

# PRIVATE CAPITAL PUBLIC GOOD

How Smart Federal Policy Can  
Galvanize Impact Investing —  
and Why It's Urgent

REPORT OF THE US NATIONAL ADVISORY BOARD ON IMPACT INVESTMENT:

## QUICK GUIDE TO EXECUTIVE BRANCH-FOCUSED RECOMMENDATIONS

*A movement is afoot.* It reaches across sectors and across geographies, linking small-business loans in Detroit with community development financing in Delhi. It has animated a generation of entrepreneurs and captured the imagination of world leaders. It links the social consciousness of philanthropy with the market principles of business. It's about how **the power of markets can help to scale solutions to some of our most urgent problems.**

The movement is called impact investing. It brings together entrepreneurs, investors, foundations, public-sector leaders, nonprofits, and intermediaries to use private capital for public good. Simply put, impact investing generates measurable, beneficial social or environmental impacts alongside financial returns. Tens of billions of dollars are currently deployed annually into impact investments, and the amount is growing at an accelerating pace each year. But for all its promise, the movement is not yet living up to its potential—which many believe to be 10 or even 20 times its current size. **For impact investing to reach massive scale—bringing private capital to bear on our greatest problems—it will require a more intentional and proactive partnership between government and the private sector.**

Today, impact investors finance undertakings from early childhood education to global economic development, from preventative healthcare

services to village-based solar micro grids. But for all the media coverage impact investing has earned recently, it is not a new concept. It has deep historical roots. Impact investing was built in partnership among investors, foundations, and the US government over the course of decades.

The US National Advisory Board (“NAB”) is a group of 27 leaders from across the US investment, business, foundation, academic and non-profit sectors. Born out of the 2013 G8 meeting, it convened to identify how effective policy can catalyze impact investing. The NAB's June, 2014 Report highlights strategies for how the government can partner with impact investors to unleash new capital, talent, and energy for social, economic, and environmental good.

Members of the National Advisory Board, who produced this report along with input from many others, are part of a growing group of skilled investors, entrepreneurs, and intermediaries who believe that capital can be used more reliably and effectively as a tool for long-term progress. Together, the NAB explored a range of government policies to advance impact investing. The recommended policies build on the historical successes of the field. **Many policies do not require any additional government spending;** those that do often repay their costs over time.

The NAB's Report identifies the following critical recommendations for Executive Branch support to expand impact investing. See the listed page of the Report for a full discussion of each recommendation. These recommendations are listed in the order in which they appear in the Report:

1. **Clarify that impact investing can be consistent with ERISA.** Make clear that ERISA fiduciaries may consider environmental, social, and governmental factors in making investment decisions, and that doing so is consistent with their responsibility to act in the economic interest of the plan. (Report p. 23)
2. **Provide guidance regarding disclosure requirements.** The SEC should explicitly provide guidance around the disclosure requirements and investor regulations of companies with expanded fiduciary duties, such as B Corporations. (Report p. 23)
3. **Clarify standards for Program-Related Investments and Mission-Related Investments.** (1) Clarify Standards for Production of Income. (2) Clarify standards for exiting program-related investments. (3) Enable a broader range of mission-related investments. (Report p. 24-25)
4. **Designate a third party to develop a public framework to identify key bureaucratic barriers to impact investing.** Issue a broad call to action to the private sector for regular review of regulatory, policy, tax credit, and capital programs to identify barriers to growth of impact investing and propose solutions. (Report p. 25)
5. **Promote flexible funding within agencies.** Where possible, agencies should work to encourage experimentation with impact investing—structuring grant funds more in more dynamic ways, such as first-loss guarantees or pay-for-success arrangements. (Report p. 27)
6. **Research Use of Unclaimed Assets.** The Department of Treasury should research and support pilot projects to demonstrate how states can properly use unclaimed assets such as dormant bank accounts to create public good by building innovative funds and financing vehicles. (Report p. 28)
7. **Encourage agencies to fund enterprises, not just projects.** Investment decisions made on a project-by-project basis makes accountability across service providers difficult to track, drives up transaction costs, and makes efficient organizations difficult to reward and scale. Investing in organizations—through grants, loans, or equity—builds their capacity, and strengthens their balance sheet over time. (Report p. 28)
8. **Revise visa investment criteria to redirect EB-5 funding towards qualified impact investments.** USCIS should leverage the existing impact standards already certified and regulated by other agencies to boost appropriate use of the EB-5 program. (Report p. 29)
9. **Experiment with Development Impact Bonds.** Internationally, US donor agencies should lead a proposed G7 initiative committing each member country to piloting DIBs focused on social and development objectives. (Report p. 30)
10. **Experiment with impact-oriented procurement.** Building on Administration-wide agency procurement policies, agencies could pilot procurement programs that explicitly prefer contractors with positive social or environmental impacts. (Report p. 30)
11. **Replicate model impact investing programs to stimulate private investment.** A number of agency programs, including those at SBA, OPIC, Dept. of Labor, USAID and others, successfully provide investment and grant capital for economic development projects. Other agencies should build from these examples to use their current funding pools to encourage private impact investors. (Report p. 31)
12. **Broaden the scope of current federal capital access programs to include nonprofits.** Agencies such as the SBA, HUD, Education, Energy and others should modernize their financing programs to support high-impact businesses regardless of corporate form. (Report p. 32)

- 13. Increase guarantees to mobilize greater US institutional capital for impact investing abroad.** OPIC and USAID's Development Credit Authority should explore providing modest, first-loss guarantees for impact investments to the full spectrum of globally oriented investors. (Report p. 33)
- 14. Develop multilateral, pooled vehicles to fill gaps in early-stage risk capital.** Agencies should encourage consolidation of mixed investment and grant capital in order to develop a more robust pipeline of start-ups and entrepreneurs. (Report p. 34)
- 15. Encourage integrated public-private grant-investment capital funds for global development.** US development agencies should develop a standing investment facility, so that foundations, development finance institutions, and private investors can align the timing and uses of their respective grants and investments. This would provide businesses the right kind of funding at the right stage in their development, and would help to bring in additional private investment. (Report p. 35)
- 16. Use the influence of the White House and federal agencies to celebrate impact-oriented entrepreneurs and businesses.** Using high-profile annual awards and other tools, shining the federal spotlight on successful impact-oriented organizations is a low-cost and powerful way to challenge entrepreneurs, raise the profile of impact investing within policy circles, inspire participation from high-net-worth individuals, and encourage agency employees to innovate. (Report p. 37)
- 17. Support the growth and development of field-building intermediaries.** Government can play a key role in facilitating the growth of an enabling entrepreneurial ecosystem. Additional agencies can follow the example of HUD Section 4 grants and USAID's Partnering to Accelerate Entrepreneurship (PACE) Initiative (Report p. 37)
- 18. Endorse a framework for more robust impact measurement and standards.** Endorse the framework under development by the Global Task Force on Impact Investment to clarify elements of a robust impact measurement system— transparency, co-creation, and comprehensiveness – and have relevant US agencies apply this framework to their respective impact measurement initiatives. (Report p. 38)
- 19. Replicate innovative data-sharing efforts.** Consistent with proprietary, competitive, and legal constraints, US agencies and development finance institutions should seek to publish the maximum amount of transaction-level data possible; begin an interagency effort to create a shared understanding of the cost effectiveness of social interventions by developing a unit-cost database; and replicate existing systems to allow organizations to opt-in for shared due diligence. (Report p. 40)