EQUITY WITH A TWIST
Getting to Outcomes With Flexible Capital

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Pay for Success approaches have focused almost exclusively on scaling evidence-based interventions within single sectors. They are hard to structure, carry a high level of risk, and have been slow to get off the ground. LIIF and JPMorgan Chase believe that there is a need for a different kind of outcomes-based capital tool—one that is more flexible and user-friendly, and which intentionally supports innovative and cross-sector approaches to tackling poverty. Structuring and executing new approaches, demonstrating impact, and gaining investor acceptance is difficult and time-consuming work.

Equity with a Twist (EQT) is our attempt to solve that problem and one other. At the highest level, EQT is intended to demonstrate that integrated, outcomes-driven approaches can alleviate poverty. Second, EQT is meant to be much more user-friendly than current outcomes-based capital tools like social impact bonds or Pay for Success structures. EQT has a streamlined, customer friendly structure that relies upon existing knowledge about what works, with a lighter touch for data collection than other forms of outcomes-based financing.

EQT is an outgrowth of the explosion of social sector evidence over the past decade. It demonstrates that the age-old debate about people- vs. place-based strategies is over—and both sides won. We now understand that it takes more than housing, more than community building, more than health or education alone to change life trajectories. We must braid together various lines of social investment to make a difference. We need a more united vision of what works, coordinated by a community

quarterback or integrator organization, with funding that rewards positive outcomes: healthy children and families, excellent schools, safe communities, more viable life trajectories. EQT builds on this understanding and rewards integrated, outcomes-driven work.

EQT works on a simple but revolutionary premise: We know what works to address poverty, but we are funding it chaotically, with a vision that is blinkered by traditional program silos. EQT rests on the idea that there are three important levers in creating successful anti-poverty outcomes and that these should be coordinated by a community quarterback focused on getting results:

1. Mixed-income housing, to provide families with affordable homes in healthy, diverse communities;
2. Early learning and child development programs, to ensure young kids are ready to learn when they enter first grade; and
3. Excellent education, providing a pipeline to well-paid careers.

EQT requires that these three elements are included in all place-based programs receiving its support. Furthermore, EQT supports community quarterbacks overseeing the integration of these elements, measuring the success of the program and making adjustments to the community model as required to achieve success. EQT is the only existing community development financing source that is not project-specific, but that funds the quarterback at the organizational level. EQT provides enterprise-level capital, not project-specific capital, with a ten-year success horizon.

Until now, place-based anti-poverty support has largely been project-specific, built on the premise that one program or another—a housing development, a child care service center, a great school—would be enough to move the dial on poverty. EQT argues that doing these things individually is like singing the notes of a song in random fashion. The result will not be music, but cacophony. To produce results (music, in this analogy) we need to organize and coordinate the inputs, so they produce the outcomes we want. EQT sets forth a framework for this, requires that outcomes are measured and provides unsecured, patient ten-year capital to the quarterback willing to pull it all together.

HOW EQUITY WITH A TWIST WORKS

LIIF and JPMorgan Chase launched EQT in early 2016 as an initial $6 million pilot to provide flexible and low-cost enterprise-level investments to support organizations quarterbacking integrated and outcomes-driven solutions to poverty. These organizations agree to track common process and performance measurement throughout the term of the investment.

EQT is "equity-like"—no collateral is required and the terms of repayment can vary enormously. For example, an EQT investment could be structured with even repayments over the life of the investment. Or it can be structured with no repayments at all until the final year. Unlike a typical loan, which is focused on supporting a given project, EQT supports an organization in any way that makes sense for the organization, as long as it is committed to providing an integrated program that incorporates mixed-income housing, early learning programs and high quality education, with outcomes measurement.

In an effort to simplify the data collection component of this work, EQT investees agree to track progress on five common measures over the term of the investment:

1. Resident health
2. Neighborhood safety
3. Child development
4. Education
5. Real estate market strength

Reporting social outcomes against benchmarks in five common areas:

1. Child progress on a standard measurement tool
2. Third grade reading and math scores
3. Health and wellbeing (can be measured by resident perception)
4. Community safety (can be measured by resident perception)
5. Improvement in market value of neighborhood

EQT is designed to support innovation within the common framework noted above. There is a preponderance of evidence in each area—mixed-income neighborhoods, early learning, and quality education—that suggests that an integrated model, led by a data-driven community quarterback, can deliver even greater benefits to families and neighborhoods.

Figure 1. Risk/Return Continuum

EQT is outcomes-driven and also customer-friendly for organizations working on the ground, especially with regard to data collection and reporting. The recipient of EQT does not require perfect evidence to demonstrate success (using a randomized controlled trial, for example).

EQT falls somewhere in the middle of the spectrum of social impact investing. As shown in Figure 1, because it is unsecured and because there is no pre-determined repayment schedule, EQT is much riskier than traditional debt. However, it is less risky than the Pay for Success approach that bases return entirely on achieving the desired social impact.

EQT also does not require that public sector savings be used for repayment to investors. Rather, it relies on the strength of the organization for repayment, tantamount to a corporate guarantee. And, perhaps most importantly, EQT works across program silos, requiring integrative, outcomes-driven work. Pay for Success examples, like social impact bonds, tend to derive return on investment through the savings of a single program silo, such as housing for the homeless, reduced incarceration, or early learning programs. Moreover, EQT's ten-year horizon and its unsecured structure make it unusually patient and flexible, since it depends on the organization itself, not a specific project, to achieve social impact. EQT sets a favorable financial yield hurdle (two percent in early experimental investments), relying upon "social return" as the main benefit to investors, in addition to a modest financial return.

There are few financial instruments—perhaps none—that call out the quarterback role and support it directly. Given the lack of support for silo-busting work and quarterback organizations, EQT seeks to fill an otherwise large gap in the social investment spectrum.

CASE STUDIES

The first two EQT investments, $2 million each, were made in BRIDGE Housing and the Bayou District Foundation (BDF). BRIDGE will use EQT to support its work transforming dilapidated public housing sites in San Francisco (Potrero Terrace & Annex) and Los Angeles (Jordan Downs) into mixed-income communities with a range of new programs and services. In particular, BRIDGE plans to use EQT funds to continue their evolution from a housing developer to an organization with a comprehensive, holistic approach to community building. EQT's flexible capital structure will allow BRIDGE to accelerate its innovation by adding staff to implement key programs, and launching its new Trauma Informed Community Building vision and strengthening the planning and investment required to build a data platform. Importantly, EQT also requires ongoing evaluation and measurement of the five core outcomes noted earlier.

EQT allowed BRIDGE to be far more efficient in the use of staff resources. It precludes the need for BRIDGE to fundraise in the short term, and enables them to delay repayment to investors until they earn developer fees and project reimbursements at a later date.

The Bayou District Foundation (BDF) will use its EQT investment to replicate the Purpose Built Communities model in New Orleans. BDF is continuing the development of Columbia Parc, a master-planned community in New Orleans on a former public housing site, with mixed-income housing, a health clinic, high-quality early childhood education, and a planned K-8 charter school. BDF plans to use EQT funds to bridge fundraising in one of these real estate development projects, but it is free to change course as it sees fit because EQT investees are not obligated to any particular use of funds. EQT has thus enabled BFD to accelerate its timeline in implementing its comprehensive strategy, in addition to increasing the organization's capacity around impact assessment.

At the time of this book's publishing, LIIF and JPMorgan Chase had made an EQT commitment to an organization in Cincinnati as well.

EQT AS AN OUTCOMES-FOCUSED TOOL

EQT has both advantages and limitations as a financial product and as an outcomes-based funding approach in particular. First, as previously noted, there are no other dedicated sources of funding to support community quarterbacks. Enterprise-level capital that is low-cost and long-term, which allows uneven repayment and deferred revenue for investors, is exceedingly rare in community development finance. This scarcity makes EQT especially valuable for organizations pursuing complex poverty alleviation strategies that must be sustained over many years. Further, the tool incentivizes innovation on the ground by: 1) supporting integrated strategies, and 2) requiring social outcomes tracking—an easy to understand, but hard to accomplish goal when faced with the urgencies and day-to-day realities of being a practitioner organization. EQT's approach to evaluation and tracking social impact is user-friendly for investees.

By the same token, EQT might be more accurately characterized as an outcomes-*driven* funding tool than outcomes-*based*. Unlike with most Pay for Success approaches to date that have focused on scaling evidence-based practices within single sectors, repayment to EQT investors is not contingent upon generating social benefits of a pre-defined magnitude. Instead, the initiative is tailored to reflect LIIF and JPMorgan Chase's goal to support innovation within a broader framework which shows promise in generating significant benefits for families and neighborhoods. Importantly, investees are free to shift approaches over time—and the areas to which they allocate EQT funds—based on results that they collect along the way. This flexibility is critical for supporting real-time innovation on the ground, ultimately allowing organizations to figure out what works in their neighborhoods.

Equally important, EQT encourages more organizations to: 1) work across silos, 2) measure outcomes, and 3) adjust their strategies to achieve stronger and better outcomes. If we can demystify this way of working, if we can make it easier for others to adopt, we will have achieved our purpose.

Looking forward, EQT may help practitioners evolve and become more comfortable with integrated strategies. It may also set the stage for outcomes tracking as a condition for favorable financing. Despite limitations in its evaluation design, EQT may generate important lessons for practice and contribute to a growing body of suggestive evidence that could eventually be verified through more rigorous experiments.

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