

Stanford SOCIAL INNOVATION^{Review}

Field Reports
A New Local Movement
By Sarah Murray

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FIELD REPORT

A New Local Movement

Benefit Chicago demonstrates how place-based impact investing transforms a community by seeing the investment potential in everyone.

BY SARAH MURRAY

Like most parents, Dave Friedman approached his son's graduation with pride. But he also worried. He knew that with valuable skills but high-functioning autism, his son would find few companies prepared to hire him. Friedman's response was to create AutonomyWorks, which employs people with autism spectrum disorder to provide marketing operations support—work that, because of its detailed, repetitive nature, makes it hard for companies to retain staff in positions in which people with autism excel.

"It's really good for our clients," says Friedman, who spent 25 years in marketing before launching AutonomyWorks. "Our teams' minds are wired to solve these kinds of problems—and because they're good at it and it fits with the way their brains function, they love it."

It was tough, however, to secure the capital needed to expand the business and meet its goal of hiring more than 330 employees in the next decade. Traditional investors struggled to assess the company's potential financial return, while philanthropic institutions were unable to fund a for-profit entity. Then Friedman heard about Benefit Chicago—a fund established in 2016 to mobilize \$100 million to provide loans to impact enterprises in the Chicago region. "We applied on the first day, went through the process, and got funded," he says.

A collaborative initiative of the MacArthur Foundation, the Chicago Community Trust (CCT), and Calvert Impact Capital (formerly Calvert Foundation), Benefit Chicago uses Community Investment Notes (fixed-income

securities paying interest annually) issued by Calvert Impact Capital as an impact investment vehicle. Investments can be made online, through an investment broker, or through a donor-advised fund at CCT.

Benefit Chicago is among a number of "place-based impact investing" initiatives emerging across the United States that har-



ness private investment to finance impact enterprises building affordable housing, schools, and health centers, as well as creating local jobs and economic growth. Not only do these initiatives raise funding for social impact, they also enable local residents to become investors in their own communities.

"The borrower need was only one-half of the equation that drove the innovation," Julia Stasch, president of the MacArthur Foundation, says of Benefit Chicago's dual purpose. "We wanted to bridge the gap between people who love Chicago ... and impact enterprises that need this kind of capital."

AutonomyWorks, a recipient of Benefit Chicago's funds, provides meaningful employment for adults with autism in the Chicagoland region.

FILLING THE GAP

In Englewood, on the southwest side of Chicago, empty storefronts and lots bear witness to the neighborhood's woes. In 2008, the foreclosure crisis accelerated decades-long decline, prompting the departure of residents and businesses, the loss of jobs and critical services, and a rise in crime. In 2016, the Local Initiatives Support Corporation Chicago (LISC Chicago) created the Southwest Corridor Collaborative to revive the neighborhood by working with local community organizations. The challenge was finding the funding to make loans at concessionary rates to small businesses and developers.

A \$3.5 million loan from Benefit Chicago was the answer. The funding enabled LISC Chicago to achieve its mission through lend-

ing to businesses and other organizations capable of generating jobs and economic activity in Englewood. These include a health center, a Belizean restaurant looking to expand and offer a catering service, and E. G. Woode, a company that stimulates economic growth by supporting local entrepreneurs in the retail sector.

LISC Chicago is one of a number of financial intermediaries and community development finance institutions (CDFIs) that Benefit Chicago considers for loans. Along with for-profit companies and nonprofits using strong financial models, these are the kinds

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of organizations that, like AutonomyWorks, would find it hard to access capital without Benefit Chicago's loans. In fact, "Bridging the Gap," research that the MacArthur Foundation commissioned, put the impact-capital deficit in the Chicago region at between \$100 and \$400 million.

Borrowers' activities tend to fall within three broad themes: building community wealth through economic development, the growth of community assets, and support for entrepreneurs; creating jobs, particularly for those who have a hard time accessing employment; and enhancing job readiness and skills.

However, beyond these themes, Benefit Chicago takes a relatively agnostic approach. Borrowers range from Sweet Beginnings, which employs formerly incarcerated people to make honey-based products, to Garfield Produce Company, a hydroponic vegetable farm that creates local employment. "What that does is acknowledge the diversity of an economy," Stasch says. "We want to be open to the variety of organizations that can contribute to the vitality of a place."

If Benefit Chicago is flexible in selecting borrowers, it conducts rigorous vetting through a process it calls "underwriting," rather than "evaluating," to distinguish it from grantmaking. "We are looking to understand the impact the organization is trying to have and how it's measuring that," explains Will Towns, executive director of Benefit Chicago. "But then we have the revenue and business lens that we have to look at as well."

In assessing borrowers' financial viability, Benefit Chicago is no different than any commercial lender. However, taking a patient capital approach, it structures loan time frames and milestones to accommodate enterprises whose primary goal is impact, not profit.

For AutonomyWorks, this flexibility has been critical. "Our business is something no one has ever done before; there's no map," says Friedman. "I don't want to commit to being a \$5 million business in three years if that's not right for the business."

Being a Benefit Chicago borrower has other advantages. For AutonomyWorks, the

\$600,000 loan will allow it to spend more on marketing to attract more clients, which will in turn enable it to continue hiring. A Benefit Chicago loan is also a stamp of approval that helps borrowers win more business, grants, or investments.

The loans also equip enterprises to build a repayment track record, which demonstrates that impact enterprises can be valuable clients and ultimately may help them secure capital from mainstream lenders. This is another of the goals of those behind Benefit Chicago. "The traditional market doesn't like things that are new and different," says Jennifer Pryce, president and CEO of Calvert Impact Capital. "We're creating systematic change in the market."

With a minimum loan amount of \$500,000, borrowers must be relatively well established. However, by offering loans to CDFIs that in turn lend to smaller organizations, Benefit Chicago can provide funding for a wide variety of enterprises. "We look to fill the gaps in the financial ecosystem," Towns says. "We believe that when that ecosystem is strong, our communities are strong and businesses can thrive."

A NEW KIND OF IMPACT INVESTOR

For the institutions behind Benefit Chicago, the fund offered not only the potential to provide critical loan capital to impact enterprises, but also a way of extending impact investing beyond high-net-worth individuals and institutional investors to ordinary investors.

While the MacArthur Foundation and CCT believed they could unlock locally motivated capital, they needed an investment vehicle. "It was really a plumbing problem," Pryce says. "There aren't many products that can bring that capital to communities."

The solution was to make Calvert's Community Investment Note accessible to people with donor-advised funds housed at CCT. "There was an opportunity through this collaboration to bring three different types of organizations together to be more than the sum of their parts," says Pryce.

While the concept of investing in for-profit organizations as a way of generat-

ing impact might be new to some donors, the fact that Calvert's note was a well-established vehicle helped and, importantly, enabled people to make very small investments. "The Calvert note is an easy on-ramp to impact investing," says Lori Scott, chief credit officer for impact investments at the MacArthur Foundation.

Helene Gayle, president and CEO of CCT, sees plenty of enthusiasm for the idea among the institution's donors, more than 600 of which have invested in Benefit Chicago. "It's a large pool, and it speaks to the beauty of something like this," she says. "Someone can buy a \$20 note, and someone else can buy a \$1 million note, and everyone can invest knowing they'll be getting a [financial] return—but the big return is knowing they're all helping these businesses."

The extent to which place-based impact investing can transform social financing will depend partly on what motivates investors, some of whom may care more about issues such as education or homelessness than about a geographical location or community.

"The real test is whether people will feel sufficiently passionate about a place that they're willing to pool around that," says Erika Poethig, vice president and chief innovation officer of the Urban Institute, which in May 2018 published "Investing Together," a MacArthur Foundation-funded report on place-based impact investing.

Stasch believes people's commitment to their local communities will fuel the growth of place-based impact investing. "Investors want to have a return on their money," she points out. "But sometimes just as important to them is that their money actually matters and is making a difference in the lives of people or the vitality of the community."

If she's right, financing models such as Benefit Chicago could pave the way for many more companies like AutonomyWorks to increase their impact. "This type of capital is a game changer," Friedman says. "People's lives are being changed much sooner, and more often, because this capital exists." ■