Center for Community Investment

LINCOLN INSTITUTE OF LAND POLICY

Community Investment: Focusing on the System

A WORKING PAPER

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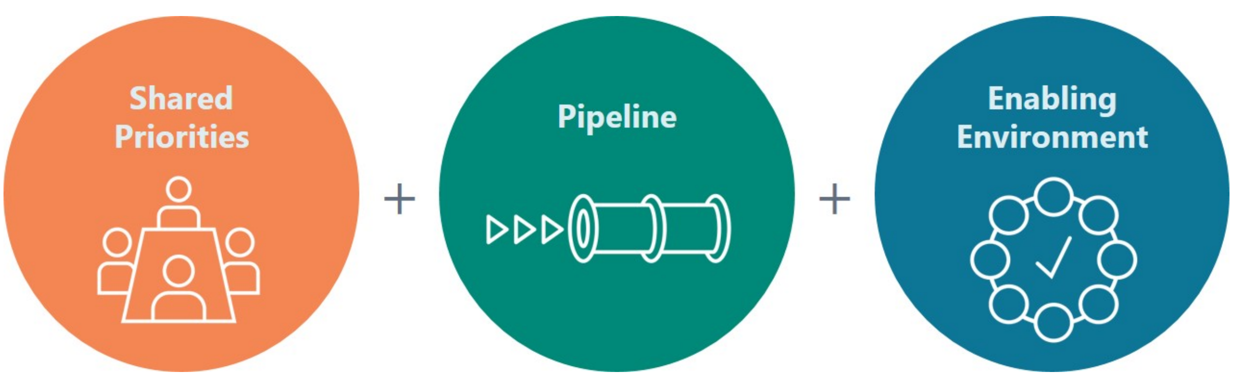

About the Center for Community Investment

The Center for Community Investment at the Lincoln Institute of Land Policy works to overcome disinvestment and improve opportunity so that everyone has a fair chance to lead a healthy and productive life.

About this Paper

An earlier version of this paper was originally published in 2015 by The Kresge Foundation and Initiative for Responsible Investment.

Capital absorption work began in the summer of 2011 in response to difficulties experienced by Living Cities deploying capital in the cities chosen for The Integration Initiative, an $80 million effort to improve the lives of low-income people. The project began with interviews with community investment experts and practitioners, place-based analysis of practice in Chicago and Atlanta, case studies about an exemplary transaction in Detroit, and the experience of a community development financial institution that expanded into new regions.

The project's conceptual frame can be found in our March 2012 paper, *The Capital Absorption Capacity of Places: A Research Agenda and Framework*. We have since published papers on the roles of philanthropy, local government, and health systems in building capital absorption capacity, conducted workshops with stakeholders in more than a dozen cities, worked in depth with multisector partnerships in San Francisco, Los Angeles, and Denver to strengthen the capacity of community investment systems, and engaged with federal and state agencies, foundations, and trade associations.

This paper has become foundational for our work. It has evolved over time as we have learned more about how capital absorption lands in communities. For more information about our work and to view additional resources, visit our website at centerforcommunityinvestment.org or contact:

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Introduction

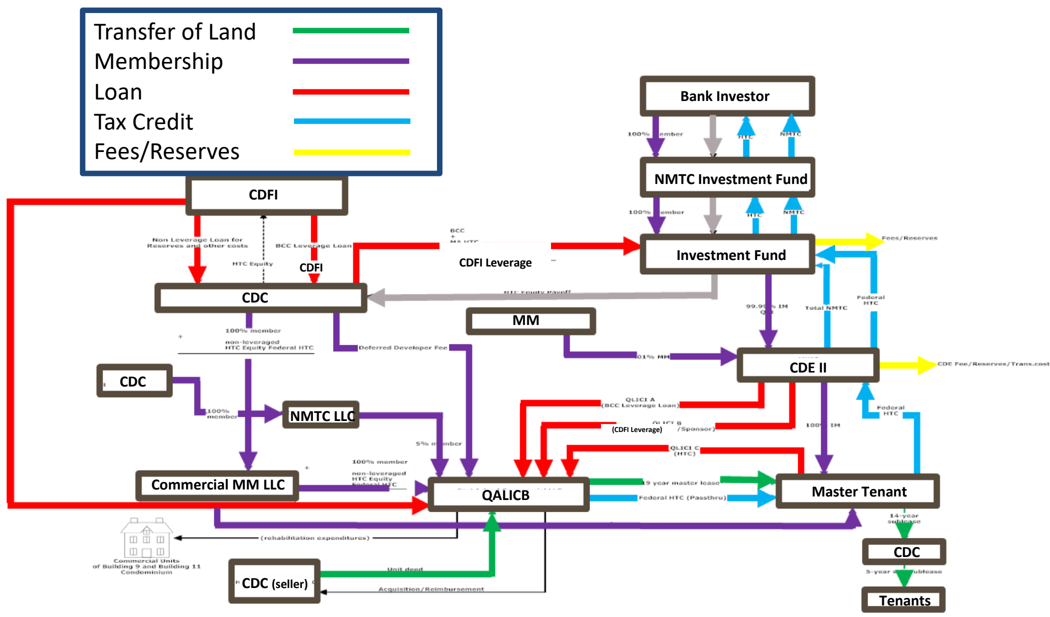
Community investment – defined here as investments intended to achieve social and environmental benefits in disinvested communities – plays a critical role in creating and preserving affordable housing, promoting health and wellness, contributing to small-business and economic vitality and making our cities more equitable and sustainable. It works in places and sectors where conventional market activity does not fully meet community needs.

Community investment (CI) in the U.S. is one of the most robust impact-investing sectors in the world. With support from public policy and subsidies from public and philanthropic sources, private capital flows to community investment from foundations, banks and insurance companies, individuals and others in the form of loans, bonds, tax-credit equity and structured investment vehicles. Often, CI involves specialized intermediaries skilled at working with marginalized communities and blending multiple sources of funding.

But practitioners frequently describe community investment as working against, or around, the conventional finance system. It targets underserved people and places – where conventional markets are seen as absent, misguided or failing. In describing what they do, practitioners use metaphors like filling gaps (where markets aren't working), providing cushions (to absorb risk that others won't bear) and taking haircuts (to adjust prices to "market" rates). In this frame, community investment is viewed as the hard work it takes to do what the conventional finance system itself cannot or will not do.

Exemplary CI deals – the ones that stick out in people's minds as representative of the field – are often complex, time-consuming and politically fraught, balancing the interests of many stakeholders and blending many different sources of capital with varied constraints and requirements. They may require intense collaboration among community, commercial, philanthropic and public-sector stakeholders. They frequently rely on "gap funding" – public-sector subsidies and tax credits, philanthropic grants or program-related investments – to be financially viable. Given the relative scarcity and unpredictability of these funding sources, CI practitioners spend significant energy chasing the funding to make deals happen.

Sample Community Investment Deal



Practitioners evoke the language of heroic quests to describe these deals. They are difficult journeys, with serial obstacles to overcome. Sometimes they are described as "brain damage" deals – requiring extraordinary patience and skill to complete. Although viewing CI as a series of "brain damage" transactions is certainly understandable – many of the deals are indeed difficult, and conventional markets are not (by definition) fully serving marginalized communities – we believe that viewing community investment in this way comes with a cost. The language of the quest sets CI up to be something extraordinary, not part of routine and ongoing practice. And framing the field as a set of difficult transactions, rather than a system for conducting socially valuable activity, may make it difficult to address challenges of coordination and build capacity in the long term.

In our work over the past several years, we've looked at these issues through the lens of what we call "the capital absorption capacity of places" – the ability of communities to attract and leverage community investment, bringing private capital to serve public purpose. Given the challenges we had seen over the years with deploying capital from investors seeking both social and financial returns, our research project started with the proposition that increasing the supply of capital is a necessary but insufficient aspect of strengthening community investment. We have focused on examining how communities can develop a more coordinated, strategic approach to organizing demand for capital and ensuring it is deployed to achieve their social and environmental priorities. We have worked with practitioners from the public, private, philanthropic and civil-society sectors to explore the conditions under which CI occurs, and to search for design principles that make CI easier and more effective.

We believe that focusing on the CI system – its functions, boundaries, practices and culture – can help reduce the transaction costs and increase the scale and impact of CI. This paper reviews some of our initial work on CI as system. Our goal in writing it is threefold:

- To encourage people to think about the system for organizing CI demand,
- To suggest ways to make the system visible and tractable in a given place, and,
- To offer some suggestions based on current and past efforts on how to make the CI system more robust.

Making the Community Investment System Visible

Community investment takes place through a complex network of actors – nonprofit and mission-oriented for-profit developers; providers of support to small businesses, community development corporations and other neighborhood-based organizations; community development financial institutions; foundations; financial institutions and public-sector agencies at the local, state and federal levels. The specific constellation of actors and institutions involved in CI differs from place to place, depending upon the specific issues, priorities, leaders and history that have shaped the local context. One thing that seems to be consistent across geographies, however, is that participants in community investment tend to describe themselves not as actors in a coherent system, but rather as participants in transactions that use community investment tools to do things that will not otherwise get done. The CI system itself remains implicit.

A first step to understanding capital absorption capacity, therefore, is to make the system visible. Making clear the dynamics of CI – its boundaries (who and what is included and excluded), the relationships among participants and their attitudes toward their work, the key policies, practices, resource flows and capacities that enable and circumscribe CI activity – may spark insight into the complex interactions that make it possible to execute CI transactions. A visible system should also be easier to improve, highlighting those areas functioning well and those constraining the scope and effectiveness of practitioners and their institutions.

EXEMPLARY DEALS AS A GUIDE TO THE SYSTEM

Given the strong transactional focus of the community investment sector, we have found it is sometimes helpful to start from an analysis of two or three exemplary deals – transactions that CI practitioners in a particular place believe are either representative or noteworthy examples of what local practice can achieve. Working backward from those deals allows us to identify the features that characterize CI in that place.

Early in our work, we looked at an exemplary deal in Detroit: The Auburn, a multistory, mixed-use, mixed-income redevelopment in Midtown. The deal helped make concrete the networks that worked on CI as well as the boundaries and constraints in a very difficult market.

> ***In the case of The Auburn,*** *a resolute CI practitioner had her eye on a site in the heart of a district close to three major anchor institutions. Although the anchors were not directly involved in the deal, the project benefited from their presence in the area as well as from a jointly sponsored Live Local program that provided financial incentives for anchor institution employees to rent or buy homes in nearby neighborhoods. The deal suffered from significant financing gaps; more than half a dozen financing sources were tapped to make the deal possible, including philanthropic support as well as brownfield and New Markets Tax Credits. The project, which stalled multiple times, ultimately involved both local stakeholders and a national CDFI that established a Detroit presence.*

Over the past few years, we have asked stakeholders in more than a dozen communities to examine exemplary deals, considering both the actors and networks who participated in these deals as well as the range of stakeholders who might have participated but did not, the resources used, milestones achieved and the challenges of the deal.

Among the commonalities we find in this analysis:

- Core participants in community investment deals tend to be relatively stable. In some places there are specific individuals – one way to describe them might be "superconnectors" – who seem to be involved in the majority of deal-making activity.
- Although the default actors vary from region to region, frequent deal participants tend to be institutions like CDFIs[1] and community development corporations (where they exist) and the Community Reinvestment Act functions of banks that have specialized knowledge of community investment; from the public sector, local housing and community development agencies also are frequently mentioned. Participants in deals tend to be local or have a specific interest in the locality.

[1] Community development financial institutions are so closely associated with community investment in some people's minds that we sometimes find that the answer to improving CI performance in a location is "get a CDFI."

- The constraints of local ties and resources reduce the amount of activity in a given place. When describing these exemplary deals, practitioners often note their desire to expand horizons and tap more capacity and resources by engaging extra-local stakeholders (developers, investors, federal agencies and foundations) headquartered outside the place as well as actors in the local community who are disengaged, such as employers or anchor institutions.
- The deals are slowed by their reliance on multiple financing sources, each with its own application process, requirements and timetable for decision-making. To be viable financially, deals often require “gap financing” that assumes higher risk or accepts lower returns than most investors would tolerate. Securing the necessary sources of subsidy and credit enhancement introduces significant unpredictability into the timing of transactions and is often described by stakeholders as among the key challenges in the execution of a deal.

Analyzing exemplary deals can help identify the real and ideal boundaries of the system – who is actively engaged versus who should be. It can also help map the resources that are used to make the system work – how the CI system gets built around those tools that fill gaps or mitigate risk in hard-to-work places. Finally, mapping exemplary deals is one way to begin surfacing the relationships among existing actors – how they coordinate on execution, which people and institutions seem to appear everywhere and which enter into CI on a one-off or occasional basis. The exercise is necessarily limited – it can only yield as much information about the system as is embedded in particular deals – but it can be a useful starting point to viewing each deal not as an end point, but as an embodiment of networks and resources that support CI effectively in a place.

UNDERSTANDING THE SYSTEM THROUGH THE CAPITAL ABSORPTION WORKSHOP

Among our original thoughts in tackling the topic of capital absorption, laid out in our paper “The Capital Absorption Capacity of Places: A Research Agenda and Framework,” was that effective CI systems are characterized by the performance of critical functions – activities that can be undertaken by different people or institutions in different places. The paper aimed to move the conversation on CI away from the specific institutions that participated in CI toward a framework that identified what functions needed to happen for CI to work well.

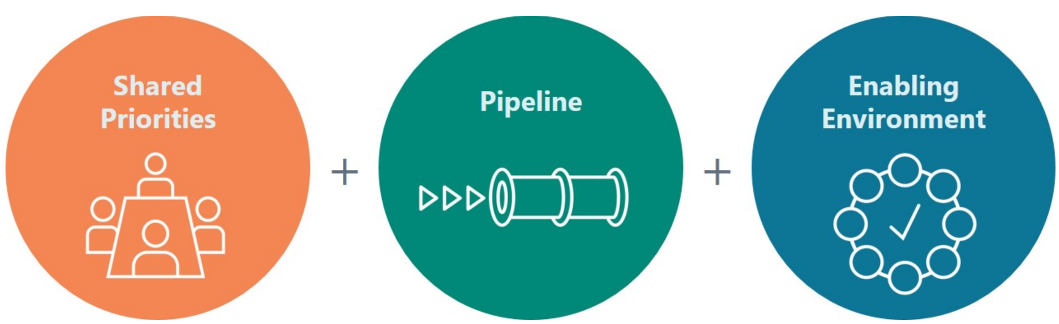
Our research had suggested that concentrating on actions rather than institutions – verbs, not nouns – might open up discussion about the full range of actors – whether they considered themselves CI actors or not and whether they were local, regional or national in scope – who could contribute to the CI process. The hope was that this framework might open the door to engaging a wider array of actors in the process, and offer a better way to distinguish between those activities that had to take place locally versus those that could be performed by organizations headquartered elsewhere.

To build on this intuition, we began engaging with specific places through what we came to call capital absorption workshops – daylong gatherings of 35 to 40 stakeholders from across sectors with an interest in CI. These workshops assemble the system (or at least major segments of it) in a room, making visible some of the system-like nature of community investment and providing a chance for practitioners to step out of their day-to-day roles preparing and executing transactions to talk about the system as a whole. We have conducted more than a dozen formal capital absorption workshops, as well as a series of smaller related meetings, over the past four years.

In the workshops, we ask participants to describe the existing and potential activity related to three key functions:

- Articulation of a clearly defined set of the community's shared priorities,
- Development and execution of a pipeline of investable deals that together will help to achieve the shared priorities, and
- Creation of an enabling environment of policies, processes, practices and platforms that support the development and consummation of socially useful investments.

Capital Absorption Framework



In exploring these functions, participants at the workshops are in effect mapping the system that allows CI to work in their communities and, ideally, beginning to identify interventions that will improve the system. The following sections explain in greater detail what it means to think through these functions and how they relate to the system overall.

SHARED PRIORITIES

Understanding the shared priorities a community is trying to advance seems like a trivial first step – too obvious and/or foggy to add much value in discussion. But it's clear from the workshops that there is in fact value in articulating these priorities and specifying the process by which priorities are developed, supported and, especially, established with enough force and specificity to guide CI execution. Even communities that have undergone rigorous, comprehensive and well-regarded planning processes, such as those that resulted in Detroit Future City or Plan Bay Area, find themselves struggling to operationalize the plans, developing the more granular approach required to mobilize resources and target and sequence implementation activities.

To surface the community's priorities, ask:

- What are the priorities that guide investment in our community? How do we know?
- How were the priorities developed? Who was/was not involved?
- How widely are the priorities shared? Are they seen as legitimate?

In order to help communities understand the importance of articulating specific priorities, we have asked them to "take the Martian test." The test has only one question: "If a Martian landed in our city and watched what we do with our time and money – not what we say are our priorities – what would it conclude about what we care about the most?" This simple test yields some valuable insights. If we are not directing scarce resources to our highest priorities, it may be useful to understand why not. If a city says its priority is equitable, mixed-use, transit-oriented development, but Community Development Block Grant dollars are devoted to multiple priorities across many districts, most deals are in neighborhoods far from transit or no consideration is being given to development other than housing, then there is a disjunction between priorities and realities on the ground. The disjunction between stated priorities and resource allocation opens a window onto how the CI system functions in practice and where system performance might be optimized to achieve stated goals.

We have found that as communities move from planning to implementation, they encounter a predictable challenge: the many competing needs of communities and political pressures to spread resources across multiple priorities make it hard to concentrate resources, even when such concentration would advance the community's strategic goals. Stakeholders acknowledge there are particular moments in time when directing resources in a concentrated way can make sense. They suggest identifying ways to:

- Take advantage of ripe opportunities – "wet cement moments" that will be lost if not taken, or where timing is especially propitious.
- Stabilize a particular market that is likely to tip in an undesirable direction.
- Attract or align funding or other action by multiple stakeholders.
- Optimize the use of resources so that individual actors maximize their contribution to the system as a whole, rather than simply operating within their own silos.

Identifying a clear, legitimate and advocated set of shared priorities that reflect the needs and involvement of the community can not only help to concentrate scarce resources to reach a critical mass, it can also help smooth the path for transactions that move the priorities to realization.

INVESTABLE PIPELINE

The CI system is embodied in the creation and processing of a pipeline of deals. Although individual transactions may be catalytic, community priorities typically cannot be achieved through a single project or financing opportunity. Looking at an entire pipeline allows a group to think about the collective value of actual and potential deals as well as the resources necessary to complete them. It also helps to identify gaps in the pipeline, those priorities that will not be achieved given the activities currently underway.

We have observed that in practice, community investment pipelines tend to coalesce around affordable housing, the CI sector with long-standing and well-understood sources of funding (such as 9 percent Low Income Housing Tax Credits) that make deals "doable" and a relatively well-developed network of nonprofits and intermediaries experienced in using these funding streams. Developing pipelines to achieve other priorities, such as job creation or preservation of naturally affordable or expiring subsidized housing, requires the CI community to develop new skills, relationships and funding approaches. Ideally, pipelines are visible and their progress is tracked. In practice, however, our workshops have demonstrated that pipelines, like the system itself, tend not be visible; stakeholders generally see only those deals in which they themselves participate and they lack a clear line of sight to other deals in process. This lack of transparency creates costs to the system. It means potentially lost opportunities to prioritize or integrate multiple deals to achieve community objectives. Potential participants in deals may not know of their existence. Opportunities to build on or leverage activity for multiple benefits may be lost.

Recently, we have begun to ask communities to take a deeper look at their pipelines based on three dimensions: sufficiency, efficiency and impact.

- **Sufficiency** refers to how much of the identified need is being addressed.
- **Efficiency** corresponds to how smoothly deals progress, how long they take and what level of transaction costs they involve.
- **Impact** means the extent to which deals achieve the social and environmental returns they are seeking.

To analyze the community's pipeline(s), ask:

- What are the deals that are currently contemplated or in progress?
- Which of the community's priorities are being addressed and which are absent from the pipeline?
- Which stakeholders are active and what sources of finance are being used?
- How does the pipeline perform on the dimensions of sufficiency, efficiency and impact?

The "denominator exercise" is a useful part of assessing the pipeline. Communities quantify in rough terms the total size of the need they are trying to address (e.g. units of affordable housing to be built or preserved, number of entrepreneurial businesses to be financed, number of children to be served in renovated early education facilities, etc.). This figure is the denominator. The cumulative total of units/people who would be served by projects or deals already in the community's pipeline is the numerator. By evaluating the fraction that results, communities can begin to scope how much progress they are making against their stated goal.

Our worksheet on identifying a pipeline has helped stakeholders consider how well their current community investment pipelines are doing relative to the objectives the community has articulated and how much effort is required in order to build and execute the pipeline. As they go through the exercise, communities tend to express dissatisfaction with the extent to which their pipelines meet the needs they see. This gap can generate powerful motivation to explore ways to strengthen the CI system.

ENABLING ENVIRONMENT

The way CI pipelines are formed and processed depends on many factors: policies and regulations, resource flows, the presence or absence of needed skills and capacities, political realities, formal and informal relationships among key actors, the cultural norms and behaviors that manifest differently in places. All these factors can promote or impede the translation of a community's shared priorities into completed transactions. We can think of this context for CI as the enabling environment – in a sense, the latent conditions that shape the system's operations.

To assess the enabling environment, ask:
How do we facilitate or inhibit the success of equitable community investment in each of the following areas:

- Policies and regulations
- Subsidy, investment and other resources
- Availability of needed skills and capacities
- Platforms and incentives for collaboration
- Institutional processes and practices
- Data and transparency

In capital absorption workshops, we ask CI stakeholders to identify the aspects of the enabling environment that are working well and where the gaps are. Participants quickly identify policies and regulations like inclusionary zoning, parking requirements and incentives for density that have direct impact on CI. The availability or absence of subsidies, and the burden involved in managing the requirements that come attached to them, also tend to be highlighted as prominent factors that affect the costs and ease of completing transactions.

Some less tangible features, such as access to information about deals or market conditions, or the existence of forums to coordinate among disparate stakeholder interests, may not arise immediately as topics of conversation but do emerge as components of an effective enabling environment. For example, many places lack an inventory of vacant parcels or existing small businesses and readily available data about community purchasing power and other community characteristics relevant to CI. Even generating a baseline understanding of the funding flowing to a particular community can be a daunting task – investment by CDFIs is not broken down by city or neighborhood, uses of CDBG funds are hard to identify and no one tracks PRIs by geographic area. Good data can strengthen the enabling environment by indicating the scale of the need, supporting sound decision-making about opportunities, making potential investors aware of the full set of potential deals in the CI universe and strengthening accountability.

What stakeholders are involved in CI, how they come together and what governance mechanisms they establish are important questions to consider when examining the enabling environment in a place. One proposition we laid out in our initial work on capital absorption is that "[CI] functions can be performed by a wider variety of local, regional and national actors than are typically considered when analyzing community investment."[2] Looking at how local capacity is built and how extra-local actors who can deliver CI effectively are identified and integrated into a community is a major part of understanding how a place-based enabling environment works. Similarly, it is worth examining how actors in the system interact: do they meet bilaterally, has the community created regular stakeholder forums, are there durable mechanisms to enable exchange of ideas and build trust? In many places we have worked, multisector forums, often informal, have opened the way to changes in policies and practices by fostering the trust and relationships that undergird the CI system.

The exemplary deals analysis and the capital absorption workshops help leaders gain a sharper understanding of their CI system and develop a more nuanced understanding of the problems they might try to solve and the results they want to achieve. The process also helps leaders develop the motivation and shared commitment to begin to address the gaps they identify. By wrestling with a systemic view, stakeholders can intervene to address priorities that may not receive as much attention in any particular iteration of CI.

Strengthening the Community Investment System

[2] "The Capital Absorption Capacity of Places," p. 3.

Here we offer some thoughts, drawing on our current and previous work, on illustrative system-level activities that might contribute to making community investment more frequent and effective.

Interventions to strengthen the community investment system:

- Form a multisector team and make space to make the system visible and improve it
- Sharpen priorities (what is the most important problem to solve?) and backmap (what would it take to solve the problem?)
- Integrate new stakeholders
- Secure new resources
- Align resources and attention
- Open chokepoints (policies, practices, platforms, data)

Formation of a Multisector Team

The places we have worked with have formed multisector teams whose focus is strengthening the community investment system. Building a small team with members from the public, private, community investment, philanthropic and civic sectors creates an ongoing mechanism for engaging at the system level and thinking beyond given individual and institutional roles. We have seen such teams include representation from the public sector (sometimes the mayor's office and/or relevant city departments), financial institutions and/or other investors, foundations, community leaders, intermediaries and other parties such as regional planning organizations, transit agencies, anchor institutions and employers. The team serves as a platform that can focus on the networks and resources that support transactions, rather than transactions themselves.

> *In Denver and the San Francisco Bay Area, the teams established to work on community investment were outgrowths of existing multisector bodies. Both groups were instrumental in supporting and managing regional planning processes associated with the Obama administration's Partnership for Sustainable Communities grants. The teams focused on the move from planning to implementation, translating the work they did as grantees under the*

> *partnership into an actionable plan for public- and private-sector investment in particular deals.*[3]

The capital absorption team can play a role in developing a pipeline of transactions, organizing resources to meet the community's goals and, as important, promoting the conditions and networks necessary to achieve these goals. Such teams can create opportunities for ongoing reflection and learning, helping practitioners to build on their experience to improve the performance of the CI system. Regularly analyzing progress against goals can help ensure that efforts are staying on track, allow for course corrections and maintain a focus on the relationship between short-term deal and system-development activities and long-term goals.

One of the reasons that forming a cross-sector team is so important in increasing capacity is that it brings together in a sustained way the strands of leadership needed to shift the status quo to a new way of doing business. This kind of fundamental shift requires leaders to develop new, shared capacities to take on the "adaptive challenge" of system change.

In their work on adaptive leadership,[4] Ronald Heifetz and Martin Linsky define adaptive challenges as problems that do not have ready answers: complex situations whose solutions have to be discovered and built through experimentation. Unlike "technical challenges," where solutions are more stable and well understood, adaptive challenges require the participants in a system to change their behavior, build new competencies and persuade others to respond in new ways that may take them out of their comfort zone.

More technical solutions – the creation of structured funds, the development of a particular kind of institution or the adoption of a particular, well-tested public policy – can be important interventions, but can be only part of the solution for driving investment toward strategic goals. Deepening the capital absorption capacity of the CI system as a whole requires working across sectors to drive greater alignment, collaboration, transparency and predictability in both

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[3] To read more about these examples, see Loren Berlin, "Landing Capital: Helping Underinvested Communities to Absorb Resources" in *LandLines*, January 2018. www.lincolninst.edu/publications/articles/landing-capital-0

[4] For more information, see Ronald Heifetz and Donald Laurie, "The Work of Leadership," *Harvard Business Review*, OnPoint edition, December 2001, and *The Practice of Adaptive Leadership* by Heifitz and Linsky (2009) which presents a practical approach to implementing adaptive change.

investor intent and resource allocation. It requires doing things differently and a commitment to a likely unfamiliar form of long-term collaboration.

New ways of working may fit uncomfortably, at least initially, within existing CI culture and networks – all of which have developed in the context of how things work at the moment, rather than how they might work in the future. Making this shift will likely require practitioners to build enough trust in each other to address systemic issues that fall beyond the purview of individual actors and institutions.

How might aligned, adaptive multisector leaders work at a system level to help improve the sufficiency, efficiency and impact of community investment? As is typical with adaptive challenges, no single approach will be the best route to change in all places. Interventions must be tailored to the challenges that have been identified. In general, however, interventions may be designed to:

- Refine priorities and the shared understanding of what it would take to achieve them,
- Expand the boundaries of the CI system by integrating new stakeholders and resources,
- Reduce the transaction costs of working in places and on issues marginalized by conventional finance and make CI easier to execute, and
- Increase the impact of CI.

We have seen a range of initial efforts undertaken to support the development and improvement of the CI system:

Sharpen Priorities

In an era of constrained resources and competing interests, communities strive to balance multiple claims on their funds and attention. As noted earlier, many places struggle to avoid the temptation simply to divide discretionary resources evenly (by, say, by the number of city council members), thereby achieving the appearance of fairness. However, it has been our experience that effective community investment requires concentrating and sequencing investments to achieve critical mass. Investments that are spread too thin ("like peanut butter") risk falling short of their intended effect. Proponents of "targeted universalism" argue that achieving equity requires taking account of the different needs and starting points of diverse neighborhoods and population groups and allocating resources accordingly.

Quantifying what it would take to achieve the community's priorities (e.g. using the denominator exercise mentioned earlier) and then identifying the strategies and approaches that could add up to an effective solution helps ensure that communities understand the magnitude of effort realistically required to address the issue they have prioritized.

Integrate New Stakeholders

Sometimes, reaching the scale required to solve an identified problem means expanding the boundaries of the existing community investment system. As we noted earlier, CI actors tend to be local – and therefore some potential participants in the system, such as place-based investors, anchor institutions, major employers and issue-specific foundations, may be missing or underutilized. System mapping can help identify gaps in local capacity that might be filled by expanding the boundaries of the system to include strong regional or national actors, or local stakeholders new to CI. Identifying and recruiting institutions and individuals who could fill these gaps enriches the local CI ecosystem and can increase the number and scale of deals that get done. Recruitment can be done through outreach and engagement around particular themes, projects or resources.

Integrating new actors into the CI system effectively requires more than a one-time introduction or contract. It is essential to understand the new actors' interests and concerns and what contributions they might make to achieving the community's shared priorities. We have found that it helps to pair these actors with appropriate local partners, invite them to join forums where they will be able to create relationships with other stakeholders and reassure existing players that their role is secure.

> *In Detroit, a team working on development in the Midtown area invited Capital Impact Partners – a national CDFI – to establish a presence in the city. The careful introduction of a new, high-capacity financial institution resulted in the completion of a series of long-stalled transactions. Strong philanthropic support, a partnership with a local CDC and the willingness of Capital Impact Partners to work in new ways, as required by the local context, were all key to success.*

> *We have studied and written about the varied results of IFF's geographic expansion to the Chicago suburbs and to neighboring Midwestern states.*[5] *As this case demonstrates, complementary financial skills become part of a place's capacity through a complicated interweaving of networks of trust – finance is only one piece of the puzzle.*
>
> *In Denver, the Mile High Connects team has sponsored deal workshops, inviting impact investors – in this case, family offices, place-based foundations and related parties – who are relatively new to community investment to participate. These workshops, and the relationships that arise through them, help a broader array of investors get exposed to deal opportunities, hear feedback from peers, share the work of due diligence and coordinate different types of investment.*

Secure New Resources for Community Investment

In addition to expanding the range of players who are active in the community investment system, stakeholders also can expand the boundaries of the CI system by thinking systematically about how better to tap or leverage existing or potential resources and assets. These resources may be previously unidentified financial subsidies from local or national philanthropies, funds from health systems or other aligned institutions, or local, state or federal grants from unfamiliar public sector agencies (such as health, transportation or the environment) that can be combined with existing community investment activity.

> *In California, CI stakeholders were successful in getting a portion of the state's cap-and-trade funding dedicated to investment in distressed communities. In other regions, stakeholders are exploring how existing funding flows, like Medicaid waivers, not traditionally used for community investment purposes can be directed to financing supportive housing and thereby reduce costs while improving health outcomes.*

Some communities have gone even further, identifying nonfinancial assets such as publicly owned land that can be activated to expand the CI pipeline. Other valuable nonfinancial resources include time and expertise.

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[5] "Expanding the Geographic Reach of Community Investment: The IFF Case Study" October 2013 http://iri.hks.harvard.edu/files/iri/files/expanding_the_geographic_reach_of_community_investment_2013.pdf

Stakeholders in the Bay Area realized they could achieve more of their community investment goals by tapping resources beyond public funding. They identified a number of strategic parcels of publicly owned land and are working with transit agencies and cities to unlock those assets through joint development. By accessing land available for development in this way, CI stakeholders may be able to produce a dramatic increase in the potential scale of development and the sufficiency of local CI activity.

In Denver, a subset of the engaged impact investors mentioned previously are forming an "investment committee" to help bring structure to the process of identifying, filtering and evaluating investable transactions that emerge from planned joint pipelining and deal-workshop activities. Elsewhere, anchor institutions have agreed to sign master leases to facilitate development of mixed-use projects.

Align Resources and Attention

Community investment crosses agency boundaries, engages multiple jurisdictions and levels of government and extends across the public, private, nonprofit and philanthropic sectors. In most places, there is no coordinating mechanism or platform to help align resources and attention from multiple silos and sectors to address the opportunities and challenges that have been identified in the CI system. A cross-sector team can foster these exchanges, helping to build relationships and trust. When stakeholders feel "more like partners than targets," as one agency put it, they are more willing to explore how changes in their behavior might support better CI outcomes. Even without such a team, however, stakeholders can convene regular forums to link local, state and federal support for specific kinds of projects and facilitate the sharing of information about deals, trends and barriers.

In the Twin Cities, CI practitioners have smoothed the progress of deals from predevelopment through permanent financing by sponsoring monthly meetings where developers present their projects to sources of predevelopment and acquisition financing and take-out financing at the same time. This allows investors and funders to identify tweaks that would enable transactions to meet requirements more readily. In another region, stakeholders are considering how to bring investors in residential development together with agencies and funders trying to strengthen small businesses in the same neighborhoods.

Many Sustainable Communities grantees are trying to achieve multiple goals through transit-oriented development, building mixed-income communities that also are green and healthy. Doing this requires braiding together disparate public-sector funding sources as well as private and philanthropic investment.

> *By aligning brownfield funding from the Environmental Protection Agency; grant support from the Department of Housing and Urban Development, the Partnership for Sustainable Communities and local philanthropy; state and city housing subsidies; and debt and equity from private investors, stakeholders led by the Denver Housing Authority were able to realize a number of resident-informed goals in Denver's award-winning Mariposa district, which redeveloped a public housing project near transit into a vibrant mixed-use and mixed-income community in a way that allowed public housing residents to remain in their neighborhood if they desired.*

Open Chokepoints

By assessing the composition and progress of the community's pipeline(s), stakeholders often can identify policies and practices that impede the flow of capital to priorities, and analyze what changes in the enabling environment could contribute to realizing a bigger share of the community's goals.

Aligned coalitions of CI stakeholders can advocate for policies and practices that advance community investment priorities. Land-use policies that integrate affordable housing and access to employment, coordination between funding sources that concentrate resources on shared priorities, stable new funding sources that can fill persistent gaps in important projects, new data platforms that make community investment underwriting easier and more effective – these are all critical elements of the enabling environment with multiplier effects upon which individual actors may find it difficult to focus, but that collaboration across the CI system can support.

> *In Los Angeles, LA THRIVES, a partnership that includes foundations, nonprofits and CDFIs, is working with the local transit authority on policies that will promote equitable transit-oriented development. At the state level, partners of the Bay Area's Great Communities Collaborative and LA THRIVES contributed to the successful effort to designate a portion of California's new cap-and-trade revenue for development in disinvested communities.*

Making data transparent and accessible is another way to spur investment by providing accurate information about opportunities in places that otherwise may be considered risky or unattractive. For example, supermarket operators may overlook dense, low-income urban neighborhoods because they lack solid data about the purchasing power actually available in those neighborhoods. Market studies can highlight gaps in services and identify where there may be effective demand for investment. Databases with up-to-date information about funding sources and requirements, vacant parcels available for development or small businesses in target sectors or neighborhoods can reduce transaction costs and make it easier for prospective investors and community stakeholders to identify and develop potential deals.

> *Mile High Connects, a multistakeholder collaborative in Denver, supported the creation of a Denver Regional Equity Atlas to raise awareness of opportunities in communities along the region's newly expanded transit network.*[6]

All these interventions must be undertaken with sensitivity to community needs, local goals and power structures and with an eye toward tangible opportunities. Local leaders are the ones who must do the heavy lifting of making sense of the CI system and beginning to take action together. And it's important to do so in a way that impels them to collaborate, develop a shared focus and build trust. That kind of shared effort is what is likely to make targeted interventions effective and durable.

6 See http://www.denverregionalequityatlas.org

Conclusion

Community investment has the difficult job of financing real estate, small-business development and essential goods and services in places where conventional market activity does not fully meet community needs. While there are costs to thinking about CI simply as a series of heroic quests, the hard work of delivering financial services that help realize community priorities is indeed heroic work worthy of attention and support.

Our engagement with communities over the past several years on the topic of organizing demand for CI has convinced us that there is value in conscious efforts to make the CI system visible and to improve that system to support CI that is more frequent and effective. We are grateful for the willingness of busy, conscientious practitioners to take the time to reflect and share their experience with us. We recognize that this work is complex, highly emergent and experimental. We are eager to continue this dialogue as the project evolves. In that spirit, this paper is meant to open up discussion around this topic, offering a report from the field about how practitioners have engaged with us and with one another.

We hope an enhanced focus on CI as a system helps make the existing system easier to access and more effective at delivering social benefits, with ways to concentrate and coordinate action in support of a community's shared priorities, reduced transaction costs and greater scale. Over time, this work on the CI system may take on the broader challenges of how finance serves society, finding ways in which CI can answer the challenges of sufficiency, efficiency and impact in the face of significant community needs.

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