

State and Local Governments and Impact Investing

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Impact investing aligns financial investments with social and environmental impacts. State and local governments should understand this large and growing marketplace and the potential benefits it brings.

Engaging with impact investing in ways that emphasize governments' unique perspective, abilities, and resources can help **harness private capital and channel it toward beneficial, place-based projects.**

Governments should carefully consider the potential risks of impact investing when weighing whether and how best to engage.

If a government decides to engage with impact investing, it should do so strategically, with a thorough understanding of where it can and cannot add value, a clear vision, and an innovative mindset that reconceptualizes the role of government.

Impact investments aim to generate social and environmental change alongside a financial return. They have gained increasing attention and popularity in recent years as a way to harness private and philanthropic capital in the pursuit of projects that benefit society. But despite impact investing's potential, alignment with public goals, size, and (typically) place-based focus, state and local governments have been conspicuously absent from most conversations on it.

Impact investing can harness significant private and philanthropic funds to pursue social and environmental goals, access resources to stimulate growth and boost governance capacity, and help shift risks for innovative solutions. And governments can play many roles that add significant value to impact investing efforts.

Governments can forge new relationships, accelerate effective projects, and support a broader shift in how people think about the role of government and community-serving investments. Forward-thinking state and local governments can help ensure this growing field of finance lives up to its billing and is harnessed for public good.

HOW CAN STATE AND LOCAL GOVERNMENTS ENGAGE?

Although the federal government can play an important role by creating an enabling environment nationally, impact investing is largely local and would benefit from more localized government engagement. State and local governments can be cooperative partners by elevating voices from marginalized communities, nudging private resources in directions consistent with public interest and data on local needs.

Governments can add significant value to impact investing efforts by serving as

- **sources of catalytic capital** to seed enterprises and entice other investors;
- **sponsors and partners of platforms** that nurture promising projects;
- **strategic knowledge partners**, identifying local needs, data, and priorities;
- **trusted brokers or conveners**, facilitating various impact investing efforts;
- **creators of local incentives** for impact investments; and
- **supporters of the social enterprise community.**

WHAT FACTORS SHOULD GOVERNMENTS CONSIDER?

Impact investing is a new field and, as we discuss in our [accompanying report](#), it presents several potential risks and liabilities for governments. It not only entails thinking differently about public resources, it also requires engaging private, philanthropic, and community partners in new ways and, to some extent, redefining government's role and its relations with these partners. That is no easy lift.

Governments should be aware of several factors that can influence the success of their engagement with impact investing:

- market distortion risk
- goals of government involvement
- costs and benefits of different types of engagement
- political and reputational risk
- thoughtful selection of partners

RECOMMENDATIONS FOR GOVERNMENTS CONSIDERING IMPACT INVESTING

Governments should consider the following recommended actions, presented roughly in the order they might be addressed:

- **Create a new office or committee** (or task an existing one) to coordinate government engagement with impact investing efforts.
- **Map existing government investing and priorities** against supply and demand of impact capital to identify gaps and opportunities.
- **Create a vision of impact investing opportunities and risks.**
- **Find opportunities to elevate marginalized voices** into impact investing conversations.
- **Integrate impact investing models into decisionmaking conversations** by educating government agency leaders and staff, securing buy-in, and identifying champions.
- **Consider appropriate financial tools** that best leverage limited public funds in support of impact priorities.
- **Continuously learn from their own and others' impact investing efforts**, using lessons to inform practice, identify new opportunities, and mitigate risks.
- **Support efforts to measure impact and use evidence to inform public policymaking.**

ADDITIONAL READING

State and Local Governments and Impact Investing: A Guidebook for Strategic Engagement

Matt Eldridge, Rayanne Hawkins, and Mayookha Mitra-Majumdar <https://urbn.is/2V19Opm>

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