Development Finance Supplemental Guidance

ARC has historically provided grants to support the formation, operation and/or capitalization of a range of development finance activities, including: Revolving Loan funds (RLF), Community Development Finance Institution (CDFI) funds, Angel investment funds, Venture Capital investment funds, and New Markets Tax Credit Community Development Entities funds. Under the POWER initiative, ARC will continue an emphasis on these as well as new, emerging products such as *Impact Investing*, defined as: "investments made into companies, organizations, projects, and funds with the intention to generate social and/or environmental impact alongside a financial return[1]" or "… investing that produces both financial and social returns[2]." Links for resources and research providing additional background on this Impact Investments category are provided below.

In addition to the *Priorities, Objectives, and Funding Principles* of the FY 19 POWER Initiative described in the RFP, the **following represent ARC's priorities and requirements for POWER investments intended to improve access to capital for small and emerging businesses:**

- **Leverage** – substantial leverage from new, non-public sources (3:1 or greater). Non-public sources include funding from private for-profit and non-profit organizations such as philanthropies and community foundations. This leverage shall occur at the Fund level (on Balance Sheet), ensuring POWER grant support prioritizes new private and philanthropic investment in the Region. Applicants should include a clear description of how ARC funds are to be utilized in conjunction with capital from other sources in the proposed financings, e.g., Loan Loss Reserve, restricted net assets, loan capital, other uses in the capital stack;
    - The 3:1 minimum leverage requirement is necessary when ARC funds are being used as loan capital.
    - Leveraged investment should be reported in the "other" section of the SF 424A.
- **Gaps** – the proposal should address gaps in communities, should be sustainable, and connected to local/regional community development ecosystem;
- **Demand** – competitive proposals will clearly articulate demand for the proposed financing activities, including presentation of a demonstration pipeline;
- **Financial Product Structure** – applicant should include descriptions of financial product(s), to include examples of transaction structure and financial products to be deployed;
- **Deployment Rates** - if the applicant is currently a financing organization, a discussion of deployment rates will demonstrate capital need, including a review of restricted and unrestricted net assets. Applicants with low rates of deployment of available assets will receive a lower priority absent an explanation for the low deployment rate.

Existing ARC Grant Review Procedures for Financing Organizations

In addition to the Priorities, Objectives, and Funding Principles of the FY19 POWER Initiative described in the RFP, ARC will evaluate proposals according to the following criteria:

- Organizational management capacity to undertake proposed activities;

1 See Global Impact Investing Network: https://thegiin.org/impact-investing/

2 See Stanford Social Innovation Review: https://ssir.org/topics/category/impact_investing

- Product/Policy Review, including review of Underwriting/Investment Guidelines, Portfolio Management systems;
- Community partnerships, to ensure strategic delivery of services;
- Community Impact, assessment of effectiveness of impact in the target communities;
- Financial performance, including review of the lead organization's historic operational and financial performance measures as needed;
- Organizational sustainability, including review of pro forma financial projections as needed; and
- Other supporting financial documentation, as needed.

Please note that ARC Guidance on Revolving Loan Fund grants is located at:
https://www.arc.gov/funding/ARCBusinessDevelopmentRevolvingLoanFundGrantGuidelines.asp.