THE U.S. IMPACT INVESTING ALLIANCE

Private **Capital**, Public **Good**

Building shared prosperity to create a resilient and inclusive economy

2024

CONTENTS

Introduction

The United States continues to be a country with tremendous economic prosperity and possibility. But this prosperity is not shared equally among Americans; longstanding wealth gaps impede progress for too many communities across the country. Impact investing can help to close those gaps and build shared prosperity.

This report includes discrete bipartisan recommendations for how the Administration and Congress can play a leadership role in creating shared prosperity for all Americans. Acting on these recommendations will require leadership across the federal government, bringing together different departments and agencies to work towards shared goals.

The U.S. economy had among the fastest and strongest recoveries to the economic shock caused by the COVID-19 pandemic, supported by strong federal response efforts, innovative local partnerships and robust private investment. This has led to a strengthened job market and high consumer spending. Through public-private partnerships, bridges, roads and factories are being built across the country to accommodate the needs of a growing population and to reinforce American competitiveness.

However, many communities still do not receive the kinds of long-term, sustainable investment in housing, community facilities, small businesses and quality jobs that will be needed to drive our country's economic vitality. For many, the American dream feels increasingly out of reach due to the rising costs of living, stagnant wages and lack of opportunity for mobility.

And as a society, we are at a crossroads marked by evolving technologies, shifting labor markets and changing demographics. The unpredictable pace of change has led to a widespread sense that the benefits of economic growth are not being shared equitably. Inequality continues to rise across many lines, whether defined by class, geography, race or gender. By allowing inequality in any form to fester, we are damaging our economic strength and resilience as a country. Instead of shared prosperity, we risk more division and economic stagnation. By promoting impact investing, we can take these issues on directly and leverage the innovation and potential of private capital to create public good.

SHARED PROSPERITY:
A fair, resilient, sustainable and prosperous economic future for all based on private and public investment in collective resources.

The federal government can and must play a leading role in creating the necessary conditions for a resilient and inclusive economy that provides opportunities to thrive for all. This push toward shared prosperity cannot happen without the partnership of workers, small businesses and entrepreneurs, whose role as drivers of our shared economic growth is more important than ever. Fortunately, there are many ways in which the federal government can empower these stakeholders, including by changing the rules and incentives for both corporations and investors to ensure they consider the needs and contributions of communities, workers and the environment.

IMPACT INVESTING:

Practices of investing across asset classes that pursue measurable social, economic and environmental impact alongside risk and financial returns

The private sector must continue to be engaged as well, shaping this prosperous future by allocating capital to where it will make the greatest economic, social and environmental impact. The U.S. Impact Investing Alliance supports impact investors who are committed to innovation and building a more inclusive economy. These investors are specialists in assessing the social, economic and environmental impacts of investing and corporate activities, making them well-positioned to complement public policy efforts aimed at driving improvements in these critical areas.

Impact investors in recent years have led the way in building shared prosperity by investing in the transformation of community investing practices and a broader financial system that considers real-world impacts on people and planet. The Community Development Financial Institutions (CDFIs), Minority Depository Institutions (MDIs), community banks and other financial institutions that facilitate private investment in underinvested communities must be fortified and scaled in order to draw more private capital to this critical work. And there is an urgent call for more transparency about who is benefiting from public and private investments and how they will advance a sustainable and equitable economic future.

We are confident that impact investors will rise to the challenge, but they need federal policymakers to play their part as well. That includes continuing to champion bipartisan federal policies that make it possible for private investors to harness American capitalism to address serious systemic challenges.

This report is structured around three pillars: protecting and strengthening U.S. economic competitiveness, fortifying community investing and enabling greater impact transparency. We recognize that there is overlap between these pillars, but we hope that together, they illustrate a broad vision of what the private and public sectors can achieve together in the years to come.

This report is structured around three pillars: **protecting and strengthening U.S. economic competitiveness, fortifying community investing and enabling greater impact transparency**.

Summary of Recommendations

I. Protect and Strengthen U.S. Economic Competitiveness

- Congress should create greater opportunities for investment in community development, sustainable infrastructure, renewable energy and thriving industry to support America's role in a thriving global economy
- Congress should build on bipartisan momentum to address impediments to the growth and scale of employee ownership models
- Congress and the Administration should work together to ensure that capital and resource flows to underinvested communities are well coordinated

II. Fortify Community Investing

- Congress should extend and improve community investing tax programs, ensuring they are transparent and accountable and that incentives align with positive community priorities
- Congress and the Administration should strengthen and scale Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs)
- Regulators should continue to protect and expand the provisions of the Community Reinvestment Act (CRA) intended to serve historically underinvested communities
- Congress should continue to make new capital available to small businesses, particularly in historically underinvested communities

III. Enable Greater Impact Transparency

- Regulators should ensure that both public and large private companies, as well as major asset managers, have clear, consistent disclosure requirements on sustainability and other material economic, social and environmental impacts
- Regulators should clarify investors' duties as fiduciaries and rights as shareholders, clearing the way for investors to consider the long-term financial materiality of impact factors

Protect and Strengthen U.S. Economic Competitiveness

Policymakers can help to unlock innovation and investment that maintains American economic leadership while prioritizing positive impacts for workers and communities. By strengthening existing opportunities and creating new ones for both public and private investment in businesses, industries and infrastructure, the federal government can create more sustainable jobs and advance a more prosperous economy.

Congress should **create greater opportunities for investment in community development, sustainable infrastructure, renewable energy and thriving industry** to support America's role in a thriving global economy.

By building on the successes and lessons learned from domestic green banks and the U.S. Development Finance Corporation (DFC), Congress can establish and support the growth of domestic and international investment vehicles to provide investors with opportunities to foster American competitiveness through inclusive growth and sustainable job creation.

POLICY RECOMMENDATIONS

- **SUPPORT** the establishment and growth of domestic national financing networks for innovative manufacturing and infrastructure projects, clean energy and climate solutions, and affordable housing, particularly in low-income communities, such as by maintaining and scaling the Greenhouse Gas Reduction Fund (GGRF)
- **REAUTHORIZE** the DFC for up to 10 years and clarify country eligibility requirements to ensure that the goals of the Better Utilization of Investments Leading to Development (BUILD) Act and the mission of the DFC are achievable and aligned with domestic investment priorities

Congress should build on bipartisan momentum to **address impediments to the growth and scale of employee ownership models,** including employee stock ownership plans (ESOPs), by improving access to capital and incentivizing growth in the total addressable market of sellers.

There is a significant opportunity to spur economic innovation that includes workers and business owners, and that provides the critical local ecosystem of suppliers and service providers to build on the Inflation Reduction Act (IRA) and Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act, specifically by making the vision for a revitalized local manufacturing industry into a reality.

It is particularly critical that the small businesses that supply U.S. industrial capacity continue to operate and thrive. As a generation of owners and entrepreneurs prepare to retire, employee ownership is an important opportunity to ensure these firms and jobs remain in place and continue to drive America's economic competitiveness.

Investors can help expand opportunities for the large number of small business owners who are now retiring to choose prospective employee owners over competitors or other financial buyers. In order to create stronger conditions for them to do so, Congress and regulators should build a strong financial, regulatory and structural environment that increases the potential liquidity of the sale for these owners.

POLICY RECOMMENDATIONS

- **BUILD** the viability for private ESOP investment fund models, which would enable impact investors to provide capital to prospective employee owners (who lack the capital needed to purchase businesses) and provide liquidity to owners at the time of sale. For example, Congress should pass the bipartisan Employee Equity Investment Act (EEIA), S. 1618, to attract private investment that supports the establishment of employee-owned businesses
- **EXPLORE** the role that impact investors can play in fostering innovative forms of employee ownership, including purpose trusts, cooperatives and secondary markets that help to capitalize and scale employee-owned businesses

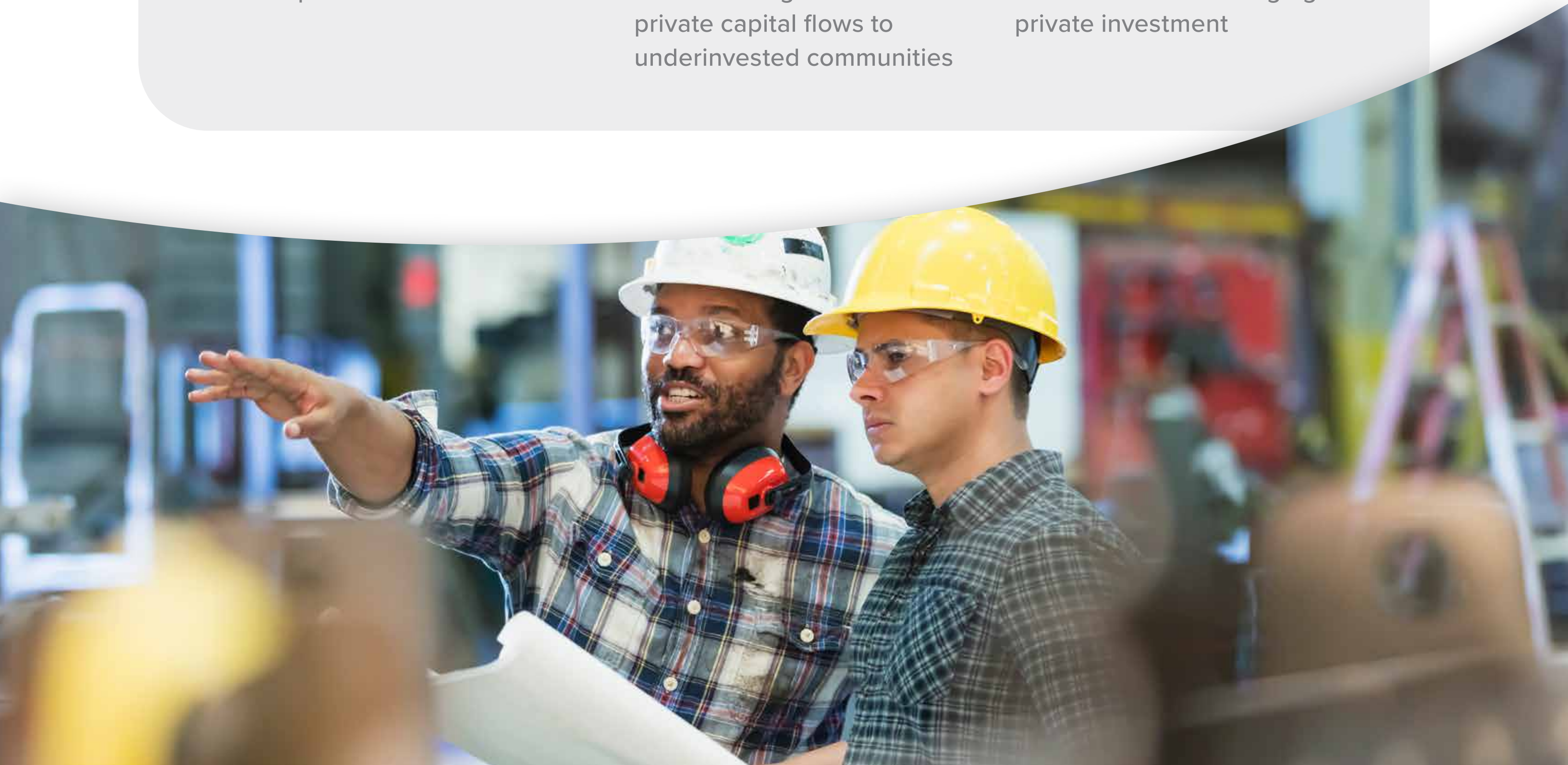
Congress and the Administration should work together to **ensure that capital and resources flowing to underinvested communities are well coordinated.**

Programs including the State Small Business Credit Initiative (SSBCI) and the Small Business Administration (SBA) Community Navigator Pilot Program show how important it is for agencies to proactively engage with business and investor leaders on implementation. Initiatives like the Interagency Community Investment Committee (ICIC) demonstrate the need to coordinate these activities across the federal government.

Consistent and intentional operational coordination will help ensure that projects and businesses receive the appropriate resources, maximize the collective impact of different federal programs and provide a clear path for private investment to work alongside federal dollars. Every modern administration has sought to improve the partnership between federal agencies and the private sector, but without a permanent office to facilitate coordination, progress has been intermittent at best. Permanent tools to facilitate interagency coordination could also provide opportunities to meaningfully engage leaders from the business, investment and philanthropic communities.

POLICY RECOMMENDATIONS

- **CODIFY** the ICIC to ensure future administrations can continue to build on the recent success of federal agency coordination with the private sector
- **ENSURE** that agencies have the necessary guidance so that federal programs are designed and implemented in a way that encourages additional private capital flows to underinvested communities
- **ESTABLISH** new ways of supporting the coordinated deployment of capital and resources into historically underinvested communities with a focus on leveraging private investment



RECOMMENDATION II

Fortify Community Investing

If we hope to advance towards a more prosperous and equitable future that provides opportunities for all, we must focus on historically under-invested communities and bolster federal community investment programs.

Congress should **extend and improve community investing tax programs**, ensuring they are transparent and accountable and that incentives align with community priorities.

With the 2017 tax package expiring at the end of 2025, Congress should extend and strengthen critical community investing tax policies, namely the New Markets Tax Credit (NMTC), Low-Income Housing Tax Credit (LIHTC), Historic Tax Credit (HTC) and Opportunity Zones.

These programs have developed over the last 50 years, but they have evolved independently from each other and sporadically with varying degrees of efficacy and low interoperability. The lack of coordination is heightened by widely varied standards of impact transparency and accountability, making transactions layering additional private capital more complex and costly than necessary.

For programs that are meant to incentivize public and private investment in underinvested, low-income and rural communities, policymakers should make transparency and interoperability a priority so that investors, communities and other stakeholders may measure and understand their overall impact and ensure that incentives deliver impact to target communities, residents and businesses.

POLICY RECOMMENDATIONS

- **REFORM** the Opportunity Zones program to ensure impact accountability and build community trust. For example, Congress should pass the bipartisan Opportunity Zones Transparency, Extension and Improvement Act (OZTEIA) to reinstate and expand reporting requirements that would support the measurement of long-term outcomes in designated areas
- **BUILD** on bipartisan support to make the NMTC program permanent, while continuing to reform and improve the program alongside other important community investment tax policies

Congress and the Administration should **strengthen and scale Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs).**

These institutions are uniquely suited to increase access to capital for small businesses and communities in historically underinvested areas. Their mandates call for financing of borrowers that are often overlooked by traditional banking, including rural, Native and Black and Brown communities.

The importance of CDFIs and MDIs was made abundantly clear during the COVID-19 pandemic and the ensuing economic crisis. They played a critical role in quickly channeling government funding and resources to small businesses and community development projects. Most notably, the bipartisan Emergency Capital Investment Program (ECIP) was designed to efficiently and responsibly increase the liquidity of institutions serving communities hardest hit by the crisis. Crucially, CDFIs and MDIs have been able to leverage public investments to attract additional private capital, further amplifying their impact.

Given the important role these institutions play in fortifying communities, policymakers should continue to support CDFIs and MDIs to scale their capacity and reach. Providing CDFIs and MDIs with patient risk capital will allow them to serve the hardest to reach borrowers.

POLICY RECOMMENDATIONS

- **CONTINUE** to strengthen the Treasury's CDFI Fund programs, with a specific focus on attracting additional private capital to the CDFI and MDI industries
- **CREATE** greater liquidity for CDFIs and MDIs (particularly small- and medium-sized lenders and building on the success of ECIP) by taking steps such as supporting a robust secondary market for CDFI loans and/or providing CDFIs and MDIs with access to the Federal Reserve's discount window
- **EQUIP** and require CDFIs and MDIs to collect stronger and more complete data on their work (including mid- and long-term outcomes, such as jobs created and financial performance of borrowers) in order to more confidently quantify the return on investment in CDFI and MDI programs

Building on the strong progress made through regulatory modernization of the law in 2023, regulators should continue to **protect and expand the provisions of the Community Reinvestment Act (CRA)** intended to serve historically underinvested communities.

These efforts bring the CRA closer to meeting the original intention of the law, which was to rectify the historical practices of redlining by requiring banks to equitably serve the communities in which they operate. The CRA has yet to completely fulfill this core purpose.

In particular, progress on racial gaps in home and business ownership has been stubbornly slow. Closing these gaps requires communities to have access to financing, including through non-bank financial institutions, such as credit unions and independent mortgage companies. These institutions are the originators of a large and growing proportion of loans, and the investments they facilitate will be especially critical in reaching the most historically underinvested communities.

POLICY RECOMMENDATIONS

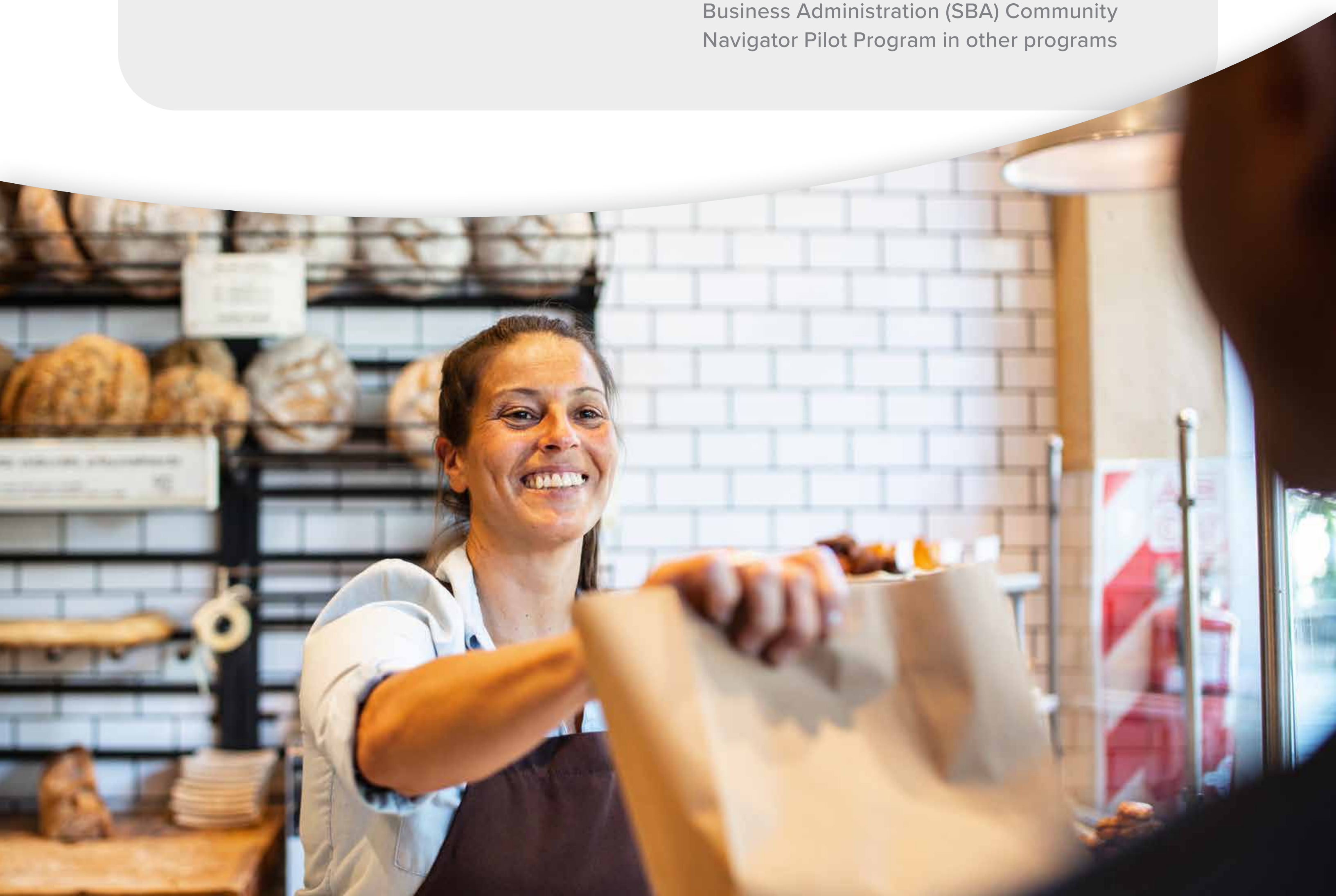
- **PREVENT** regulatory backsliding on recently enacted rules that modernize and strengthen the CRA, with a focus on serving low- and moderate-income communities
- **EXPAND** the CRA's mandate and reach to include non-bank financial institutions, including independent mortgage companies, credit unions and insurance agencies
- **PUSH** for expansion of these rules to more fully address racial wealth disparities, including through collection of race-conscious data incorporated into strengthened CRA exams, requiring CRA data from those deploying capital

Congress should continue to **make new capital available to small businesses,** particularly in historically underinvested communities.

We know that small businesses are essential to building a more equitable economy in which wealth-building opportunities are available to all. In the last few years, we have seen significant federal investments in small businesses through the expansion of the State Small Business Credit Initiative (SSBCI). That said, the federal government can do more to support the healthy growth of small businesses by making it easier to navigate the available sources of federal funding, incentives, and technical assistance and catalyzing co-investment from private sources.

POLICY RECOMMENDATIONS

- **RECAPITALIZE** and expand the SSBCI to support credit programs that deliver loans and investments to eligible small businesses
- **REPLICATE** the strong navigation resources and technical assistance made available to entrepreneurs through SSBCI and the Small Business Administration (SBA) Community Navigator Pilot Program in other programs



Enable Greater Impact Transparency

In order to move towards a vision of markets and capitalism that works for all and values the impact of investment and business decisions on all stakeholders—including both positive and negative externalities on people and the planet—our financial system will require important structural changes.

Regulators should ensure that both public and large private companies, as well as major asset managers, have **clear, consistent disclosure requirements on sustainability and other material economic, social and environmental impacts.**

By clarifying the disclosure requirements of public companies around climate-related risks, the Securities and Exchange Commission (SEC) made significant progress towards instilling greater transparency in the capital markets on material sustainability issues like climate change. That said, regulators can go further in ensuring that investors have access to the full range of information they need to understand relevant environmental, social and governance (ESG) risks and opportunities, particularly on human capital management (HCM). Specifically, the SEC has an opportunity to require standardized corporate disclosures on financially relevant HCM factors, including workforce composition, compensation, health and safety, and diversity practices.

Global regulators, standard setters and market actors are already moving forward with sustainability-related disclosure and accountability requirements for companies and asset managers in other markets, placing those who invest in U.S. companies at a comparative information disadvantage. Continued American economic leadership will depend on the ability of corporations to develop robust sustainability practices informed and shaped by this type of ESG reporting and mandated disclosure.

POLICY RECOMMENDATIONS

- **ADOPT** standardized reporting and disclosure requirements on HCM and other material impact factors for public and large private companies
- **EXPLORE** ways to align disclosure requirements with global standards emerging from the International Sustainability Standards Board (ISSB) and the European Union to ensure harmonized, comparable reporting practices

Regulators should **clarify investors' duties as fiduciaries and rights as shareholders,** clearing the way for them to consider the long-term financial materiality of impact factors.

The rights of investors to consider all financially relevant impact factors, including the use and consideration of ESG metrics in investment decision making, have come under threat recently. In part due to the inconsistency of corporate reporting, and in part due to outdated conceptions of the relationship between impact, risk and financial return, some have sought to discourage even basic impact and risk management practices.

We have also seen an increase in the number of attacks on shareholder rights in recent years, namely proposed changes to the SEC shareholder proposal rule that would make it more difficult for public company investors to raise questions and concerns about company management, including management of ESG factors and their impacts on long-term value creation. These policy trends have persisted despite rising investor demand for the ability to consider impact, driven both by a desire to create positive impact and an evolving understanding of financial materiality. In particular, investors and fiduciaries who invest with a long-range view, such as pensions and charitable institutions, need certainty that consideration of these factors is in keeping with financial regulation and their fiduciary duty. Not only do investors and fiduciaries need certainty that they can consider impact factors, but they also need assurance that regulations will not fluctuate based on short-term political interests.

POLICY RECOMMENDATIONS

- **CLARIFY** tax and fiduciary duty guidance to ensure that donor-advised funds (DAFs) and charitable organizations can engage in impact investing and employ community investing tools
- **PROTECT** the Department of Labor rulemaking that allows retirement and pension plan fiduciaries to consider ESG factors in their investment decisions under the Employee Retirement Income Security Act's (ERISA) 2022 amendments
- **UPDATE** the Investment Advisers Act to ensure that the SEC is adequately ensuring that asset managers meet their fiduciary duties around impact risk and opportunity
- **PRESERVE** and defend the rights of investors to bring shareholder resolutions under Rule 14a-8, including on financially relevant impact factors

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ABOUT THE U.S. IMPACT INVESTING ALLIANCE

The U.S. Impact Investing Alliance ("Alliance") is an organization committed to catalyzing the growth of impact investing in the United States. We define impact investing broadly to include those investments that create financial returns alongside measurable and positive social, economic or environmental impacts across asset classes. Members of our boards and councils include institutional investors and high-net-worth individuals collectively owning hundreds of billions of dollars of invested assets, in addition to asset and fund managers collectively managing over one trillion dollars in assets.

To learn more about the Alliance, visit www.impinvalliance.org.

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