

ESG Community Loan Fund: A funding proposal for inclusive economic development in Alaska

Problems addressed: Climate change, wealth disparity, racial injustice

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Abstract:

A Community Loan Fund (CLF) could provide vital services that are currently unavailable to Environmental, Social and Governance (ESG) focused and low-wealth Alaskan entrepreneurial communities. The increasing demand for funding opportunities that go beyond the bottom line and advance ESG objectives creates an exciting market opportunity that has yet to be filled locally. An Alaskan ESG focused CLF would create a vehicle for Alaskans to do what Alaskans do best - to come together and support our neighbors.

Introduction

This paper proposes the creation of a local community loan fund (CLF) to support viable Alaskan businesses that create local jobs with living wages while addressing problems caused by climate change and racial injustice. We refer to such a fund as the ESG-CLF. The fund will engage Alaskan investors looking for local impact investment opportunities. This paper suggests how existing local individual wealth can be leveraged to generate new local community wealth.

The fund will advance Environmental, Social, and Governance (ESG) investing objectives; lend to local businesses and startups to create jobs that pay living wages; produce essential goods and services that strengthen local economies; prepare workforces for renewable energy jobs; and promote racial justice.

In the remainder of this paper we review the current enterprise ecosystem, loan sources and their limitations, and present an argument for ESG-CLF.

Current loan sources in Alaska

The following overview discusses the types of loans currently available and their limitations.

Bank and SBA loans

Entrepreneurs qualify for business loans based on the 5Cs of credit (capacity, capital, collateral, conditions and character), and these are recourse loans only. These traditional lending criteria leave out socially and economically disadvantaged entrepreneurs who don't personally meet the criteria and due structural divestment are less likely to have access to family and professional networks wealthy enough to provide collateral. The future may hold a more promising scenario. As an example, for the first time in history a 2018 law¹ makes employee-owned businesses eligible for SBA section 7(a) loans.

Community Development Financial Institution (CDFI) Loans

Similar to banks and credit unions, CDFIs are major lenders to local businesses. There are a number of CDFIs in Alaska including Spruce Root, Alaska Growth Capital, and Cook Inlet Lending Center. These financial institutions have a limited outreach and narrowly specialized scope.

¹ Main Street Employee Ownership Act

Spruce Root focuses on the Southeast region, clients of Alaska Growth Capital, a subsidiary of ASRC are Alaska Native businesses, and the Cook Inlet Lending Center supports affordable housing loans. Recently, Cook Inlet Lending Center in partnership with the Anchorage Community Land Trust (ACLT) has been offering loans to low-wealth entrepreneurs who graduate from ACLT's set up shop program. This support is provided to small scale startup entrepreneurs.

Ecosystem Support

Technical support and advisory functions: SBDC offers business and technical support to startups and small businesses. Other ecosystem supports available to entrepreneurs include ACLT's set up shop program that provides entrepreneurship training to low wealth communities; YWCA's economic empowerment program for women; and UAA's Alaska Cooperative Development Center that supports rural producer cooperatives. Further, UAA's CED and ISER provide economic research that supports economic and industrial development in the state.

Enterprise development: An ecosystem for developing the historically disadvantaged entrepreneurs we have mentioned in this paper is not robust in Alaska. Even the available resources focus on entrepreneurship development for investor primacy. The venture capital model that promotes rapid value growth to allow for a fast exit of angel investors and venture capitalists is popular in the state. These types of startups are focused on returns only, play in the highly competitive market place, and are often not concerned with creation of living wage employment for local communities or keeping the company base in state. While this is one of several models of enterprise development, this is the only model promoted in entrepreneur development in the state. This means Alaska is missing out on developing and investing in enterprises that create community wealth through living wages and are focused on climate and social justice. Enterprise development for *community wealth creation*² is currently nonexistent in Alaska and ESG-CLF can help fill this gap.

The Need

ESG-CLF will provide a vehicle for Alaskans to invest within our state. Currently private investments come from angel investors or venture capitalists who expect value growth and quick returns as a condition for their investments. These kinds of innovation and growth focused businesses are less likely to generate local community benefits because they are incentivized to create new wealth for the already wealthy investors. While these market value focused operations may create job opportunities, there is no guarantee that the jobs will be created in Alaska, or that the operation will address environmental or social issues.

The gaps the ESG-CLF would fill exist in part because as discussed above, angels, venture capitalists and financial markets are focused on high return, fast value growth startups and growth companies. By nature, small businesses that promote climate, racial, and economic justice are slow growth companies and therefore need to be supported by patient capital³. We

² Individual wealth creation is the focus of the current enterprise development models.

³ Patient capital as opposed to venture capital which requires businesses to grow fast and create market value to allow fast exit of the first round of investors. Patient capital often comes from philanthropic and local communities to support businesses that are sustainable in the long term and create value for investors, employees, and the

suggest that Alaska needs a patient capital community loan fund to facilitate investments from individuals, anchor institutions, and philanthropic foundations. This patient capital will lend to businesses for a financial return, in addition to social and environmental health benefits.

The traditional financial capital markets don't effectively serve small and viable businesses that are place based, create local employment, are climate conscious and socially just. Lending institutions screen out borrowers as discussed above. ESG-CLF will invest in viable enterprise operations that otherwise may be rejected by existing banks and credit unions.

The ESG-CLF fund will connect such businesses to the local community wealth - Alaskan citizens willing to support Alaskan communities with patient capital. Currently no lending vehicle is available to make this possible. The ESG-CLF fund will provide investors more than financial returns. Imagine the compounding benefits when local investors frequent the businesses they lend to, and experience firsthand the positive impacts they are having on Alaskan communities. Over time, this will increase the local loan capital invested in Alaska.

Three types of enterprises are well suited for ESG-CLF investments in Alaska: small businesses that create renewable energy jobs; enterprises where employees and the local investors share ownership; and disadvantaged and minority owned enterprises that lack generational wealth for capital or collateral to access traditional loans. ESG-CLF will invest in those businesses addressing the most pressing problems in the communities such as food insecurity, climate change, poverty, and health. Some examples of such community supported social enterprises that are helping create community wealth across the nation include Arizmendi bakery in Oakland, California, Equal Exchange in Boston, Massachusetts, and Evergreen Energy Solutions in Cleveland, Ohio⁴.

Encouraging and supporting development of social enterprises for a regenerative and just economy will contribute toward a more resilient Alaska overall. Over the long term these social enterprises will advance fair distribution of profit through worker ownership, workforce development for the green economy, equal opportunities for women, and BIPOC participation in the wealth creation process. The long-term impact of community wealth creation is the elimination of generational poverty and the health and wellbeing of local communities and the environment.

This is an exciting funding mechanism that could be truly by and for Alaskans. This loan fund will provide investment opportunities to accredited and unaccredited individual investors, anchor institutions, and community philanthropic foundations, all of whom are concerned about community wellbeing.

Vision and structure of ESG-CLF, Alaska

community. Exit strategy is not the focus of patient capital- this is a key distinction between patient capital and venture capital.

⁴ <http://www.evgo.com/feature/evergreen-energy-solutions/>

<https://www.arizmendibakery.com/about>

<https://equalexchange.coop/about>

The ESG-CLF will generate opportunities to support

- new businesses that are climate conscious, contribute to the reduction of CO2 in the environment, and provide energy solutions.
- conditions for economic and social justice in the governance of business entities
- new businesses committed to diversity, inclusion, and equity
- living wage jobs
- alternative business models that allow participatory governance and profit sharing.

Fund structure

A nonprofit coalition consisting of interested citizens, local communities, and community and philanthropic foundations will be ideal partners to create a charitable loan fund. A viable model would be for a community foundation to administer the fund with a local registered investment firm acting as advisor.

Investors

The investors will be accredited and unaccredited individuals, anchor institutions, philanthropic, and community foundations. We also see potential for the state of Alaska and the local governments to invest in ESG-CLF using the ARPA funds.

Technical support

Community partners will provide the technical support needed for borrowers pre/post lending. Developing an ecosystem necessary to support local ESG business operations is critical. The currently existing entrepreneurial ecosystem supports acquisition of traditional loans (5C focus and collateral). The ESG- CLF we propose would lead to development of a different kind of ecosystem support. Criteria used to assess viability of these businesses must be different from the mainstream. Support to low-wealth, disadvantaged, BIPOC communities should be contextually appropriate. An ESG approach will be used to guide and evaluate the investee businesses pre/post lending.

Conversations to create an ecosystem to support ESG businesses in Alaska are already underway in our local communities. AkV3, Fairbanks Climate Action coalition in collaboration with Native Movement, and First Entrepreneur LLC are examples. Juneau's Innovation Summit, 2021 catalyzed this conversation. These organizations have recently sponsored a *Local Investing Course* taught by Michael Shuman and are working on an action plan to make ESG-CLF a reality. This concept paper is an outcome of that initiative. There is a strong movement and a sustained effort to promote above mentioned business values in Alaska.

Summary

The model of community supported local business development we envision through local CLF is stakeholder focused. The ESG-CLF will invest in businesses that are place-based, focus on local employment, pay living wages, and are sustainable in the long term to solve the most pressing problems and benefit the environment and the local communities. There are ongoing conversations between educators and among community organizations to create a broader awareness of a more integrated and inclusive enterprise ecosystem in Alaska. Involved entities

include Alaska V3, Alaska Pacific University, the Alaska Climate Alliance's Regenerative Economies Working Group, and others. These groups are also working on developing a culture of collaboration and cooperation over competition.

Long term implications

Impact investing communities nationally and even internationally could be very interested in this investment vehicle.

Action steps for creating the fund

Below are key actions necessary to make ESG-CLF a reality.

1. Create a team of community builders to plan and execute the vision
2. Determine a regional or sector focus for the fund at its inception. The focus may expand as the fund is established
3. Develop potential client profile using a market analysis
4. Identify and educate potential investors

Ideas in this paper were inspired by:

1. Making Peace with Nature, A United Nations Publication, Summer 2021
<https://wedocs.unep.org/xmlui/bitstream/handle/20.500.11822/34948/MPN.pdf>
2. [Community Investment Funds: A how-to Guide for Building Local Wealth, Equity, and Justice](#). A publication of the National Coalition for Community Capital and The Solidago Foundation.
3. [The Alaska Just Transition Community's Vision for Regenerative Economies](#)
4. The Cooperative Growth Ecosystem: Inclusive Economic Development in Action. A joint project of Project Equity and the Democracy at Work Institute.
5. Cooperation and Community Wellbeing in Alaska, ADN, December 24, 2021.
<https://www.adn.com/opinions/2021/12/24/cooperation-and-community-wellbeing-in-alaska/>