



**A Study to
Determine the Feasibility of
Michigan State University Investing in
Community Development Financial Institutions**

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Executive Summary

For years, many Michigan families have struggled to send their children to college, and as 2020 approached, the COVID-19 pandemic intensified problems such as racism, social injustice, and the inequities of affording higher education. Many of these communities and families are still struggling to economically rebound from these financial stressors. In addition, access to capital is a major impediment to new businesses forming and community revitalization in many distressed urban and rural communities in Michigan. Providing capital support through responsible investing of MSU's Endowment and that of the MSU Foundation can be an important part of supporting community investing in affordable housing, entrepreneurial development, income growth and job creation in targeted Michigan Communities.

This is the report of a working group at Michigan State University's Center for Community and Economic Development (CCED) that has worked over winter 2023 to conduct a feasibility study to explore the opportunity for MSU to help pioneer higher education endowment investment practices through community development financial institutions (CDFIs) to strengthen historically disadvantaged communities. Specifically, the team is seeking to determine the feasibility of MSU strategically investing its financial resources in the creation of a Community Development Investment Fund (CDIF) within its investment portfolio. As a growing number of universities and institutions look to invest in underserved communities through CDFIs, it is important for MSU to take on a national leadership role in the coming years.

Community Development Financial Institutions (CDFIs) are federally certified lender institutions that target underserved populations and socially and economically distressed investment areas to promote community development through capital flows. Investment in these CDFIs offers a direct way for MSU to address its goals stated in the [*Diversity, Equity & Inclusion: Report and Plan*](#), such as having a more diverse campus, including those historically underrepresented and disadvantaged groups in the broader community, and strengthening external partnerships (2021, August). As a Land-Grant University, MSU has an opportunity to embody these values through its investment practices, improve local economies around the State of Michigan, and allow young adults in underbanked areas to access higher education. With a diverse array of services, CDFIs offer a long-term, stable rate of return with little lending risk, while also providing secondary social and economic returns that are realized through community revitalization. These returns are also expanded through local multiplier effects from investment and increased leveraging power with the influx of capital. Numerous university-community partnerships already exist among universities with both large and small endowment sizes. The case studies and literature explored throughout the report support the notion that MSU has the power to create a more inclusive, diverse, and equitable campus by supporting community revitalization efforts through investing in CDFIs operating across the state of Michigan.

In their findings, the working group has decided on the following recommendations: 1.) Create a diverse advisory committee to guide the creation and implementation of MSU's community investing model. Include representatives from key stakeholders such as the MSU

Board of Trustees, the Board Budget and Finance Committee, the MSU Treasurer, representatives of the state government such as the MEDC, representatives of CDFIs, MSU faculty, staff, and students, and select investment consultants. 2.) Engage with the Coalition of Michigan CDFIs to learn about and gather input regarding CDFIs operating in Michigan and their impact on local communities and diverse populations. 3.) Invest a portion of MSU's endowment funds in the identified CDFIs as per the Advisory Committee's deliberation. 4.) Monitor and evaluate the social impacts and financial returns of the investments, with specific attention to impacts on the quality of life for people living in the communities in which CDFI investments were made.

Introduction and Purpose of Study

This feasibility study explores the opportunity for Michigan State University (MSU) to help pioneer higher education endowment investment practices through federally certified community development financial institutions (CDFIs) to strengthen historically disadvantaged communities^[1] This project focused on the feasibility of making specific financial resources available through community development intermediaries like CDFIs dedicated to supporting community revitalization and serving the needs of marginalized people and places.

The research team conducted this feasibility study through a combination of research methods including the review of relevant literature on institutional investing and examining case studies of investments in CDFIs. The team benefited from working closely with an advisory committee made up of experts in community development finance from government, non-governmental, and technical assistance^[2] organizations around the state of Michigan. The project hosted a public forum in February 2023 that provided participants with an orientation to the mission and services of CDFIs in Michigan. There, participants also learned about other institutions in Michigan, like the Kresge Foundation, that are currently investing in CDFIs.

Successful investment in Michigan communities involves identifying the institutions and mechanisms into which that investment might occur. Fortunately, community financial institutions already exist – *with community development missions and reputations for lending responsibly in low-income communities*. Within this study, the authors outline literature on CDFIs, provide case study examples of CDFI activities and impacts, provide an overview of how other higher education institutions have adopted models of community investing, and conclude with specific recommendations that may be taken to advance these models.

As of the writing of this report, the University does not have a mechanism for investing in CDFIs. MSU's endowment fund invests in private and public assets globally. The COVID-19 pandemic has only intensified already complex problems of racism, social injustice, and inequities of affording higher education. Most Michigan communities are struggling to economically rebound from these financial stressors. Providing capital support through responsible investment of the MSU Endowment could be a critical contributor to revitalization of socially and economically distressed Michigan communities while providing a reasonable rate of return on MSU's investments – *a win-win opportunity*. By engaging with authenticity in thought and action, Michigan communities of color and other underserved communities would experience first-hand the rectification of discriminatory barriers and biases and the standardization of equitable access and resources per the sincerity of the University's commitment to diversity, equity, and inclusion (DEI). Moreover, an MSU practice of community investing may improve the chances of more diverse future student populations returning and utilizing their world class education for the betterment of their home communities.

¹ See CDFI Fund:
<https://www.cdfifund.gov/>

² First MSU CIEG Forum (February 28, 2023).
https://mediaspace.msu.edu/media/Michigan+State+University+Community+Investment+Forum/1_8ae3wlrk

Why Now?

Given the tremendous social and environmental issues confronting the world today, there are social forces calling for institutions to provide capital support to address longstanding inequities and injustices. For adequate impact to be felt in development efforts according to the standards set forth by the United Nations Sustainable Development Goals, \$3.3 trillion to \$4.5 trillion from endowments and other institutional investors would need to be allocated in responsible investing every year from now until 2030 (NACUBO-TIAA, 2023). In the aftermath of the COVID-19 pandemic, that need has proliferated. As underfunded communities in Michigan look to recover and move forward with their ventures, the need for CDFIs is paramount. Due to this need, Michigan State University has a unique opportunity to invest in a growing sector that provides stable returns and deepens the impact of local financial support.

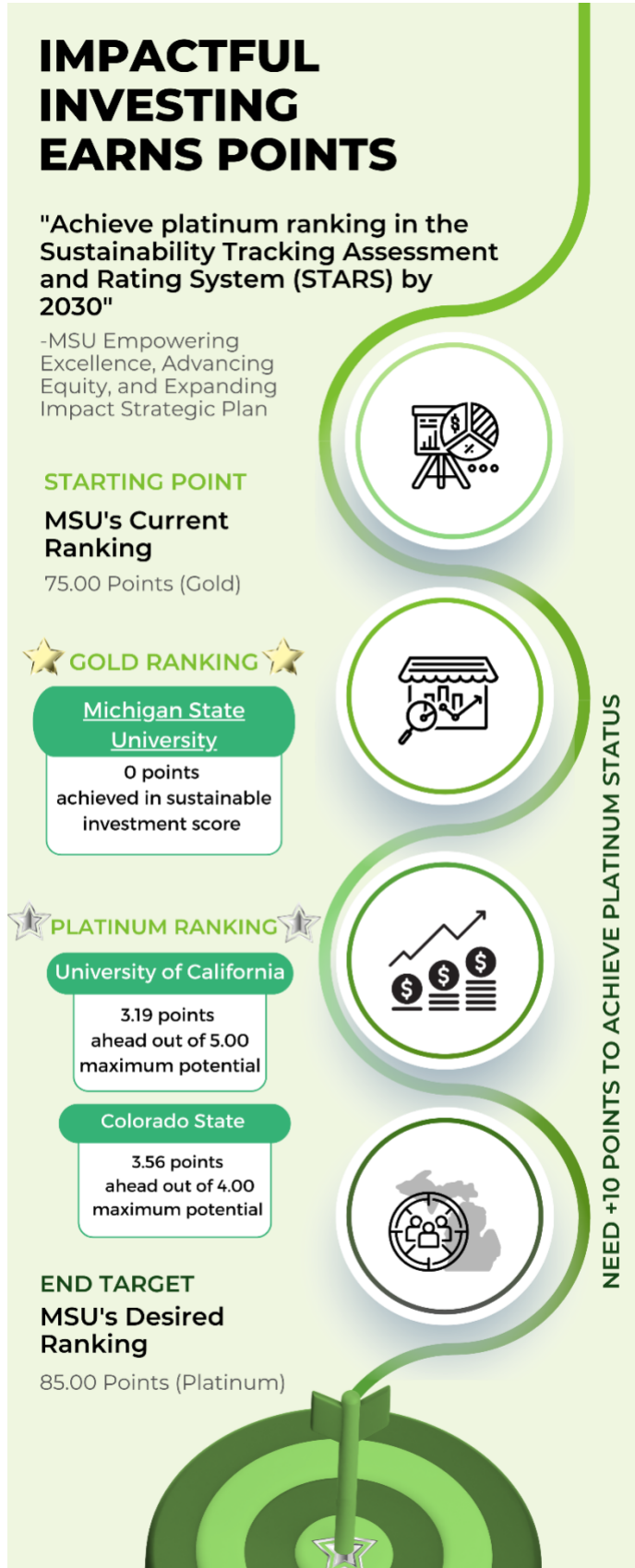
There has been an unprecedented level of overall investment in CDFIs during the pandemic, with a large portion of federal funding allocated to providing nearly universal support to CDFIs for a limited period. In 2021, Congress passed the Consolidated Appropriations Act, providing \$3 billion in additional funds, more than 10 times its usual annual allocation. A large portion of it was distributed through the CDFI Rapid Response Program (CDFI RRP) of 2021, a one-time universal program that supported a much larger portfolio of CDFIs than it had supported in the past (CDFI Fund, 2022). In addition, the State of Michigan's support for CDFIs has recently expanded with the creation of a Michigan CDFI Fund in 2022, deploying \$75 million towards a CDFI grant program through the Michigan Economic Development Corporation (MEDC). This program provided additional capital to Michigan CDFIs for financial products, services, and assistance, as well as for administrative costs (MEDC, 2022). However, programs like the CDFI RRP and the MEDC CDFI Fund are limited. This caveat highlights the importance of extending the impact of CDFI growth in local communities, especially as funding begins to run dry within the next few years.

According to the 2023 report from the National Association of College and University Business Officers (NACUBO) on endowment investments, 47% of 678 endowments surveyed are considering incorporating "responsible investing" into their investment practices, and 24% of the endowments have committed to adding or expanding responsible investing in their portfolios in 2023 (NACUBO-TIAA, 2023). Furthermore, larger institutions have been leading the growing number of endowments that are considering such investments, with 77% of endowments of \$1 billion and above considering impactful investments as "criteria in manager due diligence" (NACUBO-TIAA, 2023). Additionally, the Global Impact Investing Network estimated that, 2022, the amount of total global assets invested in "impact strategies" passed the \$1 trillion mark for the first time, hitting \$1.2 trillion (NACUBO-TIAA, 2023).



As a growing number of universities and institutions look to invest in underserved communities, it is important for MSU to take a leadership role. It is a goal within MSU’s Strategic Plan to achieve a Platinum ranking from the Association for the Advancement of Sustainability in Higher Education’s (AASHE) Sustainability Tracking Assessment and Rating System (STARS) by 2030 to demonstrate excellence and innovative leadership. Michigan State obtained a Gold status as of 2022, with an overall score of 75.00, needing only 10 points to achieve the baseline Platinum score. However, MSU’s score in the individual “Sustainable Investment” category was 0.00 out of a possible 4.00 points (AASHE, 2022). So far, there have been 11 universities that have been able to achieve Platinum status, and their scores suggest that impactful investing and investing in CDFIs is a vital step to achieving a higher STARS rating. For example, Colorado State University (CSU) and the University of California (UC) system have achieved a Platinum rating and consecutive individual sustainable investment scores of 3.56/4.00 and 3.19/5.00 (AASHE, 2022). Additionally, Colorado State and the University of California system are on the opposite ends of the broad endowment size cohort, with CSU being at the bottom having an overall \$500 million endowment, and UC being at the very top with an overall \$14 billion endowment. Both universities invested millions of their respective endowments into CDFIs and CDFI-equivalents. If these universities of various sizes can contribute similar investments to their local communities, then so too can Michigan State.

In supporting local CDFIs, the University would also be aligning itself more closely with the values that it lays out in the university’s recently adopted strategic DEI plan. Within the MSU Strategic Plan, one listed goal reads “Be a leader in developing transdisciplinary solutions to ecological and human problems affected by social, economic,



political, climate, and environmental changes" (2021). MSU also pledges to uphold certain "Community Values" that include "eliminating barriers to access and success" under the Equity value and acting as innovators with high standards of "teaching, research and engagement, to serve the common good and improve the world" under the Excellence value. Additionally, *Objective 5* of the strategic DEI plan notes increasing engagement with underrepresented and underserved communities. As the premier land grant university in Michigan, MSU also has a distinctive duty to support organizations that serve local native communities. The University has the opportunity to take critical action on its DEI plan through investment practices supporting Michigan's undervalued communities. Discourse surrounding this unique opportunity and the potential of MSU's investments has circulated amongst the university's constituents and has achieved notability with the adoption of the January 31st University Council Resolution, which encouraged the implementation of a social conscience framework into future investment practices and policies (MSU University Council, 2023).

Additionally, impactful investing is a particularly important and timely action for MSU to take as it challenges discriminatory barriers and solidifies equitable access, encouraging diverse future student populations. Students of color and low-income students remain the two demographics with the lowest college-education rates, many times for financial reasons. As of Fall 2020, 66.5 percent of MSU students (including both undergraduate and graduate students) were white, making MSU a predominantly white institution (PWI) (*MSU DEI Report & Plan*, 2021, p. 21). Moreover, in 2017, 53 percent of students at MSU came from families who belonged to the top 20 percent of income-earners nationwide (Chetty et al., 2017 as cited in the *New York Times*, 2017). In 2017, the minimum cut-off to belong in the top quintile of earners was \$126,656 (Urban Institute & Brookings Institution Tax Policy Center, 2022). Meanwhile, the median family income of MSU students was \$115,400 per year (Chetty et al., 2017 as cited in the *New York Times*, 2017). In its "Diversity, Equity, and Inclusion Report and Plan" (2021), MSU states a goal of improving the diversity of its student body through recruitment and retention. Impactful community investing presents an opportunity to increase the likelihood of underrepresented demographics of students accessing a college education. Through investments in Community Development Financial Institutions, MSU should use its financial resources to strengthen local economies and families to become more economically empowered and reap the benefits of investments occurring in their community. Thus, ultimately assisting to provide them with the financial capacity to enroll in, or send their children, to college.

Community Development Financial Institutions

Community Development Financial Institutions (CDFIs) are lender institutions meeting specific criteria (certified by the federal CDFI Fund) of serving targeted underserved populations and socially and economically distressed investment areas and share the purpose of promoting community development through capital flow. According to the CDFI Coalition (an organization that represents the interests of all CDFIs), there are six types of CDFIs: 1) community development banks, 2) community development loan funds, 3) community development credit unions, 4) microenterprise funds, 5) community development corporation-based lenders and investors, and 6) community development venture funds. In 2021, there were 1,271 certified CDFIs, with 45% held by loan funds, 30% credit unions, 13% by banks, and 17% by depository institution holding companies (Congressional Research Service, 2022).

To better understand what CDFIs do and their role in community development, it is important to first understand how the structure of traditional banking institutions constitutes a necessity for their existence. Structural banking patterns demonstrate how banks have regularly failed to lend to minority and low-income communities and those disadvantaged communities through the construction of additional banking barriers. Repetitive barriers include excessive requirements for collateral information, such as past financial records of mortgages, redlining practices that create neighborhood rankings maps, and banks avoiding smaller loans to less affluent applicants to address high fixed lending costs (Green and Haines, 2016). Such practices uphold systemic disenfranchisement by incentivizing banks to invest in less risky areas and lend to more profitable applicants, as well as contribute to disparities systematically through requiring information many lower-income applicants do not have.

CDFIs rectify such inequities and help develop financial capital flow by offering responsible and affordable lending to underserved, low-income communities. Support is provided through 1) empowering individuals by meeting basic financial needs such as having a checking and savings account, and the opportunity to obtain forms of credit (Lehn et. al., 2004); and 2) committed financial support of community businesses, such as small businesses, nonprofit organizations, micro-enterprises, and affordable housing developers to provide jobs and strengthen the local economy (Opportunity Finance Network, 2012). Though the provision of financial capital is the main way CDFIs assist communities, they may also support financial literacy, management training, fiduciary and fiscal representation, and creating partnerships between key institutions and organizations with the purpose of expanding other efficient and holistic community development. Additionally, it should be underscored that such community financial assistance provides several very positive multiplier effects based on programming type and reach. Case study examples are provided in the following section about CDFI DEI impacts.

Regarding access to financial services, research suggests that those without a checking or savings account in a financial institution (referred to as unbanked populations), are 43% less likely to have positive holdings of assets, 17% less likely to own a home, and 8% less likely to own a vehicle than those with such accounts (Carney & Gale, 2001). In the year 2000, about 9.5% of U.S. households had neither checking nor saving accounts (Kennickell et. al., 2000). Out of the unbanked households in the U.S., minority households are predominant, with 24.9% and 24.1% of Black and Hispanic households compared to 9.4% of white households. Additionally, a link exists between the disadvantage of unbanked communities and adverse educational outcomes for youth occurring in the short term, as well as a continued lack of educational opportunity in the long term. In the short term, children going to schools in low-income and unbanked neighborhoods with less social, financial, and instructional resources experience lower academic achievement (Owens and Candipan, 2019). In the long term, studies (e.g. Friedline & Elliott, 2013) suggest that those same children are cumulatively disadvantaged in their potential future education, being less likely to enroll in higher education.

In a review of eight studies conducted by the collaborative efforts of the Panel Study of Income Dynamics (PSID), the Child Development Supplement (CDS), and the Transition to Adulthood Supplement (TA) from 2002-2009 the relationships between childhood banking, asset ownership, and college enrollment were reviewed. Out of 425 young adults surveyed in the studies, 74% had enrolled in college at some point by 2007, and 26% had never enrolled in college by 2007 (Friedline & Elliott, 2013, pp. 999). Among those surveyed, their “mean total

asset ownership” was calculated on a scale of 0-5³ for potential kinds of assets including savings accounts, vehicle ownership, etc. For the cohort that had enrolled in college, their score was 2.703 (Friedline & Elliott, 2013, pp. 1000). In contrast, those who never enrolled in college had a “mean total asset ownership” of 1.683 (Friedline & Elliott, 2013, pp. 1000). Such data indicates that young adults with access to banking services makes asset ownership more attainable and are more likely to also have access to higher education.

An important aspect of asset ownership that is further analyzed by the data in the studies is that young adults were more likely to have more asset ownership if they had owned a savings account as a child. Those who owned savings accounts in 2002 as children had a mean total asset ownership of 2.708, and those who had not had a mean of 1.682 (Friedline & Elliott, 2013, pp. 1000). The close empirical relationship between childhood and young adulthood asset ownership suggests that having access to banking services as children better positions individuals to be more likely to have asset ownership in the future and pursue higher education. This correlation is reaffirmed by data from the studies’ original survey poll, concluding that 74% of those surveyed had owned a child savings account in 2002, and 26% had not owned a child savings account (Friedline & Elliott, 2013, pp. 999). These percentages directly correspond with the original percentages of those who did or did not enroll in college by 2007, denoting a parallel existing among children owning savings accounts and enrolling in college as young adults. To summarize, those youth living at or below the poverty line in low-income neighborhoods are also less likely to pursue higher education opportunities, as are young people with limited access to childhood banking.

In terms of investing in low-income communities and education, if children within communities facing economic hardship were to develop financial literacy skills, they would have greater understanding of personal financial management. With this acquired skill, students are better able to maintain not only their student loans, but also mitigate long-term financial decisions and become aware of related risks, such as upsurges in student loan debt or poor credit card habits (Wagner, 2019). Therefore, having proficient financial literacy will also enable students in underserved communities to pursue higher education and acquire less debt.

The six types of CDFIs demonstrate the immense opportunities and potential developments that CDFIs provide through a diverse set of services. Investments have been made in multiple sectors, including, though not limited to business development, public health, cultural preservation, job growth, resiliency planning, and housing. Capital support given through community-targeted investments also provides additional benefits as it stimulates local economy through what is commonly referred to as the “multiplier effect” (Hollister, 2007). Initial injections of capital within a circular flow at the local level encourages recirculation through locally owned enterprises. As a result, a greater percentage of revenue generates locally, compared to those-out-of-region, thus encouraging a “multiplier effect” (Shuman, 2020). This effect helps create more local wealth and jobs and more growth in the overall real national income (Shuman, 2015). Through any of the diverse implementations, CDFIs can initiate the “multiplier” effect through capital support and, in turn, impact beneficiary communities.

³ In Table 2, the 0-5 scale was determined by whether respondents owned the 6 following assets: savings accounts, credit cards, stocks, bonds, a vehicle, and a home. Among respondents, the minimum was zero and the maximum was five (Friedline & Elliott, 2013, pp. 998).

CDFI Examples and Diversity, Equity & Inclusion Impacts

The following are selected case studies of CDFI investments positively impacting minority, low-income youth, their households and ultimately communities at both the national and state levels. Each case study was chosen on the basis of their mission, impact, and contribution of DEI values.

National Case Study Highlights

- **The Pennsylvania Fresh Food Financing Initiative (FFFI)** is a non-profit, statewide CDFI that provides a healthy source of food in low income or underserved areas. Their main objectives are to stimulate the investment of private capital in low wealth communities, remove financing obstacles, lower barriers for grocery stores in poor communities, reduce diet related diseases, and create livable waged jobs. The FFFI created a total of 3,700 jobs and renovated 69 stores in urban and rural communities within the state of Pennsylvania. The success of the FFFI led to states such as New York, Louisiana, Illinois, and New Jersey adopting similar policies that promote healthier foods within their communities (*Intervention Pennsylvania Fresh Food Financing Initiative (FFFI)*, 2013).
- **Clearinghouse CDFI** is a “full service, direct lender financing projects that creates jobs and services to help people work, live, dream, grow, & thrive in healthy communities.” (About Us, n.d.). Clearinghouse began serving low income and underserved communities in Southern California. They expanded towards areas with “unmet credit needs” in the states of Arizona, Nevada, New Mexico, Texas, and more broadly in Native American Territory. Currently, Clearinghouse makes direct loans for affordable housing, community facilities, small businesses, commercial real estate, construction, acquisition, renovation, expansion, and refinancing. DEI related goals consist of prioritizing transparency and accountability, corporate culture which includes health benefits, time off, equitable ways in which employees are being treated in the workplace, giving back to the community, and advocating for a healthier planet.
- **The Greenline Community Development Fund’s** mission is to provide creative and flexible capital promoting community development and economic growth for small minority-owned businesses and underserved communities. Their intentions are to improve the flow of capital in underserved communities and motivate market rate capital investment in community priorities. Since 2004, the Greenline Community Development Fund has raised over \$1.8 billion and has invested \$2.5 billion into businesses and projects in underserved communities within the state of Colorado. They are focused on creating jobs in low income and minority communities to find solutions to social injustices (*Overview* n.d.).

Michigan CDFIs

- **Chi Ishobak** is a non-profit Native CDFI assisting tribal citizens in Michigan to build financial stability while promoting and protecting their tribal culture,

dignity, education, health, welfare, and self-sufficiency (About, 2023). In their commercial program, Chi Ishobak has distributed \$3,983,204.71 to tribal entrepreneurs and provided 661 hours of small business development assistance, generating \$7.5 million in local economies, and creating 164 jobs. Meanwhile, their consumer program has disbursed \$9,449,865.34 and provided 538 hours of individual financial coaching to tribal consumers, helping eliminate/manage over \$762,334 of personal consumer debt and increasing credit scores by an average of 37 points over a 12-month period (Chi Ishobak Impact Summary, 2022).

- Kalamazoo Neighborhood Housing Services Incorporation (KNHS) is a CDFI that is dedicated to assisting low-income people in Kalamazoo County with affordable homeownership, revitalizing neighborhoods, contributing to educational needs, providing counseling, completing real estate development projects, and advocating for homes with low maintenance costs (KNHS, 2021). Leveraging their financial power to support community development initiatives, they take part in aiding the homeless in finding homes at a low cost (Kalamazoo Neighborhood Housing Services, inc., 2011). Since 2015, KNHS has assisted over 200 Michigan families to become homeowners (About, 2023).
- Invest Detroit (ID) is a nonprofit lender and venture capital firm that supports local economic growth and inclusive development within the Detroit area. The tenets of Invest Detroit's goals are inclusive housing, resourced and walkable neighborhoods, and equal opportunities for jobs and business growth. Real estate, small business lending, commercial and industrial, and venture capital are the four main programs that Invest Detroit provides. Since its inception in 1995, Invest Detroit has deployed \$491,093,703 with 812 projects supported and 5,234 housing units constructed. In 2021 alone, 1,499 jobs were created due to contributions from Invest Detroit. Among the recipients of ID Ventures, 64% were founders of color, women, immigrants, and those based in Detroit (2021 Annual Report, 2021).
- Grand Rapids Opportunities for Women (GROW) is a CDFI that provides responsible and accessible loans to empower women and caters towards equitable economic growth for small business owners (Home, 2023). In 2020, GROW was able to distribute 55 loans and \$587,000 to businesses in the West Michigan area, 27% of which went towards women-of-color (WOC) owned businesses, 69% to low-to-middle income business owners, and 74% to women-owned businesses (Home, 2023). Due to these loans, they were able to positively impact business such as South East Market, Locker Home Inspections, and Tiny Toes Child Care.
- Northern Initiatives is a CDFI that focuses on building a stronger local economy, enhancing job growth, and supporting economic mobility. Their mission is to provide "loans and business services to Michigan entrepreneurs and small business owners who add jobs and help their communities thrive" (Our Approach, 2023). Northern Great Lakes Initiatives has provided \$91 million in small business loans, creating and retaining a total of 6,961 jobs. Of their recipients, 66% were startup businesses in 2021, and 100% of loan

MICHIGAN WOMEN FORWARD



70%
OF INVESTMENTS AND
TECHNICAL ASSISTANCE
GO TO PEOPLE OF
COLOR

80%
OF INVESTMENTS AND
TECHNICAL ASSISTANCE
GO TO WOMEN

Services include technical assistance programs, trainings, pitch competitions, mentoring, coaching and one on one financial, marketing and technology assistance.

	Hosted Four Statewide pitch competitions
	Supported 1900 Entrepreneurs
	Invested \$2.6 million in 91 microloans

**53 VOICES, WOMEN UP, AND
PITCH COMPETITIONS**

\$150,000

AWARDED IN GRANTS TO WINNERS STATEWIDE IN
START UP AND ESTABLISHED BUSINESS CATEGORIES.

“Organizations that offer women access to capital and resources is a huge help. It hasn’t just helped me, but my entire family.”

-Cecilia Romero, 2022 Grant Recipient



customers received extra business support. Many of their customers are women, minority, and veteran-owned businesses, the numbers of which have increased drastically from 2017-2021 (Our Approach, 2023).

- **Fair Food Network:** The Fair Food Network Fund is a nonprofit national food fund that develops solutions to support food entrepreneurs, strengthen local economies, and nourish communities through healthy food. Their mission is “to grow community health and wealth through food.” (*Who we are*, n.d.). The Fair Food Network thus far has more than 36 total investments, financially committed \$4,825,622 for food entrepreneurs, and has an investment income of \$1,545,748. Of their recipients 52% goes towards product maker, 7% in food service, 16% in retail food, 3% in food waste reduction and 11% goes towards farmers and growers of food. An average of 46% of the businesses they invest in are Black, Indigenous, and people of color (BIPOC) owned. Since 2019 the Fair Food Network has invested in 64% of BIPOC owned businesses (*Fair Food Fund*, n.d.).

- **Michigan Women Forward:** Michigan Women Forward (MWF) is a non-profit community development organization whose mission is to expand economic opportunity for women and people of color. MWF’s vision is to create a more inclusive economy for Michigan so that all women can reach their full potential (Cassin, n.d.)⁴. MWF provides microloans to new and existing businesses throughout the state of Michigan to start and/or grow a business. In addition, MWF provides a wide range of wrap-around services to entrepreneurs who are not ready yet to qualify for a microloan. These services include technical assistance programs, training, pitch competitions, mentoring, coaching and one-on-one financial, marketing and technology assistance. In 2022, MWF invested over \$2.6 million in 91 microloans and supported 1,900 entrepreneurs through technical assistance programs, classes, and training. MWF also hosted four statewide pitch competitions, in addition to their “53 Voices” pitch challenge, awarding over \$150,000 in grants to winners in both the start-up and established business categories. 80% of MWF investments and technical assistance go to women and over 70% to people of color (Cassin, n.d.).

⁴ The relevant information regarding Michigan Women Forward was provided by Carolyn Cassin. Ms. Cassin is the CEO and President of Michigan Women Forward. She is also a part of the advisory committee made up of CDFI leaders and professionals that has provided expert consultation throughout the development of this report.

The examples of organizations provided above display ways in which different CDFIs across the state and nation have profitably supported their surrounding communities. In their efforts, these organizations have progressively induced change by providing the capital necessary to promote financial stability. This has helped numerous businesses and programs gain traction, ultimately improving local well-being, recirculating the local dollar and other resources. According to the U.S. Treasury, CDFIs create a “multiplier effect” by leveraging an average of \$8 in private sector investments for every \$1 in public funding (*U.S. Treasury Cdfi Fund*, 2022). Based on expert opinion of key CDFI advisors acquired in this report’s development, investments in CDFIs can additionally be expected to leverage 1-3 times the original investment in private and public funding for community development.

Institutional Investing: Managing Risks While Achieving Fiscal and Other Returns

The administration of endowments for higher education institutions has historically been guided by the basic investment practice of “seeking the most prudent and highest rate of return,” commonly referred to as the single-bottom-line. Consequently, one of the most significant barriers to responsible investing, identified in the 2023 NACUBO report on endowment investment, has been institutions’ uncertainty of potential adverse effects of investment performance, coming from their commitment to seeking the “highest rate of return,” as their perceived fiduciary responsibility (NACUBO-TIAA, 2023). However, several studies of community and socially responsible investing have indicated that there is little or no difference in the financial risk or rate of return on investments between socially screened and unscreened investments (Burger, Link, and LaMore, 2009, pp. 17-8). Additionally, 41% of institutions in the largest endowment cohort, surveyed by NACUBO and TIAA, said that such investments contribute to performance and can be a source of excess return (NACUBO-TIAA, 2023). CDFIs are playing a major role in impacting underserved communities to assist them in achieving financial inclusion and stability. Investing in CDFIs provides direct investments that result in social impacts in communities through business investments, childcare assistance, serving educational needs, access to health care facilities, etc. (*Impact investing and CDFIs*, 2019).

CDFIs also conduct rigorous risk mitigation, allowing them to reduce risk through a process of identifying, evaluating, and prioritizing investments (Lutkevich, 2021). One of the greatest risks a CDFI may encounter is limited secured capital through funding partners (Community Development Financial Institutions Fund, n.d). This is a frequent risk due to the need for a large foundation of permanent capital providing flexible funding (Lipson, n.d.). The availability of a funding partner lowers the price of capital and protects lenders by lessening the losses of loan loss reserves by 1) offering payment methods with low failure rates, 2) increasing visibility to rectify delinquent loan payments, 3) providing accurate loan information for the borrower, 4) creating a clear plan for payments through reminders, and 5) making it easier to retry failed and missed payments if the borrower has insufficient funds (GoCardless, 2022).

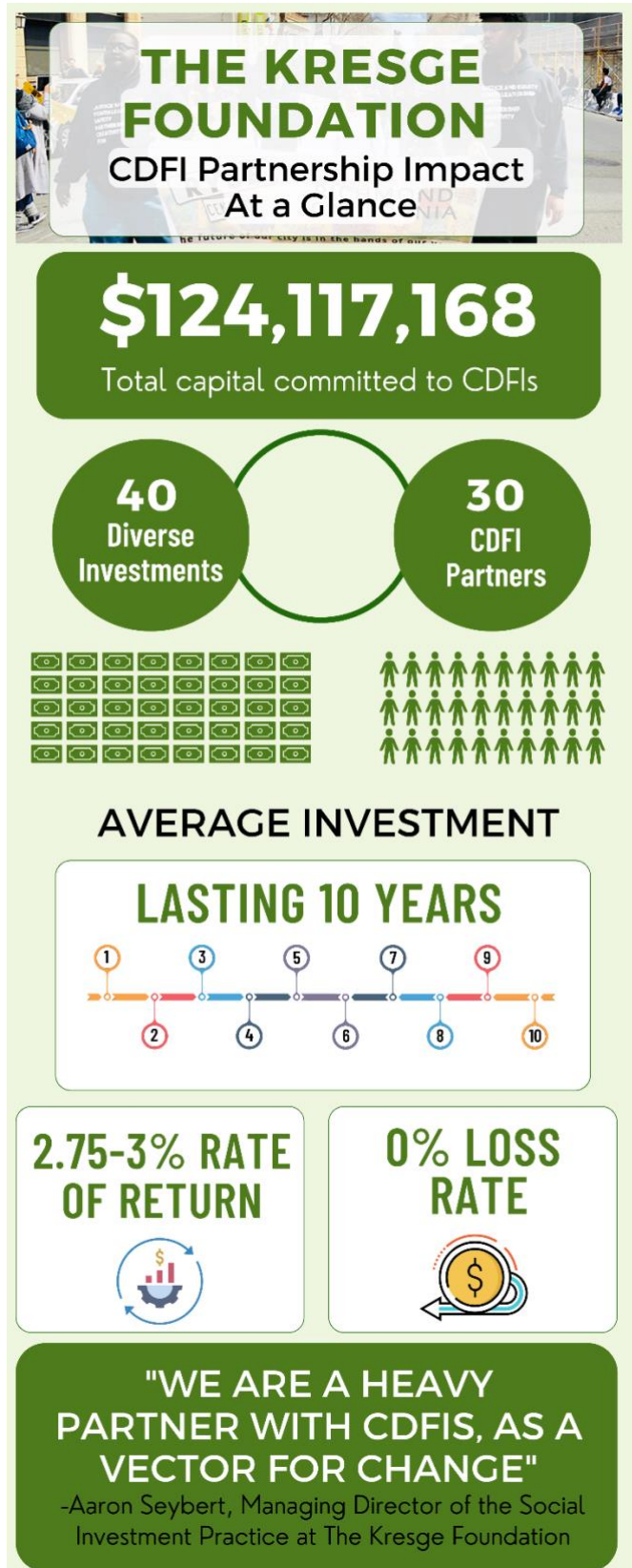
With the proper availability of capital, community organizations will be able to form partnerships with CDFIs. These partnerships can lead to capital becoming more accessible to marginalized populations and can provide loan enhancements to lenders, which enables them to lend to small businesses in distressed communities (*Capital Access Program Information for Lenders: Michigan Business* n.d.). The Kresge Foundation, which currently manages \$124,117,168 in CDFI investments by financially supporting CDFIs, is an organization that

demonstrates the value of such partnerships. According to Aaron Seybert, Managing Director of the Social Investment Practice at The Kresge Foundation, one of their 30 CDFI partnerships is with Invest Detroit, in which Kresge has invested 16.7 million in grant support and 18.5 million in program-related investing (PRI) since 2011 (*MSU CCED Community Investment Forum*, February 2023). In another partnership with the CDFI Capital Impact, Kresge has invested 3.6 million in grant support and 11.3 million in program-related investing (PRI) capital since 2012. Among both partnerships, according to the Kresge Foundation, the investments have an average duration of 10 years, a 0% loss rate, and an average expected return is between 2.75% and 3%. Based on consultation with the project advisory committee comprised of CDFI leaders and professionals, investors can expect a similar 0-3% rate of return with little to no risk.

By investing endowment funds in CDFIs, an academic institution can reduce some of their financial risk associated with the volatility of the traditional “Wall Street” market. While the “first rate of return may be lower”, risks are also mitigated due to the extraordinarily rigorous review processes CDFIs take in making investments in “non-traditional” settings. Additionally, the secondary social and economic returns that are realized through community revitalization⁵ cannot be realized through traditional investments in the “Wall Street” market. By investing “patient capital” in CDFIs, institutions like Michigan State University can directly align their financial investment practices with their stated values creating tangible impact.

Investing in “patient capital,” rather known as “long-term capital,” is a risk tolerant investment, typically of high tolerance that will

⁵ Community revitalization includes increased employment, better wages, improved housing conditions, lowered social support costs, higher public tax revenues because of better economic conditions, etc.



allow MSU to invest in partnerships or businesses that would more successfully align its investing practices with its values as identified in its recently adopted Strategic Plan and the Diversity, Equity, and Inclusion Plans (2021). This will enable the University to aid businesses, for example, that can assist low-income communities. President of Michigan CDFI, Northern Initiatives, Elissa Sangalli, recommended among this report’s advisory committee that Michigan State has the unique opportunity to target their investments on already existing ventures and partnerships to generate more measurable secondary returns. Michigan State could start its impactful investing in projects like financial education programs within MSU Extension or projects regarding entrepreneurship like the Michigan Good Food Fund. Such targeted investments provide the opportunity for Michigan State to be more directly involved in creating social impact and affirm its alignment of investment practices with its values.

University-Community Partnerships and Investing

Universities can be central institutions in community investment, as land-grant universities’ missions and virtually all higher education institutions’ missions uphold the very values of *impact investing*—an investment strategy seeking to serve communities’ social and environmental needs while producing financial return (Edward, 2013). In addition, the problems confronted by underserved and distressed communities require the kinds of complex solutions that universities are well-equipped to address. Universities already play key roles in addressing the needs of underserved communities by providing needed professional training, technical assistance, conducting applied research on critical issues and supporting demonstration projects of innovative problem-solving strategies (Cooper, 2014). Nevertheless, universities may also use their financial resources to invest in or partner with CDFIs to revitalize underserved communities. In fact, according to the Opportunity Finance Network (2012), long-term University-CDFI partnerships typically last for several years.

In the literature on community investing, Darlene F. Saporu’ and others have found that “The more disadvantaged the community, the larger the negative association between lending and both violent and property crime” (Saporu’ et al., 2011). Since the 1970s, universities in the U.S. have been moving towards ‘socially responsible investments’ (or Environmental, Social, Governance (ESG) investing), mainly due to concerns of the public about unjust working conditions in some industries and multi-national corporations continuing to do business with countries that violate human rights and other irresponsible practices (Phillips, 2016).

The rise of CDFIs, an approximately 40% increase from 2013 to 2020 (Taylor, 2021), may have made it easier for universities to transition to more socially responsible investments. Despite the low-cost and low-risk conservatism among many universities’ leadership, significant partnerships exist between universities and CDFIs. Research has found that 82% of CDFIs report working with higher education institutions, most of which are four-year institutions, and with public institutions more frequently than private ones (Opportunity Finance Network, 2012). There are successful cases of university-community investing for revitalizing communities as well as strengthening them. Examples of University-Community investing are described below.

- A partnership in 2010 between the University of Virginia and Latino Community Credit Union embarked to conduct an experiment on whether the correlation (of capital flow and revitalizing factors, such as a reduced crime rate) could be realized. The University of

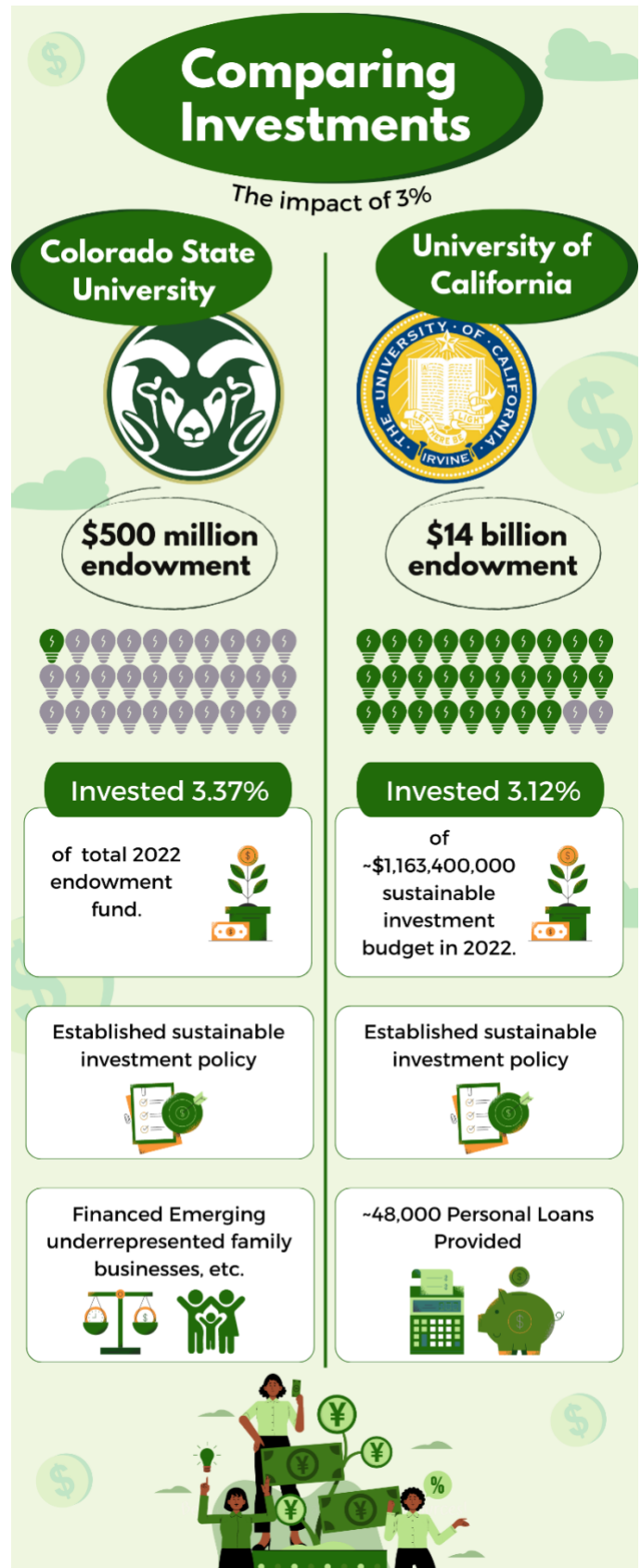
Virginia's School of Business conducted a research project, "Perdido En La Traducción: The Opportunity in Financial Services for Latinos," to explore how incorporating "unbanked" populations into the financial system could create significant benefits. They found an average 22.6% reduction in armed robbery and an additional 3.8% increase in overall property value when a new credit union branch had been opened (Opportunity Finance Network, 2012).

- In 2004, La Salle University's Office of Community and Economic Development started working with community stakeholders to improve the quality of life in the neighborhoods surrounding campus, leading the office to partner with The Reinvestment Fund (TRF), a local, Philadelphia-based and pioneer CDFI, to seek a redevelopment strategy in the neighborhood. The two institutions crafted an investment plan for developing an 80,000 square foot retail center, The Shoppes at La Salle, which opened in 2009. The project was a catalyst for the later development of a grocery store, Fresh Grocer. The introduction of the supermarket to the community brought over 250 jobs and contributes to affordable, fresh food for the local neighborhood. The Reinvestment Fund also managed to procure \$14 million from loans and grants from other sources including The Pennsylvania's Fresh Food Financing Initiative (FFFI), mentioned above, Pennsylvania's Redevelopment Agency, and other state loans—New Markets Tax Credit and the American Recovery and Investment Act (Opportunity Finance Network, 2012).
- In the 1990s, Duke University committed to revitalizing the campus's surrounding underserved neighborhood, Walltown, a majority-minority neighborhood with low homeownership rates. The Vice President of Duke's Office of Durham and Regional Affairs remarked, "The University needed an intermediary that was credible, capable, accountable and experienced in-home lending and affordable housing initiatives." Therefore, the university began a partnership with CDFI Self-Help, in which Duke donated \$1.2 million and lent \$375,000. The university also helped attract more community investors including the City of Durham and The North Carolina Housing Finance Agency. All the funds raised went to building affordable housing, but according to the Opportunity Finance Network report on higher education partnerships with CDFIs, "The project caused a ripple of effect beyond housing, resulting in renovated public park facilities, a new theater..." and other facilities. By the mid-2000s, there was an increase in homeownership rates, and 47% of properties increased in value by more than 50%. The community also experienced a significant decrease in crime rates by about 50% (Opportunity Finance Network, 2012). The impacts on the community and its subsequent economic vitality were accomplished through Duke's partnership with Self-Help.
- One of the CDFIs with whom Rush University Medical Center in Chicago has engaged in impact investing is the Chicago Community Loan Fund (CCLF)—a CDFI that is specifically charged with financing developmental community projects, such as affordable housing, food, health, and education projects. In 2017, Rush University invested \$1 million in CCLF to strengthen a City of Chicago-led program—which acquires abandoned buildings and develops them with local contractors and community organizations to revitalize the area ("Investing with Impact," 2020).

"These additional dollars help CSU recruit and graduate students who contribute to a socially responsible environment by leading impactful lives as responsible, enlightened members of society."

-The CU Foundation

- An ongoing case of impactful investing is the allocation of Colorado State University's investment pool, as reported in their AASHE assessment through the STARS program. Colorado State invested 3.37% of its \$500 million endowment in 2022 into "CDFI equivalent" impact funds (AASHE, 2022). To help determine specific targets and strategies of their investment allocation, CSU has established an official investment model, which lists a set of policies designed to guide their external investment managers in making investments that have a positive impact in sustainability and in diversity, equity and inclusion (AASHE, 2022). In addition to the investment model, CSU holds monthly peer network forums where they discuss, with a selected panel of financial experts, the strategy and feasibility of impactful and responsible investment practices (AASHE, 2022). In consultation with their outsourced consultants and additional network, the university decided to target Colorado-specific community and economic development through financing emerging businesses led by underrepresented families, funding food production and agriculture, and funding sustainable energy technology (AASHE, 2022). Based on their report of these practices and plans, in addition to other ongoing sustainable practices, Colorado State University has achieved a Platinum status from the Association for the Advancement of Sustainability in Higher Education ranking system.
- Another University that has earned an AASHE Platinum ranking, and earned a high "sustainable investment" score, is the University of California system. With an overall endowment of \$14 billion, University of California (UC) has invested in CDFIs targeting economic development and financial literacy through the funding of personal loans to those unable to access mainstream banking services (AASHE, 2022). Out of the 8.31% of their \$14 billion



endowment invested in Sustainable Investments in 2022, 3.12% was invested in those CDFIs (AASHE, 2022). The University of California system has established a sustainability framework that guides the investment practices and there is persistent communication engagement with external investment managers to ensure the alignment of actual investment practices with the standards laid out in the framework (AASHE, 2022). UC also communicates with a sizeable investor and peer network that discusses the areas of need in which investments would create impact, as well as the strategies, goals, outcomes, and risks of those investments (AASHE, 2022). With these methods of thorough collaboration and consideration, UC has been able to invest in CDFIs targeting economic development and financial literacy through the funding of personal loans to those unable to access mainstream banking services (AASHE, 2022). One project is a “whole loan purchase program” that has funded “approximately 48,000 personal loans,” as of 2019, to unbanked individuals and individuals with limited access to traditional credit providers (AASHE, 2022). The University of California has reported that the impact of this project has been sizeable, as many borrowers improved their FICO scores considerably and were able to rehabilitate their credit and gain access to more traditional forms of banking (AASHE, 2022).

"TAs part of a leading global academic research institution, we look to tap the University of California ecosystem to optimize access to the specialized knowledge within the UC system."

-UC Investments

- The University of Michigan is also exploring the implementation of a community investment plan. According to the University of Michigan’s Assistant Vice President and Treasurer, Drew Smith, the forthcoming investment may include the allocation of \$300 million in operating capital. The university plans to invest approximately \$200 million of the capital into ESG companies that have been identified as having adequate policies and standards through a unique ESG score rating method. The remaining \$100 million would be invested in community development projects via CDFIs and CDFI-equivalents. While still in development at the time of this study, UofM plans to target four communities it has strategic relationships with. These include their main campus in Ann Arbor, the satellite campuses in Flint and Dearborn and the City of Detroit. The proposed plan method includes meeting with the specific CDFI to discuss areas of potential investment. By utilizing intentionality and focus through targeted community investments, UofM seeks to optimize the measurable and direct social impact that could be attributed to their community investments.
- Religious institutions have also been pioneers in socially responsible investing (SRI) (Louche, et al., 2012). Religious institutions followed suit in the wave of divestment in irresponsible investments (e.g., armament, apartheid companies, etc.) in the

1970s. For example, U.S. Methodists founded the Pax World Fund to adopt SRI. The Catholic church has also positioned investment committees to serve the same goals. Moreover, religious institutions were the primary investors in CDFIs in the 1990s, accounting for over half of CDFIs assets. In the last couple of decades, such proportion has decreased substantially as other investors joined the movement of socially responsible investing (Balboni and Travers, 2017). Universities with religious affiliations have in turn been influenced by these initiatives.

Whether public, private or faith-based in nature, the mission of each CDFI funded project exhibited in this report aligns with the missions of those supporting area public universities, especially land-grant universities. For MSU, this includes serving Michigan communities, addressing inequalities to create equitable access and opportunity, being innovators in economic research and community engagement, creating a dignified and safe culture, and holding itself to the highest standards of these values as an institution under a land-grant identity (Strategic Plan, n.d.). The implementation of these projects additionally serves to address common concerns about how public universities are perceived.

Findings & Recommendations

Based on the research conducted in this feasibility study, the following recommendations outline steps MSU can take to adopt a community investing model with CDFIs in Michigan.

- Create a diverse advisory committee to guide the creation and implementation of MSU’s community investing model. Include representatives from key stakeholders such as the MSU Board of Trustees, the Board Budget and Finance Committee, the MSU Treasurer, representatives of the state government such as the Michigan Economic Development Corporation, representatives of CDFIs, MSU faculty, staff, and students, and select investment consultants.
- Engage with the Coalition of Michigan CDFIs to learn about and gather input regarding CDFIs operating in Michigan and their impact on local communities and diverse populations.
- Invest a portion of MSU’s endowment funds in the identified CDFIs as per the Advisory Committee’s deliberation.
- Monitor and evaluate the social impacts and financial returns of the investments, with specific attention to impacts on the quality of life for people living in the communities in which CDFI investments were made.
 - In consultation with an advisory committee comprised of CDFIs leaders and professionals, the researchers of this study considered the probability and potentiality of a 10-year investment of at least \$100 million, which is less than 2.5% of Michigan State's overall endowment. As demonstrated by universities and organizations with diverse endowment sizes that have successfully incorporated CDFI investments in their portfolio, investing less than 3% of the endowment is reasonable. In addition to reasonability, such an investment exhibits prudence through secure returns and substantial secondary returns, including

transformative, lasting impact. With a 0-3% expected rate of return and a potential for 1-3 times leveraged impact, affirmed by CDFI leaders and examples of return provided by CDFI investors, a total investment of \$100 million from MSU could securely leverage \$300 million of investment impact in Michigan communities.



Limitations and Future Research

Absence of quantitative data showing direct correlations with social benefits.

- The researchers conducted a meta-analysis of supporting articles. For example, the connection between unbanked populations and limited access to higher education lacks a direct correlation. Instead, the researchers found data that discussed how access to childhood banking leads to more assets in young adulthood and compared it to data directly correlating more assets in young adulthood to more likelihood of ever enrolling in college. More research on financial access and access to higher education is needed.

Inability to measure the social impact of projects addressing social disparities.

- Measuring social impact to assess the outcomes of impact investments has proven to be difficult. Understandably, institutional fiduciaries considering impact investing have much interest in data that can compare the rates of return on the ESG investing or CDFI investments to more traditional investments. However, the discourse surrounding measuring investment outcomes through evaluation programs often focuses on quantitative output and tends to overlook important qualitative outcomes (Jackson, 2013). Beyond being unable to provide standardized data to prove and give credit to the impactful secondary investment returns, a limited field of well-established, continuous assessments of impact may lead to “impact-washing” (Verrinder N. B. et al., 2018), a term that stems from “green washing.” Impact-washing creates worry for investors because, without an established way to measure impact, companies can inaccurately report or exaggerate their social outcomes. More rigor is needed in tracking ESG and impact investments and spending to standardize measuring practices and, in turn, help to prevent impact-washing and give validity to the social outcome achieved through community investing.
 - Already, a method is being applied in impact investing— ‘Theory of change’— in which a visualization and explanation of an initiative’s inputs, outputs, and outcomes as part of its components and its investors, intermediaries, and types of financial services or projects as part of its “casual linkages” are framed (Jackson, 2013). Thus, the model of Theory of Change comprehensively defines impact and informs investors of evaluative output and outcome data serving as a versatile and relevant method that helps make up for the absence of large-scale evaluation studies (Jackson, 2013). In addition to the Theory of Change, the literature of program evaluation and development evaluation can be directed towards impact investing. A report by the Institute of Development Studies in the United Kingdom reviewed various methodologies in assessing social impact and argues that evaluation methods consider the following: impact, differential impact, plausible causality, aggregation, and accountability (O’Flynn & Barnett, 2017). Furthermore, the study explains the methodologies’ trade-offs, mostly including greater standardization versus greater specificity, for invertors’ purposes (O’Flynn & Barnett, 2017).

Relevance of the growing field of impact investing for potential future research.

- Our research team noted that the field of impact investing is growing immensely across many investment options. The landscape of responsible investing is developing with various approaches, from investing in ESG companies to directly investing in community projects via CDFIs (NACUBO-TIAA, 2023). As would be expected in an emerging field of practice, there is little agreement on the terminology to describe phenomena. The field suffers from varying definitions of critical

terminology, such as “responsible” investing and “impact-washing.” This lack of rigor, while understandable as the field matures, can result in confusing reports, rankings, and implementations (NACUBO_TIAA, 2023). Responsible investing is a rapidly growing field, inviting uncertainty among investors. According to the 2023 NACUBO-TIAA study of endowments, the largest barriers to pursuing responsible investing relate to investors being worried about the prudence of impact investments and investors not having access to enough quality managers or information regarding the administrative requirements and processes of impact investing (NACUBO-TIAA, 2023). Clarity on terminology and the acceptability of the practice in institutional investing must be addressed.

- Existing and future information about the methodology and practicality of impactful investments are part of the network of information needed to overcome many of the barriers to responsible investing. In addition, more effort is needed to ease the uncertainties felt by investors and fiduciaries of institutions making traditional investments for generations. This uncertainty surrounding impactful investment discourse limits its implementation, but it also creates an opportunity for asset managers and innovative investors alike to provide illuminating information about the socially impactful investments being made and the rate of return, both traditional and secondary, of those investments.

Conclusion

Inequities in accessing higher education by race/ethnicity and income have existed for decades. Students of color and low-income students remain two demographics with the lowest college-education rates, many times for financial reasons. However, in its “Diversity, Equity, and Inclusion Report and Plan” (2021), which was produced through a collaborative engagement effort with members across the university’s community, MSU states a goal of improving the diversity of its student body through recruitment and retention. Through strategic community investing, Michigan State University should re-affirm its land-grant leadership as a premiere public research institution and global trailblazer of engagement by harnessing the power of Michigan CDFIs to effectuate revitalization, recruitment and retention.

The case studies and literature explored throughout this report support the notion that MSU has the power to create a more inclusive, diverse, and equitable campus by supporting community revitalization efforts through investing in CDFIs operating across the state. In MSU’s mission to remain a premier public, land-grant institution, the community university investing examples provided in this report should encourage MSU to invest in the proven track record of CDFIs. Therefore, supporting equitable and sustainable community investing strategies to promote economic resilience in underserved communities will improve the chances of providing world-class education to historically disadvantaged students and address the long-term structural inequities that underpin uneven access to higher education.

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