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BEFORE THE CONSUMER OPERATED AND ORIENTED PLAN (CO-OP)
PROGRAM ADVISORY BOARD

HEARING ON
CONSUMER OPERATED AND ORIENTED PLAN (CO-OP) FOR THE
PATIENT PROTECTION AND AFFORDABLE CARE ACT

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Introduction

My name is Amit Bouri and I am the Director of Strategy and Development at the Global Impact Investing Network (GIIN). The GIIN is a not-for-profit organization dedicated to increasing the effectiveness of impact investing. Impact investments are made with the intention to create positive social or environmental impact alongside financial return. I feel privileged to have this opportunity today to tell you more about impact investing and discuss how private capital can be leveraged to support health care cooperatives that deliver high-quality care to members and operate with financial sustainability.

I am not an expert in co-operative financing or the specific details of the new health care reform. I do however hope to bring the perspective of a diverse community of impact investors – including large-scale financial institutions, pension funds, family offices, private wealth managers, philanthropic foundations, commercial banks, and development finance institutions – to this important conversation.

We firmly believe that the impact investing industry needs to work proactively with government to reach its full scale and potential. We have had extensive conversations with internationally-focused government entities over the past year, including the United States Agency for International Development, the State Department, and the Overseas Private Investment Corporation, to discuss how the U.S. government can best support this growing industry with both expertise and assets in developing countries. It is equally important that we engage with domestic-facing government agencies to ensure that private capital can complement government funding to address critical social issues in the U.S. Officials at several domestic agencies, including the Treasury Department, the Federal Reserve, and the Small Business Administration, are exploring impact investing initiatives as well.

To successfully engage impact investors, we recommend that the federal government consider three key principles when designing the Consumer Operated and Oriented Plan (CO-OP) program:

1. Clearly and consistently demonstrate the social impact of the cooperatives by defining and tracking social performance data
2. Create business models that provide steady, reliable cash flows which can be used to pay back lenders
3. Structure government support to reduce risk to private investors through instruments like loan guarantees

Background on Impact Investing

Impact Investing, a relatively new term of art, is the use of for-profit investment to help solve social and environmental problems around the world. Impact investments address poverty, climate change, and other critical challenges, while generating returns that range from a return of principal capital to market-rate or market-beating profits. Investors making impact investments today include large-scale foundations such as the Bill & Melinda Gates Foundation and the Rockefeller Foundation, retirement fund managers such as TIAA-CREF, large financial institutions such as J.P. Morgan and Morgan Stanley, dedicated investment funds such as Acumen Fund and Root Capital, and increasingly high-net-worth individuals and family offices.

Mission-focused businesses, sometimes called “social enterprises,” provide critical goods and services to low-income people, help combat climate change, or address other social ills with their products and services, while also making a profit. Though many are structured as traditional LLCs, they make an additional commitment to provide social and environmental impact in addition to financial returns. This commitment is typically documented in businesses’ mission statements and is demonstrated by an intention to measure and report non-financial performance to investors and other stakeholders. Other social enterprises are structured as non-profits or cooperatives, but have revenue models that allow them to rely on earned income in addition to government funding or grant capital from philanthropists.
Like commercial business, mission-focused businesses need investment capital to create and grow their ventures. These businesses, non-profits, and cooperatives are increasingly looking to impact investors for the financing they need to launch innovative new products and services, reach financial sustainability, scale their impact, and more effectively address community needs. Unlike conventional investors who judge an investment solely on its ability to maximize financial profit given a certain level of risk, impact investors actively seek to finance businesses that produce positive financial and social outcomes.

Impact investing has tremendous promise for addressing critical social issues across the U.S. and we are presently at an important moment of opportunity and momentum. Our challenge is to strengthen the impact investment marketplace by putting in place the intermediary institutions, smart regulation, and collaboration platforms that will further help to connect investors to the interventions that can best tackle complex social problems and strengthen communities.

Financial institutions, philanthropists, and governments all have an important role to play in this process. Government most obviously can provide direct financial support for mission-focused business and non-profits (and structure these investments to attract greater private investment capital structure), as well as create targeted enabling laws and regulations that create opportunities for impact investment markets to scale. While impact investing can tap a vast pool of private investment dollars to address critical challenges in the U.S., it can also help domestic government programs more precisely target interventions where they are needed most.

**Impact Investing to Support Non-profit Member-Run Health Insurance Issuers**

If structured effectively, there is an important opportunity for impact investors to support Consumer Operated and Oriented Plans. Impact investors have long supported innovative cooperative structures, including the recent examples detailed below. While some of these examples are outside the health care field, they demonstrate a track record of impact investors supporting co-ops:

**Investment to create sustainable jobs**

The recently launched Evergreen Cooperatives of Cleveland, Ohio, employs an innovative model of job creation and sustainability. Evergreen’s employee-owned, for-profit companies are based locally and hire locally in the Cleveland area. The first Evergreen Cooperative businesses – Evergreen Cooperative Laundry, Ohio Cooperative Solar, and Green City Growers Cooperative – launched in 2009–2010. The Evergreen Cooperative Laundry, opened in October 2009, cleans bed linens and towels from hospitals and nursing homes. The business was capitalized with $5.8 million in funds from the city of Cleveland, bank loans, and contributions from the Evergreen Cooperative Development Fund. The fund was set up by the Cleveland Foundation and other anchor institutions to seed the co-op businesses, which, once profitable, must return 10% of their profits to the funders, which will use these returns to launch future ventures.

**Investment to finance sustainable agriculture in developing countries**

Internationally, Cambridge, Massachusetts-based Root Capital provides farmer cooperatives in developing countries with much-needed loans to expand their businesses. Root Capital employs a value chain financing model that provides short- and long-term loans against signed purchase orders between agricultural cooperatives in Africa and Latin America – largely coffee and cocoa producers – and their buyers – notably Green Mountain Coffee Roasters, Starbucks, and The Body Shop. Investors, which include leading foundations and family offices, earn an average return of 2.5%.

**Investment to provide health insurance to freelance workers**

While not technically a cooperative, the Freelancers Union initiative was supported by impact investors in its creation of a health insurance plan for its members. Sara Horowitz founded the Freelancers Union in New York City in 1995 in order to represent the needs and concerns of the growing independent
workforce. In 2008, the Freelancers Insurance Company (FIC) in New York (a wholly-owned for-profit company) became the first social-purpose enterprise to offer affordable stable health insurance to qualified Freelancers Union members. Prominent investors including the New York State Health Foundation, the Ford Foundation, the New York City Investment Fund, the Prudential Social Investments Program, and the Robert Wood Johnson Foundation made loans to launch the FIC.

More broadly, impact investors have long supported non-profits with debt capital. Since its founding more than thirty years ago, the Non-profit Finance Fund (NFF) has lent over $200 million and leveraged an additional $1 billion in debt capital for its non-profit clients, and also provided $1.2 million in loan guarantees. NFF has been a leading beneficiary of the New Markets Tax Credit (NMTC) Program, established to spur revitalization efforts of low-income and impoverished communities across the U.S. as part of the Community Renewal Tax Relief Act of 2000. The NMTC Program provides tax credit incentives to equity investors in organizations that invest in low-income communities. In 2009, NFF partnered with JPMorgan Chase Bank for a $5 million NMTC project to support PROCEED, an organization that provides education, health, and training services to the people of Elizabeth, New Jersey. PROCEED used the loan to expand existing preschool programs and senior citizen programming.

**Key Design Features Necessary to Attract Impact Investment in Health Care CO-OPs**

Based on evidence from past investments in related sectors, we are optimistic that impact investment can play a role alongside government funding in helping establish CO-OPs and supporting their growth towards long-term financial viability. To attract impact investment capital, we propose the following recommendations to government participants:

1) **Clearly and consistently demonstrate the social impact of the cooperatives by defining and tracking social performance data**

   To attract investors focused on having an impact, it is critical to measure and articulate the impact of cooperatives on participating consumers. As more investors dedicate a portion of their portfolios to impact investments, they are demanding consistent and rigorous data about the social and environmental impact of their investments. While investors are demanding non-financial data to track the social impact of their investment capital, institutions are aligning to create credible and standardized set of metrics for organizations to use when reporting their impact.

   Launched by USAID, J.P. Morgan, and the Rockefeller Foundation at the 2009 Clinton Global Initiative annual meeting, the GIIN's Impact Reporting and Investment Standards – or IRIS for short – is one tool to help investors better understand the impact of their investments. Rigorous standardized social performance data will ultimately steer private investment capital to more effectively achieve development outcomes.

   Section 1322 of the health care reform law states that organizations will be treated as a qualified non-profit health insurance issuer if “profits made by the organization are used to lower premiums, to improve benefits, or for other programs intended to improve the quality of health care delivered to its members.” To attract impact investment capital, especially from foundations, it will be critical to consistently define the metrics and outcomes CO-OPs are tracking and reporting to investors to meet objectives outlined in this law. These may include dimensions like the income level of the clients, the number of clients who were previously uninsured, distinctive benefits provided to clients, etc. While impact measurement is not, and never should be, a one-size-fits-all approach, a set framework for reporting social impact and transparency expectations for CO-OPs will help attract impact investment.

2) **Create business models that provide steady, reliable cash flows which can be used to pay back lenders**
Given that CO-OPs will be structured as non-profits, funding from impact investors will most likely come in the form of debt. Debt investors look for stable, predictable revenues and cash flows so they can be paid back on schedule. CO-OPs should be structured to reduce revenue and cost volatility to attract impact investors.

Further, debt investors require financial transparency to properly assess risk. While several impact investors are willing to sacrifice financial returns or extend the length of loan terms beyond market norms in order to maximize social impact, they are not willing to sacrifice transparent financial and risk reporting. CO-OPs that create stable business models with reliable cash flows, as well as financial transparency both pre- and post-investment, will be most likely to attract capital from impact investors.

3) **Structure government support to reduce risk to private investors through instruments like loan guarantees**

Government can attract impact investors by reducing the risk for private investors through various tools, including the four possibilities outlined below:

- **Provide early-stage capital to absorb start-up/development risk.** By taking early-stage investment risk in CO-OPs, the government can allow private investors to invest in later stages of development, after CO-OPs have proved stable and credit-worthy.

- **Take highest risk/subordinated positions** so expected financial returns are more attractive for impact investors. The government or other impact-focused investors can take a riskier financing position to enable more financially-motivated investors to provide capital in less-risky tranches of the investment. By taking a subordinated position, socially-motivated investors can leverage their investment capital to attract market-rate co-investors, thus achieving significantly more social impact than they would if investing on their own.

- **Provide guarantees for private investors.** For years, The Development Credit Authority at USAID has enabled impact investing by providing loan guarantees designed to attract capital from private-sector investors. The government could provide guarantees to cover a percentage of the risk assumed by investors providing loans to projects that advance CO-OPs’ mission to provide affordable health insurance. The committee might explore the possibility that a portion of the funds appropriated under the health reform law for establishing CO-OPs could be used for this purpose.

- **Create tax incentives for private sector investment in CO-OPs.** Tax incentives can reduce the cost of doing business for impact investors, therefore making investment opportunities more appealing. We understand that this requires additional legislation, which may not be possible at this time, but we thought it worth mentioning as an important way to leverage capital for social goods such as CO-OPs.

While these tools can be used independently, they can be reinforcing when used in combination.

In addition to the three recommendations above, government players should keep in mind that investors are most likely to support a policy and to ensure its effectiveness if a policy is conceived with consistent engagement from potential investors. There is a growing community of impact investors, and we have strong relationships with many of the industry leaders. If there is an opportunity to connect this committee with any of these investors for input, we would be happy to make the appropriate introductions.

Thank you for the opportunity to contribute to this important discussion.
Appendix I. About the Global Impact Investing Network (GIIN)

The Global Impact Investing Network (GIIN) is a non-profit organization dedicated to building a more effective impact investing industry. We coordinate a range of programs that promote innovation, transparency, and collaboration among industry leaders and other stakeholders:

- The **Impact Reporting and Investment Standards (IRIS)** creates a common framework for measuring the social impact of investment.
- The **Investors’ Council** brings together leading impact investors committed to collaboration that supports industry development.
- We develop and disseminate research that increases awareness and transparency in the impact investing industry.
- The **ImpactBase** data resource, to be fully operational soon, will provide a simple mechanism for impact investors to identify impact-oriented fund managers active in the geographies and sectors they target.

Appendix II. Additional Impact Investor Background

There has never been a better time to reconsider the role of capital markets in creating sustainable value for our society. Through the financial crisis, impact investing has attracted the attention of many new investors and intermediaries, government agencies, and nonprofits. These new impact investors are following the lead of a diverse and pioneering set of players who have been making impact investments for years – in fact, long before the term impact investing came into use.

Today’s impact investors include major financial institutions, including banks, retirement funds, and pension funds. Prudential, for example, has a long tradition of making investments that support and improve communities, having established a formal Social Investments program in 1976. Since the group’s founding, Prudential has invested more than $1.3 billion in domestic economic development and education with special emphasis on investing in urban communities where Prudential has a significant business presence, including Newark, N.J.

Philanthropic foundations make impact investments to help further their charitable missions. The Annie E. Casey Foundation (AECF), just 30 miles from here in Baltimore, is also a pioneering impact investor. Established in 1948, the Casey Foundation has a $125 million allocation for impact investment as part of its broader strategy to build better futures for disadvantaged children in the U.S. In 2005, AECF made an impact investment that has enabled ACCION Texas, the largest microlender in Texas, to make loans to small and mid-size businesses in San Antonio’s West Side, the 11th poorest neighborhood in the nation.

The Robert Wood Johnson Foundation (RWJF) created an impact investing initiative to support their grant-making directed to improve health and healthcare for Americans. As part of its broader project Practice Sights: State Primary Care Development Strategies which began in 1991, RWJF made 10-year loans – ranging from $700,000 to $1,500,000 – that were used to finance primary care development in Idaho, Minnesota, Nebraska, and Virginia. These loans were structured as Program-Related Investments (PRIs), an IRS designation which includes loans, loan guarantees, and even equity investments in charitable organizations or in commercial ventures aligned with a foundation’s charitable purpose.

Prudential, the Annie E. Casey Foundation, and the Robert Wood Johnson Foundation are representative institutions among a large set of industry leaders. Some additional U.S. based impact investors include:

- **Large-scale financial institutions** such as J.P. Morgan, Deutsche Bank, and Citigroup have grown their impact investing businesses beyond minimal regulatory obligations.
- **Private foundations** such as Omidyar Network consider impact investing as a means to deploy their endowment assets toward their social mission. Other foundations make PRIs from the grantmaking budget (rather than the more traditionally invested endowment).

- **Retirement fund managers** such as TIAA-CREF are responding to demand for impact investments rather than socially responsible investments that “do no harm.” Retirement fund managers often target impact investments in the communities and sectors in which their policyholders work.

- **Boutique investment funds** such as Pacific Community Ventures raise capital from high-net-worth individuals, family offices and private foundations, and invest in mission-focused businesses in low-income communities.

- **Community development finance institutions (“CDFIs”)** such as rural-focused Southern Bancorp and New York-based Carver Federal Savings Bank provide credit and financial services to underserved markets and populations in the U.S. CDFIs are certified by the Community Development Financial Institutions Fund at the U.S. Department of the Treasury.

- **Development finance institutions (“DFIs”)** including the multi-lateral International Finance Corporation (IFC) and investment organizations such as the U.S. Overseas Private Investment Corporation (OPIC) make impact investments internationally.