



# ARC POWER INITIATIVE

[www.arc.gov/POWER](http://www.arc.gov/POWER)

## SUPPLEMENTAL GUIDANCE—Capital Development

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 Market Tax Credit (NMTC) Program Community Development Entities funds.

Under the POWER (Partnerships for Opportunity and Workforce and Economic Revitalization) Initiative, ARC will continue to emphasize these development finance activities 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”<sup>1</sup> or “... investing that produces both financial and social returns.”<sup>2</sup> Links to additional information about impact investments are provided in the footnotes.

### **POWER Investments Intended to Improve Access to Capital for Small and Emerging Businesses**

ARC's priorities and requirements for POWER investments intended to improve access to capital for small and emerging businesses are the following:

- Leverage
  - The project should create 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.

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

<sup>2</sup> See Stanford Social Innovation Review: [https://ssir.org/topics/category/impact\\_investing](https://ssir.org/topics/category/impact_investing)

- Leveraged investment should be listed in the “Other” section of the SF 424A and described in the “Budget Narrative” section.
- Gaps
  - The proposal should address gaps in communities and connect to the local/regional community development ecosystem; this information should be provided in the “Rationale” section.
- Demand
  - Competitive proposals will clearly articulate demand for the proposed financing activities, including demonstration of a robust pipeline of investment opportunities.
  - If the applicant is currently a financing organization, deployment rates also should be noted, including a review of restricted and unrestricted net assets. Deployment rates will serve as an additional measure of capital need. Applicants with low rates of deployment of available assets will receive a lower priority absent an explanation for the low deployment rate. Upload this information on the “File Upload Page” using the “Evidence for Local Demand” document type.
- Financial product structure
  - Applicant should include descriptions of financial product(s), examples of transaction structure, and financial products to be deployed; this information should be provided in the “Project Description” section.

Additional goals, priorities, and funding principles of the POWER Initiative for fiscal year (FY) 2020 are described in the request for proposal (RFP).

### **Existing ARC Grant Review Procedures for Financing Organizations**

ARC will evaluate proposals for financing organizations according to the following criteria:

- Organizational management capacity to undertake proposed activities, specifically, financial performance, including review of the lead organization's historic operational and financial performance measures as needed. Please provide this information in the “Qualifications and Capacity” section.
- Product/policy review, including review of underwriting/investment guidelines, portfolio management systems; upload this information on the “File Upload Page” using the “Development Finance” document type.
- Community partnerships, to ensure strategic delivery of services; please provide this information in the “Regional Collaboration” section.
- Community impact, assessment of effectiveness of impact in the target communities; this should be reflected in the metrics selected in the “Impact Measures” section.
- Organizational sustainability, including review of pro forma financial projections as needed. Please provide a brief overview of the pro forma analysis in the

“Sustainability” section, and upload the actual pro forma on the “File Upload Page” using the “Development Finance” document type.

Additional priorities, objectives, and funding principles of the FY20 POWER Initiative are described in the RFP.

ARC guidance on revolving loan fund grants is located on the [ARC website](#).