How to Use Guarantees to Mitigate Risk and Reach Your Financing and Impact Goals

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Agenda

1. Research Presentation
2. Panel Discussion on HealthCo Case Example
3. Small Group Discussions

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The Global Impact Investing Network

The GIIN is a nonprofit organization dedicated to increasing the scale and effectiveness of impact investing around the world.

To help accelerate the development of a coherent impact investing industry, the GIIN:

- Builds critical market infrastructure
- Supports education and industry research
- Convenes an investor community.

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Definition of impact investments

Impact investments are investments made in companies, organizations, projects, or funds with the intention to generate a positive social or environmental impact alongside a financial return.

Core characteristics of impact investing:

- Intentionality
- Investment generates financial return on capital
- Range of return expectations and asset classes
- Impact measurement by investor and/or investment manager

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A diverse market

The Abraaj Group, Accion, actiam, Athena Capital Advisors, Bill & Melinda Gates foundation, The California Endowment, Calvert Foundation, CDC, Citi Foundation, Christian Super, Credit Suisse, FMO, the David & Lucile Packard Foundation, Stichting DOEN, Deutsche Bank, Enterprise, Ford Foundation, generation, Grayghost Ventures, Global Environment Fund, Enclude, Heron, IDB, IIC, MIN, IFC International Finance Corporation, Goldman Sachs, Impact Community Capital LLC, J.P.Morgan, The Kresge Foundation, Jonathan Rose Companies, Leapfrog Investments, Lombard Odier, Lundin Foundation, Morgan Stanley, NCIF National Community Investment Fund, LGT, Lok Capital, MacArthur Foundation, responsAbility, Rockefeller Foundation, Omidyar Network, Prudential, Margaret A. Cargill Philanthropies, UBS, Threshold Group, TIAA, OPIC, rootcapital, Sarona, skopos Impact Fund, W.K. Kellogg Foundation

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Investor collaboration through credit enhancement

2013

2017

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The power of guarantees

- Address **real and perceived risks** to draw more capital into impactful projects and organizations
- Enable investors to gain experience with **unfamiliar sectors or business models**
- Facilitate access to capital for nonprofits or community development organizations at **favorable terms**

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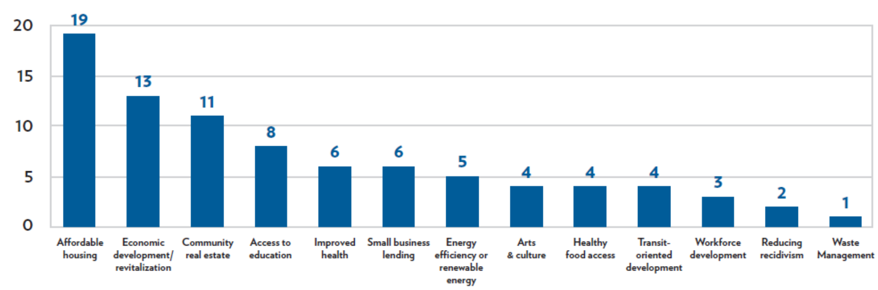
Concentrated in a few sectors

Impact themes addressed by number of guarantees

n = 58 guarantees; some guarantees target multiple themes



Source: GIIN

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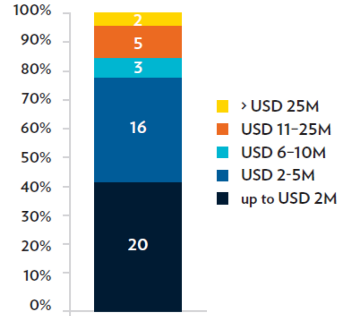
Limited uptake and scale

- Most guarantees are **small** – under $5 million.
- Most projects or funds they back are **small** – under $50 million
- Most guarantees are negotiated **at the loan or fund level** (not programmatic).

Guarantees by size
n = 46 guarantees



Source: GIIN

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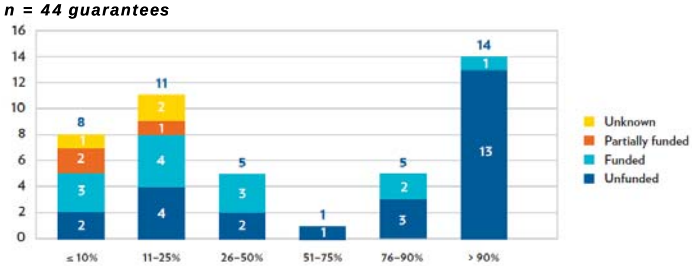
Wide variety of structures

- Percentage of losses covered ranges from <10% to 100%
- Can include full, partial, or no up-front funding
- Triggers and access to capital vary

Guarantees by coverage level and funding
n = 44 guarantees



Source: GIIN

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Barriers to greater use

- Lack of **awareness** and experience using guarantees.
- **Complexity** – can be time and resource-intensive.
- Difficulty aligning **multiple stakeholders**.

Source: NYCEEC

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Recommendations

1. **Streamline:** Focus on five key considerations.
2. **Scale:** Pooling capacity and working at programmatic level.
3. **Sectors:** Expand use to promising sectors where guarantees are needed.

Energy efficiency *Renewables* *Healthcare* *Food access* *Small business*

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Streamlining

Focus on five key considerations to streamline structuring:

1. Objectives of the guarantee
2. Type of risk addressed
3. Coverage level
4. Financial return
5. Triggers and access

Source: Healthy Neighborhoods

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Key takeaways

- Guarantees can draw private capital into projects and companies generating positive impact.
- They can be used to:
  - ✓ **Prove the creditworthiness** of nonprofits or new business models.
  - ✓ Enable **investors to gain familiarity** in new sectors.
  - ✓ **Facilitate access to capital** at favorable terms.
- Expanding the use of guarantees will require **streamlining processes and aligning expectations**.

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Case Example: Collaborative for Healthy Communities / HealthCo

- Two CDFIs began lending in a new sector – Federally Qualified Health Centers.
- $5 million unfunded guarantee from the Kresge Foundation on initial pool of $25 million.
- Later enabled further capital raise and addition of a third CDFI, more than doubling the amount of capital.
- Enabled CDFIs to gain experience with FQHCs and demonstrate their creditworthiness.


Source: Low Income Investment Fund

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Panelists

Kimberlee Cornett
The Kresge Foundation

Anne Dyjak
Primary Care Development Corporation

Kimberly Lattimer-Nelligan
Low-Income Investment Fund

Scott Maxfield
Goldman Sachs Urban Investment Group

Nancy Wagner-Hislip
The Reinvestment Fund

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Thank you!

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