Investing in Community-Wealth Building

Evergreen represents a new "paradigm" in community economic development. Several important elements in the Evergreen design are significantly different from traditional anti-poverty approaches. It is not a welfare or subsidy strategy. It's a network of for-profit businesses committed to hiring their workforce from among local low-income neighborhoods. Adapting the Evergreen-Model to different cities across the country requires a considerable amount of low-cost capital to cover start-up costs for businesses and other any community wealth building mechanisms. This short outline provides an introduction to capital-raising methods that can support Evergreen adaptation in other cities. It is based upon the experience of the dedicated individuals who raised capital and built the Evergreen Cooperatives in Cleveland.

Financing Evergreen Adaptation

Access to low-cost capital is one of the great challenges faced by low-income communities. Typically, banks don't want to make loans and investors won't tolerate the risk level. Evergreen has begun to crack the code on this problem, although there is still a lot to learn. To date, Evergreen has raised about $6 million in grant funding which in turn has helped unlock an additional $35 million (approximately) in long-term, low-interest federal loans (such as HUD108), tax credits (including solar and New Markets Tax Credits), state grants and loans, and even growing participation from commercial banks.

What has helped bring all of this to the table has been the leadership of local philanthropy (in particular, the very strong commitment made by the Cleveland Foundation) and partnership with the city's large anchor institutions. By putting their reputations, relationships and resources on the line, these groups have been able to reassure public and private investors that Evergreen is a sound investment. Evergreen also received very strong support from the Mayor and the City's Department of Economic Development that has been crucial in building a funding bridge between Evergreen and Federal and State sources.

Some might ask: why are local universities and hospitals and other anchor institutions so intimately involved in the Evergreen strategy? Why are they at the table at all? The answer is simple, actually. They realize that in order for their businesses to succeed, the neighborhoods surrounding them have to be strengthened and rebuilt. It is never good for business to be surrounded by depressed and dangerous neighborhoods. Parents won't want to bring their children to those schools; doctors and nurses won't want to work for those hospitals. If people aren't employed, they can't pay for the services these institutions offer. And unlike corporations, anchor institutions, as the word "anchor" suggests, cannot easily move. So if anchor institutions want to change these conditions, they have to get involved. In short, beyond the moral or humanitarian reasons, there are sound business reasons for these institutions to be at the table.

The Importance of Philanthropy

Typically, foundations have seen the environment and poverty through two separate lenses. Only recently have a handful of funders begun to integrate these two approaches. Some funders use a smart growth paradigm to think about grants that promote both carbon reduction and community development objectives. Others are using the lens of equity to encompass environmental, social and economic justice goals. Still others are applying triple bottom line metrics to bridge the environment-economic justice divide. In a few cases, foundations have begun to support efforts that build community wealth while meeting environmental objectives. Community Wealth Building is a tool for sustainable economic and community development, so foundations, individuals; even governmental agencies are beginning to provide grant funding and donations to these efforts.

The Bonneville Environmental Foundation was the first to use Renewable Energy Certificates (they called it Green Tags) in 2000, selling investment shares in a solar project sponsored by the city of Ashland, Oregon and other partners.[1] Bonneville advanced front-end payments for projected Green Tag production, thus helping to defray some of the significant early project costs. The Bonneville Foundation also formed a partnership with the Northwest Solar Co-op to help homeowners afford to invest in photovoltaic by selling Green Tags to the public and then annually reimbursing the homeowners for the solar power they produced.

[1] Bonneville Environmental Foundation, Our History, Portland, OR: BEF, no date, www.b-e-f.org/meet, accessed Sept . 14, 2009.

The Kresge Foundation, for example, ran a "Green Initiative" program from 2003 to 2009 that provided grants of up to $100,000 for predevelopment. Home Depot Foundation in 2009 announced a 5-year, $30-million green building partnership with the nonprofit developer Habitat for Humanity. The Energy Foundation, with the support of a three-year, $21-million grant from the Doris Duke Charitable Foundation, has provided grants to support the development of energy-efficient building codes, appliance standards, and building technologies. The Surdna Foundation's "sustainable communities" program takes a broader view and more explicitly focuses on "the interplay between the environment, the economy, and social equity."[2] Whereas these examples aren't of foundations specifically funding Evergreen adaptation efforts, they highlight examples of foundations taking on the issue of community wealth building to address both social and environmental impact seriously. As Evergreen adaptation efforts develop in other cities like Washington D.C., Atlanta, Detroit, etc., foundations in those areas are taking the first steps towards aligning their grant-making activities towards those ends. Foundations may have been the most significant source of grant funding for Evergreen; government agencies contributed sizable funds as well.

Government agencies like the U.S. Department of Housing and Urban Development (HUD) and the Environmental Protection Agency (EPA) have grant-making practices already in place to assist with community wealth building efforts. Evergreen also benefited from New Markets Tax Credit funding. The state government of Ohio has also invested in the project and the City of Cleveland has been an essential partner in helping Evergreen obtain Federal funds, so other state, city, and municipal governments shouldn't be ruled out when looking for sources of start-up funds. In total, these agencies have provided $35 Million in low-cost lending to Evergreen, so utilizing these potential sources in other cities shouldn't be overlooked.

Setting Up a Loan Fund with Program Related Investments

Grant money and other donations aren't going to be able to cover all the costs associated with actually launching one or more community wealth building mechanisms. Especially in the case of cooperative businesses or social enterprises in the 'green' sector that can be very capital intensive, grant money most definitely won't be able to cover the full costs. Central to community wealth building though is the idea that local anchor institutions, non-profit entities grounded in the community that are relatively permanently located in those communities, should play a central role in community wealth building efforts.

Program Related Investments (PRI) are low-cost loans with below market rate return that counts towards a foundation's annual requirement for grant-making activities. Below market-rate loans, of course, reduce debt servicing costs and thus can facilitate the adoption of the Evergreen Model in other cities. Because Community wealth building can bring about significant economic, social, and environmental benefits, foundations often see considerable value in making these investments.

With Evergreen, foundations and other anchor institutions like hospitals, universities, etc. created and made grants / program related investments into a loan fund called the Evergreen Cooperative Development Fund LLC they set up at a local CDFI called Enterprise Cleveland. This money was then loaned out to the cooperatives to cover start-up costs and additional costs throughout their first year or two. Interest on these loans range from %1-4, so lower than more traditional sources of capital and even many of the sources of cooperative capital from the National Cooperatives Bank or the various loan funds in existence already. Other Evergreen adaptation efforts in Detroit, Washington D.C., Atlanta, and elsewhere are looking into this strategy as well.

The Fund operates proactively to identify new lines of business to meet these ends. The Fund does this through a deliberative process that involves assessing financial feasibility of proposed deals, developing business plans, raising capital to ensure adequate capitalization, recruiting capable management, helping establish contracts, monitoring success, and providing the technical assistance necessary to buttress the profitability

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2 Mark Valentine, Green Design and Practice in the Development of Buildings and Neighborhoods: An Overview for Funders, Coral Gables: Funders Network for Smart Growth and Livable Communities, 2005, www.fundersnetwork.org/info-url_nocat2778/info-url_nocat_show.htm?doc_id=327337, accessed Sept. 14, 2009. Kresge Foundation, Kresge's Green Building Initiative Meets its Goals; Will Be Retired in May 2009, Troy, MI: Kresge Foundation, February 27, 2009, www.kresge.org/index.php/program_updates/article/kresge_is_retiring_its_green_building_initiative_in_may_2009, accessed Nov. 14, 2009. Richard Defendorf, Home Depot Foundation, Habitat for Humanity Expand Green Program, Newtown, CT: Green Building Advisor, August 4, 2009, www.greenbuildingadvisor.com/blogs/dept/green-building-news/home-depot-foundationhabitat-humanity-expand-green-program, accessed Nov. 14, 2009. Doris Duke Charitable Foundation, "Doris Duke Charitable Foundation Awards $21 Million to Energy Foundation," Philanthropy News Digest, August 16, 2007, http://foundationcenter.org/pnd/news/story.jhtml?id=186800004, accessed Nov. 14, 2009. Surdna Foundation, Sustainable Communities, New York, NY: Surdna, 2009, www.surdna.org/what-we-fund/sustainableenvironments.html, accessed Nov. 14, 2009.

of these enterprises. It has two primary functions: (1) providing low-interest, long-term financing to start-up cooperative businesses in the Greater University Circle area of Cleveland, Ohio; and (2) providing technical assistance and management support to the start-ups to help ensure their success.

Leveraging Community Development Financial Institutions

Thus far, outside of direct efforts by local foundations and other anchor institutions to set up specific loan funds like the Evergreen Cooperative Development Fund in Cleveland, CDFIs have yet to make the move into financing Evergreen adaptation efforts. But aside from direct efforts financing Evergreen adaptation, the connection between green industries and lending has been clear to CDFIs, especially those that serve rural communities.

With Ford Foundation support, the Triple Bottom Line Collaborative's 10-member alliance is testing specific tools to strategically invest debt and equity capital. Coastal Enterprises (CEI), for example, in Maine is pursuing multiple strategies to invest in the green economy. Their efforts range from making loans to loggers to buy equipment conducive to sustainable harvesting practices to exploring how a potato fueled bio-plastics industry could be structured in the state.[3] This leading community development intermediary is currently doing a value-chain analysis of their portfolio companies to discern if there is potential for these commercial borrowers to green their products and services. Two other members of this Collaborative—The Reinvestment Fund and Self Help—have also decided to look internally, scrutinizing their current client base for opportunities.[4]

In the Northwest, Shorebank Enterprise Cascadia is using its capital resources to help small landowners, farmers and fishers generate income using sustainable practices. With funds from the Gates Foundation and the State of Washington, this CDFI capitalized a $7-million fund to provide flexible, low-interest loans to property owners in a threatened watershed containing endangered shellfish beds. Facing huge development pressures, these landowners can now make improvements to their property to reduce pollutants entering this watershed.[5]

An urban-oriented CDFI, the Low Income Investment Fund in California, is also focusing on its existing expertise and portfolio, using $5 million in capital from two private utilities to green childcare centers.[6] Since its launch in 2005, the California Preschool Energy Efficiency Program has given grants to 640 centers that have helped the centers save 30 percent on their utility bills.[7] Also in California, LISC (Local Initiatives Support Corporation) and Global Green USA are co-sponsoring a pilot project to increase energy efficiency through the use of weatherization and other green practices in charter schools in low-income Los Angeles communities.[8] Another urban-based CDFI, the Chicago Community Loan Fund, which serves northeastern Illinois, is using its growing green technical expertise to help community development corporations (CDCs) and others better confront the financial and development barriers they encounter. To this end, the Chicago Community Loan Fund has published a guide for local developers, created a working group of peer CDCs to share best practices, and, in 2009, launched a website to act as a clearinghouse of information for affordable sustainable development (www.greenaffordable.org). The Chicago Community Loan Fund has also promoted green building by adjusting its predevelopment lending practices. The CDFI has found that borrowers who use an integrated development process often face increased costs at the beginning of a project. The higher predevelopment costs are often compensated for by reduced costs in the construction phase, but the early stage financing provided by the CDFI has proved critical in allowing green projects to reach the stage where the offsetting savings can be realized.[9]

Mission Related Investments

Foundations and other types of institutions with a clear social and/or environmental mission are increasingly

[3] Triple Bottom Line Collaborative, TBLC Overview, TBLC, Ilwaco, WA: October 2, 2008, http://tripleblc.ning.com, accessed Sept. 14, 2009.

[4] Bob Schall, President, Self Help Ventures Fund, Interview, March 3, 2009 .

[5] John Berdes, President, ShoreBank Enterprise Pacific, Interview, March 19, 2009 .

[6] Low Income Investment Fund, LIIF to Use $5 Million to Green Preschools, LIIF, San Francisco, CA: Spring 2009, www.liifund.org/MEDIACENTERNEW/LIIF%20publications/ENewsletters/LIIF%20Update%20Spring%202009 .htm#CPEEP, accessed Sept. 14, 2009.

[7] Ibid.

[8] "The entry of credit unions into the green economy has been very limited," says Cliff Rosenthal, Executive Director of the National Federation of Community Development Credit Unions. Rosenthal adds, however, that he does "see pieces on credit unions having green offices or having loan products for hybrid car." New Mexico has a small credit union entirely focused on sustainable communities. The Permaculture Credit Union—with $3 .2 million in assets and 1,000 members—provides financing incentives to borrowers buying green products or services. They offers their members discounts on large purchases like fuel efficient cars as well as on second mortgage loans for solar heating or water systems, weatherization, rainwater collection, conservation and organic farming and gardening. Unlike most lenders, they will finance off-grid property if the member has equity in the land. See: Permaculture Credit Union, Frequently Asked Questions, PCU, Santa Fe, NM: May 7, 2007, www.pcuonline.org/forms/FAQBrochure-05.07.07.pdf, Sept. 14, 2009.

[9] Mark Fick, Senior Loan/Program Officer, Chicago Community Loan Fund, Personal Correspondence, December 17, 2009.

aligning their invest-able assets with their mission, which is called mission related investing (MRI). This has taken a variety of different forms including investing in "sustainable and socially responsible" funds focused on fixed income, public equities, and even the private equity asset class. Though to a lesser extent, it also includes investing into community development venture capital funds and a variety of different community investment options like community development banks, credit unions, and loan funds. Unlike program related investments, MRIs get market rate returns, so the interest rate of any capital going to co-ops or other community wealth building mechanisms would be higher than program related investments. As Evergreen businesses mature, they will be better able to pay higher interest rates, but at this point MRI for these types of cooperatives and other community wealth building mechanisms are in its infancy.

More and more foundations are investing their assets according to their mission, so there are plenty of reasons to view MRI as a favorable option for financing community wealth building. Some leading foundations pursuing MRI strategies include RSF Social Finance (formerly the Rudolf Steiner Foundation), KL Felicitas Foundation, and the Calvert Foundation. Though a host of other foundations have aligned their assets with their mission, these foundations are leading the industry with innovative investment activities that provide a model for other foundations to follow.[10]

RSF has been a leader in creating innovative financing vehicles with their roughly $130 million in assets. These vehicles include a loan fund with short-term notes providing debt capital to non-profit organizations and social enterprises dedicated to increasing their positive social and environmental impact. RSF has more recently created a mezzanine fund that provides growth capital for social enterprises and a PRI loan fund for they and other foundations that might lack the internal capacity to manage such a fund.

The KL Felicitas Foundation is another leader in MRI. They have a loan fund with a very similar mission as the one at RSF, but they also have a loan guarantee program and even aligned their private equity portion of their portfolio with their mission to help triple bottom line companies grow. The Calvert Foundation's main vehicle is their Community Investment Note. This note provides below market rate financing to a host of CDFIs around the country, while it also provides loans to social enterprises as well. Calvert assists other foundations develop as well as administer PRI / MRI. They also assist non-profit organizations in capitalizing and administrating investment funds that serve their mission like Green For All's Energy Efficiency Opportunity Fund, which provides financing for community-scale retrofit operations around the country.

Pension Funds

Union pension funds are another source of significant investment into a wide variety of community development activities, especially affordable housing. These "economically-targeted investments (ETIs)" are viewed as having additional returns for the pension fund beyond traditional economic returns. Pension fund managers don't sacrifice financial return; moreover, the financial returns are complemented by additional economic, social, and environmental returns. Similar to MRI field, as community wealth building grows across the country, more and more pension fund investments will make investments in community wealth building projects.

Given the scale of the assets controlled by state and local public pension funds in particular, which, even after sharp falls in stock values in 2008 and 2009, still total $2 .35 trillion, the possibility for states to leverage those assets to support the generation of community wealth is tremendous. CalPERS, for example, has historically played a lead national role in investing a portion of its $176-billion portfolio in projects that create local jobs, support small businesses and finance low income housing. In the wake of the civil unrest sparked by the Rodney King case, CalPERS initiated direct investments of $75 million in South Central Los Angeles.[11] In 2004, under the leadership of former State Treasurer Phil Angelides, CalPERS announced its Green Wave Initiative with the goals of increasing the energy efficiency of its $12 billion real estate portfolio by 20 percent in five years, investing $500 million in environmentally responsible public firms and placing $200 million as venture capital in new clean technologies. California's public pension fund also announced that it would gather information on corporate production of greenhouse gases and other environmental threats and issue new corporate governance guidelines to back shareholder proposals to

[10] These examples were taken from Steve Godeke and Paul Pomares' *Solutions for Impact Investors: From Strategy to Implementation* (November 2009, Rockefeller Philanthropy Advisors Reprinted with minor updates August 2010).

[11] Thad Williamson, David Imbroscio and Gar Alperovitz, Making a Place for Community. New York, NY: Routledge, 2003.

report environmental risk, particularly with respect to climate change.[12]

In 2006, CalPERS went further and established a Green Development Fund, which aims to leverage pension dollars to help finance LEED certified, sustainable office buildings. By the end of 2008, CalPERS had placed $725 million in sustainable office buildings, $419 million in environmentally screened public equity funds and $1.1 billion in 112 private clean energy companies. In 2009, CalPERS announced a commitment of $200 million to the Khosla Ventures Expansion Fund, a Silicon Valley based clean-tech fund that invests in ethanol, bio-refineries, bioplastics, solar, energy efficiency and battery storage. All told, Green Development Fund investments to date total $2 .444 billion or close to 1.4 percent of its roughly $176 billion in total pension fund assets.[13]

In 2008, Robert P. Casey, Jr., Treasurer of the State of Pennsylvania, announced the Keystone Green Investment Strategy with four components: 1) a new Green Fund with up to $40 million in Treasury assets to attract and leverage private sector investments in clean technology; 2) a commitment to reallocate up to $50 million in assets to investment managers demonstrating a superior rate of return in clean tech stocks; 3) a new set of screens for the state's fund managers and consultants for evaluating a company's potential exposure to environmental liabilities; and 4) membership in the Investor Network for Climate Risk . Established by Ceres, this network is comprised of state treasurers and controllers from fifteen states, a handful of foundations, four unions and other institutional investors that have agreed to consider climate risk and opportunities in their investments.[14]

Another example of the pension sector's engagement in the green economy is the Multi-Employer Property Trust or MEPT Fund, a $4 .6-billion real estate fund whose investor base consists of union and public employee pension funds. A leader in "responsible property investing," through 2008, MEPT had built 3 LEED certified buildings and won awards for its redevelopment of a long abandoned hospital on Roosevelt Island in New York City into a green housing complex.[15]

In Canada, Quebec's Solidarity Fund with $7 billion in assets clearly articulates its priority to invest in environmental friendly businesses and job creation projects. Targets for its environment portfolio include waste recovery and recycling, water treatment, air treatment and soil decontamination.[16]

Financing Evergreen Adaptation: A New Approach Inspired by Long-Term Success

The central financing mechanism that has made Evergreen a success is the Evergreen Cooperative Development Fund. Inspiration for the ECD fund came from, in large measure, the Caja Laboral, the financial institution that has enabled the Mondragon cooperative movement in Spain to reach a remarkable scale of impact. Mondragon began as an experiment in worker participation and ownership in 1956 led by a local priest and five graduate students. From that humble origin and single cooperative that made paraffin stoves, the Mondragon Cooperative Corporation has now grown to a network of 120 related manufacturing and service sector businesses employing over 100,000 workers, and with annual sales of more than 15 billion euros (more than $20 billion). The Caja Laboral serves as the financing mechanism for co-op start-ups and a source of investment capital that helps ensure a steady flow of new deals and the expansion of employment opportunities.

We believe distressed urban communities in the United States can benefit greatly from the lessons learned and experience gained in Spain by the Mondragon movement. In these times when it is so difficult to find funding sources for new business opportunities and economic development programs in low-income communities, the Mondragon approach, appropriately adapted to the circumstances of the United States and our cities, represents an innovative new strategy for job and capital creation. By demonstrating the viability of this approach in Cleveland, we hope to create an institutional model that can be established in other urban areas beset by endemic poverty, job dislocation, and capital flight.

12 Estimate of $2 .35 trillion in assets comes from the Pew Center for the States, The Trillion Dollar Gap, Phialdelphia, PA: The Pew Charitable Trusts, February 2010, page 1. California State Treasurer, California State Treasurer Phil Angelides'Green Wave Initiative, Treasurer, Sacramento, CA: December 7, 2005, www.treasurer.ca.gov/greenwave/update.pdf, accessed Sept. 14, 2009.

13 James Brasuell, California State Treasurer Bill Lockyer Leverages State Investment to Spur Green Economy, Los Angeles, CA: VerdeXchange News, January 2009, www.verdexchange.org/node/199, accessed Sept . 14, 2009.

14 Investors Network on Climate Risk, About INCR, New York, NY: INCR, no date, www.icnr.com/Page.aspx?pid=261, accessed Sept . 14, 2009.

15 Multi-Employer Property Trust, MEPT Commits Over $137 Million to N.Y. Project, Washington, DC: MEPT, no date, www.mept.com/pdf/MEPT_4Q04InDepth.pdf, accessed Sept. 14, 2009.

16 Solidarity Fund QFL, Spheres of Activity—Environment, Montreal and Quebec City, Quebec, Canada: Solidarity Fund, no date, www.fondsftq.com/internetfonds.nsf/vWebTAN/PmeSec?opendocument&secteur=ENV#creneaux, accessed Sept. 14, 2009.

The Evergreen Model is beginning to leverage program and mission related investments (PRI and MRI) from foundations across the country to adapt the model in numerous cities. With support from community development financial institutions (CDFIs), 'economically targeted investments' (ETIs) from pension funds and others, we see the potential of a massive shift in investment to this new "paradigm" of community economic development.