigh and providing recommendations on where to start.

Governments are unique, large, and influential entities that, at least theoretically, reflect the wishes of the electorate and are responsible for the welfare of society. They have much to offer to impact investing, such as local knowledge, convening power, strategic perspective, and resources, and to gain from it, such as leveraging outside funds for public good, advancing priority agendas, and shifting risk. Despite this, governments have played a limited role to date in supporting and engaging with this growing field. Most of the existing, albeit limited, discussion of government's role in facilitating or engaging with impact investing has focused only on the federal government[1] or has consigned state and local government involvement to one instrument: pay for success.[2]

Because most impact investments are place-based, with impact felt most acutely at the local level, state and local governments have incentives to engage with these efforts. As this report will demonstrate, such engagement is not so simple—state and local governments have reasons they have not typically engaged—but, as we will argue, the benefits could outweigh the risks and hurdles. Proactive, forward-thinking governments should weigh the risks and the benefits and make an informed decision.

Potential government roles include driving the development of local impact investing markets as an active partner of social entrepreneurs, managing dynamic partnerships with key philanthropic or private actors, and facilitating the field's growth by nudging private resources in directions consistent with public interest and data on local needs. Although the federal government can play an important role by fostering an enabling environment nationally, impact investing is largely local in practice and would benefit from more localized government engagement. State and local governments can be cooperative partners by elevating the voice of marginalized communities, efficiently aligning different sets of resources, and facilitating opportunities in the public interest.

This report seeks to be an accessible and practical guide for state and local government policymakers and their allies, illuminating impact investing and exploring why and how governments can engage. We start by establishing what impact investing is and outlining some of the models and tools that currently exist. In the next sections, we discuss the importance of state and local government engagement, describing both how governments can benefit and the value they bring to the table. The heart of our discussion is a review of the roles governments have and can take on, followed by a consideration of factors they should keep in mind when weighing how best to engage. We conclude with actionable recommendations and brief parting reflections.

What Is Impact Investing?

Stakeholders define "impact investing" in different ways, but the Global Impact Investing Network's commonly cited definition identifies several core elements: "Impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending on investors' strategic goals."[3] US SIF estimates that sustainable, responsible, and impact investing assets account for $12 trillion, or about one-quarter of all assets under professional management in the United States in 2018.[4] At the same time, 74 percent of individual investors know little or nothing about social impact funds, representing a large untapped market of potential impact investors.[5]

Global Impact Investing Network's flexible definition enables an expansive view of what qualifies as impact investing. Impact investing models and tools can be viewed as a spectrum ranging from individual and institutional investors aligning their equity and debt investments with their values (e.g., evaluating companies against certain environmental, social, and governance criteria) to more prescribed models, such as pay for success, that have detailed contracts, rigorous evaluation designs, and active and sustained multistakeholder engagement. Investors, and the models they choose, vary on the degree of financial return expected and the level of emphasis on defining and measuring nonfinancial impact. Further, some models have a higher opportunity or need for a government role.

Impact investors can include philanthropies, community development financial institutions (CDFIs), high-net-worth individuals, corporations, banks, and governments. Impact investments can be made in for-profit social enterprises (e.g., public benefit corporations) or in nonprofits with enterprise components.

Impact investing is distinct from public-private partnerships, which are formal agreements between public and private entities where the private entity agrees to provide a public asset or service in return for performance-linked remuneration. Typically long-term, public-private partnerships are used most commonly for infrastructure projects (e.g., contracting a private consortium to design, build, and operate a toll road).

Impact investing can be operationalized through a range of instruments:

- **Responsible (or value-aligned) public equity investing** refers to the decision by individual and institutional investors to invest in mutual funds, exchange-traded funds, or individual stocks that enable them to take equity stakes in privately or publicly traded companies that align with their values. Although more passive than other forms of impact investing, responsible investing seeks to consciously invest in firms that have positive social or environmental impacts (or, conversely, divest from firms that are perceived as having negative impacts). Investors are aided in their determination by quasi-objective measures, such as environmental, social, and governance screens.
    - » For example, divesting from stocks in oil and gas companies and investing in renewable energy stocks.
- **Below-market loans** provide debt financing to organizations or social entrepreneurs on better terms (with a lower cost of capital) than the market standard. For foundations, these loans are a key form of program-related investments.[6]
    - » For example, offering a five-year loan with 1 percent interest to a minority-owned business employing formerly homeless individuals.
- **Impact-oriented private equity** involves investing in private (non–publicly traded) for-profit companies that have explicit social or environmental missions. Private equity investments are typically seen as longer-term investments than public equity investments and provide the potential for deeper investor-investee relationships.
    - » For example, investing in a microfinance institution that offers loans to social enterprises.
- **Impact-oriented venture capital** is a form of private equity that invests in start-ups or small- to medium-size companies with high growth potential and the opportunity for significant social or

environmental impact. Just as traditional venture capital sometimes helps investees refine their business models and marketing strategies, social venture funds can help investees develop their impact value proposition (i.e., measuring and communicating nonfinancial results). When a philanthropic impact investor takes a venture capital approach, it can be referred to as venture philanthropy. A subcategory, impact-oriented "angel investors," operate similarly but act at even earlier stages of investment.

  » For example, providing seed capital to an education start-up offering learning solutions for children with autism.

- **Public interest project finance** includes funds for projects developed by local public, quasi-public, or nonprofit organizations, such as regional environmental protection groups, CDFIs, and economic development corporations. Sometimes governments can benefit beyond the development of the project itself through long-term cost avoidance (e.g., in some pay for success projects) or improved operational efficiencies and spillover benefits. These projects are often structured as "blended finance," where public, private, and/or philanthropic funds are blended to create a project's capital stack. Blending typically involves using the limited public and philanthropic funds as catalytic capital, offered on low-cost or first-loss terms. Structured this way, these funds help mitigate some of a project's risk, thus leveraging greater private investment and enabling the public or philanthropic money to stretch further.

  » For example, an affordable housing fund where public dollars help offset high property acquisition costs and attract private investment.

Other tools are available to help support impact investing without seeking a financial return (profit). These include a range of nonfinancial tools, such as technical assistance, as well as two financial ones:

- **Recoverable grants** typically require no interest payments but are designed to, at the end of the specified time, be partially or fully repaid. As such, these grants are made to entities with revenue-generating capacity but that are typically higher risk than entities eligible for below-market loans. Ford Foundation Program Staff (2013) state that recoverable grants are "a program tool [intended] to test business feasibility, potentially attracting additional capital; and to develop market discipline within the grantee organization" (4).

  » For example, a grant offered to a community-serving nonprofit that wants to test a new business model that could provide a source of income and help achieve financial sustainability.

- **Guarantees** are typically used by foundations and philanthropies to “crowd in” private investment for a social enterprise or other impact investment opportunity by helping to mitigate investor risk by guaranteeing some portion of the investment against the downside risk. Guarantees for impact investments may make the most sense when the offered return is insufficiently matched to the risk profile to attract an investor or when the risk is hard to quantify (e.g., for a program with limited evidence).
    - For example, in the pay for success project at Rikers Island Prison in New York City, Bloomberg Philanthropies guaranteed most of the private investor’s (Goldman Sachs) principal against the project’s performance risk.

Why Should State and Local Governments Engage?

Impact investing does not require government partners. In fact, most impact investments do not include the government. Though including governments in projects poses clear challenges, such as possibly sacrificing speed, it also offers important benefits.

Governments Can Benefit

State and local governments have begun engaging directly with impact investing, perhaps most notably through pay for success. This is advantageous for impact investing efforts, but it can also benefit government:

- **Impact investing uses limited public resources to leverage new, external funding to meet local goals and priorities and test promising solutions.** As governments are well aware, finite resources are available to accomplish a seemingly infinite number of goals, and because government is held accountable as the steward of public money, it may have a strong disincentive to invest in innovative solutions. Therefore, models that let governments multiply the impact of their scarce resources by leveraging other resources in new areas are worth a closer look. To facilitate or enable impact investments, governments may need to offer incentives, provide seed financing, or make other facilitating investments. Although this carries a cost, if these investments yield significant returns (i.e., encourage the intended impact investors to invest much larger sums of money locally), this may be a cost-effective use of public funds. By supporting impact measurement, aligning with strategic priorities, communicating with key stakeholders, and facilitating knowledge exchange on what works, governments can take full advantage of the potentially catalytic power of certain public investments and policies for truly impactful projects.

- **Impact investing allows governments to access resources to stimulate growth and boost governance capacity.** In the short term, impact investing initiatives can help governments secure external capital to accomplish local goals, such as boosting workforce participation to stimulate local economic development and generate tax revenue. But state and local governments can also use impact investing engagements to promote broader governance reforms. In pay for success projects, for example, partner organizations agree on the desired outcomes before implementation; if the program yields those improved outcomes (as verified by an independent evaluation), the local government will repay investors with a potential return on investment. This type of impact investing requires a high level of accountability and transparency as well as a reorientation around outcomes—practices that may then transfer to other, more traditional government operations.
- **Impact investing shifts innovation risk for new solutions.** Piloting new projects always carries some risk. If an innovation doesn't work, observers may believe that time, resources, and money have been wasted because they were diverted away from competing, existing projects. Political officials may be particularly wary of the reputational risk (and mindful of upcoming elections) from an unsuccessful initiative in their jurisdiction. These hesitations are a result of the uncertainty inherent in the innovation process. But by engaging with impact investors, local governments can shift risk.

Governments Can Contribute Expertise and Perspective

Impact investors and other partners can also benefit from engaging government. With their central focus on promoting the public good, governments have a special ability to pursue and support projects that can benefit the public. Officials' intimate knowledge of local communities, initiatives, and data, as well as their unique capacities and perspectives, can provide important contributions to impact investing efforts and help build projects that are stronger, are more equitable, and have longer-lasting benefits. As data stewards, governments can use administrative data to help ensure investments are responsive to local needs and can credibly measure their impact.

Governments also provide a platform to elevate the voices of citizens from marginalized and underserved communities. This not only helps yield more equitable access to resources but also can improve the potential success of projects by connecting investors with communities most affected by their investments.

Local community members and the organizations that serve them are best placed to identify needs and priorities in their neighborhood and can validate and contextualize the data investors rely on to make decisions. Proactive governments might use Opportunity Zones (box 1), for example, to bridge the divide between community needs and impact capital. Because the legislation authorizing Opportunity Zones does not require this, governments might do this by creating side-along incentives, programs, and forums that facilitate community input and help ensure it's reflected in investment strategies.[7]

BOX 1

Opportunity Zones Tax Credit Program

A new federal community investment incentive, the Opportunity Zones program, became law as part of the Tax Cuts and Jobs Act of 2017. It enabled states to select several low-income census tracts and designate them Opportunity Zones, making them eligible to receive private investments from opportunity funds. These funds are a new investment tool that will invest money from private investors in businesses (including stocks, partnerships, and properties) within the designated zones. Investors are incentivized by their eligibility to receive a time-limited tax deferral if they move their unrealized capital gains into an opportunity fund. Investors won't pay taxes on the capital gains in the year they roll them over, and the longer the investment is held, the larger the tax deferral incentive. In other words, the original investment amount is subject to lower capital gains the longer the investment is held. If an investment is held for a full 10 years, the opportunity fund's gains are shielded from taxes.

Beyond selecting tracts that qualify as such zones, this program could provide state and local governments with a platform to engage with impact investors and serve as a medium for communicating community needs to impact capital.[a]

[a] See more in Carroll (2018) and at "Opportunity Zones," Urban Institute, accessed January 24, 2019, https://www.urban.org/policy-centers/metropolitan-housing-and-communities-policy-center/projects/opportunity-zones.

What Roles Can Governments Play?

Governments can engage with impact investing in many ways; these are shaped by local opportunities and constraints, the supply and type of impact capital, government capacities, and, perhaps most importantly, decisions by political leadership. In this section, we summarize some of the ways that governments have encouraged, facilitated, or helped direct impact capital in their jurisdiction. Among the examples showcased are several from national governments that offer lessons for state and local policymakers. No matter the role, all the key stakeholders should be actively involved to ensure the product or tool being used is relevant, useful, and appropriate.

Source of Patient, Catalytic Capital for Social Impact

DIRECT FUNDING FOR SOCIAL ENTERPRISES

Early-stage social enterprises can be perceived as risky to traditional investors such as venture capital firms and banks, and even though the private sector's appetite for impact investing has increased, early-stage social enterprises can still face difficulty accessing affordable capital. Governments can help encourage investment in these enterprises by providing patient, first-loss, or low-cost capital through recoverable grants, below-market loans, or a fund supporting investment in social enterprises.[8] Catalytic funding can be used to help launch an early-stage social enterprise or strengthen the operations of a later-stage social enterprise. Low-cost capital also provides a "sandbox" for a social enterprise to prove its theory of change: if it can demonstrate feasibility and responsible use of seed funding, a social enterprise is better positioned to attract investor capital to scale.

Support for impactful social enterprises can offer a range of benefits to the government entity and its constituents. For example, Chrysalis, a Los Angeles–based nonprofit that receives public funding, seeks to train and find jobs for formerly homeless or otherwise disadvantaged individuals. Chrysalis provides jobs in street and highway cleaning, janitorial services, and front-desk staffing and has helped over 60,000 people find and retain employment through its social enterprises. A 2015 study of individuals employed in social enterprises (half of whom were through Chrysalis) found that social enterprises provided significant social benefits as well as taxpayer savings greater than the subsidies they received (Rotz, Maxwell, and Dunn 2015).

In some localities, governments aim to address a specific barrier to local investment: systematic underinvestment in companies led by entrepreneurs from underrepresented communities (e.g., people of color, women, members of the LGBTQ community, and people with disabilities). Washington, DC, launched its Inclusive Innovation Fund in 2018 on the premise that this challenge required both a market-based solution and a catalyst. The fund aims to harness the market of investors by providing $1.5 million in entrepreneur-friendly (i.e., patient) capital, intended to leverage additional investments from the private and philanthropic sectors, to encourage private activity with social impact.

SUPPORT COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS

Rather than directly investing in social enterprises and impact investments, many governments support local impact through CDFIs, entities that have a mission to serve low- and moderate-income people and communities. Several states provide long-term or low-cost debt to CDFIs directly or through special-purpose funds. In New York State, for example, the Empire State Regional Revolving Loan Trust Fund has loaned money at 1 percent interest on a seven-year term to CDFIs providing business financing. In a few states that offer such debt windows, at least some CDFIs have declined to take on loans because of unfavorable terms offered (e.g., high interest rates). Some states and localities have opted to offer credit enhancements (e.g., loan loss reserves and loan guarantees) to encourage lending for projects that might otherwise be too risky for standard bank financing (Theodos, Seidman, and Edmonds 2017).

LEVERAGE PRIVATE CAPITAL FOR PRIORITY PROJECTS AND ISSUES

Big challenges require big, multipartner solutions and more resources than governments typically have on hand. One solution is for a government (or several collaborating governments) to strategically invest their resources in a way that intentionally encourages even more private or philanthropic dollars to follow suit as coinvestors. Partners can even use that platform align public, private, and philanthropic priorities, not just to blend and leverage capital.

The principle of using relatively small public funds to leverage larger amounts of private capital isn't new (it's the core rationale behind economic development subsidies), but doing so as part of a broad impact strategy offers public benefits and enables governments to constructively engage with impact investors in key sectors, such affordable housing (box 2). By aligning different sets of interests and adopting a "blended capital" approach that allows the strategic use of public funds to boost government impact, these arrangements provide a compelling model for harnessing private capital for large, public-agenda items.

BOX 2

Regional Equitable Development Initiative Fund

In the Puget Sound region of Washington State, a $54 billion long-term plan to expand transit offered a challenge and an opportunity: how could the region capitalize on this massive public and private investment to promote equitable transit-oriented development? The Seattle area has seen rapid population growth in recent years,[9] which has put pressure on housing prices, and like many metro areas, Seattle has a shortage of affordable housing units (Aurand et al. 2018). At the same time, the region's leaders have identified transportation challenges as a key barrier to continued economic growth and prosperity and, through the long-term plan, outlined a strategy to expand and improve transportation access and options.

To ensure the benefits of this transportation investment are widely felt and aligned with existing priorities around equity and affordable housing, several government entities created the Regional Equitable Development Initiative (REDI) Fund. The REDI Fund is a $21 million structured debt fund to support the development and preservation of affordable housing adjacent to existing and planned transit sites. A true collaboration, the REDI Fund is a partnership among several public agencies at different levels of government: Washington State; the City of Seattle; King, Pierce and Snohomish Counties; ARCH (A Regional Coalition for Housing, a partnership of 16 member governments in East King County); and the Puget Sound Regional Commission.

The goal of the REDI Fund is to use limited public funds to help offset the high cost of acquiring and constructing affordable housing and, in so doing, leverage significantly more private investment. Reports suggest the REDI Fund has been successful in this objective, leveraging five private dollars for every one public dollar invested. Another benefit of the Fund is its regional approach: three of the public-sector partners allowed the funds they invested to be used in projects in any REDI Fund jurisdiction, demonstrating an awareness of the regional challenge of housing affordability and helping to simplify the fund's financial structure.

Sources: Low Income Investment Fund, "Regional Equitable Development Initiative (REDI) Fund to Spur Transit-Oriented Affordable Housing Development Across Puget Sound Region," news release, December 14, 2016, http://www.liifund.org/news/post/regional-equitable-development-initiative-redi-fund-to-spur-transit-oriented-affordable-housing-development-across-puget-sound-region/; and "Regional Equitable Development Initiative (REDI) Fund," Enterprise Community Partners, accessed January 24, 2019, https://www.enterprisecommunity.org/financing-and-development/community-loan-fund/redi-fund.

Sponsor and Partner of Platforms That Nurture a Pipeline of Investable Projects

Many governments have commonly identified projects worthy of investment capital directly through a competitive procurement process or by working in partnership with local or national CDFIs (e.g., Nonprofit Finance Fund). Some governments have taken a further step by launching incubators or accelerators that help local businesses develop investable projects or business models that deliver a good or service with significant public benefit.

Incubators provide support to early-stage nonprofits, social enterprises, and businesses so that they can become financially viable.[10] **Accelerators** perform many of the same services for more developed nonprofits or enterprises, with a focus on helping them grow rapidly.[11] The resources these two platforms provide can include mentorship, shared office space and services, and access to capital. Some platforms specialize in targeting specific sectors (e.g., LA Cleantech Incubator); others focus on other characteristics (e.g., the Inclusive Innovation Incubator in Washington, DC, which focuses on minority-owned entities).[12]

Regardless of the focus, both incubators and accelerators could help local enterprises become investment ready or develop services that provide a social, environmental, and financial return. For example, an incubator might prepare a social enterprise to receive venture capital or ready a nonprofit organization to deliver social services in an enterprise-oriented way. The government could also incubate enterprises that focus on preventing social problems or addressing their root causes, improving the lives of constituents in the long run.

Although some argue convincingly that publicly funded accelerators are often unnecessary for launching startups,[13] this is not necessarily true for social enterprises that, because of their focus on delivering a dual financial and nonfinancial return, have business models that may be less attractive to private finance, take longer to reach sustainability, and have greater public benefit. The cost-benefit equation should account for a much wider definition of return on investment when looking at social enterprises.

Partnering with a community-based organization such as a CDFI or nonprofit partner would enable government to transfer many of the responsibilities in developing the pipeline of impact investment opportunities.[14] Such responsibilities, like identifying promising ideas, conducting due diligence, linking concepts with knowledge and resources, and helping structure investment pitches and business plans, require skills beyond most governments' core competencies and carry liabilities. By sponsoring incubators and accelerators, however, government can encourage these processes.

Strategic Partner on Identifying Local Needs, Data, and Priorities

Governments have deep knowledge of the needs, capacities, and opportunities in their local community or state. This knowledge, grounded in experience and data, is coupled with a government's strategic perspective on political priorities and initiatives to position it as a valuable information partner.

Awareness of past and ongoing government initiatives can provide lessons for social entrepreneurs and their investors on challenges and opportunities (including latent human capital) in their target location or sector. Plans for government efforts help show where resources and attention are likely headed, providing opportunities for mutually reinforcing public, private, and philanthropic investment in an area. Governments are also the keepers of vast amounts of data that can help improve the design of impact investment projects by ensuring they are responsive to local needs. Access to government data also helps ensure projects can measure their impact (including through comparison data).

BOX 3

Newark, New Jersey, and Goldman Sachs's Urban Investment Group

Goldman Sachs, through its Urban Investment Group (UIG), invests in cities across the country with the stated dual goals of social impact and financial return. UIG's strategy is to work with city officials to understand local priorities and context, using that information to help inform investment decisions and determine which local challenges private capital is well positioned to address. UIG notes the importance of investing in cities where public leadership not only sets clear priorities but also understands the unique roles of public, private, and community partners.

In Newark, New Jersey, UIG has invested over $500 million since 2010[a] across projects related to education, job creation, housing, and sustainability. These projects aligned with objectives and priorities outlined by then-mayor Cory Booker and current Mayor Ras Baraka. One project, for example, brought $30 million to finance the world's largest vertical farm, aligning with the city's goal of boosting green employment opportunities.[b] The project clearly and transparently identified the role of each partner to avoid conflicts of interest (e.g., UIG could not lobby for specific supports or money from the city).

The city, through the Mayor's office and the economic development agency, helped set strategic priorities and spearhead zoning changes. UIG directed capital to specific projects, and the state (through its economic development arm) provided financial support to facilitate priority investments. UIG noted that it saw its work in Newark as a long-term investment and, as such, understood the importance of building trust incrementally with the city government and communities. This type of relationship can be successful if both the public- and private-sector partners see the benefit in productively leveraging each other's strengths.

[a] "Stories of Progress: Newark," Goldman Sachs, accessed January 22, 2019, http://www.goldmansachs.com/who-we-are/progress/newark/.
[b] RBH Group, LLC, "New $30 Million Deal to Develop World's Largest Indoor Vertical Farm in Newark," news release, March 9, 2015.

Ensuring that impact investments are aligned with these existing efforts can leverage the political capital and public attention such campaigns bring. Informal alignment (i.e., intentional alignment without any formal agreement or association) may be the ideal arrangement to ensure that separate efforts stay independent, avoid an inappropriate degree of public-private coordination, and hedge against sustainability risks if the initiative is time bound or closely tied to individual leaders.

For impact investors, viewing governments as data and strategy partners may improve project design and long-term sustainability. For resource-constrained governments, this relationship offers an opportunity to encourage additional financing to invest in priorities the governments have already identified through data (while including community voices). Ideally, these efforts, public and private, can mutually reinforce each other when they are designed in complementary ways to address different elements within a larger goal (e.g., job skills training and new small-business employment opportunities under the umbrella of boosting employment).

Trusted Broker or Convener, Facilitating Diverse Impact Investing Efforts

The impact investing world contains a diverse array of actors, perspectives, and opportunities. For any given stakeholder, navigating this landscape can be challenging, particularly because many communities have nascent and underdeveloped impact investing markets, and actors may have limited awareness of local needs or of the interest and efforts of other potential partners. Further, mistrust of impact investing or of the motivations of individual partners (or types of partners) may hamper collaboration. This calls for some degree of coordination or, at least, of clarity and understanding of the landscape.

In some cases, foundations, particularly community foundations, have stepped in to serve as builders of place-based impact investing ecosystems. They are often ideally situated to facilitate these conversations, lead collaborative efforts, and create public goods (e.g., lessons on best practices). For example, a wide range of philanthropy-led place-based impact investing efforts have cropped up across the country, and they play an important role in helping align efforts and coordinate resources across investors, investees, and other partners in the ecosystem (Ashley and Ovalle 2018). But there is also space and a need for state and local governments to serve as a convener and facilitator among impact investing partners. Governments can be well placed to fill this role for several reasons:

- **Precedence**. Forums or mechanisms may exist that could be repurposed or used as precedent for this type of facilitation. Governments, including their economic development agencies, frequently convene diverse sets of stakeholders around one issue or topic to bridge gaps, reduce knowledge asymmetries, forge meaningful connections, and illuminate solutions.
- **Neutrality**. Governments may not always seek active roles in individual impact investments, enabling them to sit "above the fray" without a vested interest in specific projects. Even when they do take more active roles, they are ostensibly motivated solely or primarily by public interest.[15] Governments can also be trusted providers of knowledge on impact investing and its risks and opportunities, particularly for audiences with limited understanding. Trust, and views of the government as a trusted, neutral third party, will vary by locality, but where that trust exists, governments should responsibly capitalize on it.

- **Legitimacy**. Governments derive their legitimacy from their service to the public and are, at least in theory, held accountable to that public. This enables them to reasonably speak on behalf of the residents they represent and, in turn, confer legitimacy on convenings and facilitated processes they host.
- **Equalization**. Impact investing partners have different interests and approach challenges from different perspectives, objectives, and values. Although governments often have their unique taxonomies and perspectives, absent another neutral third-party, they can coordinate and build bridges across different stakeholders.
- **Network**. By nature, governments interact with a wide range of different local and national stakeholders, some of whom are potential partners in impact investing efforts. Because governments already have these relationships, they are uniquely placed to convene such a group.[16]
- **Scale**. Individual investors, entrepreneurs, and projects have difficulty matching the size and influence of government investments in any particular space. Therefore, positioning government as a platform for discussing such activities is sensible to ensure that impact investing efforts are aligned with ongoing and planned public investments and attuned to political realities and opportunities.

Governments can facilitate by hosting panels, conferences, and other events that bring together stakeholders; managing or supporting an online portal that connects investors and local investees; or even operating a more bespoke and active matchmaking role that ensures appropriate stakeholders are pulled in at key stages of nascent and developing projects. Although some of these roles are as yet untested, "government as convener" is not a new concept, particularly amid a growing recognition that many actors have a role to play in advancing public priorities. In Pittsburgh, for example, the mayor used OnePGH, a strategic resilience plan, as a platform to convene many diverse partners to address systemic challenges and local problems.[17]

Some convening activities, for reasons related to capacity, suitability, and liability, might best be managed through an economic development agency (often a quasi-public private entity) that has expertise doing similar services for regular (nonimpact) entrepreneurs and small businesses. Alternatively, the government could convene local and national stakeholders and encourage them to create and maintain a platform without playing a direct role in its design and management.

Creator of Local Incentives for Impact Investments

Studies have found that wealthy investors have an unmet appetite for social investment opportunities. These investors want their investments to yield a financial return and social benefit that reflects their social and ethical values without being financially punitive. This suggests that tax incentives might encourage impact investor capital flows. Tax incentives increase the effective rate of return for impact investments, making them more appealing as investments. In fact, a study in the UK found that for wealthy investors (those with over £50,000 in investable wealth), tax incentives were not just a motivating factor to invest in a social enterprise, they were the primary motivation (Worthstone 2013).

There are three basic ways to offer tax incentives: exemptions, deferrals, and tax credits. A brief from Enterprise and the Accelerating Impact Investing Initiative suggests that for a tax incentive to be truly impactful, it should not require annual reauthorization (Carroll and Griffith 2017). This would allow investors and fund managers to more accurately predict their effective rates of return.

BOX 4

South Carolina Community Development Tax Credit Program

The South Carolina Community Economic Development Act of 2000 created the South Carolina Community Development Tax Credit Program. This tax incentive provides investors credits against state tax liability—of up to a total of $1 million annually—valued at one-third of each dollar invested in local CDFIs or other eligible entities. Investors may choose to purchase stock or donate cash, among other activities, to take advantage of the tax incentive. Excess tax credits carry over for up to a decade. In 2013, the South Carolina Association for Community Economic Development took over administration of the program from the Department of Commerce.

To date, investors have claimed a total of $2.8 million in tax credits, resulting in $8.5 million in private investment statewide. Although this is a small relative amount, the tax credits claimed increased each year. The South Carolina Community Development Tax Credit Program indicates the important role that administrators play in advertising and transparently managing an impact investing effort. Before 2013, many actors in the impact investing field were unaware of the program, leading to its underuse. However, the South Carolina Community Economic Development Act has managed to raise awareness of the program and its impact and lend credibility to it by monitoring the amount of tax credits available throughout the year. Consequently, 2016 was the first year that the state hit the cap on tax credits disbursed (Carroll and Griffith 2016). Although the program lapsed, the South Carolina legislature has considered reauthorizing it.[a]

[a] S. 412 as sent to the House Committee on Ways and Means, last amended April 9, 2018, 122nd Session of the South Carolina General Assembly (2018). https://www.scstatehouse.gov/sess122_2017-2018/bills/412.htm.

Several states have created tax credit programs to encourage investments in projects developed by CDFIs (box 4). The Massachusetts Community Investment Tax Credit offers tax credits to individuals and corporations making donations to CDFIs that have state-approved "community investment plans." Similarly, in Vermont, millions have been raised in through the Charitable Housing Investment Tax Credit, which provides a tax credit for investors in eligible affordable housing projects. Fourteen states have also created state versions of the federal New Markets Tax Credit program with the goal of encouraging investments in certified entities that in turn invest in businesses in low-income communities (Theodos, Seidman, and Edmonds 2017).

Support the Social Enterprise Community by Highlighting and Elevating Efforts

Social enterprises are "organizations that address a basic unmet need or solve a social problem through a market-driven approach."[18] In other words, they are private organizations with a socially responsible mission or public interest and some sort of marketable service or revenue stream. They can be structured as for-profit businesses with a socially responsible mission or nonprofits that receive some of their funding from selling a product or service.[19] For example, Goodwill Industries is a leading provider of workforce development services and a nonprofit social enterprise that receives some of its funding by reselling used clothing and other items.

Governments often directly fund some portion of the services provided by social enterprises, or they create an environment where these enterprises can flourish by highlighting how social enterprises deliver services or solve a problem while creating value for their communities or constituencies.

This can benefit the enterprise when they catch the eye of investors and grow their funding or revenue and can benefit the government when the new funding allows the enterprise to scale their impact across the community. Governments can promote social enterprises' participation in public procurement opportunities (grants or contracts) by providing publicly accessible technical assistance on how to do business with the government or, as the Social Value Act in the United Kingdom[20] encourages, creating public procurement demand for the social innovation products developed by social enterprises. Additionally, platforms that recognize exemplary actors, such as the Social Enterprise Awards in Dublin, Ireland (box 5), or BLab's Best for the World honorees,[21] help raise awareness of and encourage efforts by high-performing social enterprises.

BOX 5

Dublin City Social Enterprise Awards

The Dublin City Social Enterprise Awards were established in 2015 as a collaboration between the city and a local nonprofit. The awards provide a total of €50,000 annually, divided among innovative social enterprises in and around Dublin, Ireland, in recognition of the financial support necessary to create and develop these initiatives. The four main goals of the awards are to (1) increase awareness about social enterprises, (2) feature social enterprises' contributions to economic and community development, (3) create new jobs, and (4) develop individual skills. In addition to financial support, awardees are provided with mentoring and opportunities to publicize their work.[a]

Applicants are evaluated based on their potential to generate jobs, the enterprise's social return on investment, the viability and sustainability of the enterprise, and the quality of the proposal and the organization. Past winners have included an enterprise-minded nonprofit helping the elderly adapt their homes for future needs and create rental space, a company providing affordable home maintenance for older residents, and a nonprofit offering career development tools to women.

[a] Inner City Enterprise, "Dublin City Council & Inner City Enterprise Launch: Dublin City – Social Enterprise Awards – 2018," news release, March 8, 2018.

Factors Informing a Government's Decision to Engage with Impact Investing

Governments should be aware of several factors that can influence the success of their engagement with impact investing:

- **Market distortion risk**. Whenever governments interact with markets, whether through delineation and provision of public goods, regulation of certain activities or practices, issuance of punitive or protectionist tax policies, or other means, they can cause distorting effects. These effects can occur whether or not government actions lead to direct or indirect benefits or harms. When actions are targeted toward specific companies or industries (rather than indiscriminately at the economy as a whole), the government can open itself up to accusations of "picking winners and losers." Supporting or facilitating impact investing in a city or state, as this report suggests, could lead to similar risks and concerns.

  However, governments already play many of the roles we have described in support of general economic development and job creation.[22] Community or economic development subsidies can be deemed “smart” by one test if they support projects that are beneficial but would not occur if not for the subsidy (Abravanel, Pindus, and Theodos 2011).

Several principles might alleviate concerns of government market interference by guiding government activity in this space:[23]

» **Limited.** Limit government support to only what is necessary to encourage additional investment, launch a project, or help a project overcome a specific hurdle. Public resources should use the “but for” principle[24] and be justified by sufficient public benefits. Government support should not replace funding that can be easily provided by the private sector.

» **Transparent.** Ensure that support is provided in a way that is transparent and fair to all parties so that individual entities, investors, or entrepreneurs do not have an unfair advantage. This might include a widely publicized campaign to solicit input and promote a clear rubric to grade potential seed funding recipients; this might also include safeguards to identify conflicts of interest, similar to existing contracting policies.

» **Accountable.** Use activities as opportunities to have a public discussion on the government’s social or environmental policy strategy and the role of impact investment. Engaging the public on these issues may help build buy-in on the approach and can surface important considerations on where to focus attention and better leverage existing resources (e.g., community self-investment).

- **Goals of government involvement.** Although, as we argue, government engagement can bring many potential benefits, it’s important for stakeholders to consider the specific desired outcomes of their government engaging with impact investing. For instance, governments may wish to encourage private investment in an underinvested neighborhood, help promising social entrepreneurs access capital, enhance community input with an existing pipeline of impact investments, or promote improved measurement of impact and learning on what works. Although governments may have several goals, they should focus on a few to ensure the strategy is clear and action oriented and that the government’s strategy and its objectives are logically linked.

- **Cost-benefit of different types of engagement**. Governments can be valuable partners but are rarely the nimblest ones. There may be a trade-off between the extent of government engagement and how rapidly projects can get off the ground. Significant government involvement may be best reserved for large projects or broad efforts that seek to make or move markets (e.g., launching an investor-entrepreneur matchmaking platform) rather than smaller, discrete projects. Similarly, certain actions, such as creating policies that encourage investment in CDFIs, are uniquely government functions that may be appropriate. The opportunity cost of engaging in impact investing efforts compared with supporting more conventional projects and efforts needs to be acknowledged. The government should carefully consider the costs and benefits and communicate the decisionmaking logic to constituents.

- **Political and reputational risk**. Engaging in anything new involves a certain degree of risk for governments and their political leaders. Impact investing is a fairly new concept and can be a particularly unfamiliar one for governments. Consequently, engaging with impact investing can open governments up to accusations both of market interference and of collusion with profit-seeking investors and businesses. Launching a successful impact investing strategy will require a government to have committed and stable leadership, sufficient discretionary resources, policies and procedures that promote transparency and accountability, public buy-in, and internal mechanisms and bureaucracies that enable an informed government role.
- **Thoughtful selection of partners**. Given the political risk and in the interest of encouraging relationships that are mutually beneficial and that serve the public, a government's selection of its impact investing partners is extremely important and, depending on the type of relationship, may involve significant due diligence. Governments must be prepared to create risk management frameworks and set clear expectations when working with partners not familiar with maintaining public accountability and serving the public's interest. Governments should also anticipate some of its partners' concerns and priorities (e.g., consistent government leadership, appropriations risk, or availability of credit enhancements). It is important to develop transparent relationships that have clear boundaries to avoid conflicts of interest and clearly demarcate the government's role. Trust, as in most relationships, can be built over time with a few activities or projects that demonstrate good faith. Philanthropic and community organizations, with which governments often already have working relationships and a shared public service orientation, may be good places to start.

Actionable Recommendations for Governments

The roles we present in this report outline specific ways that state and local governments can encourage beneficial impact investments in their localities. But moving from theory to practice (i.e., from reading this report to supporting a vibrant and effective impact investment community) will require several intermediate steps by governments.

The appropriate personnel within government to lead these efforts will vary by jurisdiction and may include regional planning commissions, executive leadership (e.g., gubernatorial or mayoral policy directors), delegated agency heads, public-private partnership offices, special project offices, legislative committees, or, likely, some combination of different stakeholders. Most examples to date, including those profiled in this report, have been spearheaded by executive leaders, but legislative partners can (and perhaps should) play important roles. The first recommendation below addresses the need to designate a new or existing body to coordinate and help drive government efforts in this area. This entity would then be responsible for executing most of the other recommended actions, under the direction of and reporting to legislative or executive leadership and in collaboration with other public and private stakeholders.

Regardless of the exact roles governments ultimately opt to fill, they should consider the following recommended actions, presented roughly in the order they might be addressed:

- **Create a new office or committee (or task an existing one) to coordinate government's engagement with impact investing efforts.** Engaging with impact investing, particularly if it's done on a deeper level, is no small task. Although the exact capacities and level of engagement needed will vary by jurisdiction and roles pursued, governments would benefit from delegating staff toward coordinating and informing government efforts. This could include creating an executive office specifically focused on this; retasking an existing office (allocating additional resources as needed); or, at the very least, creating an executive or legislative committee to help guide efforts, maintain momentum, and provide consistent support and strategic guidance.
- **Map existing government investing and priorities against supply and demand of impact capital to identify gaps and opportunities.** Government agencies typically set targets and monitor progress toward key indicators across a range of areas where the government is investing. Impact investing could simultaneously be occurring in those sectors, and it is sensible for governments to see what outcomes metrics are being prioritized and tracked and how these social or environmental efforts are performing. This will paint a better picture of the sector's landscape and opportunities for alignment and filling gaps. Several approaches can help communities understand needs, capital gaps, and capital flows in order to identify the overlap and gaps between public, private, and philanthropic investments (Theodos et al. 2018). Although public prioritization of investments should be informed by such exercises, that prioritization can be difficult and requires input from the community and other stakeholders.
- **Create a vision of impact investing opportunities and risks.** Strategic efforts could culminate in a standalone brief, white paper, or report that outlines the government's position on impact

investing, the specific perceived opportunities and limitations, and proposed concrete actions to engage with the opportunity (aligned with local context). Such a document could explore how the government could fill some of the roles identified in this report. Crafting this vision provides an opportunity to engage a wide range of public, private, philanthropic, and nonprofit stakeholders.

- **Find opportunities to elevate marginalized voices into impact investing conversations.** An important role government can play is to channel and directly elevate the needs, concerns, and opinions of marginalized communities into impact investing conversations that typically privilege investors and, to a lesser extent, investees with capacity. If a government enacts a clear strategic engagement vision and combines it with political support, human capacity to engage, and financial capital, then that government is in an influential position to advocate for all its constituents and to help ensure potential public benefits align with the needs of disadvantaged communities. This may require an entirely distinct community development and engagement skill set.
- **Integrate impact investing models into strategic decisionmaking conversations by educating government agency leaders and staff, securing buy-in, and identifying champions.** Impact investing has the potential to affect so many areas of interest to the government, including employment, housing, social service delivery, and environmental resiliency. It's unlikely, however, that most agencies and decisionmakers have a clear sense of what impact investing is or the opportunities and risks it can entail. Efforts to educate key government stakeholders on impact investing (potentially led by the office we recommended the government create) would help establish a baseline understanding of the process. An executive directive, guidelines, or recommendations to integrate impact investing into larger strategic decisionmaking documents and conversations (as appropriate) could also help ensure government efforts are at least aware of the landscape of complementary nongovernmental social and environmental investments. This might lead to, for example, an exploration of local impact investments in affordable housing within a broader government document on housing affordability strategy.
- **Consider appropriate financial tools that best leverage limited public funds in support of impact priorities.** Governments have several financial tools at their disposal to help advance their impact investing priorities. These can include direct investments in social enterprises through a new social investment fund or bank, capitalizing on existing or new impact funds in order to leverage additional private or philanthropic investment in a specific place, or deploying credit enhancement tools such as guarantees and credit risk sharing to improve the investment

profile of worthy projects or entities. Certain options, such as creating a new social investment bank, are more labor and resource intensive than others, and the appropriate tool or tools will depend on factors such as capacity, political will, and local capital needs. The last point is important: if the public chooses to provide a financial tool to encourage impact investing, it should be well-matched to the market's needs (i.e., it should remove or mitigate a barrier).

- **Continuously learn from own and others' impact investing efforts, using lessons to inform practice, identify new opportunities, and mitigate risks.** Although impact investing lends itself to "learning by doing," given the risks involved and importance of properly stewarding public resources, it's useful for government to take stock of the experience of others. A government should start by reaching out to governments in other communities that have already engaged in impact investing (including some profiled in this report) to learn what worked for them and what did not. A government should also seek to engage with other public-interest stakeholders that have experience in impact investing. In many localities, this includes philanthropies and CDFIs.
- **Support efforts to measure impact and use evidence to inform public policymaking.** For impact investing to truly live up to its promise and demonstrate the social and environmental impact of projects, stakeholders must make an effort to monitor and evaluate the impact of investments. Governments play an important potential role in ensuring impact measurement is accurate, meaningful, and informative. Governments, possibly through their impact investing office or committee, can connect impact investors and investees with administrative data, engage communities to contextualize impact evidence, and use impact evidence (if rigorous and reliable) to inform other government efforts and the public. For example, if an education-focused enterprise demonstrates strong outcomes against a comparison group, using government data and validating against community perspectives, governments may opt to support scaling the intervention, either in full or select successful elements.

Together, these recommendations form a comprehensive strategic approach, but governments can consider an alternative: piloting one or two of the recommended actions with the aim of facilitating new impact investments. Although a comprehensive approach offers a stronger foundation on which to identify the best government roles, ensure alignment with existing government priorities and resources, and engage key stakeholders (including government staff), a pilot may be necessary in some places to offer a proof of concept or satisfy local needs and constraints. A pilot can be undertaken deliberately and strategically, benefiting from guidance and structured to report on lessons learned.

Conclusion

The limited examples of state and local governments engaging with impact investing demonstrate the challenge of the undertaking and the obstacles it entails. Impact investing is a new field and, as we discussed in this report, it presents several potential risks and liabilities for government. Not only does it entail thinking differently about public resources, it requires engaging private, philanthropic, and community partners in new ways and, to some extent, redefining government's role and its relations with these partners. That is no easy lift.

Even when a strategic vision supports exploration of impact investing and leadership recognizes the value of such efforts, the public's expectations, extant legal frameworks, and status quo operational policies may present significant barriers. Governments need to consider many factors before engaging, including the potential risk of market distortions, the specific goals of government involvement, the opportunity costs and cost-benefits of different roles, various potential political and reputational risk, and the importance of selecting appropriate partners.

Despite this, the potential benefits of engaging with impact investing are significant—governments can gain both through individual projects and through a broader shift in thinking about its role in this process and the value of multistakeholder collaboration. Forward-thinking state and local governments can help ensure that this growing field of finance lives up to its billing and is harnessed for public good.

Some governments are already engaging with impact investing in the United States and internationally, such as by providing patient, catalytic capital; nurturing promising investees; elevating local needs, data, and priorities for investors; facilitating conversations as a trusted convener; creating local investment incentives; and publicizing exemplary projects and investees.

The best and most mutually beneficial forms of engagement will vary by locality, but governments would be wise to think strategically about the benefits and risks and to understand what type of engagement is best suited to their needs, capabilities, and interests. Impact investing requires governments to think differently about their role and is part of a broader shift to diversify funding for social and environmental issues and elevate a focus on measurable impact. These conversations typically take years, but as innovative governments are demonstrating, they're conversations worth having.

Notes

[1] See, for example, McGrath (2017).

[2] There have been only a few forays to think broader, including by Castano (2017). Pay for success is an innovative financing mechanism that governments can use to leverage private or philanthropic capital to implement or scale an evidence-based social program. If an independent, empirical evaluation determines that the program improved predefined outcomes for participants, the project is considered a success. The government repays the initial investors with a positive return. Pay for success redistributes financial and reputational risk from government to external investors, promotes evidence building through rigorous evaluation, directs funds and resources toward proven programs, and shifts programmatic focus to meaningful outcomes for vulnerable populations

[3] "What You Need to Know about Impact Investing," Global Impact Investing Network, accessed January 24, 2019, https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing.

[4] US SIF, "US SIF Foundation Releases 2018 Biennial Report on US Sustainable, Responsible and Impact Investing Trends," *US SIF Blog*, October 31, 2018.

[5] Jim Norman, "Social Impact Funds Still an Unknown to Most U.S. Investors," *Gallup News*, January 11, 2018, https://news.gallup.com/poll/225140/social-impact-funds-unknown-investors.aspx

[6] Program-related investments also include loan guarantees, linked deposits, and certain equity investments. For more information on program-related investments and recoverable grants, see Ford Foundation Program Staff (2013).

[7] For more on integrating community voices as part of Opportunity Zones, see Lisa Green Hall, Fran Seegull, Chelsea Amelia Cruz, and Adrian Franco, "Opportunity Zones: Moving toward a Shared Impact Framework," *Federal Reserve Bank of New York Blog*, August 8, 2018, https://medium.com/new-york-fed/opportunity-zones-moving-toward-a-shared-impact-framework-ad5bda6b5766.

[8] Local conditions, including legal frameworks and political appetites, will help determine what mechanisms are feasible.

[9] Gene Balk, "114,000 More People: Seattle Now Decade's Fastest-Growing Big City in All of US," *Seattle Times*, May 24, 2018, https://www.seattletimes.com/seattle-news/data/114000-more-people-seattle-now-this-decades-fastest-growing-big-city-in-all-of-united-states/.

[10] "Accelerators & Incubators Guide," Stanford Social Entrepreneurship Hub, accessed January 24, 2019, http://sehub.stanford.edu/accelerator-incubator.

[11] "Accelerators & Incubators Guide," Stanford Social Entrepreneurship Hub, accessed January 24, 2019, http://sehub.stanford.edu/accelerator-incubator.

[12] See the Center for Entrepreneurial Innovation, https://www.ceigateway.com/business-incubator; the Los Angeles Cleantech Incubator, https://laincubator.org/about/; the Technology Innovation Center at Research Park, https://technologyinnovationcenter.org/; Union Kitchen DC, https://unionkitchendc.com/; Echoing Green, https://www.echoinggreen.org/fellowship; and the Inclusive Innovation Incubator, https://www.in3dc.com/.

[13] Richard Florida, "How Much Do Startup Accelerators Help Cities," *CityLab*, February 18, 2016, https://www.citylab.com/life/2016/02/startup-accelerators-economy-geography/463368/.

[14] The Commonwealth of Virginia created Virginia Community Capital as a CDFI in 2006 with $15 million in seed funding and a mandate to invest in projects that create jobs and improve the quality of life in underserved parts

of Virginia. Today, Virginia Community Capital, which is now both a CDFI and a for-profit bank, has cocreated an impact investing platform called LOCUS Impact Investing. See more at https://www.vacommunitycapital.org/about/.

[15] Whether or not this is accurate is disputable. However, from rhetorical and optical perspectives, governments are typically able to wear this mantle far easier than other stakeholders.

[16] However, educating government staff on impact investing may be a necessary precondition for government to be an effective convener.

[17] Bloomberg Cities, "City of Bridges: OnePGH Plan Highlights Pittsburgh's Role as a 'Convener,'" *Bloomberg Cities Blog*, June 29, 2018, https://medium.com/@BloombergCities/city-of-bridges-onepgh-plan-highlights-pittsburghs-role-as-a-convener-7336aa8adc75.

[18] Social Enterprise Alliance's definition: "What Is Social Enterprise," Social Enterprise Alliance, accessed January 24, 2019, https://socialenterprise.us/about/social-enterprise/.

[19] For purposes of this paper, similarly structured enterprises with an *environmental* mission (rather than a primarily or entirely social one) will also be considered "social enterprises."

[20] "Social Value Act: Information and Resources," Gov.UK, last updated May 3, 2016, https://www.gov.uk/government/publications/social-value-act-information-and-resources/social-value-act-information-and-resources.

[21] B the Change, "Meet the 2018 Best for the World Honorees," *B the Change Blog*, May 21, 2018, https://bthechange.com/best-for-the-world-2018-all-honorees-f30a880f8ac0

[22] Indeed, many governments already provide support (e.g., below-market-rate small-business loans) to companies that might even qualify as impact investments (e.g., minority-owned businesses that employ people from low-income communities).

[23] Similar arguments have been made for the role of philanthropy in impact investing. See Paula Goldman, "The Distortion Risk in Impact Investing," *Stanford Social Innovation Review*, May 7, 2012.

[24] This principle, as applied to government role in impact investing, is that public funds only go to a project or endeavor that has significant potential public benefit that would not be initially viable *but for* some time-limited public support.

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